

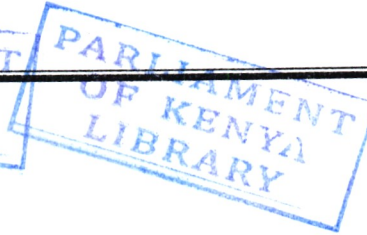
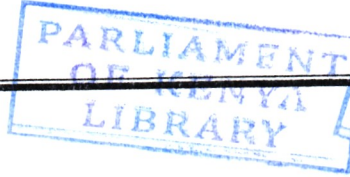


TRADE
MARK
EAST AFRICA



REPUBLIC OF KENYA

OFFICE OF THE PRIME MINISTER



National Regional Integration Strategy and Implementation Plan for Kenya

Draft Final Report

Charmy Investments Limited
Kenya Reinsurance Plaza,
P.O. Box 50968-00200, Nairobi

19th November, 2012

TABLE OF CONTENTS

| | |
|--|----|
| TABLES & FIGURES | v |
| ACRONYMS | vi |
| EXECUTIVE SUMMARY | ix |
| CHAPTER ONE..... | 1 |
| 1.0 INTRODUCTION..... | 1 |
| 1.1. <i>Background/Context</i> | 1 |
| 1.2. <i>Rationale for the Strategy</i> | 2 |
| 1.3. <i>Objectives of the Strategy</i> | 3 |
| CHAPTER TWO..... | 5 |
| 2.0 KENYA'S REGIONAL INTEGRATION DEVELOPMENTS- STATE OF PLAY | 5 |
| 2.1 <i>Overview of Regional Integration in Kenya</i> | 5 |
| 2.1.1 <i>Multilateral Commitments</i> | 5 |
| 2.1.2 <i>Regional Commitments</i> | 6 |
| 2.1.3 <i>Bilateral Agreements</i> | 8 |
| 2.2 <i>Achievements</i> | 8 |
| 2.2.1 <i>Governance, Justice, Law and Order (GJLO)</i> | 8 |
| 2.2.2 <i>Peace and Security</i> | 11 |
| 2.3 <i>Role of Kenya Parliament in Regional Integration</i> | 12 |
| 2.4 <i>Public Administration, International Relations & Special Programmes</i> | 13 |
| 2.4.1 <i>Public Administration</i> | 13 |
| 2.4.2 <i>Regional Policy and Programmes</i> | 14 |
| 2.4.3 <i>International and Regional Relations</i> | 15 |
| 2.4.4 <i>Special Programmes</i> | 15 |
| 2.5 <i>Trade, Industry, Tourism and Financial Services</i> | 16 |
| 2.5.1 <i>Trade and Investment</i> | 16 |
| 2.5.2 <i>Financial Services</i> | 20 |
| 2.5.3 <i>Other Services</i> | 22 |

| | |
|--|-----------|
| 2.6 Physical Infrastructure | 23 |
| 2.6.1 <i>Modernization and Expansion Programmes in the Corridors</i> | 23 |
| 2.6.2 <i>Improving Access to Clean Energy and Supply Reliability</i> | 26 |
| 2.6.3 <i>Improving ICT and Telecommunication Connectivity</i> | 27 |
| 2.7 Agriculture and Rural Development, Environment and Water | 28 |
| 2.7.1 <i>Agriculture</i> | 28 |
| 2.7.2 <i>Environment</i> | 30 |
| 2.7.3 <i>Water</i> | 32 |
| 2.8 Human Resource Development, Research, Innovation and Technology | 33 |
| 2.9 Cross Cutting Challenges | 34 |
| 2.10 Conclusion | 35 |
| CHAPTER THREE | 37 |
| 3.0 SWOT ANALYSIS OF KENYA'S REGIONAL INTEGRATION ACTIVITIES | 37 |
| 3.1 Introduction | 37 |
| 3.2 Strengths | 37 |
| 3.2.1 <i>Strategic geographical location as a gateway to East Africa</i> | 37 |
| 3.2.2 <i>Competitive Service Industries</i> | 38 |
| 3.2.3 <i>Well Developed Human Resources</i> | 40 |
| 3.2.4 <i>Political Stability, Peace and Security</i> | 41 |
| 3.2.5 <i>Relatively Diversified Export Base</i> | 42 |
| 3.2 Weaknesses | 43 |
| 3.2.1 <i>Institutional Framework and Mechanisms</i> | 43 |
| 3.2.2 <i>Trade Facilitation</i> | 45 |
| 3.2.3 <i>Infrastructure Challenges</i> | 46 |
| 3.2.4 <i>Business and Regulatory Environment</i> | 49 |
| 3.2.5 <i>Immigration</i> | 50 |
| 3.3 Opportunities | 50 |

| | | |
|---------|--|----|
| 3.3.1 | <i>Bigger Market Access and Investment Areas</i> | 50 |
| 3.3.2 | <i>Jobs and Employment Creation</i> | 53 |
| 3.3.3 | <i>Shared Management And Approach To Common/Public Goods</i> | 53 |
| 3.4 | <i>Threats:</i> | 53 |
| 3.4.1 | <i>Increased Global and Regional Competition</i> | 53 |
| 3.4.2 | <i>External Shocks and Events</i> | 54 |
| 3.4.3 | <i>Nationalistic Tendencies</i> | 55 |
| 3.5 | <i>Conclusion</i> | 55 |
| 4.0 | KENYA’S REGIONAL INTEGRATION STRATEGY | 56 |
| 4.1 | <i>Principles</i> | 56 |
| 4.1.1 | <i>Market Access for Economic Advancement and Development</i> | 56 |
| 4.1.2 | <i>National Security and Sovereignty</i> | 57 |
| 4.1.3 | <i>Solidarity and Mutual Benefit</i> | 57 |
| 4.1.4 | <i>Compliance with International Requirements</i> | 58 |
| 4.1.5 | <i>Wide Stakeholder Involvement</i> | 58 |
| 4.2 | <i>Elements of Kenya’s Regional Integration Strategy</i> | 59 |
| 4.2.1 | <i>Institutional Framework for Coordination and Collaboration</i> | 59 |
| 4.2.2 | <i>Peace, Security and Trans-boundary Resource Management</i> | 65 |
| 4.2.2.1 | <i>Regional Peace Keeping</i> | 65 |
| 4.2.2.2 | <i>Combating Terrorism</i> | 66 |
| 4.2.2.3 | <i>Food Security and Sustainable Livelihoods</i> | 66 |
| 4.2.3 | <i>Cross-Border Connectivity and Regional Infrastructure Development</i> | 69 |
| 4.2.3.1 | <i>Ports</i> | 70 |
| 4.2.3.2 | <i>Roads</i> | 70 |
| 4.2.3.3 | <i>Railways</i> | 71 |
| 4.2.3.4 | <i>Airports</i> | 72 |

| | |
|--|-----------|
| 4.2.3.5 Energy | 72 |
| 4.2.4 Trade Facilitation and Business Environment | 74 |
| 4.2.4.1 Policy, Legal and Regulatory Environment | 74 |
| 4.2.4.2 Strengthening ICT Infrastructure | 75 |
| 4.2.4.3 Maintaining Macroeconomic Stability | 76 |
| 4.2.4.4 Leveraging on Complementary Service Providers within and Outside the Region | 76 |
| 4.2.5 Integrating SMEs into Local, Regional and Global Value Chains | 76 |
| 4.2.6 Human Resource Development | 77 |
| 4.2.7 Special Agreements to Secure Kenyans Working Outside the Region | 79 |
| 4.2.8 Targeted Capacity and Training of Regional Integration Implementers | 79 |
| 4.2.8.1 Trade Negotiation Skills | 79 |
| 4.2.8.2 Training Resource for MPs and Parliament Staff on Regional Integration | 80 |
| 4.2.8.3 Training Media Fraternity on Regional Integration issues | 80 |
| 4.2.8.4 Training existing staff on the National regional Integration Strategy and Policy | 80 |
| 4.2.8.5 Regular Staff Updates for regional integration implementing agencies | 81 |
| 4.2.9 Exploring Alternative Sources of Financing Infrastructure | 81 |
| CHAPTER FIVE | 83 |
| 5.0 SECTORAL IMPLEMENTATION PLANS AND COORDINATION MECHANISMS | 83 |
| 5.1 Introduction | 83 |
| 5.2 Sectoral Implementation Plans | 83 |
| 5.3 Monitoring and Evaluation Framework | 83 |
| Annex 1: Implementation Plan For Kenya's Regional Integration Strategy | 84 |

TABLES & FIGURES

Tables

- Table 1.1 : Milestones for the AEC, EAC, COMESA, IGAD and SADC RECs
- Table 2.1 : Number of Kenyan Banks with Branches in the EAC Partner States
- Table 2.2 : Kenyan Supermarkets with EAC Presence
- Table 3.1 : Kenyan Supermarkets with EAC Presence
- Table 3.2 : Macroeconomic Indicators and Trend towards Convergence for EAC Economies, 2005- 2010
- Table 3.3 : Foreign Direct Investment Flows in EAC region, 2006 – 2008 (USD millions)
- Table 3.4 : EAC: Treasury Bills and Bonds Outstanding at End-2010 (USD, millions)
- Table 3.5 : EAC Partner States Exports to GDP 2005-2010 (%)
- Table 4.1 : Areas of Socio-Economic Cooperation Earmarked EAC & COMESA Treaties
- Table 4.2 : Organs Established by the EAC and COMESA Treaties

Figures

- Figure 2.1 : Kenya GDP Real Growth Rates, 2000-2010 (%)

Annexes

- Annex 1 : Implementation Plan for Kenya's Regional Integration Strategy
- Annex 2 : Macroeconomic Convergence criteria for COMESA and EAC regions for 2005 to 2015
- Annex 3 : Sector Working Groups (SWGs) for Kenya's MDAs

ACRONYMS

| | |
|---------|---|
| ACP | African Caribbean and Pacific |
| ADB | African development Bank |
| AMISOM | African Mission in Somalia |
| ATIA | African Trade Insurance Agency |
| AU | African Union |
| BPO | Business Process Offshore |
| CAADP | Comprehensive Africa Agriculture Development Programme |
| CASSOA | Civil Aviation Safety and Security Oversight Agency, |
| CBK | Central Bank of Kenya |
| CENSAD | Community of Sahel-Saharan States |
| CET | Common External Tariff |
| CIA | Central Intelligence Agency |
| CITES C | Convention on International Trade on Endangered Species |
| CM | Common Market |
| CMA | Capital Market Authority |
| CMI | COMESA Monetary Institute |
| COMESA | Common market for Eastern and Southern Africa |
| CPA | Comprehensive Peace Agreement |
| CTN | Chief Trade Negotiator |
| CU | Customs Union |
| DART | Dry-Land Technology Transfer |
| EAC | East African Community |
| EACSOFF | East Africa Civil Society Forum |
| EADB | East African Development Bank |
| EAFF | East African Farmers Federation |
| EALA | East African Legislative Assembly |
| EAPP | Eastern Africa Power Pool |
| EMCA | Environmental Management and Coordination Act |
| EPC | Export Promotion Council |
| EPZs | Export Processing Zones |
| ESAMI | Eastern and Southern African Management Institute |
| FDI | Foreign Direct Investment |
| FTA | Free Trade Area |
| GJLO | Governance, Justice, Law and Order |
| GOK | Government of Kenya |
| ICPAC | Climate Prediction and Application Centre |
| ICT | Information Communication and Technology |
| IGAD | Intergovernmental Authority on Development |
| JKIA | Jomo Kenyatta International airport |

| | |
|---------|--|
| KAA | Kenya Airport Authority |
| KCB | Kenya Commercial Bank |
| KESSULO | Kenya-South Sudan Liaison Office |
| KIA | Kenya Institute of Administration |
| KPA | Kenya Port Authority |
| KR | Kenya Railways |
| LAPPSET | Lamu Port Southern Sudan-Ethiopia Transport Corridor |
| LAVEMP | Lake Victoria Development and Management Program |
| LVBC | Lake Victoria Basin Commission |
| MDAs | Ministries, Departments and Agencies |
| MDG | Millennium Development Goals |
| MEAC | Ministry of East African Community |
| MFN | Most Favoured Nation |
| MoU | Memorandum of Understanding |
| MTCs | Medical Training Centres |
| MTP | Medium Term Plan |
| MU | Monetary Union |
| MUBs | Manufacturing Under Bond |
| NCBDA | Nairobi Central Business District Area |
| NEMA | National Environmental Management Authority |
| NEMA | National Environmental Management Authority |
| NEPAD | New Partnership for Africa's Development |
| NSE | Nairobi Securities Exchange |
| NSSF | National Social Security Fund |
| NT | National Treatment |
| NTB | Non-Tariff barriers |
| PF | Political Federation |
| PSIP | Public Sector Investment Programme |
| RECs | Regional Economic Communities |
| RI | Regional Integration |
| RIGs | Regional Integration Groupings |
| RoO | Rules of Origin |
| SACCOs | Savings and Co-operative Societies |
| SADC | Southern Africa Development community |
| SEZs | Special Economic Zones |
| SME | Small Medium Enterprises |
| STI | Science, Technology and Innovation |
| STI | Science, Technology And Innovation |
| SWGs | Sector Working Groups |
| SWOT | Strength, Weaknesses, Opportunities and Threats |

| | |
|--------|--|
| TRALAC | Trade Law Centre for Southern Africa |
| UNCTAD | United Nations Conference on Trade and Development |
| UNECA | United Nations Economic Commission for Africa |
| UNIDO | United Nations Industrial Development Organization |
| <hr/> | |
| VA | Value Added |
| WCO | World Customs Organisation |
| WTO | World Trade Organisation |
| ICAO | International Civil Aviation Organization |

EXECUTIVE SUMMARY

Kenya's development aspirations are enunciated in Vision 2030 development blueprint anchored on economic, social and political pillars that seek to achieve the following: (i) promote peace, security and good governance as central prerequisites for sustainable development; (ii) support regional integration, trade and interconnectivity to promote economic development; and (iii) improve access to health, education and other basic social services including protection of the environment to achieve MDGs goals.

Regional integration is an important component of Kenya's foreign policy though it received marginal attention in Vision 2030. In spite of Kenya's active participation in the implementation of the programs and projects of various Regional Economic Communities (RECs)/Regional Integration Groupings (RIGs) including the EAC, COMESA and IGAD; there is no strategy in place to coordinate the efforts.

The rationale for the regional integration strategy in addition to strengthening conventional corporation will also act as a development policy instrument; to facilitate timely implementation of the regional commitments including identifying critical capacity gaps for enhancement. It will leverage Kenya's strength in providing leadership in regional integration; facilitate market access and additional investment opportunities.

The strategy will also prioritise key sectors of intervention that promote linkages, diversification, specialisation and complementarity with other Regional Partners, and enhance inclusive growth and development within the RECs. In the end regional integration will result in stronger voice of a regional bloc, efficiency through competition, increased credibility of national policies that are locked in a regional framework and the positive neighbourhood effects.

The main objective of Kenya's Regional Integration Strategy is to facilitate a government-wide approach to regional integration. The strategy will take cognisance of competitiveness and the attendant aspects of business environment including peace and security, cost of production and relates transaction costs, diversification of product range and efficiency of backbone services as well as value added (VA) economic activities, and value chains with strong forward and backward linkages.

Kenya's regional integration agenda is underpinned by a number of multilateral frameworks, key among them being the WTO and CITES. Other complementary multilateral agreements relate to labour and human rights including cultural heritage, corruption, gender equality and democratisation; environment, investment, Competition, Transparency in government procurement, Electronic commerce. At the regional level, Kenya is engaged in EAC, COMESA, IGAD and IOC. At the bilateral level Kenya is active within the SSA-AGOA and ACP/EPA agreements. Many more bilateral agreements have been entered into at country level.

Kenya has registered major milestones/achievements in the context of the projects and programs being implemented by the various government departments. In the area of governance, justice and order, domestication of substantial regional commitments have been made. These include reforms to effect liberalization, reviews of trade and investment frameworks, immigration laws and extensive peace and security interventions in the region. Other achievements include reviewing approach to international relations with the deepening regional integration, building of institutions and capacities of implementers and institutionalizing wider stakeholder involvement. Other achievements include the changed status from further regional integration initiatives. These include transformations into regional and corporate hub, transport hub for air transport, financial sector and diplomatic capital.

The immediate impact of the regional integration efforts for Kenya include expansion and diversification of the export basket, stability of the revenue base and policy environment, deepening financial sectors with a number of Kenyan investors expanding their operations into the region, more specifically the banks, supermarkets and employment opportunities. Kenya also benefitted from expanded employment opportunities. Joint regional priority setting across economic enablers-transport infrastructure, ICT and telecommunication, energy generation, and human resource development have in deepening regional integration for the benefit of all partner states. The expectations from the new constitution re-enforce achievements of the obligations of the different RECs.

The key challenges Kenya faced in the implementation of the regional integration relate to the inadequate coordination mechanisms from fragmented implementing institutional frameworks, conflicting commitments under the different RECs, delays in the domestication of the policy and regulatory frameworks. Worse still is the limited role of the national Parliament in matters of regional integration. Other impediments to regional integration are the plethora of NTBs, inadequate infrastructure connectivity, limited access to affordable energy, insecurity, perennial food shortages and environment challenges. On the social scene are the terrorist and piracy activities, unemployment, human trafficking, and the effects of climate change. More could have been achieved with a regional strategy in place.

Accordingly, the regional integration strategy shall be underpinned by the principles of market access for economic development, solidarity and mutual benefit, national security and sovereignty including wide stakeholder involvement. Kenya's elements of regional integration strategy include economic priorities, social welfare and political stability, institutional framework for coordination and collaboration including mainstreaming the role of Parliament in regional integration matters. Other critical elements include investment in trade facilitation for enhanced competitiveness and supply capacities in order to benefit from expanded market access, integrating SMEs into the relevant regional and global value chains, support for cross border infrastructure connectivity and promotion of enabling policy and regulatory environment to reduce trade finance and information costs.

At the end of the day, the regional strategy shall contribute to the market and product diversification, stability of the macroeconomic fundamentals in positioning Kenya as a regional service hub. This will allow Kenya leverage other regional and international resources for its own benefit. More importantly is the improvement of the efficiency of the backbone services which should be benchmarked to international best practice. For this reason, Kenya's regional integration efforts shall be underpinned by the EAC REC. The monitoring and impact assessment of the regional integration programmes shall be carried out within the existing government frameworks.

CHAPTER ONE

1.0 INTRODUCTION

1.1. Background/Context

Kenya's development aspirations are enunciated in Vision 2030 development blueprint. The blueprint has three pillars, namely; economic, social and political pillars that seek to achieve the following: (i) promote peace, security and good governance as central prerequisites for sustainable development; (ii) support trade and interconnectivity to promote economic development; and (iii) improve access to health, education and other basic social services including protection of the environment to achieve MDGs goals. The Vision is anchored on a market based economy which prioritises macroeconomic stability; continuity in governance reforms; enhanced equity and wealth creation opportunities for the poor; development of infrastructure, energy, science, technology and innovation (STI); land reform; human resources development; security and public sector reforms.

Regional integration is an important component of Kenya's foreign policy although it is not well articulated in Vision 2030. Kenya has thus actively participated in the implementation of the programs and projects of various Regional Economic Communities (RECs)/Regional Integration Groupings (RIGs) including the EAC, COMESA and IGAD. This is consistent with international practice where regional economic groupings underpin global connectivity in both production and trade. Hitherto, Kenya has benefitted from the EAC Customs Union and Common Market and COMESA Free Trade Area (FTA) trade regimes which came into effect in the last decade (**Table 1.1**).

| Milestone | AEC | EAC | COMESA | SADC | IGAD | IOC |
|---|------|-------|--------|------|------|-----|
| Establishment of a free trade area | 2014 | - | 2000* | 2008 | 2011 | NA |
| Establishment of a customs union | 2016 | 2005* | 2009 | 2010 | | NA |
| Establishment of a common market | 2020 | 2010* | 2014 | 2015 | NA | NA |
| Establishment of a monetary union | 2025 | 2012 | 2018 | 2016 | NA | NA |
| Establishment of common central bank with common currency | | 2015 | 2018 | 2016 | | ... |
| Establishment of a Political federation | | 2015 | NA | NA | NA | NA |
| African Economic Community | 2028 | | | | | |

Source: REC Treaties and Protocols

Consequently, Kenya's exports have dominated the regional markets, with manufactures accessing outlets hitherto not available in the traditional export markets. Kenya's exports to both the regional markets and other African countries constitute nearly half of its total exports; with EAC and COMESA accounting for more than 80 percent. Available data however shows that intra-EAC merchandise exports are around 19% while intra-COMESA-trade are about 7% of total exports of the regions. Kenya plays an important contribution to this. This achievement has been made even though Kenya has not developed a regional integration strategy to guide its approach in accessing the opportunities in regional markets. The proposed strategy will lead to faster implementation of the customs union and common market in EAC and COMESA and thus to move them closer to around 80% intra-regional trade that the EU was one it embraced a monetary union.

An analysis of the Vision 2030 document shows that regional integration and EAC in particular are given a marginal importance (each mentioned three times in a document of 180 pp). Thus while regional integration is an important element of Kenya's policy, this is not reflected in the Vision 2030. The development of regional integration strategy and an implementation framework/plan for Kenya is therefore expected fill this gap in vision 2030.

The full implementation of the strategy will open up more opportunities to trade, FDI inflows and subsequent wealth and employment creation. The strategy will address the challenges of conflicting commitments from the different RECs with varying degrees of integration. The conflicts are in respect of institutional targets and milestones; overlapping membership and divergent implementation time lines resulting in incoherent trade policy, inefficient resource use due to duplication of effort; and lost opportunities in tapping into the wider markets.

1.2. Rationale for the Strategy

Kenya requires a Regional Integration Strategy for several reasons. First, it acts as reaffirmation of Kenya's commitment to improve its relations with regional neighbours and other African countries beyond conventional cooperation. Second, creating a framework through which Kenya's strengths can be optimized effectively to become the main driver for deeper regional integration in the region and Africa.

Third, as a development policy instrument, regional integration facilitates market access and investment opportunities for the private sector, while also enhancing prospects for attaining Vision 2030 growth target. Kenya shall thus seek access to raw materials, markets and trade routes that it cannot achieve through ordinary diplomacy. This will be done via 'spheres of influence' especially with respect to; promotion of joint economic development, promotion and protection of investments as well as securing destination for Kenya's expertise in various fields including education, tourism and medicines. In addition, it creates the momentum for deepening financial sector reforms supportive of a globalised business environment. These include potentials in strategic partnerships leading to expanded capacities for diversified value added

high technology and knowledge intense trade and investment opportunities in goods and services. This has potential for improved welfare, social and political cohesion of the people of the region.

Fourth, it aims at actualising Kenya's role as the bridge between the regions of East and Central Africa as well as the Horn Africa. In this regard, the strategy is intended to catalyze action for regional infrastructural projects of mutual benefit, and which result in enhanced connectivity and reduced transport costs; access to affordable environment friendly energy; and, compliance with international/multilateral commitments to mitigate the impacts of climate change.

Fifth, the strategy aims at accelerating the implementation of the various regional and bilateral agreements that seek to expand economic ties and increase the volume of cross border trade and investments. Towards this end, the strategy shall leverage Kenya's vantage position and sphere of influence in brokering regional peace and security interventions, a relatively well developed democratic infrastructure, systems and processes facilitating wide stakeholder participation. In addition the strategy will invoke various safeguard provisions to protect Kenya's investment interests that spread across the continent.

Sixth, the strategy will, in addition to investing in the requisite capacities and competences to take advantage of the available opportunities, it will prioritise key sectors of intervention that promote linkages, diversification, specialisation and complementarity with other Regional Partners, and enhance inclusive growth and development within the RECs. Towards this end, the strategy will also explore ways and means of facilitating private sector to step up their supply capacities to meet the regional market demands and take advantage of the emerging market opportunities. Such priority interventions have the potential to generate maximum benefit in employment and equitable income generation.

Finally, the strategy will facilitate greater realization of other important positive impacts of regional integration such as: stronger voice of a regional bloc, efficiency through competition, increased credibility of national policies that are locked in a regional framework and the positive neighbourhood effects.

1.3. Objectives of the Strategy

The main objective of Kenya's Regional Integration Strategy is to facilitate a government-wide approach to regional integration. The strategy aims at fostering a policy, legal, regulatory and an institutional environment critical for expedited and sequenced implementation of regional policies, projects and programmes, while not only enhancing the country's market access in the region, but also giving it a lead role on regional integration. Successful implementation of the Strategy would lead to the mainstreaming of regional integration in the country's national planning within the context of the development of the second medium term, plan (MTP) for the period 2013-18.

By ensuring coherence in regional integration, the Strategy will provide the country with numerous opportunities and benefits including: increased access to larger markets for trade and investments, lower costs of doing business, improvements in infrastructure, free movement of persons and enhanced peace and security within the region. In a nutshell, the strategy will take cognisance of competitiveness and the attendant aspects of business environment including peace and security, cost of production, diversification of product range and efficiency of backbone services as well as value added (VA), and value chains with strong forward and backward linkages.

Ultimately, the Strategy will act as a blue print of how Kenya will seamlessly implement regional decisions, policies, programmes and projects, and thereby, optimise and deepen its regional integration endeavours as part of the globalising World. The strategy will provide the relevant input for the preparation of a Sessional paper/policy on regional integration that seeks to establish a holistic framework for regional integration; putting the constituent elements of integration into a single framework, with an implementation plan on the goals to be reached, and expected contributions from all stakeholders.

The National Policy on regional Integration will in particular attempt to make the management of the integration process more effective and efficient and to ensure that the regional integration activities contributes to Kenya' goal of becoming a middle-income country by 2030. The policy also seeks to enable Kenya react adequately to regional and global initiatives, decisions and other actions, as well as position Kenya to be proactive on critical issues, including remedial and mitigating action in order to safeguard its national interests.

The strategy will address government's coordination & management of the Regional Integration Affairs and functions which are currently disaggregated, domiciled and managed in at least four ministries. COMESA is managed from the Ministry of Trade; EAC, in the Ministry of East African Community Affairs; Intergovernmental Authority on Development (IGAD), in the Ministry of Foreign Affairs; and Kenya-South Sudan Liaison Office, (KESSULO), in the Office of the President.

CHAPTER TWO

2.0 KENYA'S REGIONAL INTEGRATION DEVELOPMENTS- STATE OF PLAY

2.1 Overview of Regional Integration in Kenya

Kenya has approached and participated in regional integration matters over the last two decades through different regional trading arrangements and integration agreements. While regional partners' with who Kenya participates in regional integration have common objectives as enunciated in the various treaties and protocols, the country aims at positioning itself as a regional leader in all fronts of regional integration and particularly in the provision of services, which presently underlie Kenya's strength in the region. In the context of Vision 2030, Kenya anticipates to leverage its strength in the services sectors to become a regional hub. Kenya's regional integration initiatives are underpinned by a number of regional and multilateral obligations and commitments to which it belongs.

2.1.1 *Multilateral Commitments*

The World Trade Organization (WTO, 1995) Rules based disciplined mechanisms of trade in goods and services are founded on the multilateral trading system, taking into account the need for development. To ensure smooth flow of business, the WTO member countries, Kenya as a founder member included, apply the same rules in the formulation of their trade policies and agreements. The WTO trade rules are underpinned by five principles of non-discrimination, reciprocity, enforceable commitments, transparency, and safety valves. These are reflected in the agreements on agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more.

Kenya's trade policy is anchored on the principles and objectives of the WTO. Towards this end, both regional and bilateral agreements, that Kenya is signatory to, subscribe to most favoured nations (MFN) and national treatment (NT) principles of equal treatment of all trading partners, enforcement of common and predictable international standards with full information disclosures supportive of competition.

Other multilateral agreements impacting on trade and investment to which Kenya belongs are deliberated outside the formal WTO mechanisms. These include Trade and the environment, Trade and investment, Finance, Security, Competition, Transparency in government procurement, Trade "facilitation, Electronic commerce, Trade and labour rights, human rights including cultural heritage, corruption, gender equality and democratisation. Other conventions include International Trade on Endangered Species (CITES) on covered products that require

prior authorization by the Government before exportation. In the case of Kenya, this includes endangered wildlife and exotic plants.

