REPUBLIC OF KENYA

SECTOR PLAN
FOR
TRADE
2013 – 2017

The Principal Secretary
Ministry of East African Affairs, Commerce and Tourism
P. O. Box 30430-0010, Nairobi, Kenya
Tel: +254-020-310983
e-mail:ps@trade.go.ke
Website: www.trade.go.ke

STATEMENT BY THE CABINET SECRETARY MINISTRY OF DEVOLUTION AND PLANNING

In keeping with the decision that Kenya Vision 2030 be implemented through five year Medium Terms the Government successfully launched the Second Medium Term Plan (Second MTP 2013-2017) in October 2013. The Ministry of Devolution and Planning then embarked on the process of preparing the second round of Kenya Vision 2030 Sector Plans detailing policies, programmes and projects to be implemented in each sector. A total of twenty one Sector Plans have therefore been produced based on the work of nineteen medium term plan sector working groups and three thematic working groups formed to prepare detailed plans as background documents for the Second MTP.

The Sector Plans outline in greater detail specific plans for implementation in each sector during the 2013-2017 period. The Plans have been prepared through a participatory and inclusive process involving representatives from the government, development partners, private sector, NGOs, civil society, faith based organizations, professional associations, research institutions, and organizations representing women and youths, among others. Apart from the technical inputs, the Sector Plan priorities have been aligned and taken into account the priorities and inputs from nationwide Second MTP county consultation forums which captured views and priorities of Kenyans at the grass root and local level. Additionally, the Sector Plans have taken on board the key issues and priorities outlined in the Manifesto of the Jubilee Government in line with Second MTP.

The Sector Plans implementation matrices outline the broad goals and strategic objectives, the specific objective of each programme and project, the expected output and outcomes, the indicators for monitoring progress, the entity responsible for implementation, the implementation timelines, the source and mode of funding for each planned programme and activity starting financial year 2013/14 to 2017/18.

In accordance with the Constitution of Kenya, it is expected that the programmes and projects outlined in the Sector Plans will be implemented in close consultation and collaboration with county governments, keeping in mind, the distribution of functions between the national and county governments as outlined in the fourth schedule; and the capacity of county governments. Involvement of the private sector, including through Public Private Partnerships (PPPs), in implementing the Sector Plans will also be crucial to deliver the expected outputs and outcomes of various prioritized programmes and projects.

To ensure successful implementation of the Sector Plans, and the activities outlined in the implementation matrices, my Ministry will put in place the necessary monitoring and evaluation framework and systems including the reporting formats and templates for production of quarterly progress reports by implementing entities.

In conclusion, let me take this opportunity to thank the respective Cabinet and Principal Secretaries involved in various sectors and all those involved in preparation of the Sector Plans.

Anne Waiguru, O.G.W.
Cabinet Secretary, Ministry of Devolution and Planning

FOREWORD

Trade sector plays a significant role in the country's growth and development through its contribution to the Gross Domestic Product (GDP). The sector has linkages with all other sectors of the economy by creating a channel through which goods and services move from the producers, manufacturers and to the final consumer. In addition, Trade creates employment opportunities in the informal, retail, and wholesale trade sub-sectors thus contributing to poverty reduction by making it possible for many unemployed youth, women and vulnerable groups in society earn a living. By encouraging and supporting Medium Small and Micro Enterprises (MSMEs) to participate in exports of merchandise to the international markets, the sector enables them access more favorable prices in these markets thus supporting growth of the economy.

Due to the importance of the sector in contributing to economic growth and poverty reduction in the country, the sector has been prioritized among other sectors to contribute to the envisioned 10 per cent economic growth and the realization of social economic development and equity. During the Second Medium Term Plan 2013-2017, the sector has identified several projects and programmes whose implementation will support growth of GDP and poverty reduction.

In improving our total trade balance, the sector will strive in deepening regional integration in the East African Community (EAC), Common Market for East and Southern Africa (COMESA) and also the proposed COMESA-EAC-SADC Tripartite Free Trade Area. In addition, the sector will strengthen and sign more bilateral trade agreements, diversify export products and encourage value addition. On the domestic front the sector will seek to create the required policy environment that will increase our competiveness and improve the ease of doing business. These measures are necessary for trade to flourish and attract both domestic and Foreign Direct Investments (FDI) that will spur growth of the economy.

The full implementation of the plan will not only depend on my Ministry but also on all stakeholders who participated in developing the Plan. I wish to take this opportunity to thank both private and public stakeholders who participated in the process. I am sure that the sector will continue to support economic growth, provide employment opportunities for our youth, alleviate poverty and help in achieving the Kenya Vision 2030 including the Medium Development Goals (MDGs) in the country.

Mrs. Phyllis J. Kandie
Cabinet Secretary, Ministry of East African Affairs, Commerce and Tourism

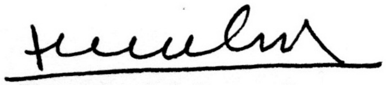
PREFACE

The Government launched the Kenya Vision 2030 in 2008 and started its implementation through the First Medium Term Plan (MTP) 2008-2012 and currently the Second MTP, 2013-2017.The Vision 2030 recognizes trade sector as key in achieving the envisaged 10% economic growth due to its immense contribution to GDP and employment creation. Despite the impressive performance of the sector during the implementation of First MTP, the sector faced various challenges including the Global Economic Crisis , dumping, importation of subsidized goods, over-reliance in traditional exports, Tariff and Non-Tariff barriers to trade imposed by trade partners, low value addition of main export products, proliferation of counterfeit, sub-standard, and contraband goods among others.

To increase the contribution of the Trade Sector to the GDP, this plan intends to create a conducive environment that will allow growth of domestic trade, increase in production of manufactured goods for exports, diversification of exports as well as encourage value addition of export goods. In addition, the Sector will focus on increasing/widening markets for exports goods through deepening regional integration and diversification into new markets.

The Plan contains several projects and programmes which were developed through a series of extensive consultations with stakeholders which included business associations, Medium Small and Micro Enterprises (MSMEs), Development Partners as well as various Government Departments and Agencies. With the support of both the National and County Governments, Development Partners and the Private Sector, we believe that all these projects/programmes will be accomplished.

