Trade Policy and Poverty Linkages in Kenya

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“Probably the starkest obstacle to effective, widespread, pro-poor reform in the trade arena is the complexity of the policy processes therein. To participate in this system with the intent of reforming it in the interests of poor people, it is necessary to simultaneously embrace and understand a system of global governance, and multiple, diverse systems of national policy-making; and try in turn to link these to broader constituencies through which development actors can articulate their agenda in the trade arena”

(Brock and McGee, 2004:50).
Executive Summary

This study has been prepared for Ministry of Trade and Industry in the Government of Kenya, under the DFID-funded Africa Trade and Poverty Programme (ATPP) (see Annex 1 for a summary of the Terms of Reference for this study). It adds to a series of papers examining this issue in Kenya, Malawi, Uganda and Tanzania which were produced in 2003.

This paper aims to reflect on international experience and to examine the links between trade policy change and poverty in Kenya. It is hoped that the paper will increase awareness of the routes by which changes in trade policy affect poor producers, workers and consumers and the types of complementary measures that are necessary if trade policy change is to stimulate increased trade flows, broadly-based growth and poverty reduction. It is hoped that this awareness will, in turn, feed into domestic policy formation, so that trade policy changes in Kenya are more consciously pro-poor.


The study has been updated by drawing on a range of primary and secondary sources, including Government of Kenya documents, the international literature and findings derived from key informant interviews. These interviews were conducted with individuals in national and local government, the private sector and civil society (Annex 2 presents a list of people met during the first round of field work in 2003). These findings have been supplemented by key informant interviews with 97 respondents from public institutions, the private sector, civil society organisations, producer organisations and relevant research institutions).

The paper presents five case studies (horticulture, cotton, sugar, fisheries and livestock), which were selected to illustrate the impact of trade policy change on specific sub-sectors and to explore particular constraints and policy issues and/or because they represent sectors employing large numbers of poor people.

The analysis presented in the paper is used to generate a number of conclusions and pro-poor recommendations for the Government of Kenya.

The links between trade, growth and poverty

The links between trade, growth and poverty are strongly debated; however neoclassical economic theory suggests that freer trade is beneficial. It allows for resource re-allocation from a less efficient sector to a more efficient one, which is likely to result in growth and increased average incomes. Efficient resource allocation also increases the efficiency of investment, provides access to larger markets generating constant (rather than diminishing) returns over longer periods, generates higher real returns on capital goods and higher rates of domestic and foreign saving. It also reduces the opportunities for rent seeking which were previously generated by trade restrictions and competition generates greater
incentives for innovation and entrepreneurship. Trade openness also supports greater openness to ideas and innovation.

However, the relationship between trade liberalisation and growth is not straightforward. While openness can stimulate growth it is also associated with risks. For countries with highly specialised economies, openness can be negative, as they are exposed to price risks. So, openness may threaten rather than promote growth. Also, success depends on a number of external and country specific factors including the country’s initial conditions, the way in which the government implements trade reforms, the existence of complementary and consistent macroeconomic and structural policies to foster adjustment and growth.

Equally trade liberalisation can have either a positive or a negative effect on poor people. Any set of liberalisation policies will change relative prices and incentives in a way that is specific to that economy. These may cause greater differentiation in both income and asset distribution between and within countries, creating short-term winners and losers. In some countries, the increased marginalisation of poor people has occurred alongside greater trade openness. However, evidence suggests that, despite the passionate arguments of some, the losers do not come disproportionately from the poor.

Liberalisation appears to be ‘distribution neutral’ and does not reduce inequality. Where greater openness and increased trade flows generate growth, governments need to put policies in place to ensure that the growth benefits poor people. Since growth is not necessarily pro-poor, governments need to ensure that the transmission mechanisms responsible for generating pro-poor impacts are supported. These include:

- Employment (and higher returns to labour)
- Increased returns on investment
- Increased profits (farm-gate prices and non-farm enterprise)
- Improved availability of goods and services (less variability in availability, wider range, lower prices)
- More public expenditure (made possible by increased tax take resulting from growth)
- Institutional transformation

**An analytical framework**

The paper presents an analytical framework for examining the relationship between trade policy change and changes in poverty and well-being. The framework aims to help understand the likely direction of change generated by trade policy changes.

The results of trade policy change are influenced by the depth of the policy changes, their speed and sequencing. Fully implemented reforms, which liberalise the economy or increase openness, may be expected to improve price transmission from border to producer via a set of intermediate effects. These are influenced by the institutional and policy environment, which modify the transmission of prices to producers and their response to such changes – potentially blunting the transmission of positive effects or exacerbating negative effects.
Changes in trade policy create short, medium and long-term costs and benefits. These are likely to be unevenly distributed, with the pattern of distribution depending on the structure of the economy, the nature of key markets and the degree of exclusion from these markets. Pro-poor policies are required if trade is to generate growth which benefits the poor or improvements in market functioning which are felt by poor consumers.

Trade liberalisation can affect prices of goods and services consumed by the poor and in the process affect their real incomes. It can affect the performance of firms, possibly increasing demand for unskilled and semi-skilled workers, tightening the labour market and increasing the relative wages of low-income workers. Liberalisation can also enhance government revenues, enabling additional pro-poor spending.

For trade liberalisation to benefit poor people, a number of preconditions need to be met. These include:

- poor people are able to participate in the production of tradeables
- opportunities for international trade exist
- price signals are adequately transmitted to producers and traders
- internal barriers to production and exchange of tradeables are limited
- intermediate markets are competitive

The Kenyan context and macro-economy

The Kenyan population is growing and urbanising rapidly, creating challenges in terms of service provision and employment generation. Around 75% of the population still currently rely on the agricultural sector for employment and the sector produces some of the country’s most important exports. However, the services sector generates a trade surplus and now contributes around 60% of GDP.

Kenya has experienced poor performance over a broad range of economic, social, political and governance indicators in recent years. However, in comparison with neighbouring countries Kenya has had a good investment climate, with relatively liberal policies on investment, stable government and relative macro-economic stability. Government has allowed a wide range of institutional arrangements to develop between farmers and buyers and Nairobi’s role as an international air transport hub has provided exporters with competitive access to markets.

Economic growth fell from a high of 7% in the 1960s to 2.4% in the 1990s before dipping into recession. This was partly as a result of unsustainable import substitution policies compounded by the effects of corruption and the poor separation between public and private. Estimates suggest that the corruption of public officials places a burden on the economy equivalent to an additional 2.8% tax on all businesses.

The shift from import substitution to export oriented policies caused substantial transitional pain in some sectors of the economy, as labour and capital were unable to move flexibly to meet new opportunities. Inefficient patterns of resource allocation still remain, for example in the cotton and sugar sectors, absorbing substantial volumes of public funds and holding prices artificially above international prices.
By 2004 export growth had not had a significant effect on aggregate economic growth and the real export/GDP ratio had fallen during a period of fast export growth. Furthermore, the agricultural sector – a mainstay in the economy, and the source of livelihoods for the poor – has not seen a substantial increase in productivity growth since the 1970s. However, the Kenyan economy is now growing again, although it is too early to tell whether the growth is going to be sustained or whether growth is going to reduce income inequality or poverty.

Kenya’s horticultural exports continue to maintain market share, despite vigorous competition. However, the range of Kenya’s exports is narrow and is dominated by primary products. Failing to diversify towards non-traditional exports, to diversify its export markets (to reduce vulnerability) and to improve competitiveness in both industry and agriculture is estimated to have cost Kenya an estimated US$2199 million in lost trade expansion between 1980 and 1997.

Trade-related indicators from 1998 to 2005 show that although export volumes have increased, terms of trade have worsened and the consumer price index has risen, while agriculture’s terms of trade have worsened and the balance of trade has been negative and worsening. There are points of optimism, but the picture shows the need for careful attention to the development of measures most likely to create an effective enabling environment for Kenya’s producers and exporters.

**Poverty**

The incidence of poverty and extreme poverty increased substantially in both rural and urban Kenya during the 1990s and continues to climb. This has contributed to decreased food security, inadequate access to basic social amenities such as health and education, unemployment, escalating insecurity, lawlessness and general economic decay. A worsening of Kenya’s human development indicator shows that multidimensional poverty is deepening. Life expectancy dropped from 59.7 in 1990 to 44.6 in 2001, partly linked to HIV/AIDS, but child food insecurity has also worsened, with the percentage of underweight children under five increasing from 14% in 1990 to 23% in 2001. This indicates that poor families are in crisis and that children in poor families are vulnerable to becoming poor adults.

Poor people in Kenya tend to be clustered into certain social categories and an examination of the social profiles indicates that gender, education and occupation are important proximate determinants of poverty, with subsistence farmers, pastoralists, and unskilled casual labourers more likely to be poor.

Key drivers of poverty are inadequate economic growth; income inequality and unequal access to productive resources like land; natural shocks such as drought, floods and fire; inadequate spread and access to basic social services especially education and health; poor implementation of development programmes; lack of effective social policies and mechanisms and high incidence of diseases such as TB and HIV/AIDS. The identification of income inequality as a key cause of poverty in Kenya is interesting for this study. Kenya is already among the most unequal societies in the world and increased trade flows are likely to increase income inequality, if not countered by other policy measures.
There are sharp regional disparities in poverty incidence in Kenya, with the highest incidence of both income and human poverty in the arid and semi-arid lands (ASALs) of Coast, North Eastern and Eastern provinces; and in the highly populated regions of Western, Nyanza, Rift Valley and Central provinces. The Coast has also seen the most significant rise in poverty in recent years.

**The trade content of Kenya’s development strategies**

Kenyan development policies and strategies focus on achieving poverty alleviation through rapid economic growth. Despite this central assumption, there is a limited exploration of how the structure of the economy in Kenya might generate different distributional outcomes or how different packages of trade policy (along with complementary measures) might generate different poverty outcomes.

Instead, the pro-poorness (or otherwise) of trade policy is based on the assumption that increased trade openness (irrespective of initial conditions or the need for complementary measures) will drive improved efficiency in resource allocation, support faster economic growth and thus lead to poverty reduction.

Particular position papers have highlighted the possible impact of certain trade practices on the poor and the effect of constrained access to developed country markets and developed country agricultural subsidies on specific producer groups and sub-sectors. Unfortunately, the extent to which these discussions inform Government strategies and policies is not clear.

**Trade policy formation in Kenya**

A study by the WTO Secretariat has found that trading success (or failure) is strongly influenced by the quality of communication between national governments and the private sector. This has implications for Kenya, where communication between different actors in trade policy formation is weak.

The Ministry of Trade and Industry has overall responsibility for trade policy formation, while a number of other ministries are responsible for formulating specific trade-related policies. However, the concentration of power in the Presidency and away from other institutions, such as parliament has led to the Office of the President having a crucial role and Ministers and others government institutions having limited decision-making autonomy.

This study has shown that consultation is limited and coordination, even within government, is poor with a clear approach to harmonisation of decisions lacking. The multi-agency approach to trade policy formation has caused confusion. Problems are compounded by inadequate in-depth trade-related knowledge. Civil society and the private sector are marginalised from the central processes of policy formation and are only called upon to provide information or to join in somewhat empty consultation exercises. Arguably, this means that trade policy is formed in such a way that it does not best meet the needs of producers and exporters, and does not take into consideration the likely impact on consumers, the labour force or poor producers and entrepreneurs – or the need for a range of mitigating and complementary measures.
Kenya’s international trade commitments

Kenya’s commitments under the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and World Trade Organization (WTO) influence Kenya’s trade policies. They create a strong push to increase openness and reduce tariffs – although both the EAC and COMESA encourage the construction of an external tariff wall to encourage within-group trade.

Both the EAC and COMESA provide Kenya with trading opportunities and for the growth of semi-protected ‘infant industries’. This illustrates how important it is that the Kenyan government ‘picks winners’ rather than simply protecting producers and manufacturers at the expense of consumers.

Identification of the Constraints to Trade

Externally driven constraints to trade

Kenyan producers and exporters have been negatively affected by the cyclical changes in international primary commodity prices. Furthermore, domestic markets are becoming more competitive as Kenya brings its tariffs in line with WTO, EAC and COMESA requirements. Retaining market share will require greater production, transport and marketing efficiencies.

 Preferential market access to EU markets has been challenged through the WTO and African Caribbean Pacific (ACP) countries are now negotiating Economic Partnership Agreements (EPAs). However, these are likely to result in increased competition for Kenyan products, regionally and domestically - particularly in the case of manufactured goods, which will need to improve in quality and be produced more efficiently if they are to compete.

Kenya will also face greater competition in US markets from non-AGOA GSP countries, meaning that its value added industries will need to grow and become more competitive.

Internally driven constraints to trade

The key internally driven constraints facing export sectors in general include:

i. High costs of power and regular power cuts
ii. Poor road and rail infrastructure
iii. Poor port facilities (including limited pre and post-shipment facilities)
iv. Information asymmetries
v. Costly, low quality telecommunications and ICTs
vi. Costly, low access to credit
vii. Poor contract enforcement
viii. Poor governance/lack of an enabling environment
ix. Low labour productivity
x. Border insecurity and the convertibility of local currencies
Sector level effects of trade liberalisation: case studies

This section of the report presents five case studies which examine the sugar sector; horticulture; the fisheries sector; the cotton and textiles sector and the livestock sector. These case studies were selected to illustrate specific trade-related issues and to illustrate particular constraints or issues.

The sugar sector

The sugar sector has been selected for detailed focus because of its importance to poor smallholder producers and because of the problems facing it. Global sugar markets are oversupplied. Of the 132 million tonnes produced annually, approximately 34 million tonnes are traded internationally, 20 million tonnes are surplus to demand, and have driven prices down by 55% since 1995. Kenyan sugar is uncompetitive on international markets and the sector only survives as a result of tariffs which protect producers but put retail prices considerably above the world price.

The problems the sector faces are representative of problems seen elsewhere in the Kenyan economy. Some of them are due to distortions and mismanagement that were enabled by import substitution policies and other protective practices. Protection provided a cover under which it was possible for the sector to continue functioning despite production being located in an inappropriate agro-ecological zone and despite bad management and corruption. This resulted, over the long term, in the indebtedness of both the out-grower institutions and mills and low levels of production and processing efficiency.

Civil society organisations lobbying on behalf of sugar producers clearly assume that if the sector had had a different history it would now be a success. The problem is, history cannot be undone and it is not clear that the reform and investment necessary to reposition producers and processors is affordable for government, attractive to the private sector, or likely to create a sugar industry able to survive global competition without long-term subsidy.

The reason debates about the sector will not simply go away is that sugar growing and processing is a key livelihood in some of the poorest parts of the country.

Horticulture

The horticulture sector was selected because of the dominant, and apparently successful, involvement of the private sector. Private entrepreneurs have used their good personal networks and knowledge of import markets to respond to international demand for high quality goods, identify market opportunities and make the most of them.

Kenya's horticultural export sector is seen by some as among the most successful in sub-Saharan Africa and a model for other countries in the developing world. The sector is growing rapidly and employs nearly 3 million people (1.2 million people directly). Horticultural products have accounted for two-thirds of all growth in agricultural exports and recently surpassed coffee to become the second largest merchandise
export, after tea. Kenya is the second largest horticultural exporter in sub-Saharan Africa (after South Africa), the second largest developing-country exporter of flowers in the world (after Colombia), and the second largest developing-country supplier of vegetables to the European Union (after Morocco).

Increasingly tight requirements and pressure for consistency across production units and through the seasons and for innovation in product and production method have made access to the market more difficult and imposed new costs on suppliers. Failure to meet safety or ethical standards could result in bad publicity for retailers in Europe and supermarkets are increasingly using their dominant purchasing position to control production, innovation, quality and standards within the horticulture supply chain, leading to consolidation amongst suppliers. This may lead to changes in Kenya which force out small producers or push them into forming cooperatives, which can negotiate (and comply with requirements) on their behalf.

The export sector has been able to survive and grow despite low levels of public investment in infrastructure and other powerful constraints. The Kenyan government has not intervened significantly in horticultural markets to buy, sell, export or set prices. This is in contrast to government intervention in many other now fragile agricultural export sectors in Kenya.

Large numbers of smallholders are involved in horticultural production for export (as well as pre-export processing and packing). These farmers are less likely to be poor than farmers not involved in export horticulture. Poorer farmers face barriers to entry, which prevent them moving into this sector – for example the lack of irrigation equipment or the credit to buy such equipment.

Labourers involved in production and packing are poorly paid and often on casual contracts. However, the sector provides them with employment, which they might otherwise not have. Data limitations do not enable us to conduct the differentiated analysis we would like into the benefits for women producers, poorer households and labourers – illustrating the importance of more research.

**The fisheries Sector**

This sector has been selected for focused attention in this report because of the significant role of the private sector in processing and export; interesting gender-based implications of increased or decreased export opportunities; the impact of recent EU import bans on the sector; and the common property resource management issues that requires Kenya to develop a Lake Management Plan with Uganda and Tanzania if fish-based livelihoods are to be sustained.

The sector has grown rapidly and exports have generated considerable foreign exchange income. As with export horticulture, cotton, sugar and livestock, those involved in fisheries tend to be geographically concentrated. In Kenya, fresh water fish from Lake Victoria are much more important commercially than salt water fish. Revenues from fish sales might have been expected to enrich the lake-side Districts, and indeed they have been beneficial. However, gender relations and norms around the non-pooling of income by husbands and wives has meant that men have retained income for their own expenditure to a great extent, with women and children...
benefiting considerably from the periodic EU import bans – which have increased women’s income earning opportunities from artisanal fish processing and local sale.

The repeated failure to meet the phytosanitary and other requirements of importers has harmed the sector and the Government needs to play a stronger role if the necessary investments and systems are to be put in place to enable this sector.

**The cotton and textiles sector**

The Kenyan cotton-textile industry was selected as a case study for this study because of the challenge it faces fighting for survival in liberalised domestic and global markets and because of the risks and opportunities offered by AGOA and trade agreements under COMESA and EAC. In addition, most cotton farmers in Kenya live in arid and semi-arid areas with high concentrations of poverty. Cotton processing and manufacturing have the potential to absorb large numbers of unskilled and semi-skilled workers, so there is a possible relationship between the state of the sector and poverty depth and incidence in both rural and urban areas.

Unfortunately the sector suffers very similar challenges to those experienced by the sugar sector, with earlier policies pursued during Kenya’s import substitution phase and current and past mismanagement contributing strongly to the current weaknesses in the sector. Liberalisation opened the sector to private investment, but by then the sector was in tatters with high levels of debt arrears, a poor incentive environment for cotton growers and widespread institutional failures. Furthermore, low levels of investment in technology and training in ginneries, spinning units, textile mills and clothing factories means that Kenyan products are more expensive and often of poorer quality than competitors’.

The establishment of Export Processing Zones has stimulated the textiles and garments sector, but much of the cotton they use is imported and companies in the zones themselves are vulnerable to changes in the preferential policies of importer countries.

**The livestock sector**

Livestock has been selected for examination as a case study because of its importance to the arid and semi-arid lands in Kenya and specifically to pastoralist groups, some of the most marginalised people in Kenya. Livestock is also Kenya’s largest agricultural sub-sector, contributing 42% of agricultural GDP and 10% of total GDP.

There is a sense that the potential of this sector is under-exploited and that exports could grow substantially if some of the constraints facing livestock keepers and traders are tackled. These centre on problems securing affordable inputs (including credit); service delivery failures around animal health; area specific constraints, including regional insecurity and substantial market failures and problems with accessing markets. This illustrates once again that Kenya’s improved trade performance depends strongly on the formulation of appropriate domestic complementary policies.
The pro-poorness of trade policy: a review of international experience

This section of the paper reviews international experience of trade policies (and complementary measures) with pro-poor effects on four key population groups: poor agricultural producers, poor consumers, poor workers (unskilled) and poor workers (skilled). The analysis focuses on six main policy areas: tariff policies, regulatory policies, agricultural commercialisation, preferences, price reform and complementary policies and shows that trade-related policies can indeed have a beneficial impact on the poor.

Selecting a few examples, we see that lowering import tariffs can stabilise domestic prices, benefiting net consumers; export promotion strategies can encourage the emergence of domestic traders, improving price transmission, stimulating local supply responses and local demands for unskilled labour, driving up relative wages for the poor. Relaxing quantity restrictions on imports can result in the increased availability of inputs and the variety of goods for consumers. The commercialisation of agriculture can stimulate growth in agricultural output, prompting growth in labour intensive rural non-farm employment, thus benefiting the poor. Also, reducing government involvement in agricultural markets can increase levels of private investors, stimulating a reduction in food retail prices and stimulating demand for low skilled labour.

A wide range of complementary policies are necessary if price signals are to be transmitted effectively from international to sub-national markets – triggering a supply response – and if market deepening and integration over time and space is to occur, allowing domestic producers, entrepreneurs, workers and consumers are to benefit from changes in trade policy.

Three case studies are presented, examining the impact of the removal of the rice export quota in Vietnam on poor households; the shift from import substitution to an export orientation in Sri Lanka and the impact of reduced tariffs on government revenue in Cambodia, Laos, Myanmar and Vietnam.

Conclusions and pro-poor policy recommendations

Government policy can help create international trading opportunities by securing free or preferential access to foreign markets; maintaining conducive macroeconomic conditions (including an exchange rate that transmits correctly to producers the relation between international and domestic prices); and establishing a rational tariff structure, that encourages efficient specialisation according to comparative advantage.

Complementary policies

Government policy which improves the quantity and quality of assets that the poor own (or have access to) increases their ability to take advantage of opportunities and participate in growth.

The government also needs to work to remove internal obstacles to production and exchange, by:
• Investing in public infrastructure and information services
• Ensuring an equitable and efficient tax regime
• Institutionalising competitive intermediate markets, by:
  • Removing administrative controls (e.g. unnecessary restrictions on prices, trading channels or outputs);
  • Removing barriers to entry (e.g. red tape and perceived risk of administrative interference);
  • Enforcing legal rules on competition within an appropriate institutional framework.

Mitigating measures

Strong concentrations of poverty in particular geographical areas and amongst particular livelihood groups reinforce the picture of inequality in Kenya. Where trade liberalisation does not benefit the poor, or where their relative well-being declines, both trade policy and the complementary measures need to be designed and implemented in such a way as to ensure that price signals are transmitted effectively, short run harm is mitigated and benefits are spread. The report suggests a range of mitigating measures that might be implemented following ex ante or ex post analysis of policy impact. These include the design of appropriate redistributive mechanisms based on investments in public services and social protection.
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Disclaimer

Responsibility for the opinions expressed in this report, and any errors, are the authors’ alone and do not necessarily reflect the views of the Overseas Development Institute, the Kenya Institute for Public Policy Research and Analysis, DFID-East Africa or the Kenyan Ministry of Trade and Industry.
Acronyms

AGOA  African Growth Opportunities Act
ASEAN  Association of Southeast Asian Nations
CET    Common External Tariff
COMESA Common Market for Eastern and Southern Africa
EAC    East African Community
EPAs   Economic Partnership Agreements
EPZ    Export Processing Zones
EU     European Union
FTE    Factory Time Efficiency
GATT   General Agreement on Tariffs and Trade
GATS   General Agreement on Trade in Services
GDP    Gross Domestic Product
GoK    Government of Kenya
GSP    General Scheme of Preferences
HDI    Human Development Index
HPI    Human Poverty Index
ICT    Information and Communication Technology
KCC    Kenya Cooperative Creameries
KIPPRA Kenya Institute for Public Policy Research and Analysis
KSA    Kenya Sugar Authority
KSB    Kenya Sugar Board
MFN    Most Favoured Nation
MTI    Ministry of Trade and Industry
MUB    Manufacturing under Bond
NCPB   National Cereals and Produce Board
NPEP   National Poverty Eradication Plan
PPA    Participatory Poverty Assessment
PRSP   Poverty Reduction Strategy Paper
RTAs   Regional Trade Agreements
SUCAM  Sugar Campaign for Change
TRIMS  Trade Related Investment Measures
TRIPS  Trade-Related Intellectual Property Rights
WFP    World Food Programme
WMS    Welfare Monitoring Survey
WTO    World Trade Organization
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1.0 Introduction

This study has been prepared for Ministry of Trade and Industry in the Government of Kenya, under the DFID-funded Africa Trade and Poverty Programme (ATPP) (see Annex 1 for a summary of the Terms of Reference for this study). It adds to a series of papers examining this issue in Kenya, Malawi, Uganda and Tanzania which were produced in 2003.

1.1 Aim of this study

This paper aims to balance the presentation of empirical evidence from Kenya with a review of international experience. It attempts to explore how trade policy change affects poor people and the types of complementary measures necessary if trade policy change is to stimulate a positive supply response, increase trade flows, generate broadly based and labour intensive growth and benefit consumers. By doing so, it is hoped that this paper will contribute to pro-poor policy debates in Kenya.

1.2 Approach


The study has been updated by drawing on a range of primary and secondary sources, including Government of Kenya documents, the international literature and findings derived from key informant interviews. These interviews were conducted with individuals in national and local government, the private sector and civil society (Annex 2 presents a list of people met during the first round of field work in 2003. These findings have been supplemented by key informant interviews with 96 respondents from public institutions, the private sector, civil society organisations, producer organisations and relevant research institutions).

The paper presents five case studies (horticulture, cotton, sugar, fisheries and livestock), which were selected to illustrate the impact of trade policy change on specific sub-sectors and to explore particular constraints and policy issues and/or because they represent sectors employing large numbers of poor people.

The analysis presented in the paper is used to generate a number of conclusions and pro-poor recommendations for the Government of Kenya.

1.2 Structure of the report

After providing an overview of the links between trade, growth and poverty (Section 2) the paper presents an analysis of key headlines in the Kenyan economy (Section 4) and the economy-wide effects of trade policy change (Section 5). A summary of the distribution and dynamics of poverty in Kenya is provided (Section 6) before an introduction to the trade content of Kenya’s development strategies (Section 7). The paper then discusses the institutional arrangements and stakeholders involved in
trade policy formation in Kenya (Section 8) and Kenya’s international trade commitments (Section 9), before presenting an analysis of the constraints to trade (Section 10) and five case studies of trading or trade affected sectors (Section 11). The final sections of the report review the pro-poorness of trade policies around the world identify a number of policies which have had a positive impact on a range of poor people (Section 11) before conclusions and recommendations (Section 12).

2.0 The links between trade, growth and poverty

There is considerable debate amongst economists as to the linkages between trade, growth and poverty, even if we assume for the time being that increases in trade flows result unambiguously in growth. This section highlights some of the arguments in this debate.

2.1 Trade and growth

Neo-classical theory suggests that freer trade allows for resource re-allocation from a less efficient sector to a more efficient one. This is likely to result in growth and increased average incomes. Berg and Krueger (2003) identifies seven other channels though which efficient resource allocation affects growth:

i. Increased efficiency of investment, particularly given the importance of imported capital goods in developing countries
ii. Access to larger markets generating constant (rather than diminishing) returns for longer periods
iii. Higher real returns on capital goods
iv. Higher rates of domestic and foreign saving
v. Reduced opportunities for rent seeking, previously generated by trade restrictions
vi. Greater incentives for innovation and entrepreneurship due to competition
vii. Openness to ideas and innovations generated by openness in trade.

Sachs and Warner (1995) attributed the different export performance of Asia, Africa and Latin American countries in processed and high valued added agricultural goods to openness.

Generally, developing countries that embraced trade openness are found to have experienced an acceleration of economic growth. Dollar and Kraay (2003) identified a group of developing countries with high levels of participation in international trade which have seen economic growth rates accelerate through the 1970s, ’80s and ’90s (e.g. India, China) at the same time when other countries in both the developing and developed world have seen growth rates decline (Dollar and Kraay, 2001). Another study by Dollar and Kraay (2003, in MTI, 2003) examined economic growth for a large sample of countries (both developed and developing) with large tariff cuts and found that, over the 1990’s, the countries with the fastest growth rates were the developing countries which had enacted tariff cuts (average growth in GDP of 5%
Next best performers were developed countries (2.2% annual growth) and least were the other developing countries (1.4% growth) (ibid.).

Contrastingly, Rodrik (2001) has found that the only “systematic relationship between openness and growth is that countries reduce barriers as they get richer”, concluding that initial economic growth in developed countries was generated when trade was protected.

Having analysed the distribution of income rate changes amongst different income groups in several ‘globalising’ developing countries, Dollar and Kraay (2001) conclude that there is little systematic evidence of a relationship between changes in trade volumes (or any other globalisation measure that they consider) and changes in the income share of the poorest. Increased globalisation led to increased economic growth, but the growth was ‘distribution neutral’ – in other words, the poorest benefited as much as the rich – and so poverty reduction occurred but in absolute rather than relative terms. Other studies using similar techniques, e.g. Cashin et al. (2001) and Berg and Krueger (2003) report similar results. However, the World Bank (2002) has found that while some are benefiting from globalisation, a significant group of people are becoming more marginalised.

Dollar and Kraay recognise that liberalisation creates short-run winners and losers, but argue that the losers do not come disproportionately from the poor (Dollar and Kraay, 2001). However, White and Anderson (2000, in Kanji and Barrientos, 2002: 10) show that as far as the poor are concerned there may be a trade-off between growth and distribution, and that a focus on distribution might benefit them more (ibid.).

Other evidence suggests that the relationship between trade liberalisation and growth is not straightforward and that it depends on a number of external and country specific factors (Rodriguez and Rodrik, 1999b, in Kanji and Barrientos, 2002: 10) including the existence of complementary and consistent macroeconomic and structural policies to foster adjustment and growth (Harrison and Hanson, 1999; and Rodriguez and Rodrik, 1999b). and Winter (2001) agree that complementary interventions are important, as are a country’s initial conditions and the way in which it implements trade reform. In addition, while openness can stimulate growth it is also associated with considerable risks. For countries with highly specialised economies, openness can be negative, as they are exposed to risks concerning changes in the price of the goods and the inputs used in the production of those goods. So for them, openness may threaten rather than promote growth.

Reviewing the debate, Ravallion suggests that those taking a positive view of the linkages between trade, growth and poverty reduction support their argument with average figures instead of examining evidence of initial inequalities and how they change over time. By aggregating income changes, the differentiated outcomes of different groups are masked. Those with a more negative view highlight inequality, and show the negative impact on the poor of high or rising inequality (2000, in Kanji and Barrientos, 2002: 11).

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3 In this paper, globalisation is taken to mean the increasing movement of material, information and people across borders.
2.2 The pro-poorness of growth

Growth is not necessarily pro-poor. A number of country and sectorally specific transmission mechanisms are responsible for generating pro-poor impacts. They are likely to include:

- Employment (and higher returns to labour)
- Increased returns on investment
- Increased profits (farm-gate prices and non-farm enterprise)
- Improved availability of goods and services (less variability in availability, wider range, lower prices)
- More public expenditure (made possible by increased tax take resulting from growth)
- Institutional transformation

Whether growth benefits the poor or not will therefore depend on:

1. Whether the growing sector(s) are labour intensive and what type of labour they require (skilled, semi-skilled, unskilled, casual/full-time/contract or piece workers) and the nature of the labour market (mobility; health and education level of workers; distortions and rigidities in labour market e.g. as a result of discrimination or heavy regulation). It will also depend on the level of employment generated through up- and downstream linkages (e.g. supply companies, packers and shippers) and through multipliers and second and third round effects (e.g. increased demand for agricultural produce stimulating both agricultural production and agro-processing).

2. Increased returns on investment can have a substantial impact on the poor (both direct, as a result of returns on their investments, and indirect, as employment is created and goods and services are more widely available). However, the poor and in particular the poorest are less likely to save in formal financial institutions so their investments will be personal investments in human capital and in agricultural and non-agricultural micro-enterprise.

Poor people are often highly exposed to risk. Their vulnerability is intensified by their low asset base. Individuals and households will respond to shocks (poor health, loss of job, death of a family member, wedding costs) through employing a range of coping strategies, yet the options available to them will depend on their asset portfolio (including social capital and patrons), their capabilities, their agency (freedom to act) and opportunities in their environment. The absence of risk mitigation (assets, savings, insurance) will detrimentally affect investment behaviour. Social protection can play a role in building assets and savings, enabling individuals and households to develop ‘buffers’ against destitution which enable at least a proportion of recipients to both invest and make more risky and entrepreneurial decisions.

3. The increased profitability of enterprises may vary widely, depending on a number of factors (see ‘enabling environment/investment climate’, below) and poor market integration (and/or monopolistic and uncompetitive tendencies). The direct benefits of increased enterprise profits may be narrowly distributed where the growth sector functions as an enclave, has a strong geographical
focus or employs only expatriate workers or small numbers of very highly skilled nationals.

4. Growth may stimulate market functioning, improving the availability of goods and services in the domestic market. This is likely to reduce the variability in availability (by season and location) and increase the range of goods. It is anticipated that improved market functioning would also lower prices. However, these benefits might be counteracted by inflation, if macroeconomic management is poor.

5. Growth increases the tax base. If the government’s administration of revenue collection is efficient it is likely that the tax take would increase. Whether this is pro-poor or not would depend on the ‘progressiveness’ of the tax regime and whether the government has a good record on delivering public services (which the poor have access to), generating a pro-poor enabling environment (e.g. appropriate infrastructure, telecoms and utilities) and delivering effective poverty reduction interventions.

6. Growth may influence institutions in unanticipated ways. For example the increased inequality which accompanies narrowly focused growth may undermine democratic accountability. The populist politics which responds to inequality in some environments (e.g. Bolivia) can have profound impacts on institutions and norms. Growth can also drive improved (downward) accountability as citizens become more vocal and hold decision-makers and service providers to account. It would be interesting to know more about the sequencing of change (what drives what) and what conditions are both necessary and sufficient in determining that economic growth is associated with positive institutional change.

2.3 Trade and poverty: a simple conceptual framework

This section presents an analytical framework for examining the relationship between trade policy change and changes in poverty and well-being. This framework is not intended to guide researchers in assessing the magnitude of the impact that trade policy changes have had on poverty indicators. Instead it aims to provide a guide to support improved understanding of the likely direction of change generated by trade policy changes. We anticipate that such understanding will contribute to more considered trade policy design and improved understanding about the need for sequencing and complementary measures.

Factor markets (labour and capital) are the critical link in transmitting trade growth into reductions in poverty (Reimer, 2002, in MTI, 2003). However, the economic growth, which may occur as a result of growth in trade, does not automatically lead to poverty reduction, as pro-poor policies are required to make the link (Ravallion 2003, in WTO, 2003). This means that the short, medium and long-term distribution of costs and benefits generated from changes in trade policy are likely to be unevenly distributed. The distribution of benefits will depend on the structure of the economy, the nature of key markets and the bottlenecks and transmission mechanisms in them and the degree of exclusion from these markets.

Focusing on transmission mechanisms, trade liberalisation affects the poor through three distinct channels: distribution, enterprises and the government (Jenkins and
Thorburn, 2003). Firstly, trade liberalisation can affect prices of goods and services consumed by the poor and in the process affect their real incomes. Second, trade liberalisation can affect the performance of firms with implications for wages and employment. It is possible in the context of developing countries that trade liberalisation may increase the availability of low-skilled employment, tighten the labour market and increase the relative wages of low-income workers. Where this is the case, then liberalization can contribute to poverty reduction. Lastly, trade liberalisation can enhance government revenues that in turn enable additional pro-poor spending.

Booth and Kweka (2004) show that the preconditions for positive linkages between trade and poverty can be illustrated graphically, as below in Figure 1. The preconditions include:

- that poor people are able to participate in production of tradable goods or services (or share indirectly in the economic benefits from tradeables’ production) given the production structure of the country, and the kinds of commodities that are tradable under prevailing conditions;
- that international opportunities for trade exist, and these are adequately transmitted to producers and traders by price signals and other processes under the control of policy makers in the country;
- that internal barriers to production and exchange of tradeables are of moderate scale; so there is reasonably wide distribution of the factors of production; there are minimal physical and administrative blockages to trade and business, and that intermediate markets are competitive resulting in limited trading margins and profitable production (including output, input and credit markets) (see large arrows on the left hand side of Figure 1).
Figure 1: Trade opportunities and poverty reduction: a simple conceptual framework

- international trade opportunities

- reduced internal barriers to production and exchange

- more earnings from production of tradeables

- Income poverty reduced

- Improvements in assets of poor

- obtain free or preferential access to markets
- maintain conducive macro-economy
- establish rational tariff structure

- invest in infrastructure and information services
- make tax regime efficient and equitable;
- institutionalise competition in intermediate markets:
  - remove administrative controls
  - reduce barriers to entry
  - enforce competition rules

- better social services
- better economic services

The ways in which policy enables trade to have poverty reducing effects are represented by the boxes on the right-hand side of the diagram.

