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POLICY MONITOR

Improving Public Policymaking for Economic Growth and Poverty Reduction

In this Issue

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Kenya Economic Outlook: Signs of Economic Recovery Positive

The much-expected economic recovery has started to pick up albeit at a slower pace than foreseen in the Government's Economic Recovery Strategy for Wealth and Employment creation for this year. Economic indicators covering the first three quarters of the year suggest that the economy is likely to grow by about 1.8% this year and 3.6% in 2004. This growth will be marginally lower than the previously published forecast of 2% for 2003 and 3.7% for 2004. The downward adjustment of GDP growth is as a result of two major factors. First is the constrained consumer spending. The consumer spending earlier expected to partly underpin the recovery is now likely to suffer from the high overall inflation. The current overall inflation forecast for 2003 is at 10%, which is an upward revision of the inflation forecast at the beginning of the year. The positive effect of the reduction in VAT in consumer spending will be undermined by the more than expected higher inflationary pressures. The other factor leading to the downward adjustment in the earlier forecast is the slow pace of the earlier expected rapid public infrastructure programmes. Spending in infrastructure is going to be lower than expected since the anticipated inflows resulting from the resumption of the Poverty Reduction and Growth Facility which were to be spent on infrastructure programmes are not likely until the fourth quarter of 2003. Still, major investments in the housing sub-sector, which were expected in 2003 may not be forthcoming until 2004.

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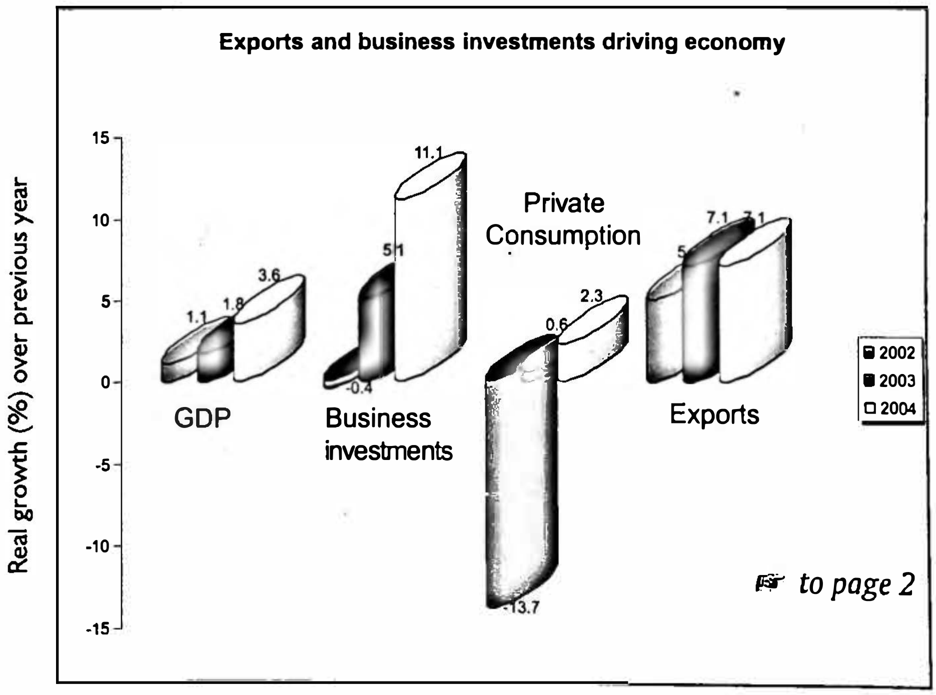

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Editorial

Welcome to this inaugural edition of *KIPPRA Policy Monitor*, a quarterly newsletter aimed at informing the public about the Institute's policy research programmes and activities. The newsletter is being launched during the first year of implementing KIPPRA's 2003/8 Strategic Plan in which the need for effective dissemination of the Institute's products is underlined. Targeted at a wide range of audience: policy makers, government, academia, private sector, development partners, civil society, and the general public, the editorial team will endeavor to provide something for everyone. Articles will range from regular economic outlooks to treatises on KIPPRA's experience working with the government and the private sector. There will be objective and well-researched feature articles on topical policy issues, as well as highlights on the impact of completed and on-going research.

This inaugural issue carries a message from Prof. Kimenyi, the founding Executive Director of KIPPRA who has steered the Institute to great heights within only three years. Profs Kimenyi and Mwabu also team up to provide a must-read commentary on KIPPRA's experience working with the Government of Kenya.

In the feature article for this first issue, Dr. Nyangito critically looks at agricultural policy and its impact on development in Kenya. The choice of this feature article needs no justification considering the role of agriculture in the Kenyan economy. Being the first edition, the newsletter provides briefs on the research programmes in various divisions of the Institute, as well as capacity building activities of the Institute.

Read on and give us your feedback. Comments and views should be sent to monitor@kippra.or.ke or through the Institute's postal address.

The opinions expressed in this newsletter do not necessarily reflect the official position of KIPPRA or its development partners.

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is to provide quality public policy advice to the Government of Kenya by conducting objective research and analysis, and through capacity building in order to contribute to the achievement of national development goals. KIPPRA serves as a centralized source from which the government and the private sector can obtain information and advice on public policy issues.

KIPPRA acknowledges generous support by the European Union (EU), the African Capacity Building Foundation (ACBF), the United States Agency for International Development (USAID), the Department for International Development of the United Kingdom (DfID), International Development Research Centre (IDRC), the Government of Kenya, among other development partners and organisations.

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Export earnings to counter negative effects of travel advisories

The anticipated contribution of exports of goods and services to the economic recovery strategy seems to have weathered two threats. First was the temporary drastic appreciation of the exchange rate. Second were the travel advisories and flight bans to Jomo Kenyatta and Mombasa International Airports for some flights. The drastic appreciation of the exchange rate, which was not based on any key economic fundamentals besides the reduction of risk premium on Kenya after a peaceful transition, has since been corrected. As expected the exchange rate appears to be in line with expectations on prevailing inflation and interest rates *vis-a-vis* key Kenya's trading partners. The exchange rate is in line with the current account balance.

