



# POLICY MONITOR

Improving public policy making for economic growth and poverty reduction

Issue 5, No. 1 July - December 2012

## Addressing Food Price Volatility in Kenya



### Also in this issue

The Role of Regional Trade in Stabilizing Domestic Food Prices in Kenya

Kenya Economic Outlook

Ethnicity and Ethnocentrism

Do we Need an East African Commodity Exchange?

# KIPPRA IN PICTORIAL



1. Dr Eric Alligula (left), Ag. Executive Director, KIPPRA, during the national consultative workshop on policy and programmatic actions to address food price volatility, at the Kenya School of Monetary Studies
2. Felix Murithi (right), Knowledge Management and Communication Manager, attends to visitors during the Nairobi International Bookfair, at Sarit Centre
3. Prof. Agnes W. Mwang'ombe (centre), KIPPRA's Board Chair and Dr Eric Alligula (left), Ag. Executive Director, cut the end of year cake
4. Prof. Joseph Kieyah, Principal Policy Analyst, addresses members of Kenyatta University Economics Students Association
5. Prof. Agnes W. Mwang'ombe (right), shares the end of year cake with Charles Kyalo, a former Young Professional at KIPPRA
6. Paul Odhiambo (left), Policy Analyst, interviewing a farmer during the household survey on drivers of success in export performance, french beans and avocados

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## Vision

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

## Mission

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



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# from the **Executive Director**

**Dear Readers,**

**W**elcome to this edition of the *KIPPRA Policy Monitor*, the first of the year 2012/2013. This first half of the year saw the exit of Dr Moses Ikiara, who has served as the Institute's Executive Director for six years. Dr Ikiara, whose contract ended on 31<sup>st</sup> May 2012, joined KIPPRA in 2002 as a Policy Analyst, was appointed Senior Policy Analyst and Programmes Coordinator in 2003, appointed Acting Executive Director in December 2005, and in June 2006 the Executive Director. During his tenure, he oversaw the expansion of the capacity of conducting research and policy analysis, enabled the Institute expand its funding base and improve on its sustainability, and ensured a better working environment for staff. He will be remembered for initiating numerous research projects, improving the working relationship with the government in policy development, and creating an environment for attracting more funding from the government and development partners. We thank him for exemplary leadership and service to KIPPRA over the years and wish him well in his next destination.

Back to this issue of the *KIPPRA Policy Monitor*, I am glad to note the high quality and wide range of articles presented, which we hope will be of interest to our readers. In this issue, we focus on food



**Dr Eric Aligula**  
**Ag. Executive Director**

price issues with two incisive articles on food price volatility, and on the role of regional trade in stabilizing domestic food prices. Large variations in food prices always create uncertainty and increase risks for producers, traders, consumers and the general public. Regional trade policy could shield domestic food markets from high and volatile food prices. This requires rethinking how best the country can benefit from the regional market, since food supply shocks may not occur at the same time in the region.

We also delve on the dynamics of ethnicity and ethnocentrism, in an attempt

to raise debate on the various shades and perspectives of ethnicity, and how it is normally appropriated positively or negatively by communities for various reasons.

The short write up on the rising burden of cancer is an attempt to raise a red flag on this emerging killer disease in Kenya, and the growing burden on households and health facilities. The rapid rise in cancer and other non-communicable diseases is a result of increased exposure to various risk factors such as tobacco use, excess use of alcohol, unhealthy diet, among others.

Finally, we also present to you the Kenya Economic Outlook. During the third quarter of 2012, the economy registered a growth rate of 4.7% compared to 4% recorded during the same quarter in 2011. There are indications that economic conditions are improving and the growth momentum is expected to be maintained in the short-term. The improvement in economic conditions is driven by improved performance in agriculture, manufacturing, transport and communication, and electricity and water sub-sectors as well as restoration of macroeconomic stability. Kenya's growth is projected to increase from 4.4% in 2012 to 5.1% in 2013 and further increase to 6% in 2014, predicated on the government dealing effectively with the short term challenges and risks related to undertaking peaceful, transparent and fair elections; effective management of the transition process; and addressing security concerns.

As usual, there are many other short stories and incisive write ups for short reading and enjoyment.

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

I am again glad to note the high quality and wide range of articles presented, which we hope will be of interest to our readers

# Addressing Food Price Volatility in Kenya

By **Dr John Omiti**, Principal Policy Analyst; **Nancy Laibuni**, **Dr Augustus Muluvi**, **Dr Paul Kamau**, **Simon Githuku**, **Paul Odhiambo**, Policy Analysts; and **Evans Ngenoh**, Young Professional, at KIPPRA

In the last few years, Kenya has had to deal with the problem of high, erratic and volatile food prices, especially for staple and essential food commodities. Price variations are not problematic, if they move along an established trend reflecting market fundamentals or when they exhibit typical seasonal patterns. However, when they are large and cannot be anticipated, the variations create a level of uncertainty, which increases risks for producers, traders, consumers and governments.

Kenya is a low-income country with a GDP per capita estimated at US\$ 775. Agriculture is a major economic activity. Currently, one out of every four Kenyans suffers from chronic food insecurity and poor nutrition. Between two and four million people require emergency food assistance at any given time. In addition, over 35,000 children (under 5 years of age) suffer from acute malnutrition, while approximately one out of every five Kenyans cannot attain the minimum dietary requirements to sustain a healthy and productive life. High food prices and their volatility significantly contribute to this problem.

Several factors are responsible for high food prices in Kenya. On the supply side, rapid and significant seasonal fluctuations in supply, and high global petroleum prices, have led to increased costs related to local food production and supply. On the demand side, population growth has also outstripped food production in most parts of the country. Moreover, liberal trade policies have also contributed to food price volatility.

Other factors that contribute to food price volatility include effects of droughts and/or floods, pests and diseases to both livestock and crops,

poor road infrastructure, poor agronomic practices, insecurity in some areas, human-wildlife conflict, and political instability.

To reduce the effects of different shocks and hazards, households often resort to measures such as reducing the number and size of food intake, consuming less preferred food types, and reducing spending on essential non-food expenditures such as health and education. On the other hand, pastoralists cope by moving livestock from one place to another so as to manage pasture and water resources or by distributing their livestock among relatives and friends, sometimes even across international boundaries.

We can examine the effects of food price volatility through their various lenses, such as rural-urban disparities, gender disparities, demographic disparities and climate change. Approximately 22% of the population lives in urban areas, of which 40% reside in slums, with low and



The important contributors to high and volatile food prices Kenya experienced in recent years include sustained decline in production of crops, livestock, poultry and fish; substantial increase in food demand, with limited consumption patterns; high rate of urbanization; and escalating fuel prices

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irregular source of income. An estimated half of overall household income goes to food purchases, an indication of heightened vulnerability due to volatility in food prices, amidst unstable employment opportunities. Generally, close to half of rural and urban poor households are net buyers of food. Lower income groups are relatively more disadvantaged, considering that a larger share of their low income goes to food and transport.

About half of Kenya's population constitute females who actually provide about three quarters of agricultural labour force, hence playing a key role in facilitating food security. Moreover, 30% of Kenyan

households are headed by women, and the majority of these households face chronic food insecurity. This situation is currently affecting approximately 3.8 million Kenyans, while approximately 280,000 children are affected by acute malnutrition, which contributes to more than half of the deaths in children worldwide, with 54% of the deaths occurring in developing countries. The climate change being witnessed across the world has also led to more intense and prolonged droughts that result to poor harvest, acute famine, loss of livestock especially in arid and semi-arid regions, and subsequent price increases and higher volatility.

### **Policy interventions and programmatic actions**

Policy interventions to address food price volatility are based on the following pillars of food security:

(i) increase public investments in agriculture towards meeting the Maputo Declaration in order to tackle the shortfalls in agricultural production through extension and advisory services, pest and disease control, training especially for the youth, irrigation development, rural infrastructure (feeder roads, storage and markets), agricultural research, science and technology and value addition.

(ii) establish/strengthen institutions of collective action in the agricultural sector to improve farmers capacity building and bargaining power for better prices, and

(iii) enhance farmers adaptation strategies to mitigate adverse effects of climate change.