Booth and Kweka (2004) suggest that policy can help by creating international trading opportunities, through:

- securing free or preferential access to foreign markets;
- maintaining conducive macroeconomic conditions (including an exchange rate that transmits correctly to producers the relation between international and domestic prices); and
- establishing a rational tariff structure, that is, one that encourages efficient specialisation according to comparative advantage.

Policy can also help to improve the quantity and quality of the assets at the disposal of the poor, so that they are better-placed to take advantage of any income-generating opportunities that arise (e.g. through more effective public and private services) (ibid. Policy can also remove internal obstacles to production and exchange, by:

- Investing in public infrastructure and information services;
- Ensuring an equitable and efficient tax regime;
- Institutionalising competitive intermediate markets, by:
  - Removing administrative controls (e.g. unnecessary restrictions on prices, trading channels or outputs);
  - Removing barriers to entry (e.g. red tape and perceived risk of administrative interference);
- Enforcing legal rules on competition within an appropriate institutional framework (ibid.).

Whether trade-related poverty reduction reaches the chronically poor as well as the transitorily poor and extends into every sector, region and social group is a matter for local level analysis and policy design. Studies from around the world provide considerable evidence that liberalisation can cause greater differentiation in both income and asset distribution between and within countries. The effect of liberalisation on groups and regions in a country is likely to differ widely. This is not surprising as any set of liberalisation policies will change relative prices and incentives in a way that is specific to that economy. This calls for detailed studies of individual liberalisation episodes and how it affects poverty.

Where trade liberalisation is found not to benefit the poor and the chronically poor, or where their relative level of well-being declines as differentiation increases within society, it is up to the government to design appropriate redistributive mechanisms and to invest in public services and social protection. Whether they do or not depends on the political economy and the nature of democracy in the country.

The results of trade policy change are influenced by the depth of the policy changes, their speed and their sequencing. Fully implemented reforms, which liberalise the economy or increase openness, may be expected to improve price transmission from border to producer via a set of intermediate effects. These are influenced by the institutional and policy environment, which modify the transmission of prices to
producers and their response to such changes – potentially blunting the transmission of positive effects or exacerbating negative effects (Figure 2, below).
Figure 2: Linking policy change to impact at the household level

**Policy Change**

**Trade policy reforms**
Change in relative border prices from multilateral and unilateral trade policy change

**Domestic Macroeconomic reforms**
(i) Real exchange rate
(ii) Capital market liberalisation
(iii) Tax policy reform

**Agricultural sector reform**
(i) Net tax
(ii) Promotion of diversification
(iii) Promotion of non-traditional cash crops

**Institutional reforms**
(i) Land
(ii) Market monopolies
(iii) Reduced parastatals
(iv) External shocks

**Intermediate impact**

**National level response**
(i) Changes in relative prices
(ii) Changes in value and level of production
(iii) Changes in import prices
(iv) Changes in export earnings
(v) Changes in imports requirements
(vi) Changes in productivity

**Within-country response**
Transmission to different parts of the country will be influenced by a range of transmission mechanisms. Their effectiveness will influenced by:
(i) Markets failures and distortions
(ii) Location in a spatial poverty trap (disadvantaged region, low potential or marginal area, less favoured areas, remote rural area, weakly integrated regions)
(iii) Relatives access to productive assets

**Institutional and policy environment**
Affects (1) the degree of price transmission and ability of producers and consumers to respond to price signals and (2) the functionality of markets for different categories of actors

**Household level response**
(i) Farm diversification
(ii) Expanded farm or herd size
(iii) Increased off farm income
(iv) Complete exit

*Source: Adapted from FAO (2003).*
3.0 The Kenyan context

Kenya’s population has gradually increased from 13.6 million in 1975 to about 31.1 million in 2001. According to UNDP, 2003:252, it is projected to increase to about 36.9 million by 2015 (ibid.). The population is predominantly rural, but the urban population has increased from 12.9% in 1975 to 34.3% in 2001, and is projected to reach 47.2% by 2015.

Agriculture is the dominant sector in the Kenyan economy, contributing about 24% of GDP in 2005, followed by manufacturing with around 11%. However, agriculture’s contribution to GDP has been in decline, while that of manufacturing has remained relatively stable.

Tea, horticulture, coffee, petroleum products and cement account for approximately two-thirds of Kenya’s total exports (CBS, 2003); other important products include milk, beef, fish, and honey. Manufacturing, although showing signs of growth, remains relatively small. The services sector in Kenya is gaining in prominence, increasing its contribution to the real GDP from 56% in 2000 to 60% in 2004, with the transport and communication sub sectors accounting for 10.3% of GDP. And, while Kenya’s balance of payments has been negative for a number of years, the services trade account has substantially increased from a surplus of Ksh.4.7 billion in 2000 to Ksh.37.5 billion in 2004 (CBS, 2005).

4.0 An overview of the Kenyan Economy

Kenya has had a bleak record of poor performance over a broad range of economic, social, political and governance indicators (Freeman et al., 2003), which has been linked to worsening poverty outcomes and unemployment, with per capita incomes falling from US$271 in 1990 to US$239 in 2002 (CBS, 2003). Unemployment went as high as 14.6% in 2003, and poverty rose from 48% in 1990 to 56% in 2001. Furthermore, a poor governance record during the 1990s alienated donors and by 2000 Kenya received half the per capita aid flows of neighbouring Uganda and Tanzania (Freeman et al., 2003).

This gloomy picture is in contrast to the country’s potential and its immediate post-independence experience. At that point the Kenyan economy was doing well. The smallholder farm sector thrived through producing cash crops for international markets at a time when international markets were buoyant (ibid.). Crop marketing boards, established during the colonial period or post-independence, seemed effective initially. However the import substituting policies were unsustainable over the long term.

The overall cost structure that developed in the economy during the post-independence import substitution phase harmed exports relative to protected import substituting activities. Tariffs were used extensively to protect domestic producers, with the tariff structure geared towards import substitution (high on imports of final products relative to capital and intermediate goods). The government was committed to reducing imports of consumption goods. Manufacturers were not granted import
licenses if the product that they wanted was produced domestically, whether or not it was more expensive and inferior in quality. However, the lack of locally produced capital goods led to government setting low tariffs to enable their importation as inputs for local production. But where inputs were only available on the international market, despite low tariffs, manufacturers were constrained by delays in obtaining import licences and foreign exchange rationing (Wagacha, 2000:17). Protection, coupled with import licensing and exchange controls made access to and costs of inputs uncertain (ibid.).

Eventually the lack of separation between public office and private accumulation, low levels of labour productivity and the crowding out of the private sector by parastatal bodies became problematic. Despite evidence that reform was necessary, Kenya was as reluctant as other countries to dismantle the poorly functioning public marketing agencies (Freeman et al., 2003).

Economic growth fell from 7% per year in the 1960s to 4% in the 1980s and to 2.4% in the 1990s, and between the late 1990s and 2002 the economy was in recession (CBS, 2003: 19). The Kenyan Shilling has devalued sharply since the mid-1990s, declining in value against the US dollar from 44.8 in 1994 (CBS, 2001) to 77.0 in 2002 (CBS, 2003). In addition, Kenya has had lower rates of growth and higher levels of inflation than its immediate neighbours, Tanzania and Uganda (ibid: 19). However, the GDP growth rate has recently increased (from 1.2% in 2002 to 5.8% in 2005) (CBS, 2005), and growth has been reported in agriculture, manufacturing, tourism, building and construction, transport and communication (ibid.).

Stop-start structural adjustment reforms began in 1980 (Karanja, 2002) but it was not until the 1990s that they began to be implemented consistently. Quantitative restrictions on exports were converted into tariffs, which were reduced over time, and the exchange rate was liberalised (Foroutan, 1993). By 1993 all administrative controls on international trade had been removed, including import licences. Export promotion schemes were established between 1985 and 1990 which included the export compensation scheme, compensating exporters on taxes on inputs and import duty and providing VAT remission (Wagacha, 2000:36). Many of these changes have benefited the horticultural sector, which was also aided by the reduction in the (real) price of fertiliser following price and market liberalisation in 1993 (Karanja, 2002). However, marketing boards are still in place for many major export commodities (MTI, 2003:84) and producer prices are still set and floor prices maintained by the boards for certain crops (e.g. rice, maize, pyrethrum, bixa, cashew nuts, and milk) (ibid. (see Box 1 for a summary).

A study comparing Kenya’s economic growth performance with Bangladesh’s between 1960 and 2000 found that Bangladesh has begun to outperform Kenya (Roberts and Fagernäs, 2004). This is instructive as Bangladesh used to be regarded as a development ‘basket case’. In seeking to understand why the performance of the two countries has diverged, Roberts and Fagernäs found multiple and mutually reinforcing causes. Bangladesh’s manufacturing sector is growing three times as fast as Kenya’s. In Kenya the public share of investment (40%) is extremely high for a low income country, while Bangladesh has a low public share of investment (15%). Kenya experienced a declining trend in its trade/GDP ratio between the 1960s and the late 1980s. It has also experienced erratic
macroeconomic management, with high levels of public expenditure, taxation and unemployment. Formal sector wages have been driven up by the large public sector payroll and continuous domestic financing of the fiscal deficit has caused prolonged episodes of relatively high inflation. In addition the quality of public institutions declined between 1960 and 2000, and confidence in them has fallen. Surveys of local businesses rate Kenyan governance more negatively than that in Bangladesh (ibid.).

Box 1: Economic Reforms (1986 to 2002)

1. Abolition of administrative controls on international trade, such as import licensing and foreign exchange allocations.
2. Removal of exchange controls on current account transactions together with partial removal on restrictions on capital accounts, including the 90 days foreign exchange surrender limit.
3. Removal of restrictions on all foreign commercial borrowings as well as allowing Kenyan nationals to invest abroad up to US$500,000 without reference to the Central Bank of Kenya.
4. Lifting of controls on interest rates and credit limits (previously deposit and lending rates were controlled by Central Bank of Kenya) (1992).
5. Rationalisation of tariff rates, revenue collection reforms including introduction of VAT, formation of a tax authority in 1995, abolition of the selective 20% export tax and introduction of 2% presumptive income tax for marketed agricultural products.
6. Removal of price controls for essential food items, petroleum products and agricultural inputs.
12. Coffee and tea auctions (Nairobi and Mombassa) allowed to conduct business in US$ from 1992. Gradually farmers were paid in dollars, and they were allowed to keep the dollars for their own use.
13. Monetary policy reforms and review of the Banking Act allowed entry of new institutions to financial services markets and enhanced Central Bank’s role in monitoring and regulating the sector.
11. Privatisation and reform of parastatals (ongoing).

Source: Adapted from Owuor (1997) and Karanja (2002).
Of particular interest to this study is the finding that export growth has not had any significant effect on aggregate economic growth in Kenya, with the real export/GDP ratio falling during much of the period of fast growth. Furthermore, most elements of Kenyan agriculture have stagnated since the 1970s when hybrid maize was adopted. Since then there have been no further productivity enhancing technologies promoted and input costs and the mismanagement of reforms have contributed to production declines (Roberts and Fagernäs, 2004).

Poor performance in the Kenyan economy has affected employment creation (CBS, 2003:57) with small declines in public sector employment (1998 – 2002), due largely to civil service reform (ibid.:59). This was balanced with the net creation of jobs in the private sector (ibid.), but the working population is growing faster than new jobs can be created, and while there were 6.8 million jobs in the economy in 2002, 74.2% of these were within the informal sector (ibid.:57). Manufacturing has generated more new jobs than any other sector, driven by employment opportunities in the EPZs (Export Processing Zones) and the successful exploitation of AGOA (ibid:58). Recent economic growth is reported to have resulted in the creation of around 1.4 million jobs between 2002 and 2005 (460,000 in 2005 alone) (CBS, 2006).

Both rural and urban Kenya have suffered from deteriorating public service delivery since the 1980s. Clear indicators of this are the disintegrating infrastructure and sporadic electricity and water supplies (see Constraints, below, in Section 5) (Freeman et al., 2003). As the incidence and severity of poverty is increasing in both rural and urban areas, this is very serious, as the poor depend disproportionately on public goods and services for their well-being.

Corruption and the poor separation between public and private have substantially slowed economic growth. Kenya has been ranked 97 out of 102 in terms of corruption (with 102 being the most corrupt) (Transparency International, 2003). Studies suggest that the corruption of public officials effectively taxes each Kenyan individual by an average of Ksh.8,000 per month. This tax burden is shared by households and businesses, who see their profits squeezed, but if the cost fell entirely on households it would equal a cost of living increase of 31% over the cost in a bribe free society. If it fell entirely on businesses it would equal an additional tax of 2.8% of total turnover (Transparency International, 2001). Poor governance affects the poor more deeply, as the better off are able to navigate around the blockage and constraints faced by everyone (Freeman et al., 2003).

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4 In December 2001 the public sector accounted for 40% of total wage employment in Kenya, but productivity of many of these people is low as they are without resources to undertake any meaningful activity (Freeman et al., 2003).
5 43% of the population was under 15 in 2001 (UNDP, 2003:252).
6 Sales from goods produced in EPZs accounted for 4.3% of the manufacturing sector turnover and 12.5% of total employment in the sector in 2002 (CBS, 2003:169).
7 68% of this went to central government officials, 18% to state corporation officials, and 11% to local government, with much smaller amounts to the private sector and foreign organisations - embassies and international organisations (Transparency International, 2001).
5.0 Economy-wide effects of trade liberalisation

The development of non-traditional exports has been supported by Kenya’s investment climate, which is good in comparison with many other African countries. An element of this has been the government’s relatively liberal policies on foreign investment and investment by local businesses (Minot and Ngigi, 2004: 88). Macroeconomic stability during the 1960s and 1970s encouraged investment in productive capacity (ibid.), and inflation and exchange rate overvaluation during 1980s was modest in comparison with neighbours (e.g. Tanzania and Uganda) (ibid.). Kenya had stable government and stable policies over a long period. In addition, Nairobi’s role as an international air transport hub has provided exporters with competitive access to markets. The government has allowed (and in some cases promoted) the development of a wide range of private marketing institutions (e.g. FPEAK) and has allowed experimentation with a wide range of institutional arrangements between farmers and buyers (ibid.).

Trade reforms have made Kenya more open, as measured by the ratio of trade to GDP but imports have exceeded exports for most of the post-independence period, with the difference widening substantially following liberalisation (see Figure 1, Annex 1).

Through use of a computable general equilibrium (CGE) framework Karingi and Nyangito (2003) have been able to quantify the economy-wide effects of trade liberalisation in Kenya’s economy, with special focus on the agricultural sector. They chose this focus because of the importance of agriculture for poverty reduction. The results show that trade policy in Kenya affects agriculture through a number of channels: changes in outputs, earnings, agricultural exports, employment, and investment allocation within agriculture and through income distribution. These findings in many ways confirm the theoretical relationships outlined in the conceptual framework, above.

Lower import tariffs have contributed to an improvement in real GDP and to positive effects on the agricultural sector at the macro-level. However, manufacturing output has fallen due to an inability to respond to competition from imports, the result of inefficiencies which were allowed to develop during Kenya’s import substitution phase.

The study finds a fall in employment in all the sectors except the agricultural sector. The most affected workers are the unskilled and semi-skilled workers, in other words, those most likely to be already poor. However, the study reveals that trade liberalisation has a positive impact on income poverty in real terms, indicating perhaps increased differentiation, with the higher incomes of some drawing up the mean income figure (Karingi and Nyangito, 2003).

5.1 Trade and the Kenyan economy

The EU, COMESA and Asia are key Kenyan export markets, and remained so throughout the 1990s. The most important single agricultural commodity exported to the EU in 2001 was plants and flowers (22% of all agricultural exports to the EU),
followed by tea (17%), vegetables (14%) and coffee (11%) (CBS, 2001). Kenya continues to be the most important supplier of vegetables to the EU despite increased competition from Côte d’Ivoire, Morocco, Zimbabwe, South Africa and Cameroon (Minot and Ngigi, 2004:19) Most of Kenya’s imports come from Asia (51% in 2000), followed by the EU (31%) and South Africa (7%) (CBS, 2001).

5.1.1 Exports

Trade and industry accounts for about 20% of Kenya’s GDP and about 40% of export earnings. Kenya’s exports are dominated by the agricultural sector, and export values increased from Ksh.18, 910 million in 1992 to Ksh.69,285 million in 2000. Exports of ‘basic materials, mineral fuels and lubricants’ and of manufactured goods saw similar rates of growth (CBS, 2001).

Kenya has not made the most of the advantage it had in manufacturing in immediate post-independence period when manufacturing exports were growing vigorously. Manufacturing exports have stagnated (relative to primary produce) at 15% of total exports since 1984 (Wagacha, 2000:37) and overall growth in export volumes from Kenya have declined since the 1965-1971 period (ibid. CBS, 2001), making agricultural exports – and the vibrant horticultural sub-sector – disproportionately important. However reduced trade barriers for manufactured goods have raised the relative profitability of the textiles, clothing, electronics and footwear sectors (Matthes and Kroker, 2002). This has led to higher incomes for vulnerable urban workers as these industries employ very low-skilled workers, are small scale and require little infrastructure. In addition, Membership of COMESA has stimulated manufacturing exports and Kenya now exports oils, perfumes, cement, steel bars and rods, printed matter, salt, disinfectants and petroleum products to trading partners in COMESA.

Despite efforts to diversify, the range of the country’s exports is narrow and is dominated by primary export products such as tea, coffee, and horticulture which account for about 55% of the total exports. The country has lost substantial potential export earnings as a result of its failure to diversify towards non-traditional exports in line with changes in world market demand, to diversify its export markets (to reduce vulnerability) and to improve competitiveness in both industry and agriculture (ibid.). Had these problems been rectified, Kenya could have gained an estimated additional US$2199 million from trade expansion between 1980 and 1997 (Wagacha, 2000:37).

The EU, COMESA and Asia are key Kenyan export markets, and remained so throughout the 1990s. The most important single agricultural commodity exported to the EU in 2001 was plants and flowers (22% of all agricultural exports to the EU), followed by tea (17%), vegetables (14%) and coffee (11%). Kenya sources the majority of its imports in Asia (51% in 2000), followed by the EU (31%) and South Africa (7%) (CBS, 2001).

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8 Main exports from Kenya include horticulture, tea, fish and fish preparations, maize, coffee, pyrethrum, tobacco, iron and steel, articles of plastics and petroleum products among others.
5.1.2 Imports

Kenya’s main imports are industrial supplies (36% of total imports) followed by machinery and capital equipment (15%). It imports mainly capital goods and machinery from the EU. However, recent trends indicate a shift away from investment-related capital to imports of consumer goods, with food items, clothing and embroidery gradually increasing in importance. Since the mid-1990s imports of second hand clothes has been one of the most stable imports from the EU. As a result, signing of an EPA with the EU is likely to increase the import of consumer goods, potentially damaging Kenya’s manufacturing sector (Ikiara et al., 2003), but benefiting the poor (especially those not employed in manufacturing) through access to cheaper products.

5.1.3 Trade related indicators

If we examine key trade-related indicators from 1998 to 2005, we see that although export volumes have increased, terms of trade have worsened and the consumer price index has risen. Real wages and inflation both show a rising trend while agriculture’s terms of trade have worsened. (Table 1, Annex 1). Also despite the increase in exports over the years Kenya’s trade balance has been negative and worsening over the years. An analysis of the distribution of Kenya’s exports over the last five years (2001-2005) shows that the country’s exports have been mainly to Europe and Africa, indicating the importance of African regional integration such as COMESA and the Economic partnership agreement with the EU.

6.0 Poverty in Kenya

To predict the likely effects of a change in trade policy on poverty, one needs to understand who is poor in Kenya; where they live; their source of livelihood and the key drivers and maintainers of poverty. Poverty incidence and severity has traditionally been assessed in Kenya using money metric measures based on individual’s location above or below the poverty line set by the Central Bureau of Statistics. Although income based measures are useful for comparisons across time and between countries they do not provide a holistic or dynamic understanding of poverty and are no longer considered adequate.

6.1 Poverty trends in Kenya

Poverty in Kenya is increasing in both rural and urban areas. The incidence of poverty and extreme poverty increased substantially during the 1990s (Table 3.1), with poverty increasing from 45% in 1992 to 52% in 1997 and an estimated 56% in 2000 (Omiti et al., 2002:7). This confirms with the Kenya human poverty estimated (KNDR 2006) which estimates Kenya’s income poverty as 56%. The Kenyan PPA undertaken in 1994 also found that ordinary Kenyans believed that poverty had gotten much worse over the last decade (World Bank, 1996). A fairly typical statement was that Ten years ago we had a crop in the field, well-stocked granaries, and a cow, but today, because of land subdivision, inflation, drought, the high price

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9 Main imports from Kenya include crude petroleum, petroleum products, medicine and pharmaceuticals, wheat, rice and chemical fertilizers.
of seeds and fertilisers, we have small and patchy yields, the granaries are empty, the cows have been sold, and sometimes to survive we depend on government relief food’ (World Bank, 1996).

The increase in poverty has resulted in decreased food security, inadequate access to basic social amenities such as health and education, unemployment, escalating insecurity, lawlessness and general economic decay. Human development has worsened and multidimensional poverty has deepened, indicated by Kenya’s human development indicator drifting from 136 to 146 between 1998 and 2001 (UNDP, 2003 and 2000). Life expectancy dropped from 59.7 in 1990 to 44.6 in 2001. This is partly linked to HIV/AIDS incidence as the percentage of adults (15-49) living with AIDS increased from 11.6% to 15% in the three years from 1998-2001 (Box 1), but child food insecurity has worsened, with the percentage of underweight children under five increasing from 14% in 1990 to 23% in 2001. This indicates that poor families are in crisis and that children are vulnerable to inheriting their parent’s poverty (UNDP, 1990, 1993, 2000, 2003).

6.2 Who is poor in Kenya?

Poverty affects people in many different situations in specific contexts there are different sets of factors associated with poverty and poverty vary from region to region, household to household and individual to individual. Poor people are not simply a list of vulnerable groups, but people who commonly experience several forms of disadvantage and discrimination at the sometime (Global chronic poverty 2005). According to the Poverty Reduction Strategy Paper (PRSP 2001) for Kenya, the poor tend to be clustered into certain social categories such as: the landless; people with disabilities; female headed households; households headed with people without formal education; pastoralists in drought prone districts; unskilled and semi-skilled casual labourers; AIDS orphans; street children and beggars; unpaid family workers; large households; single mothers and fathers; subsistence farmers; urban slum dwellers; and unemployed youth.

An examination of these social profiles indicates that gender, education and occupation are important proximate determinants of poverty. Gender-related poverty varies by marital status, but women in general are more likely to be poor than men. This is largely due to their lack of rights and control over productive resources and their lack of legal protection. Low levels of asset ownership, poor access to credit and limiting social norms means that women are highly concentrated in agriculture. The majority of subsistence farmers are women (69%), and this is the livelihood group whose members are most likely to be poor in Kenya (Omiti et al., 2002). Real prices of several cash crops have been on a declining trend, with coffee prices declining by 46.7% between 2000 and 2002 alone, and cotton by 18% over the same period (CBS, 2003). This means that the well-being of richer farmers is likely to be in decline, diminishing their ability to hire casual labour, with serious implications for the poorest.

People with certain occupations such as subsistence farmers, pastoralists, and unskilled casual labourers are faced with a high poverty incidence. Evidence from the 1997 WMS shows that about 51% of the subsistence farmers and 55% of pastoralists are poor (CBS, 2001).
Several definitions of the poor have emerged in Kenya during local level participatory poverty assessments (see for example Nyamwaya, 1997 and Narayan and Nyamwaya, 1995). While the definitions vary from region to region, one aspect that emerges from all the definitions is an inability to meet basic needs such as food, clothing, housing, health and education for children.

6.3 Determinants of poverty

Poverty in Kenya is associated with a number of factors. According to the PRSP, these factors include: lack of or slow economic growth; income inequality and unequal access to productive resources like land; natural shocks such as drought, floods and fire; inadequate spread and access to basic social services especially education and health; poor implementation of development programmes; lack of effective social policies and mechanisms and high incidence of diseases such as TB and HIV/AIDS (CBS, 2001).

The participatory poverty assessment studies have also identified a number of causes of poverty in Kenya. These include environment, historical, political economic and demographic as well as personal causes (Nyamwaya, 1995). Environmental factors include floods, inadequate rainfall, wildlife menace, livestock diseases, water hyacinth in freshwater lakes and soil erosion. Economic causes of poverty include lack of employment opportunities, increasing commodity prices, lack of land, land subdivision, poor extension services, low productivity and low industrial development in the country. Personal and household factors include lack of education, sickness, physical disability, old age, and high dependency ratios. Political and historical factors include strong urban bias in the design of development programmes, poor government planning and intervention, reduced government services, corruption, ethnic clashes, insecurity, geographic isolation of some social groups, and the eviction of squatters from the forest areas (Manda et al., 2001: 31, World Bank, 1996). The inter-generational transmission of chronic poverty was also identified as important by the poor. Poverty can also be inherited. If you are born to a poor family, you cannot get access to education or cannot own any land, or can own very little land of poor quality, so that every generation gets poorer (World Bank, 1996).

The identification of income inequality as a key cause of poverty in Kenya is interesting, as increased trade flows are likely to increase income inequality, if not countered by other policy measures. Kenya is already among the most unequal societies in the world. It was estimated that the top 20% of the Kenyan population controls about 59% of the national income while the bottom 20% control 2.5% of the income (UNDP, 2002). Kenya’s Gini coefficient is higher than most countries in the region. According to UNDP human development index report 2006, currently the richest households in Kenya control more than 42% of incomes while poorest 10% controls 0.76% of income.

6.4 Spatial distribution of poverty in Kenya

Poverty in Kenya is largely rural, with rural households being twice as likely to be poor as the urban population. However, urban poverty is increasing alarming in terms of both incidence and severity. Aggregate figures broken down only into rural
and urban categories conceal the sharp regional disparities in poverty incidence that exist in Kenya. These are closely associated with rainfall and agro-ecological potential, and poverty is higher in arid and semi-arid parts the country.

Poverty levels are highest in the arid and semi-arid lands of Coast, North Eastern and Eastern provinces; and in the highly populated regions of Western, Nyanza, Rift Valley and Central provinces. This is possibly because the ASALs have fewer agricultural opportunities due to poor climatic condition and increased incidence of insecurity. The region with the highest human poverty is eastern province (50.5%), followed by coast (42.5%), Rift valley 940.5%), Nyanza (37.5%), western (36.1%) and lastly Nairobi (29.9%). Compared to 2004, human poverty has increased marginally except Nyanza, Western and Coast. The performing areas are found in agricultural high potential areas while worst performance are in low potential areas prone to insecurities (HDI 2006).

Disaggregated Human Development Indices (HDI) values at provincial and district levels highlight significant variations in human capabilities and welfare in Kenya. The 2005 HDI for Nairobi is 0.773, central province 0.637, Rift valley (0.528), Coast (0.531), western province 0.516, Nyanza 0.468 and North Eastern province has the least human development of 0.285. Policies and allocation of resources have tended to favour the high potential areas, leading to marginalization of the regions that have performed poor. For instance, according to the Kenya Human development Report 2006, every child in Central Province attends primary school compared to about one out of three children in North eastern province. The proportion of households with piped water in the houses in urban areas is five times that in the rural areas, about 19.2% and 3.8% respectively. In the health sector, the doctor people ratio is 1:20,000 in Central Province while in North Eastern Province its 1:120,000.

Urban districts have high HDI values than rural districts. Nairobi and Mombasa have the highest HDI values of 0.7773 and 0.769 respectively while the last three districts Turkana, Wajir and Garissa have lowest HDI values of 0.172, 0.256 and 0.267 respectively. (HDR 2006).

### 6.5 Rural poverty in Kenya

Rural Kenyans are more likely to be poor than people in urban areas and within rural areas there are high concentrations of poor people amongst particular sub-groups, for instance pastoralist communities (60% are poor) and subsistence farmers (40%). Due to the large numbers of households engaged in subsistence agriculture this category adds up to half the poor people in the country (Manda et al., 2001). Very few poor people are employed in the formal (15%) or state sectors (7.5%). They tend to obtain livelihoods though the informal sector, and large numbers of poor people in Kenya consider themselves to be unemployed. This is likely to include the underemployed and people involved in casual labour and in unpaid household enterprises. Women are concentrated in agriculture (53%), but men predominate in other sectors. Amongst the rural poor, men outnumber women in fishing (20:1), construction (17:1), transport (13:1), sales (2:1) and manufacturing (2.4:1). There are similar ratios for the urban poor and amongst the non-poor (Ministry of Finance and Planning, 2000b).
Around 75% of the Kenyan population live in rural areas and are highly concentrated in the high and medium agricultural potential areas of Central and Western Kenya. Rural households tend to rely on a mix of own production and farm and off-farm income. An average of 68% rural household income is derived from off-farm incomes, including remittances and around 32% comes from own production (crops and livestock products, with maize and wheat being the leading sources of crop incomes). However, these ratios vary from region to region with farm incomes forming a low proportion (18%) in Eastern Province and a high proportion of 60% for Rift Valley province. Around 36% of rural households have at least one salary earner living away from the farm and a third receive remittances.

### 7.0 The trade content of Kenya's development strategies and measures to combat poverty

Kenyan development policies and strategies are presented in a range of documents, including the National Development Plans (Kenya, 2002) National Export Strategy (MTI, 2003) National Poverty Eradication Plan (MPND1999), Poverty Reduction Strategy Paper (MFP, 2001) and the Economic Recovery Strategy Paper for Wealth and Employment Creation (Kenya, 2003). Trade and industry are given particular attention in the Poverty Reduction Strategy Paper (PRSP) and the *Economic Recovery Strategy for Wealth and Employment Creation*, but the plans in general focus on achieving poverty alleviation through rapid economic growth. Despite this central assumption, the documents contain a limited exploration of how the nature of growth and the structure of the economy in Kenya might generate very different distributional outcomes or how different packages of trade policy (along with complementary measures) might generate very different poverty outcomes. Instead, the pro-poorness (or otherwise) of trade policy is based on the assumption that increased trade openness (irrespective of initial conditions or the need for complementary measures) will drive improved efficiency in resource allocation, support faster economic growth and thus poverty reduction.

Poverty alleviation has been focused on by a number of politicians and in various party manifestos. There has been widespread debate in Kenya about the possible impact of trade policy on the poor. Some of this debate has focused on the position that Kenya should take in WTO negotiations. Position papers have highlighted how certain trade practices might affect the poor; the impact of difficult access to developed country markets and on impact of developed country agricultural subsidies on poor producers in Kenya. However, the extent to which these discussions inform Government strategies and policies is not clear.

A brief overview of the evolution of trade policy reforms and episodes in Kenya and their implications for poor Kenyans is presented in Annex 2, and a review of the trade content of various development plans and strategies is presented in Annex 3.

### 8.0 Trade policy formation in Kenya

Trade policy reforms in Kenya have been shaped by various internal and external factors. External factors are regarded domestically as having been particularly
challenging over the past two decades, and particularly following the establishment of the WTO in 1995. However, the multilateral and regional negotiations taking place under the current framework of the Doha round of WTO negotiations are expected to result in increased access to developed country markets and reduce tariffs and trade distorting subsidies.

A study by the WTO Secretariat, which compiled 45 case studies of mainly developing countries, found that WTO members have experienced a range of challenges in participating in the multilateral trading system. Both rich and poor countries with a good understanding of the WTO system were reported to have found that they could work within the system to support their interests. Trading success (or failure) was found to be strongly influenced by the quality of communication between national governments and the private-sector. Domestic decision-making can generate opportunities or undermine the potential benefits from a rules-based international environment that promotes open trade. This has implications for Kenya, where communication between different actors in trade policy formation is weak.

8.1 Trade policy formation and implementation

There is increasing awareness of the need to participate effectively in the international trading system and a number of initiatives are being undertaken at the regional and international level to build enhanced capacity within the Ministry of Trade and Industry to negotiate and to implement WTO rules.

The Ministry of Trade and Industry has overall responsibility for the formulation of trade policy in Kenya, including the negotiation of bilateral and multilateral agreements. A number of Ministries and agencies are responsible for formulating specific trade-related policies (see Figure 3, below). However, the post-colonial period in Kenya has been characterised by a gradual concentration of power and authority in the presidency and away from other institutions such as parliament. This has led to ministers, permanent secretaries and other government institutions having little decision-making autonomy (Gerzel, 1970; Okumu and Homlquist, 1984). As a result the Office of the President has emerged as a crucial institution in the formulation and implementation of trade policies in Kenya.

Consultation is limited and coordination within Ministries and Government Agencies largely takes place through inter-ministerial meetings and committees. The National Committee on WTO meets at least once every year but inter-ministerial meetings tend to be called when the need for consultation emerges and the multi-agency approach to trade policy formation has caused confusion, especially among the negotiators, as a clear approach to harmonise decisions appears to be absent. This problem is compounded by a lack of staff with in-depth knowledge of international trade issues and the capacity to monitor and analyse the trade policies of key trading partners.

Poor coordination within the Ministry of Trade and Industry has also caused problems. The Department of External Trade is directly responsible for a number of bilateral and multilateral trade issues (as shown in Figure 3, below). However it is not clear how the trade related work of a number of other Departments is coordinated.
Other actors are important in policy agenda setting and the identification of policy options and until recently the World Bank and inter-governmental agencies have played a dominant role. Historically, non-governmental and civil society actors have been regarded with suspicion by government, and their views have been disregarded. However, this has changed with time and stakeholder consultation has become more broadly based. In the box below (Box 2) we present a review of the international experience of NGO engagement in trade-policy processes.

**Figure 3: Ministries and other public agencies engaged in trade policy formation and their areas of responsibility**

- **Ministry of Trade and Industry**
  - Dept of External Trade

- **Other Ministries**
  - Office of the President
  - Ministries of Finance
  - Planning & National Development
  - Ministry of Foreign Affairs
  - Ministry of East African Community
  - Ministry for Agriculture

- **Other Public Agencies**
  - Export Promotion Council
  - Kenya Industrial & Property Institute
  - Kenya Bureau of Standards

- **East African Community (EAC)**
- **African Caribbean Pacific and European Union Trade Arrangement (ACP-EU)**

- **General trade policy**
- **WTO**
- **COMESA**
- **ACP-EU Cotonou Partnership Agreement**
The Kenyan Government established a Trade Office under the Kenya permanent mission in Geneva on joining the WTO 1995. Trade negotiators from the Ministry of Trade and Industry are posted to Geneva where they are responsible for all trade-related issues. Their effectiveness in negotiations depends on their skills but also on decisions made in Nairobi.

Effective trade policy relies on inputs by specialists with technical knowledge and skills in trade analysis, international and trade law and economics. Many of these skills are absent in the inter-ministerial and other committees, leading to low quality debate. Taking this in mind it may be useful to draw together a pool of experts in a trade commission or by restructuring the National Committee on the World Trade Organization. Doing so would fill the box marked with a question mark in Figure 4, above.

If trade policy is to be pro-poor, such a commission or committee would have to have a very particular configuration and terms of reference.
Box 2: Civil society engagement with trade policy formation

CSOs are becoming increasingly involved in trade policy debates. A number of international NGOs have developed a coherent critique of globalisation. This has influenced their position on trade and has filtered through to domestic debates led by Southern civil society organisations. Their position states that trade systems are becoming ever more complex, economies increasingly globalised and international companies and global financial institutions increasingly powerful. This leads some within international civil society to fear that foreign traders and investors are increasingly able to overturn the decisions of democratically elected governments. They also suggest that international trade policy institutions (e.g. WTO, COMESA, EAU) have acquired powerful leverage over domestic norms and the social institutions that embody them. They also fear that globalisation has changed the terms of “the social bargain” and that it is making it increasingly difficult for governments to pursue some of their traditional social policy functions. Some suggest that while some countries and their populations benefit from more trade openness, others are losing out and, leading to greater cross-country inequality (Curtis, 2001).

CSOs engagement tends to focus on highlighting the impact that trade and trade policies are likely to have on the lives of ordinary consumers, agricultural producers and industrial and service industry workers. They act as interlocutors for the poor, in the belief that the decision-making of ‘the elites’ will otherwise exclude or downplay their concerns.

As well as speaking on behalf of the poor and the general public, civil society organisations can undertake policy analysis to explore how particular policies impact on different groups in society. They can communicate their findings to ensure that poor people understand how particular policies affect them. This enables citizens to make informed decisions when it comes to elections and at other periods of decision-making. CSOs can also help build capacity at the community level in the skills necessary for effective policy engagement. They can also work to mobilise social movements and lobby groups which can go on to lobby for favourable trade conditions.

