Agricultural Trade Reforms in Kenya Under the World Trade Organization Framework

Hezron O. Nyangito

Productive Sector Division
Kenya Institute for Public Policy
Research and Analysis

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Bishops Garden Towers, Bishops Road
PO Box 56445, Nairobi, Kenya
tel: +254 02 2719933/4; fax: +254 02 2719951
email: **admin@kippra.or.ke**
website: http://www.kippra.org
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ABSTRACT

The agricultural sector in Kenya has shown mixed performance with the onset of liberalization of the Kenyan economy. Under liberalization policies of the structural adjustment programs (SAPS), agricultural monopolies were abolished for some commodities including maize, wheat, milk, sugar and cotton. Furthermore, the Government of Kenya has reduced expenditure on the agricultural sector and encouraged cost-sharing in the provision of services such as animal health and research. Reforms in the agricultural sector have come about as a result of implementation of the Agreement on Agriculture (AoA) of the World Trade Organization (WTO). This paper analyses the implementation of liberalization under the AoA's elements (market access, domestic support and export subsidies) and the impact on the performance of the agricultural sector in Kenya. It also indicates the major concerns for the country to benefit from the Agreement and the concerns that need to be considered during the Doha Round. The major impact of the AoA is that high tariffs on commodities such as food crops, livestock products and processed beverages limit Kenya's access to markets in developed countries. Non-tariff barriers such as SPS and TBTs have also affected Kenya's access to markets for commodities such as fish and horticulture. The benefits from domestic support measures have been limited because of the structural programs Kenya has implemented under the SAPS. The impact of subsidies in developed countries has also affected domestic production of commodities such as cereals. These experiences necessitate the need to review the AoA to take into account Kenya's concerns.

Abbreviations

AMS	Aggregate Measures of Support
AoA	Agreements on Agriculture
COMESA	Common Market for East and Southern Africa
CV	coefficient of variation
EAC	East African Community
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
HACCP	hazard analysis critical control points
KCC	Kenya Cooperative Creameries
LDCs	Least developed countries
MoALD	Ministry of Agriculture and Livestock Development
NCPB	National Cereals and Produce Board
NFIDCs	Net Food Importing Developing Countries
NTBs	non-tarrif barriers
ODA	Overseas Development Aid
SAPs	Structural Adjustment Programs
S&D	special and differential (clause)
TBT	Technical Barriers to Trade
UR	Uruguay Round
URAA	Uruguay Round of Agreements on Agriculture

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1. Introduction

Kenya became a member of the World Trade Organization (WTO) in 1995 and a signatory to WTO Agreements, which include Article 20 of the Uruguay Round of Agreement on Agriculture (URAA). The Agreement on Agriculture (AoA) brought radical changes in the global environment for agriculture in terms of both institutional setting and the rules that govern broad agricultural production policies and agricultural trade relations among countries. For the first time, agriculture was fully embraced and brought under a more formal and relatively comprehensive multilateral set of disciplines under the Agreement on Agriculture (AoA). The AoA has three main pillars: improvement of market access, reduction of domestic support measures and elimination of export subsidies. Under the terms of Article 20, new negotiations on agriculture commenced towards the end of 1999 and the process will continue until a long-term objective of progressive reductions in protection and distortionary trade policies is achieved. However, for the period the AoA has been in operation, the general feeling among developing countries is that the AoA has not translated into tangible benefits. There is need therefore to assess whether the implementation of liberalization under the AoA has in fact been advanced outside the realm of market access and whether it has benefited developing countries or not. The main objective of this study is to analyse the elements of the Agreement on Agriculture (AoA) (market access, domestic support and export subsidies) to determine how they have impacted on the performance of the agricultural sector in Kenya and to determine how the country can benefit from the Agreement.

1.1 Kenya's Trade Policy

The objectives of Kenya's trade policies include moving towards a more open trade regime, strengthening and increasing overseas market access for her products (especially processed goods), and further integration into the world economy (GoK Economic Survey, 1989). These policy objectives have been pursued through unilateral liberalization and regional and bilateral trade negotiations, as well as through participation in the multilateral trading system. As a result, Kenya is a member of many trade groupings including the East African Community (EAC) which has a vision of creating a Customs Union to cover the three East African countries of Kenya, Tanzania and Uganda; the Common Market for Eastern and Southern Africa (COMESA) which has a vision of establishing a Free Trade Area for 20 countries in Eastern and Southern Africa; the Africa Caribbean Pacific–European Union (ACP-EU) group in which the ACP countries receive preferential trade arrangements from the EU; and the WTO which is the umbrella body for the world multilateral trade agreements. Kenya also benefits from preferential tariff treatments under the Generalized System of Preferences (GSP). Products that receive preferential treatment include tea, coffee, pyrethrum and horticultural products, mainly to the USA, Japan, Canada, Switzerland, Norway and the European Union.

Like most developing countries, Kenya will gain from the multilateral trading system only if strong rules are put in place to protect the country against pressures from more powerful countries and if the rules will help to improve domestic trade and domestic policies. Recent WTO negotiations, for example, that have given developing countries more access to markets of developed countries by reducing the scope of import restrictions (low tariffs) are some of the gains Kenya can exploit from the system. At the same time, there are some rules such as domestic support measures which allow developed countries to subsidize agricultural production and which can hurt Kenya. Because multilateral trade rules have benefits and costs to developing countries, there is need to analyse agricultural trade reforms under the framework of the World Trade Organization (WTO) in order to identify the opportunities that Kenya can take advantage of, and the constraints the country faces which need to be amended during the next round of negotiations.

1.2 Expected Consequences of URAA

The process of trade and agriculture reform is important for developing countries because agriculture is still an important sector of the Kenyan economy. In Kenya, agriculture directly contributes about 25% of the gross domestic product (GDP), employs about 75% of the labour force, is the major foreign exchange earner for the country, and provides most of the food requirements for the nation (GoK, 1997). While trade patterns diversify with development, developing countries like Kenya will make even more use of agricultural markets as exporters and importers of agricultural products.

The main trust of the AoA is to remove past production-and-trade distorting practices and to facilitate a fair and market-oriented agricultural trading system. Prior to the Uruguay Round (UR), agricultural products enjoyed a "special status" under multilateral trade rules. Countervailing measures, for example, could not be undertaken against agricultural products that enjoyed subsidies, at whatever level and of any type, and rules on export subsidies on agriculture were much weaker than those for industrial goods. Furthermore, the principle was to regulate agricultural trade with ordinary tariffs but there was an exemption that permitted quantitative restrictions in agriculture if these were necessary to enforce certain forms of domestic market management. In practice however, the situation turned out to be different and non-tariff barriers became widespread and endemic. Even where quantitative restrictions were not applied, ordinary duties could be raised to any level to regulate imports as most tariff lines were not bound. The UR addressed these distortions by outrightly banning some of these practices and developing new rules for other practices such as reduction in domestic support measures and elimination of export subsidies.

In general terms, the AoA is expected to improve market access for exports for WTO member countries through a reduction on tariff and non-tariff trade barriers and elimination of trade-distorting practices such as domestic production measures and export subsidies. However, world agricultural markets still remain significantly distorted with a wide range of domestic policies and border protection particularly in developed countries. These practices have impeded the export performance of developing countries and have reduced the world market price of certain commodities such as coffee and tea, which a country like Kenya depends on. Future AoA negotiations aimed at addressing these issues will allow countries like Kenya to benefit more from a free and more market-oriented global trading system.

1.3 Experiences in Developing Countries with Implementation of AoA

The URAA was a turning point in the history of agricultural trade negotiations. Conversion of all non-tariff barriers into binding custom duties and reduction in tariffs has led to improved access to markets and expanded trade opportunities worldwide. However, differences persist in the level of market access as committed by various members. Currently, there are considerable differences between market access for industrial and agricultural products which have been brought about by high and disparate levels of border protection and other forms of market protection, and the special safeguard provisions by the developed countries. Average tariffs on agricultural products are more than 8 times higher than tariffs on industrial products (FAO, 1999). Furthermore, there are high tariff peaks and tariff escalation that exceeds 300% on commodities of export interest (meat, sugar, dairy products, food crops, fruits, vegetables, cereals, meat, milk, butter, cheese, sugar, tobacco, cotton, fruits and vegetables). Protection of markets by developed countries has been estimated to cause an annual welfare loss of US$ 19.8 billion for developing countries. The causes of the differences include border protection levels, discrepancies between applied and bound rates, trade-weighted and single average tariffs, tariff peaks, tariffication, high seasonal tariffs, application of tariff quotas and scope of special safeguards (Das, 1999 and ECA, 1999).

Domestic support provisions were a major innovation in the URAA and have been welcomed by many countries. At the same time, the general consensus regarding the effectiveness of these provisions in reducing trade distortions is that the impact has been limited (Pearce and Haddock, 1999). The majority of developed countries managed to package substantial previous support commitments into the blue and green box categories.[1] AoA allows developing countries that had applied little or had no trade-distorting domestic subsidies a 10% ceiling while developed countries are not subjected to an upper limit but are only expected to bring down trade-distorting subsidies (AMS) by 20%. This implies that developed countries can support their farmers up to 80% while developing countries can do so no more than 10% of the total value of their agricultural production. Furthermore, application of AMS reductions in developed countries has not been product specific but sector wide, therefore making countries to shift support among different

[1] These are the main elements of domestic support of the AoA. Green box measures (subsidies) are those provided to farmers and have minimal trade-distorting effects such as support to research and infrastructure. Blue box measures (subsidies) are those provided to farmers and have trade-distorting effects such as direct subsidies for agricultural production.

products. Developing countries on the other hand were less adept at using opportunities for aggregate measures of support (AMS) exemptions. Many developing countries underplayed the importance of AMS by excluding measures that should have been included either in green box submission or as part of the *de minimis* exemption.

