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ECA Multidisciplinary Regional Advisory Group

REPORT OF UNECA-MRAG MISSION TO KENYA ON RATIONALISATION OF INSTITUTIONAL MECHANISMS FOR REGIONAL AND INTERNATIONAL ECONOMIC COOPERATION

Nairobi, Kenya
August 1-10, 1994

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UNITED NATIONS ECONOMIC COMMISSION FOR AFRICA
MULTI-DISCIPLINARY REGIONAL ADVISORY GROUP

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EXECUTIVE SUMMARY

1. The phenomenon of economic cooperation and integration has constituted a key element of development strategy in Africa since independence. The significance of this strategy is well documented and reflected in virtually all recent internal or external action programmes or guidelines for Africa, as well as in resolutions and declarations by African leaders themselves from the Monrovia Strategy (1979) through the Lagos Plan of Action (LPA) and the Final Act of Lagos (FAL) 1980 to the recently adopted United Nations New Agenda for African Development in the 1990s (UN-NADAF) 1991.

2. Like many other African countries, regional economic grouping is not only desirable for Kenya, it is necessary if the country is to industrialize, develop intra-African trade, reduce her excessive openness and dependency on vulnerable and fluctuating overseas markets, strengthen her national sovereignty and maximize scarce resources of capital and skills.

3. Hence, after attaining independence in 1963, Kenya sought membership of economic groupings at the subregional, regional and international levels in the hope of achieving a superior rate of development, or at least of reducing the level of underdevelopment and, consequently, consolidating its political independence.

4. Besides being an original member of the European Union - ACP Lome Conventions since 1975 and a signatory to the recently established African Economic Community, Kenya was a founder member of both the Preferential Trade Area for Eastern and Southern African (PTA), transformed in November 1993 into a Common Market for Eastern and Southern Africa (COMESA); and the Inter-Governmental Authority on Drought and Development (IGADD).

5. While all these are steps towards cooperation in Africa - towards collective self-reliance, solidarity, subregional and regional cooperation - it became evident to the UNECA-MRAG mission that there was the lack of an institutionalized technical support at the national level. Put differently, a dynamic and well-equipped institutional structure and framework for effective implementation of economic cooperation and integration decisions, acts and policies to reflect in national development plans, objective and strategies, or to incorporate the goals of subregional and regional cooperation in the mandate of public agencies and institutions did not seem to exist.

6. Specifically, although the Government had over the years made huge and varied investments in the field of economic cooperation and integration, there did not appear to be any effective machinery in place to evaluate or assess the impact of these investments on national development.

7. The management of external economic issues, including economic cooperation and integration policies, would seem to be carried out by multiple units in various ministries, departments and offices of Government.

8. While organizationally, the Department of Regional and International Economic Cooperation was structured to be the hub of Kenya's external economic and technical relations, Africa and non-Africa, it shared this responsibility equally with other ministries/departments of Government. This fragmentation of responsibilities would not seem to provide any effective follow-up action and impact of economic cooperation decisions and acts.

9. Besides, no relevant institutional structure had been established to enable the people, the business community, the private sector or agents of socio-economic activity and their organized associations, like the chambers of commerce and industry and professional associations, to find appropriate and adequate channels of participation in Kenya's social, cultural, political and economic development activities at the subregional and regional levels.

10. While politically, Kenya's membership of the subregional organizations has brought about friendly relationship between the country and its neighbours, financially, the benefits derived from such membership do not, on the whole, appear to correspond to the costs involved. However, the potential for increased trade flows and stimulation of the economy, especially the export sector, does happily exist particularly with the establishment of COMESA and the African Economic Community.

11. To enable Kenya to increase its support for regional economic groupings and international cooperation schemes, to derive substantial benefits from its productive land, substantial potential to develop its water resources, vibrant society and vigorous business community, and to adopt national economic policies that would make the country's participation in these organizations more effective and beneficial, the mission recommends that the existing Department of Regional and International Economic Cooperation be upgraded to a full, separate Ministry answerable directly to the Head of State and headed by a senior minister.

12. As budgetary constraints might not provide sufficient room for establishment of this separate Ministry of Regional and International Economic Cooperation, the mission recommends, as a

second option, a systematic and conscious strengthening of the existing Department of Regional and International Economic Cooperation.

13. For either option, the mission recommends that appropriate training and career incentives should be offered to public servants to attract high calibre professionals with the requisite skills, experience and qualifications to serve in the proposed Ministry or Department.

14. To avoid duplication and waste of scarce resources, the mission recommends urgent rationalization of all the functions of the existing seven separate departments, divisions and units of ministries, which handle economic cooperation issues, as detailed in paragraphs 59-70, and put them under the proposed new Ministry or strengthened Department of Regional and International Economic Cooperation.

15. For either option, the mission recommends that the specific functions detailed in paragraph 140 be carried out.

16. Besides, the mission recommends the establishment of a consultative body to be known as National Commission for Cooperation and Integration (NCCI) for permanent consultation on all issues of regional and international economic cooperation under the chairmanship of the President of the Republic or the Vice-President.

17. The mission recommends, finally, that the existing ad-hoc Inter-Ministerial Coordination Committee (ICC) be rationalized to enable it to formulate national policy and coordinate Government action in the area of regional and international economic cooperation.

I. INTRODUCTION: PURPOSE OF MISSION

1. At the request of the Office of the Vice-President and Ministry of Planning and National Development, Messrs S.K.B. Asante, Senior Regional Adviser in Economic Cooperation and Integration, and W.A. Ndongko, Senior Regional Adviser in Macro-Economics and Policy Reforms, both of the Multidisciplinary Regional Advisory Group (MRAG) of the United Nations Economic Commission for Africa, undertook an advisory mission to Nairobi, Republic of Kenya, between 1 and 10 August 1994.

2. The purpose of the mission was basically to evaluate critically the ministerial institutions and national mechanisms established in Kenya for regional and international cooperation issues with particular reference to the Department of Regional and International Economic Cooperation of the Ministry of Planning and National Development. The aim was to enhance the capacity of this recently established Department to enable Kenya to derive the desirable benefits from her membership of international and regional economic cooperation and community schemes.

3. Towards this end, the mission undertook the following tasks:

(i) A brief review of the socio-economic development and performance of Kenya;

(ii) A critical evaluation of the institutional mechanisms established for economic cooperation at the regional and international levels;

(iii) Assessment of costs and benefits of Kenya's membership of regional and international economic cooperation schemes;

(iv) Holding a series of consultations with senior experts, technocrats and permanent secretaries of the substantive sectoral departments/units responsible for regional and international economic cooperation issues, as well as the executive chairmen and directors of relevant national institutions and parastatals;

(v) Exchange of views, through a series of meetings, with the multilateral financing and development institutions - World Bank, African Development Bank, European Union Delegation - and the United Nations Specialized agencies - FAO, UNESCO, etc., - operating at the country level in Kenya; and

(vi) Make recommendations on enhancement of capacity of a ministerial structure and national machinery for regional and international economic cooperation.

I.1. Acknowledgement

4. The mission would wish to acknowledge the warm welcome and cooperation of the senior officials of the Ministry of Planning and National Development of the Office of the Vice-President, who made intensive preparations for the mission and enthusiastically drew up the mission's programme of activities including: (a) a courtesy call on the Vice-President of the Republic of Kenya, Professor George Saitoti and the Permanent Secretary of the Ministry of Planning and National Development Mr. F.M. Kuindwa; (b) preliminary meeting with the Director of Planning and representatives of all the relevant Ministries and International Organizations; (c) separate meetings and consultations with Permanent Secretaries and senior experts of Ministries/Departments and executive chairman and directors of relevant parastatals and, finally, (d) a briefing session with representatives of Ministries and International Organizations. The mission could not have been undertaken without the patience and sustained cooperation and encouragement from Mr. F.M. Kuindwa, the dynamic Permanent Secretary of the Ministry of Planning and Regional Development.

5. Still another, and sunstantial, acknowledgement is due to all those top officials who, gave willingly and unstingingly of their time, often interrupting busy schedules and making an extra effort to provide the mission with the needed information. Special thanks are due to the UNDP Office in Nairobi, the Resident Representatives of the United Nations Specialized Agencies and those of the financing and development organizations operating in Kenya for their cooperation throughout the period of the mission.

I.2. Structure of the Report

6. The report is divided into Six Sections. After the Executive Summary, section I introduces the purpose of the mission. Section II provides a review of the socio-economic development and performance of Kenya. In section III Africa's strategy of regional and international economic cooperation is briefly highlighted, while section IV critically assesses the national institutions and mechanisms for managing regional and international economic cooperation in Kenya. Section V examines the costs and benefits of Kenya's membership of regional and international economic cooperation schemes, while section VI, the final section, provides the mission's conclusions and recommendations.

II. A REVIEW OF SOCIO-ECONOMIC DEVELOPMENT AND PERFORMANCE OF KENYA

II.1. Introduction

7. The purpose of this section of the report is to undertake a brief review of the socio-economic development trends and performance of Kenya with particular emphasis on economic management and recovery policies, strategies and programmes as well as their implication for regional economic cooperation and integration in Africa. This review has drawn extensively but not exclusively from the various National Development Plans, Sessional Papers, Macroeconomic Policy Frameworks, Economic Recovery Programmes, Economic Surveys and the Budget Speeches which have been elaborated mainly by the Ministries of Finance, Planning and National Development.

II.2. Salient Economic Features

8. With a per capita income of $US340 in 1991 and a population growth of about 3.4 percent, Kenya is one of the low income countries in the Third World. About 75 percent of the country's total land area of 583,000 square kilometres is semi-arid or arid. The economy is heavily dependent on agriculture which employs about 80 percent of the labour force, contributes 24 percent of the GDP and its two main export crops - tea and coffee - account for some 43 percent of the merchandise exports.

9. Kenya has a diversified industrial base that contributes 18 percent of the GDP and employs 7 percent of the labour force. Manufactured exports are, however, low and, since the collapse of the East African Community, have remained below 20 percent of total exports. The service sector, including tourism, accounts for about 45 percent of the GDP and is an important source of employment and Kenya's leading foreign exchange earner. Kenya is not an oil-producing country but has an oil refinery in Mombassa that supplies domestic and export markets.

10. The post-independence economic history of the country can be broken down into five, although overlapping, periods:

(i) The "Kenyan miracle" of 1964-1973, with an annual average growth rate of about 8 percent;

(ii) The years 1974-1976 which saw declining GDP per head due to a combination of the oil crisis, international economic recession and widespread drought;

(iii) The coffee and tea price boom of 1975-1977, a period of growth which was not subsequently capitalised on;

(iv) The period 1978-1984, which was a time of renewed recession with the GDP growing more slowly than that of the population, and

(v) A period of renewed growth since 1985, augmented by the coffee boom in 1986, which has since collapsed.

II.3. Economic Developments (1963-1980)

11. Kenya's economic growth since independence in 1963 has been rapid by African standards but it has also experienced substantial fluctuations. It has been based on the "easy options" of import substituting industrialisation (with a substantial role for foreign capital for which Kenya was attractive during the 1960s and 1970s). Agricultural expansion was stimulated by the transfer of land from extensive use to small farm use and from low value to high value crops such as maize.

12. As a result, there was remarkable economic growth and structural change with real GDP growing by more than 8 percent a year. Manufacturing growth was largely due to expanding domestic demand supported by rising agricultural incomes, high levels of protection that encouraged private investment, a liberal policy towards foreign investment and an active government role in industrial promotion and investment.

13. However, GDP growth (at market prices) declined after the 1973 oil crisis, averaging 5.4 percent during the period 1973-1980, reflecting the impact of the oil shock and some emerging structural constraints. Inappropriate macro-economic policies, including trade and exchange rate policies that turned the internal terms of trade against agriculture and government involvement in the marketing of agricultural products discouraged production and precipitated fiscal pressures.

14. Furthermore, industrial growth slowed down due to an incentive structure that favoured the domestic market over exports; thus leading to an inward-looking sector with declining opportunities for efficient import substitution. These factors were further exacerbated by the collapse of the East African Community and growing inefficiency in the State Corporations and Parastatals.