The proposed programmatic actions include: adoption of yield increasing technologies; increasing access to affordable inputs; increasing production of traditional high-value foods; encouraging peri-urban agriculture; empowering farmers with relevant information and management skills to run these institutions efficiently; and ensuring a

favourable legal, institutional and political framework for these institutions to thrive.

To increase accessibility to food, the proposed policy interventions include strengthening the supply chain and linkages, and strengthening bilateral and multilateral trade negotiations. Programmatic actions include: reviewing and prioritizing policies to improve rural infrastructure; enhancing food market information systems; developing market-based insurance systems and commodity markets; increasing competition in the food market sector; actualizing the competition policy; ensuring greater transparency and accountability in the management of food exports and imports; deepening

regional integration by removing non-tariff barriers (NTBs); and establishing a regional food reserve.

To ensure food price stability, there is need to stabilize food prices and enhance social protection. Some of the programmatic actions include provision of financial resources to support strategic food reserves; setting up of a disaster contingency fund; encouraging household and community food storage facilities; establishing effective vulnerability assessment systems and disaster preparedness; and setting aside financial resources in the national budget to implement social protection programmes.

Finally, the policy



## Proposed policy interventions for ensuring food stability include stabilization of prices and enhancing social protection

interventions proposed to improve food utilization include effective implementation of the National Food and Nutrition Security Policy; and training in food processing, preparation and preservation. Some of the programmatic actions include: nutritional education and behaviour change; consumption of traditional high-value foods; fortification of processed foods; establishing of incubation centres for food processing; and integrating agriculture in the school curriculum.

### Conclusion

The important contributors to high and volatile food prices Kenya has experienced in recent years include a sustained decline in production of crops, livestock, poultry and fish; substantial increase in food demand, with limited consumption patterns; high rate of urbanization;

and escalating fuel prices. These primary shocks were magnified to a substantial degree by changes in Kenya's trade policies, as they sought to insulate themselves from changes in world prices. Many approaches to reducing the adverse impacts of food price volatility need to be considered. Among them, improving market information is a high priority given its potentially great benefits. Given any level of market price volatility, social safety net policies have the desirable feature precisely targeting the problem, rather than as with non-targeted policies such as export taxes and import barrier reductions, which create unpredictable impacts on different groups.

**Note:** We acknowledge the contributions of Food and Agriculture Organization (FAO) and the Ministry of Agriculture (Kenya) for facilitating the study on which this article is based.



# The Role of Regional Trade in Stabilizing Domestic Food Prices in Kenya

By Dr Augustus Muluvi and Simon Githuku,  
Policy Analysts, Trade and Foreign Policy Division

In 2011, Kenya and many other African countries witnessed soaring food prices due to, among other things, inadequate rainfall and the depreciation of domestic currencies. Such increases in food prices have become a common feature of Kenya's food history. For instance, in the last three years, the commodity price index (CPI) for maize, wheat and rice has increased by about 30%. Rising food prices impact negatively on different segments of the population, especially the rural and urban poor who spend over 75% of their income on food.

Trade policy responses can shield domestic food markets from high and volatile food prices. This calls for rethinking of how best the country can benefit from the regional food market, since food supply shocks may occur at different times in the region. Integration of regional markets opens opportunities to balance regional food supply and demand, hence benefit both the consumers and producers in the region.

Kenya is a food insecure country despite agriculture being the main economic activity. It is estimated that up to 10 million people suffer from chronic food insecurity. A large share of food imports comprise cereals, mainly wheat, rice and periodically maize. For example, in 2009, maize and rice took 45% and 35% share of total food imports, respectively. Regional trade integration can have a substantial impact in easing the effects of periodic national food shortages and price increases if barriers to food trade in the region are eliminated.

Kenya is actively involved in the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). Kenya is the most food insecure country in EAC, and imports maize and beans in substantial amount from Uganda and Tanzania. With the adoption of EAC Customs Union in 2005, most tariffs in the region have been reduced dramatically from approximately 26% in 1994 to 10% in 2011. However, other critical trade policies and regulation, such as non-tariff barriers (NTBs) require more attention. Some of the NTBs include: export bans, quality and safety standards, sanitary and phytosanitary standards (SPS), customs entry and clearance procedures, police road blocks and bribes, weigh bridges and toll stations, immigration procedures, lack of adequate custom information, and cumbersome vehicle inspection requirements, among others. These NTBs act as a major impediment to food trade in the region.

Maize and beef traders and transporters in the EAC engage mainly in local trade because



of NTBs, such that local trade constitutes more than 80% of their trade volumes.

In the wake of high and volatile food prices, Kenya and Tanzania have used export bans in an effort to stabilize domestic food prices. For instance, in 2011, Tanzania banned export of maize to Kenya, which meant that Kenya had to get an alternative source of maize at a higher cost. In retaliation, Kenya banned the export of planting seeds to Tanzania. Earlier in October 2008, Kenya had banned export of maize to South Sudan. These incidences had a bearing on the increased prices of maize and maize flour in Kenya. The export bans and other trade restrictions lead to loss of opportunities for both farmers and consumers, and scare away private sector development and investment in the food sub-sector. In general, the smoothing out effect that imports from neighbouring countries could have in the domestic food market is lost.

In as much as the common market protocol signed in 2010 calls for free movement of persons and factors of production within EAC, immigration procedures at border points limit movement of people, hence trade. Although there is no visa requirement when travelling within the community, movement of people is restricted to passport holders or those with temporary travel documents. It is important to note that majority of EAC residents do not hold such documents.

Therefore, for Kenya to benefit from the regional market in stabilizing food

prices, various policies and regulations that limit free movement of goods and services in the region should be eliminated. More attention should be focused on ensuring full implementation of EAC common market protocol and EAC Food Security Action Plan (2011-2015). Other measures include:

- Establishing a trade regulatory committee at the regional level to review the existing rules and regulations and remove those that negatively affect regional trade, and design new ones. In addition, such a committee could be tasked with streamlining customs clearance procedures and rules of origin. Kenya and Uganda impose significantly more rules and regulations on their imports than any other country in Sub-Saharan Africa.
- Establishing a regional standard regulatory body as opposed to national bodies to harmonize standard and inspection procedures in the region. A regional body would exploit economies of scale in regulatory expertise and prevent fragmentation of the market by differences in standards.
- Putting in place procedures to ensure that sanitary and phytosanitary (SPS) measures do not restrict trade. Although



SPS are important in ensuring public safety objectives, a significant number of these measures are unnecessarily burden to trade.

- Developing an effective monitoring committee to supervise the elimination of NTBs in the region. Such a committee should have possible sanctions for non-compliance. In 2008, the EAC identified NTBs to be removed in order to increase trade in the region. However, by 2011, only 50% of these NTBs had been eliminated by the partner states because of lack of a clear monitoring mechanism.
- Relaxing immigration procedures. Any form of identification document including national identities and driving licenses should be allowed to be used at border points.
- Quality infrastructure. Both road and rail transport need to be

improved so that it can be faster and cheaper to transport goods from one country to another.

- Establishing regional grain reserves in order to stabilize markets during times of stress.
- Eliminating export bans during times of shortage in any country in order to reduce food shortage among the member countries.

In conclusion, regional trade can be a powerful channel through which Kenya can smooth out periodic high food prices. But this will require cooperative effort from all the member states. Uganda and Tanzania, in most of the times, have food surpluses, especially maize and beans. Kenya should proactively engage these countries especially when there are temptations to impose export bans. However, it is important to note that regional trade is not a substitute of domestic efforts in ensuring adequate supply of nutritious food for all Kenyans.



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# Kenya Economic Outlook

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

During the third quarter of 2012, Kenya's economy registered a growth rate of 4.7% compared to 4% during the same quarter in 2011. Recent data indicates that economic conditions are improving and the growth momentum is expected to be maintained if the short-term risks and challenges are addressed, and planned structural reforms are implemented.

The overall growth rate for the first three quarters of 2012 is estimated at 3.8% compared to 4.2% during the same period in 2011. These implies that the improved performance is coming after a period of almost one year of slowdown in growth that started during the second half of 2011. Kenyan policy makers need to ensure that stability is maintained and reforms remain on track so as to accelerate and sustain the recovery.

