KIPPRA

POLICY MONITOR

Improving public policy making for economic growth and poverty reduction

Issue 5, No. 2 January - June 2013

Kenya Economic Outlook

Transformation of Kenya's Economy Key to the Realization of Vision 2030

A Green Growth Path for Kenya

Opportunities, Challenges and Risks

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1. The KIPPRA team during a team building activity
2. Dr John Omiti, Executive Director, during the Kenya's green jobs workshop at Fairview Hotel
3. KIPPRA team during a CSR tree planting function at the College of Agriculture and Veterinary Sciences, University of Nairobi
4. Prof. Kieyah, Principal Policy Analyst (centre), chatting with Dr John Okidi (left) and Dr Diakalia Sanogo (right) from the Think Tank Initiative of IDRC during the science, technology and innovation policies and strategies in East Africa workshop at Pan Afric Hotel, Nairobi
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PM Policy Monitor

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Vision

To be the leading institute in public policy research and analysis; an international centre of excellence

Mission

To provide quality public policy advice to the Government of Kenya and other stakeholders by conducting objective research and through capacity building in order to contribute to the achievement of national development goals

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from the **Executive Director**

Dear Readers,

We are delighted, once again, to present this edition of the *KIPPRA Policy Monitor*. This second half of the year has been monumental for the country, having gone through a peaceful election in March 2013. I take this opportunity to congratulate all Kenyan's for upholding peace for the sake of our country, Kenya.

At the Institute level, there were a few changes, such as the appointment of Dr John Omiti as the fourth Executive Director of KIPPRA. He replaces Dr Moses Ikiara, who left the Institute in May 2012.

Back to this edition of the newsletter, we are happy to present to you a number of incisive articles on various issues pertinent to Kenya's economy.

The article on economic transformation basically lays emphasis on the need for transformation for enhanced economic development. A study by KIPPRA has previously decried the low pace of economic transformation, which is mostly characterized with 'booms' and 'bursts'. However, the prospects of economic transformation are stronger today than before.

At the international level, there is immense focus on the so called 'green growth', which basically means aligning economic growth with socio-economic and environmental challenges related to climate change, natural resource depletion, inequality, and loss of biodiversity and ecosystem services. KIPPRA, in conjunction with the Ministry of Environment and Mineral Resources, has taken the initiative to review the benefits, risks and opportunities associated with a transition to the green economy. Read more about this in a detailed article by KIPPRA policy analysts.

Dr John Omiti, Executive Director, KIPPRA

As usual, we provide the Kenya Economic Outlook. The economy registered improved economic performance of 4.6% growth in GDP in 2012 compared to 4.4% in 2011. The macroeconomic environment was relatively stable as inflation eased during the year while the exchange rate stabilized against foreign currencies. The economy is projected to grow at 5.5% and 6.3% in 2013 and 2014, respectively, again demonstrating the huge amount of effort required to get the economy growing at 10% per annum as envisaged in Kenya Vision 2030.

As most readers will be aware, the East African Community treaty adopted in 1997 calls for partner states to work towards the East African Monetary Union. While tremendous progress has been made towards this goal, there are still a few concerns, which the article on feasibility of the Union addresses. Another article from the Trade and Foreign Policy Division of KIPPRA focuses on non-tariff measures and Kenyan exports. The article decries the fact that while customs tariffs have been on a decline globally, non-tariff measures have been on the rise, thus becoming a major hindrance to international trade and market access. Read more on how this affects Kenyan exports, and domestic trade.

The article on the role of Kenya in pursuing regional peace and counter-terrorism initiatives basically highlights the fact that though Kenya has played a very active role in ensuring regional peace, these initiatives may not be sustainable without the support of regional countries. Thus, there is need for Kenya to galvanize regional and international support to counter terrorism.

Tourism is one of Kenya's bread earners, and most of this is driven by wildlife. However, there are increasing cases of wildlife resource conflicts that require immediate solutions. Can wildlife conservancies forestall resource conflicts? The article raises important issues for debate.

Two other articles try to highlight Kenya's rich cultural heritage on the coastal strip, which largely remains untapped, while the other one touches on the untapped value of knowledge. They are also must read articles.

Read on and at the end, please give us your feedback.

Tourism is one of Kenya's bread earners, and most of this is driven by wildlife. However, there are increasing cases of wildlife resource conflicts that require immediate solutions

Transformation of Kenya'S Economy

KEY TO THE REALIZATION OF VISION 2030

By Mwende Mwendwa, Policy Analyst and **Dr Dickson Khainga,** Senior Policy Analyst, Macroeconomics Division

Why economic transformation?

Economic development all over the world has been invariably connected with transformation and diversification of economic activities and structure of the economy. As transformation takes place, the structure of output and employment changes, as resources are re-allocated to higher value added economic activities. Other important characteristics are upgrading of quality of products, increased technological capability, and international competitiveness in terms of the range of products that a country produces. These changes support high standards of living, productivity growth and reduced economic vulnerability. Economic transformation is therefore consistent with Kenya's Vision 2030 over-arching goal of transforming Kenya into "a newly industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment" by 2030. Indeed, the Jubilee Coalition Manifesto is about transforming the Kenyan economy. The faster we

Indeed, the Jubilee Coalition Manifesto is about transforming the Kenyan economy

upgrade our economy in terms of products and technological capability, the easier it is to address problems related to poverty and low income trap. In recent economic development history, several East Asian economies have been able to achieve this transformation relatively fast; they include South Korea, Malaysia, Singapore and Taiwan.

During the last four decades, Sub-Saharan Africa and South East Asia (SEA) took divergent economic transformation paths as demonstrated through rapid industrialization in SEA. In terms of the structure of production, the contribution of agriculture to GDP declined from 33.6% in 1970 to 11.8% in 2006 in SEA. The corresponding performance for Sub-Saharan Africa over the same period was a slower decline from 35.8% to 28.0%. With regard to manufacturing, the contribution to GDP increased from about 15.4% in 1970 to about 28.0% in 2006. As a result of this transformation, many people have been lifted out of poverty, and the overall standard of living has improved considerably. Twenty (20) years ago, the World Bank produced

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a report on the eight 'East Asian Miracle' economies that achieved rapid and sustained transformation between 1965 and 1990. It continues to be widely pointed out that at the time of Kenya's independence, the economic structure of these economies was not so different from Kenya's. Today, Kenya is aspiring to catch up.

A review of the structure of the economy reveals that while the share of the agricultural sector in the economy has declined from about one third in the 1980s to one quarter in 2012, the contribution of the manufacturing sector to GDP has stagnated at about 10%, while services sector contributes slightly more than half of GDP

Economic Transformation in Kenya

A study conducted by KIPPRA in 2012 on Kenya's economic transformation reveals that the pace has been comparatively slow and below potential. Kenya's economic growth has been characterized by frequent episodes of 'booms' and bursts'. The Kenya Economic Report 2009 by KIPPRA notes that despite impressive growth during the first decade after independence, the three decades that followed were characterized by stagnant and erratic growth. Towards mid 2000, the economy registered sustained recovery, and by 2007 growth had reached about 7%. However, Kenya's growth was disrupted by political violence, drought and the global financial crisis in 2008.

A review of the structure of the economy reveals that while the share of the agricultural sector in the economy has declined from about one third in the 1980s to one quarter in 2012, the contribution of the manufacturing sector to GDP has stagnated at about 10%, while services sector contributes slightly more than half of GDP. Kenya's commodity exports remain largely tea, horticulture and coffee, though manufactured exports are growing in importance, especially to the regional markets.

In terms of employment, the informal sector accounts for 70% to 80% of total employment, and every year more than three quarters of new jobs created are in the informal sector. The key concern is that most of the informal sector activities are in low productivity areas, are low income earning, and employment security is not guaranteed. In other words, an expanding informal economy is not consistent with economic transformation required to support high standards of living. Recent survey data indicate that about 65% of households earn their living from informal and self-employment activities but, on average, their incomes are just about half of those earned in the formal sector. A transformation of the structure of the economy away from the informal economy, therefore, has substantial benefits in raising incomes and alleviating poverty. Informal sector employment is highest in the wholesale and retail

A study conducted by KIPPRA in 2012 on Kenya's economic transformation reveals that the pace has been comparatively slow and below potential

trade, hotels and restaurants industry, which account for about 60% of employment in the informal sector.

However, the prospects of economic transformation are stronger today than ever before. In the recent years, Kenya has made important steps in laying the foundation for economic transformation in many respects, including renewed focus on education and infrastructure. Regionally, Kenya is well placed as a regional transportation and communications hub. In this regard, key investments in roads, railways, ports and pipelines can effectively support Kenya's efforts to exploit its geographical strategic location. Moreover, the implementation of the Constitution promises to modernize institutions of governance so as to support transparency, accountability, predictability and improved public service delivery, while effective devolution can also play an important role in galvanizing local development efforts.

Kenya has a strong vibrant private sector with various established institutional mechanisms for engagement with the government that can be used to step up the transformation process. In addition, Kenya has opportunities to intensify and accelerate production within the technological ladder. Based on technology classification, the country has opportunities to accelerate production of primary products and manufacture of resource-based products in areas such as tea, coffee, horticulture, butter and ghee, pyrethrum extract, wattle extract, wood products, meat products, animal feeds, canned pineapples, essential oils, cement and petroleum products. Low technology products include textiles, leather, footwear and articles of plastics, while the medium technology products include metal containers, wire products, insecticides and fungicides, and screws and nuts. In the high technology category, there is potential to scale up the manufacture of medicinal and pharmaceutical products.

In recent years, growth in Sub-Saharan Africa has remained strong and robust by global standards, thus the renewed international interest in the continent. The Vision 2030 provides the policy framework for strengthening Kenya's productive sectors through sector-specific interventions, including flagship projects for achieving regional market expansion and creating a global niche such as development of industrial clusters and manufacturing zones.

What role should the state play in economic transformation?

This is one of the most debated subjects in economic development thinking. The traditional roles of the state include provision of basic infrastructure and social services, property rights, law and order, protection of the environment and macroeconomic stability. However, beyond these 'basics', there is no consensus among economists and policy practitioners. They argue that the state should only intervene where there are market failures; that is, where private individuals, left on their own in pursuit of their own welfare, cannot achieve what are socially 'optimal' outcomes. They fear 'state failure' whose characteristics include corruption, favouritism, mis-allocation of resources, 'cronyisms' and inefficiencies. However, despite the risks of state failure, others believe that the private sector in developing economies is faced with serious challenges, which cannot be left to the markets alone. In the on-going policy debate, there is an emerging middle ground in development thinking between heavy state interventions and unbridled free markets.

Cluster strategies and or new industrial policy recognize the central role of the market in resource allocation, but also acknowledge that the state has a strategic role to play through facilitation and coordination of policies and programmes aimed at economic transformation. The tools of new industry policy such as skills development, infrastructure, information gathering and sharing, strategic planning, research and development, standards setting and coordination are not only largely consistent with international trading rules such as those of the WTO, but also strive to take into account specific country contexts. Kenya has a history of state interventions but can also learn from other country experiences, and endeavour to avoid past mistakes as well as those that others have made. The structure of the private sector is such that it is dominated by small enterprises with weak mechanisms for technology transfer and integration with supply chains. Neither market purism nor heavy state interventions appear realistic, but Kenya should develop its own approach in the context of her social, political and economic realities.

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A GREEN GROWTH PATH FOR KENYA: OPPORTUNITIES, CHALLENGES AND RISKS

By **Rhoda Gakuru,** Policy Analyst and **Dr Dickson Khainga,** Senior Policy Analyst, Macroeconomics Division

Why Green Growth?

Globally, there is immense and growing interest in green growth, whereby economic development can be achieved while at the same time addressing social, economic and environmental challenges related to climate change, natural resource depletion, inequality, and loss of biodiversity and ecosystem services. There are many proponents of green economy. International development agencies such as the UNEP, UNDP, ILO, World Bank, OECD, and AfDB are articulating and advocating for a transition to green growth. The green economy was one of the themes at the 2012 United Nations Conference on Sustainable Development (UNCSD or Rio+20). At the continental level, the thirteenth session of the African Ministerial Conference on Environment, held in Bamako in June 2010, embraced the green economy model. Many countries across the world are at various stages of formulating and implementing their national green growth strategies.