15. It is evident from the foregoing analysis that up to the early 1970s, the Kenyan economy registered a rapid growth of the GDP, accompanied by stable domestic and external prices and a favourable balance of payments situation. However, between 1973 and 1980, the performance of the economy was less impressive, principally because of the balance of payments problems which were aggravated by the deteriorating terms of primary exports on which

Kenya depends for foreign exchange earnings, increases in interest rates on international loans and the world economic recessions of 1975/76, coupled with the domestic drought of 1974/75.

II.4. Economic Developments (1980-1990)

16. During the period of 1980-1985, the annual GDP growth rate (at market prices) declined to 2.2 percent due to stabilisation problems caused by the erosion of fiscal discipline, the 1979/80 oil price shocks, world economic recessions of 1980/82, the debt crisis of 1982, and the domestic droughts of 1979/80 and 1984. The macroeconomic imbalances trigged by these economic and financial crisis led to a series of government policy initiatives. These initiatives took the form of devaluation, increased solicitation of international of financial support, reduction of direct Government participation in productive economic activities and budget rationalisation so as to promote a more efficient utilisation of resources.

17. By the mid-1980s, stabilisation efforts had largely succeeded. The budget deficit was halved, inflation was greatly reduced and the current account deficit reduced to 3.6 percent of GDP. In particular, the devaluation of 1982 restored the real effective exchange rate to the 1976 level and subsequent adjustments resulted in a substantial real and effective depreciation. Real interest rates became positive and real wages were raised substantially. In agriculture, administered producer prices were increased considerably.

18. During the period 1985-1989, economic growth recovered, averaging some 5.4 percent per annum. This was due to favourable weather conditions, budgetary discipline and the coffee boom of 1986. Agriculture remained the mainstay of the economy, accounting for 30 percent of GDP, even in drought years such as 1980 and 1984. Manufacturing was however constrained during the period under review by sluggish growth in the domestic market and poor export performance as a result of a lack of competitiveness of much of Kenyan industry and of the very poor performance of the regional market. The sector, nevertheless remained the strongest and most diversified in the East African region and was posed to take advantage of the structuring efforts in Uganda.

19. The shape of government services in GDP, which grew very rapidly during the early years of independence, remained constant at 14-16 percent during the 1980s. There was a considerable expansion of the production base, infrastructure and services as can be observed in Table 1(a) which provides the data on the Gross Domestic Product for the period 1986-90 and Table 1(b) which presents the Economic and Social Indicators of Kenya for the same period.

Domestic Product 1986-1990

	Current Prices					Constant (1982) Prices				
	1986	1987	1988	1989	19901/	1986	1987	1988	1989	1990*
A. NON-MONETARY ECONOMY										
Forestry	37.26	43.68	52.60	59.27	62.83	27.72	28.62	29.53	30.46	31.37
Fishing	1.80	1.85	2.11	2.85	3.01	1.45	1.50	1.53	1.54	1.49
Building and Construction	71.77	77.07	84.17	90.42	95.84	65.33	67.65	68.24	71.50	72.93
Water Collection	31.57	35.78	40.73	44.47	46.13	21.13	21.72	22.56	23.44	24.14
Ownership of Dwellings	121.41	139.00	162.29	199.00	218.93	86.07	89.33	92.89	96.41	99.71
TOTAL NON-MONETARY ECONOMY	263.81	297.38	341.90	396.01	426.74	201.70	208.82	214.75	223.35	229.65
B. MONETARY ECONOMY										
1. Enterprises and Non-Profit Institutions										
Agriculture**	1,598.05	1,669.26	1,902.69	2,088.39	2,235.46	1,023.39	1,062.57	1,109.26	1,152.51	1,192.16
Forestry	37.91	49.57	61.60	93.42	107.39	29.37	33.64	38.14	40.62	42.65
Fishing	15.09	17.50	20.09	27.39	32.76	9.59	10.93	12.27	12.83	13.39
Mining and Quarrying	11.45	13.27	13.69	18.62	24.39	8.40	9.12	10.15	10.62	11.25
Manufacturing	608.23	652.47	752.96	855.36	987.40	448.67	474.34	502.80	532.47	560.34
Building and Construction	175.12	210.81	284.13	386.93	591.32	112.06	116.68	121.68	128.25	135.10
Electricity and Water	52.14	55.24	57.63	64.03	79.40	31.22	33.61	36.47	39.53	43.69
Trade, Restaurants and Hotels	561.01	628.25	712.03	829.07	947.63	389.98	412.53	436.27	455.47	473.69
Transport, Storage and Communications	341.08	393.35	433.74	485.79	598.17	215.42	224.90	234.02	241.06	249.74
Finance, Insurance, Real Estate and Business Services	365.22	418.65	501.83	576.90	686.69	261.02	274.52	291.27	313.11	333.15
Ownership of Dwellings**	262.96	303.58	355.62	393.87	480.52	196.53	205.63	212.20	220.63	229.35
Other Services**	153.72	181.66	197.92	228.00	251.48	104.05	111.74	119.72	127.86	135.93
Less: Imputed Bank Service Charges	-150.24	-172.98	-245.95	-281.62	-252.50	-105.94	-113.43	-121.81	-129.12	-134.01
Total	4,031.74	4,420.63	5,047.98	5,766.15	6,770.11	2,723.76	2,856.78	3,002.44	3,145.84	3,286.41
2. Private household (domestic services)	62.96	71.78	83.94	97.49	113.56	44.00	48.71	55.30	62.36	70.52
3. Producers of Government Services										..
Public Administration	143.79	168.50	211.39	271.34	316.85	..	..	..	..	..

	Current Prices					Constant (1982) Prices				
	1986	1987	1988	1989	19901/	1986	1987	1988	1989	1990*
Defence	18.17	25.49	27.54	32.48	43.34	..	..	..	..	..
Education	373.26	411.66	479.59	546.97	612.44	..	..	..	..	..
Health	77.51	87.20	96.93	114.50	124.06	..	..	..	..	..
Agricultural Services	43.21	49.12	116.47	54.43	69.73	..	..	..	..	..
Other Services	100.51	116.47	858.44	146.83	156.83	..	..	..	..	..
Total	756.45	858.44	997.99	1,166.55	1,323.25	528.73	554.13	586.16	618.40	646.84
Total Monetary Economy	4,851.15	5,350.85	6,129.91	7,030.19	8,206.92	3,296.49	3,459.62	3,643.90	3,826.60	4,003.77
TOTAL NON-MONETARY AND MONETARY ECONOMY	5,114.96	5,648.23	6,471.81	7,426.20	8,633.66	3,498.19	3,668.44	4,858.65	4,049.95	4,233.42
Gross Domestic Product per capita K£	245.08	261.23	289.06	322.71	359.97	167.62	169.67	172.34	174.77	176.51

Source: Economic Survey, 1991, Central Bureau of Statistics, Nairobi, (Kenya).

Table 1(b): Key Economic and Social Indicators, 1986-1990 [1]

	1986	1987	1988	1989	1990
1. Population (million)	20.9	21.6	22.4	23.2	24.0
2. Growth of GDP at constant prices (per cent)	5.6	4.9	5.2	5.0	4.5
3. GDP at market prices (k£mn)	5,874	6,559	7,551	8,617	10,033
4. Net cost of petroleum products (k£mn)	110	179	135	224	318
5. Trade balance (k£mn)	-351	-641	-813	-1,219	-1,331
6. Money supply (k£mn)	1,784	1,983	2,141	2,418	2,902
7. Total domestic credit (k£mn)	2,018	2,430	2,591	2,771	3,509
8. Balance of payments (current account) (k£mn)	-31	406	-403	-604	-544
9. Coffee marketed production ('000 tonnes)	115	105	125	113	112
10. Tea marketed production ('000 tonnes)	143	156	164	181	197
11. Maize marketed centrally ('000 tonnes)	670	652	485	626	509
12. Wheat marketed centrally ('000 tonnes)	225	148	220	233	187
13. Sugar-cane production ('000 tonnes)	3,552	3,698	3,835	4,261	4,200
14. Milk sold centrally (mn litres)	316	347	359	353	392
15. Manufacturing output (k£mn)	4,297	5,090	6,103	7,283	8,816
16. Construction output (k£mn)	499	582	653	798	979
17. Cement consumption ('000 tonnes)	713	891	854	1,003	1,182
18. Petroleum consumption ('000 tonnes)	1,583	1,748	1,730	1,807	1,830
19. Electricity consumption (mn kwh)	2,158	2,372	2,407	2,488	2,665
20. Tourism earnings (k£mn)	248	292	349	432	533
21. New registration of vehicles (number)	16,955	18,727	19,524	18,405	18,633
22. Rail freight (mn tonnes-km)	1,831	1,702	1,755	1,910	1,808
23. Air passengers handled ('000)	2,289	2,397	2,522	2,649	2,800
24. Wage employment ('000)	1,230	1,280	1,341	1,373	1,408
25. Education-primary enrolment ('000)	4,843	5,031	5,124	5,389	5,392
26. Education-secondary enrolment ('000)	459	522	540	641	623
27. Education-post secondary enrolment ('000)	33	40	41	63	79
28. Hospital beds and costs (number)	31,356	31,512	31,983	32,534	33,086

1. More precise measures are given in individual chapters.

	1986	1987	1988	1989	1990	
1. Population (million)	20.9	21.6	22.4	23.2	24.0	
29. Registered doctors and dentists (number)	3,421	3,563	3,703	3,827	3,953	
INDEX NUMBERS: (1982=100)						Annual % Rate of 1986-1990
Export volumes	114	110	116	115	122	1.7
Import volumes	101	106	119	125	115	3.3
Terms of trade	103	85	88	79	69	-9.5
Consumer prices	146	156	173	191	215	10.2
Real wages	95	95	97	97	95	-0.1
Agricultural terms of trade	99	95	99	98	95	-1.0

ource: Economic Survey 1991, Central Bureau of Statistics, Nairobi (Kenya).

Table 2: Main Economic Indicators (1988-1993)

	1988	1989	1990	1991	1992	1993
Economic Indicators						
GDP at factor cost K£'m	6,481	7,451	8,540	9,793	11,605[b]	n/a
Real GDP growth 96	5.1	5.0	4.3	2.3	0.4[b]	0.8[b]
Consumer price inflation 96	12.3	13.3	15.8	19.6	27.5	45.0[c]
Population[d] m	23.9	24.9	23.6	25.9	27.0	28.5[c]
Exports fob $ m	1,073	991	1,086	1,128	1,081[b]	1,180[c]
Imports cif $ m	1,989	2,177	2,221	1,924	1,834[b]	1,880[c]
Current account $ m	-460	-580	-520	-215[b]	-98[b]	-190[c]
Reserves excl gold $ m	264	285	205	117	53	146[e]
Total external debt disbursed $ bn	5.76	5.70	6.95	7.00	6.37	n/a
External debt-service ratio 96	38.7	36.0	34.7	32.0	24.5	n/a
Manufacturing output index 1976=100	211.3	223.8	235.6	244.6	247.5[b]	n/a
Marketed tea production '000 tons	164.0	180.6	197.0	203.6	188.1[b]	211.2[b]
Coffee production[f] '000 tons	116.9	103.9	86.4	85.3[b]	70.0[c]	75.0[c]
Tourist departures '000	523	548	598	560	547[b]	n/a
Exchange rate (av) KSh:$	17.75	20.57	22.92	27.51	32.22	58.00
May 6, 1994 KSh59.76:$1						

Origins of gross domestic product 1992[b]	**% of total**	**Components of gross domestic product 1992[b]**	**% of total**
Agriculture, forestry & fishing	25.6	Private consumption	68.9
Manufacturing	11.3	Government consumption	15.7
Trade? restaurants & hotels	12.2	Gross fixed capital formation	15.8
Transport, storage & communications	7.8	Change in stocks	0.3
Government services	14.9	Exports of goods & services	25.8
Other, net	28.2	Imports of goods & services	-26.5
GDP at factor cost	**100.0**	**GDP at market prices**	**100.0**

Principal exports 1992[b]	$ m	Principal Imports 1992[b]	$ m
Tea	295	Crude petroleum	341
Petroleum products	146	Industrial machinery	314
Horticulture	130	Iron & steel	114
Coffee	128	Motor vehicles & chassis	90
Pyrethrum extract	23	Resins & plastics	68

Main destinations of exports 1992[b]	% of total	Main origin of imports 1992[b]	% of total
UK	18.3	UAE	16.3
Uganda	7.1	UK	11.5
Germany	6.5	Japan	9.4
Tanzania	4.6	USA	8.2

a: K£1: KSh20.
b: Provisional.
c: EIU estimates.
d: UN figures; change in series in 1990.
e: October.
f: Crop years beginning in October.
Source: Economic Intelligent Unit, Kenya Country Report, 2nd Quarter 1994.