The improvement in economic conditions that started in the third quarter is driven by improved performance in agriculture, manufacturing, transport and communication, and electricity and water sub-sectors as well as restoration of macroeconomic stability. While the overall economic conditions have improved, sectoral performance has been mixed. Improved growth has been recorded in agriculture and manufacturing. During the first three quarters of 2011, the agricultural sector grew by 1.5% compared to 3.6% during the same period in 2012. Over



Information on leading indicators of the economy such as inflation, exchange rates and interest rates indicate that efforts to stabilize the macroeconomy are bearing fruit

a corresponding period, the manufacturing sector grew by 2.9% in 2011 compared to 3.8% in 2012. However, growth slowed in sectors such as construction, wholesale and retail trade, hotels and restaurants and other services sector. Kenya's overall external sector position improved, although the current account deficit continued to widen, implying a faster growth in imports relative to exports. Economic growth is thus expected to be flat between 2011 and 2012, at 4.4%.

Information on leading indicators of the economy such as inflation, exchange rates and interest rates indicate that efforts to stabilize the macroeconomy are bearing fruit. This is expected to support growth. Annual growth in credit to the private sector slowed down remarkably from about 35% in 2011 to about 7% in October 2012. This is consistent with

## Selected economic indicators

Variables	2010	2011	2012	2013	2014	2015
GDP growth	5.8	4.4	4.4	5.1	6.0	7.1
Inflation (overall)	4.0	14.0	9.6	5.0	5.0	5.0
Short-term interest rate	3.6	8.7	13.6	8.0	8.0	8.0
Private consumption	7.2	3.8	7.0	7.0	7.0	8.0
Private investment	4.0	4.0	6.1	7.0	11.0	11.0
Government consumption	9.2	10.6	8.0	6.0	7.0	8.0
Government investment	5.0	9.0	9.0	8.0	11.0	11.0
Exports of goods and services	17.7	6.7	5.0	6.0	7.0	9.0
Imports of goods and services	6.1	15.6	11.0	9.0	10.0	11.0
Current account balance	-6.0	-8.0	-4.8	-5.3	-5.3	-5.7
Financial deficit	-6.0	-5.0	-4.0	-3.0	-3.0	-3.0
Public expenditure	33.4	33.4	31.8	30.4	29.6	28.8

“The average overall inflation for 2012 is estimated at around 9.6%, an improvement when compared to 14% in 2011

the tight monetary policy that the Central Bank maintained over this period. However, it is expected that growth in credit will continue to pick up as the Central Bank eases monetary policy and inflation drops and stabilizes. The inflation rate was 3.2% in December 2012. The easing of inflation is likely to spur household consumption.

On the regional and international scene, according to World Economic Outlook update of January 2013, the IMF projects that global growth remains fragile, but will strengthen from 3.2% in 2012 to 3.5% in 2013. Euro area is expected to contract in 2013, which could adversely affect tourism from the Euro area and remittances. The good news is that Sub-Saharan growth is projected to remain robust, but global commodity prices are projected to remain relatively low. This may not be good for exports, but the country may benefit from stable international oil prices. The projected positive growth for Sub-Saharan Africa given at 5.8% for 2012 and 6% for 2013 is expected to provide an impetus to trade and private investments for the recovery process.

Against this background, Kenya's growth is projected

to increase from 4.4% in 2012 to 5.1% in 2013, and further increase to 6% in 2014. This growth is predicated on the government dealing effectively with the short term challenges related to undertaking peaceful, transparent and fair elections; effective management of the transition process; and addressing security concerns. Growth could be even stronger should these challenges be addressed, and the country receives adequate rainfall in the year, while global commodity prices remain stable. It is imperative that the country implements a prudent fiscal and monetary policy to ensure that macroeconomic stability is maintained. Key structural reforms include continued strengthening of institutions of governance, including public financial reforms consistent with the Public Finance Management Act 2012 and the County Governments Act 2012. The government will also need to fast-track key reforms related to private sector development such as the Public Private Partnership (PPP) framework, strengthening competition policy framework, continued infrastructure investment and regional integration.

The inflation outlook is



Economic growth is predicated on the government dealing effectively with the short term challenges related to undertaking peaceful, transparent and fair elections

positive. The average overall inflation for 2012 is estimated at around 9.6%, which is an improvement when compared to 14% recorded in 2011. Stability in international oil prices and prudent fiscal and monetary policies are expected to yield single digit inflation levels of about 5%, on average, in the medium term. Improved food production and favourable weather conditions should be able to support overall price stability.

The assumptions underlying the fiscal framework are consistent with the Budget Policy Statement of January 2013 and adjustments to reflect actual budget implementation. In terms of real growth in government expenditure, consumption and investment for 2013 are expected to average about 6% and 8%, respectively. Public investments are expected to be implemented as planned, especially in infrastructure and as implementation of



the planned development programmes as contained in the medium term expenditure framework. In the years 2013, 2014 and 2015, both consumption and investments are expected to stabilize, but at high levels so as achieve the high economic growth rates expected.

The tourism sector is key to economic growth, and its stability is very important. The sector is expected to grow at an annual average of 12%. This growth has been and is expected to be supported by vigorous marketing of Kenya as the best tourist destination, and more so the diversification to compensate the slowdown in euro area. Imports, on the other hand, are expected to expand with the economic growth. The import volume growth will be occasioned by the need to complement domestic production, purchase of intermediate and capital goods and purchase of oil and oil-related products. The expansion of imports is projected at 11% for the years 2013, 2014 and 2015, respectively. This is expected to continue putting pressure on the external current account.

The improvement in economic conditions that started in the third quarter is driven by improved performance in agriculture, manufacturing, transport and communication, and electricity and water sub-sectors as well as restoration of macroeconomic stability



Article 232 of the Constitution of Kenya 2010 stipulates that in providing public service, state officers must exercise high standards of professional ethics, efficiency in resource use, inclusiveness in policy making process, fairness and accountability. Whereas it may be clear to all that these virtues are essential in delivery of public service, the challenge is how to inculcate them into the operational practices of public officers in all spheres of public service.

KIPPRA is making a contribution to this policy agenda by preparing a memorandum for submission to the taskforce on public service values and principles.

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) in collaboration with the Atlantic Council, the US National Intelligence Council, and the Africa Growth Initiative at Brookings hosted a workshop on "Global Trends 2030: Africa and its Alternative Futures" on 5 July 2012 at Fairview Hotel.

The workshop was motivated by the need to gather feedback to inform the Global Trends 2030 Project. The project takes a long term view of the future, offering a look at how key global trends might develop over the next few years to influence world events. It

is designed based on a review of studies on global trends.

The event attracted government officials, planning professionals, policy analysts and advisors, non-state actors, entrepreneurs and scholars. The workshop report will stimulate thinking about the rapid and vast geopolitical changes characterizing the world today and provide a framework for thinking about the possible futures and their implications.

## KIPPRA in the African Growth Initiative (AGI) Partnership Meeting

The annual review meeting of the African Growth Initiative (AGI) took place from 10<sup>th</sup>-14<sup>th</sup> of September 2012 at the Brookings Institution, Washington DC. KIPPRA was represented by Dr Eric Aligula, Dr John Omiti and Felix Murithi.

The Brookings Institution's Africa Growth Initiative (AGI) is a partnership that seeks to promote high quality research on Africa economic development, and project the Africa voice in Washington DC, especially with the US government, multilateral and bilateral partners. KIPPRA is one of the African think tanks involved in the project.

The meeting discussed progress made over the last one year since the project was inaugurated, and work plans for the next one year. It was agreed that during the next year, there is potential for collaborative regional research among think tanks, especially in the areas of natural resources (in view of new oil and gas discoveries in the Eastern Africa region), and in youth unemployment (a common problem in most African countries). There were also discussions on the various communication strategies that think-tanks could adopt to achieve impact.

## Medium Term Expenditure Framework Stakeholders Hearing

KIPPRA participated in the public sector hearings for Medium Term Expenditure Framework (MTEF) for Energy, Infrastructure and ICT Sector; and for Environment Protection, Water and Housing Sector, Public Administration, and International Relations. The objective was to subject the preliminary MTEF report to public scrutiny, leading to a revised expenditure framework for the various sectors for the period 2013/14-2015/16.