At the national level, a review of the policy landscape reveals that there are many policies and pieces of legislation that support green growth. Kenya is also a signatory and a party to international treaties and agreements on environment that support aspects of green economy. These include the Kyoto Protocol, United Nations Framework Convention on Climate Change (UNFCCC), the Ramsar Convention on Wetlands, the Convention on Biological Diversity (CBD), and the UN Convention to Combat Desertification (UNCCD). The rights and obligations contained in Multilateral Environmental Agreements (MEAs) are binding on Kenyan citizens. The Constitution of Kenya 2010, Chapter Five, Part 2, provides for 'sustainable exploitation, utilization, management and conservation of the environment and natural resources' and 'work to achieve and maintain a tree cover of at least 10 per cent of the land area of Kenya'. To this end, the government is implementing green

economy related policies and initiatives, including increased investment in renewable energy (geothermal, wind and biogas), the promotion of resource efficient and sustainable production through Kenya National Cleaner Production Centre (KNCPC), pollution control and waste management; and environmental planning and governance. The private sector is involved in many activities, including manufacturing of eco-friendly materials, tree planting, renewable energy, fish farming, environmental clean-ups, solid waste management, environmental consultancy and auditing, eco-labeling, and forest management. At the family and community level, a growing number of Kenyans are becoming interested in greening their lifestyles by emphasizing a clean environment and changing consumption patterns.

The Concept of Green Economy in the Kenyan Context

While a green economy approach that supports sustainable utilization of natural resources and efficient utilization of energy and other inputs is attractive for Kenya, the challenges, risks and opportunities have not been widely discussed and understood. About 42% of Kenya's GDP is derived from natural resource sectors (namely, agriculture, mining, forestry, fishing, tourism, water supply and energy) and account for more than

70% of employment. In addition, extreme weather events such as droughts and floods are increasingly affecting food security and agricultural production, and have contributed to high vulnerability and degradation of land and desertification. Hydroelectric power is vulnerable due to climate change.

Pioneering studies on the subject by UNEP, World Bank and OECD suggest that there is no single green growth model, and in designing green growth strategies, it is critical to take into consideration local context, including the political economy of reform. In this regard, within the Kenyan context, key aspects would include global competitiveness consistent with Vision 2030. An inclusive and equitable green growth path requires that we maximize the benefits from our natural resources and minimize the social and environmental costs and risks.

Benefits of a Transition to a Green Economy

In 2012, KIPPRA in collaboration with the then Ministry of Environment and Mineral Resources started to review the benefits, risks and opportunities associated with a transition to green economy for Kenya. Policy simulations using a package of programmes and reforms reveal key medium and long-

term benefits of a transition to green economy that include higher GDP growth, lower poverty levels and a cleaner environment. The outcomes also greatly depend on the type and combination of green economy interventions or policy package that is implemented. For instance, increasing acreage under irrigation, and afforestation are likely to have different short run impacts on GDP. This implies that depending on the specific economic conditions and resource endowments, prioritization of interventions is likely to shape the outcomes. Analyzing economy wide simulation results and firm level studies provides more policy insights. Resource Efficient and Cleaner Production (RECP) assessments for sectors such as tea, textile, sugar, dairy, fish industry, and manufacturing indicate that there are immediate potential gains in output or profits at the firm level through efficient utilization of material inputs, energy, water and production processes. The required interventions range from change in processes and organization (where no or minimal investment costs are required) to replacement of equipment or adoption of new technology that may entail high investment costs.

Preliminary results from the review mentioned above indicate that green economy investments yield several positive impacts in the medium to long term period. For instance, economy-wide policy simulations indicate that if 2% of GDP is invested in conventional economy and in green economy (GE) projects (such as green agriculture and renewable energy, among others), and the results are compared, the potential benefits of GE are higher. Relatively higher positive economic returns are realized in the medium-long term, national real GDP is projected to be higher under green economy growth path compared to the conventional business as usual growth path. Carbon dioxide emissions are also projected to be lower in the green growth path. The green economy growth path could provide a reduction in poverty of about 15% by 2030. For Kenya, a green growth path yields greater benefits in the medium-long term in terms of economic growth and poverty reduction.

Risks and Challenges of Moving to a Green Economy

Transition to a green economy is an attractive model of development due to the great potential benefits. However, there are challenges and risks that need to be overcome. Below we provide an overview of the key policy issues to be considered in supporting transition to a green economy in Kenya.

Relevant standards and regulations: Kenya has several laws and regulations that are intended to encourage sustainable utilization of natural resources. However, compliance and enforcement remain inadequate. There is also a need to develop a robust national standards system that is bench-marked against various international standards, and develop a sound policy framework that supports producers to meet the necessary standards. Production of goods and services that meet international tastes and relevant standards is important for global competitiveness. However, some stakeholders have expressed concern that standards and regulations, if not well designed, could undermine competitiveness.

Transitioning towards a green economy requires substantial financial resources. At the international level, various opportunities exist, including partnerships with various donors and access to international financing frameworks such as Clean Development Mechanism (CDM), World Bank carbon funds, Green Climate Fund (GCF) and carbon markets.

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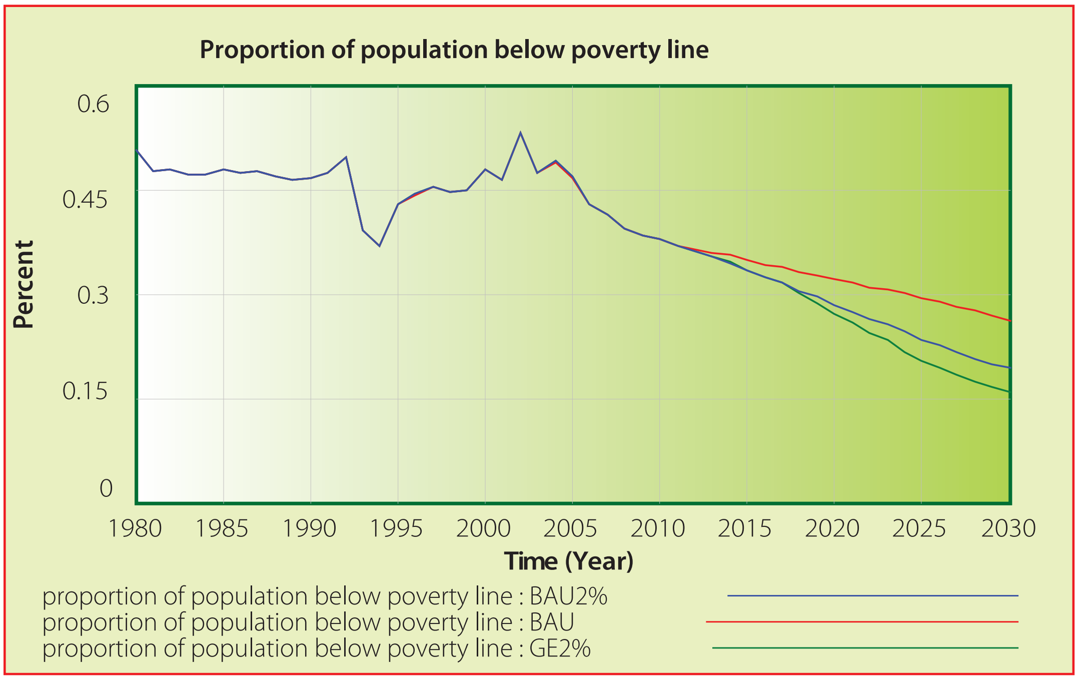
The government may also make firm commitments to increase resource allocations to green sector activities, and also leverage private sector resources through Private-Public Partnerships (PPPs), and incentives such as loan guarantees, green financing instruments, tax credits, research and development financing, and subsidies.

A review of the institutional and policy landscape reveals that many players are involved in green economy initiatives. To enhance policy cohesiveness and build synergies, Kenya may need to develop a green growth strategy in order to prioritize interventions for enhanced effectiveness. Indeed, it is advisable that the government aligns the policy landscape to embrace and support a transition to a green economy within the context of Kenya's political economy realities.

There are also challenges that relate to education and outreach, especially with regard to knowledge and information about best practices, attitudinal change, policy advocacy, and enhancing national human capacity for formulation, design, implementation and monitoring of green economy initiatives. Non-state actors and development partners may augment government efforts through capacity building, information sharing and policy advocacy.

Conclusions and Recommendations

Kenya is already undertaking various green economy initiatives involving the government, development partners and other non-state players. It would be advisable to build on these activities and programmes to jump-start the transition process while taking into consideration the relevant political economy realities. Kenya should also support efforts towards establishment of a supportive international regime involving trade in green goods and services. Some important areas that have international and regional dimensions include environmental and technical standards applicable in international trade. These include those that relate to sanitary and phytosanitary measures, Hazard Analysis Critical Control Point (HACCP) and carbon trading regimes. It will also be useful for the country to develop statistical information that will support monitoring of growth and development of the green economy as well as build an enhanced coordination mechanism to avoid duplication and enhance synergies. Many countries are walking this path and can provide important lessons for Kenya.



Source: Kenya T21

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MAFAP's First National Policy Dialogue Forum

Monitoring of African Food and Agriculture Policies (MAFAP), a collaborative project between Kenya Institute for Public Policy Research and Analysis (KIPPRA), Ministry of Agriculture (MOA), Kenya Agricultural Research Institute (KARI) and the Food and Agricultural Organization (FAO), held a policy dialogue forum at KARI headquarters on 23rd May 2013.

The objective of the forum, which attracted representatives from Ministries, parastatals and NGOs, was to share and review the MAFAP findings and results for the market price incentives and disincentives for specific agricultural commodities; public expenditure in support of agriculture and rural development; critical evaluation of the results through open discussion; and identify potential areas and opportunities for policy reform and investment.

MAFAP Kenya project findings were as follows: the level of price incentives for producers generally improved since 2005-07, inefficiencies increase marketing costs and reduce incentives, staple food crops were least affected by inefficiencies in domestic markets, market distortions in commodity value chains translate into lower domestic prices and represent significant costs for producers, consumers are adversely affected by tariffs on wheat and rice imports and the share of the government budget going to agriculture and rural development has increased since 2006, though it is still well below the Maputo target.

Some major recommendations included increased competitiveness through high productivity, improved access to both domestic and external markets, as well as rationalize taxation in the agricultural sector, and increase investments to the agricultural sector by providing budget support for complimentary items, for example storage and public stock holding, rural market infrastructure, and rural road infrastructure.

MAFAP aims to support decision-making at national, regional and pan-African levels, and thereby contribute to the Comprehensive Africa Agriculture Development Programme (CAADP) of the New Partnership for Africa Development (NEPAD).

Kenya Economic Outlook

Kenya's economy registered improved economic performance of 4.6% growth in GDP in 2012 compared to 4.4% in 2011. The macroeconomic environment was relatively stable as inflation eased during the year while the exchange rate stabilized against foreign currencies. Private consumption and investment expenditure continued to be important drivers of growth, with each growing by 5.5% and 11.5%, respectively.

By Dr Dickson Khainga, Senior Policy Analyst and **Benson Kiriga,** Policy Analyst, Macroeconomics Division

Kenya's economy registered improved economic performance of 4.6% growth in GDP in 2012 compared to 4.4% in 2011. The macroeconomic environment was relatively stable as inflation eased during the year while the exchange rate stabilized against foreign currencies. Private consumption and investment expenditure continued to be important drivers of growth, with each growing by 5.5% and 11.5%, respectively.

In terms of the sectors, all the sectors posted a positive growth for 2012, with the leading sectors being electricity and water; financial intermediation, and wholesale and retail trade, which had growth rates of 10.3%, 6.5% and 6.4%, respectively. The other sectors that recorded modest growth rates of slightly below 5% were construction sector; education; mining and quarrying; transport and communication; and agriculture, with corresponding growth rates of 4.8%, 4.7%, 4.1%, 4.0% and 3.8%, respectively.

The economy is projected to grow at 5.5% and 6.3% in

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2013 and 2014, respectively, assuming that public investment in the roads and energy sectors will continue to increase capital stock, thus lowering the costs to businesses and improving their profitability; that the political climate will remain stable and growth-oriented; and that weather conditions will remain favourable to sustain the recent improvements in agricultural output.