2.1.2 Regional Commitments

The regional integration agenda and strategies employed vary across the different RECs (Box 1). Under the EAC treaty (2000), Kenya's obligations encompass a wide spectrum of catchment areas that entail deepening economic, social, cultural and political integration at regional and global levels for the enhancement of competitiveness and development resulting in the wellbeing of the people of the region.

Through a gradual process, parties to EAC would gradually liberalise their economies through "the establishment of a Customs Union, a Common Market, subsequently a Monetary Union and ultimately a Political Federation in order to strengthen and regulate the industrial, commercial, infrastructural, cultural, social, political and other relations of the Partner States to the end that there shall be accelerated, harmonious and balanced development and sustained expansion of economic activities, the benefit of which shall be equitably shared". This is actualized through protocols, adoption of common policies and regulations, master plans and sectoral strategies subscribed by wide stakeholders.

The obligations under the COMESA Treaty (1994) are anchored on sustainable economic development aspirations of trade and investments, promotion of peace, security and stability culminating in the establishment of the African Economic Community. This would be achieved through gradual convergence of the economies via establishment of the customs union, common market and monetary union; with strong emphasis on trade facilitation; strengthening the productive sectors, in particular agriculture, tourism and industry; harmonization of transport and communications policies; elimination of restrictions on freedom of movement of persons and workers and trade in services; and joint infrastructure development.

IGAD Treaty (1986 rev 1995) diversified its obligations to promote peace, security and economic development. The IGAD trade and development agenda is to be harmonized within the EAC and COMESA integration frameworks. The Indian Ocean Commission (IOC) in its advocacy of environmental conservations of the small Indian Ocean islands undertakes leadership in the conservation of the fisheries. Kenya among Indian Ocean coastal countries is a member of IOC for purposes of sustainable exploitation of the fisheries resources for the benefit of the countries involved.

Box 1: Long Term Treaty Strategies of the EAC, COMESA, IGAD RECs and the CES FTA

| Broad Area/Pillar | EAC (2000) | COMESA (1994) | IGAD Treaty, 1993 rev 1995; 2010) | CES Tripartite, 2010 |
|--------------------------|--|--|--|---|
| Overall objective | Enhanced harmonious balanced growth Harmonized policy and regulatory framework Integrate into the global frameworks Strengthened institutions to manage RI | Enhanced harmonious balanced growth | | Trade and invest Policy and regulatory framework harmonisation |
| Economic | Trade liberalization and development CU and CM - Customs cooperation and administration - Trade facilitation - Standards & Quality assurance - Trade remedies and trade related issues - Dispute settlement | Trade liberalization and customs cooperation - Establish CU & CM - Harmonised customs management and administration - Trade facilitation mechanisms, remedies - Competition framework - Dispute settlement | Benchmark COMESA trade and investment framework | Trade liberalisation through TFTA |
| | Infrastructure development - Transport corridors - Air and marine transport - Communications Productive sector development - Investment and Industrial development - Agriculture, food security and livestock development - Tourism and wildlife management - Environment and natural resources - Energy generation and distribution - Private sector development | Infrastructure development - Transport and communications corridors - Transit trade facilitation thru removal barriers and harmonization insurance Productive sector development-enabling investment and business environment for: - Industry and energy - Tourism management - Agriculture, food security and rural development - Management of environment and natural resources - Private sector development | Infrastructure development -Transport and communications | Infrastructure development |
| | Services sectors - Financial and monetary affairs including banking and capital markets - Transport, meteorological and communication services - CM freedoms- movement of persons, labour service, right of establishment and residence - Cultural exchange | Services sectors - Finance and monetary affairs - Tourism and wild life services - Transport, meteorological and communication services - Movement of persons, labour service, right of establishment and residence - Cultural exchanges - Management of displaced persons | Management of environment and desertification - Convention to Combat desertification - Sustainable and harmonised use of energy resources | Industrial development |
| Social | MU Monetary and financial cooperation | MU - deepened capital and financial markets Financial sector policy harmonisation | Limited to social sector | To be negotiated after 2014 |
| | Political integration Regional peace and security International relations Democracy Defense | Regional peace and security International relations Democracy | - Promotion of human rights, social and cultural exchanges - Resettlement of refugees and displaced persons Harmonisation of fiscal and monetary policies | To be negotiated after 2014 NA |
| Political/ governance | | | Regional peace and security | NA |

2.1.3 Bilateral Agreements

In addition to being a member of several RECs/RIGs, Kenya maintains bilateral trade agreements with a number of countries including: Argentina, Bangladesh, Bulgaria, China, the former Czech and Slovak Republic, Djibouti, Egypt, Ethiopia, India, Iran, Lesotho, Nigeria, Pakistan, Poland, Romania, Rwanda, Republic of Korea, Sudan, Tanzania, Thailand, the former USSR, the former Yugoslavia, Zambia and Zimbabwe.

Under these agreements, according to WTO (2000), Kenya and its contracting partners accord each other the MFN treatment in all matters with respect to their mutual trade relations. These agreements have been used as instruments for promoting trade and improving economic relations between Kenya and these countries. However, some of them have not been fully implemented. For instance, Kenya has several bilateral agreements with Ethiopia some of which have been agreed but not signed while others have been signed but not yet fully implemented.

2.2 Achievements

In general, Kenya has registered major milestones/achievements in the context of the projects and programs being implemented by the various government departments. It has equally faced a number of challenges; which include national, regional and global commitments inhibiting Kenya's effective regional integration. In order to review the 'State of Play', the government departments are grouped into sector working groups (SWGs)¹ consisting of: (i) Governance Justice, Law and Order; (ii) Parliament; (iii) (ii) Public Administration, International Relations and Special Programmes; (iv) Trade, Tourism, Finance and Industry; (v) Physical Infrastructure; (vi) Agriculture, Environment and Water; and (vii) Human Resources Development, Research, Innovation and Technology.

2.2.1 Governance, Justice, Law and Order (GJLO)

2.2.1.1 Treaties and Related Instruments

The treaties and related instruments of implementation provide the complementary regional platforms within which social justice and equity as well as other aspects of vulnerability are addressed in the context of peace and security, defense; governance with respect to democracy, equity, human rights and rule of law; affirmative action and freedom of movement, employment and association (EAC Art.7 (2), 104, 120; COMESA Art 5(2), 154, 155; IGAD Art 7, 13, 18). These legal and justice provisions also complement regional trade and investment commitments aligned to international and multilateral provisions of national treatment and non-discrimination.

Kenya has made a great effort to meet all obligations under the various RECs/RIGs (EAC, COMESA, IGAD) as defined in the constitutive treaties setting them up and the related protocols

¹ See Annex I for the MDAs in each SWG

and declarations operationalizing the commitments thereof. Consequently, Kenya has achieved key milestones in the governance, justice, law and order (GJLO) among the RECs. Nevertheless, more remains to be done to fully align the regional treaties/protocols with the domestic legal/regulatory regimes for the full implementation of the CU and CM. Kenya has been active in aligning its policy and regulatory frameworks with regional commitments in order to safeguard its national interest given the fact that Kenyan firms are dominant players in the regional market.

In the area of trade liberalization and trade facilitation, Kenya reviewed its trade frameworks to incorporate regional integration on incremental basis. This was done through regular review of policies and regulatory frameworks to take on board commitments acceded to in order to domesticate legal instruments in support of trade liberalization and trade facilitation instruments. With the coming into entry of the COMESA FTA in 2000, the trade policy and tariff regimes were reviewed to take into account reciprocity enshrined in the COMESA FTA arrangements. In 2005 with the coming into entry of the EAC CU, the trade policy and support legal and regulatory instruments were amended to reflect the overhang commitments in the CU. These have undergone further review with the coming into force of the EAC CM in 2010. The Kenyan trade regime is underpinned by the EAC RI framework. Kenya's foreign trade policy is now pursued through the EAC framework. For example, the EPA, AGOA and CES tripartite are negotiated under the EAC framework.

While visa relaxations and adoption of common travel documents had been undertaken from the start with the signing of the respective REC agreements, enhanced cooperation in the case of EAC has been entrenched with the coming into force of the CM in 2010. At the operational level, the adoption of the EAC passport and related regional travel documents has made it a lot easier for the movement of persons and workers in EAC. In operationalising the Kenyan Constitution (2010), the Kenya Citizens and Foreign Nationals Management Service (KCFNMS) Act 2011 and the Kenya Citizenship and Immigration Act (KCIA) 2011 create the legal and institutional framework for the operationalisation of all matters of free movement of persons and immigration. This in part takes into account the EAC CM commitments.

The work permit requirements in Kenya, Uganda and Rwanda for regional citizens are less stringent making it possible for citizens of the region to seek employment across the EAC. Other EAC CM commitments are covered in the investment acts. These include Customs and Excise Act (472 rev 2000), Investment Promotion Act, 2004 and foreign investment act among a number of other enabling acts. In addition to EAC and COMESA the regional courts handling disputes arising from the implementation of the commitments of the regional treaties, with the Kenyan judicial system upholding regional court decisions thereof.

2.2.1.2 Governance Reforms Including New Constitutional Order

The 2008 EAC Framework Action Plan on Protection of Human Rights in East Africa in compliance with Paris Principles on National Human Rights incorporating free and fair elections, has been domesticated within the new constitution (2010). Matters of affirmative action including gender equality within EAC and COMESA frameworks have also been well articulated in the new Kenya constitution. Kenya enjoys a participatory democracy and political pluralism. The Constitution has addressed important issues such as electoral reform, human rights, presidential powers and the country's regional and district administration. Many governance reforms that fall under the GJLO sector Reform Programme have been successfully coordinated by Kenya's Ministry of Justice and Constitutional Affairs.

The programmes have and continue to focus on policy and legal reform and strengthening governance institutions. Further, the easing of the movement of people, service and labour has created enormous opportunities for Kenyan's in particular. The three million plus Kenyans in diaspora, half of who are in Africa and gainful employment will benefit from the provisions of the new Constitution and ongoing reforms within the RECs as they progress into the CM and CES FTA Tripartite stage of integration. The regional reforms target mainly freedoms with regard to movement of factors of production, all of which form constituent elements of the RECs. The EAC through the implementation of the CM (2010) is a head of the COMESA and IGAD. Kenya is in the process of reviewing its national regulatory acts to align with commitments in this respect.

The entrenchment of the democratization processes in Kenya has sent positive message to investors. However, the instabilities in South Sudan and Somalia might dampen investor confidence. Unlike in the past when the role of Kenyan Parliament on economic matters including regional integration were very limited, the Kenyan Constitution (2010) entrenches regional and international relations by ensuring that henceforth Parliament approves and monitors achievements on annual basis. This creates the unique opportunity to harmonize international obligations.

Further, the provisions of dual citizenship, and those of bestowing citizenships on basis of length of stay in the country go a long in guaranteeing the Common Market freedoms and rights, greater protection of civil and political rights such as right to information, right to fair administrative action, right to privacy, political rights, property rights, human rights, labour rights and environment. The National Security Council with membership from all government security arms shall address matters of national and regional security. The new Constitution entrenches property rights and demands for participatory processes in economic and social activities. This safeguards both investor and consumer rights.

The new constitutional dispensation limits the number of ministries to not more than 22. This will therefore provide an opportunity to leverage on and rationalize its engagement in issues of Trade, Industry and Investment in a more coordinated manner and optimize its resource utilization from a single ministry.

The actualization of the protocols such as the EAC common market requires a review of national laws which at the moment do not conform to the East African Community Common Market Protocol and the constitutional provisions. These include the review of national laws International treaties, immigration, citizenship, bill of rights, property rights, governance, dispute settlement to eliminate discrimination against the citizens of the other four member states especially in areas of movement of labour, services and capital markets are yet to be reviewed by the Kenyan Parliament. Other complementary laws to enforce the CM commitments include: the NSSF Act and the Retirement Benefits Act.

Within the region, Kenya is also making efforts to promote the sharing of information on cross border crime, criminal intelligence, illicit drug trafficking; joint training of security and defense personnel; election monitoring including maintaining peace and security. In particular the brokering of peace in South Sudan, Eritrea and the ongoing similar efforts in Somalia are but a few cases in point.

2.2.2 Peace and Security

The EAC Partner states in 2006 adopted the *East African Community Strategy for Regional Peace and Security in East Africa*. These included maintaining and on request sharing data bases on citizen identification records for security and intelligence gathering, crime control and management, combating drug trafficking and terrorism among others. COMESA on the other hand has put in place elaborate programmes for conflict resolution in war economies and those associated with conflicts in the exploitation of natural resources. These efforts are integrated into related African and European initiatives.

Kenya's conflict resolution mechanisms at regional level have been more elaborate through IGAD in the context of securing peace and security in the Sudan. While South Sudan has not yet joined either the EAC or COMESA, Kenya's interventions have been critical in securing regional peace. More importantly, Kenya and South Sudan signed a bilateral agreement on technical, economic and cultural cooperation in 2006 and further in March 2007 signed a memorandum of understanding (MoU) on technical assistance/cooperation in training and capacity building for the public sector employees in particular. So far over 800 public servants of the government South Sudan have been trained in various Kenyan institutions. Kenya has also opened a Kenya Institute of Administration (KIA) centre in Juba for purposes of further capacity building. Kenya, through AMISON, is also participating in the on-going efforts of

restoring governance in Somalia. It is hoped that stability in Somalia will contribute to peace in the horn of Africa.

Other notable achievements on the peace and security front include the institutionalized mechanisms for early warning conflict mechanisms, refugee management and controlling proliferation of small arms and electoral monitoring across the member states. In the case of EAC, collaboration across the security is more extensive. Military attaches, monitoring peace efforts, are resident in Arusha. Under EAC, joint training and military exercises are undertaken periodically among the different security agencies including the police, immigration chiefs, and CID and cross border administrative personnel. In addition information exchange is maintained for purposes monitoring external threats to the region. These include terrorism, piracy, drug and human trafficking among others.

2.3 Role of Kenya Parliament in Regional Integration

Whereas EALA exercises legislative oversight at the regional level, its mandate and spectrum is limited. National parliaments are therefore expected to fill in the vacuum. However, national parliaments lack the requisite capacity and experience to handle regional integration as demonstrated in the Kenyan situation; where the weak capacity and institutional engagement of the Parliament with regional organizations has robbed it of the ability to systematically and coherently review and influence policy and legislation to bolster regional integration including grassroots engagement on the same. Matters are not helped by the weak horizontal engagement between the executive branch and the parliament on regional integration issues.

The role of the Kenyan parliament on matters relating to COMESA is not well defined and yet a number of commitments have been made. For instance, Kenya now hosts the COMESA Monetary Institute (CMI), which is a precursor of the future monetary union of COMESA. In AU, ACP and CPA, Kenyan participation is through secondment of national Members of Parliament. However, the effect of this participation on regional economic policy has not been felt. In spite of the centrality of policy harmonization in the IGAD Agreement, the role of Parliament is silent. Nevertheless, the Kenyan Parliament, even with their limited involvement and understanding of the regional matters has ratified the regional operational instruments (protocols) and support legislations to domesticate the same nationally.

Whereas the Kenya Parliament has continuously participated in various regional and global organizations, this participation is not necessarily guided by a clear policy aligned to the country's strategic interests. Therefore the effects and benefits of such participation vary from one relationship/regional organization to another. The Kenya Parliament should increase its efficiency and strengthen its relationship with regional parliaments and Secretariats. Although it is possible to have dual membership in both national and regional parliaments, there is likely to be higher efficiency when national parliamentarians do not serve at the same time in national and regional parliaments.

The new Kenyan Constitution creates a better framework for the recognition and enforcement of international law. Article 2 (5), recognizes general principles of international law as part of the laws of Kenya. Art 2(6) provides that treaties ratified by Kenya shall form part of laws of Kenya. This means all treaty obligations are self-executing in Kenya as long as the treaty is ratified in Kenya. The national parliament is the centre of the ratification process and obtains regular reports from the President on implementation and impact. In effect this creates the opportunity to harmonize international obligations.

2.4 Public Administration, International Relations & Special Programmes

2.4.1 Public Administration

Overall, the responsibility for the promotion and coordination of integration activities as well as negotiations, monitoring and evaluation in Kenya rests with the Offices of the Minister's in charge of Regional Integration and Cooperation which are mainly the Ministries of EAC, Trade and Foreign Affairs. The challenge is how to coordinate the implementation of regional policies across relevant Government Departments and Agencies to achieve coherent and effective integration. While matters pertaining to EAC have been dedicated to a ministry, the other RECs are managed through different ministries in which they constitute the core functions- COMESA in Trade, and IGAD in Foreign Affairs.

Regional integration now constitutes an integral part of public administration and management. This will be more prominent with the deepening of regional integration initiatives. The respective treaty provisions across the different RECs clearly spell out administrative structures, representation, rules, procedures and processes that guide the operations of RI. Article 9 of the Treaty for the establishment of the EAC establishes seven main organs through which the EAC operates. The Kenyan institutions are represented in all these organs and institutions.

These include the Summit of Heads of State; the Council of Ministers responsible for EAC Affairs of each Partner State; the Coordination Committee of the Permanent Secretaries responsible for EAC Affairs in each Partner States; the Sectoral Committees composed of Senior Officials from the Partner States and established by the Council of Ministers which spell out their composition and functions; the East African Court of Justice which is the judicial arm of the EAC; the East African Legislative Assembly which is the legislative arm of the EAC; and the Secretariat which is the executive organ of the Community headed by a Secretary General.

Except for the EAC regional Parliament, a similar institutional framework applies for COMESA. IGAD administrative is much leaner and concentrated in peace and security, food security and environment management. The IGAD Summit has more extensive roles given the predominance of peace and security requiring political interventions. The national governance and

administrative structures implement regional integration programmes mainly within their core functions or to a limited extent on delegated authority to specialized organizations.

National mechanisms for coordinating regional integration are fragmented and operate without an organized cohesive framework. This makes it difficult to disseminate timely information on initiatives and implementation status to all stakeholders. Moreover, the separate functions of EAC and COMESA institutions lead to overlapping programs among the two regional economic blocs. The EAC regional policy adopted soon after the coming into force of the CU was to establish a dedicated ministry in each partner state mandated to develop, drive and co-ordinate regional integration policy for the EAC across other Government Departments, agencies and services.

However, the actual delivery of regional integration services is still the responsibility of mainstream Government Ministries, Departments and Agencies which are continuing to respond to the needs of regional integration by developing responses appropriate to their areas of responsibility. National revenue authorities collect customs revenues on delegated authority. Furthermore, the MEAC does not cover regional policies and programmes that Kenya pursues in the COMESA REC. Currently, Kenya does not have a strategic indicative plan nor strategy for regional economic integration based on the existing Treaties Agreements and Protocols to ensure that there is coherence while pursuing the different integration programmes.

For instance, both the EAC and COMESA track the harmonization and convergence processes among its member States through roadmaps and milestones as already shown in Table 1.1 in chapter one. The main challenge facing the COMESA and EAC in the implementation of their integration programmes is the overlapping membership. The EAC became a customs union on January 1, 2005 and a common market in 2010. COMESA planned to become a customs union in 2008. However, this has not been realized by 2012 and may take longer before coming into force. The issue of multiple memberships in the region implies countries have deal with issues related to common policy implementation including the implementation of Free Trade Areas, the rules of origin, standards and the Common External Tariff (CET), among other policies.

2.4.2 Regional Policy and Programmes

To the extent feasible, the Kenyan national policies and regulatory frameworks have in the majority of cases been revised to take on board regional commitments and administered through national institutions within which the core functions fall. For example customs administration is benchmarked to EAC CMA while the immigration regulations have taken into account freedoms enshrined in the EAC CM wherein, in relation to EAC citizens have eliminated the fee for work permits.

In other areas, the delays in the domestication of the regional commitments into the national policy and regulatory frameworks have put inhibited programmes implementation. These include full implementation of the commitments under the EAC CM, wherein a lot of work remains to align regional commitments with the provisions of the new constitution. Further the social security support institutions for pensions, health, HRD certifications have as yet to be harmonized.

Kenya like the other Partner States has benefited from EALA countrywide sensitization and awareness campaigns on the benefits of to update members of the public on the opportunities, benefits and implications of the EAC. The government has just concluded a baseline study on awareness and level of Kenya's preparedness to implement EAC regional programmes. The results of the baseline study will assist the government carry out nationwide targeted awareness campaigns on EAC CM.

2.4.3 International and Regional Relations

International and regional cooperation forms a major component of Kenya's Foreign Policy. Kenya's foreign policy framework mirrors its domestic policy, which is encapsulated in vision 2030. The five pillars of Kenya's Foreign Policy include diplomatic relations in matters of economic, peace, environmental, and cultural matters. Regionally, Kenya maintains solidarity with neighbours as an active mediator of peace talks in the Horn of Africa through the country's chairmanship of the peace forum, the Inter-Government Authority in Development (IGAD).

The main regional foreign policy challenge is managing peace initiatives in neighbouring countries. Kenya has traditionally served as an anchor for stability in the Great Lakes region where it has played a key role as mediator. The worsening situation in Somalia particularly Al-Shabaab militants has necessitated the use of military force to protect Kenya's security interests.

The challenges in the administration of justice, law and order lie in the compatibility of institutional frameworks, competence of the administrators and knowledge of the beneficiaries of their rights and obligations within the national, regional and international jurisdictions. All the three arms of government- executive, legislative and the judiciary while maintain independence have to work collectively in service delivery.

2.4.4 Special Programmes

Social welfare and affirmative action constitute key programmes implemented under the respective RECs for social welfare, empowerment, and bridging the inequality gaps. In particular the programmes target women, youth and elderly, the disadvantaged and marginalized groups. Article 121 of the EAC Treaty requires the partner states through appropriate legislative and other measures to promote empowerment of women, youth, the disadvantaged and the marginalized as well as adoption of technologies to facilitate professions take advantage of their skills and competences.

Under chapter 12, close co-operation between COMESA Member States in the social and cultural fields is being promoted, particularly with respect to employment, labor laws and 102 working conditions including the right of association, collective bargaining and facilities for the disabled; vocational training and the eradication of adult illiteracy in the region; Cultural and sporting exchanges; prevention of occupational accidents and diseases.

2.5 Trade, Industry, Tourism and Financial Services

The MDAs in the trade, industry, tourism and financial services sectors is to enhance supply, technical, administrative and management capacities; and connectivity within regional and across the globe. In fulfillment of key regional integration milestones of the Customs Union (CU), Common Market (CM), Monetary Union (MU) and Political Federation (PF), a number of policies, programmes and activities benchmarked to international best practice have been implemented. Other agreements though signed have as yet to be implemented. These include protocols on environment, agriculture, foreign policy, NTB, internationalization of the EAC passport are cases in point.

2.5.1 Trade and Investment

Kenya's trade policy is substantially liberalized². It is now underpinned by the EAC and the COMESA regional integration frameworks following the adoption of the EAC Customs Union in 2005 and Common Market in 2010 for the former and the FTA and CU in 2000 and 2010 respectively for latter. IGAD's trade and investment framework is based on COMESA acqui.

The COMESA trade facilitating instruments form the basis for both EAC and Kenya's regional trade facilitation framework. These include policy frameworks of simplified trade and customs administration regimes, air transport liberalisation, transport facilitation, and insurance schemes, investment and trade financial guarantee schemes. Towards this end, Kenya market access options into the regional markets are wide and presently accounting for 85% of export trade (GOK, 2011).

In addition to the stability and predictability of Kenya's trade policy, the EAC CU and COMESA in particular expanded trade opportunities for a wider basket of goods. Outside the traditional commodity and horticulture exports, the regional markets have provided market access for manufacturers including animal and vegetable oils, paper and paper products, tobacco, beer, iron and steel products, chemicals, pharmaceuticals, and cement.

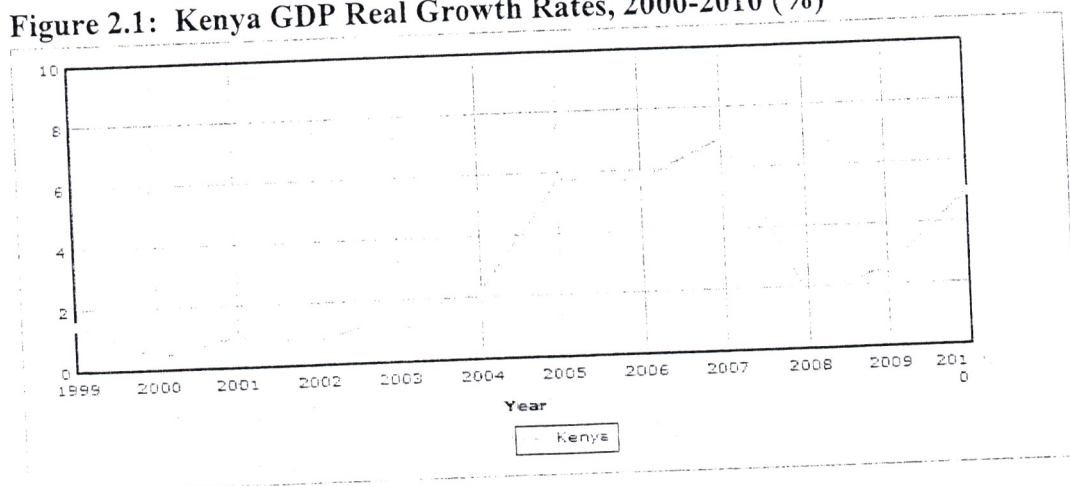
² Various international comparative indicators (world trade indicator, ease of business indices, logistics performance indicator) show Kenya rather in the middle field, sometimes below neighbouring countries. They indicate a high potential for further liberalization.

Kenya's trade regime now is now defined by the EAC tariff structure of 0, 10 and 25 per cent and the short list of negative products consisting of sugar, rice, wheat flour, milk and milk products. The same tariff structure has been adopted by COMESA for it's yet to be implemented CU. The same tariff structure formed the basis of market access negotiations with EU on the EPA. Starting in 2003, WTO trade policy reviews have been carried out regionally from EAC. However, the EAC sensitive list with EU is wider extending outside the agricultural products to include either manufacturers' with contribution to rural development, employment, livelihood sustainability, promotion of food security, fostering infant industries, contribution to government revenues. Products which were deemed to contribute or to have a potential to contribute to increased production and trade competitiveness were excluded from the list. All products subsidized by EU are on this list. This regional approach to trade reviews further strengthens the intent EAC regional integration agenda.

Kenya remains the dominant player in the EAC bloc, accounting for 44.8% of the intra-regional trade in the region (EAC Trade Report, 2009). However, Kenya's main trading partners outside the African continent, with regard to selected imports and exports, remains EU, UAE, India and China which account for 20.2 per-cent, 11 per-cent, 8.7 per-cent and 6 per-cent of total trade respectively (EAC Trade Report, 2009). In this regard therefore, Kenya has to factor these markets into its trade policy making, while ensuring that regional policy receives adequate attention.

Regional integration has entrenched trade and investment liberalisation leading to expanded trade and investment opportunities for Kenya. The positive growth reported in the last ten years in Kenya (Figure 2.1) has in part come from the deepening regional integration initiatives. Except for the low growth rates for the years 2008 and 2009 associated with the post-election and global financial crisis respectively, the Kenyan economy grew at an average of 5% since the coming into force of the EAC CU.

Figure 2.1: Kenya GDP Real Growth Rates, 2000-2010 (%)



Source: CIA, World Fact Book, 2011

Although intra-African trade is still very low, accounting for about 10 per cent of the value of total exports, Kenya has enjoyed a significant share of this. Nearly half of Kenya's exports (about US\$ 5.3 million as at 2011) are destined to African countries with 85% of this being to COMESA and EAC member countries. The shares to EAC region is 55 percent. Regional integration has also resulted in diversification of the trade basket to include manufacturers. Kenya's main exports into the regional markets includes beverages, food and live animals, tobacco, metal containers, beer, tobacco, paper and paper products.

Kenya's revenue base has also stabilised, with tax revenues having increased from USD 15.5 million in 2005 to USD 17.9 million in 2009 (EAC, 2009). Tax revenue as a percentage of GDP has maintained an upward trend from 25% in 2005 to over 35% in 2009. The latter figure of 2009 incorporates revenues from infrastructure bonds in which resources are sourced from within and outside the region.

Kenya has embraced a number of frameworks to facilitate private sector participation in regional integration. These include; the EAC industrial policy, EAC investment code, harmonized regional standards benchmarked to international frameworks, common incentive packages for the EPZs/SEZs/MUBs, buttressed with associated legal instruments. While the standardization of RoO and trade facilitation instruments (insurance, transportation, immigration, customs administration, documentation and procedures, etc.) across EAC and COMESA have enhanced Kenya's regional trade and investment, non-compliance by the majority of regional member states remains an NTB grossly inhibiting trade potentials. This is in spite of the EAC and COMESA joint assessment and identification of the various NTBs for each member state to eliminate.