The tourism sector suffered in the second quarter from travel advisories to Kenya issued by various Western countries. Preliminary data however indicates that the reduction in number of tourists over last year is unlikely to be more than 25%. The negative impact on the economy that this reduction would have is overcompensated by the better than expected performance of AGOA-related exports and the sustaining of last years performance for the traditional exports so far. In the first four months of 2003, total commodity exports and other exports had grown by 17% and 21% respectively over a similar period in 2002. In addition, US imports from Kenya have almost doubled in the first five months of this year compared to a similar period in 2002. As for the traditional exports of coffee, tea and horticulture, the first four months of the year suggest last year's performance will be sustained. Export volumes of horticultural products had risen by 40% with tea and coffee export volumes roughly at the same level as in the year 2002.

Lower interest rates to stimulate private investments

Private investments are expected to recover from their negative growth in recent years. Investment growth is expected to pick up to 5% in 2003, accelerating to 11.1% in 2004. The sustained fall in interest rates is expected to continue for the remainder of the year and into 2004. The declining interest rates coupled with the generous incentives afforded to businesses in June 2003 are expected to accelerate new business investments in the second half of the year. Signs of a pick up in private investments are clear with consumption of cement for the first six months of 2003 showing a 3% growth. Similarly, loans and advances by the banking sector for the first five months over a similar period last year show a 4.9% growth. A pick up in the economy this year is also expected to provide an incentive to businesses to expand their production capacity. There is a revival in the country of investor confidence and this is expected to stimulate investments further. Recovery in business investments is expected to drive the overall pace of economic recovery into next year.

Consumer spending critical for economic recovery

As poverty in the country has risen, the purchasing power and the level of demand by consumers has fallen drastically to a level that demand and resources available cannot support existing investments leave alone attracting new ones. As noted earlier, due to the high overall inflation, there is no major recovery expected in private consumption in 2003. For the high growth in 2004 to be realised, consumer confidence will need to be translated into actual spending.

Kenya Data Profile
Source: The World Bank Group

	1998	2001	2002
Population, total (million)	28.7	30.7	31.3
Population growth (annual %)	2.4	2.0	1.8
Life expectancy (years)		46.3	45.5
Fertility rate (births per woman)		4.3	4.2
Infant mortality rate (per 1000 live births)		78.0	
Under 5 mortality rate (per 1000 children)		122.0	
Illiteracy total (% age 15 and above)	19.7	16.7	15.7
Illiteracy female (% of age 15 and above)	26.8	22.7	21.5
GNI, Atlas method (current US$) (billion)	10.2	10.7	11.3
GNI per capita, Atlas method (current US$)	350.0	350.0	360.0
GDP (current $) (billion)	11.4	11.4	12.1
GDP growth (annual %)	1.6	1.1	1.8
GDP implicit price deflator (annual % growth)	9.1	11.3	4.9
Value added in agriculture (% of GDP)	26.5	19.0	19.1
Value added in industry (% of GDP	16.5	18.2	18.3
Value added in services (% of GDP)	57.1	62.9	62.6
Exports of goods and services (% of GDP)	24.9	26.0	25.5
Imports of goods and services (% of GDP)	32.7	34.6	31.6
Gross capital formation (% of GDP)	15.3	12.8	14.8

From the Executive Director

Achievement of high and sustained economic growth and the general improvement in the quality of life does not occur by accident or chance. Countries perform well economically because they implement policies and institutional frameworks that support growth. Good economic performance has little to do with resource constraints but is largely dependent on policies and institutions that promote wealth creation. As such, the poor performance of the Kenyan economy must be seen as the result of inappropriate institutions and policies.

Policies that promote economic growth in a country must be derived from a careful analysis of a wide range of variables and linkages in the economy and an evaluation of how alternative policies impact on the performance of the economy. A poor understanding of the causes of economic problems and various linkages in an economy leads to wrong policy prescriptions. Just like prescribing wrong medicine to a patient makes the condition of the patient worse, implementation of inappropriate policies causes stagnation. Reviving the Kenyan economy therefore requires implementation of carefully analysed policy options.

Although there are some general policies and conditions that are necessary for any economy to grow, each country's problems are unique and require specific policy prescriptions. Unfortunately, all too often African countries have implemented policies that have largely been imposed or borrowed from outside without a careful analysis of their relevance within the context of their economies. In addition, many Africans have had blind trust on policy recommendations by expatriates many of who have a poor understanding of the African economies.

A poor understanding of the causes of economic problems and various linkages in an economy leads to wrong prescriptions. Just like prescribing wrong medicine to a patient makes the condition worse, implementation of inappropriate policies causes stagnation.

The primary mission of the Kenya Institute for Public Policy Research and Analysis (KIPPRA) is to provide quality public policy advice to the Government of Kenya by conducting objective research and analysis and through capacity building in order to contribute to the achievement of national development goals. For most of the last four years, the Institute's activities have been undertaken in five technical divisions: Macroeconomics, Productive Sector, Social Sector, Infrastructure and Economic Services, and the Private Sector Development Division. All the Divisions have completed several well-researched policy studies whose recommendations are now part of the country's reform agenda.

Since commencing operations in June 1999, the Institute has made major progress in solidifying its position as a centre of excellence in policy research and analysis. It is gratifying to note that the Institute was the 2001 winner of the Outstanding Research Award on Development by the Global Development Network (GDN). This is a notable achievement for an institution that had been in operation for less than three years at the time of the Award and considering that the competition included long established research institutes and universities from over 70 countries. In addition, a number of independent reviewers ranked the Institute in the highest performance category in terms of effectiveness and impact. KIPPRA is therefore now an established policy research institute and it is important that policy makers and members of the private sector make use of the vast human resource capacity available at the Institute. Already the Institute has been working with the new government in preparing a strategy for economic recovery.

Prof. Mwangi S. Kimenyi

The other area of focus by the Institute is on policy implementation. Having good policies that are not implemented is comparable to a patient who refuses to take the right medicine—no matter how bitter that medicine might be. KIPPRA and other policy institutes have many policy proposals that can help revive the economy and the concern now is on how researchers can work with policy makers to improve the implementation record.

During its fourth year of operation (2002-2003), the Institute prepared a comprehensive strategic plan that will guide its operations for the period between 2003 and 2008. Some of the key areas of focus highlighted in the Strategic Plan include achieving long-term sustainability of the Institute, improving communication between the Institute and stakeholders and strengthening its working relationship with the Government of Kenya and other stakeholders with a view to improving policy for economic growth and wealth creation.

