



SME RENAISSANCE

Exploring Opportunities for Kenyan SMEs under AFCFTA

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Executive Summary

AGENDA 2063 is Africa's blueprint and master plan for transforming Africa into the global powerhouse of the future. It is the continent's strategic framework that aims to deliver on its goal for inclusive and sustainable development and is a concrete manifestation of the pan-African drive for unity, self-determination, freedom, progress and collective prosperity pursued under Pan-Africanism and African Renaissance

Agenda 2063 identifies key Flagship Programmes which can boost Africa's economic growth and development and lead to the rapid transformation of the continent.

The Flagship projects encompass amongst others infrastructure, education, science, technology, arts and culture as well as initiatives to secure peace on the continent as illustrated below

The AfCFTA being a key agenda 2063 programme is an agreement among the African Union Member States aims to significantly accelerate growth of Intra-Africa trade and use trade more effectively as an engine of growth and sustainable development by doubling intra-Africa trade, strengthening Africa's common voice and policy space in global trade negotiations.

Cognizant of the commencement of trade under AFCFTA terms as of January 2021 the reports seeks to explore opportunities that lurk for Kenyan SMEs as well as explore policy measures to support Kenyan SMEs in exploiting the opportunities anticipated to stem from the AFCFTA.

The reports examines the framework that underpins the AFCFTA under African Union Agenda 2063, takes a deep dive on Kenya's SME landscape and finally explores the role and possible intervention of key SME stakeholders in supporting SMEs to harness the opportunities stemming from trade under AFCFTA.

The report seeks to add to the existing body of knowledge on AFCFTA as well as contributing to the continued discourse on effective implementation of the AFCFTA.



Introduction

Agenda 2063

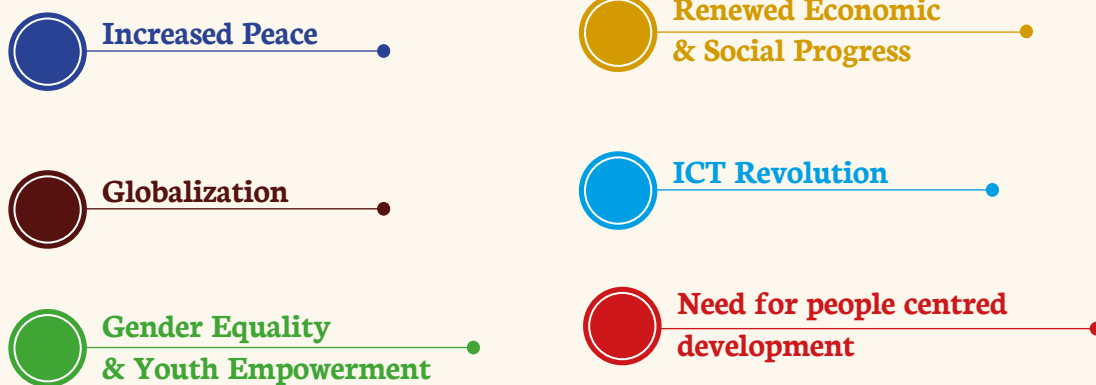
AGENDA 2063 is Africa's blueprint and master plan for transforming Africa into the global powerhouse of the future. It is the continent's strategic framework that aims to deliver on its goal for inclusive and sustainable development and is a concrete manifestation of the pan-African drive for unity, self-determination, freedom, progress and collective prosperity pursued under Pan-Africanism and African Renaissance .

The genesis of Agenda 2063 was the realisation by African leaders that there was a need to refocus and re-prioritise Africa's agenda from the struggle against apartheid and the attainment of political independence for the continent which had been the focus of The Organisation of African Unity (OAU), the precursor of the African Union; and instead to prioritise inclusive social and economic development, continental and regional integration, democratic governance and peace and security amongst other issues aimed at repositioning Africa to becoming a dominant player in the global arena.

As an affirmation of their commitment to support Africa's new path for attaining inclusive and sustainable economic growth and development African heads of state and government signed the 50th Anniversary Solemn Declaration during the Golden Jubilee celebrations of the formation of the OAU /AU in May 2013.

