



Republic of Kenya

MINISTRY OF INDUSTRIALIZATION

Sessional Paper No. 9 of 2012

on

The National Industrialization Policy

Framework for Kenya

2012–2030

**“Transforming Kenya into a Globally Competitive
Regional Industrial Hub”**

338
.96
762
NAT

November, 2012

TABLE OF CONTENTS

	Page No.
ACRONYMS	vii
FOREWORD.....	xi
PREFACE	xiii
EXECUTIVE SUMMARY	xiv
CHAPTER 1: BACKGROUND.....	1
1.1 Introduction	1
1.2 Vision and Mission of the National Industrialization Policy	2
1.3 Guiding Principles and Core Values.....	2
1.4 Objectives of the Policy Framework.....	4
CHAPTER 2: RATIONALE AND CONTEXT.....	7
2.1 Benchmarking with NICs.....	7
2.2 Changes and development in the global economy.....	8
CHAPTER 3: SITUATIONAL ANALYSIS	11
3.1 Status of the Kenyan Economy.....	11
3.2 Overview of the Industrial Sector in Kenya.....	12
3.2.1 Structure and contribution of the manufacturing sector.....	12
3.2.2 Past industrial policy initiatives.....	13
3.2.2.1 The Import Substitution Policy.....	13
3.2.2.2 Structural Adjustment Policies	13
3.2.2.3 Export Oriented Policies	13
3.2.2.4 Sessional paper No.1 of 1986 on renewed economic growth	14
3.2.2.5 Sessional Paper No. 2 of 1992 on Small enterprise and Jua Kali development in Kenya.....	14
3.2.2.6 Sessional Paper No.2 of 1996 on Industrial Transformation to the Year 2020.....	14
3.2.2.7 The Economic Recovery Strategy (ERS) for Wealth and Employment Creation	14

3.2.2.8	Master Plan for Kenya Industrial Development.....	14
3.2.3	The Industrial Sector and Kenya Vision 2030.....	15
3.3	Strengths of the industrial sector	15
3.3.1	Natural and Agricultural Resources.....	15
3.3.2	Geographical location	16
3.3.3	Business Environment.....	16
3.3.4	Educated Labour force and high Labour Productivity.....	16
3.3.5	Public-Private Sector Partnerships (PPP).....	17
3.3.6	Political stability.....	17
3.3.7	Research and Development.....	17
3.3.8	Financial Sector.....	18
3.3.9	Government Procurement.....	18
3.4	Weaknesses affecting the industrial sector.....	18
3.4.1	Low value addition	18
3.4.2	Inadequate market information.....	18
3.4.3	High cost of infrastructural Services.....	19
3.4.4	Inadequate skilled industrial human resource	19
3.4.5	Limited Access to Finance	19
3.4.6	Limited Industrial subcontracting linkages.....	20
3.4.7	High cost of Industrial Land.....	20
3.4.8	Slow investment in the industrial sector	20
3.4.9	Fragmented industrial policy framework.....	20
3.5	Challenges of the industrial sector.....	20
3.5.1	Counterfeit, dumping, substandard goods and compliance with WTO Provisions.....	20
3.5.2	Compliance with Standards.....	21
3.5.3	Market Access	21
3.5.4	Technology change	21
3.6	Opportunities of the Industrial Sector.....	21

3.6.1	Strategic Location.....	21
3.6.2	Expanding Middle Class	22
3.6.3	Growing Regional Markets	22
3.6.4	Fast growing African Economy.....	22
3.6.5	Diaspora investment inflows.....	22
CHAPTER 4: BROAD POLICY INTERVENTION AREAS.....		23
4.1	Enabling Business Environment.....	23
4.1.1	Political stability	23
4.1.2	Macroeconomic stability.....	23
4.1.3	Institutional, legal and regulatory framework.....	23
4.1.4	Physical Infrastructure	24
4.1.5	Availability of Industrial Land	25
4.2	High value addition.....	25
4.3	Priority Industrial Sub-sectors.....	26
4.3.1	Labour intensive sectors.....	27
4.3.1.1	Agro-processing.....	27
4.3.1.2	Textiles and clothing.....	28
4.3.1.3	Leather and Leather goods	28
4.3.2	Medium to high technology sectors.....	29
4.3.2.1	Iron and Steel Industry.....	29
4.3.2.2	Machine Tools and Spares	30
4.3.2.3	Agro Machinery and Farm Implements	30
4.3.2.4	Pharmaceutical Industry.....	31
4.3.3	Advanced manufacturing sectors.....	32
4.3.3.1	Biotechnology and Nanotechnology Industry.....	32
4.4	Human resource skills development	32
4.5	Foreign Direct Investment.....	33
4.6	Market Access	34

4.7	Standards, quality infrastructure and Intellectual Property Rights	34
4.8	Industrial Research, Development and innovation	35
4.9	MSMIs Growth and Graduation for Industrial Expansion...	36
4.10	Access to Finance	36
CHAPTER 5: POLICY IMPLEMENTATION, MONITORING AND EVALUATION.....		39
5.1	Institutional framework.....	39
5.1.1	Role of Government.....	42
5.1.2	Role of the Private Sector.....	42
5.1.3	Public Private Partnerships.....	42
5.2	Financial Requirements.....	43
5.3	Monitoring and Evaluation.....	43
CHAPTER 6: RECOMMENDATIONS.....		45
ANNEXES:.....		46
Annex 1 – List of potential Industrial Sub-sectors		46

ACRONYMS AND ABBREVIATIONS

ACA	-	Anti-Counterfeit Agency
AGOA	-	African Growth Opportunity Act
ASEAN	-	Association of South East Asian Nations
BPO	-	Business Process Outsourcing
CCK	-	Communications Commission of Kenya
CKD	-	Complete Knocked Down
CODA	-	Cotton Development Authority (CODA)
COMESA	-	Common Market for East and Southern Africa
COTU	-	Central Organization of Trade Unions
CMM	-	Coordinate Measuring Machines
CQS	-	Common Quality Standards
DFIs	-	Development Financial Institutions
EAC	-	East African Community
ERS	-	Economic Recovery Strategy
EU	-	European Union
FDI	-	Foreign Direct Investment
FKE	-	Federation of Kenya Employers
FKPM	-	Federation of Kenya Pharmaceutical Manufacturers
FPEAK	-	Fresh Produce Exporters Association of Kenya
GDP	-	Gross Domestic Product
ICT	-	Information, Communication, and Technology
ICF	-	Industrial Consultative Forum
IDF	-	Industrial Development Fund
IP	-	Intellectual Property
IPR	-	Intellectual Property Rights
ISI	-	Import Substitution Industrialization
ISO	-	International Organization of Standards
KAA	-	Kenya Airports Authority
KAM	-	Kenya Association of Manufacturers
KCAA	-	Kenya Civil Aviation Authority
KEBS	-	Kenya Bureau of Standards
KEPHIS	-	Kenya Plant Health Inspectorate Services

KEPSA	-	Kenya Private Sector Alliance
KENAS	-	Kenya Accreditation Services
KIPI	-	Kenya Industrial Property Institute
KIRDI	-	Kenya Industrial Research and Development Institute
KLRC	-	Kenya Law Reform Commission
KMA	-	Kenya Maritime Authority
KNBS	-	Kenya National Bureau of Statistics
KNCC&I	-	Kenya National Chamber of Commerce and Industry
KNPC	-	Kenya National Cleaner Production Centre
KNHA	-	Kenya National Highways Authority
KPA	-	Kenya Ports Authority
KRA	-	Kenya Revenue Authority
KPRL	-	Kenya Petroleum Refineries Limited
KRB	-	Kenya Roads Board
KRBA	-	Kenya Rural Boards Authority
KRC	-	Kenya Railways Corporation
KURA	-	Kenya Urban Roads Authority
KV2030	-	Kenya Vision 2030
LA	-	Local Authority
M&E	-	Monitoring and Evaluation
MoA	-	Ministry of Agriculture
MoCDM	-	Ministry of Cooperative Development and Marketing
MoE	-	Ministry of Energy
MEAC	-	Ministry of East African Community
MENR	-	Ministry of Environment and Natural Resources
MoF	-	Ministry of Finance
MoFA	-	Ministry of Foreign Affairs
MoFD	-	Ministry of Fisheries Development
MoHEST	-	Ministry of Higher Education, Science and Technology
Moi	-	Ministry of Industrialization
MoL	-	Ministry of Labour

MoLD	-	Ministry of Livestock Development
MoLG	-	Ministry of Local Government
MPND	-	Ministry of Planning and National Development
MoR	-	Ministry of Roads
MoT	-	Ministry of Trade
MoTR	-	Ministry of Transport
MoWI	-	Ministry of Water and Irrigation
MSEAK	-	Micro, and Small Enterprises Association of Kenya
MSMEs	-	Micro, Small and Medium Enterprises
MSMIs	-	Micro, Small and Medium Industries
MW	-	Megawatts
NAFTA	-	North American Free Trade Agreement
NARC	-	National Rainbow Coalition
NISF	-	National Industrial Stakeholders Forum
NCSE	-	National Council for Small Enterprises
NCST	-	National Council for Science and Technology
NEMA	-	National Environmental Management Authority
NESC	-	National Economic and Social Council
NIDC	-	National Industrial Development Commission
NIP	-	National Industrialization Policy
NIMES	-	National Integrated Monitoring and Evaluation System
NMC	-	Numerical Machining Complex
NTB	-	Non-Tariff Barriers
OP-CO	-	Office of the President, Cabinet Office
OSH	-	Occupational Safety and Health
OSHA	-	Occupational Safety and Health Act
OTEC	-	Oceanic Thermal Expansion Conversion
OVOP	-	One Village One Product
PCK	-	Productivity Centre of Kenya
PVC	-	Polyvinyl Chloride
R&D	-	Research and Development
RECP	-	Resource Efficient and Cleaner Production
SAPs	-	Structural Adjustment Programmes

SEZs	-	Special Economic Zones
SMEs	-	Small and Medium Enterprises
SLO	-	State Law Office
STI	-	Science, Technology and Innovation
TBT	-	Technical Barriers to Trade
TPCSI	-	Training and Production Centre for the Shoe Industry
VA	-	Value Addition
WIPO	-	World Intellectual Property Organization

FOREWORD

The Kenyan economy has continued to register a positive GDP growth rate from 2003 achieving the highest growth rate of 7% in 2007. However, for the country to become a globally competitive and prosperous nation, an average Gross Domestic Product (GDP) growth rate of 10 per cent per annum should be achieved over the next 18 years. This requires restructuring the economy through industrialization. This sessional paper therefore sets the base for increasing growth rates, generation of sufficient employment opportunities, and fostering Kenya's integration into the global economy.

This National Industrialization policy framework has been developed through a consultative process involving the public sector, private sector, civil society, development partners and non-governmental stakeholders. It takes into cognizance the Vision 2030 aspirations; current status of the Kenyan economy; changes and development in the global economy; challenges of the industrial sector; and opportunities arising therefrom. It also takes into account some of the lessons learnt and best practices from Newly Industrialized Countries (NICs).