This Newsletter marks yet another milestone for the Institute as it provides a channel through which the Institute will communicate its activities to the stakeholders. I encourage you to visit or contact us for more information about the Institute's activities.

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KIPPRA's Experience Working with the Government of Kenya: Lessons and Challenges

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KIPPRA has now been in operation for slightly over four years. During this time, the Institute has worked closely with the government and the private sector in formulating public policy. Given that the Institute's primary mandate is to conduct objective analysis leading to policy advice, the success of the Institute is to a large extent dependent on how well its researchers interact with policy makers and representatives of the private sector. Considering that most of KIPPRA's researchers do not have experience working with the government prior to joining the Institute, the opportunity to work closely with policy makers and senior representatives of the private sector has been a unique learning experience.

KIPPRA's work with Government

The primary mandate of the Institute is to conduct objective analysis leading to policy advice. In essence, the Institute is officially recognized as an advisory body from which policy makers can seek competent but balanced advice. To be effective in meeting its mandate, the Institute has necessarily to work with policy makers while at the same time making sure that policy makers do not influence prescriptions. In other words, researchers must retain a fair degree of autonomy in their research activities but they must also establish working modalities with the government with a view to opening up communication channels that facilitate dialogue.

KIPPRA interacts with the government in various ways. First, the Institute conducts research and analysis of various policy issues and then communicates the results to the government and the private sector.

Second, the Institute participates in high-level policy forums during which policy issues are discussed. The Institute for example has in the past been represented in the Joint Industrial and Commercial Consultative Committee (JICCC) and in various trade negotiation forums. The Institute is able to provide input to policy directly by participating in such fora.

Third, the Institute provides technical support to government and the private sector in various ways. Policy makers and the private sector representatives often submit policy documents for review by the Institute, or request KIPPRA to help in data analysis.

Fourth, the Institute is a source of information, which government and private sector can access. In addition, the Institute organises discussion forums to inform policy. As such, the Institute acts as a link between the private sector and the government.

Finally, and very importantly, KIPPRA builds capacity for policy analysis both in government and the private sector. Capacity building activities include formal training courses and secondment of government officials to KIPPRA.

Experience working with Government

KIPPRA has collaborated with the government in preparation of various policy documents and also in various policy forums, research projects, dissemination workshops, and in regional integration negotiations. To a large extent, government officials have come to trust the input of KIPPRA's researchers and the Institute has established excellent working relationships with the government.

Nevertheless, several challenges have emerged in our working with the government. The Institute is expected to focus primarily on long-term development perspectives. However, most of the issues that the government seeks input from KIPPRA are often of short-term nature. As the Institute attempts to support the government, there is danger of focusing on short-term at the expense of long-term development issues. The challenge then is how KIPPRA continues supporting the government in its short-term policy agenda while at the same time focusing on long-term policy perspectives.

Related to the above is concern on how the Institute can balance between *proactive* and *reactive* research. To the extent that KIPPRA has been responding to government requests, it necessarily focuses more on reactive research. In other words, the work of the Institute is in response to government requests. Reactive research implies that the government largely influences the Institute's research agenda. There is a danger in this approach in that the Institute may end up not designing its own research agenda that truly reflects a proactive approach. The challenge then is to balance between both proactive and reactive research.

While a close working relationship with the government has many advantages, there is a danger that the Institute's autonomy may be [illegible] KIPPRA [illegible]

So far, the Institute has attempted to honour many of the requests coming from the government. Given that the Institute, though independent in its operations, is *quasi* government, we have not charged government for our services. In other words, KIPPRA has been supplying services to government at zero price. This has tended to result in over-use of the Institute's resources, which is obviously not sustainable. One fear is that some activities that could be done by government officials could be finding their way to KIPPRA. There is therefore need for KIPPRA to prioritize those activities that it believes it can add most value to. This will necessarily imply turning down many requests, which may not be taken kindly.

In capacity building, KIPPRA has made significant progress and we believe that our activities have helped improve the capacity for policy implementation. The Institute needs to do more in this area so that there will be less reliance on the Institute in undertaking some tasks. One challenge, however, concerns frequent job reassignment of government officials. An official that we train to work on the Macro Model, for example, may be transferred to another division within government even before utilizing the skills gained. This is an institutional problem that needs to be evaluated so as to help build sustainable capacity for policy analysis in government. Already KIPPRA is engaged in discussions with the government to establish modalities for capacity building.

Quotable quote:

"I'd rather be vaguely right than precisely wrong"

J.M. Keynes (Extracted from Forbes magazine issue 01/25/1999, number game column by Bernard Cohen)

Probably the most daunting challenge facing the Institute concerns maintaining its autonomy. While a close working relationship with the government has many advantages, there is a danger that the Institute's autonomy may be sacrificed. KIPPRA researchers have to be careful not to fall into supporting government policy without careful evaluation of the consequences of proposed policies. There is also a danger for policy makers to view the Institute as part of government, hence demand action by the Institute. The challenge then is for the Institute to maintain a good working relationship with the government while at the same time maintaining its independence.

The implication of the Institute maintaining its autonomy is that there will be many cases when its policy proposals will differ with official government policy. One danger is that some policy makers may consider such a difference in views as opposition to government. It is therefore critical that KIPPRA be able to demonstrate very clearly that policy recommendations arising from its research are based on objective analysis and that no malice is intended. In other words, it will be necessary for the Institute to be able to convince government that its policy prescriptions are sound, well-researched, and that they are superior in terms of meeting specific policy objectives. Finally, the Institute's researchers face the challenge of improving communication with the government. Basically, researchers are highly technical and are often quite good in writing articles that meet international academic journal standards. The challenge for KIPPRA researchers is to make the transition so they are able to write in a simple language understandable by policy makers. ❑

Staff pose for a photo with government ministers and development partners during a dissemination workshop

Agricultural Policy and its Impact on Development in Kenya

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The performance of the agricultural sector in Kenya has been a subject of intense debate in recent times. The key concern is the general decline in agricultural production in the 1990s. The debate is centered on policy reforms and the legal framework under which the policies operate. It has been argued that policy reforms, particularly the liberalized market policies, are responsible for the decline in agricultural performance while others argue that liberalized market policies may be good but the legal framework that supports the policies is weak to the extent that it does not provide an enabling environment to the policies.

