



REPUBLIC OF KENYA

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Sessional Paper No. 2 of 1996

on

INDUSTRIAL TRANSFORMATION  
TO THE YEAR 2020

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## FOREWORD

It is the ambition of the Kenyan Government that every Kenyan should benefit fully from the fruits of independence and be able to face the future with the confidence that the quality of life will improve. The levels of poverty and deprivation that still afflict our nation belie this ambition. The majority of our population in both the rural areas and towns face a daily struggle to earn enough to provide for their day-to-day needs. In such circumstances they look forward to a better life for themselves and their children and hope that the Kenya of the next generation provides them the chance to prosper. If these dreams are to be realized we must achieve the vision that is the goal of this Sessional Paper - to bring about sustained economic growth and rapid employment generation through industrialization.

The task ahead is daunting but achievable. To transform Kenya into a prosperous industrial nation will require a clear vision, commitment, and a renewed spirit of *Harambee* from every single citizen. As a country, we must look outward to our neighbours and the world both to seek opportunities for our enterprises and to invite others to participate in building our economy. We cannot create a future if we turn our backs on the challenges of international trade and commerce. To meet these challenges we must build a unity of purpose through partnership and universal participation. As this Sessional Paper makes clear, Government has a vital role to play but its efforts must be matched and even surpassed by private sector entrepreneurs, managers, technicians and workers. Together we must build an industrial culture that nurtures entrepreneurship and rewards enterprise and hard work.

The function of government in the industrialization process is to support and facilitate private enterprise. This will be done through: establishing a conducive policy environment; sound macro-economic management; maintaining the rule of law together with social and political stability; investing in physical infrastructure and human resource development; guarding against human exploitation and environmental degradation; and, pursuing Kenya's interests in international agreements and relationships. It will require all Government Ministries and Departments to work towards the achievement of this goal.

It is the private sector that must seize the opportunities and take the initiative to invest in productive enterprises to create jobs and a competitive industrial sector. A true and equal partnership is the only way forward. In this regard the establishment of an independent forum, the National Industrial Development Council, where the private sector and Government can meet will soon be established.

This Sessional Paper maps out a strategy for Kenya's industrialization process and the part that Government must play in its implementation. The Government is totally committed to fulfilling its role and providing the supportive environment within which the private sector can flourish. Above all else, Government must ensure enhanced stability, security and confidence for those that invest and those that wish to save for future investments, for entrepreneurs and workers and for Kenyans and foreigners wishing to do business in this country. This will call for stable and well considered macroeconomic management and predictable policies that are uniformly, efficiently and fairly applied.

The policy environment envisaged in this Paper must be turned into a reality and facilitated by a Civil Service that is effective and without bias or favour. We cannot allow inefficiency, incompetence and corruption if we are to successfully build confidence in our economy. To build confidence takes time, energy and enlightenment but the same can be destroyed in a single act of foolishness or mismanagement. On behalf of the Government, I state quite categorically that the policies laid out hereinafter will be implemented consistently and for the benefit of all.

The Industrial transformation envisaged will not take place unless the Kenyan people nurture an industrial culture and a reward system that cherishes devotedness, honesty, hard work, discipline and sacrifice. All Kenyans must work hard to build the nation, increase productivity and prosperity and promote patriotism and nationalism among themselves. Only then will our nation grow in strength, both socially and economically and thus reduce poverty and raise standards of living. All should have one objective - to work to build the nation in order to strengthen our position in the world.

Finally, I wish to stress the fundamental need to turn the written policies of this Sessional Paper into actions on the ground. Too often in the past sound policies have failed because of lack of commitment towards implementation. The topic of implementation is repeatedly referred to throughout the document. It calls for the necessary steps to be taken, immediately, to ensure thorough and speedy implementation. Regular progress reports will be made to the Presidential Economic Commission (PEC) and actions instigated if implementation appears to falter because the issues at hand are critically important to the future well-being of the nation and must be addressed with vigour, discipline and unity of purpose.

A handwritten signature in black ink, appearing to read 'J. M. Angatia', with a stylized flourish above the first name.

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## ACRONYMS

|        |   |
|--------|---|
| AFC    | Agricultural Finance Corporation                  |
| AG     | Attorney General                                  |
| ASAL   | Arid and Semi-Arid Lands                          |
| BOO    | Build Operate and Own                             |
| BOT    | Build Operate and Transfer                        |
| CBK    | Central Bank of Kenya                             |
| CMA    | Capital Market Authority                          |
| COMESA | Common Market for Eastern and Southern Africa     |
| DCA    | Directorate of Civil Aviation                     |
| DBK    | Development Bank of Kenya                         |
| DFI(s) | Development Finance Institutions                  |
| DIT    | Directorate of Industrial Training                |
| EDF    | Estate Development Fund                           |
| EIA    | Environmental Impact Assessment                   |
| EPC    | Export Processing Council                         |
| EPPO   | Export Promotion Programmes Office                |
| EPZ    | Export Processing Zones                           |
| EPZA   | Export Processing Zones Authority                 |
| FKE    | Federation of Kenya Employers                     |
| GDP    | Gross Domestic Product                            |
| GNP    | Gross National Product                            |
| GoK    | Government of Kenya                               |
| GTI    | Gilgil Telecommunications Industries              |
| ICDC   | Industrial and Commercial Development Corporation |
| IDB    | Industrial Development Bank                       |
| IPC    | Investment Promotion Centre                       |
| JKIA   | Jomo Kenyatta International Airport               |
| JLBS   | Joint Loan Board Scheme                           |
| CAA    | Kenya Airports Authority                          |
| KAM    | Kenya Association of Manufacturers                |
| KCB    | Kenya Commercial Bank                             |
| KCCT   | Kenya College of Communications Technology        |
| KEBS   | Kenya Bureau of Standards                         |
| KEFRI  | Kenya Forestry Research Institute                 |

|        |  |
|--------|--|
| KETDEC | Kenya Electronics and Telecommunication Development Centre   |
| KIE    | Kenya Industrial Estates                                     |
| KIPO   | Kenya Industrial Property Office                             |
| KIPPRA | Kenya Institute of Public Policy Research and Analysis       |
| KIRDI  | Kenya Industrial Research and Development Institute          |
| K-MAP  | Kenya Management Assistance Programme                        |
| KNCCI  | Kenya National Chamber of Commerce and Industry              |
| KPA    | Kenya Ports Authority  |
| KPLC   | Kenya Power and Lighting Corporation                         |
| KRA    | Kenya Revenue Authority                                      |
| KRC    | Kenya Railways Corporation                                   |
| K-REP  | Kenya Rural Enterprises Programme                            |
| MALDM  | Ministry of Agriculture, Livestock Development and Marketing |
| MCI    | Ministry of Commerce and Industry                            |
| MCSC   | Ministry of Culture and Social Services                      |
| MEd    | Ministry of Education  |
| MOE    | Ministry of Energy   |
| MENR   | Ministry of Environment and Natural Resources                |
| MOF    | Ministry of Finance  |
| MLG    | Ministry of Local Government                                 |
| MLMD   | Ministry of Labour and Manpower Development                  |
| MLS    | Ministry of Lands and Settlement                             |
| MLRRWD | Ministry of Land Reclamation, Regional and Water Development |
| MPWH   | Ministry of Public Works and Housing                         |
| MRTTT  | Ministry of Research Technical Training and Technology       |
| MTC    | Ministry of Transport and Communication                      |
| MUB    | Manufacturing Under Bond                                     |
| NCST   | National Council for Science and Technology                  |
| NDP(s) | National Development Plans                                   |
| NEAP   | National Environmental Action Plan                           |

|          |   |
|----------|---|
| NEAP     | National Environmental Action Plan  |
| NGO(s)   | Non-Governmental Organizations  |
| NIC(s)   | Newly Industrialized Countries  |
| NIDC     | National Industrial Development Council   |
| NSSF     | National Social Security Fund   |
| OP       | Office of the President   |
| OVP&MPND | Office of the Vice President and Ministry of<br>Planning and National Development |
| PEC      | Presidential Economic Commission  |
| PIP      | Public Investment Programme   |
| PMD      | Project Management Department   |
| PPF      | Pension Provident Fund  |
| PRIDE    | Promotion Rural Initiatives and<br>Development Enterprises.                       |
| R&D      | Research and Development  |
| RTDC     | Road Customs Transit Declaration  |
| RTI      | Railway Training Institute  |
| SCG(s)   | Strategic Consultative Groups   |
| SEFCO    | Small Enterprise Finance Company  |
| SSJKE    | Small Scale and Jua Kali Enterprises  |
| TTDC     | Telecommunications Test and Development<br>Centre                                 |
| TSG      | Technical Support Group   |
| UNCTAD   | United Nations Conference on Trade and<br>Development                             |
| UNIDO    | United Nations Industrial Development<br>Organization                             |
| VAT      | Value Added Tax   |
| WRC      | Water Research Commission   |
| WTO      | World Trade Organization  |
| YP(s)    | Youth Polytechnics  |

# CHAPTER 1

## INTRODUCTION AND BACKGROUND

### 1.1 Introduction

1.1.1 The major purpose of this Sessional Paper is to set-out national policies and strategies that will lay the foundation for the structural transformation required to enable Kenya join the league of *Newly Industrialized Countries* by the year 2020. The policies articulated here are firmly rooted in *Sessional Paper No 1 of 1994 on Recovery and Sustainable Development to the Year 2010*, which provided a comprehensive framework for the rapid restoration of sustainable economic development in Kenya.

1.1.2 The economic policy environment that exists today, and provides the context for this Sessional Paper, can be traced back to the *Sessional Paper No 1 of 1986 on Economic Management for Renewed Growth*. The document represented a major watershed in Kenya's macroeconomic policy orientation. It introduced an economic adjustment programme designed to: establish a market-based incentive system; reform the role of Government and the public sector; and, put in place policies that would lead to rapid development with equitable wealth distribution. Although the 1986 Sessional Paper emphasized the lead role of agriculture and rural development, it made clear that industrialization was a key objective. It put forward a dual approach that remains valid today when it stated "Government's strategy for industrialization must concentrate on two approaches. First, the domestic market for manufactured goods must be expanded markedly. Second, Kenya's industry must be restructured to become much more efficient and capable of exporting goods profitably and competing against imported goods with moderate protection".

1.1.3 Kenya has a relatively large manufacturing and industrial service sector whose share of Gross Domestic Product (GDP) has increased very little over the past two decades. The sector has not been dynamic enough to function as "an engine of growth" for the whole economy and has not contributed significantly to foreign exchange earnings. The sector has been inward-looking with limited technological progress and reflects past import-substitution policy orientations. However, the past decade has seen a remarkable reform of the policy environment under which the economy

operates and, despite the economic downturn experienced in the early 1990s, there is every reason for believing that Kenya now stands poised for accelerated economic growth.

## **1.2 Why Kenya Must Industrialize**

1.2.1 Historical experience indicates that the Kenyan economy has enjoyed periods of great advances, but also suffered disheartening downturns. Incidences of poverty and unemployment, meagre foreign exchange earnings from exports of her primary products mainly agricultural produce, have culminated in the scenario of unfavourable balance of payments and low per capita income. It is estimated that some 43 per cent of Kenya's population live below the poverty line. In 1995 the per capita Gross Domestic Product (GDP) stood at only U.S.\$ 275, and the economic growth was inadequate in terms of absorbing the growing labour force.

1.2.2 Despite the fact that Kenya has been one of the few countries in sub-saharan Africa to experience a decline in fertility rate from 7.9 per cent in 1981 to 5.4 per cent in 1991, the unemployment problem has continued to prevail with the labour force growing at a faster rate of 4.0 per cent annually. Consequently, lack of productive employment opportunities resulted in a fall in real wages by about one third in all sectors of the economy. In addition, the population pressure on the agricultural land and the associated decline in individual holdings resulted in low and decreasing productivity.

1.2.3 It is against this background that Kenya has to face up to the enormous employment challenge of the next century. For near full employment to be achieved during the period 1997-2020, employment growth must average 4.3 per cent annually. This is in sharp contrast to historical annual employment growth rates of 3 per cent in 1963-1986 and just over 2 per cent in the last decade. The need to almost double employment growth rates calls for renewed determination to implement labour intensive development strategy. The government recognizes that jobs can only be created and sustained through encouragement of efficient industries which are internationally competitive through utilization of the latest technology. In order to cope with these challenges, the economy will be expected to grow at between 8-10 per cent per annum for along

period of time while industry is projected to increase its growth rate from the current 5 per cent to 15 per cent by the year 2020. This definitely calls for enhanced industrialisation which is achievable through the adoption of new integrated strategy in which market-driven development is combined with careful capacity building and strengthening of the institutional framework.

1.2.4 It is the goal of this Sessional Paper to provide a framework of Government policies that will stimulate economic growth and employment through the expansion of the industrial sector. With arable land and other constraints limiting the capacity of the agricultural sector to absorb existing and future employment demand, it is essential that non-farm sectors of the economy provide alternative opportunities for employment and wealth creation. The immediate challenge is to build firm business confidence and take direct and indirect actions that will support the private sector in its operations. Macroeconomic balance, under conditions of a free financial system and liberalized external flows, will be the starting point for reasserting this confidence. Furthermore, only when all citizens are given equal opportunity to contribute to and benefit from economic development will the nation become committed to the maintenance of peace and stability. Government will ensure that a positive policy environment is created and maintained to encourage private investment from both domestic and foreign sources.

1.2.5 It is only through rapid and sustained economic growth that the national wealth can be created and thus increased employment and incomes and viable enterprises. These will, in turn, provide the resources to support measures to alleviate poverty, protect vulnerable groups and provide rising standards of living for our people. Thus, industrialization is not an end in itself but a means to accelerate the Country's economic development. In order to achieve economic "take-off", Kenya must utilize the full potential of her resources to broaden the economy and to generate a vibrant industrial sector based on primary processing, manufacturing, commerce and services. Historical experience throughout the world has shown that Kenya's objective of achieving rapid and sustained growth cannot be achieved in the absence of industrialization. This has also been the case with all successful Newly Industrialised Countries (NICs) such as those of south East Asia.

## 1.3 The Role of Government

1.3.1 The transformation required in Kenya will not come about as a result of direct public investment and action alone. Government's role will be to provide an enabling policy environment, namely, providing and maintaining essential infrastructure, investing in human resource development and basic welfare, and, when necessary, guarding against human exploitation and environmental degradation.

1.3.2 In addition to the sectoral policy issues and support services enumerated in this Sessional Paper, Government will continue to do the following:-

- maintain a stable political and economic climate that generates business confidence, protects property rights and upholds the rule of law and administration of justice;
- provide administrative and social services, such as education and training, and health where the private sector is unable to provide an acceptable standard of service. Where possible, beneficiaries of such social services will be called upon to contribute towards their provision;
- provide and maintain the basic infrastructure at reasonable cost to consumers. Involvement of private sector operators in the provision and management of infrastructure will be encouraged;
- play a catalytic role, when necessary, to ensure a continuous flow of new investors into the country. In pursuance of this, specific policies, programmes and projects will be designed to create inter-industry linkages, development of small scale industries through linkages, subcontracting, and entrepreneurship development; and,
- enhance the participation of civil groups and private sector organizations including decision making process by encouraging regular dialogue e.g. through the Kenya Institute of Public Policy Research and Analysis (KIPPRA).

1.3.3 In order to create the necessary conditions for the implementation of the policies articulated here, the current reforms of the civil service, to

strengthen implementation capacities and induce efficiency, will be carried through. A comprehensive review of government structure and operational procedures with a view to dismantling outdated practices and modernizing the remaining ones will be completed. The down-sizing of the civil service introduced under the Civil Service Reform Programme will be intensified and remuneration for technical and professional officers be improved as public financial resources permit. Productivity in the civil service and other public sector institutions will be promoted by setting clear guidelines of appointment and promotions based on technical competence and experience. Clear responsibilities and lines of authority will be established in order to ensure speedy and efficient implementation of strategies articulated in this Sessional Paper.

1.3.4 If Kenya is to emulate the achievements of the countries that have generated rapid growth over the last two or three decades, for example the renown East Asia "Tigers" or more recently Malaysia; Thailand; and Indonesia, then a fundamental restructuring of the economy will have to take place. Kenya cannot replicate the policies and achievements of those countries that are described as "newly industrialized" as its resource base, geographical location and its adjustment to the global economic situation existing today is different. However, as will be described later, there is much we can learn from their varying experiences. Apart from the pivotal roles of the private sector, supported by a conducive public policy and investment, the common fundamentals apparent in all Newly Industrialised Countries (NIC) have been: (1) the achievement of macroeconomic balance; (2) maximizing the utilization of natural and human resources; (3) realistic and flexible currency exchange rates; (4) liberalized and efficient capital and credit markets; (5) attracting long term foreign investment; (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 longstanding political and economic stability that provided long term consistency and created confidence.

## **1.4 The Role of the Private Sector**

1.4.1 It is the private sector that must seize the opportunities and take the initiative to provide the investment in processing, manufacturing and



service industries, to obtain appropriate technologies and develop efficient production that will bring about a competitive and export orientated industrial sector. This Sessional Paper represents the first step in forging a new partnership between the public and private sectors that is so essential if Kenya is to achieve rapid and sustained economic growth.

## 1.5 Effective Implementation

1.5.1 To achieve the national goal of industrial transformation, it is imperative that determined and sustained actions are taken to implement the industrialization policy framework articulated in this paper. Two levels of Government action are required:

- at the *policy* level further work is necessary to, firstly, firm up and detail policies and, secondly, to put them into action. This requires follow up action from the Ministries and Government agencies immediately responsible; and,
- many sectoral and sub-sectoral policies must be further developed to create specific *programmes and projects* in order to bring about full implementation. Such programming will be carried out through medium and short term plans and financing arrangements.

Both levels of implementation must be time-bound, that is a predetermined timetable should be in place together with specified targets, so that implementation can be managed and monitored.

1.5.2 Coordination of the many Ministries and agencies that must be actively involved in bringing about our industrial transformation is absolutely essential. Furthermore, monitoring and periodic reviews of policies and implementation programmes must be rigorously undertaken and, if required, corrective actions speedily put in place. These two critical requirements demand the establishment of an authoritative body to spearhead Government's participation in the industrialization process. Such a body must also be able to coordinate the implementation of policies and actions in the private sector. For this reason a National Industrial Development Council (NIDC), to be discussed later at Chapter 4, will be established composed of public and private sector representatives. It will be the responsibility of the NIDC to direct the implementation of strategies laid out in this Paper and to recommend necessary changes or amendment to policies.

1.5.3 The NIDC will liaise on a day-to-day basis with technical Ministries to provide coordination and information interflows. It will establish monitoring systems to track implementation based on quantitative targets set out in National Development Plans and Budgets. Responsibility for undertaking policy review will be passed to KIPPRA which has been established.

1.5.4 The implementation of industrialization strategies will require numerous publicly financed programmes and projects. Given that financial resources will be severely constrained, at least over the medium term, it is essential that only highly effective and efficient projects that respond to priority tasks are implemented. The annual Public Investment Programme (PIP) exercise will be used to select and prioritise all public capital investments. The Project Management Department (PMD), within the Office of the Vice President and Ministry of Planning and National Development (OVP&MPND), will continue to be responsible for coordinating the preparation of the PIP but will be given the necessary authority to appraise all project proposals and demand revision and redesign where proposals do not conform to agreed plans of action or are unsatisfactorily designed. The PMD will work closely with the Ministry of Finance to match resources to projects and identify additional sources of finance. Hence, all projects will be appraised by OVP&MPND while approval will be made jointly by OVP&MPND and MOF and all the necessary authority will be given to the OVP&MPND to fulfil this mandate.

1.5.5 Regular progress reports on implementation will be submitted to the Cabinet. This is an indication of the importance of industrial transformation to the future of Kenya. As such the full authority of Government will be focused upon the progress of timely implementation. Immediate and decisive action by the highest authority in the land will be instigated should implementation falter.

1.5.6 As is emphasized throughout this Sessional Paper, Kenya's goal of industrialization will only be achieved through a new spirit of partnership between Government and the private sector. However, cooperation and coordination needs to be widened and deepened to bring about trust and confidence among all actors in the country's economic development.

For its part, Government will ensure political and social stability and consistency in economic policy, given that these are essential prerequisites for the implementation of rapid and sustained economic growth. Government will be more responsive to the needs of the private sector and be prepared to take reasonable and timely actions to facilitate private enterprise.

## **CHAPTER 2: THE KENYAN INDUSTRIAL SETTING**

### **2.1 The Economy: Past Experience and Future Prospects**

2.1.1 Since independence the Kenyan economy has experienced a number of cycles of growth followed by downturns and stagnation. Immediately after independence the economy registered GDP growth averaging 6.5 per cent between 1964 and 1971. The oil shocks of the early 1970s, the collapse of the East African Community and other external factors caused a marked slowdown in growth in this decade, other than the "coffee-boom"-induced growth in 1976 and 1977. The economy stabilized in the 1980s with GDP growth around 5% being recorded, except in the 1984 drought year. However, in 1989 growth started to decline as a result of poor weather, regional conflicts and an influx of refugees, a global recession that lowered demand for Kenya's traditional exports, coupled with short term dislocations caused by structural adjustment, and inadequate macroeconomic management and political uncertainty. GDP growth in 1990 was 4.3%, 2.3% in 1991, 0.5% in 1992 and a marginal 0.2% in 1993. A combination of improved weather, the favourable impact of economic liberalization and the emergence of the global economy from recession led to a much improved GDP of 3% in 1994 and 4.9% in 1995 and predictions that future growth will accelerate to 6-7%.

2.1.2 Key indicators of the performance of the economy are the growth and the sectoral composition of GDP. There exist three broad sectors of the economy: Agricultural Industry (subdivided into manufacturing and the rest of industry); and Services (with the government component isolated). GDP performance and sectoral composition since 1972 are produced as Table 2.1 and Table 2.2 below.