This policy is aligned to the *Kenya Vision 2030* which aspires to transform Kenya into a middle income rapidly-industrializing country, "a globally competitive and prosperous nation, offering a high quality of life to all its citizens" in a secure and healthy environment.

This policy framework focuses on value addition for both primary and high valued goods; and linkages between industrial sub-sectors and other productive sectors to drive the industrialization process and aims at providing strategic direction for the sector growth and development. The overarching policy objective is to enable the industrial sector to attain and sustain annual sector growth rate of 15% and make Kenya the most competitive and preferred location for industrial investment in Africa leading to high employment levels and wealth creation.

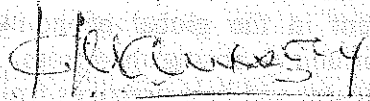
The approach to be used in this policy framework is dual as it encourages and export oriented approach with import substitution for identified strategic industries. The broad policy interventions include prioritizing the development of industrial sectors into three broad categories namely: (i) Labour intensive sectors (Agro-processing; textiles & clothing; Leather & leather goods); (ii) Medium to high technology sectors (Iron & Steel; Machine tool & spares; Agro-Machinery & farm implements; and pharmaceuticals); and (iii) Advanced manufacturing technologies (Biotechnology & Nanotechnology).

The policy provides for a broader engagement framework within which all stakeholders, including the public and private sector; civil society and

development partners will contribute and play their respective roles in industrial development through the National Industrial Development Commission (NIDC). The membership of the commission comprises representatives from both public and private sectors thereby embracing the principle of public-private partnership in industrial development.

This policy framework also recognizes that accessibility and affordability of financial services is most critical to the acceleration of industrial growth. To facilitate financial access, the policy recommends the establishment of an Industrial Development Fund (IDF).

Finally, I would like to thank all those who participated in the process of developing this Sessional Paper. I urge all stakeholders to strive towards the full implementation of this policy that will spearhead the realization of Vision 2030.



Hon. Henry Kosgey, E.G.H., M.P.

MINISTER FOR INDUSTRIALIZATION

PREFACE

The policy proposals outlined here are a product of much reflection by the sector experts under the overall co-ordination of the Ministry. It is heavily anchored in Kenya's aspiration to be a middle income industrializing country in the next twenty years as envisaged in the Vision 2030 blueprint. It also recognizes Kenya as largely an agricultural country and therefore attempts to exploit the low 'hanging fruits' by putting policy in place that immediately addresses the issue of enhanced agro machinery and agro processing for more value addition to our agricultural products. Industrialization, cuts across the entire government and it is our sincere hope that enough resources will be channelled through to address the enablers. It is only then that we shall address the issue of bringing down the cost of doing business and enhancement of the competitiveness of our products both locally, in EAC and COMESA regions, and internationally. We also recognize the role played by the micro and small industries and have put in place policy proposals that will address their productivity, efficiency and graduation to medium and large and become the key drivers of our economy.

As noted in the document, appropriate training of technical personnel and especially engineers is a key requirement if industrialization process is to receive the technical support it deserves. While developed countries produce annually engineers in tens of thousands, Kenya produces a thousand or less. This deficiency requires policy intervention so that the trend is reversed.

I thank, most sincerely, the technical officers of the Ministry for their dedication and time already invested in coming up with this document. I also thank my predecessors in the Ministry for the foundation they laid in formulating Kenya's Industrial Vision through the many reports and documents that have been consulted in order to come up with the present version. We have also received invaluable comments and much-appreciated input from many people, and especially other government ministries. I acknowledge and thank all the Permanent Secretaries who sent us written comments. I believe we do now have in our hands, an appropriate policy platform to begin an earnest quest for growing each of the priority and twenty one sectors identified that we believe have much potential for Kenya.

Dr. (Eng.) Karanja Kibicho, C.B.S.

Permanent Secretary, Ministry of Industrialization

EXECUTIVE SUMMARY

The experience from successful economies indicates that a coherent National Industrialization Policy is a prerequisite for the advancement of industrial development in any country. It further indicates that the industrial sector is a key driver for increasing growth rates, generation of sufficient employment opportunities, and sustainable economic growth.

Kenya's industrial sector has not been dynamic enough to function as, "an engine of economic growth" especially when compared to newly industrialized emerging economies. The sector's GDP contribution has remained stagnant for the last two decades at about 10 per cent. Kenya's exports have also remained predominantly primary commodities with low value addition with manufactured exports accounting for only 36 per cent of total exports.

Industrial policies in Kenya have evolved through three distinct policy orientations, namely, import substitution, Structural Adjustment Programmes (SAPs), and export-led policy orientation. The Export-orientation policies have over the years been expounded to respond to global market structures through various sessional papers and blue prints that include: Sessional Paper No.1 of 1986 on renewed economic growth; Sessional Paper No. 2 of 1992 on Small enterprise and Jua Kali development in Kenya; Sessional Paper No.2 of 1996 on Industrial Transformation to the Year 2020; The Economic Recovery Strategy (ERS) for Wealth and Employment Creation; Master Plan for Kenya Industrial Development (Industrial Master Plan); and the Kenya Vision 2030.

The Vision of this policy framework is: *To be the leading industrialized nation in Africa with a robust, diversified and globally competitive manufacturing sector.*

The Mission is: *"To promote and sustain a vibrant, globally competitive and diversified industrial sector for generation of wealth and employment through the creation of an enabling environment".*

The implementation of this Sessional Paper is premised on the guiding principles namely: (i) Productivity and competitiveness; (ii) Market development; (iii) high value addition and diversification; (iv) Regional dispersion; (v) Technology and innovation; (vi) Fair trade practices; (vii) Growth and graduation of MSMEs; (viii) Employment creation; (ix) Environmental sustainability; (x) Compliance with the current Constitution; and (xi) Education and human resource development.

The challenges and weaknesses affecting Kenya's Industrial sector include: low value addition; Inadequate market information resulting to limited market access and narrow export base; high cost of infrastructural services leading to uncompetitiveness; inadequate skilled industrial human

resource; limited access to affordable long term finance; high cost of industrial land; limited industrial subcontracting linkages; influx of counterfeit, dumping and substandard goods thereby reducing production capacities; limited technology transfer; and low attraction of local and foreign direct investment.

The broad policy intervention areas are focused on addressing the factors affecting the industrial sector, exploiting the strengths and opportunities arising from the regional integration and globalization, and positioning the industrial sector to become the leading investment destination in Africa to take advantage of investment flows currently moving towards the 'last frontier'. The interventions will therefore be centred on ten broad areas namely: (i) Creating an enabling environment; (ii) High value addition to harness the agricultural, mineral, natural and forestry resources; (iii) development of priority industrial sub-sectors; (iv) Enhancing human resource skills through development of technical, entrepreneurial, production and managerial skills for industrial development; (v) measures for attracting local and foreign direct investment; (vi) Local and export market expansion and diversification for manufactured products; (vii) Enhancing standards, quality infrastructure and intellectual property rights regime; (viii) strengthening industrial research, development and innovation; (ix) facilitating the growth and graduation of the MSMEs for industrial expansion; and (x) provision of access to affordable and appropriate financial services for industrial growth and expansion.

To facilitate effective coordination, policy implementation, monitoring and evaluation, this sessional paper proposes the establishment of a National Industrial Development Commission. The commission provide a broad engagement framework within which all stakeholders, including the public and private sector; and development partners will contribute and play respective roles for a consultative approach to industrial development.

The financial requirements for implementation will be carried out through public and private sector funding both at respective sector levels and through public private partnerships (PPPs). PPPs will be to support infrastructure development and will be implemented through a combination of various approaches that include Build-operate transfer (BOT); Corporatization; lease and/or management contracts and concessions. To support the development of strategic industries and other initiatives such as: incubation, venture capital, technology development and transfer, subcontracting this policy framework proposes the establishment of an Industrial Development Fund.

This sessional paper is presented in six chapters. Chapter one provides the background of the sessional paper and includes an introduction, vision and

mission of the policy framework, guiding principles and core values, and objectives of the policy. Chapter two comprises the rationale and context of the policy and includes: benchmarking with NICs, and changes and development in the global economy. Chapter three details the situational analysis that includes: Status of the Kenyan economy, overview of the industrial structure in Kenya, strengths and weaknesses, challenges and opportunities. Chapter four comprises of the broad policy intervention areas and respective policy measures to be undertaken. Chapter five comprises of the policy implementation, monitoring and evaluation. Lastly, Chapter six provides the recommendations for consideration by parliament.

CHAPTER 1

BACKGROUND

1.1 Introduction

Since independence Kenya has made several initiatives towards the development and growth of the industrial sector. However, despite the efforts resulting into the country having a relatively larger industrial sector in the region, it has not been dynamic enough to function as the engine of economic growth especially when compared to newly industrialized emerging economies due to various challenges. The sector has been inward-looking and has had low value addition especially to the available agricultural and natural resources. Similarly, weak institutional support for the development and growth of the local Micro, Small and Medium Enterprises (MSMEs), which have the potential for employment and wealth creation, has resulted into slow industrial growth.

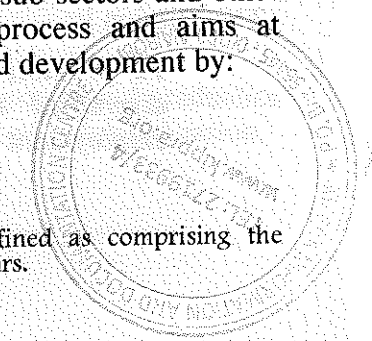
Under Kenya vision 2030 the manufacturing sector has been identified as the key driver for economic growth and development due to its immense potential in job and wealth creation, and its high potential to the realization of the Millennium Development Goals (MDG).

As Kenya's aspires to be a middle income, rapidly industrializing country, and globally competitive, an effective industrial policy framework to drive this process is required. In addition, the constitutional dispensation lays greater emphasis on renewed commitment to economic performance under the national and new devolved governance structure.

Furthermore, the pace of global technological changes makes it necessary for Kenya to develop an industrialization policy framework that is capable of responding to these rapid changes. It is therefore imperative to develop a policy framework and strategies to revitalise the industrial¹ sector for effective contribution to national growth, employment and wealth creation.

This policy framework focuses on value addition for both primary and high valued goods; and linkages between industrial sub-sectors and other productive sectors to drive the industrialization process and aims at providing strategic direction for the sector growth and development by:

¹ For purpose of this policy, the industrial sector is defined as comprising the manufacturing, construction, mining and quarrying sub-sectors.



- creating an enabling environment for private sector-led industrial development and a business environment capable of attracting local and foreign investments for the sector growth and development;
- taking into consideration, other existing policies, capacities and capabilities, the country's strengths and weaknesses as well as the challenges and opportunities offered by globalization and regional integration;
- recognizing the importance of promoting resource based industries, and in particular, labour intensive, export-oriented industries for increased productivity and growth in all the industrial sub-sectors, bearing in mind the impact of forward and backward linkages in the economy;
- encouraging sustainable creativity and innovation to continually improve production process and the quality of products;
- encouraging effective development of industrial human resource and specific skills for industry to enhance competitiveness;
- identifying the foundational pillars and measures for the vibrancy and growth of the Industrial Sector and recommend appropriate policy interventions for the realization of the sector goals; and
- providing a legal and institutional framework for substantial improvements in intra-governmental coordination, under a Public Private Partnership arrangement.