With the establishment of the county governments, general public expenditure as a per cent of GDP is expected to remain high to cater for the new infrastructure required, or even refurbishing the existing infrastructure. The levels will therefore remain at an approximate of 30% of GDP for the medium term. In terms of real growth in government expenditure, consumption and investment in the medium term are expected to average about 7% and 8%, respectively. Similarly, investment is expected to be high due to improved business environment and continued investment by the government in infrastructure. The high levels of consumption and investments are expected to stabilize, but at levels that will achieve the high economic growth rates expected.

The economy is projected to grow at 5.5% and 6.3% in 2013 and 2014, respectively

Macroeconomic Projections for 2013-2015

	2010	2011	2012	2013	2014	2015
GDP Growth	5.8	4.4	4.6	5.5	6.3	7.1
Inflation (Overall)	4.0	14.0	9.6	5	5.3	5.0
Private Consumption	7.2	3.0	5.5	6.5	7.0	8.0
Private Investment	4.0	4.0	6.5	7.0	10.0	8.0
Government Consumption	6.3	5.2	9.3	6.0	7.0	11.0
Government Investment	5.0	9.0	5.2	8.0	9.0	8.0
Exports G&S	17.4	6.6	4.7	6.0	7.0	11.0
Imports G&S	6.1	15.6	12.5	10.0	10.0	9.0
Current Account Balance	-6.0	-8.0	-6.1	-6.0	-7.0	11.0
Financial Deficit	-6.0	-5.0	-4.0	-3.8	-3.9	-5.7
Public Expenditure	32.0	31.0	29.0	29.5	29.6	-3.0
Public expenditure	33.4	33	31.8	30.4	29.6	28.8

Growth in the tourism sector is expected to be supported by vigorous marketing of Kenya as a leading tourist destination, and both political and economic stability at home

Growth in the tourism sector is expected to be supported by vigorous marketing of Kenya as a leading tourist destination, and both political and economic stability at home. Imports are expected to expand with the economic growth. The projected positive growth for Sub-Saharan Africa at 5.6% for 2013 and 6.1% for 2014 is expected to provide an impetus to private investments for the recovery process, and increased demand for Kenya's exports. The import volume growth will be occasioned by the need to complement domestic production, purchase of intermediate and capital goods and purchase of oil and oil-related products.

The smooth implementation of the Constitution forms the major assumption for the medium term growth prospects. The MTP and the Vision 2030 targets are that real GDP growth will rise steadily to 10% as from 2012/2013 onwards. Implementation of flagship projects is expected to continue. The economic recovery is expected to continue but will slightly slow down in 2012/2013. However, the 10% growth anticipated is not achievable in the short term. The recovery in the medium term is pegged on favourable international environment, effective implementation of the medium term policy agenda and favourable weather conditions. In the growth projections, it is assumed that international oil prices will remain stable in the medium term.

It is anticipated that the overall external environment in terms of commodity prices and the economies of key trading partners will remain stable. Specifically, it is anticipated that the exchange rate will remain stable to favour Kenya's trade as the tourism sector starts to pick up after peaceful general elections. The IMF projects a 4.4% global growth rate for 2015. The outlook for Africa in 2015 shows increased real GDP growth of 5.8% while in the Euro area real GDP growth is only expected to be 1.6%, implying some downside risk to Kenya's export growth projections. Moreover, the vulnerability of the large trading economies such as the United States and Europe leaves the global outlook uncertain. For instance, the United States is experiencing low growth with lack of a credible medium term fiscal

plan to reduce its debt, while the European Union is facing financial strains from the sovereign debt crisis. This could also impact on remittances (although thus far remittances have been pro-cyclical), since remittances mostly come from North America (49%) and the Euro zone (29%).

Kenya' public sector debt has doubled between 2007 and 2012, increasing from Ksh 700 billion in 2007 to Ksh 1.4 trillion at the end of 2012. During the period 2000/01 to 2007/08, fiscal policy aimed to bring the debt position down, and actually the debt to GDP ratio fell from 63.0% to 37.0%. This reduction was achieved as a result of strong economic growth and fiscal consolidation. The fiscal headroom created by the debt retirement permitted the implementation of the fiscal stimulus programme between 2009 and 2011. The government issued more debt to stimulate growth and avert a recession. Consequently, debt as a proportion of GDP has now increased by about 4 percentage points from 39.0% in 2007 to 43.0% at the end of 2012, but it is still below the policy target of 45%.

> Kenya' public sector debt has doubled between 2007 and 2012, increasing from Ksh 700 billion in 2007 to Ksh 1.4 trillion at the end of 2012

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One Little Thing, Corporate Social Responsibility

The late Wangari Maathai said "It is the little things that citizens do that will make a difference, my little thing is planting trees". As part of its corporate social responsibility, KIPPRA did its little thing. The institute in collaboration with the College of Agriculture and Veterinary Sciences (CAVS) planted 700 trees at the Vet Farm-Kanyariri, which is part of University of Nairobi, on 24 May 2013. Each staff member present planted at least two trees. The event was graced by Dr John Omiti, KIPPRA's Executive Director, Prof. Solomon Shibairo (Dean of Faculty of Agriculture-FoA), Associate Dean Principal FoA, Vet Farm Manager, and Head of Animal Production who also read a speech from CAVS Principal, Prof. Agnes Mwang'ombe (KIPPRA's Board Chair).

Also, during the event, KIPPRA had an opportunity to hold a HIV/AIDS and drugs awareness talk with the University of Nairobi students. "Just as a tree needs to be nurtured to maturity, so should each one of us nurture his/her life by taking precaution against drug abuse and contracting HIV/AIDS," observed Rose Muraya-Ngara, Policy Analyst and member of the HIV/AIDS committee.

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KIPPRA: A 'Go To' Think Tank

The vision of KIPPRA is to be the leading institute in public policy research and analysis; an international centre of excellence. The institute has been making tremendous strides towards realizing its vision. KIPPRA, once again, ranked as one of the leading think tanks in the world.

According to the 2012 Global Go To Think Tanks Survey (http://www.gotothinktank.com), the institute ranked 14 out of the Top 50 think tanks in Sub-Saharan Africa, and 139 out of the Top 150 think tanks worldwide. Only 8 other Kenyan think tanks featured in the Sub-African category and 3 in the world wide category. KIPPRA was also one of the only Kenyan think tanks in the Top 80 economic policy think tanks, ranking 55 out of the Top 80 in this category. In the category of Think Tanks with the most outstanding policy-oriented research programmes, KIPPRA was ranked 43 out of the Top 60 thinks tanks, and was the only Kenya think tank ranked in this category. Moreover, KIPPRA was ranked 39 out of the Top 50 think tanks with the best external relations/public engagement programmes. Only two other African think tanks were ranked in this category, and KIPPRA was the most favourably rated. Finally, the Institute was ranked 44 out of 60 in the category of best policy study/report produced by a Think Tank in 2011-2012.

KIPPRA: Africa's Regional Centre for the NTA

KIPPRA is now the Africa Regional Centre for National Transfer Accounts (NTA). The institute will be coordinating a team working on NTA activities in the continent as part of the overall global network. The Kenya Team is preparing a Country Paper on National Transfer Accounts to be presented in Barcelona, Spain mid 2013.

The National Transfer Accounts is an accounting system for measuring aggregate inter-generational flows of resources at each age. It complements the internationally accepted UN system of national income and accounts by incorporating demographic information into these accounts. This is essential in the design, management and financing of social protection systems.

MAFAP Reviews Its Progress

Teams participating in Monitoring African Food and Agricultural Policies (MAFAP) countries including KIPPRA converged in Addis Ababa (Ethiopia) on 28-30 May 2013 to discuss the results of MAFAP, following three years of implementation. Ten countries in Africa are in this project; they include Kenya, Burkina Faso, Mali, Tanzania, Uganda, Ethiopia, Ghana, Malawi, Mozambique and Nigeria.

The teams made recommendations for improving methodology, strengthening national technical capacity, reaching policy makers and other issues related to monitoring. Specific discussions focussed on strengthening MAFAP teams, ensuring ownership, policy dialogue, capacity building, methodology and administrative issues. The workshop was also a unique opportunity for exchanging experiences and sowing the seeds for a network of policy analysis expertise in Kenya.

In attendance were officials from Food and Agriculture Organization, African Union and UNAIDS.

KTMM Revision and Extension Underway

Dr Frederik Huizinga (MMC), Benson Kiriga (KIPPRA), Dr Dickson Khainga (KIPPRA) and Bernadette Wanjala (KIPPRA)– at one of the workshop on Forecast uncertainty

KIPPRA with support from the Think Tank Initiative is working with Micro-macro Consultants (MMC) of Netherlands to revise and extend the KIPPRA-Treasury Macro Model (KTMM) to cover new and emerging policy issues. KTMM is a macro-econometric model of the Kenyan economy that has been in use since 2000. It produces macroeconomic forecasts and policy simulation analysis for research and policy formulation in Kenya.

In May 2013, three KIPPRA staff (Dickson Khainga, Benson Kiriga, and Bernadette Wanjala) from the Macroeconomics Division visited MMC, Netherlands for training. The staff interacted with 11 specialists in theory, macro-forecasting, sector models and poverty modules. Most of the experts at MMC have long experience built-up first hand at the Central Planning Bureau of Netherlands. Once the model revision and extension is complete, it will be useful in analyzing the implications of macroeconomic policy for poverty and produce detailed sector forecasts and analysis. This is expected to enhance our understanding of the implications of various policy instruments and, therefore, better support of the budget and planning process in Kenya.

NEWS

Breakfast Meeting on Kenya's Green Jobs

KIPPRA organized a breakfast meeting on 28 February 2013 at the Fairview Hotel in Nairobi to engage key stakeholders and experts on the potential green jobs employment opportunities in the country. The meeting brought together various stakeholders from government ministries, private sector, international organizations and other agencies of government who discussed and shared their understanding of green jobs from the green economy context.

The Permanent Secretary, Ministry of Energy, Mr Patrick Nyoike, noted that the most critical thing about Kenya's power expansion and green jobs is the cost of power saved when using renewable energy compared to use of fossil fuel. He observed that the Ministry is undertaking various initiatives with regard to expansion of renewable energy, which feeds into the national grid system and eventually reduces the cost of energy.

The workshop is as a result of a study being conducted by KIPPRA in collaboration with the International Labour Organization (ILO) on estimating the actual and potential green jobs employment opportunities in the country. The aim of the study is to support, complement and strengthen Kenya's sustainable development policy and strategy, by focusing on the employment dimension. The assessment analyzes employment within the context of a Green Economy so as to inform public policy.

Dr John Omiti Appointed Executive Director

Dr John Omiti is now KIPPRA's Executive Director with effect from 12 February 2013. Dr Omiti, who was previously Principal Policy Analyst and Head of Productive Sector Division, replaces Dr Moses Ikiara who left the institute in May 2012.

Prof. Agnes Mwang'ombe, KIPRRA's Board Chair, noted that the Board has confidence in him to provide the required leadership to the institute. Dr Omiti joined the Institute in 2006 as a Senior Policy Analyst and was in 2010 promoted to Principal Policy Analyst, a position he held until his appointment.

Exploratory Mission to Juba, South Sudan

A team of five KIPPRA officers visited Juba, South Sudan from 6-10 May 2013 following a request by Kenya South Sudan Liaision Office - KESSULO. As part of technical support to the Government of South Sudan, Kenya, through KIPPRA, aims to provide technical support to the Ministry of Parliamentary Affairs to set up a policy think tank, the *Centre for Democratic Governance, Public Policy and Parliamentary Studies*, modelled along KIPPRA's structure.

The KIPPRA mission held sessions with Senior Officials of the Ministry, including the Minister, the Undersecretary and Directors. It reviewed the structure of the Centre, the strategic plan and the Work Plan for 2013/2014 with the aim of developing a joint work plan for the period 2013/2014. A report was submitted to KESSULO.

NEWS

Institutional and Regulatory Environment in the Wholesale and Retail Trade

KIPPRA is carrying out a study on the institutional and regulatory environment affecting the wholesale and retail trade in Kenya. Owing to its importance in contributing to the gross domestic product, the wholesale and retail is a priority sector expected to spur Kenyan economy towards attainment of Vision 2030. The institutional and regulatory framework under which the wholesale and retail sector operates is critical in determining its contribution to the economy. This becomes even more critical as the County Governments take shape, since the Constitution gives counties the mandate of managing domestic trade.