On Energy, Infrastructure and ICT Sector, Nashon Adero, KIPPRA's Policy Analyst, who represented the institute, recommended a strong tripartite collaboration between university, industry and government for sufficient human capital to drive and sustain innovative solutions in energy, infrastructure

On environment protection, water and housing, key highlights included issues such as rainwater harvesting and groundwater recharge through aquifers

and ICT. He challenged the stakeholders to settle on priority development areas since inadequacy of funds is a common limitation, and to revise procurement procedures that are lengthy and inefficient. Nashon also proposed uniformity of policy on land management and construction standards, emphasized on professionalism for enhanced quality and sustainable solutions, and strengthening linkages between intended

outcomes and their bearing on the cost of doing business in the country and regionally.

On Environment Protection, Water and Housing sector, key highlights included the need to expose sustainability issues such as rainwater harvesting and groundwater recharge through aquifers. He noted that the sector linkage to housing calls for a building code and policy that promotes water harvesting. Spatial planning and management issues touching on land, water, waste and environment together with the required awareness creation were stressed as critical to gaining efficiency in the entire sector. Adequate funding of research and detailed studies of demographic trends were also presented as key areas to elevate in the report.

# Public Expenditure Tracking and Service Delivery Indicator Survey

Since October 2012, the Social Sector Division at KIPPRA has been conducting the 2012 Public Expenditure Tracking (PETS) and Service Delivery Indicator (SDI) survey for Kenya. This is a project of the Ministry of Health, funded by the World Bank and Futures Group.

In November 2012, a team of 50 researchers from KIPPRA visited about 290 health facilities distributed across 15 counties. The survey objective is to assess the service delivery performance of primary health facilities and district hospitals, with the primary purpose of assessing the impact of past key policy

reforms, which were aimed at improving the delivery of essential health services.

The current survey has introduced a new dimension to PETS by focusing on results and not just the flow of resources. The survey will focus on availability (hence absenteeism) of health professionals in the facilities, and their ability to diagnose basic and/or common ailments. The new focus is timely given that service delivery performance is critical to ensuring that public spending is translated into improved outcomes. The analysis of the flow of funds captured

by PETS will address key issues under the 10/20 user fee policy, the Health Sector Services Fund (HSSF) and the new drug distribution system (pull as opposed to push).

The survey is in the analysis stage and the initial report is expected to be out by the end of February 2013. The analysis is expected to confirm whether the outcomes of the production of health services are not just affected by the service delivery unit, but also by underlying systems as well as the action and behaviour of individuals and households.

## KIPPRA-CCK Study on Mobile Voice Market

KIPPRA was commissioned in 2012 by the telecoms regulator, Communications Commission of Kenya (CCK), to undertake a study on the Impact of competition in the mobile voice market on telecommunications sector and macro-economy in Kenya.

The report was unanimously accepted by the CCK Board. Since then, CCK has announced lowering of Mobile Termination Rate (MTR) to Ksh 1.44 from Ksh 2.21. During the announcement, Mr Francis Wangusi, CCK's Director-General, stated that KIPPRA's report had found that low MTRs did not have a negative impact on tax revenues, employment numbers (for the sector) and on the Nairobi Securities Exchange. He added that lower rates would ensure competition and



better services to consumers. The intervention by CCK was a major policy shift, ending months of intense lobbying and speculation in the industry.

## African Capacity Indicators Report 2013

KIPPRA has been coordinating data collection in the Eastern Africa region for the African Capacity Indicators Report (ACIR) 2013. The ACIR is the flagship report of the African Capacity Building Foundation (ACBF), and is aimed at surveying and documenting capacity development needs of over 42 African countries in areas such as agriculture, food security, natural resources, among others. "In so doing, the Report teases out the underlying geo-historical, macroeconomic, and socio-political elements that have shaped the current capacity development standings (ACIR, 2012)."

Regional coordination for the Eastern Africa region comprising Kenya, Uganda, Rwanda, Tanzania, Ethiopia, and Sao Tome Principe entailed liaising with in-country data collectors to ensure weekly submission of reports, ensuring adequate quality control of the data collection process, and ensuring that outputs are produced in a timely manner.



# Ethnicity and ethnocentrism: What are the dynamics?

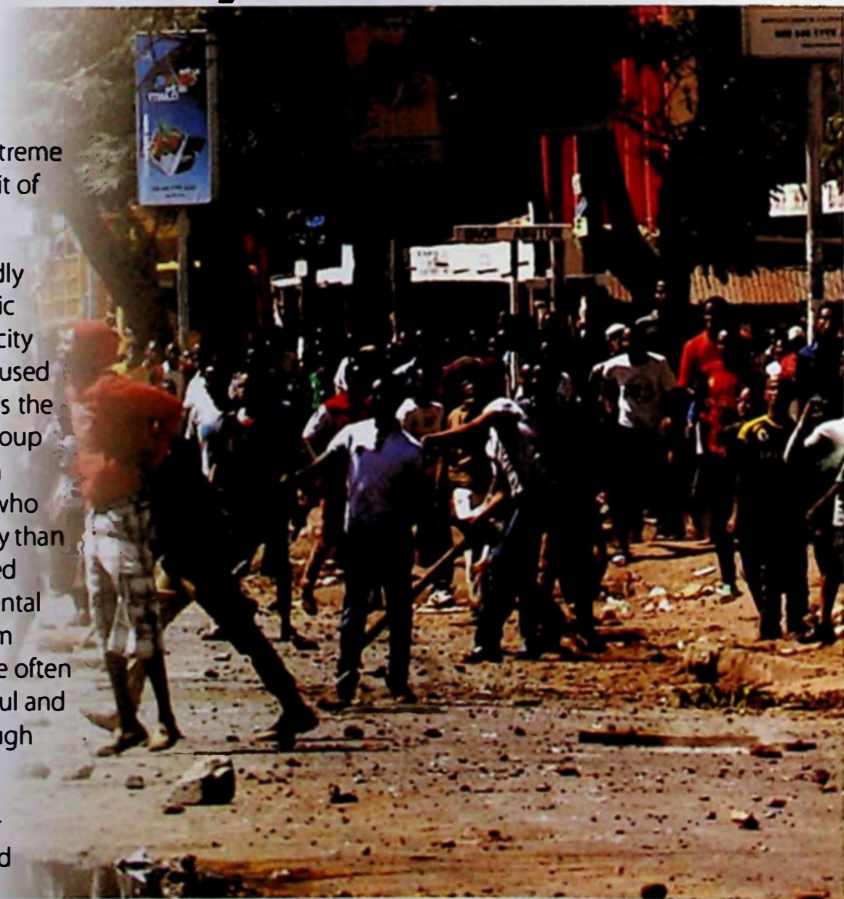
**By Dr Douglas Kivoi, Policy Analyst, Governance Division**

Ethnicity is a nation or a people. It may also mean a race or group of people with common racial features and common cultural peculiarities. Once consciousness of being part of an ethnic group is created, it takes on a self-perpetuating quality and is passed from one generation to another. Ethnic affiliation is deeply embedded in consciousness and is difficult to break from. Thus, ethnicity is natural and inherent in human beings as part of their nature. Every human being has a natural inclination towards identifying with others whom he/she shares common interests/history/origin. Ethnicity is not divisive. However, a person who

takes his/her ethnicity to the extreme is likely to fall into the cultural pit of ethnocentrism.

Ethnocentrism is undoubtedly responsible for many inter-ethnic animosities in our society. Ethnicity becomes destructive when it is used to seize control of resources, as is the case with corruption. When a group that has power is identified with ethnocentrism, it means those who belong to other forms of identity than the dominant group are deprived of resources and other fundamental rights and dignity. Ethnocentrism leads to misunderstandings. One often falsely distorts what is meaningful and functional to other people through one's own tinted glasses.

An ethnic group is a basis for differentiating 'us' from 'them' and





upon which people act. Thus, ethnicity is the employment or mobilization of ethnic identity and differences to gain advantage in situations of competition, conflict or cooperation. Therefore, ethnicity is political rather than cultural because its mobilization and deployment is directed at the determination of who gets what, when and how.

Socially, the traditional African script of 'submit to family and communal authority and immerse yourself in and partake of all group values and norms' may have been rewritten during the colonial period. Through force, Western education and missionary proselytization, the colonialists may have subverted traditional African authority, values and norms of African communalism in the minds of Africans. The consequences of the emphasis on family and kinship relations is that villagers are proverbially indulgent in judging the sharp practices of one of their member in some far off city, provided their conduct brings advantage to their particular villages.

