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The Big 4 Agenda; Challenges and Opportunities

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The Big 4 Agenda refer to the President's legacy projects that are projected to enhance economic growth while improving the quality of life for all Kenyans. The Big 4 encompass manufacturing, universal healthcare, affordable housing and food security. If/When they come to fruition, the Big 4 Agenda points to the country attaining middle income status.

In the talk of the country's huge and ballooning debt levels (c.60.0% of GDP), financing the high capex projects is of key concern. The head of state plans to cooperate with foreign investors having reached out to various powerful economies to partner with the Government. Kenya is set to receive a USD 2B grant from the United Nations for the 'Big Four' development agenda. In addition, the Government is keen to see the PPP financing model divest from just the energy sector to finance the Big 4 Agenda. The financing model will see the private sector partly finance the Big 4 projects with the Government considering subsidies to entice the profit seeking sector. Though exciting at face value, the PPP financing model has come under pressure in the European markets arguing that the long-term costs of such projects to the public outweighs the debt exposure if they were financed through debt.

To kick-start the projects, To achieve these targets, National Treasury Cabinet Secretary Henry Rotich allocated KES 460B to the Big 4 and elaborated strong monetary and fiscal policies to fund the agenda. To ease financing the private sector, the state folded five kitties — Kenya Industrial Estates, Development Bank of Kenya, Industrial Development Bank of Kenya, Uwezo Fund, Youth Enterprise Development Fund and Women Enterprise Development Fund, to form Biashara Kenya Fund, which will give loans to special groups for as low as 6.0%.

To finance the Big 4 Agenda as well as repay maturing debt obligations, the government plans to raise taxes in the country. In a drive to raise revenues, this may prove counterproductive as it may raise the cost of living and doing business, discouraging investment. The planned introduction of VAT on fuel will have a ripple effect on the country's inflation figures, raising the cost of living. The Treasury CS proposed the introduction of a "robinhood tax" on bank transfers above KES 0.5M. In addition, the CS proposed the raising mobile money tax by 200bps and increasing the tax rate for firms earning above KES 0.5B to 35.0%. All these may dim the allure of the country as an investment destinations for the same firms that the country is keen on attracting.

Though the future painted by the Big 4 projects appears alluring, the prevalence of corruption in the country may stifle the implementation of the projects. Taking cognizance of this, the head of state has spearheaded an onslaught on the vice with the public backing the steps taken; Ipsos Synovate poll shows 51.0% of respondents deem the fight sincere. Nonetheless, intricate loopholes in our legal systems have seen the "big fish" walk unscathed in previous corruption scandals; though, for all our sakes, we hope that history won't repeat itself.

Despite all this, the Big 4 Agenda has received warm welcome across the board from both public and private institutions. In addition, the "handshake" has seen opposition county leaders give their full support for the projects which may hasten the launch and completion of the projects.

In this special feature, we look at each of the four pillars of the Big 4 agenda, their challenges in execution, solutions to the said challenges and opportunities that lie therein.

Manufacturing

The Government is keen on raising Manufacturing input from 7.0% (2017) to 15.0% by 2022. This will be achieved with the Government creating an enabling environment, availability of cheap power and increased consumption from the public.

Challenges

- High set-up costs for new manufacturers especially in the SME sectors;
- Current manufacturers are lamenting over the increase and proliferation of counterfeit and contraband goods;
- Prevailing high energy costs at c.US 15 cents per unit consumed. In addition, frequent power outages impede efficient production and the reliance on diesel power to meet the deficit raises operating costs;
- The high energy and production costs translate to higher commodity prices that make Kenyan goods uncompetitive.
- The increase of cheap imports have taken a toll on current manufacturers whilst new potential manufacturers are suffocated by the slim margins they'd have to contend with in fighting with the cheap imports;
- The sluggish growth in private sector credit has compressed credit lines for the manufacturing sector;
- Poorly developed capital markets have forced manufacturers to rely largely on bank credit that has been costly (before the rate cap) and not forthcoming (during rate cap);
- Poor marketing strategies employed by manufacturers. In addition, the consuming public has been led to believe that the imported goods are superior to their locally made counterparts;
- The education policy weighing heavily on white collar jobs denying the sector of properly trained artisans and technicians;
- Historical push for unprocessed/partly processed agricultural exports;
- Limited creativity by county governments to raise revenues have seen the counties raise taxes and levies charged to manufacturers. For instance, the cess charges imposed for intercounty movement of goods has raised the cost of transport, raising the prices of goods;
- The informal manufacturing sector *(Jua Kali)* has been struggling to grow despite the Government's plan to raise its production;
- Weak Research and Development (R&D) carried out by manufacturing firms to develop products and to enhance efficiency aimed at lowering the market prices;
- Low productivity of resources employed by manufacturers;
- Younger generation (the bulk of the workforce) is seen to have lost interest in the manufacturing careers.