In conclusion, I wish to express my sincere gratitude to all the stakeholders who participated in the preparation of this Plan and whose valuable ideas and support have made this document a reality. I am confident that with the continued support, the objectives of this trade sector plan will be achieved.



Dr. Ibrahim Mohamed
Principal Secretary
State Department of Commerce and Tourism
Ministry of East African Affairs, Commerce and Tourism

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1 INTRODUCTION

The Government developed Kenya Vision 2030 which is the country's development blueprint covering the period 2008 to 2030. It aims at making Kenya into "a newly industrializing, middle income country providing high quality life to all its citizens in a clean and secure environment" by the year 2030. The Vision is based on three pillars namely; the economic pillar, the social pillar and the political pillar.

The economic pillar aims at providing prosperity of all Kenyan's through an economic development programme aimed at achieving an average Gross Domestic Product (GDP) growth rate of 10 per cent per annum over the Vision period. To attain this, the trade sector was identified as one of the key engines of the economy due to its immense contribution to Kenya's GDP and employment creation through trade and investments.

In the Vision 2030, this sector was referred to as Wholesale and Retail Trade, but was expanded to include international trade during the First MTP. Owing to the fact that the sector covers special economic zones, private sector development, regional integration, Micro, Small and Medium Enterprises (MSMEs) development, the sector title has been changed to Trade Sector.

The Vision is being implemented in successive five-year Medium Term Plans. The implementation of the First Medium Term Plan: 2008–12 that detailed the priority areas, strategies and the specific programmes and projects to be undertaken comes to an end by 2012. The Second Medium Term Plan will run from 2013 to 2017.

The implementation of this plan will be under the new constitutional dispensation, which provides for decentralization through the counties, emphasizes on gender equality and provides for socio-economic rights for all the citizens, among other key provisions.

2 SITUATION ANALYSIS

2.1 Review of the implementation of flagship projects during First MTP (2008-2012)

The Ministry has been implementing four flagship projects during the first MTP namely establishment of Special Economic Zones, creation of producer business groups, creation of wholesale hubs and tier 1 retail markets. The projects have achieved little progress in their implementation because of inadequate budgetary allocations and challenge of acquiring appropriate land. The status of implementation of the flagship projects is as follows: -

(i) **Development of Special Economic Zones (SEZs)**

A Special Economic Zones (SEZs) Policy and Bill to provide a vehicle for institutional and legal framework was developed and approved by the Cabinet and forwarded to parliament for discussion. However the bill was not debated on before the dissolution of the 10th parliament on the 15th January, 2013.

Profiling for suitable public land earmarked for Mombasa and Lamu SEZs has been completed where 2000 Km2 and 700 Km^2 of land have been identified for Mombasa and Lamu SEZs respectively. The ministry is still in consultation with the Ministry of Lands to identify suitable land for the proposed Kisumu SEZ.

(ii) **Create between 1,000 – 1,500 Produces Business Groups**

To enhance integration of small and fragmented individual producers into a big individual source for final consumers and intermediate players, 1326 producer business groups were created during the First MTP period.

(iii) **Create at least 10 wholesale Hubs with a pilot project in Maragua**

Towards the development of a Wholesale Hub, the Ministry developed a concept paper for the wholesale Hub that incorporates best international practices and identified and fenced twenty (20) acres of land for the construction of the pilot Wholesale Hub in Maragua. The process of preliminary design was initiated.

(iv) **Create at least 10 Tier one Retail Markets with a pilot project in Athi-River.**

A concept paper for tier one retail market that incorporates best international practices was developed and fifty (50) acres of land for the construction of the pilot market identified and fenced in Athi River. The process of preliminary design was initiated.

2.2 Review of other programmes and projects 2008-2012

2.2.1 Domestic Trade

During the First MTP period, the wholesale and retail sector registered improved performance: the sector was valued at Kshs.216 billion in 2008; Kshs.233 billion in 2009, Kshs.260 billion in 2010, Kshs.320.6 billion and 350 billion in 2011 and 2012respectively. The share of contribution of the sub-sector to GDP has not been steady; it recorded a contribution of 10.2 percent in 2008, dropped to 9.8 percent in 2009 and then increased to 10.2 percent in 2010 and slightly improved to 10.5percent in 2011 but dropped to 10.2 in 2012. Factors that influenced growth in the sector include: improved weather conditions; low inflationary pressure; low interest rates; stable macroeconomic environment; increased credit to the private sector and higher investments.

In terms of wage employment generation, the wholesale and retail trade sub-sector generated 139,700 jobs in 2008 which improved to 149,200 in 2009,157,200 in2010 and increased further to 165,700and 171,900 in 2011 and 2012 respectively. The highest numbers of these jobs were created by the private sector representing 95 percent in the sub sector. Given that wholesale and retail trade is more distributed country wide it has the potential to play an important role in rural employment and hence mitigate poverty in Kenya.

The informal sector covers all small-scale activities that are semi-organized, unregulated and uses low and simple technologies. Wholesale and retail trade sub-sector generates the highest number of jobs in the informal sector estimated at about 60.7percent of all employment in 2012.The number of persons engaged in the informal sector in the wholesale and retail trade has grown steadily over the implementation period. In 2008 the number was approximately 4.7 million, 5 million in 2009, 5.3 million in 2010 and 5.6 million and 6.3 million in 2011 and 2012 respectively. It should be noted that in a well-functioning economy these numbers should ideally be showing downward trend. The government must therefore address this trend with an aim of formalizing the activities in the sector.

In the 2008 World Bank Ease of Doing Business Index ranked Kenya at position 72 out of 178 countries. It was also identified as the 10th most important reformer of the business environment. This followed deliberate efforts by the Ministries in charge of Trade and Finance to instigate licensing reforms by reviewing the regulatory regimes that resulted in the elimination, simplification, consolidation and harmonization of business licenses. A total of 1325 licenses were identified to impact on businesses out of which 424 licenses were eliminated and 607 simplified. The Business Regulatory Reform Unit (BRRU) was subsequently set up in the Ministry in charge of Finance to permanently keep track of all regulatory regimes and licensing in Kenya and ensure that new regulations, licenses, fees and charges do not create unnecessary burdens on business and meet international best practices. The Unit is mandated to liaise with Regulators to ensure that all future regulations with respect to licensing conform to international best practice. The Country has however not been able to sustain the reform agenda resulting in subsequent decline to position 82, 106 and 109 out of 183countries in 2009, 2010 and 2011 respectively. In 2012, Kenya further declined to position 121 out of 185 countries and 3rd in the EAC behind Rwanda and Uganda, meaning that the two countries have a more conducive regulatory environment.