Kenya is a plural society with over forty two communities. These communities are known to rise up against one another following some dexterously manipulated cause of some alleged grievances that one ethnic group may harbour against another. These spontaneous eruptions of violence are themselves an indication of something evil and alienating that still lurks in the sub-conscious of the people. This hidden alienating and potentially evil baggage may well be precisely the nemesis of nationhood,

because its manifestation and demands are inherently disjunctive and corrosive of any effort to hold together as one nation with one common destiny. No nation can claim to be viable and internally united if it is plagued by internal strife mostly orchestrated by politicians and misguided citizenry.

At the moment, Kenya displays some cracks due to the hidden animosities and ethnic biases harboured by individuals bent on destruction. The negative ethnicity practised in Kenya is both covert and overt

depending on who is practising it and who is being targeted. It is quite possible that the person who takes up the reigns of power may want to practice it by proxy in order not to allow public outcry.

The underlying consideration is that personal security and ethnic dominance can be guaranteed incase things start going wrong, as is often the case with all unstable regimes of the world. It is often assumed that an ethnic group can stand up single handedly to defend one of their own in the event of some political turmoil. This gradually boils down to the practice of pandering to the brute

instinct of selfishness and deviant egotism. This deviant consideration has caused untold miseries and sufferings in Kenya, since the country cannot advance fast enough with these ethnic hurdles and trammels.

The non-recognition of the principle of meritocracy has led to some weird and haphazard political, economic and social experiments, which in turn have either floundered or literally collapsed for lack of simple application of some sense of ingenuity and competence. If people are going to fill positions

ethnic community if he/she embezzles public funds and uses part of the money to build a hospital or school in his/her village.

Justice theory predicates moral responsibility on acts that are based on rational choice, done with empathy, without any dint of partiality, and motivated by a sense of justice and fairness towards other persons. Our actions are good as long as they respect the right of others and maintain the cohesiveness of the social contract on which society is based. If we go by the simplest understanding of

The problem of ethnocentrism is real, but people are reluctant to address it openly because it makes them uncomfortable, especially when it touches on personal feelings, ethnic identities and sectarian interests

because they come from some preferred ethnic background, just for the sake of filling and inflating the labour force, it inhibits human potential and compromises the quality of services and goods produced.

An ethnocentrist is likely to assist, tolerate or turn a blind eye when a person from his/her ethnic group is involved in a fraudulent practice that is likely to benefit their common ethnic group. No wonder phrases such as 'they ate, now it is our turn to eat' are common in Kenya's political lingo. An ethnocentrist is also likely to think that he/she is discharging moral responsibility to his/her

justice as giving someone his/her due, then depriving people their dues in terms of good roads and other facilities is morally wrong.

It is crucial for one to rationally and emotionally conceive oneself not only as a member of some ethnic community, but also as a human person bound to all other human beings by ties of recognition and concern. This helps the individual to develop moral sensibilities that venture beyond narrow ethnic loyalties and consider interests of others. This empowers us to stop thinking of ourselves in parochial group terms.



One of the challenges tearing contemporary Africa apart is the tendency of manipulating ethnic identities for private interests, discrimination based on ethnic affiliation and ethno-political conflict

18 One of the challenges tearing contemporary Africa apart is the tendency to manipulate ethnic identities for private interests, discrimination based on ethnic affiliation and ethno-political conflict. People are divided along the lines of religion, culture and ethnicity. Decades of turning a blind eye to corruption, impunity and mismanagement has greatly contributed to the increase of destructive competition between ethnic groups. Without democratic standards, the rewards of predatory politics will triumph with a result of tragic consequences to the people. Differently stated, insofar as the legitimacy of structural injustice remains unchallenged, people will be mobilized for violence.

The problem of ethnocentrism is real, but people are reluctant to address it openly because it makes them uncomfortable, especially when it touches on personal feelings, ethnic identities and sectarian interests. The situation is sustained by the fact that in African politics, it is a taboo to criticize leaders in public,

because leaders are perceived as persons endowed with divine repository that cannot be challenged. In Africa, it appears science, knowledge and hard work do not count. Promotion in places of work depends on friendship, loyalty to authority and ethnic affiliation. Such situations, in fact, could be the root cause of migration of the African intellectuals towards the West. Any effort to address the challenge of ethnocentrism is often ignored because of the fear of demonization and impunity. Such a background results in lack of dialogue and agreed upon concept of the common good.

It is not true that, as a number of critics would argue, the African political disorder is mostly caused by politics of

domination and manipulation from the territories of the former colonial rulers. Most of it, on the contrary, is caused by ethnic politics sustained by the African ruling elite and inability to deal with traditional moral standards that seem to be crumbling in the wake of rapid social change. There is need to go beyond the attitude of blaming foreign civilizations for our own shortcomings and irresponsibility. Cultural reconstruction is needed to change the prevailing political situation by transforming thinking models, socio-political organization and attitude between ethnic groups. Further research and effective methodologies of socio-political transformation must be pursued in order to clarify the prevailing political situation as well as propose

alternative models of thinking and action.

There is no clear distinction between the public and the private. Thus, government officials are continuously pressed by their families and clans to remember them. If the incumbent is not doing anything substantial for his/her family and clan, despite his/her limitations in the use of public resources, he/she even feels guilty because of not fulfilling essential family obligations. This follows from the fact that the family or clan as a whole might have supported the incumbent from childhood, with the knowledge that one day they would share the benefits. Despite these wishes, many officials cannot afford to give each member of their family and clan money from their emoluments. And so in the event of any vacancy, they immediately offer it to their family member or tribe mate, ignoring meritocracy.

The question of equal treatment and fair representation of the ethnic groups also demands a strong commitment to securing and safeguarding civil and political rights. This kind of commitment is necessary because, if a minority or formerly marginalized people truly participate in government and society, their grievances are much more likely to be addressed without violence and strife. Ethnocentrism is a moral evil; it compromises moral rectitude and jettisons a sense of moral propriety and fairness because it is anchored on the attitude of exclusion.

# The Burden of Cancer in Kenya

**David Muthaka**, Policy Analyst and  
**Purity Njeru**, Assistant Publications Editor,  
KIPPRA



## Introduction

The World Health Organization has identified cancer as one of the top causes of death globally, killing over 7.9 million people annually. If the trend continues, they observe, 83.2 million more people will have died by 2015. More than 70% of cancer deaths occur in low and middle income countries.

Cancer is one of the most prevalent non-communicable diseases. It seems to affect any organ in the body, especially the liver, lungs, stomach, pancreas, uterus, skin, prostate, ovary and cervix, among others.

The most frequent types of Cancer among men affect the lung, stomach, liver, colorectal, oesophagus and prostate, while for women it is breast, lung, stomach, colorectal and cervix. For breast, cervical, colorectal and possibly oral cancers, early screening has proven to reduce mortality from the disease. The latest

information from the US shows that screening and vaccination has reduced cancer prevalence in the recent years.

Apart from the loss of life arising from the disease, cancer has other devastating effects on households and the economy in general. In a developing country such as Kenya, where health insurance is only available to less than 10% of the populace, cancer has a huge financial burden to a family with a cancer patient. Direct costs emanate from doctors' consultation fees, and purchase of medication both for treating the disease and managing the side effects from the treatment. Lack of health insurance means that out of pocket expenses increase, as medication is purchased mainly over the counter.

Indirect costs such as transport have also increased the financial burden of cancer. Patients currently access treatment from Kenyatta

National Hospital, the only referral hospital in East Africa with comparably better equipment for screening and treatment. This has been increasing the demand for the facility as a patient has to be on the waiting list for several months. Most needy patients are kilometres away from the city. Besides, cancer treatment requires sustained therapy for several months. The available private hospitals also charge huge fees, besides lacking state of the art equipment and specialists to treat the disease. For those with urgent cases, whose specialists are not found locally, travelling abroad to seek treatment becomes an option.

Due to the nature of the treatment, most of the affected lose their income as a result of continued absenteeism. This implies that, with time, they deplete their savings, embark on borrowing, liquidate their assets and may therefore fall into poverty.

Cancer also exerts social effects on households, such as trauma and depression that may arise due to the financial burden and disease. Therefore, cancer has become a cause of worry to both households and policy makers in the country.