**Table 2.1: Annual Average Real GDP Growth Rates (1972-94) (%)**

| SECTOR                              | 1972-76 | 1977-80 | 1981-85 | 1986-90 | 1991-94 |
|-------------------------------------|---------|---------|---------|---------|---------|
| Agriculture                         | 3.1     | 4.2     | 2.8     | 4.2     | -1.1    |
| Manufacturing                       | 9.6     | 10.3    | 3.8     | 5.7     | 2.2     |
| Rest of Industry                    | -1.6    | 7.7     | 1.5     | 4.0     | -1.2    |
| Total Service<br>(Private & Public) | 3.7     | 6.4     | 4.4     | 5.4     | 3.0     |
| Public Services                     | 6.7     | 6.0     | 4.3     | 5.4     | 2.4     |
| TOTAL GDP                           | 3.6     | 6.2     | 3.6     | 5.0     | 1.5     |

**Table 2.2: Average Sectoral Shares of GDP. (1972-94)(%)**

| SECTOR                               | 1972-76 | 1977-80 | 1981-85 | 1986-90 | 1991-94 |
|--------------------------------------|---------|---------|---------|---------|---------|
| Agriculture                          | 35      | 34      | 33      | 31      | 28      |
| Manufacturing                        | 10      | 12      | 13      | 13      | 14      |
| Rest of Industry                     | 8       | 7       | 7       | 5       | 6       |
| Total Services<br>(Private & Public) | 47      | 47      | 47      | 50      | 52      |
| Public Services                      | 14      | 14      | 15      | 15      | 16      |
| TOTAL GDP                            | 100     | 100     | 100     | 100     | 100     |

2.1.3 Mirroring the general decline in economic activity in the late 1980s, the growth of capital stock slowed to 2.7% per year, compared to an average of 7.1% in the 1970s. By the early 1990s, gross investment was barely sufficient to keep the capital stock from shrinking. By 1994 the indications were that capital investment was rising once again, with an overall growth of 13.4% in real terms. However, gross fixed capital

formation still remained low at about 15 per cent of GDP with the vast proportion (94 %) being financed from domestic sources. As can be noted in Table 2.1, the manufacturing sector suffered reversals in growth, whereas between 1970 and 1980 the sector registered growth that averaged 9.9% per annum. The comparable figure for 1980-1993 was only 4.7%. Growth of real value added in the manufacturing sector averaged 10.5% between 1965 and 1980 but declined to an average of 4.9% between 1980 and 1990. It rose by only 1.9% in 1994, compared to 1.8% in 1993. This sluggish growth is largely attributable to stiff competition from imported goods that are now available following liberalization.

2.1.4 As can be noted in Table 2.2, the average contribution of Agriculture to GDP has been declining, but between 1991-94 still represented 28 per cent of total GDP. The combined share of Manufacturing and Rest of Industry in the same period was about 10 per cent less. The gap between the contribution of the two sectors is even higher in the earlier periods. It may be noted that the share of Manufacturing has increased slightly over the years only at the expense of the rest of industry, perhaps reflecting a changing structure of this sector. Success of the industrial transformation strategy should contribute considerably towards harnessing and strengthening this welcome trend. Given the virtually unchanged relative contribution of industry to overall GDP and the continuously declining share of agricultural sector, total services (mainly private) have continued to dominate economic activities in Kenya. The government recognizes the critical role of services in the economy hence appropriate measures will be taken to promote the sector.

2.1.5 It is Government's belief that the Kenyan economy is at the turning point and that the steps taken over the past several years will now bear fruit in terms of economic growth. Without suggesting that Kenya must exactly replicate the path of the East Asian nations that have successfully pursued industrialization, it is now generally agreed that "getting the fundamentals right" is a necessary precondition in any scheme for generating rapid economic or industrial growth. Starting in the mid 1980's, the Government abandoned the old paradigm which upheld the centrality of state planning and management of economic development, of allocating resources and producing goods and services for public and private consumption. In the industrial field, this led to a shift away from an import substitution strategy with its paraphernalia of permits, licenses

and inappropriate tariff protectionism, towards a new paradigm which recognizes market mechanism and private enterprise as more efficient in generating the economic dynamism that leads to growth. Policies to strengthen the private sector in order to take up the challenge and opportunities of the market place have been put in place, while the government concentrates on structural reforms, improving the legal and regulatory environment that provides a level playing field for all stakeholders and necessary investment in human capital and physical infrastructure.

2.1.6 The Government will pursue the implementation of economic reforms and structural adjustment programmes while paying particular attention to the promotion of productive employment. The macroeconomic environment will continue to be fine-tuned to accelerate economic growth from the 3 per cent recorded in 1994 to the range of 6 to 7 per cent per annum, compared to the 5 to 6 per cent set in Sessional Paper No 1 of 1994. Such rates are necessary to reduce the prevalent high levels of unemployment. It is estimated that employment growth must average at least 4.3 per cent a year between 1996 and 2020 to generate the nearly one half a million jobs required each year. Even allowing for buoyant growth in the agricultural sector, over half of this employment demand will have to be satisfied in non-farm sectors. With public sector employment stagnating in the medium term and growing only slowly in the long term, the impetus for job creation must come from the private formal and informal sectors.

## **2.2 The Existing Industrial Sector**

2.2.1 Within an international context, the **Manufacturing Sector** in Kenya is characterized by low relative value added, low relative employment, low export volumes and relatively high wages. In 1994, according to the Economic Survey of 1995, the sector employed 197,648 people (or 13% of the total employment in the modern sector), and had a value added of K£1,807.86 million (13.6% of the monetary GDP) and a total wage payment of K£583.3 (8.9% of national total). The growth of employment has been low, averaging 1.17% over 1987-1994. Export volumes have however been high with the quantum index over 1987-1991 growing by an annual 13% compared to imports of manufactured goods which have grown in quantum terms by 1.63% over the same period.

2.2.2 Intermediate and capital goods industries are relatively underdeveloped. This means that Kenyan industry is highly import-dependent. In fact, the greater part of Kenya's imports consist of raw materials, spare parts and capital goods for the industrial sector. This implies that over the last three decades, the manufacturing sector has not managed to create sufficient local linkages. Apart from the agricultural and other natural resource based industries, manufacturing remains predominantly an enclave sector. In order to build a self-sustaining industrial sector, it will be necessary to build linkages to the domestic economy. Efforts have to be made to promote linkages among industries to enhance the spread effects of industrial growth and to facilitate the transfer of technology, skills and the growth of small scale sub-contractors.

2.2.3 The **Service Sector** (including the public sector) provides over two-thirds of total modern sector employment and over half of Kenya's GDP. Its future prosperity is of vital importance, not only in terms of direct employment and wealth generation but also in the support it provides to the manufacturing sector. Consideration of the future prospects and needs of the Service Sector must be accorded equal standing as those for the Manufacturing Sector. Some of the potential comparative advantages that Kenya holds regionally and internationally revolve around the Service Sector, or as it may be more accurately described the Tertiary Industrial Sector. An existing example is the tourist industry which generates the second highest source of foreign exchange earnings. Information technology, banking and finance and other professional services may be other examples of industries that have significant potential for export earnings and employment generation.

2.2.4 Kenya's dynamic **Informal Sector** is estimated to provide over half the total employment and has recorded an expansion of nearly 70% over the last four years. As such the sector has performed a vital role in absorbing surplus labour. Within the informal sector, manufacturing enterprises are estimated to engage 27.5% of total employment, with the remaining 72.5% engaged in what may be loosely described as services. The importance of the informal sector extends beyond employment, for it provides a "point of entry" for many Kenyan entrepreneurs into the manufacturing and service sectors and as a "testing ground" for development of low cost products. It is also a sector that is



geographically well distributed throughout Kenya in both urban and rural areas. Throughout the discussions presented in this Sessional Paper, the informal sector is included as an integral part of the industrial sector, and, although there are particular problems facing informal enterprises, the arguments and proposals put forward should be taken to integrate the informal sector.

### 2.3 Comparative Experience with Newly Industrialized Countries

2.3.1 What factors enable a country to achieve rapid industrialization and a status of being a newly industrializing nation? How does Kenya compare with countries that have experienced industrial take-off? There must be a conjunction of structural characteristics that distinguish NICs from the low-income developing countries, that provide evidence of successful policy implementation. It is useful to compare the past and current position of Kenya with that of notable recent successful examples from S.E. Asia. In the sections below, comparative indicators are presented at two time periods, 1970-1980 and 1981-1993. The three countries of Thailand, Indonesia and Malaysia are used because they are considered more pertinent to Kenya's aspiration than the traditional "Tigers" of E. Asia that embarked on industrialization earlier.

**Table 2.3: Growth of Production**  
(Average Annual Growth %)

| Country   | Total GDP |       | Agriculture |       | Industry |       | Manufacturing |       | Services |       |
|-----------|-----------|-------|-------------|-------|----------|-------|---------------|-------|----------|-------|
|           | 1970/80   | 80/93 | 1970/80     | 80/93 | 1970/80  | 80/93 | 1970/80       | 80/93 | 1970/80  | 80/93 |
| Kenya     | 6.4       | 3.8   | 4.8         | 2.6   | 8.6      | 3.8   | 9.9           | 4.7   | 6.8      | 4.7   |
| Indonesia | 7.2       | 5.8   | 4.1         | 3.2   | 9.6      | 6.3   | 14.0          | 11.8  | 7.7      | 6.9   |
| Malaysia  | 7.9       | 6.2   | 5.0         | 3.5   | 8.7      | 8.2   | 11.7          | 10.3  | 9.1      | 5.5   |
| Thailand  | 7.1       | 8.2   | 4.4         | 3.8   | 9.7      | 11.0  | 10.5          | 10.8  | 7.0      | 7.7   |

2.3.2 In the 1970-80 period growth rate in GDP were about the same for all the countries. But during the 1980s Kenya's growth declined sharply while the NICs were able to maintain high growth rates over a fairly long

period. Although the growth rate in agriculture in all the countries declined, in the S.E. Asian countries this was well compensated for in expansion of the industrial sector, in particular that of the manufacturing sector. It would appear therefore that a high growth rate in the industrial sector is a necessary (if not sufficient) condition for sustainable growth in GDP. The cumulative average annual growth rate in the manufacturing sector for the two periods together amounted to more than 10% for Thailand, 11% for Malaysia, and 12.4% for Indonesia. It would appear that to become an NIC, a country must attain and maintain an average growth rate of 10% or more in the manufacturing sector over a period of 15 to 20 years. Such growth is bound to affect the structure of production as can be seen in the next table.

**Table 2.4: Structure of Production**  
(Distribution of GDP %)

| Country   | Agriculture |      | Industry |      | Manufacturing |      | Services |      |
|-----------|-------------|------|----------|------|---------------|------|----------|------|
|           | 1970        | 1993 | 1970     | 1993 | 1970          | 1993 | 1970     | 1993 |
| Kenya     | 33          | 27   | 20       | 19   | 12            | 14   | 47       | 54   |
| Indonesia | 45          | 19   | 19       | 39   | 10            | 22   | 36       | 42   |
| Malaysia  | 29          | n/a  | 25       | n/a  | 12            | n/a  | 46       | n/a  |
| Thailand  | 26          | 10   | 25       | 39   | 16            | 28   | 49       | 51   |

2.3.3 It is noteworthy that, in the S.E. Asian countries the industrial sectors took a larger share of GDP, gaining on agriculture; while the services sector also grew marginally. But in the case of Kenya, the share of the manufacturing sector has more or less remained stagnant around 11% of GDP. The Asian countries achieved a restructuring of their economy that has not been matched by Kenya. Another thing to note is that in the period 1970-1993, Kenya's GDP increased only three fold, that of Indonesia increased fourteen fold, Thailand seventeen fold, and Malaysia fifteen fold. This then suggests that high growth in the industrial sector stimulates higher productivity in other sectors.

2.3.4 A further point to note about the NICs is that all adopted an export orientation in their trade policies and actively encouraged the export of manufactured goods. As the next table shows, over the period the

structure of their merchandise exports changed from primary to manufactured goods.

**Table 2.5: Structure of Merchandise Exports**  
(% Share by Sub-Sector)

| Country   | Fuels, Metal & Minerals |      | Other Primary Commodities |      | Machinery, Transport etc |      | Textiles |      | Other Manufactured |      |
|-----------|-------------------------|------|---------------------------|------|--------------------------|------|----------|------|--------------------|------|
|           | 1970                    | 1993 | 1970                      | 1993 | 1970                     | 1993 | 1970     | 1993 | 1970               | 1993 |
| Kenya     | 13                      | 16*  | 75                        | 55*  | 0                        | 10*  | 6        | 3*   | 12                 | 19*  |
| Indonesia | 44                      | 32   | 54                        | 15   | 0                        | 5    | 0        | 17   | 1                  | 48   |
| Malaysia  | 30                      | 14   | 63                        | 21   | 2                        | 41   | 1        | 6    | 6                  | 24   |
| Thailand  | 15                      | 2    | 77                        | 26   | 0                        | 28   | 8        | 15   | 8                  | 25   |

\* Figures for Kenya for 1992

2.3.5 As the industrial sector grew and diversified in the NIC countries, the structure of exports also shifted from primary products to manufactured goods. Even in the face of economic recession in the developed countries, in the early 1980's, the NICs performed well because the price of manufactured exports are less affected by the short term gyrations in the business cycle than the price of primary commodities. Although the proportion of primary products of exports in Kenya has declined it is nothing like the extent experienced in the NICs.

2.3.6 Two other basic indicators that show discrepancy between Kenya and the recent S.E. Asian NICs are worth noting. As will be expanded upon later, an essential prerequisite for growth is a high level of domestic savings and investment. Whereas the NICs showed a marked increase in both domestic savings and investment as a percentage of their GDP, Kenya has registered a decline between 1970 and 1992.

**Table 2.6: Gross Domestic Savings and Investment  
(% GDP)**

| Country   | Domestic Savings |      | Domestic Investment |      |
|-----------|------------------|------|---------------------|------|
|           | 1970             | 1992 | 1970                | 1992 |
| Kenya     | 24               | 15   | 24                  | 17   |
| Indonesia | 14               | 37   | 16                  | 35   |
| Malaysia  | 27               | 35   | 22                  | 34   |
| Thailand  | 21               | 35   | 26                  | 40   |

2.3.7 The above comparisons point to the challenge and task ahead if Kenya is to join the league of NICs. The experience of those countries that have achieved industrial take-off indicates that a *high level of investment* channelled to the industrial sector is one basic requirement. The level of investment should be in the region of 25 to 30% of GDP. This in turn means a high level of domestic savings in both private and public sectors. This level of investment, properly directed, should be able to produce a yearly growth rate of 6 to 8% in GDP and 10 to 12% in the industrial sector, rising gradually to 9-10% for the GDP and 12 to 14 % for the industrial sector by 2020. The scenario also includes a *"deepening" of the industrial sector* by creating *"core"* and *"linkage"* industries, as well as acquiring and domesticating relevant *technologies* to enhance factor productivity. It includes *broadening the base of participation* in the industrial sector by constantly bringing in new streams of entrepreneurs - men and women, and upgrading their skills; building up technical and managerial capacity of micro, small and medium scale industries to produce new products and develop new markets. It includes adopting an *industrial culture and an export mentality* which implies both attitudinal, organizational and operational changes in the nation at large. It implies also a certain level of neo-mercantilism - selling more abroad than one imports. With this outward orientation comes the need for efficiency in the use of resources, the need for competitiveness - right price, high quality, timeliness of delivery, etc.

## **2.4 Getting the Basics Right**

2.4.1 Although the experiences of East and South East Asian countries that have achieved NIC status are varied, there would appear to be certain sound lessons that are valid for other countries. Three basic premises can be isolated which have implications for Kenya's industrialization strategy:

1. The need to establish an economic environment that meets the six preconditions for rapid, export-oriented industrialization: consistent economic policy, sound macroeconomic management, a productive agricultural base, flexible factor markets, accommodation of entrepreneurs and foreign investors, and, access to growing markets;
2. Industrialization should follow the path of comparative advantage, using outward-looking strategies. This would imply immediate concentration upon labour intensive manufacturing, including, where viable, the processing of primary exports. Technologies and skills will have to be supported by improvements in education and training, but it will be borne in mind that great leaps into new industries or technologies that are well beyond existing capacities are unlikely to be successful; and,
3. Implementing strategies that require as little Government intervention as possible and avoiding complex and demanding interventions.

2.4.2 Kenya has moved rapidly to satisfy some of these requirements, particularly with regard to establishing a conducive economic environment. The strategies outlined in this Sessional Paper are intended to provide a framework for moving forward into the next century and transforming Kenya's economic structure.

## **2.5 Constraints to Industrial Expansion**

2.5.1 In spite of ongoing efforts by the Government to induce structural reforms, there are a number of constraints inhibiting the private sector which must be recognized and addressed. It is apparent that many investors, industrialists and entrepreneurs still do not regard the business

environment as sufficiently conducive. Some of the issues are basic to the overall investment climate and must be tackled in the context of preparing the country for entering rapid industrial growth.

**2.5.2 Physical Infrastructure:** In Kenya the infrastructure sector has benefitted from extensive expansion and upgrading programmes which have been financed from both external assistance and Government of Kenya's financial resources. Nevertheless, the sector is not sufficiently developed to create the enabling infrastructural environment necessary for industrial growth. Reasons for the continuing state of insufficient infrastructure include: the growing population which puts pressure on available land or services; a poor maintenance culture which results in erosion of accumulated capital assets; cumbersome land acquisition practices; and inadequate public sector financial resources to undertake new capital asset creation. The major physical infrastructural shortfalls are felt in power and water supply, telecommunications, roads and rail, and port facilities.

**2.5.3 Cost of and limited access to credit:** This factor has continued to be a major constraint for the private industrial sector. The financial sector in Kenya has undergone considerable reform following the inception of Structural Adjustment Programme. Foreign exchange transactions have been liberalized, credit allocation and interest rate determination processes have been deregulated and the range and quality of financial services and their delivery improved. Alternative financing sources include development finance institutions (DFIs) and the stock exchange, among others. In spite of the continuing restructuring of Kenya's financial sector, there remain problems facing many entrepreneurs, in particular the small scale enterprises and women. These include the absence of an efficient financial intermediation mechanism which can effectively channel resources towards private productive investment. Attitudinal problems arising from the persistent distrust between lenders and borrowers, poor marketing strategies of the banks and the continuing competition for limited funds between Government debt papers and the banks. The crowding-out of the private sector from accessing credit is clearly demonstrated by the fact that the stock of domestic Government debt of Kshs.5,751 million at the end of 1994 represented about 29.5% of GDP. Further, there does not exist, in Kenya, adequate incentives and guarantees for banks to encourage financing of small and medium scale

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enterprises. This situation is worsened by the absence of a credit rating agency for corporate borrowers and a credit reference for individual borrowers.

#### **2.5.4 Inadequate Managerial, Technical and Entrepreneurial Skills:**

The Government has made significant efforts towards the development of Kenya's manpower base to meet the challenges of industrialization. Nevertheless, it still suffers from shortage of critical skills in financial, production, material and project management and technical capability, which, among other factors, account for low productivity within the industrial sector. This may partially be explained by the fact that there does not exist a consistent national skills development strategy to prepare the work force for the demands of the twenty-first century industrial development. Such a national manpower and skill development strategy would enhance and direct the energies and efforts of both private and public sector initiatives. A further constraint is the over-reliance of the private sector on public sector training programmes.

**2.5.5 Research and Development:** The link between Kenyan industry and research institutions is weak- no structured mechanism exists for identifying problems of private industrial sector, which are then passed on to R&D institutions for investigation and formulation of appropriate solutions. In most cases, there is no private sector involvement in the research conducted by State-controlled research institutions. Consequently research activities and findings of these institutions have made very little impact on industrial or private sector development. Private sector funding of research in Kenya is virtually non-existent and no structured communication or link exists between suppliers and users or research. This has led to a situation where most research findings are not driven by demand and thus not entirely relevant to industry.

**2.5.6 Commercial and Juridical Systems:** The legal environment within which businesses operate in Kenya is not sufficiently efficient. This is a consequence of the underdeveloped legal information culture; in particular the incomplete collection and publication of legal materials, the inadequate and slow disseminations of laws when passed and the continuing existence of irrelevant, outmoded and anti-market laws and regulations on the statute books even where current practices have sharply departed from the spirit of those rules. Another problem which deters

private sector operations is evidence of unpredictable and wide discretionary powers of administrators of laws and regulations, such as those on tax and customs duties. The slow and cumbersome adjudication process of the Kenyan courts and, the absence of adequate specialized commercial courts to adjudicate speedily business disputes also add to the difficulties of the private sector.

**2.5.7 Bureaucracy and Corruption:** Overwhelming bureaucracy and corruption are considered by many entrepreneurs to be a major source of frustration to their operations. Long and slow bureaucratic procedures, duplication of licensing requirements, and luke-warm attitudes of public servants to processing applications for approvals and licenses required by business can be costly. In order to cut delays, some unscrupulous businessmen offer inducements to speed-up the process and this has also unduly increased the cost of setting up business in Kenya. The establishment of an Investment Promotion Centre (IPC) has not yet succeeded in reducing the amount of time wasted in pre-operational activities. Government has shown determination to root out corruption.

## **2.6 Policy Strategies for Industrialization**

2.6.1 Ten major policy components can be identified that should form the basis for Government strategy, reforms and actions that will send clear signals to both domestic and foreign investors. These components which represent basic prerequisites that must be in place and consistently pursued if Kenya is to realize its industrial ambitions include:

1. Political and Social Stability;
2. Macroeconomic stabilization, coupled with realistic and flexible exchange rates and reduced budget deficits, will be the foundation for all else;
3. Investment in primary production to increase productivity, especially in smallholder agriculture, is necessary to almost immediately raise domestic incomes, increase exports and generate foreign exchange;
4. Investment in human resources, in quality as well as quantity, in order to lay the foundations for productivity gains needed to sustain development;
5. Investment to rehabilitate and expand physical infrastructure;



6. Financial markets must continue to be the subject of reforms, seeking increased efficiency, greater availability of investment capital and greater flexibility;
7. Trade and investment reforms to turn the economy away from an overly inward focus, with tariffs reduced and made uniform and barriers to domestic and foreign investment brought down;
8. The Government must seek to facilitate the workings of the market and where found to be required, provide services and other supportive interventions to assist the private sector;
9. In order to identify appropriate action, the Government will put in place various mechanisms to establish and maintain meaningful dialogue with the private sector in order to foster greater mutual understanding and a genuine partnership; and
10. Increased resource allocation to Technology Development and Management.