The declaration marked the re-dedication of Africa towards the attainment of the Pan African Vision of an integrated, prosperous and peaceful Africa, driven by its own citizens, representing a dynamic force in the international arena and Agenda 2063 is the concrete manifestation of how the continent intends to achieve this vision within a 50-year period from 2013 to 2063.

Table 1 : Driving Factors for Agenda 2063



Source: African Union Analysis : Author

Agenda 2063 identifies key Flagship Programmes which can boost Africa's economic growth and development and lead to the rapid transformation of the continent.

Agenda 2063 also identifies key activities to be undertaken in its 10 year Implementation Plans which will ensure that Agenda 2063 delivers both quantitative and qualitative Transformational Outcomes for Africa's people

The flagship projects of Agenda 2063 refers to key programmes and initiatives which have been identified as key to accelerating Africa's economic growth and development as well as promoting our common identity by celebrating our history and our vibrant culture.

The Flagship projects encompass amongst others infrastructure, education, science, technology, arts and culture as well as initiatives to secure peace on the continent as illustrated on Table 2.



Table 2 : Agenda 2063 Flagship Programmes

Integrated High Speed Train Network
Formulation of an African Commodities Strategy
Establishment of the African Continental Free Trade Area (afcfta)
The African passport and free movement of people
Silencing the guns by 2020
Implementation of the Grand Inga Dam project
Establishment of a Single African Air-Transport Market (saatm)
Establishment of an Annual African Economic Forum
Establishment of the African Financial Institutions
The Pan-African e-network
Africa outer space strategy
African virtual and e-university
Cyber security
Encyclopaedia Africana
Great African Museum

Source: African Union Analysis : Author

Starting January 2021 Africa will commence trading under the AFCTA terms hence it will be prudent for SMEs to explore available opportunities that will stem from the new dispensation.

Article 3 of the AFCFTA framework agreement stipulates the major objectives as illustrated below.

Table 3: Objectives of the AFCFTA

Create a single market for goods, services, facilitated by movement of persons in order to deepen the economic integration of the African continent and in accordance with the Pan African Vision of an integrated, prosperous and peaceful Africa” enshrined in Agenda 2063
Create a liberalised market for goods and services through successive rounds of negotiations
Contribute to the movement of capital and natural persons and facilitate investments building on the initiatives and developments in the State Parties and RECs
Lay the foundation for the establishment of a Continental Customs Union at a later stage
Promote and attain sustainable and inclusive socio-economic development, gender equality and structural transformation of the State Parties
Enhance the competitiveness of the economies of State Parties within the continent and the global market
Promote industrial development through diversification and regional value chain development, agricultural development and food security
Resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration processes.

Source: African Union Analysis : Author

The AfCFTA builds upon the regional markets of the regional economic communities in providing a channel for the growth of Africa’s informal, micro, small and medium-sized enterprises (MSMEs).

Kenya just like other state parties in accordance with Article 27 (2) (d) of the Protocol on Trade in Services is mandated to “improve the export capacity of both formal and informal service suppliers, with particular attention to micro, small and medium size; women and youth service suppliers”



Kenyan SME Topography

Kenya Vision 2030, the long-term development blueprint that seeks to transform Kenya into a newly industrialized high middle-income country, recognizes the key role of small and medium-sized enterprises (SMEs) in attaining its goals.

Similarly, SMEs are considered as the cornerstone for manufacturing and have been identified as central enablers towards realizing the 'Big Four' transformational agenda under the manufacturing pillar.

At the international level, SMEs are considered critical in achieving the United Nations 2030 Agenda on Sustainable Development and its Goals.

Table 4: SME Contribution to Sustainable Development Goals

Goal 1	Goal 8	Goal 9
End all forms of poverty	<ul style="list-style-type: none">• Sustained and inclusive economic growth• Productive employment and decent work	<ul style="list-style-type: none">• Build Resilient infrastructure• Inclusive, sustainable industrialization & foster innovation

Source : UNDP Analysis : Author

At the regional and continental levels, SMEs will play an important role in increasing intraregional and interregional trade as envisaged in the regional economic blocs, especially the recently launched African Continental Free Trade Area.