Export subsidy commitments were introduced with a major objective of restricting disposal of subsidized surpluses of agricultural commodities in the world market, particularly from developed countries, which accentuate world price instability.

The reduction of export subsidies was initially significant and this led to a surge in international market prices particularly for cereals. However, there was an increase in the level of subsidies on food commodities in 1998 because most developed countries used the provision within the URAA which allows for a "roll-over" of the value of permitted subsidies that are unused in subsequent years (UNCTAD, 2000). Furthermore, it must be recognized that at the time of the Agreement, subsidized exports accounted for a third or more of the trade in beef, wheat and vegetable oils, while a fifth of poultry and coarse could still be subsidized (Pearce and Haddock, 1999). Therefore, a high level of subsidies still exists in developed countries despite the fact that market access has opened up significantly in developing countries. This indicates that the URAA still permits distortions to market access.

1.4 Kenya's Position in Enhancing World Agricultural Trade under the AoA

Kenya's concerns with respect to the new rules are presented below under three main disciplines: market access, domestic support, and export subsidies.

1.4.1 Market access

The major concern in market access for Kenya is to establish rules and disciplines that are genuinely fair for both food-importing and food-exporting countries, as well as for developed and developing countries. The aim of negotiations should be to maximize improvements in market access opportunities and to make the structure of tariff bindings for WTO members more uniform. The objectives include:

(i) Immediate elimination of tariff peaks and escalation on products of export interest to developing countries.

(ii) Establishing rules and disciplines to improve quota administration and allow more transparency, predictability, and ensure non-discriminatory and economical quota allocations.

(iii) Enabling developed countries to use available WTO measures such as anti-dumping and countervailing measures rather than special safeguard measures to restrict market access.

(iv) Simplifying complex tariff regimes. The need arises to allow for harmonization of tariffs for all member countries for easy implementation.

(v) Negotiating for a special safeguard clause for special and differential treatment in order to allow improved market access to the benefit of developing WTO members.

1.4.2 Domestic support

The main issues for future negotiation on domestic support measures for Kenya are:

(i) Establishment of a "development box"[2] or flexibility within

[2] Development box is aimed at allowing developing countries some flexibility in subsidising agricultural production

the "green box" which allows developing countries to use domestic support measures and transparent import controls as national governments see fit in order to encourage food production for domestic consumption.

(ii) Ensuring transparency by the developed countries in providing information on what is actually included in the green box. A clear meaning on the requirement that "green box" measures be "non-trade-distorting" is also required because the interpretation is currently ambiguous and open to disagreement.

(iii) Establishment of tight rules and disciplines for "green box" measures applied by developed countries limiting their distorting effect on agricultural trade.

(iv) Granting of developing countries special and differential treatment to correctly report their base total AMS.

(v) Ensuring a special and differential treatment for developing countries and net food-importing developing countries (NFIDCs) to raise the *de minimis* level of domestic support from 10% to 20%.

(vi) Making further commitments to reduce AMS ceilings and AMS for each product or product groups.

(vii) Total elimination of "amber box" support measures as they distort trade and development, which affects developing countries most.

1.4.3 Export subsidies

Two major issues are of concern for Kenya in the next round of negotiations. First is the relatively small number of WTO members who are now permitted to use export subsidies and are therefore subject to reduction commitments. Second is the concentration of subsidy permits currently provided by the AoA where only 19% of the members are allowed to implement export subsidies—more than half of these countries use subsidies for a narrow range of products. The Kenyan position is as follows:

(i) Immediate elimination of export subsidies by the first year of implementation of AoA by all WTO members.

(ii) Developing countries not to undertake any further liberalization commitments until these trade distortion measures have been completely eliminated.

(iii) Formulation of disciplines on export credit which should be integrated into Agreement on Agriculture and should take into account the special conditions and needs of NFIDCs.

(iv) All public-financed export credits should be subjected to a common set of disciplines such as payment periods for pre-shipment and post-shipment financing, minimum interest rates, interest payments, minimum down payment, risk cost-sharing, minimum interest rates, and penalties for violation of the disciplines.

(v) All WTO members should be fully involved in the formulation of export credit disciplines within the WTO forum.

(vi) Establishment of disciplines that would avoid the negative effects of export restrictions on agricultural trade and on NFIDCs in particular.

(vii) WTO members to provide a (six) 6 months notice from the time the members have received notification for any intended export restriction.

1.4.4 Non-tariff barriers

Apart from tariff barriers, Kenya's exports to developed countries markets have been barred by instances of arbitrary imposition of sanitary and phytosanitary (SPS) measures and the most affected sub-sectors include horticulture and fisheries. Besides, there has been cases where sub-standard commodities that do not meet SPS standards have been dumped in the country. Kenya's position on SPS is for transparency in implementation by developed countries and for provision of technical support to enable the country undertake risk analysis and participate in international meetings for setting standards.

2. Policy Changes in Agriculture in Kenya

This section outlines policy changes in Kenya as a result of policy reforms attributed to Structural Adjustment Programs (SAPS) and the AoA. The analysis is aimed at showing the extent of implementation of these policies.

2.1 Market Reforms Related to SAPs

Kenya started implementing policy reforms under SAPS for the economy at large in the early 1980s. The key concern in the policy reforms with respect to trade was liberalization of the operations of markets, which hitherto were dominated by government controls. In the agricultural sector, the focus was on removing government monopoly in the marketing of agricultural commodities and associated price controls which were vested in parastatals, and removal of government controls on importing, pricing and distribution of purchasable farm inputs. Implementation of the reforms in the early period was not smooth; it was characterised by considerable official ambiguity and covert and overt resistance (Ikiara *et al*, 1993). However, a wave of substantial implementation of the reforms towards liberalized markets in the agricultural sector started in 1993 (Nyangito, 1999).

The deregulation of markets, decontrol of prices and trade liberalization were aimed at encouraging the private sector to play an important role in the production, marketing and processing of agricultural commodities. The cotton, sugar, beef, dairy, and maize markets have been deregulated. At the same time, though the Government is yet to completely deregulate the marketing of export crops, mainly coffee and tea, it has substantially decontrolled their pricing and trade. Domestic controls and trade in cotton have been completely deregulated.

Reforms in macro policies have also been introduced to provide price incentives to agricultural producers. Removal of restrictions on the exchange rate, foreign exchange retention and remittances, and liberalization of interest rates are some of the monetary policy reforms that have been implemented to allow farmers to benefit more from agricultural exports. Government spending has also been reduced through retrenchments in the civil service and this, coupled with reduced Government borrowing, should reduce inflationary pressures in the economy, therefore increasing real earnings to agricultural producers.

The major trade policies that have been implemented in the agricultural sector are presented in Table 1. A list of selected main agricultural commodities for which there have been changes in policy, policy before the change, the policy after the change, date of change and implementation status is shown in Table 2.

The major objective of the policy reforms for the agricultural sector was to provide incentives to farmers for increased production. However, despite the improved implementation of the policy reforms, agricultural production and food production in particular has been on the decline (Nyangito, 1999). This is explained mainly by the nature of implementation of the policy reforms as follows:

First, the Government did not easily accept liberalized market policy reforms and their implementation was characterised by overt and covert resistance because restructuring measures spelt new challenges for the Government. In the food crops sub-sector, for example, major uncertainties remained as to how the urban consumers, a potentially politically volatile group, would respond to subsidy elimination for the staple foods. As a result, the Government kept on progressing and retracting on rules for liberalizing markets. A good example is the maize industry in which, in the late 1980's and early 1990's, the Government

Table 1: Agricultural and other related policy reforms: 1993-1998

Policy	Policy Action	Date of Implementation	Implementation Status
Agricultural Policies	Reform of agricultural parastatals	1999	Ongoing
	Review of Acts for commodity parastatals and cooperatives	1996	Ongoing
	Establish modalities for maintenance of strategic maize reserve, stock and market interventions	March 1996	Ongoing
Trade Policy	Abolish specific duties on cereal imports	December 1996	Done
	Present to Parliament an anti-dumping legislation consistent with WTO rules and impose anti-dumping duties on cereal imports in accordance with the law	December 1996	Done in June 1997
	Reduce tariffs towards the lowest prevailing in COMESA	1997	Ongoing
	Reduce non-tariff barriers to trade and harmonize investment regulations under the auspices of EAC	1997	Ongoing
	Work with EAC partners towards a goal of a sub-regional Common External Tariff with maximum rate of no more than 25% and one other non-zero rate	1997	Ongoing
	Maximum tariff to be lowered to 30% and no more than 3 non-zero rates and lower trade-weighted average tariff	July 1997	Ongoing

Table 2: Specific Policy Changes for Various Agricultural Commodities

Commodity	Poliy before change	Policy afterchanges	Date of change in policy	Implementation status
Coffee and Tea	Auctioning, marketing and no retention of foreign currency proceeds by exporters	Auctioning using foreign currency and retention proceeds by exporters	November 1992	Completed in 1995
Sugar	Producer prices controlled and control of imports	Minimum prices established andvariable duties used to protect local producers	1994	Done
Maize	NCPB only importer and control of producer and consumer prices	Private sector can import but variable duty imposed and minimum (floor) prices based on NCPB prices	1992	Done
	NCPB maintained strategic reserves	Foreign exchange reserve of US$60 million established	1994	Varies annually
Wheat	Producer prices controlled and NCPB only importer	Minimum (floor) prices based on long-term import parity prices and imports controlled using variable duties	1994	Done
Milk and dairy products	Price controls and KCC monopoly in processing and marketing	Prices decontrolledand private sector participation in processing and marketing	1992	Done
	Kenya Dairy Board a monopoly for imports	Liberalized imports but duties to control imports	1992	Done
Cotton	Domestic marketing, trade, and prices controlled	Complete deregulation of domestic marketing and pricing	1992	Done

kept on implementing reform and retracting on the same until 1993 when serious implementation of the policy reforms started.