According to the World Bank Doing Business Report 2012, Kenya performed well in dealing with construction permits in terms of having an organized set of building rules and making it easy to get credit. However, the country performed badly in terms of enforcing contracts, paying taxes and resolving insolvency.

Table 1 below summarizes the trend of selected indicators for the sub-sector over the period 2008-2012.

Table 1: Selected Indicators for Domestic Trade Sub-Sector

YEAR	2008	2009	2010	2011	2012
Contribution to GDP (Percent)	10.2	9.8	10.2	10.5	10.2
Wage Employment Generation (No.)	139700	149200	157500	165700	171900
Number of Persons Engaged in the Informal Sector in the Wholesale and Retail Trade (No.)	4,776,600	5,175,300	5,582,200	5,983,800	6,383,900
Ease of Doing Business Index	72/178	82/183	106/183	109/183	121/185

Source: Economic Survey2013and World Bank Doing Business Reports

In improving the business environment, the government should rationalize licensing regime and reduce the tax burden without compromising the provision of public amenities that are necessary for the growth and development of business enterprises in the country. Moving forward, the Government must consolidate its service provisions that are directed to the sector such as Business Regulatory Reforms currently spearheaded by the National Treasury, the Licensing under the Ministry of Devolution and Planning to bring them under one policy direction. Under the new constitutional dispensation, County Governments will be responsible for trade licensing (excluding regulation of professions), fair trade practices and markets. It is therefore proposed that in order to bring efficiency in the sector and to align functions as per the fourth schedule of the Constitution of Kenya (2010), these functions and any other that may be related to it should be brought under a single policy direction. There is therefore need to have a clear policy direction on how trade regulation will be coordinated between the county and national government.

2.2.2 International Trade

Kenya's exports have been on a steady increase since the early 1990's in response to the Government's economic liberalization and other reform measures. Total exports in 2012 were estimated at Kshs.517billion and accounted for 0.04percent of world's total exports. The exports of both goods and services contributed about 29.9percent of the GDP in 2011.

On average, total merchandise exports grew by 14.07 percent between the period 2008 and 2012. The highest growth in exports was registered in 2011 at 25.1 percent. While exports have been increasing, imports have been increasing more rapidly than exports leading to widening of trade balance deficit. Imports increased from Kshs.770.7 billion in 2008 to Kshs.1.37 trillion in 2012 representing 78.3 percent increment. Kenya's total exports and imports over the period 2008 to 2012 are summarized in Table 2.

Table 2: Growth Trends in Exports and Imports (Ksh. billions)

Year	2008	2009	2010	2011	2012	
Total Exports	344.95	344.95	409.79	512.60	517.8	
Total Imports	770.65	788.10	947.21	1300.75	1,374.6	
Trade Balance	(425.70)	(443.15)	(537.41)	(788.15)	(856.8)	
						Ave. Rate
Percentage Growth rates in Exports	25.59	0.00	18.80	25.09	1.01	14.07
Percentage Growth rates in Imports	27.36	2.26	20.19	37.32	5.68	18.56

Source: Economic Survey 2013

Main Export Products

Kenya's main exports consist of tea, horticulture (cut-flowers, vegetables, and fruits), articles of apparels, coffee, vegetable oils, petroleum oil products, and iron & steel products, among others. The agricultural commodities (tea, horticulture, and coffee), which are prone to global cyclical price movements and have been on general decline, dominates Kenya's export basket. In 2012, the top 10 export products accounted for about 58percent of total exports thus reflecting high product concentration and hence the need to expand and diversify Kenya's export product base.

However, there are a few manufactured products such as iron & steel products, pharmaceuticals, cement, and essential oils, which are gaining significance in the export composition. The growing trend for exports of manufactured products especially targeting regional markets, offers new opportunities for export product diversification.

Main Import Products

Kenya's main imports include crude petroleum and petroleum products, cereals, machinery and transport equipment/motor vehicles, raw iron & steel, crude vegetable oil, plastics in primary form, and pharmaceuticals among others. Machinery and equipment, together with petroleum and related products, accounted for over 42percent of total value of imports in 2012. It is worth noting that most of the imports are capital goods or raw materials for industrial production.

2.2.3 Regional Integration and Preferential Trade Arrangements

East Africa Community (EAC)

The EAC is a common market consisting of Burundi, Kenya, Rwanda, Tanzania and Uganda. The protocol establishing the East African Community – Custom Union (EAC-CU) was signed in December 2004 and the implementation of the CU commenced on 1st January 2005. A fully fledged CU was implemented in January 2010 when it became fully operational. The EAC Common Market came into effect on 1st July 2010, and its overall objective is to build on the customs union and to widen and deepen cooperation among partner states. The EAC is now working towards establishing a monetary union and political federation.

The EAC countries have continued to be major export destinations for Kenya. Kenya's total exports to EAC increased by 60percent from Kshs.83.9 billion toKshs.134 billion between 2008 and 2012. In 2012, Uganda was Kenya's leading export destination (absorbing 13percent of the country's total exports); Tanzania was second (9percent) and Rwanda ninth (3percent). Kenya's exports to the region are diversified and include chemicals, fuels and lubricants, machinery and transport services. In 2012, Kenya's exports to the EAC accounted for 54percent of the country's total exports to Africa and 26.1percent of total exports to the world. Below is Table 3, which summarizes Kenya's exports and imports from the EAC.