These strategies will be expanded upon in later sections of this Sessional Paper.

## CHAPTER 3 FOUNDATIONS FOR INDUSTRIALIZATION

### 3.1 Political and Social Stability

3.1.1 A prerequisite for industrial development is political and social stability. All should be made aware that stability and governance are about people, the management of human affairs, sustainable development and the exercise of political power to manage national affairs. Good governance is synonymous with efficient public sector management and sustainable human development. To be in place, it calls for peoples' involvement. It also calls for equal opportunity for all, political accountability and commitment by the rulers and the ruled, bureaucratic transparency, and access to information.

3.1.2 As stipulated in *Sessional Paper No. 1 of 1994 on "Recovery and Sustainable Development to the year 2010"*, no investor will risk long term investment in a nation where political, social and economic stability does not prevail. An unstable business climate discourages new investments and encourages disinvestment, capital flight and speculative investments. Furthermore, an overbearing bureaucracy or tendency toward corrupt practices are sources of frustration to investors. Long and slow bureaucratic procedures, duplication of licensing requirements and luke-warm attitudes of public servants to processing application approvals and licenses required by investors is costly. To encourage the private sector to play its rightful role in industrial transformation development, the Government will ensure that political, social and economic stability prevail. The fight against corruption will be continued and expanded to cover all sectors and institutions.

3.1.3. While political and social stability should be nurtured through Government actions, it critically depends upon people of different ethnic communities, social groups, gender, religious beliefs and racial backgrounds feeling mutually secure and identifying with common national interests and aspirations. Kenya has maintained peace and stability over the last thirty years and the Government will maintain the institutional framework that will ensure that peace and security are sustained. Civil and political rights are inalienable rights which all people are entitled to enjoy, irrespective of the stage of economic development in which they

are. Kenya Government is cognizant that economic growth without respect of these rights does not constitute or enhance democratisation.

3.1.4 Industrial transformation will not take place unless the Kenyan people nurture an industrial culture and a reward system that cherishes devotedness, honesty, hard work, discipline and sacrifice. All Kenyans must work hard to build the nation, increase productivity and prosperity and promote patriotism and nationalism among themselves. Only then will our nation grow in strength, both socially and economically and thus reduce poverty and raise standards of living. All should have one objective - to work to build the nation in order to strengthen our position in the world.

### **3.2 Macro-economic Policy Framework**

3.2.1 One of the most important strategies for Kenya, striving for export-led growth, is to create and maintain macro-economic stability to build business confidence and enable exporters to compete with foreign competitors in world markets on an equal footing. Maintenance of the macro-economic balance entails a number of policy measures such as: control of the money supply; the control of the budget deficit and inflation; steady progress towards free multilateral trade through reductions in tariffs; complete removal of exchange control; reform of licensing requirements; re-allocation of government expenditure towards improvement of the infrastructure; proper fiscal incentives for savings and investment and the abolition of price, marketing and production controls. Major policy initiatives have already been taken by the Government of Kenya (GoK) in these areas.

3.2.2 Through its structural adjustment strategy, the Government has taken steps to put the "fundamentals" in place. The process has culminated in a number of major policy changes which are intended to set the economy on a path of rapid and sustained growth. The major steps have been fully articulated elsewhere and need only be summarized as follows:

- (a) Policies to improve the macro-policy environment:
- Curbing public sector expenditure and budgetary deficits;
  - Curbing inflation;
  - Interest rates that are determined by the open market;

- Public sector reform;
  - Reform and eradication of controls; and
  - Maintenance of law and order.
- (b) Policies to promote investment:
- Abolition of exchange controls;
  - Reallocation of government expenditure to improve infrastructure;
  - Fiscal incentives for savings and investment;
  - Expansion and encouragement of the Common Market for Eastern and Southern Africa (COMESA) as an enlarged market; and
  - Abolition of import licensing.
- (c) Policies to promote export:
- Removal of all laws, regulations and procedures that restrict import and discourage exports;
  - Abolition of import licensing;
  - Lowering and reforming tariffs;
  - Removal of all exchange controls;
  - Setting up of an Export Promotion Council;
  - Setting up of an Export Promotion Programmes Office (VAT Remissions);
  - Establishing a scheme for Manufacturing Under Bond (MUB); and
  - Setting up an Export Processing Zone Authority.

3.2.3 Government's fiscal and monetary policy has been articulated in Sessional Paper No 1 of 1994 and other policy documents. In summary, it comprises the following elements. A *fiscal policy* focused on the following medium and long term targets:

- the budget (including grants) will be balanced, with net repayments of public domestic debt, through both reduced expenditures and increased revenue;
- the current revenue will be stabilized at around 24% of GDP. The base of taxation will be broadened through minimizing tax exemptions, extending VAT coverage, improved customs duty collection, efficient use of the Personal Identification Number and computerization of the

tax administration as part of the Tax Modernization programme;

- Government expenditure will be restricted to between 24 and 26 per cent of GDP;
- budget rationalization measures will aim at maximizing the productivity of Government expenditures. In addition, objective technical and economic criteria will be applied to project selection;
- budget monitoring and expenditure control will be strengthened.

To attain rational *monetary policy*, and in order to contain inflation, contain liquidity expansion and maintain positive interest rates, the following will be undertaken:

- the Central Bank of Kenya (CBK) will continue to manage domestic liquidity through the more efficient market-based instruments such as the reserve requirement, Treasury Bills and other Government debt instruments;
- the CBK will promote the development of secondary markets in Treasury Bills and other Government securities;
- exchange control will be fully liberalized and the Kenya shilling made fully convertible;
- a stable exchange rate will be maintained through strict fiscal and monetary policy in support of the objective of single digit inflation; and
- the Government will tightly limit contracting and guaranteeing new non-concessional external borrowing by the public sector.

3.2.4 Public sector and parastatal reforms are further elements of macroeconomic policy that will be pursued. Public sector reform, including that of the civil service, will be continued to bring about a leaner and more efficient public service that is better able to serve Kenya's changing needs. The pursuit of parastatal reform programme involving the divestiture of 207 state corporations and the restructuring of the 33 remaining strategic enterprises will make a major contribution to national productivity, not only by infusing private sector managerial efficiency into their direct operations, but by improving the quality of their output, particularly in infrastructure.

This reform programme will also result in the elimination of public financial flows to state corporations that has, until recently, amounted to some 5.5 per cent of the GDP.

3.2.5 On its part, Government is committed to maintaining the policy framework that was outlined in Sessional Paper No 1 of 1994 and which forms the basis for the industrial policy enumerated here. Macroeconomic stability, recognition of the leading role of the private sector in economic development, and the reform of the public sector are, and will remain, the cornerstones upon which Kenya's future economic prosperity will be built. The strategies contained in this Sessional Paper do not however, represent the total effort that must be sustained if Kenya is to successfully industrialize. They only concern those direct and indirect actions that Government will undertake in order to support the private sector. However, it is Government's belief that its supportive actions will be rewarded in a rapid and positive response from the country's entrepreneurs.

### **3.3 Increased Primary Production and Value Adding as a Base for Economic Growth**

3.3.1 The goal of industrialization will only be achieved over time, and will be brought about only with a general expansion of economic growth and must be grounded in the economy's current structure. Kenya's current economic structure is dominated by the primary sector, primarily agriculture but includes minerals and other natural resources. Significant short term growth can only be achieved through higher production in this sector and is essential for a variety of reasons. Firstly, Kenya's population will continue to grow, with a total population of 45 million projected for the year 2020. Further, a major policy objective of the Government is self-sufficiency in basic foods. Secondly, increased production, particularly that of smallholders, will lead to rising incomes and in turn to increased consumption and savings, both of which are prerequisites for an expansion of the industrial sector. Thirdly, increased export crop production will increase foreign exchange earnings to finance the importation of intermediate or capital goods, especially in the early stages of structural transformation when manufacturing is a small portion of economic activity. Fourthly, increased primary production will stimulate forward linkages with other sectors of the economy through

demand for transport, services, marketing and processing as well as some backward linkages in the form of farm inputs and equipment. Finally, increased production of raw materials for utilization in manufacturing will be essential if Kenya is to lessen its reliance on imported raw materials.

3.3.2 The Government's strategy for increasing agricultural production is set out in Sessional Paper No 1 of 1994 and *Sessional Paper No 2 of 1994 on National Food Policy* and need not be repeated in full here. However, several important points are worthy of repetition. By the year 2020, the proportion of employment found in the agricultural sector is expected to fall to about 50%, compared to some 66% today but the numbers involved will increase significantly to over 9 million people compared to 6 million today. Secondly, the goals of accommodating this increased employment and increasing production will only be achieved through increased productivity, yet availability of productive land is increasingly becoming a major constraint. Thirdly, Government is withdrawing from many direct interventions into the workings of the sector and will concentrate its resources upon improved extension, information services and research.

3.3.3 The most immediate goal for Kenya's industrialization strategy is to increase value added in our primary exports. The export market for Kenya's traditional agricultural produce and the more recently developed horticultural crops is by no means saturated, although competitiveness within the market is increasing. Therefore, the aim must be to intensify agricultural production and processing through increased research, efficiency and productivity per unit area. This will involve boosting yields and ensuring the maximum and sustainable utilization of productive land as well as downstream manufacturing activities. Given efficient markets and prices that provide a profit, most producers will rationalize and maximize their production. However, there is evidence that some high-potential land is left idle and there may be need to introduce measures and sanctions to bring this land into full production. Furthermore, steps must be taken to establish a free land market and to speed-up agricultural land transfer between willing sellers and buyers. As an alternative to outright ownership, there needs to be developed an efficient market for land rentals and other leasing arrangements so that those Kenyans who are landless and willing to undertake farming can use private land that may be lying idle.

3.3.4 Wherever possible, downstream processing, or local resource-based industrialization, will be promoted to add value to agricultural crops. It is recognised that substantial potentials exists in the processing of the major agricultural commodities into semi-finished and finished products. Hides and skins processing is another example where Kenya could increase exports of finished and semi-finished goods. The potential for other primary products should not be overlooked, for example the timber industry, the possibility of utilizing game and game products, and increasing fish production.

3.3.5 The emphasis throughout will be upon smallholder production and only where estate production has a proven economic advantage will large scale units be encouraged. Smallholder production will require time, resources and skilled personnel to provide adequate back-up support through research, extension and technology transfer. In addition, there is need to transform our present smallholder agriculture from its current status of being a cultural practice or way of life, into smallholder farm enterprises. The need to increase our exports should not detract us from the pursuit of national food security, although an increase in foreign exchange earnings could facilitate increased import of foodstuffs. The increased production of both foodstuffs for domestic consumption and export crops have the potential to increase farm incomes and thus the wealth for the majority of Kenyans. This in turn will bring about two factors that must be present to allow industrialization namely: increased consumption of non-food goods and increased savings which can be made available for domestic investment.

### **3.4 Human Resources**

3.4.1 The availability of a well educated and trained workforce is critical to the success of Kenya's industrialization process. Since independence education and training have received high priority and very considerable resources have been devoted to expanding education at all levels. Of greatest importance to the industrialization process is an assured supply of well trained managers and skilled technicians at both shop floor and supervisory levels. Of no less importance is the existence of entrepreneurs and managers who take risks to invest, by bringing together the productive coordination of all disciplines in the production chain - business, physical production, materials management, maintenance, quality control,



infrastructural support and distribution. Each of these disciplines calls for specialized management skills and training. Entrepreneurial skills and ability are so crucial that they ought to be part of the regular curriculum of universities. The 8-4-4 curriculum will be reviewed to be more focused to the National Strategy of achieving an NIC status by the year 2020.

3.4.2 Apart from entrepreneurial and managerial skills, there are equal requirements for operational, technician and artisan skills at the shop floor level. There needs to be a proper ratio of technicians and artisans to engineers and designers. To meet the requirements of the next twenty-five years, the first step will be to review the skills stock available in the various categories and then plan for the future, including calculating which skills to train for, at what levels and in what numbers. In this regard the recent approval by the cabinet, for the development of a national skills training strategy is of great significance to our industrialization process.

3.4.3 However, the higher level of performance and productivity demanded by the competitive environment will require close collaboration between training institutions and employers of labour, so that the level of mismatch between output of graduates and the skill demands of the job market can be bridged. Current objectives of enhancing the relevance and quality of technical education can be improved through more closely matching supply and demand. Therefore, the Government, in collaboration with the private sector, will strengthen existing public training institutes through curricula development and improved facilities. However, the private sector itself must take an increasing responsibility for industrial training and retraining. In this regard, the government, in collaboration with the private sector, is in the process of undertaking the development of a National Skills Training Strategy whose objective is to put in place a national system of skills training provision in Kenya in light of the current and future needs of the economy needs.

3.4.4 Widespread unemployment among Kenya's youth constitutes a serious social-economic problem to policy makers. It is estimated that 59 per cent of Kenya's population is under 20 years old. While the problem is partly due to the mismatch between demand and supply in the labour market, the majority of the youth lack technical and vocational skills and many of the jobs in the labour market require such skills. As is generally

the case, open unemployment among the youth is a major urban problem and one that effects young people with all levels of education. In the rural areas it is likely that widespread and substantial underemployment means that many school leavers cannot earn a livelihood.

3.4.5 Kenya has over 600 registered Youth Polytechnics (YPs) which are well spread around the country. Out of these, 375 receive Government support while the rest are run by local communities on Harambee (self-help) basis, NGOs and private individuals who undertake physical development of facilities as well as management of the training programmes. Their total enrolment is currently put at 50,000, with an annual output of 15,000 graduates most of whom directly join the informal sector. The technical/vocational education and training provide the competencies needed and that are directly usable in Kenya's economy. The National Youth Service provides 4-5 years of technical training to primary and secondary school leavers. The quality of training is excellent but the numbers involved have remained relatively small.

3.4.6 Kenya's youth training programme is a unique example of a successful public-private partnership in development efforts. The fees charged in these polytechnics are affordable to most Kenyan families. Youth programmes thus constitute a vital potential bridge for the majority of Kenya's poor to participate in economic activities and gain the employment needed for effective participation in overall nation building. While the potential for quick expansion is there, the main factor preventing growth of the YP programme in Kenya is the inadequacy of resources available. This includes inadequate physical premises, lack of training materials and tools, inadequate supply of training instructors and administrators and lack of finances for use in various purposes (including periodic review of the curricula to attune them to emerging local needs) are among the main factors retarding the expansion of the craft and artisan training in Kenya.

3.4.7 In collaboration with private sector representatives and labour organisations the Government will undertake a national employment review and policy formulation. This will, in addition to the objectives of employment generation, also emphasise equality and the right to work for all citizens, access to free choice of employment, just conditions of employment and equal access to the identification and development of

individual skills and talents. In order to contribute effectively to this initiative, the national Employment Bureau will be strengthened to enable it to develop a sound information base on employment trends and labour market developments.

3.4.8 The foundation of a productive workforce is laid in formal primary and secondary education and the Government will continue its efforts to broaden participation and improve the quality of school education. Literacy is a basic prerequisite to individual empowerment, participation in development and for a person to fully realise his or her full potential and gain the maximum benefits from the opportunities provided by the modernising world. Functional literacy in Kenya is characterized by significant disparities based on geographical regions and gender. While some areas have attained adult literacy rates of over 70% others fall well below 40% and levels of literacy among women fall well below that for men throughout the country. The Government will launch a concerted effort to reduce illiteracy by half by the turn of the century and to reduce regional disparities.

3.4.9 Women make up 51% of Kenya's population, with over one-third of rural households being headed by females and a significant proportion of urban based households. However, although there is no evidence that women in Kenya face gross discrimination, they do face particular constraints that handicap their productive potential, notably the multiple demands on their time and their access to productive resources. Moreover, the multiple demands on their time and heavy workloads, coupled with high levels of illiteracy and inadequate education represent further constraints on their potential. The Government is aware of the dangers of trying to tackle the needs of specific groups, even a majority group such as women, in isolation from the mainstream of development. Past experience has shown that such an approach is neither cost-effective nor sustainable. Thus, the thrust of Government policy aims at achieving the successful integration of women while allowing specially targeted development programmes to tackle specific problems and constraints. However, where required Government will take action or provide inducements to the private sector to encourage the full participation of women in the economic development of Kenya.

3.4.10 In summary, Government's policies and strategies for training and human resource development will be as follows:-

- The provision of good general education which, in addition to generating broad social benefits to the country, increases worker mobility and increases access of all groups to training, including the poor and disadvantaged. The policy of universal primary education will be continued, with especial attention being given to Arid and Semi-Arid Lands (ASAL) areas;
- The national completion rate for primary and secondary education is 35% and 55% respectively. In light of this, Government will offer "second chance" places for dropouts to improve their literacy, numeracy and offer them short, job-specific training commensurate with their educational achievements;
- Government jointly with the private sector, will engage a process to develop a national skills training strategy in order to ensure that skills training is relevant to the national economy;
- Support to informal training will be strengthened through developing stronger linkages between informal sector artisans and both public and private sector training institutions;
- Industrial training being offered through the Directorate of Industrial Training (DIT) is already demand driven. The Government will strengthen the programme through the review of the Industrial Training Levy and the Trade Testing Systems currently in practice. Through the planned reviews of the Industrial Training Levy and the Trade Testing Systems decision will be made on the future of the DIT as an autonomous institution. The Government is reviewing the current training levy and trade testing system in order to draw up a plan of reform that will be incorporated into the policy review process on the National Skill Training Strategy;
- In order to enhance labour productivity the Government will formulate a redeployment programme which will combine counselling, skills' upgrading and entrepreneurial training. Enterprise education will be introduced as a non-

examination subject at primary schools to inculcate an enterprise culture;

- The Government will strengthen school career guidance and counselling in schools to ensure that expectations are in line with market realities;
- Tertiary education curricula will be reviewed and modified to reflect labour market realities, as the fact that a large number of graduates will have to base their income on self-employment in the urban and rural informal sectors;
- The current mismatch between labour supply and demand can only be corrected through a well functioning information service. A labour market information system will be created to reach all districts; and
- Women, and especially girls from ASAL areas, will be accorded affirmative action through quota systems and bursaries and will be encouraged to undertake training in non-traditional female occupations. Educational and training programmes for the disabled will be strengthened as well as remedial education for street children.

## CHAPTER 4

### INDUSTRIAL TRANSFORMATION STRATEGIES

#### 4.1 Institutional Arrangements

4.1.1 Success in the development of an economy depends both on the policies a country has adopted and on the institutional framework put into place to implement those policies. The adoption of structural adjustment policies in Kenya has greatly changed the country's socio-economic environment. Further, Kenya's economy must participate in the international economy by joining the mainstream of global trade, investment and technology flows. For Kenya to bring about rapid and sustained industrial development in this highly competitive global market, an overall improvement in the strategic management of the industrial sector is required. This calls for the transformation of policies, practices, attitudes and institutional framework.

4.1.2 It is essential to reform the Government's role in the new setting with a view to limiting it to policy formulation, the provision of infrastructure and research and extension services, creating an enabling environment and overseeing the implementation of policies and programmes. This calls for a shift in the role of Government from that of control and regulation to that of facilitating private sector development. This will require improved co-operation and dialogue between the Government and the private sector.

4.1.3 In order to facilitate dialogue between the government and the private sector, it is important to enhance the authority and capacities of business associations such as the Kenya National Chamber of Commerce and Industry (KNCCI), the Federation of Kenya Employers (FKE) and the Kenya Association of Manufacturers (KAM). Equally, bodies purporting to represent the informal and Jua Kali sectors must be strengthened and made truly representative. The contribution that the informal sector must play in employment creation and economic development is central and, representative associations, at par with those of the formal sector, must be created. Finally, employee and trade union bodies must be brought into the dialogue process.

4.1.6 At the subsystems level the private sector will be encouraged and assisted to form *Strategic Consultative Groups* (SCGs) as fora for discussing issues and constraints relevant to their particular sub-sector, and to develop or formulate action plans and programmes to address constraints in order to suggest specific support services that will enhance their efficiency and competitiveness. Such action plans will then be cleared with the next level, the National Industrial Development Council, to ensure that the SCG proposals are consistent with the overall national policy.

4.1.7 The Government will invite formal and informal representative associations, employer and employee bodies to join with it to establish the the *National Industrial Development Council* (NIDC) to facilitate consultation and meaningful dialogue. The NIDC will be created as a company limited by guarantee, with a Chairman elected by the Council. A Chief Executive of the NIDC will be appointed and a Secretariat created to service the NIDC. Funding for the NIDC will be through contribution from all parties represented, however, Government recognises that, at least initially, public funding will have to make-up a significant portion.

4.1.8 The functions of the NIDC will include:

- Acting as a forum to address the emerging needs and challenges to industrial development;
- Assisting the government in formulating strategies for the development of industrial subsystems;
- Providing strategic information to enterprises on markets, new technologies, and the nature of competition;
- Monitoring tendencies toward market concentration or other forms of market distortion and recommend appropriate measures;
- Organising specialised programmes to encourage healthy competition, and inaugurate and hold annual National Awards for Excellence for the best performance in quality, export achievements etc; and
- Acting as an intermediary between the enterprises, their strategic consultative groups and the Government to ensure continuous dialogue and a level playing field for all.

