CHANGE FOR AFRICAN FIRMS_CASE OF KENYAN SMEs

Presentation delivered at the SAFIC WORKSHOP ON SUCCESSFUL AFRICAN FIRMS AND INSTITUTION CHANGE on 7th December 2017 at the Nairobi Safari Club. NAIROBI KENYA

Amb. Dr. J. K. Kiplagat PhD. OGW.
Director, Industrial Information, Research & Policy
Ministry of Industry Trade and Cooperatives
jkiplagat@industrialization.go.ke
Presentation Outline

INTRODUCTION:
Vision 2030, Africa’s industrial standing.

SMALL AND MICRO ENTERPRISES
Constraints, Challenges and Opportunities for change.

SMEs: POLICY INTERVENTIONS
Access to finance and Market, Institutional support

CONCLUSION
Graduation Strategy
Knowledge Vs Effort!

ITEMIZED BILL
Tapping with a hammer...... ........ .................. Kshs. 20.00
Knowing where to tap........ .. ........ ..... Kshs. 99,980.00
TOTAL............................................. ..... Kshs.100,000.00

Effort is important, but knowing where to make that effort makes all the difference!
Transform Kenya into a newly industrializing, globally competitive middle-income country providing a high quality of life to all its citizens by the year 2030.

Policy developed in the context of Vision 2030, review of past policies, problems & challenges of industrialization, and experiences from successful economies.
We need to grow GDP by $4-6 billion per year for the next 13 years to hit vision 2030.
So that Every Kenyan City – Year 2030
Africa’s Vicious Circle

Low per Capita Income

Unemployment

Reduced interest for Local and FDI in manufacturing etc

High Demand for Social Support

Less Funding for Development Programs

Poor infrastructure and support for investment
HENCE OUR GLOBAL STANDING

- **Share of total global industrial production in % in 2005**
- **Share of global manufacturing production in % in 2005**
### Manufacturing contribution to GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP</th>
<th>% of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Egypt</td>
<td>17</td>
<td>50</td>
</tr>
<tr>
<td>Morocco</td>
<td>15</td>
<td>68</td>
</tr>
<tr>
<td>South Korea</td>
<td>32</td>
<td>92</td>
</tr>
<tr>
<td>Malaysia</td>
<td>28</td>
<td>74</td>
</tr>
<tr>
<td>Thailand</td>
<td>36</td>
<td>81</td>
</tr>
</tbody>
</table>

**FIGURES DONT LIE!!!**
AFRICA HAS DE-INDUSTRIALIZED

Manufacturing as Percentage of GDP
Sub-Saharan Africa
NEW FRONTIER!!!

Most oil and gas reserves concentrated in North Africa and Nigeria

Note: Size of circle indicates relative size of proved reserves, end of 2005

Source: BP Statistical Review of World Energy 2006
The Golden Lokichar Basin

*Source: Tullow presentation – P50 Discovered and Prospective*
From Grass to Glory

• Kenya is headed to become the first oil exporter in East Africa, moving in less than six years from being a have-not nation to the regional oil exporter.

• After Tullow Oil Plc (TLW) discovered oil in the Golden Lokichar Basin and Kenya is set to start shipments in 2018, overtaking neighboring Uganda, where Tullow found crude more than nine years ago.

• Kenya's deposits may top 10 billion barrels, more than three times the U.K.'s remaining reserves.
MALAYSIA

Before the Oil and Gas!

After the Oil and Gas!
Petronas twinTowers
Definition of SMEs

- MSEs in manufacturing, trading and services activities
- MSEs Act, 2012
  - **Micro Enterprise:**
    - Jobs < 10 people;
    - Turnover \(\leq \) KSh 500,000;
    - Plant/Machinery \(\leq \) Ksh 10,000,000 (Manufacturing):
  - **Small Enterprise:**
    - Jobs 10 – 50 people;
    - Turnover KSh 500,000 - KSh 5,000,000;
    - Plant/Machinery Ksh 10,000,000-50,000,000 (Manufacturing)
  - **Medium Enterprise:**
    - Jobs 50 – 100 people??
SMEs (Informal Sector)- “Old Image”
SMES (Informal Sector) - “Old Image”
1999:
2.4 mil people engaged in informal sector, of which 66% Rural based

2012:
10.5 mil people engaged, of which 66% Rural based.