In view of this, KIPPRA organized a two hour roundtable on 5 April 2013 at Kenya School of Monetary Studies to gather views from the key ministries, institutions and other stakeholders that have a bearing on domestic trade. Such views will be important in understanding current and past regulatory reforms as well the constraints and challenges facing the wholesale and retail trade in Kenya.

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Inequalities, Social Cohesion and Youth Unemployment in Kenya

KIPPRA held a one day workshop on Inequalities, Social Cohesion and Youth Unemployment in Kenya in partnership with the Japan International Cooperation Agency (JICA) and the Office of the Prime Minister at the KICC on 26 February, 2013. The purpose of the workshop was to discuss the findings of two studies conducted by KIPPRA on ***Youth Unemployment, Underemployment and Decent Work in Kenya*** and ***Inequalities and Social Cohesion in Kenya: Evidence and Policy Implications***.

The studies identified inactivity, unemployment and underemployment as challenges facing the labour force, with the youth constituting 70% of the unemployed. Among the employed, a majority are in the private sector and most of the jobs were of poor quality. Also, there were large social inequalities in Kenya, which are correlated to social cohesion. Building trust across groups is a key channel of promoting social cohesion.

Prof. Hiroyuki Hino, Advisor to Kenya's Prime Minister, observed that National Cohesion, Ethnicity and Values were not static but dependent on the state of the economy. He pointed out that there was need for more research on the underlying causes of animosity and inequalities between different groups, for instance the poor versus the rich as well as among various groups of the youth.

Participants at the workshop were drawn from government Ministries and other government agencies, development partners and the private sector.

New Appointments

KIPPRA continued to attract new talent. Dr Humphrey Njogu and James Gachanja joined the institute as Policy Analysts in Infrastructure and Economic Services Division, Peter Njiraini as Policy Analyst in Productive Sector Division, Peter Musyoka as Policy Analyst in Social Sector Division, Manasseh Otieno as Policy Analyst in Trade and Foreign Policy Division, Solomon Kirwa as Senior ICT Specialist, Samuel Githinji as Internal Audit Assistant, Violet Odongo as Supply Chain Management Assistant and Sabenciah Achieno as Office Assistant.

Feature

Is the East African Monetary Union (EAMU) Feasible?

By Augustus Muluvi, Policy Analyst, Trade and Foreign Policy Division

The East African Community Treaty adopted in 1997 calls for partner states to cooperate in monetary and financial matters and maintain the convertibility of their currencies as the basis for the establishment of the East African Monetary Union (EAMU). The EAC has made tremendous progress towards achieving this goal, and negotiations towards the creation of the monetary union are at an advanced stage. A high level task force comprising senior government officials from the five member countries have been negotiating the monetary union protocol since 2011, and was expected to finalize their report ready for signing by 2012. However, this was not possible and a new date for the signing of the protocol has been scheduled for later this year. During the EAC Summit meeting in November 2012, the Heads of States of partner countries noted that negotiations on all the 77 articles of the relevant protocol had been concluded. However, there remained some outstanding matters on the areas of macroeconomic, legal and constitutional framework.

In transiting to the EAMU, the EAC Monetary Affairs Committee (MAC) established in 2009 has set macroeconomic convergence criteria that must be met and maintained at two separate stages before the introduction of the single currency in the third stage. These key indicators include budget deficit/GDP (excluding grants) less than 6% and 5% in the first and second stage, respectively, budget deficit/ GDP (including grants) less than 3% and 2% in the first and second stage, respectively, external reserves (months of imports of goods and non-factor services) more than 4 and 6 months in the first and second stage, respectively, real GDP growth rate of more than 7%, national savings of more than 20%, and stable interest and exchange rates. So far, the MAC has made some progress in monetary policy coordination, financial markets development, harmonization of financial sector supervision, payment system development, and integration and statistical harmonization. The partner countries are also discussing the microeconomic convergence criteria that will allow countries to reap the benefit without incurring undue costs. The transition phase from the national currencies to a single one will be preceded by a 'convertibility of currencies' phase, which will consist of buying and selling goods across the community using the existing national currencies.

The signing of the EAMU protocol will set a stage for the implementation of the monetary union's road map, which will be in phases until all macroeconomic fundamentals converge to warrant a single currency. The EAMU model aims at addressing macroeconomic stability, removal of barriers to trade and development of financial markets and functional institutions for the full implementation of the custom union and Common Market protocols. Owing to the Euro zone crises, there is need to examine what the countries in the EAC stand to gain with a monetary union.

If a monetary union comes in place successfully, then the member countries stand to enjoy several benefits, key among being lower costs and risks of business transaction across countries when currencies are merged. With a single currency, there are no expenses of currency conversion or hedging against exchange risk in transactions. A single currency means a single set of prices and, therefore, increased transparency and convertibility among the users of the currency. The reduction of transaction costs, directly and indirectly, permits a redeployment of resources to more profitable uses, while associated ease in cross-border payment facilities provides additional savings. The monetary integration also offers potential political benefits, including, for example, potentially increasing the countries collective political status

in the international arena. However, these benefits of lower transaction costs are only sustainable when the countries involved are willing to at least partly give up sovereignty, particularly in the area of fiscal policy. Are the EAC countries ready to cede this control?

As the EAC countries move towards monetary union, challenges remain on the future fiscal management and monetary policy. Firstly, if fiscal policies and limits on debt are not streamlined in the region, default problems in one country could have negative spillover effects at the regional level. Secondly, a monetary union also presents a moral hazard problem: countries may borrow unsustainably with the hope that other members of the union or regional central bank would bail them out in case of debt crisis. Although thresholds on government deficits and debts are set in advance to address the negative externality and moral hazard issues, such threshold are challenging to implement in practice as witnessed in case of Euro zone. Thirdly, EAC capital markets are under-developed, making it difficult for them to efficiently price government securities. For example, Burundi does not have a secondary market while in other countries the bond market trading remains low, such that the total EAC turnover is less than that of South Africa alone. With thin capital markets, it becomes difficult for EAC countries to rely on international capital in the event of fiscal crisis. Fourthly, the EAC countries face significant macroeconomic shocks, such as terms of trade shocks from international commodity prices and agricultural productivity shocks due to poor weather. These shocks often affect EAC countries differently, hence the need for a strong fiscal centralization and adjustment mechanism. Fifthly, the EAC countries are developing economies with serious poverty differences, and hence the possibility of each country borrowing heavily today to address development needs and huge fiscal deficits.

In addressing the above concerns, the EAC countries need to agree on binding fiscal convergence commitments as prerequisites and ongoing commitments in a monetary union. In addition, there is need for an independent regional central bank within the monetary union. Other interventions include limiting discretion in spending budget aid by member countries, and flexibility and leeway in the deficit threshold. There is also need to harmonize the monetary and exchange rate policies, payment and settlement systems, and regionalization of the financial sector in order to create a single financial market.

Policy makers in the region are optimistic that all measures are in place for the adoption of a single currency. Experts (read Paul Collier), however, warn that the EAC needs to move slowly to avoid potential future crises and the need to complete trade integration well before further steps on monetary union. In spite of the short period taken from the launching of the EAC in 1999 to the signing of the common market and now monetary union, the EAC should be encouraged to continue its path of unification. The unification process will bring about peace and security in the region, which has a huge potential for the growth.

Feature

Non-Tariff Measures

By Simon Githuku, Dr Augustus Muluvi, Policy Analysts; and Joyce Gichuru, Young Professional, Trade and Foreign Policy Division

Globally, customs tariffs have been on a decline as a result of aggressive World Trade Organization (WTO) trade rounds and preferential agreements. Parallel to this development, non-tariff measures (NTMs) have been on the rise, becoming a major hindrance to international trade and market access. NTMs have also had an impact on domestic trade.

According to United Nations Conference on Trade and Development (UNCTAD), NTMs refer to policy measures other than customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded or their prices. These non-tariff measures , whichcan be either public or private, cause internationally traded goods and services, or resources devoted to the production of these goods and services, to be allocated in such a way as to reduce potential real world income. The Kenya Association of Manufacturers (KAM) defines NTMs as restrictions that result from prohibitions, conditions or specific requirements that make trading costly. NTMs vary across products and countries and can change form very quickly.

In developing countries such as Kenya, NTMs have become a major concern especially to exporters. They include requirements for compliance to technical regulations, product standards and certification and customs procedures. Other NTMs exporters face include rules of origin, police checks, road blocks and weighbridges, licences and permits. While these measures are mainly imposed for legitimate reasons, such as protecting public health and the environment, measures that raise costs are always seen as an obstacle to firms. Inappropriate application of these measures may also reduce the overall competitive advantage of a country's products and services, resulting to a decline in the potential real income accrued by a country in international trade.

Kenya's long term development strategy, the Vision 2030, considers trade to be vital and aims at achieving sustained economic growth of at least 10%. This would allow the country to become a middle income country by the year 2030. Trade contributes about 60.4% of GDP and plays a significant role through its linkages with other sectors of the economy such as manufacturing, agriculture and the service industry. The leading export commodities by Kenya are tea, coffee and horticulture products. Kenya trades widely with the EAC, EU and COMESA countries and other relevant markets. The regional EAC and COMESA markets continue to absorb a large proportion (69%) of Kenya's exports, with Uganda (13%) and Tanzania (9%) being the biggest importers (mostly manufactured goods) in 2012.

Kenya exporters experience the highest level of NTMs in the region compared to, for example, the EU and the US. Moreover, the transport corridor is made more difficult by the many roadblocks and checks. These constant checks, together with harassment from police officers soliciting bribes in these locations, make transportation conditions difficult. In addition, transportation trucks are required to be fitted with electronic cargo tracking system (ECTS) when in operation within the EAC. This is required by the government for qualification of the 10% excise duty for goods in transit. The main concern, however, is not the tax but the cost of fitting the gadget, which is prohibitive. Coupled with other difficulties, these indicate that more effort and coordination is required among EAC member countries to harmonize their regulations in order to facilitate intra-regional trade.

Agricultural exporters face more difficulties with Kenyan regulations than with the requirements of importing countries. In most cases, these difficulties are related not to the regulations themselves but to the delays in the administrative processes. Delays and other bureaucratic hurdles are most often reported in relation to services provided by the Kenya Plant Health Inspectorate Services (KEPHIS), Kenya Revenue Authority (KRA) and the Horticultural Crops Development Authority (HCDA).

Kenya's agricultural product exports to the EU usually face technical and related conformity assessment measures. These include phytosanitary certification requirement for Kenyan products especially to check for pesticide residuals. The EU imposes very strict conditions on imports of plants and flowers and has zero tolerance on any kind of pests attached to the products. These measures are intended to prevent the introduction and spread of pests and organisms harmful to plants or plant products across the EU boundaries. Exporters of vegetables and cut flowers to the EU also face difficulties complying with voluntary standards such as Global GAP. Incidentally, the problems do not relate to the product quality or standards but rather how to prove compliance.

Exporters of manufactured exports experience three major impediments, that is, import regulations applied by partner

and Kenyan Exports

countries, export regulations applied by Kenya and domestic procedural obstacles. Exporters of manufactured products experience more problems with conformity assessment than with technical requirements. A large proportion of measures applied by the EAC countries are also related to conformity assessment. Standard requirements and certifications are still not fully harmonized among the EAC member states, and hence Kenyan products already certified by KEBS are not easily accepted in Tanzania and Uganda. Some of the exporters also find the US regulation on maximum limit on the amount of lead content too difficult to comply with.

Kenyan exporters are also affected by anti-competitive measures implemented by other countries. For instance, Ethiopia does not allow trucks that are not registered in Ethiopia or foreign ships to transport goods into the country, forcing the Kenyan exporters to use Ethiopian vehicles. This creates an additional hurdle in an already expensive transportation process.

Among the export regulations applied by Kenya, the most reported issue include export licensing, quota and related quantitative restriction measures. In general, exporters do not find licensing and permit condition difficult to comply with, but rather have an issue with the time taken to obtain all the required documents and clearance from the authorities mainly coordinated through KRA and Ministry of Trade. Quotas and related quantitative restrictions are seen to be a problem when the information is not made available and companies only discover after crossing borders. Further, the restrictions at times do not make sense to them as they do not serve the intended need.