Some CSOs trade and livelihood related technical knowledge which government officials and decision-makers could usefully draw on. Others have the skills that would enable them to support building the capacity of government officials and politicians in policy analysis and trade negotiations (Kumah, 2005).

CSOs and trade policy in Kenya

The political environment in Kenya changed profoundly after the 2002 general elections when new political leaders emerged who were rooted in civil society organisations. This contributed to improved relationships between civil society and policymakers and the Kenyan government invites civil society to participate in decision making more frequently. An example is through civil society’s involvement in national trade policies through membership of the National Committee on the WTO (NCWTO). This enabled CSO representatives to work with trade officials to
elaborate Kenya’s negotiation positions for Cancun. Civil society representatives also lobbied successfully for their inclusion in the national WTO delegation in the wake of Cancun and CSO researchers, academics and staff of international development NGOs provided support to government actors. “This situation in Kenya, where civil society actors have been part of a multi-stakeholder process to elaborate a government position, has been held up as an example of best practice in the trade arena” (Brock and McGee, 2004: 50).

CSOs involved in trade see their overall objective as ensuring that trade policies benefit the poor. Public political debate and the media are regarded as important instruments for lobbying in Kenya. CSOs also work with parliamentarians, regional civil society networks, and networks between Kenyan CSOs and Northern NGOs.

However, whereas upwards linkages, including connections with regional federations, Northern and regional NGOs and donors are generally very strong, downwards linkages are rather weak. “Challenges of “representing the grassroots” in policy, familiar from debates about participation in other policy processes, are particularly acute around trade policy in this part of Africa, where connections between trade policy activists and “the grassroots” are not strong” (Brock and McGee, 2004:51)

Source: Adapted from Busse, 2006.

8.2 Stakeholder analysis

Two periods of stakeholder analysis have contributed to the production of this report. The first was in 2003 (see Appendix 2, for a list of interviewees). A second period of analysis was undertaken from mid to late 2006. This analysis sought to understand the diversity of roles played by different stakeholders, whether specific stakeholders were able to articulate the interests of the poor in national fora and the degree to which their involvement was regarded as influencing decision-making.

In the second wave of analysis, a survey of 98 stakeholders was conducted (Appendix 3 presents copies of the research instruments used). These included a mix of stakeholders from the private sector, public sector and from civil society organisations. In addition a small survey was conducted of Kenyan farmers active in a number of key sub-sectors.

Many of our interviewees from the public and private sector in Kenya and from the Kenyan civil society commented that although they were consulted as part of trade-policy formation, they were not clear the whether they were able to exert any influence on decision making. A majority of respondents described their participation in policy making as being limited to providing government officials with information. Only 17% of respondents were consulted and while around 29% contributed by attending meetings or sitting on various trade-policy related committees. Figures 3 and 4, illustrate the roles played by various stakeholders in trade policy processes in Kenya.
Staff in ‘public institutions’ were asked to comment on what role they believed different stakeholders should play in trade policy formation (Civil Society/NGOs, the private sector and the Government). Around 46% of respondents saw the Government’s key role as being “facilitation”, whereby the government creates an appropriate enabling environment, followed by coordination (45%), policy formulation (39%) and financing (34%). The role of Civil Society and NGOs was viewed as being limited to advocacy and lobbying (by 40% of respondents) and the private sector’s role was seen as just lobbying (44%) and financing (29%). This suggests that government has not fully opened the policy process to non-state actors. This raises fears that unless parliamentarians and government officials are willing and able to present the interests of the poor in such policy debates their interests will be marginalised.

Effective lobbying by the private sector and NGOs/CBOs depends on presenting clear and effective messages to the right actors in the policy process and in a timely way. Without an adequate technical understanding of trade issues it is possible that NGOs and CBOs will be less effective than they might desire. Findings from our survey indicate that few private sector or civil society respondents had an in-depth knowledge of trade issues and their lobbying positions were poorly researched, as a direct result of their organisations’ lack of capacity. Another unfortunate conclusion was that there are no clear routes by which private sector and civil society representatives can communicate issues raised in trade policy meetings to the groups they are purported to represent. (See Box 2, above, for a review of international experience of civil society involvement in trade policy formation).

9.0 Kenya’s international trade commitments

Kenya’s commitments under various bilateral, regional and multilateral trade arrangements have an important influence on trade policy formulation.

Kenya has joined with Uganda, Tanzania (and latterly Rwanda and Burundi) to form the East African Community (EAC). The EAC was established with the aim of forming a customs union, followed by a free trade area and ultimately a political federation. The customs union was launched in January 2005 and progress towards a political federation was made in October 2006 in the three original member states of the EAC (Kenya, Tanzania and Uganda). Membership has encouraged the reduction of tariff levels, with the top tariff band being reduced from 40% in 1996-97 to 30% in 1997-98. However, this reduction in tariffs does not actually result in a reduction in protection. Many non-tariff barriers exist among the EAC member states. Uganda uses import licenses to control the flow of imports and Kenya and Tanzania have both re-introduced previously suspended duties and exclude imports which do not attract COMESA tariff preferences (Wagacha, 2000).

Kenya is also a member of COMESA (Common Market for Eastern and Southern Africa) whose main objective is to form a free trade area. Under these arrangements, Kenya has agreed to reduce tariffs to harmonise trade, and since 1994, when COMESA replaced the Preferential Trade Area (PTA), there have been significant tariff reductions within the trading bloc encouraging intra-regional trade (Ikiara et al., 2002).
Kenya’s exports to COMESA grew by 7.7% in 2002 and accounted for 71% of total exports to the African region in 2002 (CBS, 2003), with most of the exports being manufactured goods. Imports from COMESA accounted for 33% of total imports from the Africa region and fell by 10% in 2002 (ibid.).

Kenya’s key COMESA trading partners are fellow EAC member states: Uganda and Tanzania. Kenya’s exports to these two countries generated over half of Kenya’s total export earnings to the African region in 2002 and were on an increasing trend with imports declining (ibid.). Although Kenya benefits from having land-locked neighbours and a more highly developed manufacturing sector than many other COMESA members (Ikiara et al., 2003) it faces tough competition from South Africa in the COMESA markets for both manufactured and agricultural products.

Table 1: Advantages and disadvantages of international trade agreements

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<th>Advantages</th>
<th>Disadvantages</th>
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<td><strong>COMESA</strong></td>
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<td><strong>Producers/ exporters</strong></td>
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<tr>
<td>• Tariff removal/reduction successful – trade stimulated</td>
<td>Successful competition from imports. If efficiency gains cannot be achieved</td>
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<td>• COMESA Kenya’s most important export market (from late 1990s)</td>
<td>rapidly may lead to:</td>
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<td>• Inputs may be available more cheaply or more reliably</td>
<td>• opening borders to cheaper imports can expose producers (e.g. sugar, which</td>
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<tr>
<td>• Diversification of exports and growth of manufacturing exports</td>
<td>is sold in Kenya at three times the international market price. Introducing</td>
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<td>(Kenya’s exports are mostly “traditional” agric. commodities and</td>
<td>competition is inevitable under both the WTO and COMESA) and reduce share</td>
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<td>horticulture)</td>
<td>(of the domestic market)</td>
</tr>
<tr>
<td>• Access to new markets provides ‘an escape route from the limitations and</td>
<td>• short-term reductions in outputs or profits and so unemployment and</td>
</tr>
<tr>
<td>inelasticity of domestic markets’</td>
<td>business failure</td>
</tr>
<tr>
<td>• Protection of ‘Infant industries’ within tariff wall – competition for</td>
<td></td>
</tr>
<tr>
<td>regional market driving up quality</td>
<td></td>
</tr>
</tbody>
</table>
and efficiency before product ready to launch on global market

<table>
<thead>
<tr>
<th>Consumers</th>
<th></th>
<th>Reducing tariffs within COMESA with high common external tariffs will lead to Kenya switching from more efficient producers in the rest of the world to less efficient (and protected) suppliers within COMESA. Consumers will pay prices above the international market price for goods and services.</th>
</tr>
</thead>
</table>
| • Price reductions likely  
• Greater consumer choice  
• Reduced seasonality (of availability)  
• Domestic price of tradeables will be reduced | If the price of a good declines some producers will suffer – but this will depend on the extent to which they also purchase the good for consumption. |

<table>
<thead>
<tr>
<th>WTO</th>
<th></th>
<th>General</th>
</tr>
</thead>
</table>
| | | • Kenya’s growth response to trade would increase based on some changes proposed by the WTO around trade facilitation, competition policy and transparency  
• Benefits may be limited by institutional failures and constraints preventing improved labour markets, human capital formation, investment, technological progress and productivity/efficiency. |
| | Developed country export subsidies allow world market prices to fall artificially below the real cost of supply. Many of these subsidies have now been removed benefiting Kenyan producers (but damaging many poor net consumers). |
10 Identification of the Constraints to Trade

10.1 Externally driven constraints to trade

Cyclical changes in international primary commodity prices have had a negative effect on producers and, arguably, on Kenya’s economic growth prospects. The effect on domestic producers has been compounded by greater competition in global markets. Domestic markets are also becoming more competitive and MFN tariff reductions,\textsuperscript{10} driven by the Doha round of WTO negotiations, could open the region to greater competition. As a result, sustaining the market share of Kenya’s producers, both domestically and regionally, is likely to depend on achieving greater production, transport and marketing efficiencies. Arguably, this will need to be combined, in the short to medium term by protecting Kenya’s place in the regional market by strong regional integration supported by a Common External Tariff (CET).

The EU-ACP Agreement, through successive Lomé Conventions, has provided key Kenyan products with duty free access to the EU market and quota based access for other products. However, preferential market access arrangements are increasingly being challenged through the multilateral negotiations under the WTO. This is encouraging ACP countries to negotiate with the EU to form WTO compatible Economic Partnership Agreements (EPAs). They will be based on Article 24 of GATT 1994, which provides for a reciprocal trade arrangement between the ACP and the EU. The provision is being reviewed as it was originally drafted to support Regional Trade Agreements (RTAs) between developed countries. As a result developing countries are striving to ensure that revisions incorporate development objectives – and before the conclusion of EPA negotiations.

The conclusion of the EPA negotiations and the eventual implementation of this trading arrangement will mean increased competition for Kenyan products both in the region and in the domestic market. This will be particularly the case for manufactured goods and subsidised agricultural products from the EU, meaning that Kenya will need to improve efficiency in its manufacturing sector and the quality of outputs, if it is to survive increased competition in the region.

AGOA provides eligible sub-Saharan Africa countries with access to the US market. Duty-free treatment under GSP (General Scheme of Preferences)\textsuperscript{11} has been extended to about 4,600 products available to non-AGOA GSP beneficiary countries. Sub-Saharan African countries, including Kenya, will face competition in the US market from non-AGOA eligible countries with GSP benefits. If Kenya wishes to compete in this area of the market, its value added industries will need to grow and become more competitive.

AGOA has led to new investments in Kenya’s Export Promotion Zones (EPZs)\textsuperscript{12} In the garments and textiles sectors such investment accounts for 50% of all investments and is linked to 80% of all exports from Kenyan EPZs. Such investment resulted in a doubling of domestic value addition from 16% in 1998 to 37% in 2003 and EPZs now

\textsuperscript{10} These are the maximum tariffs bound allowable under the WTO.

\textsuperscript{11} This is unilateral preferential market access, granted by developed countries to AGOA-eligible countries.
generate 12% of Kenya’s total manufacturing exports. However, although Kenya’s EPZs generate 3.4% of total private sector employment, they are poorly linked to the wider Kenyan economy.

10.2 Internally driven constraints to trade

In this section we present the key internal constraints common to producers and exporters across a number of sectors who wish to engage in international markets. Evidence is drawn from interviews with a range of stakeholders (2003) and from the international literature. Sectorally specific constraints are dealt with under the case studies in Section 11, as appropriate.

The key constraints facing export sectors in general include:

i. High costs of power and regular power cuts
ii. Poor road and rail infrastructure
iii. Poor port facilities (including limited pre and post-shipment facilities)
iv. Information asymmetries
v. Costly, low quality telecommunications and ICTs
vi. Costly, low access to credit
vii. Poor contract enforcement
viii. Poor governance/ lack of an enabling environment
ix. Low labour productivity
x. Border insecurity and the convertibility of local currencies (Ikiara et al., 2002).

Cost and irregularity of power supply: Kenya’s power costs (US$0.15 per KWh) are far higher than South Africa (US$0.04) and China (US$0.10). These high costs affect the performance of the manufacturing sector and constrain both agriculture and agro-processing. The effect of high costs is compounded by power cuts, ‘brown-outs’ and power surges which damage equipment and reduce output. Costs and irregular supply are blamed on bad management and corruption in the public sector provider. Privatising the power sector, with government providing effective regulation would be likely to increase the efficiency of the sector and drive down unit costs.

Poor road and rail infrastructure: Poor roads communication adds to the cost of inputs and outputs, delays perishable goods en route to market, inhibits investment and is cited as a serious constraint by a number of trade related sectors.

Only around half of Kenyan roads are in good condition, and poor roads increase costs, delay deliveries and inhibit investment. The rail system is on the point of collapse after years of under-investment and mismanagement, and Kenya Railways’ inefficiency in handling cargo at Mombassa has led to importers preferring to transport their goods by road, putting ever greater pressure on the roads network. In addition, there is evidence that haulage costs are maintained at a high level in Kenya by cartels (Roberts and Fagernäs, 2004). Investing in both road and rail infrastructure would extend markets into currently remote areas and expand the area able to produce profitably for export.

Poor port facilities: The port at Mombassa is so badly affected by difficulties with Kenyan customs and export procedures, high port tariffs, inadequate facilities, inefficiency and corruption that some importers now prefer to use Dar es Salaam. In
addition, the pre- and post-shipment facilitates needed by exporters are limited due to high investment costs and an inexperienced banking sector (Wagacha, 2000). Overcoming these problems would reduce constraints on the imports necessary for the export horticulture sector, supporting its accelerated growth.

**Costly, low quality telecommunications and ICTs:** Kenya’s postal and telecommunications corporation (KPTC) is widely regarded as under performing. KPTC’s monopoly role in the provision of landline-based telecommunications has led to sub-optimal levels of investment and slow expansion of the network. Kenya has a lower teledensity (telephone lines per 1,000 people) than the SSA average (Ikiara et al., 2002). The urban-based elite has attempted to overcome the constraints of the poorly functioning telecom sector by using mobile phones and by 1999 there were 9,000 mobile phones in Kenya (ibid., 2002), and 80 Kenyan towns had cell phone coverage by 2003 (CBS, 2003: 202). However, there are only two network providers, limiting competition, and call costs are extremely high. Monopoly provision of internet services has discouraged investment and innovation and bandwidth is narrow, resulting in slow and interrupted download. These constraints on communication slow technical innovation restrict access to important market information and increase the costs of running a business. By reversing these challenges the government would support growth in the domestic economy and in export sectors such as horticulture.

**Costly, low access to credit:** Weak regulatory oversight by the Central Bank of Kenya coupled with high rates of lending, under-capitalization and an over-reliance by indigenous banking institutions on deposits from large public funds (e.g. the National Social Security Fund) have led to instability in the banking sector (Ikiara et al., 2002). The Kenyan government has relied disproportionately on financing the fiscal deficit with short-term domestic borrowing, crowding out the private sector (Wagacha, 2000: 18). Competition within the sector is limited as it is dominated by three major banks Barclays, Standard Chartered and Kenya Commercial Bank (KCB) who control 66% of deposits (Ikiara et al., 2002).

Membership of COMESA has encouraged the development of the banking sector’s institutional infrastructure but there has been inadequate investment in computerisation and electronic banking. But, in general, this has not helped farmers and entrepreneurs access banking services, and even if they do access services, credit it very expensive. Although inflation declined from 5.8% to 2% between 2001 and 2002, average lending rates stayed at 20% in 2002. It is hard to see the justification for such high interest rates considering the low current inflation rate, and it will clearly dampen investment and constrain enterprise and trade. This is a very serious barrier to farmers, traders, processors and exporters wishing to move into the export horticulture sector. Reforms to the financial sector are necessary if enterprise in general is to be enabled.

**Poor contract enforcement:** Institutional and regulatory framework for Contract enforcement is weak. This acts as a disincentive to investors and to entrepreneurship in markets and in international trade. Stronger contract enforcement regulations encourages investors to enter into sub-contracting of small

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12 KPTC’s monopoly was officially removed in 1999, but this is yet to have had any affect on the sector.
producers, firms or investors thus creating market opportunities in international markets.

**Poor governance/lack of an enabling environment:** Export procedures and authorisation requirements constrain exporters (Wagacha, 2000). Corruption and the mismanagement of state controlled enterprises damage business and make products uncompetitive on the global market. Corruption is so widespread that it amounts effectively to a tax of US$105 per month faced by every individual (Transparency International, 2001). This damages the consumption levels of ordinary households and the profit levels of enterprises.

In the cotton and sugar case studies presented in Section 11, below, we show that the mismanagement of state controlled enterprises has contributed centrally to the near collapse of the sectors.

**Low labour productivity:** Kenya is a low wage economy, with wage levels comparable with India and China, but some manufacturers claim that productivity rates are ten times higher in the Far East and five times higher in India. Other reports suggest that a “median” Kenyan worker produces $3,457 of manufacturing value added per year compared to $3,400 for India and $4,400 for China (World Bank and KIPPRA, 2004). In the manufacturing sector this is not simply due to a poor work ethic, but is also due to poor staff training and outdated machinery and manufacturing methods. Poor labour productivity drives the cost of outputs up, making companies uncompetitive in international markets and likely to lose market share against imports in domestic markets (McCormick, 2001).

**Poor access to value-addition:** Facilities for agro-processing and value addition are poor in Kenya due to limited access to credit and investment capital, low levels of entrepreneurship, limited effective demand in national and regional markets for processed goods, and government involvement in several sectors (through regulation or direct involvement).\(^\text{13}\) The lack of agro-processing facilities mean that primary producers have limited opportunities to add value to their products prior to sale, hampering the diversification of Kenya’s exports and making producers vulnerable to cheaper imports.

Other constraints include the difficulty in accessing irrigation and weak contract enforcement. Minot and Ngigi (2004) highlighted the importance of irrigation for horticultural production for export. A number of farmers were interviewed who began producing horticultural crops only after they obtained an irrigation pump. This suggests that bottlenecks in the agricultural equipment market need to be identified and, if possible, removed. Government also has a role in stimulating investment and dissemination of micro-irrigation, water harvesting and water management technology (ibid:95). Poor contract enforcement has been identified as a constraint and there may be a role for government in dispute mediation and the development of new institutional arrangements to facilitate the enforcement of contracts (ibid:95).

\(^{13}\) A ministerial task force has identified laws that restrict entry into commercial operations in order to recommend their repeal (Maxwell Stamp, 2003:18).
11.0 Sector level effects of trade liberalisation: case studies

11.1 The sugar sector

The sugar sub sector has been selected for detailed focus because of its importance to poor smallholder producers and because of the problems facing it. Global sugar markets are oversupplied. Of the 132 million tonnes produced annually, approximately 34 million tonnes are traded internationally, 20 million tonnes are surplus to demand, and have driven prices down by 55% since 1995 (SUCAM website).\(^{14}\) In addition, around 70% of sugar traded in world markets is traded through preferential or quota related regimes, which distorts world sugar prices (SUCAM, 2002a).

Agro-processing by the sector provides direct and regular employment for 30,000 workers\(^ {15}\) and sugar is a major source of income for over 100,000 farm households. Direct employment has been in decline over the last decade with many plantation workers losing their jobs. Casualisation has increased over the last five years as employers seek to cut costs and thousands are now employed as casual workers on farms and (as most of Kenyan sugar is produced by smallholders)\(^ {16}\) if producers and the up- and downstream enterprises linked to the sector are included, 2 million Kenyans are supported by the sugar sector (Kenya Sugar Board, 2005). This certainly does not make it the largest or most significant agricultural and agro-processing sector in the country. However, there is heated political debate surrounding the future of the sugar sector which makes it important to consider in this study.

The problems the sector faces are representative of problems seen elsewhere in the Kenyan economy. Some of them are due to distortions and mismanagement that were enabled by import substitution policies and other protective practices. Protection provided a cover under which it was possible for the sector to continue functioning despite production being located in an inappropriate agro-ecological zone, bad management and corruption. This resulted, over the long term, in the indebtedness of both the out-grower institutions and mills and low levels of production and processing efficiency.

Civil society organisations lobbying on behalf of sugar producers clearly assume that if the sector had had a different history it would now be a success. The problem is, history cannot be undone and it is not clear that the reform and investment necessary to reposition producers and processors is affordable for government, attractive to the private sector, or likely to create a sugar industry able to survive global competition without long-term subsidy.

The reason debates about the sector will not simply go away is that sugar growing and processing is a key livelihood in some of the poorest parts of the country. Nyanza Province, one of the main sugar producing regions in Kenya, has seen a sharply increasing incidence of poverty with 63% poor (the highest rate in the

\(^{14}\) http://www.kenyalink.org/sucam/ downloaded on 20.01.04

\(^{15}\) Kenya Sugar Board Newsletter 2005

\(^{16}\) 88% of Kenya’s sugar is cultivated by smallholder out-growers, 12% on nucleus estates (Kegode, 2002).
country) and 58% extremely poor (see Table 11, in Annex 1). Poverty in the Western Province, another key sugar growing area, is also on an upward trend, and was the second poorest Province by 1997 (59%).

It is initially hard to understand why an area producing one of Kenya’s major cash crops is so poor, but it appears that sugar producers neither receive high returns for sugar production nor have diversified sources of income. Distance from markets and poor infrastructure, inappropriate for on-farm diversification and off-farm enterprise, hamper investment and economic growth. Household income is not always pooled and intra-household asymmetries in access to and control of resources means that cropping decisions and cash income from the sugar harvest do not always benefit all household members. Men commonly control returns to land and labour and there are also few opportunities for women to run successful enterprises. As a result there is limited production for own consumption or investment in health and education, which is often seen as the responsibility of women. In the absence of successful markets, spatially and seasonally based price gradients are high, terms of trade are poor and income poverty and food insecurity are high (shown by stunting and wasting in children).

But why are returns to sugar low? In 2002 the average cost of producing a tonne of white sugar around the world was US$400, US$55 above the average market price\textsuperscript{17} which has been driven down by oversupply in international markets. Prices have declined by 55% since 1995\textsuperscript{18} leaving Kenyan sugar (with producer prices set pan-territorially)\textsuperscript{19} costing three times the international market price and unable to compete with Sudanese and Brazilian imports, despite protection from tariffs and import quotas. Under-investment in processing capacity and poor management has been highlighted by international competition and a third of mills have been forced to close and others reduce their capacity.

The imposition of tariffs and quotas has not been effective – on their own – in reducing poverty incidence or severity. A value chain analysis of the sugar sector has not been undertaken to examine who captures the rents generated by protection of the sector but key informants in Kenya suggest that retail prices are kept high by the uncompetitive practices of importers and wholesalers, and that these high prices are not passed on to either processors or producers. This suggests that bringing Kenyan sugar prices in line with world prices through the removal of tariffs and quotas will not immediately benefit consumers unless attention is given to supporting market functioning.

\textsuperscript{17} A mill in southern Sudan was able to drive production costs down to US$230, making it one of the five most competitive producers in the world (Ochola, 2002).

\textsuperscript{18} Source: SUCAM website: http://www.kenyalink.org/sucam/ downloaded on 20.01.04

\textsuperscript{19} Negotiations between the Kenya Sugar Cane Growers Association and the Kenya Sugar Manufacturers in consultation with Kenya Sugar Authority determined pan-territorial farm gate and consumer prices for sugar (SUCAM website). These are arrived at by ‘cost plus pricing’ (i.e. production costs + transport costs + processing costs + packaging etc.), and are based on the costs of the least efficient producer (Mwai, 2002). The average (gross) price received by sugar farmers (per tonne) increased between 1998 and 2002 from Ksh.1,730 to Ksh.2015 (CBS, 2003:136). Further price control is attempted through limiting the quantities of imported sugar through quotas.
The Kenyan sugar sector has been in such a disorganised state that it does not make use of the EU Protocol sugar quota which would allow it to sell sugar onto the European market at an advantageous price.\textsuperscript{20}

The sector faces an uncertain future. It is currently highly protected by import tariffs quotas, and inefficient sugar mills are protected by pan-territorial pricing. However, the COMESA moratorium, which currently enables Kenya to impose a tariff on sugar imports from COMESA countries, is due to expire. When it does, it will be hard to see how domestically produced sugar will compete with cheaper imports. Due to the low level of on-farm enterprise diversification, low levels of non-farm employment and poor infrastructure, a rapid and successful adaptation to a price shock in the sugar growing areas seems unlikely. Avoiding a sharp increase in both the incidence and the severity of poverty will depend on effective policies to generate alternative sources of livelihood and coping. Government will need to invest in infrastructure, support market development, implement policies to improve opportunities for livelihood diversification, and provide social protection for the most severely affected. These might take the form of time-bound and targeted income transfers or an employment guarantee scheme (modelled on the successful Maharashtra programme, in India).

Problems in the Kenyan sugar sector\textsuperscript{21}

Mill-level inefficiencies and management failures: Processing efficiency is an important determinant of ex-factory sugar prices. Low levels of capital investment by mills in Kenya combine with inefficient use of labour and chemicals to result in low processing efficiency. The amount of sugar cane required to produce a tonne of white sugar ranges from 9.82 tonnes (Mumias Mill) to 16.65 tonnes (Miwani Mill, prior to closure). This may partly be due to late harvesting by contractors damaging cane quality and reducing its sucrose content. Pre-milling production costs are high, and cane procurement accounts for 70\% of sugar production costs in Kenya. This is largely due to the high costs of cane transportation and the high harvesting and handling costs.

High down times have been cited as the single largest operating problem in the Kenyan sugar sector. The international norm is to operate non-stop for at least 22 hours a day, Kenyan mills do not achieve this due to equipment breakdowns, lack of cane\textsuperscript{22} and other operational difficulties. But rather than using market forces to push mill operators to increase efficiency, the least efficient Kenyan producers are protected by pan-territorial pricing.

Most sugar mills are still owned by the state and politicians significantly influence management, with decisions commonly based on patronage, rather than commercial

\textsuperscript{20} Kenya had a 5,000 metric tonne Protocol Sugar Quota to the EU, but this was withdrawn after Kenya failed to meet its delivery obligations in the 1985/86 delivery year. (SUCAM, 2003a).

\textsuperscript{21} This section draws on SUCAM (2002b, 2003b), Kegode (2002), Kariuki (2003), Mwai (2002), in addition to references cited in the text.

\textsuperscript{22} Processing capacity averages 46\%, but mills must still meet 100\% of their overheads. Production of cane is depressed, largely because farmers are provided limited incentives to increase production.
principles. A lack of entrepreneurialism has meant that rather than diversifying output (e.g. to include brown sugar, molasses and organic sugar products) and maximizing the use of sugar by-products (bagasse and filter mud/cake), Kenyan sugar factories produce only one product, conventional white sugar. This misses opportunities for reducing production costs and maximizing profits through reducing overheads and capturing niche high value export markets. Furthermore, there is lack of transparency and accountability in management practices, which reduce confidence in the sector and further increase production costs. Where privatisation has occurred it has tended to be ad hoc, and patronage based.

Investment and training are needed before efficiency could be driven up, but neither the Ministry of Agriculture, Trade and Industry, nor the Kenya Sugar Board had data that would enable an estimation of the cost of bringing Kenyan technology and management systems up to world standard.

Farmers interviewed also identified the lack of linkages between farmers, out-grower associations and the millers, and farmers complained that decisions determining the cost of fertilisers, seedlings and transport are made without consulting the farmers (authors’ own survey, 2006).

Farm level problems: Farmers in the sugar belt are very poor. Land holdings have become increasingly fragmented, with the majority of cane farmers now owning between 0.4 to 1 hectares (Kenya Sugar Board, 2003). Farmers tend to have fairly undiversified livelihoods and depend heavily on sugar for their cash earnings. However, poor cane husbandry leads to low yields and low sucrose content in cane harvested (lower than in Sudan or Brazil), leading to low incomes. In 1999, the KSA estimated that the cost of developing a hectare of cane in Nzoia nucleus estate and in out growers’ farms was Ksh.158,174 against a return of Ksh.138,400 to the farmer paid over 2-3 years (SUCAM website).

Farmers are in an interlocked market with their local (monopolistic) out-grower company. However, they receive few benefits. Extension services are weak, and

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23 This has a long history as the sugar sector was established following independence by a government wishing to see import substitution and the stabilisation of rural-urban migration through livelihood diversification and employment creation. Unlike tea or coffee, sugar was viewed as an import substitution crop rather than having export potential. As a result, managers were appointed by the government with limited business management experience. This had the inevitable effect on company performance, which was highlighted by the sector's inability to complete following liberalisation.

24 Brown sugar currently only produced by informal sector 'jaggeries', and is seen by Kenyan consumers as an inferior product.

25 Molasses can be packaged and sold to consumers as a food (e.g. as an ingredient in cakes) and is also important for the production of alcohol, vinegar, acetic acid, acetone, and as supplement for livestock feed.

26 Bagasse can be used to produce newsprint, hardboard, and briquettes and to supplement steam in power generation (Ochola, 2002). The electricity produced could partially power the factories, reducing overheads, and where surpluses are produced, contribute to the national grid. Kenya produces almost 2 million tonnes of bagasse per annum, producing 1 million tonnes when oven dried (SUPAC, 2003). SUPAC recommends tax concessions to sugar mills to encourage them to use bagasse in the co-generation of electricity. In Mauritius 22% of sugar millers' revenue comes from bagasse generation (SUCAM, 2003a). Bagasse can also be used in the production of newsprint, and in the production of hardboard and briquettes for construction.

27 This can be used as organic fertilizer and soil ameliorate.
innovation in new varieties is limited (mills lack the capacity to develop and adopt gene technology for superior sugar varieties). In addition, farmers find it difficult accessing credit, but have to pay for expensive inputs. The road networks and other infrastructure are poor, adding to transport costs and leading to delayed cane delivery (also accidents with trucks which are then looted. Farmers only get paid for what is delivered, so they lose out). Farmers also lose out because of corruption in cane weighing (at the mills) and late payments.

**Out-grower institutions:** In the 1960s the cooperative movement in the sugar sector offered collective bargaining for sugarcane farmers, facilitated credit for farmers and ensured that payments were made on time. By the 1980s, the cooperative movement had become weak and ineffective. The government encouraged cane farmers to form ‘out-growers’ institutions’ to replace them. However, they are corrupt\(^{28}\) and poor management means that farmers pay high input prices, receive low farm-gate prices and all but one of the out-grower institutions are now insolvent (SUCAM, 2003b).

**Marketing:** White sugar is an undifferentiated product and without careful brand development and promotion Kenyan sugar faces stiff competition as it is more expensive. Marketing and distribution systems are also poor, so if competitors had unfettered access to Kenyan markets they would fully capture Kenyan sugar’s market share.

**Debt and insolvency:** The majority of sugar mills are insolvent.\(^{29}\) In addition, most factories in the sector are triply in debt, with loans to commercial banks, payment arrears to sugar producing farmers and to other suppliers (SUCAM, 2003a). Bank loans obtained (with Government guarantee) to modernise the sector were misused and the factories are now in default. The scale of the loans makes it difficult for the government to write them off (ibid.: 9), but the factories are unable to repay. Until they are written off or repaid the factories are unattractive to commercial investors, and privatisation is unlikely. And until the arrears to farmers are repaid and prompt payments for new deliveries are made, farmers are unlikely to commit their land and labour to cane production.

**Tax:** Producers pay 2% of the farm-gate price as presumptive income tax and an additional 1% as ‘CESS’. This is paid by the sugar mills to local authorities to cover investments in road construction and maintenance. However, investment is low and infrastructure is poor, delaying in harvesting and delivery to factories with implications for cane quality\(^{30}\) and farmer incomes. Consumers pay 18% VAT\(^{31}\) and

\(^{28}\) The out grower institutions have received SDF loans worth Ksh.1.7bn. since 1995. Many of these loans were obtained without the farmers knowledge (SUCAM, 2002a), and were embezzled. Non-transparent tenders issued for the use of these funds resulted in payments being made to favoured suppliers (for the purchase of tractors, trailers and agro-chemicals). The goods ordered through these tenders have not been delivered (SUCAM, 2003b). The auditing of accounts is several years in arrears, delaying the identification of the true scale and source of the corruption.

\(^{29}\) Only one mill, West Kenya, is profitable (SUCAM, 2003a).

\(^{30}\) Cane quality is particularly sensitive to post-harvest delays

\(^{31}\) VAT revenue in 2002 was approx Ksh.2.6bn (SUPAC, 2003).
7% Sugar Development Levy\textsuperscript{32} (SDL). These costs are passed on to producers, squeezing profits.

Constraint has been summarised as:

<table>
<thead>
<tr>
<th>Governance</th>
<th>Milling</th>
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<tbody>
<tr>
<td>o Weaknesses in the existing policy and legal frameworks;</td>
<td>o Indebtedness/ insolvency</td>
</tr>
<tr>
<td>o Poor implementation of sugar importation regulations;</td>
<td>o Inadequate capital for operations, factory rehabilitation,</td>
</tr>
<tr>
<td>o Weak management of institutions;</td>
<td>maintenance of infrastructure, modernization and expansion;</td>
</tr>
<tr>
<td>o Poor governance in farmers’ institutions;</td>
<td>o Inefficient mills (old technologies);</td>
</tr>
<tr>
<td>o Ineffective out-grower institutions with inadequate active participation by farmers</td>
<td>o Insufficient training in sugar technology development</td>
</tr>
<tr>
<td></td>
<td>o Bloated workforce.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Production</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Cane planting not in line with factory needs</td>
<td>o Poor marketing strategies coupled with unstable sugar prices;</td>
</tr>
<tr>
<td>o Poor infrastructure</td>
<td>o Over-reliance on a narrow product base;</td>
</tr>
<tr>
<td>o High production costs</td>
<td></td>
</tr>
<tr>
<td>o Reliance on rain-fed cane production</td>
<td></td>
</tr>
<tr>
<td>o Weak research and extension services leading to low productivity at the farm and factory levels;</td>
<td></td>
</tr>
<tr>
<td>o Frequent fires.</td>
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</table>

Kenya’s trade policy in the sugar sector is influenced by four trade regimes.

I. The residual free world market price. The world free market ranges between us $125-165 while the average cost of production of sugar in Kenya is us $500 per ton. The market consumer price is US $560 while in the US and EU it is $430 and US 530 respectively.

i. Sugar for world market is from three main sources:

ii. Subsidized sugar from the EU which greatly influences world prices.

iii. Dumped sugar from other producers in the world

iv. Surplus Sugar from low cost sugar producing countries such as peru, Australia etc.

In this situation sugar imports into Kenya adversely affects the local sugar production. The only measures available under WTO commitments are tariffs which are bound at 100%, quota limits, anti-dumping and countervailing measures. These measures have not been able to combat the high sugar imports into Kenya.

\textsuperscript{32} SDL revenue in 2002 was approx Ksh.1, 8bn (SUPAC, 2003). Expenditure of this tax is allocated to: cane development (2%), infrastructure (1%), factory rehabilitation (3%), grants to research (0.5%), KSB administration 0.5%) (SUCAM, 2003a)
II. The ACP-EU Cotonou agreement allows Kenya 10,000 tons of sugar annual quota system. This quota allows the country to access high and guaranteed European Union sugar prices. These benefits may not continue as the new arrangement being negotiated is likely to bring down preferential margins between the EU and world market prices.

III. With the establishment of a common external tariff in the EAC, the sugar sector is likely to be negatively affected more as tariffs have been drastically reduced to three bands 0%, 10%, 25% for raw materials, intermediate and finished goods respectively. The cost of sugar production is lowest in Uganda, followed by Tanzania and lastly Kenya. Duty free movement of sugar would imply that Uganda and Tanzania producers will out compete Kenya Sugar producers.

IV. Under the WTO trade regime and the Agreement on Agriculture, developed countries give subsidies to sugar producer and farm support system. Although Kenya has a preferential arrangement with the EU, this undermines the competitiveness of Kenya’s sugar sub sector.

**Government response to the crisis**

The Government has responded to the crisis in the sugar sector by restructuring and strengthening the Kenya Sugar Authority (KSA) to form the Kenya Sugar Authority (KSB). The KSB is responsible for developing and promoting the sector and coordinating and regulating its various actors. It is also responsible for facilitating ‘equitable access to the benefits and resources of the industry by all stakeholders’. Besides the KSB, other institutions include the Kenya Sugar Research Foundation (KESREF), Grower Institutions and Millers.