Table 3: Value of Kenya Exports and Imports to Eac (Kshs. Billions)

	2008	2009	2010	2011	2012
Exports	83.9	90.5	101.3	137.2	134.9
Imports	12.6	12.6	20.4	26.9	30.9

Source: Economic Survey 2013

The deepening and expansion of EAC has widened the scope of trade opportunities for Kenya's businesses over the last 10 years. However, Kenya is yet to fully exploit the opportunities offered by the EAC integrated market, with non-tariff barriers increasingly becoming a major challenge.

The EAC Time Bound Programme for the elimination of NTBs was developed and adopted for implementation in the year 2007/08. The programme was reviewed during the period 2009/10 and continues to be reviewed quarterly to assess if the Partner States are adhering to the timelines set on the removal of NTBs. The National Monitoring Committees (NMCs) on Non-Tariff Barriers were launched in all the Partner States on 20th December 2008 to report, monitor and eliminate NTBs. The NMCs meets quarterly to review and resolve outstanding NTBs. However, there is need to strengthen the NMCs to effectively deal with NTBs. The online web based reporting, monitoring and resolution of NTBs in the EAC, COMESA and SADC was operationalized in 2009/10.

Common Market for Eastern and Southern Africa (COMESA)

COMESA comprises of 19 member countries namely Burundi, Comoros, DR Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. Kenya is one of the member states that acceded to the COMESA Free Trade Area upon its launch in 2000. So far 15 out of 19 Member States have joined the Free Trade Area. During the period of the 1st Medium Plan, the COMESA Summit of Heads of State launched the COMESA Customs Union in June 2009 with a three year transition period to allow member States domesticate the Customs Union instruments. The transition period was extended for a further period of two years from 2012 to 2014. The instruments required to be domesticated include the Common External Tariff, Common Tariff

Nomenclature and Customs Management Regulations. The COMESA members span a large portion, of the African continent meaning that some countries have difficulty in accessing others' markets for physical and geographical reasons.

COMESA has since become Kenya's leading export destination, accounting for approximately 34percentof total exports in 2012. Kenya's exports to COMESA increased by 58percent from Ksh111.2 billion in 2008 toKsh175.73 billion in 2012. Similarly, there has been an increasing trend of COMESA imports into Kenya. The total imports from COMESA increased by 117percent from Ksh28.27 billion in 2008 to Ksh 61.6 billion in 2012. Table 4 below summarizes the exports and imports from COMESA.

Table 4: Value of Kenya's Exports and Imports from Comesa (Ksh Billions)

	2008	2009	2010	2011	2012
Exports	111.2	112.97	135.8	181.5	175.7
Imports	28.27	25.29	41.02	55.3	61.6

Source: Economic Survey, 2013

In 2012, Kenya's exports to the COMESA region was mostly dominated by those going to EAC region with an exception of those going to Egypt, Congo D.R. and South Sudan. In terms of imports, Kenya imports more goods from Egypt followed by Uganda and Mauritius.

The leading Kenyan exports to the COMESA and EAC markets include tea mostly to Egypt and Sudan, oils and perfumes mainly to Uganda and Tanzania and cement mostly to Sudan, Uganda and Tanzania. Other exports in terms of volumes include natural sodium carbonate, iron and steel bars and cigarettes. Of importance to note is that most of the Kenyan exports in the region are manufactured goods. This is crucial in increasing our competitiveness in the region.

In terms of imports Kenya largely imports agricultural products in the region in the form of raw tobacco and oil seeds. Other imports include animal feeds mostly from Uganda and paper and paper boards mainly from Tanzania.

COMESA-EAC-SADC Tripartite Free Trade Area

The Tripartite Free Trade Area (T-FTA) mooted between the Common Market for Southern and Eastern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC), is an exciting development that promises significant economic and social gains from deeper regional integration. The negotiations were launched by Heads of State in June 2011 and will cover a period of 36 months and implementation of the Tripartite FTA is expected to commence in December 2014, which is within the period of the Second MTP.

The membership of the tripartite region comprises twenty-six (26) countries, twenty-two (22) countries of which are already participating in their respective Free Trade Areas, therefore forming a critical mass necessary to establish a tripartite Free Trade Area. The tripartite integration will be anchored on three pillars namely (i).Market integration (ii).infrastructure development and (iii) industrial development.

World Trade Organization (WTO)

The WTO was established in 1995 as a successor to the General Agreement on Tariffs and Trade. 158 countries are currently members of the WTO. Kenya became a member of WTO in 1995. The WTO sets global rules for trade and provides a forum for trade negotiations and resolving trade disputes between member countries. WTO rules cover trade in goods and services as well as a broad range of trade issues, such as technical trade barriers, taxation, subsidies and intellectual property. These rules help assist international trade flow as smoothly, predictably and freely as possible. WTO rules can provide secure trading conditions for Kenya's products and services and reduce some of the risks associated with doing business overseas.

The World Trade Organization (WTO) is vital to the Kenya Government's international efforts to negotiate for enhanced market access through improved trading rules in goods, services and intellectual property rights. A key objective of this sector is to contribute to these efforts and secure improved export opportunities for Kenyan products and services.

WTO members are currently negotiating the Doha Round of trade negotiations which were launched in 2001 and have not been finalized to date. The Doha Round is Kenya's highest trade priority and an opportunity to strengthen existing WTO rules, substantially reduce subsidized agricultural production, and deliver improved market access for exporters by reducing tariffs and elimination of Non-tariff barriers in both agricultural and industrial products.

Economic Partnership Agreement between the EAC and EU

Kenya along other EAC Partner States initialed a Framework for Establishment of an Economic Partnership Agreement (FEPA) on 27th November 2007, with the European Union. This cushioned the eminent disruption of trade that was to be faced after expiry of Cotonou Agreement by 31st December 2007. The agreement also saved over 1.5 million jobs, safeguarded over US $ 1billion investments and ensured Market Access of our products into EU market.

The Negotiations for a comprehensive EPA between the EAC and EU begun in February 2008.The negotiation process achieved consensus on the contentious issues except article 15 (Export Taxes) and 16 (MFN) of the interim Economic partnership agreement. The EAC achieved convergence on the need to have development captured in the EAC EU interim EPA.

The deliberations are now centered on the finalization of the outstanding issues in order to pave way for the conclusion of a Comprehensive EPA. The issues being discussed include the following: - Rules of Origin (RoO), Development Text and Matrix, Agriculture and Dispute Settlement and Institutional Arrangements.

