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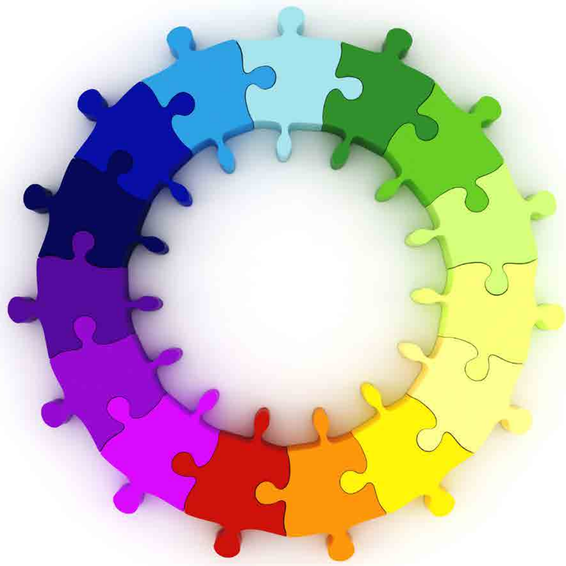

Promising future for manufacturing sector as the 2019/2020 budget is unveiled

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According to the Economic Survey 2019, Kenya's economy grew by 6.3 percent in 2018 majorly driven by impressive growth in Agriculture, manufacturing and transport sectors. This was an improved performance compared to a growth of 4.7 percent in 2017, the least in 5 years. Manufacturing sector recorded a growth of 4.2 per cent in 2018, which was an impressive rebound from a 0.5 per cent growth in 2017.

Under the Big Four Agenda, the government's goal is to increase the manufacturing sector's contribution to the Gross Domestic Product (GDP) to 15 per cent by 2022 (currently at 9.2 per cent), create jobs annually, increase foreign direct investment and improve ease of doing business. Arguably, the budget statement delivered by the Treasury Cabinet Secretary (CS) appears to place the sector on the right trajectory.

Being part of the "Big Four Agenda", it was expected that the sector would get a fair share of the budget allocation as well as the much needed tax incentives from the government to spur much needed growth.

Key measures

Special measures aimed at increasing manufacturing contribution to Gross Domestic Product (GDP) were highlighted. Some of the measures include revival of RIVATEX, one of the oldest textile company based in Eldoret, which is expected to be launched in the coming weeks. When fully operational, RIVATEX is expected to employ over 3,000 employees.

In addition, the government allocated a total of KES 1.1 billion for development of textile and leather industrial parks, Naivasha Industrial Park and Cotton Development subsidy, KES 1.7 billion to support the growth of SMEs and KES 1.0 billion to modernize facilities at the Kenya Industrial Research and Development Institute (KIRDI). Investors operating plastic recycling plants are also set to enjoy a reduced corporate tax rate of 15 per cent for the first five years.

The cost of electricity is a major element of the unit cost of manufacturing. In a bid to reduce the cost of manufacturing, the CS mentioned that a framework for deduction of 30 per cent of the total electricity by manufacturers as a rebate has now been developed. It will be recalled that this measure was announced during last year's budget statement and one would have hoped the measures would have been put in place much earlier. Nevertheless, this is a welcome move as it is expected to considerably reduce the cost of manufacturing by about 20 percent. Undoubtedly, manufacturers are looking forward to a simple and practical framework as this will provide the requisite criteria for qualification.

In response to the manufacturers' cry on large accumulation of VAT refunds with KRA, which has impacted negatively on cash flow and deprived the sector the much needed working capital, the CS mentioned that a team at the National Treasury has been instituted to quickly validate the outstanding refunds with a view to clearing them within the next two months. This would not have come at a better time and it is the hope of manufacturers that this will be implemented fully. Besides clearing the backlog, it will be prudent for the government to ensure efficiency in processing refunds and possibly set reasonable timelines for refund processing, say 60 days after lodging the claim.

Approximately 5 years after the re-introduction of the withholding VAT regime which is principally aimed at enhancing compliance, the government has finally considered reducing the rate from 6 percent to 2 percent. This will not only help reduce the build-up of VAT refunds, but will also help enhance the cash flow of businesses and stimulate economic activities and job creation.

The CS mentioned that the Buy Kenya Build Kenya initiative is in the process of developing a catalogue of items that are locally manufactured, assembled, mined or grown in Kenya and which will be given priority in public procurement. To this end, he alluded to an immediate measure for ministries, departments, agencies and other public entities to give exclusive preference in procurement of motor vehicles and motor cycles from companies that have assembly plants in Kenya.

It is worth noting that very few of the developed economies would speak of their economic success without attributing it, to a large extent, to manufacturing. The aforementioned measures are expected to catalyze competitiveness of the local manufacturing sector as well as create the much needed employment opportunities. This will, undoubtedly, spur economic growth, reduce poverty and seek to increase equality in the society. It is hoped that the measures will be fully implemented to realise the goals of uplifting the manufacturing sector.

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