**11.2 Horticulture**

We have chosen to focus on this sector because of the dominant, and apparently successful, involvement of the private sector. Kenya’s horticultural export sector is seen by some as among the most successful in sub-Saharan Africa and a model for other countries in the developing world. Competition in this market is stiff due to a large number of new suppliers such as the Gambia, Zimbabwe, Tanzania, Burundi, Rwanda, Ghana, the Caribbean, Burkina Faso, Egypt and Uganda. Nevertheless, the sector is growing rapidly and employs nearly 3 million people (1.2 million people directly) (Ikiara et al., 2003). Involvement in horticulture has also been shown to have a significant impact on not only rural poverty through employment in the growing of crops, but on urban employment through processing and packing (McCullock and Ota, 2002).

Horticultural products have accounted for two-thirds of all growth in agricultural exports and recently surpassed coffee to become the second largest merchandise export, after tea. Kenya is the second largest horticultural exporter in Sub-Saharan Africa (after South Africa), the second largest developing-country exporter of flowers in the world (after Colombia), and the second largest developing-country supplier of vegetables to the European Union (after Morocco).
French beans, Asian vegetables, canned pineapple and avocados dominate horticulture exports but Kenya now exports 30 different fruits and 27 vegetables (Minot and Ngigi, 2004:18). Only a tiny proportion of overall horticultural production is exported (3.1% in 2001), but exporters have innovated to gain substantially from value addition and although export volumes only increased by 16% between 1996 and 2001 their value increased by 262%. Horticulture’s share of agricultural exports has increased from around 6% in the early 1960s to 46% in 2000 (ibid:2). The value of horticultural exports has increased four-fold in constant dollar terms since 1974, reaching US$167m in 2000 (ibid.). This growth has accelerated during the last decade, with (real) growth of 2.7% per year (Karanja, 2002:61). As a result horticulture now contributes 30-35% of GDP (Kenya, 2002) and is Kenya’s third foreign exchange earner after tea and tourism.

The growth of tourism and horticulture has been important for the Kenyan economy generating earnings and helping to diversify the economy, reducing exposure to price risk in key commodity markets (Minot and Ngigi, 2004:82). Growth in the Kenyan tourist industry has supported the development of export horticulture by providing producers with a large domestic market where they can test out products and which can absorb the output which falls below the grade required by international exporters. The dynamic growth of the Kenyan supermarket sector (Neven and Reardon, 2004) is likely to create another high value domestic outlet for products of a similar grade.

Various crops have dominated at different points over the last three decades and the sector has been resilient, identifying new markets and expanding exports (Minot and Ngigi, 2004:21)

The majority of Kenya’s horticultural exports head to the EU, which is the largest importer of fresh horticultural products (from non-EU countries) in the world (FKAB, 2001). This dependence has exposed exporters to risks. Market saturation has driven down exporters’ profit margins, and as their profits are squeezed, they have driven down the prices they pay to producers (Argwings-Kodhek, 2001), with implications for incomes and poverty reduction. In addition importers have become increasingly demanding, and greater demands for traceability and for value added products (e.g. mixed salads, pre-packed prepared vegetables) has been driven by UK supermarkets, which retail over 70% of fresh fruit and vegetables sold in the UK (Minot and Ngigi, 2004). This has generated higher export earnings for Kenya and provided opportunities for the larger scale and better organised exporters but has been a challenge for smaller producers and exporters (FKAB, 2001).

Currently the fruit and vegetable export sector is dominated by a small number of major exporters who control around 85% of vegetable exports (ibid.), sourcing many of their products from smallholders (Argwings-Kodhek, 2001). Increasingly tight requirements and pressure for consistency across production units and through the

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33 Between 1963 and 1991 horticultural exports rose by approximately 12 times in weight and forty times in value (McCulloch and Ota, 2002).

34 There are large potential markets in the US and Japan but access is limited by tight phytosanitary restrictions and the lack of direct flights.

35 Traceability; MRLs – Maximum Residue Limits; quarantine; high post harvest quality requirements necessitating cold storage facilities; packaging recycling requirements; human welfare and safety
seasons and for innovation in product and production method have made access to the market more difficult and imposed new costs on suppliers (Dolan and Humphrey, 2000; FKAB, 2001; Kanji and Barrientos, 2002). UK supermarkets are wary of sourcing from small farmers, as failure to meet safety or ethical standards could result in bad publicity and undermine their market position. Because of this, supermarkets are increasingly using their dominant position as buyers to control production, innovation, quality and standards within the horticulture supply chain, leading to changes in the supply base. They believe that concentrating their grower base will reduce their exposure to risk by giving them greater control over the production and distribution processes (Kanji and Barrientos, 2002).

In an attempt to meet supermarket requirements, exporters are now developing close relationships with selected producers. The need to do this has encouraged an increased focus on larger suppliers with lower transaction costs and vertical integration with several exporters acquiring production capacity. Both trends have led to a consolidation of the sector and 8-10 large exporters are responsible for 75-80% of export volume (Minot and Ngigi, 2004:70).

Two of Africa’s largest horticulture exporters have shown that smaller producers can meet the standards required by European importers – UK supermarkets in particular – if the exporter assumes responsibility for organising growers, arranging finance, providing technical support and ensuring traceability. However, the trend towards consolidation has already led to a clear decline in smallholder export horticultural production and appears set to continue (ibid.). In 1992, close to 75% of fruit and vegetables in Kenya were grown by smallholders. By 2004 this had fallen, but 55-60% of Kenya’s horticultural exports were still being produced by smallholders, who have lower labour costs than large scale commercial producers and are strongly motivated to provide careful husbandry. Large producers have not been able to compete with smallholders in the production of many types of fruit and vegetable (ibid.:24).

Another challenge facing the export horticulture sector has been the loss of preferences enjoyed under the Lomé Agreement. Kenya now faces tariffs of 7% on primary and 18% on processed products, pushing down profit margins. Some worry that investors in the Kenyan horticulture sector will shift to Uganda, Tanzania or Ethiopia to make use of their less developed nation status. However, Kenyan producers can supply year round and they have been able to move up the value chain, making them very competitive under current conditions (Ikiara et al., 2003).

compliance – including health and safety requirements and the ethical treatment of labour (FKAB, 2001, Kanji and Barrientos, 2002).

36 The floriculture export sector is dominated by 4-5 very large companies which have developed vertically integrated systems of producing, transporting and marketing flowers through their own chartered cargo space and their own marketing organizations, in the Netherlands, Germany and the UK. Rose producers are an exception, and these include small and medium sized producers (FKAB, 2001).
Factors underlying increased exports of fruit and vegetables

*Enabling factors*

The export sector has been able to survive and grow despite low levels of public investment in infrastructure and other powerful constraints. The Kenyan government has not intervened significantly in horticultural markets, to buy, sell, export or set prices (Minot and Ngigi, 2004: 86). This is in contrast to government intervention in many other, now fragile agricultural export sectors in Kenya. However, state enterprises were involved in *horticultural processing*, often through joint ventures. Interestingly most of the growth in horticultural exports has been in *fresh produce* (ibid.).

Private entrepreneurs have used their good personal networks and knowledge of import markets to respond to international demand for high quality goods, identify market opportunities and make the most of them. For example, the growth of the Asian community in the UK created a market for ‘Asian’ vegetables, and Kenyan export capacity developed rapidly, building on expertise in production for the Kenyan Asian community and on networks between the Kenyan Asian and the British Asian communities (ibid.:13-14).

*Institutional experimentation with export arrangements*

Horticultural market institutions and arrangements are complex. Actors in the horticultural sector have experimented and identified a number of successful approaches. Arrangements include smallholders selling in spot markets, personalised relationships with traders, implicit contracts, explicit contracts, marketing through farmer organisations and vertical integration by producer-exporters (Minot and Ngigi, 2004:93) (see Figure 5, below).
Government involvement in the export horticulture sector has been limited. However, the leading role played by Kenyan Asians and Europeans, and the expulsion of Asians from neighbouring Uganda in the 1970s, created tensions and prompted government interference, which has since declined. The government established the Horticultural Crops Development Authority (HCDA) in 1967, which focuses on facilitating the sector, promoting the development of horticultural crops, disseminating information on horticultural marketing, attempting to coordinate various actors in the sector and licensing exporters. It has also been involved in a number of fruit and vegetable processing joint ventures, and established the Kenya Plant Health Inspection Service (KEPHIS) in 1997, which inspects imported and exported agricultural commodities and issues phytosanitary certificates for export shipments (Minot and Ngigi, 2004). Another influential organisation in the horticultural sector is the Fresh Produce Exporter Association of Kenya, established in 1975, which liaises with research and regulatory organisations and lobbies government on behalf of the export sector. It undertakes market research.

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Source: Minot and Ngigi, 2004: 64.

**Horticulture sector organisations**

The HCDA is funded through a 12-cents-per-kilogram levy on horticultural exports and support from international organisations (Minot & Ngigi, 2004). Producers are critical of its performance and do not feel that they get value for money.

FPEAK receives a 5-cents-per-kilogram levy on horticultural exports and was, until recently, supported by USAID (Minot & Ngigi, 2004).
and collaborated with HCDA in the drafting of the Code of Practice for horticultural producers (ibid: 63).^{39}

**Effects of fruit and vegetable exports on poverty**

Almost all farmers in Kenya, rich or poor, grow some sort of horticultural crops,^{40} 96% of which are consumed domestically (Minot and Ngigi, 2004:83). Estimates of the number of farm households involved in *export horticultural production* vary but 108,000 is thought to be a reasonable estimate (ibid:83). Many of these are smallholder farmers. Some of whom have added horticultural enterprises to their livelihood mix as a result of failure of other key agricultural sub-sectors and lack of other economic opportunities (Aliber et al., 2003; Kamau, 2001).

In this section we assess the likely impact of the export horticulture sector on poverty. This is a difficult assessment to make as separating the export sub-sector from the much larger, domestically-oriented sub-sector is complex.

Poverty incidence and severity has increased in Kenya, and the growth of the horticulture sector has been unable to counteract negative trends elsewhere in the economy. Evidence, however, suggests that if it were not for horticulture and other growth sectors, performance of the economy would be even poorer and poverty outcomes worse.

We also know that large numbers of smallholders are involved in production for export (as well as pre-export processing and packing) and the findings from a number of studies suggest that smallholder farmers producing for the horticultural export market have higher incomes than non-horticultural farmers, even after household characteristics such as age, education, ethnicity, and ownership of land have been controlled for (Minot and Ngigi, 2004:32). Gross margin calculations by Minot and Ngigi (ibid.:30-31) suggest that returns per hectare are between 6 and 20 times higher for French beans than for a maize and beans intercrop. Farmers growing for the export horticulture market also benefited from improved access to credit and extension services. French bean growers^{41} have a similar farm size to other farmers but they earn more than twice as much: only 8% are in the poorest quintile, while 38% are in the richest quintile (in comparison with 21% and 19% of other farmers) (ibid: 51). This supports the idea that the export horticulture sector has been good for the poor. Interviews with farmers who produce for the export horticultural market indicate that their incomes and levels of well-being have increased as a result of their involvement in the sector (ibid: 82).

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^{39} The Code of Practice is designed to satisfy European importers that Kenyan horticultural products meet their environmental and employment standards. Some are concerned that the code, which is not legally enforced, will be costly to comply with and that compliance will be difficult to document (Minot and Ngigi, 2004:63).

^{40} Over 90% of households in the poorest quintile grow some sort of horticultural crops. 40% of the total value is marketed, much of it in the domestic Kenyan market (Rural Household Survey, 2000, cited in Minor and Ngigi, 2004:46).

^{41} French beans are the most important vegetable export from Kenya, but only 4% of farmers grow French beans (around 150,000 farmers) and production is highly concentrated (Minot and Ngigi, 2004:43).
If smallholders account for 47% of fresh produce exports and the farm-gate price is 60% of the F.O.B. price, then the direct benefits of fruit and vegetable exports to the smallholders is around US$46m (ibid.:82). This sounds extremely positive, but it is difficult to provide a more differentiated analysis. What is the impact on the lowest income groups? What about women and women headed households? What impact does the export horticulture sector have on casual labour through providing regular work or through driving up wage rates? Do benefits from this sector penetrate beyond the zone around Nairobi airport? Does it generate benefits in the rural service sector as domestic demand increases? We are unable to answer such questions in this paper as few studies of Kenyan agriculture or industry provide differentiated analysis by livelihood group, poverty quintile or geographical location.

In addition to the smallholder farmers involved in the export horticulture sector, large numbers of unskilled and semi-skilled workers are involved in the production, packing and processing of horticultural products (McCulloch and Ota, 2002). Urban households involved in processing and packing also experience improved income levels (ibid.). Significant numbers of jobs are created on farms owned by the major exporters and on those producing under contract. Many of the agricultural workers are landless women with few other income earning opportunities (ibid.). Jobs in processing and packing tend to tend to be concentrated in Nairobi. The majority of employees (70-80%) are women employed casually and seasonally, working long hours for poor pay. There is evidence of gender and other forms discrimination (McCulloch and Ota, 2002), but the salaries are often above minimum wages and are an alternative to unemployment (Ikiara et al., 2003). If consolidation of the sector proceeds, driven by importer demands, the impact that horticulture currently has on income stabilisation and poverty reduction may be compromised.

We do not have data about the benefits (or otherwise) experienced by casual labourers working for smallholders, about the more organised workforce on large farms, or about the well-being of households who experience barriers to entry. In addition, there is an implicit assumption that an increase in household income will result in well-being increases for all family members. Dolan (2001, 2002) shows that the commercialisation of the historically female controlled horticultural sector has resulted in its appropriation by men and in gendered struggles over land, labour and income in the face of new commodity systems.

The Kenya Rural Household Survey (RHS) of 2000 shows that the median value of fruit and vegetable production is US$188 with households in the top quintile earning 18 times more than those in the poorest quintile (Minot and Ngigi, 2004:46). However earnings from fruit and vegetable production contribute a similar proportion to household income in all income groups (14-21%). The sale of fruit and vegetables is merely a source of additional income for the majority of farmers and over two thirds of farmers gain less than 20% of their income from this source (ibid:42).

42 It is estimated that much of the export vegetable production in Kenya takes place within 100km of the airport, and benefits from the extensive road network in the Kenyan highlands (Minot & Ngigi, 2004:86).
43 Women play a leading role in vegetable production on smallholder farms, providing an estimated two-thirds of the labour input.
It is difficult to determine causality. Has horticultural production driven a household’s income up or are richer farmers more able to make the investments necessary for horticultural production and more able to bear the risk? Alternatively income and horticultural production could be correlated without having a causal relationship, both factors could, instead, be driven by good market access (ibid:48).

A survey of farmers on a main road near Nairobi found that growers of horticultural export crops had (on average) larger land holdings than other local farmers (2.7 hectares compared with only 1.2 hectares). This does not indicate which way causality runs, but it may show that the poorest households are unable to become involved in production for export. Irrigation substantially increases yield and reliability of horticultural produce and reduces seasonality, making producers more favoured by exporters. The RHS found that half the farmers growing French beans owned irrigation equipment compared with only 10% of other farmers (ibid.:26), and a small survey focusing on an area with excellent market access found that 90% of smallholder producers of horticultural export crops had irrigation equipment, compared with 36% of non-horticultural producers (McCulloch and Ota, 2003 in Minot and Ngigi, 2004:27). Farmers with irrigation are likely to do much better as horticultural producers than those without it, and yet households without savings or access to credit are unlikely to be able to buy irrigation equipment and are therefore excluded from export horticultural production.

Further barriers to entry have been identified. Fruit and vegetable production requires more labour, more purchased inputs and higher skill levels than the production of grains and legumes. Farmers in remote rural areas are likely to receive low and perhaps sub-economic farm gate prices – if they can find a trader to buy their produce. Households with limited household labour or the ability to hire casual labour are unlikely to be able to diversify into horticulture as vegetable production is significantly more labour intensive than a typical maize-bean intercrop (a maize-beans intercrop requires 175 person-days per hectare per year whereas French bean production requires 1300 person-days; chilli, okra, tomatoes, onions and brinjal require 540-690 person-days). Variable costs are also higher in horticultural production, excluding farmers without savings or access to credit.

Horticultural production involves experimentation and adaptation. Farmers rarely ‘get it right’ during the first season and often try several crops. This means that producers need to have the assets and income to weather disappointing results. Horticultural crops are subject to more production risk than staple crops, and risk-averse poor households may therefore avoid involvement in the sector (Minot and Ngigi, 2004).

Further challenges experienced by producers and exporters in the horticultural sector, include:

- Poor domestic infrastructure, roads, telecoms, power, grading and cooling facilities. The poor state of major trunk and rural feeder roads leads to losses for both farmers and exporters. Up to 15% of exporters’ costs are derived from the direct costs of local transportation (Argwings-Kodhek, 2001). The lack of post-harvest handling facilities leads smallholders to suffer more than 40% loses. Remote areas are particularly vulnerable (Gachanja, 2001),
• Airfreight costs are amongst the highest in the world, and make up 50-75% of exporters costs. Smaller exporters find it difficult accessing air cargo space (Ikiara et al., 2003), and there is limited cargo capacity for cut flowers,
• Packaging materials are costly,
• Local authority taxation is regarded as unnecessarily extractive.

Small producers wishing to continue producing for export are likely to have to form cooperatives based on clusters of 30-50 smallholder farms to pool the costs of pre- packaging facilities and minimise transaction costs in providing production quality and traceability information to exporters. In practice this – and the profit squeeze – is likely to see small producers gradually squeezed out (FKAB, 2001).

As we have shown above, consolidation in the export horticulture sector is likely to squeeze smallholder farmers, particularly the poorest producers, out of producing for export. This has unpredictable implications for poverty and income inequality and losses may be more than compensated for by expanded employment opportunities for casual agricultural labourers and in processing and packing if the sector continues to grow.

Although the horticulture sector is a growth sector, with effective up and downstream linkages into the broader economy, producers and exporters face challenges which compromise its rate of growth and act as barriers of entry for both producers and exporters. Poor domestic infrastructure (roads, telecoms, power, grading and cooling facilities) generates unnecessary losses for both producers and exporters and limits the areas of Kenya able to participate in horticultural production for export. High packaging and air freight costs drive up prices and squeeze profits, limiting the extent to which the horticulture sector can generate poverty reduction in Kenya. High levels of local authority taxation do not appear to be matched by investments in either public services or infrastructure and are therefore regarded as extractive.

11.3 The fisheries sector

This sector has been selected for focused attention in this report because of the significant role of the private sector in processing and export; interesting gender-based implications of increased or decreased export opportunities; the impact of recent EU import bans on the sector; and the common property resource management issues that requires Kenya to develop a Lake management plan with Uganda and Tanzania, if fish-based livelihoods are to be sustained.

It is estimated that more than 500,000 Kenyans are employed directly or indirectly in the fisheries sector and that more than 800,000 others depend on the fisheries for their livelihoods (MARD, 2002b: 4).\textsuperscript{44} This figure is low in comparison with the sugar and horticulture sectors, but the sector is nevertheless important and has played a role in absorbing people who have lost their formal sector jobs in recent years (Kenya, 2001). In addition to those employed directly in fishing, export market generates employment opportunities in processing and packaging, boat building, and net making (UNIDO, 2002). Saltwater fish provide only a small proportion of all the

\textsuperscript{44} This production involves 40,000 fishermen, most of them working artisanally and operating about 11,000 fishing boats in both inland lakes and marine waters.
fish landed in Kenya and are either consumed domestically or exported. The government currently controls marine fish (though not freshwater fish) prices. These controls would have to be removed under the WTO. Kenyan fisheries are heavily dependent on Lake Victoria (93% of total production), which is shared with Uganda and Tanzania. Lake Victoria is found in Nyanza, one of the poorest parts of the country, and the fisheries have the potential to contribute to poverty reduction in these areas.

Fish landed in Kenya enters one of three main channels: the industrial fish processors, artisanal fish processors and the packing of fresh unprocessed fish. Over 30% of total production goes to the export based fish processing industries, which exports fresh, frozen and processed fishery products earning over Ksh.4 billion per annum in foreign exchange and contributing between 2 and 4.4% to GDP. Exports are private sector (Asian) driven, and dependent largely on private sector investments in infrastructure for landing sites, however, inadequate investments are one of the key causes of the recent EU import bans, suggesting that there is either a need for more public sector investment in this area or for more legislation and regulation.

The volume of fish landed in Kenya fluctuated between 1995 and 2000 partly due to reduced fish stocks caused by over-fishing. Kenya has control of only 6% of the lake surface and there are significant common property resource problems leading to over exploitation and declining fish stocks. Local governments in the three countries are yet to develop effective decentralised management systems and there is also yet to be a realistic Lake-wide management plan, which will safeguard the resource for the future. The fluctuations in the fish catch were also due to EU import bans in the late 1990’s (Table 2).

The main export markets for Kenyan fish are the EU, USA, Israel, Japan, Australia and Malaysia. About 70% of the Kenya’s fish exports go to the EU, with Spain as the lead (EU-based) importer (MARD, 2002b). Kenyan exporters have therefore been vulnerable to the various import bans that the EU has imposed during the late 1990s. These have led to the share of fish exports going to the EU during the late 1990s varying between 0% and 58%. The table below shows why the bans were called and briefly describes their impact.

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45 200,000 MT of fish (worth Ksh.7.4 billion) is caught in Kenya per year. Of this, 185,000 MT is harvested from Lake Victoria. The share of fish coming from Lake Victoria has increased from 56% in 1980 to almost 94% in 1995 (Ikiara et al., 2003). The balance is from coastal fisheries and inland fish farms (which are growing from a small base).

46 The Nile perch is the dominant fish species in the lake and accounts for just over 90% of export (both volume and value). Other important Kenyan species include: nile perch, tilapia, naked catfishes, North Africa catfish, rainbow trout, tuna, marine shells, cray fish, prawns, lobsters, shark, and silver cyprinid.

Table 2: EU fish import bans

<table>
<thead>
<tr>
<th>Period</th>
<th>Countries</th>
<th>Reason</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Nov 1997</td>
<td>Spain and Italy</td>
<td>Identifying salmonella in imported Kenyan fish</td>
<td>• Fish exports fell by 33% (1997-98)</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>• Foreign exchange earnings fell by 13% (1997-98)</td>
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<tr>
<td>June 1998</td>
<td>EU-wide (on chilled fresh fish from East Africa and Mozambique)</td>
<td>Cholera epidemic (^{49})</td>
<td>• Fish exports fell by 66% (1997-98)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Closure of some fish processing firms, affecting suppliers (artisanal fisherfolk)</td>
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</table>


The EU's Veterinary Committee now requires all fishery products from Lake Victoria to be checked to ensure that they are healthy and that they do not contain pesticides residues. It has recommended that fish export certificates in Kenya be aligned to those being used in Uganda and Tanzania. In order to meet the EU sanitary and phytosanitary regulations for fish products, legislation was developed under the Fisheries (Fish Quality Assurance) regulations of 2000 (Ikiara, et al., 2003). But Kenya has various problems, which make it doubtful that exported fish will consistently meet the EU standards. These include: poor hygiene at landing sites, poor identification and traceability, inadequate medical checks on fisher folk and fish processors, a lack of inspection skills, lack of laboratory testing to support inspections, unsatisfactory Hazard Analysis and Critical Control Point implementation, lack of legislation to empower an agency responsible for sanitary control, absence of residue monitoring systems, and lack of definition of water standards (ibid.). Also the large number of small-scale fisheries separated by large distances and experiencing poor communications makes inspection difficult. In addition, many of the fishery areas have poor general health conditions and sanitation, safety of water supply and personal hygiene are all inadequate (ibid.).

Fish exporters complain that the standards set by the EU are unrealistically high and have involved ‘moving the goal posts’, leading to many smaller fish exporters going out of business. Another complaint is that subsidies offered to cod and halibut fish farms in the EU undermine the market for imported Nile perch.

\(^{48}\) Fresh fish sells at a premium to frozen fish.

\(^{49}\) The legitimacy of this ban is questioned by some (e.g. Ikiara et al., 2003) who state that cholera cannot be transmitted to humans through hygienically processed fish.
Interestingly the import bans had an unexpected impact on male and female earnings on and around the fish landing sites. The sale of fish for export is controlled by male fish traders who act as intermediaries between the fish processing factories and the fisher folk. As the proportion of the fish catch going for export increases the proportion available for artisanal fish processing decreases. As the artisans tend to be women, this leads to very direct gender impacts. Income earned by men and women is not necessarily pooled within the household, so there are very different impacts on poverty levels and food insecurity within the household if artisanal production expands or gets squeezed by expansion of the export sector, while total income earned by exports are larger than that from fish processed for the domestic market the impact of increased export levels can actually be detrimental to women and children and to household food security.

As over-fishing and common property resource management problems between Tanzania, Uganda and Kenya endanger lake-based fisheries, aquaculture and increased reliance on marine fishing provide possible ways forward. However, substantial investments would be required before the marine fleet would be able to expand significantly and aquaculture in Kenya is currently undeveloped, contributing only 1% of total fish production (Ikiara et al., 2003). There are opportunities to expand the sub-sector, and research is being undertaken to examine the technical feasibility of fish farming in a wide range of environmental conditions (MARD, 2002b). At the moment growth of the sub-sector is constrained by inadequate hatcheries, a reduction in water available for fishponds due to abstraction for agriculture; inadequate quality fish feed, destruction of forests in the catchments areas and inadequate extension packages. The government has attempted to tackle this by improving extension services and producing and distributing fingerlings. There have also been efforts to rehabilitate and expand hatcheries and develop and promote fish farming research and demonstration offices. The Fish Products Exporters Association of Kenya (FPEAK) has been established in order to increase the quality and quantity of fish production in Kenya.

EU CAP reforms will still have the ‘subsidy’ effects since the direct aid replacing price support will be a ‘factor of production’ in European agriculture but whose cost will not be reflected in the prices of the agricultural products so aided. This will have a major effect of keeping agricultural prices low in the EU. Fish subsidies in the EU also have the potential of affecting country’s fish exports especially the marine fish that have close substitutes. Such policies are likely to lead to unfair trade competition and trade distortion practices. Although the effects of subsidies on Kenya’s fish exports has not been quantified, it is reasonable to assume, given the nature the country’s specialization in Nile Perch as mild.

Exports from Kenya to the EU are usually subjected to the rules of origin under the ACP-EU trade agreement. In the fisheries sector, EU rules confer origin to (COMESA secretariat, 2003: 25):
- The vessel in question if registered in the EU or any of the ACP states
- The vessels sails under the flag of any ACP country or the EU
- The vessels are at least 50 percent owned by nationals of any ACP or EU state and the chairman and the majority of the board members are national of any of those countries. Under certain conditions the EU will accept vessels chartered or leased by the ACP state under the Cotonou Agreement
Under Cotonou 50 percent of the crew, and the master and the offices are nationals of any ACP state or the EU.

Like the other ACP countries these regulations affect Kenya. A potential problem however is where the firms/vessel owners seek to add value by processing. In such cases, countries have to seek suspension of the origins rules. These may not be easy to obtain. Also, one can argue that the ownership requirement is inconsistent with liberal foreign policy being propagated under the WTO. For instance, the Government procurement deal under the WTO demands that there is no discrimination against foreign products and suppliers particularly local ones on the basis of their degree of foreign affiliation and ownership.

11.4 The cotton and textiles sector

The Kenyan cotton-textile industry has been selected because of the challenge it faces fighting for survival in liberalised domestic and global markets. The sector is relevant to a study on trade-poverty linkages because of the risks and opportunities offered by AGOA and trade agreements under COMESA and EAC. In addition, most cotton farmers in Kenya live in arid and semi-arid areas with high concentrations of poverty (Kegode, 2003: 9) and processing and manufacturing have the potential to absorb large numbers of unskilled and semi-skilled workers, so there is a possible relationship between the state of the sector and poverty depth and incidence in both rural and urban areas.

Cotton in Kenya tends to be a smallholder crop and there are estimated to be over 140,000 farmers growing cotton under rain-fed conditions on holdings of less than one-hectare each scattered through 40 districts (e.g. Nyanza, Western, Coast, Eastern and Rift Valley Provinces). This is a decline from a high figure of 200,000 during the sector’s peak in the 1980s, and in terms of the numbers of people directly employed in cotton production the figures are quite low. However, if we include the people involved in ginneries, spinning units, textile mills and clothing manufacture the potential employment figures go up. During the 1980s labour intensive technology enabled the textile and clothing industries to absorb such large volumes of labour that it was the second largest employer in Kenya after the civil service (McCormick, 2001). It now has nowhere near this level of importance, but the cotton-textile industry is still a significant employer.

Cotton production was introduced to Kenya by the colonial government in the 1900s (Ikiara, et al., 2002). Prior to independence, large-scale farmers dominated production and it was not until policies changed in the 1960s that small-scale producers were encouraged to grow the crop. In the first decade after independence (1963-1973) the cotton sector grew, supported by the import substitution policies pursued by the government (Kegonde, 2003; Ikiara, 2002, Kenya, 1999). This included using donor support to help cooperative societies purchase ginneries from white settlers (Ikiara, et al., 2002). The government also introduced policies to enable it to control marketing margins and fix farm-gate cotton prices. It increased its investment in textile mills and saw to the expansion of land under cotton. These
policies, which built on systems, put into place by the colonial government,\(^{50}\) led to substantial increases in cotton production and processing. The cotton sector was identified for support because of its potential for contributing to Kenya’s industrialisation process. Between 1965 and 1985 annual lint production gradually increased from 20,000 to 70,000 bales but from 1985 the government and donor support to the industry had started to dwindle and by 1986 Kenyan cotton had become uncompetitive in global markets because of the inefficiencies in cotton production, ginning and distribution which accompanied the control regime (Kenya, 1999).

Liberalisation in the cotton industry began in 1991, but it was not until 1993 that it gained full momentum, removing the range of import substitution and price control policies of the government. With liberalisation the industry was opened to private sector investment, including investment by the cooperative movement. The role of the Cotton Board was substantially reduced and all its ginneries sold to private sector. Many private agents entered the industry especially in primary purchase, the sale of pesticides and other farm inputs, transportation; ginning and clothing manufacture (Ikiara et al. 2002).\(^{51}\) But by this time the industry was in tatters; cotton production had almost ground to a halt;\(^ {52}\) many ginneries had either collapsed or had excess capacity and many textile firms had closed or virtually closed, with production falling to 1976 levels, causing substantial unemployment (Kegode, 2003, McCormick, 2001).

Following liberalisation the Cotton Board of Kenya became inactive leaving a regulatory and monitoring vacuum. This has led to seed contamination, inadequate control of lint quality and the collapse of input credit mechanisms (Kegode, 2003). Privatisation of the ginneries in the early 1990s has left cotton farmers angry. The ginneries owed farmers’ cooperatives for seed cotton deliveries, and because of these debts the farmers felt themselves to be ‘shareholders’ in the ginneries. However, they have neither received shares nor been repaid (ibid.).

As cotton production declined during the late 1980s and early 1990s ginneries found it difficult to access sufficient seed cotton. Running below capacity was inefficient so buyers were willing to travel long distances to purchase cotton. In some parts of the country ginners provide interlocked services, offering seasonal credit, which they recoup through fixed farm-gate prices. However, contract law is not strong, and

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\(^{50}\) The Cotton Lint and Seed Marketing Board (CLSMB) was established in 1955 to intervene in cotton production, processing and marketing activities and the Cotton Research Corporation (CRC) was established to research new varieties and pest and disease control. The CLSMB supported the formation of cooperatives and unions to handle input supply, payments for cotton and processing. The CLSMB was later renamed the Cotton Board of Kenya and had the additional responsibility of supplying inputs to farmers and buying seed cotton from them either directly or through cooperative unions and private agents and ginning it through the six ginneries it owned in various parts of the country.

\(^{51}\) The 22 ginneries in Kenya are spread between the main cotton growing provinces (Eastern – 5, Central – 1, Coast – 5, Western – 5, Nyanza – 5 and Rift Valley – 1) with total installed annual ginning capacity of 140,000 bales. There are over 52 mills with an installed capacity of 115 million square meters per year and 110 large-scale garment manufacturers with installed capacity of over 141 million square meters per year.

\(^{52}\) By 1994-95, lint production had dropped to about 20,000 bales and has been fluctuating around this amount ever since (Ikiara, et al., 2002). Cotton yields are low in Kenya ranging from 775kg/ha in Nyanza and Western Provinces to 1250kg/ha at the Coast.
competitors were buying the cotton, leaving ginneries facing a loss. The government reacted by passing the Kenya Cotton Act (2001), which requires farmers to sell their cotton, to the local cooperative for milling. This gives the cooperative monopoly power (Maxwell Stamp, 2003:18) which has enabled the partial revival of the sector, but the average (gross) price received by cotton farmers for seed cotton has fallen from Ksh.2,096 per 100kg bale in 1998 to Ksh.1,729 in 2002 (CBS, 2003: 136). Farmers are now making an average loss of Ksh.3 per kg of seed cotton produced and are squeezed by high production costs and low and declining global prices for lint. (Prices fell in real terms by more than 60% between 1950 and 2000).

Farmers have little incentive to produce cotton, and certainly none to increase production, which has stagnated at around 20,000 bales per year. As a result ginneries continue to operate at only around 30% of capacity. Most textiles mills are operating under-capacity (averaging 53%, and likely to decline) while others have closed down. As a result, 75% of yarn is now imported and yarn produced in Kenya for the domestic market is now produced using a mix of 20% local lint and 80% imported lint.

Low levels of investment in technology and training in ginneries, spinning units, textile mills and clothing factories means that Kenyan products are more expensive and often of poorer quality than competitors. In a liberalised economy it is difficult for Kenyan products to compete either on price or quality. Cotton producers and ginneries have also been challenged by increasing use of synthetic fibres. They face constraints that increase production costs. These include those presented in table 5:

**Textile and Clothing Industry**

The textile industry was one of the core industries, which was identified by the government after independence to bring about rapid economic growth. It was thus accorded government protection to safeguard the sector from external competition. This led to rapid growth of the sector with the number of textile mills rising from six in 1963 to 562 in the mid 1980s, whilst the number of large scale garments rose from a mere single digit to 110 in the same period. This growth made the textile industrial sub sector the second largest manufacturing activity in Kenya, after food processing.

There are various Government documents that have given importance of this sector; Seasonal paper No.2 of 1997 expresses the vision of transforming Kenya into an industrial country by the year 2020. The eighth National Development Plan stipulated the activities that need to be undertaken by the year 2001.

However, things never went as expected. Since the liberalization of the Kenyan economy in 1990, the influx of textile goods into Kenya has become a deluge that has reduced the average capacity utilization in the textile mills to around 50% and even lower in the garment making industry. Some of the imported garments are:

- New, out of season garments from the developed countries
- Used clothes obtained from second hand markets or via charitable organization
- Fashionable, new garments for exclusive boutiques
- Factory rejects from major garment manufacturers.
This led to reduced local production of textile and increased the demand for low priced textile goods.

Kenya’s textile industry can be categorized in terms of size, age, technology, products, export performance and export markets. Based on this the textile industry can be broadly broken into yarn spinning, fabric manufacturing and garment manufacturing. Spinning and weaving firms in the country are all large scale and owned by locals (Ikiara and Ndirangu 2003). Garment manufacturers range from micro to large enterprises. The large manufacturers use industrial machines for mass production and the smaller ones use electric or foot-powered domestic machines (McCormick et al., 2001). Men are the dominant owners and employees in the medium and large garment enterprises, while women own more than half of the smaller ones.

Market liberalization in the early 1990s led to enormous increases in imports of textile products and garments, which pushed local producers out of the market. This led to decline in employment. Although formal employment in the two clothing and textile industries grew from 18,429 workers in 1976 to 32,425 by 1997, most of the growth was in the earlier years of the period (Ikiara and Ndirangu 2003). The share of the two industries in wage employment in the manufacturing sector declined from a high of 18.6% in 1985 to 14.7% in 1997 (McCormick et. al, 2001). The situation will look more badly if casual employees are included.