## The Status of Cancer in Kenya

Existing reports show cancer as the third killer disease, with infectious and cardiovascular diseases being the other main killer diseases. An estimated 18,000 people die annually (7% of total national mortality) and about 50 daily. The risk of getting cancer before the age of 75 years is 14%, while that of dying of cancer is estimated at 12%.

According to KEMRI, breast (35%) and prostate (17.3%) cancers are the most common among women and men, respectively. Other common types of cancer are cervical and oesophagus. In children,

# Cigarette smoking: Believed to be a major cause of lung cancer

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patients being treated for the wrong disease, only to be diagnosed later with cancer, when it is already at advanced stages.

## Causes and Risk Factors

Cancer is caused by uncontrolled growth and spread of abnormal cells. The abnormal growth is explained through genetic, environmental (e.g. radiation), biological (e.g. viruses and bacteria), physical and chemical factors (e.g. tobacco and alcohol).

According to the Ministry of Health, the rapid rise in cancer and other non-communicable diseases has resulted from increased exposure to risk factors such as tobacco use (according to WHO, on average, every user of tobacco loses 15 years of life), excess use of alcohol,

unhealthy diet, physical inactivity, overweight, age, genetic/hereditary make up, and exposure to chemicals, radiation and infectious agents. Others include infectious diseases such as HIV/AIDS, Human Papilloma Virus, Hepatitis B & C, bacterial infections and parasitic infestations.

## Challenges

Various challenges affect the process of managing the disease, including emotional distress of affected families. The facilities available are not able to meet the current demand. In Kenyatta National Hospital, the Combalt 60 machines are an old generation. Private hospitals such as MP Shah, Aga Khan, and Nairobi have set up cancer centres, but the costs are unaffordable.

The cost of undergoing radiotherapy for the treatment of cancer at Kenyatta is estimated at Ksh 9,000 per month. Due to demand at the facility, the waiting period is more than three months, making curable tumours to progress to incurable stages. The alternative is private hospitals, which charge about Ksh 80,000 per week. This is besides other costs such as laboratory tests. Tests for solid tumours that may require CT scans or magnetic resonance imaging (MRI) and biopsy cost Ksh 10,000 to Ksh 30,000. Also, around Ksh 6,000 to Ksh 10,000 may be spent during initial investigations, and drugs could cost up to Ksh 30,000 per course, yet six courses are required.

There are few cancer specialists in Kenya. According to the Kenya Cancer Association, there are only 3 oncologists, 4 radiation oncologists and artisans are rare. Accessibility of medical facilities is also a major challenge.

## Recommendations

### i) Preventive strategies

These include early screening; community awareness in relation to prevention and

management of the disease; promotion of a healthy diet (especially the promotion of white meat and consumption of vegetables), and physical exercise, among other things. Communities should be made aware and protected from, for example, effects of tobacco use. The laws that prevent smoking in public places should be fully implemented not only in urban areas, but also in rural areas. About 40% of cancers are preventable through tobacco control, promotion of healthy diets, physical activity and protection against exposure to chemicals. According to WHO, physical exercise can prevent up to 25% of breast and colon cancers.

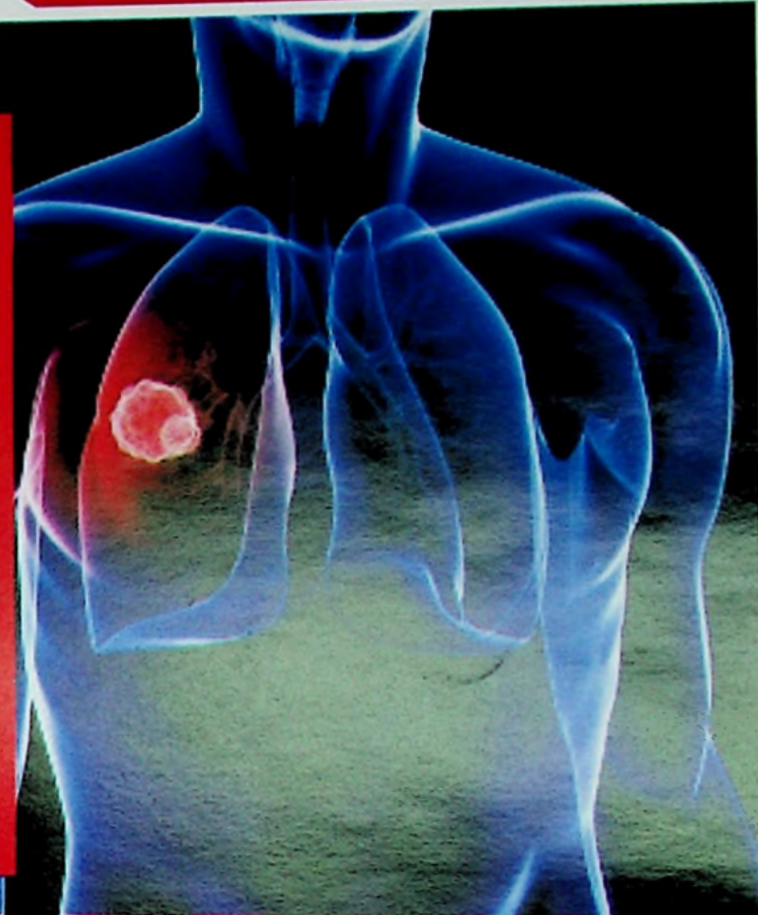
The government, in partnership with the private sector, should establish cancer screening centres, preferably in every district. Initially, however, the government should explore the viability of mobile screening centres as funds are sought to establish permanent centres. These would also serve as cancer surveillance centres.

The government should also invest in vaccination against some of the diseases that are risk factors for cancer, such as genital human papillomavirus (HPV), which is a cause factor of cervical cancer. Countries are giving cancer priority by allocating budgets and coming up with initiatives to fight it. China, for example, has programmes that aim at promoting early diagnosis and treatment of cancer, including free cervical and breast cancer screenings to rural women.

**ii) Curative strategies**

The cost of treatment of cancer is very high. Therefore, there is

The government should also invest in vaccination against some of the diseases that are risk factors for cancer such as genital human papillomavirus



need to subsidize consultation fees and related costs. For this to be realized, the government should subsidize cancer screening machines and make them readily available, and establish cancer centres.

Through regional cancer centres, indirect costs related to travel would come down significantly. This will reduce queuing or putting patients on waiting lists. Public hospitals should be equipped with cancer diagnostic and treatment infrastructure. However, this would be realized if the availability of specialists in this area is increased by promoting training. Government, private sector and other organizations can offer scholarships in cancer-related training areas.

Funding for cancer research should also be boosted to enhance the chance of

discovering cures. For instance, Singapore has invested S\$256 million in The Cancer Research Centre of Excellence since 2009 to conduct a multifaceted and coordinated approach to cancer research. Recently, Singapore scientists discovered a potential drug for brain cancer.

**iii) Management strategies**

There is need to explore cost-effective strategies of managing cancer, such as promoting home-based care; training specialists and community health workers on management of cancer and equipping household members with cancer management skills.

The government needs to ensure that palliative care services are available at all

levels, especially community and home-based care as part of comprehensive cancer care. A Ministry of Health report notes that essential drugs list does not include chemotherapy for cancer. Some of the very essential drugs for pain management are rare to find in most public hospitals. These drugs should be included in the essential drugs list.

**Conclusion**

To reduce the burden of cancer on the household, there is need to enhance uptake of health insurance. Insurance premiums should be made affordable in order to protect households from incurring huge out of pocket expenditures.

# Reading Culture: A Nexus for Development and Promoting Peace

By Winnie Ngyu, Librarian and Hannah Wang'ombe, Research Assistant, Programmes Coordinator's Office

"Whether or not people read; what and how much they read affects their lives in crucial ways". To read or not to read: a question of national consequence, USA survey, 2007

Research has found that countries with poor education systems, hence poor reading cultures, are highly likely to experience war. It is purported that a literate educated populace is the best defence against religious extremism and violence. It is probably why the Nairobi International Book Fair held in September 2012 was themed "Education and Peace".