1.2 Vision and Mission of the National Industrialization Policy

This policy is aligned to the *Kenya Vision 2030* which aspires to transform Kenya into a middle income rapidly-industrializing country, "a globally competitive and prosperous nation, offering a high quality of life to all its citizens" in a secure and healthy environment.

The Vision of this policy framework is:

To be the leading industrialized nation in Africa with a robust, diversified and globally competitive manufacturing sector.

The Mission is:

To promote and sustain a vibrant, globally competitive and diversified industrial sector for generation of wealth and employment through the creation of an enabling environment.

1.3 Guiding Principles and Core Values

In order to revolutionize the growth of the industrial sector in Kenya, the following guiding principles and core values have been considered and will apply:

i. Productivity and competitiveness

The policy emphasizes increased productivity and competitiveness as one of the key guiding principles for expanding and maintaining the domestic and export markets in a liberalized environment.

ii. Market development

The policy takes cognizance of the need to diversify and expand markets for industrial value added products. It addresses supply side constraints with regard to product quality, volume and standards.

iii. High value addition and diversification

The policy recognizes high value addition to the resource endowment as key for optimizing creation of wealth, employment and regional development. It therefore emphasizes on further processing of primary products.

iv. Regional dispersion

The Policy underscores the need for equitable dispersion of industries throughout the country in order to accelerate the pace of development especially in the marginalized areas.

v. Technology and innovation

The Policy recognizes innovation as central to meeting the rapidly changing consumer tastes and preferences while also boosting productivity and competitiveness of the industrial sector.

vi. Fair trade practices

The policy is expected to create and ensure a level playing field that facilitates fair competition by guarding against infringement of Intellectual Property Rights, and supply of counterfeits and substandard and second hand goods.

vii. Growth and graduation of MSMEs

The policy underscores the need for enhancing the growth and graduation of MSMEs into large industries that form the bedrock of industrialization.

viii. Employment Creation

This policy focuses on quality and sustainable employment creation.

ix. Environmental Sustainability

The policy recognizes the need to promote sustainable industrial development that upholds environmental protection, management and efficient resource utilization.

x. Compliance with the Kenya's Current Constitution

The policy is well-aligned to the provisions of the constitution and takes into account the constitutional provisions for a devolved structure of government and the particular call to encourage regional dispersal of industries as a basis for equity and empowerment across the nation.

xi. Education and human resource development

The policy recognizes that industrialization can only take place when there is a strong and well trained workforce from all levels of training.

1.4 Objectives of the Policy Framework

The overall policy objective is to enable the industrial sector to attain and sustain annual sector growth rate of 15% and make Kenya the most competitive and preferred location for industrial investment in Africa leading to high employment levels and wealth creation.

The specific objectives to be achieved are as follows:

1. Strengthening local production capacity to increase domestically-manufactured goods by focusing on improving the sector's productivity and value addition by 20 per cent.
2. Raising the share of Kenyan products in the regional market from 7 to 15 per cent.
3. Developing niche products through which Kenya can achieve a global competitive advantage.
4. Increasing the share of Foreign Direct Investment in the industrial sector by 10 per cent.
5. Increasing by 25 per cent, the share of locally produced industrial components, spare parts and machine tools.
6. Developing at least 2 Special Economic Zones and 5 SME Industrial Parks.
7. Establishing an Industrial Development Fund with a **minimum** of KSh. 10 billion for long term financing of manufacturing enterprises.
8. Increasing by 20 per cent the share of manufacturing in total MSME Output.

9. Increase the local content of locally manufactured goods for export to at least 60 per cent.
10. Increasing the share of industries located outside major urban centres (Nairobi, Mombasa, Kisumu, Nakuru, Eldoret) to at least 50 per cent.

To realise these specific objectives, a number of strategies are to be pursued, including the following:

1. Facilitate the creation and expansion of productive employment in the manufacturing² sector.
2. Facilitate the creation of a business friendly environment for private sector-led industrialization.
3. Attract local and foreign direct investment in manufacturing and related services.
4. Promote sustainable development of Micro, Small and Medium Industries (MSMIs) and creation of support systems.
5. Capacity building and skills upgrading for the manufacturing sector.
6. Promote Value-Addition in the industrial sector for both local and export markets.
7. Facilitate access to affordable finance for the manufacturing sector.
8. Facilitate innovation, adoption of cleaner technology, R&D and commercialization of research findings for industrial growth and sustainability.
9. Facilitate the provision of internationally recognized standards, measurement and conformity assessment and protection of Intellectual Property Rights; and
10. Create an institutional, legal and regulatory framework to support vibrant industrial sector

² Manufacturing means the physical or chemical transformation of materials, substances or components into new products but excludes repairs. Materials, substances or components transformed are raw materials that are products of agriculture, forestry, fishing, mining, quarrying or products of other manufacturing activities.

RATIONALE AND CONTEXT

2.1 Benchmarking with NICs

The policy recognises that Kenya is primarily an agricultural based economy with a fairly skilled human resource base and is also strategically located to serve as a regional industrial hub in East Africa. The country is also endowed with natural resources that can be tapped through Value Addition (VA) for the benefit of the whole country.

It is in this context that policy endeavours to address issues affecting the industrial sector, by including prospects for more broad-based strategies that would provide the sector with meaningful opportunities to realize its full potential. The policy provides for a broader engagement framework within which all stakeholders, including the public and private sector; civil society and development partners will contribute and play their respective roles in industrial development.

The experience from successful economies seems to indicate that having a coherent National Industrialization Policy is a prerequisite for the advancement of industrial development in any country. For example, Hong Kong's industrialization policy consisted of an FDI strategy and a "non-expert technology" to SMEs; that is: medium level, rather than top-level expertise being extended to the SMEs in order to nurture them into the growth trajectory. On the other hand, Singapore, Taiwan and Korea had a strong push for specialized high skills/technology industries and sub-contracting of SMEs. In turn, Korea focused on giant private conglomerates-led heavy industry and creation of brands. Thailand's industrialization was based on the export of primary products and on import substitution policies at home.

From these experiences of industrialized countries, the industrial sector can be seen as a key driver for increasing growth rates, generation of sufficient employment opportunities, and fostering Kenya's integration into the global economy. Further, research indicates that most of the rich nations have a thriving industrial sector whereas the poorest countries have agriculture, with very little value addition, as their dominant economic sector. Kenya has an abundant intellectual capacity to achieve the vision in technology led industrial growth.

The common fundamentals apparent in all Newly Industrialised Countries (NICs) have been:

1. The achievement of stable macroeconomic environment.
2. Stable, flexible and cost effective labour market.

3. Liberalized and efficient capital and credit markets.
4. Attraction of long term foreign investment.
5. Efficient cost effective infrastructure.
6. Efficiency and flexibility in the utilization of factors of production; and
7. Development of a strong Industrial Research and Development Capacity through increased resource allocation to the National Research and Development Institutions.

Overreaching all of these was a longstanding political and economic stability that provided long term consistency and created investor confidence. Other principles and best-practices for the design and implementation of industrial policy interventions can be identified as:

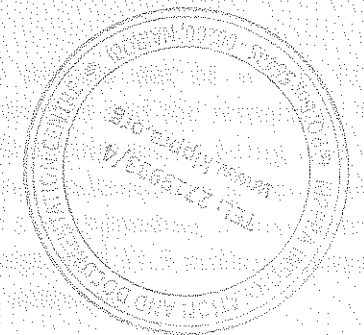
- Potential participation in the global economy through purposeful interventions in own developed industrial economies.
- Developments of a national vision vide the Kenya Vision 2030 that provides unity of purpose and consolidation of efforts for sustainable economic growth.
- Identification of growth and employment constraints operating at the macroeconomic, sectoral, spatial and firm level of the economy, rather than a 'one-size-fits all' policy template.
- Identification of cross-cutting and sector-specific constraints and opportunities that support processes of 'self-discovery' with the private sector and other stakeholders.
- Where appropriate, Industrial financing will be customized to addressing specific constraints and opportunities in certain strategic areas, within the disciplines of WTO rules.
- The importance of a 'nodal agency' whose role will be coordinating industrial policy with related policies, particularly with respect to macroeconomic issues, skills, infrastructure and technology development. The agency must have a sufficiently strong leadership and coordination capacity.

2.2 Changes and development in the global economy

Global changes continue to shape the world industrial development agenda and hence the need for the review and redefinition of industrial policies at national, regional and international levels to make responsive to these changes. Some of which include:

1. Global competitiveness driven by standards and conformity as key ingredients to successful industrial development in a globalized world.
2. Steady growth rate of Africa's economy for the recent past due to macro-economic stability, improved private sector development policies, and improved governance thereby providing greater opportunities for intra-trade.
3. Emerging new sources of FDI's into Africa such as the BRICs and other emerging economies.
4. The increasing dominance of the service sector, in relation to agriculture and industry, especially in the developed countries.
5. Technological changes such as the diffusion of information and telecommunication technologies (ICTs) and scientific breakthroughs such as genetic engineering and the development of biotechnologies.
6. Emergence of major trading blocs such as East African Community (EAC); COMESA; SADC, North American Free Trade Agreement (NAFTA) and Association of Southeast Asian Nations (ASEAN) and the deepening of European integration and enlargement of the European Union (EU); and other Multilateral Trading arrangements under World Trade Organization (WTO) and
7. Social and demographic changes such as growing middle class in the emerging economies and the ageing of the population in developed countries.

This policy framework will take into account some of the lessons learnt and best practices from benchmarking with NICs and changes and developments in the global economy to guide Kenya's Industrialization process.



CHAPTER 3

SITUATIONAL ANALYSIS

3.1 Status of the Kenyan Economy

The Kenyan economy has continued to register a positive GDP growth rate from 2003 achieving the highest growth rate of 7% in 2007. However, the performance has been fluctuating over the period 2008-2011 due to multi shocks including drought, global financial and economic crisis, rising commodity and oil prices; and weakening of the Kenya shilling.

Monetary and Fiscal Policies implemented by the Government were aimed at containing the rising cost of living, reducing inflation to 5 percent by 2012, maintaining a flexible exchange and building foreign exchange reserves to 4.6 months of each succeeding year's import cover or the equivalent of 6 months of the previous 36 months of import cover. On the global scene, the high international oil prices and ripple effects of the global financial crisis affected the local currency which depreciated to an all-time low in 2011.

The poor performance of gross national savings as a percentage of GDP stifled the investment in the country. Investment as a percentage of GDP dropped from 20.7% in 2009/2010 to 19.6% in 2010/11. The gross national savings needed to finance the envisaged investments levels was expected to rise steadily with reforms in the financial sector; this was, however, way below the targeted 21% resulting to slow growth in investments. In the trade sector, between 2007 and 2011 the country's trade balance continued to widen attributable to high import bill.