Table 5: Constraints faced by cotton producers and ginneries

<table>
<thead>
<tr>
<th>Policy related production constraints</th>
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<tr>
<td>o Unfavourable fiscal policies</td>
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<td>o Poor telecommunications - manufacturers complain bitterly about the erratic and expensive service provided by Telekom Kenya (McCormick, 2001) (see Chapter 5, Identification of constraints to trade, for details).</td>
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<tr>
<td>o Poor infrastructure - transport is a major problem, particularly for importers located some distance from Mombassa (McCormick, 2001). (see Section 10, Constraints to trade).</td>
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<tr>
<td>o High input costs (the cost of pesticides equals 26% of production costs of seed cotton in Kenya, (Kegode, 2003))</td>
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<tr>
<td>o High interest rates - the cost of capital is between 25 and 30% compared to 7-12% in Mauritius (Kegode, 2003:7)</td>
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<td>o High cost of power (see Section 10, Constraints to trade, for details).</td>
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<td>o High cost of water (McCormick,</td>
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<thead>
<tr>
<th>Governance</th>
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<tbody>
<tr>
<td>o Corruption</td>
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<tr>
<td>o Insecurity and political risk (Kegode, 2003).</td>
</tr>
<tr>
<td>Other production constraints</td>
</tr>
<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>o Farmers lack adequate extension advice (Kegode, 2003:4)</td>
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<tr>
<td>o Low labour productivity (see Section 10, Constraints to trade, for details).</td>
</tr>
<tr>
<td>o Low levels of investment in ginneries and in spinning units leading to the production of poor quality products with high costs of production. (Kegode, 2003:6)</td>
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The Government is keen to paint a positive story, stating that the textile sub-sector continues to recover. Government publications also point out that between 2001 and 2002 the volume of seed cotton supplied by farmers to ginneries rose from 500 tonnes to 1,113 tonnes and in 2002 clothing and textiles manufacture grew by 3.4%, and exports grew by 3.2% (24% for exports of textile yarn), mainly due to the opportunities offered by AGOA and the support provided to the sector by the government (CBS, 2003).

The Kenyan Government has established a number Export Processing Zones (EPZs) in an attempt to revitalise the sector. These provide a number of guaranteed incentives, including tax holidays. The performance of these EPZs has been strong,
with turnover growing by 63% and the value of exports growing by 67% between 2003 and 2004 (for a more detailed analysis see Annex 4).

EPZs have attracted investments in garments and apparel related enterprises, employing over 30,000 people and the value of textile exports have risen from US$30 million in 2000 to US$222 in 2004 (See Figure 3, Annex 4). The ending of the Multi Fibre Agreement in 2005 has resulted in a new challenge for companies based in Kenyan EPZs. Trading partners have a price reduction of 25%, and many companies have seen orders drop. As a result around 50% of garment/apparel companies may relocate to countries with more competitive operating costs (e.g. Egypt or India) with the loss of 18,000 jobs. In just one year (March 2004 - March 2005) the number of operating enterprises dropped from 34 to 26, with nearly 4,000 job losses.

In addition to the cross-sectoral constraints discussed in Section 10, companies in EPZs face specific constraints:

- **Changed import verification rules:** Before January 2004, goods imported by companies in the EPZs were verified by the companies themselves. However, after the abuse of this system such imports have had to be verified at the port. This causes delays as processing takes a minimum of 2 weeks and it adds to production costs as fees of US$75 per 20" container and US$150 per 40" container are charged.

- **Skills based barriers to entry into the production of synthetic textiles/garments:** Kenyan workers do not have the skills in dealing with synthetic fabrics. Companies are not prepared to invest in skills training and so lose out on specific markets. For example the US charges 17% duty on cotton and 30% on polyester apparel. MFN duties for cotton and polyester apparel imported by the USA from Kenya are zero rated under AGOA, but Kenyan based companies are unable to take advantage of this market.

### 11.6 The livestock sector

Livestock has been selected for examination as a case study because of its importance to the arid and semi-arid lands in Kenya and specifically to pastoralist groups, some of the most marginalised people in Kenya. The livestock sector is dominated by smallholder producers mainly concentrated in the arid and semi-arid lands (ASAL), which cover about 75% of the total land area. Pastoralists own much of the livestock herd, over 60% of the national livestock herd. Livestock is also Kenya’s largest agricultural sub-sector, contributing 42% of agricultural GDP and 10% of total GDP (Republic of Kenya, 2007). Over 50% of the agricultural labour-force are involved in livestock keeping to some extent and account for 90% of employment and more than 95% of family incomes in the ASALs. Livestock products generate an estimated Ksh.54.1bn, just over 40% of the Ksh.134.9bn earned by the agricultural sector in 2001 or 24% of the total gross marketed agriculture production in 2003.

The livestock population in Kenya is estimated to comprise of 11.2 million chicken, 9 million beef cattle (about 70% in the ASALs), 3.2 million dairy cattle, 4 Million goats, 1.3 million sheep, pigs, donkeys and camels are about 800,000 (Odhiambo,
The total beef supply comprises 50% from the Kenyan pastoralist cattle, 22% from imported pastoral cattle, 25% from the domestic dairy sub sector as culls, and only 3% from ranches. Annual per capita consumption of meat in Kenya for red meat is estimated at 10.8% and the total consumption is 362,000 metric tonnes, while the average beef demand is about 300,000 metric tonnes, the balance which is close to 22-26% of the domestic demand is offset through imports (agricconsortium, 2003). This implies that despite the vast resources in the country for livestock production, mainly land, the country is not self sufficient in meat production.

Kenya exports mainly canned beef, small quantities of live cattle and chilled boneless beef are also exported. The main markets for Kenya’s beef exports are COMESA countries, Tanzania, Middle East (Saudi Arabia, United Arab Emirates, Kuwait, Yemen, Jordan, Syria, Iran and Oman). Kenya’s beef export has been on the decline over the years. Since 1980, the export supply has remained as low as 500 tonnes from high figures of 4029 tonnes in 1977 (FOASTAT data, 2006). Kenya imports cattle mainly from Ethiopia, Sudan and Somalia.

Meat in Kenya is mainly consumed in the urban areas. Urban consumer prices are higher (between Kshs 150 to Kshs 300 per kg in Kisumu, Mombasa and Nairobi than in the rural areas. The domestic beef market has largely been characterised by private sector operators since the closure of Kenya Meat commission (KMC) in 1980s.

Leather and Footwear
The leather and footwear industry is associated with the livestock sector, which is the supplier of raw materials to the industry. The leather and footwear industry has grown from a small tannery established in the late 1940s purposely to process leather for the manufacture of footwear for the British Army during the second world war to at present more than 24 medium to large scale registered commercial tanneries ranging from semi-mechanized, full mechanized to the most ultra modern.

The sub-sector has great potential to contribute significantly to the economic development of the Kenyan economy through creation of employment and investment opportunities. A part from its contribution to various sectors of the economy, the sectors forms a strong basis for sustainable manufacturing sector. The sector is labour intensive and utilizes to a greater extent, women labour. A study done by Omiti established that, the sub sector currently employs about 60,000 workers; while in the mid 1980s it had about 140,000 workers, which is more than 50% drop.

Due to liberalisation, which saw the emergency of economic and institutional reforms in the 1980s, the competitiveness of the local industry has been greatly undermined with the influx of cheap second hand imports. This has led to close of some tanneries. This in turn has led to decreased exports of high value finished products. There were 16 tanneries with a total capital of investment of over US $ 50.5 million. Prior to liberalization all these tanneries operated at an average capacity utilization of 80% and employed over 4000 people. After liberalization by 2001 there were only 8 tanneries operational at an average utilization of 20%. Some of the tanneries which

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53 Kenya Meat Commision was re-opened in 2006

The footwear and leather also experienced growth before liberalization and was dominated by between 55-60% of all leather made in Kenya and employing over 12,000 people. Export of processed leather has dropped from over 90% to 15% and currently 85% of hides and skin are exported in raw form to countries like India and Pakistan. These countries give subsidies to their local manufacturers. Other negative effects in the sub-sector include;

- Loss of 2,300 jobs in the tanning sector, 12000 jobs “in jua kali” leather products, 3,800 jobs in footwear factories.
- Loss of government revenue estimated by the ministry of agriculture and livestock at 1.14 billion annually.
- Gross revenue for the footwear and leather sub sector has dropped from around kshs 8.3 billion to kshs 0.76 billion. The tanning sub sector gross revenue has dropped from kshs 6.5 billion to 1.6 billion.

The negative trend of the sector has been attributed to the following factors

- Unfair competition from imported second hand shoes
- Dumping of new cheap footwear and leather goods
- Collapse of a centralized animal slaughtering enterprise the Kenya Meat commission, leading to poor quality of hides and skins
- High costs of inputs such as infrastructure.

The dairy sub-Sector

Dairy production is a major economic activity in the livestock sector in Kenya, being an important source of livelihood for about 1 million small-scale farmers. The dairy industry has grown from 421,000 dairy cattle producing 793,000 litres of milk in 1963 to 3,300,000 dairy cattle producing 3.5 billion litres of milk by 2005, thus reflecting one of the fastest sectoral growth rates recorded in the agricultural sector in Kenya since independence in 1963. The value of dairy production in the country was estimated at Kshs 23.1 billion, equivalent to 14% of the total value of agricultural production in the country, in 1995. By 2005, this value had increased to about Kshs 56 billion, equivalent to 25% of the gross agricultural output in the country. These statistics generally reflect the significant contribution that the dairy industry makes to rural development in Kenya.

Kenya is broadly self-sufficient in milk production, and production is undertaken using three production systems, (i) smallholder zero-grazing system, (ii) smallholder open-grazing system, and (iii) medium and large scale open-grazing systems (Tegemeo (2002). The share of smallholder dairying in national production and marketed milk is estimated at 75% and 80% respectively (MoALD&M). The industry is primarily based on cow’s milk, which comprises about 84% of total marketed milk. Camel, goat, and sheep milk is also produced, with camel milk constituting the major component of milk production in the arid areas of the country. Since production is largely rain-fed, milk supply tends to be highly seasonal.

Under the Dairy Industry Act, the Kenya Dairy Board (KDB) was instituted as the state agent for the regulation of the dairy industry in Kenya. In order to guarantee
market outlet to all dairy farmers, the KCC was mandated to accept all milk delivered to its plants, subject to minimum specification of quality and milk quota delivery schedules. Accordingly, the KCC expanded its capacity to establish a national network of milk collection, cooling and processing facilities commensurate with its new mandate. By 1991, the KCC had an installed capacity of 1.2 million litres per day, based on a network of 11 milk chilling centers spread over the main dairy producing districts and 11 processing plants. The obvious benefits of the Dairy Industry Act and the formal dairy marketing system centered around the KCC was that of cushioning the farmers from the price fluctuations that are associated with free market forces. In this regard, the KCC offered a reliable outlet for all dairy farmers.

The liberalization of the dairy industry in 1992 witnessed new institutional arrangements in the dairy industry, covering milk collection, processing and marketing. Presently, the KCC no longer dominates the dairy marketing system in Kenya, many other processors have come on board. At the farm gate level, an informal milk marketing channel dominates the system and links production to final consumers, either directly or indirectly, through processors, kiosks, hotels, and dairy bars. Most small-scale farmers use this informal channel due to its convenience and, sometimes, its ability to make frequent payments for milk sales.

About 63% of milk produced in Kenya is marketed, 30% is consumed at home, and 7% is fed to calves. About 42% of the marketed milk is sold directly from farmer to consumers, 15% is sold through milk bars, shops and kiosks, 23% is sold through mobile traders or middlemen, and 6% is sold through the cooperatives to consumers. However, the cooperatives handle about 14% of the total marketed milk production, but they opt to sell the rest to either processors or some other middlemen. Of particular importance in the dairy marketing landscape are the middlemen that serve the function of procuring milk at farm gate (in the case of fresh/raw milk). In the case of milk powders, they import for the purpose of resale to other users within the industry. At the farm level, they move from farmer to farmer, collecting milk (sometimes on credit and at prices that can be as low as 50% of the processors’ ex-factory price). The informal market channel, consisting of hawkers, brokers, self-help groups, neighbors and small business establishments, is estimated to control over 60% of the total marketed milk output in Kenya, while marketing through the formal cold chain system only accounts for about 14% of the total milk output (KDB, 2005), which is finally sold to consumers in pasteurized form.

Before liberalization of the dairy sector in 1992, the farmers preferred selling their milk mostly to hawkers, Co-operatives, neighbors and processors. Some of the reasons given for this preference were as follows: i) better management and prices, ii) good neighborhood, iii) ready markets, iv) lower transport costs, v) ready cash, especially when selling to neighbors, and vi) no choice or compulsory selling outlet, especially to cooperatives during the controlled marketing era. After liberalization in 1992, selling of milk to hawkers, milk bars and neighbors significantly increased because the farmers tended to shun processors. This trend was attributed to delayed payments to farmers by the KCC, poor market due to imports in 2000 and high transport costs.

According to a survey by action aid (action aid, 2007). In Central, North Rift and Western regions, income from milk accounts for about 33, 25 and 25 percent of the household
farm income respectively. This implies that milk is a very important contributor to the livelihood of many people in the three regions. Kenya cooperative creameries (KCC) estimates, that, an average dairy farmer in Kenya currently earns over Kshs 100 per day, which is slightly above the international poverty line of one dollar a day. This means that, on average, a farmer producing milk has higher chances of getting out of the poverty bracket over time Therefore, the dairy sub-sector needs to be well nurtured if it has to contribute to poverty alleviation. Further, a study by action aid (Action aid, 2007) shows the household income breakdown by source to complement the preceding discussion. The data presented show that milk is easily the single most important contributor to the income of many households in Kenya. It contributes about 33% to household income, being second after the crops. This income plays a major role in poverty reduction as it is used to meet household’s needs, such as medical services, education, housing and clothing, and acquisition of assets, among others.

Dairy production and marketing activities have significant employment creation effects. Many of these activities tend to be labour intensive. Labour requirements in the dairy marketing activities include milk collection, transportation, processing and sale. Both family and direct wage employees are involved. In addition, there are significant employment opportunities created indirectly. Direct employees here refer to those who occupy themselves with the milk marketing and processing on a daily basis and include self, family and wage labour. Indirect employees refer to those involved in providing services to the dairy business. Employment generation can be measured in terms of the labour requirements for every 100 litres of milk handled in marketing daily on a regular basis.

FAO (2000) estimates the levels of direct and indirect employment generated by small-scale dairy marketing and processing in Kenya by taking the value of the amount paid for specific services relative to the amount paid for labour, and by estimating the proportion of a typical day wage the services represent. This study by the FAO finds that the total number of direct and indirect additional jobs created for every 100 litres of milk traded in Kenya ranges from 0.3 to 2.0, depending on the type of enterprise involved. The indirect employment includes such things as bicycle repairs and equipment maintenance, and is based only on the amount spent on labour rather than parts. FAO (2000) finds that mobile milk trading (itinerant traders) creates more employment (mostly self-employment) per 100 litres of traded milk when compared with milk bars and small processors who nevertheless handle much more milk. The role of self-employment (family labour) was more prominent in mobile milk trading when compared with milk bars and small-scale dairy processors Kenya. Mobile milk trade involves a few casuals as direct wage employees. Self and family are the sources of labour for purposes of milk collection, transportation and sale. Enterprises that handle larger volumes of milk, such as milk bars, shops/kiosks, and small processors, were found to be employing several categories of labour. Processors appear to substitute equipment and capital for labour in value adding, while the traders provide a highly labour-intensive service, i.e. transportation and distribution services.

According to the FAO (2000) study, gender of the employees varies from enterprise to enterprise and the nature of work involved. Mobile milk trade that involves bicycle riding is exclusively for young men (mostly of age 20-35 years). Female workers are engaged when public transport is utilized. A mix of both male and female workers was common among milk bars. Female employees are preferred for counter retailing, while employment in the processing enterprise was skewed in favour of men. The FAO (2000) study shows that dairy marketing and processing activities are mainly in the
hands of men, primarily due to the nature of these activities. For instance, ferrying goods by cycling is not common among women, and processing activities are seen more as a man’s job, thereby reducing women’s job opportunities in that area. The purpose of the preceding presentation on employment creation and contribution to rural income by the dairy sub-sector in Kenya was to demonstrate that the collapse of the dairy industry in Kenya would have very devastating effects on Kenya’s economy.

The dairy sub-sector in Kenya is estimated to be producing just over 3.12 billion liters per annum, and this level of production is estimated to be generating at least 200,000 permanent jobs (at an average monthly wage of Ksh 1,500) and another 128,300 casual jobs (at an average wage rate of Ksh 150 per day for half of the month). A study by Tegemeo (2002) indicates that labor constitutes about 29% - 33% and 29% of total the milk production costs among the small-scale zero grazing and small-scale open grazing dairy farming systems in Kenya respectively. Female family members were found to be contributing about 22% to that labour.

The Tegemeo (2002) study actually established that about 50% of the family household labor supply was contributed by women. While it does not detail their actual activities in the farm, there is evidence that women’s activities are more dominant in typical smallholder dairy farming operation in Kenya. Undoubtedly, any factor that would destroy dairy activities in Kenya would lead to the loss of substantial employment opportunities for both rural and urban people in the country. The current study shows that women are in charge of most of the income received from their dairy activities. The reason given, and was confirmed by men, is that women deserve to have that control because they are the ones who are heavily involved in the running of the dairy enterprises. This result confirms earlier studies (Mullins et al, 1996; Maarse, 1995) that indicate that women gain an important, if not majority, share of the income generated from intensified dairying. Therefore, when dairy incomes fall due to low milk prices, as was the case in Kenya during the 1995-2000 peak period for dairy import surges, women lose most.

Although the volume of milk production, which declined greatly during the 1990s, almost tripled between 2001 and 2005, the production of cattle, sheep, goats and pigs for slaughter declined. Farm-gate prices for beef and pork producers and milk wholesale prices increased between 1993 and 2004 (beef, Ksh.27-103; pork, Ksh.54-86 and milk Ksh.7.80-16, but these increases have not necessarily kept pace with inflation in terms of input costs or consumer prices (Action aid, 2007).
Table 4: Constraints affecting pastoralism and the livestock sector

<table>
<thead>
<tr>
<th>General constraints</th>
<th>Area specific constraints</th>
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<tbody>
<tr>
<td>• poor institution governance (including corruption)</td>
<td>• insecurity in the livestock production areas and marketing routes;</td>
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<tr>
<td>• low producer prices;</td>
<td>• poor investment in the Arid and Semi-Arid Areas (ASALs) has led to a collapse of infrastructure;</td>
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<tr>
<td>• limited value addition;</td>
<td>• lack of adequate livestock watering systems and frequent droughts;</td>
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<tr>
<td>• high initial capital outlay for commercial poultry farming;</td>
<td>• poor management of pastureland that leads to high livestock mortality rates during the dry seasons;</td>
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<tr>
<td>• inadequate access to credit</td>
<td>• lack of processing facilities at production level;</td>
</tr>
<tr>
<td>• underdeveloped livestock insurance markets;</td>
<td>• high transaction costs;</td>
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<tr>
<td>• inadequate investment capital;</td>
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<td>• high transaction costs;</td>
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<tr>
<th>Other production constraints</th>
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<tbody>
<tr>
<td>• Production costs</td>
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<tr>
<td>o high feed cost</td>
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<tr>
<td>• Breeding</td>
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<tr>
<td>o inadequate breeding stocks,</td>
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<tr>
<td>o lack of high yielding dairy breeds;</td>
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<tr>
<td>o ineffective and high cost of artificial insemination;</td>
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<tr>
<td>• Animal health</td>
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<tr>
<td>o poor pastoral extension services</td>
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<tr>
<td>o inadequate training institutions and training curriculum for veterinary services;</td>
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<tr>
<td>o poor staff motivation and lack of scheme of service.</td>
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<tr>
<td>o limited access to extension services by poultry farmers</td>
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<tr>
<td>o inadequate human, financial and physical capacity to support veterinary public health service delivery countrywide;</td>
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<tr>
<td>o lack of on-site testing for chemicals and microbes;</td>
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<tr>
<td>o inadequate legislation and regulatory framework for veterinary public health service delivery;</td>
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<tr>
<td>o un-harmonised service delivery in public health within the country;</td>
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<tr>
<td>o inadequate control of communicable livestock diseases (e.g. rinderpest, foot and mouth) leading to disease outbreaks</td>
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<th>Marketing</th>
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<tr>
<td>• market participants have inadequate marketing skills</td>
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<tr>
<td>• poor marketing infrastructure requiring animals to walk long distances to market, with negative implications for their weight, quality and price;</td>
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<tr>
<td>• unnecessarily bureaucratic approval process for the export of livestock and livestock products;</td>
</tr>
<tr>
<td>• inadequate grading and quality control;</td>
</tr>
<tr>
<td>• lack of traceability of livestock and livestock products;</td>
</tr>
<tr>
<td>• marketing cartels operating in the livestock and livestock products marketing chain</td>
</tr>
</tbody>
</table>

83
Table 5: Key markets for Kenyan livestock products

<table>
<thead>
<tr>
<th>Where</th>
<th>Products</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East</td>
<td>cattle, sheep, goats and recently camels</td>
<td>• Traditional market for live animals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Export volumes, low, and could be expanded.54</td>
</tr>
<tr>
<td>Mauritius</td>
<td></td>
<td>• Newly identified market for live animals</td>
</tr>
<tr>
<td>Europe (esp. Netherlands, Sweden, UK and Italy)</td>
<td>raw hides and skins</td>
<td></td>
</tr>
<tr>
<td>UK, Spain, Italy and USA.</td>
<td>processed leather</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>wool</td>
<td></td>
</tr>
<tr>
<td>United Nations (peacekeeping forces and WFP).</td>
<td>butter and ghee</td>
<td></td>
</tr>
<tr>
<td>D.R. Congo, Tanzania and Uganda</td>
<td>canned beef</td>
<td></td>
</tr>
</tbody>
</table>

12. The pro-poorness of trade policy: a review of international experience

In this section of the paper we review what the international literature has to say about trade policies (and complementary measures) with pro-poor effects. A short annotated bibliography on this topic is available at www.odi.org.uk/iedg/index.html

In the matrix below (Table 4) we show the effect that selected trade-related policies have on four key population groups: poor agricultural producers, poor consumers, poor workers (unskilled) and poor workers (skilled) through three main routes – enterprise, distribution and government. We focus on six main policy areas: tariff policies, regulatory policies, agricultural commercialisation, preferences, price reform and complementary policies.

Our analysis shows that trade-related policies can indeed have a beneficial impact on the poor. Selecting a few examples, we see that lowering import tariffs can stabilise domestic prices, benefiting net consumers; export promotion strategies can encourage the emergence of domestic traders, improving price transmission, stimulating local supply responses and local demands for unskilled labour, driving up relative wages for the poor. Relaxing quantity restrictions on imports can result in the increased availability of inputs and the variety of goods for consumers. The commercialisation of agriculture in Rwanda was found to result in a 5.3% growth in agricultural output, which in turn prompted a 6.7% growth in labour intensive rural

54 Currently 2,000-5,000 cattle are exported annually but commentators suggest that this could be expanded to 20,000 per year with little difficulty. This would stimulate investment in the sector and increase employment. Domestic consumer price rises would probably be limited to 5% due to a dampening effect by importing beef from Tanzania.
non-farm employment, benefiting the poor (Mellor, 2002). Also, reducing government involvement in agricultural markets can increase levels of private investors, stimulating a reduction in food retail prices and stimulating demand for low skilled labour.

The section on complementary policies in the matrix below illustrates the wide range of policies which are necessary if price signals are to be transmitted effectively from international to sub-national markets – triggering a supply response – and if market deepening and integration over time and space is to occur, allowing domestic producers, entrepreneurs, workers and consumers are to benefit from changes in trade policy.

In the sections following the matrix, we present three case studies. These examine the impact of the removal of the rice export quota in Vietnam on poor households; the shift from import substitution to an export orientation in Sri Lanka and the impact of reduced tariffs on government revenue in Cambodia, Laos, Myanmar and Vietnam. After each case study we present a flow chart to support the decision-making of policy makers (based on a outline charts presented in Winters et al., 2001, shown below in Figures 6, 7, and 8).

The Vietnam case study demonstrates that policy makers need to be alert to the complexity of tracing impact of policy change. The removal of the rice export quota would increase the cost of rice, a key staple food, hurting many consumers, particularly in urban areas. However, because there tend to be more poor households who are net producers of rice, an increase in domestic market prices – resulting from a removal of export quotas – would result in an aggregate reduction in the poverty headcount. The fact that the ‘winners’ and ‘losers’ would be unevenly spread through Vietnamese society indicates that the Government would need to identify a way of ‘compensating the losers’ over the short-term, particularly since some of them would fall amongst the poorest groups, who allocate 45% of their household budget to purchasing rice.

The Sri Lankan case study illustrates the changes that can take place when government policy supports a shift from import substitution to export orientation. This took place in the Sri Lankan economy in 1977, and resulted in the domestic price of manufacturing goods converging with those on the international market. Manufacturing grew, stimulated by the easy availability of inputs (particularly intermediate inputs) and capital goods. The export oriented sector expanded rapidly during the early 1990s and manufacturing became increasingly labour intensive, providing more unskilled and semi-skilled job opportunities – which tend to be pro-poor. This growth in private sector employment balanced shrinkage in the public sector and in small-scale manufacturing enterprises. This suggests that policy makers needed to be aware of shifts in the labour market and to implement policies which would support labour mobility and the development of transferable skills.

The ASEAN focused case study explores the likely impact of tariff reductions on member governments’ revenue and focuses specifically on Cambodia, Laos, Myanmar and Vietnam. The analysis shows that the reduction of tariffs on ASEAN related imports will result in substantial revenue losses for these countries. Revenues from (total) tariffs currently deliver a sizeable proportion of government
revenues, ranging from 7% in Myanmar to 25% in Cambodia. However, the reduction in tariffs (on ASEAN-related imports) may stimulate imports, resulting in a net *increase* in revenue (while tariffs remain) or may be compensated for by increased collections of value added tax (VAT),\(^{55}\) or by tariffs collected on non-ASEAN-related imports. It is also likely that continued economic growth in the four countries will provide scope for increased revenue collection, from alternative sources. The four governments are preparing for the impact of these changes on the composition of government revenue and have begun to institute changes, with Cambodia seeking to reduce non-compliance and Vietnam pushing to improve transparency and fight corruption.

**Figure 6: Flow chart for policy-makers (enterprise)**

- **What trade liberalisation is proposed?**
  - **Steps needed:**
    1. Find out for each good
       - What is the world price?
       - What is the domestic price?
       - What is the current tariff or tariff equivalent?
    2. From this, identify the goods that may experience the biggest potential change in price

- **What are the major producers or users of the goods that are likely to be most affected?**
  - **Steps needed:**
    1. List the main outputs and inputs of the main sectors in the economy
    2. Identify the sectors whose main outputs or inputs are likely to experience a large price change

- **What are the main characteristics of the firms and workers in these sectors?**
  - **Steps needed:**
    1. For each of the sectors likely to be significantly affected, find out:
       - the location of the firms
       - the number of employees
       - the skill, age, gender of workers
       - the likely poverty status of the workers

\(^{55}\) Many countries find the collection of value added tax complex, and prefer revenue mobilisation through tariffs, despite their distortive effects.
Steps needed (if effects adverse):
1. Put in place measures to mitigate the impact of the reforms on the poor
2. Consider if these are alternative ways of achieving the aims of the reform that might have fewer adverse effects

Steps needed (if effects adverse):
From a poverty perspective, it is less important to mitigate adverse effects if those affected are not poor and not likely to become so – but it may be necessary from a political perspective to consider the distributional impact on the non-poor

Figure 7: Flow chart for policy-makers (distribution channels)

For each good ask

Is this a good that is consumed intensively by the poor?

Steps needed:
1. Direct impact on the poor is likely to be limited for this good – but there may still be important indirect effects via enterprises or government expenditure – focus analysis of these areas

Yes

Is the change in the border price likely to be passed on to poor consumers?

Steps needed:
1. Identify the reasons why the price change may not be passed on, for example, natural monopoly, anti-competitive practices, government policy or institutions
2. Formulate structural and institutional reforms to improve price transmission
3. Design complementary policies to assist price transmission, for example, transport infrastructure and information services

Structural reforms to improve price transmission should take account of the insurance role provided by existing institutions and policies, and ensure that alternative forms of insurance are available if needed

No

Are the poor able to cope with large price shocks?

Steps needed:
1. Implement appropriate measures to help the poor cope with large price shocks, for example food- or cash-for-work, microcredit, improvements in the functioning of labour and asset markets, assistance with diversification, and migration policy

Yes

Steps needed:
1. None

No
**Source:** As Figure 6.

**Figure 8: Flow chart for policy-makers (government revenue and expenditure)**

- **Steps needed:**
  1. Focus on analysis of poverty effects through enterprises and distributional channels

- **Steps needed:**
  1. Estimate the likely changes in revenue resulting from the proposed reform:
     - a ‘worst’ case analysis can be obtained by assuming that current trade volumes remain the same and only tariff rates change;
     - a realistic analysis will take into account the potential increases in imports due to falling restrictions

   It is also important to consider the impact on revenue of removing exemptions and evasions

- **Steps needed:**
  1. Consider various forms of compensatory taxation, for example, sales tax, VAT, income tax and corporation tax
  2. Explore the possible poverty effects of the changes in taxation

- **Steps needed:**
  1. Identify items of expenditure of most importance to the poor
  2. Design cuts to protect such expenditures
  3. If the trade reforms can only be achieved through major cuts in pro-poor expenditures, then redesign the trade reform or the compensatory taxation package

**Source:** As Figure 6.
### Table 8: Pro-poor trade policies

<table>
<thead>
<tr>
<th></th>
<th>Poor agricultural producers</th>
<th>Poor consumers</th>
<th>Poor workers (unskilled)</th>
<th>Poor workers (skilled)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tariff policies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Lowering import tariffs or</td>
<td>Help producers access world</td>
<td>Stabilise domestic</td>
<td>Boost labour-intensive</td>
<td>Widen the skills gap</td>
</tr>
<tr>
<td>provide export subsidies in</td>
<td>market and reduce mounting</td>
<td>price, which is</td>
<td>output and increase</td>
<td>and increase returns</td>
</tr>
<tr>
<td>foodgrain market e.g. rice</td>
<td>stock.</td>
<td>good for the poor</td>
<td>employment (Kruger, 1983)</td>
<td>to urban workers</td>
</tr>
<tr>
<td>and wheat in India</td>
<td></td>
<td>who are net</td>
<td></td>
<td>through capital imports</td>
</tr>
<tr>
<td>(Srinivasan &amp; Jha, 2001)</td>
<td></td>
<td>consumers of</td>
<td></td>
<td>(Robbins and Grindling,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>food grain</td>
<td></td>
<td>1999)</td>
</tr>
<tr>
<td>• Increase openness,</td>
<td>Encourage the emergence of</td>
<td>Increase the</td>
<td></td>
<td>Skilled workers</td>
</tr>
<tr>
<td>moving towards outward</td>
<td>traders in Malawi who buy</td>
<td>relative wages</td>
<td></td>
<td>gained at the expense</td>
</tr>
<tr>
<td>oriented/export promotion</td>
<td>food commodities from</td>
<td>for female and</td>
<td></td>
<td>of unskilled workers</td>
</tr>
<tr>
<td>strategies</td>
<td>farmers and sell in urban</td>
<td>unskilled labour</td>
<td></td>
<td>in Chile (Ferreira and</td>
</tr>
<tr>
<td></td>
<td>areas of exports (Parris,</td>
<td>in the exportable</td>
<td></td>
<td>Litchfield, 1999)</td>
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<td></td>
<td>1999)</td>
<td>sectors in</td>
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<td>Mauritius (Milner</td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>and Wright, 1998)</td>
<td></td>
<td></td>
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<tr>
<td>• Skilled workers</td>
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<td></td>
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<tr>
<td></td>
<td>gained at the expense</td>
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<td></td>
<td>of unskilled workers in</td>
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<td></td>
<td>Chile (Ferreira and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Litchfield, 1999)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Regulatory policies</strong></td>
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<td></td>
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</tr>
<tr>
<td>• Deregulation in agriculture</td>
<td>Increase availability of</td>
<td>Increase in variety</td>
<td></td>
<td></td>
</tr>
<tr>
<td>market e.g. relaxing quantity</td>
<td>inputs to Bangladesh</td>
<td>of goods for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>restrictions of imports</td>
<td>agricultural producers</td>
<td>consumers in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Gisselquist &amp; Grether, 2000)</td>
<td></td>
<td>Bangladesh,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Reducing government</td>
<td>Increase levels of</td>
<td></td>
<td></td>
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<tr>
<td>intervention in food crop</td>
<td>investment by private</td>
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<tr>
<td>farming markets in Africa</td>
<td>traders and an</td>
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<td></td>
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<tr>
<td>• Reduce retail prices for</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>food</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Create employment for</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>low skilled labour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Badiane &amp; Kherallah, 1999)</td>
<td>expansion in their activities</td>
<td>• Encourage market integration of basic food crops (Heltberg &amp; Tarp, 2002)</td>
<td>• Provides incentives for producers in Mozambique to start supplying the market i.e. commercialisation</td>
<td></td>
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<tr>
<td>-----------------------------</td>
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<td>-------------------------------------------------------------------</td>
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</tr>
<tr>
<td>• Liberalise trade regime by allowing private imports (Del Ninno &amp; Dorosh, 2001)</td>
<td>• Help to stabilise Bangladesh’s post flood food crisis in 1998, increase access to food by poor</td>
<td>• Reduce enforcement of global labour standard through international trade agreement (Kabeer, 2004)</td>
<td>• Create jobs for young women in the clothing export factories in Bangladesh (Kabeer, 2000)</td>
<td></td>
</tr>
</tbody>
</table>
Table 8: cont’d

<table>
<thead>
<tr>
<th>Agriculture commercialisation</th>
<th>Poor agricultural producers</th>
<th>Poor consumers</th>
<th>Poor workers (unskilled)</th>
<th>Poor workers (skilled)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase agricultural commercialisation in Kenya e.g. encouraging farmers to shift from maize to sugarcane crop (Kennedy &amp; Cogill, 1987)</td>
<td>• Significantly higher income for sugar farmers compared to non-sugar farmers.</td>
<td>• Extra income is spent on housing, education and improving nutrition</td>
<td>• Rise in demand for landless workers, increase employment generation in the region as business expands.</td>
<td></td>
</tr>
<tr>
<td>Liberalising agriculture sector in Egypt (Mellor &amp; Gavian, 1999)</td>
<td>• Stimulating agriculture strongly increases the demand for goods and services produced by the poor</td>
<td></td>
<td></td>
<td>Sixty-eight percent of job creation comes from agricultural and agriculturally driven sectors. Such rapid growth in demand for labour would tighten labour markets and push up wage rates, benefiting the low-income group.</td>
</tr>
<tr>
<td>Commercialisation of agriculture e.g. potato, coffee, tea crop in Rwanda (Mellor, 2002)</td>
<td></td>
<td></td>
<td></td>
<td>• A 5.3% rate of growth of agricultural output stimulates a 6.7% growth in employment in the labour-intensive rural non-farm</td>
</tr>
<tr>
<td>Preferences</td>
<td>employment</td>
<td></td>
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<tr>
<td>----------------------------------------------------------------------------</td>
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<td></td>
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</tr>
<tr>
<td>• EU-EAC (East African Cooperation) Economic Partnership Agreements (EPAs) e.g. zero tariff rates on all imports from EU for Tanzania and Uganda (Milner, Morrissey &amp; McKay, 2005)</td>
<td>• Cheaper imports of intermediate and raw material inputs from the EU</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Consumer welfare gains as a result of trade creation in Tanzania and Uganda</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Price reform</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Not keeping domestic price of rice in Indonesia below world price (Ravallion &amp; Van de Walle, 1991)</td>
<td>• A food price increase may permit the government to reduce subsidies on (say) fertilisers used by food producers, thus allowing an increase in other public expenditures or a cut in taxes for producers.</td>
</tr>
</tbody>
</table>
Table 8: cont’d

<table>
<thead>
<tr>
<th>Poor agricultural producers</th>
<th>Poor consumers</th>
<th>Poor workers (unskilled)</th>
<th>Poor workers (skilled)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Elimination of price control and privatisation of the marketing board in Zimbabwe cotton market (Winters, 2000)</td>
<td>• Greater competition, more input services to small land holders.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Remove rice export quota in Vietnam (Minot &amp; Goletti, 1998)</td>
<td>• Net sellers of rice gain due to price increase</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Complementary policies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Investing in fertiliser, seeds, irrigation, infrastructure, etc. helps to improve supply response to trade liberalisation in Tanzania (Killick, 1993)</td>
<td>• More available inputs and better payment and crop collection give incentives to producers of export crops e.g. cotton</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Relaxing constraints faced by poor households (Alwang et al., 1996)</td>
<td>• Can help them double their gains from trade liberalisation in Zambia (Alwang et al., 1996)</td>
<td>• The lack of male labour for land preparation is a major constraint for traditional female-headed household in Zambia. Policies addressing this issue will help more unskilled rural workers be more</td>
<td>• Investing in agricultural technology can transfer knowledge and improve skills of rural workers.</td>
</tr>
<tr>
<td></td>
<td>• More access to credit help poor households able to get more inputs and better technology for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>Productive</td>
<td></td>
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<td>------------</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- Anti-poverty policies (de Janvry &amp; Sadoulet, 1993)</td>
<td>- Can help rural Latin America to gain access to lands, employment and benefit more from trade liberalisation (de Janvry &amp; Sadoulet, 1993)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Access to land e.g. through redistributive land reform can be essential in enabling the poor to benefit from reforms</td>
<td>- Elimination of policy biases towards mechanisation and extensive livestock operation will help poor households benefit from the employment creation resulting from reform</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Box 3: Removing the rice export quota in Vietnam: the impact on poor households

Vietnam started exporting rice in 1989 and since then has been amongst the three largest rice exporters, accounting for 11%-13% of world rice exports. However, rice is by far the most important staple food in Vietnam with 45% of household expenditure going on rice purchases in the poorest quartile compared to 13% in the richest. This illustrates that any trade liberalisation policy which impacts on rice prices is, therefore, likely to affect the well-being of low income families the most. The government therefore faces a trade-off between maintaining low prices for domestic consumers and generating foreign exchange earnings from rice exports. This has prompted the government to impose a quota on rice exports, which has led to persistent differentials between domestic and international rice prices. For example, the international (export) price of rice in 1995 was US$269 per ton compared with US$205 per ton in domestic markets.