Regional barriers to trade have reduced considerably due to the EAC regional integration processes and the Customs Union and Common Market protocols. However, there is still room for improvement, as Kenyan exporters face a relatively high number of burdensome NTMs applied by the EAC member countries. Harmonization of standards remains a challenge as it takes long (24 months) for a standard to be gazetted following the EAC institutional framework. Even after harmonization, partner states have to domesticate the standards and thus a time lag between gazette notice and implementation.

In conclusion, Kenyan exporters face more obstacles in conformity assessment than technical requirements, mostly imposed by partner countries. However, majority of the problems are rooted in the process of getting the product inspected, tested or certified in Kenyan agencies. Slow administrative procedure, red tape and high fees charged for these services offered by agencies such as KRA, KEPHIS, KEBS and HCDA is a major issue that requires attention of Kenyan authorities.

Harmonization of documentation and streamlining of procedures in agencies that are in charge of clearing imports and exports is necessary to reduce compliance costs with NTMs. Trade facilitation can be enhanced if clearing agencies work together and each has a clear and non-overlapping mandate. Improving the ICT and physical infrastructure together with capacity building of the personnel working in these agencies can enhance efficiency and alleviate many of the problems most companies seem to be facing. In addition, there is need to set a single access point for information regarding procedures and requirements to export.

Note: We acknowledge the contributions of International Trade Centre (ITC) and the Ministry of Trade (Kenya) for facilitating the study on which this article is based.

Feature

Pursuing Regional Peace and Counter-Terrorism Initiatives

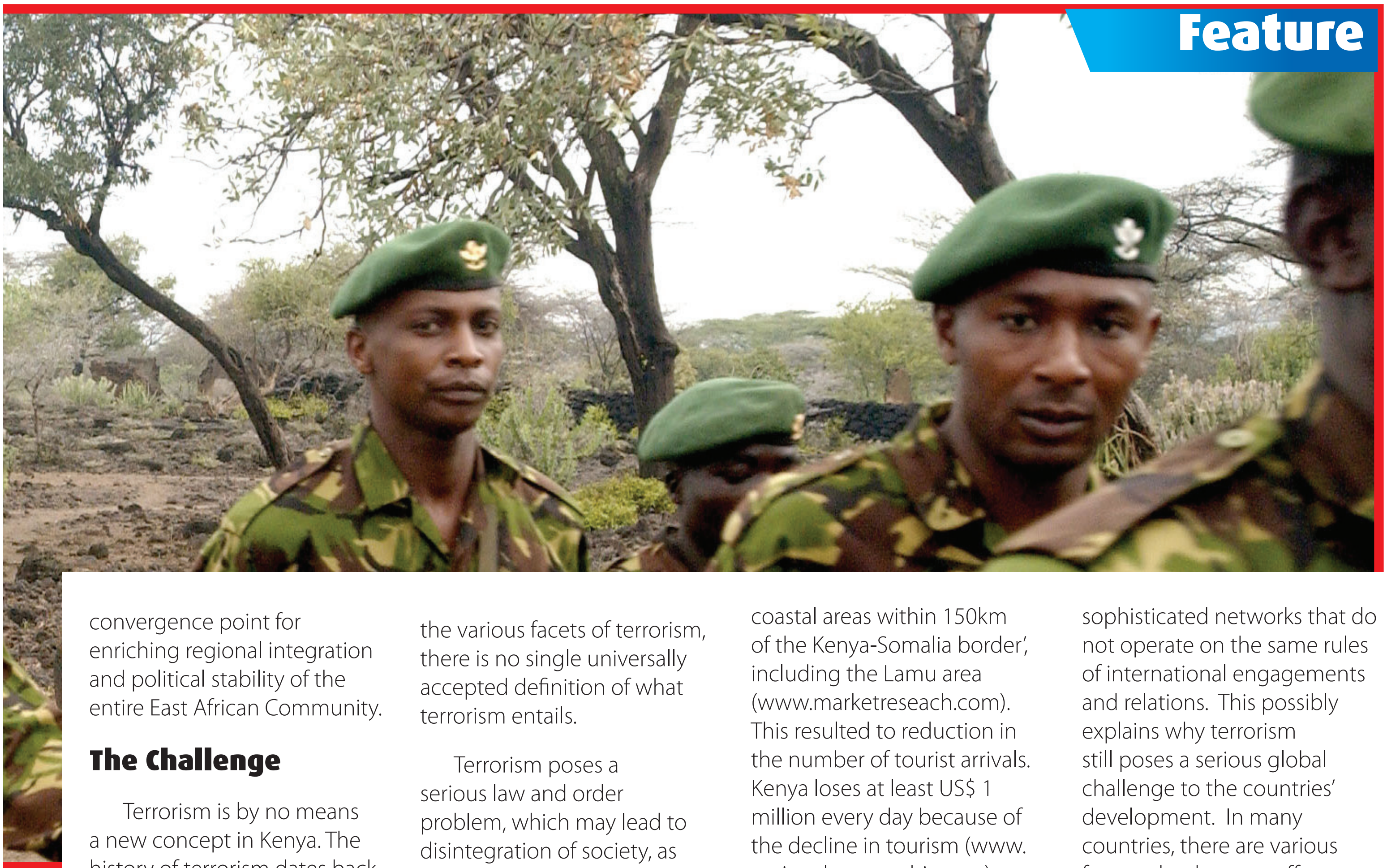
Dr Jacob Chege, Senior Policy Analyst, and **Dr Douglas Kivoi,** Policy Analyst, Governance Division, KIPPRA

The Issue

Since independence in 1963 up to 2007, Kenya has been void of conflicts experienced in many African countries. This partly explains its position as the economic and travelling hub of the East African Community. Moreover, Kenya has the biggest and most developed infrastructure in the region, impacting significantly on economic growth of neighbouring countries that are land locked. However, the 2007/2008 post-election violence had serious economic impacts on the economies of the three landlocked countries (Uganda, Rwanda, Burundi) and parts of eastern Democratic Republic of Congo, which heavily rely on Kenya's infrastructure links, especially the railway and port of Mombasa, for their imports and exports deliveries. For example, there was significant shortage of petroleum products in Uganda following the short period of violence. When the constitution was promulgated in 2010, it marked a key milestone in entrenching good governance, restoring confidence in the justice system, equitable distribution of resources and decentralization of power to county governments.

Kenya's political and economic stability is key in tackling emerging threats to regional stability. Even before independence, maintaining an open trade route to the Indian Ocean was the primary concern and focus of governments. Uganda's relationship with Kenya is the most significant concern because of the economic dependence the two nations have on one another. Uganda is Kenya's top export market, and leads as the top destination of Kenya's products (East African Economic Report 2012). Kenya also played a crucial role in efforts that led to the birth of Africa's new state, Southern Sudan, when it hosted and moderated the peace negotiations. Kenya was able to do this because it has stable state institutions that provided a stable environment for peace negotiations. In addition, due to Kenya's proximity to Somalia and inhabitance of shared community (communities) along their borders, Kenya got intertwined in Somali internal conflicts.

The stability of Kenya is critical in maintaining regional peace. This is because the country has remained relatively peaceful with state institutions functioning well despite the many challenges. This is evidenced from the fact that Kenya has played host to refugees from Southern Sudan, Rwanda, eastern Democratic Republic of Congo and the bulk of the refugees from Somalia. It has shared communities alongside all its borders with neighbouring countries, making it the



convergence point for enriching regional integration and political stability of the entire East African Community.

The Challenge

Terrorism is by no means a new concept in Kenya. The history of terrorism dates back to the ancient Greeks and Romans. On 11 September 2001 when terrorists hijacked two planes and crashed them into the twin towers of the World Trade Centre in the United States of America, the war on terror took a global perspective. The world undeniably changed with respect to state institutions that deal with security. These events served as a catalyst in making nations develop anti-terrorism laws to curb free movement of terror suspects, and Kenya was not any different. Security was tightened around major global airports, and major security checks and clearances around such facilities became the norm. Because the nature of terrorism is always changing, the motivations of terrorists are often unknown, and the definition changes depending on the issues under consideration. Given the various facets of terrorism, there is no single universally accepted definition of what terrorism entails.

Terrorism poses a serious law and order problem, which may lead to disintegration of society, as is the case in Somalia. The incidents of murder, torture, mutilation, kidnapping, arson and extortion create an atmosphere of suspicion, fear and panic in the society.

The first major terror attack in Kenya was in 1998, which targeted the United States Embassy. Since the incursion of Kenya Defence Forces in Somalia to root out Al Shabaab militia in November 2011, the country had experienced 32 terror attacks by 19 December 2012, resulting in 75 deaths and 362 injuries of Kenyans. Apart from financial losses arising from these terror attacks, terrorism has impacted negatively on the tourism sector, which is an important foreign exchange earner. For instance, in January 2012, the UK's Foreign and Commonwealth Office issued travel advisories against 'all but essential travel to within 60km of the Somali border and to coastal areas within 150km of the Kenya-Somalia border', including the Lamu area (www.marketreseach.com). This resulted to reduction in the number of tourist arrivals. Kenya loses at least US$ 1 million every day because of the decline in tourism (www.nationalgeographic.com). In addition, insecurity is a disincentive to any investment, yet the country is in dire need of new investments to meet the goals of Kenya Vision 2030.

There is also the possibility of terrorist groups such as the Al Shabaab forging links with local criminal gangs such as the Mombasa Republican Council (MRC), among other terror gangs. In light of re-emergence of criminal gangs with ethnic ties and identities, such as Mungiki, Kalenjin Warriors, Angola Musumbiji, Mombasa Republican Council, Talibans, China squad, Sungu Sungu, there is risk that internal and external terrorism-linked criminal networks could be developing.

Problems

Most terrorist groups such as Al qaeda and Al Shabaab work in transnational sophisticated networks that do not operate on the same rules of international engagements and relations. This possibly explains why terrorism still poses a serious global challenge to the countries' development. In many countries, there are various factors that hamper efforts to fight terrorism.

In East Africa, for instance, countries are encumbered by issues of sovereignty that make security cooperation difficult to sustain so as to detect and dismantle terror cells in the region. Secondly, regional countries do not trust each other well enough to reveal and share intelligence information on activities of terror gangs. Thirdly, terrorist networks have benefited from increased resource mobility and information flows that result from globalization process.

Fourthly, terrorist networks often fund their activities through illicit activities (drugs, guns, prostitution and underground religious charities). The flow of drugs and illicit sex at the Kenyan coast could be a conduit for terrorists to fund their activities

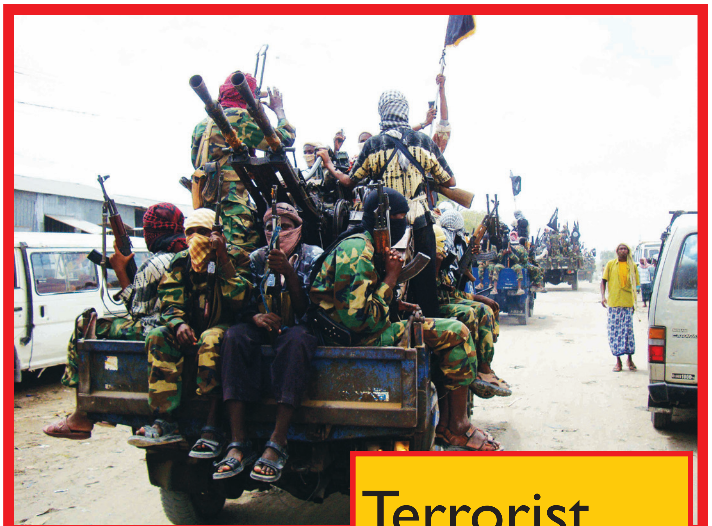
Feature

(www.public intelligence. net, www.gfintegrity.org). This interlink of terrorism with illicit activities complicates efforts to eradicate terrorism due to inability to identify its pathways.

Fifthly, terrorist networks often lack a concrete hierarchy, which makes them difficult to identify and eliminate. In addition, fighting terrorism may thus be similar to other 'open-ended' fights such as the 'war on drugs', given that the nature of terrorism and their tactics keep on changing. For instance, internet technology and the proliferation of social networking sites have changed how terrorist organizations recruit and communicate.

