Introduction

In the modern world, industry is at the heart of the development of virtually all societies. It not only contributed toward gross domestic product (GDP hereon) growth and sustenance, it also allows countries to cater to their own manufactured goods' requirements. Though differing in scale and scope, the fundamentals behind the workings of industry and their underlying sectors and sub-sectors remain the same. In order to ensure fair competition among those involved in manufacturing, regulation has proved to be a necessity, with regulatory authorities wielding varying degrees of power but with a common goal. This report seeks to examine the manufacturing industry from a global perspective, before narrowing the scope down to the Kenyan scenario. It will then look at the various sectors involved and their working, and the role of the existing manufacturing regulator.

The Wider Picture

In the global setting, profitability and strategic planning are manufacturing entities' main goals, boosted further by cost-reduction strategies. However, a 2014 report by KPMG reveals that only 12% of all surveyed manufacturers consider themselves very effective in determining profitability. The same percentage was reported under engineering and industry. 53% of all respondents were effective while 35% were somewhat effective. This is of concern since profitability has an effect on organizations' ability to service their loans. A loss-making entity is more likely to find it difficult clear its debts than a company in a strong profitability position, especially considering that creditors have superior claim.

The Kenyan Case

In a 2012 report, data by the Kenya National Bureau of Statistics indicates that output from the manufacturing industry has shown an upward trend. Output stood at 742 million, 770 million, 842 million and 1 billion shillings in 2008, 2009, 2010 and 2011 respectively. Although Kenya's economy is largely dependent on agriculture, the government recognizes the importance and contribution of manufacturing. In the Vision 2030 development blueprint, the Government of Kenya sought to improve the industry's position through attracting large strategic investors, import reduction and increasing market share to 15% from 10% from the year 2012. The Kenya Institute for Public Policy Research and Analysis (KIPPRA) estimates that as of 2013, manufacturing comprised about 70% of industrial contribution to Kenya's GDP. With this in mind, manufacturing is positioned as a top performing industry in Kenya. Despite government intervention however, KIPPRA notes that manufacturing GDP contribution reduced to 9.2% from 9.6% while growth reduced from 3.4% to 3.1% in the period between 2011 and 2012.

In Kenya, the manufacturing industry contributes up to 14% of the national GDP. The Kenya Association of Manufacturers (KAM hereon) identifies specific sectors which fall under the manufacturing industry. These are:

- Food, beverages and tobacco
- Metal and allied
- Leather products and footwear
- Chemical and allied
- Textiles and garments

- Plastics and rubber
- Paper and paperboard
- Timber, wood products and furniture
- Pharmaceutical and medical equipment
- Motor vehicles and accessories
- Energy, electrical and electronics, and
- Mining and construction materials

In each of the identified sectors, there are dominant firms and followers. In this respect, the following section identifies and briefly highlights selected sectors.

Food, Beverages and Tobacco

Retail food sellers make up the majority of participants in the food sector, both open air market vendors and more formal establishments such as supermarkets. The dominant mart by revenue and geographical distribution is Nakumatt Holdings Limited. Others are Tuskys Limited, Uchumi Limited, Naivas Limited and Ukwala Limited. The beverages sector is split into the beer and liquor sub-sector, soft drinks and finally smaller entities such as bottled water. The East African Breweries Limited largely dominates the alcohol market and is based in Ruaraka on the outskirts of Nairobi, with the other notable player being Keroche Breweries Limited. The soft drinks sub-sector is dominated by Coca Cola but Kuguru Food Complex Limited also poses some form of competition, albeit weakly with its Softa brand. British American Tobacco is the dominant force in the tobacco sub-sector.

Energy, Electrical and Electronics

Energy generation in Kenya is largely driven by the 70% government-owned Kenya Electricity Generating Company (KenGen) as a wholesaler and distributed by Kenya Power and Lighting Company as a retailer. As at 2016, KenGen operates in a monopoly fashion and has no competitors owing to the capital-intensive and thus exclusive nature of electricity generation. The electrical sub-sector in Kenya is most known for the production of cables and wiring equipment by the bourse-listed company East Africa Cables Limited. Electronics manufacture is yet to mature in Kenya since components are largely imported. Involved companies include Sollatek Electronics Kenya Limited and Airtouch Cooling Systems Limited.