In this write-up, we argue that whereas liberalized market policies are appropriate for the development of the agricultural sector, they have been less successful because of the weaknesses related to formulation and implemention of policies. Many of the policy reform packages lack complementary components such as appropriate sequencing, and institutional framework for efficient operations of markets. There is also lack of a clear definition of a system of rights and obligations to ensure that all stakeholders play their rightful roles and that contracts are adequately enforced.

Kenya's tea sector: one of the success stories

Historical perspective

Agricultural policy in Kenya, just like other economic policies, has undergone major changes since independence. Most policies after independence favoured government controls. In agriculture, the roots of government policy were the Swynerton Plan of 1954 which advocated government control over production and marketing of commodities but called for removal of restrictions on production of certain commodities by Africa, and on provision of necessary resources required to produce the commodities. The controls included improvements on land, types

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of livestock and crops raised, methods of cultivation, provision of extension services and credit, and marketing of commodities.

The controls were aimed at protecting European settler farmers, maintaining standards of output, and providing a sound foundation for improved African farming. The rationale was that African farmers lacked farming skills, and therefore needed assistance and support. Rather than improve the skills of the African farmers in commercial farming, this system reduced them to mere cultivators with few decisions to make on production

Dr Hezron Nyangito

and marketing. It created dependence on government, a tendency that persisted for many years with disastrous effects during the colonial era and after independence.

Post-independence policies

After independence agricultural policies were based on principles of political equality, social justice and human dignity as outlined in *Sessional Paper No. 10 on African Socialism and its Application to Planning in Kenya*. Based on these principles, agricultural policies focused on income generation, employment and self-sufficiency in food production. The government had the mandate to control agricultural production and marketing following on the policies of the colonial period with a focus on African farmers.

The authority for the government to control agricultural production and marketing was vested in various legislations, the most important of them being the Agricultural Act (CAP 318), which outlines the role of government in the agricultural and livestock sectors and the *dos and don'ts* of the citizenry. Other important Acts included the Coffee Act (CAP 333), Tea Act (CAP 343), Cotton Act (CAP 335), and Dairy Act (CAP 336) among many others. A number of Gazette Orders based on the Acts were also used as a basis of forming many organizations that controlled the production and marketing of commodities. The formal authority for implementing policies in the agriculture and livestock sectors is vested in the relevant ministries, but in reality, many public organizations undertook the implementation of the policies.

The most important polices that had major impact on agricultural development were marketing and pricing policies. Marketing of most commodities was a monopoly of parastatals while the government determined the prices paid to farmers. These policies had mixed results on agricultural production, which averaged about 6.4% per annum, but this dropped to about 3% per annum between 1973 and 1980. Part of the reason for the decline in growth was problems in marketing and pricing of agricultural commodities.

In marketing, government intervention through parastatals induced operational inefficiencies such as high costs of marketing, poor collection of commodities for marketing and delayed payments to farmers. The parastatals involved in marketing, had not therefore achieved the objectives for which they were set, namely, price and income stabilization, efficient and inexpensive nationwide distribution of commodities to consumers without government subsidies and acting as buyers of the last resort for food commodities. In almost all cases, the performance of these monopolies remained poor due to lack of competition and weak management. In pricing, particularly for export crops, deductions of various types of cess and levies on producer prices and the controlled exchange rate reduced the actual benefits (price) farmers received.

Besides the marketing and pricing problems, government investment in agriculture declined from about 12% of total government budget in 1964/65 to about 10% in the 1980s as the attention shifted more to the industrial and commercial sectors. This meant that fewer resources were available from the government for agricultural development, leading to poor delivery of services in research, extension and animal health, and for infrastructure development. This impacted negatively on agricultural growth, which fell to below 3% in 1980.

Policy reforms

There was a shift in economic policy in developing countries towards liberalized market policies beginning 1980. This involved reduction of the state's intervention in the economy with an emphasis on market-friendly strategies. The first attempts to introduce such policy reforms in agricultural sector were indicated in the *Fourth Development Plan: 1978-1983*. The focus was on gradual price decontrols and promotion of private trade in agricultural commodities, which were previously controlled by the government through various marketing boards. The Structural Adjustment Programs (SAPS) of the World Bank popularized the policy reforms. However, the reforms were since inception and up to 1991 characterized by reluctance and reversals in implementation. A wave of substantial implementation of agricultural reforms towards liberalized markets started in 1993 and the buzzword since then has been 'liberalization'. Considerable deregulation of domestic trade in all commodities, decontrol of prices, trade liberalization and institutional reforms of the key sectors, coffee, tea, maize, dairy, cotton and sugar, and restructuring of the Ministry of Agriculture and Livestock Development are some of the reforms that have been implemented.

An analysis of agricultural production in Kenya during the policy reforms period indicates that policy reforms, particularly market liberalization, have had mixed impacts on the sector. During the first phase of the reforms (1983/1990) there was a modest average growth of about 3.5% in agricultural production but this was followed by a decline (minus) of about 4.1% in 1992/93. The decline in growth is partly attributed to the on-and-off removal of controls and deteriorating terms of trade between agricultural exports and imports.

Policy impact

An analysis of agricultural production in Kenya during the policy reforms period indicates that policy reforms, particularly market liberalization, have had mixed impacts on the sector. During the first phase of the reforms (1983/1990) there was a modest average growth of about 3.5% in agricultural production but this was followed by a decline (minus) of about 4.1% in 1992/93. The decline in growth is partly attributed to the on-and-off removal of controls and deteriorating terms of trade between agricultural exports and imports. Following the improved implementation record beginning in 1993, and coupled with good weather conditions, there was an upsurge in agricultural growth; the first positive growth rate in the 1990s was 2.8% in 1993-94 followed by 4.8% in 1994/1995. However, the growth rate has been on the decline again since 1996 with the sector recording growth rates of 1.2% and 1.4% in 1996/97 and 1997/98 respectively and the lowest of minus 2.4% in 1999/2000.

Following the liberalization of the food crops sub-sector in 1993, there was a dramatic increase in producer prices for all food commodities but there has been a poor response in the production of food despite the nominal price increases. The poor response can be explained by the fact that the real producer prices fluctuated as determined by the world supply of such commodities while the terms of trade between the outputs and inputs worsened. Input prices increased dramatically following reforms partly due to the weakening of the Kenyan shilling, since input prices are sensitive to exchange rate policies and because most of the inputs are imported or have large import components.