Second, although the liberalized policies were accepted in principle, the legal framework to support operation of the emerging policies has not been put in place. Liberalized market policies for production, processing and marketing of most agricultural commodities (e.g. maize, milk, coffee and tea) have for example been implemented but the laws that gave monopoly powers and control of the sector to public institutions have not been repealed. Therefore, enforcement of the laws that govern the sector is weak and has hindered efficient development of institutions that serve the sector.

In sum, liberalized market policy reforms were characterized by the following:

- Illogical sequencing which disrupted market operations.
- Improper timing that kept the policies out of pace with available institutional capacity.
- Instability in policies which reduces investor confidence.
- Lack of harmony and coordination in implementation of the policies.

2.2 Uruguay Round of Agreements on Agriculture (URAA) in Kenya

Kenya became a signatory to the URAA in 1995 while it was in the process of implementing Structural Adjustment Programs (SAPs) which started in early 1980s. Under the SAPS framework, market reforms such as liberalized marketing of agricultural commodities and reduced Government expenditures were started. Therefore, by the time of signing the AoA, the county was in the process of liberalizing its markets and eliminating subsidies on agricultural production. However, the level of subsidies on agricultural production and exports was minimal even before the SAPs. Instead, the Government overtaxed producers rather than subsidizing them (Swamy, 1994). Implementation of the elements of URAA may therefore have been made easier because of the close relationship between SAPs elements and URAA, particularly the element of trade liberalization. The main elements of the AoA and their implementation in Kenya are outlined in this section.

2.2.1 Market access

Under these Agreements, all WTO member countries are required to tarifficate quantitative trade restrictions, bind their tariffs against further increases and to reduce them over time (developing countries by 24% annually). The Agreements also require that all duties and charges applied should be bound and the schedule of commitments and the bound rate of duty on various products provided. This is to ensure that a bound tariff concession is not nullified by imposition of other duties or charges. Countries are required to provide information on the products subject to tariffication and current minimum access conditions, where minimum access is defined as 3% of domestic consumption in the base years, rising to 5% by 2004. When current access is already above the required minimum, no further import provision is required.

As a commitment to the WTO requirements, the Government of Kenya gave a tariff ceiling binding of 100% for all agricultural commodities. The import tariff rates, excluding suspended duties for major agricultural commodities in Kenya, are summarized in Table 3. The import tariffs have generally been lower than 35%. However, recent evidence indicates that this may not provide adequate domestic market protection particularly for cereals and sugar. The Government often raises import tariffs when there is need to protect domestic production. The tariff rates, however, have never reached the 100% mark in the last five years.

Table 3: Import tariffs (%) on selected agricultural commodities in Kenya

Commodity/Year	1996/97	1997/98	1998/99	1999/00
Agric. food stuffs[3]	15	15	25	30
Processed fruits and vegetables	15	15	30	35
Sugar	35	15	25	35
Textiles	15	15	25	30

Source: *Kenya Gazette*, Financial Bills (1996, 1997, 1998 and 1999)

Kenya has done away with the use of non-tariff barriers as required by the AoA. The concern currently is on the consequences of using technical barriers to trade (TBT) and the Sanitary and Phytosanitary Standards (SPS) by the developed countries. Most developing countries, including Kenya, find it difficult to implement the SPS agreement partly because of numerous problems in its implementation and lack of technical capacity to implement it. This is unlike in the developed countries which are using the Agreement to limit access of commodities from developing countries. The new emerging non-tarrif issues such as trade and labour standards, trade and environment, trade and competition, and trade and investment are seen as strategies designed by the developed countries to create barriers to trade for commodities from developing countries.

[3] Includes most cereals (maize, wheat and rice).

2.2.2 Domestic support

Kenya presented a detailed Schedule on domestic support measures under URAA under the Green Box but not under Amber and Blue Boxes. However, the country had already reduced its support on agriculture spending particularly on extension, research and delivery of such services to farmers as animal health, mechanization and subsidized credit under the SAPs. Most of these, except subsidies on services, are support measures under the Green Box of the URAA.

Available evidence indicates that Kenya used to spend about 10% of its total Government budget on agriculture in the 1980s but this has dropped to about 5% in the 1990s (Nyangito, 1999 and Table 4). However, about 60% of the Government's expenditure on the agricultural sector is on recurrent expenditure which are dominated by salaries (for employees including extension officers). On the other hand, only about 40% of allocation to this sector is spent on agricultural development, which includes provision of agricultural research and market information, animal health services, crop protection, seed inspection, mechanization services and farm planning services. This is the expenditure which can be considered within the domestic support measures.

The amount spent on recurrent expenditure has been consistently higher than that spent on development expenditure since 1995/96 except for the year 1996/1997 and 1999/2000. This is possibly because of fiscal reforms in which the Government emphasized reduction of its public expenditure; the Government finds it easier to reduce development expenditure than recurrent expenditure. Most important perhaps is that most of the development expenditure is funded by donors. This is usually unstable due to the donors' changing policies on provision of funds to the Government of Kenya.

Table 4: Government expenditures for all sectors in million K£[4] 1982/83-1999/00

Year	Agric. recurrent	Agric. dev.	Total agric	Total public	%share of agric.
1982/83	52.4	44.3	96.7	1190.7	8.1
1983/84	58.3	14.7	72.9	1242.4	5.8
1984/85	90.4	39.0	129.4	1521.7	8.5
1985/86	62.2	77.6	139.8	1628.4	8.5
1986/87	122.7	99.7	222.4	2063.1	10.7
1987/88	168.1	67.7	135.8	2198.9	6.1
1988/89	310.0	91.6	401.6	3101.9	12.9
1989/90	82.7	71.1	153.8	3156.0	4.8
1990/91	38.6	40.2	78.8	2815.7	2.8
1991/92	13.3	4.9	18.2	4926.7	0.4
1992/93	117.0	177.2	294.2	6064.7	4.8
1993/94	160.6	302.9	463.5	9007.7	5.1
1994/95	184.4	192.2	376.6	9205.6	4.1
1995/96	216.1	170.5	386.6	9170.4	4.2
1996/97	229.5	331.8	561.3	10147.8	5.5
1997/98	213.4	174.4	387.8	1213.5	3.2
1998/99	243.4	229.9	473.3	1364.6	3.4
1999/00	221.1	265.8	486.9	1917.4	2.5

Source: Kenya, Statistical Abstracts (various years)

The Government's funding on different domestic support measures on the agricultural sector is shown in Table 5. The Government has increased its funding on supportive services such as marketing and research, and seed inspection on nominal terms since 1990 as opposed to provision of direct production and domestic support measures such as artificial insemination, tractor hire, aerial spraying, veterinary services and farm planning. Provision of the latter services can be considered as direct subsidies for agricultural production. This is allowed for

[4] One Kenya Pound (K£) is equivalent to 20 Kenya shillings while one US$ is currently equivalent to about 78 Kenya shillings.

Table 5: Expenditure in agricultural services in (K£ million)

Year	Market and research	Artificial insemination	Aerial spraying	Tractor services	Govt vet services	Seed inspection service	Farm planning
1980	2,624	17	120	2,363	31	46	1
1981	2,703	17	124	2,435	32	47	1
1982	2,919	18	130	2,523	32	48	1
1983	3,066	19	135	2,611	35	48	2
1984	3,126	19	137	2,676	38	48	2
1985	3,281	20	139	2,944	50	82	2
1986	3,081	15	141	1,052	174	113	4
1988	3,174	18	140	2,073	112	104	6
1989	3,139	17	144	1,783	143	111	6
1990	9,315	18	141	2,027	122	110	6
1991	9,789	17	144	2,030	125	110	6
1992	9,559	17	144	1,843	141	117	5
1993	10,700	16	145	1,800	146	119	4
1994	9,815	15	140	1,805	148	121	5
1995	10,450	16	149	1,924	158	129	5
1996	11,240	17	160	2,071	170	139	5
1997	11,688	18	166	2,152	177	144	5
1998	12,621	19	179	2,324	191	156	

Source: Kenya, Statistical Abstracts (various years) developing countries under the special and differential clause (S&D) for measures that fit into the developmental category. The low levels of funding for these direct services means that the cost of inputs for agricultural production has increased.

2.2.3 Export subsidies

The URAA permits export subsidies on agricultural products but constraints are imposed on the practice. The WTO member countries made commitments to reduce export subsidies using 1986-1990 as the base period. The export subsidies must be reduced from the base by 24% in value (for developing countries) over an eight-year period during which the subsidies cannot be increased. Subsidies to reduce costs relating to export marketing and internal transportation are exempt for developing countries, although no new ones can be introduced. Importing countries can undertake countervailing measures if export subsidies cause serious injury to their domestic industries.