Growth rate of 20% p.a.
SME Binding Constraints

1) Inadequate access to financial services
2) Limited access to infrastructure and worksites
3) Poor markets access
4) Inadequate skills and low technologies employed
5) Low entrepreneurial and business skills
6) Limited linkages with medium and large enterprises
SME Challenges

- A majority of SMEs across different industries are not able to identify their **competitive strengths** within the value chains.
- Some SMEs lack the **time** (e.g. owner/manager) and **skills** to understand the evolving global context and devise appropriate strategies. This, in turn, translates into an insufficient ability to define the **adequate business models** to gain competitiveness.
- Many SMEs are mainly concerned with the **inadequate financial resources**.
Role of SMEs in other economies

Kenya (Informal sector): Contributes 20% of GDP

China:
- Contributes 60% of GDP, 50% of tax revenues, 68% of exports and 75% of new jobs, 99% of China's registered enterprises

India:
- Contributes 40% of GDP, 45% of industrial output, 40% of exports employed 60 million people, creates 1.3 million jobs annually, produce over 8,000 marketable products

Malaysia:
- Contributes 40% of GDP

Singapore:
- Contributes 50% of GDP, 70% of employment
Opportunities for Kenya SMEs

- The policy framework of SMEs in Kenya contained in:
  - Kenya Vision 2030 – Economic Pillar - need to boost STI by increasing investment in Research and Development
  - Sessional Paper No 2 of 2005: Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction - legal and regulatory environment (MSE Act 2012), institutional frameworks to facilitate markets and marketing, business linkages, tax regime, skills and technology and financial services
  - KITP 2015 - assigns SMEs central role
Opportunities contd

- New niches for the supply of products and services have emerged where SMEs can quickly position themselves, exploiting their flexibility and ability to move fast. These include participation in innovations and product development (leveraging ICT), *subcontracts*, franchises, leases, etc.

- *Innovating and keeping up with new technologies* - must be seen by SMEs as a requirement for their successful participation in the global supply value chains.
New Image – Technology, Skills
New Image!! – Technology, Skills
Policy Interventions- 1. Access to Finance

Financial sector in Kenya well developed and SMEs can strategically position themselves to mitigate their low access to finance

- Development Finance Institutions (DFIs-ICDC etc)
- GOK Funds (WEF and YEDF)
- Savings and Credit Cooperative Organisations (SACCOs)
- Micro Finance Institutions (MFIs)
- Commercial banks
- Venture Funds
- Capital Markets
2. Institutional support

Public Support Institutions include:

ÅKIRDI – commercialization of research
ÅKEBS – product quality standards
ÅKIPI – protection of intellectual property rights
ÅKIE – business development services & finance
ÅADB - business development services & finance
ÅCDC - business development services & finance
ÅKENINVEST – Attracting investments
ÅEPC – promoting exports
ÅEPZA - Attracting export-oriented investments
ÅNITA – facilitating industrial training
ÅNACOSTI – facilitating STI
ÅPKC – facilitating productivity improvement
ÅMSEA – promoting micro and small enterprises
3. Market access

The SMEs enjoy policy backing that allocates 30% of all government procurement to the youth & women.

**Buy Kenya Build Kenya Policy and Strategy** - public procurement, private sector linkages, consumer perception change!

Regional Economic Integration (EAC, COMESA), Bilateral and Multilateral Arrangements (AGOA, EPAs, WTO)
4. SUB-CONTRACTING ARRANGEMENTS

- **What is Industrial Subcontracting?**
  - Industrial subcontracting and outsourcing are modern and efficient ways to organise industrial production, through cooperation between complementary production units:
    - a main contractor and various suppliers and subcontractors.

- **What are the principal forms of subcontracting?**
  - Subcontracting of industrial production is based, among others, on two important criteria:
    - production capacity;
      - When the available production capacity with a main contractor is not sufficient.
    - technical specialisation of the enterprise;
      - When the main contractor wishes to obtain the services of subcontractors who have specialised equipment or machinery and skilled labour to undertake complex and precision jobs.

- **Who are the main contractors?**
  - Generally, large industries engaged in industrial manufacturing, which require a large amount of parts and components for final assembly. Example is the motor vehicle assembly!

- **Who are the subcontractors?**
  - Generally, the small and medium enterprises/industries having specialised in certain processes and operations, are capable of supplying quality goods as per specifications of the main contractor and at the same time offer advantageous economic terms.
SUB-CONTRACTING
Best practices from other countries.