4.1.9 In order to assist the NIDC do its work, a small Technical Support Group (TSG) consisting of technical and policy analysts of experience and competence will be created. The TSG will act as a "think tank" as well as the repository of industrial and technological intelligence in Kenya. It will also serve as the technical secretariat of the NIDC. The TSG will establish close contact with appropriate research organisations, for example the Kenya Institute of Public Policy Research and Analysis (KIPPRA) and the Kenya Industrial Research Development Institute (KIRDI), in order to carry out industrial research and techno-economic studies of relevance to the work of NIDC. The NIDC may from time to time set up ad-hoc thematic deliberation committees on issues that cut across the industrial sector, for example, energy, finance, skill and manpower development.

## 4.2 The Development of Core Industrial Sectors

4.2.1 Core industries are those that are essential for the formation of a strong and sustainable industrial base and promote backward and forward linkages with other industrial sectors. Kenya will adopt a two-phase approach to promote a sustainable industrial base that will be implemented over the time span of this Sessional Paper. The two phases have been designed to respond to the needs to maximize employment generation, to rapidly increase exports, and to fully utilise indigenous resources, while recognising existing capital, human resource and technology constraints. The two phases will be:

- **Phase One:** promotion of micro, small and medium scale industries, utilizing and adding value to local raw materials, and requiring relatively modest capital investment. Included in this Phase will be agro-processing, building and construction materials, and the tourism industries.
- **Phase Two:** promotion of capital intensive manufacturing industries that will require high capital investment, support infrastructure, well developed technologies and human (resource) skills. Included in this Phase will be metallurgical, petro-chemical, pharmaceutical, machinery and capital goods, and telecommunication and information processing industries.



4.2.2 Phase One will be implemented over the first ten years of this Sessional Paper's time horizon. This period will be covered by the next two National Development Plans which will provide a detailed implementation programme. Upon the completion of Phase One by the year 2006, Phase Two will be launched to build upon the achievements of the previous phase of industrialization.

4.2.3 An essential underlying assumption is that the industries under Phase One can be promoted immediately as they do not require enormous private and public investment or leaps in technology and respond to critical need of job creation. Those identified in Phase Two will require a longer lead time before they can be successfully established as they will require significant infrastructure investment, the availability of a highly skilled workforce and the formation of very large investment packages. The period covered by the first phase will be used to lay the groundwork necessary for the implementation of the second phase. It is also recognised that the immediate employment generated by such capital intensive industries will be limited. However, the linkages and spin-offs created by these heavy industries will themselves promote very considerable employment opportunities.

### **4.3 Phase One Industrialization Strategy**

4.3.1 Phase One of Kenya's industrialization strategy will focus upon revitalising and expanding sectors and enterprises in which Kenya already has experience and has comparative advantage. By their nature these sectors and enterprises are labour intensive and achieve efficiency without overly advanced technology but all have a high potential to produce for export utilizing locally produced raw materials. Since these industries utilise raw materials that either are, or could be, produced within Kenya, there will be widespread benefits generated as a result of increased demand for these raw materials. Many of them are agricultural products and the presence of an established demand for cash crops will provide many benefits throughout Kenya's rural areas. Furthermore, many of the potential processing industries identified are amenable to small scale production techniques and could be carried out through small scale enterprises and provide a means for informal and jua kali businesses to enter the formal sector. Table 4.1 lists the criteria for selection of Phase One target industries:

**Table 4.1: Criteria for Phase One Industries**

| Criteria               | Industry Characteristic   |
|------------------------|---------------------------|
| 1. Employment          | Labour Intensive          |
| 2. Technology          | Low and Medium technology |
| 3. Market Availability | Export Oriented           |
| 4. Inputs Availability | Indigenous resources      |

4.3.2 Using these criteria the industries considered most immediately promising for promotion are listed in the following table:

**Table 4.2: Phase One Industries**

| Sector                    | Immediate Promotion   | Short Term Horizon  |
|---------------------------|---|---|
| Agro-Industries           | Cotton, Sisal and Textiles<br>Skins, Hides and Leather<br>Horticultural produce<br>Fish<br>Sugar<br>Coffee<br>Tea | Industrial and Edible<br>Vegetable oils<br>Pyrethrum<br>Paper |
| Building and Construction | Brick manufacture<br>Glass<br>Tools   | Cement<br>Ceramics<br>Timber and Furniture                    |
| Others                    | Tourism   |   |

4.3.3 Upon formation of the NIDC, specific joint public and private sector Task Forces will be appointed to examine each industry cited in Table 4.2 and required to report on its findings to NIDC within six months. Experts from Government and private industry together with

employee and employer organisations will be appointed to each Task Force. They will be required to work to terms of reference, carry out investigations and make recommendations that will include the following topics:

- current status and constraints facing the industry;
- raw material sources, supply and problems;
- potential levels of production and export;
- potential employment generation, direct and indirect;
- appropriate technology for the industry;
- requirement for public infrastructure, fiscal and other public policy support;
- financial and budgetary requirements;
- potential benefits and costs to the nation;
- targets for the industry;
- potential additional benefits in linkage industries.
- environmental impact and measures to ameliorate environmental damage, spatial implications, etc; and
- Mechanisms to help infant industries to develop products that meet both national and international standards.

4.3.4 The findings of the various Task Forces will be evaluated by the NIDC against predetermined criteria and policy guidelines, including financial resource constraints. Depending on resource availability a number of the most promising industries will be selected for immediate attention. Very specific action programmes will then be devised for each of the selected pilot initiatives and presented for Government approval within 3 months. Each action programme will detail public sector and private sector action and expenditures required to revitalise and expand the pilot industries while maintaining the policy of minimizing bureaucratic intervention and regulation. The establishment of Industrial parks and Pilot industries will receive priority for infrastructure provision and appropriate fiscal incentives. Action plans will include time based quantitative targets.

4.3.5 The involvement of the Director of Planning and the Director of Industries will be very crucial to the success of the country's industrialisation process. They will be involved in information gathering, formulation and implementation of policies both in the public and the private sector. They will be the Chief Technical Advisors to the NIDC.

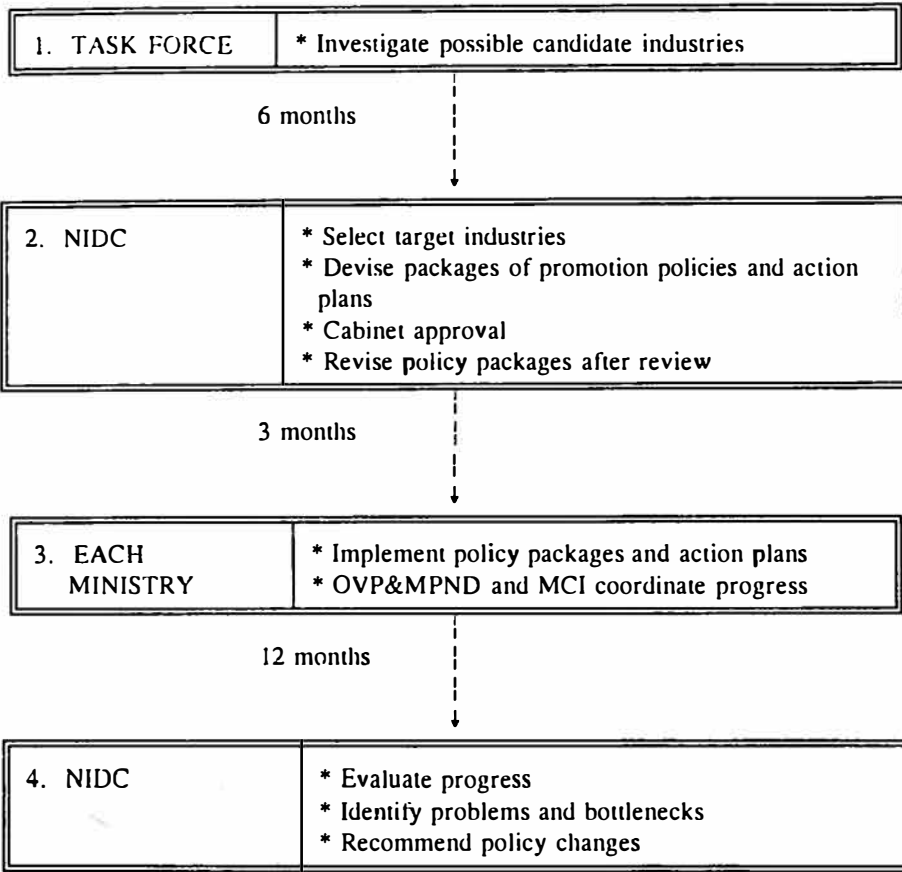
4.3.6 Once the preliminary group of pilot programmes is underway attention will focus upon preparing further action programmes for a second round of industries based upon experience gained in previous action plans. Through experience in designing and implementing pilot programmes, a model approach to industrial development will evolve that is applicable to other target industries.

4.3.7 Once approved by Government the action plans will be implemented. These pilot action plans will comprise a package of policy measures and projects that are the responsibility of a number of Ministries. The Directorate of Planning will coordinate the implementation of each pilot action plan package among the implementing Ministries. Actual implementation will commence within one year of the formation of the industry-specific Task Force. Necessary public expenditure will be initiated through budget proposals, utilizing both domestic and foreign donor resources. Where public investment is required, project documentation will be prepared and, subject to a formal approval process overseen by the Office of the Vice President and Ministry of Planning and National Development. The Directorate of Planning will be responsible for monitoring the implementation of these pilot action programmes and making recommendations on any needed modifications to the policy packages. The performance of pilot packages will be reviewed periodically and necessary revision introduced. Through KIPPRA the policy framework for Phase One industrialization will be reviewed from time to time.

4.3.8 The provision of public infrastructure will be an essential component of industry specific action plans. However, the main thrust of this support, during Phase One, will be upon the rehabilitation of existing physical infrastructure such as roads and the railway systems and improving the efficiency of infrastructural services such as telecommunications and energy including renewable energy.

4.3.9 The NIDC will take a central role in participating and coordinating the production of action plans and subsequent implementation. As suggested earlier, the NIDC will create industrial sub-system groups which would be well placed to actively participate in the revitalisation and expansion of industries included in Kenya's first phase of industrialization.

## Implementation Scheme for Industrialization Strategy



4.3.10 During the era of import substitution strategies, under high protection, many industries found it easier to import their raw materials and other inputs rather than undertake the more difficult (even if more profitable) task of developing local raw materials and inputs. A partial analysis of the inter-industry linkages for Kenya in 1990 showed the high degree of dependence of various sub-sectors on imports. Under the unliberalised economy, such an import substitution regime thrived regardless of the level of cost of production. There exist certain critical gaps in the structure of Kenyan industry in which local raw materials, if developed, could provide a core for further transformation and diversification of the economy.

4.3.11 In this context, therefore, there is need to emphasise the development of the raw material base to create the required 'deepening' and linkages necessary for a thriving and self-sustaining industrial sector. Such an approach will also address poverty by gainfully engaging the rural population in the production of goods. It will further improve the distribution of incomes and lead to diversification of consumption patterns consistent with a liberalized market economy. However, it should be emphasised that the exploitation of local raw materials will be dictated by market forces and the costs involved and the decision whether to utilise local materials or imported materials must remain with the individual enterprises. Furthermore, national environmental considerations will also come into play and may override business-founded decisions.

4.3.12 Government will continue to encourage detailed geological, agricultural and mineral surveys to determine the extent of industrial and other mineral resources, development of industrial forest plantations, conservation of indigenous forests and agricultural growth. Licenses for mineral prospecting and exploration will be readily forthcoming and Government departments will be required to cooperate and provide information and technical support to private agencies. In order to assist the private sector in the exploitation of raw materials, the efficacy of establishing a liaison body, under jurisdiction of the proposed NIDC, will be explored.

#### **4.4 Phase Two Industrialization Strategy**

4.4.1 The second phase of the industrial strategy will promote more capital-and-technology-intensive manufacturing industries that have high value added potential. Although these industries are initially aimed at substituting import of capital and intermediate goods, they will in time become export industries. Prerequisite conditions for the Phase Two "take off" include adequate infrastructure, sufficient skilled manpower, the ability to acquire and domesticate new technologies, and enhanced domestic savings, all of which require further development during Phase One.

**Table 4.3: Criteria for Phase Two Industries**

| Criteria               | Industry Characteristic  |
|------------------------|--|
| 1. Income Generation   | High Value Added   |
| 2. Technology          | Medium and high technology<br>Capital Intensive                          |
| 3. Market Availability | Import substitution (short term)<br>Export oriented (long term)          |
| 4. Input Availability  | Processed intermediate goods<br>Imported raw materials and capital goods |

4.4.2 Using these criteria, experience from NICs, and assuming a favourable global economic environment, the following industries are considered most promising for promotion in Kenya's Phase Two industrialization.

**Table 4.4: Phase Two Industries**

| Initial Promotion  | Long Term Horizon  |
|--|--|
| Metallurgical<br>Non-petro based chemical<br>Petro-chemical<br>Pharmaceutical<br>Machinery and capital goods | Telecommunications<br>Transport Engineering<br>Electronics<br>Engineering and construction |

4.4.3 Intensive efforts to prepare for Phase Two will be necessary while Phase One is under implementation. The lead time required to establish such industries means that planning and implementation of support measures must start in the very near future. A technical unit will be established within the Ministry of Commerce and Industry charged with the responsibility of undertaking the medium-term planning required before Phase Two. Where required, expertise from line Ministries will be seconded to the unit and very close consultation with the private sector will be essential. The unit will identify potential target industries for which Kenya holds a comparative advantage and complete feasibility investigations upon those selected. The investigations should focus upon:

- raw material sources, supply and problems;
- potential levels of production and export;
- potential income generation, direct and indirect;
- technology requirements for the industry;
- human resource requirements;
- requirement for public infrastructure;
- fiscal and other public policy support;
- potential benefits and costs to the nation;
- targets for the industry; and
- forward and backward linkage opportunities.

Further consideration must be given to the expected state of the world economy in order to create an effective industrial strategy that is compatible with the international trade system and the emerging global economic order.

4.4.4 These feasibility studies must be completed during the early years of Phase One implementation. Based on these studies, the target industries will be selected and policy packages to promote them be devised and implemented, following the implementation model adopted for Phase One.

4.4.5 One constraining factor to establishing Phase Two industries is their enormous capital outlay and market share size requirements for viability, which is often beyond the capacity of smaller economies. Given the larger COMESA market, these industries now have available economies of scale. The Government will continue to support COMESA sponsored regional cooperation initiatives.



In parallel to this regional initiative, Kenya must explore the possibility of greater economic cooperation with emerging markets in the Middle East, Indian sub-continent and South East Asia.

## **4.5 Targets for Industrial Transformation**

4.5.1 The strategies outlined in previous sections of this Chapter have as their goals, the transformation of Kenya's economy, higher employment rates and increased national wealth and individual incomes. It is useful to define *quantitative-indicative targets* for this transformation in order to provide a scenario for the task ahead and benchmarks against which the implementation process can be measured.

4.5.2 Table 4.5 sets out indicative trends for each year to the year 2020 for: the sectoral composition of the economy and sectoral growth; total annual GDP growth rates; and growth in per capita GDP and actual GDP per capita measured in US dollars. The targets are based on actual 1994 figures. It is emphasised that these figures are not projections but target trends that indicate a desired but realistic progression towards the goal of industrial transformation and sustained economic growth.

**Table 4.5: Industrial Transformation Indicative Targets 1996-2020  
(1994 prices)**

| YEAR                                     | Sectoral Annual Growth (%) |          |         |        | Sectoral Contribution to GDP (%) |          |         |        | Annual GDP Growth (%) | Annual Population Growth (%) | Per Capita GDP (US\$) |       |
|--|----------------------------|----------|---------|--------|----------------------------------|----------|---------|--------|-----------------------|------------------------------|-----------------------|-------|
|  | Primary                    | Industry | Service | Public | Primary                          | Industry | Service | Public |                       |                              |                       |       |
| P<br>H<br>A<br>S<br>E<br><br>O<br>N<br>E | 1995                       | 3        | 2       | 6      | 10                               | 28.5     | 16.5    | 38.3   | 16.7                  | 5.2                          | 3.1                   | 275   |
|  | 1996                       | 3        | 5       | 6      | 7                                | 27.9     | 16.5    | 38.6   | 17.0                  | 5.2                          | 3.0                   | 281   |
|  | 1997                       | 4        | 7       | 6      | 7                                | 27.4     | 16.7    | 38.7   | 17.2                  | 5.8                          | 2.9                   | 289   |
|  | 1998                       | 4        | 8       | 6      | 6                                | 27.0     | 17.0    | 38.7   | 17.2                  | 5.8                          | 2.8                   | 298   |
|  | 1999                       | 4        | 8       | 6      | 6                                | 26.5     | 17.4    | 38.8   | 17.3                  | 5.8                          | 2.7                   | 307   |
|  | 2000                       | 5        | 8       | 6      | 5                                | 26.3     | 17.7    | 38.8   | 17.1                  | 5.9                          | 2.7                   | 317   |
|  | 2001                       | 5        | 8       | 6      | 7                                | 26.0     | 18.0    | 38.8   | 17.2                  | 6.3                          | 2.6                   | 329   |
|  | 2002                       | 5        | 10      | 6      | 7                                | 25.6     | 18.6    | 38.5   | 17.3                  | 6.7                          | 2.6                   | 342   |
|  | 2003                       | 5        | 10      | 6      | 7                                | 25.2     | 19.2    | 38.3   | 17.3                  | 6.7                          | 2.6                   | 356   |
|  | 2004                       | 5        | 10      | 6      | 7                                | 24.8     | 19.8    | 38.0   | 17.4                  | 6.7                          | 2.5                   | 371   |
| 2005                                     | 5                          | 10       | 6       | 7      | 24.4                             | 20.4     | 37.8    | 17.4   | 6.7                   | 2.5                          | 387                   |       |
| 2006                                     | 5                          | 10       | 6       | 7      | 24.0                             | 21.0     | 37.5    | 17.5   | 6.8                   | 2.4                          | 404                   |       |
| P<br>H<br>A<br>S<br>E<br><br>T<br>W<br>O | 2007                       | 5        | 12      | 7      | 10                               | 23.3     | 21.8    | 37.1   | 17.8                  | 8.2                          | 2.4                   | 427   |
|  | 2008                       | 5        | 12      | 7      | 10                               | 22.6     | 22.5    | 36.7   | 18.1                  | 8.2                          | 2.3                   | 452   |
|  | 2009                       | 5        | 12      | 7      | 10                               | 22.0     | 23.3    | 36.3   | 18.4                  | 8.3                          | 2.3                   | 479   |
|  | 2010                       | 5        | 12      | 7      | 10                               | 21.3     | 24.1    | 35.9   | 18.7                  | 8.3                          | 2.2                   | 509   |
|  | 2011                       | 5        | 12      | 7      | 10                               | 20.6     | 25.0    | 35.5   | 19.0                  | 8.4                          | 2.2                   | 540   |
|  | 2012                       | 5        | 15      | 8      | 10                               | 19.8     | 26.2    | 35.0   | 19.1                  | 9.6                          | 2.2                   | 580   |
|  | 2013                       | 5        | 15      | 8      | 10                               | 18.9     | 27.5    | 34.4   | 19.1                  | 9.7                          | 2.1                   | 624   |
|  | 2014                       | 5        | 15      | 8      | 10                               | 18.1     | 28.8    | 33.9   | 19.2                  | 9.9                          | 2.1                   | 673   |
|  | 2015                       | 5        | 15      | 8      | 10                               | 17.3     | 30.2    | 33.3   | 19.2                  | 10.0                         | 2.0                   | 727   |
|  | 2016                       | 5        | 15      | 8      | 10                               | 16.5     | 31.5    | 32.7   | 19.2                  | 10.1                         | 2.0                   | 785   |
|  | 2017                       | 5        | 15      | 8      | 10                               | 15.8     | 32.9    | 32.1   | 19.2                  | 10.2                         | 1.9                   | 851   |
|  | 2018                       | 5        | 15      | 8      | 10                               | 15.0     | 34.4    | 31.5   | 19.1                  | 10.3                         | 1.8                   | 923   |
|  | 2019                       | 5        | 15      | 8      | 10                               | 14.3     | 35.8    | 30.8   | 19.1                  | 10.5                         | 1.6                   | 1,005 |
|  | 2020                       | 5        | 15      | 8      | 10                               | 13.6     | 37.3    | 30.1   | 19.0                  | 10.6                         | 1.5                   | 1,096 |

4.5.3 Table 4.5 is based on several assumptions, development strategies and economic growth patterns that have been experienced in countries which have recently achieved industrialization. The major trends that should emerge in Kenya in the coming years are discussed in the following paragraphs.

4.5.4 As the economy industrialises, the relative contribution of the primary sector to GDP will decline. However, Phase One Industrialization is largely based on the expansion of agro-manufacturing which will depend upon local raw materials. Thus, primary sector production must grow in the early years, attaining an annual expansion of at least 5%, which is then maintained throughout the transformation period.

4.5.5 During Phase One the industrial sector production is expected to grow at relatively modest rates, with an annual growth between 8 and 10 per cent. Experience in other countries has shown that, while labour-intensive light industries have successfully created employment, they have limited potential in value added and income generation. However, as Phase Two takes off through highly capital intensive and heavy industries it is expected that total value added of the industrial sector will grow at an accelerated rate aided by high productivity gains realised by those industries. Therefore, the growth rate of the sector is assumed to achieve double digit rates of between 12 and 15 per cent per annum.

4.5.6 The service sector is shown to grow at a steady rate throughout the transformation period not exceeding 8 per cent a year. This reflects the inherent difficulty for the sector to achieve high increases in productivity. Furthermore, a rapidly expanding service sector can lead to the over absorption of skilled labour and lead to excessive wages increases for skilled workers. Such has been the experience in East Asian NICs.

4.5.7 An important immediate goal is to eliminate the budget deficit and so public sector growth must be strictly controlled in the near future. It is assumed that the budget will be balanced by the year 2000 as a result of decelerating growth rates. However, once a balance budget has been achieved, the public sector is expected to grow in line with GDP. The launching of Phase Two will create an increased demand for public spending and consequently the sector's growth is expected to jump to 10 per cent.