The major experience with respect to export subsidy commitments for developing countries, Kenya included, is that the provisions are underused (Oyejide, 1997). In general, subsidized exports of several products are fairly small relative to what is allowed. The main reason for this is that few developing countries provide export subsidies and so the disciplining of this practice has no direct consequence for them. However, it is important that developing countries are aware of the indirect effects of export subsidies. The effect on net food exporters, for example, is most obvious as export subsidization by others hurts them in terms of market share and earnings. On the other side, food importers may face increased import bills once import subsidies are withdrawn. Therefore, removal of subsidies has different effects depending on whether one is a net food importer or exporter.

2.2.4 Other issues

Other than the three key issues discussed, the URAA contains three important elements.

First, it contains new rules on Sanitary and Phytosanitary (SPS) measures. These mandate that SPS be applied only to the extent necessary to protect food safety and animal and plant health. This however can constitute unfair technical barriers to trade when used indiscriminately. Provision is also made for possible technical assistance for developing countries to comply with SPS standards of importing countries.

Second, the URAA recognizes the S&D clause for developing countries and least developed countries (LDCs). Developing countries are permitted a period of 10 years to implement reduction commitments. For the least developed countries, no reduction commitments are required in any of the three areas of market access, domestic support and export subsidies.

Third, the Marrakesh Declaration noted the special difficulties of LDCs and NFIDs who may suffer sharply increased food import bills following the reduction in food export subsidies by the developed countries and possible increases in food import prices. However, no clear-cut operational mechanisms have been developed for implementation of this decision.

3. Impact of URAA in Kenya

This section analyses the impact of the Agreement on Agriculture (AoA) on agricultural production and domestic adjustments with respect to prices, tariffs, and trade in agricultural commodities.

3.1 Agricultural Production

The agricultural sector is dominated by primary production of a few commodities categorized as export crops (tea, coffee and horticulture), food crops (maize, wheat and rice), industrial crops (sugar, pyrethrum, cotton and sisal) and livestock products (milk and beef). The performance of the sector in the 1990s was dismal. Annual growth in agricultural GDP averaged 2% compared to an average of 4% in the 1980s. Production of most commodities had mixed trends (Figure 1 and 2). The worst decline in production occurred in maize, milk, coffee and sisal.

The factors that explain the decline in production include climatic, price, market and technological factors. However, while climatic factors such as drought are important in explaining the decline, the major factor may be policy-related, particularly in market reform policies. The shift from Government controls on pricing and marketing to liberalized market policies, for example, led to fluctuations in the commodity markets because of changes in supply and demand. The resultant price instability affected the incentives that farmers received before the reforms. The impact of the URAA on price stability are analysed in the next section. Other than the observed mixed trend in production of agricultural commodities, there is no significant difference in annual variability in production of commodities before and after implementation of the AoA in 1995 (Table 6). Therefore, the observed instability in production between 1995 and 2000 cannot be attributed to market changes associated with implementation of URAA.

Figure 1: Production levels of selected food commodities (1990-1998)

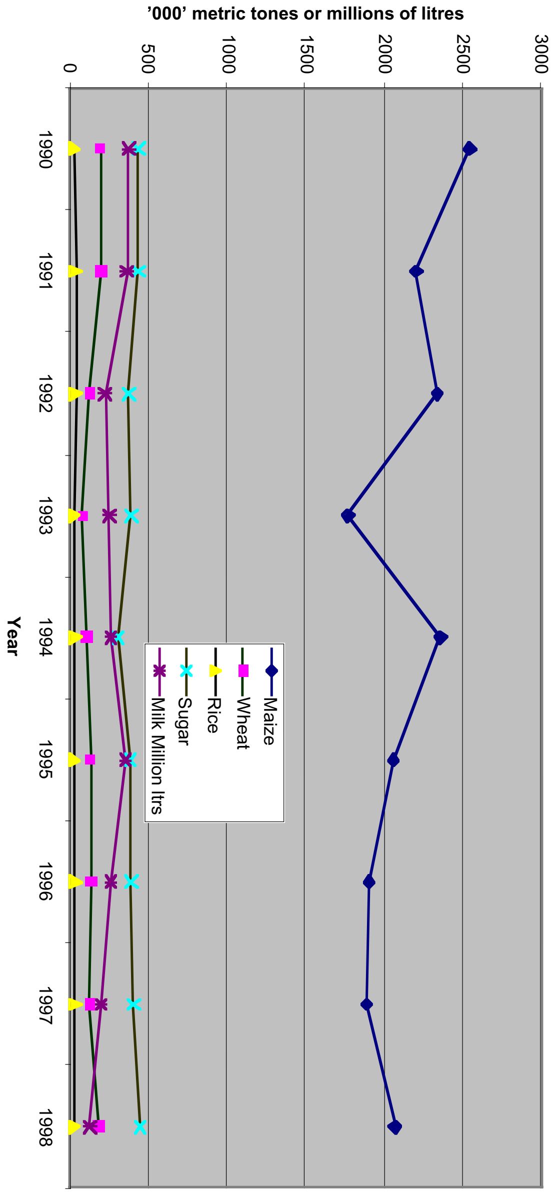

Figure 2: Production levels of selected cash crops (1986-1998)

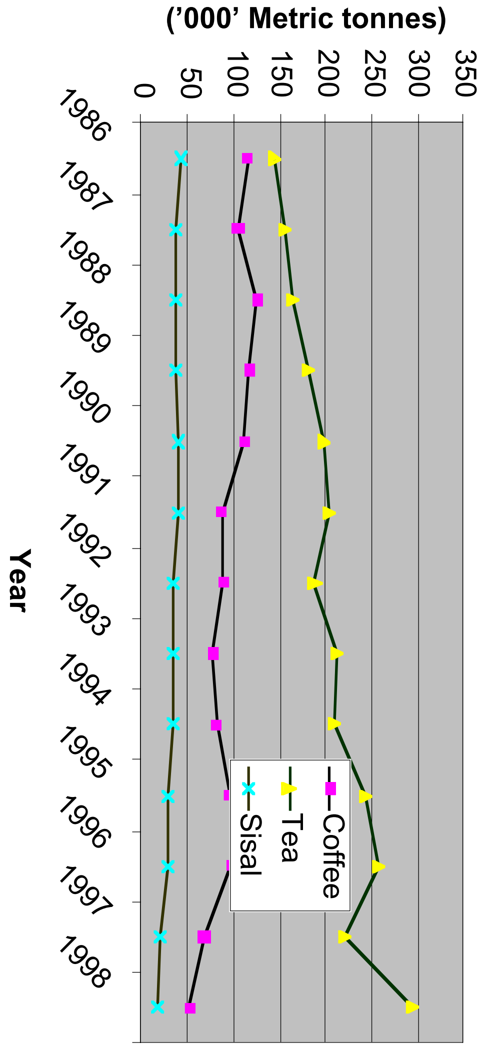

Table 6: Coefficients of variation for production of major commodities in Kenya pre-and-post URAA (1995)

Commodity	Pre-URAA	Post-URAA
Maize	0.17	0.06
Wheat	0.13	0.18
Rice	0.07	0.12
Sugar cane	0.05	0.05
Milk	0.23	0.29
Coffee	0.11	0.27
Tea	0.09	0.11
Cotton	0.21	0.02
Sisal	0.12	0.15

Source: Author's calculations

3.2 Price Stability

The impact of URAA on price stability are mirrored on the price trends for agricultural commodities. However, since Kenya was in the process of liberalizing its markets under SAPS before becoming a signatory of WTO in 1995, the observed trends cannot be wholly attributed to URAA. As a result, the analysis on price trends covers the period before (pre-) and after (post-) URAA. The price trends are shown in Table 7, 8 and 9 for food crops, industrial crops, and export crops, respectively.

The price trends for food crops shown in Table 7 indicate that there was a general increase in real prices in Kenya shilling terms during the post-URAA period but they show a decline in dollar terms during the period. This is possibly because of the depreciation of the Kenya shilling against the dollar.[5] However, there have been variations in real prices both for

[5] The exchange rate of a dollar to Kenya shilling has been increasing and was Kshs. 24.10 in 1990, 55.90 in 1995 and 77.8 in 2000.

the pre-URAA and post-URAA period. The coefficient of variation (CV) in real Kenya shilling terms was highest during the pre-URAA period and it ranged from 0.15 for maize to 0.50 for rice as opposed to 0.07 for maize to 0.10 for wheat during the post-URAA period. The variation in dollar terms is higher, ranging from 0.30 for maize to 0.53 for rice during the pre-URAA period and 0.13 for rice and 0.21 for wheat during the post-URAA period. The higher variation in dollar terms could be due to the volatility of the dollar exchange rate to the Kenya shilling.

The price trends for industrial crops are shown in Table 8 and indicate mixed trends in real Kenya shillings. Prices for commodities such as pyrethrum and sisal show a general increase in prices while commodities like cotton and sugar cane show a general declining trend. However, prices for all commodities show a general decline in dollar terms. The instability of prices is much higher than that shown by food crops (Table 8). The CV calculated in real Kenya shilling terms ranges from 0.23 for cotton to 0.35 for pyrethrum during the pre-URAA period and 0.04 for sugar cane to 0.36 for pyrethrum and sisal during the post-URAA period. The CVs in dollar terms are also higher ranging from 0.46 for sugar cane to 0.70 for pyrethrum during the pre-URAA period and 0.17 for sugar cane to 0.29 for cotton during the post-URAA period. In all cases, the CVs are higher for the pre-URAA period as opposed to the post-URAA period. This indicates that price variability for industrial crops was higher during the post-URAA period. This is possibly because the prices of industrial crops are determined by the derived demand for the processed products. With implementation of WTO, the Kenya market for these products was liberalized and the domestic market faced stiff competition from outside. The fluctuating supply of imports of agro-processed products from industrial crops (e.g. textiles and sugar) affects the demand for Kenyan-processed products and therefore the price fluctuations for the commodities according to the supply and demand of imports.