Minot and Goletti (1998) used a multimarket spatial-equilibrium model to study the effect of higher rice prices associated with removing the rice export quota on income distribution and poverty in Vietnam. They found that eliminating the rice export quota would raise the average consumer price of rice by almost 19%. The impact of this price rise on a poor household would depend fundamentally on whether that household is net consumer or net producer of rice. Net consuming poor households would lose as a result of a price rise, and vice versa, net producers would gain. Analysis revealed that less than one-third of Vietnamese households were net producers who would gain in the short run from higher rice prices. Somewhat more than half are net consumers, implying that a majority would lose from higher rice prices in the short run.

Deeper analysis showed that the real income of urban households, being primarily net consumers, would fall by 1.7% as a result of higher prices. The loss would be greater amongst the urban poor (-3.0%) than among the urban non-poor (-1.6%) because of the importance of rice in their consumption basket. On the other hand, rural households would gain on average from the quota removal, though the rural non-poor would gain somewhat more (4.1%) than the rural poor (3.8%). This is because the poor rural households are more likely to be net buyers than non-poor rural households. Thus, both in urban areas and in rural areas, poor households would be worse off than non-poor households. Yet, overall, poor households would do better than their non-poor counterparts because the (poorer) rural areas gain while the (richer) urban areas lose.

In the case of rice in Vietnam, the percentage of households with net sales is greater among the poor than among the non-poor households. Thus, it is easy to see that an increase in price of rice will lift proportionally more households at the bottom of income ladder out of poverty. As a result, the overall poverty rate would be estimated to fall from 25% to 23.8% with an increase in the consumer price of rice of 19%. The poverty rate would rise in urban areas (mainly net consumers) while it would fall in rural areas (more net producers).

This case demonstrates the complexity of the relationship between the net purchase position and the welfare impact of policies that affect agriculture...
commodity prices. While at a first glance suggests that eliminating rice export quotas would raise prices and hurt many Vietnamese households, particularly those in urban areas, the distributional effect shows that the incidence and the depth of poverty would be slightly reduced by the higher rice prices. This is because there are more net rice producers among poorer households than among richer households in Vietnam.

The important lesson for policy-makers from this study is to pay attention to who gains and who loses from trade liberalisation policies, as outcomes will depend on their relative positions as consumers and producers.

Figure 9: The effects of trade-related policy changes through a distributional channel: a worked flow chart for policy makers

Is rice consumed extensively by the poor?

Yes

The budget share of rice in total household incomes in Vietnam ranges from 45% in the poorest quartile to 13% in the richest.

Is the increase in price of rice likely to be passed onto consumers?

Yes

Eliminating the rice export quota would raise the average consumer price of rice by almost 19%.

Are the poor able to cope with large price shocks?

No

Less than 40% of rural households have net rice sales, and somewhat more than half are net buyers, implying that a majority would lose from higher rice prices in the short run.

However the distributional effect shows that the incidence and the depth of poverty would be slightly reduced by the higher rice prices because net sellers of rice in Vietnam are more common among poorer households than among richer households.
In 1977, Sri Lanka embarked on an extensive economic liberalisation process with a clear policy shift from import-substitution-based industrialisation to export-oriented industrialisation. Significant trade reforms took, for example, replacing quantitative restrictions on imports with tariffs, revising the tariff structure, providing incentives for export-oriented foreign investment, duty free imports for inputs in export manufacturing sector, and so on.

As a result, the effective rate of duty (total duty collection as share of total imports) fell from 14% during 1978-80 to 8% in 1995, and by the mid-1980s only 40% of imports (in value terms) were subject to duties. There was also a considerable convergence of domestic prices towards world market prices for manufactured goods.

Following the 1977 reform the manufacturing sector entered a rapid growth phase and manufactured exports expanded, mirroring a substantial decline in the share of dutiable imports. The share of manufacturing in GDP increased from 11% in the early 1980s to 19% by 1996. Exports of manufactures grew at an annual compound rate of 32% during 1978-95, and by the mid-1990s, their share in total merchandise exports was over 70%.

The major immediate cause of output expansion in the liberalised economy was the free availability of imported inputs and capital goods. In particular, the availability of intermediate inputs contributed to output growth through greater capacity utilisation.

Sri Lanka’s manufactured exports are largely labour-intensive products e.g. clothing, leather goods, footwear, toys and plastic products and this has been supported by liberalisation, with the factor content of Sri Lanka’s exports changing radically from around 3% in labour-intensive manufactures during 1962-77 to nearly 60% during 1990-1995.

This has had important implications for employment in Sri Lanka, with a 6% growth in employment between 1977 and 1981, followed by even faster growth from the late 1980s onward. Employment growth has come predominantly from the private sector, which has counterbalanced contraction in employment by state-owned enterprises (SOEs) and the decline in the public sector’s share of total employment throughout the period (from 45% in the early 1980s to about 16% in 1993).

The share of employment in export-oriented foreign firms rose from 10% in early 1980s to more than 50% by the early 1990s. Reflecting the rapid expansion of export-oriented labour-intensive product sectors (mostly garments, shoes, sporting goods, etc.), the share of female workers in total manufacturing employment increased from 32% in the early 1980s to over 60% by the mid-1990s and more than 65% of workers in export-oriented firms were unskilled or semiskilled.
On the other hand, there is some survey-based evidence that points to considerable employment losses in small-scale manufacturing. For example, total employment loss during 1977-80 in the handloom industry (an industry that was heavily subsidised during the closed-economy era) alone was estimated at 40,000. This draws policy makers’ attention to the need to balance the employment effects arising from structural changes following trade liberalisation.

Figure 10: Enterprises: a worked flow chart for policy makers

What trade liberalisation is proposed?

- Export-oriented industrialization reform in 1977
- Reduce tariff and duties, affecting the manufacturing sector
- Domestic prices of manufacture goods converge towards world prices.

Which sectors are the major producers or users of the goods that are likely to be most affected?

- The manufacturing sector entered a rapid growth phase
- Exports of manufactures grew at an annual compound rate of 32% during 1978-95, and by the mid-1990s, their share in total merchandise exports was over 70%.

What are the main characteristics of the firms and workers in these sectors?

- The share of employment in export-oriented foreign firms rose from 10% in early 1980s to more than 50% by the early 1990s
- The share of female workers in total manufacturing employment also increased from 32% to over 60% in the same period
- More than 65% of workers in export-oriented firms belonged to unskilled or semiskilled categories

Are those affected poor? (or likely to become poor?)

- Many poor workers gain from the expansion of employment in export-oriented sector
- On the other hand, there are considerable employment losses in small-scale manufacturing
- Policies needed to protect workers in small-scale manufacturing
Box 5: Common Effective Preferential Tariff and government revenue losses in Cambodia, Laos, Myanmar and Vietnam

As members of the Association of South East Asia Nations (ASEAN), Cambodia, Laos, Myanmar and Vietnam are committed to the ASEAN Free Trade Agreement (AFTA) which seeks to reduce tariffs on all commodities traded within the member countries to between 0% and 5% ad valorem and eliminate all trade restrictions under the Common Effective Preferential Tariff (CEPT). The long-term vision of the ASEAN is to eliminate all tariffs completely by 2015 for its members.

There are real concerns for these countries that, as they reduce their tariffs in accordance with the AFTA guidelines, they will suffer significant revenue losses with adverse economic and social implications. Revenues from import tariffs in these countries constitute a sizeable proportion of their total government revenues, ranging from 7% in Myanmar to 25% in Cambodia (see Table 1, below).

<table>
<thead>
<tr>
<th></th>
<th>Cambodia</th>
<th>Laos</th>
<th>Myanmar</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of tax revenue in total revenue</td>
<td>72%</td>
<td>82%</td>
<td>44%</td>
<td>78%</td>
</tr>
<tr>
<td>Share of non-tax revenue in total revenue</td>
<td>28%</td>
<td>18%</td>
<td>56%</td>
<td>22%</td>
</tr>
<tr>
<td>Share of trade taxes in tax revenue</td>
<td>35%</td>
<td>11%</td>
<td>16%</td>
<td>23%</td>
</tr>
<tr>
<td>Share of trade taxes in total government revenue</td>
<td>25%</td>
<td>9%</td>
<td>7%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Tongzon and Khan (2005) (Due to data availability, the figures for Myanmar is as of 1998.)

We can see from the table that taxation is important sources of revenue for the governments of these countries, going as high as 82% in Laos. Trade taxes also contribute a significant proportion to total tax revenue, averaging nearly 22% for these four countries. It is difficult to estimate precisely the impact of government revenue losses due to the reduction in tariffs. Total value of import may go up even though tariffs are cut, depending on a number of factors. For example, if the price elasticity of net demand for imports is greater than one, the revenue gain due to increased demand for the now-cheaper imports may compensate for or even outweigh the revenue loss due to the tariff cut itself. In addition, the value of imports can also increase in response to increases in income, the extent of which depends on the income elasticity of demand for imports.

Tongzon and Khan (2005) estimated that apart from Myanmar, the other 3 countries (Cambodia, Laos and Vietnam) stand to lose substantial amounts of customs revenue from ASEAN imports due to the implementation of CEPT scheme (see Table 2). Laos is likely to lose US$36 million due to the tariff reduction, amounting to more than 83% of its total customs revenue from ASEAN countries. Vietnam’s estimated loss from tariff reduction is US$32 million, equivalent to about 9% of its total customs revenue from ASEAN imports. The corresponding figure for Cambodia is $17 million or nearly 14% of its revenue from ASEAN imports.
Box 5: Cont’d

Table 2: Revenue impact assessment for Cambodia, Laos, Myanmar and Vietnam

<table>
<thead>
<tr>
<th>CEPT schedule (year started/finished)</th>
<th>Customs revenue from ASEAN (US$ million)</th>
<th>Customs revenue from non-ASEAN (US$ million)</th>
<th>Total revenue (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia 2002</td>
<td>123</td>
<td>122</td>
<td>427</td>
</tr>
<tr>
<td>2010</td>
<td>106</td>
<td>340</td>
<td>729</td>
</tr>
<tr>
<td>Laos 2002</td>
<td>43</td>
<td>14</td>
<td>233</td>
</tr>
<tr>
<td>2008</td>
<td>7</td>
<td>48</td>
<td>303</td>
</tr>
<tr>
<td>Myanmar 1999</td>
<td>72</td>
<td>115</td>
<td>18,371</td>
</tr>
<tr>
<td>2008</td>
<td>139</td>
<td>430</td>
<td>30,622</td>
</tr>
<tr>
<td>Vietnam 2001</td>
<td>376</td>
<td>1,867</td>
<td>5,582</td>
</tr>
<tr>
<td>2006</td>
<td>344</td>
<td>5,569</td>
<td>10,352</td>
</tr>
</tbody>
</table>

Note: Adapted from Tongzon and Khan (2005). Figures are author’s own estimations based on regression analysis (price and income effects).

However the revenue earned from non-ASEAN imports seem to provide a strong cushion against any fall in overall customs revenue. If these countries can maintain the healthy economic growth (of around 5–7% per annum) they have experienced in recent years, the overall government revenue (tax plus non-tax) may rise substantially over the years, despite CEPT tariff reductions.

The governments of these four countries acutely aware of likelihood of the substantial short-run declines in customs revenue and measures for compensating for this loss are already in place. Policies range from long-term capacity building to strengthen tax administration systems (as in Cambodia), to measures to solve non-compliance by improving transparency and fight corruption (as in Vietnam).

Figure 11: Government revenue and expenditure: a worked flow chart for policy makers

Is trade taxation an important source of revenue?

Yes

Revenues from trade taxes in the 4 countries constitute a sizeable proportion of total government revenues, ranging from 7% in Myanmar to 25% in Cambodia

What are the likely revenue changes resulting from the reforms?

• Laos is likely to lose US$36 million due to tariff reduction, amounts to more than 83% of its total customs revenue from ASEAN countries.
• Vietnam’s estimated loss from tariff reduction is US$32 million, equivalent to about 9% of its total customs revenue from ASEAN imports.
• The figure for Cambodia is $17 million or nearly 14% of its revenue from ASEAN imports.

Are the venue changes likely to be large?

Yes

What forms of compensatory taxation can be introduced?

• Custom revenues from non-ASEAN countries
• Other sources of non-taxes revenue for the government
13. Conclusions and pro-poor recommendations

13.1 Making Kenyan trade policy pro-poor

This paper has shown that the current institutional arrangements around trade policy formation and implementation in Kenya are flawed. Communication between different Government ministries, and within the Ministry of Trade and Industry itself, is weak, leading to incoherence. The inclusion of non-government actors in policy agenda setting and formation processes is only partial, with the private sector and civil society organisations having limited roles to play. This, arguably, weakens the effectiveness of trade policy as it is less able to respond to the needs of the private sector and less likely to address the concerns of poor and marginalised livelihood groups.

Trade liberalisation hawks within the government have tended to assume that increased trade openness will trigger enhanced rates of economic growth, leading automatically to poverty reduction. Others, with an instinctive leaning towards protectionism have sought to maintain tariff barriers to protect inefficient sectors, despite costs to the treasury and to consumers. Inadequate analysis appears to have been conducted to enable well informed debates about the likely distribution of short, medium and long term costs and benefits from increased trade openness and, in the absence of strong evidence, the government has been relatively lethargic in responding to the need to remove a whole range of constraints facing Kenyan producers, manufacturers and entrepreneurs and have been slow to put in place the mitigating measures that would support vulnerable groups while the economy adjusted to increased openness. Likewise, inadequate attention has been given to the need to institute a range of complementary measures to support efficient production and to increase the competitiveness of Kenyan exports.

13.2 Enabling Kenyan producers, manufacturers, entrepreneurs, workers and consumers to benefit from trade.

The case studies presented in this report highlight the better performance of the sectors in which the private sector dominates. However, in many sub-sectors the government provides no support or inappropriate support and multiple constraints face farmers, traders, manufacturers and entrepreneurs and distort the Kenyan economy, dampening transmission mechanisms, slowing the supply response and limiting the benefit that poor consumers gain from low international market prices for basic consumables.

A clear recommendation to government must be to reduce the constraints faced by producers, manufacturers and traders and ‘establish the basics’. The list of constraints presented in Section 11, above, indicates that reforms are necessary not only in the agriculture, power, telecoms and financial sectors but more widely across the economy. Such reforms will enable production to reach its potential and will allow a robust supply response to the price signals sent by international markets. However, the wide range of constraints illustrates that the Kenyan government has a great deal to do if Kenya is to make the most its comparative advantage. The
The diagram below is tailored to the agricultural sector, the recommendations it contains can be easily adapted to other sectors and sub-sectors.

**Figure 12: Phases of support for agricultural transformation in favoured areas**

![Diagram](image)


**Government action to improve trade-policy formation**

The lack of in-depth trade-related technical knowledge or an ability to think through the likely impacts of policy change on differentiated groups in society is compounded by the marginalisation of civil society and the private sector from the central processes of policy formation. Arguably, this means that trade policy is formed in such a way that it does not best meet the needs of producers and exporters and does not take into consideration the likely impact on consumers, the labour force or poor producers and entrepreneurs – or the need for a range of mitigating and complementary measures.

i. Reform institutional structures to enable support the improved quality of consultation with key stakeholders during the formulation of trade related policies.

ii. *Ex ante* analysis of proposed policies to identify the likely distribution of costs and benefits and identify and propose mitigation of any measures likely to harm the poor.

**Government action to enable pro-poor export growth**

This paper has shown that the relationship between trade liberalisation and growth is not straightforward. Instead it depends on a number of external and country specific factors including the existence of complementary and consistent macroeconomic
and structural policies to foster adjustment and growth. A country’s initial conditions and the way in which it implements trade reform are also important.

We also know that while openness can stimulate growth it is also associated with considerable risks. For countries with highly specialised economies, openness can be negative, as they are exposed to price risks. In such countries openness may threaten rather than promote growth.

The recommendations below identify what the government of Kenya can do to make the most of comparative advantage by reducing country-specific constraints, thereby responding to the increasingly competitive trading environment:

i. Removing supply side constraints identified in Section 11 and in the case studies in Section 11 of this report.

ii. Supporting export diversification. Export diversification is a slow process which requires appropriate and coherent policies and an enabling environment, including a stable macro-economic environment, the removal of anti-export biases, and the creation of appropriate incentives to support efficient and internationally competitive value addition, processing and manufacturing.

iii. Helping to create international trading opportunities by securing free or preferential access to foreign markets

iv. Maintaining conducive macroeconomic conditions (including an exchange rate that transmits correctly to producers the relation between international and domestic prices)

v. Establishing a rational tariff structure, that encourages efficient specialisation according to comparative advantage

vi. “Picking winners” rather than simply protecting producers and manufacturers at the expense of consumers – to enable Kenya to protect appropriate “infant industries”, making the most of the relative protection and trading opportunities offered by membership of the EAC and COMESA

vii. Strengthening institutional capacity for testing and certification in trade-related quality, safety, health and environment issues, to ensure that Kenyan products can meet importer requirements

viii. Increasing technical understanding of the rule-based multilateral trading system under the WTO. This will strengthen Kenya’s ability to participate in WTO activities and strengthen negotiating capacity

ix. Enabling small-scale agricultural producers and the private sector to support product diversification and the identification of new trading partners

x. Increasing government action in:
• Establishing national export objectives and strategies which are overtly pro-poor
• Providing an enabling economic, legal and administrative environment which considers the direct and indirect needs of poor producers, manufacturers, traders/entrepreneurs, workers and consumers
• Providing financial support for trade promotion activities.
• Supporting the collection, analysis and dissemination of differentiated information on market requirements, activities and trends
• Developing export guarantee schemes which will support pro-poor outcomes

To ensure that the poor benefit from trade policy change a range of complementary policies are necessary which will improve the quantity and quality of assets that the poor own (or have access to) increases their ability to take advantage of opportunities and participate in growth.

The government also needs to work to remove internal obstacles to production and exchange, by:

• investing in public infrastructure and information services
• ensuring an equitable and efficient tax regime
• institutionalizing competitive intermediate markets, by:
  o removing administrative controls (e.g. unnecessary restrictions on prices, trading channels or outputs);
  o removing barriers to entry (e.g. red tape and perceived risk of administrative interference);
  o enforcing legal rules on competition within an appropriate institutional framework.

**Government action to mitigate the negative consequences of trade policy change**

Government does not currently seek to mitigate the negative effects of trade related shocks. This means that some of the most vulnerable households and livelihood groups face severe declines in well-being.

Where it has been possible to conduct a thorough *ex ante* analysis of the likely distributional consequences of a proposed policy (for example, using the flow charts introduced in Section 12, above), the government should introduce mitigating measures. These are likely to include social protection, in addition to measures to speed the flexible movement of labour and capital to adjust to the new conditions. These might include:

i. Supporting the private sector to design redundancy packages

ii. Co-funding training programmes to provide workers (in shrinking sectors) with transferable skills

Specifically, the Industrial Training Levy could be broadened to expand the range of training in specialised production skills. Enterprises could be
encouraged to train employees through cost sharing programmes, tax breaks or enterprise-based training (including for shop stewards, as the support is needed in driving up labour productivity). The Athi River Vocational Training Centre (ARVTC) is currently under capacity. A public-private partnership pilot scheme could be developed bringing in state funding and private sector providing training content and direction.

iii. Labour guarantee schemes in hard-affected areas (providing workers with employment on public funded schemes at the minimum wage)

Such *ex ante* studies might also identify poor consumers who are likely to lose out as the result of trade policy changes. In which case such measures might include:

i. Pensions for older people, disabled people and people living with chronic illnesses

ii. Income support programmes for other groups identified as particularly vulnerable

iii. Investments in improving the quality and accessibility of the public services most used by the poor (particularly health and education)

Poor producers and micro-entrepreneurs may also experience reductions in income, consumption and well-being as the result of trade policy change. The government might seek to respond with the following measures:

i. Technical and market advice to support innovation and movement into more profitable crops and enterprises

ii. Income support programmes for groups identified as particularly vulnerable

Where it has proven impossible to conduct *ex ante* studies in time, *ex post* assessments of the differentiated impact of policy may result in similar recommendations.

Limitations

1. Data gaps

There is limited national household survey data indicating the importance of specific livelihood activities in generating incomes for different income groups, or groups differentiated by their socially ascribed status (for example women or certain ethnic groups). Government, the research community and civil society groups have so far failed to produce analysis of how changes in employment opportunities and income in trade-related sectors will affect different income groups. Likewise there is a shortage of analysis of how changes in the price of either inputs or consumption items will affect different social groups. There is limited analysis of the drivers, maintainers and interrupters of poverty. Without an examination of different livelihood groups and a more thorough examination of both the determinants of poverty and
the exit routes from poverty, it is difficult for analysts to predict with any confidence how changes in trade may affect poverty in Kenya.

2. It is not easy to recommend appropriate pro–poor policies by using the analytical approach used in the study. The approach can not exclusively identify the losers and the winners.

We recommend the following:

I. That data is collected which will enable the commissioning of studies to fill these gaps.
II. A more detailed study using CGE model which can identity the losers and winners of a trade policy change.
III. References


MOALD. Various Animal production Reports


Nyangito et al. (2004). Impact of agricultural trade and Related Policy Reforms on Food security in Kenya. KIPPRA Publication


SUCAM (2002c) ‘Change in the Sugar Sub-sector’. Nairobi: SUCAM.


Annexes

Annex 1. Tables and figures

Table 1: Key economic and social indicators, 1998-2005

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population in millions</td>
<td>28.8</td>
<td>29.5</td>
<td>30.2</td>
<td>30.8</td>
<td>31.5</td>
<td>32.2</td>
<td>32.8</td>
<td>33.4</td>
</tr>
<tr>
<td>Growth of GDP in terms</td>
<td>1.8</td>
<td>1.4</td>
<td>0.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.8</td>
<td>4.9</td>
<td>5.8</td>
</tr>
<tr>
<td>GDP at Market prices (Kshs billion)</td>
<td>694</td>
<td>744</td>
<td>796</td>
<td>879</td>
<td>963</td>
<td>1,092</td>
<td>1,282</td>
<td>1,415</td>
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<tr>
<td>Total debt (Kshs Billion)</td>
<td>351</td>
<td>371</td>
<td>379</td>
<td>380</td>
<td>410</td>
<td>436</td>
<td>501</td>
<td>529</td>
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<tr>
<td>Balance of payments (Current account – Kshs billion)</td>
<td>26.6</td>
<td>(6,30</td>
<td>(18,09</td>
<td>(30,11</td>
<td>(13,9</td>
<td>4,856</td>
<td>(27,93</td>
<td>(37,40</td>
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<tr>
<td>Coffee-marketed Production tonnes</td>
<td>51.3</td>
<td>64.3</td>
<td>98.0</td>
<td>54.6</td>
<td>45.5</td>
<td>61.2</td>
<td>49.9</td>
<td>47.7</td>
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<tr>
<td>Tea-Marketed Production tonnes</td>
<td>294.2</td>
<td>248.8</td>
<td>236.3</td>
<td>294.6</td>
<td>287.1</td>
<td>293.7</td>
<td>324.6</td>
<td>328.5</td>
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<tr>
<td>Maize-marketed Centrally ('000 tons)</td>
<td>218.0</td>
<td>223.8</td>
<td>201.2</td>
<td>461.5</td>
<td>398.0</td>
<td>280.5</td>
<td>448.5</td>
<td>416.2</td>
</tr>
<tr>
<td>Manufacturing Output (Kshs billion)</td>
<td>703,000</td>
<td>742,500</td>
<td>661,200</td>
<td>669,600</td>
<td>684,700</td>
<td>726,700</td>
<td>445</td>
<td>502</td>
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<tr>
<td>Tourism Earnings KShs billion</td>
<td>17,509</td>
<td>21,367</td>
<td>16,869</td>
<td>20,660</td>
<td>21,734</td>
<td>22,698</td>
<td>38,457</td>
<td>48,874</td>
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<td>Wage ('000) Employ.</td>
<td>1,678</td>
<td>1,688</td>
<td>1,695</td>
<td>1,677</td>
<td>1,670</td>
<td>1,728</td>
<td>1,764</td>
<td>1,808</td>
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<tr>
<td>GDP per capital current (Kshs billion)</td>
<td>20,748</td>
<td>21,737</td>
<td>22,691</td>
<td>24,902</td>
<td>26,969</td>
<td>30,075</td>
<td>39,091</td>
<td>42,313</td>
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<td>GDP per capital (constant)</td>
<td>3,556</td>
<td>3,527</td>
<td>3,425</td>
<td>3,399</td>
<td>3,362</td>
<td>3,348</td>
<td>3,376</td>
<td>3,504</td>
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</table>

*Source: Central Bureau of Statistics (CBS) Economic Survey (Various).*

**Annex Table 2: Percentage contributions to GDP by activity (current prices)**

<table>
<thead>
<tr>
<th>Activity</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and forestry</td>
<td>27.2</td>
<td>25.6</td>
<td>25.3</td>
<td>24.3</td>
<td>24.2</td>
</tr>
<tr>
<td>Fishing</td>
<td>0.6</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
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<tr>
<td>Manufacturing</td>
<td>9.8</td>
<td>10.0</td>
<td>9.7</td>
<td>9.9</td>
<td>10.5</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1.2</td>
<td>1.2</td>
<td>0.9</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Wholesale and retail trade, repairs</td>
<td>9.2</td>
<td>9.1</td>
<td>9.2</td>
<td>9.9</td>
<td>10.8</td>
</tr>
<tr>
<td>Construction</td>
<td>3.1</td>
<td>3.2</td>
<td>3.3</td>
<td>3.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>9.1</td>
<td>9.7</td>
<td>9.2</td>
<td>9.9</td>
<td>10.9</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>6.9</td>
<td>6.8</td>
<td>6.7</td>
<td>7.6</td>
<td>8.5</td>
</tr>
<tr>
<td>Real estates, renting $ business services</td>
<td>5.8</td>
<td>6.1</td>
<td>5.9</td>
<td>5.7</td>
<td>5.6</td>
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</table>
Annex Table 3: Sugar-gross marketed production

<table>
<thead>
<tr>
<th>Year</th>
<th>Sugar-cane</th>
<th>Cotton</th>
<th>Horticulture</th>
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<tbody>
<tr>
<td>1998</td>
<td>7967.2</td>
<td>11.2</td>
<td>13890</td>
</tr>
<tr>
<td>1999</td>
<td>7639.4</td>
<td>13.6</td>
<td>20222</td>
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<tr>
<td>2000</td>
<td>7942.2</td>
<td>9.7</td>
<td>26722</td>
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<tr>
<td>2001</td>
<td>7154.8</td>
<td>9.6</td>
<td>28840</td>
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<tr>
<td>2002</td>
<td>9070.25</td>
<td>19.3</td>
<td>32591</td>
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<td>2003</td>
<td>7967.3</td>
<td>35.36</td>
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<td>2004</td>
<td>8389.8</td>
<td>48.05</td>
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Constant (2001) prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Sugar-cane</th>
<th>Cotton</th>
<th>Horticulture</th>
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<tbody>
<tr>
<td>1998</td>
<td>8897839</td>
<td>11628</td>
<td>21307575</td>
</tr>
<tr>
<td>1999</td>
<td>7942171</td>
<td>9144</td>
<td>2.1E+07</td>
</tr>
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<td>2000</td>
<td>7154846</td>
<td>9630</td>
<td>20222000</td>
</tr>
<tr>
<td>2001</td>
<td>9070246</td>
<td>20088</td>
<td>3.5E+07</td>
</tr>
<tr>
<td>2002</td>
<td>8471171</td>
<td>30204</td>
<td>29021516</td>
</tr>
<tr>
<td>2003</td>
<td>9391905</td>
<td>39600</td>
<td>37383810</td>
</tr>
</tbody>
</table>

Annex Table 4: Sales of various products

<table>
<thead>
<tr>
<th>Year</th>
<th>Coffee</th>
<th>Sugar cane</th>
<th>Pyrethrum</th>
<th>Cotton</th>
<th>Milk</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales Ksh millions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>4193</td>
<td>344</td>
<td>129</td>
<td>4</td>
<td>1529</td>
<td>6199</td>
</tr>
<tr>
<td>2002</td>
<td>2976</td>
<td>343</td>
<td>122</td>
<td>3</td>
<td>1325</td>
<td>4769</td>
</tr>
<tr>
<td>2003</td>
<td>2538</td>
<td>218</td>
<td>120</td>
<td>2</td>
<td>1290</td>
<td>4168</td>
</tr>
<tr>
<td>2004</td>
<td>2492</td>
<td>209</td>
<td>102</td>
<td>2</td>
<td>1500</td>
<td>4305</td>
</tr>
<tr>
<td>2005</td>
<td>3405</td>
<td>212</td>
<td>105</td>
<td>2</td>
<td>2387</td>
<td>6111</td>
</tr>
</tbody>
</table>

Percentage share of total production

<table>
<thead>
<tr>
<th>Year</th>
<th>Coffee</th>
<th>Sugar cane</th>
<th>Pyrethrum</th>
<th>Cotton</th>
<th>Milk</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>65.3</td>
<td>4.8</td>
<td>16.8</td>
<td>41.5</td>
<td>79.7</td>
<td>38.1</td>
</tr>
<tr>
<td>2002</td>
<td>54.7</td>
<td>3.8</td>
<td>9.6</td>
<td>15.4</td>
<td>53.7</td>
<td>26.1</td>
</tr>
<tr>
<td>2003</td>
<td>42.6</td>
<td>2.9</td>
<td>15.4</td>
<td>5.7</td>
<td>45.3</td>
<td>24.3</td>
</tr>
<tr>
<td>2004</td>
<td>34.2</td>
<td>2.5</td>
<td>33.4</td>
<td>2.2</td>
<td>34.2</td>
<td>21.1</td>
</tr>
<tr>
<td>2005</td>
<td>37.8</td>
<td>2.5</td>
<td>66.4</td>
<td>4</td>
<td>44.9</td>
<td>26.4</td>
</tr>
</tbody>
</table>

Annex Table 5: Export of fresh horticultural produce

<table>
<thead>
<tr>
<th>Year</th>
<th>Vol '000' tonnes</th>
<th>Value Ksh. Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>98.9</td>
<td>20.2</td>
</tr>
<tr>
<td>2002</td>
<td>121.1</td>
<td>26.7</td>
</tr>
<tr>
<td>2003</td>
<td>133.2</td>
<td>28.8</td>
</tr>
<tr>
<td>2004</td>
<td>145.6</td>
<td>32.6</td>
</tr>
<tr>
<td>2005</td>
<td>163.2</td>
<td>38.8</td>
</tr>
</tbody>
</table>

Annex Table 6: the share of poor and non-poor by sector of employment %

<table>
<thead>
<tr>
<th></th>
<th>Public sector</th>
<th>Semi-public</th>
<th>Private formal</th>
<th>Private informal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poor</td>
<td>Non-poor</td>
<td>Poor</td>
<td>Non-poor</td>
</tr>
<tr>
<td>Rural areas</td>
<td>4.2</td>
<td>12.8</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Urban areas</td>
<td>9.5</td>
<td>15.8</td>
<td>2.9</td>
<td>6.2</td>
</tr>
<tr>
<td>All areas</td>
<td>5.6</td>
<td>13.6</td>
<td>1.9</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance and Planning (2000b: Table 6.5).
Note: Private informal include own farm.

Annex Table 7: Major trade indicators 1998-2005 (‘000’ million Kshs)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export volume</td>
<td>173</td>
<td>186</td>
<td>191</td>
<td>204</td>
<td>226</td>
<td>260</td>
<td>296.1</td>
<td>323.7</td>
</tr>
<tr>
<td>Import volume</td>
<td>179</td>
<td>162</td>
<td>187</td>
<td>222</td>
<td>169</td>
<td>205</td>
<td>245.6</td>
<td>254.1</td>
</tr>
<tr>
<td>Terms of Trade</td>
<td>100</td>
<td>86</td>
<td>84</td>
<td>79</td>
<td>78</td>
<td>81</td>
<td>77.4</td>
<td>71.9</td>
</tr>
<tr>
<td>Agricultural Terms of Trade</td>
<td>107.3</td>
<td>105.2</td>
<td>104.2</td>
<td>89.3</td>
<td>86.8</td>
<td>83.8</td>
<td>89.2</td>
<td>78.8</td>
</tr>
<tr>
<td>Real wages</td>
<td>87.1</td>
<td>94.1</td>
<td>98.5</td>
<td>107.1</td>
<td>120.7</td>
<td>124.2</td>
<td>123.1</td>
<td>128.4</td>
</tr>
<tr>
<td>Exchange Rate (US$/Kshs)</td>
<td>62.0</td>
<td>73.0</td>
<td>78.0</td>
<td>78.6</td>
<td>77.1</td>
<td>76.1</td>
<td>77.3</td>
<td>78.4</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>106.5</td>
<td>112.6</td>
<td>123.9</td>
<td>131.0</td>
<td>133.6</td>
<td>146.7</td>
<td>163.7</td>
<td>180.6</td>
</tr>
<tr>
<td>Inflation</td>
<td>5.8</td>
<td>10</td>
<td>5.8</td>
<td>2.0</td>
<td>2.0</td>
<td>9.8</td>
<td>11.6</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Source: CBS Economic Survey (Various).

Annex Figure 1: Kenya’s exports and imports (1964-2004)

Source: CBS Economic Survey (Various).
Annex Figure 2: Kenya’s Real Trade Balance (1964-2004)

Source: CBS Economic Survey (Various).