Nevertheless, the goal is to contain public sector spending within 20 per cent of national GDP.

4.5.8 Based on these sectoral assumptions, by the year 2020 Kenya's industrial structure will have been transformed into that of a newly industrialised country. The industrial sector will account for more than one third of GDP, as is found in Thailand, Malaysia, Brazil and other middle-income economies today.

4.5.9 The GDP in 2020 will have grown to K£114,542 million in 1994 prices, which is about seven times its current size. Over the initial Phase One of industrialization overall GDP growth accelerates steadily to nearly 7 per cent per year and then picks up to first 8 and then 10 per cent during the second phase. Again, this is the typical growth pattern of many Asian NICs of the last three decades. With this scenario, per capita GDP in 2020 will be about US\$1,100, a fourfold increase of the 1994 level.

## **4.6 Developing Both Formal and Informal Sectors**

4.6.1 As touched on at the beginning of this Sessional Paper, one of the greatest challenges facing Kenya is the creation of productive employment opportunities for its rapidly increasing work force. This challenge is the major imperative for industrialization. The scale of the problem demands that all resources and means are utilised to create jobs, enhance incomes and livelihoods. Thus, industrialization must encompass a wider concept than modern, formal sector manufacturing alone. All non-farm enterprises must be included in the effort to transform the Kenyan economy. Thus, within the more formal sector, trade, commerce and service industries are already major sources of employment and will play a vital role in economic development and expanding Kenya's exports. Similarly, the informal small scale and Jua Kali sector must be fostered to continue to expand and grow, for it is expected that more jobs will be created in this sector than any other off-farm sector.

4.6.2 While it is accepted that Kenyan entrepreneurs must master large-scale modern manufacturing in order to induce long term productivity, exports and economic growth, the needs of the service sector must not be ignored. Within this sector lies industries such as tourism, banking,

insurance, the media and advertising, all of which are either vital to the manufacturing sector or earn foreign exchange. The macro-economic environment and stability will be equally beneficial to service industries, but through their own organisations and through the proposed NIDC, the service sector should make known to Government any particular constraints or practices that impede its expansion and prosperity.

4.6.3 Recent years have demonstrated the dynamism of small scale and *Jua Kali* enterprises (SSJKE) in creating employment and providing attractively-priced products. Furthermore, the sector provides an essential training ground for developing the entrepreneurial skills that are essential to Kenya's industrialisation. The Government has long recognized the role and potential of the SSJKE sector and, while appreciating that the sector thrives outside State interventions, has formulated policies to assist the sector. **Sessional Paper No.2 of 1992 on Small Enterprise and Jua Kali Development in Kenya** sets out a comprehensive policy framework which will enhance:

- direct assistance to individual entrepreneurs and small scale enterprises;
- the transition of micro and small scale enterprises into medium size enterprises;
- access to credit for the informal sector;
- access to information; and
- an enabling policy environment through redressing licensing, tax, security of works and other regulatory restrictions on informal sector activities.

Furthermore, that Sessional Paper stressed the need to provide the enabling policy environment, which entails promotion of the role of private sector enterprises and initiatives, with the Government playing mainly a facilitative role. It underlines the need for adequate access to credit for the sector, provision of management and technical training, and other non-financial promotional support programmes which include business counselling, consulting, marketing and extension services. The cumulative effect of these strategies is expected to be the creation of an entrepreneurship culture in Kenya. The Government will give priority to University and Polytechnic graduates when allocating resources to the informal sector entrepreneurs.

**4.6.4** Despite Government efforts, aided by a large number of donor agencies and NGOs, there remain four major constraints that restrain the expansion of the SSJKE sector. These are: access to credit; access to land and infrastructure; access to training and technical support; and, access to technology and information. Attention to overcoming the constraints facing the sector is a prerequisite to both expansion in the number of enterprises and enabling the transformation to larger scale concerns. While the sector as a whole must continue to expand to provide future employment, it is equally important that individual enterprises consolidate and expand to become small and medium scale formal sector enterprises.

**4.6.5 Access to Credit:** the problem facing the small scale industrialist is access to credit, at start up, during operations and for expansion purposes. Even where the credit is available, requirements such as high level collateral, well documented cash flow analysis, and general distrust of the small scale industrialist by commercial banks, tend to inhibit access. Hence there is a growing number of governmental, non-governmental and private credit institutions that have initiated special credit schemes to meet the diverse needs in the sector. Among the statutory institutions specifically designed for lending to the sector are the Kenya Industrial Estate (KIE), the Joint Loan Board Scheme (JLBS) and the Small Enterprise Finance Company (SEFCO). Some private institutions which have in recent years initiated special facilities for the sector include the Industrial and Commercial Development Corporation (ICDC), the Kenya Commercial Bank (KCB), Barclays Bank of Kenya and the National Bank of Kenya. Although formal sources of credit have increased, informal financial sources continue to serve as resource mobilization alternatives. However, credit resources available do not match demand and so the Government will encourage the development of grassroots financing systems, an expansion of more formal sources of credit through specialist agencies such as K-REP, PRIDE, etc and the adoption of less stringent capital based collateral lending by formal banks. The Government will continue to support NGOs that provide credit to SSJKEs.

**4.6.6 Access to Land/Premises:** A further problem facing small scale industries arise from land policy and related administrative practices. To an extent this arises because many informal operators locate on un-utilized public or private land, resulting in constant harassment and demolition of their business premises by the local authorities. Insecurity of tenure and

lack of fixed address for business operations create their own problems. The situation constrains growth and results in loss of property, and market and customer credibility. The tendency to operate with "no fixed abode" is a major obstacle to providing services to this sector. The solution to this problem is for Government and Local Authorities to identify suitable, commercially viable sites that can be let or leased or allocated in block to informal enterprises as appropriate. In addition to land, infrastructure in terms of access roads, water and power will have to be provided. There is also need to review Acts such as Vagrancy and Public Nuisance etc to make allowance for genuine Jua Kali enterprises as opposed to misfits and vagrants.

**4.6.7 Access to Training and Technical Support:** Particular efforts will be made to ensure that SSJKE operators gain access to the training programmes described earlier. The development of both technical and managerial skills is essential if the transition to larger-scale, more formal enterprises is to be made. The role of technical training institutions is central to achieving training objectives. The creation of effective extension and on-the-job training is equally important. The role of the Ministry of Research, Technical Training and Technology will be enhanced to provide effective training, coordination and innovation. Between 60 and 100 youth polytechnics have a primary interest in SSJKE development. Most of the NGOs are small and work at the local community level. Coordination and collaboration among NGOs working in SSJKE Sector is lacking. There is need for rationalization and targeting of training and technical support which could then be linked to the provision of other services, such as credit provision. It is hoped that the forthcoming studies of Industrial Training Levy and the Trade Testing System will pave way for future changes.

**4.6.8 Access to Technology and Information:** Even with access to credits, the business potential of small scale informal entrepreneurs is limited by the paucity of new technologies, essential inputs, managerial skills, product diversity and favourable product markets. A well defined means of transferring technology and information to the entrepreneurs should be put in place. Extension services of the R & D institutions like KIRDI and the local universities should be supported. The Technology Development Grants system as elaborated in the Micro and Small Enterprise Training and Technology Project should be developed to link

research and technology institutions with the Jua Kali enterprises. Meanwhile subcontracting initiatives from UNDP, UNIDO and K-Map should be continued.

4.6.9 The SSJKE sector has proven to be a "seedbed" for both managerial and product development. To further encourage the sector, the Government will ensure that their products are given priority in Government purchase schemes. The Central Supply Board and other procurement agencies will be instructed to give SSJKE products priority and services when awarding tenders. The licensing and other regulations that have been identified as being impediments to SSJKE development will be amended or removed. The Federation of Kenya Employers has been fostering SSJKEs through the development of management training, counselling, etc. This initiative should be extended and the assistance of individual firms sought. Cooperation and inter-linkages can be promoted through the organisation of "seller-meets-buyer" initiatives.

4.6.10 One problem has been that SSJKE operators have lacked well organised associations or cooperatives to take advantage of economies of scale to procure inputs, increase specialisation, integrate production and exploit potential markets. Similarly, umbrella associations are needed to ensure the sector has effective representation to interact with local and central Government and other business organisations. While the nature of the Jua Kali sector militates against more formal organisation, the provision of land and well organised extension services necessitate an opportunity for the creation of group activities.

4.6.11 The SSJKE sector has the potential to form one of the main pillars of industrialisation in Kenya and be a major source of employment opportunities. Experience from certain East Asian countries, notably Taiwan, has demonstrated that small scale enterprises can make a significant contribution to exports. Given an appropriate environment the Kenyan SSJKE sector can do likewise. For these reasons, Government will provide all necessary assistance to the sector while keeping in mind that an overly interventionist policy can threaten the very strengths that creates prosperity. It is essential, therefore, that the mechanisms proposed to create full dialogue between Government and the private sector, discussed earlier, fully include the SSJKE sector so that a positive balance between positive support and negative intrusion can be established.



## **CHAPTER 5**

### **PUBLIC POLICY FRAMEWORK FOR INDUSTRIALISATION**

#### **5.1 Scope for Industrial Development Policies**

5.1.1 Building upon the process started under the *Sessional Paper No. 1 of 1986*, and consolidated upon in *Sessional Paper No. 1 of 1994*, the Government will pursue overall macro economic policies that provide for a stable economic climate, thereby fostering business confidence. Further, Government will endeavour to encourage a vigorous industrial private sector through trade and industrial development policies that emphasise: the mobilisation of savings and availability of investible funds; the development of human capital within a flexible labour policy environment; stimulating domestic and external trade; inducing technological change to increase productivity; a reduction of the dominance of parastatals in favour of private sector enterprises; and encourage the development of strategic industries.

#### **5.2 Mobilisation of Savings**

5.2.1. Kenya will need higher rates of savings and investment in order to create and sustain rapid economic growth. There are three sources of savings available: private domestic; government; and foreign. Historically, private domestic savings have been very low in Kenya, fluctuating in the range of 15.7 to 20.9 per cent of GDP throughout the 1980s. Evidence from countries that have obtained rapid industrialisation indicate that private savings will need to increase to a level above 30 per cent of GDP. Such a rise will only come about with conditions of low inflation and positive interest rates coupled with rising levels of disposable incomes. Government policy will be geared to creating an environment which encourage higher rates of private individual and institutional savings.

5.2.2 Efficient mobilization of savings will require sound monetary policies. In this regard the Central Bank of Kenya will strive to attain price stability as its primary objective. To strengthen CBK's capacity for monetary policy management, a Bill has been submitted to parliament to amend the CBK Act to give the Central Bank more autonomy.

The Bill will define clearly the mission of the Central Bank and will grant it sufficient powers to discharge its responsibilities more effectively.

5.2.3 Since the early 1980s Government has run a deficit on its current account and has been a dis-saver. The reasons for this have been sluggish revenue growth and rising recurrent expenditure. The Government aims to reverse this situation through improved revenue realisation and controlling expenditures so that Government makes a net positive contribution to national savings.

### **5.3 Industrial Investment Financing**

5.3.1 Kenya's financial system is diverse. In addition to the CBK, there are 49 commercial banks, 21 non-bank financial institutions, more than 40 insurance companies, a Postal Savings Bank, the National Social Security Fund (NSSF), a number of Pension Provident Funds (PPF), six Development Finance Institutions (DFIs), specialised financial institutions serving agriculture, tourism and housing sectors, a stock exchange, over 1000 savings and credit cooperative societies, and a number of local and international non-governmental organisations involved in providing finance to small scale enterprises and the informal sector enterprises.

5.3.2 The remarkable expansion of the financial system over the last decade went hand in hand with policies of direct credit allocation and control of interest rates. These policies delayed financial deepening and created serious problems involving the allocation of finance to the industrial sector. In order to alleviate these problems the Government has, since 1993, deregulated controls and placed reliance on market signals and mechanisms for the allocation of credit to the private sector. It will continue to implement policies and programmes that encourage long-term finance and improve credit availability to small scale and Jua Kali sector.

5.3.3 Kenya has a well developed network of contractual savings institutions. These institutions have long-term liabilities and assets and are good sources of investment in equities and Corporate Bonds. They can therefore be good sources of long-term credit for Kenya's industrialisation process. Their savings have in the past been invested heavily in Government Bonds and Treasury Bills.

The Government will reduce its borrowing as a proportion of GDP, thus releasing contractual savings to finance the industrialisation process.

5.3.4 The country has six DFIs, namely, Industrial Commercial Development Corporation (ICDC), Industrial Development Bank (IDB), Development Bank of Kenya (DBK), Agricultural Finance Corporation (AFC), Small Enterprise Finance Company (SEFCO) and Kenya Industrial Estates (KIE). These DFIs were established to provide finance to medium and small scale enterprises, which could not easily access credit from commercial banks. Two of these institutions, ICDC and IDB, have recently been restructured to enhance their capability to operate effectively and profitably in an open market economy. The programme of commercial restructuring will be extended to all DFIs and Government holdings in DFIs will be reduced.

5.3.5 In order to increase the availability of finance for long term investments the following steps will be undertaken:

- i) the DFIs will be allowed to access funds from contractual savings institutions and channel these savings into long term industrial investment lending;
- ii) through good corporate governance, the DFIs will be given the requisite autonomy to operate competitively and profitably in an open market economy;
- iii) commercial banks will be invited to increase their long term lending; and,
- iv) Government will facilitate the acquisition and channelling of external funds to long term industrial investment financing, but will not be directly involved in this process.

5.3.6 Kenya's capital market, the Nairobi Stock Exchange, is still at early stages of development. The Government has recognized the potential of this market to make long term capital available and to facilitate allocation of financial resources to corporations and industries. The Government, in consultation with the Capital Markets Authority (CMA), will continue to invigorate this market by:

- i) strengthening legal, regulatory and tax framework to accommodate local and foreign investors;
- ii) developing a clearly defined operational rules for underwriters, brokers, dealers, merchant banks, mutual funds and unit trusts;

- iii) reducing credit subsidies which interfere with public issuance of stock; and
- iv) encouraging issuance of stock and compliance with disclosure requirements.

5.3.7 The restructuring and liberalisation of financial systems have caused considerable interest in money market instruments, particularly Treasury Bills and Bonds, certificates of deposits, bankers acceptances and commercial paper. This positive development has resulted from the Government's commitment to controlling inflation and maintaining positive real interest rates. The Government recognises the importance of these instruments in the mobilisation of long and medium term finance to the industrial sector. The Central Bank is, however, committed to restructuring these financial instruments in order to encourage long term savings and investment. Steps will be taken by the CBK to develop secondary markets. The Capital Markets Authority will encourage the private sector to establish a central depository for Treasury Bills, which would ensure an efficient delivery and payment system for the bills.

5.3.8 Commercial banks and non-bank financial institutions mobilise over 80 per cent of financial resources in terms of savings and long term deposits. They also provide over 90 per cent of short and medium term loans to the industrial sector. One major weakness is that they offer little long term finance which is equally vital to the industrial sector. The Government will, therefore, seek to strengthen these institutions by carrying the following actions:

- i) maintaining macro-economic stability;
- ii) improving the stability and efficiency of the financial system through prudential regulation and strengthening the Deposit Protection Fund; and,
- iii) improving laws, regulations and tax systems to promote commercial bank involvement in leasing and venture capital as a source of long and medium term capital.

5.3.9 The Government offers various tax incentives to both local and foreign industrial investors. The incentives are in the form of tax holidays, accelerated depreciation and, recently, a reduction of corporate tax rates. Initially, the tax incentive systems worked well to increase foreign investments, but dwindling domestic markets, increases in the cost of

capital and production and the existence of widespread controls and bureaucratic red tape have reduced their effectiveness. The Government will therefore continue to maintain these tax incentives but ensure that bureaucratic controls do not act as a constraint.

5.3.10 Over the years, currency devaluation and rises in price levels have led to a considerable rise in the cost of capital goods. This has prevented many up-coming firms from acquiring plant and equipment. To compensate and encourage capital investment, the Government will consider, where appropriate, the waiver of tariffs on imported capital goods and will strive to maintain stable but realistic exchange rates through prudent macro-economic policies.

5.3.11 It is a declared Government policy to reduce overdependence on official borrowing as a source of long term capital. Instead, the Government encourages increased inflows of foreign direct private investment. Direct foreign investment has additional advantages of promoting the transfer of technology and management and marketing skills. In this regard, the Government will strengthen foreign investment codes in order to promote joint ventures between Kenyans and foreign investors and industrialists. The Government will enter into bilateral negotiations of tax treaties with the view of avoiding double taxation and thus encouraging foreign direct investment

## **5.4 Investment Promotion**

5.4.1 New investment approvals by the Investment Promotion Centre (IPC), show that there has been a marked decline in investment ventures in Kenya over the last five years. This worrying situation was compounded by extensive disinvestment by some foreign companies. These undesirable developments can mainly be attributed to the global recession during the first half of this decade. It is recognized that the country does not have adequate resources to meet the high cost of investment required to bring about the envisaged industrial transformation. The country will, therefore, actively seek direct private foreign investment to supplement local capacity through the following strategies:

- Sufficient resources will be made available to IPC and Export Processing Zone Authority (EPZA) to intensify their programmes;

- In order to respond more effectively and efficiently to the growing needs of industrialization, the IPC will be upgraded, restructured and strengthened to make it more effective in providing a genuine "one-stop" facility and to conform to international standards, advising potential investors on issues of technology transfer and the popularization of sub-contracting activities between large foreign investors and local small and medium scale enterprises;
- All existing legislation relating to investment in Kenya will be consolidated into one legal document or *Investment Code* to clearly regulate the legal rights and obligations for both foreign and local investors and to provide legal guarantees for all investors;
- To attract foreign investment from the NIC's, IPC will open promotion offices in those countries. The first office will commence in the 1996/97 Financial Year and proceed thereafter at the rate of one office every financial year;
- Incentives given under Manufacturing Under Bond (MUB) and Export Processing Zones (EPZ) will be harmonised in order to encourage local investors to increase manufacturing for export;
- To overcome limitations imposed by shortage of industrial land and infrastructure, new serviced industrial parks capable of accommodating 1,000 industries will be established in growth centers by the Year 2006;
- New industrial estates capable of accommodating 50 to 200 medium scale industries will be constructed in key industrial centers;
- Identified core industries which will lay the foundation for industrialization will be promoted. The Ministry of Finance and the Ministry of Commerce and Industry in consultation with IPC, ICDC and other relevant ministries and organisations will review the adequacy of incentives needed to attract investors to develop these industries. The IPC will undertake intensive promotion and investor identification, in order to hasten implementation of these projects;

- In order to promote Kenya as the suitable investment location, IPC will initiate an urgent study and present recommendations to the Government for action. This will be supported by effective country and project promotion campaigns overseas;
- Kenyan investors both in the country and abroad will be encouraged to invest in Kenya through information dissemination campaigns to be mounted by the IPC and other relevant institutions; and,
- Programmes designed to woo investors in specific sub-sectors will be developed and promoted as a further strategy to increase investment in key industries. The IPC in consultation with the Ministry of Commerce and Industry and other relevant private and public institutions will draw up the programmes and commence aggressive promotion urgently.

## **5.5 Technology Policies**

5.5.1 To achieve and maintain competitiveness in the international market, while addressing the pressing need to create employment, Kenya must be selective in acquiring its technology. Given these requirements, the pursuit of technology that is efficient but creates little or no employment is not appropriate. These, sometimes contradictory needs, demand working out strategies to systematically enhance Kenya's technology base. The Government, in close consultation with the private sector, will put in place a comprehensive policy framework for the industrial technology development. To ensure the implementation of this policy, the necessary legislation, regulations, rules and procedures will be put in place within the framework of Science and Technology and Industrial Property Acts. The Act itself is under review, as will be the functions and structure of the National Council for Science and Technology (NCST) so as to incorporate emerging areas of needs, for example the assessment of our natural resources.

5.5.2 There are four broad means to acquire technology: through indigenous research and development; direct foreign investment; purchasing or leasing "off-the-shelf"; and, overseas training. Technology can also be acquired by accessing patent documents in public domain kept

in Patent Offices such as Kenya Industrial Property Offices, (KIPO). Kenya will pursue acquisition through all means. A crucial role for Government is to spearhead actions to harness technology intelligently, for well defined purposes and for the benefit of society at large. A mechanism will be developed to Kenyanise the country's natural resources and KIPO will be provided greater Government support to play its rightful role.

5.5.3 For effective industrialization, it is necessary to identify Kenyan natural resources and products through branding and patenting. Currently, Kenyan natural resources or products have no Kenyan identity. For example, Kenya coffee, tea, soda ash, cotton etc. have no brand names and are sold as products of the consuming country, thereby, denying us the attendant added value. The Kenya Industrial Research and Development Institute (KIRDI) will therefore be provided greater Government support and will continue its recent initiatives to strengthen its links to the private sector. In this regard, KIRDI will be supported to finalize its strategic plan which should indicate how it intends to meet the technological challenges presented by the vision of achieving NIC status by the Year 2020. However, the private sector must be encouraged to invest more heavily in technology development, either independently or through collaboration with public R&D institutions. Particular attention should be given to the adaptation of known and available industrial technology to suit local needs and conditions. KIPO will be provided with the necessary resources to perform its gazetted functions to protect inventions and innovations, to promote inventiveness and to register technology transfer.

5.5.4 Direct foreign investment has been the most prominent source of technology acquisition and is expected to remain so. While recognising the very considerable benefits that can accrue to Kenya through foreign investment, the Government will give greater attention to the nature and conditionalities surrounding the importation of technology and to promote a greater diffusion of such technology. It is envisaged that acquisition of some specialised technological capabilities may require temporary migration abroad for related training and employment. The private sector will be encouraged to pursue this strategy. Where skills short-falls are detected, foreign expertise will continue to be sought, particularly from those countries which Kenya intends to emulate in industrial transformation. Kenya will continue to take advantage of a number of



programmes developed by United Nations Industrial Development Organization (UNIDO) and other donor agencies meant to promote technology transfer into and among developing countries.