Table 7: Real prices per tonne of food crops (1990-2000)

Year	Maize		Wheat		Rice	
	Kshs	US$	Kshs	US$	Kshs	US$
1990	1537	63.77	2642	109.62	1427	59.21
1991	1463	52.06	2393	85.16	766	27.25
1992	1619	44.72	1911	52.79	399	11.02
1993	2017	29.57	1407	20.63	1307	19.16
1994	2065	46.09	2609	58.23	1976	44.11
1995	1626	29.08	2643	47.28	2086	37.32
1996	1966	35.74	2913	52.96	2988	54.33
1997	2351	37.55	3030	48.40	2735	43.69
1998	2043	33.05	2688	43.49	3354	54.27
1999	2064	28.31	2703	37.07	3292	45.16
2000	2022	25.98	2305	29.62	3251	41.79
CV pre-URAA	0.15	0.30	0.22	0.50	0.50	0.53
CV post-URAA	0.07	0.15	0.10	0.21	0.08	0.13

Source: Kenya, Statistical Abstracts (1995 to 2001) and author's calculations

Table 8: Real prices per tonne of industrial crops (1990 to 2000)

Year	Cotton		Pyrethrum extract		Sisal		Sugarcane	
	Kshs	US$	Kshs	US$	Kshs	US$	Kshs	US$
1990	5760	239.00	1056958	43857.18	5392	223.73	263	10.91
1991	4777	170.00	861656	30663.91	4519	160.82	249	8.86
1992	3377	93.28	527626	14575.30	3342	92.32	136	3.75
1993	3294	48.29	448096	6570.32	2462	36.09	206	3.02
1994	4160	92.85	472826	10554.15	2391	53.37	338	7.54
1995	3497	62.55	731856	13092.24	3893	69.64	316	5.65
1996	3981	72.38	671016	12200.29	3569	64.89	289	5.25
1997	3423	54.68	606227	9684.13	6660	106.38	266	4.24
1998	3333	53.93	826972	13381.42	6320	102.26	275	4.44
1999	2979	40.86	774501	10624.16	5943	81.52	258	3.53
2000	2666	34.26	1372262	17638.33	5273	67.77	281	3.61
CV pre-URAA	0.23	0.62	0.35	0.70	0.32	0.68	0.29	0.46
CV post-URAA	0.15	0.29	0.36	0.24	0.36	0.23	0.04	0.17

Source: Kenya, Statistical Abstracts (1990 to 2001) and author's calculations

The price trends for export crops are shown in Table 9 and indicate mixed trends although the prices were much higher in the early 1990s and much lower in the late 1990s. The CVs calculated in real Kenya shilling terms range from 0.27 and 0.28 for tea and coffee respectively during the pre-URAA and 0.14 and 0.39 for tea and coffee respectively during the post-URAA period. In dollar terms, the prices show a general declining trend and tend to be more unstable. The CV calculated are 0.52 and 0.35 for tea and coffee respectively for the pre-URAA period and 0.12 and 0.45 for the post-URAA. The mixed trends may be attributed to the instability in world market prices for these crops. These crops are produced for the export market and the domestic prices are dependent on world market conditions. Therefore, the decline and instability of domestic prices may be attributed to the world market conditions for these commodities.

Table 9: Real prices per tonne of export crops (1990 to 2000)

Year	Tea		Coffee	
	Kshs	US$	Kshs	US$
1990	20675	857.88	21351	885.93
1991	18420	655.52	22279	792.85
1992	9975	275.55	14141	390.63
1993	23007	337.35	24610	360.85
1994	19016	424.46	31365	700.12
1995	13797	246.82	32458	580.64
1996	14740	268.01	25934	471.53
1997	18281	292.03	43050	687.70
1998	21151	342.25	40900	3661.81
1999	18618	255.39	23283	319.38
2000	21240	273.01	16058	206.41
CV Pre-URAA	0.27	0.52	0.28	0.35
CV-Post URAA	0.14	0.12	0.39	0.45

Source: Kenya, Statistical Abstracts (1990 to 2001) and author's calculations

In general, the analysis of price trends shows that there has been a general decline of prices in dollar terms for all periods but the prices fluctuate in real Kenya shilling terms. The analysis of price stability using the CV shows that price instability was more during the pre-URAA period than the post-URAA period for food and industrial crops. The instability was highest for the prices calculated in dollar values and this may be due to the instability of the exchange rate. The price instability is highest for export crops and this can be attributed to the variations in world market prices. Therefore, the price instability for agricultural commodities in Kenya may not be attributed to implementation of URAA but rather to other factors such as domestic policies (monetary policies that affect the exchange rate) and changes in world market prices. The analysis of trends in world market prices in Figure 3 indicates that the world prices, particularly for export crops, have been unstable.

Input prices recorded a dramatic increase following reforms and this trend has continued (Table 10). The rapid increase has been attributed partly to inflation and partly to the weakening of the Kenyan shilling. Input prices are sensitive to exchange rate policies because most of the inputs are imported or have large import components. The level of input use has however remained more or less constant since the mid-1980's. The level of fertilizer use in Kenya, for example, has stagnated at about 200,000 metric tonnes between 1986 and 1999 while the potential is about 600,000 tonnes (Nyangito, 1999).

In summary, the domestic producer prices for the major agricultural commodities in Kenya show mixed trends in real Kenya shilling (a general increase for cereals but a general decline for cash crops). However, when the prices are expressed in dollar terms, they show a general decline for all commodities. This can be attributed to the depreciation of the Kenya shilling against the dollar.

Figure 3: Commodity world market prices (1993-2000)

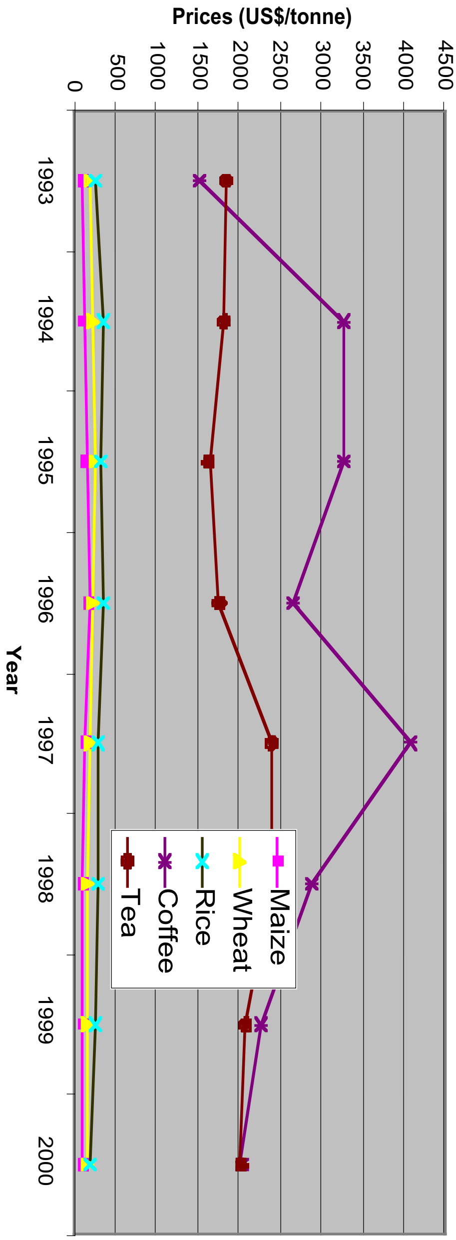

Table 10: Agricultural inputs price indices for Kenya (1994-1999)

Input	1994	1995	1996	1997	1998	1999
Fertilizers	227.2	218.6	232.8	389.7	446.9	528.4
Fuel and power	576.4	641.7	730.6	804.4	851.5	932.8
Bags	294.9	283.6	301.6	296.1	337.4	296.1
Manufactured feeds	578.3	540.6	621.7	886.6	946.5	740.3
Purchased seeds	848.5	830.6	937.4	1,166.8	1,679.7	1,865.5
Other input materials	313.9	350.0	378.9	386.2	408.8	340.0
Total material input	460.4	435.5	489.9	585.6	656.7	647.2

Source: Kenya, Economic Survey (1999)

Therefore, agricultural producers in Kenya have faced declining domestic commodity prices in real terms in the late 1990s (post-URAA period) as opposed to the early 1990s (pre-URAA period). Furthermore, the world prices of cash crops show wide fluctuations as opposed to the world market prices for cereals. This may be the reason for the wide variations of domestic prices for export crops. The price level for inputs has shown a general increase during the period 1990 to 2000. The decline in producer prices and price risk as a result of fluctuations of the prices may be responsible for the fluctuations in production of agricultural commodities in Kenya. Therefore, a mechanism to deal with price risk within the AoA will be of benefit to farmers in Kenya.

3.3 Price Incentives

The impact of price changes on the incentives to farmers is better illustrated using the nominal protection coefficients for the major agricultural commodities as shown in Table 11. The incentives have been more favourable for wheat whose coefficients have been more than 1 since 1994. This means that the domestic price is higher than the world import prices. The nominal coefficient for maize has fluctuated between 1 and 0.8 since 1994. The prices of wheat and maize (Kenya's main imports) are at times higher than the import prices because of deliberate Government efforts to encourage increased production of these commodities. This is made possible through the involvement of the National Cereals and Produce Board (NCPB), a Government parastatal, in the marketing of these commodities and use of import tariffs to keep domestic producer prices high.