Similarly, on employment, Kenya has identified employment creation as a key policy objective in addressing the growing number of people entering the labour market. The Government has continued to develop and implement a number of programs to promote employment creation in the country. In spite of all these initiatives the economy has not been able to generate adequate employment opportunities to absorb the increasing number of unemployed youth.

Kenya's labour force is estimated at 21.5 million out of which 11.5 million is currently engaged in economic activities and the remaining 10 million people are still unemployed. Manufacturing sector being one of the key drivers for economic growth, has huge potential to generate the much needed employment opportunities for the expanding labour force. As at 2011 the formal and informal sector employed 11.5 million Kenyan which excludes small farming and pastoralist activities.

From 2007 – 2011, formal employment in the manufacturing sector expanded marginally from 261,300 in 2007 to 275,800 in 2011 while the employment in the informal manufacturing sector grew steadily from 1.57 million in 2007 to 1.83 Million in 2011.

3.2 Overview of the Industrial Sector in Kenya

Kenya's industrial sector is relatively large within the region. However, it has not been dynamic enough to function as, "an engine of economic growth" especially when compared to newly industrialized emerging economies. The sector has been inward-looking in spite of the various past policy initiatives to address the sector challenges. There has been lack of effective programs for increased value addition and support to the local small and medium enterprises, which have the potential for employment and wealth creation; growth and graduation into large enterprises.

The sector's GDP contribution has remained stagnant for the last two decades at about 10 per cent. The growth of the sector has also been below the annual target. Kenya's exports have also remained predominantly primary commodities with low value addition. The manufactured exports, on average, contribute about 36% to the total exports on an annual basis over the last 5 years. The employment contribution of the sector, over the last 5 years, has also remained stagnant at 21% with most of the new jobs being created by the informal sector. Furthermore, the indirect employment opportunities have not been forthcoming.

3.2.1 Structure and contribution of the manufacturing sector

The structure of Kenya's manufacturing sector is four fold comprising of Micro, Small, Medium and large classified mainly by employment creation with minimal linkages. The medium and large industries constitute less than 5 percent of the total number of enterprises but contribute over 60 per cent to the manufacturing sector GDP contribution. Similarly, the Micro and Small enterprises comprise about 95 per cent of the number of industries but contribute only about 20 per cent to the manufacturing sector GDP contribution.

The MSME sector in Kenya plays an important role in the socio-economic development of the country. Its current significance is in terms of its contribution to employment creation but has the potential to serve as the foundation for Kenya's industrial base.

Since independence the government has put in place several policy measures that have influenced the structure and contribution of the industrial sector to the Kenyan economy.

3.2.2 Past industrial policy initiatives

Industrial policies in Kenya have evolved through three distinct policy orientations, namely, import substitution, Structural Adjustment Programmes (SAPs), and export-led policy orientation.

3.2.2.1 The Import Substitution Policy

The main objectives of this strategy were to ensure rapid growth of industry, ease balance of payment pressure; increased domestic control of the economy and also generate employment. During the period between 1963 and 1989, the manufacturing sector grew at an average rate of 8% per year and the country experienced high growth of industries producing consumer products such as textiles and garments; food; beverages and tobacco as leading sub-sectors.

This strategy was characterized by high levels of protection which led into inefficiencies in the domestic industries; inward looking approach and bias against exports gradually resulting into a general decline of the overall economic performance. To remedy the situation, the country embarked on major macro-economic policy re-orientation under the Structural Adjustment Programmes (SAPs).

3.2.2.2 Structural Adjustment Policies

Structural Adjustment Policies (SAPs) were introduced in the late 1980s. The main focus of SAPs included elimination of administrative controls, decontrol of prices, rationalization of import tariffs, restructuring of state corporations, liberalization of exchange rate.

Whereas the SAPs reduced tariffs and decontrolled prices, it did not achieve the desired outcome. As a result, the GDP growth rate recorded a negative rate of 0.4% between 1991 and 1992, while the GDP annual growth rate of the manufacturing sector fell from 3.8% to 1.8%. A major policy shift towards export orientation was undertaken.

3.2.2.3 Export Oriented Policies

The main objectives of the export-oriented policies were to improve efficiency in the entire economy, stimulate private investment and increase the sector's foreign exchange earnings. The trade liberalization measures were deepened and new export promotion schemes introduced such as Green channels; Manufacture Under Bond (MUB); Export Processing Zones (EPZ); Export Promotion Programme Office (EPPO); and Tax Remission for Exports Office (TREGO) amongst others. The export-led policy orientation has continued to date.

The Export-orientation policies have over the years been expounded to respond to global market structures through various sessional papers and blue prints highlighted below:

3.2.2.4 Sessional paper No.1 of 1986 on renewed economic growth

The Sessional paper required industrial sector to be restructured over a period of 15 years to become more productive and attain a rapid growth in order to serve specific economic goals such as: the expansion and diversification of Kenya's export base; job creation in the informal sector; raising productivity; attraction and generation of indigenous Kenyan entrepreneurs and managers; as well as, support and promotion of the development of agriculture and of the rural areas.

3.2.2.5 Sessional Paper No. 2 of 1992 on Small enterprise and Jua Kali development in Kenya

The objective of this sessional paper was to improve the enabling environment for informal sector activities; formulate and develop programmes to improve access to credit and finances; technology improvement and innovation; work sites; and bias in public procurement in favour of the small scale and Jua Kali enterprises sector in Kenya amongst others.

3.2.2.6 Sessional Paper No.2 of 1996 on Industrial Transformation to the Year 2020

This Sessional paper was developed to provide a framework to stimulate economic growth and employment creation through the expansion of the industrial sector. The specific focus of the policy was to maintain political, social and macroeconomic stability; increasing productivity; increase exports and generate foreign exchange; investment in human resources development; improvement and expansion of physical infrastructure; improvement in the financial markets; deepening trade liberalization; labour market stability; dialogue with the private sector; and increased resource allocation to research, technology development and management.

3.2.2.7 The Economic Recovery Strategy (ERS) for Wealth and Employment Creation

The ERS policy framework identifies four pillars namely macro-economic stability; strengthening of institutions of governance; rehabilitation and expansion of physical infrastructure; and investment in the human capital. During the ERS period of 2003 - 2007, the economy experienced consistent economic growth, expansion of infrastructure, improvement in institutions of governance and expansion in human resource development.

3.2.2.8 Master Plan for Kenya Industrial Development

The ERS had identified the need for the development of the Industrial Masterplan. With support from the Japanese Government, the Ministry of Industrialization developed the Industrial Master Plan 2008 to promote the industrial development of Kenya with emphasis on the target sub-sectors.

The 3 short-term priority sectors identified in the Master Plan are Agro-processing; Agro Machinery; and ICT, Electric and Electronics.

3.2.3 The Industrial Sector and Kenya Vision 2030

The *Kenya Vision 2030* –Kenya's long-term national policy blueprint correctly places the industrial sector as a potential growth area for the following reasons:

1. It enjoys strong forward and backward linkages with other important economic sectors such as agriculture and services.
2. It offers high prospects for employment creation, especially in labour intensive industries.
3. It acts as a catalyst for technology transfer and attraction of FDI.
4. It offers high prospects for deepening Kenya's drive to integrate further into the regional and global economy and
5. It provides significant foreign exchange earnings to the Kenya Economy.

Kenya Vision 2030 aims to transform the nation into a newly industrializing, "middle-income country providing a high quality life to all its citizens by the year 2030". The Vision is based on three "pillars": the economic, the social and the political.

The economic pillar aims to improve the prosperity of all Kenyans through an economic development programme, covering all the regions of Kenya, and aiming to achieve an average Gross Domestic Product (GDP) growth rate of 10% per annum beginning in 2012. The economic pillar is to be delivered through six priority sectors namely: manufacturing, tourism, agriculture, financial services, wholesale and trade; and business processing outsourcing.

The focus on the manufacturing sector is to become the provider of choice for basic manufactured goods in eastern and central Africa, through targeting "niche" products. This will be done through improved efficiency and competitiveness at firm level.

3.3 Strengths of the industrial sector

Kenya has several strengths that should be exploited to increase industrial development in the country and these include:

3.3.1 Natural and Agricultural Resources

Kenya has a total area of 582,650 km² of which 97% is land mass while 3% is covered by water. Over 20% of the land is arable, fertile and well watered with relatively reliable rainfall and numerous lakes, dams and

rivers. The terrain and rivers provide unique environmentally friendly hydro-electricity and geo-thermal generation potential. Oil and coal resources have also been discovered in the northern and eastern part of the country respectively. Currently, the country is in the process of determining the commercial viability of the oil deposits.

Kenya has a diversity of minerals including gem stones, fluorspar, soda ash, phosphate, gold, limestone, clay, rare earth, titanium, iron ore and salt, some of which their commercial viability has not been ascertained.

Kenya is also endowed with diverse agriculture resources which include horticulture, coffee, tea, cotton, sugar, maize, pineapples, fish and livestock. These resources provide most of the industrial raw materials.

3.3.2 Geographical location

Kenya's proximity to the East and Central Africa markets offers a sizeable market for manufactured goods, excellent connective to major world hubs and time zones that make it easy to work with most continents.

3.3.3 Business Environment

Kenya has a new constitution that emphasizes on the protection of investment and Intellectual Property. The incentives that support investment include; guaranteed investment protection; generous investment allowance; EPZ and MUB. In addition, Kenya has a strong financial sector; relatively good physical infrastructure; fast and reliable fibre optic access; harmonization of tariffs within the East African Community, and trade liberalization in general. The macro-economic environment in Kenya has been strong and stable.

The Government has continued to build, upgrade and maintain its infrastructure that is expected to support industrialization and encourage industrial dispersion. Some of the key projects include but are not limited to the rehabilitation of the Northern Corridor, LAPSSET, Geo-Thermal power exploration, modernization of the airports, sea ports and railway systems; fibre optic cable and construction of the ICT Park.

3.3.4 Educated Labour force and high Labour Productivity

One of Kenya's major strengths is the highly educated human resource and hardworking citizens with a high literacy rate of about 85 per cent. The education and skills of the human resource and self-motivation of the workforce is a major driver of industrial development, labour productivity and total factor productivity.

Labour productivity is measured by manufacturing value added per worker. Earlier studies in 2005, by the World Bank, on the Kenyan manufacturing sector found that labor productivity in Kenya was

comparable with that of China and India and was much higher than that of Tanzania and Uganda. High labor productivity in Kenya, however, was associated with much higher capital intensity compared with firms in China and India. Total factor productivity was lower in Kenya than in East Asia given that the labor cost in Kenya is 25 percent of value added, compared with only 15 percent of value added in China. Higher productivity in China is not offset by higher wages, rendering China very competitive internationally. In India, although labor productivity is low, it is offset by much lower labor costs, making firms in India, particularly the larger ones, more competitive than those in Kenya.