Terrorists look for visible soft targets where they can avoid detection before or after an attack, such as international airports, major international events, public transport systems, resorts, and high-profile landmarks. Another major challenge facing the nation is lack of awareness among members of the public on terrorism risks that the country faces, and individual efforts they have to undertake to avoid being victims of terror. Poor disaster management skills among Kenyans make them exposed to more terror attacks, particularly when they mill around scenes of explosions.

Terror attacks sometimes result to xenophobic attacks targeting members of one community that is perceived to share same cultural identity with the terrorists. This arises when terror activities are mirrored to reflect cultural and religious differences in society. In non-cohesive societies, terrorism can ignite civil wars and compromise a country's ability to eradicate terrorism.



Terrorist networks often lack a concrete hierarchy, which makes them difficult to identify and eliminate

The Solutions

No single state or nation can eradicate terrorism alone, given the inter-country links that terrorists create. Thus, Kenya has to galvanize regional and international support to counter terrorism. Kenya requires cooperation from neighbouring countries in areas of border surveillance and control, prevention of money laundering and the prevention of falsification of travel documents. More importantly, there should be more intelligence gathering and sharing among East African countries.

There should also be renewed efforts to refine legal instruments, institutions and technical/financial support to facilitate action against terrorism. The newly formed Kenya Anti-Terrorism Police Unit should be provided with proper equipment to deal with emerging threats from international terrorists. The enactment of the Prevention of Terrorist Act 2012 should be accompanied with designing of operational measures to prevent, deter and combat terrorist activities in the country. Countries such as Uganda, Tanzania, Mauritius and South Africa have succeeded in enacting counter-terrorism legislation.

There is also need for comprehensive civil education to sensitize the populace on terror prevention measures and disaster management. Awareness on risks of potential terror attack and its aftermath may inculcate values that promote nationalism and group efforts in fighting terror. Further, civil education enlightens citizens on causes of terrorism and individual responsibility on terror prevention.

Fighting terrorism requires understanding regional and local conditions that make terrorism to thrive. Management of refugees and their resettlement is critical, as well as securing the borders to prevent illegal trade in arms and entry of weapons and explosives. Terrorism tends to flourish in society enclaves that are relatively poor and marginalized. As such, economic growth that facilitates equity is important in fighting terrorism.

Further the country should reassess its capacity to fight terrorism. More training and recruitment of security agents minimizes the existence of terrorist cells. Further, community policing is based on the notion that citizens should be empowered to prevent crime or problems that lead to crime. Establishing and maintaining mutual trust is, therefore, the central goal of community policing, as it allows wide law enforcement access to valuable community information, leading potentially to the prevention and resolution of crimes. The partnerships formed in support of community crime prevention efforts can also provide a framework for engaging citizens to help police identify possible terrorist threats and vulnerabilities. Effective community policing involves not only developing partnerships between law enforcement and citizens but also between regional governments so as to pursue terror agents who may take refuge in neighbouring countries.

Peace and Tourism:

CAN WILDLIFE CONSERVANCIES IN KENYA HELP FORESTALL RESOURCE CONFLICTS?

By Peter Njiraini, Policy Analyst, Productive Sector Division

The desire to live peacefully among humankind is apparent. This desire cuts across individuals, communities, and among nations. Though the definition of peace is subjective, somehow there is some agreement that peace goes beyond the absence of war. It is described as a state of "tranquility within individuals, among people and nations and between people and nature". Lately, scholars have started to explore the relationship between tourism and peace.

Of importance is the role of tourism in preventing structural violence, which is typically identified with protracted conflicts.

Structural prevention focuses on forestalling the development or worsening of underlying causes of conflict. Different from direct prevention or operational prevention, structural prevention addresses itself to the social economic divides that have long-term implications for triggering violence. The main argument is that proper management of tourism initiatives, such as the wildlife conservancy initiatives that have emerged as a dominant model for Kenya's tourism, have a role to play in ensuring peace by diminishing some structural causes associated with resource conflicts.

Proponents of the liberal peace theory posit that democratization and commoditization of conflicting livelihood alternatives could lead to long-term peace. However, the practice is rather different in that we are all witnesses to multinational companies exploiting resources, labour, and environment at the expense of locals, as a result of commoditization. In Kenya's tourism, there is evidence of domination of the tourism sector by foreign companies who are often oriented to external demands of tourists and investors. For instance, Akama (1999) and Sinclair (1990) estimate that over 80% of the international tourists who visit Kenya travel in inclusive tour packages provided by foreign multinationals. In cases of such form of travel arrangements, prospective visitors pay overseas tour operators for a complete travel package. The authors argue that the resultant high leakages that characterize this mode of tourism lead to low receipts (sometimes as low as 2-5% of the total tourist expenditure) trickling down to local communities.

It is this feeling of inequity and short-term view adopted by multinationals that has led to the evolution of new models such as wildlife conservancies among many communities living adjacent to wildlife rich areas. Adherents of the positive peace theory argue that to achieve peace through tourism, we have to avoid practices that evoke insensitivity, inequity and short term maximization to a broader view that recognizes long-term obligations to travelers, destinations and communities and future generations.

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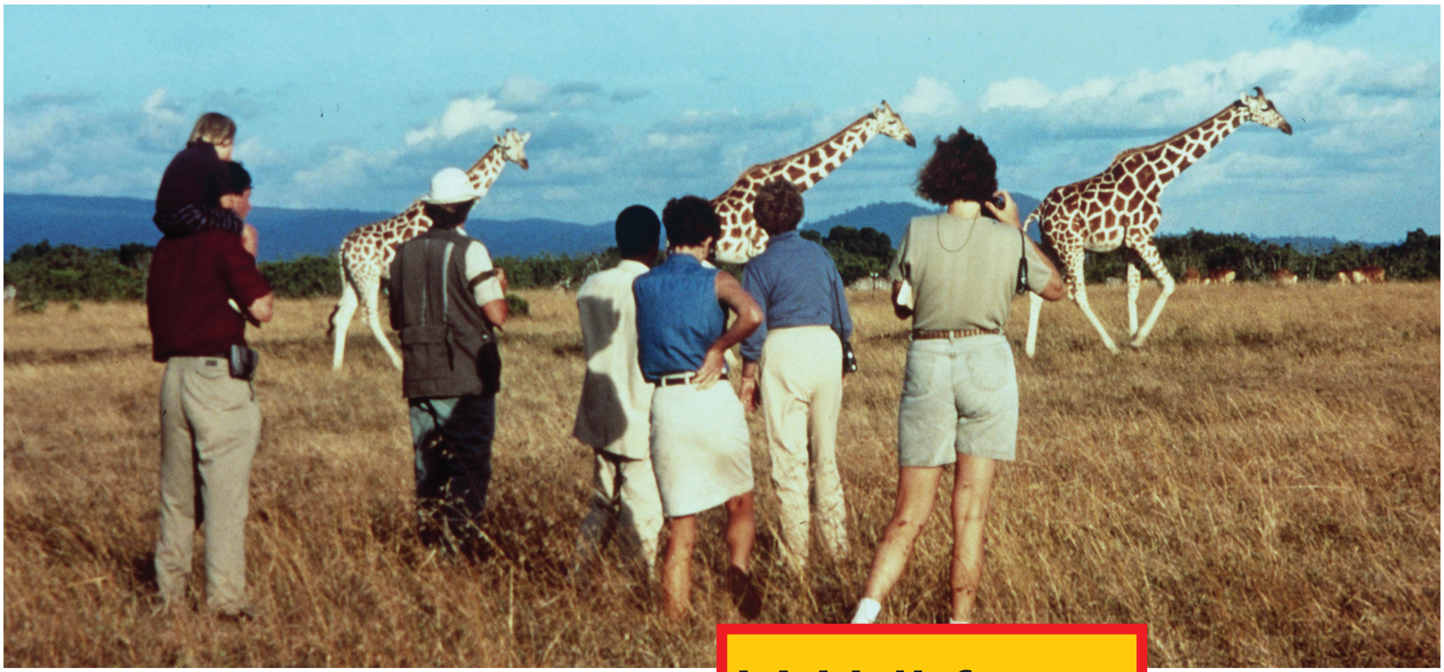

This is the initial direction taken by the many wildlife conservancy projects that now dot the Kenya landscape. Such conservancies are often located in an ecologically fragile environment that is prone to cyclical droughts. Livelihood systems in such areas have been dominated by mostly extensive livestock production, a mode of livelihood that has come under severe threat by the increasing inaccessibility to resources such as water, and grazing land as a result of privatization of land that was hitherto communally owned. This has led to the search for alternative sources of livelihood, such as bee-keeping and wildlife tourism, among others. Most of these regions are home to the richest wildlife mammal and bird species. The result of the competition has led to substantial human-wildlife conflicts arising out of livestock predation, thereby destabilizing the tranquility between nature and people and with the high possibility that this will eventually lead to conflict between communities and even individuals.

It is with this background that the wildlife community conservancies are set up with an aim of restoring the tranquility with nature and people. However, assessments of the successes and failures of this community conservancy paint a picture that is not too rosy. For instance, preliminary indications from a study by Flintan and Puyo (2012) are that the conservancy projects have achieved limited success due to problems associated in land ownership and property rights system, inadequate governance structures, and failure to realize sufficient benefit and sharing mechanisms that ensure equity. Financial benefits to individual members from the livelihood activities are also not significant.

Fliton and Puyo found a share of US$ 12.8 per person per year in 2006 on such conservancy, which compares poorly with Kenya's poverty line of US$ 16.50 per month during this period. The study also found inequalities in the spread of the benefits among the group ranches, coupled with improper record keeping and lack of transparency that could result to resentment and conflict among group ranch members, especially those who are not fully engaged in tourism livelihood activities but who also bear the pressure from increased wildlife in their communal lands.

Wildlife community conservancies are set up with an aim of restoring the tranquility with nature and people

Thus, it is possible that as pressure on access to resources builds up with the advent of conservancy wildlife tourism, the inequalities among communities, individuals and nature could be accentuated, leading to increased conflicts for resources. This calls for development of a new model/strategy that incorporates issues of equity, transparency, good governance practices, and good management skills.

Kenya's Heritage and Culture: The Coastal Strip

By Rose Ngara-Muraya, Senior Analyst, Social Sector Division

Kenya has a very rich heritage from the Indian Ocean coast all the way to western Kenya, as well as from the southern border with Tanzania to the diverse northern frontier. Over this expanse lays great wealth and high potential. The heritage ranges from physical features to cultural attributes. Many of Kenya's heritage sites attract tourists, while others have had a lesser effect in this perspective.

Along Kenya's coastal strip are many historical sites and ruins that date before the 10th century. Along the northern coast we have the Lamu, Faza, Pate and Siyu ruins; Takwa ruins on Manda Island; Gede ruins in Malindi; and Fort Jesus in Mombasa, among others. Along the southern coast is Shimo la Tewa, where we have some natural caves that acted as a holding ground for slaves before the slaves were shipped to the slave market in Zanzibar.

Selected a World Heritage Site in 2001, the Lamu archipelago is an outstanding heritage for Kenya, which won its stature from its unique architecture and urban structure. The culture of Lamu dates back to the 7th century, with European, Arabian, and Indian influence, bound and made distinct by the traditional Swahili culture. The culture has weathered influences of modern lifestyles over the years. The rich Swahili art that defines Lamu culture is primarily geometric, with highly intrinsic encryptions found on doors and household furniture such as tables and chairs, as well as on some vestments such as headgear for men and kanga mostly worn by women.

Besides the unique architecture, Lamu buildings are close together, leaving paths that cannot fit vehicular traffic, and hence the town has one vehicle belonging to the District Commissioner and a three wheeled ambulance that traverses the water front. Anyone needing ambulance services will have to be brought to the water front either on a donkey or a wheelbarrow. Common phenomena on the internal

Feature

roads are donkey-drawn carts or heavy backload carrying donkeys.

Due to the importance of donkeys and their high population, Lamu town has a well equipped donkey hospital and sanctuary. Additionally, Lamu boasts of a unique breed of cats with slender long bodies and pointed ears, said to have originated from ancient Egypt.