The nominal coefficients for tea and coffee, the main exports, have averaged about 0.9 since 1994 indicating that the price received by farmers is slightly lower than the export price. This is because of tax charges and deduction of marketing charges by marketing agencies on

Table 11: Nominal protection coefficients for major agricultural commodities in Kenya (1990-1999)

Year	Wheat	Maize	Rice	Coffee	Tea	Pyrethrum	Sugar
1990	1.09	0.75	0.64	0.94	0.93	0.92	0.53
1991	1.22	0.76	0.55	0.87	0.88	0.81	0.34
1992	0.86	0.78	0.92	0.79	0.51	0.51	0.37
1993	0.48	0.69	0.67	0.79	0.93	0.33	0.58
1994	2.08	1.11	0.94	0.88	0.91	0.34	0.37
1995	1.27	0.89	0.51	0.98	0.82	0.71	0.49
1996	1.07	0.98	0.50	0.98	0.91	0.63	0.61
1997	1.55	1.14	0.97	1.01	0.88	0.57	0.64
1998	1.43	0.84	0.93	1.01	1.06	0.83	0.78

Source: Author calculations using data from Kenya Statistical Abstracts (1990-2000)

these commodities. Similarly, the nominal coefficients for industrial crops (sugar and pyrethrum) have been generally lower than 1 since 1994 indicating that prices received by farmers are much lower than the export prices. This is because of poor marketing arrangements and therefore high charges for services rendered to farmers, which drastically reduces the price received.

It is apparent from the analysis that the use of import tariffs is more important with respect to providing incentives for production of cereals while domestic marketing costs play a major role in affecting the incentives for production of export and industrial crops. The Government of Kenya raises import duties on food imports to restrict them when domestic supplies are high (to increase domestic price) and lowers the duties to encourage imports when there is a deficit in domestic supplies (to lower domestic price). However, the Government does not apply any measures to cushion producers of export crops against price fluctuations in the world market.

3.4 Domestic Adjustments from URAA: Changes in Applied Protection (Tariffs)

Kenya has undertaken substantial trade liberalization since 1993 under the auspices of the SAPs, which is consistent with the URAA. Tariff reforms started in 1981 with tariff reductions on about 21 items used mainly by export-oriented industries. The tariff reductions were gradually extended in the 1980s and 1990s and the tariff categories were reduced from 25 to 11, while the maximum tariff rate was reduced from 170% to 70% over the 1987-1993 period (Mwega, 2000). In the 1994-1996 budget speeches, the maximum rate was reduced to 35% and the number of bands were reduced to five. The average unweighted tariff rate declined from 41.3% in 1989/90 to 34% in 1992/93 (UNDP/World

Bank, 1993). The only element of tariff protection remaining in Kenya by end of 1995 was provision to impose countervailing duties announced in the 1995/96 Budget Speech and these were aimed at curbing unfair competition from subsidized exports from other countries. On becoming a member of WTO, Kenya bound its tariffs at 100% for all agricultural products and 62% on fish. The country also reduced all non-tariff barriers on agricultural imports. Kenya has substantially reduced its tariff levels from between 40% to 60% for most commodities to below 30% for most of the commodities and processed agricultural products. Only cereals (maize, wheat and rice) and cereal-related products attracted tariffs higher than 60% in 1999 but these are also less than the binding ceiling of 100%.

3.5 Value and Patterns of Trade

Kenya's volume of trade for exports and imports since 1990 is shown in Appendix 1 and 2. The volume of trade in exports has risen from K£4.2 billion prior to signing the WTO Agreements to K£5.7 billion in 1998 while the volume of import trade has risen from K£5.7 billion to K£9.9 billion. Agricultural commodities dominate the exports while manufactured goods dominate the imports. The share of agricultural export earnings to total export earnings has averaged at about 55% for the last 10 years.

3.5.1 Exports

The major destinations of Kenyan exports over the 1994-1999 period were the East African Community (EAC), the European Union (EU) and the Common Market for Eastern and Southern Africa (COMESA) (Table 12). In 1994, the EU was the dominant market for Kenyan exports but the EAC became the main destination in 1997 and continues to

Table 12: Destination of exports to major markets as a percentage of total exports

Year	EAC	COMESA Less EAC	Rest of Africa	EU	United States	Japan	Rest of World
1994	22.6	13.5	7	36.1	3.3	0.8	16.7
1995	28.5	10.1	9.9	32.2	2.7	0.7	15.8
1996	29.2	9.0	8.9	32.4	2.7	0.8	16.9
1997	29.2	8.9	8.6	31.6	2.9	0.8	18.1
1998	29.7	7.5	10.6	29.1	2.6	0.8	19.7
1999	30.5	2.3	16.9	27.4	2.3	0.9	19.6

Source: Kenya, Economic Surveys

dominate. This may have been possible because of the regional trade agreement that was established by the three East African countries[4]. Kenya's trade with COMESA, excluding the EAC countries, has also been increasing in recent years. The share of exports to the rest of the world has grown by 3% since 1994 and about 9% for the rest of Africa. The data shows that Kenya's trade has increased for countries in Africa and this might possibly be because of regional integration efforts. However, trade with the rest of the world other than the EU has marginally increased while a significant decline (about 9%) has occurred for trade with EU since 1990. This is an indication that market access for Kenyan products into the rest of the world other than African countries has not been favourable in recent years (post-URAA period).

The structure of Kenya's trade in Exports (Table 13) indicates that there has been no marked difference in its composition since the country became a WTO member. Agricultural trade in food and beverages has not changed and it continues to dominate. Kenyan exports constituted an average 53% of total exports over the period 1994 to 1998. Kenya's exports can be divided into traditional and non-traditional exports. Traditional exports are those that account for more than 3% of total exports in the base year (1980) (Blackhurst and Lyakurwa).[5] The traditional exports include industrial supplies, coffee, tea and crude vegetable materials. The non-traditional exports include most of the horticultural products including flowers.

The value of agricultural exports has risen from K£2.5 million in 1994 to K£3.8 billion in 1998. Except for tea and crude vegetable materials,

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[6] The three East African countries formed the East African Cooperation in 1996, which was transformed into the East African Community in 2001. The target is to establish an East African Customs Union.

[7] Markets and market access for African exports: past, present and future". Framework paper presented at the African Economic Research Consortium Workshop on Africa and World Trading System held at Novotel Hotel, Accra, Ghana, on October 24-25, as cited by Mwega (2000).

Table 13: Composition (%) of Kenya exports in broad categories

Type of commodities	1994	1995	1996	1997	1998
Food and beverages	51.50	51.10	52.90	53.90	57.40
Industrial supplies	29.40	26.90	26.10	22.40	18.30
Fuel and lubricants	6.50	5.30	6.60	9.00	9.10
Machinery and capital equipment	0.90	1.40	0.90	0.60	0.90
Transport equipment	1.10	0.50	0.50	0.40	0.60
Consumer goods	13.60	14.80	13.10	13.90	13.70

Source: Kenya, Economic Survey (1998)

the performance of traditional exports was poor in the 1980s and 1990s with growth averaging 7.4% when compared to non-traditional exports where growth was estimated at 20.1% (Mwega, 2000). The good performance of the non-traditional exports is attributed to removal of restrictive trade policies by importing countries, particularly to Europe under the ACP-EU Lome Agreement. The good performance in 1992-1996 similarly overlaps with trade liberalization and is explained by "removal of bureaucratic bottlenecks and availability of foreign exchange" (Kenya, Economic Survey, 1996). On the other hand, the share of exports for industrial supplies fell from 24.2% in 1994 (pre-agreement period) to 17.9% in 1999.

3.5.2 Imports

Industrial supplies dominate imports with a share of 36% of total imports into Kenya followed by machinery and capital equipment at about 15%. Agricultural products, food and beverage constitute an average of 8% (Table 14). Imports into Kenya are less dispersed than exports (Table 15). Imports from the EU accounted for about 33% in 1999, having declined from 36% in 1994, while the rest of Africa accounted for about 10% and the rest of the world 41%. Imports have also remained relatively constant for USA and Japan from 1996 to 1999. The imports are dominated by manufactured goods from the EU, US and Japan. The major sources of agricultural imports are South Africa for agro-processed products, Uganda and Tanzania for maize and beans, and Australia, Argentina, US and Canada for wheat.