EU is a significant destination market for Kenya's exports accounting for 24% of Kenyan total exports. It's a regional block that contributes immensely to the country's economic development through trade and investment opportunities. Participation in the EPA negotiations is therefore paramount to safeguard market access and comply with WTO rules of engagement.

U.S - EAC Trade and Investment Partnership

The U.S initiated a U.S-East African Community Trade and Investment partnership, which is a new initiative that supports the economic integration of the EAC and enhances the EAC-U.S trade and investment relationship. On 14th June 2012, on the margins of the AGOA Forum in Washington D.C, the Ministers responsible for Trade matters in the EAC Partner States and the United States Trade Representative (USTR) resolved to upscale the Trade & Investment Framework Agreement (TIFA) to a U.S-EAC Trade and Investment Partnership which will comprise the following: regional investment treaty, trade facilitation agreement, trade capacity building assistance and commercial dialogue.

The partnership aims to complement U.S and EAC priorities by building on the foundations of the existing trade and Investment relationship to provide new business opportunities to U.S and EAC firms by reducing trade barriers, improving the business environment, encouraging open investment regimes, and enhancing two-way trade.

2.2.4 Competitiveness

Kenya aspires to attain the status of a globally competitive middle-income country by 2030, offering high quality living standards. The attainment of this aspiration is hinged on the country's ability to achieve rapid and sustainable economic growth and competitiveness through robust enterprise growth and sustainability. The last three Global Competitiveness Reports have however ranked Kenya poorly in terms of global competitiveness, 106th (2010) out of 139, 102nd (2011) out of 142 and 106th (2012) out of 144 countries. In 2012, at 106th, Kenya ranked lower relative to regional comparators South Africa (52), Mauritius (54), Morocco (70), Botswana (79), Namibia (92) and Ghana (103), and international comparators in South-East Asia: Taiwan (13), South Korea (19) and Malaysia (25). Within East Africa, Kenya is marginally ahead of Uganda (123), Tanzania (120) and Burundi (144), but behind Rwanda (63).

The key issues where Kenya ranks poorly globally that need to be addressed to reduce the cost of doing business and improve Kenya's competitiveness include: corruption, insecurity, burdensome government regulations and administrative requirements on businesses, dilapidated roads and port facilities, unreliable power, high taxes and inflation, cumbersome customs procedures among others. These are a reflection of weak institutions and regulations; poor infrastructure; macroeconomic environment; and goods market efficiency that together impact significantly negatively on the country's competitiveness. Addressing these issues is of key importance to achieving the objectives in Vision 2030.

In recent years expenditure allocations to physical infrastructure have been increased, as witnessed in the construction of new roads. However Kenya's infrastructure including roads, telecommunications, railway and ports still rank much lower than international best practices. Access to finance is another constraint to doing business in Kenya. Security of persons and property is threatened by rising criminal activities. Governance institutions are crucial for global competitiveness. Accountability, transparency and predictability are important aspects of governance that is supportive of a competitive environment. Although the country enacted a new constitution in 2010, a lot of effort is still required to put in place effective Governance institutions.

2.2.5 Trade and Gender

Trade presents the largest non –agricultural employment opportunity sector in the country presently, presenting a third of such employment opportunities, and majority of those engaging in the sector being women. Government of Kenya (2012) shows that women's wage employment in trade, restaurants and hotels account for 30 of the total wage employment in sector and for over 10 percent for all women's total wage employment.

Kenya Integrated Household Budget Survey 2005/2006 (KNBS, 2006) established that 61 percent of those engaged in the wholesale and the trade sector were women, and in all the provinces of the country, more women than men were engaged in this industry.

The survey further showed that most of the enterprises in various sectors in Kenya are informal (89.5 percent) and in wholesale/ retail trade in particular, over 91 percent of such enterprises were informal. In addition, 70 to 80 percent of persons engaged in petty and informal trading in the country are women (Government of Kenya, 2011).

In an effort to upgrade informal businesses to formal, and enhance Kenya business to take up advantage of investment and trade opportunities arising from various trade agreements Kenya is currently engaged in (as is the case in the Second MTP, it is important to target profiling, facilitation and promotion of women-owned businesses, since they are the majority in the lower scale. Growth of these businesses present a great opportunity for the trade sector growth and an increased contribution of the trade sector towards the ultimate economic growth targets under Vision 2030.

3 EMERGING ISSUES AND CHALLENGES

3.1 Domestic Trade

The domestic trade contributes significantly to the economy in terms of linking productive sectors and thereby generating wealth and employment. The sector is substantially liberalized and the role of the government has been mainly the creation of an enabling environment for trade to thrive. The emerging issues and challenges that impede growth of domestic trade include;

- Weak business Regulatory Framework including high cost of doing business, commodity price volatility, fragmented and informal trade sector
- Infrastructure - majority of MSMEs operate from temporary business premises/work sites, inefficient distribution value chains and inadequate utilities- water, energy etc.
- Inadequate business Development support Services (BDS) including business/ trade Information, consultancy, counseling and aftercare services.
- Limited access to Trade Finance for MSEs- access to affordable trade finance is crucial to the growth of trade sector
- Long and cumbersome process of acquisition of public land for development projects.
- Influx of counterfeit goods into Kenya- There is no credible and authoritative data on the extent and depth of counterfeiting problem in Kenya. The Kenya Association of Manufacturers (KAM) estimates that the government is losingKshs.19 billion annually in tax revenue forgone. Whereas manufacturers lose about Kshs.50 billion in sales due to counterfeit goods in the Kenyan market. Pharmacy and Poisons Board report that 10percent of drugs in Kenya are counterfeit, while 30percent are not registered.
- Devolved system of governance – the Constitution provides for a new system of governance that includes establishment of 47 Counties and powers for these Counties to make laws and impose taxation with regards to property, entertainment and others, as passed by Parliament. The Constitution also mandates County Governments to undertake trade development and regulation including markets, trade licenses and fair trade practices. This requires broadening of the mandate and scope of the Department of Internal Trade and the BRRU to coordinate and streamline regulatory reforms at both county and national levels.