Kenya's real Gross Domestic Product (GDP) is estimated to have expanded by 5.4 per cent in 2019 compared to a growth of 6.3 per cent in 2018 majorly driven by the services sector (KNBS Economic Survey 2019) and is the leading economy in East Africa and fifth largest economy in sub Saharan Africa behind Nigeria, South Africa, Angola and Sudan (World bank 2014).

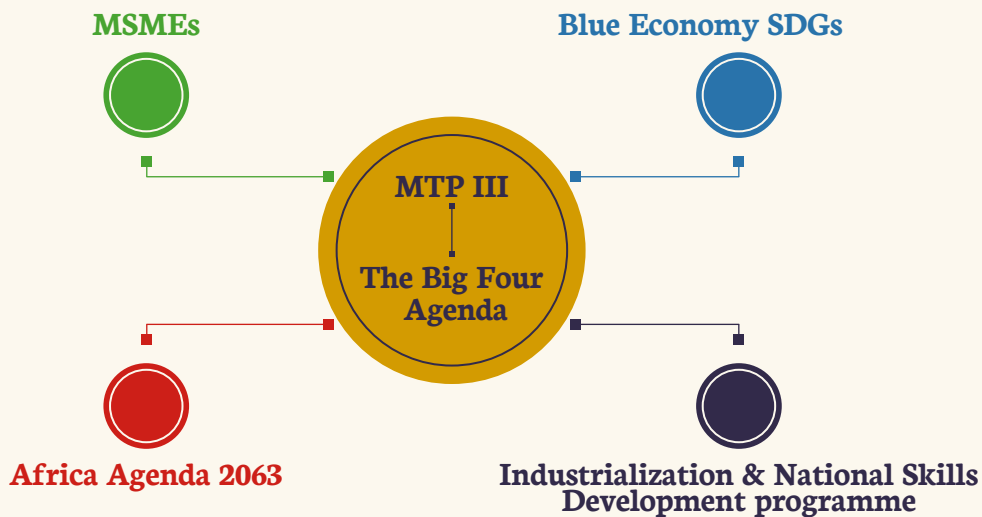
SMEs employ more than 30 percent of Kenya's population and play a central role in its socio economic development as evidenced by 33 percent GDP contribution. Efforts to make SMEs more competitive can help the country achieve its development objectives by creating more jobs, strengthening sectors and developing business models that work.

Policy and business reforms that include developing the trade support ecosystem and capacity building at the firm level aim to help Kenyan SMEs become more competitive - nationally, regionally and globally. However, effective change requires information, data and analysis on the opportunities and constraints SMEs face to diagnose problems, facilitate evidence based decision-making and assess the effectiveness of those decisions.

The government through MTP III aims to give high priority to the Big Four agenda with the following priority (Table 5) areas being aligned to the Big Four.



Table 5 : Nexus between MTP III and The Big Four Agenda



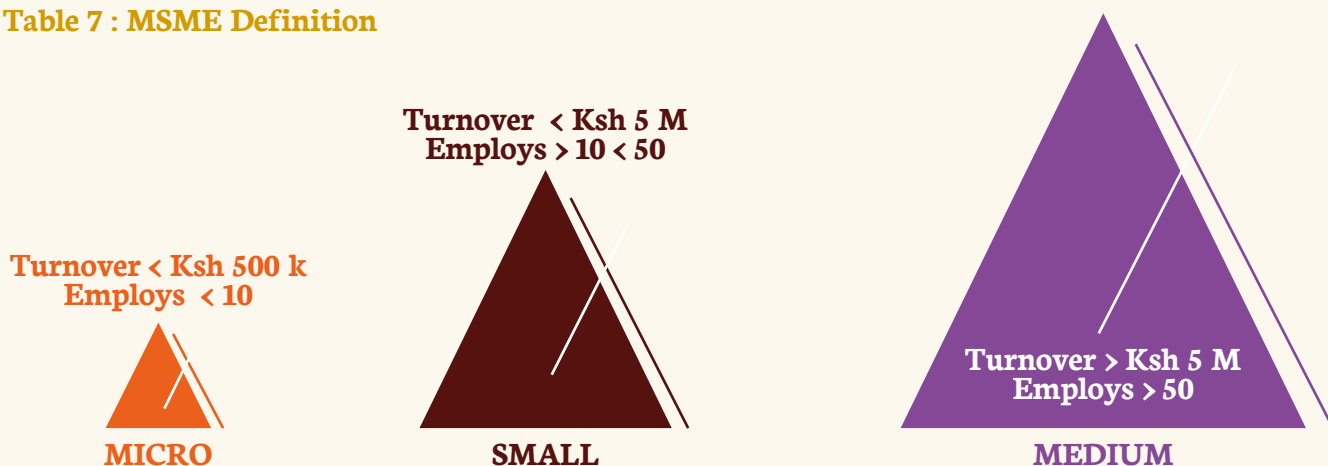
The Government’s Third Medium-Term Plan 2018–2022 towards achieving Kenya Vision 2030 recognizes the SME sector as a priority area for development and seeks to support SMEs as illustrated on table 6.