Agricultural imports are dominated by food items particularly cereals and dairy products. The level of food imports increased during the post-URAA period as shown in Table 16. The largest amounts of food imports are from the developed countries (Europe, USA and Australia). These

Table 14: Composition (%) of Kenya imports in broad categories

Type of commodities	1994	1995	1996	1997	1998
Food and beverages	10.04	4.53	7.69	6.62	8.60
Industrial supplies	39.37	39.22	36.60	39.75	33.83
Fuel and lubricants	16.15	12.98	16.09	15.50	16.13
Machinery and capital equipment	15.35	19.25	18.16	16.91	17.63
Transport equipment	12.27	17.00	14.42	14.43	15.67
Consumer goods	6.82	7.03	7.04	6.79	8.14

Source: Kenya, Economic Survey (1998)

Table 15: Origin of imports as a percentage of total Imports

Year	EAC	COMESA excluding EAC	Rest of Africa	EU	United States	Japan	Rest of World
1994	1.1	1.1	11.3	36.8	6.5	8.4	34.8
1995	0.5	0.2	8.8	38.6	4.4	11.5	36.0
1996	0.6	0.7	8.3	38.0	5.2	7.4	40.1
1997	0.7	0.1	14.4	31.8	7.4	7.6	38.0
1998	0.3	0.2	8.0	32.7	8.3	7.9	42.5
1999	0.4	0.3	10.5	33.2	6.8	7.8	41.0

Source: Kenya, Economic Surveys

Table 16: Imports of major food commodities (1980-1998) in '000 tonnes

Year	Maize	Wheat	Rice	Sugar	Dry milk
1980	323	48.5	1.2	3.1	12,888
1981	77.3	49.2	4.6	2.1	11,210
1982	89	139.3	11.9	2.2	4,210
1983	0	81.9	44.8	2.4	4,532
1984	405.4	149.9	0.5	1.7	11,108
1985	125.5	14.8	0.6	39.1	6,677
1986	0.7	115.3	61.7	126.3	1,508
1987	0	217.9	39.2	49.1	545
1988	0	75.6	10	42	82
1989	0	123.5	30	80	15
1990	0	322.6	28	64	48
1991	0	242.6	61.2	59.7	65
1992	414.9	100.8	58.9	153.8	829
1993	12.9	314.4	37.2	184.8	747
1994	650.4	353.1	93.5	256.1	2,319
1995	12	364	30.7	244	679
1996	10.8	486.9	47.9	65.8	N/A
1997	1,101.1	388.1	62.4	52.4	N/A
1998	774	478.9	62.8	186.5	N/A

Source: Kenya Statistical Abstracts (various years) are countries where food production is highly subsidized and this is a threat to domestic production of food commodities.

It seems that liberalization and implementation of the URAA has disadvantaged Kenya's trade. The exports into the developed countries are declining while imports, particularly cereals, from the developed countries are increasing. This trend has had a negative impact on agricultural development in Kenya. In general, the balance of trade between Kenya and the developed countries is increasingly becoming worse against Kenya.

In conclusion, it can be argued that liberalization and URAA have not changed Kenya's trading patterns significantly. The major trading partners for agricultural commodities for Kenya are the European Union countries for coffee, horticulture and tea, Asian countries for tea and coffee, and COMESA countries for tea and processed food products. The country's pattern of trade with the EU has shown a general decline in recent years despite special trading preferences under ACP-EU Lome Agreement. Trade with African countries, particularly EAC and COMESA countries, has increased possibly because of regional preferential trade arrangements among the members.

4. Kenya's Experiences and Concerns

This section outlines experiences with implementation of AoA and the effects it has on food security, the adequacy of policies used, and the effectiveness of AoA disciplines in Kenya's agricultural development and trade.

4. 1 Experiences with AoA

An analysis of market access conditions for Kenyan exports indicates that the major traditional exports for Kenya (tea and coffee) do not have a problem of accessing markets in developed countries (Mwega, 2000). Furthermore, most Kenyan agricultural exports (73.2%) are exported into the European Union where the applied tariff and non-tariff barriers were low. The schedule of tariff barriers in 1996 for the EU market indicates that they are higher for food and live animals and alcoholic beverages. These products are also subject to more strict non-tariff measures. Crude vegetable materials, animal and vegetable oils, and manufactured goods had relatively lower tariff charges and less strict non-tariff barriers (NTBs). The reduction of tariffs and tariffication is therefore likely to benefit Kenya's exports, which the country has a comparative advantage in particularly food, livestock and beverages. However, erosion of the General System of Preferences (GSP) and those preferences that have been provided for Least Developing Countries (Kenya is considered a developing country) in the WTO Agreements are likely to hurt the country's exports.

Market access has also been affected by SPS, where fish exports to the European Union faced a ban in 1999 to 2000. This was because Kenya and the other East African countries were unable to meet the EU's hazard analysis critical control points (HACCP) requirement. Although the ban was later lifted, the SPS creates barriers to agricultural trade. The minimum residual pesticide requirement by EU countries on horticultural produce also poses barriers to trade for Kenyan exports. In general, food standards are used extensively by developed countries to block entry into their markets of agricultural products from developing countries. Unfortunately, developing countries consider the standards set by developed countries not to be transparent. Furthermore, fair implementation of the SPS agreement requires both financial and technical resources which developing countries lack.

The benefits from domestic support measures have been limited because of liberalization under the SAPs, which many developing countries including Kenya were implementing before the commitments of the URAA. For example, although Kenya notified the WTO on its use of domestic support measures which largely fall under the "green box", the use of these measures is not comprehensive enough as allowed for in the URAA. Measures such as marketing, promotion services, direct payments, producer resource retirement schemes and investment aids and those allowed for under the S&D, are not used by Kenya. Even within the domestic support measures the country uses, the Government has reduced funding because of the influence of structural adjustment programs (SAPs) Kenya has been implementing since the 1980s. Reductions in agricultural development expenditures as one of the efforts of reducing fiscal deficits has hampered the support required for increased agricultural production. Given the role agriculture plays in the economic development of many developing countries, a special clause should be introduced in the URAA to provide for provisions for development (Development Box) which will allow developing countries to support the agricultural sector. In general, Kenya requires to initiate efforts to use most of the domestic support measures allowed for in the URAA to enhance agricultural production.

The impact of subsidized food imports from developed countries, particularly cereal grains, have been substantial in Kenya since the liberalization of the economy and implementation of the URAA which opened up the market for imports. The level of food imports has been substantial and this may be part of the reason for the decline in food production. As a result of this, there is concern that export subsidies should be eliminated or prohibited. This is despite the thinking that elimination of subsidies will hurt the net food importing developing countries. However, Kenya might gain in the long run from elimination of export subsidies because this will encourage the country to provide adequate incentives for increased domestic food production.

4. 2 AoA and Food Security Issues

The liberalized trade of the commodities and URAA has led to an increase of imports of foodstuffs mainly maize, rice, wheat, sugar and dairy products. In general, Kenya has imported wheat and rice over the years but the large imports of all commodities in recent years may have led to depressed domestic production and therefore reduced marketed domestic volumes. The increase in imports can be attributed to the cheaper imports mostly from the North (EU and USA) which are subsidized.

Cheap food imports reduce the market for domestic agricultural products and leave the majority of farmers and workers in agriculture-related industries with no alternative sources of income. Even if there are plenty of supplies of food imports at low prices than domestic supplies, the ability of most people to purchase it is limited. The impact of URAA and liberalized markets on food security can therefore be positive or negative. It can be positive in the sense that it can help to enhance access to food through availability and negative in the sense it can limit access to food through limited income-generation opportunities.

Subsidized food exports from developed countries into Kenya, particularly for maize and wheat, are generally cheaper than domestic-produced food. Cheap imports dampen the domestic producer price received by farmers. This acts as a disincentive to production of the affected food commodities as farmers switch to alternative profitable commodities where opportunities exist. In some cases, farmers reduce the amount of food grown for the market and instead produce just enough to meet their subsistence needs.

The policy options to mitigate against the adverse consequences of liberalization and subsidized food exports from developed countries into Kenya are to restrict the imports or use of domestic support programs.

Use of tariffs to restrict food imports is allowed within the URAA framework. The tariffs are frequently used to restrict food imports into Kenya although the 100% ceiling level has never been used on cereal grains. The high tariffs help to raise the domestic producer prices and this acts as an incentive to producers. The scope of using high tariff to restrict food imports is however limited because the URAA require that the tariffs be gradually reduced to eventually allow for free trade among member countries. Therefore, the use of tariffs to reduce the impact of subsidized food imports from developing countries is only feasible for the short and medium term.

The use of domestic support measures within the "Green box", which includes improved extension and research, infrastructure (roads, markets, etc.), pest and disease control and promotion are another option for increasing domestic food production. This means that the Government has to increase funding in the provision of these services. However, although these services are essential to food production, they do not offer direct incentives to producers to increase food production. The other policy option within the domestic support measures is the provision of subsidies on agricultural investments and inputs. These are allowed within WTO agreements under the S&D treatment. However, the level of use of these support measures in Kenya is very low. This is one area that the country can use to reduce the domestic costs of food production so that they can compete with subsidized imports. These measures can however be used for a short period and are not sustainable in the long-run.

Given the options above, it seems that the best option for the country to focus on for sustainable food production which can compete with imports, is to focus on the "green box" measures. Therefore, Kenya needs to intensify efforts in food production extension services, enhance research to provide high yielding crop varieties and livestock breeds, improve infrastructure to make both input and output markets efficient, and allow farmers to access credit cheaply. Options to allow for greater Government support on food production can enhance the country's ability to achieve food security through increased domestic production

4.3 AoA and Marrakesh Decision

The Marrakesh Decision on Net Food Importing Developing Countries (NFIDCs) contains mechanisms to ensure that implementation of the URAA does not adversely affect the availability of food aid at a level that is sufficient to provide assistance in meeting the food needs of developing countries, especially LDCs, and net food-importing developing countries. Kenya as a NFIDC is facing food import bills that are on average 20% higher than was the case before implementation of AoA. On the other hand, food aid levels have significantly decreased, creating greater dependency on commercial food imports. Low export earnings of primary commodities, a fragile and deteriorating balance of trade, high cost of debt servicing, and declining Overseas Development Aid flows have further undermined the ability of the country to import food.

The Marrakesh Decision is a major justification for maintaining export subsidies on food products by developed countries. However, the effect of reduced subsidies on food exports from developed countries on NFIDCs is not obvious. It is true that a reduction in export subsidies will lead to increased import bills, making food imports expensive for consumers. However, the subsequent rise in domestic food prices will create incentives for local producers to increase production. The extent to which removal of export subsidies raises international market prices is an empirical one and is yet to be estimated, although it is assumed not to be very significant.