Private sector participation has been stepped up in cross border investments including participation in capital markets. Kenya is now the second highest source of FDI in the region. Kenya also remains the dominant player in currency convertibility with its currency being relatively more convertible than other regional currencies. The achievements in currency convertibility have laid the basis for diversifications into new and upcoming economic activities, particularly those in financial and services sectors. Further, regionalisation has stabilised Kenya's policy environment and revenues which augurs well for investor confidence. The establishment of the credit reference bureau will enhance the rating of the Kenyan economy.

The prevalence of NTBs, inadequate infrastructure; institutional handicaps; inadequate national level capacities to domesticate regional policies; divergent socio-economic structures; supply side constraints; weak legal, regulatory and dispute settlement mechanisms and requisite powers for EAC to enforce Community obligations and decisions; delays in operationalization of EAC competition Act; mismatch during the implementation of trade facilitation instruments and

processes are some of the major constraints that slowed the achievement of the full benefits of the Customs Union.

Other challenges include supply side constraints; weak legal, regulatory and dispute settlement mechanisms and requisite powers for EAC to enforce Community obligations and decision; weak institutional infrastructure and inadequate enforcement machinery and sanction mechanism; and lengthy decision making systems and processes. Critical private sector constraints include limited supply capacities to take advantage of the available regional preferential market access; and under-developed regional infrastructure. The general public sector challenges relate to lack of timely and reliable regional statistics coupled with a weak information sharing culture among Partner States.

The constraints and challenges in trade development and investment promotion are categorised into five broad areas namely: market access, trade facilitation, institutional capacity and coordination mechanisms, supply capacity and information flow. In particular, inadequacies of technical competences, negotiation capacity, and cumbersome customs administration greatly inhibit ability of the business community to take advantage of the available regional and international market opportunities. These have been exacerbated by the multiple memberships. With the on-going consultations on the COMESA-EAC-SADC tripartite, Kenya's participation in the different RECs deepening to a Common Market and monetary union require rationalisation, thus expanding trade and investment areas. The proposed COMESA-EAC and SADC Tripartite FTA is expected to provide an opportunity to rationalise and harmonise the various trade and investment commitments and timelines. Potential acts of terrorism and lately the infiltration of piracy have impacted negatively on regional potentials.

Nevertheless, there are, at regional and global levels commitments inhibiting Kenya's pursuits in regional integration. With the anchorage of Kenya's National Trade policy on the principles and objectives of the WTO, the delays in conclusion of the WTO talks, undermine the business regulatory environment. The DOHA agenda promises included further liberalisation of agriculture, review of the market access provisions with regard to services sectors, committing more resources to capacity building and enhancing value addition in the developing countries.

Some of the areas that stand to suffer on account delayed conclusion of the WTO talks include further liberalisation for enhanced market access, adoption of balanced rules taking into account the specificities of developing countries, and well-targeted, sustainably financed technical assistance and capacity-building programmes. In particular, the key areas requiring immediate negotiation were in the disciplining agriculture to remove subsidies and tariff escalation and quotas and products subjected to value addition; and inadequacy of resources to address capacity constraints among the developing countries. The losses from the delayed conclusion of the WTO talks have further been compounded by the proliferations of RTAs which are putting high

demand on Kenya and similar countries in coping with the resultant varied demands at the market place, sometimes in excess of those demanded from the WTO.

Kenya, like other low-income countries, have faced challenges to move up the value chain given the structure of demand for—and supply of—exports by high-growth emerging markets. Although the RECs now take center stage as policy instruments for development, the lack of transport and trade logistic connectivity might however hamper this opportunity. Further, the switch from existing production processes is more costly in developing countries.

Further, consumer tastes tend to change frequently in the current globalised business environment. The slow pace in adapting to the changing consumer tastes has impacted negatively on Kenya's regional competitiveness. This has been exacerbated by the delays in shifting trade to emerging markets. This will continue to cost Kenya dearly unless action is taken to integrate into these markets. Thus, there is need to adjust production to satisfy different consumer references in emerging markets and to put a greater emphasis on price competitiveness.

2.5.2 Financial Services

Financial services sectors play critical roles in the economy by providing better intermediation between savings and investment and also facilitate FDI inflows for achieving broad based economic growth. Kenya's financial sector is relatively well developed when compared to those pertaining in the EAC Partner States. With the coming into effect of the EAC Common Market in July 2010, the gains made under the Customs union were consolidated. In particular, the freedom of movement of capital and right of establishment further enhanced efficiencies of the payment systems for cross border trade and currency convertibility.

The Kenyan banks have supported the financial integration agenda by expanding not only into the EAC markets but by also setting up operations in South Sudan, Mauritius and the Democratic Republic of Congo. Major multinational banks specifically; Barclays Bank, Standard Chartered, and Stanbic and the Kenyan locally owned banks, the Kenya Commercial Bank, Equity Bank, Fina Bank and Commercial Bank of Africa use Kenya as a hub to expand their operations into the East African region. Uganda, Tanzania, Rwanda and Burundi banks do not have regional presence as yet and operate exclusively in their home markets.

Kenya Commercial Bank started regional expansion by establishing operations in Tanzania in 1997 while Commercial Bank of Africa entered Tanzania in 2009. Fina Bank entered Rwanda in 2004 and Uganda in 2009. Equity bank entered Uganda in 2009. Table 2.1 shows the number of branches regional banks have established in each partner country.

| Name of Bank | Number of Bank Branches in: | | | | |
|-------------------------------|-----------------------------|----------|--------|--------|---------|
| | Kenya | Tanzania | Uganda | Rwanda | Burundi |
| Kenya Commercial Bank (K.C.B) | 169 | 11 | 13 | 9 | - |
| Equity Bank | 116 | - | 43 | - | - |
| Diamond Trust Bank | 32 | 10 | 15 | - | 2 |
| Fina Bank | 15 | - | 5 | 9 | - |
| NIC Bank | 16 | 3 | - | - | - |
| Commercial Bank of Africa | 19 | 5 | - | - | - |
| I&M Bank | 16 | 3 | - | - | - |

Source: CBK

Further, the deepening reforms in the capital markets including diversification of the products has created alternative avenues of mobilizing development and investment resources from the region through the participation of the private sector, citizens, pension funds and cooperative savings.

In addition, the various RECs have created opportunities for trade in other services besides the direct employment and professional practice for individuals. The deepening of the reforms in the financial sector has created additional opportunities in resource mobilization through the capital markets, and institutionalization of trade and investment options. The capital markets operating from national capitals, transact business on regional basis. The cross listing of shares across EAC has increased private capital flows within the region.

All the seven (7) companies cross listed are Kenyan firms. The Nairobi Stock Exchange (NSE) accounts for 99.8% of the market capitalization for cross listed shares in EAC. Negotiations are at an advanced stage for EAC CMA, Pensions and Insurance policies and regulatory frameworks to be harmonized within the CM framework. The Kenyan private sector has taken full advantage of the RI framework to set up new or subsidiary business institutions. Examples include KCB, Nakumatt, Uchumi, Bidco, Kenya Breweries, Equity Bank, among others.

With the support of an integrated IT facilitated trading platform, there is cross listing among nearly all the CMAs. There are several Kenyan stock broking firms have subsidiaries within the EAC region. These include; Dyer and Blair Investment Bank (Uganda and Rwanda), Faida Securities (Rwanda), and Kingdom Securities (Rwanda). Each of these stockbrokers has only one branch in the regional countries they operate in.

Negotiations on the EAC MU are at an advanced stage, with the possibility of the protocol being signed by end of 2012. With the hosting of COMESA Monetary institute (CMI), the natural choice for EAC MU would be Kenya particularly within the CES Tripartite arrangements such that the preparatory work for monetary union by 2018 would incorporate EAC aspirations.

2.5.3 Other Services

Kenyan supermarkets have penetrated the regional market. Currently, the three largest Kenyan supermarkets have a combined total of seven branches in Uganda, and two in Rwanda. These are Uchumi, Tuskys and Nakumatt Holdings. The estimated Kenyan FDI in the East African supermarket segment amounts to USD22 - 28 million (Table 2.2). Total Kenyan FDI outflow in distribution services is estimated to be around USD 26 – 32 million over the period 2002-2009. The expected investment in the EAC distribution services sector over the next five years is projected to be USD 30-50 million. The major drivers of investment in East Africa include the adoption of the EAC Common Market Protocol and the harmonization of tax regimes and customs import regulations.

Table 2.2: Kenyan Supermarkets with EAC Presence

| Kenyan Supermarket | No. of Branches in EAC | | Estimated FDI Investment Flows* (\$ millions) |
|--------------------|------------------------|----------|---|
| | Uganda | Rwanda | |
| Nakumatt | 2 | 1 | 8.25 |
| Tuskys | 4 | - | 11 |
| Uchumi | 1 | - | 2.75 |
| Total | 7 | 1 | 22 |

Source: Planel, 2010/11

Kenya has several world class firms that already provide and export business services to the region, and beyond. The subsectors with greatest export turnover totals are insurance, accounting, nonbanking financial, and Business Process Outsourcing (BPO) services. Business services are generally provided on a private sector basis and require a high level of skills that are usually certified, and include accounting, architectural, engineering, legal, BPO, ICT, information communication technology enabled services (ITeS), and more.

The huge market in EAC, IGAD and COMESA represents enormous opportunities for investments in tourism. The EAC and COMESA region promotes regional tourism circuits covering all the member states. The success of the sector has benefitted from immense private sector investments in hotels, transportation, marketing and product development and dedicated government efforts in conservation. In addition, substantial progress has been made in the establishment, harmonization and standardization of common codes of ethics for private and public tour and travel operators, hotel classification and professional standards of agents in the tourism and travel industry.

Tourism for example remains the key source of foreign exchange and incomes to wider spectrum of the population in the region. It accounts for 10% of Kenya's GDP and second highest source of foreign exchange. With the EAC adoption of joint tourism promotion, tourism arrivals in Kenya have increased significantly, from 2.721 million in 2005 to 4.236 million in 2010 will close of half of them destined to Kenya. There are now stronger commitments for the regional

countries to adopt and harmonize trade, tourism and investment frameworks within the Common Market and Monetary Union. However, travel adversaries issued by source markets, continued acts of terrorism, piracy and hijackings will undermine the tourism potentials in the region and Kenya in particular.

2.6 Physical Infrastructure

Physical infrastructure, including transport infrastructure, energy, information communication and technology are the key foundations and enablers upon which Vision 2030 is supposed to be anchored to achieve national transformation and accelerated development. They play a facilitative role in the movement of goods, people and services. Other countries in the four RECs plan and implement their infrastructure programmes guided by their respective national development plans.

Kenya is involved in the development of a number of regional infrastructure programmes in the transport sector, energy and communications. The ministries of roads, public works, and local government, urban, metropolitan and housing sub-sectors are the key players in the implementation of transport infrastructure programmes. Other ministries include those of energy and communications.

2.6.1 Modernization and Expansion Programmes in the Corridors

Road transport carries about 85% of all cargo and passenger traffic in Kenya. Only 70% of the network is in a serviceable/maintainable condition. Kenya is party to the regional harmonization of networks under COMESA, IGAD, and EAC including rules regarding operations of roads shall be pursued through regional arrangements to enhance development and maintenance of roads with great regional importance.

In the transport and roads sub-sectors, construction work for a number projects under the Northern Corridor that caters for eight countries in the region including Kenya, Uganda, Rwanda, Burundi, DRC, Sudan, Ethiopia and Djibouti, have either been commenced or are at advanced stages of planning and design. These roads include: Arusha- Namanga- Athi river Arusha – Holili- Voi road (260Km) and Malindi- Lunga lunga – Tanga road (300Km both connecting Kenya with Tanzania; the 512 km Kitale-Lodwar-Lokchoggio Road and the upgrading of the 27 km Lokchoggio-Nandapal road.

The regional link is between Kenya and South Sudan providing access for South Sudan to Mombasa port and; upgrading of the 275 km Nakuru/ Loruk /Marich Pass Road so as to provide an alternative route on the Northern Corridor to South Sudan. These will be complemented with the LAPPSET project connecting Kenya to South Sudan and Ethiopia.

The East Africa road transport development strategy and Regional Road Sector Development Program- 2008- 2018 is composed of:

- a) Corridor 1 : Mombasa-Nairobi-Malaba-Katuna (Kenya/Uganda/Rwanda);
- b) Corridor 2 : Dar-es-Salaam-Dodoma-Isaka-Mutukula- Masaka (Tanzania/ Uganda);
- c) Corridor 3 : Biharamulo-Mwanza-Musoma-Sirari-Lodwar-Lokichoggio (Kenya/
Tanzania);
- d) Corridor 4 : Nyakanazi-Kasulu-Sumbawanga-Tunduma(Tanzania);
- e) Corridor 5 : Tunduma-Iringa-Dodoma-Arusha- Namanga-Moyale (Tanzania/Kenya)
Ethiopia);
- f) Corridor 6 : Ring road for Lake Victoria-Oseko -Usenge-Bondo-Kisumu Ahero-Kendu Bay-
Homa Bay-Muhuru Bay

In order to enhance the efficiency of the regional corridors, the urban centres have to be decongested. Key road programmes are under implementation in Nairobi and Mombasa. Three key road by-passes and several road links are at various stages of construction to bypass the Nairobi Central Business District Area (NCBDA) and to ease congestion in the city's roads and to improve traffic flow within the Northern Corridor. The Northern Corridor links and by-passes include the Northern, Eastern and Southern by-passes. Mombasa by-pass will connect Mombasa mainland with South Coast to ease congestion at the Likoni Ferry, connection to the new container terminal as well as necessary infrastructure for the development of the free port.

The anticipated efficiency of Nairobi by-passes will equally be augmented by the on-going dualling of the key segments of the international trunk roads on the Northern Corridor and connection of Mombasa mainland to the South Coast. Other by-passes are planned for from Miritini Township in Changamwe mainland, Likoni-Diani and the Mombasa-Nairobi highways and Malindi-Mombasa-Lunga Lunga Road which runs along the East African coastline and links with Tanzania to improve the transport linkage that has a rich tourism and agricultural (horticultural) potential.

Kenya has prioritized the development of a new transport corridor to South Sudan and Ethiopia—the Lamu Port and Lamu Southern Sudan-Ethiopia Transport Corridor (LAPSSET). The LAPSSET project will comprise a new road network, a standard gauge railway line, an oil refinery at Lamu, an oil pipeline, Lamu Airport and a free port at Lamu (Manda Bay) in addition to three resort cities at Lamu, Isiolo and Lokichoggio in Turkana. It will provide an alternative route for south Sudan oil which is currently transported by pipeline to Port Sudan in the north eastern part of Sudan.

The second route from Isiolo will proceed to Nairobi where the new corridor will link to the existing Northern Corridor and a final route will proceed to Lokichoggio at the Kenya- Southern Sudan border. Lamu and Mombasa will be connected by a railway line and the two ports will complement each other. In addition to raising the scope for this region's tourism, agriculture and industrial potential, the project will open up access to Southern Sudan, which has huge unexploited natural resources including oil.

In addition Harmonization of regional transport master plans is being pursued under the proposed COMESA-EAC-SADC tripartite FTA. The MOUs include part of the frameworks port management Authority for East and Southern Africa- This is to develop a port statistics and performance indicators, database for port in the East and Southern African region. Although some progress has been made on development, rehabilitation and maintenance of roads throughout the country, about 30% of the roads are still in poor condition.

Part of the envisaged development of the Northern Corridor incorporates the modernization and expansion of the Port of Mombasa which is critical to the development of trade within the hinterland countries in Eastern and Central Africa. It also includes rehabilitation and construction of roads, modernization of the railway system, and simplification of transit border procedures, streamlining customs procedures and improving border efficiency; modernizing transport regulatory frameworks and institutions and improving road safety.

Kenya has a relatively well-developed air transport system and remains an important regional hub with many local, foreign and private operators running services. Marine transport consists of the port facilities in Mombasa plus shipping and inland waterway transport and container depots in Nairobi, Kisumu and Eldoret, which are managed by the Kenya Ports Authority (KPA). However, KPA faces a number of challenges, including the competitiveness of the port of Mombasa against Dar es Salaam, clearance times and corruption. Other changes include old and obsolete equipment, congestion lack of modernization.

The delays in infrastructure investments have exacerbated transport costs and trade facilitation support including logistics, thus making the regions products uncompetitive. The inefficient institutions and related trade logistics, knowledge gap on markets and products on demand; brings out the challenges of overlapping memberships with contradicting obligations and commitments, incoherence of national and regional policies.

Since Kenya is a transit corridor for its neighbours, it must mobilize enough resources to support a transit infrastructure. The development of a modern up to-date serviceable infrastructure for transiting cars, trucks, trains, airplanes or ships would add value. Being a transit country also creates jobs and a logistics economy, with distribution centers, warehouses and technical and processing facilities.

Rail transport is the second most important mode of transport for both freight and passengers and comprises around 2 778 km of track. Kenya Railways (KR) also handles transit traffic to and from other countries in the region. Competitiveness and service delivery were expected to be improved following the granting of a 25-year concession to Rift Valley Railways in November 2006 to manage the Kenyan and Ugandan Railways. The consortium had intended to invest in the system to upgrade it and reduce its inefficiencies. They would also generate a yearly

concession fee of 11.1% in each country for 25 years. The original consortium did not deliver on expectations and has since been revised with additional new shareholders in 2010. The new shareholders include Kenya's Prime Fuels (15%), Mirambo Holdings of Tanzania (10%), Comazar of South Africa (10%) and the CDIO Institute for Africa Development Trust of South Africa (4%).

There is a renewed interest in rail transportation, with very many proposed new projects, and the general expectation from governments and institutions that the systems will now be revived, upgraded and expanded with increased private sector participation. The reasons for this renewed interest, particularly in respect of transport services on the Northern and Central Corridors of East Africa is mainly driven by a number of factors. First, continued decline and poor state of the "old" railways, in spite of the private sector concessioning, may not be adequate to support expected economic growth, and that the better solution would be to modernize the network to higher capacity and speed, at standard gauge.

Second, increased heavy goods vehicle traffic on the roads has consequently increased road maintenance costs, which cannot be afforded or sustained on many of the routes – except on some high volume routes which can be operated as toll roads. Third, rail can better handle empty backhaul, because of lower variable costs. Fourth, rail is the natural mode for most large volumes of heavy bulk commodities, because of the ability to move heavy and large freight parcels. Fifth, a viable rail service is necessary to keep trucking competitive and sixth, the shift of bulk imports to road exacerbates the imbalance in full truck flows, resulting in higher costs.

2.6.2 Improving Access to Clean Energy and Supply Reliability

In addition to the short supply, energy costs in Kenya are relatively high compared to other countries in the region. These impact adversely on the competitiveness of the local industry. In order to access adequate and affordable energy, Kenya has opted for a regional approach to energy sourcing. Kenya pursues regional energy projects under the framework of the Eastern Africa Power Pool (EAPP) and the Southern Africa Power Pool (SAPP) to facilitate preparation of regional power master plans, the pooling of resources for joint power transmission, cross country interconnections and regulation. Under this framework, energy deficit countries can be supplied power by those with surplus supplies at relatively cheaper rates.

The EAPP covers the countries in the Eastern Africa Region including Burundi, DRC, Egypt, Ethiopia, Kenya, Rwanda, Sudan, Uganda and Tanzania whilst the SAPP was established in August 1995 and has a Coordinating Centre in Harare, Zimbabwe and covers 12 countries in the Southern Africa Region including DRC, Tanzania, Angola, Malawi, Zambia, Zimbabwe, Botswana, Mozambique, Namibia, Swaziland, Lesotho, and South Africa.

The priority energy areas of focus include green energy, geothermal electricity and hydro-power generation. The Policy, Protocols and Treaties governing the energy sector consist of:

- a) the Regional Power Master Plan and Grid Code jointly developed by EAC and Eastern Africa Power Pool;
- b) The Nile Equatorial Lakes Subsidiary Action Programme (NELSAP) coordinates power Interconnections for Kenya, Uganda and Tanzania;
- c) Plans to establish East African Community Power Pool- MOU to be developed and signed;
- d) Protocol for the establishment of the energy regulators of East Africa;
- e) COMESA integrated Energy strategy.

Kenya and Ethiopia have signed an agreement for the construction of 1,000 kilometre power interconnection lines for Kenya to get an estimated 400MW of power from Ethiopia. Kenya is expected to construct 612 kilometre supply lines while Ethiopia will construct lines stretching for 443 kilometres. The power interconnection lines between the two states will have a load capacity of about 2,000 megawatts, and is expected to be financed by the World Bank and the African development Bank (ADB).

The government faces a major challenge to improve the power supply coverage, in particular in rural areas where only 5% of households are covered. The challenges include high oil prices and weak transmission and distribution infrastructure. Reforms are planned to foster competition in this sector, diversify energy sources and cut costs.

Besides the pipeline constituent components of the LAPSET project, other planned extensions of oil pipeline connectivity from Dar es Salaam and Mombasa into the rest of EAC countries constitutes an integral component of the overall east African energy master plan (EAC, 2011). The pipeline construction has also been prioritized for the transportation of liquid and gas fuels. In addition to reduction of costs, this enhances safety on the roads.

2.6.3 Improving ICT and Telecommunication Connectivity

ICT is increasingly becoming the priority area in pursuit of economic growth and social development among partner states in various RECs. It has also taken centre stage in political development in the region. Investments in landing stations and inland connections to international undersea broad band cables; promotion of 'open access' policies; and stimulation of demand through broad band capacity purchase schemes for universities, health facilities and government to provide connectivity and improve viability of private investments in ICT infrastructure as well as service delivery. Some of the trade facilitation activities that have benefitted from ICT platforms include customs facilitation, clearing and forwarding, online trading, maintenance of international data bases.

In addition, ICT is considered as a channel through which milestones such as the common market will improve global access of the people and competitiveness of goods and services from

the region. Comparatively, Kenya has the largest mobile use and subscriptions standing at 25 million in 2010 followed by Uganda and Tanzania. Rwanda and Burundi recorded low but increasing internet use and mobile subscriptions.

One of the breakthrough innovations in the financial deepening initiatives in Kenya includes the introduction of mobile money transfer through the introduction of MPESA. This technology has been picked up in the whole region. However, the enabling legal and regulatory framework for these new financial products remains underdeveloped.

The telecommunications sector is continuing to expand strongly following extensive private sector investment, particularly in mobile telephony services, Internet service providers and radio and television operations. These have also generated new support businesses. Growth in the sub-sector is exemplified by the phenomenal growth from a few hundred subscribers in 1998 to 29 million subscribers in 2012 (CCK, 2012).

2.7 Agriculture and Rural Development, Environment and Water

The overarching importance of agriculture in the context of regional integration is food security and rural development as espoused in the constitutive treaties of the RECs and AU and the respective regional agricultural policies and strategies.

2.7.1 Agriculture

The AU-NEPAD CAADP, Compact 2009, underpins the framework for the restoration of agricultural growth, food security and rural development in Africa. The program activities are carried out by COMESA, EAC, IGAD, ECCAS, ECOWAS and SADC. Kenya is among the initial nine countries that have developed National Agriculture and Food Security Investment Plans (NAFSP) (GOK-ASDS, 2010). However, Kenya is yet to achieve the 10% budgetary allocation to agriculture sector. The other countries include Rwanda, Burundi, Ethiopia, Swaziland, Uganda, Malawi, Zambia and DRC.

Except for Djibouti, all the economies of the member states to the three RECs (EAC, COMESA, and IGAD) are agricultural based. The EAC Agricultural policy (2006) and strategy (2005-2030) is to be operationalized through the EAC Food Security Action Plan (2011). Apart from the cross border disease and trade aspects including benchmarking against international standards, the regional agricultural strategy is yet to be implemented. Each Partner state has pursued its national agricultural policies.

The East African Farmers Federation (EAFF) has been founded to rally farmer participation in regional policies. Nevertheless, the EAC CU and CM including the simplified trade regime opened up avenues for trade in agricultural products. Kenya as a net food importing country has benefitted from cross border regional trade in food. Kenya's key imports from the region include sugar, maize, rice, dairy and other animal products, fish, coconuts, vegetables among other food staffs (EAC, 2010). Agriculture accounts for less than 25% of the Kenyan economy.

In fisheries and environment development several programs are on course, including the Lake Victoria Management Project; Lake Victoria Fisheries Research Project and Lake Victoria Development and Management Program (LAVEMP II) and Wetlands management. .

These include policy development to facilitate production, trade, information management and disease control. This is especially in respect of the Pan-African (CAADP) and regional Agriculture and food security policies and strategies taking on board international commitments including (MDGs) form the basis of agricultural regional frameworks among the EAC and COMESA RECs. This is to be achieved through the promotion of competitive and sustainable agriculture, growth of viable cooperative subsector and sustainable management and development.

In order to raise the competitiveness of the COMESA region's agricultural sector, the COMESA Secretariat has in place a number of initiatives at different stages of implementation across the member countries. These initiatives include: cooperation, co-ordination and harmonisation of regional agricultural policies, food security responses, product marketing, research and development, plant and animal disease and pest control, training, irrigation development, and exploitation of marine and forestry resources. Other strategic interventions include development of markets, inputs, institutions and infrastructure. Complementary actions include harmonisation of systems and procedures across the region so as to create a conducive, transparent and facilitative environment for conducting regional agricultural trade with forward and backward linkages across the region from the farmer to the market.

Further, the COMESA agricultural approach aims to position the region as a reliable supplier of primary and processed agricultural goods to global markets and whose producers effectively and competitively respond to opportunities that arise in all external markets. Some of COMESA ongoing programs aimed at attaining sustainable food security, with a number being implemented in Kenya, is as follows:

- a) Agricultural Market Promotion and Regional Integration Project (supported by the AfDB);
- b) Irrigation Development in the COMESA Region (with the assistance of the Indian Government);
- c) Regional Food Security/Food Reserve Initiative among member states; The Food Security Policy and Vulnerability Reduction Program (to be supported by the 9th EDF);
- d) Coordinated Agricultural Research and Technology Interventions (supported by USAID) A Regional Approach Towards Biotechnology (supported by USAID);
- e) The Pan African Tsetse and Trypanosomiasis Eradication Campaign (PATTEC) in collaboration with the AU;
- f) Livestock Sector Development in collaboration with the AU and USAID;
- g) Fisheries Sector Development in partnership with the Common Fund for Commodities;

- h) Implementation of NEPAD's Comprehensive African Agricultural Development Programme (CAADP) in the Eastern and Central African (ECA) region;
- i) Crop Crisis Control (C3) Project with the support of USAID;
- j) The Action Plan for the Environment among member states;
- k) Interventions to mitigate impacts of HIV/AIDS among smallholder farmers in the ESA region;
- l) Marketing and information programmes including AGOA Link project supported by USAID, AfDB, WTO;
- m) The Commodity Exchange Initiative;
- n) Private Sector Development Strategy (PSDS) support.

IGAD central focus of the agricultural intervention programmes relate to livestock and the control of associated pastoralists conflicts due to shortage of pasture. Kenya's arid north economic activities are closely linked to the IGAD agricultural/livestock activities. Kenya's livestock exports are primarily to the Middle East. Other critical challenges which the IGAD agricultural programmes prioritise include marketing information (and infrastructure development. Others include social protection (EC); water harvesting (ADB), cross border trade, climate prediction (USAID/WMO).

2.7.2 Environment

The Kyoto protocol has set the world towards low carbon growth, with one of the main outcomes being a flexible carbon market regime to tackle climate change through the Clean Development Mechanism (CDM) and the Joint implementation (JI) mechanisms. The EAC protocol on environment and natural resource management EAC, 2006) was geared towards the attainment of sustainable development through efficient and effective management of the environment and natural resources. These include wildlife, genetic resources, biodiversity and biosafety, water resources, minerals, ecosystems, fisheries, pollution and hazardous waste management and related effects on climate change. Most partner states have as yet to ratify this protocol, making it difficult to operationalise the commitments (EAC, 2011).

COMESA approach on environment and natural resource management through biosafety and biotechnology commitments, most of which are at the discussion stage. Thus policies on environment management remain national in nature. The IGD commitments on environmental management are more pronounced given its fragile ecosystem.