Timber, Wood Products and Furniture

The demand for timber and wood products in Kenya is attributable to 3 main sources; industrial use, poles and posts and wood for domestic purposes, with domestic use accounting for the highest demand in quantity. The furniture sub-sector has a number of players involved, some of who include Victoria Furniture Limited, Jabali Furniture, Furniture Elegance and Furniture Palace International Kenya Limited.

Financing

Foreign Direct Investment (FDI) has been on the rise in Kenya, and owing to the financially lofty demands of manufacturing, FDI has been of added benefit for the industry's survival. Financing of manufacturing ventures in the country is largely foreign, with the United Kingdom accounting for half of the financing and the United States coming a close second. Local financing has also served to bolster the industry. Among the most notable institutions advancing loans for manufacturing purposes include the Industrial Development Bank (IDB), Development Bank of Kenya (DBK) and Kenya Industrial Estates (KIE).

Regulation

In Kenya, the manufacturing industry is regulated by KAM. Established in 1959 with the mission to promote competition and liberalism in local manufacturing, KAM is charged with several tasks in the industry. Key among these include

- Provision of quality demand-driven services to the business community
- Ensuring proper networking and information sharing within the manufacturing realm
- Ensuring that all firms within the industry operate according to the rules and regulations set in order to promote fair competition, and
- Creating a link between its members and the government through which grievances can be raised

Standard & Poor's notes that industries with low regulation across the world have been noted to contribute to some of the strongest economies. In Kenya, KAM is majorly concerned with the regulation of public companies and institutions. The private sector is regulated by the Kenya Private Sector Alliance (KEPSA), a body set up in 2003 with the aim of boosting the private sector's performance and reputation by targeting 3 main aspects.

- Improving local companies' position on the competitive index
- Increasing the ease of doing business

- Improving the country's performance on the bribery index

KEPSA's role comes into play due to the fact that out of 2,000 active manufacturing entities, only 2% are owned by the Government of Kenya through parastatal partnerships with locals and foreigners according to data from KAM. With a majority of entities falling under private ownership and control, a private sector regulator's role proves vital. With the presence of both public and private sector regulation, in addition to the involvement of the Capital Markets Authority, manufacturing entities in Kenya operate under strict conditions. As such, adherence to proper codes of conduct both in specific sectors and in the industry as a whole are of the highest possible level. There is also minimal government interference as far as regulation is concerned, thus allowing more fluid operation and dispute resolution within the industry.

The Kenya Revenue Authority (KRA) is also considerably involved regulation. Its tax measures resonate to the manufacturing industry in several ways, both positively and negatively as may be perceived by entities and investors. The former includes the removal of duty on capital equipment while the latter can be illustrated by the controversial excise tax requirement alterations in 2015.

Due to the high level of regulation in Kenya, manufacturing has suffered losses which are largely avoidable. Vision 2030 acknowledges that such regulation has led to complex and overlapping business registration, which has in turn affected the ease of doing business and led to reduced investor confidence and interest. While in Kenya it can take up to 4 weeks to register a business, the Rwandese High Commission notes that it can take as few as 2 days to incorporate a company in Rwanda. It is for this reason that the Kenyan government has taken a proactive role in reducing the burden of company registration.

It is important to note that Kenya ranks 99th in the Global Competitive Index for the 2015-2016 period with an overall score of 3.85 according to the World Economic Forum. In first place for the seventh consecutive year is Switzerland, with a score of 5.76 in the 2015-2016 period.

Constraints and Mitigation Efforts

The manufacturing industry in Kenya faces several challenges in addition to the regulation difficulties. KAM identifies poor infrastructure, high taxes, high utility costs, transport costs and inconsistent government policies as some of the challenges which stand out. The government also includes inefficient flows of commodities low productivity levels and high input costs as additional challenges. In addition to the identified challenges the dumping of cheap imports has significantly crippled the competitive nature of locally made products. Evidence of this is in lower quality but heaper leather product imports causing Bata's decline, cheaper paper importation causing the collapse of Pan Africa Paper Mill in Webuye and importation of second-hand clothing adversely affecting Kenya's cotton production's competitiveness. The poor state of transport infrastructure, relying mostly on a century-old railway network and roads which suffer congestion and gradually get worn out is yet another challenge facing current and would-be manufacturers locally.