3.2 International Trade

The Export sector is critical to the performance of Kenya's economy as well as her fiscal and monetary stability. Strong performance of the export sector has direct correlation to the stability in the financial sector and other macroeconomic aggregates such as exchange rates, inflation and price levels and employment. The sector is vulnerable as it depends on global markets, which include the OECD countries such as the European Union, United States of America, and Japan. The current global economic downturn in many of Kenya's export markets, including the EU (Euro-zone debt crisis) diminishes Kenya's export performance. Further, the sector is heavily dependent on a few products for exports. The top 10 export products accounted for about 58percent of total exports thus reflecting high product concentration and hence the need to expand and diversify Kenya's export product base. The emerging issues and challenges that impede growth of international trade include:

- Stringent technical requirements in the export markets.
- Inadequate capacity to develop new products, innovation, inventions and value addition on produced

goods.

- Underfunding of export related activities.
- Erosion of advantages accrued from preferential trade arrangements.
- Non-tariffs barriers.
- Lack of technology transfer by international service providers such as consultants
- Minimal market and product diversification
- Inadequate commercial representation in key strategic international markets

Cross cutting issues between domestic and international trade:

- Lack of linkages and synergies between the academia, industries and government which contributes to lack of competitiveness in Kenya's product offering
- Disconnect between local producers and manufacturers and the academia in terms of research dissemination for the development of new and competitive products.
- Volatility in exchange rate

4 PROGRAMMES AND PROJECTS FOR 2013- 2017

4.1 Flagship Projects

(i) **Domestic trade**

- Construction of one pilot wholesale hub in Maragua to serve as a model for the private sector.
- Construction of one pilot Tier 1 Retail Market in Athi River to serve as a model for the private sector.
- Profile 1000-1500 Producer Business Groups to identify their needs and interventions.
- Implement the National Electronic Single Window System that allows parties in trade and transport to lodge standardized information and documents with a single entry-point to fulfill all imports, exports and transit-related regulatory requirements.

(ii) **International Trade**

- Establish and operationalize a Credit Guarantee Scheme and Export Development Fund.
- Establish distribution infrastructure; warehouses and business information Centers in Kinshasa and Lubumbashi-Democratic Republic of Congo; in Juba-the Republic of South Sudan; and in Dubai-United Arab Emirates.

(iii) **Small and Micro Enterprises**

- Establishment and operationalize forty seven (47) Micro and Small Enterprise (MSE) Centers of Excellence (COEs) in all counties.

4.2 Other Projects and Programmes

(i) **Domestic Trade**

- Establish an information system on goods and services that will collect, collate and disseminate trade information through Business Information Centers (BICs).
- Development and institutionalization of capacity building and training programmes on technology, value addition and business procurement negotiation skills for the traders' association and their members (Producer Business Groups/Business Membership Organizations).
- Revitalization of Joint Loans Board Scheme through carrying out socio –Economic Impact assessment, establishing legal and institutional framework and enhanced funding.
- Develop Regulatory Reform Strategy – this will entail development of a blue print for the regulatory reform process. The RRS will highlight 6 key areas which include: (a) a system for involving stakeholders at every level of the implementation of the Strategy, (b) a legal framework that will strengthen the process, (c) building capacities in BRRU, in regulators and key stakeholders, (d) strengthening the BRRU in the Ministry of Finance, (e) improving communication and dissemination of information, and (f) monitoring and evaluation of the reform process.
- Implement Licensing Reforms – a continuous review of the recommendations of the Working Committee on Licensing Reforms and identification of areas of implementation through the various institutions proposed in the recommendations.
- Undertake Business Reforms by carrying out annual assessment of the 10 ease of doing business indicators that are deemed to have the most effect on investment in a country.

- Construction of Legal Metrology laboratories in 47 counties to meet international best practices.

(ii) **Small and Micro Enterprises**

- Development and upgrading of 235 MSE Infrastructure worksites throughout the country. The upgrading/development activities will include construction of structures, installation of essential services like electricity, water and civil works.
- MSE survey and informal sector surveys
- Establishment of EMPRETEC Centre to provide entrepreneurial and management training, consultancy and counseling services to Micro, Small and Medium scale enterprises and other interest groups (MSMES), based on a comprehensive Training Needs Assessment.
- Increase integration of MSMES into the market value chains through Trade exhibitions and Cross border Trade association (CBTAS).
- Implement the SME Act
- Establishment of constituency women economic empowerment centers (WEECs)
- Establishment of MSME Tool room and incubation center at Kenya Institute of Business Training
- Establishment of a MSME National Documentation Centre
- Establish an open learning programme centre in Entrepreneurship in 47 counties

(iii) **International trade**

- Establish Independent Trade Commission in key trading commercial capitals between 2013 and 2017 in USA (New York), Switzerland (Geneva), China (Shanghai), South Africa (Johannesburg), Belgium (Brussels), Germany (Frankfurt) and India (Mumbai).
- Decentralize the operations of the Export Promotion Council to selected Counties and establish and operationalize a Centre for Product Design and Development.
- Diversify export products and markets through market research in high potential markets and participation in export promotion programmes such as World Expositions; trade missions, specialized trade fairs such as Specialty Coffee Association of America (SCAA); Solo exhibitions, incoming buyer missions and familiarization tours of Kenya's export production system.
- Attract investments in the export related value chain for production of value added products.
- Establish a world class Trade Centre and a modern Exhibition and Convention Centre.
- Develop an Export Development Strategy.
- Develop an e-trade policy
- Regional Integration
- Formulate and implement a coherent regional integration strategy for Kenya.
- Implement the EAC Single Customs Territory through introduction of tax payment at first point of entry.
- Conclude negotiations on COMESA-EAC-SADC Tripartite FTA

5 POLICY, LEGAL, INSTITUTIONAL AND OPERATIONAL REFORMS

(i) **Policy and Legal Framework**

- Adoption of Trade Policy and the fast tracking of the enactment the Trade Development Bill and the Trade Remedies Bill.
- Enactment of the MSE Bill.
- Enactment of the Business Regulation Bill
- Review of the Weights and Measures Act and Kenya Bureau of Standards Act.
- Enactment of the Export Development and Promotion Bill.
- Develop E-Trade Policy. The policy will provide framework for expansion of Domestic and Export Trade.