The Maulidi festival that takes place in Lamu in June is an outstanding event that attracts tourists from across the world, most of whom are Muslims that come to celebrate the birth of prophet Mohamed. The festival attracts over 50,000 visitors during the month, with the climax coming over a 4-day period. It is vibrant with prayer, music and dance, among other events such as dhow and donkey racing, traditional ceremonies, cuisine and art, including folk art in the form of *henna* painting.

Lamu is a tourist destination with a very high potential to grow. Besides a few visitors to Lamu that come by road or boat, majority arrive in small aircraft that land on Manda Island airstrip. The proposed construction of Lamu port, a railway line, a road network connecting Lamu to the rest of the country and the neighbouring countries of Ethiopia and Southern Sudan are likely to boost the economy of Lamu and its hinterlands. These developments, as well as a planned oil refinery and pipeline, are likely to attract a multitude of investors to Lamu. Tourism and related activities will also be enhanced.

There is an urgent need to make a deliberate effort to preserve Lamu and help it retain its historical and cultural stature, especially with the new developments. Insecurity stemming from the chaos in Somali has tainted the situation in the Lamu Archipelago. Recent clashes in the Tana delta are not helping either. This calls for serious government interventions and reassurance of safety and security if tourism, whether by locals or foreigners, is to thrive.

Despite the high potential that is Kenya's heritage and culture, it has not been effectively exploited and marketed. For example, Lamu would receive a larger number of visitors if the road from Mombasa to Lamu via Malindi was bituminized and secured. One way of securing the route is to promote development of centres along the route, and introducing police patrols in addition to bituminizing it. This is a long stretch of open sea and, if the land was open to investments, many tourist hotels can be built and the stretch would become more attractive to other investments. This can only happen if land holders along the stretch agree to sell the land to investors.

There is often a trade-off between opening up such land to development and retaining the rich culture, which still prevails along the coastal strip. However, given that the Kaya Culture has survived in Mombasa and along many parts of the strip, the government can invest in documenting the traditions, create cultural centre for preservation, and dissemination to the younger generations. Such centres should be equipped with IT systems and centre specific websites created, such that stakeholders and potential tourists (both local and international) can access the information online. The National Museum of Kenya has covered some milestones in preservation of some of the heritage and culture. However, a lot more is required.

Generally, people tend to take culture lightly during these modern times and some even think it is backward to practice it. Western culture has been adapted with abandon, while African culture is discarded. A Swahili adage says '***mkosa mila ni mtumwa***', meaning 'He who lacks culture is a slave'. Let us rethink our ways and seek to acknowledge, understand, know and practice our positive culture while eliminating negative culture such as female genital mutilation (FGM) and cattle rustling, both of which are now illegal activities.

Despite the high potential that is Kenya's heritage and culture, it has not been effectively exploited and marketed

The Untapped Value of Knowledge

By Anne Gitonga, Policy Analyst, Private Sector Development Division

Knowledge is a non-rival good with partial excludability characteristics; for instance, it can be accessed by anyone. Intellectual Property Rights (IPRs) are aimed at protecting new knowledge and creations of the mind by limiting the access, use or exploitation, and thus giving the inventor or creator the opportunity to benefit commercially from the new knowledge generated. Intellectual property rights protect the right owner against illegal copying, reproduction or imitation of products formed out of a creative and/or innovative process.

IPRs have had a long history in Kenya. The initial IP laws were based on colonial heritage introduced to Kenya to basically address imperialist interests. On gaining independence, Kenya inherited colonial IP legislature, which were later repealed and/or amended. The intellectual property rights currently recognized in Kenya are Trade Marks and Service Marks, Patents, Utility Models, Industrial Designs, Rationalization Models, Copyrights and Plant Breeders Rights.

Despite the fact that IPRs have had a long history in Kenya, with the first statute being traced to the colonial period, awareness of IPRs in Kenya is limited, thus contributing to the IP violations. The lack of awareness of IPRs has contributed to counterfeiting and exploitation of local innovators. A 2004 National Intellectual Property Audit has indicated that a large number of Kenyan inventors and innovators were unaware of the different options for protecting and commercializing their products. Most Kenyan inventors identified self exploitation as the only way for them to be able to commercialize their products. To further compound the problem, there are also enforcement failures experienced in Kenya. For instance, a report by the International Intellectual Property Alliance (2003) states that magistrates in Kenya have little knowledge of copyright law, and the cases take several years to reach judgment. Moreover, Kenya does not yet have an IPR policy in place, and the knowledge infrastructure is basically under-developed.

During a recent workshop on Science, Technology and Innovation Policies and Strategies in East Africa organized by the Kenya Institute for Public Policy Research and Analysis (KIPPRA) in collaboration with the Science Technology and Innovation Policy Research Organization (STIPRO) of Tanzania and Advocates Coalition for Development and Environment (ACODE) of Uganda, it was noted that majority of the exports in the three East African countries are either low technology or medium technology, evidence of the limited technological capacity of the three countries. Despite the low levels of technological capacity and limited research and development (R&D), some R&D is taking place in the countries. There is also evidence of linkages between research and use, especially in medical treatment, improved seed/plant varieties and so on. One good example of the linkage between research and use relates to the fertilizer developed by the University of Nairobi in the 1970s, which was licensed to MEA, a fertilizer manufacturing company, under an innovative public-private partnership following a partnership established in 2008. The fertilizer was repackaged and marketed, with the University even receiving royalties on the sales. This partnership was, however, as a result of intervention of the British Council's Africa Knowledge Transfer Partnership (AKTP), which then brings to question why intervention is required? Is the policy environment insufficient in promoting commercialization?

Most Kenyan inventors identified self exploitation as the only way for them to be able to commercialize their products

A study titled *Overview of Intellectual Property Rights: The Case of Kenya* provides further evidence of the situation in Kenya, and provides some policy relevant recommendations. In particular, there is need to promote knowledge creation and protection though IPRs; intensify IPR awareness especially within learning institutions, including annual National Students Science Congress; integrate IP education in the school curriculum; and introduce an efficient mechanism and regulatory framework that relates to technology transfer. The use of tools such as institutional research, IP policies, technology or knowledge transfer policies can be very beneficial in this regard.

Further research on technology transfer, knowledge protection (intellectual property rights) and commercialization in the region is critical to identifying the key factors for success, and promoting use of commercialization and use of R&D findings.

For more information see Gitonga, A. and Kieyah J. (2012), Overview of Intellectual Property Rights: The Case of Kenya, KIPPRA Working Paper No. 18, Nairobi: Kenya Institute for Public Policy Research Analysis.

Feature

How to Regulate

By Prof. Joseph Kieyah, Principal Policy Analyst and **Anne Gitonga,**
Policy Analyst, Private Sector Development Division

The peaceful election and the ongoing deliberate effort of the Jubilee government to form an inclusive government has rekindled a sense of national economic exuberance that preceded the 7% economic growth of 2007. However, such euphoric expectations are being tamed by the economic realities of budgetary constraints of meeting recurrent expenditures of national and county government, among other obligations. To achieve the double digit economic growth as envisioned in the manifesto of the Jubilee government, the private sector must sustain the 8% contribution to GDP and do much more to enhance its competitiveness. This calls for reduction of regulatory burden that emanates from inefficient and ineffective enforcement of regulations across all sectors, and also attributable to lack of a policy assessment of the cost and benefits of new regulation, and evaluation of the existing regulations.

Consequently, outdated regulations that were inherited from the colonial government continue to govern modern business activities. Moreover, retrogressive and sometimes contradictory new regulations continue to be enacted in the absence of cost and benefit analysis. Such policy vacuum calls for the adoption of Regulatory Impact Assessment (RIA), as provided for in the Statutory Instruments Act of 2013 (CAP 23).

RIA is a regulatory tool that systematically and critically assesses the cost and benefit of a new regulation, or an existing regulation with the aim of improving the quality of regulatory policy. The underlying rationale for RIA is that any regulation should be securitized on case-by-case basis to see whether it contributes to strategic policy goals.

Application of RIA contributes to a better regulatory decision making process by ensuring adherence to the principles of accountability, transparency and consistency. A well administered RIA systematically gathers through public consultation information of the impacts arising from government regulation, which is shared with the policy makers.

To reduce this regulatory burden, a Working Committee on Regulatory Reforms for Business Activities was established in 2005 to oversee business licensing reforms, among other structural reforms. The committee formulated a Regulatory Reform Strategy with the aim of guiding the implementation of the process, with a monitoring and evaluation component. The strategy proposed the enactment of Business Regulation Bill, which provides the legal basis of RIA, among other matters of business regulation.

Predicatively, the bill has not been enacted due to the lengthy and intractable process imputed by divergent interests of major stakeholders. Conspicuously, the RIA framework has been entrenched in less published Statutory Instruments Act 2013, which escaped public scrutiny and the fanfare it deserves.

Notwithstanding its enactment, as much as it is aimed at ensuring that regulations are clear, and that consultations are undertaken through appropriate parliamentary scrutiny, the Act will not have the desired legal penetration of entrenching the RIA process. In other words, its enactment is not a sufficient condition for the acceptance of RIA by policy makers because of the divergence of interest of stakeholders. Notably, the Act does not provide for the establishment of a custodian institution that will oversee and support regulatory authority in the RIA process as best practices call for. Rather, the Act empowers the respective regulatory authority to prepare regulatory impact assessment for any statutory instrument the authority proposes, in the absence of the oversight authority that might impose significant costs to the community.

Consequently, it is important to embark on a national sensitization campaign on the importance of RIA process to policy makers, including private sector and consumer organizations. RIA should not be perceived as a substitute for decision-making, but rather an integral part of the policy-making process that enhances the quality of debate on policy, reduces monitoring costs, and exposes potential regulatory conflict between agencies. RIA should ensure that laws and policies are not arbitrarily introduced but are instead transparent, effective and efficient, thus contributing to a favourable business and investment environment.

RIA calls for capacity building in enumeration and cost benefits analysis within government agencies that have regulatory responsibilities, and built-in extensive procedures of consultation. Since RIA could be a costly exercise, it is important to prioritize where it applies based on clear objectives but not on the grounds of political expediency or administrative convenience. Implementation of RIA demands adequate political support to overcome bureaucratic inertia and confront regulatory capture by interest groups.

With a Light Touch

Truth vs Lies

The truth is simple because you need not remember the earlier statement but a lie is convenient.

When one is not liable, one has no idea just how much it costs to say the truth. The truth hurts and because it does, we raise our defences so it cannot get to us. Our coping mechanisms range from running away from the truth, ignoring it in the hope that it will go away or altering it to make it more appetizing.

At this point we are forced to lie. Lying is necessitated by human survival instincts, some people do not do it intentionally but as an urge to survive and stop suffering. People who were born liars lie with confidence and are consistent with what they say or have to tell. As the Holy Book puts it; "then you will know the truth and it will set you free". However, it also refers to men as deceptive. Unfortunately, the truth makes us miserable at the end of it all. If it was to prevail, the infamous Kosovo war would be child play.

Just ask yourself why we have referees, certified certificates, certificate of compliance, certificate of good conduct, quality control from relevant regulators, guarantors to name but a few. What has become of man! Is it the nature of man to be deceptive?

Winnie Nguyu, Librarian, KIPPRA

Favourable Quote-Attitude!

"I believe the single most significant decision I can make on a day-to-day basis is my choice of attitude. It is more important than my past, my education, my bankroll, my successes or failures, fame or pain, what other people think of me or say about me, my circumstances, or my position. Attitude keeps me going or cripples my progress. It alone fuels my fire or assaults my hope. When my attitudes are right, there is no barrier too high, no valley too deep, no dream too extreme, no challenge too great for me."

Charles Swindoll

NEWS

Institutional Technology Policies and Strategies in East Africa

KIPPRA in collaboration with Science Technology and Innovation Policy Research Organization (STIPRO) of Tanzania and Advocates Coalition for Development and Environment (ACODE) of Uganda are conducting studies on Science, Technology and Innovation Policies and Strategies in Kenya, Uganda and Tanzania, respectively.

In view of this, a workshop was held on 9 April 2013 , in Tanzania. Further, a national workshop was held on 3 May 2013 in Kenya, and a final one in Uganda on 17 May 2013 to provoke debate and identify possible areas for further research in the three countries based on the knowledge gaps.