Kenya is a country of repute for accolades in athletics and a coveted tourist destination. However, despite having the largest percent of educated people in East Africa, it does not boast of a robust reading culture. It is highly likely that if you find a Kenyan delving through a book, they are preparing for an examination. The lack of a reading culture among Kenyans is a concern because of its implication on further learning, innovation and

promotion of peace. It is only through reading that we get to reflect on new ideas and concepts as well as learn and understand other people's traditions and customs, hence living in harmony alongside people with diverse beliefs.

## The paradox

While levels of literacy in Kenya have risen over the years, the reading culture in the country seems to have stagnated, notwithstanding the gains made from increased access to education through Free Primary Education (FPE), increased educational institutions countrywide and improved learning facilities. As the country envisages becoming a middle income country by year 2030, the implosion of a reading culture will not only create a more literate populace but also a citizenry empowered and emancipated from poverty and violence.

## Policy

A reading culture means a situation where people are reading for pleasure and self education and not just reading for exams. The

question then begs, is lack of a reading culture due to an education system designed for examinations, or lack of a deliberate effort to build policies that encourage reading?

The mandate of the National Book Development Council of Kenya (NBDCK) is to enhance reading literacy through project-based initiatives among schools and the wider community for poverty alleviation, an objective also embedded in the Education Policy. Other proposed recommendations have been to strategically build libraries across the counties. However, the success of the aforementioned agenda may not be realized for two reasons.

Firstly, if the proposed VAT Bill 2012 that seeks to raise the price of textbooks by 50% is enacted, donors will be unwilling to fund the instructional materials component of free primary education, and thus many children in public schools will go to class without textbooks, sharply watering down the quality of teaching in Kenya. This will erode major efforts in

enhancing a reading culture. Secondly, nobody can ignore the global demand trends for technology. The advancement of digitised books presents challenges for justification to implore major resources to build libraries. While libraries have existed for centuries, history and knowledge and how it is acquired have evolved. As a country, we run the risk of having our current libraries remain as a museum for books. Given access to material through the internet, readers have also through the years changed what and how they read. The digital age is here and will stay for a long time.

Consideration needs to be made for the current curriculum to incorporate peace and reconciliation studies into the curriculum for both primary and secondary education. In addition, there will be need to look into other innovative ways of encouraging Kenyans to take reading as a hobby!

In future, we hope to see Kenyan reading books in buses, trains, at airports, and during recreation.



## Role of Management and Staff in Maintaining the ISO Certification

SGS is one of the firms accredited by Kenya Accreditation Service (KENAS) to carry out specific conformity assessment activities in the country. KIPPRA was ISO certified by SGS for a three year period from 2010 to 2013 within which the institute has been subjected to 6 surveillance audits, whose objective has been to check the continued functioning of the Quality Management System (QMS). As we look forward to re-certification in April 2013, it is imperative to appreciate the role of staff in the institute towards ensuring continued success of ISO in the organization.

The Board through the Board Audit Committee (BAC) gets continuous quarterly feedback from the Quality Management Representative (QMR) on the state of QMS as captured in the Quality Audit reports that are done twice per year. This demonstrates goodwill and interest from the top most organization level of the institute in supporting the ISO process. The QMR in turn liaises with the Executive Director (ED) in the day to day running of the QMS. The ED facilitates training of Internal Quality Auditors, workshops for Heads of Departments (in reviewing the Standard Operating Procedures (SoPs) and frequent management meetings where ISO related issues are deliberated upon.

Staff are intensively involved in coming up with the SoPs and subsequent observation of provisions therein. As the institute grows, feedback from staff regarding the SoPs is captured, which then triggers the revision process as the case may be. The concerted effort from all the stakeholders therefore goes a long way in instilling order and the much needed organizational discipline in facilitating the achievement of the institute's mission and vision.

# Solving National and Regional Problems through GIS

Nashon Adero, KIPPRA's Policy Analyst, presented a conference paper titled "Spatial Modeling for Effective Governance", during the Environmental Systems Research Institute (Esri) Eastern Africa GIS User Conference at Naivasha, Sopa Lodge from 3-5 October 2012. The conference set out to showcase innovative empirical examples on how users from government, industry and research and capacity building entities could apply Geographic Information Systems (GIS) to solve problems of national and regional importance.

Consolidating lessons from a service-level mapping study in Mavoko conducted jointly by KIPPRA and Oakar Services Ltd, the paper presented

the critical areas of focus for enhanced results when integrating statistics with location analytics to support policy decisions on equitable public service delivery. Professional quality control, deep theoretical insights into spatial modeling tools, and participatory fieldwork planning and implementation came out to be the strongest leverage points.

The conference attracted about 400 participants mainly drawn from all over the Eastern Africa region, including Ramani Geosystems (Nairobi), Oakar Services Ltd (Nairobi), universities, development partners, conservation organizations, government and private sector planners and engineers.

## Developing an Evaluative Culture

KIPPRA was among 10 African think tanks nominated to participate in the Think Tank Initiative (TTI) learning event on Monitoring and Evaluation (M&E) held in November 2012 in Dar es Salaam, Tanzania.

The workshop was in response to a collective request by TTI-supported institutions whose mandate is critical in influencing policy. These institutions recognize that due to the complex nature of influencing policy, traditional M&E approaches may not be adequate in managing interventions, reporting, ensuring accountability and learning from experience.

The workshop delved into alternative approaches of M&E, and TTI is committed to offering ongoing support in developing an evaluative culture and making M&E integral in each organization's strategy and performance.

## KIPPRA's End of Year Luncheon

KIPPRA held its end of year luncheon at the Panafric Sarova Hotel on 19 December 2012. The event was graced by Board Chair, Prof. Agnes Mwangombe and Mr Stephen Wainaina, Economic Planning Secretary from Ministry of Planning National Development and Vision 2030, who was representing the Permanent Secretary.

At the luncheon, the Chair commended KIPPRA staff for their committed service to the Institute, and urged them to aim higher during the coming year. The event also marked the farewell of graduating class of 2011/2012 Young Professionals, as well as recognition of staff with excellent performance. A cake was cut to celebrate the close of year.

## Education Visits by Aspiring Economists

The Kenyatta University Economics Students Association (KUESA) third and fourth years paid KIPPRA a visit to interact with policy analysts for more insight on research and economics. Following the event, some students, especially those in their final year, requested for a structured mentorship programme that will enable them better prepare for studies and careers in economics. Similar events were held with Economics students from Daystar University (Athi River) and Moi University (Eldoret).



# Do We Need an East African Commodity Exchange?

By **John Omiti**, Principal Policy Analyst; and **Nancy Laibuni, Githinji Njenga and Benson Kiriga**, Policy Analysts at KIPPRA

## Introduction

Food price volatility in Africa is high, and traditional forms of exchange give rise to persistently high transaction costs in African food markets. Presumably, these conditions provide an important motivation for the development of commodity exchanges in the region. In other emerging markets, commodity exchanges have been facilitated by elevated transaction costs incurred by the private sector after the withdrawal of direct state intervention in food markets. Given the persistent challenges faced in increasingly liberalized African food markets, commercial

A commodity exchange can serve two purposes: one, is to raise agricultural productivity by ensuring substantial margins for farmers, and second, to reduce inefficiencies of agricultural marketing by streamlining trade, delivery and payment systems and consequently reducing transaction costs.

farmers, large grain traders, industrial processors, banks, and indirectly small holder farmers are all theoretically well positioned to derive significant benefits from a vibrant commodity exchange.

A commodity exchange can serve two purposes: one, is to raise agricultural productivity by ensuring substantial margins for farmers, and second, to reduce inefficiencies of agricultural marketing by streamlining trade, delivery and payment systems and consequently reducing transaction costs. Commodity exchanges offer a platform for competitively matching a broad range of buyers and sellers. Thus, it stimulates market transparency and price discovery, allows for price information symmetry, moderates price volatility and bubbles, and provides avenues





to reduce the potential collusion among market actors. As a result, transaction costs are reduced because the range of the trading partners is wide, and services for inspection, quality assurance, contract enforcement, and arbitration are centrally located.

The East African region is ripe for a commodity exchange. On the demand side, there is a large urban population, and large scale quality-conscious food and feed processors. It is estimated that in 2013, the total population of the region stands at 133 million. On the supply side, there is a significant commercial farming sector, large, medium and small. The 2009 Economic Report on Africa explicitly recognized the potential of regional agricultural value chains supported by agribusiness and agro-processing as a basis for linking, especially the small holder producers, to markets for food and other agricultural products. Therefore, the East African Common Market (EACM) provides the best opportunity for building such value chains, because it provides a framework for exploiting economies of scale in the production and supply of food. There are

supporting institutions such as an innovative banking sector, insurance, transport, IT services, and even inspection services.