3.3.5 Public-Private Sector Partnerships (PPP)

PPP has been identified as one of the strategies for development. The Government has enacted the PPP legislation which is expected to strengthen the legal framework for public and private sector in investment. This will offer an opportunity for Kenya to attract enhanced private sector participation in financing, building and operating infrastructure services and facilities, among others. In addition, a strong and cooperative relationship between the Government and the private sector exists thus making it conducive to attracting investments.

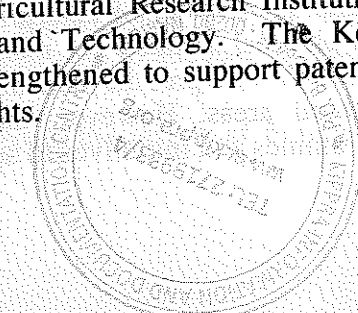
3.3.6 Political stability

Political stability of a country is a key prerequisite condition for industrial growth and development. The country has remained fairly politically stable since independence. The constitution provides a new dawn in our political dispensation and creation of institutions which are geared toward the strengthening of governance, rule of law and people participation in decision making.

Similarly, Kenya has played a critical role in restoring peace and stability in Sudan and Somalia. These efforts have resulted into the creation of the latest new African Nation of South Sudan. The efforts being made by the African military force (AMISON) in Somalia have started yielding positive results and a new President will soon be installed. The participation of the nation in the restoration and rebuilding of these two economies provide an opportunity for industrial growth in Kenya.

3.3.7 Research and Development

Kenya has created various public institutions that support R&D. This includes KIRDI, public Universities, Agricultural Research Institutions, and the National Council for Science and Technology. The Kenya Industrial Property Institute has been strengthened to support patenting and protection of Intellectual Property Rights.



3.3.8 Financial Sector

Kenya has a vibrant financial sector that comprises of commercial banks, financial institutions, cooperative savings and credit society, and micro finance institutions. In addition, the country has the most developed stock market in the East African Region.

3.3.9 Government Procurement

World over, Governments are major buyers of manufactured goods and it is common for the same to provide preferential treatment to local manufacturers in tenders. In the recent past, the Government of Kenya, has made a decision through the amendment of the Public Procurement and Disposal Regulations (Preference and Reservations) 2011 to accord preference to MSEs and disadvantaged groups for public procurement. This provides a opportunity for growth and support of local manufacturers.

3.4 Weaknesses affecting the industrial sector

Some of the major weaknesses affecting the industrial sector include:

3.4.1 Low value addition

Most industries are still engaged in the production of low value-added and limited range of products due to limited technological capability. This has contributed to limited scope for product diversification and expansion of the exports market. The narrow product range and focus on few markets have restricted the growth of Kenya's exports. This has hindered expansion of industrial activities.

In addition, the country has unexploited capacity for the production of machine tools, spare parts and components. This has resulted to continued importation of these items.

3.4.2 Inadequate market information

For the private sector to make investment decision, whether new markets are to be served, cost structures rearranged, new capabilities and resources identified, accurate and timely information for the assessment of market conditions and business opportunities is essential.

The industrial sector has continued to grapple with lack of adequate market information, especially in the MSE sub-sector. This poses a great challenge to small enterprises. Despite the vast amount of information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to the inability to interpret the statistical data and poor connectivity especially in the rural areas. However, the government has put in place various programmes and initiatives to address this weakness such as the Centre for

Business Information of Kenya (CBIK) in Export Promotion Council that provides information on various regional and international markets and District Business Solution Centres to provide information at the local level.

3.4.3 High cost of infrastructural Services

The high cost of infrastructural services has contributed to high cost of doing business in country which has led to uncompetiveness of our industrial sector.

3.4.4 Inadequate skilled industrial human resource

Human resource development is important for increased productivity in the manufacturing sector. However, the shortage of trained and skilled manpower for industry is a major factor limiting not only industrial development but also the rate of economic growth and adoption of technology.

Kenya is currently endowed with a young labour force, whose potential can be fully exploited through adequate training on different market oriented skills.

3.4.5 Limited Access to Finance

The realization of sustainable and meaningful Industrial development in the country requires access to affordable long-term finance and credit facilities. Though the financial sector in Kenya is relatively well-developed, the limited access to formal financial products and services, particularly for long term financing, has inhibited the competitiveness and growth of the industrial sector.

These financial institutions have helped increase access for the lower end of the market, particular for the entrepreneurial poor engaged in micro trade or other income generating activities. However Commercial banks have traditionally avoided lending to the MSMEs sector due to their relatively high transaction costs, difficulties assessing and managing risk, and the inability of most small firms to provide the required financial documentation and collateral.

To address the large gap in the middle, inroads can be made by assisting MFIs to move upward and commercial banks to move downward. The heavy collateral requirements that banks impose to help manage risk, serves to screen out the vast majority of MSMEs. Hence, in addition to improving MSMEs access to commercial loans, it will be necessary to help them meet the various financing needs for MSMEs. Further, the Development Financial Institutions have not been able to adequately fund the industrial sector due to lack of resources.

The International Financial crisis has also affected the inflow of Foreign Direct Investment.

3.4.6 Limited Industrial subcontracting linkages

Limited industrial subcontracting has been ongoing without an enabling policy framework. The absence of the policy has hindered the promotion and facilitation of industrial subcontracting between large and small scale industries.

3.4.7 High cost of Industrial Land

Availability of industrial land is a major constraint for industrial development. The central county government will be expected to zone, avail and provide the necessary infrastructure.

3.4.8 Slow investment in the industrial sector

Over the last few years the country has attracted few local and foreign investments despite existing incentives. This has led to minimal growth of the sector and generation of employment opportunities in the formal sector.

3.4.9 Fragmented industrial policy framework

A major problem in the industrial sector, has been the existence of fragment policies and various Acts of Parliament, Sessional Papers and other sectoral policies and strategies some of which have overlapping policy mandates.

3.5 Challenges of the industrial sector

3.5.1 Counterfeit, dumping, substandard goods and compliance with WTO Provisions

The importation of counterfeit, sub-standard, and subsidized goods into the country continues to impact negatively on the locally produced products. These unfair trading practices take the form of selling products below their "normal" price or of benefiting from government-provided subsidies.

In addition, the new global rule of doing business under the World Trade Organization (WTO) and Trade Related Intellectual Property (TRIPs) presents several challenges and opportunities for the manufacturing sector in the country. This requires substantial capacity building to facilitate understanding and leverage on the various WTO and TRIPs provisions for industrial development.

The ongoing Doha round negotiations under the WTO the country has undertaken various commitments that have an impact on Kenya industrial sector. The country is expected to make additional commitments in the ongoing EAC-EPA negotiations.

3.5.2 Compliance with Standards

Universal compliance with international or national standards is critical, not only for fair competition in the domestic market, but also for creating a presence in export markets. A majority of MSME are unable to fully comply with these standards requirements thus inhibiting their export potential.

3.5.3 Market Access

Stringent and non-uniform application of rules of origin coupled with the non-observance of various protocols within the regional trading blocs has been a great challenge. The continued non-compliance with the application of the common external tariff within the trading blocs has greatly affected the level playing field for Kenyan products within the region.

With the global reduction of import tariff there have been significant increase technical barriers to trade, sanitary and phyto-sanitary measures and other non-tariff measures.

3.5.4 Technology change

In most African nations, Kenya inclusive, connecting indigenous small enterprises with foreign investors for technological upgrading is still a challenge. The situation is made worse with little or no power supply connectivity, especially in remote rural areas. Thus technological change, though meant to bring about economic change even among the rural lot, does not appear to answer to the plight of the rural entrepreneurs.

Similarly, changes in technology have posed a great challenge to small businesses. Many small business entrepreneurs appear to be unfamiliar with new technologies. Those who seem to be well positioned are often unaware of this technology and if they know, it is neither locally available, nor affordable or not situated to local conditions.

3.6 Opportunities of the Industrial Sector

3.6.1 Strategic Location

Kenya's strategic location as a gateway to East Africa should be able to facilitate more flow of goods and people. The port of Mombasa and International Airports linking various destinations provide an opportunity for the country to become an industrial hub in the region.

3.6.2 Expanding Middle Class

The expanding middle class create a critical mass of people with high purchasing power. The biggest implication of this emerging middle class is for increased consumption of goods and services, such as consumer

business/retail (both food and clothing); technology.); entertainment; financial services; and healthcare. This has a spill-over effect into other areas such as industrial investments, construction, infrastructure development and agriculture.

3.6.3 Growing Regional Markets

Regional economic communities such as EAC and COMESA provide immediate market opportunities to the Kenyan industry. Kenya is in an advantageous position to exploit the market opportunities created through these regional economic blocks because of its fairly large size of the industrial sector in the region.

3.6.4 Fast growing African Economy

Many African countries rely on the role of FDI in attaining their development objectives of poverty reduction, skills enhancement, technological upgrading and market access. It is imperative to note that from 1969 to 2008, the combined share of China in India in global output rose from less than 7 to 24 per cent with projections to 34 per cent by 2030.

In addition, the share of consumption dropped in the North, while that of emerging countries continues to grow rapidly as reflected in the growing share of China and emerging economies in global FDI flows and trade. The increase in economic growth of the emerging economies has affected demand patterns that are currently dictated by the consumers in high-income countries resulting into a scramble for resources, particularly in Africa, which holds much of the World's untapped resources. These global investment flows provides an opportunity for Kenya to attract FDI and increase value added activities targeting the emerging markets.

3.6.5 Diaspora investment inflows

Kenyans working in the diaspora have in the recent past been remitting foreign exchange for investment into the country. With the adoption of the Kenya Constitution, 2010 that allows for dual citizenship, it is envisaged that the inflow of funds for investment from the diaspora is expected to grow significantly. This policy therefore provides measures for exploiting this investment opportunity for the growth of the industrial sector.

CHAPTER 4

BROAD POLICY INTERVENTION AREAS

4.1 Enabling Business Environment

4.1.1 Political stability

A long standing political unity and stability provides assurance, supports consistency in planning and therefore is a prerequisite for creating investor confidence. Industrial development is a long term endeavour and therefore requires sustainable political stability and commitment. Under the constitution, the government will continue to implement the framework for security, and reforms in the following areas: judiciary, police, administration, and legislature.

To ensure political stability is maintained, the government will:

1. Continue to implement the Kenyan constitution which provides a framework for political stability.
2. Put in place measures for a democratically political system that is issue-based, people-centred, results-oriented and accountable to the public through continuous Judiciary reforms, Public Sector reforms, and other reform initiatives.

Timeframe: Short to medium-term

4.1.2 Macroeconomic stability

A stable, predictable and supportive macroeconomic stability is critical for industrialization. The overall macroeconomic environment in the economy strongly influences investment decisions. The economy is liberalized and determined by market forces.