In the exports sector, foreign exchange liberalization generally increased producer prices for cash crops. However, domestic taxation combined with delays in paying farmers ensured that producer prices continued to be below the world market prices. Research done in KIPPRA on tea and coffee indicates that the slowdown in growth of these two industries can also be attributed to the poor regulatory framework that is not in harmony with privatization of the industries, poor provision of production, processing and marketing services to farmers, poor management of farmers' factories, and conflicts among farmer groups over ownership of factories.

Weaknesses of policy reforms

Although the implementation record of policy reforms has improved since 1993, a wide chasm between policy pronouncements (in government policy papers such as Development Plans, Sessional Papers, etc.) and policy implementation still exists. Those policies that entail simple policy pronouncements such as price decontrol have met with a greater implementation rate compared to those requiring structural changes and budgetary commitments. While policy reforms have the objective of placing markets at the center of the economy, little has been achieved in empowering the private sector to play the important role envisaged in such reforms.

The policy reforms have, to a certain extent, been successful in achieving necessary macroeconomic changes. However, they have been less successful in achieving growth in the agricultural sector. Many reform packages lacked complementary policy components and proper sequencing. Liberalization and privatization may initially have been equated with an abdication of government responsibility for economic development. After long periods of government production and marketing monopolies, private traders lacked the managerial skills, the financial capacities, and/or physical infrastructure to take on the production and marketing functions that the government had been performing. The policy shift therefore created a vacuum in the production and marketing arrangements for commodities, the end result being inefficient marketing systems.

The challenge in Kenya's agricultural policy and legal frameworks is to involve stakeholders in policy formulation and in developing legal frameworks. The roles of various stakeholders need to be identified appropriately while the government must provide infrastructure, an institutional framework for efficient operation of markets, and create a system of rights and obligations that enforces contracts.

Conclusion

Excessive market intervention affects private incentives and often adds to the cost of transactions. In coffee marketing for example, delayed payments to farmers can be attributed to the emergence of many intermediaries in the coffee marketing chain. Delayed payments distort producers' incentives and, due to restricted access to credit, liquidity problems arise making farmers incapable of purchasing inputs and using them on a timely basis. Liberalized market policies help to reduce controls that increase costs of production or marketing of agricultural commodities. However, excessive market liberalization, particularly where many small producers are involved, without appropriate mechanisms to enforce contracts and without functioning marketing chains disrupts efficient operation of markets. Under liberalized market policies, for example, the many small farmers lack the capacity to negotiate with fewer but well organized buyers of agricultural commodities and sellers of inputs as well as government. This is the reason why organizations like the Kenya Tea Development Authority are very useful to farmers. The danger usually is to have too many organizations trying to serve the same interests of farmers, which adds to the costs of running the organizations. The main weakness with farmers' organizations, however, is the lack of effective administration capacity.

The challenge in Kenya's agricultural policy and legal frameworks is to involve stakeholders in policy formulation and in developing legal frameworks. The roles of various stakeholders need to be identified appropriately while the government must provide infrastructure, an institutional framework for efficient operation of markets, and create a system of rights and obligations that enforces contracts. Urgent measures are required to review all the legislations governing agricultural production and marketing to harmonize them with liberalized market policies and to create an appropriate enabling environment. Farmers need to organize themselves appropriately and manage their organizations efficiently to take advantage of the enabling environment provided by the government. In this era of liberalized markets and globalization, it will be very difficult for Kenyan small or large-scale farmers to compete and survive on an individual basis.

The pitfalls of driving while using a cellphone

With a light touch

Interest group economist virus
Divides your hard disk into hundreds of little units, each of which does practically nothing, but all of which claim to be the most important part of the computer

Econometrician virus
60% of the PCs infected will lose 38% of their data 14% of the time (plus or minus a 3.5% margin of error)

Political think-tank economist virus
Doesn't do anything, but you can't get rid of it until next election.

Government economist virus
Nothing works on your system, but all your diagnostic software says everything is just fine.

Marxian economist virus
Helps your computer shut down whenever it wants to.

Soviet economist virus
Crashes your computer, but denies it ever happened.

Mainstream economist virus
It claims it feels threatened by the other files on your PC and erases then in "self-defense."

Central Bank economist virus
Makes sure that it's bigger than any other file.

Multinational corporation economist virus
Deletes all monetary files, but keeps smiling and sending messages about how the economy is going to get better.

Supply side economist virus
Puts your computer to sleep for four years. When your computer wakes up, you're trillion more dollars in debt.

New economy virus
Also known as the "Tricky Dick Virus." You can wipe it out, but it always makes a comeback.

Environmental economist virus
Before allowing you to delete any file, it first asks you if you've considered the alternatives.

A mathematician, an accountant and an economist apply for the same job. The interviewer calls in the mathematician and asks "What do two plus two equal?" The mathematician replies "Four." The interviewer asks "Four, exactly?" The mathematician looks at the interviewer incredulously and says "Yes, four, exactly."

Then the interviewer calls in the accountant and asks the same question "What do two plus two equal?" The accountant says "On average, four-give or take ten percent, but on average, four."

Then the interviewer calls in the economist and poses the same question "What do two plus two equal?" The economist gets up, locks the door, closes the shade, sits down next to the interviewer and says "What do you want it to equal?"

Macroeconomics Division

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The Division focuses on analysis of pertinent macroeconomic policy issues and fundamentals for a stable macroeconomic environment. The Division also develops macroeconomic analytical tools, such as the KIPPRA-Treasury Macro Model (KTMM), to help in planning, budgeting, policy making and policy analysis by providing alternative policy paths or scenarios. The KTMM is an especially important input in policy formulation for economic recovery. The realization of both the Economic Recovery Strategy for Wealth and Employment Creation and the use of the Medium-Term Expenditure Framework (MTEF) require an overall macroeconomic framework that ensures consistency in defining the aggregate resource envelope as well as providing forecasts of major macro aggregates.

Other projects in the Division cover monetary policy and economic growth; capital markets and economic management; globalisation, trade, investment and economic growth; fiscal policy and decentralisation for wealth and employment creation; public expenditure management; and tax policy, analysis and administration.