20. However, after a small coffee boom in 1986, Kenya faced renewed macroeconomic imbalances which were largely caused by: (a) expansion of public sector employment which increased the budget from 7.6 percent to 9.0 percent of the GDP between 1976 and 1990; and (b) rapid monetary expansion which accelerated inflation from 3.9 percent in 1986 to 15.7 percent in 1990. Largely because of the foregoing factors, adverse terms of trade and slow growth in non-traditional exports, the current account deficit (excluding grants) remained high, fluctuating between 6.2 and 8.7 percent of GDP during 1987-1990.

21. In order to redress these economic and financial problems, the Government strategic long-term development policy has been set out in a Sessional Papers No. 1 of 1986 on Economic Management for Renewed Growth and No. 1 of 1994 on Recovery and Sustainable Development. The Sessional Paper provides a framework for Kenya development to the years 2000 and 2010, respectively. In particular, the 1986 Sessional paper sets out in clear terms the employment and welfare implications of the recent economic trends for the country's future upto the year 2000, and targets a 5.6 percent annual average growth rate for 1984-2000. The most rapid expansion is to be sought in manufacturing, with a growth rate of 7.2 percent per year based on both the expansion of the domestic market and improved export competitiveness, especially within the PTA of Eastern and Southern Africa.

22. However, the 1986 Sessional Paper puts the greatest weight on the development of the rural sector as a means of avoiding social problems in the cities by the end of the century. The growth rate target of 5 percent for agriculture is to be achieved mainly through improved productivity and selective expansion of high value crops such as tea, fruit and vegetables. It is therefore within the framework of the 1986 Sessional Paper that the structural reforms of the 1980s have continued in the 1990s, with further liberalisation of the import regime, strict budgetary discipline and a constraint to balance between the need of the urban and rural population. All these reforms, are succinctly spelt out in the 1994 Sessional Paper.

II.5. Recent Developments (1990 - 1993)

23. Since 1990, there has been a sharp and dramatic decline in all major macroeconomic performance indicators. GDP (at market prices) fell from 5 percent in 1990 to 2.2 percent in 1991 and by the end of 1992 it was -1.3 percent; after having grown at an average rate of 5.6 percent during the period 1986-1990. Investment which averaged 23.8 percent of GDP over 1986-1990, dropped to 20.7 percent in 1991 and below 19 percent in 1992. Inflation continued to rise, reaching 19.6 percent in 1991; fuelled by rapid monetary expansion and higher import prices. The budget

(excluding grants) increased from 8.5 percent of GDP in 1990 to 9.0 percent in 1991. The main Kenyan economic indicators between 1988 and 1993 are presented in Table 2.

24. Furthermore, the external imbalances worsened (see Table 2) as a consequence of the Gulf crisis, deteriorating terms of trade and the withholding of balance of payments support to Kenya by the multilateral and bilateral agencies since the 1991. Despite administrative efforts to restrain imports, the government accumulated external arrears in 1991 and 1992, and substantially reduced its reserves. Domestic aggregate demand management during the early 1990s has been weak, with laxed monetary policy in particular contributing to a rapid growth in money supply and increased pressure on domestic prices and exchanges (see Table 2).

25. In order to redress the critical economic and financial imbalances, the Government in March and April 1993 reversed some macroeconomic management policies - export retention was abolished, and action were initiated to control the money supply. Furthermore, in May 1993, the authorities agreed to an IMF-monitored stabilization programme designed to restore the macroeconomic framework and announced significant policy measures in the monetary, financial and external sectors.

26. The Central Bank therefore, moved aggressively to mob-up excess liquidity through open market operations that raised weighted average nominal interest rates on Treasury Bills from 17 percent in February to 48.5 percent in late April 1993. It also raised cash ratios for banks, reduced access to the rediscount window and reduced commercial bank overdrafts with the Central Bank. Furthermore, export retention at a flat 50 percent was reintroduced for all exporters and all import controls other than a short negative list were lifted. There is no doubt that if effectively implemented, these measures will go a long way in redressing the perennial macroeconomic imbalances in the Kenyan economy.

II.6. Key Development Issues and Future Prospects

27. Despite a range of macroeconomic policies which the government has introduced since 1990, the prospect of slow medium-term GDP growth, rising unemployment and increasing poverty are some of the crucial medium- and long-term development issues confronting Kenya. The highlights of these issues are as follows:

(i) Regarding the slow medium-term GDP growth, it should be pointed out that six years after embarking on Sector Adjustment (mainly in agriculture and industry), private investment is still stagnant and the economy remains heavily dependent on aid flows. In fact, GDP growth fell sharply from 4.3 percent in 1990 to 0.8 percent in 1993 (see Table 2).

(ii) The unemployment problem has been aggravated by the high rate of population growth which stands now at 3.4 percent per annum. To accommodate the growing labour force, annual employment growth would need to accelerate from 3.4 percent during the 1970s to at least 4.5 percent in the 1990s and beyond. Most of the employment would need to come from private, rural non-farm sectors. It is hoped that the current focus of various measures on accelerating agricultural growth, improving incentives and removing constraints on informal urban activities will generate substantial employment in the 1990s;

(iii) Rapid population growth implies that services need to be expanded to quickly meet rising demand; particularly in the urban areas. This involves a substantial financial burden on the government from sectors (education, health, housing, social services, etc.), that are already large claimants on national resources. The key issues in these sectors, therefore, are how to utilize resources more efficiently and how to increase cost-sharing.

(iv) Poverty in Kenya has so far been mainly a rural phenomenon linked closely to women's agricultural productivity, which often determines how much food is available to the family. Steps, are therefore being taken to reduce poverty among female headed households by increasing agricultural productivity. The measures include reaching women through agricultural extension, expanding secondary school places for girls and upgrading community-based water supply schemes.

(v) Domestic resource mobilization in Kenya has generally been adequate but public expenditures, at about 30 percent of GDP, have been high relative to most low and middle-income African countries. Large budgetary deficits have also crowded out the private sector. On the recurrent side, the large expansion of public sector employment has led to a huge civil service wage bill. In the case of capital expenditures, the investment programme has been over-extended and has not adequately reflected efficiency considerations and development priorities. At the same time state corporations, have continued to depend on the state budget for current and capital subsidies. Although promising attempts are being made to address these issues, progress so far has remained limited.

(vi) Infrastructure is relatively more developed in Kenya than in many other low-income African countries. However, the quality of past investments has deteriorated due to inadequate provision for operation, maintenance and poor management. This has been particularly noticeable in the transport sector.

(vii) Finally, as concerns the private sector development and investment in Kenya, the main constraints have been the destabilizing effects of macroeconomic imbalances, absence of an Investment Code and the deteriorating infrastructure. The recent elimination of import controls are nevertheless good encouraging signs of building an appropriate "investment climate" in the country but additional corrective measures are needed to bolster investor confidence.

28. Regarding the prospects for addressing the foregoing development problems and issues, and achieving a high growth scenario in the 1990s and beyond, the Seventh Development Plan (1994-1996) offers hope and continuity in that it seeks to implement those measures outlined in the Sessional Paper No.1 of 1986 and No. 1 of 1994 that have not been implemented so far. Kenyans are to expect more liberalization and privatisation, fresh attempts to control money supply and public expenditures and new incentives for investment. The three year-term of the current 1994-1996 Development Plan coincides with the Public Investment Programme. This should, therefore, enable the government to respond more quickly to socio-economic problems.

29. As concerns the regional dimension of Kenya's development policies and future prospects, it should be pointed out that the implementation of a comprehensive structural adjustment programme to deal with its economic and financial difficulties, to stabilize and revitalize the economy, establish the conditions for expanded investment, employment generation and enhanced growth, has forced the country to effectively reduce its financial participation in many subregional economic cooperation organisations (e.g., PTA, IGADD, etc). The extent of the decrease of Kenya's financial contribution to these organizations as well as to the multinational project is examined in Section V of this report.

30. However, the expanded Eastern and Southern African regional market resulting from the establishment of the PTA has led to a substantial increase in Kenya's external trade with the countries of the subregion. An analysis of the pattern and evolution of Kenya's trade with the other PTA member States are provided in Section V of this report. Suffice it to say that the competitiveness of the Kenyan economy in relation to those of the other PTA member States has been due largely to a well diversified manufacturing sector and a solid production base.

31. Furthermore, the Treaty establishing the Common Market for Eastern and Southern African (COMESA) in November, 1993, will transform the PTA into a common market. COMESA offers new opportunities for sustained growth and development for the region in general and Kenya in particular. With an estimated population of 270 million people and a GDP of $US120 billion, COMESA promises a wider harmonized and more competitive market necessary to support new expanded production and distribution of goods and services. The resultant benefits will be greater industrial productivity and

increased agricultural production and food security particularly for member States like Kenya which have a well diversified industrial base and more developed economy.

III. AFRICA AND THE STRATEGY OF REGIONAL AND INTERNATIONAL ECONOMIC COOPERATION AND INTEGRATION

III.1. Africa and Regionalism

32. A key aspect of the development strategy of the developing world is the recognition of the dynamic potential of regional cooperation and integration whereby developing countries can break out of their narrow national markets and form regional groupings as an instrument of economic decolonization. The causes of failure of different development policies in the developing world have been attributed, to a great extent, to the series of independent efforts carried-out in isolated compartments.[1] Developing countries have inadequate resources or the technical capacity to compete with the relatively more developed ones in the same underdeveloped regions, much less with the developed areas. Consequently, it is necessary to establish a gradual process of economic integration to settle balance-of-payments deficit, overcoming difficulties arising from the size of national markets, raising productivity and efficient use of regional resources, and also by serving as a strong stimulus for the incorporation of technical progress and many other objectives in international policy. Hence regional economic cooperation and integration is a <u>sine-qua-non</u> for the achievement of national socio-economic goals, and not an "extra" to be given thought to after the process of development is well advanced.

33. The phenomenon of economic cooperation and integration is of course, not a new one in Africa. It has constituted a key element of development strategy since independence. The significance of this strategy is well documented and reflected in virtually all recent internal or external action programmes or guidelines for Africa, as well as in resolutions and declarations by African leaders themselves from the Monrovia Strategy (1979) through the Lagos Plan of Action (LPA) and the Final Act of Lagos (FAL), (1980), Africa's Priority Programme for Economic Recovery (APPER) (1985), the United Nations Programme of Action for African Recovery and Development (UN-PAAERD) (1986) to the recently adopted United Nations New Agenda for African Development in the 1990s (UN-NADAF) (1991).

34. The strategy of regional economic cooperation and integration was, in fact, given a new lease of life with the adoption of the LPA and FAL in which African leaders "resolve to adopt a far reaching regional approach based primary on collective self-

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1 S.K.B. Asante, <u>African Development: Adebayo Adedeji's Alternative Strategies</u>, London: Hanszel Publishers, 1991, p. 85.

reliance". So central is the concept of regionalism to the plan's prescription of collective self-reliance that without regional integration the LPA collapses as a concept and strategy.

35. A basic handicap for regional organisations in Africa over the years has been inadequate support from their member countries, which appear to be giving low priority to schemes of economic cooperation and integration. Put differently, while at the subregional, regional and international levels, economic cooperation and integration has been the key element in Africa's development strategy, in reality, many African States would seem to have only paid it lip-service.

36. Thus, although economic integration schemes have been duly established in all the subregions of the continent, as envisaged in the Final Act of Lagos, member States have proved extremely reluctant to allow these institutions to function as they were intended to or to implement in a timely manner all the binding decisions reached and the financing obligations agreed upon within their collective policy organs.