(ii) **Institutional and Operational Framework**

- Establish linkages and partnerships with institutions that are ancillary to the export development agenda both in Kenya and outside the country, in a bid to implement the market development activities.
- Adopt cluster development approach to projects and programmes within the trade sector to enhance competitiveness.

ANNEX 1: IMPLEMENTATION MATRIX

Goal		Move Towards Formalized domestic Trade sector that is efficient, multi-tiered diversified in product range and innovation									
Strategic Objective		**Improve the supply chain of small operators retail markets Expand formal outreach**									
Project	**Objective**	**Performance Indicator**	**Output/Outcome**	**Implementing agencies**	**Time Frame**	**Source of Funds**	**Budget in Millions**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Flagship Projects											
Wholesale Hub	Create at least 1 wholesale hub and Producer Business Groups (PBGs)inMaragua to serve as a model for the private sector.	One wholesale Hub established in Maragua	Increase wholesale business activity Provide easy market access to producers Enhance efficiency in the supply	MoEA,C&T (lead), NT, M of Lands, Muranga county government, MoPW, NEMA, Private Sector	2013-2017	GOK , Private Sector	1000	1000	1000	1000	1000
	Profile 1000-1500 Producer Business Groups	1000-1500 PBGs profiled	Improved supply chain efficiency Identify the PBGs needs	MoEA,C&T (Lead) MoA, MoC&MD, Private Sector	2013-2017	GOK , Private Sector	4.2	10	10	10	10
Tier 1 Retail Market	Build 1pilot tier 1 retail market to serve as model for the private sector	One Tier I market established in Athi River	Improve efficiency Increase in the market share of products sold through formal marketing channels	MoEA,C&T (lead) TNT, M of Lands, Machakos county government, MoTI, NEMA, Private Sector	2013-2017	GOK , Private Sector	1250	1250	1250	1250	1250
Establish and operationalize a Credit Guarantee Scheme and Export Development Fund	Trade Finance and Guarantee scheme for Kenya's Export system	Export Development Fund and Credit Guarantee Scheme established and operationalized	Available Export Development Fund. Credit Guarantee Mechanism operating Export Business Finance and Guarantee Services	EPC (Lead) ,NESC, TNT, MoEA,C&T, , Private Sector	2013-2015	GoK, Private Sector and Development Partners	2,000	2,000	-	-	-

Project	Objective	Performance Indicator	Output/Outcome	Implementing agencies	Time Frame	Source of Funds	Budget in Millions				
							2013/14	2014/15	2015/16	2016/17	2017/18
Establish distribution infrastructure; warehouses and business information Centers in Kinshasa and Lubumbashi-Democratic Republic of Congo; in Juba-the Republic of South Sudan; and in Dubai-United Arab Emirates	Distribution and Market Infrastructure Development	Feasibility Report. Warehouses established in Dubai, Juba, Kinshasa, and Lumbubashi	Improved market Access for Kenyan Exports in Dubai, Juba, Kinshasa, and Lumbubashi	EPC (Lead), MoEA,C&T, TNT, MoFA&IT	2013-2017	GoK; Private Sector	589	360	360	125	500
Other Projects											
Revitalization of JLB scheme Access to Trade Finance	Carry out Socio – Economic Impact Assessment of the Joint Loan board Credit Scheme in Kenya	Improve understanding of the scheme among the stakeholders	One Socio – Economic Impact Assessment carried out	MoEA,C&T	2013	GOK	10	-	-	-	-
	Develop institutional and legal framework for the management of Joint Loans Board Scheme	Increase access of trade finance among the micro and small entrepreneurs	Legal framework developed	MoEA,C&T (Lead) &MoDP/ County Governments	2013	GOK	20	-	-	-	-
	Increase funding of JLB Scheme	Widening of the scope of the scheme	Amount of grants allocated to JLB	MoEA,C&T & County Governments	2013-2017	GOK	160	210	260	300	300
Establishment of an EMPRETEC Centre	Provide Business Development Services	Improve competitiveness and value of local products within the local, regional and international markets	One EMPRETEC Centre established	MoEA,C&T, KIRDI, UNCTAD, MoLSS, Academia,	2013-2017	GOK/ Dev partner	200	200	200	200	200

Project	Objective	Performance Indicator	Output/Outcome	Implementing agencies	Time Frame	Source of Funds	Budget in Millions				
							2013/14	2014/15	2015/16	2016/17	2017/18
Trade Exhibitions	Increase integration of MSMEs into market value chains through trade exhibitions and facilitate formation and enhance capacity of Cross Border Trade Association (CBTAs)	Increase access to markets for Kenya producers	No. of trade exhibitions held. No. of MSMEs that participated	MoEA,C&T (lead), Private Sector, County Govts, EPC	2013-2017	GoK, Private Sector	10	10	10	10	10
Develop an e-trade policy	Provide a policy direction in e-trade Provide framework for expansion of domestic and export trade	Increase efficiency in trade through the use of ICT	e-trade policy in place	MoEA,C&T (Lead), MoICT, TNT, EPC, Private Sector	2013-2014	GOK	10	10	5	-	-
Information system on goods and services	Established institutional framework for the collection, collation and dissemination of trade information in Kenya (establishment of Business Information Centres)	Trade information system & 30 BICs established	Provide business/trade information and business development services Business community that is equipped with relevant and accurate business information for business and investment decision	MoEA,C&T(lead), EPC, KNBS, KRA, MoDP& Vision 2030, County Govts,	2013-2017	GOK, Development partners	400	-	50	-	50
Establish an effective Trade Remedy Regime	Implement the Trade Remedies Law	Investigative Agency established	Reduced Trade distortions in the market	MoEA,C&T (lead) TNT MOI	2013-2017	GOK		40	50	55	60