**Korea:** To promote sub-contracting relation the Government of Korea enacted a "SME Subcontracting System Promotion Act" to promote subcontracting. It:-
- requires large scale business to make subcontract plans with the appropriate SMEs
- prevents differed payments by a large scale business beyond legal limitations
- sets up the subcontracting Promotion Council.
- **Generous financial and fiscal support like tax waivers,** is provided by the Government to subcontracting SMEs.

**Taiwan:** Taiwan has industrialized in a short time by making a policy of industrial development through promoting specialization and efficiency.
- Centre–Satellite factory promotion program aims to organize and integrate smaller enterprises around a principal one: inter-linkage.
- The government promotes backward linkages by foreign investors.

**Japan:** In Japan, sub-contracting has been pursued as a constant policy experience for a long period of time. **POWERING THE AUTO INDUSTRY!!!**
- Sub-contracting covers a wide range of Japan’s industrial activities but is essentially centered on the machinery, textile, and metal industries. Trends in sub-contracting dependency ratio (proportion of sub-contracting transaction to the total sales value of manufactured products) is above 80%
Institutional Change: “The Big Four”

20% of GDP from the manufacturing sector

1 million affordable new houses for Kenyan families

100% Universal Health Coverage (UHC)

100% Food and Nutrition Security

Transforming the nation

Transforming lives

Transforming societies

Enabled by macro-economic stability

Youth in jobs through vocational training and education

Targeted infrastructure investments

Competitive cost of power

Governance

Security

Technology innovation
20% Contribution to GDP by Manufacturing

Critical drivers

1. Textiles and Apparels
2. Leather and Leather Products
3. Agro-Processing
4. Fish Processing
5. Construction Materials
6. Oil and Gas
7. Small and Medium Enterprises (SME) Development
8. Information – Technology Related Sectors
9. Market Access
10. Industrial Zones and Parks
11. Ease of Doing Business
<table>
<thead>
<tr>
<th>Textiles &amp; Apparel</th>
<th>Treasury</th>
<th>Infrastructure</th>
<th>Energy</th>
<th>Agriculture</th>
<th>Lands</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury</td>
<td></td>
<td>Off-site infrastructure to Textiles Hub Athiriver &amp; Naivasha</td>
<td>Electricity and Geothermal power provided to Park</td>
<td>Roll out of BT cotton</td>
<td>Acquire land</td>
<td>Approvals for EIA &amp; SEIA</td>
</tr>
<tr>
<td>Leather and Leather Products</td>
<td>Treasury</td>
<td>Offsite Infrastructure at leather park (s)</td>
<td>Electricity and Geothermal power provided to Park</td>
<td>Animal husbandry for Hides and Skins</td>
<td>Acquire land</td>
<td>Approvals for EIA &amp; SEIA</td>
</tr>
<tr>
<td>Agro-Processing</td>
<td>Treasury</td>
<td>Offsite Infrastructure to Agropolis &amp; Agro-polis</td>
<td>Electricity provided to Agropolis &amp; SME Industrial Parks</td>
<td>Agro-produce cold chain and production</td>
<td>Acquire land</td>
<td>Approvals for EIA &amp; SEIA</td>
</tr>
<tr>
<td>Fish Processing</td>
<td>Treasury</td>
<td>Fish Berth developed, Lamu SEZ infrastructure developed</td>
<td>Electricity provided to ponds</td>
<td>Marine, Fresh Water &amp; Aquaculture policies revamped</td>
<td>Acquire land</td>
<td>Approvals for EIA &amp; SEIA</td>
</tr>
<tr>
<td>Construction Materials</td>
<td>Treasury</td>
<td>Access Roads to factory clusters</td>
<td>Electricity Provided</td>
<td>N/A</td>
<td>Acquire land</td>
<td>Approvals for EIA &amp; SEIA</td>
</tr>
</tbody>
</table>
Successful SME Graduation Strategy

Medium and Large Industries

Micro and Small Industries/Enterprises

Subcontract services, supply of raw materials, and spares etc.

Get GoK to SUPPORT SMEs

SME Graduation

Capacity, skills, quality & Confidence of SMEs
High per Capita Income

Low Demand for Social Support

More Funding for Development Programs

Good infrastructure and support for investment

Increased interest for Local and FDI

Employment Food & Energy Security Disease Free

AFRICA’S SUCCESS STORY

Thank You