Productive Sector Division

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OdhiamboW@kippra.or.ke

This Division focuses on policy research and analysis in the agriculture, manufacturing, trade, tourism and natural resources (mining and forestry) sectors. The aim is to analyse the performance of these sectors and inform policy on how to improve them. The Division assists in capacity building for policy analysis in issues related to the sectors. The work of the Division is organized around specific programmes and projects. Some of the on-going projects include:

- Analysis of productivity in agriculture and manufacturing
- Agricultural market price volatility and its effects on production patterns
- Analysis of the livestock production and marketing in Kenya
- Micro and small enterprises (MSEs)
- Regional and international trade
- Tourism, environment and natural resources

Social Sector Division

Dr Kulundu Manda (Senior Analyst)
Head, Social Sector Division
manda@kippra.or.ke

The mandate of the Division is to conduct objective research in education, health, poverty, labour markets, and social institutions. The Division aims to be a reliable source of evidence-based information on social issues in Kenya and the region, and to develop capacity in both government and private sector through training in social policy analysis. To achieve its agenda, the Division collaborates with the other divisions of the Institute, local and international research institutions, government ministries, and with private sector organizations.

The Division started at a time when Kenya was working on the Poverty Reduction Strategy Paper (PRSP); most of earlier research therefore focused on poverty issues. With time, the Division has carried out research on education and health and on the labour market. The Division has developed the *Budget Negotiation Framework (BNF)*, which is useful in addressing certain standard questions in determining the budget and in guiding the budget negotiation process so that the outcome comes closest to meeting multiple targets. Ongoing projects and expected outputs are mainly in poverty dynamics; HIV/AIDS and its impact on productivity; child labour and impact of minimum wages on employment; and financing of higher education, among others.

Infrastructure & Economic Services Division

Dr Eric Aligula (Analyst)
Head, Infrastructure and Economic Services Division
jairah@kippra.or.ke

The mission of the Division is to develop innovative, research-based infrastructure policy options focusing on problems inhibiting the development and provision of physical infrastructure and services in energy, ICT, petroleum transmission and distribution, solid waste management, transport, construction and housing, and environmental health. The activities and contributions to policy revolve around four thematic areas, namely: infrastructure investment, productivity and competitiveness; sustainable infrastructure and environment development; public service delivery systems; and water resource allocation policy.

Private Sector Development Division

Mr Stephen Mwaura (Regulatory Expert)
Head, Private Sector Development Division
mwauraSJN@kippra.or.ke

The Division is the newest of KIPPRA Divisions. It was established in 2001 in recognition of the vital role of the private sector in value creation and poverty reduction. The Division coordinates two main projects: the Umbrella Project, which is supported by DfID, and the Regional Programme for Enterprise Development (RPED) project, which is supported by the World Bank. The Umbrella Project focuses on simplifying the regulatory environment for business in Kenya while the RPED project is geared towards improving the competitiveness of the manufacturing industry in Kenya.

An *enabling business environment* provides a set of conditions that encourage growth of private sector activity and enterprise development. The creation of an enabling business environment requires that public policy be directed at removing the constraints that impede private sector growth and creating new opportunities for private sector investment and business development. In addition, the legal, physical and financial infrastructure must be adequately provided for the private sector to function effectively.

The Division collaborates with other KIPPRA divisions in carrying out various activities geared towards supporting the creation of an enabling environment for the private sector growth.

KIPPRA Information and Documentation Centre

Library and Documentation

Mrs Wambui Wagacha (Librarian)
wwagacha@kippra.or.ke

KIPPRA Information and Documentation and Information Centre (KIPDOC) supports the Institute in enhancing the quality and effectiveness of policy issues in Kenya by providing the information support necessary for research, policy analysis, and information dissemination. The Centre's collection includes books, studies, reports and journals in various disciplines. The Centre houses the Institutes' publications, which emanate from research done in the various sectors, and also provides safekeeping of datasets and databases. In support of research on legal and institutional frameworks in the various sectors, the Centre maintains a small but unique collection of legal material.

The Centre works closely with Government Ministries and agencies in developing its collection and in distribution of policy-relevant information. It maintains a network of collaborating libraries, research institutes and organizations for sharing and exchange of information and materials. The Centre collaborates with libraries of local universities, IPAR, AERC, IEA, IDS, the World Bank Library, the European Union library, the UN libraries and the American Library at the American Embassy in Nairobi. The Centre also receives online material support from the Institute of Development Studies, University of Sussex.

Publications and Website Development

Felix Murithi (Editor)
fmuriithi@kippra.or.ke

KIPPRA publications are published in various series to reflect different needs of its target clients. So far, there are 27 Discussion papers, 12 Working papers, 4 Occasional papers, 3 Policy Papers, 6 Special Reports, and various Policy Briefs. The Institute's publications are uploaded to the Institute's website (http://www.kippra.org) as soon as they are published.

Other KIPPRA informational material include the annual report, the quarter reports, the annual work programme, the KIPPRA Strategic Plan 2003-2008, and the various research reports that governmental and non-governmental organisations commission KIPPRA to undertake on their behalf.

The Institute has also embarked on development of electronic databases and datasets for use by KIPPRA researchers and other interested researchers. This will not only facilitate research but will also ensure wider and more secure sharing of data.

Former Minister for Planning launches the KIPPRA website

KIPPRA was established with the broad objective of building human and institutional capacity in economic policy analysis as a means of supporting the policy process in Kenya. Since the Institute started operations in 1999, it has undertaken substantial capacity building for its staff, for government and for the private sector. Capacity building for the Institute's staff is achieved through on-the-job training; short-term training through short courses, seminars, workshops, and conferences; long-term training such as facilitation of doctoral training; and collaborative research projects with national, regional and overseas partners.

For government and the private sector, capacity building is undertaken by:

- Improving stakeholder awareness through dissemination of findings of KIPPRA research and policy analysis;
- Collaborating with Government in policy research and analysis through secondment of Government officers to the Institute for on-the-job training;
- Hiring of public and private sector personnel on short-term contracts to work with KIPPRA staff;
- Providing technical support to government officers during missions and discussions;
- Teaching and supervision at universities;
- Internship programme at the Institute;
- Input into various government policy documents;
- Formal training in the form of certificate courses offered by KIPPRA; and
- Sponsorship to regional and international courses.