Kenya has made great efforts to put in place a sound environmental legislative framework. The Environmental Management and Coordination Act (EMCA) came into force in 1999. The Act is administered by the National Environmental Council and implemented by the National Environmental Management Authority (NEMA). At national level the Ministry of the Environment and NEMA are directly responsible for dealing with environmental issues. Kenya

has developed the National Climate Change Response Strategy, 2010 (NCCRS) integrating climate change information into Government Policy. The strategy is dedicated to addressing the threats posed by climate change and ensuring that future climate change programs and projects will be developed in line with the Response Strategy and efforts towards the attainment of Vision 2030. Other institutions in charge of environment and natural resources management are the Department of Regional Center for Mapping Remote Sensing, Kenya Wild Life Services, Kenya Forestry research institute (KEFTRI) and the various district land boards.

Kenya is also making great efforts to implement IGAD's Conflict Early Warning and Response Mechanism (CEWRN) and Climate Prediction and Application Center (ICPA) that provides early warning response to the pastoral communities in the Horn of Africa. Through the International Shared Aquifer Resources Management (ISARM) and (AMESD), from AMSED headquarters in Nairobi, it provides policy and scientific network support and mapping of integrated aquifers resource management, land degradation mitigation and natural resources conservation and environmental severity assessment training in the IGAD sub region. It also provides climate information, prediction products and services, for early warning to reduce climate related risks for disaster management, environment management in support of sustainable development efforts of the member countries.

The East Africa Countries have already embarked on preparation and implementation of projects and programmes to address climate change. The projects/programmes focus on both adaptation and mitigation activities. Kenya's Climate Change Strategy spells out the priority areas for both adaptation and mitigation activities in the country. Furthermore, the other Partner States have also identified potential mitigation options which can be used to foster economic development in the region while contributing to globally efforts to reduce greenhouse gas emissions. The potentials in region range from geothermal along the Rift Valley, wind, cogeneration, hydropower, solar, sequestration use of natural gases and methane recovery from waste management in various areas of the region. So far 3 partner states, namely Tanzania, Kenya and Uganda have registered clean development projects. Initiatives are underway to ensure energy becomes readily available to region at affordable prices to the majority of the people in region.

The main environmental issues affecting Kenya are: loss of biodiversity in the country's main ecosystems, including wetlands, forests and marine ecosystems; and the socio-economic environment reflected by falling socio-economic indicators on health, access to water and access to education. Most of these environmental challenges are of a regional nature based on shared resources. Other trans-boundary environmental issues include: persistent organic pollutants; trans-boundary movements and disposal of hazardous wastes; reduction of substances that deplete the ozone layer; trade in endangered species; and wetlands of international importance.

The increased pressure on natural resources in the ASALs has led to degradation of these fragile ecosystems, increased erosion by wind and water and declining water sources. The increasing pressure on natural resources is leading to a marked recurrence of resource-based conflicts. Resource degradation has also been caused mainly by heightened pressure on limited land, water and energy, high dependence on agriculture and livestock for livelihoods and inadequate alternative job opportunities and population growth.

2.7.3 Water

The EAC water programmes and activities are closely linked to Lake Victoria and River Nile. The programmes include those of LVBC and LVFO. Kenya is party to these key regional programmes. In addition to resource management, in particular the shared resources, LVBC (2004) replicate most of the functions of the EAC treaty including trade. Key areas of intervention include management and coordination. The LVBC is managed through the Lake Basin Development Authority, Coast Development Authority, KEPHIS, PCPB, National Cereals and Produce Board, the Kenya Bureau of Standards, Meteorological Department, KEVEVAPI and KARI and the Lake Victoria Fisheries Organization (LVFO) and Kisumu Inland Fisheries Cluster. Other institutions include the National Irrigation Board (NIB) and Water Management Authority (WRMA).

Another water management programme of historic importance is the Nile Basin Initiative (1999), bringing together COMESA and EAC riparian countries within the Nile basin. The countries party to the Nile Basin consists of Egypt, Sudan, Ethiopia, Uganda, Kenya, Tanzania, Burundi, Rwanda, the Democratic Republic of Congo (DRC), with Eritrea as an observer. The Nile Basin Cooperative Framework Agreement (2010), though objected to by Egypt, provides an opportunity for upstream countries to sustainably use Nile water without seeking for permission from Egypt.

Kenya has actively participated in the management of the Nile Basin Initiative for equitable and sustainable management of shared water resources and water resource conflict resolution were adopted. The EAC Lake Victoria Water Release and Abstraction Policy have been finalized. IGAD on the other hand has set up a regional water Trust Fund, for ground water assessment in Ethiopia, Kenya Somali and Djibouti including capacity building in collaboration with COMESA in implementing the Disaster Risk Management (DRM) component of the *Regional Food and Risk Management Programme (REFORM)*.

The programme focuses its activities to manage threats to food security in member states through capacity building, harmonization of policies and practices and information dissemination, vulnerability analysis and indigenous early warning and coping strategies at both regional, national and community levels to improve food security in the region. Kenya's Agricultural Sector Development Strategy, 2010-2020 (2010) implements sector priorities in Vision 2030.

Besides ensuring food and nutritional security for all Kenyans, the strategy aims at generating higher incomes as well as employment, especially in the rural areas. In order to commercialise the agriculture sector, the agricultural sector ministries are expected to ensure that farmers, producers, processors and marketers of agricultural produce employ the most contemporary methods and technologies. This has in part been spearheaded through USAID support to the agricultural sectors.

2.8 Human Resource Development, Research, Innovation and Technology

The Abuja Treaty establishing the African Economic Community (AEC) committed African countries to cooperation in various sectors of their economies, including human resources development and labor markets. The key shared goals are: improving education systems, strengthening common institutions and developing new ones, promoting participation of the private sector in training and education and harmonizing and coordinating education policies. Building human capital through strengthening people's abilities as productive agents is a central objective of development policies which includes regional integration. A skilled, healthy, mobile, and educated force, combined with sufficient entrepreneurial capacity, is indispensable for sustainable development. Kenya assisted Rwanda and Burundi in rebuilding their institutional and human capital to facilitate their effective participation in regional integration.

Kenya and Rwanda have, at a bilateral level, led in the elimination of work permits between them as part of enhancing free movement of labour- a key freedom in promoting human capacity in the EAC region for social and economic transformation. An important element in the process of elimination of work permits, wholly or partially, is the conclusion of the *Mutual Recognition of Academic and Professional Qualifications*. Kenya and EAC in general, has, through its institution, the Inter-University Council of East Africa, reached an advanced stage in setting up a mechanism through quality assurance that will form the basis for determining such mutual recognition.

A related issue is mutual recognition of accreditation of higher education institutions which would remove the regulatory requirement of tertiary education institutions moving across borders applying for fresh accreditation. It should also be mentioned that the Kenya is leading in the harmonization of social security benefits in order to support the free movement of labour. Kenya is already at advanced negotiating stage in this area. Kenya is taking the lead in this.

The citizens of the EAC region have enjoyed free movement across their borders for years. The national passports and the East African passport travel documents are accepted and respected at border points without a visa requirement and six months' stay each time of entry is offered without hassle. This free movement will be further facilitated when all the five Partner States introduce Third Generation (Machine Readable) identity cards. Only Rwanda has such an ID in use. Kenya is in the process of introducing one. In the meantime, substantial cooperation exists in labour mobility and human resource development in the fields of education, health, hospitality

and finance. Kenya has the highest number of professionals working across the RECs they participate in.

There is a weak linkage between Kenyan universities/institutions of higher learning with industries in EAC especially in the area of research, science, technology and innovation. Indeed, a lot of research and innovation have been conducted in the Kenyan universities but with limited impact in the economies of the EAC. Further, the differences in education systems in the region, with Kenya pursuing the 8-4-4 system while the other EAC countries continue to operate on the 7-4-3; has reduced the transferability of students below university level.

2.9 Cross Cutting Challenges

Kenya has not benefited from regional integration as much as it should because most members of the RECs/RIGs, Kenya included, have not done as much to implement the regional programs and projects. This is attributed to a number of factors that include; heavy reliance on tariffs for fiscal revenue; lack of political commitment owing to fear of losing sovereignty and fears of possible skewed distribution of net benefits and costs; absence of a mutually agreed upon mechanism for compensating losers and sharing the benefits of regional integration and lack of sanctions against non-performance.

Kenya has nevertheless took the bold step of implementing the EAC CU through full liberalisation in 2005 while the other partner states were given a 5-year window of gradual elimination of internal tariffs. During the implementation of the EAC CM, Kenya is among the three countries that have opened up for employment opportunities without stringent work permit requirements.

Kenya has sometimes been seen as 'big brother' and one that is domineering given its relatively larger economy within the sub-region. The go-getting attitude of Kenya's private sector and lack of synergy within government on the regional integration agenda has in the past led to conflict not just within government but also with the private sector (KEPSA/KAM). Smoother working relationships would be needed to promote synergy and structure.

While joint implementation of projects/program between various RECs and national government has progressed well, a number of challenges remain. These challenges relate to a number of factors ranging from external and internal factors. The review of RECs operations, and interviews with implementers revealed that there are both internal and external factors and weaknesses in the internal organizations at both the RECs and country levels and these included the financing modalities of the RECs, poor coordination among the MDAs and inadequate funding among others, which if addressed, could enhance implementation of programs. These challenges are at the regional (RECs), country and project/program levels.

Kenya has had her share of challenges that have slowed down potential benefits relating to her regional integration initiatives. In particular, high staff turnover, has more often reduced benefits from leveraging past experience, since effective documentation culture is low.

The level of representation and preparations is also compromised, while in a number of cases resource wastage is prevalent due to duplication of efforts, and information sharing remains a handicap. Legislative involvement in economic and trade matters is low. Besides, national interests in the context of regional and global contexts are not well articulated, resulting at times in contradictory commitments. For example Kenya is presently participating in IGAD trade negotiations when it is already in an EAC-CM.

2.10 Conclusion

Kenya has been at the forefront in ratifying protocols and agreements in various RECs/RIGS. It was the first, for instance, to ratify the FTA and customs union protocol of COMESA. It was also the first to signing of the Customs union and the common market of EAC. The commencement of the operationalization of the EAC Common Market in July 2010 marked the beginning of the complex and long march towards transforming the EAC region into a Common or Single Market. Its ratification in record time is a milestone for the EAC as no other REC in Africa has achieved such milestone. It is a milestone that epitomises strong political will and firm commitment by all the EAC stakeholders in deepening and widening integration.

While Kenya's overall short-term trade and economic interests are for the moment best served by its membership of EAC and COMESA, it should be borne in mind that the most profound effects of regional integration are derived through a longer term engagement in deeper regional integration that involves pooling of sovereignty. The benefits come precisely of their irreversibility and the track record the commitments set. This could, however, not be combined with a short term orientation.

COMESA and EAC account for half of Kenya's trade as earlier indicated. Kenya's trade policy is underpinned by the EAC Customs union as well as common market. The proposed Tripartite FTA between SADC, COMESA and EAC brings the Republic of South Africa. In particular, the EAC bloc creates a market of close to 130 million people and a combined GDP of 80 billion dollars, making it one of the largest trading blocs in Africa with Kenya being a dominant player. The protocol opens door for the following freedoms and rights for Kenyan and citizens of the member states: Free movement of goods, free movement of persons, free movement of workers, free movement of services, free movement of capital and the right of establishment and residence.

The reviews carried out so far clearly indicate that regional integration remains the best option for ensuring the sustainable development of the Kenya and strengthening its global position. The scope of the design of the Kenyan regional integration strategy hinges on a coherent strategy of

engagement in the development of programmes that enhance co-operation and coordination in trade and investment facilitation; transport connectivity and improvement of communication links between Partner States and the rest of the world; energy supply and ICT development in the region; enhanced productive sectors; enforce governance, security and human rights and rule of law; human resource development; social and financial services development.

CHAPTER THREE

3.0 SWOT ANALYSIS OF KENYA'S REGIONAL INTEGRATION ACTIVITIES

3.1 Introduction

This chapter focuses on a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis of Kenya's position and activities with regards to regional integration. The objective is to identify Kenya's regional integration drivers (strengths) and weaknesses, as well as the opportunities and threats. The SWOT analysis will then be used in Chapter Four as a framework to guide the preparation of Kenya's regional integration strategy.

Strengths are those characteristics of Kenya that give it an advantage over other member countries of RECs/RIGs and can be developed further; while its weaknesses (or limitations) place Kenya at a disadvantage relative to others and need to be addressed. The benefits of further regional integration will be assessed in the context of external opportunities that can improve Kenya's strategic interventions at a regional level and contribute to its development agenda, whilst taking into account the key threats that would need to be mitigated.

3.2 Strengths

3.2.1 *Strategic geographical location as a gateway to East Africa*

Kenya prides itself as East Africa's gateway and commercial hub, and serves up to seven landlocked neighbors in the East African and COMESA markets, including the newly independent South Sudan. In particular, Kenya is a regional hub and continental headquarters for numerous private sector and corporate organizations, including Coca Cola, General Electric, Cisco Systems, Heineken, Google, Nokia Research, Pricewaterhouse Cooper (EA), and Toyota. Nairobi also hosts the largest number of foreign correspondents in Africa, including CNN, Reuters, Voice of America, AP, AFP, Aljazeera, ABC, BBC, and Radio China.

Kenya is a signatory to the Vienna and Geneva General Conventions on diplomatic and consular relations and it adheres, as well as administers, the provisions of the conventions through its Protocol Department in the Ministry of Foreign Affairs. The Administration of the Diplomatic Privileges and Immunities is done in accordance with the relevant provisions of the Kenyan Law. As a result, this has made Nairobi the leading diplomatic capital of the East and Central African region.

Kenya is one of a few African countries that host United Nations offices on the continent. It also hosts regional hubs for other reputable institutions such as the African Development Bank, the World Bank's global hub for fragile states and the COMESA Monetary Institute (CMI).

3.2.2 Competitive Service Industries

3.2.2.1 Trade Logistics

Kenya has larger private sector logistics providers than other partner states in the region, and most of the service providers working in the region have a presence or connections with Kenya. For example, since Clearing & Forwarding Agents are intermediaries between a shipper and other logistics providers in the supply chain, their contributions are critical and vital to the flow of goods through Kenya and into the region. This is because most of the other EAC Partner States (Rwanda, Uganda and Burundi) are landlocked and have to rely on Kenyan facilities for their trade effectiveness.

In this respect, there are over 800 clearing and forwarding agents operating from Kenya. Among the top 40 agents are the Nairobi Clearing House, Mitchell Cotts Kenya, Victoria International Logistics Ltd, and Swiftlink Freight Services Ltd. Furthermore, web based processing, complemented by single window operations; stand to significantly improve business operations.

3.2.2.2 Financial Services

Kenyan firms have become successful exporters of business financial and distribution services to the EAC and COMESA regions. In order to sustain these businesses, Kenya-based banks have set up branches in countries where Kenyan businesses have interests. As a result, they are leading the regional integration of banking services in the EAC and COMESA regions.

There are four indigenous Kenyan banks with a total of 63 branches outside Kenya (including 16 in Tanzania, 31 in Uganda and 16 in Rwanda). These banks include Kenya Commercial Bank (KCB), Equity Bank, Fina Bank, and Commercial Bank of Africa. In addition, about 11 multinational and Kenyan owned banks use Kenya as a hub to expand their operations in the region. The rapid growth of Kenya's innovative M-Pesa or E-banking is another of Kenya's exports to the region.

There are also indigenous Kenyan insurance companies with branches throughout the EAC region. These include: APA Insurance, Insurance Company of East Africa (ICEA), Jubilee Insurance, Phoenix of East Africa, Real Insurance and UAP Insurance. The estimated number of Kenyan insurance company branches within the region is about 30. Similarly, several Kenyan stock broking firms have subsidiaries within the EAC region. These include Dyer and Blair Investment Bank (Uganda and Rwanda), Faida Securities (Rwanda), and Kingdom Securities (Rwanda).

Kenya has a strong capital market with a stock exchange that has significantly invested in modern trading and settlement infrastructure. The total capital market capitalization for cross listed shares in the EAC region stands at about US\$ 3billion, with over 99% being taken up by the Nairobi Stock Exchange (NSE). All companies cross-listed and traded regionally are from

Kenya and the NSE leads in terms of market capitalization and number of listed companies in the region. The NSE also has a strong trading interest from institutional investors. Most of the other regional stock markets are, however, characterized by low listings and few products, which limits cross listing and limits the range of products to mainly equity.

Furthermore, Kenya's bond market is well developed, while those in most other EAC and COMESA countries are underdeveloped with derivatives virtually non-existent.

3.2.2.3 Retail Services

Kenyan supermarkets started penetrating the regional market in 2002. Currently, the three largest Kenyan supermarkets have a combined total of seven branches in Uganda and two in Rwanda. These are Uchumi, Tuskys and Nakumatt Holdings (Table 2.2). Investments up to US\$ 22 million have been made in building these outlets (Nora Ditheli, 2011). These have also assisted in providing a unique outlet for a number of Kenyan manufactured products.

3.2.2.4 Business Services

Kenya has several world class firms that already provide export business services to the region and beyond. The subsectors with the greatest export turnover totals are insurance, accounting, non-banking financial and BPO services. Business services are generally provided on a private sector basis, and require a high level of skills that are usually certified and include accounting, architectural, engineering, and legal, BPO, ICT, and information communication technology enabled services (ITeS).

Other forms of service exports include government to government technical assistance and capacity building. Governments that have greatly benefitted from this level of support are Rwanda, Burundi and South Sudan, all of whom are members of both EAC and COMESA.

Furthermore, the competitiveness of both air and surface transport services and logistic services have in part been influenced by the common EAC and COMESA trade facilitating rules and procedures, including insurance cover from Zep-Re and ATIA which are both based in Kenya.

3.2.2.5 Air Transport Services

Kenya's capital Nairobi is in the middle of Africa and, as such, is only four hours away from most destinations across the entire continent. Thus, Jomo Kenyatta International airport (JKIA) is a transit hub for Africa and is also served by 49 airlines³ with daily flights between Middle Eastern, European and Asian hubs. It is the largest airport in the East and Central African

³ Major international airlines such as the KLM, British Airways, Virgin, Emirates, South African Airways, and Ethiopian airlines, have daily scheduled flights from JKIA. Other international airlines include the Thai airlines, Aeroflot, Jet Airlines, Singapore Airlines, Qatar airlines among others.

region, handling over 5 million passengers annually. Its closest rival, Addis Ababa Bole Airport, is the third busiest in Africa and handled close to four million passengers in 2011.

Kenya Airways, the national carrier, connects Kenya to 55 destinations around the globe and was voted Africa's leading Economy Airline by the World Travel Awards. 45 of the 55 destinations are within Africa and complement the government's efforts to grow bilateral trade and economic links with countries in Africa. Kenya Airways also has a code sharing with KLM on European routes, therefore, giving a wide choice for international connections. Cargo planes routinely collect fresh produce, cut flowers, fish and other goods for export to Europe.. With the current infrastructure development and upgrades, and construction of additional facilities such as railway lines to support air transport services, the centrality of Nairobi airport in the region and continent is expected to deepen.

Regarding domestic travel, Wilson Airport in Nairobi is one of the busiest in Africa operating both local and regional flights, and handling over 263,000 passengers (12.5%) of the total passengers in Kenya (KAA, 2011). It is mainly used by air charter companies for helicopters and light planes, which operate daily flights to major tourist destinations in Mombasa, Masai Mara, Amboseli, Samburu and the rest of East Africa.

3.2.2.6 Information and Communication Services

Kenya's strategic geographic location makes it an obvious EAC ICT hub, as most of the undersea cables land on its coastline. These include: TEAMS, SEACOM, LION, and EASSY. Kenya also has a well-established terrestrial fiber optic cable system, as well as well-structured ICT policies and regulatory framework. Both of these aspects have resulted in improved access of a large segment of the population to the IT platform, which has also facilitated and proliferated ICT-based services. In addition, the country has extensive and well-developed communication infrastructure, which facilitates worldwide access to information. This information and these technologies and its applications have created opportunities for Kenyans.

3.2.3 Well Developed Human Resources

Kenya has seven (7) public universities and twenty two (22) private universities operating from a number of campuses and constituent colleges across the country. To complement these universities there are a number of national polytechnics, 17 institutes of technology and 12 technical training institutes. Kenya also has a number of schools, including some international schools that incorporate international systems of education like the American, British, French and German. Students are often drawn from EAC and COMESA countries to these schools and universities. Kenyans also train in a number of universities in the EAC, COMESA and beyond the African continent.

With such a robust education sector, this contributes greatly to the country's capacity development, including that of member countries in the EAC and COMESA region. For example, the institutions providing a regional level of support include: Bandari College, Utalii College, several teacher training colleges, the Kenya Wildlife Service (KWS) College in Naivasha and several Medical Training Centres (MTCs) that offers specialised courses in health and medical services. Students in these institutions are drawn from within and outside the region.

In general, Kenya has a relative abundance of professionals owing to its highly trained human resource base. At university level, Kenya produces over 15,000 graduates every year, with 40% in science and technology, while many more are trained in various artisan and craft skills.

Nairobi University is ranked among the top 100 universities internationally (2012 World University Web Ranking). Kenya also has in general a disciplined and hardworking labour force, with a strong entrepreneurial spirit, as well as significant international exposure. This is in part due to the extensive employment of Kenyan professionals in EAC and COMESA countries, as well as South Africa – predominantly in academia, ICT, banking and the tourism sectors.

3.2.4 Political Stability, Peace and Security

3.2.4.1 Political will

A major strength that supports Kenya's regional integration endeavours is its political stability. Except for the post-election political unrest in early 2008, Kenya has, since independence, maintained considerable stability despite changes in its political systems, from single party to multi-party politics in 1992, and political crises in neighbouring countries.

Kenya has in fact been home to refugees from Rwanda, Uganda, Burundi, Sudan and Somalia who had to flee their home countries due to political instability. Kenya's Defense Forces (KDF), working under the umbrella of AMISOM (African Mission in Somalia), are currently on a successful mission to bring peace to Somalia.

3.2.4.2 Constitutional Reforms

The 2008 post-election crisis led to far reaching constitutional reforms that entrenches transparency and accountability in the governance and political landscape, ensures the independence of institutions in dispensing their core functions, and gives prominence to human, civil, political and property rights. In particular, the competitive recruitment of high level public officials, with the public's involvement in the vetting processes, is a virtue that is likely to have far reaching implications for the region in terms of regional policy making and institutional issues.

This will complement the freedoms gained with the re-emergence of multiparty democracy, including freedom of speech, the press, and assembly. Kenya is now a multiparty democracy and has held general elections every five years.

Furthermore, as provided for in the Constitution, the oversight role of Parliament on international commitments creates the opportunity of harmonising trade related commitments in the different RECs that Kenya participates in. Kenya can also share her experiences with other regional countries during the review of their constitutions. This would potentially harmonise regional human rights and governance standards.

3.2.4.3 Strong Judicial System

Kenya has established a strong and effective judicial system that protects civil liberties and enforcement of contracts. Following the enactment of the new constitution, adequate and credible judicial institutions have been put in place to address major challenges facing the country.

The Kenyan legal regime is based on English common law. The new constitutional dispensation will also provide a mechanism for improved governance and the promotion of peace; both factors that give investors' confidence. Overall, Kenya's policy, legal, regulatory and institutional structures are comparatively well developed and with better capacity as compared to other partner states, especially in the EAC.

3.2.5 Relatively Diversified Export Base

Kenya has a relatively diversified export base outside its traditional commodities of horticulture, tea and coffee. This has boosted earnings and created more jobs in the economy, while reducing the risks of reliance on the traditional commodities. The country's total export items stood at 222 in 2009 compared to the 151 tariff lines in 2000, representing a growth of about 50 per cent (Economic Survey, 2000; 2010).

Agricultural and manufactured goods (including tea, horticultural, coffee, fish, leather, steel, cement, footwear and petroleum products) are Kenya's key regional export products. This may not amount to diversification in global terms, but, to the extent that the export basket contains limited value added products hitherto not traded in, it does create new possibilities. With sustained and deeper regional integration, Kenya stands to build its participation in the regional value chains, thus enhancing exportation of intermediate products.

The ratio of exports to GDP (Table 3.1) is relatively small, less than 20% for all the five EAC countries⁴. However, Kenya's low natural resource/mineral endowment leaves the bulk of its non-traditional exports to be accounted for by manufacturers.

Table 3.1: EAC Partner States Exports to GDP 2005-2010 (%)

| Country | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------|------|------|------|------|------|------|
| Uganda | 14 | 15 | 19 | 20 | 23 | 21 |
| Tanzania | 11.9 | 12.2 | 12 | 12.2 | 15.7 | 18.4 |
| Kenya | ... | 15.6 | 15.0 | 16.3 | 14.6 | 16.1 |
| Rwanda | 10.0 | 10.0 | 10.0 | 15.0 | 9.0 | ... |
| Burundi | 7.6 | 6.4 | 6.0 | 6.0 | 5.1 | 6.8 |

Source: EAC, 2010

The share of Kenya's exports as percentage of GDP is likely to rise in the near future as discoveries of significant natural resources, including oil and gas, have recently been made. The country thus has great potential for natural resource exploitation. In addition, ongoing efforts to undertake an airborne geophysical survey are likely to result in further discoveries of minerals in Kenya.

3.2 Weaknesses

3.2.1 Institutional Framework and Mechanisms

3.2.1.1 Disjointed Coordination of Regional Integration Activities

There is a lack of coherence in coordination among Ministries and Departments, and between the public and private sector, on regional integration matters and this has resulted in less than optimal benefits from Kenya's regional integration initiatives. The current silo based management arrangement results in segmented regional integration activities that inhibit cross REC programme partnerships and information sharing among implementers and beneficiaries. Further, the lack of coordination among key stakeholders results in limited dialogue and involvement in the programme cycle of regional integration activities.

This is compounded by the frequent staff transfers in key Ministries and Agencies, which undermines institutional memory and downgrades the capacity and competences on regional integration. In the process, less than optimal preparations are subsequently made for regional meetings and negotiations. The leadership at senior management levels also lacks the requisite competences to champion regional integration issues. The lack of a regional integration policy

⁴ The ratio is also less than 20% for COMESA countries (KIPPRA, 2004; UNCTAD, 2011)

in Kenya could be responsible for these weaknesses. There is also no clear articulation of the national interest in regional integration activities by various players in Kenya.

3.2.1.2 Limited Role of the Kenyan Parliament in Regional Integration

The engagement of the Kenyan parliament in regional integration matters has generally been weak. The Kenyan Parliament has often relegated the process and progress of integration, and is largely uninformed about regional developments. The Kenyan Executive arm of government has often assumed ownership of treaty obligations. The result is that the integration process is seen as being purely government-to-government and not carrying the people or their elected representatives along. The ownership of the integration process by the people is therefore lost.

Correspondently, the Kenyan parliament does not have much role on matters relating to COMESA, yet a lot of commitments have been made. Kenya now hosts the COMESA Monetary Institute (CMI), which is a precursor of the future monetary union of COMESA. Kenya's representatives in the East Africa Legislative Authority (EALA) are directly elected by the people, therefore raising again the issue of ownership and participation in the integration process. Even though the Kenyan parliament now elects Kenya's representatives to EALA, the nomination process of parties is often driven by nomination of candidates with party loyalties rather than competencies and interest in regional integration matters. There are currently no set standards for nominations into these parliaments, i.e. relating to gender, opposition party representation, and representation of ethnic minorities.

3.2.1.3 Capacity Limitations

Like other developing countries, Kenya still lacks capacity in the formulation of trade policy. There are no internal champions who can become trainers – indicating the need to train trainers for capacity transfer and consolidation within both the public and private sectors. Inadequate capacity in trade policy formulation is compounded by the intricacy of trying to harmonize the various multi-level multi-sector trade agreements. Negotiating skills are underdeveloped and documentation of positions for follow up is often lacking. This is further compounded by low awareness of key issues, priorities and policy objectives across most of the stakeholders (parliament, CSO, citizenry, public sector) due to a lack of knowledge, low research skill competences and the ability to make evidence based decisions.

While Kenya has signed bilateral trade agreements, including double taxation agreements with both developed and developing countries (as well as EAC partners) that are crucial for cross border trade and investment, the requisite capacity to implement them does not exist. The media also lacks the competence to effectively, consistently and independently articulate regional integration issues for the general awareness and education of the public on international trade relationships and the implications of proposed processes.