Table 6 : MTP III Proposed SME support



MSMEs in Kenya are defined based on turnover and number of employees with MSE act 2012 defining micro enterprise as a firm, trade, service, industry or a business activity whose annual turnover does not exceed five hundred thousand shillings and employs less than ten people while small enterprises are those whose annual turnover ranges between five hundred and five million shillings; and employs between ten and fifty people (Table 7).

Table 7 : MSME Definition



Source: MSE Act 2020 Analysis: author



The Micro and Small Enterprises Act of 2012 created a structural framework for the promotion of MSE activities, with four new government institutions: Registrar of MSEs, responsible for registering MSEs, MSE associations and umbrella organizations, MSE Authority, to formulate and review policy programs for MSEs, as well as raising resources for the development of MSE activities. It also develops capacity-building programs for MSEs, identifies markets for MSEs and administers the MSE Fund, MSE Fund, provides access to affordable credit.

This credit is accessible by MSE associations or umbrella organizations, or by NGOs and other organizations promoting MSE activities. It is meant to finance research, development and transfers of technology for MSEs, MSE Tribunal, to settle disputes specific to MSEs (MSE Act 2012).

Manufacturing accounted for 24 percent of SME GDP contribution of 33 percent followed by food-accommodation and wholesale-retail respectively as shown in table 2 and part of the Big four agenda with a goal of increase its contribution to the GDP from 9.2 per cent in 2016 to 15 per cent by 2022 as well as create employment creation.

Table 8: SME GDP and Employment Contribution by sector

SME Economic Sub Sector	Contribution to GDP (33%)-Ksh 3371.7 bn	Employment Contributing (14.9 m)
Manufacturing	24.3%	
Food & Accommodation	2.4%	11.8%
Wholesale-Retail	22.8%	11.1%
Repair of Vehicle-Cycle		27%
Education, Financial, Real Estate, Transport & Health	24%	10.9%
Other	28.9%	12.2%

Source : KNBS 2016 MSME report

The prospect for increasing the share of the manufacturing sector output in total GDP lies in Sessional Paper No. 9 of 2012 on National Industrialization Policy framework (2012-2030).

Further impetus towards realisation of this policy objectives is provided in the Mid-Term strategy vide the Kenya Industrialization Transformation Programme (KITP)² of 2015 which prioritises the sector to be focused on industrial development over the period, as is also emphasised in the Medium Term Plan III (2018-2022) Envisaged industrial transformation interventions are expected to stimulate industrial output, leading to the manufacturing sector's output contribution to GDP rising from 8% (or KES 648 billion) in 2017 to 15% of GDP (or KES 2.2 trillion) by 2022.

The Manufacturing Sector contribution to the GDP declined from 10.7 per cent in 2013 to 8.4 per cent in 2017 while its growth declined from 5.6 per cent in 2013 to 2.7 per cent in 2016 and further declined to 0.2 per cent in 2017.

Manufacturing output increased from Ksh. 1,737,699 million in 2013 to Ksh. 2,204,805 million in 2017 (Third Medium Term Plan MTPIII 2018-2020)



The Sector performance was mainly driven by the textiles and apparels, which grew by 15 per cent, pharmaceutical products by 17 per cent, beverages by 13 per cent, wood and wood products by 10 per cent, and basic metals by 11 per cent.