The internship, secondment, and formal training programmes are being strengthened in line with the Institutes 2003/8 Strategic Plan. In addition, the Institute is sensitizing all the line ministries and other government agencies on training opportunities; introducing policy debate retreats aimed at senior government officials; and working on the modalities of introducing a visiting fellowship program for senior government officers.

Participants in the capacity building programme on the KIPPRA-Treasury Macro Model pose for a photograph with their tutors, KIPPRA staff, and the PS, Ministry of Planning during a graduation ceremony

A participant in the KIPPRA capacity building programme on micro and small enterprises receives a certificate from the PS, Ministry of Labour

KIPPRA researcher makes a presentation during a policy dissemination workshop

OPPORTUNITIES FOR POLICY RESEARCH ECONOMISTS, MACROECONOMIC MODELING EXPERT, LEGAL EXPERT, INFORMATION TECHNOLOGY SPECIALIST, AND YOUNG PROFESSIONALS

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is a leading policy research institute mandated to undertake high quality research and analysis leading to policy advice. The Institute is also mandated to build policy analysis capacity within Government and the private sector. In order to meet the rapidly growing demand for analytical work on relevant topics, KIPPRA seeks to recruit the following:

1. Outstanding Policy Research Economists in the following areas:

- Macroeconomics
- Agriculture
- Transport
- Energy
- Trade
- Social sectors (education, health), and
- Environment and natural resources
- Industry
- Banking and finance

Candidates for the policy research positions should have an advanced degree (MA/PhD or equivalent) in economics or related disciplines. Practical experience in relevant organizations would be an added advantage. Excellent numerical, analytical and communication skills are essential, as is familiarity with common computer software packages and with the Internet.

2. Macroeconomic Modeling Expert

The Macroeconomic Modeling Expert will make direct contribution to KIPPRA's role of providing advice to the Government by producing forecasts of key macroeconomic aggregates of the economy that are published annually in the Government's Budget Statement, and by undertaking policy simulations.

This post requires the successful candidate to maintain, develop, re-estimate, and rebuild the Kenyan macroeconomic model (KIPPRA-Treasury Macro Model). Strong analytical and econometric skills will be crucial, as will be good grasp of modeling and its practical application, ability to explain complex economic analyses to other analysts and non-specialists, willingness to support other staff and share knowledge with them, accurate and timely delivery of quality work, and ability to work closely with the Government.

The candidate for this position should have an advanced degree (MA/PhD or equivalent) in economics or a related discipline. Practical experience in macroeconomic modeling will be an added advantage.

3. Legal Expert

The Legal Expert should have good knowledge of both Economics and Law. He/she must hold an advanced degree (MA/PhD) in economics/ law or related fields and should be familiar with the regulatory environment and the policy formulation process in Kenya.

4. IT Specialist

The candidate for the position of IT Specialist must have good working knowledge in SCO, UNIX, Linux, and Windows NT; good programming skills using CQCS, C++, Visual Basic etc; database development and administration skills; excellent skills in computer packages, including MS Office; ability to install, and maintain various types of applications; good LAN/WAN management skills; website development and maintenance skills; ability to develop innovative IT solutions to business problems; a degree in Computer Science or equivalent and/or a postgraduate diploma in information systems.

5. Young Professionals

As part of its capacity building activities, KIPPRA runs a one year training programme for young professionals willing to start a career in research and policy analysis. The Institute invites applications from suitable candidates for next year's programme, which will commence in early January 2004. Eight (8) vacancies exist, two in each of the following KIPPRA Divisions: Macroeconomics, Productive Sector (dealing with Agriculture, Industry, Services, Environment and Natural Resources, and Trade among others), Social Sector (dealing with poverty, education, health and other social sectors), and Infrastructure and Economic Services (dealing with issues such as transport, energy, physical infrastructure, etc). At least half of the Young Professionals will come from Government ministries and agencies.

The Young Professionals will not only be involved in hands-on research activities but will also take courses designed and offered by the Institute. On successful completion, they will be awarded certificates and will be expected to return to their employment.

Candidates wishing to apply for the Young Professionals' Programme must have at least MA or Msc. in economics or related disciplines. Those with some working experience, especially in the Government, will have an added advantage. Applicants should state clearly the Division they are applying to join.

Terms and Application Procedure

KIPPRA is able to offer competitive terms and conditions of employment. It is the deliberate policy of the Institute to have diversified workforce. All qualified candidates are therefore encouraged to apply. If you satisfy KIPPRA's requirements, please send an application letter (including current salary details and daytime contact number), and a comprehensive Curriculum Vitae and recent example of written work, not later than 15 October 2003, to:

Assistant to the Executive Director
KIPPRA
P. O. Box 56445
Nairobi
E-mail address: hilda@kippra.or.ke

Institutional reorganization

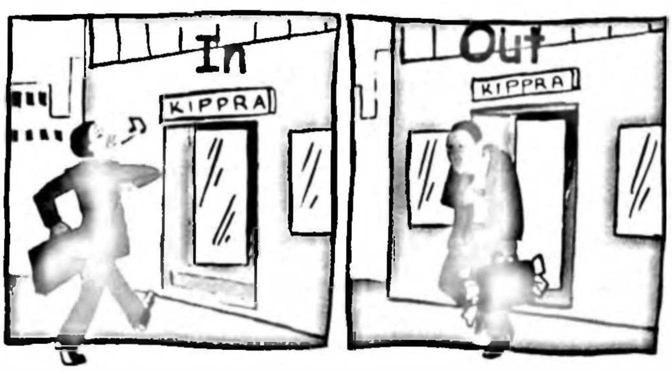
There has been a significant reorganization at the Institute to streamline the coordination of activities. Dr Hezron Nyangito has been appointed acting Executive Director during the period Prof. Mwangi Kimenyi will be away on leave. Prof. Kimenyi has taken leave after dedicatedly and continuously serving the Institute for over three years as Executive Director. During this period, he oversaw the implementation of the first phase of the development of the Institute.

Dr. Moses Ikiara is the new Programme Coordinator. He will, among other things, coordinate research activities across divisions, assist in preparation of project proposals and budgets, and coordinate the seminars and workshops. He will be assisted by Dr Rose Ngugi who has been appointed Assistant Programme Coordinator.

