Manufacturing Challenges in Kenya

Agricultural Development through Mechanization

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By Chris Outram, DIRECTOR.

Company Profile

- A local agricultural machinery manufacturer.
- Situated in Gilgil.
- Established in August 1965
- Factory area: 5 acres. Buildings: 62,000 sq.ft.
- Modern factory employing 150 workers when in full production
- Largest employer in the area
- Exports to Tanzania, Uganda, Ethiopia, Burundi, Rwanda, Sudan, Zambia and Ghana.

Products

LARGE SCALE FARMER

- Planters (Air Seeders)
- Cultivators
- Heavy Duty Chisel Ploughs

- Harrows
- Agro-Trailers – Tractor Drawn
- Horticultural Trailers
- Flower Shredders
- Grass cutting equipment

Products

SMALL SCALE FARMER

- Chisel Ploughs (rip on row)
- Planter Sprayer Units
- Maize Planter
- Workhorse

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Products

OTHER PRODUCTS

- Maize Hammer Mills
- Lawn Mowers
- Water-Driven Water Pumps
- Dam Scoops
- Dolly Trailers
- Baggage carts
- Wood-Burning Stoves
- Water Heaters

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Challenges

PRODUCTION: Imported Input

- High Port Charges (approx 25% of goods value) and congestion at ports
- Duties on imports of Steel (10 to 15%). Note that imported *finished* agricultural machinery can be imported free of duty.
- Counterfeit Goods – example of maize mills – no protection (see note on KEBS on next slide).
- KEBS Pre-Shipment verification, small shipments require inspection, causes delays and 15% penalty for local inspection.
- Fluctuating local currency can mean expensive imports, difficult to budget.
- TREO – (essential goods, not export goods) import assistance for manufacturers on import duty (TREO - Tax Remission Exemption Office)

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Challenges

PRODUCTION: Local Factors

- High Bank Charges and interest rates
- VAT Refunds, delayed repayments up to two years.
- Taxation issues, KRA difficult to deal with and very one sided.
- Licenses and Levies: New Labour Laws, Health and Safety, NEMA, KEBS
- Steel Cartels – Controlling Prices and Availability
- Poor quality of locally produced material (KEBS)
- Fuel Prices
- High Electricity costs plus irregular supply
- High Labour costs – Unions pushing for 10% every year, unrealistic and uncompetitive compared to India and China

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Challenges

MARKETING AND DISTRIBUTION

- Training on Suitable Farming Methods is limited
- Inaccessible / Expensive Credit facilities to Farmers
- Old institutions such as the KFA are now no longer in existence, inputs to farmers are therefore more difficult to obtain at beneficial prices. Government subsidies limited mainly to fertilizer and seed.
- Need to encourage agricultural contractors, more farmers can share new mechanization
- Cross Border Red Tape (especially imports into TZ) EAC still difficult to deal with when exporting products.
- High Production Costs – economy of scale – foreign manufacturers will build 300 of one machine, we will build maybe 5!
- Poor Rural Road Network – expensive delivery costs
- Importation of wheat at subsidized rates when we have good crops, thus bringing price of wheat down

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Net Result of Production Challenges Not Being Addressed

1. The many hurdles facing local manufactures, which cause an unlevel or uneven playing field when comparing local products to imported products, will eventually cause:

Manufacturers to close local manufacturing plants, purchase finished products from overseas and import directly. In turn, the following will occur -

a) Local employment will be lost

b) Local economy will suffer

c) Government will lose out on tax and other revenue – currently collected from manufacturing industry

d) Farmers will suffer, as products ideally suited to local conditions will no longer be available – importers will only import fast moving equipment

e) Farmers will not have spare parts immediately available, these will need to be imported – Ndume obviously manufactures spares which are immediately available off the shelf – in country.

f) New technology such as small planters and small chisel ploughs (for the smallholder farmer) will not be developed or be available

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Promoting Local Industry and Manufacture

- We need the support of the Kenyan Government to protect rather than penalise local Industry and Manufacture.
- Lets work together to promote local Manufacturing and Industry, policy makers need to be informed of the problems we experience.
- Promote educating farmers on new farming techniques and the availability of new machinery
- Promote financing options and availability of funding to farmers
- Economies of scale – by increasing production, product prices come down
- Promote our Kenyan expertise and Industry to our neighbours, promote export of our products - again resulting in lower prices due to increased production.
- Police the poor quality of imported competing products entering Kenya, after all we pay KBS levies based on our productivity.
- Limit importation of wheat to times that we do not have enough for our food requirements.