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Over the same period, assembling of motor vehicles reduced by 5 per cent, rubber products by 41 per cent, tobacco products by 5 per cent, fish processing by 38 per cent and fabricated metals by 5 per cent.

The drop was partly attributed to, among others, high cost of doing business and stiff competition from imports. Credit to the Manufacturing Sector increased from Ksh.182 billion in 2013 to Ksh.311.8 billion in 2017.

The number of manufacturing projects approved by industrial financial institutions increased from 257 in 2013 to 388 in 2016 mainly due to the rise in the number of micro and small enterprises financed by the Kenya Industrial Estates (KIE).

Total employment in the Manufacturing Sector stood at 1,760,400 persons in 2016 with 300,900 persons being formally employed.



Stakeholder Roles under AFCFTA

The Role of SMEs

Creation and strengthening of SME trader associations -cooperatives -in target areas and sub sectors as a means to access more information, more services thus better manage their businesses and strengthen their bargaining power. Areas of aggregation are SME traders at Kenya's borders as well as entrepreneurs in potentially high value

Investment in high potential sectors- with more than two thirds of the gains under AFCFTA expected to be captured by the manufacturing sector, with the textile, wearing apparel, leather, wood, paper, vehicle and transport equipment, electronics and other industrial goods (The Futures Report) Table 9.

Table 9 : High Potential Sectors under AFCFTA



Source: Future Report Analysis; Author

Role of Industry in supporting SMEs

Industry in Kenya and for the purpose of this report is represented by Kenya Private Sector Alliance (KEPSA), Kenya National Chamber of Commerce and Industry (KNCCI), Kenya Association of Manufacturers (KAM), Kenya Bankers Association (KBA), Kenya national Federation of Jua Kali Associations (KNFJKA) and nascent formations such as Digital Lenders Association of Kenya and can explore the following intervention in supporting SMEs harness the potential presented by AFCFTA:

Sub-contracting opportunities: Cognizant that larger companies due to more resources will be able to negotiate and access new continental market opportunities, it will be good if such opportunities can trickle down to SMEs through sub-contracting of excess capacity.

Trade/Exhibition Opportunities: Industry can organize trade exhibition to various African countries for SMEs to showcase and sell their products

Study tours/Benchmarking opportunities: Industry can facilitate study tours for SMEs in select industries to enable them learn new ways of doing business as well as partnership opportunities develop continental value chain linkages

Making trade finance available: Industry especially financial institutions as well as Digital Association of Kenya must rise to the occasion and provide trade finance that can support inter-country trade especially for SMEs.

Role of Government in supporting SMEs

In line with government efforts of supporting SME through Vision 2030 as well as MTP III the following are areas government can offer support in order to facilitate Kenyan SMEs in harnessing the potential presented by the AFCTFA:

Market Intelligence: Government must conduct a continental feasibility study and establish current and potential market opportunities hence facilitate market for Kenyan SMEs as well as venture build around potential market opportunities

Trade/Exhibition Opportunities: Government can organize trade exhibition to various African countries for SMEs to showcase and sell their products

Quality and availing standards: This can be achieved through close collaboration between the Kenya Bureau of Standards (KEBS) and TVET sub sector with the SMEs in manufacturing (Jua Kali) on improving product quality through adoption of quality standards as well as access to production equipment

Intellectual property support: Government must facilitate intellectual property support and enforcement for locally produced products

Study tours/Benchmarking opportunities: Government can facilitate study tours for SMEs in select industries to enable them learn new ways of doing business as well as partnership opportunities develop continental value chain linkages

Support of future industries: In response to globalization and recent global trends, Kenya must support SMEs in; pharmaceutical and Healthcare to manufacture PPEs locally targeting both local and continental market, green economy as well as Start-ups that are organizations founded or based on technology.

Improving trade facilitation processes at the borders: This will be especially beneficial to women who are estimated to account 70 percent of informal cross-border traders in Africa and are vulnerable to harassment and violence. Tariff reduction and improved trade facilitation makes it more affordable for informal traders to operate through formal channels, which offer more protection.

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