Local manufacturing and distribution in Kenya has in recent times been affected by the problem of levies and fees to move commodities and raw materials across county borders. While this has allowed counties to protect plants within their jurisdiction and make themselves more competitive, it has also impeded cross-county interaction, which does more harm than good. Investors have therefore shied away from investing locally due to restriction in the counties in which they set up.

The bureaucracies that surround manufacturing have served to limit progress. Long processing requirements coupled with poor infrastructure have, for instance, kept transit time of manufactured commodities and input between Kenya to Tanzania at 16 days. This has seen delays in deliveries, manufacture and shipment, thus denting the potential of Kenya and East Africa in its entirety as a preferred international manufacturing hub.

Lack of sufficient levels of demand have seen manufacturers in the country shift their operation bases. This has seen the country's manufacturing industry trimmed down, with massive job cuts to protect profitability. Firms such as Cadbury Kenya, Devki Steel, Bridgestone and Colgate Palmolive have pulled out of the Kenyan market citing diminished profits attributed to demand not being commensurate to operation costs. The most significant layoffs have affected dry cell maker Eveready East Africa with 300 job cuts, Kenya Flourspar with almost 700 and Tata Chemicals with over 200. Devki Steel lost an astonishing 2,000 employees. Such massive layoffs have forced the affected firms to shut down, which has negatively impacted the attractiveness of Kenya's manufacturing climate.

The level of skill and expertise available in Kenyan manufacturing is wanting. While there is no shortage of labour for repetitive work, there is a void in terms of innovative and creative minds. As such, products become obsolete and significant periods of time pass before there is the injection of fresh output into markets. This has seen Kenya drag behind its competitors, the most famous example being the Kenya and South Korea comparison. In the 1960s, Kenya was well ahead of the Asian country, at one time even providing a loan when South Koreans faced starvation. However, innovation and foresight have seen South Korea overtake Kenya, with globally recognized brands such as LG, Samsung, Hyundai and KIA.

The Kenyan Government has put in place strategies to tackle some of the aforementioned challenges in order to make Kenya a preferred manufacturing destination. Some of these include the following:

i. The earmarking of 2,700 sq. kilometres of land in Mombasa and Lamu to set up Special Economic Zones as part of its 2008-2012 medium term plan embodied in the Vision 2030 development blueprint.
ii. The commissioning of the Standard Gauge Railway from Mombasa to Kigali in Rwanda, of which the Nairobi-Mombasa stretch was 55% complete as of October 2015 and scheduled to be completed in June 2017.
iii. The construction of the Thika Superhighway with an allocation of KES 29 billion for road maintenance by the Ministry of Transport for the 2015-2016 financial year. This represents an increase from the KES 25 billion allocated in the 2014-2015 financial year.
iv. The establishment of Huduma Centres countrywide to avail assistance in issues such as business name registration so as to significantly reduce the business registration period.
v. Digitization of the tax system to allow more efficient tax collection from businesses in a less costly, less corruption-susceptible and timelier fashion.
vi. Increasing the national’s power output to 5,000 megawatts by 2016 by setting up additional power plants through KenGen in a 40-month strategic plan initiated in 2014.

vii. Rolling out of 20, 25 and 30-year Infrastructure Bonds to avail additional funds to finance recurrent government expenditure on national infrastructure.

viii. Increasing information sharing across financial institutions on company credit as directed by the Central Bank of Kenya to curb information asymmetry.

Conclusion

The manufacturing industry in Kenya is robust and highly differentiated, with several sub-sectors. Its growth rate presents investors with an opportunity to take advantage of a rapidly rising industry in the largest economy in East and Central Africa. However, the industry has faced and continues to face significant challenges. Efforts to mitigate such challenges have been set up through such initiatives as the Vision 2030 strategic plan as well as various institutional reforms. Ongoing projects as well as completed ones have eased pressure on the government, especially where transport is concerned. While the high prevailing regulation level has perpetuated drawbacks in aspects such as business registration and policy comprehension, it has also served to reassure investors of the safety and security of Kenyan manufacturing, ceteris paribus.