37. On the whole, despite efforts made towards establishment of these schemes, economic cooperation and integration is still far from being a tangible reality in terms of the policies, programmes, projects and initiatives of member States of such groupings. There persistently exists a serious yawning gap between commitment to integration expressed at subregional and regional levels and effective or conscious and systematic translation of such commitments at the national levels. Hence, the impact of economic cooperation and integration on national development plans and strategies has been extremely limited.

38. It has become increasingly necessary that this attitude should be reversed if the schemes are to gain the necessary strength leading to realization of substantial benefits from cooperation and integration at the national level. Particularly has this been the case when viewed against the background of the challenge posed by the emerging world of trading blocs; the threat of "Fortress Europe" exemplified by a single, European market as a unique economic power bloc and the establishment of the African Economic Community as an appropriate response to the continent's marginalization in the brave new world of trading blocs.

39. The African Economic Community is to ensure that Africa's share of the global economic pie does not shrink further. It is, however, evident that the effective implementation of the Abuja Treaty establishing the Community would surely depend upon the viability and strength of the economic cooperation and integration institutions and mechanisms existing at both the regional and <u>especially</u> national levels.

III.2. The Case of Kenya

40. The importance of Kenya's active involvement and effective management of regional cooperation processes and international economic relations cannot be over-emphasized. Despite the country's possession of productive land, a substantial potential to develop its water resources, a growing industrial base through which to diversify exports and create self-employment and, most important of all, a people whose skills and confidence in how to employ them effectively are growing rapidly, its well placed position "to resume a more rapid rate of equitable and regionally balanced development",[2] Kenya cannot boast of a large enough economic unit capable of creating and sustaining an integrated modern economy with high levels of productivity.

41. Like many other African countries, the establishment of a great many industries is precluded and many of the industries that can be established are doomed to be small-scale, high cost, economically inefficient operations requiring a great deal of expensive government protection. Thus Kenya, acting on its own, can hardly take advantage of its great potentials, improve appreciably its economic conditions and achieve economic development with a view to raising the living standards of its people.

42. Consequently, the need for Kenya's sustained interest in the strategy of regional economic cooperation is almost a <u>sine-qua-non</u> for the achievement of the country's national socio-economic goals. Regional economic cooperation is not only desirable for Kenya; it is necessary if the country is to industrialize, develop intra-African trade; reduce her excessive openness and dependency on vulnerable and fluctuating overseas markets, strengthen her national sovereignty and mobilize and maximise scarce resources of capital and skills.

43. Briefly, regional economic cooperation and integration would greatly enhance the capacity of Kenya to confront the daunting developmental challenges in at least the following:

(a) Allowing certain economies of scale, which will facilitate restructuring at a higher level of efficiency and productivity;

(b) Creating a climate conducive to raising levels of investment and encouraging investment in new forms and areas of production;

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2 <u>Government of the Republic of Kenya, National Programmes for Resource Mobilization and Sustainable Development.</u> Prepared by the Inter-Ministerial Task Force, April 1993.

(c) Helping to create the kind of competitive environment likely to facilitate innovation;

(d) Encouraging rationalisation of productive activities and investments in infrastructures and service and creating conditions for enhanced economic viability; and

(e) Promoting the freer movement of human resources and thereby increasing output and productivity.

44. Thus, Kenya should not envisage her participation in regional and international economic cooperation activities as an exclusively economic undertaking, but rather as a multifaceted enterprise. However, while the rewards of cooperation for Kenya can, in time, become considerable, they cannot be attained automatically. They have to be earned: resources and well-conceived and intensive effort have to be invested, political commitment must be encouraged and sustained, adequate planning has to be initiated and, above all, and perhaps more importantly, effective and viable national institutions and mechanisms must be in place to implement regional and international economic policies, acts, and decisions and to put into practical expression the commitment of the Republic of Kenya in the regional and international context.

45. After attaining independence in December 1963, Kenya initiated a sustained policy of establishing bilateral and multilateral economic relations both in and outside the African continent. More significantly, it sought membership of economic groupings at the regional and international levels in the hope of achieving a higher level of development, or at least, of reducing the level of underdevelopment and, consequently, consolidating its hard won political independence.

46. Therefore, at the international level, Kenya joined the other African States in negotiating the series of the African, Caribbean and Pacific (ACP) - European Economic Community (EEC) Lome Conventions which began with Lome I in February 1975. The EEC (now European Union) has remained the most important destination of Kenya's exports due to the special ties through the Lome Conventions.[3]

47. At the African continental level, Kenya is a member not only of the African Development Bank (ADB) but also of the Organization of African Unity (OAU) established in 1963, to promote solidarity

3 For a critical assessment of Africa and the Lome System, see S.K.B. Asante, "The Lome Convention: Towards perpetuation of dependency or promotion of inter-dependence?", Third World Quarterly, (3) October 1981; Asante, "Whither Africa: Eur.African Integration or African Regional Cooperation?" Development and Cooperation 5 (1986).

among African States, to help raise the living standards, to defend sovereignty and to eliminate colonialism in Africa. The OAU is committed to the creation of an African Common Market by the year 2000, as highlighted in the Lagos Plan of Action and the Final Act of Lagos.

48. In June 1991, African Heads of State, including President Daniel Arap Moi, President of the Republic of Kenya, signed the historic Abuja Treaty establishing the African Economic Community. The Treaty is now in force, having had the required number of ratification. The African Economic Community is a giant step towards Africa's long-cherished goal of unifying the continent's fragmented and vulnerable national economies into a single, more powerful economic bloc.[4]

49. At the regional level, Kenya, was a founding member (with Uganda and Tanzania) of the East African Community (EAC) until it ceased to function in 1977. Relations with the two other former members have much improved in recent years, with the agreement reached on distribution of the EAC's assets and liabilities in November 1983; reopening of the Kenya - Tanzania border in December of the same year; and, subsequently, the reopening of the Uganda market and of the routes westward to Zaire, Rwanda and Burundi.

50. An agreement on East African Cooperation was signed by the three Heads of State of Kenya, Uganda and Tanzania in Arusha in 1993 with a view to re-establishing the EAC. It is hoped that the reborn Community will set the pace within the recently signed Common Market for Eastern and Southern Africa (COMESA) for the liberalisation of cross-border trade and investment.

51. Kenya is a founding member of the Preferential Trade Area for Eastern and Southern Africa (PTA) and is an active participant in various PTA fora and programmes. The objective of the organisation is to encourage the growth of regional trade through progressive reduction in tariffs, removal of non-tariff barriers and harmonisation of fiscal and monetary policies. Implementation of these plans is not equally advanced in all member States, but significant progress would seem to have been achieved so far.

52. The most important new initiative taken in this area was the signing of the COMESA Treaty in November 1993 transforming the PTA into a common market. Progressive cooperation under COMESA will entail action on the following basic elements: the development of free trade arrangements including the free movement of goods and services produced within the Common Market; the establishment of common external tariffs; closer harmonisation of macro-economic policies; and the eventual liberalisation of capital movement and immigration.

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[4] S.K.B. Asante, "African Economic Community: New Hope for Africa" Development and Cooperation No. 4/1992.

53. Kenya is also a founder member of the Inter-Governmental Authority on Drought and Development (IGADD). Established in 1986, IGADD aims at coordinating and channelling funding into the key regional issues of drought, desertification and agricultural development.

54. Since 1987, Kenya has participated in four TCDC (Technical Cooperation among Developing Countries) workshops namely Egypt, Pakistan, the Philippines and India. In these workshops, countries exchanged information on what each country can share and proposals were made on areas of cooperation with each country. However, no follow-up has been made by any of the participating countries, mainly because of the local expenses involved which are supposed to be met by the participating countries.

55. In addition, TCDC has not succeeded because the concept, modalities of operation and benefits have not been clearly understood by the participating ministries. The role of UNDP is also not clear regarding the follow-up after workshops. The role of the coordinating Ministry is also not quite clear. As a result of this, UNDP has been dealing with different line Ministries directly without liaising with the Ministry of Planning and National Development as the coordinating National Focal Point, which has added to unclarity and also to the problems of follow-up.

56. On the whole, Kenya's active participation in the international, continental and regional organisations are indeed encouraging steps towards cooperation in Africa - towards collective self-reliance, solidarity, regional and international cooperation - the necessary steps on the road to development and a better future for the people of Kenya. However, it became evident to the UNECA-MRAG mission that these steps would not appear to have been effectively coordinated at the national level to enable the country monitor and make periodic critical assessments of the costs and benefits of its involvement and participation in regional and international cooperation agreements.

57. This would tend to raise some disturbing questions. How, for example, have regional strategies in the form of agreements, resolutions, directives, etc., been reflected in Kenya's national policies? But differently, how have the cooperation agreements and treaties been integrated in national development plans and in the sectoral programmes of appropriate substantive ministries? How effective are the institutions and mechanisms established to manage economic cooperation processes? And to what extent have the interest groups in Kenya, the private sector or the business community, who are directly affected by the provisions of the treaties establishing the regional economic schemes, been involved in the process of cooperation? Evidence would seem to suggest that not much attention has been paid to the extent of effectiveness of the institutions required at the national level to manage the country's membership of regional and international economic cooperation schemes.

IV. ASSESSMENT OF NATIONAL INSTITUTIONS FOR REGIONAL AND INTERNATIONAL ECONOMIC COOPERATION

58. The exchange of views, meetings and consultations with the line Ministries and Departments, supported by relevant documents, provided a wealth of information on the state of ministerial institutional structures and mechanisms established for regional and international economic cooperation. There are, at least, seven main ministerial institutions which manage Kenya's regional and international cooperation matters.

59. There is first, the Department of Regional and International Economic Cooperation (DRIEC) established some five years ago after negotiations and agreement between the Directorate of Personnel Management, Ministry of Finance and Ministry of Planning and National Development. DRIEC was established to coordinate Government activities on regional and international cooperation issues. The Department is therefore supposed to ensure that regional and international economic cooperation matters are well-coordinated and in line with broad Government objectives and policies.

60. The DRIEC is headed by a Chief Economist and is divided into two main divisions: Africa Division and International Division, each headed by a Deputy Chief Economist. Under the Africa Division, the DRIEC coordinates activities of such organizations as the PTA and PTA Development Bank, East African Cooperation and East African Development Bank, IGADD, OAU and the African Economic Community.

61. The International Division of DRIEC is responsible for coordinating the United Nations Specialized Agencies, UNDP, UNECA, UNEP, UNCTAD, GATT, European Union-ACP Lome Convention, the Commonwealth Secretariat, its Foundation and Fund for Technical Cooperation, as well as such International Non-Governmental Organizations as, for example, the World Vision, Ford Foundation, Africare etc. The Division also handles both bilateral and multilateral economic cooperation issues with other developing and developed countries as well as aid agencies as, for instance, USAID, CIDA, DANIDA, JICA etc.

62. There is second, a similar ministerial division with almost the same functions, coordinating activities of the same international organizations. This is the Economic and Trade Division located at the Ministry of Foreign Affairs and International Cooperation. Like the DRIEC, this Division deals with Kenya's multilateral and bilateral economic and trade relations as well as international organizations in collaboration with the economic Ministries and the Kenya Diplomatic Missions Abroad.

63. The Division also prepares briefs and statements on economic and trade issues; provides inputs into briefs and statements prepared by other divisions; analyses and evaluates economic and trade reports received from Kenya Missions Abroad and prepares responses to them; and monitors and reports an external economic and trade developments and trends in the world geared towards policy and strategy formulation by the Ministry of Foreign Affairs and International Cooperation.

64. Furthermore, it liaises with Foreign Missions and Organizations accredited in Kenya on economic and trade matters; participates in international meetings/negotiations dealing with economic, trade and commodity issues, as well as bilateral trade agreements between Kenya and foreign countries. Finally, it compiles trade and other economic statistics for the Ministry of Foreign Affairs and International cooperation.