Solutions and Opportunities

- Encourage agro-processing whilst discouraging raw/semi-processed exports;
- County Governments need to ease up on charges levied to manufacturers. In addition, given the knowledge by the devolved units, the governments need to encourage agro-processing of raw goods produced in the counties;
- Set up of industrial parks and zones which could see manufacturers get service providers under one roof. The proposed Olkaria Industrial park is estimated to ease the cost of power (proximity to geothermal production) and ease transport costs (proximity to the SGR);
- The Government plans to ban foreign trawlers aiming at boosting the blue economy;
- Plan to revive the cotton industry by targeting the production of hybrids which have three times the yield of conventional cotton seeds. It is also looking at offering impetus to manufacturers to set up modern ginneries and textile manufacturing plants;
- Plan to lower on diesel power production as well as lower/eliminate power outages will ease production costs making Kenyan goods more competitive;
- The Government should encourage local consumption of goods by ensuring that it's expenditure (both capital and recurrent) is mostly local goods;
- The public and private sector need to work on linkages to enhance growth of locally produced exports to various markets;
- Change in education policy and syllabus to ensure adequate supply of trained and qualified human resource to the sector;
- Growth in the capital markets to diversify credit lines to the sector. The markets should enhance availability of long-term (debt and equity) and short-term (commercial paper) finance lines to support the expanding sector;

- Revival of the leather tanning and processing industries is key for the government with the government looking to export KES 7.0B worth of leather products. The Government plans to set up the Machakos leather park that will house tanneries and leather processing firms to take advantage of the huge consumption of leather products that is currently being met by imports;
- The Government is also keen on attracting 5 business process outsourcing in telephone, laptop and television assembly plants. This will take advantage of large firms plan to outsource production in cost effective countries as they seek to widen profit margins. The current Kenyan location and potential growth of the East African and African regions points to growing leverage points for foreign firms to set up shops in the country;
- The increased set up of local iron and steel manufacturers will ease input costs for the manufacturing industry;
- Current fight against corruption may lower the amount and prevalence of counterfeit goods in the country;
- The Biashara Bank Fund set up may ease credit costs for manufacturers looking to set up and expand;
- Plan to repeal the rate cap may enhance private sector credit growth easing credit challenges for the sector;
- The African Continental Free Trade Area Agreement (CFTA) may expand the market for locally produced goods. In addition, the country's power, technology and human resource development may attract firms looking to supply the African continent to set up shop;
- Marrying technology with other factors of production to enhance efficiency more so by the SME manufacturers. This will enhance the competitiveness (in quality and price) of locally made goods against imports as well as encourage the regional and global demand for locally made goods;
- Encourage R&D by the manufacturing sector. SMEs can tap into R&D human resources at tertiary education levels by having the R&D target industry specific requirements. This could make R&D cheaper for SMEs while earning the tertiary institutions alternate revenue streams;
- The cheaper and easier business registration process being pushed by the government could encourage the growth and development of informal manufacturers into formal manufacturing houses. This could enable them tap into credit lines by the banks as well as capital markets;
- Though still budding, e-commerce could solve some of the marketing problems encountered by local manufacturers whilst encouraging local consumption;
- Economic growth across various sectors may narrow the rich-poor gap handing more disposable income to more consumers encouraging local consumption;
- The Government and other stake-holders should encourage Kenyan re-investment of profits made by foreign manufacturers to spiral not on the manufacturing sector, but the entire economy as whole.

Universal Healthcare

At a current access rate of 38.0%, the Government plans to raise the access rate to 100% by 2022. The two pronged strategy to achieve this is to enhance the availability as well as the affordability of healthcare.