## **5.6 Standardisation Aspects**

5.6.1 As Kenyan industry aspires to move into international markets, its products must accord with ISO 9000 standards and quality. Testing and quality control laboratories are services that most small and medium enterprises cannot provide for themselves. To provide this service the Government, with the assistance of UNIDO and other donors, will continue to build the human and technical capacities of the Kenyan Bureau of Standards (KEBS) in standards development, testing and quality control.

5.6.2 It is particularly important that the necessary facilities and institutions to develop product standards are put in place without further delay. Appropriate measures will be taken by the Government to implement provisions of Agenda 21 (of 1992 Rio de Janeiro Earth Summit) with regard to transfer and adoption of environmentally sound technologies, provision of environmental infrastructure and implementation of environmental protection.

## **5.7 Export Promotion**

5.7.1 Given the limited domestic market it is imperative to set in place a successful export promotion programme that will lead to increases in foreign exchange earnings, employment opportunities, income per capita and trade surplus. The main thrust of export promotion will be the production of non-traditional export products and increase value addition to primary products. Special emphasis will be placed on product improvement including packaging, styling and design and new product development. Emphasis will also be placed on competitiveness in quality, prices and timely delivery of products.

5.7.2 Export promotion, within the conditions of Kenya's obligations under multilateral trade agreements, will be an important means to stimulate rapid economic growth and employment. Government will maintain three principal incentive schemes: duty/VAT remission; export

processing zones (EPZ); and, manufacturing under bond (MUB). While all three were initially aimed at the manufacturing sector, they have now been expanded to encompass both the service industry and primary production. In addition to these promotion schemes, Government will work closely with the private sector to provide necessary support services, with the *Export Promotion Council* (EPC) as a main focal point for collaborative work to identify export opportunities. Within the Ministry of Finance, the Export Promotion Programmes Office (EPPO) will continue to monitor the various tariff, tax and regulatory structures that affect exports. The operation of EPPO will be streamlined to reduce bureaucratic delays.

5.7.3 In order to expand Kenyan market presence in traditional and new markets, an effective contact promotion programme, market surveys and investigations, trade fairs, exhibitions and trade missions shall be undertaken by EPC in collaboration with other private and public trade related institutions. Equally important, the EPC will work towards improved trade information gathering and dissemination on competitor activities and identifying gaps in overseas markets. A human resource development programme for exporters, manufacturers and service agents will be put in place through the EPC.

5.7.4 The EPC must establish a sustainable financial base for its operations that does not rely on Government or external donor funding. While external financing is being made available to fund start-up costs, those that benefit directly from EPC activities must be prepared to pay for the services provided. For example, the EPC intends to create a Business Information Centre for which user fees will be imposed and similar charges for all direct services should be introduced.

5.7.5 Continuous review of the macro-economic variables such as the exchange rate will be undertaken to ensure they remain supportive of export activities. Similarly, reviews will be made of export incentives, within the context of international agreements, as well as the identification and removal of regulatory or bureaucratic disincentives.

5.7.6 Effective trade and investment offices, will be opened in carefully selected key outlets. The offices will be manned by highly experienced, qualified, result-oriented personnel. They will be selected on merit from the private or public sector, and supported by attractive remuneration packages and modern facilities.

5.7.7 The modalities for setting up of an export credit guarantee and insurance schemes to support upcoming exporters will be explored. Import duties on raw materials and finished products will continuously be reviewed and rationalized in order to provide adequate differential to support manufacturing activities that utilize imported inputs. A more effective and efficient duty and VAT remission mechanisms will be put in place in order to remove the present bottlenecks experienced under the EPPO programme.

## **5.8 Regional and International Trade Arrangements**

5.8.1 Smooth and increased flow of Kenyan exports into regional and international markets can be enhanced by the implementation of favourable trade arrangements with other countries. Kenya will strive to maximize benefits from existing and future trade agreements with our trading partners. Full advantage will be taken of markets that are closer and easier to penetrate while expanding our share of present markets. Institutional and legal framework required to foster international and regional trade which could benefit the country will be implemented speedily. Strong trade negotiation skills will be built up with assistance from the United Nations Conference on Trade and Development (UNCTAD) so as to take full advantage of bilateral and multilateral trade agreements.

5.8.2 Kenya will actively participate and support integration efforts of the African economies and in particular:

- the African Economic Community;
- Common Market for East and Southern Africa; and
- East African Co-operation.

Intensive efforts will be made to hasten effective and smooth working of these regional market organizations. Reduced trade barriers within Africa and enhanced trade related infrastructure offer the greatest scope for the rapid growth of Kenya's manufacturing and service exports. The

importance to Kenya of African markets is reflected in the fact that, in 1994, 45 per cent of the country's total exports by value were within the continent.

5.8.3 Effective measures will be taken so as to ensure that imported finished products are of high standards and to guard against dumping of sub-standard goods. Where such dumping practices are proven, countervailing duties and other retaliatory measures will be imposed. The KEBS will be strengthened so as to adequately monitor the quality of imported goods.

5.8.4 The quality of locally manufactured products whether for export or domestic market will be enhanced by continuous review and upgrading of standards. Competition among local producers will be encouraged through strict enforcement of anti-monopoly and anti-trust laws.

5.8.5 The multilateral trade negotiations of the Uruguay Round culminated in the establishment of the World Trade Organisation (WTO). It set out an ambitious agenda which included reducing international trade barriers further. Kenya is a signatory to this agreement and must work within its trade regulations and recognise that international trade will become more competitive. However, new trade opportunities will emerge as a result of the new multilateral arrangements that will encourage international trade provided Kenya can establish export orientated industries.

## **5.9 Environmental Policies**

5.9.1 One of the most important issues of our time is the inter-relationship between development and environment. The two are intricately intertwined so that any development that has to take place must address itself to environmental concerns. Kenya's Seventh National Development Plan: 1994-96 stresses the importance of integrating environmental and developmental issues into the country's planning process. Totally unrestricted industrial development can have deleterious repercussions that either cannot be rectified or are very expensive to remedy. Therefore, it is important that Government establishes policies that counter such threats from the outset.

5.9.2 Industrial development must adhere to standards of environmental protection and resource conservation, particularly with regard to industrial emissions, resource utilisation, waste disposal and conditions in the workplace. Industry must pursue twin goals of productivity with efficiency and become more energy and resource efficient, waste minimization and proper disposal management. Health and environmental damage costs caused by private enterprises have been largely transferred to the public sector or future generations. This must change to have polluters increasingly confronted with the full cost of their activities under a "polluters-pay" approach. Among the range of options to be considered are effluent or emission charges and introduction of tax concession for industries using environmental friendly technologies. Serious consideration will be given to the establishment of a fund to provide grants or low interest loans to alleviate additional capital costs required to introduce environmental protection equipment.

5.9.3 Every industrial project will be required, by law, to provide an Environmental Impact Statement before licensing and implementation. Potentially damaging proposals will be identified early in the project cycle, at prefeasibility stage, and projects which are shown, by preliminary screening, as likely to have significant adverse environmental, social and economic impacts will be required to complete an Environmental Impact Assessment (EIA). The EIA will be conducted independently of the agent, department of the Government or the private organization undertaking a project. Existing industries and those that had previously undergone an EIA must be periodically subjected to environmental accounting and auditing. The impact of each individual project will be internalized during appraisal and analysis, including all the costs and benefits and in making choices on appropriate technologies, economic size and project location.

5.9.4 Existing legislation has been reviewed and new laws are being incorporated so that those firms and individuals who cause environmental degradation can be subjected to deterrent punishments. The laws needed for environmental protection will be protective to the environment and **not** just reactive to damage occasioned to the environment. Currently the law on environment does address itself to liability and compensation for the victims of pollution and other environmental damage. Firms will be provided with environmental impact guidelines so that they can be able to

undertake their own self assessments. Environmental management capacity within each project will be enhanced through the establishment of cleaner production centers and other relevant training facilities. The Government will also set standards for the appropriate disposal of wastes.

5.9.5 Every technology imported or developed locally has to be environmentally sensitive and must include waste management as a package. There will, also, be need for alternative technologies to ensure that industrial development is environment friendly. Central to this must be encouragement of low or non-waste technologies. There will also be need to support a strong "R&D" programme to develop waste management techniques. A method of charging for pollution will be formulated and implemented to cover both the quality and quantity of effluent. Each polluter will have to pay for his load of pollutant on the basis of "polluter pay principle". The cost of conservation and clean up shall be borne by the responsible industry or project. In this regard capacity will be developed to set, monitor, and enforce environmental quality standards. The enforcement machinery will also provide for the restoration or mitigation of environmental damage.

5.9.6 For Kenyan products to be readily accepted in international markets, they will have to be of high quality and conform to international standards. Among such requirements is compliance with the internationally recognized "Quality Management Standards" under the ISO 9000 series and "Environmental Management Standards" under the ISO 14000 series.

5.9.7 The Government will institutionalize the environmental policy making process by strengthening government organizations involved in implementing the environmental policy and enforcement, so that progress is made on environmental issues as pertains to pollution abatement; waste management; drinking water supply, and waste water management. National Environmental Action Plan (NEAP ) will translate broad environmental concerns into specific action plans and identify policy measures and investment priorities through:-

- Preparation of National and Local Plans to reduce industrial and other pollution, including the setting of health and environmental quality standards for air, water, noise and marine pollution; and

- Planning and implementation of a national awareness programmes on the management of waste waters from industrial and agricultural activities to inculcate appropriate attitudes and values and capabilities necessary for positive environmental action.

## 5.10 Land Use Policy

5.10.1 In Kenya, provision of serviced industrial land has been undertaken by both the public and private sectors. The Estates Development Fund (EDF), a Government initiative which was suspended in 1982, was a revolving fund used to develop roads and drains on land before allocation, with the costs then being apportioned to allottees. Beneficiaries were however limited and concentrated in Nairobi. More recent public efforts have focused on land planning and zoning but not direct provision of infrastructure leading to a growing backlog of unserviced land. This has led to increased start-up costs for investors who have to service their own land. In addition, land market, in the country, is poorly developed and information is not readily available. Compensation arrangements for alienated land are inadequate and the procedure is also cumbersome.

5.10.2 The Government will adopt strategies that enhance efficient supply of serviced land. Firstly, the roles of the Commissioner of Lands, the Ministry of Public Works and Housing (MPW&H), the Ministry of Local Government (MLG) and the Local Authorities will be harmonised to avoid any duplication or conflicts of roles. Secondly, the Government will study the possibility of reviving a funding facility for servicing land on a revolving fund basis. The Government will also reconsider the necessity of coming up with a comprehensive land policy that will cover issues such as setting aside public land for industrial use, facilitating land purchase by industrialists, speeding up the issuance of title deeds, taxation laws as they pertain to land and physical planning to facilitate efficient land use.

5.10.3 Government policy has always stressed equitable growth and this will remain the prime goal for national development. However, it is important to recognise that, at least in the immediate future, certain regions and settlements will hold greater attraction to industrial investors.

It is therefore, likely that, in the majority of cases, Kenya's existing major urban centers will be considered to hold comparative advantage for new industrial projects. As a first priority Government will concentrate its infrastructural investment to improving the level of services in these centers and the communications between them and with the outside world. If basic services such as power, water, and communications continue to fall short of demand in these comparatively advantaged locations then investment will be frustrated and Kenya as a whole will suffer. However, as soon as possible strenuous efforts will be made to induce industrial dispersion through enhancing infrastructure in currently less well served areas.

5.10.4 Industrialisation will bring about potentially radical and rapid shifts in population. One result will, almost certainly, be an increased rate of urbanisation together with its associated rise in demand for shelter and other essential services. If such increased demands are to be met, deliberate planning and investment must be undertaken immediately if our cities are not to be overwhelmed. Current conservative predictions are that Kenya's urban population will triple by the year 2020 and make up one third of the country's total. While every effort must be made to maintain rural-urban balance, through creating a prosperous rural economy and developing secondary urban centers, the trend towards urbanisation is inevitable. Immediate action is called for to strengthen the capacities financial base and accountability of local authorities responsible for urban centers most likely to receive future industrial development.



## **CHAPTER 6**

### **BASIC INFRASTRUCTURE FOR INDUSTRIALISATION**

#### **6.1 The Critical Role of Infrastructure**

6.1.1 The current inadequate state of Kenya's infrastructure acts as a major disincentive to potential investors and threatens the realisation of the goal of industrialisation. The availability of infrastructure and its efficient operation are major determinants to the cost of production, quality and timeliness of response to product and service demands. Corruption in the award and supervision of infrastructure contracts has been a major hindrance to quality infrastructure in general. Hence, the Government will ensure more transparency in the award and execution of its contracts and enforce conformation to laid down contractual obligations by both parties during implementation. New construction contracts will only be effected upon written assurance from the Ministry of Finance that the necessary finances will be made available to enable scheduled completion and prompt payment.

6.1.2 Government recognises that the provision of infrastructure is one of its major functions and responsibilities. It is, therefore, committed to increasing public investment in this area. However, public resources are limited and great care will be taken to invest only in high priority projects that will make a major impact upon the industrialisation process. In order to increase public financial resources, Government will, wherever feasible, provide infrastructure on a cost recovery basis. Where capital costs cannot be recouped, operation and maintenance expenditures will increasingly be funded from user charges. Furthermore, private sector will be encouraged to engage in joint ventures with Government and to undertake privately financed projects.

6.1.3 The immediate priority for public infrastructure investment will be the maintenance, rehabilitation and reconstruction of existing facilities and satisfying demand. Over the longer term, the objective will, however, focus on upgrading the levels of service of existing infrastructure and providing new ones to areas that are currently disadvantaged but have the potential for industrial development.

6.1.5 Two concepts, the *Build Operate and Transfer* (B.O.T.) and the *Build Operate and Own* (B.O.O.), are gaining prominence in infrastructure development. In both cases, private sector operators put up the infrastructure. In the B.O.T. case, they operate the facility for a pre-agreed period after which they surrender it to the Government. In the latter case they own the facility and operate it as any other regulated business. Facilitating B.O.T. and B.O.O. needs legal and regulatory reform and the monopoly nature of much infrastructure provision requires a strong regulatory environment. The Government will convene a task force to investigate the legal and institutional reforms required before the private sector can exploit new opportunities in the sector. The task force will make specific recommendations on areas suitable for innovative operations as well as the modalities for operation.

6.1.6 There is a pressing need to co-ordinate infrastructure provision and maintenance to ensure both optimum use of existing facilities as well as optimum co-ordination for efficient provision of new infrastructure. A number of master plans have been completed for various sectors including the roads sector, postal and telecommunications sector, the railways sector, and water. The *Eighth National Development Plan (1997-2001)* addresses the necessary coordination, lays out priorities and strategies for integration between sectors and details a five year infrastructure investment programme.

## 6.2 The Energy Sector

6.2.1 Inadequate sources of energy coupled with energy-inefficient technology have escalated the costs of manufacturing making Kenya's industrial products less competitive internationally. Exploration of fossil fuel minerals such as coal and petroleum will therefore be intensified. Exploitation of economic mineral deposits will be pursued.

6.2.2 Electricity supply is crucial to the manufacturing sector. The main constraints with regard to electricity supply are voltage fluctuations and power breakdowns. These become especially acute during times of inadequate rainfall because nearly 70 per cent of the installed generation capacity is hydroelectric. Electrical fluctuations and breakdowns damage equipment and create production losses. The high frequency of power failure coupled with prolonged durations of power breakdowns is a clear

indication of overstretched power supply resulting in recurrent power shortfalls. In addition, construction of power projects involves very heavy capital investment whose costs cannot be met solely from local sources. An additional constraint has been the legalised monopoly status of Kenya Power and Lighting Company (KPLC) which has restricted the ability of the private sector to participate in electricity provision.

6.2.3 In order to lay the foundations for a revitalised electricity industry, the Government has instituted a major reform programme. A statutory power authority will be established to regulate the power industry for the benefit of the economy and investors. Further, the functions of the power industry will be reorganised into distinct and discreet entities for power generation and transmission and distribution in order to allow for flexibility in management and investment in the industry and private provision of electricity. The Government will introduce legislation clearly specifying the components of the industry in which the private sector can participate, the modalities and regulatory laws to ensure transparency as well as limitations on the monopoly power of KPLC. With the introduction of competition, prices and tariffs will be decontrolled, however, Government will retain reserve powers to review and adjust both the level and structure of electricity tariffs.

6.2.4. The supply of electric power for industrialization in the country will be supplemented by promotion of new and renewable sources of energy such as wind, power alcohol, solar, biogas and bagasse. In the longer term, Kenya may have to consider whether nuclear energy, which is highly scale intensive, is a feasible option to supplement hydro power resources.

6.2.5 The petroleum and petroleum products market has been liberalized. However, the Government will continue to monitor the supply levels and distribution of this strategic industrial input throughout the country. The Government will also continue the search for indigenous fossil energy and to provide necessary incentives to attract both foreign and local companies to participate in the search for oil. To boost oil export to neighbouring countries, the Kenya Pipeline Company is planning to extend the existing pipeline from Eldoret to Malaba to enable the oil exports to be delivered promptly to western neighbouring countries. Other viable extensions to the pipeline will be explored.

The Kenya Petroleum Refinery will also be upgraded to eliminate the problem of crude oil stock feed.

### **6.3 Roads and Road Transport**

6.3.1 An effective road transport network is an important prerequisite both for economic and social development. The provision of this is however, costly. The construction and maintenance of roads need careful planning in order to maximize the utilisation of the resources invested, and to ensure effective support to the other sectors of the economy. The Government will pursue policies which within the available financial and other constraints, are geared to minimising total transport costs to the users and to improve accessibility to key production and consumption areas.

6.3.2 Maintenance of the existing road network is under various agencies such as the Ministry of Public Works and Housing (MPWH), municipalities and Kenya Wildlife Service with different objectives and funding sources. In order to effectively coordinate the maintenance of the network, the Government is currently exploring the possibility of harmonising operations of the different road agencies.

6.3.3 Although there are areas with insufficient density of classified roads, the extent of Kenya's network is generally adequate to support present and planned level and type of economic development. However, the quality and service level of the network is inadequate as it is characterized by poor maintenance with the consequent negative effects of increased vehicle operating costs. The primary objective for the road sector is, therefore, to lay emphasis on sustainable maintenance. The strategic plan for the road sector up to and beyond the year 2000 emphasizes maintenance, rehabilitation and reconstruction of the road network. Upgrading the level of service of roads linking Kenya to its trading neighbours and to local areas which are currently poorly served are additional priorities. Hence, emphasis will be on routine maintenance, upgrading and reconstructions of existing road network, while expansion will only be to bridge any missing road links.

6.3.4 Additionally, donor funding for specific reconstruction and rehabilitation programmes will be sought. In order to involve the private

sector more in provision of road services, the Government will contract out most studies, designs, construction and maintenance activities to the private sector and will investigate the possibility of privatising some road links. In the height of budgetary constraints, new funding avenues will be sought from both internal and external sources.

6.3.5 To further enhance economic development in Kenya, the Government has completed a Road Network Development Masterplan Study. The study identifies certain sections of the road network, e.g the main road from Mombasa through Nairobi to Western Kenya, to support satellite centers for industrial development. The plan period is up to the year 2013, and the total estimated cost will be Kshs. 121 billion at 1994 prices. The Government is also in the process of introducing the Roads 2000 Strategy for road maintenance on a nationwide basis. The strategy is aimed at adopting the most cost-effective combination of labour and equipment in order to achieve basic accessibility and to create employment opportunities.

6.3.6 To enhance the efficiency of road transport operations, the Government will constantly review the laws that may hinder such efficient operations. These basically relate to the capacity of vehicles in use on our roads such as matatus and heavy goods vehicles. The intention will be to increase the capacity of the present matatu size from the 25 passenger capacity. This industry will also be reviewed with the aim of formalising its operations by encouraging the adoption of sound work ethics by instilling some sense of discipline to the operators. These steps will lead to increased economies of scale for the matatu operator and in turn generate increased revenue to the exchequer.

6.3.7 Kenya is a transit country and all heavy goods vehicles operating on our roads will be required to observe the maximum axle load limits as stipulated in the Agreement of the COMESA countries where we are a signatory. The existing heavy goods vehicle dimensions will also be reviewed to be consistent with the agreed vehicle dimensions for the COMESA region. These steps are also prerequisites within the East African Cooperation and will ease the facilitation of transit road transport through our country.

6.3.8. To enhance road transit transport, the licensing procedures of heavy goods vehicles will be streamlined by adopting the COMESA carrier licence and the COMESA transit plates for all vehicles licensed to engage in international transport in Kenya. The same will be required of other transit vehicles licensed in foreign countries especially from the other East African Cooperation Member States. This approach coupled with the on-going use of the Road Custom Transit Declaration form (RTDC) now in common use in the East African Subregion will ease facilitation of transit traffic.

## **6.4 Water Development**

6.4.1 Water is a primary and locomotive input in industrial transformation and will be developed for its indispensability in human, plant and animal life. Most industrial activities need clean, adequate and reliable water supplies. Besides, both the surfeit and lack of water has been cause to untold human suffering as well as serious environmental degradation. The quantity and standard of water treatment must, therefore, be high enough to meet industrial requirements. In order to provide the basis for future supply, the Government has prepared a National Water Masterplan.

6.4.2 By 1994/95, the Government through the Ministry of Land Reclamation, Regional and Water Development (MLRRWD), had implemented, rehabilitated and/or augmented a total of 1,579 water projects, 11,389 boreholes, 916 dams and 448 pans throughout the country. Out of these, 692 projects were operating, but below their production capacity due to inadequate management, while 363 were still under various stages of implementation. Despite all these efforts, availability of clean water in the required quantities and proper sanitation is still a major constraint to industrialization. Deliberate efforts will therefore continue to be made to impound water when and where it occurs for its multifarious application that will include the enhancement of the good health of both man and livestock as well as the support for plant life, the latter providing the raw materials for localised industries. This will be necessary in both high and low rainfall areas of the country so that given the diminishing size of land holdings, agriculture in the former can metamorphose from being artisanal to professional and the latter from being nomadic to sedentary.