65. Again, like <u>DRIEC,</u> the Division monitors a number of economic and trade developments with particular reference to the OAU, Abuja Treaty establishing the African Economic Community; PTA/COMESA Treaty; East African Cooperation; such trading blocs as the European Single Market, North America Free Trade Agreement (NAFTA), Association of South-East Asian Nations (ASEAN), South Asian Association for Regional Cooperation (SAARC); the European Union - ACP Lome Convention; and IGADD.

66. The <u>third,</u> ministerial structure is the <u>International and Organization and Conferences Division</u> of the Ministry of Foreign Affairs and International Cooperation, which is responsible for handling and coordinating all matters pertaining to international organizations and conferences with particular reference to the United Nations activities, international and non-governmental organizations having relations with the United Nations, and the Non-Alignment Movement. It is therefore the principal coordinator of United Nations resolutions and decisions, United Nations peace keeping missions and disarmament affairs, as well as candidatures to United Nations posts and other international organizations.

67. The <u>fourth</u> structure in the area of regional and international economic cooperation is the <u>External Resources Division</u> of the Ministry of Commerce and Industry, which is in charge of Bilateral and Multilateral Industrial Cooperation Programmes. The Multilateral programmes include those with the World Bank and its affiliates, United Nations Agencies, European Union, OAU, Commonwealth Fund, ECA and PTA. The bilateral programmes relate to those in the countries of Western Europe, USA, Japan and Far East.

68. There is <u>fifth,</u> <u>Trade Policy Division</u> of the Department of External Trade in the Ministry of Commerce and Industry. The Division handles bilateral trade relations and agreements; PTA trade arrangements and international matters related to GATT, ITC,

ECA, ACP-European Union Lome Convention and International Commodity Agreements.

69. The <u>sixth,</u> ministerial structure within this context is the <u>External Resources Department</u> of the Ministry of Finance charged with handling Kenya's bilateral and multilateral financial and economic relations with special reference to mobilisation of resources - aids, grant, loan or balance of payments support.

70. Finally, <u>seventh,</u> the Ministry of National Resources and Environment which coordinates IGADD activities at the national level.

71. Thus, Kenya's regional and international economic cooperation matters are handled by seven separate Ministries, Departments and Divisions with many of them having overlapping mandates and programmes and often with similar agenda. A case in point are matters related to the PTA/COMESA, Lome Convention, United Nations Specialized Agencies, multilateral and bilateral relations which are coordinated by almost all the ministerial institutions mentioned above.

72. Some of these institutions, in particular, the Department of Regional and International Cooperation of the Ministry of Planning and National Development and the Economic and Trade Division of the Ministry of Foreign Affairs and International Cooperation would seem to act merely as "post offices", as they do not effectively respond to actual management and implementation of economic cooperation processes.

73. None of the institutions in place conducts regular surveys and investigation on Government's participation in the various organisations with a view primarily to enhance Kenya's benefits from the organisations. Neither do they develop project analysis and evaluation procedures for regional projects and programmes with a view to integrating such projects and programmes into the national planning process. No analysis is made by any of these ministerial institutions of the impact and adequacy of regional and international cooperation policy.

74. While on the one hand, the existence of the multiplicity of these institutions would appear to happily reflect the general interest of Kenya in regional and international economic cooperation schemes; on the other, the involvement of multiple units with evident fragmentation of responsibilities, without any effective central coordinating mechanism to manage implementation of cooperation decisions, acts and policies, would tend to minimise whatever benefits that could legitimately be expected to accrue from the country's diverse investments in regionalism and international economic relations since independence.

75. A dynamic and well-equipped ministerial, institutional structure and framework for effective management of regional

cooperation processes and international economic relations, which constitute a key aspect of the country's development, do not seem to exist, as is the case in the developed countries. Equally harmful, as a consequence, has been the common failure to reflect the objective of cooperation and integration in national plans and policies, or incorporate the goals of regional and international cooperation in the mandate of public agencies and institutions.

76. Specifically, no appropriate measures and institutional mechanisms have been established to promote synergy between national, regional and international policies and programmes in the areas which are subject to the integration process and to provide institutional capacity for the efficient implementation and management of the programme of the regional economic schemes of which Kenya is a member.

77. In general, economic cooperation and integration decisions, policies and resolutions, as well as those of international economic relations, are usually disseminated by both DRIEC of the Ministry of Planning and National Development and the Economic and Trade Division of the Ministry of Foreign Affairs and International Cooperation to some relevant substantive sectoral Ministries and Departments. Follow-up actions on these decisions, including the extent of their implementation and subsequent reflection, where necessary, on national development plans and strategies would appear to be far and between.

78. Moreover, there is so far no relevant institutional machinery in place to enable the people, the business community, the socio-economic activity and their organized associations, like the chambers of commerce and industry and professional groups to find appropriate and adequate channels of participation in Kenya's economic development activities at the regional and international levels.

79. To be sure, unless the people of Kenya, in particular, socio-economic groups in the population, are themselves aware of the country's involvement in the process of regionalism and international economic relations, and are interested in, and enthusiastic to make an effort, any investment made by Kenya in the field of economic cooperation may not yield the desired dividend. After all, in the final analysis, man is both the means and the end of economic cooperation and integration. The best study of regionalism, particularly in the 1990s, a decade of popular participation in development, is man.

80. Besides, serious constraints in terms of human, material and financial resource would seem to exist in almost all the ministerial institutions which manage regional and international economic cooperation matters. Each sectoral point for economic cooperation does not appear to be sufficiently endowed with skilled manpower to enable it to identify the ways and means for proper

management of cooperation issues falling within the competence of the institution concerned.

81. Against this background, even with the necessary political commitment, the achievement of Kenya's efforts in regional and international economic cooperation would not be as substantial as one would expect from a country with such an enormous potential. Unless the issues about national institutions are adequately addressed, the frequently-asserted objective of closer regional and continental cooperation will remain exactly that - an assertion without implementation.

82. Put differently, unless national institutions and administrative processes are adapted to ensure that regional policies and programmes are integrated into national decision making whenever necessary, Kenya might not be able to take full advantage of its vast resources and aggressive business community to derive substantial and befitting benefits from the process of regional and international economic cooperation.

83. Therefore, to obtain maximum advantage from its active participation in regional trading arrangements, the Government would have to provide effective institutional requirements and work in collaboration with the COMESA and EAC Secretariat, private sector representatives, including the Kenya National Chamber of Commerce and Industry and Kenya Association of Manufacturers. This would enable the Government to take advantage not only of the country's growing industrial base, but also of facilities available under the various COMESA institutions.

V. COSTS AND BENEFITS OF KENYA'S MEMBERSHIP OF REGIONAL AND INTERNATIONAL ECONOMIC COOPERATION SCHEMES

V.1. Introduction

84. As demonstrated in Section III of this Report, Kenya like many African countries, is a member of a number of economic cooperation organisation and schemes existing in the Eastern and Southern African subregion as well as in the African region. It will be recalled that at the subregional level, such organisations include: the Preferential Trade Area (PTA) for East and Southern Africa, the Intergovernmental Authority on Drought and Development (IGADD), Inter-Governmental Standing Committee on Shipping (ISCOS), and the Northern Corridor Transit Coordinating Authority (NCTCA), to name only a few.

85. At the regional (continental) level, Kenya is a member of the Organisation of African Unity (OAU), the United Nations Economic Commission for Africa (UNECA), the African Development Bank (ADB) and since 1991, of the African Economic Community (AEC).

V.2. The Need for Evaluation of Costs and Benefits

86. Considering the wide-ranging financial and other obligations to which Kenya has committed itself as a signatory to the various Treaties and Agreements establishing the above subregional cooperation schemes and the long-term implications on the national budget, it is important to assess the costs and benefits of the country's participation in such multinational ventures at the subregional level in Eastern and Southern Africa. This exercise is important in view of the perennial socio-economic crisis which Kenya, like many African countries, has been experiencing since the late 1980's.

87. Needless to emphasize, the socio-economic crisis has forced the country to increasingly focus its attention to domestic economic management problems which have necessitated the initiation of wide-ranging macroeconomic policy reforms to the detriment of subregional economic cooperation organisations and schemes in which Kenya has considerable financial and non-financial obligations. In view of the decreasing flow of external public and private financial resources and mounting debt burden on Kenya, it is necessary for the country to reexamine and streamline its national development priorities and commitments in the existing subregional cooperation organisations and arrangements.

V.3. Consideration for Assessing Cost and Benefits

88. With regard to the evaluation of the <u>costs</u> of Kenya's participation in the subregional economic cooperation schemes, account shall be taken of Kenya's financial contributions to the capital recurrent budgets of the various organisations, participation in multinational investment programmes, and the revenue lost in the process of implementing the various policy measures adopted by the decision-making organs of the organisation.

89. On the <u>benefits</u> side, emphasis shall be placed on the incomes/revenues and employment generated from multi-national projects located in Kenya, increase in the demand for local raw materials by such projects, increase in the volume of Kenya's exports to the member States of the organisations as a result a large regional market, low relative prices of imports from the other member countries, and accessibility of Kenya to the various consultancy, training, and support services provided free of charge to the member States at the subregional levels.

90. Additional benefits to Kenya are also reflected in the nature of the political cohesion and friendly relationship between the country and other member States of the regional organisations. However, the limitation of data and information on all subregional economic cooperation schemes, to which Kenya belongs, particularly

with respect to the ones examined in this Section of the report, has made it difficult to undertake a comprehensive assessment of the <u>costs</u> and <u>benefits</u> of the country's participation in such schemes.

91. Nevertheless, this initial attempt to undertake an analysis of costs and benefits of economic cooperation will no doubt shed some light on this important issue. Bearing the foregoing in mind, the mission intends to evaluate, on the basis of the available data end information, the costs and benefits of Kenya's participation in the PTA, IGADD, ISCOS and NCTCA.

V.4. The PTA for Eastern and Southern Africa

V.4.1. PTA: Costs and Benefits

92. The financial costs of Kenya's membership of the PTA and the PTA Trade and Development Bank, have been mainly in the form of the country's contributions to the PTA Secretariat and contributions to the PTA Bank.

93. As regards the functioning of the PTA Secretariat, Kenya contributed a total of UAPTA 5,226,785 between 1985 and 1994 to the Budget. The detailed average annual contributions have been as follows:

Year	Amount (UAPTA)	
1985	493,250	Average
1986	493,250	"
1987	493,250	"
1988	493,250	"
1989	493,250	"
1990	493,250	"
1991	493,250	"
1992	493,250	"
1993	493,250	"
1994	493,250	"
Total		5,226,785

94. Furthermore, additional costs of Kenya's membership of the PTA have been in the form of its capital contribution to the PTA

Bank and PTA Re-Insurance Company (ZEP-RE). The magnitude of the contributions has been as follows:

Institution	Assessed Capital (UAPTA million)	Paid up (UAPTA million)	%
PTA Bank	17.8	8.9	50
PTA Re-Insurance Company	20.0	4.0	20
Total	**37.8**	**12.9**	**34.13**

95. Finally, as a result of the PTA Tariff Reform Programme which has consisted of reduction of Tariffs on Imports to 40 percent, abolition of Import Licences and harmonization of Transit Charges, Kenya has lost approximately an average of 0.66 percent of Government revenue annually; and in 1990 there was a decrease of KSh317 million (i.e., UAPTA 3.9 million) in such revenues.

96. Thus, on the basis of the available data, it can be tentatively argued that Kenya has made considerable financial contributions to the amount of approximately UAPTA 22 million (i.e., some KSh1,936 million) to the functioning of the PTA Secretariat, PTA Trade and Development and PTA Re-Insurance Company.

97. On the other hand, the benefits which Kenya has derived from being a member of the PTA have been reflected in the increase in its external trade with the other PTA member countries, particularly Uganda and Tanzania; and trade financing and considerable investments which the PTA Trade and Development Bank has undertaken in the country.

98. Regarding intra-PTA trade, some 20 percent of total exports as well as 75 percent of Kenya's manufactures go to the other PTA member countries. At the same time, 5-10 percent of Kenya's total imports come from the same countries.

99. However, a detailed analysis of the external trade pattern of Kenya with the PTA member States reveals that most of the country's trade has been with Uganda and Tanzania which were partners with Kenya in the defunct East African Common Market.