Challenges

- Low disposable income among the most vulnerable in society;
- Low insurance penetration in the country driven partly by ignorance on the workings of insurance model. About 25.0% of the population is covered by the NHIF;
- High out of pocket spending in healthcare in the country as a result of low insurance penetration;
- Weak human resource management with frequent civil unrest among the medical practitioners;
- Low doctor to patient ratio; the ratio is currently at 1:4,000 against a WHO recommendation of 1:1,000;
- Concentration of medical practitioners in urban areas with rural and marginalized regions having few medical practitioners;
- Brain drain with a number of medical practitioners leaving the country for greener pastures in terms of remuneration as well as working environment;
- Heavy reliance on the public sector health services with an estimated 80.0% of the population relying on public health;
- Data challenges; inadequate data collected and/or released to inform private sector investment in the sector;
- Insufficient drugs and infrastructure at hospitals denting the quality of healthcare given;
- Increased occurrence of chronic ailments (diabetes, can-

cer, heart complications) whose cost of treating is astronomical in the country;

- Poverty causing malnutrition and disease prone situations;
- Population growth outpacing the increase in medical practitioners as well as healthcare facilities;
- Misappropriation of funds;
- Counterfeit pharmaceuticals;
- The quiet nature of medical insurance regulation in that there is no harmonized regulation regarding pricing and services provided by insurers;
- Insurance fraud discouraging the investment into medical insurance;
- High medical and finance risk discouraging investment by the private sector into the health industry. Private sector investment into the sector focuses on the high-end spectrum of the society, locking out the low-income earners.

Solutions and Opportunities

- Leverage on the growing implementation of Big Data and blockchain technology to collect, store and share information on patients to enhance quality of care given;
- Leverage on the young industry on leasing. Given the pricy nature of healthcare equipment, leasing firms can take the opportunity to lease to both public and private hospitals. Leasing has proven to be a more cash flow friendly way of acquiring equipment which may raise the availability of quality equipment for patients;
- As the Government eyes growing manufacturing firms, the set up of global pharmaceutical companies in the country, as well as establishment and growth of local firms, may ease the cost of medicines in the country. The CFTA may add the allure of setting up shop in Kenya;
- Establishing and increasing the centers of excellence for specialist doctors. This will not only increase the number of specialist doctors, but the centers of excellence may offer treatment services for the chronic ailments in the country;
- Encourage the pursue of medical careers in the country to increase the number of medical practitioners. This could be done by county governments and other institutions availing sponsorships or student loans to the students;
- As the Government seeks to increase doctors and facilities, it should consider the introduction of m-health in the country. This could ease the cost of availing medical services to outpatients. Mhealth will be supported by rising smart phone penetration as well as a well established mobile money system in the country;
- Commence and enhance data collection in healthcare to aid the private sector's investment in the sector. In addition, tax and other incentives should be given to the private sector looking at establishing hospital facilities for the low income earners;
- The Government (central and county) should hunt for and encourage PPP financing in the sector;
- The anticipated increase in disposable income and population as well as a current shortage in health facilities points to opportunities that the private sector can and should leverage on;
- Government's plan to introduce regulation on medical insurance in pricing and products. For instance, the new regulations could widen the cover for outpatient care to ease out of pocket payments;
- Plan by private insurers to employ technology in curbing insurance fraud may see more investment by the sector in medical insurance;
- Improve the management of human resource in the sector by honoring CBAs, enhancing incentives to the workforce and improving the working conditions. This would increase the number of practitioners as well as minimize industrial action;
- The development of county governments and the devolvement of health care may see the county governments offer more incentives to medical practitioners in marginalized and rural areas;
- The private and public sectors could employ crowd sourcing to fund for hospital infrastructure;
- Avail clean water and sewerage service to citizens under housing agenda to mitigate disease outbreaks;
- The current onslaught on corruption may deter misappropriation of funds. In addition, it may also lower the number of counterfeit pharmaceutical products entering the country;
- Growth and development of healthcare services in the country may realize the growth of medical tourism targeting African countries.

Affordable housing

The Constitution in Chapter 4 under Article 43, sub-article 1 (a) guarantees every Kenyan economic and social rights by stating that, "Every person has the right to accessible and adequate housing, and to reasonable standards of sanitation". Despite this right that has been enshrined in the constitution, the country faces annual housing shortage of about 250,000 housing units, more so for the low income earners. Over the next 5 years, the Government plans to build 500,000 houses across the country to meet the ever-growing demand. To meet this, the Government plans to set up 400,000 low cost houses targeting households with monthly incomes of between KES 15,000—KES 99,999 with 100,000 houses targeting those earning below KES 15,000.