Annex Table 8: Percentage contribution to GDP by activity (current prices)

<table>
<thead>
<tr>
<th>Activity</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and forestry</td>
<td>27.2</td>
<td>25.6</td>
<td>25.3</td>
<td>24.3</td>
<td>24.2</td>
</tr>
<tr>
<td>Fishing</td>
<td>0.6</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.8</td>
<td>10</td>
<td>9.7</td>
<td>9.9</td>
<td>10.5</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1.2</td>
<td>1.2</td>
<td>0.9</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Wholesale and retail trade, repairs</td>
<td>9.2</td>
<td>9.1</td>
<td>9.2</td>
<td>9.9</td>
<td>10.8</td>
</tr>
<tr>
<td>Construction</td>
<td>3.1</td>
<td>3.2</td>
<td>3.3</td>
<td>3.6</td>
<td>4</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>9.1</td>
<td>9.7</td>
<td>9.2</td>
<td>9.9</td>
<td>10.9</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>6.9</td>
<td>6.8</td>
<td>6.7</td>
<td>7.6</td>
<td>8.5</td>
</tr>
<tr>
<td>Real estates, rental and business services</td>
<td>5.8</td>
<td>6.1</td>
<td>5.9</td>
<td>5.7</td>
<td>5.6</td>
</tr>
</tbody>
</table>

### Annex Table 9: Percentage change in GDP (constant 2001 prices)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and forestry</td>
<td>10.5</td>
<td>-3.0</td>
<td>2.6</td>
<td>1.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Fishing</td>
<td>-18.3</td>
<td>-21.6</td>
<td>-6.9</td>
<td>6.7</td>
<td>7.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.6</td>
<td>0.1</td>
<td>6.0</td>
<td>4.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>8.4</td>
<td>2.5</td>
<td>3.5</td>
<td>2.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>-3.4</td>
<td>4.7</td>
<td>1.7</td>
<td>8.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Wholesale and retail trade, repairs</td>
<td>5.7</td>
<td>-2.5</td>
<td>1.7</td>
<td>8.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Construction</td>
<td>3.8</td>
<td>-1.9</td>
<td>1.0</td>
<td>4.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>13.8</td>
<td>9.1</td>
<td>3.6</td>
<td>6.7</td>
<td>8.3</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>6.9</td>
<td>6.8</td>
<td>6.7</td>
<td>7.6</td>
<td>8.5</td>
</tr>
<tr>
<td>Real estate, rental and business services</td>
<td>5.8</td>
<td>6.1</td>
<td>5.9</td>
<td>5.7</td>
<td>5.6</td>
</tr>
</tbody>
</table>


### Annex Table 10: Kenya exports in value (kshs million)

<table>
<thead>
<tr>
<th>Product</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horticulture</td>
<td>19,846</td>
<td>28,334</td>
<td>36,485</td>
<td>39,541</td>
<td>44,562</td>
</tr>
<tr>
<td>Tea</td>
<td>34,485</td>
<td>34,376</td>
<td>33,005</td>
<td>36,072</td>
<td>42,291</td>
</tr>
<tr>
<td>Fish and fish preparations</td>
<td>3,858</td>
<td>4,205</td>
<td>4,010</td>
<td>4,178</td>
<td>4,607</td>
</tr>
<tr>
<td>Maize (raw)</td>
<td>18</td>
<td>1,693</td>
<td>125</td>
<td>246</td>
<td>287</td>
</tr>
<tr>
<td>Coffee</td>
<td>7,460</td>
<td>6,541</td>
<td>6,286</td>
<td>6,944</td>
<td>9,702</td>
</tr>
<tr>
<td>Tobacco and tobacco manufactures</td>
<td>2,887</td>
<td>3,454</td>
<td>2,982</td>
<td>2,951</td>
<td>5,137</td>
</tr>
<tr>
<td>Pyrethrum extracts</td>
<td>993</td>
<td>793</td>
<td>813</td>
<td>943</td>
<td>1,122</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>3,673</td>
<td>4,122</td>
<td>4,047</td>
<td>7,532</td>
<td>8,852</td>
</tr>
<tr>
<td>Articles of plastics</td>
<td>2,572</td>
<td>2,990</td>
<td>2,598</td>
<td>3,136</td>
<td>4,307</td>
</tr>
<tr>
<td>Petroleum products</td>
<td>12,345</td>
<td>3,896</td>
<td>69</td>
<td>1,104</td>
<td>6,463</td>
</tr>
<tr>
<td>Animal and vegetable oils</td>
<td>1,298</td>
<td>2,277</td>
<td>2,410</td>
<td>2,505</td>
<td>2,533</td>
</tr>
<tr>
<td>Medicinal and pharmaceutical products</td>
<td>1,570</td>
<td>1,697</td>
<td>2,153</td>
<td>2,274</td>
<td>2,515</td>
</tr>
<tr>
<td>Leather</td>
<td>576</td>
<td>601</td>
<td>1,018</td>
<td>1,115</td>
<td>1,604</td>
</tr>
<tr>
<td>Cement</td>
<td>1,031</td>
<td>1,479</td>
<td>1,976</td>
<td>1,959</td>
<td>2,858</td>
</tr>
<tr>
<td>Articles of apparel and clothing accessories</td>
<td>598</td>
<td>711</td>
<td>1,056</td>
<td>1,276</td>
<td>1,269</td>
</tr>
<tr>
<td>Other commodities</td>
<td>28,224</td>
<td>34,225</td>
<td>37,676</td>
<td>47,272</td>
<td>55,583</td>
</tr>
<tr>
<td>Total exports</td>
<td>121,434</td>
<td>131,394</td>
<td>136,709</td>
<td>159,048</td>
<td>193,692</td>
</tr>
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</table>

Annex Table 11: Poverty trends in Kenya.

<table>
<thead>
<tr>
<th>Rural Areas</th>
<th>Percentage of poor</th>
<th>Percentage of extreme poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>35.89</td>
<td>31.93</td>
</tr>
<tr>
<td>Coast</td>
<td>43.50</td>
<td>55.63</td>
</tr>
<tr>
<td>Eastern</td>
<td>42.16</td>
<td>57.75</td>
</tr>
<tr>
<td>Nyanza</td>
<td>47.41</td>
<td>42.21</td>
</tr>
<tr>
<td>Rift Valley</td>
<td>51.51</td>
<td>42.87</td>
</tr>
<tr>
<td>Western</td>
<td>54.81</td>
<td>53.83</td>
</tr>
<tr>
<td>North Eastern</td>
<td>-</td>
<td>58.00</td>
</tr>
<tr>
<td>Total Rural</td>
<td>47.89</td>
<td>46.75</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Urban Areas</th>
<th>Percentage of poor</th>
<th>Percentage of extreme poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi</td>
<td>26.45</td>
<td>25.90</td>
</tr>
<tr>
<td>Mombasa</td>
<td>39.17</td>
<td>33.14</td>
</tr>
<tr>
<td>Kisumu</td>
<td>-</td>
<td>47.75</td>
</tr>
<tr>
<td>Nakuru</td>
<td>-</td>
<td>30.01</td>
</tr>
<tr>
<td>Other towns</td>
<td>-</td>
<td>28.73</td>
</tr>
<tr>
<td>Total Urban</td>
<td>29.29</td>
<td>28.95</td>
</tr>
<tr>
<td>Total Kenya</td>
<td>44.78</td>
<td>40.25</td>
</tr>
</tbody>
</table>


Annex Table 12: Human Poverty and Human Development Indices for Kenya

<table>
<thead>
<tr>
<th>Province</th>
<th>HDI Value</th>
<th>Rank</th>
<th>HPI Value (%)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>0.539</td>
<td></td>
<td>34.5</td>
<td></td>
</tr>
<tr>
<td>Nairobi</td>
<td>0.783</td>
<td>1</td>
<td>32.4</td>
<td>2</td>
</tr>
<tr>
<td>Central</td>
<td>0.595</td>
<td>2</td>
<td>30.7</td>
<td>1</td>
</tr>
<tr>
<td>Coast</td>
<td>0.459</td>
<td>4</td>
<td>37.5</td>
<td>4</td>
</tr>
<tr>
<td>Eastern</td>
<td>0.452</td>
<td>6</td>
<td>39.9</td>
<td>5</td>
</tr>
<tr>
<td>Rift Valley</td>
<td>0.528</td>
<td>3</td>
<td>36.8</td>
<td>3</td>
</tr>
<tr>
<td>Nyanza</td>
<td>0.457</td>
<td>5</td>
<td>44.3</td>
<td>7</td>
</tr>
<tr>
<td>Western</td>
<td>0.445</td>
<td>7</td>
<td>41.1</td>
<td>6</td>
</tr>
<tr>
<td>North Eastern</td>
<td>0.426</td>
<td>8</td>
<td>44.8</td>
<td>8</td>
</tr>
</tbody>
</table>

Annex Box 1: Socio-Economic Characteristics of Vulnerable Groups

Gender Disparities
- Poverty incidence is high amongst households headed by widows (45%) and women from polygamous households (51%) (polygamous households headed by men have similar poverty incidence (50%)
- Unequal employment opportunities with a majority of women employed in small-scale agriculture where they provide 75% of the labour force.
- More women heads of household are employed as unpaid family workers in rural areas than their male counterparts
- In urban areas, women household heads are mainly self-employed and unskilled casual employees
- Lower literacy rates among female-headed households
- There are more male employers, skilled and unskilled regular employees, while urban women are still mainly poor unskilled workers

Education and Literacy Rates
- Households headed by those with no education have higher incidence of poverty compared to those with formal education
- Vulnerable groups, like pastoralists, have literacy rates below the national average
- Most of the economically active population in rural areas (where poverty rates are the highest) have no education

Access to Basic Social Facilities
- Vulnerable groups have limited access to health and education facilities because of cost
- They lack access to safe water and sanitation
- The poor have larger household sizes and higher dependency ratios

Income-earning opportunities
- Heads of poor households (both men and women) are mainly self-employed or unpaid family workers
- Most vulnerable groups depend on wage income, livestock and crop revenue for their incomes, and spend a high proportion of their income on food
- They cultivate less land, with low yields per acre, due to differential access to improved inputs and quality of land
- They depend on natural resources and mostly live in marginal areas

Education and Literacy Rates
- Households headed by those with no education have higher incidence of poverty compared to those with formal education
- Vulnerable groups, like pastoralists, have literacy rates below the national average
- Most of the economically active population in rural areas (where poverty rates are the highest) have no education

Access to Basic Social Facilities
- Vulnerable groups have limited access to health and education facilities because of cost
- They lack access to safe water and sanitation
- The poor have larger household sizes and higher dependency ratios

The impact of HIV/AIDS on Human Development in Kenya
One million people in Kenya are estimated as suffering from HIV/AIDS. The disease presents social, psychological demographic and economic costs to both individuals and the entire population. In 2000 Kenya had 600,000 AIDS orphans. This high, and increasing, number is putting strain on the extended family and traditional safety nets, particularly amongst poor communities. The Number of child headed households and urban street families have increased. The children growing up in these situations are likely to have few opportunities, low levels of human development and to be amongst the long term or chronically poor. In addition, HIV/AIDS is expected to:
- Lead to lower life expectancy and higher infant and maternal mortality rates at both regional and provincial levels
- Lower per capital incomes by 10% in the next 10 years
- Lower overall enrolment as children are withdrawn from school to care for their Parents or due to lack of fees and other expenses due to parents’ inability or absence.

Source: Adapted from UNDP, 2002 and Manda et al., 2001.
Annex Table 13: Kenya’s exports by destination

<table>
<thead>
<tr>
<th>Region</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>% Change</th>
<th>% Change</th>
<th>% Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>39979</td>
<td>45795</td>
<td>52159</td>
<td>56773</td>
<td>62074</td>
<td>27.09</td>
<td>27.06</td>
<td>28.48</td>
<td>26.43</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>910</td>
<td>1352</td>
<td>1702</td>
<td>1951</td>
<td>2859</td>
<td>0.62</td>
<td>0.80</td>
<td>0.93</td>
<td>0.91</td>
</tr>
<tr>
<td>COMESA</td>
<td>54897</td>
<td>59098</td>
<td>61769</td>
<td>74749</td>
<td>89447</td>
<td>37.20</td>
<td>34.92</td>
<td>33.73</td>
<td>34.80</td>
</tr>
<tr>
<td>Africa</td>
<td>72513</td>
<td>83085</td>
<td>84683</td>
<td>10180</td>
<td>12032</td>
<td>9</td>
<td>49.13</td>
<td>49.09</td>
<td>46.22</td>
</tr>
<tr>
<td>South Africa</td>
<td>423</td>
<td>518</td>
<td>1066</td>
<td>1650</td>
<td>2142</td>
<td>0.29</td>
<td>0.31</td>
<td>0.58</td>
<td>0.77</td>
</tr>
<tr>
<td>USA</td>
<td>3414</td>
<td>3377</td>
<td>2796</td>
<td>4502</td>
<td>4518</td>
<td>2.31</td>
<td>2.00</td>
<td>1.53</td>
<td>2.10</td>
</tr>
<tr>
<td>Asia</td>
<td>25395</td>
<td>25914</td>
<td>27781</td>
<td>33038</td>
<td>37050</td>
<td>17.21</td>
<td>15.31</td>
<td>15.17</td>
<td>15.38</td>
</tr>
<tr>
<td>Rest of world</td>
<td>60699</td>
<td>69334</td>
<td>76898</td>
<td>93119</td>
<td>10895</td>
<td>9</td>
<td>41.13</td>
<td>40.97</td>
<td>41.99</td>
</tr>
<tr>
<td>Total</td>
<td>147590</td>
<td>169241</td>
<td>183154</td>
<td>214793</td>
<td>244198</td>
<td>9</td>
<td>41.13</td>
<td>40.97</td>
<td>41.99</td>
</tr>
</tbody>
</table>


Annex Table 14: Kenya exports to COMESA (2005)

<table>
<thead>
<tr>
<th>Product</th>
<th>Value Ksh ('000)</th>
<th>% of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize (unmilled)</td>
<td>161,890</td>
<td>0.31</td>
</tr>
<tr>
<td>Tea</td>
<td>7,724,711</td>
<td>14.59</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>792,672</td>
<td>1.50</td>
</tr>
<tr>
<td>Oils perfumes and polished product</td>
<td>2,955,814</td>
<td>5.58</td>
</tr>
<tr>
<td>Cement</td>
<td>1,501,704</td>
<td>2.84</td>
</tr>
<tr>
<td>Iron and steel bar rods</td>
<td>488,473</td>
<td>0.92</td>
</tr>
<tr>
<td>Printed matter</td>
<td>305,310</td>
<td>0.58</td>
</tr>
<tr>
<td>Common salt</td>
<td>661,885</td>
<td>1.25</td>
</tr>
<tr>
<td>Made up articles</td>
<td>1,250,102</td>
<td>2.36</td>
</tr>
<tr>
<td>Disinfectants</td>
<td>414,995</td>
<td>0.78</td>
</tr>
<tr>
<td>Refined petroleum product</td>
<td>997,413</td>
<td>1.88</td>
</tr>
<tr>
<td>Others</td>
<td>35,697,750</td>
<td>67.41</td>
</tr>
<tr>
<td>Total exports</td>
<td>52,952,719</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Annex Table 15: Kenya’s exports to the EAC (billion kshs)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanzania</td>
<td>13,511</td>
<td>14,181</td>
<td>14,588</td>
<td>17,921</td>
<td>19,887</td>
</tr>
<tr>
<td>Uganda</td>
<td>30,040</td>
<td>31,280</td>
<td>30,668</td>
<td>37,059</td>
<td>42,545</td>
</tr>
</tbody>
</table>


Annex Table 16: Production and Sale of Livestock

<table>
<thead>
<tr>
<th>Unit</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk production</td>
<td>Litres (m.)</td>
<td>148</td>
<td>178</td>
<td>203</td>
<td>274</td>
</tr>
<tr>
<td>Milk processing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whole milk and cream</td>
<td>Litres (m.)</td>
<td>97</td>
<td>128</td>
<td>131</td>
<td>178</td>
</tr>
<tr>
<td>Butter and ghee</td>
<td>Tonnes</td>
<td>130</td>
<td>177</td>
<td>215</td>
<td>475</td>
</tr>
<tr>
<td>Cheese</td>
<td>Tonnes</td>
<td>329</td>
<td>448</td>
<td>361</td>
<td>328</td>
</tr>
<tr>
<td>Livestock, slaughtered</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cattle and calves</td>
<td>Heads (000)</td>
<td>1952</td>
<td>1854</td>
<td>1669</td>
<td>1641</td>
</tr>
<tr>
<td>Sheep and goats</td>
<td>Heads (000)</td>
<td>4671</td>
<td>4765</td>
<td>429</td>
<td>3851</td>
</tr>
<tr>
<td>Pigs</td>
<td>Heads (000)</td>
<td>214</td>
<td>167</td>
<td>175</td>
<td>172</td>
</tr>
</tbody>
</table>


Annex Table 17: Prices to producer for meat and whole milk, 1993-2004 (Ksh)

<table>
<thead>
<tr>
<th>Year</th>
<th>Beef (Price, Ksh./kg)</th>
<th>Pigs Baconers (Price, Ksh./kg)</th>
<th>Whole milk (Price, Ksh./litre)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>27.10</td>
<td>54.66</td>
<td>7.80</td>
</tr>
<tr>
<td>1994</td>
<td>30.00</td>
<td>59.64</td>
<td>12.50</td>
</tr>
<tr>
<td>1995</td>
<td>33.00</td>
<td>65.00</td>
<td>14.50</td>
</tr>
<tr>
<td>1996</td>
<td>34.00</td>
<td>66.00</td>
<td>12.50</td>
</tr>
<tr>
<td>1997</td>
<td>35.80</td>
<td>81.74</td>
<td>14.50</td>
</tr>
<tr>
<td>1998</td>
<td>38.24</td>
<td>76.51</td>
<td>15.49</td>
</tr>
<tr>
<td>1999</td>
<td>47.99</td>
<td>81.64</td>
<td>14.94</td>
</tr>
<tr>
<td>2000</td>
<td>81.54</td>
<td>90.22</td>
<td>15.00</td>
</tr>
<tr>
<td>2001</td>
<td>93.75</td>
<td>95.16</td>
<td>13.00</td>
</tr>
<tr>
<td>2002</td>
<td>121.69</td>
<td>94.17</td>
<td>13.87</td>
</tr>
<tr>
<td>2003</td>
<td>118.62</td>
<td>87.54</td>
<td>14.00</td>
</tr>
<tr>
<td>2004</td>
<td>103.51</td>
<td>86.73</td>
<td>16.00</td>
</tr>
</tbody>
</table>


Note: *Average price by Kenya Co-operative Creameries Ltd.
Annex 2: The history of trade policies in Kenya

Kenya’s trade policies since independence can be categorised into two distinct periods: import substitution and export oriented trade reform. The following subsections highlight the main features of these phases and identify the implications of the policies on the poor in Kenya.

The import substitution phase

The import substitution phase of Kenya’s trade policy began immediately after independence. The objectives of the strategy were rapid growth of industry, easing balance of payment pressure by saving foreign exchange, increased domestic control of the economy and the generation of employment. The government relied on a variety of policy instruments including exchange rate controls, tariff barriers, import licensing, foreign exchange controls and quantitative restrictions to achieve this objective, including protection of local producers against foreign competition (Bienen, 1990; Roemer, 1993). This resulted in a situation where virtually all items produced by the Kenyan manufacturing sector sought and received some form of protection (Wagacha, 2000).

The overall cost structure that developed in the economy harmed exports relative to protected import substituting activities. Tariffs were also used extensively to protect domestic producers, with the tariff structure geared towards import substitution (high on imports of final products relative to capital and intermediate goods). The government was committed to reducing imports of consumption goods. Manufacturers were not granted import licenses if the product that they wanted was produced domestically, whether it was more expensive and inferior in quality, or not. The lack of locally produced capital goods led to government setting low tariffs to enable their importation as inputs for local production. But where inputs were only available on the international market, despite low tariffs, manufacturers were constrained by delays in obtaining import licenses and foreign exchange rationing (ibid.). Protection, coupled with import licensing and exchange controls made access to and costs of inputs uncertain (ibid.).

Import substitution policies had mixed results. Some industries grew vigorously generating incomes and employment, but the strategy favoured manufacturing-based import substitution over both agriculture and export oriented industry and led to distortion in resource allocation (ibid.). The over-valuation of the Kenyan shilling prior to reforms in 1992 put an implicit tax on agricultural producers and exporters of 29% (Karanja, 2002). Pre-liberalization farmers were obliged to sell their maize to National Cereals and Produce Board (NCPB) at fixed pan-territorial and pan seasonal prices (Owuor, 1997). The difference between real market prices and those set by the government led to substantial losses and in 1987 these exceeded 5% of GDP (Karanja, 2002). The NCPB had cash-flow problems leading to delays in payments to farmers of up to six months. Looking at the dairy sector, prior to the

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56 Foreign Exchange Allocation Committees were established to administer foreign exchange quotas for imports. Foreign exchange was not allocated to imports, which were considered undesirable.

57 E.g. processing of plastics, pharmaceuticals, steel rolling and galvanizing, electrical cables, paper, vehicle assembly, industrial gases, rubber ceramics, and batteries manufacture, textiles and garment manufacturing, food processing, leather tanning and footwear (Coughlin, 1988).
removal of the Kenya Cooperative Creameries (KCC) monopoly, production levels were declining, and the KCC was not in a position to pay farmers promptly.

The import substitution strategy encouraged the manufacturing sector to be dependent on imported equipment, raw materials and capital-intensive technologies, which led to low levels of job creation. Manufacturing developed as an enclave, concentrated in Nairobi and a few major towns, and had limited linkages with the rest of the economy, partly due to the emphasis placed on producing consumer goods rather than capital and intermediate goods, and manufactured goods made up only a small proportion of exports (Ogonda, 1990; Ikiara, 1988; Nyongo, 1988;). All exporters faced hurdles accessing international markets. They had to obtain an annually renewable general trading license and a separate license for each consignment of goods to be exported (Wagacha, 2000:18). Horticultural exports, for example, required three sets of licenses before the first shipment could be made (ibid.).

The era of trade reforms

By the late 1970s the need for reform was evident, and in 1980 Kenya was the first sub-Saharan African country to receive a structural adjustment loan from the World Bank (Karanja, 2002). A number of government policy documents outlined the change of direction. The Fourth Development Plan (1979-1984), for instance, advocated for a more open strategy for the industrial sector, with market-based incentives and less regulation. Trade liberalization in Kenya required both the reduction of tariffs and the transparent conversion of trade restrictions and administrative controls into tariffs (Wagacha, 2000). However, adjustment was an unpopular idea in Kenya and lack of public support coupled with limited political commitment delayed substantial adjustment until much later (Karanja, 2002).

In the agricultural sector this translated into half-hearted implementation of reform until 1991 (Nyangito, 1999). Reforms in the maize sector were the slowest to implement, and the NCPB imposed controls only in 1993 and is still involved in attempting to stabilise both producer and consumer prices of maize through both maintaining a strategic reserve and involvement in the maize market alongside the private sector (ibid.; CBS, 2003: 20), buying at no more than export parity price and selling at no more than import parity price (Karanja, 2002). As a result of liberalization the private transportation of maize has increased substantially leading to a fall in maize price differentials between trading regions (ibid.:55). Liberalization has allowed the entry of small private sector millers, benefiting not only the millers but also consumers. In Nairobi, the real price of milled maize was found to have fallen by 31% by 1997 40% of the fall was due to competition in the milling sector and 60% due to lower maize prices (ibid.). In the dairy sub-sector a greater proportion of the milk in the national market is now untreated despite a large number of new milk processing plants being established .there were plants60 by 1998, with 40% of the market share (ibid.). This has the potential of providing benefits to small and remote milk producers but has potentially negative implications for the health of a wide range of consumers.

Despite liberalization, the government still protects markets from some food imports. This has implications for poor net consumers, as food prices are kept artificially
above international prices. The Government is also significantly involved in the tea, sugar and cotton sectors sub sector. This has led to management inefficiencies, late payments to farmers, an implicit tax on the sector and corruption as illustrated in the case studies in Section 6. In addition, all the marketing boards for the main export commodities are still in place. Producer prices are still set and floor prices maintained by the boards for certain crops (e.g. rice, maize, pyrethrum, bixa, cashew nuts, and milk) either under their statutory powers or by their dominant position in the market. Liberalizing marketing functions while maintaining a control over farm-gate prices has encouraged the unprocessed export of those commodities (MTI, 2003).

When liberalization began in earnest the government started to reform the trade and industrial regime by dismantling the import substitution structures which had previously dominated the economy. First, the quantitative restrictions were gradually replaced by equivalent tariffs. Secondly, the tariff rates were rationalised and reduced over time. The maximum tariff dropped from 135% in 1980s to 45% by 1994. Between 1989/90 and 1991/92 for instance overall production-weighted tariffs declined from 62% to 48%. Although tariff harmonization has progressed, it was disturbed by the fact that in 1989/90 the government reapplied quotas and in 1994/94 tariffs were raised to cover shortfall in government revenue. Other

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**Annex Box 2: Economic Reforms between 1986 and 2002**

1. Abolition of administrative controls on international trade, such as import licensing and foreign exchange allocations
2. Removal of exchange controls on current account transactions together with partial removal on restrictions on capital accounts, including the 90 days foreign exchange surrender limit
3. Removal of restrictions on all foreign commercial borrowings as well as allowing Kenyan nationals to invest abroad up to US$500,000 without reference to the Central Bank of Kenya
4. Lifting of controls on interest rates and credit limits (previously deposit and lending rates were controlled by Central Bank of Kenya) (1992)
5. Rationalization of tariff rates, revenue collection reforms including introduction of VAT, formation of a tax authority in 1995, abolition of the selective 20% export tax and introduction of 2% presumptive income tax for marketed agricultural products
6. Removal of price controls for essential food items, petroleum products and agricultural inputs
12. Coffee and tea auctions (Nairobi and Mombassa) allowed to conduct business in US$ from 1992. Gradually farmers were paid in dollars, and they were allowed to keep the dollars for their own use.
13. Monetary policy reforms and review of the Banking Act allowed entry of new institutions to financial services markets and enhanced Central Bank’s role in monitoring and regulating the sector

*Source: Adapted from Owuor (1997) and Karanja (2002).*
measures included the adoption of a more liberal exchange rate policy and strengthening export promotion schemes (Foroutan, 1993). In November 1993, all administrative controls to international trade were abolished. By 1993, the government had abolished import licensing and reviewed its tariff structure.

Between 1985 and 1990 a number of programmes were introduced to improve access to imported inputs at international market prices, including the export compensation scheme (ECA), Manufacturing under Bond (MUB), and import duty and VAT remission schemes. The export compensation scheme was to compensate exporters for government taxes on inputs, while the manufacturing under bond programme was meant to encourage manufacturing for world markets. However, exporters faced restrictions into the 1990s and the institutions that were supposed to promote exports (ECA and MUB) were poor at promoting exports and even poorer at encouraging export diversification (Wagacha, 2000).

The Export Processing Act was passed in 1996 to attract foreign investors into the export sector. This led to the development of the Export Processing Zones Authority (EPZA) and subsequently the establishment of the export processing zones in Nairobi, Mombassa, Athi River and Nakuru. Regulatory reforms made investment in bonded factories and export processing zones more attractive.

Focusing again on agriculture we see that reduced parastatal involvement in the agricultural sector has resulted in declines in vertical organization. Private sector driven vertical integration is present in the horticultural industry, while the state remains heavily involved in tea, sugar and cotton, there is complete absence of organization in the other sub sector. Those commodities with good market access have benefited from liberalisation but the removal of fixed prices has disadvantaged more remote farmers who now face difficulty attracting buyers, or face high transport costs taking produce to market themselves. Smallholder farmers are therefore exposed to greater price volatility (Karanja, 2002). In the inputs industry, the liberalisation of fertiliser markets and prices in 1993 led to a nominal price increase of 178% - however, the real price declined (ibid.). This has mainly benefited richer farmers, as smallholder farmers have low levels of fertiliser use.

Looking at prices for agricultural outputs, we see that average nominal prices for maize and milk rose after liberalization, however, downward trend in real maize prices accelerated (ibid.). Due to the limited nature of trade in milk and milk products in the East Africa region, real milk prices rose, despite liberalization (ibid.).

58 These controls included import licensing, institutional constraints and foreign-exchange allocation. 
59 ECA – Export Compensation Act. Under the programme, which was open to local and foreign investors, inputs were duty-free. 
60 This allowed goods to be imported duty free if they were to be used in the manufacture of a good destined for export. However, procedures to access the bonds were time consuming and the bonds were very expensive.
Annex 3: A review of pro-poor national development plans and sessional papers

Since independence there have been a number of sessional papers and development plans, which have aimed to generate growth and improve standards of living. The current government has changed the direction of strategy with the current National Development Plan (2002 – 2008) dubbed ‘Effective Management for Sustainable Growth and Poverty Reduction’. It emphasises both growth and social provisioning for poverty alleviation.

The plan highlights that Kenya will need an annual growth rate of 6% if it is to reduce poverty by 50% by the year 2007 (Kenya, 2002). To achieve this, the macro-economy will have to be stable, productivity in the real sectors will have to be improved, unemployment reduced, infrastructure improved and trade volumes increased.

National Poverty Eradication Plan (NPEP), 1999-2015

The National Poverty Eradication Plan (NPEP) (1999-2015) was developed in line with resolutions made at the 1995 World Summit on Social Development in Copenhagen. The plan aims to reverse poverty increases and reduce rural and urban poverty by 50% by 2015 by strengthening the capabilities of the poor and vulnerable groups. The plan also aims to narrow geographical and gender disparities in poverty. The Poverty Eradication Commission (PEC) is supposed to implement the NPEP through close collaboration with various ministries. A target of 20% poverty reduction during the first phase of the plan (1999-2000) was set. This was unattainable, and almost 4 years after the development of the NPEP, not much has been achieved other than the establishment of the PEC.


Kenya like many other developing countries was required to prepare a poverty reduction strategy paper (PRSP) as a condition for further lending by the international financial institutions. Kenya’s PRSP was a product of broad based and in-depth consultations among key stakeholders in particular the poor, at all levels. The paper is a medium-term strategy policy designed as an approach for reducing poverty in Kenya. It is tied to a three-year Medium-Term Expenditure Framework budgeting approach. This budgeting is in turn linked to fiscal outcomes, growth targets and projected developments in the world economy. The PRSP is the centre of the long-term vision outlined in the NPEP. While the NPEP proposes a 15-year time horizon to fight poverty, the PRSP seeks to implement the NPEP in a series of three year rolling plans.

The macro-economic framework for achieving the targets in the PRSP is not new. While there are some innovations in the institutional arrangements for its implementation, the policies appear identical to those, which have been in the agenda for a long time. However, besides the standard macro-economic requirement of reducing deficits and maintaining low inflation, the PRSP emphasises measures aimed at improving governance and reducing corruption.
In the run up to the general election in Kenya in December 2002, processes surrounding the implementation of the PRSP ground to a halt. The new government appears to have shelved the PRSP in preference to its Economic Recovery Strategy, which combines elements of the PRSP with the ruling party’s manifesto promises.

The trade content of Kenya’s poverty reduction strategy.

There has been considerable discussion in Kenya about the possible impact of trade on the poor in Kenya. The question to which these discussions inform the policies and strategies of the government, including PRSPs. A recent review by Hewitt and Gillson (2003) shows that few of the PRSPs dealt with trade explicitly, and where they did analysis lacked depth and was subsumed within other sections. In most of the countries trade was focused on solely in terms of export promotion. Analysis of trade in most of the PRSPs studied was not informed its likely impact on poverty.

A quick review of Kenya’s PRSP along the lines of the study by Hewitt and Gillson yield similar results. Kenya’s PRSP has a section that discusses trade. The focus of the section is on both international and local trade, with the latter getting more prominence. At the international level, the document merely alludes to the effects of implementation of trade liberalisation and its likely effects on the poor. There is however no discussion or analysis of these effects. The document also touches on regional trade, specifically the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA).

The Economic Recovery Strategy for Wealth Creation and Employment does not address itself explicitly to the issue of trade and poverty. The only mention of trade in relation to livelihoods is with regard to expanding exports to regional and international markets. The other mention is with regard to the implications of privatizing state owned companies and parastatals in order to increase competitiveness for Kenyan export products.

One area in which the relationship between trade and poverty has received considerable attention in Kenya has been around the formulation of Kenya position for WTO negotiations. Kenya’s position papers have highlighted concerns for how certain trade practices may affect the poor. They have particularly focused on the difficulties in accessing developed country markets and on the impact of developed country agricultural subsidies on poor producers in Kenya.


The Economic Recovery Strategy for Wealth Creation and Employment (ERS) takes into account the existing government policy documents, particularly the PRSP. The strategy also incorporates far-reaching promises made in National Rainbow Coalition (NARC) election manifesto. Like the PRSP, the policies in these documents are not new. But an increased role for the private sector is certainly a shift in emphasis. The

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61 The study assesses the trade content of the PRSPs for Albania, Bolivia, Burkina Faso, Ethiopia, Guinea, Honduras, Malawi, Mozambique, Nicaragua, Rwanda, Tajikistan, Tanzania, Uganda, Vietnam, Yemen and Zambia
ERS sees the private sector playing a central role in delivering on the plans laid out in the export-led growth strategy.

The strategy has an ambitious plan, to create 500,000 jobs annually, reduce poverty by at least 5% from the current estimated 56%, and achieve an annual growth rate of between 2 and 7% during the plan period. Inadequate recent poverty assessments mean that we are unable to assess progress in poverty reduction, however, the annual growth rate is on target, reaching 5.8% in 2005 and a number of jobs have been created in the last three years, an indication that the strategy is on track and needs a lot of political will and support from other development partners.

The trade content of Kenya’s ERS.

The ERS does not explicitly address trade and poverty. It does, however, mentions expanding exports to regional and international markets and the possible implications of privatizing state owned companies and parastatals in order to increase competitiveness for Kenyan export products. Specifically, the ERS identifies the Government’s planned approach to addressing the constraints facing trade and industry with the following measures:

- Developing an export development strategy to support the diversification of export markets and products
- Preparation of a comprehensive industrial master plan to identify the institutional, infrastructure, human resource and incentive regimes necessary to promote labour intensive and export oriented industrialisation
- Benchmarking key industries to international competitors
- Seek to ensure that Kenyan industries are capable of competing with these international benchmark prices
- Focusing on textiles to take advantage of the AGOA market and provide an opportunity for the development of long-term clothing supply capacity with a high potential for employment creation, foreign investment and export earnings.
- Build capacity to monitor international trade malpractices so as to ensure that Kenyan products are not unfairly driven out of markets.
- developing the necessary capacity to identify, support and expands activities where value addition is greater, productivity growth is faster and demand elasticity is high in the international market.
Annex 4: Export Processing Zones

Export Processing Zones (EPZ) grew in 2004. Both the number of gazetted zones (37-41) and operational enterprises (66-74) increased, and cumulative capital investment reached Ksh.17, 012 million. Total turnover from the zones increased by 63% (from to 2004) to Ksh.24, 217 million, while exports between 2003-04 grew by 67% (Ksh.14, 817 million to Ksh.23, 047 million). Domestic sales increased by 5.2% to Ksh.651 million, representing 3% of total EPZ turnover. Employment at EPZs saw a small decline (1.2%) to 37,723 Kenyans. However, EPZs generate an additional 12,575 jobs indirectly, through local subcontracting and supply activities.

Table 18, below, shows a summary of performance of some key indicators.

Annex Table 18: Performance of EPZ key indicators (2000-04)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Growt h (%) (2003-4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazetted zones (No.)</td>
<td>19</td>
<td>23</td>
<td>31</td>
<td>37</td>
<td>41</td>
<td>10.8%</td>
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<tr>
<td>Enterprises Operating (No.)</td>
<td>24</td>
<td>39</td>
<td>54</td>
<td>66</td>
<td>74</td>
<td>12.1%</td>
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<tr>
<td>Employment – (Kenyans)a</td>
<td>6,487</td>
<td>13,44</td>
<td>26,44</td>
<td>38,19</td>
<td>37,72</td>
<td>-1.2%</td>
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<tr>
<td>Employment - (Expatriates)b</td>
<td>133</td>
<td>314</td>
<td>701</td>
<td>912</td>
<td>837</td>
<td>-8.2%</td>
</tr>
<tr>
<td>Total Employment (No)=a+b</td>
<td>6,620</td>
<td>13,75</td>
<td>27,14</td>
<td>39,11</td>
<td>36,56</td>
<td>-1.4%</td>
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<tr>
<td>Turnover (Ksh. m)</td>
<td>4,392</td>
<td>6,499</td>
<td>11,04</td>
<td>14,81</td>
<td>24,21</td>
<td>63.4%</td>
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<tr>
<td>Exports (Ksh. m)</td>
<td>3,635</td>
<td>5,962</td>
<td>9,741</td>
<td>13,81</td>
<td>23,04</td>
<td>66.9%</td>
</tr>
<tr>
<td>Domestic Sales (Ksh. m)</td>
<td>755</td>
<td>538</td>
<td>932</td>
<td>619</td>
<td>651</td>
<td>5.2%</td>
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<tr>
<td>Imports (Ksh. m)</td>
<td>2,349</td>
<td>3,990</td>
<td>7,043</td>
<td>9,920</td>
<td>13,02</td>
<td>31.3%</td>
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<tr>
<td>Investment (Ksh. m)</td>
<td>6,107</td>
<td>8,950</td>
<td>12,72</td>
<td>16,71</td>
<td>17,01</td>
<td>1.8%</td>
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<td>Local Purchases (Ksh. m)¹</td>
<td>279</td>
<td>718</td>
<td>1,127</td>
<td>1,176</td>
<td>1,893</td>
<td>61%</td>
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<td>Local Salaries (Ksh. m)²</td>
<td>432</td>
<td>832</td>
<td>1,582</td>
<td>2,398</td>
<td>3,258</td>
<td>35.9%</td>
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<tr>
<td>Expenditure on power (Ksh. m)³</td>
<td>55</td>
<td>112</td>
<td>147</td>
<td>258</td>
<td>302</td>
<td>17.1%</td>
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<tr>
<td>Expenditure on telecommunication (Kshs million)⁴</td>
<td>38</td>
<td>54</td>
<td>73</td>
<td>82</td>
<td>105</td>
<td>28.0%</td>
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<tr>
<td>Expenditure on water (Ksh. m)⁵</td>
<td>9</td>
<td>17</td>
<td>24</td>
<td>61</td>
<td>72</td>
<td>18.0%</td>
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62 This was attributed to the closure of six garment factories (Tristar, Kenap, Indigo Garments, Kentex, Asia Resources and Anchenery. They represented a cumulative investment of Ksh.1,870 million and employed 4,791 people.). These closures were, in turn, blamed on a range of factors - the delay in extending AGOA; the end of textile quotas (which came into force in January 2005) which resulted in enterprises losing orders; the prohibitive cost of doing (e.g. driven up by the cost of power and problems with infrastructure).
<table>
<thead>
<tr>
<th>Other Domestic Expenditure (Ksh. m)</th>
<th>374</th>
<th>502</th>
<th>698</th>
<th>994</th>
<th>1,701</th>
<th>71.1%</th>
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</thead>
<tbody>
<tr>
<td><em>Total Domestic Expenditure (Ksh. m) = 1+2+3+4+5+6</em></td>
<td>1,187</td>
<td>2,235</td>
<td>3,651</td>
<td>4,969</td>
<td>7,331</td>
<td>47.5%</td>
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</table>


Note: * Foreign exchange equivalent injected into the economy.