To ensure macroeconomic stability, the government will:

1. Continue to formulate and maintain enabling macroeconomic policies that support industrial development.

Timeframe: Short, Medium and Long term (depending on the policy element)

4.1.3 Institutional, legal and regulatory framework

There has been insufficient coordination around industrial initiatives amongst government agencies. This has impeded the capacity to implement high quality industrial policy interventions. Successful implementation of this policy therefore requires coordination across a range of government departments as well as appropriate organization and capacity within them. It also calls for the effective and efficient delivery of services by public institutions charged with implementing industrial

regulatory functions. With adoption of the constitution of Kenya 2010, this will also require adequate inter- and intra-governmental coordination at the National and County Government levels.

The policy measures to be undertaken by the Government in addressing this will include:

1. Enactment of an enabling legislation and establishment of the National Industrial Development Commission with executive powers to coordinate the implementation of industrial development policies and programmes.
2. Strengthen the commercial justice system within the judicial reforms to expedite business dispute resolutions.
3. Restructure and strengthen industrial regulatory institutions to ensure effective implementation of policy initiatives.
4. Strengthen the institutional linkages between government agencies at National level, and the County governments with a view to enhancing their capacity in promoting equitable industrial development at county levels.
5. Enactment of legislation to address total factor productivity in line with available best practices.

Timeframe: Short-Medium term

4.1.4 Physical Infrastructure

An adequate, cost-effective and efficient physical infrastructure is an important key enabler for growth and sustainability of industrialization. Physical infrastructure includes transport and logistics systems, road and rail networks, sea and inland waterways, air transport, energy supply, oil pipeline; water and sewerage services and ICT services. There are ongoing programs and projects addressing physical infrastructure under the Kenya Vision 2030.

The government will therefore continue to pursue those programs and the following policy measures in the various infrastructural areas:

1. Urgent implementation of the Sessional Paper on *Integrated National Transport Policy* (INTP) of November 2010.
2. Fast-tracking the expansion, modernization and maintenance of road, rail, airports, seaports and ICT networks to industrial areas and those areas of existing and high potential for industrial development prioritized in this policy document.

3. Fast tracking the expansion and diversification of the power generation and provision of clean water resources in a cost effective manner.
4. Provide a preferential but cost effective electricity and water tariffs for heavy industrial consumers in key industries prioritized in this policy document.
5. Providing incentives for construction and fabrication of effluent treatment plants and solid waste management facilities in industrial areas.
6. Promoting the use of ICT in transport and logistics systems, manufacturing processes and all industrial related activities to enhance cost effectiveness and efficiency.

Timeframe: Medium-long term

4.1.5 Availability of Industrial Land

The availability of adequate and accessible industrial land is a crucial factor for industrial development. The cost of land in Kenya is very high and discourages industrial development and foreign direct investment. Most local authorities have not zoned and availed industrial land.

The government will pursue the following policy measures:

1. All counties will be required to zone and avail land for industrial development.
2. Establish a land bank for economic development in line with the constitution and Vision 2030.

Timeframe: Short-Medium term

4.2 High value addition

Kenya has a wide range of natural and agricultural resources that can be exploited to form the basis of a value-addition. This includes the wide range of agricultural, minerals, livestock and forestry products. Value addition will also be enhanced through forward and backward linkages; and strengthening the value chains. The initiatives to enhance high value addition will be addressed through initiatives such as dispersion of industries to exploit available local resources.

In order to harness the resources available throughout the country, region-specific industrial and manufacturing clusters will be developed and nurtured in collaboration with the National and county governments. The government will pursue the following policy measures:

1. Natural and agricultural resources will no longer be exported in their primary state.
2. Fast track the establishment of the Special Economic Zones (SEZs), Industrial Zones and SME Parks in line with the *Kenya Vision 2030*.
3. Develop appropriate incentive packages for the establishment and dispersion of industries across the counties.
4. Promote the establishment of industrial, science, and technology parks.

Timeframe: Short-Medium term

4.3 Priority Industrial Sub-sectors

The policy has identified 22 Industrial Sub-sectors as having potential for Industrial Development (*See Annex 1 – List of Potential Industrial Sub-Sectors*): Out of the 22 Industrial Sub-sectors, priority industrial sub-sectors have been identified for development in the short, medium and long term. The priority sub-sectors will be selected based on potentialities for contributing to industrial transformation defined in the Kenya Vision 2030 and based on the following characteristics namely:

- (i) Comparative advantage.
- (ii) Competitive advantage.
- (iii) Technological innovation.
- (iv) Industrial linkages and
- (v) Regional development.

In promoting the industrial priority sub-sectors, the government will promote local investment and foreign direct investment and undertake to:

1. Provide incentives for investment in high value processing in Kenya's Natural resource based sectors.
2. Encourage clustering of industries around specific natural resources.
3. Review 'ailing' resource based industries with a view of reviving those with profitability potential and promote their product diversification.
4. Promote the use of local raw materials for the manufacture of medium to high technology sector products.
5. Promote technology transfer including reverse engineering.

6. Develop initiatives that will attract major investment in advanced manufacturing sub-sectors, technology research and product development.
7. Promote industrial skills development for technologies applications for advanced technology manufacturing industries.

Priority industrial sub-sectors can be broadly categorized into:

4.3.1 Labour intensive sectors

These are sectors that take advantage of Kenya's Natural resource based sectors. They include the following:

4.3.1.1 Agro-processing

Agriculture is the mainstay of the Kenyan economy and currently represents 24% of the GDP. More than one third of Kenya's agricultural produce is exported and this accounts for 65% of Kenya's total exports. However, it has long been known that most of the exports are in raw or semi-processed form meaning that producers of Kenyan agricultural products do not reap as much benefits as those who process and give value-addition before re-exporting to other destinations.

In order to tap into the potential that lurks in processing Kenya's agricultural products and providing value addition before export, the Government will:

1. Provide incentives for investment in high value processing of agricultural products such as tea, coffee, pyrethrum, cotton, nuts, oil crops, hides and skins; gum Arabica, aloe vera and fruit crops such as bananas, pineapples, passion, oranges and mangoes and others.
2. Encourage clustering of industries around specific agricultural resources for example coconut and cashew nut, honey processing as well as fish farming and processing.
3. Revive 'ailing' agro-mills to be in line with the heavy government investment in the sub-sector and promote processing and diversification of agro products.
4. Work with other stakeholders and especially, the Brand Kenya Board (BKB) to emulate best practice from countries such as Australia and New Zealand in country branding for agro-based industries whilst promoting agri-business.

Timeframe: Short-term

4.3.1.2 Textiles and clothing

In Kenya, the textile and clothing industry comprises of two main sub-sectors namely:

- (i) **Textiles;** covering cotton growing and ginning, fabric manufacture, including activities such as polymerization, spinning, weaving, knitting and wet processing, and
- (ii) **Apparel;** which include garments and clothing accessories (labels, buttons, zippers and packaging).

Apparel manufacturing is the most vibrant part of the chain at the moment, largely because AGOA permits imports of fabric from low cost producers in any part of the world.

Under this policy framework, the following policies measures are to be pursued:

1. Revive 'dead' textile mills and ginneries in the country.
2. Encourage the setting up of weaving and milling plants through incentives on capital equipment.
3. Encourage the regional development of textile within the EAC region to maximize on comparative advantage.
4. Provide competitive prices for cotton farmers, through the Cotton Development Authority (CoDA), in line with international textile prices.
5. Ban exportation of cotton in unprocessed and semi-processed forms.
6. Introduce a levy on the export of cotton lint to encourage local processing and
7. Ban the import of used clothes (mitumba) on health grounds.

Timeframe: Short-Medium term

4.3.1.3 Leather and Leather goods

The Kenyan leather industry has strong backward and forward linkages that provide opportunities for value addition using locally sourced raw materials. The leather industry is made up of four main sub-sectors: the raw material base (hides and skins); Tanneries, Footwear, and manufacturing of Leather goods. The government will put into place the following policy measures:

1. Strengthen the Leather Development Council.
2. Revive and mainstream the Training and Production Centre for the 'Shoe Industry (TPCSI) in order to promote technical capacity in processing of leather products.
3. Strengthen the leather training and incubation programmes in KIRDI and KITI.
4. Ban importation of used leather products, and
5. Ban the exportation of raw hides and skins.

Timeframe: Short-Medium term

4.3.2 Medium to high technology sectors

This policy will promote the development of medium to high valued products in the following sub-sectors:

4.3.2.1 Iron and Steel Industry

The industrialization of any nation is largely dependent on the availability and affordability of iron and steel. It has been established that vast amounts of iron ore reserves exist in several locations in Kenya, including: Meru, Ikutha, Taita, Embu, Lolgorien, Samburu, and Funyula districts. There are also smaller deposits in various parts of Nyanza, Western and Coastal regions including pyritic ores in Bukura area, limonitic ores on Lugulu Hill south of Sio and and goethite ore on Mrima Hill in Kwale.

The second main ingredient in iron and steel production is coal which has also been reported to be in Mwingi and Kitui districts. The third main ingredient in the iron and steel production is limestone, which occurs in various parts of the country including Mutomo, Kajiado, Taita, Pokot, Baringo among other areas.

In pursuit of the need to grow and expand the potential that is inherent in the iron and steel industry in Kenya, it is proposed that the following policy measures be pursued:

1. Establish a sub-committee of the proposed *National Industrial Development Commission* to deal exclusively with the development of steel and iron.
2. Rationalize the tariffs and any other anomalies within the industry to ensure local competitiveness and value addition in the development of down-stream industries, including machine tool industry, forging industry, agro machinery and motor vehicle assembly.
3. Establish the types, location, quantities and qualities of iron, coal and limestone in the country.
4. Establish a mini-steel plant at the NMC.

5. Develop an institutional framework to promote development of iron and steel mills industries in the country, within the framework of *Kenya Vision 2030*.
6. Establish a coal power generation plant.
7. Impose a ban on export of scrap metal and iron ore.
8. Promote stockpiling of the iron ore and limestone while initially exploring ways of mining the coal and producing the coke.

Timeframe: Medium-Long term

4.3.2.2 Machine Tools and Spares

Machine tools are power-driven machinery and equipment that perform specific actions on materials like metal, wood and plastic. These machines are used for turning, milling, drilling, grinding, water-jet or laser cutting; material forming i.e. stamping, bending and joining as well as work holding i.e. chucks, fixtures and clamps. Special tooling such as dies and moulds, is custom designed and made to manufacture specific products, generally in quantity and to desired levels of uniformity, accuracy, interchangeability and quality.

In consideration of the foregoing potential within the machine tools and spares sub-sector, the following policy measures will be pursued under this framework:

1. Build manufacturing capacity in products and tools design; machining, forging, forming, casting and tool room facilities.
2. Establish a machine tool cluster agglomeration of firms with forward and backward links.
3. Upgrade technical and managerial skills to enable precision engineering.
4. Promote incentives to investors in machine tool industry such as tax holiday, preferential tariff on imported high precision components.
5. Encourage collaboration/manufacturing under license with renowned machine tool manufacturers.
6. Deploy CAD-CAM, manufacturing and CNC technology and encourage university students to undertake practical training and working knowledge of soft ware such as Pro-engineering and Solid Works for opportunities in machine tooling and sheet metal works.