Challenges

- High and rising cost of land in the country. This when coupled with sluggishly growing disposable income points to a recipe for disaster;
- Elevated cost of construction in terms of materials and labour;
- Increased number of prequalification requirements to set up houses in the country which raise the time of construction and the cost;
- The credit crunch which has taken a toll on the private sector;
- Huge gap between the rich and poor with a majority of Kenyans unable to afford housing;
- Supply-side concentration on the high income earners ;
- Poor integrated urban and rural planning with the relevant authorities caught left-footed by galloping urbanization and frequent change of user in rural areas;
- Huge urban-rural migration with the quality and quantity of housing in the urban areas dragging the mass movement. Kenya's urbanization rate is estimated at c. 40% with the figure set to surge to 50.0% by 2030;
- Idle land use by both public and private institutions which could be used to set up affordable housing;
- Poorly developed infrastructure in most budding regions. Property developers have to foot the cost of setting up access roads, water, sewerage and electricity connections;
- Lack of a properly established mass transportation system that forces commuters to live close to places of work;
- Rampant rise in corruption scandals in the land offices which eliminates the allure of the real estate sector.

Solutions and Opportunities

- Enhanced transport infrastructure coupled with mass transportation systems may enable people to live further away from cities where it's cheaper to set up houses;
- Both county and central governments should foot the set-up of ancillary infrastructure and amenities e.g. water, electricity, sewerage, access roads, social halls, schools, hospitals etc;
- The current tax incentives put in place for low cost housing lock out a number of potential developers. The Government has proposed a lower tax rate of 15.0% to developers that set up at least 100 housing units per year. We believe the floor should be lowered to accommodate more developers;
- The formation of the Kenya Mortgage Refinance Company (KMRFC) has been welcomed by stakeholders who are ready to inject start-up equity. It's projected that this lower the costs of mortgages in the country;
- Development of capital markets in line with CMA's strategic plan for 2018 –2023 to diversify funding options for developers. Issuance of Reits is anticipated to lower development costs. However, the current issuances of Reits have come under severe market pressure due to market ignorance, but the resurgence of the real estate sector may see more interest in the product. In addition, the issuance of Asset Backed Securities (ABS) trading at the bourse will enable transfer of risk between financiers and lower cost of credit to developers;
- Adoption of innovative building materials and technology to lower the cost of construction translating to more affordable homes. These include panels, pre-cast pillars and interlocking blocks;
- Government's plan to partner with housing developers in providing land for the housing projects is anticipated to eliminated the highest cost of housing (land);
- Introduction of Tenant Purchase Model and regulation of the same to have more prospective home owners in the long-run. To partly finance the new homes touted to be set up, this model could be used to finance some of them, in conjunction with mortgages;
- Repeal of the rate cap to enhance lending to the private sector that will see the set up of new housing units as well as increasing mortgages in the market.

Food Security

For any economy to grow reasonably, a number of the basic necessities need to be in place; food security ranking highly among the necessities. Over the past few years, there have been concerns raised by international organizations on the threat of food security in the world seeing that population growth outpaces growth in food production. Concern has been noted in development countries shelving food security in the development agenda; opting for infrastructure development. Prudence dictates that we have to go back to the drawing board to ensure that all countries, including Kenya, are first and foremost, food secure.

Challenges

- High costs of production among farmers with some of the high costs being transferred to final consumers, resulting in high prices of foodstuffs. In addition, some of the costs are borne by the farmers denting their profit margins and denting future production. The recent plan to exempt fertilizer raw materials may see the producers unable to claim input tax with the higher costs claimed from consumers, the farmers. This will further raise the cost of production;
- Minimal agro-processing done in the country which lowers benefits accruing to farmers;
- Land use competition with the rising real estate. The alluring yields that were experienced by the real estate sector (before the cool down experienced since last year) saw large tracts of agricultural land converted to suit the sector;
- The alluring yields saw land being used as a speculative commodity instead of as a factor of production, denting food production;
- The educational policy painted farming in the wrong picture with fewer younger people opting for the venture. This led to constrained supply of adequately trained human resource in food production;
- Heavy reliance on rain-fed agriculture with the occurrence of below average rainfall heavily affecting farming yields;
- Idle arable land use that could be used for food production;
- Poor post-harvest handling of crops denting the available food for production. It's estimated that 20.0% of cereals are lost before reaching the market;
- Poor rural infrastructure lowering the amount of food that reaches the markets;
- Inadequate data collected and disbursed to inform large scale production;
- High cost of energy to power irrigation systems;
- Massive rural-urban migration denying the agricultural sector the much needed labour force for production;
- Fluctuating food supplies making food prices erratic. During low food supplies, foodstuffs are expensive, making food unaffordable. During high food supplies, the food prices are too low to effectively compensate farmers, killing their morale;
- Increasing numbers of the urban poor with little disposable income and limited access to quality food. This may lead to malnutrition;
- Inefficient marketing systems by the farmers resulting in lower earnings;
- As the global economy eyes clean energy and as diet changes to more meat based meals, the cereal consuming population is seen to compete with bio-fuels and animal feeds. This sees the country, whose cost of production is high, miss out on lower priced foods produced in cost competitive nations;
- Since the country classified maize as the staple food, there has been overreliance on the grain as the source of food for many households. This has seen the country suffer when there has been declined yields in maize production;
- Weak early warning and preparedness systems for droughts and other vagaries of nature with the country being caught unawares and unprepared;
- Climate change affecting weather patterns in the country.