The impact of reduced food export subsidies on Kenya as an NFIDC is not very clear. On one hand, the reduction of export subsidies could increase the import bill for the country but on the other hand, it can increase domestic incentives for increased food production. Since most food consumers in Kenya (about 80%) depend on agriculture (mainly food-based activities) for their incomes, reduced subsidies on food imports are likely to raise domestic food prices, which will also lead to increased incentives to food producers. This is likely to benefit Kenyans in the long run as it can lead to increased food production which can benefit both producers and consumers.

4.4 Adequacy of Policies and AoA Commitments

Although there has been a wave of substantial agricultural policy reforms since 1993 and the implementation record of policy reforms improved, a wide chasm between policy pronouncements (in Government policy papers such as Development Plans, Sessional Papers, etc.) and policy implementation continues to exist. While there have been policy reforms with the objective of placing markets at the centre of the economy, little has been achieved in empowering the private sector to play the important role envisaged in such reforms. Stakeholders have not always been involved in the design and implementation of the policy changes and this has meant that policies with potentially significant long-run economic benefits have been met with resistance due to their negative short-run impacts. The negative effects of reforms are exacerbated by the extreme poverty in Kenya.[6]

Policy reforms have to a certain extent been successful in achieving the necessary macroeconomic changes. However, they have been less successful in achieving growth in the agricultural sector. Many reform packages lack complementary policy components and proper sequencing. For example, although the Government has the important role of providing infrastructure (e.g. roads, information), an institutional framework for the efficient operation of markets and creation of a system of rights and obligations that hold society together and responds to the needs of its citizens is lacking. But it would appear that Kenya has equated liberalization and privatization with an abdication of any responsibility for economic development. After long periods of Government production and marketing monopolies, private traders lack the managerial skills, the financial capacities, and/or physical infrastructure to take on the production and marketing functions which the Government has been performing.

4.5 Effectiveness of WTO Disciplines

Kenya found it easy to implement the URAA rules because of the policy reforms it was implementing. However, some of the rules such as use of variable duties on food imports are now constrained and have to operate within the bound tariff limits. Domestic support measures provide an avenue for the Government's support of the agricultural sector but because the country reported only a few domestic support measures and was unable to give schedules for Aggregate Measures

[6] The number of people estimated to be living below the poverty line (earning one dollar or less per day) by 2000 was 52% of the total population.

for Support (AMS), further support may be constrained unless the country is allowed to revise its schedules. Under reforms, the Government eliminated the use of subsidies and therefore the provisions provided for by URAA are unlikely to benefit the country. Ironically, there is pressure from the farming community for subsidies particularly on farm inputs and animal health services. Despite these shortcomings, the WTO policies have pushed the country in the right direction towards market liberalization, and particularly freeing domestic trade and access of the domestic market to its trading partners. However, there are fears that the country does not have similar market access for its exports to its trading partners both in the LDCs, developing countries and developed countries. Therefore, reviewing domestic support measures, market access conditions, and use of subsidies for developing countries are disciplines that will be most effective in supporting domestic reforms in Kenya.

5. Conclusions

Agriculture is the main sector in Kenya's economy and although its contribution to the gross domestic product (GDP) has declined from 35% in 1964 to about 25% in 1999, it employs about 75% of the labour force, provides raw materials for the agro-based manufacturing industries (which constitute 70% of all industries) and accounts for about 45% of Government revenue. Agriculture is therefore the mainstay of the economy.

The agricultural sector has shown mixed performance with the onset of liberalization of the Kenyan economy. Agricultural monopolies have been abolished for some commodities including maize, wheat, milk, sugar and cotton. This has resulted in low marketing costs and in some cases permitting increased prices to farmers. In some cases, uncontrolled imports have depressed incentives for production of commodities such as maize, wheat, rice, sugar and cotton. This has greatly reduced incomes to farmers and job opportunities in these industries.

Under the liberalization programs, the Government has reduced expenditure on the agricultural sector and encouraged cost-sharing in the provision of services such as animal health and research. This has in some cases led to the poor performance of the sector. Liberalization has led to an increase in prices of purchased inputs including fertilizers and pesticides and this has tended to erode the profitability of agricultural production.

The domestic prices for agricultural commodities have been fluctuating and therefore providing mixed signals to producers. In real terms, prices have declined since 1990 partly because of domestic factors such as high marketing costs and levies charged on cereals and industrial crops, and taxation and unstable world market prices for export crops. The decline in producer prices and price risk from world market fluctuations necessitates a measure to deal with the problem within the AoA.

The decline in the growth of the agricultural sector has a lot of implications on the other sectors (manufacturing and services) of the economy. As a result of the low use of purchasable inputs, land and labour productivity in the agricultural sector is low. The consequence is low yields and overall production of agricultural commodities. This has affected the other sectors of the economy such as food processing and agro-manufacturing (e.g. textile and footwear) through lack of adequate supplies of raw materials for the industries.

A major concern in the agricultural sector in Kenya is to ensure a speedy recovery to a growth rate of at least 4% or higher per annum (Kenya, 1997). This will require provision of incentives to farmers through restrictions on dumped agricultural commodities into the country. Increased attention should also be given to strengthening of private input supply systems, Government extension services, and institutional credit. Attention should also be given to increasing livestock production through improved animal health services and marketing infrastructure. Further, infrastructure in rural areas, particularly roads, water supplies, electric power and communication should receive a higher priority to help in the development of the agricultural sector.

The AoA has affected Kenya's agricultural trade with respect to market access. High tariffs on commodities such as food, livestock products and processed beverages limit Kenya's access to markets in developed countries. Non-tariff barriers such as SPS and TBTs have also affected Kenya's access to markets for commodities such as fish and horticulture. The benefits from domestic support measures have been limited because of the structural programs the country has implemented under the SAPS. The impact of subsidies in developed countries has also affected domestic production of commodities such as cereals. These experiences for Kenya necessitate the need to review the AoA to take into account Kenya's concerns.

Given the importance of the agricultural sector in Kenya, the WTO rules will play an important role in its development. The domestic support measures are important with respect to determining an appropriate level of Government support to the sector. Market access rules are important in order to allow Kenya sell its agricultural and agro-processed products to other countries. Finally, a reduction of export subsidies on agricultural products (mainly cereal grains and livestock products) in developed countries will ensure that such imports into Kenya do not depress domestic prices which provide incentives to farmers for increased agricultural production. Kenya's concerns in the Doha Round focus on improved market access for its products, an opportunity to increase its domestic support for agricultural production and a reduction of export subsidies by developed countries. The performance of the Kenyan agricultural sector and the experience with implementation of the URAA justifies these concerns.

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Appendix 1: Kenya exports to country of destination: 1990-1998 (value in K£ 000)

Geographical area and country	1990	1991	1992	1993	1994	1995	1996	1997	1998
European Union	577,181	668,473	777,194	1,416,021	1,449,878	1,567,281	1,664,500	1,963,403	1,813,529
Rest of Western Europe	12,652	86,717	80,508	36,800	28,585	61,974	67,204	74,326	46,234
Eastern Europe	19,685	2,102	965	6,645	6,698	6,252	16,610	22,694	17,826
Canada	10,855	1 0,321	11,480	29,808	28,917	31,008	32,399	29,610	30,642
USA	42,577	57,500	63,295	136,501	146,753	131,624	158,691	168,741	152,672
Rest of America	181	2,243	595	2,795	3,656	4,719	3,820	4,322	5,272
COMESA	233,607	332,922	385,552	1,088,702	1,629,401	1,898,445	2,271,063	2,277,248	2,369,675
Rest of Africa	27,400	37,223	70,088	149,487	186,592	285,097	310,359	244,047	220,389
Middle East	48,256	46,740	50,543	104,944	74,786	116,266	198,125	197,141	239,245
Far East andAustralasia	156,907	176,222	237,402	469,186	487,524	531,957	612,815	630,038	783,823
TOTAL EXPORTS	**1,232,360**	**1,611,179**	**1,768,085**	**3,625,207**	**4,170,724**	**4,656,184**	**5,696,299**	**5,722,973**	**5,722,266**

Appendix 2: Kenya imports by country of origin (in K£ 000)

Geographical area or country	1990	1991	1992	1993	1994	1995	1996	1997	1998
European Union	1,243,784	1,172,063	1,070,304	1,851,383	2,035,820	2,986,516	3,174,395	3,070,404	3,219,269
Rest of Western Europe	41,658	52,636	58,486	71,939	115,813	102,621	193,562	165,508	175,204
Eastern Europe	15,648	24,048	18,140	27,860	65,555	110,925	104,509	110,843	114,340
Canada	15,706	24,408	21,300	40,170	26,551	34,564	89,608	79,647	69,657
USA	114,356	132,062	243,428	293,402	381,598	319,344	440,096	705,488	825,464
Rest of America	50,607	25,343	58,061	61,148	49,663	151,755	94,003	125,666	392,593
COMESA	69,546	69,519	84,981	118,910	149,684	91,212	105,651	339,629	125,158
Rest of Africa	6,112	9,494	9,084	5,862	642,770	555,223	703,422	1,106,231	741,807
Middle East	524,506	528,742	647,398	1,153,110	886,399	1,071,227	1,360,208	1,636,630	1,795,174
Far East and Australasia	464,310	597,888	677,305	949,414	1,401,618	1,959,681	2,156,584	2,179,325	2,404,006
TOTAL IMPORTS	2,546,233	2,645,913	2,954,863	5,056,419	5,755,471	7,392,745	8,424,308	9,533,676	

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