6.4.3 Major problems concerning water supply include: inadequate supply, particularly in urban areas where the demand for water outstrips the supply; unaffordable technology for the exploitation of water; default in payments particularly from the public institutions; inefficient revenue collection; lack of proper coordination between Government, local authorities, NGOs and donors; and under-funding of recurrent budgets for operation and maintenance.

6.4.4 If existing and predicted future demand is to be met, increased numbers of water intakes and storage capacity must be built and transmissions laid throughout the country. Existing schemes will either be rehabilitated to restore their initial capacities or augmented to provide more water for the increasing population and industries. The participation of local communities, the private sector and NGOs in planning and design, implementation and in operation of water supply schemes will be further encouraged.

6.4.5 The Government will install individual meter connections to facilitate maximization of revenue earnings and minimisation of water wastage to ensure equitable distribution of water. In addition, the building code on urban construction will be reviewed to ensure that urban houses and buildings are efficient in the utilization of their water. In order to encourage private sector provision of clean water, treatment and disposal of waste water, the Government will enact legislation that will allow local authorities to sub-contract out the provision of their water services to the private sector on a commission or franchise basis or alternatively allow them to set up autonomous public bodies to do the same with strong private sector involvement.

6.4.6 The pricing of water will be such that the rates take into account the ability to pay by the water users in different parts of the country. Rates in rural areas will cover the efficient cost of operation and maintenance where feasible. On the other hand, prices in industrial locations will cover both the maintenance and capital investment costs on a long term recovery basis.

6.4.7 The availability of piped water in small upcoming urban centers, rural areas and even in semi-arid areas will be necessary to attract new economic activities and facilitate industrial growth in these areas. The

Government, private sector and NGOs involved will, therefore, focus their efforts towards this direction. The Water Act will be amended to ensure that its implementation is more flexible and does not hinder the above mentioned actors in this endeavour. Towards that end, a *Water Research Commission (WRC)* will be established to develop and acquire the most appropriate water exploration and harvesting technologies as well advise on the equipment and implements most suitable for its maximum utilisation.

6.4.8 As Kenya become more industrialized, the management of sewerage disposal and waste water will become crucial. Waste products from the majority of industries, for example, agro-chemical industries, research laboratories, textile mills and tanneries has to be treated before being discharged. The Government and local authorities will ensure the development of systems to handle waste-water. In rural areas, sanitation systems will be developed alongside water supply to promote the health of the people. The Government will also encourage other methods of domestic sewerage disposal such as bucket latrines, pit latrines, aquaprivies, cesspools and septic tanks where water-borne sewerage systems are not economically and environmentally feasible. In order to supplement Government's subsidies on sewerage and waste water treatment, differential sewerage service charges will be instituted where necessary but will take into account the ability to pay by the beneficiaries.

## **6.5 Postal Services**

6.5.1 The postal sector's broad objective over the years has been expansion, modernization and diversification of its services in support of national economic development goals, customer requirements and corporate policy. This objective will continue to be pursued with the emphasis on commercialisation of postal services in order to enhance effectiveness. In pursuit of this goal the Kenya Posts and Telecommunications Corporation (KPTC) will be split into three separate and independent entities namely Postal Services; Telecommunications; and Regulatory Authority. The Postal Services will be responsible for a new contractual undertaking with specified financial targets and full authority to implement any actions to achieve the targets. The Regulatory Authority will be established to oversee the activities of investors with interests in telecommunications installations and operations. The Regulatory Authority



will also oversee the activities of investors with interests in telecommunications installations and operations and licence all Telecommunications operators. The Regulatory Authority will ensure the creation of desired structure for the development of the sector; pursue realistic improvement in price and services; maintain a fair balance between public policy objectives and the need to allow a fair balance between public policy objectives and the need to allow telecommunications operators freedom to pursue commercial objectives; provide pragmatic but stable, consistent, equitable and transparent decision making; and ensure that all network operations are consistent with international conventions, treaties and bilateral agreements.

6.5.2 It is the policy of the postal sector to enhance accessibility and penetration of services through the establishment and provision of additional service outlets in urban and rural areas. The emphasis is, however, on economic size and cost effective service points. With this in mind, KPTC and other concerned bodies will investigate the feasibility of numbering buildings, streets, etc. and using this as supplementary delivery points. This will be investigated particularly with respect to designated industrial areas. Implementation of mail transit centers at Jomo Kenyatta International Airport (JKIA) and Moi International Airport, Mombasa will facilitate effective mail delivery by reducing delivery time and improving on security system of the mail.

## **6.6 Telecommunications**

6.6.1 The provision of efficient telecommunication services is an integral ingredient for the attainment of socio-economic development, particularly industrialisation. Telecommunication services provide vital links for easier dissemination of information that facilitates commercial exchange, as well as providing superior alternatives to expensive transportation hence making marketing more efficient. As enumerated above the present KPTC will be separated and a discrete Telecommunications Corporation created. Once this is accomplished detailed plans for the privatisation of certain functions will be drawn up.

6.6.2 Exchange connections have risen from 183,000 in 1990 to 238,000 in 1995 and are projected to reach 880,000 by the year 2020. Exchange capacity stood at 364,636 in 1994 with 70,095 waiters. Demand for value

added services has also steadily grown especially mobile telephone and data services. In order to increase the quality of service automation and digitalization of the network is at an advanced stage. Maintenance procedures will be improved so as to ensure real time network management in fault clearing and service provision.

6.6.3 The Government will continue to encourage private sector participation in the provision of telecommunication services as exemplified by the liberalisation of paging services and vending of telecommunication equipment. Government taxation measures, especially duty and VAT levied on imported technical inputs, will be eased to ensure the availability of raw materials to provide a sound base for industrialisation. Computerised billing procedures already in place will be strengthened with a view to increasing efficiency. A comprehensive line plant provision programme is already underway to ensure increased capacity utilisation. Joint venture programmes are already underway.

6.6.4 The Telecommunications Test and Development Centre (TTDC), whose present activities include standards and calibration, type approval testing of telecommunication equipment, will be transformed into a *Kenya Electronics and Telecommunications Development Centre (KETDEC)*. Its mandate will be widened to include Research and Development in electronics and telecommunications. Adequate resources will be availed to KETDEC to enable the Centre address this mandate.

6.6.5 The curricula at the Kenya College of Communications Technology (KCCT) will continue to be expanded to include advanced courses in the field of computing and telecommunications for purposes of closing the skills gaps. KCCT will, with time, be up-graded into a University specializing in the training and development of communications technology. To advance towards this goal, a department dedicated to communications technology research and development will be developed within the college to work in collaboration with the Gilgil Telecommunications Industries (GTI). The staffing of the Department will be enhanced so as to attract well qualified personnel in preparation for up-grading of the college to University status.

6.6.6 The Government will continue to facilitate long term financing arrangements for the sector and ensure that strict and transparent loan administration procedures are effected.

## 6.7 Kenya Railways

6.7.1 There is a single railway system running from Mombasa through Nairobi to Uganda with branchlines to Nanyuki, Kitale, Nyahururu, and Butere via Kisumu. Another branch connects Kenya to Tanzania via Taveta. There are several sidings in the major towns opening up the areas for industrial development. The total railway network is 2,765 km.

6.7.2 The current operational levels are low due to inhibiting constraints. Analysis for the last five years shows declining performance levels in the key indicators. This has implications on revenue and efficiency levels. Tonnages moved show a declining trend from 3.6 million tonnes in 1989/90 to 2.2 million 1993/94, and there are indications that this downward trend will continue. The existing line has a capacity of more than 6 million tonnes per annum.

6.7.3 In order for the Kenya Railways Corporation (KRC) to be more effective in a liberalised environment, prudent commercial practices must be adopted. Such practices will include:-

- Joint ventures with the private sector in wagon and locomotive maintenance to augment the available levels for both locomotives and wagons including the possible leasing of stock;
- Greater attention to preventive maintenance on the permanent way and rolling stock;
- The privatisation of non-core services which includes catering services, estate management, security, non-core shops in central workshops and vehicle maintenance; and,
- Enhance and improve current marketing strategies by liberalising the existing pricing policies and similarly enhance the current capacity of the existing information system.

6.7.4 The primary role of railways in the industrialisation process is to ensure that industrial inputs and outputs are transported efficiently. This

will be facilitated by the following specific actions, some of which have been undertaken:

- More intensive use of block train operations and adding and improving the existing railway sidings. Viability analysis has been done to ascertain this;
- Encouraging regional cooperation between the East African Countries, as exemplified by recent reintroduction of services to Uganda and Tanzania;
- Undertake joint marketing efforts between organisations and the private road hauliers for ensuring door to door service delivery;
- Ensuring that most of the available resources are concentrated in freight which is the core service, this may involve closing uneconomic branchlines;
- Continue to intensify the organisational restructuring through retrenchment schemes and financial restructuring so as to improve productivity and service quality levels;
- Restructure the Railway Training Institute (RTI), and improve on the training needs of personnel and make the organisation responsive to commercial operations;
- Improve and expand on the capacity of track. Proposals to electrify key lines have been approved and the Corporation is looking for donors; and
- The Kenya Railways will consider the possibility of fabrication of spare parts for the industrial sector in its foundry workshop. This will offer the necessary support for faster industrialisation.

**6.7.5** The monopoly status of the Kenya Railways Corporation (KRC) is a major cause of its inefficiency. The Government as the sole shareholder will evaluate alternative ownership arrangements, including private sector participation, as a way of improving the performance of the body. The Government will also consider the feasibility of separating the ownership of the railway line from that of the rolling stock with a view to facilitating private sector competition in the latter.

**6.7.6** The feasibility and viability of constructing a new railway line from the proposed second port at Lamu via Kitui, Embu, Meru and Isiolo to Uganda with branch lines to Ethiopia and Southern Sudan will be

investigated. The new line would connect into the existing Kenyan rail system from Meru, Nanyuki, Nyahururu, Kabarnet Iten to Eldoret. The proposed line would open up northern Kenya for economic development as well as providing a much needed expansion of regional communications and trade.

## 6.8 Ports

6.8.1. The rated capacity of the port of Mombasa is 22 million tons annually. However, in the recent past, port throughput has averaged only 8.1 million tons of which imports constitute 72%. The Kenya Ports Authority (KPA) has undertaken some rehabilitation work both on the equipment and in storage areas at the Port of Mombasa. To further improve and alleviate the low levels of equipment availability, which in the past have constrained productivity, it has signed refurbishment and maintenance contracts with the principal manufacturer of most of this equipment. These efforts will be supplemented with a restructured organisation which will entail a highly motivated labour force and a more commercially oriented management to enable timely provision of highly efficient service to the maritime trade for the entire port hinterland. This will not only lead to lower per unit costs but will also attract more vessels and trade - local, transit and transshipment and further propel the port of Mombasa as the natural gateway to the East and Central Africa.

6.8.2 Tariff rates will be pegged to both cost and efficiency levels. Whereas the foregoing is aimed at attracting more trade, this trade can only be assured if an adequate supply of service of all the requisite co-operant factors and services are available in a timely manner and in the desired proportions. The container handling and storage facilities at Mombasa will be supplemented by facilities in the inland container depots in Nairobi, Kisumu and Eldoret. In this regard, conversion or expansion of container handling berths and the development of a specially designed Container Freight Station in Mombasa will be developed so as to ensure optimal berth occupancy and reduced cargo dwell-time. Additional equipment to replace the aged and further complement the refurbished ones will be required for Mombasa container terminal and Nairobi Inland Container Depot. Adequate equipment will also be provided at the inland container depots in Kisumu and Eldoret. Operations of the port at Kisumu, currently owned and managed by KRC, will be reviewed and streamlined.

This will include the consideration of alternative management arrangements.

6.8.3 In addition to the rationalized manpower scheme that is being effected, training, rededication and commitment to work will be enhanced. This will be done through recognition and rewards so as to continuously foster productivity levels and consequently lower the per unit cost to the ports while enhancing the competitiveness of port transit trade.

6.8.4 The foregoing developments will be undertaken by the KPA, although external or donor assistance will be required in the provision of equipment and major capital investments to service the container trade. Some of these developments will take 5-10 years to be completed, particularly those related to container trade.

6.8.5 The expansion of international trade will demand enhanced port facilities. The feasibility and viability of opening a second port in the Lamu area will be investigated. Any such proposal will be dependent upon greatly improved communications between Lamu and inland Kenya and neighbouring countries.

## **6.9 Civil Aviation**

6.9.1 Air transportation is the fastest, safest and most reliable mode of transport and is crucial for industrialists. The Kenya Airports Authority (KAA), established in 1991, is charged with managing Kenya's commercial airports on sound commercial principles. The Directorate of Civil Aviation (DCA) provides navigational facilities throughout the country, as well as testing and licensing of crafts, and air crew, testing airworthiness, and accident investigations.

6.9.2 The Government will endeavour to facilitate the provision of efficient air cargo handling facilities, and domestic and international air travel facilities in order to expedite the communication needs of industrialists. In order to increase the efficiency of air transportation, the Government will continually review the sector in order to encourage competitive supply of services. In addition, the Government will build additional airports if necessary and also facilitate improvement of ground handling facilities and services.

## CHAPTER 7 IMPLEMENTATION

### 7.1 Implementation Strategy

7.1.1 It is imperative that concrete actions are taken to implement the industrialisation policy framework articulated in this Sessional Paper. Three levels of activity are required:

- at the *policy* level further work is necessary to, firstly, firm up and detail policies and, secondly, to put them into action. This requires follow up action from the Ministries and Government agencies immediately responsible with leadership roles clearly spelt out;
- many policies must be further developed to create specific *programmes and projects* in order to bring about full implementation. Such programming will be carried out through medium and short term plans and financing instruments; and,
- the performance of policies and programmes must be periodically evaluated by comparing original targets and goals with actual results and any necessary remedial action put in place. This will only happen if each implementing agency has full ownership of its programme and project.

Implementation must be time-bound, that is a predetermined timetable should be in place together with specified targets, so that implementation can be monitored and performance evaluated. All problems and bottlenecks causing poor performance will be identified and overcome. Appropriate reward and sanction will be accorded to those directly responsible for the implementation performance.

7.1.2 This Chapter provides a summary of the policy measures included in this Sessional Paper for which Government has direct responsibility and which have to be executed to provide a conducive environment for industrialisation. In each case the agency or agencies with most immediate responsibility are specified and a timeframe for implementation is given. Actions required are identified for relevant Chapters of the Sessional Paper.

7.1.3 Specific plans of action arising from this Sessional Paper's policy framework will be developed in medium and short term planning

instruments.. The primary medium term instrument will be Kenya's *National Development Plans* (NDPs). Over the twenty-five year time frame to the year 2020, the series of five year NDPs' will detail phased implementation of the industrialisation strategy. The Eighth NDP covering 1997-2001 takes industrialisation as its major focus. The NDPs will, in turn, provide the framework for the short term *Public Investment Programme* and *Forward Budget* and the annual *Estimates of Expenditure* submitted to Parliament for approval.

7.1.4 The following charts provide a checklist of actions required by Government to implement the industrialisation strategy.

## 7.2 Foundations for Industrialisation

### 7.2.1 Macroeconomic Policy Framework

| Paragraph | Action   | Agency Responsible           | Timeframe |
|-----------|--|------------------------------|-----------|
| 3.2.3     | The CBK will promote the development of secondary markets in Treasury Bills and other Government securities.   | Central Bank of Kenya        | 1996-1998 |
| 3.2.3     | The budget (including grants) will be balanced, with net repayments of public domestic debt, through both reduced expenditures and increased revenue.  | MOF                          | 1996-2000 |
| 3.2.3     | The current revenue will be stabilised at around 24% of GDP. The base of taxation will be broadened through minimising tax exemptions, extending VAT coverage, improved customs duty collection, efficient use of the Personal Identification Number and computerisation of the tax administration as part of the Tax Modernisation programme. | Kenya Revenue Authority, MOF | 1996-2000 |
| 3.2.3     | The Central bank of Kenya (CBK) will continue to manage domestic liquidity through the more efficient market-based instruments such as the reserve requirement, Treasury Bills and other Government debt instruments.  | Central Bank of Kenya        | 1996-2000 |



## 7.2.2 Increased Primary Production

| Paragraph | Action   | Agency Responsible | Timeframe |
|-----------|--|--------------------|-----------|
| 3.3.3     | There needs to be developed an efficient market for land rentals and other leasing arrangements so that those Kenyans who are landless and willing to undertake farming can use private land that may be lying idle. | MLS,<br>AG         | 1996-1999 |
| 3.3.3     | Steps must be taken to establish a free land market and to speed-up agricultural land transfer between willing sellers and buyers.   | MLS,<br>AG         | 1996-1999 |
| 3.3.3     | Intensify agricultural production through increased research, efficiency and productivity. This will involve boosting yields and ensuring the maximum sustainable utilisation of productive land.                    | MALDM,<br>MRTTT    | 1996-2000 |

## 7.2.3 Human Resources

| Paragraph | Action  | Agency Responsible    | Timeframe |
|-----------|---|-----------------------|-----------|
| 3.4.9     | Government will take action or provide inducements to the private sector to encourage the full participation of women in the economic development of Kenya.   | MLMD,<br>MCI,<br>MCSS | 1996-1997 |
| 3.4.7     | The National Employment Bureau will be strengthened to enable it to develop a sound information base on employment trends and labour market developments.   | MLMD                  | 1996-1998 |
| 3.4.7     | In collaboration with private sector representatives and labour organisations the Government will undertake a national employment review and policy formulation.  | MLMD                  | 1996-1998 |
| 3.4.10    | Non-formal vocational and technical training being offered through the Directorate of Industrial Training (DIT) will be strengthened through greater involvement of the private sector in policy formulation and curricula development. DIT will be converted into a fully autonomous organisation to provide the required flexibility. Government will review the current training levy in order to boost training provision and broaden its scope to include the informal sector. | MCI,<br>MOF           | 1996-1998 |

| Paragraph | Action  | Agency Responsible     | Timeframe |
|-----------|---|------------------------|-----------|
| 3.4.10    | All tertiary education curricula will be reviewed and modified to reflect labour market realities, that a large number of graduates will have to base their income on self-employment in the urban and rural informal sectors.  | MEd                    | 1996-1998 |
| 3.4.10    | Government will offer "second chance" places for dropouts to improve their literacy, numeracy and offer them short, job-specific training commensurate with their educational achievements.   | MEd                    | 1996-1998 |
| 3.4.10    | Government will improve the effectiveness and efficiency of Training Institutions to provide skills needed at the local level and to develop selected TI. into centers of excellence to provide skills needed nationally.   | MRTTT,<br>MLMD         | 1996-1998 |
| 3.4.10    | Government, in collaboration with the private sector, will strengthen existing public Research and training institutes through curricula development and improved facilities.   | MLMD,<br>MEd,<br>MRTTT | 1996-2000 |
| 3.4.10    | Government policy on technical education and training remains as contained in the Sessional Paper No 8 of 1988 on <i>Manpower Training for the next Decade and Beyond</i> . However the higher level of performance and productivity demanded by the competitive environment, demands that close collaboration between training institutions and employers of labour be established so that the level of mismatch between output of graduates and the skill demands of the job market can be bridged. | MLMD,<br>MRTTT         | 1996-2000 |
| 3.4.10    | The Government will launch a concerted effort to reduce illiteracy by half by the turn of the century and to reduce regional disparities.   | MEd                    | 1996-2000 |
| 3.4.10    | Formal pre-employment vocational and technical training offered at technical institutes and national polytechnics will be expanded and the nature of training improved to better reflect actual skills demand as identified through private sector consultation and input.  | MEd,<br>MRTTT          | 1996-2000 |
| 3.4.10    | Government will strengthen school leaver career guidance to ensure that expectations are in line with market realities.   | MEd                    | 1996-2000 |
| 3.4.10    | A labour market information system will be created to reach all districts.  | MLMD                   | 2002-2005 |

| Paragraph | Action   | Agency Responsible | Timeframe |
|-----------|--|--------------------|-----------|
| 3.4.10    | Women, and especially girls from ASAL areas, will be accorded affirmative action through quota systems and bursaries and will be encouraged to undertake training in non-traditional female occupations. | MEd                | 1998-2005 |
| 3.4.10    | Educational and training programmes for the disabled will be strengthened as well as remedial education for street children.   | MCSS               | 1997-2005 |

## 7.3 Industrial Transformation Strategies

### 7.3.1 Institutional Arrangements

| Paragraph | Action   | Agency Responsible             | Timeframe |
|-----------|--|--------------------------------|-----------|
| 4.1.7     | The Government will facilitate the formation of a <b>National Industrial Development Council (NIDC)</b> as a forum for dialogue between public and private sector. | MCI,<br>OVP&<br>MPND,<br>MRTTT | 1996-1997 |