100. An examination of Table V-1 has established that the trade balance with Tanzania and Uganda has heavily been in favour of

Kenya since 1984. It has been further strengthened by the expansion of intra-regional trade under the PTA. In particular, Kenya exports to Tanzania have revived since the reopening of the border in 1983. By 1989, they were more than four times their 1983 level. Uganda has also been important as a market for Kenya manufactured goods. In fact, the new socio-economic and political stability in Uganda will open up the domestic market and the need for goods to rehabilitate the economy will be enormous.

Table V-1: East African Regional Trade (1984-1989) (KP million)

	Exports			Exports			Overall balance
	Tanzania	Uganda	Total	Tanzania	Uganda	Total	
1984	9.7	67.6	77.3	3.0	1.2	4.2	73.1
1985	19.2	70.1	9.3	1.7	2.6	4.3	85.0
1986	27.2	72.6	99.8	2.2	2.2	4.4	95.4
1987	19.6	69.7	89.3	3.4	0.9	4.3	85.0
1988	24.3	83.7	108.0	6.0	1.2	7.2	100.8
1989	27.5	65.9	93.4	13.3	1.1	14.4	79.0

Source: Ministry of Planning and National Development Economic Survey, 1990.

101. Between 1989 and 1993, the positive effects of the export promotion policies put in place were largely responsible for the good performance in Kenya's trade with other members of the PTA. In this regard, it can be observed from Table V-2 that within the PTA region, Uganda and Tanzania remained the main trading partners of Kenya. This has been as a result of the continuing effort to revive the defunct East African Economic Community. Trade with the Republic of Somalia has picked up very fast but this has proved to be a temporary phenomenon because of the internal conflict under which the country is undergoing.

Table V-2: Trade with PTA Countries (1989-1993)
(KP million)

Preferential Trade Area	Exports					Imports				
	1989	1990	1991	1992	1993	1989	1990	1991	1992	1993
P T A										
Uganda	65,919	64,043	107,250	122,844	325,976	1,063	1,314	2,651	7,765	15,985
Tanzania	27,476	32,264	54,126	80,985	270,477	13,263	12,508	11,286	14,448	24,440
Zambia	2,822	2,292	4,023	5,763	8,516	8,894	10,419	11,034	15,647	17,642
Ethiopia	8,993	11,762	12,192	18,581	84,521	153	57	72	136	72
Burundi	6,344	7,938	14,548	10,875	22,294	365	1,050	139	1,104	2,305
Somalia	7,996	23,433	17,554	49,124	117,543	1,002	62	69	226	48
Rwanda	16,865	18,259	29,347	22,468	68,217	1,584	431	59	30	115
Malawi	1,032	1,667	2,425	2,421	6,295	57	743	217	54	2,500
Mauritius	2,867	8,823	6,258	9,847	27,731	285	373	2,585	1,624	8,822
Swaziland	1,320	1,280	2,437	268	138	5,694	9,167	8,173	14,377	356
Zimbabwe	10,706	12,566	6,796	14,086	11,150	26,945	26,839	19,545	25,671	41,610
Comoros	401	2,385	5,952	6,960	15,158	-	-	-	26	-
Djibouti	1,025	1,089	4,899	5,914	9,797	1	1,095	183	10	9
Mozambique	2,239	1,378	2,132	506	1,610	409	4,321	1,667	37	200
Angola	860	8,649	28	434	68	3	-	1	3	104
Lesotho	262	47	48	271	6	1	1,561	37	13	-
Total P T A	**157,127**	**198,875**	**272,015**	**351,347**	**969,497**	**59,719**	**69,940**	**57,718**	**81,171**	**114,208**
Other African										

102. Like in the past years, Kenya has continued to enjoy trade surpluses with most of these countries. In 1993, combined export earnings from the two East African countries, Tanzania and Uganda (i.e., Kenya Pounds 596 million) were 47 percent of the total earnings from the whole of Africa which stood at some Kenya Pounds 1,274 million, while imports from the same countries (approximately Kenya Pounds 40 million) amounted to 33 percent of the total (i.e., Kenya Pounds 121 million from Africa.

103. Uganda, and lately Mauritius, have continued to be the main market for Kenya's cement, and at the same time, high growth rates have also been registered for exports of petroleum products to Uganda and the Comoros. The impressive good performance of the Ugandan economy, coupled with the massive devaluation of the Kenyan currency, stimulated demand for Kenya's products during the period under consideration.

104. The most important new initiative taken in the area of regional trade within the PTA was the signing of the Treaty establishing the Common Market for Eastern and Southern Africa (COMESA) in November 1993. The Treaty when it comes into force will transform the PTA into a common market. This will call for the development of free trade arrangements including free movement of goods and services produced within the Common Market, the establishment of a Common External Tariff, closer harmonisation of macro-economic policies, and the eventual liberalisation of capital movement and immigration.

105. With an estimated population of 270 million people and a GDP of $US120 billion, the resultant benefits will be a wider market, greater industrial productivity, increased agricultural production and competitiveness, particularly for Kenya which already has a strong industrial and diversified production base. It will also lead to the development of a cheaper and more reliable transportation and communication infrastructure.

106. However, as a result of the structural adjustment programmes, many companies in the member States of the PTA have either been hard hit by competing imports, economic recession - induced demand or crippled by high interests brought about by attempts to curb inflation. In the short- and medium-term, financial sectors will have to be innovative if they are to stay in business while governments wrestle with the measures that will bring stability to their economies.

107. Consequently, in providing trade finance to Kenya like other member States, the PTA Trade and Development Bank in 1993 focused on rendering financial assistance to those economic sectors which promoted growth and development, introduced products that could cushion the burden of high interest rates, financed imports of strategic commodities such as petroleum and participated in the

pre-export finance syndications for traditional and non-traditional exports. To this end, a total of $US11,437 million was approved by the Bank under the trade financing window for Kenya, of which $US7,537 million had been disbursed by October 1992.

108. As concerns the benefits from the investment projects financed by the PTA Trade and Development Bank, it should be pointed out that between 1990 and 1993, Kenya was one of the eight member countries which had access to the Bank project financing facilities. For example, the equity participation approved for Kenya was UAPTA 3,790 million out of a cumulative approval of UAPTA 69,417 million for the eight PTA countries, including AFREXIMBANK. During the year 1993, the Bank's loan commitment to Kenya was UAPTA 340,000, out of a total commitment of UAPTA 20.2 million to five PTA member States, and the AFREXIMBANK.

109. The loans approved by the PTA Bank has enabled Kenya to finance two projects: the Pan-African Paper Mills (EA) Limited, (UAPTA 3.45 million) and Sava Flora Limited (UAPTA 340,000). The Pan-African Paper Mills (PPM) (EA) Limited is joint venture investment between the Government of Kenya, Oriental Paper Mills of India and International Finance Corporation. PPM is the largest integrated paper mill in Kenya and accounts for over 90 percent of the country's paper production. The project involves increasing the plant capacity from 97,000 tons per annum to 150,000 tons per year at an estimated cost of $US162 million. The PTA Trade and Development Bank is co-financing the project with International Finance Corporation, the African Development Bank, East African Development and Commercial Banks.

110. Furthermore, the Sava Flora Limited involves the development and operation of a farm to grow roses under greenhouses for export as cut-flower to the European markets. The PTA Bank is co-financing this project with International Finance Corporation, which is providing $US154,000 equity finance and $US321,000 term loan. The contribution of the Bank is $US475,000 and the total capital is estimated at $US1.4 million.

111. Kenya is also involved in several multi-national industrial projects with the participation of other member States in the PTA Region. Some of these projects are:

(a) The Kenya Textile Training Institute which caters for the training needs of the PTA region;

(b) The Machine Tools Industry which is a joint industrial venture between Kenya, Sudan, Tanzania and Zimbabwe, set up to produce capital goods for use in these countries;

(c) The Gilgil P.T. and T Complex which is to manufacture telecommunications equipment for the Kenyan market and the PTA region as a whole.

112. Although, all the three multinational projects are located in Kenya, it has not been possible to obtain information on Kenya's financial participation, employment and incomes generated in the country and the sources of raw-materials used by the three project. Consequently, it is difficult to state precisely the the extent of the benefits which Kenya has derived from such industrial ventures.

113. Although it has been difficult to obtain complete information and data on the benefits to Kenya from its membership in the PTA, there is no doubt that the transformation of the PTA into COMESA will stimulate the growth of the Kenyan economy, particularly the export sector, in the long-run. This is, therefore, the raison d'etre for Kenya's continued membership in the PTA and for ratifying the COMESA Treaty.

V.5. The Inter-Governmental Authority on Drought and Development (IGADD)

114. It will be recalled that IGADD was established to coordinate and supplement the efforts of the member States to combat the effects of drought and other related disasters, to assist their developmental efforts and help them deal with the problems of medium and long-term socio-economic recovery, rehabilitation and sustainable development.

V.5.1. IGADD: Costs and Benefits to Kenya

115. In order to enable IGADD function smoothly, the annual recurrent budget is met from the contributions by the member States who pay a certain percentage of the budget on a set of criteria which was agreed upon by the Council of Ministers of the Authority. On the basis of the agreed criteria, Kenya contributes 24.87 percent of the Annual Recurrent Budget of IGADD. Since 1986, Kenya has made the following contributions to the Recurrent Budget of the IGADD Secretariat:

Fiscal Year	Amount Contributed (US Dollars)
1986	259,240.00
1987	251,474.00
1988	368,574.00
1989	208,900.00
1990	118,000.00
1991/92	105,436.00
1993	302,789.00
1994	293,942.00
Total	**1,808,355.00**

Sources: IGADD Coordination Office, Ministry of National and Environment, Nairobi, August 1994.

Thus, as of 1994 Kenya has contributed a total sum of $US1,808,355.00 for the operation of the IGADD Secretariat.

116. One of IGADD's mandates is to initiate sectoral studies, prepare regional proposals and mobilize appropriate financial and technical assistance for implementation. To this end, in 1986, the Authority assisted Kenya and the member States in the preparation of 63 subregional and 154 national projects which were presented to the international community at a donors meeting in March 1987.

117. The projects covered essentially the following IGADD Programmes: Disaster/Drought Preparedness, Early Warning and Food Information System and Remote Sensing; Improving the Efficiency of Agriculture and Food Production; Environment Assessment, Monitoring and Information System for Environment Management; Household Energy Study in the IGADD Member Countries; Reforestation and Afforestation Activities; Range Management; Canal Development; Agricultural Research, Training and Extension; Water Resources; Biodiversity and Quarantine; and Fisheries Development.

118. Despite the fact that IGADD has since its establishment initiated many development projects and programmes, on behalf of the member States, there is no information on the actual location of these multi-national ventures and on the financial participation of each member State towards their implementation. Consequently, it has been impossible to indicate the extent of the <u>benefits</u> which Kenya has derived from the various subregional programmes initiated by the IGADD Secretariat in collaboration with the member States, international development agencies and the donor community. Until this vital information is available, it will be difficult, if not impossible, to undertake a comprehensive cost-benefit analysis of Kenya's membership in IGADD.

V.6. <u>Inter-Governmental Standing Committee on Shipping</u> (ISCOS)

119. Unlike the PTA and IGADD, the Secretariat of the Inter-Governmental Standing Committee on Shipping (ISCOS) is based in Mombassa, (Kenya). ISCOS was established in 1987 by the Governments of Kenya, Tanzania, Uganda and Zambia to negotiate, on behalf of the member States, with shipping conferences, ship-owners and operators of shipping lines, concerning freight rates and other conditions of maritime transport.

(a) Costs of Membership

120. Like the PTA and IGADD, the Secretariat of ISCOS depends on the financial contributions on an equal (25 percent each) basis from the member States. To this extent, Kenya has over the last four years contributed to the Recurrent Budget of the ISCOS Secretariat as follows:

Financial Year	Amount Paid (KShs, $US)
1990/91	1,356,289.50 ($US58,970.00)
1991/92	1,493,357.80 ($US59,735.00)
1992/93	$US60,393.00
1993/94	$US79,196.25
Total	**$US258,294.75**

Source: Ministry of Transport and Communications, Nairobi, August 1994.