Solutions and Opportunities

- County governments should give impetus to agro-processing and enhanced value addition in the food value chain;
- The growth and development of manufacturing to enhance value addition in the food chain;
- Higher value in the food chain may lead to more earnings by the farmers, raising the number of farmers and food produced;
- Elimination of middle-men in the value chain to lead to more earnings to farmers whilst lowering the price of food;
- Use and adoption of nixtamalization technology (used to eliminate the threat of aflatoxin in maize;
- Both county and central governments should encourage

the adoption of modern post-harvest handling procedures. Tapping into the R&D of universities and research bodies could hasten the improvement in the handling;

- Development of commodity exchanges (CMA intends to develop commodity exchanges by 2023) to eliminate middle men. Development and issuance of derivative products in the commodity markets may keep food prices stable resulting in better planning by farmers and sustained affordability by consumers;
- The government's push to protect water towers is welcome and should be enhanced. This may mitigate the impact of global climate change in the country, sustaining rain-fed agriculture;
- Lease of land to the government and private sector to enhance the utility of idle land;
- Encourage and adopt fish farming by new and conventional farmers. The current demand for fish is being met by imports which could be satisfied by local production;
- Both county and central governments to provide infrastructure for irrigation farming by constructing dams. Anticipated cheaper power in the country could ease the cost of irrigation with more farmers opting for irrigated farming;
- Enhance data collection and dissemination to guide private sector investment into food production as well as agro-processing;
- Encourage consumption of traditional foods (orphan crops) that are indigenous to the country. These are drought and disease resistant which ensures their supply. In addition, their increased consumption would ease reliance on maize, rice and wheat consumption in the country. To enhance the supply of traditional crops, the government and other players should avail cheap seeds ;
- Though the protection of agricultural land infringes on freedoms of land owners, this is an avenue that the government needs to consider. The rampant shrinking of arable land to pave way for human settlement may prove counter-productive despite short-term gains to investors;
- Development of insurance to encompass crop and live-stock insurance which will enable farmers shift risks and transfer shocks that may hit food production;
- Given the vast unsettled lands in arid and semi-arid areas, there needs to be concerted efforts to discover the agricultural production in arid and semi-arid areas through irrigation and drought resistant crops and livestock;
- Fuse technology in small scale food production and agro-processing to increase yields, raise value and control costs;
- Firms, both financial and borrowers, should consider the option of leasing in acquiring farming machinery;
- Encourage the use of soil testing to guide the variety of crops and animal husbandry to be carried out in different areas;
- The government should encourage the take up of crop and animal husbandry courses to enhance the number and quality of trained human resource in food production and value addition;
- The Government plans to enhance marine fishing to increase the supply of fish in the country;
- Employ technology in research and extension services. The provision of advice in animal keeping and planting through mobile phones is a positive step that should grow to enhance the utility and efficiency of researchers and extension officers;
- There should be more investment in the early warning and preparedness systems with both public and private entities improving their responsiveness;
- Growth and development of the e-commerce segment could ease market access by farmers whilst reducing middle-men;
- Leverage on aquaponics (is the combination of aquaculture (raising fish) and hydroponics (the soil-less growing of plants) that grows fish and plants together in one integrated system) to increase both fish and plant production. Aquaponics could also be used to encourage urban agriculture given the huge rural-urban migration;
- Given that food security is a global problem, transfer of knowledge from developed nations is projected to be simpler;
- Enhanced infrastructure in the rural areas to ease market access by farmers.

Parting Shot

The challenges that the government is looking to solve are a tall order for the bureaucratic government. No single authority has the solutions for the challenges and these will require all market segment to pull together to achieve the targets.

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