The absence of horizontal partnerships and formal information sharing networks impairs the consolidation of a national stock of knowledge, across all the MDA and sub-committees, on issues arising under each thematic area in the different RECs and WTO processes. This creates a situation where the coordinating Ministries often retain a substantial monopoly over the knowledge and information. Information dissemination would need to become a more structured and embedded practice if Kenya's regional integration endeavours are to be more effective. Otherwise, information silos will continue to drive Kenya's national engagement with international trade issues, and, thereby lower the overall impact of the national response to external trade policy and events. In addition, the lack of follow up and monitoring of the impact of integration programmes often leads to delayed programme implementation and regional integration commitments not being fully mainstreamed into national development planning.

3.2.1.4 Informal, Incoherent and Inconsistent Participation of Non State Actors (NSAs)

While it is acknowledged that there has been a positive shift in involving NSAs in regional integration issues, this is still generally poor and often done on an ad hoc basis. This inevitably limits the level and depth of consultation on major policy developments relating to regional integration. In particular, there are no principles and standards for quality assurance and control, either within the framework of consultation standards or other participation procedure. This is further compounded by weak networks, research and analysis to inform positions. Further, the weak governance/accountability processes among the NSAs also limits their oversight competences.

3.2.2 Trade Facilitation

3.2.2.1 Plethora of NTBs

The EAC Partner States often complain of the wide imposition of NTBs by Kenya. While NTBs may be justified on account of health, safety, security, protection of infant industries and revenue protection, their management may impact negatively on businesses.

Most of the NTBs that Kenya is often accused of imposing include: (i) cumbersome customs and administrative documentation procedures, (ii) demanding immigration procedures, (iii) cumbersome inspection requirements, (iv) police road blocks, (v) varying trade regulations, (vi) varying, cumbersome and costly transiting procedures, (vii) duplicated functions of agencies involved in verifying quality, quantity and dutiable value of imports and export cargo, and (viii) business registration and licensing.

These measures restrict the free flow of trade across many sectors, particularly metals, machinery and food. Even for food, where Kenya has a major deficit, the country is imposing too many restrictions, which end up raising domestic prices and hurting consumers (World Bank, 2012). Further delays in the domestication and enforcement of regional laws are in themselves major NTBs.

Road blocks, weigh bridges, inspection of transit cargo and unilateral application of national standards constitute another major group of NTBs in Kenya. Queues can take between one to two hours at each of the six weighbridges along the northern corridor. As a result, there is a clear incentive for truck drivers to pay bribes in order to skip the queues. These challenges raise the cost of doing business and impede factor mobility, as well as investment.

Although Kenya has responded to these NTBs by trying to simplify procedures, use of IT platforms in the clearing and payment of duties, reduction of licenses and road blocks, and a lot more effort is still required.

3.2.2.2 Export Products, Processes and System

Trade facilitation in Kenya is also constrained by problems inherent in Kenya's export system. These include: a weak export supply base, low value addition to Kenya's export products, low investment in the export sector, a narrow product range, lack of market information and weak market development promotion and support structures. This is further compounded by the limited Kenyan private sector investment in the research and development of products. In spite of some investment in the SME sectors, their lack of clear linkage to regional and global value chains curtails them access to regional markets.

Although a common market has been adopted in the EAC, numerous barriers continue to limit the mobility of Kenyan professionals. In addition, skills mismatches and skills shortages, pose a significant challenge to many Kenyan service exporters. Another factor that constrains service providers from exporting is a widespread lack of knowledge about exporting opportunities, markets, and processes, and a lack of awareness, on how to acquire such knowledge. Very often, Kenyan service providers – especially smaller ones - lack international networks, and find it very difficult to obtain market intelligence on foreign markets. Finally, difficulties in penetrating foreign markets also come from Kenya's low international brand equity, as a business service provider. Thus with the appropriate legal and regulatory reforms supported by harmonised regional policies and institutions, Kenyans stand to benefit from the implementation of the freedoms of movement of factors of production.

3.2.3 Infrastructure Challenges

3.2.3.1 Delays and congestion at Mombasa Port

Low productivity at the port is due mainly to yard congestion; traffic jams inside the terminal, equipment shortages and breakdowns, lack of a modern Terminal Operating System (TOS), poor customs clearance coordination and low labour motivation. As a result, berth productivity is 13–14 moves/berth-hour (EAC, 2011), as compared to performance data taken from the Port of San Antonio in central Chile where the average berth productivity was 63 moves/berth-hour, Port of St. Vicente in southern Chile, berth productivity was 40 moves/berth-hour, Lagos' terminals achieved 22 moves/berth-hour and Accra (Tema Port), the berth productivity was 23

moves/berth-hour. This leads to an excessive dwell time of up to 9 days in Mombasa in contrast to Rotterdam port with a dwell time of 4 days (<http://databank.worldbank.org>, *government of India*), Singapore port with a dwell time of 0.6 days; and Jurong port with a dwell time of 0.8 days. This difference results in higher costs and lower reliability. For example, it costs US\$ 2350 and an average of 624 hours to complete the process to import a light (20ft) container here in Kenya, it costs US\$ 439 and an average of 96 hours in Singapore, in China it costs US\$ 615 and an average of 576 hours, and it costs US\$ 975 and average of 144 hours in Netherlands.

3.2.3.2 *High Road Transport Costs*

Road transport costs are high due to lack of backhauls, congestion around major urban centres and poor road conditions. In addition, the plethora of NTBs, as well as corruption, also collectively impact negatively on transport costs. On the Northern Corridor, the most expensive road segment is between Nairobi and Eldoret, which is the result of a combination of difficult terrain and congestion.

Land transport (road or rail) represents the most significant element from a price point of view (50-80 percent of total logistics cost), while the port represents 60-80 percent of total time to destination. Extra inventory costs, due to delays and inefficiencies in the road corridors, also make a significant impact on the total cost of goods, accounting for 10-25 percent of the total logistics cost. In Kenya, vehicles licensed for transit cannot carry domestic cargo and must use prescribed transit routes. This has the effect of creating many return trips with the vehicles being empty.

3.2.3.3 *Poor Railway Network*

The Northern Corridor railway operates within Kenya and Uganda as a narrow gauge (1,000 mm) system that was built over one hundred years ago. Since independence, however, very little has been added to the system and the lines are old and in need of rehabilitation. As a result, both rail freight tonnage and passenger kilometers travelled have been declining steadily over the years. Although the bulk of the mainline fleet is old, it remains serviceable and suitable for rehabilitation and upgrading. These would include the 39 mainline (Class 93/94) diesel electric locomotives that RVR inherited from KRC, which form the core of the mainline fleet.

From the Northern Corridor, there are several spurs. The most important being the line to Kisumu on Lake Victoria and the spur to the Magadi Soda Lake to the south of Nairobi, whose potentials have not been exploited fully because of the poor transport system. Finally, the rail link to Tanzania is closed, because of low traffic demand.

3.2.3.4 *Perennial Energy Shortages*

Accelerating economic growth and sustaining it at a high level requires an ample supply of energy at competitive prices. At present, however, such a situation does not exist in Kenya. With less than one-in-five Kenyan accessing electricity, the current power generation capacity is

grossly inadequate to meet the projected demand of 1520 MW (Vision 2030; GoK, 2011; 3rd Annual Progress Report, 2012).

The delays in the completion of Sangoro hydro-energy and Turkana wind power projects contribute to a short fall of 321 MWs. To help bridge this supply gap, the Government has, since 2006, been importing rental (emergency) generation units, although these units are very expensive and require large subsidies. Nevertheless, even with this emergency capacity, and even if normal hydropower is restored, the reserve margin would still be less than be 10% (102 MW excess capacity during peak demand), which is far below the recommended level of 30% target of 460MW excess capacity at peak period (GoK, 2011).

Moreover, the current electricity tariffs for industrial and commercial users (*Table 3.2 below*), at 15.90 US cents-5.13/kWh (UPDEA, 2009) are much higher than those in COMESA (Egypt: 8.02 US cents; Ethiopia: 7.69 US cents) and SADC countries (RSA: 3.64 US cents), who Kenya competes with for private investment. This is mainly because Kenya has had to shift towards expensive private-funded thermal (oil) generation (IPP), as a result of having exploited virtually all viable hydro power potential. Finally, although geothermal is a low cost energy source, investment to date in Kenya's geothermal potential has been grossly inadequate.

Table 3.2: COMPARATIVE TARIFF (cents US/kWh)

| | | (EGYP) | (RWAND) | (LIBY) | (KENYA) | (ETHIOPI) | (RSA) | (TANZA) |
|--------------------------------|------------|--------|---------|--------|---------|-----------|-------|---------|
| Social | tariff 1kW | 1,34 | 13,99 | 1,52 | 9,70 | 4,25 | 4,62 | 6,4 |
| Single phase domestic usage | 2kW | 1,56 | 13,99 | 1,52 | 13,50 | 5,09 | 4,62 | 8,8 |
| (E=200kWh/month) | 4kW | 1,56 | 13,99 | 1,52 | 13,50 | 5,09 | 4,62 | 8,88 |
| Triphase domestic usage | 6kW | 2,50 | 13,99 | 1,52 | 15,40 | 6,26 | 4,12 | 8,40 |
| (E=600kWh/month) | 10kW | 2,50 | 13,99 | 1,52 | 15,40 | 6,26 | 4,12 | 8,40 |
| Commercial usage | 12kW | 8,02 | 13,99 | 3,64 | 15,90 | 7,69 | 3,64 | 10,61 |
| (E=1 800kWh/month) | 15kW | 8,02 | 13,99 | 3,64 | 15,90 | 7,69 | 3,64 | 11,84 |
| Semi-Industrial & motive power | 20kW | 8,33 | 13,99 | 3,18 | 8,45 | 6,42 | 3,38 | 10,00 |
| (E=2 500kWh/month) | 25kW | 8,33 | 13,99 | 3,18 | 8,45 | 6,42 | 3,55 | 11,48 |
| Medium voltage | 250kW | 3,20 | 13,99 | 2,35 | 7,25 | 4,54 | 2,81 | 9,91 |
| (E=35 000kWh/month) | | | | | | | | |

Source: Comparative study of electricity tariffs used in Africa – December 2009

3.2.3.5 Low ICT Connectivity in Rural Areas

Internet access remains limited in Kenya, especially in rural areas. Indeed, low levels of access were responsible for Kenya's ranking of 116th globally (10th in Africa) on the International Telecommunications Union's 2009 ICT Development Index. While Kenya has been connected

via the East Africa Submarine Cable System (EASSy) and The East Africa Marine System (TEAMS), the additional bandwidth has not translated into widespread internet access in homes, businesses, internet cafes and on mobile phones across the country.

3.2.3.6 Delays in the implementing the Yamoussoukro Declaration

Kenya, like the other African countries, has been slow in implementing the Yamoussoukro Declaration concerning the liberalization of access to air transport markets as decided by African Ministers in charge of air transport in November 1999 (AU, 2000). This translated to poor connectivity in the region, with Kenyan carrier, Kenya Airways, losing out on business. Further, sustained differentials in rules and regulations with bilateral agreements underpinning service provisions translates into reduced competitiveness and quality of services on intra-African routes and high cost of air travel. As such regional integration, in the context of air transport, has an insignificant impact on socio-economic development of the majority of African populations.

The objectives of the Declaration with regard to internal market liberalisation to promote fair competition are still valid, but implementation has been slow and cautious in Kenya, including the absence of an appropriate legal framework. These impacts negatively on air transport safety, security and environmental issues.

3.2.4 Business and Regulatory Environment

The World Bank Doing Business 2012 survey ranks Kenya 109th out of 183 economies, with an overall score that has declined by 3 points compared to 2011 (reflecting lower scores for six of the indicators). According to the latest Enterprise Survey (2007), the top three obstacles to running a business in Kenya include: Tax Rates, Access to Finance and the negatives effects of Practices of a large Informal Sector-resulting in high failure rates, unfair competition and access to productive resources (KCA, 2009). In addition, Kenya still restricts foreign ownership in more sectors (telecommunications, ports, natural resources, media) than most other economies in Africa. For example, foreign capital participation in telecommunications is limited to a maximum of 70% of the investment capital. However, the law provides foreign investors with a grace period of 3 years to build up the required domestic capital contribution of 30% of the investment requirements.

Although the Kenyan business environment fares unfavorably globally, it has still improved substantially as a result of the significant business regulatory reforms undertaken with over 1,300 business licenses and fees reviewed, more than 300 business licenses eliminated, and the remainder now hosted in a new entity called the Electronic Regulatory Registry, which is based in the Business Regulatory Reform Unit at the Ministry of Finance. Further improvements include the replacement of the paper based customs administration with an electronic data system, which enables business people to electronically submit their customs declarations and pay customs duty on-line. In addition, under the e-government initiative, government services

are increasingly being offered on-line, including services such as completion of tax returns and application for passports.

More needs to be done, however, particularly with regards to NTBs and service delivery efficiencies. This could build on the public service reforms already undertaken in all Government Ministries and Departments including: the implementation of performance contracts (PC), service delivery charters, and results based management (RBM) frameworks. The Government should also continue with reforms that aim to address the general status of the Kenyan macro-economic environment. Some of these include the enactment of key pieces of legislation which will have significant impact on the business environment, including: tax administration and the implementation of Special Economic Zones.

3.2.5 Immigration

Most Partner States in the region have got national immigration laws that allow immigrants from other member countries in the RECs they participate in. Work permits no longer apply for EAC nationals within the framework of the EAC CM. However, those of COMESA and IGAD are subjected to less stringent immigration laws compared to those of other countries outside the RECs Kenya participates in.

The increasing number of Chinese in East Africa's major capital cities engaging in small business is becoming a threat to the implementation of the Common Market Protocol among the EAC Partner States. Chinese investments in small retail outlets usually known as China shops have been very corrosive to local economies, threatening prospects of retaining even existing job opportunities.

Chinese construction projects in Africa are often carried out by Chinese workers. In some countries, the awarding of government tenders to Chinese construction companies have had an adverse effect on the local industry and has been widely seen as unfair competition, especially when Chinese companies paid their workers well below the required minimum wage. Cheap consumer goods from China have negatively affected local traders, as well as local manufacturers who cannot withstand Chinese competition. As a result, thousands of jobs are lost.

3.3 Opportunities

3.3.1 Bigger Market Access and Investment Areas

The African region now has a solid market within which to develop intra-regional trade and investment. With a population of 1 billion (2010), 60 percent of whom are below the age of 30, great potential lies in the abundance of a growing labour force, as well as the capacity to develop a huge consumer market. This is a significant opportunity that Kenya should look to exploit in order to spur growth and provide jobs for its rising population. The focus on trade and investment is even more appropriate because, as the African continent moves away from a

dependency on aid to a focus on development, trade will be a critical component of this new development trajectory.

Opportunities for Kenya have already arisen from the adoption of the common market in EAC and the customs union in COMESA. This expanded market has also enlarged following the declaration of the independent state of South Sudan. The proposed COMESA, EAC and SADC tripartite arrangement and formation of a greater free trade area (FTA) will also provide opportunities for Kenyan exports in goods and services. The wide range of Kenyan exports in services include: banking and finance, distribution, transport and logistics, telecoms, air transport, tourism, education, professional services like management consultancy and other knowledge services including ICT.

Increasingly, FDI inflows into the African region, Kenya included, are already on the increase and will be spurred on by more integrated markets. In addition, efforts being made to reduce production and transport costs, as a result of implementing the regional infrastructure programmes, is a big attraction to potential investors. Kenya can also offer a youthful and relatively well educated labour force to support both inward and outward FDI.

Already, Kenya's positive growth in regional trade over the last ten years has been attributed mainly to the deepening of integration initiatives within RECs like COMESA and EAC. Although intra-African trade is still actually very low, accounting for about 10 per cent of the value of total exports, Kenya has enjoyed a significant share of this. Nearly half of Kenya's exports (about US\$ 5.3 million in 2010) were destined to African countries, with 85% of this going to COMESA and/or EAC member countries.

The key export products included: re-exportation of fuel and lubricants (1.7%), food and beverages (41%), transport equipment and passenger vehicles (1.7%), and industrial products like cement and soda ash (30%) (Economic Survey, 2012). Ultimately, these RECs provide Kenya with bigger market access opportunities for a diversified product and service range. While Kenya trades with virtually every member of the COMESA and EAC regions, trade restrictions, on account of NTBs etc., limit the opportunities. As a result, rationalisation of the trade regimes across the different RECs would create even more market access opportunities.

Private sector participation has also been stepped up in cross-border investments, which includes participation in capital markets. Kenya is now the second highest source of FDI into Tanzania, Uganda and Rwanda (*Table 3.3*):

Table 3.3: Foreign Direct Investment Flows in EAC region, 2006 – 2008 (USD millions)

| Country | Source of FDI | 2006 | 2007 | 2008 |
|----------|---------------|-----------------|-----------------|-----------------|
| Kenya | Tanzania | 0.31 | 8.571 | 1.429 |
| | Uganda | 1.43 | 4.825 | 0.571 |
| | Rwanda | 0 | 0 | 0 |
| | Burundi | 0 | 0 | 0 |
| | ROW | 1235.26 | 2044.144 | 4555.142 |
| | Total | 1237 | 2057.142 | 4557.142 |
| Tanzania | Kenya | 35.30 | 45.80 | 28.57 |
| | Uganda | 2.3 | 2.80 | 25.00 |
| | Rwanda | 1.8 | 1.7 | 50.00 |
| | Burundi | 1.56 | 0.58 | 0 |
| | ROW | 5,836.30 | 5,664.70 | (46.71) |
| | Total | 5,877.26 | 5,715.58 | (39.94) |
| Uganda | Tanzania | 2.17 | 3.99 | 9.00 |
| | Kenya | 148.05 | 30.88 | 133.48 |
| | Rwanda | 0 | 0 | 0 |
| | Burundi | 0 | 6.00 | 0 |
| | ROW | 487.99 | 519.80 | 1,111.71 |
| | Total | 638.21 | 560.67 | 1,254.19 |
| Rwanda | Tanzania | 0 | 0.36 | 0 |
| | Kenya | 12.94 | 33.9 | 17.56 |
| | Uganda | 0 | 0.9 | 0 |
| | Burundi | 0 | 0 | 0 |
| | ROW | 106.8 | 195.3 | 311.96 |
| | Total | 119.74 | 230.46 | 329.52 |
| Burundi | Tanzania | ... | ... | ... |
| | Kenya | ... | ... | ... |
| | Rwanda | ... | ... | ... |
| | Uganda | ... | ... | ... |
| | ROW | ... | ... | ... |
| | Total | ... | ... | ... |

Source: EAC, 2011 and Partner State Investment Authorities

Kenya's currency convertibility has laid the basis for diversifications into new and upcoming economic activities, particularly those in the financial sector and service industries. In fact, all five EAC countries operate government debt markets at different stages of development and their Central Banks hold auctions under different frameworks (Table 3.4) to sell treasury bills and bonds. In this respect, Kenya raises the highest amount of debt (27.3% of GDP) and corporate bonds (2.4% of GDP) in its securities market.

Table 3.4: EAC: Treasury Bills and Bonds Outstanding at End-2010 (USD, millions)

| Product | Burundi | Kenya | Rwanda | Tanzania | Uganda |
|-----------------|---------|-------|--------|----------|--------|
| Treasury bills | N/A | 2,046 | 94 | 445 | 544 |
| Treasury Bonds | N/A | 6,566 | 25 | 1,635 | 686 |
| Corporate Bonds | N/A | 743.8 | 1.7 | 51.6 | 44.3 |
| As % of GDP | N/A | | | | |
| Treasury bills | N/A | 6.5 | 1.7 | 2.2 | 3.6 |
| Treasury Bonds | N/A | 20.8 | 0.5 | 8.1 | 4.5 |
| Corporate bonds | N/A | 2.4 | 0.03 | 0.26 | 0.29 |

3.3.2 Jobs and Employment Creation

With the entry of the EAC CM, it is expected that there will be substantial mobility of professional staff subject to EAC specific countries meeting their obligations of gradually liberalising the agreed service sectors. Kenya stands to benefit from concerted efforts in a number of selective sectors in finance, transport, ICT, education and related service sectors.

With Kenya's relatively well established health infrastructure and referral hospitals, and with its strong linkage to reputable medical institutions around the world, Kenya could diversify by offering its health services throughout the region. Already, Nairobi Hospital, Aga Khan Hospital, AMREF and AAR provide services at the regional level.

3.3.3 Shared Management And Approach To Common/Public Goods

Natural resources and trade related issues are trans-boundary in nature requiring large outlay of financial and technical support. Effective management requires a regional, continental or global approach. Kenya in its participation in regional integration stands a better chance of implementing such commitments on a regional basis. Some of the programmes that could benefit from region approach include disease control, management of Natural /environmental disasters (drought, floods, trans-boundary diseases); loss of biodiversity and deforestation; and rising temperatures, increasing Gas emissions and carbon sequestering. Others include joint approaches to water scarcity, conflict and environmental degradation and loss of biodiversity and solid waste disposal.

3.4 Threats:

3.4.1 Increased Global and Regional Competition

A major threat arising from further regional integration is increased competition for the Kenyan private sector – particularly from COMESA countries such as Egypt. In addition, with the proposed COMESA, EAC and SADC tripartite arrangement and the introduction of a Free Trade Area (FTA), competition from especially South African products and services will also intensify. A more local example is that of Ethiopia, which has about 8 million hectares of fertile arable land located largely in the Southern and South-Western parts of the country; in areas covering the southern Gambella region, the Omo River Basin regions of Kefa and Gamo Gofa, and spreading to the Afar regions. Ethiopia has also initiated an irrigation settlement scheme for 15,000 households on the border with Kenya. Both these factors, large arable land and huge water resources, give Ethiopia a comparative advantage within its southern region as compared to the harsh and dry conditions in Kenya's Northern and North-Eastern regions.

At a global level the world economy has also become increasingly more competitive, which has led to diminishing opportunities for trade and exports. In addition, markets such as Europe, that

once absorbed a large share of products from developing countries, are not showing any import growth and are currently only importing selectively due to the recurrent global economic crises that have affected their spending capacities. Kenya also faces a proliferation of RTAs that exacerbates the shrinking market opportunities for its products.

Although efforts are being made to develop and enhance the value of Kenyan exports, the country's imports have continued increasing at a higher level. This has resulted in an ever increasing trade deficit and pressure on the country's net foreign currency position. In addition, Kenya experiences unemployment and under capacity utilization even in export sectors that once thrived. These include the cotton and textile industry, leather and leather products, among others.

3.4.2 External Shocks and Events

3.4.2.1 New Markets and Products

Within the globalizing arrangements, consumers are constantly informed of the new products and services in the market. Consumer tastes, particularly for technology based products, are constantly changing. Products are now characterized by short PLC cycles, thus requiring constant investment in innovations. However, with new fragmented production systems, New investors can locate anywhere globally on basis of costs or markets. This will allow new investors to move direct into the new product lines at least cost. There is the likelihood of firms relocating outside the African region and yet be able to sell the final products into the regional market.

3.4.2.2 Terrorism, Piracy and Insecurity

Rising insecurity is one of the top threats to regional integration and the EAC region is already under pressure to deal with increasing cases of piracy, cyber-crime, terrorism, human trafficking and money laundering. Kenya's close political ties with the U.S. and other western governments, as well as support from Israel, also makes it a target for terrorism. For example, the threat of Al-Shabaab terrorism spreading from militia bases operating in Somalia has forced Kenya to engage militarily in Somalia. This has put pressure on the country's budgetary position, due to the financial commitment from supporting the war. In addition, it questions the value in opening up borders and freeing up the movement of people and products across the region.

3.4.2.3 Political Instability and Civil Unrest

Poverty, bad governance, high youth unemployment, and lack of adequate opportunities for economic empowerment through legitimate means are key factors that continue to fuel political instability in Africa and, unfortunately, do not create conditions conducive to regional integration. The Horn of Africa and the IGAD region in particular, remain particularly volatile in

this respect. Further unrest in Sudan and Somalia will also result in more human displacement and a resultant destabilization of potential markets. Internally, Kenya remains watchful of the upcoming elections in 2013. A repeat of the 2007 post-election crisis will again erode investor confidence, which will reverse many of the gains over the last five years that were built on a decade where the country performed largely well.

3.4.3 Nationalistic Tendencies

Occasional nationalistic tendencies and the continued divergent economic structures of potential partner states are obstacles to reaping the maximum benefits from regional integration. As a result, there is a need for stronger emphasis on communication, information dissemination, and education with respect to RI issues. Kenya has also been seen as the 'big brother' by some partner states and one that could potentially dominate given its relatively larger economy within the sub-region. The go-getting attitude of Kenya's private sector and the lack of synergy within Government on regional integration have in the past led to conflict both within Government, but also with the private sector (KEPSA/KAM), on the goals, direction and pace of regional integration.

3.5 Conclusion

While the EAC on the basis of the depth of the regional integration agenda constitutes the natural REC on which Kenya can and should anchor its regional integration agenda; the different RECs in which Kenya participates provide unique anchors for the realisation of Vision 2030 and beyond. EAC in 2011 accounted for over 55% of Kenyan exports into the African region while COMESA accounted for 35%. Besides, some of the lucrative markets include Congo DRC, Sudan, Ethiopia and Somalia. The cross border investment opportunities have provided job placements for Kenyan professionals. Regionalisation of energy access has opened up new sources of energy from Ethiopia, South Africa including potentials from Congo among others.

In this regard, Kenya's regional integration strategy shall leverage the country's strengths while managing the threats while containing weaknesses to take advantage of the emerging regional opportunities arising from its strategic geographical location as a gateway to the wider regional markets, human resource competences, political stability and a relatively diversified export base.

CHAPTER 4

4.0 KENYA'S REGIONAL INTEGRATION STRATEGY

This chapter covers the guiding key principles that will enable Kenya attain a strategic leadership position in the region as well a foothold in the world at large. Building on the state of play and SWOT analysis in chapters two and three, this chapter also presents the elements of Kenya's regional integration strategy.

4.1 Principles

Kenya's interests in regional integration are multi-faceted. For this reason, the regional integration strategy must be guided by certain principles. This section therefore provides key principles to guide the regional integration strategy.

4.1.1 *Market Access for Economic Advancement and Development*

Kenya's interests at the regional level are and shall continue to be driven by the quest to expand market access and investment opportunities. This will be achieved through implementation of regional agreements, protocols and other decisions taken on the implementation of projects and programmes under regional integration that will improve Kenya's competitiveness in the region while maintaining its traditional core principles and norms of non-alignment, non-interference in internal affairs of other states, good neighbourliness, peaceful settlement of disputes and adherence to the charters of the UN and African Union, .

Kenya shall thus seek advantages in neighbouring territories⁵ within the ongoing CES tripartite negotiations, including access to raw materials, markets and trade routes that it cannot achieve through ordinary diplomacy. This will be done via 'spheres of influence' especially with respect to the following:

- i) Promoting joint economic development corridors with its neighbours as a means to
 - a) secure infrastructure development and energy supply;
 - b) facilitate trade;
 - c) guaranteeing food security;
 - d) utilization and management of shared water resources, and,
 - e) joint resource mobilization;

⁵ Kenya though a member of COMESA, it cannot participate in the latter's Customs Union. However, the ongoing negotiations under the CES grand FTA will offer the opportunity to rationalize the COMESA-EAC-SADC trade regimes and help countries harmonise their commitments in situations of multiple memberships.

- ii) Promoting and protecting of Kenya's investments within the region in manufacturing, agricultural production and agro-processing, livestock, tourism, education and pharmaceuticals, etc;
- iii) Securing destination for Kenya's expertise in various fields including education, tourism and medicines;
- iv) Ensuring full implementation of the agreed/signed bilateral arrangements among African countries.

Beyond the aforementioned will be a myriad of objectives that the government will espouse including: supporting friends and allies, promoting human rights, environmental regulations, the development of international institutions, values and regulations, schemes for regional integration and security collaboration.

4.1.2 National Security and Sovereignty

In the context of the globalising environment, security issues are trans-boundary. Nevertheless, national interest should always form part and parcel of regional integration activities. This entails the use of economic, diplomatic and political power projection in such a way as to maintain the survival of the Kenyan state while pursuing regional integration activities. This is particularly the case given the plethora of 'new' security threats including terrorism, inflows of illegal migrants and refugees, international crime syndicates, illicit small and light arms trade, money laundering schemes, narcotics trafficking, environmental degradation, the spread of communicable diseases and trans-border crime.