121. On the basis of the available financial data, Kenya contributed some $US258,294.75 between 1990/91 and 1993/94 to the Recurrent Budget of ISCOS. Perhaps Kenya's financial contribution to the ISCOS Secretariat would have been much higher if there was information on the funding of the Recurrent Budget of the Committee since its establishment in 1967.

(b) **Benefits from Membership**

122. The benefits to Kenya of its membership in ISCOS have taken the following form: (i) lower ocean freight rates which have remained stable during the moratorium period of two (2) years; (ii) the removal of vessel, Delay Surcharge on the Port of Mombassa in 1989; (iii) favourable terms of maritime transport; and (iv) the lowering by the East African Conference Lines of the proposed Vessel Delay Surcharge on the Port of Mombassa.

123. Since no quantitative information is available, it is difficult if not impossible to indicate the precise benefits to Kenya of its membership in ISCOS. Consequently, it is difficult for the mission to draw a balance sheet of the <u>costs</u> and <u>benefits</u> of Kenya's participation in ISCOS, as it would have wished.

V.6. <u>The Northern Corridor Transit Coordination Authority</u> (NCTA)

124. NCTA was established in 1985 by Burundi, Kenya, Uganda and Zaire, with the main objective of facilitating the smooth flow of Transit along the Northern Corridor served by the Port of Mombassa. The countries concerned have been guided by the desire to further develop and strengthen friendly relations and cooperation. Consequently, they have identified problems, which, if eliminated, will maintain a rationally coordinated and mutually beneficial system of transport and communications in the Northern Corridor.

125. Regarding the financial <u>costs</u> to Kenya of its membership in NCTCA, the mission was unable to obtain any data on the funding of the Secretariat of the Transit Transport Coordination Authority (TTCA) which is based in Mombassa. As concerns the <u>benefits</u> of NCTA, the member States collectively, and Kenya in particular have gained considerably from a number of measures taken by the member countries. The measures are:

(i) The rehabilitation of the Northern Corridor route.

(ii) The use of a standardized consignment note by both the Kenya and Uganda Railways.

(iii) Increased cooperation in the use of ferry services in Lake Victoria.

(iv) The provision of Customs Immigration, Security and Banking services and lorry packing lots for transit facilities.

(v) The introduction of the NCTA Third Party Motor Vehicle Insurance to replace those existing in individual transit countries.

(vi) The adoption of a Standardized Road Custom Transit Documentation (RCTD) to be used by all member States for transit goods.

(vii) The abolition of ITAR - a form of permit issued by the Rwandese Embassy in Kenya to foreign vehicles transporting goods to Rwanda.

(viii) The replacement of systematical stripping of containers at Port of Mombassa with sample verification.

(ix) The reduction of Transit Tax from $US720 to $US200 per month by Uganda and the exemption of goods in transit from the payment of VAT and withdrawal of Fuel Transport Licence by Kenya.

(x) The installation of modules, under the UNCTAD project in KPA and KRC for the introduction of Advanced Cargo Information System (ACIS) to assist transporters in tracking cargo and planning their operations.

126. Again, like the case of ISCOS, it is difficult, because of the absence of quantitative information to evaluate the benefits of Kenya's membership in NCTA and to draw an authoritative balance sheet of the <u>costs</u> and <u>benefits</u> for the country.

127. As a concluding note to this section of the report, it is clear from the available financial data, that Kenya has made considerable sacrifices (costs) to help sustain the four regional

organizations to which it belongs. However, in view of the absence of adequate data on the benefits to the country from its membership in the regional schemes, it has not been possible to present a comprehensive analysis of the overall costs, and benefits to Kenya.

VI. MISSION CONCLUSIONS AND RECOMMENDATIONS

128. The mission would not have been undertaken at such a more appropriate period, when the Government of Kenya was in the process of restructuring the public service, having, in consequence, approved a Civil Service Reform Programme and Action Plan. The mission was also aware of the Government's commitment to the comprehensive reform and capacity building proposed in this document, covering civil service organization, financial and performance management, staffing levels, personnel management, and pay and benefits. It was within this context that the mission would wish to make its recommendations with the hope that they would be considered as part of the process of restructuring of the public service.

129. To enable Kenya to increase its support for regional economic groupings and international cooperation schemes, to derive substantial benefits from its productive land, substantial potential to develop its water resources, vibrant society and vigorous business community, and to adopt national economic policies that would make the country's participation in these organizations more effective and beneficial, the mission recommends the following two options:

Option One: Establishment of a Ministry of Regional and International Cooperation

130. In view of Kenya's potential to maximize its role in regional and international economic cooperation for the benefit of the country, the mission strongly recommends the upgrading of the existing Department of Regional and Interntional Economic Cooperation to a full, separate Ministry answerable directly to the Head of State and headed by a senior minister.

131. The present practice of having the Department of Regional and International Economic Cooperation within the Ministry of Planning and National Development responsible for overseeing Kenya's regional cooperation and international economic relations is no effective alternative to a separate ministry. This arrangement fails to give high profile recognition to the seriousness of the Government's commitment to regional and international economic cooperation.

132. At the bureaucratic level, there are two short-comings to this practice. First, the mainstream responsibilities of the Ministry of Planning and National Development understandably tend to dominate the activities of the Department of Regional and International Economic Cooperation and leave the regional

development issues as the residual legatee of their time and effort. Moreover, the staffing, authority level, background and qualifications of personnel in the Department would seem to be far below what is required to make it effective.

133. Second, regional issues frequently cut across the sectoral and functional responsibilities of line ministries. Although they can be handled through inter-ministerial committees, these rarely prove to be effective because their composition and powers are limited.

134. The solution to these problems is to rise above them and establish a separate ministry for regional and international economic cooperation which would ensure that regional policies were integrated into all aspects of national policy and that they were implemented according to plan.

135. This option, however, would appear to have an undesirable impact on the structure and functioning of the existing Ministry of Planning and National Development. The functions of the Ministry would be considerably reduced and confined only to (a) National Development Planning; (b) Evaluation of Economic Issues; (c) Central Bureau of Statistics; (d) Resources Surveys and Remote Sensing (e) Parastatal Reform Programme Committee and Government Investments Division.

Option Two: Strengthening of the Existing Department of Regional and International Economic Cooperation

136. While undoubtedly establishment of a separate Ministry of Regional and International Economic Cooperation would be more appropriate for the Republic of Kenya, because of budgetary constraints, the mission recommends a systematic and conscious strengthening of the existing Department of Regional and International Economic Cooperation. The Department should be so strengthened and, indeed, empowered, as to enable it to effectively undertake the functions spelt out in this section of the report.

(a) Staffing

137. For either option, the mission recommends that career incentives should be offered to public servants to attract high calibre professionals with the requisite skills, experience and qualifications to serve in the Ministry or Department. The staff would have to be selected with the specific needs of regional economic cooperation and integration in mind. They must be both narrowly technocratic and at the same time adopt broad perspectives and a multidisciplinary approach to the development challenge and its relationship to regional issues. [In this respect, the UNECA-Multidisciplinary Regional Advisory Group (UNECA-MRAG) could be requested to provide the requisite core-competency skills to the staff of the new Ministry or strengthened Department of Regional and International Economic Cooperation].

(b) Purpose

138. The mission recommends that the proposed Ministry or Department of Regional and International Economic Cooperation should have as its central purpose the security, promotion and development of trade, investment and human resources through enhanced interaction, greater regional integration and international cooperation.

(c) Functions

139. To avoid duplication and waste of scarce resources, the mission recommends urgent rationalisation of all the functions of the existing seven separate departments, divisions and units of ministries, as detailed in paragraphs 59-70 above, and put them under the new separate Ministry or strengthened Department of Regional and International Economic Cooperation. It is further recommended,, that the International Organization and Conferences Division of the Ministry of Foreign Affairs and International Cooperation should, however, continue to function under the Foreign Affairs Ministry. [The mission fails to see any justification in adding the title "International Cooperation" to this Ministry].

140. The mission recommends the following specific functions for the proposed full Ministry (option one) or Department (option two):

(i) Coordination of all governments relationships with subregional, regional, international economic and development organisations with particular reference to the PTA/COMESA, East African Cooperation, African Economic Community, UNECA, UNCTAD, Group 77, Lome Conventions, the World Bank/IMF, the European Union, the African Development Bank, the Commonwealth Fund for Technical Cooperation, the UNDP and other UN specialized agencies, joint commissions, aid, etc.;

(ii) Conducting regular surveys and investigation on Government's participation in such organisations, with a view to primarily enhancing Kenya's benefits from the organizations;

(iii) Monitoring and reviewing Kenya's involvement and participation in such organisations with a view to primarily making periodic assessments of the cost and benefits from these organisations;

(iv) Development of project analysis and evaluation procedures for regional projects and programmes with a view to integrating such projects and programmes into the national planning process. Towards this end, Kenya should formally set out, in its statements of national policy or its development plan, explicit objectives relating to economic cooperation and integration. In adopting, for example, a five- or three-year indicative plan, Kenya could outline its strategy for cooperation and integration, laying down specific targets and highlighting the links between such cooperation and national objectives;

(v) Monitoring and analysing the impact and adequacy of Kenya's regional and international cooperation policies;

(vi) Dissemination of regular information on the process of economic cooperation and integration in Africa, as well as that of developed and other developing areas and publicizing through the media various forms of cooperation to the general public;

(vii) Publication of an annual review of Kenya's cooperation with other African countries and those outside Africa, which should eventually become an authoritative work of reference and source of information;

(viii) Establishment of effective arrangements to facilitate administrative, educational, and other contacts with other African countries, and in general to create an environment that would encourage collaboration with them;

(ix) Monitoring and reviewing policy on the promotion and expansion of investment, trade and human resources;

(x) Monitoring and reviewing all activities of regional and international NGOs with a view to maximising their efforts for the benefit of Kenya;

(xi) Provision of secretarial service and logistic support to Government's participation in Joint Commissions, regional and international conferences;

(xii) Maintenance of close liaison with relevant coordinators of other regional and international groupings such as ASEAN, CARICOM, European Union, ECOWAS, etc., with a view to exchanging information of common concerns and learn from their experience as appropriate;

(xiii) Provision of technical, intellectual and organizational support for joint initiatives and actions undertaken by Kenya and other African countries, including research and intellectual support for negotiations and discussions on regional economic groupings;

(xiv) Coordination of close liaison with relevant Ministries, Departments and the Private Sector or business community on issues of regional, international and bilateral cooperation; and

(xv) Maintenance of full knowledge of Government policy on investment, intra- and inter-regional trade and human resources development and other issues incidental thereto.

(d) **Organisational Structure**

141. In terms of organisational structure, the mission recommends that for its effectiveness, monitoring and evaluation, the proposed Ministry or Department be divided into two divisions, i.e., AFRCA and NON-AFRICA with the objective to:

(i) Strengthen and streamline the functions of the Ministry or Department by creating a coherent set of divisions with clearly identifiable line functions so that;

(ii) Coordination, supervision and evaluation of work is facilitated at every level; and

(iii) That within each Division optimum coordination around the main functions can be achieved, responsibility of portfolios clearly recognisable, and room created from meaningful specialisation and research capacity among officers

(e) **Africa Region Division**

142. The mission recommends that this Division should have the task of liaising with and guiding Ministries in the identification, appraisal, approval, implementation and monitoring of projects and programmes with bilateral countries and regional organizations within the Africa region. The second, task of the Division is to actively participate in meetings, conferences and seminars organised by or through regional economic and development groupings in Africa such as UNECA/MULPOCs, PTA/COMESA, UNECA, OAU, African Economic Community and other intergovernmental organizations.

(f) **Non-Africa Region Division**

143. Similarly, the mission recommends that this Division should have the task of liaising with and guiding Ministries in the identification, appraisal, approval, implementation and monitoring of projects and programmes with bilateral countries and multilateral organisations outside the Africa region. The Division will actively participate in meetings, conferences and seminars organised by or through such multilateral organisations as Commonwealth, ACP-European Union, UNDP, ITC, OECD, UNCTAD, GATT and the UN Specialized agencies among others.