The impact of AGOA on EPZ performance

Export processing zones (EPZs) have grown substantially since the start of AGOA in May 2000. The number of garments/apparel enterprises based in EPZs grew from 6 to 35 between 2000 and 2003 and employment increased from 6,487 to 36,348 2002-03. Investment rose (Ksh.1.2bn to 9.6bn, 2000-03) and annual exports grew (Ksh.2.3bn to Ksh.11bn). But in 2004, a downturn began with enterprises declining to 30 and employment falling 34,614. This decline was driven by the delayed extension of the AGOA Third Country Fabric Import Requirement and the phasing out of textile quotas, in January 2005. As a result, there were few investments made in 2000 (Table 19). Despite these challenges, exports rose by 58.5% (between 2003 and 2004 (Table 19 and Figure 3 show the impact of AGOA on the EPZ garment sector).

The value of garment and apparel related exports increased between 2004 and 2005 from Ksh.3,410 million (14.5 m. pieces) to Ksh.3,752 million (13.2 m. pieces), while total exports from the zones rose from Ksh.4,617 m. to Ksh.5,527 m. over the same period.

Annex Table 19: Impact of AGOA on EPZ Garment Sector: 2000 - 2004

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Growth %</th>
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<tr>
<td>Number of Enterprises</td>
<td>6</td>
<td>17</td>
<td>30</td>
<td>35</td>
<td>30</td>
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<tr>
<td>Employment (No.)</td>
<td>6,487</td>
<td>12,002</td>
<td>25,288</td>
<td>36,348</td>
<td>34,614</td>
<td>-4.8</td>
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<tr>
<td>Investment (Ksh. m)</td>
<td>1,200</td>
<td>3,764</td>
<td>6,908</td>
<td>9,710</td>
<td>8,595</td>
<td>-11.5</td>
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<tr>
<td>Exports (Ksh. m)</td>
<td>2,300</td>
<td>4,294</td>
<td>8,149</td>
<td>11,083</td>
<td>17,575</td>
<td>58.6</td>
</tr>
<tr>
<td>Exports (US$, m.)</td>
<td>30.1</td>
<td>54.6</td>
<td>103.5</td>
<td>146</td>
<td>221.6</td>
<td>51.8</td>
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<tr>
<td>Investment (US$, m)</td>
<td>15.7</td>
<td>47.9</td>
<td>87.8</td>
<td>127.9</td>
<td>108.4</td>
<td>-15.3</td>
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<tr>
<td>Exchange rate (Ksh/US$) (annual average)</td>
<td>76.2</td>
<td>78.6</td>
<td>78.7</td>
<td>75.9</td>
<td>79.3</td>
<td></td>
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</tbody>
</table>

Annex Figure 3: Trend of EPZ Garment Exports to US under AGOA: 2000 – 2004

Trend of EPZ garment exports to US: 2000 - 2004

Appendices

Appendix 1: Summary Terms of Reference

The Trade Policy Reform and Poverty Linkage study was prompted as a result of a request from the Ministry of Trade and Industry under the Kenya Trade and Poverty Project (KTPP) funded by Department for International Development (DFID). The main objective of the study is to identify the impact of trade policy reforms on poor people in Kenya. The specific terms of reference for this study include:

(I) Updating and disseminating the Bird, Kamua and Odhiambo study of 2003, which examined the links between trade policy change and poverty in Kenya.
(III) Undertaking a stakeholder analysis in order to:
- Identify and analyse the main livelihood groups affected by the trade policy change (both in rural and urban areas),
- Identify other stakeholders in the trade-poverty nexus, government and semi-government institutions (e.g. gender and social ministries, poverty coordination institutions etc); private sector and civil society organizations,
- Analyse the level of awareness of these groups and/or the participation of their representatives in trade policy processes; including analysis of their understanding of trade policy change and their ability to represent their constituencies, and
- Analyse the quality of representation of the interests of different groups of poor people provided by existing Kenya-based civil society organizations (in relation to trade policy change).
(IV) Reviewing existing trade policies affecting Kenya in order to:
- Identify an institutional framework for trade policy formulation and implementation in Kenya through consultation with a number of relevant bodies participating in Kenya’s trade policy processes (Government Institutions and Ministries, Development Partners, Private Sector Institutions and Civil Society Organizations) and outline the mandate and contribution of the main actors,
- Examine the trade agreements and trade pacts that the Government of Kenya has entered into, by assessing the implications of Kenya’s trade-related commitments for sustainable development and poverty reduction, focusing on ACP-EU trade agreements as well as participation in the WTO, EAC and COMESA trade arrangements,
- Assess the links between trade policy and poverty reduction in Kenya by analyzing Kenya’s PRSPs and ERS documents and consulting relevant poverty coordination bodies within the country,
- Assess what needs to change to integrate trade-related issues more effectively into national strategies for poverty reduction or other processes to support changes, which will make trade policy more pro-poor, and
- Review the national and international literature for empirical evidence of the impact of trade reforms on poverty and sustainable development.
Providing policy recommendations based on the analysis derived from components I-IV, above, to:

- Identify the policy processes and institutional links most likely to support the development of pro-poor trade policy (and complementary policies) in Kenya
- Identify the trade policy choices that are likely to have the greatest impact on the poor, and
- Propose strategies to mitigate the negative impact that trade policy change might have on poor people.
Appendix 2: Key Informants

This appendix presents lists of the key informants interviewed during the 2003-04 and the 2006 research periods.

Key Informants Interviewed in 2006

<table>
<thead>
<tr>
<th>Organisation/Ministry</th>
<th>Name</th>
</tr>
</thead>
<tbody>
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<td><strong>Central Government Ministries</strong></td>
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</tr>
<tr>
<td>Ministry of Agriculture</td>
<td>District Agriculture Officers</td>
</tr>
<tr>
<td></td>
<td>Joseph W. Wathinja</td>
</tr>
<tr>
<td>Ministry of Livestock and Fisheries</td>
<td>Rosemary Akinyi</td>
</tr>
<tr>
<td>Ministry of Planning and National Development</td>
<td>Wilfred (DSO)</td>
</tr>
<tr>
<td></td>
<td>S.M.T Wambua (CBS)</td>
</tr>
<tr>
<td></td>
<td>Okumu (DSDO)</td>
</tr>
<tr>
<td></td>
<td>Paul Wafula (District Development Officer)</td>
</tr>
<tr>
<td></td>
<td>Ochieng (District Development Officer)</td>
</tr>
<tr>
<td></td>
<td>Jamhuri Ambuya (District Cooperative Officer)</td>
</tr>
<tr>
<td>Communication Commission of Kenya (CCK)</td>
<td>Mr. Matomo</td>
</tr>
<tr>
<td>Ministry of Labour</td>
<td>C.Otieno (DLO)</td>
</tr>
<tr>
<td>Department of Social Services</td>
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<tr>
<td>Ministry of Gender Sports and Culture</td>
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</tr>
<tr>
<td>Ministry of Education</td>
<td></td>
</tr>
<tr>
<td>Ministry of Livestock and Fisheries</td>
<td>Titus Sagala (District Livestock Officer)</td>
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<tr>
<td>Ministry of Finance</td>
<td>Mwololo-Principle Economist</td>
</tr>
<tr>
<td>Ministry of Tourism and Wildlife</td>
<td>Mr. Gakure</td>
</tr>
<tr>
<td></td>
<td>Peter Njiraini-Economist</td>
</tr>
<tr>
<td>Ministry of Cooperatives</td>
<td>Mr Mwangi - Senior Trade Officer</td>
</tr>
<tr>
<td>Ministry of Trade and Industry</td>
<td>Mr Onyango-Economist, COMESA Desk</td>
</tr>
<tr>
<td></td>
<td>Mr. Sindiga-Deputy chief economist</td>
</tr>
<tr>
<td></td>
<td>Margaret K. Chemenguli, KTPP Consultant</td>
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<tr>
<td></td>
<td>Muraya - Chief Trade officer</td>
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<tr>
<td></td>
<td>Elijah B Manyara- Senior Deputy Director External Trade</td>
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<td>Mr. Jared (Department of Internal Trade)</td>
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<td></td>
<td>Wanyama</td>
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<td><strong>Other Government Departments and Agencies</strong></td>
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<td>Organization</td>
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<td>Kenya Tourist Board</td>
<td>Kennedy Manyala</td>
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<td>KIPI</td>
<td>Mboi Misito</td>
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<td>Kenya Revenue Authority</td>
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<td>Kenya Bureau of Standards</td>
<td></td>
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<tr>
<td>Horticultural Crop Development Authority (HCDA)</td>
<td>Carol Mumbi</td>
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<tr>
<td>Export Promotion Council</td>
<td>Maurice Otieno-manager and research Policy</td>
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<tr>
<td>Kenya Investment Authority</td>
<td></td>
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<td><strong>Local Government</strong></td>
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<tr>
<td>Nakuru Country Council</td>
<td>Clerk</td>
</tr>
<tr>
<td>Municipal Council of Nakuru</td>
<td>Mr. Mugai</td>
</tr>
<tr>
<td>District Trade Development Officer</td>
<td>Gideon</td>
</tr>
<tr>
<td>Butere/Mumias County Council</td>
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<td><strong>Private Sector</strong></td>
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<td>Rufus Kobia (Marketing and Research Officer)</td>
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<td>KEPHIS</td>
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<tr>
<td>Beach Management</td>
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<td>Daniel Ogunda</td>
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<td>AGL-AGRILINK Ltd</td>
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<td>Development</td>
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<tr>
<td>Kihoto Self-Help group</td>
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<tr>
<td>Institute for Policy Analysis and Research (IPAR)</td>
<td>Jacob Omolo (Analyst)</td>
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<td>Fredrich Elbert Stiftung</td>
<td>Collins Odote</td>
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<td>IEA</td>
<td>Miriam Omollo</td>
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<td>Njoro Canning Factory</td>
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<td>Action Aid (Rift Region)</td>
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<td>Kenya Sugarcane Growers Association</td>
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<td>Peter nyaoga-</td>
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### Key Informants Interviewed in 2003

#### Central Government Ministries

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<tr>
<td>Ministry of Foreign Affairs</td>
<td>Fredrick Matwang’a Economist, Economic and Trade Division</td>
</tr>
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<td></td>
<td>Abel Kenyoru Head Economic and Trade Division</td>
</tr>
<tr>
<td>Ministry of Planning</td>
<td>Mr Achoki PRSP Division</td>
</tr>
<tr>
<td>Ministry of Trade and Industry</td>
<td>George Mwosa Assistant Director of Trade (Internal Trade)</td>
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<td></td>
<td>Elijah Manyara Senior Assistant Director (Department of External Trade)</td>
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<td></td>
<td>Njogu Ngariama Principal Economist</td>
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<td>Peter Kamau Senior Economist, COMESA Desk</td>
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<td>Agayo Ogambi Manager</td>
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#### Other Government Departments and Agencies

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<th>Interviewee</th>
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<td>Export Promotion Council</td>
<td>Maurice Otieno Manager, Research and Policy</td>
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<tr>
<td>Kenya Bureau of Standards</td>
<td>Martin Nyakiamo Western Regional Analyst</td>
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<td>Kenya Sugar Authority/ Board (Kisumu)</td>
<td>Stanley Koech Statistician</td>
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<td>Moses Goga Regional Manager</td>
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<td>George Odhiambo Research and Policy</td>
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#### Local Government

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<td>D.M. Mungai District Fisheries Officer</td>
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<td>Hudson Nyamwange</td>
<td>Provincial Farm Management Officer</td>
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<td>------------------</td>
<td>-----------------------------------</td>
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<tr>
<td>Tabitha Ajwang</td>
<td>Provincial Crops Officer</td>
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<tr>
<td>Zakayo Magara</td>
<td>Deputy Provincial Director of Agriculture</td>
</tr>
<tr>
<td>Paul Chepkwony</td>
<td>Provincial Director of Agriculture</td>
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<tr>
<td>Lake Basin Development Authority</td>
<td>Mr Ndire Public Relations Officer</td>
</tr>
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<td></td>
<td>Amos Amenya Senior Agronomist</td>
</tr>
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<td></td>
<td>Pamela Achieng Agricultural Manager</td>
</tr>
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<td></td>
<td>Samwell Ndire Public Relations Manager</td>
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<tr>
<td>Private Sector</td>
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<tr>
<td>Capacity Development Africa</td>
<td>Mr Andrea Morara Private Consultant</td>
</tr>
<tr>
<td>Civil Society and Research Organisations</td>
<td></td>
</tr>
<tr>
<td>Action Aid</td>
<td>Ashish Shah Policy Research Coordinator</td>
</tr>
<tr>
<td></td>
<td>Rose Wanjiru Programme Support Coordinator</td>
</tr>
<tr>
<td>Kenya National Federation of Agricultural Producers (KENFAP) (formerly the Kenya National Farmer's Union)</td>
<td>John Mutunga Programme Coordinator</td>
</tr>
<tr>
<td>SUCAM</td>
<td>Salome</td>
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<tr>
<td>Oxfam</td>
<td>Ada Mwangola Programme Coordinator, Sustainable Livelihoods</td>
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<tr>
<td>National Council of Churches of Kenya</td>
<td>Bwibo Adieri Director, Social Services Delivery</td>
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<tr>
<td>The Kenya National Chamber of Commerce and Industry</td>
<td>Titus Ruhiu Chief Executive</td>
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<tr>
<td>KIPPRA – Kenya Institute of Public Policy Research</td>
<td>Prof Nyangito Director, KIPPRA; Chair KTPP Project Steering Committee</td>
</tr>
<tr>
<td>EcoNews</td>
<td>Karin Gregow Programme Advisor, Campaign Advocacy and Governance</td>
</tr>
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<td>Hudson Aluvanze Team Leader, New Technologies</td>
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<td>International Community</td>
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<td>DFID</td>
<td>Jenny Barugh</td>
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## Appendix 3: Research Instruments

The case studies presented in this report represent sub-sectors in the Kenyan economy. The case studies were developed following a review of the international and grey literature, key informant interviews with a range of individuals (see Appendix 2) and a small survey of farmers within selected sub-sectors. These were purposively selected by District and Divisional Officers, who drew on their knowledge of "common interest groups" (farmers known to be engaged growing a particular crop). The farmers were interviewed using a standard questionnaire (see below). The results of these interviews are incorporated in the relevant sections of this report.

### CASE STUDY QUESTIONNAIRE (INDIVIDUAL)

**House Hold Characteristics**

1. What is your age?
   1= <20  
   2= 20-35  
   3= 36-50  
   4=>50  

2. Sex  
   1= Male  
   2=Female

3. Marital status  
   1=Single  
   2=married  
   3=Separated  
   4=widowed  
   5=divorced

---

<table>
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<tr>
<th>Business Development Services Programme</th>
<th>Economist</th>
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<tbody>
<tr>
<td></td>
<td>Catherine Masinde</td>
</tr>
<tr>
<td></td>
<td>Private Sector Advisor</td>
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<tr>
<td></td>
<td>David Knopp</td>
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<td></td>
<td>Chief of Party</td>
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<tr>
<td></td>
<td>Muli Musinga</td>
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<tr>
<td></td>
<td>BDS Specialist</td>
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<tr>
<td></td>
<td>Mr M.O.Abuom</td>
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<tr>
<td></td>
<td>Senior Manager, Trade Department,</td>
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<tr>
<td></td>
<td>Mary Obara</td>
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<td></td>
<td>Project Officer, Markets and Livelihoods</td>
</tr>
<tr>
<td></td>
<td>Elizabeth Indimuli-Matioli</td>
</tr>
<tr>
<td></td>
<td>Project Officer, Markets and Livelihoods</td>
</tr>
</tbody>
</table>
5. Level of education
   1= None
   2=Primary
   3= Secondary
   4=Tertiary

6. Household size
   1=1
   2=2-5
   3=> 6

7. Number of children
   1=none
   2=1-3
   3 =4-6
   4= >7

8. Dwelling
   1= mud grass thatched
   2= mud tin roofed
   3= mud cement plasterer tin roofed
   4=stone walled tin roofed
   5= stonewalled, tiled house

9. What was your total income last year?
   1= < 23,900
   2= 24,000 – 50,000
   4=51,000 – 100,000
   5= >101,000

10. What was your income in 2000?
   1= < 23,900
   2= 24,000 – 50,000
   4=51,000 – 100,000
   5= >101,000

11. What was your income in 1995?
   1= < 23,900
   2= 24,000 – 50,000
   4=51,000 – 100,000
   5= >101,000

12. What was your annual spending last year………………………………………………

13. What was your annual spending in 2000 …………………………………………………

14. What was your annual spending in 1995 …………………………………………………
Sugar sector/fisheries/livestock/horticulture

1. What prices did your produce fetch per kilo 10 year ago (livestock per animal)
2. What price did they fetch five years ago
3. What price will it fetch this year?
4. What was your total expenditure in farm inputs per acre 10 year ago
   1= < 10,000
   2= 10,000-20,000
   3= 21,000- 50,000
   4= 51,000 – 100,000
   5= >101,000
5. What was your total expenditure five years ago
   1= < 10,000
   2= 10,000-20,000
   3= 21,000- 50,000
   4= 51,000 – 100,000
   5= >101,000
6. What was your total expenditure this year?
   1= < 10,000
   2= 10,000-20,000
   3= 21,000- 50,000
   4= 51,000 – 100,000
   5= >101,000
7. What was your profit 10 year ago
   1= < 10,000
   2= 10,000-20,000
   3= 21,000- 50,000
   4= 51,000 – 100,000
   5= >101,000
8. What was your profit year per five years ago
   1= < 10,000
   2= 10,000-20,000
   3= 21,000- 50,000
   4= 51,000 – 100,000
   5= >101,000
9. What was will be your profit this year?
   1= < 10,000
   2= 10,000-20,000
   3=21,000- 50,000
   4=51,000 – 100,000
   5= >101,000
10. How many employees did you have 10 year ago (refer to classification of companies)
   1=none
   2=<10
   3= 11-50
   4= 51-100
   5=>101

11. How many employees did you have five years ago
   1=none
   2=<10
   3= 11-50
   4= 51-100
   5=>101

12. How many employees do you have this year?
   1= none
   2= <10
   3= 11-50
   4= 51-100
   5= >101

13. How was the business environment 10 year ago (refer to classification of companies)
   1= no competition
   2= some competition
   3= stiff competition
   4= not profitable

14. How was the business environment five years ago
   1= no competition
   2= some competition
   3= stiff competition
   4= not profitable

15. How is the business environment have this year?
   1= no competition
   2=some competition
   3= stiff competition
   4= not profitable

16. Give any specific industry effect of trade policy?

   ..........................................................................................................................
   ..........................................................................................................................
Questionnaire for the Private Sector

SECTION A: GENERAL INFORMATION

1.1 Questionnaire number: ________________________________

1.2 Date of interview: ______________________________________

1.3 Interviewer name: ______________________________________

1.4 Name of the respondent/organization/Ministry:

__________________________________________________________

Address: __________________________________________________

Tel No.: ____________________________________________________

Email: ______________________________________________________

Province: __________________________________________________

District: ____________________________________________________
Private Sector

1. What is the mandate of your organisation in trade policy formulation process?

2. Are you aware of following trade policies (*tick where appropriate*)

   - Import tariff
   - Export tariffs
   - Import quotas
   - Export quotas
   - Tariff rate quotas
   - Import subsidies
   - Export subsidies
   - Deficiency payments
   - Producer subsidies
   - Market price support
   - Voluntary export restraints
   - Market price support
   - Local content requirements
   - State trading enterprise
   - Non-tariff barriers (NTB)
   - Technical barrier of trade
   - Sanitary and phytosanitary measures

3. Can you describe any specific changes in trade policy that you are aware of having affected Kenya?

4. | Trade policy                        | Yes/No | Effects |
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<thead>
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<tbody>
<tr>
<td>Import tariff</td>
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<td>export tariffs</td>
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<td>Import quotas</td>
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<td>Export quotas</td>
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<td>tariff rate quotas</td>
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<td>import subsidies</td>
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<td>Export subsidies</td>
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<td>deficiency payments</td>
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<td>producer subsidies</td>
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<td>voluntary export restraints</td>
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<td>local content requirements</td>
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<td>state trading enterprise</td>
<td></td>
<td></td>
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<tr>
<td>non-tariff barriers (NTB)</td>
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<td></td>
</tr>
</tbody>
</table>

149
5. How did you find out about these policy changes?
   1 = through print media  2 = Electronic media  3 = Word of mouth  4 =
   Involved in policy issues  5 = through a study  6 = government  7 = All the
   above

6. Do you know the process of national and international trade policy change?
   1 = Yes  2 = No
   If yes what do you know?

7. Have you (or anyone from your organization) been involved in either national
   or international trade policy formulation processes?
   1 = Yes  2 = No (If No go to question 8)
   If yes describe your role/ your organization's role?

Through Consultation | Through Meetings | Through membership of KEPLOTRADE Cluster meetings
---|---|---
By:
   1 = Government
   2 = Policy researchers
   3 = Donors
   1 = KEPLOTRADE Cluster meetings
   2 = WTO meetings
   3 = EAC meetings
   4 = COMESA meetings
   1 = Yes  2 = No

6b. How are decisions made?
   1 = consensus
   2 = majority
   3. Others (specify)

7. What role do you think you / your organization can play in trade policy
   formulation?
   1 = Advocacy at national level
   2 = Advocacy at international level
   3 = Facilitator nationally
   4 = Consultant
   5 = (other specify)

8. What position do you/ your organization take on trade policy change?
9. Which sectors have been affected by the following policies

<table>
<thead>
<tr>
<th>Trade policy</th>
<th>Sector/ sub sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Import tariff</td>
<td></td>
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<tr>
<td>2. export tariffs</td>
<td></td>
</tr>
<tr>
<td>3. Import quotas</td>
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<tr>
<td>4. Export quotas</td>
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<tr>
<td>5. tariff rate quotas</td>
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<tr>
<td>6. import subsidies</td>
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<td>7. Export subsidies</td>
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<td>8. deficiency payments</td>
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<td>9. producer subsidies</td>
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<td>10. market price support</td>
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<td>11. voluntary export restraints</td>
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<tr>
<td>12. market price support</td>
<td></td>
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<tr>
<td>13. local content requirements</td>
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<tr>
<td>14. state trading enterprise</td>
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</tr>
<tr>
<td>15. non-tariff barriers(NTB)</td>
<td></td>
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<tr>
<td>16. technical barrier of trade</td>
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<tr>
<td>17. sanitary and phytosanitary measures</td>
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</tr>
</tbody>
</table>

9b. How have the trade policy reforms affected the following? (After Response in COLUMN A, Immediately Ask Column B)

<table>
<thead>
<tr>
<th>COLUMN A</th>
<th>COLUMN B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 = Peasant Farmers</td>
<td>How have the trade policy reforms affected this group?</td>
</tr>
<tr>
<td>2 = Women</td>
<td>How…?</td>
</tr>
<tr>
<td>3 = Youth</td>
<td>How….?</td>
</tr>
<tr>
<td>4 = Orphans</td>
<td>How…?</td>
</tr>
<tr>
<td>5 = PLWA</td>
<td>How…?</td>
</tr>
<tr>
<td>6 = Children</td>
<td>How…?</td>
</tr>
<tr>
<td>7 = Consumers</td>
<td>How…?</td>
</tr>
</tbody>
</table>

9c. Among the following, who felt the greatest impact of the policy reform? (After Response in COLUMN A, Immediately Ask Column B)

<table>
<thead>
<tr>
<th>COLUMN A</th>
<th>COLUMN B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 = Peasant Farmers</td>
<td>Who felt the greatest impact of the policy reform?</td>
</tr>
</tbody>
</table>
2 = Women Who? ____________________________
3 = Youth Who? ____________________________
4 = Orphans Who? __________________________
5 = PLWA Who? ____________________________
6 = children Who? __________________________
7 =consumers Who? ___________________________

10. Has the government introduced any policies to limit negative effects?
    1 = Yes  2 = No  3 = Not aware
    If yes, which ones?
    __________________________________________
    If not, which policies can you recommend?
    __________________________________________

11. Do you know what the effect of (name a specific change in trade policy) has been on consumers?
    1 = Yes  2 = No
    If yes?
    • Import tariff
    • Export tariffs
    • Import quotas
    • Export quotas
    • Tariff rate quotas
    • Import subsidies
    • Export subsidies
    • Deficiency payments
    • Producer subsidies
    • Market price support
    • Voluntary export restraints
    • Market price support
    • Local content requirements
    • State trading enterprise
    • Non-tariff barriers(NTB)
    • Technical barrier of trade
    • Sanitary and phytosanitary measures
12. Has the government introduced any policies to enable Kenyan farmers, agro-processors, industrialists and entrepreneurs to take advantage of trade policy changes?

<table>
<thead>
<tr>
<th>Group</th>
<th>Response</th>
<th>If yes specify</th>
<th>If not recommend</th>
</tr>
</thead>
</table>
| Farmers        | 1 = Yes  
2 = No  
3 = not aware |                |                  |
| Agro-processors| 1 = Yes  
2 = No  
3 = not aware |                |                  |
| Industrialists | 1 = Yes  
2 = No  
3 = not aware |                |                  |
| Entrepreneurs  | 1 = Yes  
2 = No  
3 = Don't know |                |                  |

13. Has the government introduced any policies to enable consumers to gain maximum benefit from trade policy changes?

1 = Yes  
2 = No  
3 = Not aware

If yes, what are they? .................................................................

If not, what kind of policies would the government put in place?
.................................................................

14. Are you aware of the objectives of EAC, COMESA and Cotonou agreement? Generally, are you aware of the objectives of the following?

| Agreement   | 1 = Yes  
2 = Not aware | Explain |
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>EAC</td>
<td></td>
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<td>COMESA</td>
<td></td>
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<tr>
<td>Cotonou</td>
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<tr>
<td>agreement</td>
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</tbody>
</table>

15. Have you participated in any trade negotiation meetings?

1 = Yes  
2 = No

If yes, what was the level of participation?

1 = Attending trade negotiation  
2 = Attending preparation meetings  
3 = Prepared position paper  
4 = Lead delegation  
5 = All of the above  
6 = Others
16. How will you rate the person attending the trade policy meetings?

1 = Not Knowledgeable  2 = Fairly knowledgeable  
3 = Knowledgeable  4 = Very knowledgeable

16b. Have they received any relevant training?

1= Yes  2= No

If yes which training ____________________________________________

How often?

1= Once a year  2= Twice a year  3= Thrice a year  4= Quarterly  
5 = Often

Questionnaire for Kenya-based Civil Society

SECTION A: GENERAL INFORMATION

1.5 Questionnaire number:

______________________________________________________________

1.6 Date of interview:

______________________________________________________________

1.7 Interviewer name:

______________________________________________________________

1.8 Name of the respondent/organization/Ministry:

______________________________________________________________

Address:

______________________________________________________________

Tel No.:

______________________________________________________________

Email:

______________________________________________________________

Province:

______________________________________________________________

District:

______________________________________________________________

Analyzing the quality of representation of the interest groups by existing Kenya based Civil Society
1. Are you aware of any specific changes in trade policy that have affected Kenya?

2. How did you find out about these policy changes?

3. Could you describe what you know about national and international trade policy change processes?

4. Have you (or anyone from your organization) been involved in either national or international trade policy formulation processes?

- Through consultation –
- Who consults you?
- Through meetings –
- Which meetings have you been invited to which are related to trade policy formulation?
- Who invited you?
- Have you attended any of the following meetings WTO, EAC, COMESA or KEPLTRADE?
- Are you a member of any of the KEPLTRADE cluster meetings?
- Are you (or anyone from your organization) a member of the National Committee on WTO?

5. What position do you/your organization take on trade policy changes?

6. Which sectors or sub-sectors have been affected by trade policies?
ii. Name a specific change in trade policy

ii. How have the sectors been affected?

iii. How have these changes affected different groups or parts of the country (e.g. around the airport, “land hunger” in horticulture zone, impact on particular socio-economic groups/ ethno-linguistic groups/ women/ youth)?

7. Do you know of any policies that the government has introduced which aims to limit negative effects?

8. Do you know what the effect of trade policy on consumers?

9. Do you know if the government introduced any policies to limit the negative effects of trade policy changes?

.. Do you know if the government introduced any policies to enable Kenyan farmers, agro-processors, industrialists and entrepreneurs to take advantage of trade policy changes?

Farmers

Agro processors

Industrialists

Entrepreneurs

10. Do you know if the government introduced any policies to enable consumers to gain maximum benefit from trade policy changes?

Does the person attending the trade-policy meetings have an in-depth knowledge of trade policy issues?

How do you pass the trade-related information you gain to the people you represent?
Questionnaire for Kenya's Public Sector

SECTION A: GENERAL INFORMATION

1.9 Questionnaire number:

_________________________________________________________

1.10 Date of interview:

_________________________________________________________

1.11 Interviewer name:

_________________________________________________________

1.12 Name of the respondent/organization/Ministry:

_________________________________________________________

Address:

_________________________________________________________

Tel No.:

_________________________________________________________

Email:

_________________________________________________________

Province:

_________________________________________________________

District:

_________________________________________________________

Public Sector

1. Are you aware of trade policy formulation process in Kenya?
   1 = Yes       2 = No (if No go to question 3)

2. Are you aware of who is involved in trade policy formulation process?
   Yes ( ) No ( )
   If yes, tick appropriate
   1 = Government   2 = Parliament   3 = Donors      4 = Civil society
   5 = Private sector 6 = All above   7 = others (specify)

3. What would be the role(s) of the following in trade policy formulation process?
4. a What is the role of your institution in trade policy formulation process?

1 = Provide information  
2 = Lead delegations 
3 = Lead negotiations

4 = Drafting papers  
5 = Facilitating  
6 = Financing 
7 = Lobbying  
8 = Negotiation  
9 = Not aware 
10 = others, specify ____________

4. b How does your institution involve stakeholders in trade policy formulation process.

1 = meetings  
2 = discussions  
3 = consultations 
4 = informing that a policy will happen  
5 = all above 
6 = don’t know 
7 = others, specify ____________

5. Are you aware of past trade policy reforms?

1 = Yes  
2 = No (if No, go to question 8)

If yes, which ones, 

1. ________________________

2. ________________________

3. ________________________
6.a) In your understanding, has these policy changes affected any sector or sub-sector?

1 = Yes 2 = No 3 = Not aware

b) If yes, which sectors / sub-sectors?

1. ________________________________
2. ________________________________
3. ________________________________

c.1) How have these affected generally? (*Tick one as appropriate*)

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<th>No change</th>
<th>Decreased</th>
<th>Greatly decreased</th>
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<td>Employment</td>
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<td>Prices</td>
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<td>Cheaper Imports</td>
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<td>Wages</td>
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c.2) How have these affected the cotton sector? (*Tick one as appropriate*)

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c.3) How have these affected the sugar sector? (*Tick one as appropriate*)

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<th>No change</th>
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c.4) How have these affected fishery sector? (*Tick one as appropriate*)
c. 5) How have these affected the Horticultural sector? (*Tick one as appropriate*)

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c. 6) How have these affected the livestock sector? (tick one)

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<th>No change</th>
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<td>Prices</td>
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<tr>
<td>Cheaper imports</td>
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<tr>
<td>Production</td>
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<tr>
<td>Competition</td>
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<tr>
<td>Wages</td>
<td></td>
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</tr>
</tbody>
</table>

d.1) How have the trade policy reforms affected the following? (*After Response in COLUMN A, Immediately Ask Column B*)

<table>
<thead>
<tr>
<th>COLUMN A</th>
<th>COLUMN B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 = Peasant Farmers</td>
<td>How?</td>
</tr>
<tr>
<td>2= Women</td>
<td>How?</td>
</tr>
<tr>
<td>3 = Youth</td>
<td>How?</td>
</tr>
<tr>
<td>4 = Orphans</td>
<td>How?</td>
</tr>
<tr>
<td>5 = PLWA</td>
<td>How?</td>
</tr>
<tr>
<td>6= Children</td>
<td>How?</td>
</tr>
<tr>
<td>7=Consumers</td>
<td>How?</td>
</tr>
</tbody>
</table>
d.2) Among the following, who felt the greatest impact of the policy reform? (After Response in COLUMN A, Immediately Ask Column B)

<table>
<thead>
<tr>
<th>COLUMN A</th>
<th>COLUMN B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 = Peasant Farmers</td>
<td>How?</td>
</tr>
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</tr>
<tr>
<td>5 = PLWA</td>
<td>How?</td>
</tr>
<tr>
<td>6 = Children</td>
<td>How?</td>
</tr>
<tr>
<td>7 = Consumers</td>
<td>How?</td>
</tr>
</tbody>
</table>

7. Has the government introduced any policies to limit negative effects?
   1 = Yes  2 = No  3 = Not aware
   If yes, which ones?

   If not, which policies can you recommend?

8. Has a change in trade policy affected consumers?
   1 = Yes  2 = No
   If yes which policy? (Tick where appropriate)
   1. Import tariff
   2. export tariffs
   3. Import quotas
   4. Export quotas
   5. tariff rate quotas
   6. import subsidies
   7. Export subsidies
   8. deficiency payments
   9. producer subsidies
   10. market price support
   11. voluntary export restraints
   12. market price support
   13. local content requirements
   14. state trading enterprise
   15. non-tariff barriers(NTB)
   16. technical barrier of trade
   17. sanitary and phytosanitary measures

9. Has the government introduced any policies to enable Kenyan farmers, agro-processors, industrialists and entrepreneurs to take advantage of trade policy changes?
<table>
<thead>
<tr>
<th>Group</th>
<th>Response</th>
<th>If yes specify</th>
<th>If not recommend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers</td>
<td>1 = Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2 = No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 = not aware</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agro-processors</td>
<td>1 = Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2 = No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 = not aware</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrialists</td>
<td>1 = Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2 = No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 = not aware</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurs</td>
<td>1 = Yes</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>2 = No</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 = Don’t know</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. Has the government introduced any policies to enable consumers to gain maximum benefit from trade policy changes?
11.  
   1 = Yes  2 = No  3 = Not aware

   If Yes, what are they?

   If not, what kind of policies would the government put in place?

12. Are you aware of the objectives of EAC, COMESA and Cotonou agreement? Generally, are you aware of the objectives of the following?

<table>
<thead>
<tr>
<th>EAC</th>
<th>1 = Yes</th>
<th>Explain</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 = Not aware</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMESA</th>
<th>1 = Yes</th>
<th>Explain</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 = Not aware</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cotonou agreement</th>
<th>1 = Yes</th>
<th>Explain</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 = Not aware</td>
<td></td>
</tr>
</tbody>
</table>

13. Have you participated in any trade negotiation meetings?
   1 = Yes  2 = No

   If yes, what was the level of participation?
   1 = attending trade negotiation
   2 = attending preparation meetings
   3 = Prepared position paper
   4= lead delegation
   5 = all of the above
   6= Others ________________________________
14. What experience or training do you have to support you in this role?
   1 = Trained at PhD level
   2 = Trained at Msc level
   3 = trained in trade negotiation
   4 = Member of negotiating committee
   5 = Research skills