The preservation of national integrity and sovereignty within secure borders shall therefore be one way of advancing national interests. Thus, Kenya's quest for regional and continental stability via peacemaking, building, keeping and enforcement shall be a key guiding principal. In this regard, matters of terrorism, piracy and human trafficking will be addressed within both regional and international conventions. This is well demonstrated through the combined AU and international efforts in securing peace in S. Sudan and the routing out of the *Al Shabaab* out of Kismayu. Security in this sense will be an encompassing condition in which the Kenyan individual citizens shall be guaranteed to live in freedom, peace and safety. Further, Kenya will leverage the diversified regional culture and its worth ethics for the mutual benefit of the region.

This vision of Africa at peace with itself and the world also finds expression in the policy documents of the AU and the New Partnership for Africa's Development (NEPAD) of which Kenya was a chief architect. Sustained greater market access shall be assured through regional peace and stability.

4.1.3 Solidarity and Mutual Benefit

Kenya subscribes to the principle of solidarity- a fundamental principle based on sharing both the prosperity and the burdens equally and justly among members of the RECs that Kenya is a

member of. This solidarity has implications for the various rights concerned with employment, industrial relations and social protection in the Charters of the RECs/RIGs that Kenya is a member of. Implementation of the solidarity principle will help in building a bridge between social and economic rights and justifiable civil and political rights such as trade union freedom of association, information and consultation, collective bargaining and collective action.

The principle of Mutual Benefit implies regional integration should not be seen in terms of competitiveness or a process for Kenya to negotiate and manipulate systems to get a better deal than its neighbours in the region. In this respect, Kenya shall continue to embrace an integrative negotiation process where countries develop a framework for mutual benefit and where all partner states would have a win-win situation. Towards this end future negotiations shall be underpinned by the EAC REC.

This will ensure that the region benefits from economies of scale not just in economic terms but also in political and diplomatic power both within Africa and at international forums. This implies that the kind of integration that Kenya has adopted is not just about improving its competitiveness but also would involve it surrendering a portion of its sovereignty in order for it to benefit from partnership with its neighbours in the EAC and COMESA which are bigger and stronger economic environments.

Beyond the aforementioned will be a myriad of objectives that the government will espouse including: supporting friends and allies, promoting human rights and values, environmental regulations, the development of international institutions, regulations, schemes for regional integration and security collaboration.

4.1.4 Compliance with International Requirements

In addition to universally acceptable principles of good governance, democracy, the rule of law; Kenya's regional integration strategy and its implementation plan shall conform to international market requirements including standards and business best practices. In particular, there will be need to leverage the WTO enabling provisions on RTA and SDT to take full advantage of market access opportunities within the regional and bilateral integration frameworks.

4.1.5 Wide Stakeholder Involvement

In order to entrench ownership of regional integration initiatives, wide stakeholder engagement through structured consultative processes shall underpin the regional integration agenda. The stakeholder's shall be drawn from the national level, counties, regional parliaments, civil society and private sectors. Stakeholders will continue to be involved in planning, and implementation, to provide feedback on perceived effectiveness and needed course adjustments in light of stakeholders. The wide stakeholder consultation will facilitate formulation of national positions that are in the nation's best interest and that is sustainable. The consultations further take on board diverse views to bring out, manage, respond and possibly alleviate concerns while avoiding abuse by powerful lobby groups and needs to involve the less powerful in society.

With the current technological advancements of instant communication, consumers have to be sensitised on global trends shaping consumer tastes. This may also create a window for the consumers to voice their concerns with regard to the operational business environment, quality and process of goods and services. In the end, all products and services are produced for the end consumers. Trade is not done simply for being able to export, but also to import cheaper.

4.2 Elements of Kenya's Regional Integration Strategy

This section identifies the key strategic issues that Kenya needs to address in order to further mainstream regional integration in the country's development agenda.

4.2.1 Institutional Framework for Coordination and Collaboration

As documented in earlier chapters, Kenya's multiple and overlapping membership in various RECs has created a complicated web of competing committees domiciled in different ministries, which in effect undermine the coherence of the integration process. The duplication of programs has often led to more time being spent in meetings and negotiations and double use of human resources. All these are costly and inefficient for both the government and the private sector.

In order to address this matter, the following institutional structure for coordinating regional integration activities is proposed:

4.2.1.1 Domiciling Regional Integration Function in a Single Ministry

In order to improve coordination and hence coherence, the Kenya government will create a ministry that will deal with the implementation of programs and projects of EAC, COMESA, IGAD and other RECs. This will be done within the context of the new constitutional dispensation that limits ministries to between 14 and 22.

One of these ministries can be formed out of the current ministries of trade, industry and the EAC and be called the *Ministry for Regional Integration*. Its main role will be to promote and enlarge Kenya's economic interests region in economic growth, trade and investments within the region. Alternatively, the Ministries of trade, industry, foreign affairs and the EAC may have to be combined into a single ministry, which may be named the *Ministry of Foreign Affairs and Regional Integration*.

Consistent with its constitutionally mandated responsibilities on foreign trade, the Ministry of Foreign Affairs & Regional Integration will exist to promote and protect the interest of Kenya and its citizens abroad and to enhance Kenya's security and prosperity through, among others:

- i) Promoting friendly relations and economic Integration between Kenya and other countries and enhancing Kenya's image abroad;
- ii) Promoting Kenyan exports, tourism potential, attracting foreign investment and enhancing scientific, technological and cultural links between Kenya and other States;
- iii) Providing economic, political and security information and advice to Government.

4.2.1.2 Establishment of the Office of the Chief Trade Negotiator (CTN)

Kenya's trade policy is aimed at creating market access regionally and internationally. In this respect, Kenya shall establish an office of the Chief Trade Negotiator (CTN) under either the ministry in charge of regional integration or foreign affairs. Its main responsibility will be to develop and coordinate Kenya's regional and international trade and investment policy in addition to overseeing negotiations with other countries. The CTN will be headed by a Principal Secretary who will serve as the principal trade advisor, negotiator, and spokesperson on trade issues.

The CTN shall coordinate trade policy, resolve disagreements, and frame issues for government and parliamentary decision. He shall provide trade policy leadership and negotiating expertise in its major areas of responsibility, including: bilateral, regional and multilateral trade and investment issues and expansion of market access for Kenyan goods and services. The CTN shall work hand-in-hand with the ministry responsible for regional integration function as well as Kenya's parliament, including through frequent consultations with Members and staff of the House Committee on regional integration committee.

The CTN shall have a strong private sector representation in order to formulate negotiating positions supportive of continued private sector investments.

4.2.1.3 Oversight role of Office of the President

Coordination is the means through which coherence is pursued and achieved. Thus, whereas, each of our ministries and agencies will be directed by their respective mandates, it is as important that the whole-of-government attains requisite coherence in terms of consistency of policies and actions by the different government agencies in respect of regional integration matters.

The Office of the President shall therefore perform the role of coordinator and supervisor of government affairs including regional integration activities. The office of the president will manage critical interdependencies within government and, in particular, allow for the development of an overarching national strategic framework for regional integration.

In order to comply with the constitutional requirement, the Oversight role from the Office of the President has to be institutionalized to facilitate the Presidents annual briefing to Parliament. This can be effected through the Cabinet sub-committee on regional integration under NESC.

The Office of the president, will work to design a Monitoring and evaluating (M&E) framework on regional integration activities by government and provide feedback for improving decision-making and negotiations with members of RECs. The M&E will take into account the development strategies of the various RECs that Kenya is a member of.

4.2.1.4 Institutionalize the Parliament's Legislative and Oversight role in RI

As stated earlier, the Kenyan Executive arm of government has often assumed ownership of treaty obligations. The result is that the regional integration process has remained purely a government-to-government affair and thus not carrying the people or their elected representatives along. The ownership of the integration process by the people is therefore lost.

In order to strengthen the role of Kenya's Parliament on regional integration matters, it is proposed that the *Ratification of Treaties Bill, 2012* currently before parliament be revised in such a way as to entrench the legislative and oversight roles of Parliament on regional integration affairs. This will entail undertaking the following:

i) Creation of a Regional Integration Affairs Committee in the Kenya Parliament

The functions of the committee shall be to:

- a) Enhance the role and involvement of the House in intensification and development of the integration process in the East African Community and the greater African region;
- b) Manage and coordinate regional integration affairs i.e. inter- and intra-government engagement on regional integration;
- c) Inquire into and examine any other matter relating to regional integration generally requiring action by the National Parliament;
- d) Report and make recommendations to the House on any of the matters examined or considered by the Committee;
- e) Monitor the records of all the relevant debates and resolutions of the meetings of the East African Legislative Assembly;
- f) Examine the Bills introduced in the East African Legislative Assembly and Acts of the East African Community to ascertain content and context of regional integration;
- g) Examine the records of all the relevant debates and resolutions of the meetings of the Pan African Parliament, the African, Caribbean and Pacific-European Union Joint Parliamentary Assembly and other regional integration bodies.

ii) Revise the Standing Orders of the Kenya Parliament

The revision of the standing orders of the Kenya Parliament will:

- a) Facilitate interface between national and regional Parliamentarians – i.e. Kenya's MPs in EALA and representatives in regional bodies to institutionally interact with the regional affairs committee;

- b) Create a framework for members of the National Assembly to directly access and contribute to bills before the EALA, especially through a special consideration and through the regional integration Committee of the National Assembly. This will assist in the fulfillment of the provisions of Article 49 (2)(a) of the Treaty for the Establishment of the East African Community as signed on 30th November 1999; This will however require EAC Partner States to take a common resolution for national Parliaments to make contributions on bills on the floor of EALA.
- c) Establish a permanent instrument of political cooperation between parliamentarians from both the regional Parliament and National Parliament to deal with important issues affecting parliaments in the process of regional policy-making and institution-building;
- d) Create a seamless interface between the Kenya Parliament and regional bodies by allowing Kenyan Members of the East African Legislative Assembly (EALA) to participate in proceedings of the National Assembly of the Kenya Parliament, especially those of the Committee specifically tasked to oversee regional integration;
- e) Build and strengthen the institutional capacity of the Kenya Parliament through capacity building for Parliamentarians and staff on regional integration issues, strengthening the oversight powers of Parliament and creation of a cost effective regional integration e-resource base for the Parliament;
- f) Institutionalize regional integration requirements and commitments in the Senate and County governments to avoid unnecessary litigations arising from national commitments at national level;
- g) Lead to enactment of a law that institutionalize the legitimacy of Kenya's representation to elective regional bodies;
- h) Increase information access through:
 - Development of an e-resource unit on regional integration in the Kenya Parliament linked to the ministry in charge of regional integration ;
 - Creation of a regional integration policy/legislative e-resource base for MPs akin to the EP's IPEX (Inter-parliamentary EU Information Exchange).
- i) Creation of a cost effective regional integration e-resource base for the Parliament in order to build capacity on matters of regional integration;
- j) Lead to benchmarking against international best practice in jurisdiction such as the Commonwealth and the European Parliament.

4.2.1.5 Enhancing Non-State Actors (NSA) Stakeholder Participation

Promoting stakeholder dialogue engagement on regional integration is paramount as it offers one of the most important mechanisms for improving the policy and regulatory framework. Stakeholder dialogues are particularly useful mechanisms in the process of drafting laws and regulations to ensure that they are conducive to a good business climate. Further dialogue would also generate good feed-back on programme outcomes.

Against this background, efforts will be made to broaden representation of the NSA in the regional integration structures and institutionalize the legal status of NSA in regional integration-to ensure structured engagement. The following will therefore be undertaken:

- a) Support institutional capacity strengthening to the civil society through, for instance, the East Africa Civil Society Forum (EACSOFF) in order to enhance effective participation of the civil sector in the regional integration processes.
- b) Establish a database for NSA that will act as a virtual interactive platform for networking and information sharing. Maintaining data bases of NSAs would be more useful if they clustered around the corresponding sectors of competences as follows:
 - Social and economic players – e.g. consumer organizations;
 - NGOs – including Environmental Organisations, Human Rights organizations, Charities, Educational and Training Institutions;
 - CBOs – Youth/Women/Family – all of which are crucial structures for participation in local and County life;
 - Religious Communities;
 - Labour market players – trade unions/employer federations – also known as social Partners.
- c) Establish partnerships and networks to strengthen dialogue mechanisms –through appropriate clusters;
- d) Seek out alternate initiatives for resourcing of the CSOs;
- e) Strengthen documentation competences;
- f) Adopt hybrid and adaptive method of representation to maximize on dialogue while taking into account professionalism in the representations and managed by government department;
- g) Wider and institutionalised participation of Youth Volunteer Corps in both the public sector and business community as a way of preparing them to leverage opportunities in the regional markets.

By increasing communication between the private and public sectors, bottlenecks can be more easily identified and joint solutions found. The government will, in this respect, work with development partners, to establish dialogue platforms on key issues affecting trade such as;

- a) non –tariff barriers along the key transport corridors;

- b) harmonization of labour and employment laws;
- c) mutual recognition, and the harmonization of pension and social security for increased mobility of labour and professionals across the region .

4.2.1.6 Deepening Economic & Commercial Diplomacy

In order to deal with the problem of shrinking exports, Kenya will employ economic and commercial diplomacy that defines the country's collective framework, as guided by international foreign trade laws, protocols, treaties and agreements, for increased expansion and consolidation of exports and investments beyond national borders and in close collaboration with the private sector. The main objective of Kenya's economic and commercial diplomacy is to use carefully crafted strategies, political influence and networks to promote the country's economic and commercial interests in regional and international markets. These include:

- Affirmative export promotion strategies;
- Attracting foreign investments; enabling private sector participation;
- Strengthening of the manufacturing sector and supporting international ambitions of Kenya companies; coherent and synchronized foreign trade policies and programmes;
- Availability of an all-purpose vehicle and legal instruments that support the promotion of international cooperation; and
- Adaptation of global best practices particularly from jurisdictions that have successfully used economic and commercial diplomacy to turn around their economies using available institutional and organizational models.

While it is essential to reduce operational costs of Kenya's missions abroad, it is of critical importance that Kenya strengthens and expands its diplomatic presence within the region and abroad, and focuses more sharply on increasing bilateral investment. In this respect, Kenya will employ all available political tools, including lobbying and diplomatic demarches to secure Kenya's interest of ensuring compliance by Partner States in the various RECs. In particular, Kenya's High Commissions and Embassies in Partner States will in addition to being staffed with staff with economic and business grounding, be used to provide the Government with key information about what is happening 'on the ground' in regional Partner States markets in relation to compliance with commitments, including the passage of key legislation of various RECs. The embassies will also monitor global events to facilitate Kenya respond accordingly.

4.2.1.7 Underpin Regional Integration on EAC Framework

Future Kenya's international commitments shall be underpinned by EAC RI. This is more so given the regional aspirations of ultimately entering a political federation.

4.2.2 Peace, Security and Trans-boundary Resource Management

All the RECs/RIGS that Kenya is a member of have peace and security as the pre-requisites to social and economic development within the respective Community and vital to the achievement of the objectives of the Community. In this regard, Kenya will continue to foster and maintain an atmosphere that is conducive to peace and security through co-operation and consultations on issues pertaining to peace and security of the Partner States with a view to prevention, better management and resolution of disputes and conflicts between Kenya and them or between regions in Kenya. Kenya will particularly engage in the following:

4.2.2.1 Regional Peace Keeping

Kenya shall continue to encourage Partner States to establish common mechanisms for the management of refugees as well as enhance co-operation in the handling of cross border crime, provision of mutual assistance in criminal matters including the arrest and repatriation of fugitive offenders and the exchange of information on national mechanisms for combating criminal activities. To this end, Kenya shall lead Partner States in adopting the following measures for maintaining and promoting security in their territories to:

- i) Enhance the exchange of criminal intelligence and other security information between the Partner States' central criminal intelligence information centres;
- ii) Enhance joint operations such as hot pursuit of criminals and joint patrols to promote border security;
- iii) Establish common communication facilities for border security;
- iv) Adopt the United Nations model law on mutual assistance on criminal matters;
- v) Conclude EAC Protocol on Combating Illicit Drug Trafficking;
- vi) Enhance the exchange of visits by security authorities;
- vii) Exchange training programs for security personnel;
- viii) Establish common mechanisms for the management of refugees.

The achievement of Kenya's development goals, to a very large extent, depends on the stability of its neighbours. To realize this, Kenya, will through the Ministry of Foreign Affairs, undertake the following diplomatic initiatives with a view to fostering regional peace and stability:

- i) Promotion of peaceful means of conflict resolution;
- ii) Creation of regional capacity to support peace process through training by the Foreign Service Institute;
- iii) Working with other African countries to strengthen the conflict prevention capacity of regional institution like EAC, IGAD, COMESA and the African Union;

- iv) Support for peace initiatives by the African Union and the United Nations through contribution of troops and provide leadership in peace keeping missions;
- v) Mobilization of support and resources for peace consolidation and development in African countries emerging from conflicts.

4.2.2.2 Combating Terrorism

Combating terrorism is also high on the agenda of the IGAD member states, and the IGAD Heads of State and Government meeting at the 9th Summit in Khartoum in January 2002 passed a Resolution on Regional Cooperation to Combat Terrorism.

Towards this end, Kenya will move fast to enact relevant regulations to facilitate the implementation of the *Prevention of Terrorism Act, 2012* that has just been assented to by the H.E. President Mwai Kibaki. Persons who engage in terrorism⁶ or help terrorists now risk life in jail or up to 30 years imprisonment without the option of a fine. Under the new law, those convicted for assisting in the commission of terrorists' acts or found in possession of property intended for the commission of terrorist acts can be jailed for up to 20 years.

The Act also provides stiff penalties for membership to terrorist groups, and recruiting, training and directing of terrorist groups and persons. The Act also amends two extradition laws, making it legal to send terror suspects abroad for trial. The illegal rendition of suspects has been a major bone of contention with human rights activists in the past.

4.2.2.3 Food Security and Sustainable Livelihoods

Kenya has and shall continue to take concerted measures to foster co-operation in the:

- joint and efficient management and sustainable utilization of natural resources within the region;
- improved water resources management;
- environmental conservation and mitigation of effects of climate;
- promotion of agricultural productivity and value addition for increased and sustainable food security; and
- improvement of meteorological services in the region.

4.2.2.3.1 Food Security

Kenya has and shall continue in the promotion of agricultural productivity and value addition for increased and sustainable food security in the region. In addition to promoting cross border food

⁶ *Kenyans have been victims of terrorism for decades, with major attacks in 1975, 1980, 1998 and 2002. The first bombs to strike independent Kenya exploded in 1975 in the then famous Starlight nightclub and the OTC bus station, both in Nairobi. The 1998 attack on the American embassy remains the deadliest. The last year has seen many smaller attacks courtesy of Somalia's Al Shabaab and their Kenyan sympathisers. Police have, however, had a hard time proving accomplices of known terrorists are involved.*

trade, Kenya shall also prioritize technology adoption including biotechnology in production, preservation and distribution; water harvesting for irrigation agriculture, and subscribing to international conventions.

As part of the rural development, the government has put in place the *Agriculture Sector Development Strategy (ASDS)-2010-2020*, aimed at addressing food security, poverty reduction, commercialization of agriculture, efficient input markets, taking into account regional and international initiatives including CAADP and MDGs. The ACTESA strategy 2015 is aligned to the COMESA Medium Term Strategic Plan (MTSP) ACTESA.

Kenya shall fast track the adoption of dry-land agricultural research and technology (DART) to combat the severe and recurrent droughts that hit the region with a view to enhancing food security especially in the dryer parts. This will entail promoting sustainable production of drought tolerant high yielding crop varieties through research and extension, and water harvesting techniques.

Kenya shall also move quickly to embrace Dry-Land Technology Transfer(DART) program of IGAD that provides capacity building for the ASALs agricultural research and extension, dry-land technology transfer and linkages among dry-land research institutions to enhance food security in the dryer parts of the IGAD region through cooperation, integration and exchange of technologies and information on production. Kenya shall provide maximum support to IGAD's Climate Prediction and Application Centre (ICPAC) based in Nairobi.

Ethiopia's growing agricultural productivity, particularly in its Southern region, has immense potential in enhancing Kenya's food security particularly given that most of the fertile lands are spread along the borderline and of which only 12% of the arable land is already under productive use. Kenya will therefore propose to Ethiopia, Special Status Arrangements (SSA) for Kenyan investors to invest in large scale agriculture involving massive production of food such as maize, cereals, fruits, vegetables, livestock and other agricultural products for the Kenyan market.

However, in order to develop the joint economic corridor, Kenya should support the establishment of credit line in banking and value addition agro-processing in the production areas which will also reduce costs of transport while encouraging transfer of technology and creation of employment, thus fulfilling Ethiopia's strategic interests. Through the SSA, Kenya will therefore propose the following;

- i) Joint management and utilization of shared water resources particularly the Omo River and Daa River Basins;
- ii) Collective measures for development of sustainable livelihoods for the border communities. The utilization of the shared water resources to boost food security and support alternative livelihoods for the nomadic populations in Northern Kenya is of particular national strategic

interests to Kenya. The proposed Lake Turkana Basin Integrated Development Programme (LTBIDP) is a case in point.

- iii) Harmonization of development policies for key economic activities in Southern Ethiopia and Northern Kenya including agriculture, livestock and animal health management;
- iv) Joint investments in developing the livestock sector through establishment of: Joint livestock markets, Leather factories and tanneries, Abattoirs and Meat processing facilities and Commodities exchange.

4.2.2.3.2 Sustainable Resource Management

Natural resources are trans-boundary in nature. Sustainable utilization requires co-operation in the joint and efficient management. In this regard, harmonization of environment policies and awareness campaigns and adherence to international conventions is a prerequisite to national level natural resource management. Kenya will, in this respect, continue to leverage the provisions of NEMA Act and the NBSAP Policy, 2000, on *Sustainable management of natural and mineral Resources* addressing the fundamental concerns of biodiversity management such as agricultural biodiversity and research and best practices in biodiversity management.

Kenya is endowed with a wealth of natural resources, and yet it is ranked as one of the low income countries in Africa especially in respect of mineral resources. Kenya has significant minerals such as; soda ash, Fluorspar, Titanium, Gold, Coal, Iron ore, Manganese ore, Diatomite, Vermiculite, Gypsum, Natural carbon dioxide, gemstones and oil. Yet all these minerals together with quarrying constitute less than one percent of GDP.

Geological surveys in the 1970s suggested Kenya had none of the mineral potential of neighbours such as gold-rich Tanzania, while mining legislation dates back to the 1940s, before the country's independence. The few minerals being mined in Kenya such gemstones, soda ash and fluorspar constitute less than one percent of GDP. Yet Kenya's mineral wealth potential is known to be high.

Against this background, efforts will be made to undertake a nationwide airborne geophysical survey to map sites with potential minerals and thus push Kenya to become one of the leading mining countries in the world. Efforts will also be made to put in place a robust framework to ensure resource spoils are prudently managed and equitably distributed. This will make Kenya avoid the risks of falling under the "resource curse" owing to influx of hard currency that is likely to make exports uncompetitive and exacerbate corruption. Thus, in order to avoid being caught off-guard when the time comes for big production, Kenya will with the assistance of development partners such as the ADB adopt best practices in natural resource management. Efforts will also be made to fast track the enactment of a new mineral legislation.

Mainstreaming climate change into agriculture and environment and developing national adaptation programs and adherence to international conventions are therefore important for sustained growth and development. As a consequence, a number EAC and COMESA members including Kenya have developed an adaptation and mitigation strategy to integrate climate information, adaptation and mitigation issues into government Policy to mitigate the effects of climate change and programs of Action in order to cushion the productive sectors against the impacts of climate change. These include Vision 2030 flagship projects covering conservation and protection of management of water catchment areas; conservation of wildlife corridors, pollution and solid waste management and land use mapping initiatives.

The regional integration efforts currently underway could be extended to the mining sector to create a distinctive competitive advantage for the region. Towards this end, Kenya shall rally Policy makers to develop a legal and policy framework that is common to member states of the EAC, COMESA and, the larger Tri Partite Free Trade Area (EAC, COMESA and SADC). This could include incentive schemes on the export and movement, within these regional economic groups, of mining equipment and the development of infrastructure corridors. Additionally, Kenya will fast track the undertaking of an airborne geophysical survey to establish the potential for Kenya's mining sector.

Kenya's other natural resources such as forests, wetlands, dry-land, aquatic and marine resources are under stress and stimulated by a variety of forces. Population pressure, deforestation, coastal modification, ongoing degradation of eco-systems as well as unsustainable use and poor governance of these resources threaten vulnerable habitats and biodiversity and, for a large proportion of Kenyans, livelihoods and long-term food security.

Against this background, the Government of Kenya shall design policies and institutional frameworks to address environmental management and thus improve economic growth and reduce poverty. Regional integration programs will thus include programs on conservation of natural resources, pollution and waste management, high-risk disaster zone management, environmental planning and governance, and climate change adaptation

4.2.3 Cross-Border Connectivity and Regional Infrastructure Development

Cross-border infrastructure such as transport, energy, and telecommunications are essential to move goods, services, people, and information across borders and can reduce high penalties currently imposed on Kenya's competitiveness. Such linkages also expand market access; reduce economic distance; and facilitate trade, investment and labour mobility. The resulting intensification of cross-border economic activities can help to generate employment, particularly in labour-intensive sectors, thereby providing additional opportunities to the poor. This will be achieved through improved cross-border physical connectivity thus enlarging regional markets in

addition to promoting economic diversification besides reducing costs of transport, energy, and communications. Improvements in roads and railways can reduce transport and logistics costs.

The priority infrastructure interventions are drawn from respective REC (EAC, COMESA, and AU) infrastructure master plans. These will be complemented with related software that includes harmonization of regulations, procedures, and standards to remove any barriers to trade. Developing financial infrastructures also can increase capital mobility in a neighbourhood, which is vital when national financial systems are small and lack instruments and systems for cross-border transactions. Below is a summary of infrastructure interventions that Kenya shall undertake in order to deepen its gains from regional integration:

4.2.3.1 Ports

The priority interventions shall target the ports of Mombasa and Lamu. Reliable and cheap connectivity to Kenya's ports of Lamu and Mombasa is critical to the exploitation of the inherent economic potentials of agriculture and natural resources in the region.

The required interventions at the port of Mombasa include modernization to improve on efficiency and reduce dwelling time, enhance IT connectivity to trade facilitating institutions and rationalise the number players at the port through the adoption of a single window system for efficient customs service delivery.

Complementary initiatives include multimodal transport connectivity from the port to the northern corridor to ease congestion. Other priority interventions in marine transport include modernizing shipping and inland waterways transport and container depots in Nairobi, Kisumu and Eldoret to decongest road transport.

4.2.3.2 Roads

With transport costs accounting for the highest share of the shelf price of processed food stuffs, efficient road transport infrastructure enhances competitiveness of originating and transiting goods for the benefit of the economy. Efficient road infrastructure accelerates the movement of goods and people and reduces related transport costs. The priority intentions in the roads sector include:

- i) Dueling of the northern corridor and connection of Mombasa mainland to the South Coast;
- ii) Expediting the completion of the LAPSSET project to open up new markets in Ethiopia, S. Sudan and added connectivity with the northern corridor as well as access to new economic activities (tourism, minerals-oil, coal, iron ore, , industry, agricultural products, etc);
- iii) Competing the missing links connecting to the northern corridor;

- iv) Decongesting the urban centres by completion of the three by-passes in Nairobi (Northern, Eastern and Southern) and Mombasa by-pass connecting the mainland with South Coast at the Likoni Ferry, the new container terminal as well as necessary infrastructure for the development of the free port;
- v) Other by-passes include connections from Miritini Township in Changamwe mainland, Likoni-Diani and the Mombasa-Nairobi highways and Malindi-Mombasa-Lunga Lunga Road running along the East African coastline and links with Tanzania to improve the transport linkage that has a rich tourism and agricultural (horticultural) potential;
- vi) Strengthening maintenance of existing road structures.

4.2.3.3 Railways

Rail service, while improving is still unreliable service especially at transfer points and locomotive exchange points. The current metre-gauge railway lines being used in East Africa has become obsolete resulting in high operation costs and minimal returns for business men. This has also put a strain on roads as traders opt for trucks to move their cargo.