### 7.3.2 Phase One Industrialisation

| Paragraph | Action   | Agency Responsible                      | Timeframe |
|-----------|--|---|-----------|
| 4.3.12    | Government will encourage detailed surveys of geological, agricultural and mineral surveys to determine the extent of endowment of critical minerals and other resources. Licenses for mineral prospecting and exploration will be readily forthcoming and Government departments will be instructed to cooperate and provide information and technical support to private agencies. | MALDM,<br>MENR,<br>KEFRI                | 1997-2005 |
| 4.3.3     | A specific joint public and private sector Task Force will be appointed to examine each industry selected as having high potential for inclusion in Phase One.   | OVP&<br>MPND,<br>MCI,<br>MRTTT,<br>NIDC | 1997      |
| 4.3.4     | The findings of the various Task Forces will be evaluated by a working group against predetermined criteria and policy guidelines, including financial resource constraints.   | OVP&<br>MPND,<br>MCI,<br>NIDC           | 1997-1998 |

| Paragraph | Action  | Agency Responsible                       | Timeframe |
|-----------|---|--|-----------|
| 4.3.7     | Once approved by Government the action plans will be implemented. The pilot action plans will comprise of a package of policy measures and projects that are the responsibility of a number of Ministries. The Directorate of Planning, in collaboration with the Director of Industries, will coordinate the implementation of each pilot action plan package among the Ministries.                                      | OVP&<br>MPND,<br>MCI,<br>All Mins        | 1998-2000 |
| 4.3.7     | Necessary public expenditure will be initiated through Budget proposals, utilising both domestic and foreign donor resources. Where public investment is required project documentation will be prepared and subjected to a formal approval process overseen by the Ministry of Planning and National Development. Legislative instruments will be invoked to provide the authority and the means to fulfil this mandate. | MOF,<br>OVP&<br>MPND,<br>AG,<br>All Mins | 1998-2000 |
| 4.3.7     | Monitoring the implementation of these pilot action programmes and making recommendations on any needed modifications to the policy packages will be undertaken. The performance of pilot packages will be reviewed periodically and necessary revision introduced. The policy framework for Phase One industrialisation will be reviewed from time to time.  | OVP&<br>MPND,<br>KIPPRA,<br>NIDC         | 1997-2001 |

### 7.3.3 Phase Two Industrialisation

| Paragraph | Action  | Agency Responsible          | Timeframe |
|-----------|---|-----------------------------|-----------|
| 4.4.3     | A technical unit will be established within the Ministry of Commerce and Industry charged with the responsibility of undertaking the medium-term planning required before Phase Two implementation. The unit will identify potential target industries for which Kenya holds a comparative advantage and complete feasibility investigations upon those selected. | MCI,<br>OVP&<br>MPND,<br>OP | 1997      |
| 4.4.4     | The target industries will be selected and policy packages to promote them will be devised and implemented, following the implementation model adopted for Phase One.   | MCI,<br>OVP&<br>MPND        | 1997-2000 |

### 7.3.4 Developing Both Formal and Informal Sectors

| Paragraph | Action   | Agency Responsible                     | Timeframe |
|-----------|--|--|-----------|
| 4.6.7     | The development of both technical and managerial skills is essential if the transition to larger-scale, more formal enterprises is to be made. The role of local level training Institutions eg. YP is central to achieving training objectives. The creation of effective extension and on-the-job training is equally important and the role of the Ministry of Research, Technical Training and Technology will be enhanced to provide effective coordination and innovation. | MRTTT,<br>MLMD                         | 1997-2001 |
| 4.6.6     | The Vagrancy and Public Nuisance Acts will be reviewed to make allowance for genuine Jua Kali enterprises as opposed to misfits and vagrants.  | AG                                     | 1997-1998 |
| 4.6.6     | Government and Local Authorities will identify suitable, commercially viable sites that can be let or leased or allocated en block to informal enterprises as appropriate. In addition to land, infrastructure in terms of access, water and power will have to be provided.   | MLG,<br>MLS,<br>MPWH                   | 1997-2000 |
| 4.6.5     | Government will encourage the development of grassroots financing systems for the informal sectors, an expansion of more formal sources of credit through specialist agencies such as K-REP, KWFT, and PRIDE etc. and the adoption of less stringent capital based collateral lending by formal banks.   | OVP&<br>MPND,<br>MRTTT,<br>MCI,<br>MOF | 1997-2001 |
| 4.6.11    | Government will provide all necessary assistance to sector while keeping in mind that an overly interventionist policy can threaten the very strengths that creates prosperity.  | OVP&<br>MPND,<br>MRTTT,<br>MCI         | 1997-2000 |

## 7.4 Public Policy Framework for Industrialisation

### 7.4.1 Mobilisation of Savings

| Paragraph | Action   | Agency Responsible | Timeframe |
|-----------|--|--------------------|-----------|
| 5.2.1     | Tax incentives to encourage higher rates of private individual and institutional savings will be explored.   | MOF, KRA           | 1996-1998 |
| 5.2.2     | Maintain a sound monetary policy that guarantees low, single digit inflation, low and stable interest rates, stable and predictable exchange rates and a sustainable balance of payments position. | CBK, MOF           | 1996-2020 |
| 5.2.2     | The Central bank of Kenya Act will be amended to give CBK the necessary autonomy in fulfilling these objectives.   | CBK, AG            | 1997      |

### 7.4.2 Industrial Investment Financing

| Paragraph | Action  | Agency Responsible | Timeframe |
|-----------|---|--------------------|-----------|
| 5.3.3     | Government will reduce its borrowing as a proportion of GDP, thus releasing contractual savings to finance the industrialisation process.   | MOF                | 1996-1997 |
| 5.3.5     | To increase the availability of finance for long term investment the following steps will be undertaken: i) the DFIs will be allowed to access funds from contractual savings institutions and channel these savings into long term industrial investment lending; ii) through good corporate governance, the DFIs will be given the requisite autonomy to operate competitively and profitably in an open market economy; iii) commercial banks will be invited to increase their long term lending; and, iv) Government will facilitate the acquisition and channelling of external funds to long term industrial investment financing. | MOF, CBK           | 1997-2020 |

| Paragraph | Action   | Agency Responsible | Timeframe |
|-----------|--|--------------------|-----------|
| 5.3.6     | The Government, in consultation with the Capital Markets Authority, will continue to invigorate Stock Exchange by: i) strengthening legal, regulatory and tax framework to accommodate local and foreign investors; and, ii) developing a clearly defined operational rules for underwriters, brokers, dealers, merchant banks, mutual funds and unit trusts; iii) reducing credit subsidies which interfere with public issuance of stock; and iv) encouraging issuance of stock and compliance with disclosure requirements. | MOF, CMA           | 1997-2001 |
| 5.3.8     | Government will seek to strengthen commercial banks by carrying the following actions: i) maintaining macro-economic stability; ii) improving the stability and efficiency of the financial system through prudential regulation and strengthening the Deposit Protection Fund; and, iii) improving laws, regulations and tax systems to promote commercial bank involvement in leasing and venture capital as a source of long and medium term capital.   | CBK                | 1997-2001 |
| 5.3.4     | The programme of commercial restructuring will be extended to all DFIs and Government holdings in DFIs will be reduced.  | MOF                | 1997-1999 |
| 5.3.11    | Government will strengthen foreign investment codes in order to promote joint ventures between Kenyans and foreign investors and industrialists.   | MOF, IPC, MCI      | 2000      |

### 7.4.3 Investment Promotion

| Paragraph | Action  | Agency Responsible | Timeframe |
|-----------|---|--------------------|-----------|
| 5.4.1     | All existing legislation relating to investment in Kenya will be consolidated into one legal document or <i>Investment Code</i> to clearly regulate the legal rights and obligations for both foreign and local investors and to provide legal guarantees for all investors | AG, MCI            | 1997      |

| Paragraph | Action  | Agency Responsible                    | Timeframe |
|-----------|---|---------------------------------------|-----------|
| 5.4.1     | The IPC will be upgraded, restructured and strengthened to provide a genuine "one-stop" facility and to conform to international standards  | MOF,<br>MCI                           | 1997-1998 |
| 5.4.1     | Sufficient resources will be allocated to IPC and EPZA to intensify their programmes with the objective of increasing the present rate of approvals from 100 per year to over 1,000 annually by the Year 2005 for IPC and from 42 to over 100 projects by the Year 2000 for EPZ | MOF                                   | 1997-2000 |
| 5.4.1     | Incentives given under MUB and EPZ will be harmonised in order to encourage local investors to increase manufacturing for export.   | MOF,<br>MCI                           | 1997-2000 |
| 5.4.1     | The Ministry of Finance and the Ministry of Commerce and Industry in consultation with IPC, ICDC and other relevant ministries and organisations will review the adequacy of incentives needed to attract investors to develop these industries                                 | MCI,<br>MOF                           | 1997-2000 |
| 5.4.1     | New serviced industrial parks capable of accommodating 1,000 industries will be established by the Year 2005 together with industrial estates capable of accommodating 50 to 200 medium scale industries  | MCI,<br>MPWH,<br>MLG,<br>OVP&<br>MPND | 2005      |

#### 7.4.4 Technology Policies

| Paragraph | Action   | Agency Responsible    | Timeframe |
|-----------|--|-----------------------|-----------|
| 5.5.3     | The Kenya Industrial Research and Development Institute (KIRDI) will be strengthened and provided greater Government support.  | MRTTT,<br>MCI,<br>MOF | 1997-1999 |
| 5.5.1     | Government, jointly with the private sector, will put in place a comprehensive policy framework for the acquisition of Industrial Technology. The necessary legislation, regulations, rules and procedures will be put in place within the framework of Science and Technology and Industrial Property Acts. | MRTTT,<br>MCI,<br>AG  | 1997-2000 |



### 7.4.5 Standardisation Aspects

| Paragraph | Action   | Agency Responsible   | Timeframe |
|-----------|--|----------------------|-----------|
| 5.6.1     | The Government, with the assistance of UNIDO and other donors, will continue to build the human and technical capacities of the Kenya Bureau of Standards in standards development, testing and quality control. | MLS,<br>MPWH,<br>MLG | 1997-2000 |

### 7.4.6 Export Promotion

| Paragraph | Action  | Agency Responsible  | Timeframe |
|-----------|---|---------------------|-----------|
| 5.7.6     | Trade and investment offices will be opened in carefully selected key outlets.  | MCI                 | 1997-2000 |
| 5.7.2     | Government will work closely with the private sector to provide necessary support services, with the <i>Export Promotion Council</i> (EPC) as a main focal point for collaborative work to identify export opportunities. Within the Ministry of Finance, the Export Promotion Programmes Office (EPPO) will continue to monitor the various tariff, tax and regulatory structures that affect exports. | MOF,<br>MCI,<br>EPC | 1997-2000 |
| 5.7.4     | The EPC must establish a sustainable financial base for its operations.   | EPC,<br>MCI         | 1997-2000 |
| 5.7.5     | Continuous review of the macro-economic variables such as exchange rate will be undertaken to ensure they remain supportive of export activities.   | CBK,<br>MOF         | 1997-2006 |
| 5.7.7     | A more effective and efficient duty and VAT remission mechanisms will be put in place in order to remove the present bottlenecks experienced under the EPPO programme.  | MOF,<br>KRA         | 1997-2006 |

### 7.4.7 Environmental Policies

| Paragraph | Action  | Agency Responsible | Timeframe |
|-----------|---|--------------------|-----------|
| 5.9.7     | Implementation of a national awareness programmes on the management of waste waters from Industrial and Agricultural activities to inculcate appropriate attitudes and values and capabilities necessary for positive environmental action. | MENR,<br>MCI       | 1997-1998 |

| Paragraph | Action   | Agency Responsible                   | Timeframe |
|-----------|--|--------------------------------------|-----------|
| 5.9.7     | National and Local Plans to guide the reduction of industrial and other pollution, including the setting of health and environmental quality standards for air, water noise and marine pollution, will be prepared.  | MENR,<br>MCI                         | 1997-1998 |
| 5.9.2     | Polluters will be increasingly confronted with the full cost of their activities under a "polluters-pay" approach. Among the range of options to be considered are effluent or emission charges and reduction of tax benefits of polluting enterprises. Serious consideration will be given to the establishment of a fund to provide grants or low interest loans to alleviate additional capital costs required to introduce environmental protection equipment. | MENR,<br>AG,<br>OVP&<br>MPND,<br>MCI | 1997-2000 |
| 5.9.3     | Every industrial project will be required by law to provide an Environmental Impact Statement before licensing and implementation.   | MENR,<br>AG,<br>OVP&<br>MPND,<br>MCI | 1997-2000 |
| 5.9.1     | Government will establish environmental protection policies that counter undesired environmental damage from the outset.   | MENR,<br>MCI                         | 1997-2000 |

#### 7.4.8 Land Use Policy

| Paragraph | Action  | Agency Responsible   | Timeframe |
|-----------|---|----------------------|-----------|
| 5.10.2    | Government will study the possibility of reviving a funding facility for servicing land on a revolving fund basis, but will strictly adhere to non-subsidy and efficiency requirements  | MLS,<br>MPWH,<br>MLG | 1998-2001 |
| 5.10.2    | The Government will adopt strategies that enhance efficient supply of serviced land.  | MLS,<br>MPWH,<br>MLG | 1997-2000 |
| 5.10.4    | Immediate action is called for to strengthen the capacities and financial base of local authorities responsible for urban centers most likely to receive future industrial development. | MLG,<br>MOF          | 1997-2005 |

## 7.5 Basic Infrastructure

### 7.5.1 General

| Paragraph | Action   | Agency Responsible         | Timeframe |
|-----------|--|----------------------------|-----------|
| 6.1.1     | Government recognises that the provision of infrastructure is one of its major functions and responsibilities and will make budgetary provision for construction and maintenance of the same.  | MPWH,<br>MOF               | 1996-2001 |
| 6.1.5     | The <i>Eighth National Development Plan</i> addresses the necessary coordination, lays out priorities and strategies for integration between sectors and details a five year infrastructure investment programme.  | OVP &<br>MPND              | 1996      |
| 6.1.4     | Government will convene a task force to investigate the legal and institutional reforms required before the private sector can exploit new opportunities in the sector. The task force will make specific recommendations on areas suitable for innovative operations as well as the modalities for operation. Relevant legislation reform will then follow.   | MPWH,<br>MOE,<br>AG,<br>OP | 1997-1998 |
| 6.1.2     | Government will ensure more transparency in the award of its contracts and enforce conformation to laid down contractual specifications by both parties during implementation. New construction contracts will only be let upon written assurance from the Ministry of Finance that the necessary finances will be made available to enable scheduled completion and prompt payment to be realised.      | MOF,<br>AG,<br>OP          | 1997-2000 |
| 6.1.3     | The immediate priority for public infrastructure investment will be maintenance, rehabilitation and reconstruction of existing facilities and satisfying demand. Over the longer term, the objective will however focus on upgrading the level of service of existing infrastructure and providing new ones to areas that are currently disadvantaged but have the potential for industrial development. | MPWH,<br>MLG               | 2002-2005 |

### 7.5.2 Energy

| Paragraph | Action  | Agency Responsible   | Timeframe |
|-----------|---|----------------------|-----------|
| 6.2.1     | Exploration of fossil fuel minerals such as coal and petroleum will therefore be intensified. Exploitation of economic mineral deposits will be pursued.  | OP,<br>MOE,<br>MOF   | 1996-2005 |
| 6.2.3     | A statutory power authority will be established to regulate the power industry for the benefit of the economy and investors.  | MOE,<br>MOF,<br>AG   | 1997      |
| 6.2.5     | Government will continue to monitor the supply levels and distribution of this strategic industrial input throughout the country.   | MOE,<br>OVP&<br>MPND | 1997-2000 |
| 6.2.3     | Government will introduce legislation clearly specifying the components of the industry in which the private sector can participate, the modalities and regulatory laws to ensure transparency as well as limitations on the monopoly power of KPLC | MOE,<br>AG,<br>MOF   | 1997-1998 |

### 7.5.3 Roads

| Paragraph | Action   | Agency Responsible | Timeframe |
|-----------|--|--------------------|-----------|
| 6.3.2     | Government is currently exploring the possibility of harmonising road construction and maintenance operations of the various Roads Agencies.   | MPWH               | 1997-2000 |
| 6.3.1     | Government will pursue policies which within existing financial and other constraints, are geared to minimising total transport costs to the users.  | MPWH               | 2000      |
| 6.3.4     | In order to supplement direct Government allocations, the recently established Road Maintenance Fund will be enhanced gradually to provide the bulk of the money required for road maintenance and eventually contribute to new construction.  | MOF                | 2000      |
| 6.3.5     | Government will investigate the possibility of recovering some of the capital gains to private investors emanating from the road programme, as well as other innovative ways of involving the private sector such as the concept of shadow tolls, where private investors build roads and the Government pays a rate per vehicle that uses the road for a limited concession period. | MOF,<br>MPWH       | 2000      |

## 7.5.4 Water

| Paragraph | Action   | Agency Responsible | Timeframe |
|-----------|--|--------------------|-----------|
| 6.4.5     | Government will install individual meter connections to facilitate maximization of revenue earnings and minimization of water wastage to ensure equitable distribution of water.   | MLRRWD             | 1997-2000 |
| 6.4.5     | Government will enact legislation that will allow local authorities to sub-contract out the provision of their water services to the private sector on a commission or franchise basis or alternatively allow them to set up autonomous public bodies to do the same with strong private sector involvement. | MLRRWD, AG         | 1997      |
| 6.4.7     | The Water Act will be amended to ensure that its implementation is more flexible and does not hinder the above mentioned actors in this endeavour.   | MLRRWD, AG         | 1997      |
| 6.4.7     | A Water Research Commission will be established to develop and acquire the most appropriate water exploration and harvesting technologies as well as advise on the equipment and implements most suitable for the maximum of its utilisation.  | OP, MLRRWD, AG     | 1997-2000 |
| 6.4.4     | The participation of local communities, the private sector and NGOs in planning and design, implementation and in operation of water supply schemes will be further encouraged.  | MLRRWD, MLG        | 1999-2005 |
| 6.4.8     | Government and local authorities will ensure the development of systems to handle waste-water.   | MLRRWD, MLG        | 2000-2005 |

## 7.5.5 Telecommunications

| Paragraph | Action  | Agency Responsible | Timeframe |
|-----------|---|--------------------|-----------|
| 6.6.1     | The present KPTC will be separated and a discrete Telecommunications Corporation created. Once this is accomplished detailed plans for the privatisation of certain functions will be drawn up. | MTC, MOF           | 1996-98   |

| Paragraph | Action  | Agency Responsible | Timeframe |
|-----------|---|--------------------|-----------|
| 6.6.3     | The Government will continue to encourage private sector participation in the provision of telecommunication services. Government taxation measure, especially duty and VAT levied on imported technical inputs, will be eased to ensure the availability of raw materials to provide a sound base for industrialisation. | MTC,<br>MOF        | 1997-2000 |
| 6.6.6     | The Government will continue to facilitate long term financing arrangements for the sector but strict and transparent loan administration procedures will be effected.  | MTC,<br>MOF        | 1997-2005 |

### 7.5.6 Railways

| Paragraph | Action   | Agency Responsible | Timeframe |
|-----------|--|--------------------|-----------|
| 6.7.5     | The Government will consider the feasibility of separating the ownership of the railway line from the rolling stock with a view to facilitating private sector competition in the latter.  | MTC,<br>MOF        | 1997-2000 |
| 6.7.6     | The feasibility and viability of constructing a new railway line from the proposed second port at Lamu via Kitui, Embu, Meru and Isiolo to Uganda with branch lines to Ethiopia and Southern Sudan. The new railway would connect into the existing Kenyan rail system from Meru to Nanyuki through Nyahururu, Kabarnet Iten to Eldoret. | MTC,<br>MOF,<br>OP | 2000-2005 |

### 7.5.7 Ports

| Paragraph | Action  | Agency Responsible | Timeframe |
|-----------|---|--------------------|-----------|
| 6.8.5     | The feasibility and viability of opening a second port in the Lamu area will be investigated. | MTC,<br>MOF,<br>OP | 1997-2000 |
| 6.8.5     | Construction of the Port of Lamu  | MTC,<br>MOF,<br>OP | 2002-2008 |

| Paragraph | Action   | Agency Responsible | Timeframe |
|-----------|--|--------------------|-----------|
| 6.8.2     | Operations of the port at Kisumu, currently owned by and managed by Kenya Railways, will be reviewed and streamlined. This will include the consideration of alternative management arrangements.  | MOF,<br>MTC        | 1997-2000 |
| 6.8.2     | Conversion or expansion of the container handling berths and the development of a specially designed Container Freight Station in Mombasa will be developed so as to ensure optimal berth occupancy and reduced cargo dwell-time. Additional equipment to replace the aged and further complement the refurbished ones will be required for Mombasa container terminal depots in Kisumu and Eldoret. | MTC,<br>MOF        | 1998-2003 |

## 7.6 Coordination for Effective Implementation

| Paragraph | Action   | Agency Responsible                  | Timeframe |
|-----------|--|-------------------------------------|-----------|
| 1.5.4     | All projects will be appraised by OVP&MPND while approval will be made jointly by OVP&MPND and MOF and all the necessary authority will be given to the OVP&MPND to fulfil this mandate. | OVP&<br>MPND,<br>MOF                | 1996-1997 |
| 1.5.5     | Regular progress reports on implementation will be submitted to Cabinet.   | OP,<br>OVP&<br>MPND,<br>MCI,<br>MOF | 1996-2010 |

## **7.7 Conclusion**

**7.7.1** As has been emphasized throughout this Sessional Paper, Kenya's goal of industrialisation will only be achieved through a new spirit of partnership between Government and the private sector. A focal point for such partnership is proposed through the creation of the National Industrial Development Council. However, cooperation and coordination needs to be widened and deepened to bring about trust and confidence among all actors in the country's economic development. For its part, Government will ensure political and social stability and continuity of economic policy, recognizing that these are essential prerequisites for rapid and sustained economic growth. But Government must also move to become more responsive to the needs of the private sector and be prepared to take reasonable actions to facilitate private enterprise.

**7.7.2** The change of direction required of Government does not imply a lesser role in national development. Indeed, the effective, efficient and sensitive operation of Government functions will become more critical as industrialisation gathers pace. To meet this challenge the civil service must adapt to new ways of operating. In-service training, learning from the experience of other NIC through technical assistance and short secondments, improved management and coordination together with greater flexibility will all be essential if the needed reforms are to be implanted.

**7.7.3** The most immediate responsibility for coordinating implementation and ensuring that strategies are translated into action programmes lies with the Office of Vice President and Ministry of Planning and National Development. With its responsibility for preparing and monitoring National Development Plans, OVP&MPND has a prime role in coordinating Government activity. It will be provided the authority and means to fulfil this mandate through some legal statute and legislative instruments.