Dr Moses M. Ikiara (Programme Coordinator)
mmikiara@kippra.or.ke

Meanwhile, Dr. Walter Odhiambo will head the Productive Sector Division following the elevation of Dr. Nyangito to the position of Acting Executive Director. Dr. Kulundu Manda and Dr. Karingi have been confirmed substantive heads of the Social Sector and Macroeconomics Divisions, respectively

Promotion, new appointments, and departures

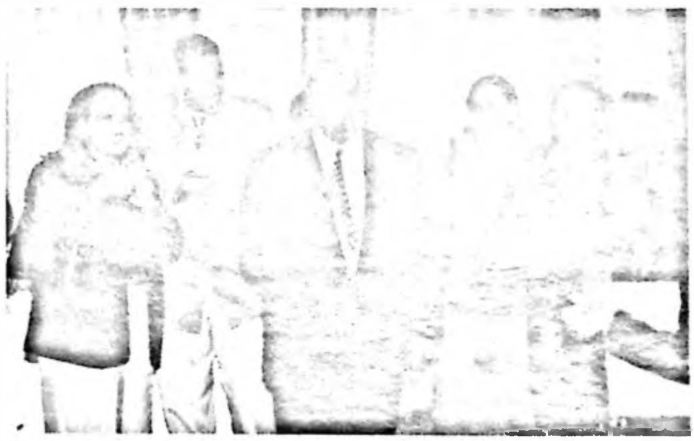


Four KIPPRA researchers were promoted with effect from July 2003. Drs Stephen Njuguna Karingi, Moses Muriira Ikiara and Damiano Kulundu Manda were promoted from Analyst to Senior Analyst in the Macroeconomics, Productive Sector, and Social Sector divisons respectively. Mr. Eric Ronge was promoted from Assistant Analyst to Analyst in the Productive Sector Division. Meanwhile, John Randa has joined the Macroeconomics Division of KIPPRA on a short-term contract while Dr. Moses Kiptui has left KIPPRA.

Sh...sh...sh...a surprise send off

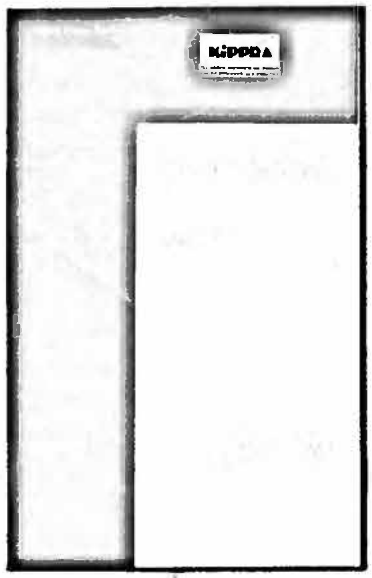
After three years as the Executive Director, Prof. Kimenyi has taken Sabbatical at the Connecticut University, in the USA. His contribution to the growth of the Institute has been outstanding, as manifest in the way the Institute has grown in size, staff quality, institutional stability, and in the recognition and reputation the Institute enjoys from policy makers, the private sector, and from local, regional and international research institutions. To express their appreciation, KIPPRA staff hosted a surprise cocktail party for Prof. Kimenyi at Fairview Hotel on 13 August 2003. Invited guests included Mr David Nalo, Permanent Secretary, Ministry of Planning, and some Board members. The KIPPRA family wishes Prof. Kimenyi a successfull Sabbatical and a quick return to KIPPRA.

Once KIPPRA, always KIPPRA!

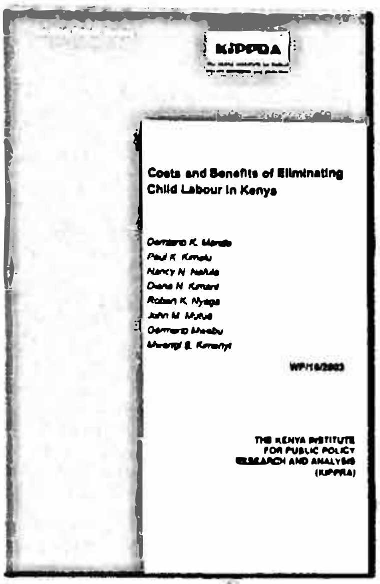


Staff accompanied by Members of the Board and PS, Ministry of Planning, during a cocktail party for Prof. Kimenyi

POLICY PAPERS



WORKING PAPERS



Costs and Benefits of Eliminating Child Labour in Kenya

Damiano K. Manda
Paul K. Kimalu
Nancy N. Nafula
Diana N. Kimani
Robert K. Nyaga
John M. Mutua
Germano Mwabu
Mwangi S. Kimenyi

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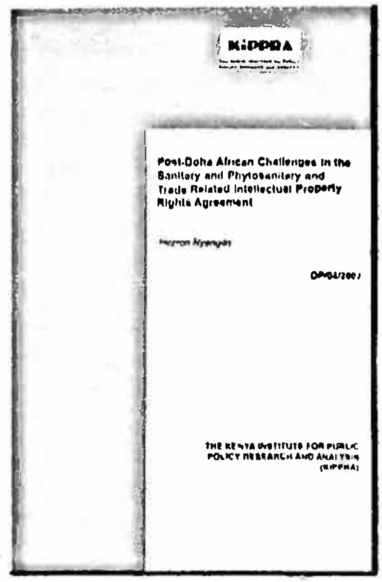

Post-Doha African Challenges in the Sanitary and Phytosanitary and Trade Related Intellectual Property Rights Agreement

Hezron Nyangito

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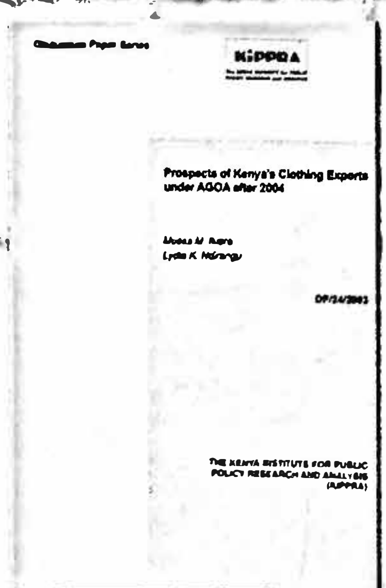

Discussion Paper Series

Prospects of Kenya's Clothing Exports under AGOA after 2004

Moses M. Ikiara
Lydia K. Ndirangu

DP/24/2003

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