In order to address this problem, efforts will be made to fast track the construction of a new standard railway lines within the LAPPSET. These will include two SG railway lines running from the coastal town of Lamu to Juba and Addis Ababa. One of the railway lines will connect the northern border town of Garissa with the Ethiopian capital while the other will connect Lamu to Juba through Garissa.

Current efforts by Kenya and Uganda relating to the joint negotiations with development partners to fund the construction of a new standard gauge railway will be stepped up replacing the existing line build in 1901. The new rail line will facilitate the shifting of traffic from roads to high-speed trains that are more efficient in the movement of goods from Mombasa port to several destinations across the country as well neighboring nations. Once completed, the new line would take up about 70 per cent of the total cargo being moved by railway. The rest of the cargo would be moved through the current line that is jointly operated by the Kenya Railways Corporation (KRC) and Rift Valley Railways (RVR), which is refurbishing the railway line from Mombasa to Nairobi.

Transport accounts for close to 40 per cent of the total cost of doing business in Kenya according to the Kenya Ministry of Transport (GOK, 2011). A revamped railway will enhance overall efficiency of rail operations and increase quality and quantity of rolling stock. The upgrading of the railway will increase line speeds from the current 25 to 30 kilometres per hour to 70 kilometres per hour.

Thus, in order to cut down transport costs drastically, the key railway infrastructure interventions include:

- i) Modernizing the existing railway network including construction of the missing links;
- ii) Expediting the railway line along the LAPSSET project;
- iii) Review Concessionaire agreements for future use in infrastructure development and operations.

4.2.3.4 Airports

Kenya's civil aviation is the fastest growing arm of Kenya's transport sector and it plays an increasingly important role in providing connectivity within Africa. The projections for both passenger and cargo traffic growth, coupled with the deficient and lagging airport and allied Infrastructure, calls for an urgent need to build and augment Kenya's Aviation Infrastructure.

In this respect, Kenya will need to, as a matter of urgency, have world-class gateway Airports providing aviation services and passenger/cargo facilities of global standards, in a safe and secure environment. The government will therefore put in place a program for directing investments in the Airport infrastructure – through both internal resource mobilizations, as well as through private sector participation in modernizing specific Airports. Substantial progress has been made in modernising, maintaining and expanding Mombasa Nairobi airport network.

Hitherto, several policy measures that would build world-class airport infrastructure in Kenya have been initiated. A Model Concession Agreement is being developed for standardizing and simplifying the PPP transactions for airports including existing ones in Nairobi, Kisumu and Mombasa.

Further investments in the air and telecommunication sectors with the associated facilitating frameworks and institutions will ease access and reduce costs, with the resultant positive effect on competitiveness. For faster movement of high value cargo and perishable products, reforms in air transport need to target:

- Implementation of open skies especially within and across the RECs;
- Enhancing anti-terrorism and safety arrangements;
- Expanding cargo handling capacities;
- Construction of cold storage infrastructure.

4.2.3.5 Energy

The economic difficulties being faced by Kenya are compounded by the continued high energy costs and severe shortages of energy supply. The textile industry, for instance, shed more than one half of its employees over the last few years, as many of the factories have relocated to

Egypt and other competing countries in the region. Other industries – and households -- are equally hurting from the high energy costs.

The private sector has been instrumental in meeting energy short falls in the short run. Some of the potential investors include a consortium of Dutch companies following up on the wind energy and the American firm, General Electric who have also expressed interest in wind energy and the World Bank/AfDB power interconnector between Kenya and Ethiopia. The energy projects include Wind power project in Turkana, additional investments in geothermal projects in Olkaria, and a host of other smaller power generators. This nevertheless does not cope with existing demand.

The energy situation is expected to worsen over the coming period as the growth in the country's installed capacity has not matched demand, mainly due to delays in implementing committed capacity projects, which are by their nature very capital intensive. The demand by Independent Power Producers (IPPs) for payment securities from Kenya's only utility company- the Kenya Power and Lighting Company (KPLC) in form of Letters of Credit covering a number of monthly payments for power deliveries has continued to contribute substantially to delays in implementation of planned projects.

Recent submissions received from some of the Investors are that they are unable to undertake projects at the set tariff regimes, citing increase in cost of generation equipment and financing. This is manifested by lack of sufficient number of Developers who are able to reach financial close for their projects. Yet it is not possible for Government Issue guarantees as it will compromise debt sustainability benchmarks.

Against this background, the Kenya government will work with the World Bank and other development partners to provide partial risk guarantees in order to raise private sector participation in energy generation. Within the context of the regional power pools Kenya shall also undertake the following:

- i) Diversify energy sources to include green energy, wind and solar- in the northern frontier;
- ii) Connectivity to regional power pools – priorities construction of transmission lines;
- iii) Invest in the oil refinery to support processing of the regional oil resources;
- iv) Modernize the existing oil pipeline in preparation to support the regions exports;

Construction of extensions of the pipeline to the land locked countries -to facilitate oil exports in the region and reduce pressure on the roads. Kenya is positioned on Africa's east coast, which could be a hub serving fast-growing Asian markets through its Mombasa port and the Lamu port, now in the initial stages of construction. Kenya and its neighbours in East Africa as well as the Horn of the continent have become a hot spot for oil and gas exploration in recent years, spurred by new finds.

Kenya has just announced its first oil discovery in the northern part of the country and is now checking on the commercial viability of the find. Ethiopia is also known to have oil deposits. In this respect, the Kenya should seek to achieve the following among the neighboring countries like Ethiopia, Uganda and South Sudan's:

- Development of a petrochemical complex corridor;
- Establishment of a petroleum engineering training facility in preparation for future oil exploration.

4.2.4 Trade Facilitation and Business Environment

In order to capture the potential benefits of increased market access opportunities generated by regional integration, Kenya needs competitive enterprises that are able to produce goods and services at a cost and quality required by the market. It also needs to have efficient mechanisms in place to ensure that these goods and services can reach regional markets within the time and cost required to stay competitive. Thus, Kenya shall combine measures to enhance the productive capacity of its enterprise sectors with measures to facilitate cross-border trade, thereby further reducing the cost of conducting regional trade.

To improve enterprise competitiveness, Kenya shall endeavour to create a business climate that allows companies to operate as efficiently as possible, thereby contributing to growth and employment generation, while at the same time ensuring sustainability in terms of the well-being of people and protection of the environment. In addition to competitive cost of production of quality products, a firm's competitiveness is also determined by its ability to bring these goods or services to markets at the lowest possible cost and within the required time. As such, transaction costs, in form of information and contracting costs (including control and enforcement costs); Financing costs; Transport costs and Administrative and procedural costs. Further, firm's competitiveness is also determined by selective markets and products. Against this background, Kenya shall strive to ensure that it creates a good business climate by undertaking the following:

4.2.4.1 Policy, Legal and Regulatory Environment

In order to strengthen the quality of the overall policy and regulatory framework, a fundamental determinants for trade, investment and economic growth, there will be need to align regulatory policies that enhance competition, support contract enforcement, protect property rights and reduce regulatory costs are other important measures to increase efficiency and innovation. Transparency can help to ensure that laws and regulations are applied in a coherent and fair manner. Consequently, the urgency to:

- i) Fast track formulation of the legal and regulatory environment to eliminate NTBs;
- ii) Benchmark changes in the business environment-e.g. e-commerce platforms;
- iii) Streamline emergent issues in trade e.g. environment requirements; labour laws,
- iv) Align immigration laws with common market commitments;
- v) Apply technology platforms to enhance transparency and accountability;
- vi) Alignment and harmonization of trade and investment regimes across the different RECs.

In order to harmonise national and regional policy and regulatory environment, there will be need to:

- Domestic regional commitments- national plans (Vision 2030, MTPs);
- Manage multiple memberships thru liberalization in the TFTA (CES);
- Commit to Regional Convergence Benchmarks and timelines.

In addition, IT facilitated business operations, simplified customs procedures, compliance with standardized market requirements, financial sector reforms including cyber-laws, and protection of regional investments.

4.2.4.2 Strengthening ICT Infrastructure

ICT has and continues to play a leading role in stimulating Kenya's economy and that of other countries in the region. ICT can lift our economies, and provide smart, high-end jobs for the next generation. Given that a large percentage of the population within the region is unbanked, Kenya can leverage its mobile payments innovation to drive the economies of the region.

Additionally, there will be need to reduce trade information costs in order to lay the foundation for effective competition. These include information on markets and market requirements, governance related issues in particular those pertaining to maintaining peace and security. It is expected that such information sharing will create awareness of export services requirements to upscale the mobility of professional.

Supply-side information costs of exporting include market research and marketing expenditures, such as identifying potential markets and customers and contacting them. Reducing information and contracting costs typically requires policies that ensure a healthy level of competition in the telecommunication sector and improve access to ICT. Towards this end, efforts will be made to Integrate Kenya's ICT agenda into local and international communication including policy, political and diplomatic initiatives to promote Kenya's innovation including Konza Technology City.

Efforts will also be made to pursuit strategic partnerships with local, regional and international private sector in order to actualize the strengthening the ICT backbone infrastructure. This will facilitate/promote information sharing which is key to business and regional integration.

Besides reviewing contract laws and regulations, Kenya will, in collaboration with chambers of commerce and other private sector associations, also strengthen trade promotion organizations such as the Export Promotion Council (EPC) to as to reduce the costs associated with identifying and reaching foreign markets.

Furthermore, Kenya will support measures to harmonize at regional level and benchmarked to international best practice the facilitation of platforms for new economic activities and technology. This will facilitate Kenya to diversify its economic activities into the service sectors which hitherto received low attention.

Kenya shall also through the regional economic communities pursue policies and regulatory frameworks that facilitate cross border - private sector participation, encourage high technology applications, including policies that can track changing consumer tastes. This will call for financial reforms to deepen the financial product range and improve access to trade finance.

4.2.4.3 Maintaining Macroeconomic Stability

Kenya shall continue to implement prudent macroeconomic policies in order to provide a predictable overall climate for investment business decisions, thus lowering the risk of doing business. Reducing trade (export and import) financing costs requires the development of a national trade finance infrastructure able to provide access to a wide array of specialized trade finance and risk management services such as export credit insurance, hedging and forfeiting.

This will necessitate the establishment of specialized trade finance institutions such as export-import banks and export credit agencies can then be considered to further enhance access to trade finance tools and instruments. This will require strengthening and facilitating regional institutions- ATIA, PTA Bank, EADB, CASSOA, to provide the necessary intermediation. With further trade liberalisation, there will be need to build alternative revenue streams to move away from dependency on customs duties and prepare for eventual MU.

4.2.4.4 Leveraging on Complementary Service Providers within and Outside the Region

Technical market requirements in the market place facilitate both regional and global trade. Kenya can leverage a number of these specialized regional and international organisations, in accessing the requisite services of inspection and certification in order to benefit fully from regional integration.

More elaborate arrangements shall be put in place to leverage the expertise from development partners, other regional and international players on the policy analysis front include UNCTAD, UNIDO, WCO, WTO, UNECA, TRALAC, ESAMI supporting developing countries acquire adequate the requisite capacities. Key services are internationalized with global rules underpinning them. These include among others ICAO.

4.2.5 Integrating SMEs into Local, Regional and Global Value Chains

The business environment shall benefit from deliberate initiatives targeting diversification of products and markets, moving up the value chain in the traditional and new natural resource based products and services, integrating SMEs into local, regional value chains and management of the informal sector.

While acknowledging that SMEs are the backbone of the economies of the region and provide the greatest potential for people empowerment, wealth creation and employment particularly in agro-processing and agricultural and livestock sectors, Kenya should therefore propose the following;

- a) Policy and programme coherence for affirmative promotion of SMEs
- b) Build partnerships between SMEs of the member countries to share know-how, skills, technology and innovation for transformative growth;
- c) Provide preferential access to affordable credit for start-up, expansion and growth of SMEs in strategic sectors within the economic development corridor;
- d) Establishment of sub-contracting exchanges for SMEs;
- e) Create joint incubation centres for SMEs within the economic development corridor;
- f) Establishment of joint programmes for internship and attachments.

The potentials of the SME sector shall be exploited with consistent and targeted investments on infrastructure, energy, ICT, investment and business environment and productivity. Key interventions include continuous reforms of the business environment, identification of regional and global value chains for SME participation, and participation in international data bases. Others include structured dialogue between the public and private sectors, access to trade finance, further exploration to consolidate linkages to the export markets.

4.2.6 Human Resource Development

A key factor in reduction of costs is productivity. In addition to retooling of worker skills, effort will be made to promote modern technology production techniques. Human resource development is critical for the effective performance of the labour market; in the form of technical competences, coordination, management, negotiation capacity, and trade/investment facilitation.

To the extent that Kenya resource endowment lies in its people, substantial investments shall be required to attune the labour skills to the contemporary market requirements, technological driven and globally interdependent economies. This will entail strengthening Human Resource Competences for Programme Implementation and Export to Regional Markets.

Promotion of a research culture among both public and private sector employees will enhance analytical and negotiation competences, legal drafting and priority setting in the context of national interest. This will prepare the Kenyan youth to take advantage of the available regional and international market opportunities, in particular those from RECs in which Kenya is

participating. The implementation of the EAC CM expands employment opportunities outside Kenya. These will accreditation of higher education institutions.

The world economies are generally slowing down and experiencing employment contractions. However, the job market underpinned by technological developments is experiencing a paradigm shift to ICT platforms for enhanced connectivity of operators. Entrepreneurial skills in locating the niche in a globalized environment for the different national and global players and establishing the link thereof are becoming more critical in the global labour markets. There will also be the need in the context of the offer/request proposals at the WTO to target the elimination of the discriminatory labour laws in the north through reciprocity.

More important is to strategize on the preferential treatment of labour in the RECs in common market arrangements against those from the north. Further, there will be need to leverage the work ethics of the Chinese in order to transfer such skills to the citizens of the region. Building on the current realities where informal sector provides employment opportunities in Kenya, concerted effort should be taken to skill and retool employees for today's labour market. Consequently, the need to review the labour laws to ensure they conform to the policy scenarios of the day including entrenching affirmative action in consistence.

The level of education is of fundamental importance, not only for the development of society in general, but also for the development of enterprises. A higher educational level increases the possibility of further building capacities in managerial and technical skills, which is of crucial importance for the creation of competitive enterprises as well as for the possibility of attracting FDI. Notwithstanding the importance of both infrastructure and the general level of education, further discussion of these topics lies beyond the scope of this paper. It will also be prudent to staff the implementing agencies adequately to ensure timely action on all commitments that the country enters into.

Human capital is vital resource for Kenya. It is noted that the quality and diversity of the Kenya Diaspora presents a resource with huge untapped potential. In light of this, the ministry will expand its linkage with the Kenyan Diaspora and harness this resource by:

- i) Facilitating its integration into the national agenda;
- ii) Collaborating with Kenyan financial and other institutions for investment instruments and products that are customized for the Diaspora;
- iii) Lobbying for employment opportunities overseas and in international organizations;
- iv) Promoting the creation and structured management of Diaspora organizations ;
- v) Sourcing scholarships from universities and tertiary institutions in foreign countries;
- vi) Promoting more efficient and cost-effective transfers of remittances.

4.2.7 Special Agreements to Secure Kenyans Working Outside the Region

In order to take full advantage of the opportunities from the CM provisions, there is need to strengthen capacity building programmes for heightened:

- Skills development- e.g. provide scholarships to support training across the region
- Collaborations of capacity building institutions to upgrade competences in the region
- Technical support to the private sector
- Effective participation in the formulation of standards
- Contract/agreement formulation

Kenya stands to benefit by seeking to invest growing economies of the region such as Ethiopia's and in negotiating preferential investment terms in selected sectors. There are opportunities for Kenyan investors in the following sectors, in terms of provision of expertise/human skills and through investments;

- ✓ ICT and telecommunications;
- ✓ Banking and financial services;
- ✓ Tourism and hospitality;
- ✓ Medical fields;
- ✓ Agro-chemical and pharmaceuticals;
- ✓ Education, science and technology.

In order to open avenues for Kenya's investors Kenya will propose as a matter of priority a framework on:

- i) Expeditious conclusion of Agreements on Promotion and Protection of Investments, Avoidance of Double Taxation, Customs Support Agreements as well as the Border Trade Protocol;
- ii) Establishment of Joint ICT platforms and development of telecommunication support services including mobile banking.
- iii) Establish a Joint Private Investment Council (JPIC) between the respective national investment agencies responsible for promotion of investments in the agreed sectors with emphasis on joint ventures in the designated economic development corridor.

4.2.8 Targeted Capacity and Training of Regional Integration Implementers

4.2.8.1 Trade Negotiation Skills

Kenya will undertake measures to support capacity building in trade negotiation skills. Adequate training on regional trade and integration issues will be undertaken every year. The training workshop will equip the delegates with proper understanding of the need to understand the previous agreements, the implementation implications, interplay between the old and the new agreements being negotiated as well as other obligations before undertaking or concluding new

ones. Member States need to obtain satisfactory terms for their trade with the emerging trade partners such as China, India and Brazil

4.2.8.2 Training Resource for MPs and Parliament Staff on Regional Integration

The capacity building programmes for the MPs and Parliament staff shall target institutional and human resource competences in research and information access. The specific programmes aim at:

- i) increasing the capacity and effectiveness of Members of Parliament in their oversight work on regional integration activities;
- ii) increasing the capacity and effectiveness of parliamentary staff in supporting and providing technical support for Members of Parliament in their oversight work on regional integration activities;
- iii) Equipping parliamentary staff with tools to better assists MPs and parliamentary committees in their legislative and oversight roles;
- iv) Testing the developed training material for phase two on the participants in order to get input on its relevance, usefulness and accessibility; the existence of information gaps; and on how to improve it in order to reflect their needs better.

4.2.8.3 Training Media Fraternity on Regional Integration issues

In order to sustain information dissemination to a wider audience, there will be need for regular sensitization of the media fraternity and other NSA on issues under negotiation and implementation. These will be complemented with capacity building of the related stakeholders on topical issues of national interest.

Towards this end, regular information sharing from research findings shall be in build into the regular consultation processes. There will be need to leverage the new constitution to invoke harmonious coexistence at national level. The sustenance of regional peace and security shall take into account collective regional and global responses to emergent destabilizing elements.

4.2.8.4 Training existing staff on the National regional Integration Strategy and Policy

Effective migration from the current disjointed structure of managing RI will require concerted efforts to change the mindsets of the implementers. Towards this end extensive capacity building and sensitization programmes have to be mounted at both the central and county governments.

4.2.8.5 Regular Staff Updates for regional integration implementing agencies

There should be refresher courses for staff managing RI programmes to ensure awareness on emergent issues while newer staff should be taken through in-depth sensitisation sessions. More importantly are the research and analytical competences through use of appropriate analytical models to ensure informed policy advice and negotiation positions.

4.2.9 Exploring Alternative Sources of Financing Infrastructure

4.2.9.1 Promoting Strategic Public Private Partnerships (PPPs)

Private sector is critical in the delivery of a number of critical transport and energy infrastructure projects that have already been prioritize. In this regard therefore, PPPs and concessioning for access to resources and technical expertise shall be employed where appropriate in infrastructure development. In other cases, particularly railway infrastructure, joint intergovernmental efforts bring to fruition such projects at a much faster rate.

The private sector is the main beneficiary of regional integration. To ensure integration of their interests, in particular those of expansion of supply capacities, strategic partnerships wing the public sector in country as well cross border partnerships shall be upheld. The legal and regulatory frameworks shall be reformed to strengthen partnerships within and outside the region and to entrench competitive culture among the Kenyan private sector.

Kenya will also pursue Partnerships in mobilizing technical, financial and productive capacities to take advantage of regional and global markets in its development initiatives. This is more applicable in today's fragmented production systems, and technology facilitates service delivery. Consequently, the government shall promote outreach promotions of moving up the value chains of the productive sectors of agriculture, tourism, environment, natural resources for sustainability. In this regard investment protection laws shall constitute the operational frameworks of the CM arrangements and any RTAs that may be concluded outside RECs.

4.2.9.2 The Public Sector Investment Programme (PSIP)

In line with the MTEP for Vision 2030, Kenya shall adopt a PSIP- a five-year rolling programme for guiding public investments especially those that promote regional integration. The PSIP will be a major step towards adopting a strategic and coherent approach for investment planning and financing in Kenya. It will be a useful instrument that will enable Government to translate the national economic vision and sectoral policies into distinct investment projects that are necessary to meet the infrastructure gap and ensure sustainable development in the context of the regional integration strategy.

The PSIP will cover the investment program of the General Government sector, the Statutory Bodies, State Owned Companies, the Local Authorities. It will be a rolling investment plan which will be reviewed on a quarterly basis against the strategic objectives of government taking into account, inter-alia, resource availability, state of preparedness of investment projects and

implementation capacity. The PSIP will be a major step towards adopting a strategic and coherent approach for investment planning and financing. It will also be a useful instrument that will enable Government to translate the national economic vision and sectoral policies into distinct investment projects that are necessary to meet the infrastructure gap and ensure sustainable development.

This program will be an integral part of the overall investment strategy of Government aimed at overcoming the supply side constraints through massive investment in physical infrastructure and creating the dynamics to achieve the growth target of 10 percent per annum. The presence of PSIP would provide a framework for planning and scheduling investment in line with long-term government objectives and short-term macroeconomic constraints. It will also act as a screening mechanism for verifying that projects conform to government objectives and overarching policy and strategy.

4.2.9.3 *Communication Strategy on Regional Integration*

With the regional integration increasingly taking a central role in Kenya's economic activities, there will be need to keep all Kenyans informed. In this regard, there will be need to build on the EAC communication strategy under preparation.

CHAPTER FIVE

5.0 SECTORAL IMPLEMENTATION PLANS AND COORDINATION MECHANISMS

5.1 Introduction

The regional integration strategy for Kenya outlined in the preceding chapter seeks to ensure that all regional integration initiatives being pursued by Kenya are more effective and efficient and thus contribute to more towards Kenya's vision of becoming a middle-income country by 2030.

The successful implementation of the strategy will to a large extent be predicated on the existing capacity and proposed strategic interventions. To this end, the implementations plans underpin the success of the strategy.

It is important to underscore the fact that the environment within which the RIS will be implemented may change continuously. In some cases, RIS interventions may be overtaken by events due to initiatives that Member States and/or Cooperating Partners may have undertaken. In other cases, new or unforeseen circumstances may come to the fore. Maintaining the RIS focus, while allowing for flexibility and adaptability, poses a key challenge. The RIS needs to be seen as a "living" document that should be updated on a regular basis to keep it in line with prevailing reality.

5.2 Sectoral Implementation Plans

Strategic priority issues and actions of the strategic interventions have been highlighted in Annex 1. Concrete time bound and costed activities/programmes/projects will be developed and clearly spelt out in the sector specific MTPs, 2013-2017.

5.3 Monitoring and Evaluation Framework

The Monitoring and Evaluation system and institutional frameworks for the Kenya's RIS shall form the constituent part of NIMES. The M&E system will assess progress towards the agreed milestones; act as an early warning system in cases where targets seem unlikely to be achieved; and provide regular information to all stakeholders on the performance of implementation of the Development Strategy. The feedback from monitoring and evaluation will be used to ensure continuous sharpening and focusing of interventions at all stages of implementation of the development strategy.

Starting with the regional integration Activity Matrix, the sector ministries and agencies will develop a comprehensive M & E System for monthly, quarterly, semi-annual and annual reporting, as appropriate. Short periodicity monitoring, up to -annual reviews will be executed internally by the MDAs. Each MDA will establish M&E departments/units.

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|--|---|---|---|----------|---|--|
| PART 1 – Institutional Framework for Coordination and Collaboration | | | | | | |
| 1. | Government wide approach to regional integration I Integration in Vision 2030 development blueprint | <p>a) Domiciling Regional Integration Function in a Single Ministry</p> <ul style="list-style-type: none"> i. Consolidating ministries coordinating trade issues in EAC, COMESA, WTO, ii. Sessional paper on regional integration iii. Informing new government structure after 2013 elections iv. Integrate RI issues into County governments | <p>Sector MTPs and work plans</p> <p>County government reports on regional integration</p> <p>Sessional paper on regional integration</p> <p>Budgetary allocations</p> <p>Government structure and organisation</p> | May 2013 | <p>Ministries of Trade, EAC, Industry, Planning, OP, Foreign Affairs</p> <p>National parliament</p> <p>State Law Office</p> | To be determined in consultation with the line ministries and MDAs |
| | | <p>b) Establishment of the Office of the Chief Trade Negotiator (CTN)</p> <ul style="list-style-type: none"> i. Formulation of negotiating positions | <p>Chief Negotiators Office</p> <p>Hansard reports from Parliament</p> | May 2013 | | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|--|---|----------|--|--------|
| | | <ul style="list-style-type: none"> ii. Advise to President on international trade issues iii. Government spokes person | | | | |
| | | <p>c) Institutionalizing the Oversight role of Office of the President</p> <ul style="list-style-type: none"> i. NESC sub-Cabinet committee on regional integration ii. M&E framework for tracking foreign trade issues | OP reports to Parliament | May 2013 | National regional parliaments and the senate | |
| | | <p>d) Institutionalisation of Regional Integration Affairs in the Kenya Parliament, Senate and regional Parliaments</p> <ul style="list-style-type: none"> i. Review of the Treaties Bill 2012 to integrate RI issues ii. Creation of a Regional Integration Affairs Committee in the Kenya Parliament iii. Revise the standing orders | Revised Parliamentary Standing Orders Senate reports | May 2013 | National regional parliaments and the senate | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions of the Kenya Parliament | Performance Indicators | Timeline | Responsibility | Budget |
|-----|---|--|--|----------|---|--------|
| | iv. Integrate RI into the senate | Integrate RI into the senate | Stakeholder reports | | | |
| | e) Diversifying NSA roles in regional integration | Diversify range of stakeholder involvement at different levels | NSA data bases and networks | | | |
| | i. | Establish mechanisms for stakeholder involvement | Alternative mechanisms for mobilising resources for NSAs | | | |
| | ii. | Extend support to existing NSA dialogue structures for wider involvement | | | | |
| | iii. | Establish NSA databases for enhanced networking on topical issues | | | | |
| | iv. | Institutionalizing volunteer youth corps on RI matters | | | | |
| | v. | Explore alternative mechanisms for resourcing NSAs | | 2013 | Min responsible for RI, NSAs | |
| | vi. | | | | | |
| | f) Appointing Commercial representatives | Appointing Commercial representatives | Government Policy for commercial representation | | | |
| | i. | Revised foreign policy | Foreign representation strategy | | | |
| | ii. | Strengthen foreign diplomatic missions to attract investment and expand trade | Trade and investment statistics | | | |
| | iii. | Formulation of appropriate strategies for the different source and destination markets | | | | |
| | iv. | Design of all-purpose | | 2014 | Min responsible for RI and Foreign Affairs Commercial representatives | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|--|---|--|-----------|--|--|
| 2. | Peace, Security and Trans-boundary Resource Management | <p>vehicle and legal instruments that support the promotion of international cooperation intelligence gathering in host markets</p> <p>v.</p> | | | | |
| | Strengthen Kenya's regional integration agenda for enhanced connectivity, economic development, social welfare and political stability | <p>a) Regional Peace Keeping</p> <p>i. Security information exchange</p> <p>ii. Establish communication facilities for border security;</p> <p>iii. Adopt the United Nations model law on mutual assistance on criminal matters;</p> <p>iv. Conclude EAC Protocol on Combating Illicit Drug Trafficking;</p> <p>v. Enhance the exchange of visits by security authorities;</p> <p>vi. Exchange training programs for security personnel;</p> <p>vii. Establish common mechanisms for the management of</p> | <p>Peace keeping missions</p> <p>No of joint patrol missions</p> <p>Regional Policy on refugee management</p> <p>EAC Protocol on Combating Illicit Drug Trafficking</p> <p>Anti-terrorism laws</p> <p>Information exchange reports</p> | 2013-2017 | Office of the President/Office of the Prime Minister | To be determined in consultation with the line ministries and MDAs |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|--|---|-----------|----------------|--------|
| | | Strategic Interventions refugees | | | | |
| | | b) Food Security and Sustainable Livelihoods i. SSA with Ethiopia in cross border agriculture investments ii. Joint Kenya Ethiopia management Ormo water resources and other agricultural/livestock policy frameworks iii. Lake Turkana Basin Integrated Development | Cross border food Trade statistics Agriculture research reports on productivity Special status agreement with Ethiopia for Kenyan investors in large scale agriculture Water management agreement Joint cross border agriculture/livestock policy frameworks between Kenya/Ethiopia | 2013-2017 | | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|--|--|----------|----------------|--------|
| | | Programme (LTBIDP) | Diversified trade in agricultural products | | | |
| | | c) Natural resource management | Integrating regional and international commitments and frameworks into national environment policies | | | |
| | | i. Air borne geophysical survey to map potential minerals sites | | | | |
| | | ii. Policy on benefit sharing with communities | Mineral resource policy and regulatory framework | | | |
| | | iii. Preparation of mineral policy | | | | |
| | | iv. Mainstreaming climate change into agriculture and environmental management | | May 2014 | | |