During the workshop, it was noted that majority of the exports in the East African countries are either low technology or medium technology; furthermore, Tanzania seems to be 'de-industrializing' given that the share of medium and high technology to value added in manufacturing was higher in 2000 compared to 2007. This presented a clear picture of the limited technological capacity of the three countries.

Despite the low levels of technological capacity and research and development (R&D), it was evident that some R&D takes place in the countries. However, the background papers identified weak linkages between R&D institutions and industry as one of the outstanding challenges in the Science Technology and Innovation (STI) landscape. Other common challenges included low levels of commercialization, limited financial capacity and human resource challenges.

ISO Recertification in Progress

KIPPRA has successfully completed the first 3 years of ISO certification. The Institute was certified on 20 October 2010 and is thus due for recertification. The KIPPRA management and staff have done a splendid job in ensuring that the Quality Management System is operational and, in the process, enabling the Institute to deliver on its mission and vision effectively and efficiently over the years.

During the 3-year period, there has been 6 Internal Quality Management audits, 6 surveillance Audits and 6 ISO management review meetings. In a bid to successfully attain recertification, the Institute has engaged in a vigorous process of revising the Standard Operating Procedures (SoPs) with an aim to reflecting changes in the growth of the Institute and the lessons learnt over the period. The revision process involved establishing a management sub-committee who identified the proposed changes in all the SoPs. Their findings were subsequently discussed in staff forums between February and March 2013. The output was then discussed by management in March and April. The resultant SoPs were signed off in May 2013.

The final stages of re-certification are now underway.

Feature

A Decade of W
Any Achievements?

John Nyangena, Policy Analyst, Productive Sector and **Hellen Musyoki,** Young Professional, Infrastructure and Economic Services Division

The Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya prioritized the country's vices as poverty, illiteracy and disease. The government recognized the centrality of water in fighting these evils and committed to providing water free or at subsidized rates. Thus, many programmes were initiated to accelerate access to water with a view to reducing the prevalence of diseases and poverty. Subsequently, the first National Water Master Plan of 1974 set an ambitious goal of availing potable water to all households by the year 2000. This plan was implemented through the legal framework provided by the Water Act, Chapter 372, of the then laws of Kenya, which explicitly vested all responsibilities of water provision, policy formulation, regulation and financing on the government. The Act saw the Department of Water Development in the Ministry of Agriculture upgraded to a fully-fledged ministry. Later in 1988, the National Water Conservation and Pipeline Corporation (NWCPC) was established and mandated with development of state schemes for water supply, including dams and pans, canals, boreholes and flood control works.

ater Reforms:

> "The ongoing review of the water Act provides a good opportunity to consider innovative financing for water services including public private partnerships (PPPs) to strengthen cost recovery

By 1997, however, it was clear that the set target of water for all by 2000 was not likely to be met, mainly due to rapid population growth and disproportionate investment in water infrastructure. To remedy the situation, the government issued guidelines to share responsibilities of managing water supply systems with the communities. By 2000, the results were dismal, with only two thirds of urban and less than half of the rural population having access to potable and reliable water. At this point, a reality check to re-orient the water sector towards meeting the rising demand became imperative. This was further aided by the need to respond to international calls for efficient and sustainable water management frameworks.

Broad-based reforms were therefore introduced in the sector, encapsulated in the Sessional Paper No. 1 of 1999 on "National Policy on Water Resources Management and Development". The Water Act of 2002 provided the legal framework for executing this policy, and its implementation began in earnest in 2003. The reforms broadly targeted four main fronts: separation of water resources management and development from water services delivery; divorcing policy from regulation and administration; participation of stakeholders in water resources management and supply; and decentralization of water function to lower levels. The role of the Ministry was limited to legislation, policy formulation, sector coordination, monitoring and evaluation. Regulation and service provision functions were assigned to semi-autonomous bodies that report to governing Boards comprising of representative stakeholders, including the private sector.

The reforms in general intended to achieve better service delivery, increased coverage, and improved infrastructure. Improved water supply, which is a key measure of the impact of reforms, has been a top priority for the government since independence. According to the 2009 census, the proportion of households with access to improved drinking water increased during the reform period but the magnitude reflects slow progress towards the MDG goal of the proportion of population without access to safe drinking water by 2015.

While the global target was realized in 2010, Kenya's access rate is a modest average of 60% for water and only 24% for sanitation. The situation is compounded by huge regional disparities.

The sector's budget allocation has increased substantially since 2003, although huge gaps still remain. Between 2005/06 and 2011/12 financial years, allocation to the sector increased from Ksh 6 billion to over Ksh 36 billion, but the rise was far below the required Ksh 86 billion. This frustrated desired measures on operational efficiency, accountability and sustainability, which are essential in improving sector performance.

The responsibility to plan, develop and expand the water infrastructure (assets) is entrusted in the Water Services Boards (WSBs). To ensure stakeholder participation, Water Service Providers (WSPs) were created, covering specific urban or rural areas. The WSPs are responsible for the operation and maintenance of water assets as well as provision of water supply and sanitation services as regulated by Service Provision Agreements (SPAs). Although a water infrastructure index is not available, the current state of infrastructure does not reflect the corresponding rise in investments, as the water network is generally characterized by low value for money and poor impact of investments.

Non-Revenue Water (NRW) refers to produced water that does not generate any revenue but is expended mainly through water losses and unbilled authorized use. Water losses can also occur where consumption is unauthorized (illegal connections) or metering

Feature

devices are inaccurate. Leakages from supply lines, including overflows at the storage facilities, distribution mains, and storage tanks as well as at service connections up to the point of customer metering are other causes of NRW. The NRW rate for 2011 was estimated at 63% and 45% for rural and urban areas, respectively. This is greater than the 25% threshold and is equivalent to Ksh10.4 billion or one third of the development budget for water supply and sanitation services.

Metering rate measures the number of connections with operational meters to the total number of connections. Metering is critical in controlling NRW and in managing per capita water consumption. A higher metering rate means that consumers are charged according to what they actually consume. With metering rate for both urban and rural areas below the 95% threshold, it implies that consumers are charged based on estimates, a situation that creates conditions for illicit trade.

Revenue flows from water are meant to finance operational and maintenance costs. Revenue collection efficiency defined as the amount of funds collected by a water utility compared with the total amount billed in a given period depicts its institutional capacity. At 82% in 2010/11, the indicator portrays increasing willingness to pay by customers and also reveals the improved levels of customer satisfaction. This rate, however, varies greatly depending on the projections, water production and control in NRW.

In spite of the progress registered in the sector, the current state raises concerns on whether the country will manage the burgeoning water demand. For example, between 1990 and 2010, total annual water demand more than doubled from 2,073 million cubic meters to 5,817 million, mainly driven by irrigation (29%), domestic (27%), industrial (19%), livestock (14%) and inland fisheries (11%). A number of strategies will require urgent attention

Investments in catchment conservation and protection will be necessary to ensure sufficient availability, and enhance and sustain productive capacities of water sources. Improvements in water use classifications for adequate planning are also required if water demand in the various uses is to be guaranteed.

The ongoing review of the Water Act provides a good opportunity to consider innovative financing for water services including Public Private Partnerships (PPPs) to strengthen cost recovery. Priority investments should be given to counties lagging behind in water access as a way of addressing the glaring inequality.

SELECTED ONGOING / COMPLETED KIPPRA RESEARCH, 2012-2013

Macroeconomics

1. Development of a Threshold 21 model
2. Green jobs evaluation
3. Divisia monetary aggregates in the conduct of monetary policy in Kenya
4. Gender gaps in secondary schools
5. Determining the economic impacts of Meetings, Incentive travel, Conferences and Exhibitions (MICE)
6. Revision and extension of the KIPPRA-Treasury Macro Model
7. Preliminary Green Growth Indicators for Africa

Productive Sector

1. Oil and gas governance and exploration in Kenya
2. Opportunities for investing in the forest sector at the counties
3. Climate change financing in Kenya
4. Water reform in Kenya; impacts and challenges
5. Status and prospects for home-stay tourism in Kenya
6. Contribution of Meetings, Incentives, Conferences and Exhibitions (MICE) to Kenya's economy
7. Policy reforms and agricultural transformation
8. Review of alternative agribusiness models for enhanced food security and income generation
9. Evaluating agricultural export performance in Kenya: Drivers of success for vegetables and fruits
10. Monitoring African food and agricultural policies

Trade and Foreign Policy

1. A review of institutional and regulatory framework for wholesale and retail trade
2. Kenya: A company perspective on non-tariff measures
3. Promoting Kenya's economic and diplomatic interests in East Africa via soft power foreign policy
4. Renaissance of honorary consulates: A means towards realizing Kenya's trade centered foreign policy
5. Strategies towards increasing volume of remittances to finance development in Kenya
6. The structure and performance of trade in East African Community
7. Is East African Community ready to enter into a monetary union? Analysis of drivers of business cycle synchronization
8. Import demand and economic growth in Kenya
9. Diplomacy and exports: The case for Kenya

Social Sector

1. An economic analysis of job search decisions in Kenya
2. Cost of access to health services
3. Decentralization and education service delivery
4. Effects of enterprise development in economic development
5. Estimation of health professionals' requirements by county using norms and standards for health service delivery
6. Evolution of inequalities
7. Gender gaps in secondary schools
8. National cohesion and integration policy
9. Role of national heritage and culture in Kenya's economic development
10. The impact of decentralization on Kenya's public health system delivery
11. Vulnerability and targeting in basic education
12. A comparative study on public-private sector wage differentials in Kenya
13. Public expenditure tracking survey and service delivery indicators
14. Youth unemployment, underemployment and decent work in Kenya
15. Inequalities and social cohesion in Kenya: Evidence and policy implications

Infrastructure and Economic Services

1. Comparative analysis of Kenya's physical infrastructure performance
2. Demand for petroleum products in Mt Kenya and Northern Kenya regions
3. Development of a user interface model for Kenya's energy sector
4. Infrastructure sector performance, 2010-2012
5. Assessment of road crash data surveillance systems in Kenya
6. Metropolitan governance and regional modeling

Private Sector Development

1. A tool to address historical land injustices
2. Counterfeiting in Kenya: An appraisal of the situation
3. Intellectual property rights and economic growth: Review of patent regulations in Kenya
4. Interface of intellectual property rights and competition in Kenya
5. Understanding the banking structure in Kenya
6. Understanding the market structure of insurance industry in Kenya
7. Understanding the legal framework of the capital markets in Kenya: Case for investor protection
8. The regulation of business entry in Kenya
9. YouthSave project
10. Situational analysis of illicit trade in tobacco products in Kenya
11. Institutional technology transfer policies and strategies in East Africa

Governance

1. Land reforms in Kenya: Land registration and land investment
2. Citizen participation in devolved governance
3. Firm investment behaviour in Kenya: Does spatial industrial zoning matter?
4. Review of governance performance of the three arms of parliament (Judiciary, Executive and Legislature)
5. Land adjudication and investment on counties
6. Ethics and anticorruption policy

ABOUT **KIPPRA**

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is to conduct public policy research leading to policy advice. KIPPRA's mission is to produce consistently high-quality analysis of key issues of public policy and to contribute to the achievement of national long-term development objectives by positively influencing the decision making process. These goals are met through effective dissemination of recommendations resulting from analysis and by training policy analysts in the public and private sectors. KIPPRA therefore produces a body of well-researched and documented information on public policy, and in the process assists in formulating long-term strategic perspectives. KIPPRA serves as a centralized source from which the Government and the private sector may obtain information and advice on public policy issues.

KIPPRA acknowledges generous support from the Government of Kenya (GoK), the African Capacity Building Foundation (ACBF), and the Think Tank Initiative (TTI) of IDRC. The TTI is a collaborative initiative of Hewlett Foundation, International Development Research Centre (IDRC) and other partners. Moreover, the Institute acknowledges generous support of the European Commission (EC) over the past decade.

Other organizations are welcome to contribute to KIPPRA research either as core support, or support to specific projects, by contacting the Executive Director, KIPPRA.

Send to us your comments on the articles published in this newsletter and any other aspects that may help to make the KIPPRA Policy Monitor useful to you. This may include even policy issues you would like KIPPRA to prioritize.

HARAMBEE

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ThinkTank Initiative

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SYSTEM CERTIFICATION ISO 9001 SGS UKAS MANAGEMENT SYSTEMS 005

ISO 9001:2008 CERTIFIED