144. The mission would wish to reinforce its recommendation under paragraph 137 that special training on core-competency skills be provided to the staff of this Ministry or Department to enhance delivery capacity. Training be provided in such areas as preparation and appraisal of regional projects, project implementation and appraisal, aid coordination, identification of

costs and benefits of regional projects; determination of location of regional projects; the concept of regional projects, etc.

145. Finally, the new Ministry or Department should seek to establish its credibility as a source of sound thinking on development issues and to demonstrate its ability to formulate a common approach for the region. It should generate and refine analysis, ideas, and policy options, based on the situations, needs, and views of Africa for the purpose of assisting the continent to formulate its strategies on North-South issues and the management of global interdependence.

(g) **Establishment of National Commission for Cooperation and Integration** (NCCI)

146. The mission recommends the establishment of a consultative body to be known as National Commission for Cooperation and Integration (NCCI) for permanent consultation on all issues of regional and international economic cooperation under the chairmanship of the President of the Republic or the Vice-President.

147. The NCCI should be composed of Government representatives; representatives of socio-economic associations, Kenya's Chambers of Commerce and Industry; Association of Manufactures; employer's unions and all other social and economic operators to provide democratic framework of regionalism. This will enable private economic operators to participate in the formulation and implementation of cooperation strategies and decisions.

(h) **Inter-Ministerial Coordination Committee** (ICC)

148. The mission recommends, finally, that the existing ad-hoc Inter-Ministerial Coordination Committee (ICC) be rationalized to enable it to formulate national policy and coordinate Government action in the area of regional and international economic cooperation, and to make ICC play a central role in the pursuit of national policies and initiation of economic integration strategies.

149. The membership of the ICC should include Ministers of Foreign Affairs, Finance, Planning and National Development, Commerce and Industry, Agriculture, Transport and Communications and the new Ministry or Head of the Strengthened Department of Regional and International Economic Cooperation.

150. The issues set out above for institutional reform at the national level to enable Kenya to achieve the objectives of greater regional and international cooperation call for responsibility and action at the highest level of the administration of the Government - presidency or vice presidential level - in accordance with national constitution and making use of the classical counter-forces such as parliament, the media, and civil society.

151. Finally, strengthening of the institutions for regional and international cooperation at the national level could be expected to have a beneficial impact on the efficiency and effectiveness of the institutions at the regional level. This is a positive-sum game.

Appendix I
UNECA-MRAG PREPARATORY MEETING WITH MINISTRIES/DEPARTMENTS/AGENCIES DEALING WITH ECONOMIC COOPERATION MATTERS

- TUESDAY, 2ND AUGUST 1994

PRESENT

1.	Dr. K.W. Gitu	Director of Planning	OVP & MPND Nairobi, Kenya
2.	Prof. S.K.B. Asante	Senior Regional Advisor	Addis Ababa UNECA-MRAG
3.	Prof. Wilfred Ndongko	Senior Regional Adviser	Addis Ababa UNECA-MRAG
4.	Mr. J.A. Mwinamo	Deputy Chief Economist	OVP & MPND P.O.Box 30005, Nairobi, Kenya Tel.338111 Ext.33147
5.	G.K.A. Koech	Desk Officer (ERD)	Ministry of Finance P.O.Box 30007, Nairobi, Kenya Tel.338111 Ext.33374
6.	Mary Ambunya	Ast. Desk Officer (ERD)	Ministry of Finance Nairobi, Kenya Te.338111 Ext.33385
7.	A. Adanje	Ag. Head/Economic and Trade Division	Ministry of Foreign Affairs and International Cooperation Nairobi Kenya Tel.334433 Ext.240
8.	Catherine Kola (Mrs)	Authority Secretary	Capital Markets Authority Nairobi, Kenya Tel.221910
9.	Ephantus M. Waruingi	Senior Economist	Ministry of Agriculture, Livestock and Marketing Nairobi, Kenya Tel.718870 Ext.48304
10.	Z.E. Gichohi	Deputy Chief Economist	Ministry of Tourism and Wildlife Nairobi, Kenya Tel.331030 Ext.217
11.	John A. Ogola	Manager, Investment Promotion Centre	IPC P.O.Box 55704 Nairobi, Kenya Tel. 222140
12.	E.K. Kinama	Principal Economist	Ministry of Tourism and Wildlife Nairobi, Kenya Tel. 331030
13.	D.O. Nyadenge	Economist	OVP and MPND Nairobi, Kenya Tel.338111 Ext.33446
14.	G.G. Wangima	Economist	OVP and MPND Tel.338111 Ext.33329

Appendix II

List of Government Officials and Institutions Consulted by the Mission

(1) Ministry of Planning and National Development

Name	Position
1. Mr. F.M. Kuindwa	Permanent Secretary
2. Dr. K.W. Gitu	Director of Planning
3. J.A.A. Mwinamo	Deputy Chief Economist, Africa Region
4. Z.N. Mwaura	Principal Economist, PTA Coordination Unit
5. J.M. Rimu	Economist, Multilateral Section
6. C. Nyadenge	Economist, Multilateral Section
7. G.G. Wangima	Economist, International Agencies
8. S. Shah (Ms.)	Economist, Africa Region

(2) Ministry of Finance (Department of External Resources)

Name	Position
1. E.B.M. Barua Chele	Deputy-Director
2. Prof. J. C. Ryan	Economic Secretary Treasury
3. G.K. arap Koech	Desk Officer/ERD
4. M.A. Ambunya (Mrs.)	Asst. Desk Officer/ERD
5. M.D. Avma	Economist FMAD, Finance

(3) Ministry of Agriculture Livestock (Development and Marketing)

Name	Position
1. I.W. Nguguna	Deputy Secretary
2. E.M. Waruingi	SNR Economist

3. J.C. Boit	Officer-Consultant Agricultural Sector Management Project (AJMP II)
4. J.M. Kimani	Economist, MOPWSH
5. P.N. Machiu	Deputy Director, Water Development Departments
6. S.M. Karuga	EEC-Consultant, MOALDM
7. D.M. Nyameino	Forward Planning Manager, NCPB
8. T.A. Otindo	HIPMSU-Veternary Department
9. J.K. Ngeno	DDA.

(4) Capital Markets Authority

Name	Position
1. Mr. William arap Chela Shaw	Chief Executive

2. Dr. Darin GmesseKera Technical Adviser

3. Mr. Paul Melly Operations Manager

4. Mr. Francis Omollo Financial Analysis Manager

(5) Ministry of Commerce and Industry

Name	Position
1. G.H. Olum	Director of Industries, MC&I
2. G.J. Anyango	Senior Economist, MCI
3. G.M. Kionano	Asst. Director External Trade, MCI
4. S.N. Wainaina	Economist, MCI

(6) Ministry of Foreign Affairs and International Cooperation

1. A. Adanje Acting Head, Economic and Trade Division, Ministry of Foreign Affairs and International Cooperation.

(7) Investment Promotion Centre

Name	Position
1. Mr. Martin P. Kungum,	Executive Chairman

Appendix III

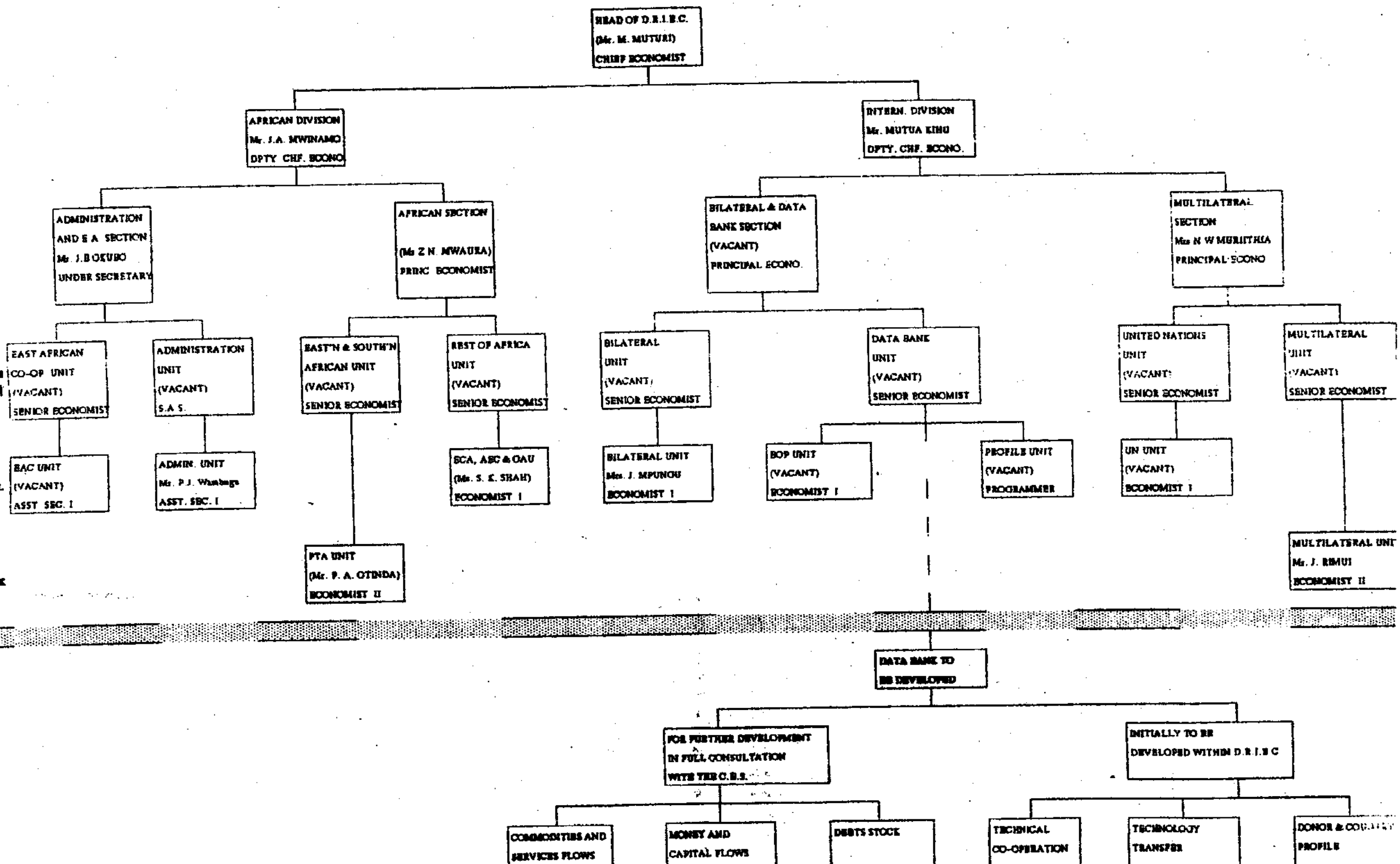
List of Resident Representatives of International Organizations and United Nations Agencies met by the Mission

Name/Organization	Date	Time	Meeting Venue
Prof. Babatunde Thomas UNDP Resident Representative	Tuesday 2.8.94	12 p.m.	Kenya Conference Centre 23/24/25 Floors
Ms. L.W. Waruingi Programme Assistant, UNDP	"	11:30 a.m.	"
Mr. P.B. Vitta Director and UNESCO Representative	Wednesday 3.8.94	12 p.m.	Gigiri UN Offices Block C Room 206 Tel. 621234
Mr. H.L. Norton FAO Representative	Thursday 4.8.94	11:00 a.m.	5th Floor Matungulu Hse Mamlaka Rd. Tel.725788
Mr. L. Ojiambo World Bank	Friday 5.8.94	10:00 a.m.	View Park Towers Monrovia Street 19th Floor Tel.228477
Mr. C. Kahangi ADB Representative	Friday 5.8.94	11:30 a.m.	12th Floor Lonrho Hse Std., Street Tel.723185
Ms. Elizabeth Pape European Union	Monday 8.8.94	4 p.m.	Union Insurance House 2nd Floor Ragati Rd., Upper Hill Tel.712905/06

ECA/MRAG/94/54/MR
APPENDIX IV

AMENDED ORGANIZATIONAL CHART

DEPARTMENT OF REGIONAL AND INTERNATIONAL ECONOMIC CO-OPERATION



D.R.I.E.C.: MPND