Timeframe: Short-Medium term

4.3.2.3 Agro Machinery and Farm Implements

Agricultural machinery is defined as any kind of machinery used on a farm to help in the vocation of farming. The best-known example of this kind is the tractor. Some of the tasks that these machines can perform

include soil cultivation, planting, fertilizing and pest control, irrigation, harvesting/post-harvest, hay making, loading and milking.

In order to harvest the potential in this sub-sector while also directly complementing the Kenya Vision 2030 aspirations for the agribusiness potential in the country, the following policy options will be pursued under this policy framework:

1. Promotion of the usage of farm energy efficient machines and equipment which reduce on energy expenses while increasing returns.
2. Working with the Ministry responsible for Finance and other stakeholders to lobby for the provision of tax exemptions on imported farm machines and implements.
3. Pursuing of joint venture partner who manufactures low cost tractors in order to support agriculture and agro based industries with a view to germinating other ancillary and sub-contracting SMEs with a potential to expand towards an automotive sector.

Timeframe: Medium-term

4.3.2.4 Pharmaceutical Industry

The Pharmaceutical industry in Kenya has the potential for growth to meet national and regional demands. The government has already initiated the formulation of a more detailed, *Kenya National Pharmaceutical Policy* (KNPP) whose objective, *inter alia* is to "encourage local manufacture of essential medicines for self-sufficiency in the domestic market and to promote growth in pharmaceutical exports."

In order to tap into the clear potential in the pharmaceutical sub-sector, the will pursue the following policy objectives:

1. Promote procurement of locally manufactured pharmaceutical products, and
2. Encourage the use of local raw materials for the manufacture of pharmaceutical products.
3. Streamline the institutional and legal arrangements governing the pharmaceutical sector.
4. Ensure training of more specialised personnel, to cater for R&D needs; industrial pharmacy, biotechnology as well as quality control assurance.
5. Encourage technology transfer, especially for the manufacture of generics; and
6. Initiate knowledge and awareness campaigns to ensure proper understanding of generic medicines.

Timeframe: Medium-term

4.3.3 Advanced manufacturing sectors

The predominance of medium to high-tech products in global trade signifies the need for new advanced manufacturing processes. To ensure Kenya is not left behind, the following priority sub-sectors will be pursued in the long term:

4.3.3.1 Biotechnology and Nanotechnology Industry

Biotechnology is today used in a variety of primary production needs, in health as well as in industry. Specific industrial applications include the use of biotechnological processes to produce chemicals, plastics and enzymes, as well as, environmental applications such as bioremediation and biosensors and methods to reduce the environmental effects or costs of resource extraction as well as production of biofuels. On the other hand, Nanotechnology (also known simply as nanotech), is a branch of technology that essentially leads to the production of 'nanoparticles' that are today being in many countries in the production of textiles, cosmetics, sunscreens, surface coatings, printing, water treatments and kitchenware. Reports indicate that more than 100 foods have been manufactured, processed, or packaged using nano particles.

The government will pursue two major policy options in order to grow these modern-day industrial technology options in Kenya:

1. Develop initiatives that will attract major investment in bio and nano-technology research and product development from local and international companies or institutions, and
2. Promote industrial skills development for bio and nano-technologies applications.

Timeframe: Long-term

4.4 Human resource skills development

Skills and competency is a fundamental pillar for successful industrial development. Similarly, the development of technical, production and managerial skills is essential for the success and expansion of the industrial sector. Currently there is a mismatch between the industrial labour market requirements and human resource development. This requires integration and strengthening of linkages between training institutions and industry as well as the development of technical, production and managerial skills in a well-structured and coordinated manner.

The government will pursue the following policy options:

1. Expand technical, vocational and entrepreneurial training designed to offer artisan, craftsmanship, technician, technologist and engineering training for industry through Technical and Vocational, Education and Training (TVET) reforms.
2. Develop a framework to provide and enhance sustainable linkages between tertiary and vocational training institutions and with industry.
3. Build strategic alliances with institutions of higher-learning and R&D for continuous acquisition and provision of knowledge resources for industrial development and competitiveness.
4. Encourage private sector investment in technical human resource development.
5. Develop a framework and incentive scheme for industrial attachment; and
6. Establish equitable entrepreneurial 'Centres of Excellence' for Business Development Services (BDS) for Micro, Small and Medium industries across the country.

Timeframe: Short-Medium term

4.5 Foreign Direct Investment

Foreign Direct Investment (FDI) bring about various positive linkages such as stable inflow of foreign capital, increase in employment, increase in gross national product, improvement in balance of payments and transferring multinational corporations' advanced managerial assets, know-how, skill and high technologies to the host country.

To encourage FDI inflows into the country, the government will:

1. Develop an FDI Policy to maximize on the economic linkages.
2. Establish and maintain investment legal systems that are relevant for industrial investment.
3. Review the mandates and restructure the public institutions involved in investment and export promotion; and
4. Review the existing investment incentive packages to attract large FDI.

Timeframe: Medium-term

4.6 Market Access

Access to markets is essential for the development of the industrial sector. Kenya depends on a few traditional export markets for its industrial products. The domestic market for manufactured goods is large but the local capacity to satisfy this market is limited. In order to promote market access for industrial products and address the 'supply side' and 'demand side' constraints, the government will:

1. Promote the consumption of locally manufactured products.
2. Implement programs to improve the quality of locally manufactured goods.
3. Implement measures to curb the influx of sub-standard, dumping and counterfeit goods.
4. Implement the provisions of Public Procurement of locally manufactured products;
5. Strengthen the negotiation capacity of Kenyan negotiators and also review bilateral, regional and multilateral trade arrangements in order to enhance market access for manufactured products.
6. Align the Trade, Special Economic Zones and Industrial Policies.

Timeframe: Short-Medium-term

4.7 Standards, quality infrastructure and Intellectual Property Rights

Quality infrastructure refers to all aspects of standardization, metrology, testing and quality management, including certification and accreditation. Similarly, an effective Intellectual Property Rights (IPRs) system is an incentive to innovation. For Kenya's products to be competitive in the domestic, regional and global market, the country must adhere to quality standards and IPR protection. To enhance standards and quality infrastructure; and IPR protection, the government will pursue the following policy measures:

1. Fast track the harmonization and implementation of EAC and COMESA common quality standards and enactment of the EAC Anti-Counterfeit Bill.
2. Fast track the enactment of Kenya's Trade Remedy Bill, 2011.
3. Restructure and strengthen the Intellectual Property Tribunal and Standards Tribunal to enhance their effectiveness.

4. Strengthen the Anti-Counterfeit Agency and other institutions involved in the fight against counterfeit goods.
5. Develop a National Quality, Standards and Anti-counterfeit Policy to address the following:
 - (i) the responsibilities of importer, exporting countries, shipping lines, clearing and forwarding agents and government agents with respect to sub-standard, counterfeit and illegal goods imported into Kenya.
 - (ii) graduated and progressive standards conformity for local Small and Medium Industries; and
 - (iii) Harmonize and streamline levies charged by the regulatory agencies.
6. Fast track the enactment of a National Intellectual Property Policy.
7. Strengthen institutional capacity for IPR and increase knowledge and awareness of IPR issues and its importance to industrial investors.

Timeframe: Short-Medium-term

4.8 Industrial Research, Development and innovation

Industrial Research and Development (R&D) as well as innovation all play an important role in a modern economy where new knowledge is central in product development and new technologies. Resource Efficient and Cleaner Production (RECP) is an integral part of sustainable industrial development and ensures cleaner production practices in industries and environmental conservation. The government will pursue the following policy measures aimed at enhancing industrial research and development as well as innovation:

1. Develop a policy framework to support commercialization of research findings;
2. Strengthen the linkages between Universities, R&D institutions, middle level colleges, polytechnics, other training institutions and department of state responsible for industrialization to undertake joint-market driven research for commercialization.
3. Formulate mechanisms to facilitate collaboration with the private sector in research, technology-transfer and development.
4. Mobilize resources for Research and Development.
5. Develop a *National Resource Efficiency and Cleaner Production Policy*, and the institutional framework to mainstream RECP.

6. Promote pilot projects that demonstrate costs and benefits of investment in cleaner production technologies.

Timeframe: Medium-long-term

4.9 MSMEs Growth and Graduation for Industrial Expansion

The Micro, Small and Medium Enterprises (MSMEs) sector is recognised as the foundation of Kenya's industrial development. The potential of the sector has not been fully realised due to challenges such as limited access to appropriate finance and access to markets; poor infrastructure, limited technology uptake, weak management structures, weak linkages with research institutions, poor product quality, and lack of access to skilled labour. In order to continue unlocking the potential of MSMEs so that they play their role in contributing to Kenya's industrial development, the following policy measures will be pursued:

1. Fast track the enactment of the Micro and Small Enterprises Bill.
2. Establish an Industrial Development Fund (IDF).
3. Fast track the enactment of the National Industrial Incubation; and National Industrial Sub-contracting Policies.
4. Develop a 'One-Stop-Shop' for business registration for MSMEs; and
5. Mainstream Business Development Services (BDS) and Technical Assistance (TA) to support graduation of MSMEs.

Timeframe: Medium-term

4.10 Access to Finance

Access to affordable and appropriate financial services is critical to the acceleration of industrial development and its decentralization is important to ensure equitable geographic access by enterprises. The different levels of enterprises, that is large, medium, small and micro, have unique financial needs. The financial sector in Kenya is relatively well-developed. However, there is limited access to long term financing which inhibits the growth and competitiveness of the industrial sector.

To increase the access to financial services, the government will:

1. Provide incentives for establishment of venture capital supportive of industrial investment.
2. Establish an Industrial Development Fund (IDF) to provide appropriate funding mechanisms for strategic industries and joint ventures.

3. Review and restructure the existing DFIs with a view to re-capitalization and strengthening their financing capacity for industrialization.
4. Encourage Co-operatives and Pension funds to invest in industrial development; and
5. Provide incentives to encourage Kenyans in the Diaspora to invest in industrial development.

Timeframe: Short-Medium-term

CHAPTER 5

POLICY IMPLEMENTATION, MONITORING AND EVALUATION

5.1 Institutional framework

The existing framework for the development of the industrial sector in Kenya cuts across various institutional arrangements and has resulted in a rather inefficient resource allocation as well noted cases of duplication of responsibilities and efforts. To address this and ensure effective coordination arrangements, the proposed institutional arrangements have been made with three objectives in mind, including:

1. The need to ensure decentralization while also facilitating the delivery of efficient and cost effective services.
2. The need to facilitate Public Private Partnerships (PPPs) in policy formulation and implementation and ensure the involvement of all stakeholders, and The need to facilitate adequate access to infrastructure for industrial development.

It is also to be noted that the institutional framework has been designed to take into consideration the factors that have hindered a more robust industrial growth and development in Kenya. The success of implementation will therefore largely depend on strong political will and commitment by the top policy making organs of the government who are in turn expected to take firm and resolute decisions on the sector's development issues and priorities.