**Major pre-requisites for establishment of a commodity exchange**

**Continuously produced or storable commodities**

Certainty about the availability of the specified commodity enhances the trading of contract in a commodity exchange. In the case for East Africa, commodities such as maize, rice, beans, tea and coffee can be traded in the exchange since they are continuously available. However, increasing farm productivity is critical, and by extension all other components of the value chain. Specifically, connecting a warehouse receipt system to a commodity exchange can stimulate production if there are strong instruments for contract enforcement, effective governance of supply chain, and adequate infrastructure (legal, physical and economic).

**Product homogeneity within a system of grades and standards**

A commodity is tradable after being subjected to grades and standards that account for relevant attributes. Grading and certification must be done by licensed, qualified and regulated inspectors. Systems of grades and standards are available in Kenya, while commercial certification services are available in Kenya and the East African region. There is need, however, to harmonize the standards and enforcement mechanism within the region.

**Interested parties**

A successful exchange must have the participation of all market actors, including farmers, traders, processors, brokers, financial institutions, graders, and arbiters. Most of these market actors already exist in the region. Generating market participation for the interested players is critical.

**Legislation and rules**

Exchanges typically institute relevant procedures, rules, regulations and guidelines to license and regulate the conduct of market players. The integrity of players is core to the integrity of the exchange itself. Nairobi Securities

Exchange, Uganda Securities Exchange and Dar es Salaam Stock Exchange all have rules, regulations and guidelines to license and regulate the conduct of their respective players. An East African Commodity Exchange can leverage on the experience of the existing securities exchange to develop suitable legislation and rules.

**System and technology**

Adopting electronic trading platforms guarantees the integrity of contracts. These systems are common, particularly as a result of the emergence of electronic forms of warehouse receipts. The electronic trading experience from Nairobi Securities Exchange can be used to shape and roll out the trading system needed in the East African Commodity Exchange.

**Market infrastructure**

**Market information**

Reliable and timely dissemination of market information is crucial in ensuring informed decisions by various parties who intend to trade. Informed decisions are critical to market efficiency. The information counter-parties should include not only market prices, but also supply



and demand information that allows various parties to take a position on what price levels are likely to be in future and, therefore, what specific marketing strategies to adopt.

Currently in Kenya, there are privately run commodity exchanges coupled with an agricultural market information system, which disseminates market information. Within EAC, Regional Agricultural Trade Intelligence Network (RATIN) also disseminates market information. However, strengthening this market infrastructure and establishing a clearing house is critical.

with spot market information. The efficiency of the physical infrastructure can improve the competitiveness of using an exchange. Soft infrastructure includes transaction facilitators, information analyzers, credibility enhancers, and regulators.

Lack of physical infrastructure may be a constraining factor in most of the East African countries. Investment in both transportation and information infrastructure is thus needed for the development of a successful commodity exchange.

**Physical and soft infrastructure**

Physical infrastructure is important because the success of a commodity exchange depends on the warehouse that provides a physical location for transactions to take place. Transportation and distribution ensures that delivery location is credibly specified in the contract and physical/communication networks provide traders

**Legal and regulatory infrastructure**

A commodity exchange must be supported by appropriate legal infrastructure. Currently, there is no commodities exchange legislation in the region. Therefore, there is need to establish such a legislation. Further, though there is a warehouse receipts system in Kenya, only a warehouse receipts bill exists. There is need to legislate a law governing

warehouse receipts system for the region.

**Macroeconomic stability**

A commodity exchange cannot develop and be sustained in the absence of macroeconomic stability. Therefore, maintaining stable and reasonably undistorted real interest rates, exchange rates, and inflation rates is critical.

**What are the prospects?**

Empirical evidence shows that development of commodity exchanges in Africa will depend on the willingness of governments to use market-based institutions to address their food security and poverty reduction objectives. Since grain crops are the most likely tradable commodities, there is need for predictable discretionary intervention by the governments so that an exchange thrives.

The governments in the region need to invest in physical infrastructure and

the transport sector to reduce marketing costs; invest in public market information and promote grades and standards; support transparent policy dialogue between public and private sector market actors to reduce market uncertainty; promote the development of a legislative framework for defining the rules governing state intervention in markets; educate and provide technical and managerial support to farmer organizations to facilitate small holder grain aggregation; and invest in farm productivity to encourage marketed surpluses and scale economies in marketing.

Other critical issues include improving the efficiency and legislation of the already existing warehousing receipting system, involvement of key market players, and putting in place a transparent trading platform and a clearing house. Involving the private sector in warehousing receipting system is necessary in order to build trust in the system. These foundational investments in market development would help reduce the costs and risks of trading, and would provide a more conducive environment for the introduction of commodity exchanges.

Presently, there are initiatives towards regional integration, and it is important that a commodity exchange takes these developments into account. An East African regulating authority needs to be formed to regulate the exchange. The East African Grain Council (EAGC) has already made inroads and, therefore, would be the best placed institution to spearhead the establishment of an East Africa Commodity Exchange.

# SELECTED ONGOING/COMPLETED KIPPRA RESEARCH, 2012-2013

## Macroeconomics

1. Decline in Kenya's exchange rate
2. Development of a Threshold 21 model
3. Interest rate margins
4. Green economy scoping study
5. Green jobs evaluation
6. Divisia monetary aggregates in the conduct of monetary policy in Kenya
7. Determinants of inflation policy
8. Sub-national public expenditure review
9. Gender gaps in secondary schools
10. Determining the economic impact of meetings, incentive travel, conferences and exhibitions (MICE)
11. Preparation of Africa capacity indicators 2011 and 2012
12. Revision and extension of the KIPPRA-Treasury Macro Model

## Productive Sector

1. Commodity exchange prospects for East Africa
2. Development of a Tourism Forecasting Macro Model for Kenya
3. Evaluating agricultural export performance in Kenya: Drivers of success for vegetables and fruits
4. Food insecurity and markets in Kenya
5. Market characteristics for major food commodities in Kenya: A price analysis
6. Public expenditure review on agriculture
7. Monitoring African food and agricultural policies

## Trade and Foreign Policy

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

## Social Sector

1. An economic analysis of job search decisions in Kenya
2. Cost of access to health services
3. Decentralization and education service delivery
4. Effects of enterprise development in economic development
5. Estimation of health professionals' requirements by county using

6. norms and standards for health service delivery
6. Evolution of inequalities
7. Gender gaps in secondary schools
8. Labour market regulation and employment in Kenya
9. National cohesion and integration policy
10. Role of national heritage and culture in Kenya's economic development
11. The impact of decentralization on Kenya's public health system delivery
12. Vulnerability and targeting in basic education
13. A comparative study on public-private sector wage differentials in Kenya
14. Public expenditure tracking survey and service delivery indicators
15. Youth unemployment, underemployment and decent work in Kenya
16. Inequalities and social cohesion in Kenya: Evidence and policy implications

## Infrastructure and Economic Services

1. Comparative analysis of Kenya's physical infrastructure performance
2. Financial viability of constructing an oil pipeline from Nairobi to Nanyuki
3. Infrastructure sector performance, 2010-2012
4. Management of road crash data systems
5. Service level mapping - Municipal Council of Mavoko

## Private Sector Development

1. A tool to address historical land injustices
2. Baseline study on counterfeiting, piracy and illicit trade in Kenya
3. Capital market regulation and mobilization of savings
4. Counterfeiting in Kenya: An appraisal of the situation
5. Firm investment behaviour in Kenya: The impact of special economic zones
6. Intellectual property rights and economic growth: Review of patent regulations in Kenya
7. Interface of intellectual property rights and competition in Kenya
8. The regulation of business entry in Kenya
9. Understanding the banking structure in Kenya
10. Value additions in coffee industry in Kenya: Lessons from cut flower sector
11. Interface of competition consumer welfare
12. Review of the insurance industry

## Governance

1. The development of ethics and anticorruption policy
2. Land reforms in Kenya: Land registration and land investment
3. Citizen participation in devolved governance
4. The impact of institutions: Business environment, firm structure and productivity relationship

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