Project	Objective	Performance Indicator	Output/Outcome	Implementing agencies	Time Frame	Source of Funds	Budget in Millions				
							2013/14	2014/15	2015/16	2016/17	2017/18
Formulate and implement a coherent regional integration strategy for Kenya.	To provide policy direction on regional integration issues	Coherent regional integration strategy in place	Improved market access	MoEA,C&T	2013	GOK	5	5	-	-	-
Construction of Legal Metrology laboratories in 47 counties to meet international best practices.	Ensure accuracy of measurements of goods and services	Improved consumer protection Improved confidence of goods produced both locally and internationally	47 Legal Metrology laboratories constructed	MoEA,C&T	2013-2017	GOK	10	10	10	10	17
Accreditation of Legal Metrology bodies under ISO 17020 (Inspection Bodies), ISO 17024 (Certification and ISO 17025 (Laboratory).	Ensure international recognition of goods and services	Improved consumer protection and confidence of goods produced both locally and internationally	No. of Legal Metrology bodies accredited.	MoEA,C&T	2013-2015	GOK	15	3	2	-	-
Integration of the International Road Transport (T.I.R) Carnet in Kenya	Trade Facilitation, Competitiveness and logistics	Application of TIR Carnet in Kenya	-Reduced Turnaround time for Exports across the borders. -Increased competitiveness of Kenyan Exports	EPC (Lead), Ken Trade	2013 - 2017	GoK; Private Sector and Development Partners	50	60	250	250	100
Trade(Commercial) Centers in London, New York and Dubai	Communication with markets and Business information Terminals	Trade Centers established and operationalized	Business Inquiry and Trade information Points	EPC (Lead), MoEA,C&T, MoFAIT	2013 - 2018	GoK; Private Sector and Development Partners	50	100	100	150	150

Project	Objective	Performance Indicator	Output/Outcome	Implementing agencies	Time Frame	Source of Funds	Budget in Millions				
							2013/14	2014/15	2015/16	2016/17	2017/18
Decentralize the operations of the Export Promotion Council to selected Counties, undertake outreach programmes to exporters and establish and operationalize a Centre for Product Design and Development	Decentralization of the operations of the Export Promotion Council to Counties	4 EPC offices devolved	Business Inquiry and Trade information Points at the County Offices	MoEA,C&T, EPC (Lead)	2013 - 2018	GoK, Development Partners	12	17.2	8.5	9	9.5
	Diversification of Export Products base	One(1)Product Design and Development Centre established and operationalized	-Product Design and Development Centre established -Value Added Products.	EPC (Lead), and MoEA,C&T	2013-2018	GoK, MoT and Development Partners	2	50	50	50	50
	Up-to-date export trade/business information through procurement of trade information (subscription to trade databases)	International Trade Data bases	Relevant export trade and business intelligence	EPC (Lead),	2013-18	GOK	6.905	7.595	8.355	9.190	10.11
	Information to exporters and producers of export goods and services	Number of Export ready enterprises	Export ready enterprises	EPC	2013-13	GoK	1.764	1.940	2.135	2.348	2.583
Diversify export products and markets through market research in high potential markets and participation in export promotion programmes such as World Expositions; trade missions, specialized trade fairs such as Specialty Coffee Association of America (SCAA); Solo exhibitions, incoming buyer missions and familiarization	Market information System for Manufactured and Agro Industrial Products	Research Reports	Information on Export Markets and Export Product profiles	EPC (Lead)	2013-2018	GoK, Private Sector and Development Partners	20	20	20	25	25
	Product and Market Diversification in the East African Community and the United Kingdom markets	Trade Event Reports	Promotion events for Kenyan Services in Kigali, Burundi and London	EPC (Lead)	2013-2018	GoK,	10	10	10	10	10
	Promote Kenyan Exports of Goods and Services	Annual Export Market Development Plan	Product recognition and increased Exports	EPC (Lead)	2013-2018	GoK	300	300	982	300	300
	Popularize Kenyan Coffee	Reports	Participation in Specialty Coffee	EPC (Lead)	2013-2018	5,000	5	7	7	8.5	10

tours of Kenya's export production system.	Brands;		Association of America(SCAA)								
Project	**Objective**	**Performance Indicator**	**Output/Outcome**	**Implementing agencies**	**Time Frame**	**Source of Funds**	**Budget in Millions**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Attract investments in the export related value chain for production of value added products.	Increased value added products	Increased investment in the export related value chain for production of value added products	Value of new investments	EPC, Ken-invest	2013-2018	GoK, PPP and Development Partners	5	5	5	5	5
Establish a world class Trade Centre in Nairobi and a modern Exhibition and Convention Centre.	Development of superior Business Infrastructure and super structures in Kenya	World Trade Centre and Convention Centre established in Nairobi	World Trade Centre and Convention Centre established	EPC (Lead), MoEA,C&T, Development Partners, NEMA, MoTI, County Governments, Min. of Lands	2013-2018	GoK, PPP and Development Partners	590	360	360	125	360
Develop an Export Development Strategy	Focused and coordinated export promotion activities	An Export strategy in place	Aligned export promotion activities Increased exports	EPC, MoEA,C&T	2013-2015	GoK, Development Partners	5	5	0	0	0
Enactment of the Export Development and Promotion Bill	Institution strengthening	An Export Development and Promotion Bill enacted	An Export Development and Promotion Bill enacted	EPC	2013	GoK	3	0	0	0	0
Establishment of a MSME National Documentation Centre	To capture/ profile MSMEs for easier evaluation ,monitoring and counseling for establishment of case studies	MSME National Documentation Centre set up at KIBT Headquarters	Fully fledged National Documentation Centre	MoEA,C&T	2013-2017	GOK, Private Sector, Development partners	20	15	8	4	4
Establish an open learning programmecentre in Entrepreneurship in 47 counties	Train MSMSEs in all the 47 counties through the creation of a virtual learning centre to supplement lecturer-MSMSE training methodology	47 Open learning programmes in Entrepreneurship established	No. of open learning programmecentres	MoEA,C&T	2013-2017	GOK, Private Sector, Development partners	50	30	30	30	30

Formulate and implement cluster development policy	To increase regional and national competitiveness	Cluster policy document in place	-No of cluster initiatives -Cluster development approach embraced in the 47 counties	MOI&ED, MoEA,C&T, (lead), MOA,L&F, Academia, KAM	2013-2017	GOK, Development Partners	250	150	154	200	265