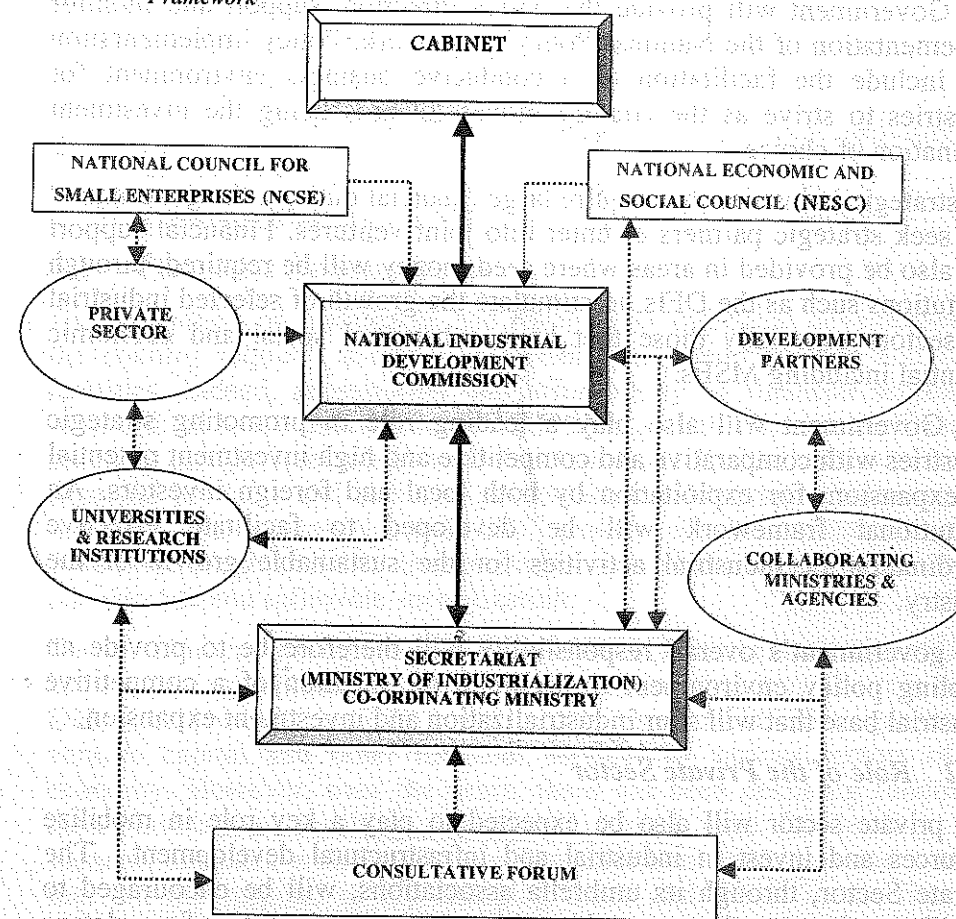
In view of these factors, it has been considered that the National Industrial Development Commission, (NIDC) be established to provide leadership and vision; allocate resources, set targets as well as oversee and synchronize the activities of all the different stakeholders as further elaborated in this chapter. This proposed institutional framework provides for both top-down and bottom-up approach to issues that would arise during the implementation of the policy, and for an all-inclusive participation by the public and private sector as well as universities and other research institutions as well as the civil society and other stakeholders. Overall, the Commission will be expected to perform the following functions:

1. Generate policy innovations that will accelerate the pace of industrialization.
2. Advise the Government on the strategic industrial development models to pursue in light of the dynamics in the international business arena.

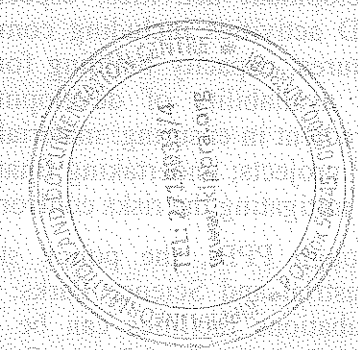
3. Through the relevant specialized agencies, direct research on thematic issues affecting industrial development and propose appropriate interventions.
4. Provide routine advice and policy direction on the administration of the Industrial Development Fund.
5. Receive, synthesize and evaluate policy proposals from the Industry Consultative Forum and make appropriate recommendations that can be passed on to the Cabinet.

Figure 5.1 below provides the new institutional framework.

Figure 5.1 National Industrialization: The new Institutional Framework



Through the commission, the roles of the public, private and PPP arrangements have been defined as follows:



5.1.1 Role of Government

The Government will provide the policy direction, support and monitor implementation of the National Policy framework. Policy implementation will include the facilitation of a conducive business environment for industries to thrive as the country moves towards being the investment destination of choice.

For strategic industries that require large financial outlays, the government will seek strategic partners or enter into joint ventures. Financial support will also be provided in areas where seed money will be required, through institutions such as the DFIs, to stimulate the growth of selected industrial sub-sectors especially those that have substantial social and economic potential including MSEs.

The Government will also play a leading role in promoting strategic industries with comparative and competitive and high investment potential for expansion; for exploitation by both local and foreign investors. An institutional framework will be developed to facilitate effective coordination of industrial activities for the sustainable growth of the industry.

The government's overall responsibility will therefore be to provide an enabling policy environment to facilitate the creation of a competitive industrial base that will spur industrialization and investment expansion.

5.1.2 Role of the Private Sector

The private sector will also be expected to play a key role in mobilize resources and invest in industrial and infrastructural development. The Private Sector, through its umbrella associations, will be encouraged to mobilize and engage in partnership with government in policy formulation and implementation.

5.1.3 Public Private Partnerships

Public Private Partnerships (PPPs) are effective mechanisms for development activities, especially infrastructure projects, Undertaking R&D activities including commercialization of research findings; joint ventures; capacity building for institutional development and financing. The availability of development finance is considered an important ingredient in ensuring materialization of such PPP initiatives, developing PPP projects; undertaking financial structuring and packaging of projects and mitigating the risks confronting PPP activities and projects.

Through PPPs, the policy strategies such as development of SEZs, Industrial and Science Parks; Industrial Clustering and development of Incubations facilities can be undertaken. These can be done through: Build-Operate-Transfer or Build-Own-Transfer (BOT); Corporatization;

Lease and/or management Contracts; and Concessions. Other specific roles of PPP arrangements include:

1. Development and harmonization of existing PPP policies, strategies and regulatory frameworks.
2. Promotion of Public Private Partnerships in the provision of infrastructure and other services.
3. Capacity Building for PPP development.

5.2 Financial Requirements

The realisation of sustainable and meaningful Industrial development in the country requires access to affordable long-term finance and credit facilities. Indeed, accessibility and affordability of financial services is most critical to the acceleration of industrial growth. Though the financial sector in Kenya is relatively well-developed, the limited access to formal financial products and services, particularly for long term financing, has inhibited the competitiveness and growth of the industrial sector. Similarly, the financial institutions insist on collateral; have high interest rate spreads and inflexible securitization.

The government through various Development Finance Institutions (DFIs) has focused on stimulating growth in the industrial sector. The role of the DFIs has been to provide loans, equity investment, loan guarantees, venture capital and other financial services to various sectors of the economy. However, over the years, there has been declining funding to these institutions resulting in reduced capital base for lending. The scenario has been worsened by rigid management structures and systems that did not respond to the changing times and trends in the financial sector. To address the financial requirements, the following critical activities will be undertaken:

1. Establishment of an Industrial Development Fund (IDF) and mechanisms for provision of appropriate commercial loans to strategic industries for sustainable industrial development.
2. Re-structuring and re-capitalization of DFIs.
3. Fast tracking the enactment of the insolvency bill.
4. Provision of globally competitive fiscal incentives for new industrial investments.

5.3 Monitoring and Evaluation

The Government recognizes the importance of initiating an effective Monitoring and Evaluation (M&E) system for successful implementation of this Policy Paper and will work closely with the private sector and

development partners in developing M&E systems. A comprehensive monitoring and evaluation system facilitates identification of deviations from set targets and taking corrective measures.

In this Policy Paper, M&E takes place at three levels with clear definition of roles and expected outputs. At the national level, the Ministry responsible for industrialization in collaboration with the NIDC will develop a comprehensive logical framework to set the implementation process of this Policy Paper. The logical framework will spell out the broad policy objectives, strategic interventions and expected outputs. In addition, it will contain performance indicators, means of verification and the time frame. The Ministry responsible for industrialization in collaboration with the NIDC will further develop M&E tools for each of the identified interventions and facilitate the development and institutionalization of an inbuilt mechanism within the systems of other relevant stakeholders. Joint monitoring and evaluation will be undertaken by Ministry responsible for industrialization, NIDC, Private sector and the development partners. Quarterly and annual progress reports on implementation will be produced at this level and shared amongst all the stakeholders.

Capacity building will be undertaken at the sectoral level to equip NIDC and staff of the Ministry responsible for industrialization with the relevant skills to collect and process timely and reliable data necessary for effective M&E exercise. The product of M&E exercise will in turn be utilized within the industrial sector for purposes of performance enhancement and improvement.

At the beneficiary level, the individual enterprises will be the source of information required for the M&E system. They will be critical in identifying process constraints and suggesting appropriate mitigation measures.

CHAPTER 6

RECOMMENDATIONS

The implementation of this Sessional Paper is expected to provide multiple benefits to the country that include:

- Contribute to the envisaged annual GDP growth rate of 10 per cent per annum.
- Reduce the current estimated unemployment levels from 53.5 per cent to single digit levels by 2030.
- Transform the country into a middle income nation offering high quality of life through increased incomes and quality service from industrialization.
- Maximization of the Kenya's natural resources through high value addition, increased competitiveness and productivity.
- Growth of the other sectors of the economy as it has forward and backward linkages with many other sectors of the economy such as agriculture, services, ICT, education, and tourism; and
- Considerable development of Science, Technology and Innovation leading to significant increase in registered patents and commercialization of research findings.

The following are the recommendations being proposed to Parliament for action:

1. Approval of this Sessional Paper to become the National Industrialization Policy Framework for Kenya.
2. Enact the National Industrialization Act to become the legislative framework for implementation of the policy.
3. Establish the Industrial Development Fund.
4. Vote for budgetary provisions for the development of Kenya's Industrial Sector.

ANNEXES:

Annex 1 – List of potential Industrial Sub-sectors

- 1) Iron and Steel.
- 2) Machine Tools and Spares.
- 3) Agro Machinery and Farm Implements.
- 4) Automotive and Auto Parts.
- 5) Agro-processing and Value Addition.
- 6) Paper and Paper Products.
- 7) Textiles and Clothing.
- 8) Milk and Dairy Products.
- 9) Meat and Meat Products.
- 10) Leather and Leather Products.
- 11) Electrical and Electronics.
- 12) Mining and Quarrying.
- 13) Ceramics products.
- 14) Glass products.
- 15) Pharmaceuticals products.
- 16) Recycling materials.
- 17) Packaging Industry.
- 18) Fish and Fishery Products.
- 19) Petrochemicals.
- 20) Green Energy.
- 21) Biotechnology.
- 22) Nanotechnology.