3. Regional Infrastructure Development

| | | | | | |
|---|---|---|-----------|---|--|
| Support for Cross-Border Connectivity and Regional Infrastructure Development | <ul style="list-style-type: none"> a) Development of Transport corridors: <ul style="list-style-type: none"> • Ports- maintenance and expansion for handling increased trade • Roads-dueling northern corridor with Mombasa connectivity to South Coast and by-passes in RAILS- • Ports- upgrading Mombasa | LAPSSET including Lamu port Northern Corridor | 2012-2017 | Ministries, Agencies and Departments in Finance, Roads, Transport and energy sectors and State Law Office | |
| | Reduced dwell time at the ports | | | | |
| | Dry land depots in Nairobi, Kisumu and Eldoret | | | | |
| | Transport regulations, procedures and standards | | | | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|--|---|----------|----------------|--------|
| | | <p>port, Lamu port and other inland waterways ports to expand cargo handling capacities</p> <ul style="list-style-type: none"> • Pipelines- for transportation of liquids and gas • Airports expansion and upgrading to meet open sky policies | <p>Model Agreement</p> <p>Concessioning</p> | | | |
| | | <p>multi modal transport connectivity to reduce congestion</p> | <p>Simplified PPP transactions frameworks</p> | | | |
| | | <p>ii. construction of new container terminal in Mombasa port, and upgrading those in Kisumu, Nairobi and Eldoret</p> | | | | |
| | | <p>iii. integrated harmonization of transport regulations, procedures, and standards to remove any barriers to trade</p> | | | | |
| | | <p>iv. Infrastructure resource mobilization instruments</p> | | | | |
| | | <p>v. Infrastructure management</p> | | | | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|---|--|--|-----------|---|--------|
| | b) Telecommunications | | Enhanced connectivity to the rural areas | | | |
| | c) Energy i. Negotiate Partial guarantees to energy investors with support of World Bank and AfDB ii. Diversify energy sources to include green energy, wind and solar- in the northern frontier; iii. Connectivity to regional power pools – priorities construction of transmission lines; iv. Invest in the oil refinery to support processing of the regional oil resources; v. Modernize the existing oil pipeline in preparation to support the regions exports vi. Oil and gas explorations vii. Establishment of a petroleum engineering training facility in preparation for future oil exploration | | Partial Risk Guarantees Turkana wind project Olkaria Geothermal Project Energy imports from Ethiopia Transmission lines Oil Refinery and pipeline Petrochemical complex corridor Petroleum engineering facility | 2012-2017 | | |
| 4 | | <i>Trade Facilitation and Business Environment</i> | | | | |
| | Improve access to business support services through a predictable business environment | a) <i>Policy, Legal and Regulatory Environment reforms to mainstream</i> | | 2012-2015 | Ministries of Foreign Affairs, Finance, Trade, EAC as well as | |

| Annex 1: Implementation Plan For Kenya's Regional Integration Strategy | | | | | | |
|--|-----------------------------------|--|-----------------------------|-----------|---|--------|
| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
| | | <i>regional integration</i> | | | Central Bank of Kenya and Capital Markets Authority | |
| | i. | Mainstreaming regional integration into sector programmes | Sector MTPs | | | |
| | ii. | formulation of the legal and regulatory environment to eliminate NTBs | Law on NTBs | | | |
| | iii. | Alignment and harmonization of trade and investment regimes across the different RECs. | CES protocol | | | |
| | v. | Streamline emergent issues in trade e.g. environment requirements; labour laws, | Regional protection laws | | | |
| | v. | Align immigration laws with common market commitments; | investment | | | |
| | vi. | Strengthened protection of regional investments | Contract legislation | | | |
| | ii. | Review of contract laws | | | | |
| | ii. | Strengthened PPPs | | | | |
| | b) Customs administration | | Customs Procedures and laws | | Ministries of Finance, Trade, EAC and KRA | |
| | i. simplified customs procedures, | | | 2012-2015 | | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|---|--|------------------|---|--------|
| | | <ul style="list-style-type: none"> ii. Compliance with standardized market requirements c) financial sector reforms <ul style="list-style-type: none"> i. financial product range ii. Payment systems iii. Strengthen Banking regulation and supervision v. Improve cross-border connectivity and expand trade and investment. vi. Positioning Kenya as a Regional Financial and Services Hub | <p>Capital market laws</p> <p>Payment systems</p> <p>Reduction of transaction costs</p> | <p>2012-2014</p> | <p>Ministries of Finance, Central Bank of Kenya and Capital Markets Authority</p> | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|--|---|-----------|---|--------|
| | | <p>d) Productivity enhancement</p> <ul style="list-style-type: none"> i. Strategic Partnerships for enhanced investments and transfer of technology ii. Diversification and value addition in products and services iii. High technology applications | <p>FDIs</p> <p>Statistics on new economic activities</p> | | | |
| | | <p>e) Export promotion</p> <ul style="list-style-type: none"> i. Market surveys ii. Promotion events iii. Promotion of service sectors trade iv. Surveys to track changing consumer tastes | <p>Survey reports</p> <p>Trade statistics</p> | | <p>Ministries of Foreign Affairs, Finance, Trade, EAC</p> | |
| | | <p>f) Access to competitively priced quality support services</p> <ul style="list-style-type: none"> i. Trade finance infrastructure | | 2013-2015 | <p>Ministries of Finance, Trade, EAC and trade facilitating agencies in public and private sector</p> | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|--|--|----------|---|--------|
| | | ii. Technical support services iii. Risk management tools | | | | |
| | | <p>g) Strengthening Infrastructure</p> i. Benchmark changes in the business environment- e.g. e-commerce platforms | IT facilitated business operations, e-platforms Information disclosures | | | |
| | | ii. Integration of Kenyan business systems to regional and international systems iii. Apply technology platforms to enhance transparency and accountability iv. cyber-laws enactment | Range of Information accessed Cyber Laws | | Ministries of Finance, Trade, EAC, Transport and Communications | |
| | | <p>h) Maintaining Macroeconomic Stability</p> i. Commit to Regional Convergence Benchmarks and | <p><i>Domesticated economic convergence criteria</i></p> Export credit schemes | | Ministries of Finance Central Bank of Kenya and Capital Markets Authority | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions timelines | Performance Indicators banks and agencies | Timeline | Responsibility | Budget |
|-----|----------------------|--|--|----------|--|--------|
| | | ii. Establishment of specialized trade finance institutions such as export-import banks and export credit agencies iii. Explore new intermediation agencies iv. Specialized Risk management services in trade finance- export credit insurance, hedging and forfeiting | Export/Import banks and agencies Export insurance schemes Proportion of customs duties in national revenue sources | | | |
| | | i) <i>Leveraging on Complementary Service Providers within and Outside the Region</i> ii) <i>TA from regional and international organizations</i> | TAs | | Ministries of Foreign Affairs, Trade, EAC and trade facilitating institutions in public and private sector | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|---|---|--|------------------------------|--|--------|
| 5 | <p>Role of SMEs into the Regional and Global Value Chains</p> <p>Integration of SMEs into the regional and global value chains</p> | <p>a) Enabling environment for SME development, investment and trade facilitation;</p> <ul style="list-style-type: none"> i. Continuous reforms of the business environment, ii. Identification of regional and global value chains for SME participation iii. Participation in international data bases iv. Seeking structured dialogue between the public and private sectors v. More effective, efficient and coherent SME and FDI policies; vi. More effective, efficient and coherent trade and customs policies; vii. Harmonization of e-commerce legal and regulatory systems; <p>b) Policy and programme coherence for affirmative promotion of SMEs</p> | <p>Reformed business support services</p> <p>SME Data bases</p> <p>Trade Policies</p> <p>Expanded employment opportunities</p> <p>SME promotion policy</p> | <p>2013-2015</p> <p>2014</p> | <p>Ministries of Foreign Affairs, Finance, Trade, Industry EAC,</p> <p>Ministries of Finance, Trade, Industry EAC, Labour,</p> | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|---|--|--|-----------|--|--------|
| | | c) Build partnerships between SMEs of the member countries to share know-how, skills, technology and innovation for transformative growth | Institutional mechanisms for SME partnerships | 2014 | Ministries of Finance, Industry, Trade, EAC, Labour | |
| | | d) Provide preferential access to affordable credit for start-up, expansion and growth of SMEs in strategic sectors within the economic development corridor | Special purpose credit schemes for SME | 2015 | Ministries of Finance, Industry, Trade, EAC, Labour | |
| | | e) Establishment of sub-contracting exchanges for SMEs | Sub-contracting agreements | 2013 | Ministries of Finance, Industry, Trade, EAC, Labour | |
| | | f) Create joint incubation centres for SMEs within the economic development corridor; | Incubation centres | 2015 | Ministries of Finance, Industry, Trade, EAC, Labour | |
| | | g) Establishment of joint programmes for internship attachments | Internship policy No of interns | 2013-2017 | Ministries of Trade, Industry, EAC, Labour | |
| 6 | Human Resource Development | | | | | |
| | Retooling of worker skills to promote modern technology production techniques to manage globally interdependent | a) Strengthen human resource competences and skills to manage requirements in the import and export marketing i. labour skills to the contemporary market requirements; | Technical training syllabi Research reports Policy reviews | 2013-2016 | Ministries of Education, Science and Technology,, Trade, Industry, EAC, Labour | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|--|---|-----------|--|--------|
| | economics | technological driven production and trade systems ii. Promote research to inform decision making iii. Strengthen negotiating and drafting skills iv. Negotiate at the WTO for elimination of discriminatory labour laws | Review of labour laws | | | |
| | | b) Staffing implementing agencies with suitably qualified staff | No of staff | 2013=2017 | Ministries of Foreign Affairs,, Trade, Industry, EAC, Labour | |
| | | c) Leveraging diaspora competences by: i. Facilitating their integration into the national agenda; ii) Collaborating with Kenyan financial and other institutions for investment instruments and products that are customized for the Diaspora; iii) Lobbying for employment opportunities overseas and in international organizations; iv) Promoting the creation and structured management of Diaspora organizations ; v) Sourcing scholarships from universities and tertiary institutions in foreign countries; vi) Promoting more efficient and cost-effective transfers of remittances | No of diaspora collaborating with national stakeholders | 2014 | Ministries of Foreign Affairs,, Trade, Industry, EAC, Labour | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|--|---|---|------------------------------|---|--------|
| 7 | Natural Resource Management | | | | | |
| | | <p>a) Policies and institutional frameworks to address environmental management and thus improve economic growth and reduce poverty.</p> <p>b) Programs on conservation of natural resources, pollution and waste management, high-risk disaster zone management, environmental planning and governance, and climate change adaptation</p> | <p>Policies and regulatory frameworks for natural resource management</p> <p>Waste management policies and programmes</p> | <p>2015</p> <p>2015-2017</p> | <p>Ministries of Environment,, Trade, Industry, EAC, Labour</p> <p>Ministries of Environment,, Trade, Industry, EAC, Labour</p> | |
| 8 | Expansion of employment opportunities in the region through targeted actions | <p>a) Skills development- eg provide scholarships to support training across the region</p> <p>i. ICT and telecommunications;</p> <p>ii. Banking and financial services;</p> <p>iii. Tourism and hospitality;</p> <p>iv. Medical fields;</p> <p>v. Agro-chemical and pharmaceuticals;</p> <p>vi. Education, science and technology.</p> <p>b) Collaborations of capacity building institutions to upgrade</p> | <p>Curricula for different fields</p> <p>Training partnerships</p> | <p>2015</p> <p>2013-2017</p> | <p>Ministries of Environment,, Trade, Industry, EAC, Labour, Banking,</p> <p>Ministries of Education, Science</p> | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|--|---|-----------|--|--------|
| | | competences in the region | | | and Technology, Trade, Industry, EAC, Labour | |
| | | c) Contract/agreement formulation | Sample contract agreement No of Agreements concluded | 2013-2017 | Ministries of Education, Science and Technology, Trade, Industry, Finance, EAC, Labour | |
| | | d) Technical support to the private sector | No of TA to private sector Productivity improvement | 2013-2017 | Ministries of Trade, Industry, Finance, EAC, Labour | |
| | | e) Effective participation in the formulation of standards | No of standards adopted | 2013-2017 | Ministries of Trade, Industry, EAC, trade support institutions | |
| | | f) conclusion of Agreements on Promotion and Protection of Investments, Avoidance of Double Taxation, Customs Support Agreements as well as the Border Trade Protocol; | Double taxation agreements Investment protection legislation | 2014 | Ministries of Trade, Industry, EAC, trade support institutions | |
| | | g) Establishment of Joint ICT platforms and development of telecommunication support services including mobile banking. | IT service facilitated platforms | 2014 | Ministries of Trade, Industry, Communications, EAC, trade support institutions | |
| | | h) Establish a Joint Private Investment Council (JPIC) | JPIC Council | 2015 | Ministries of Trade, Industry, EAC, trade support institutions | |

| Annex 1: Implementation Plan For Kenya's Regional Integration Strategy | | | | | | |
|--|--|--|--|--|---|--------|
| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
| 9 | | Targeted Capacity and Training of Regional Integration Implementers | | | | |
| | Human resource development for enhanced productivity | <p>a) <i>Trade negotiation skills</i></p> <p>i. <i>Research and analytical skills</i></p> <p>b) <i>Training Resource for MPs and Parliament Staff on Regional Integration</i></p> <p>i. <i>Increased capacity of MPs for oversight roles</i></p> <p>ii. <i>Increasing capacity of parliamentary staff in providing technical support to MPs</i></p> <p>iii. <i>Equipping parliamentary staff with appropriate tools for effective analysis</i></p> <p>iv. <i>Designing training materials for further Parliamentary capacity building</i></p> <p>c) <i>Training Media Fraternity on Regional Integration issues</i></p> <p>i. <i>Sensitization on new topical issues</i></p> <p>ii. <i>Leveraging provisions of new constitution to inform all stakeholders</i></p> <p>iii. <i>Sensitization of the media on</i></p> | <p>No of staff trained in trade negotiations</p> <p>No of MPs trained</p> <p>Hansard reports</p> <p>No of debates on regional integration</p> <p>No of media personnel trained</p> <p>Media reports on regional integration issues</p> | <p>2013-2017</p> <p>2013-2017</p> <p>2013-2017</p> | <p>Ministries of, Trade, Industry, EAC, Foreign Affairs, trade support institutions</p> <p>Ministries of, Trade, Industry, EAC, Parliament, senate,</p> <p>Ministries of, Trade, Industry, EAC, Media</p> | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions | Performance Indicators | Timeline | Responsibility | Budget |
|-----|---|---|---|-----------|---|--------|
| | | regional and global responses to emergent destabilizing elements | | | | |
| | | <p>d) Regular Staff Updates for regional integration implementing agencies</p> <p>i. Refreshers for existing staff</p> <p>ii. Sensitization of existing staff on new trade/investment issues</p> <p>iii. Training of new staff on RI</p> | <p>No of staff receiving regular updates on regional integration</p> <p>Status of RI programme implementation</p> | 2013-2017 | Ministries of Trade, Industry, EAC | |
| 10 | | | | | | |
| | | <i>Exploring Alternative Sources of Financing for Infrastructure</i> | | | | |
| | Diversified mobilization resource for development | <p>a) Promoting Strategic Public Private Partnerships (PPPs)</p> <p>i. Private sector interventions</p> <p>ii. PPP</p> <p>iii. Joint intergovernmental interventions</p> | <p>Intergovernmental agreements</p> <p>No of private sector engagements</p> <p>No of PPPs for development</p> | 2013-2017 | Ministries of Trade, Industry, Finance, EAC, State Law office | |
| | | <p>b) Legal framework for PPPs</p> | PPP revised regulatory framework | 2014 | Ministries of Trade, Industry, Finance, EAC, State Law office | |
| | | <p>c) Public Sector Investment Programme (PSIP)</p> <p>i. 5-year MTP rolling</p> | MTPs | 2013-2017 | Ministries of Trade, Industry, EAC, Planning | |

Annex 1: Implementation Plan For Kenya's Regional Integration Strategy

| No. | Strategic Objectives | Strategic Interventions programme | Performance Indicators | Timeline | Responsibility | Budget |
|-----|----------------------|---|--------------------------|-----------|---|--------|
| 11 | M&E Framework | Tracking programme for implementation for impact assessment | MTP Implementation Plans | 2013-2017 | Ministries of, Trade, Industry, EAC, Planning | |
| | a) | Sectoral Implementation Plans | Integrated M&E reports | | Ministries of, Trade, Industry, EAC, Planning | |
| | b) | NIMES | Impact assessment Report | 2016 | Ministries of, Trade, Industry, EAC, Planning | |
| | c) | Impact assessment studies | | | | |

Annex 2: Macroeconomic Convergence criteria for COMESA and EAC regions for 2005 to 2015

| REC/Period | Primary Criteria | Secondary Criteria |
|----------------------|--|--|
| COMESA, 2005-2010 | <ul style="list-style-type: none"> Overall budget deficit/gross domestic product (GDP) ratio (excluding grants) of not more than 5%; Annual inflation rate not exceeding 5%; Minimize central bank financing of budget deficit towards 0% target; and External reserves of equal to or more than 4 months of imports of goods and non-factor services. | <p>Achieve and maintain stable real exchange rates;</p> <p>Achieve and maintain market based positive real interest rates;</p> <p>Achieve sustainable growth rates of real GDP of not less than 7%;</p> <p>Sustained pursuit of debt reduction initiative on domestic and foreign debt (i.e. reduction of debt as a ratio of GDP to a sustainable level);</p> <p>Total domestic revenue to GDP ratio of not less than 20% ;</p> <p>Reduction of current account deficit (excluding grants) as a ratio of GDP to a sustainable level; and</p> <p>Achieve and maintain domestic investment rate of at least 20%.</p> |
| EAC | | |
| Stage I: 2007-2010 | <ul style="list-style-type: none"> Overall Budget Deficit to GDP Ratio (excluding grants) of not more than 6.0%; Overall Budget Deficit to GDP Ratio (including grants) of not more than 3.0%; Annual Average Inflation Rate not exceeding 5%; External Reserves of more than 4 months of imports of goods and non-factor Services. | <ul style="list-style-type: none"> Achievement and maintenance of Stable Real Exchange Rates; Achievement and maintenance of Market Based Interest Rates; Achievement of sustainable Real GDP Growth Rate of not less than 7.0%; Sustained pursuit of debt reduction initiative on domestic and foreign debt i.e. <ul style="list-style-type: none"> reduction of total debt as a ration of GDP to s sustainable level; National Savings to GDP Ratio of not less than 20%; Reduction of Current Account Deficit (Excluding grants) as a % of GDP to sustainable level consistent with debt sustainability; Implementation of the 25 Core Principles of Bank Supervision and Regulation based on agreed Action Plan for Harmonization of Bank Supervision |
| Stage II (2011-2014) | <ul style="list-style-type: none"> Overall Budget Deficit to GDP Ratio (excluding grants) not exceeding 5%; and Overall Budget deficit to GDP Ratio (including grants) not exceeding 2%; | <ul style="list-style-type: none"> Maintenance of Market Based Interest Rates; Maintenance of high and sustainable rate of real GDP growth of not less than 7.0%; Sustained pursuit of debt sustainability; Domestic Savings to GDP Ratio of at least 20%; and Maintenance of sustainable level of Current Account Deficit (excluding grants) as % of GDP. |

| | | |
|---|--|--|
| | <ul style="list-style-type: none"> • Annual Average Inflation Rate of not more than 5%; • External Reserves of more than 6 months of imports of goods and non-factor services. | |
| Stage III (2015) Introduction and circulation of a single East African Currency | | |

Annex 3: Sector Working Groups (SWGs) for Kenya's MDAs

| Sector | Sector Ministries and SAGAs |
|---|---|
| <p>1. Trade, tourism, finance and industry sector</p> | <p>Ministries</p> <ol style="list-style-type: none"> 1. Trade, 2. East African Community, 3. National Heritage and 4. Culture, Tourism and 5. Industrialization 6. Office of the Deputy Prime Minister and Ministry for Finance <p>Autonomous Government Agencies (AGAs)</p> <ol style="list-style-type: none"> 7. Insurance Regulatory Authority* 8. Capital Markets Authority (CMA) 9. Central Bank of Kenya* 10. Kenya Revenue Authority (KRA) 11. Industrial and Commercial Development Corporation (ICDC) 12. Kenya National Trading Corporation (KNTC) 13. Kenya Wines Agencies Ltd (KWAL) 14. East African Portland Cement Company (EAPCC) 15. IDB Capital Ltd <p>Semi-Autonomous Government Agencies (SAGAs)</p> <ol style="list-style-type: none"> 16. Export Promotion Council (EPC) 17. Export Processing Zones Authority (EPZA) 18. Non-Governmental Organizations Coordination Board 19. National Museums of Kenya (NMIK) 20. Kenya National Library Service (KNLS) 21. Kenya Cultural Centre. (KCC) 22. Kenya Tourist Board (KTB) 23. Kenya Tourist Development Corporation (KTDC). 24. Kenya Utalii College (KUC) 25. Catering and Tourism Development Levy Trustees (CTDLT) |

| Sector | Sector Ministries and SAGAs |
|--|--|
| 2. Public administration and international relations & Special programmes sector | <p>26. Bomas of Kenya (BoK)</p> <p>27. Kenyatta International Conference Centre (KICC)</p> <p>28. Kenya Industrial Research and Development Institute (KIRDI)</p> <p>29. Kenya Industrial Estates (KIE)</p> <p>30. Kenya Bureau of Standards (KEBS)</p> <p>31. Kenya Industrial Property Institute (KIP I)</p> <p>32. Numerical Machining Complex (NMC)</p> <p>33. Anti-Counterfeit Agency</p> <p>1. Public Service Commission of Kenya,</p> <p>2. Office of the Prime Minister,</p> <p>3. Ministry of State for Public Service,</p> <p>4. Office of the Deputy Prime Minister and Ministry for Finance,</p> <p>5. The Presidency and Cabinet Affairs Office,</p> <p>6. Office of the Prime Minister and Ministry of Planning , National Development and Vision 2030 ,</p> <p>7. State House</p> <p>8. The Ministry of Foreign Affairs.</p> <p>9. Regional Development Authorities;</p> <p>10. Gender,</p> <p>11. Children and social Development;</p> <p>12. Special Programmes;</p> <p>13. Youth Affairs and Sports; and</p> <p>14. Development of Northern Kenya & other Arid Lands.</p> <p>15. Kenya National Bureau of Statistics(KNBS)*</p> <p>16. Kenya Institute of Public Policy Research and Analysis(KIPPRA)*</p> <p>17. Community Development Trust Fund (CDTF)</p> <p>18. Poverty Eradication Commission</p> <p>19. New Partnership for Africa's Development (NEPAD) Secretariat</p> <p>20. Constituency Development Fund (CDF) Board</p> <p>21. Vision 2030 Delivery Secretariat</p> <p>22. National Coordinating Agency for Population and Development (NCAPD)</p> |

| Sector | Sector Ministries and SAGAs |
|----------------------------|---|
| | <ul style="list-style-type: none"> 23. Kenya Institute of Administration 24. Insurance Regulatory Authority* 25. Capital Markets Authority (CMA) 26. Central Bank of Kenya* 27. Kenya Revenue Authority (KRA) 28. Kenya institute of supplies management 29. Kenya Investment Authority 30. Public Procurement and Oversight Authority (PPOA). 31. Privatization Commission 32. Tana and Athi Rivers Development Authority (TARDA) 33. Kerio Valley Development Authority (KVDA) 34. Lake Basin Development Authority (LBDA) 35. Ewaso Ng'iro North Development Authority(ENNDA) 36. Ewaso Ng'iro South Development Authority (ENSDA) 37. Coast Development Authority (CDA) 38. Women Enterprise Fund(WEF) 39. National Commission for Gender and Development (NCG&D) 40. National Council for Persons with Disabilities 41. National Council for Children Services (NCCS) 42. National AIDS Control Council (NACC) 43. Youth Enterprise Development Fund (YEDF) 44. Sports Stadia Management Board (SSMB)SAGAS |
| 3. Physical infrastructure | <p>Sector ministries are:</p> <ul style="list-style-type: none"> 1. Roads; 2. Public Works; 3. Transport; 4. Energy; 5. Local Government; 6. Nairobi Metropolitan Development and 7. Housing sub sectors. |

| Sector | Sector Ministries and SAGAs |
|--------|--|
| | <p>Roads Sub-sector</p> <ul style="list-style-type: none"> a) The Kenya National Highways Authority (KeNHA): b) The Kenya Rural Roads Authority (KeRRA): c) Kenya Urban Roads Authority (KURA): d) The Kenya Wildlife Service (KWS) e) The Kenya Roads Board f) Mechanical and Transport Department g) Materials Testing and Research Department: h) Kenya Institute of Highways and Building Technology (KIHBT) <p>Transport Sub-sector</p> <ul style="list-style-type: none"> a) Kenya Civil Aviation Authority (KCAA) b) Kenya Airports Authority (KAA) c) Kenya Ports Authority (KPA) d) Kenya Ferry Services (KFS) e) Kenya National Shipping Line (KNSL) f) Kenya Railways Corporation (KRC) <p>Energy Sub-sector</p> <ul style="list-style-type: none"> a) Kenya Power and Lighting Company Limited (KPLC) b) Energy Regulatory Commission (ERC) c) Rural Electrification Authority (REA) d) Energy Tribunal e) Kenya Pipeline Company (KPC) f) National Oil Corporation of Kenya (National Oil) g) Kenya Electricity Generating Company (KenGen) h) Geothermal Development Company (GDC) i) Kenya Electricity Transmission Company (KETRACO) <p>Local Government Sub-sector</p> |

| Sector | Sector Ministries and SAGAs |
|---|--|
| 4. Human resource development, Research, innovation and technology sector (R.I.T) | <p>a) Local Government Loan Authority (LGLA) b) Local Authority Provident Fund (LAPF) c) Kenya Local Government Staff Superannuation Fund d) National Urban and Metropolitan Area</p> <p>1. Ministry of Education, 2. Ministry of Labour, 3. Ministry of Medical Services and 4. Ministry of Public Health and Sanitation. 5. Ministry of Higher Education, Science and Technology (MoHEST) 6. Ministry of Information and Communications (MOIC)</p> <p>SAGAs and Autonomous Government Agency</p> <p>1. Teachers Service Commission (TSC) 2. Kenya Institute of Education (KIE) 3. Kenya National Examinations Council (KNEC) 4. Kenya Education Staff Institute (KESI) 5. Kenya Institute of Special Education (KISE) 6. Centre for Mathematics, Science and Technology in Africa (CEMASTEIA) 7. National Commission for UNESCO 8. National Social Security Fund (NSSF) 9. Kenyatta National Hospital (KNH) 10. Moi Teaching and Referral Hospital (MT&RH) 11. Kenya Medical Training College (KMTC) 12. Kenya Medical Supplies Agency (KEMSA) 13. National Hospital Insurance Fund (NHIF) 14. Kenya Medical Research Institute (KEMRI) 15. Radiation Protection Board</p> <p>The Departments are;</p> <p>16. Department of Resource Surveys and Remote Sensing 17. Directorate of E-government 18. Government Information and Technology Services</p> |

| Sector | Sector Ministries and SAGAs |
|--|--|
| 5. Governance, justice, law and order sector (GJLOS) | <p>19. Integrated Population Registration System, Ministry of Immigration and Registration of Persons</p> <p>20. Kenya National Bureau of Statistics</p> <p>Research institutions are;</p> <p>21. Coffee Research Foundation (CRF)</p> <p>22. Kenya Agricultural Research Institute (KARI)</p> <p>23. Kenya Forestry Research Institute (KEFRRI)</p> <p>24. Kenya Institute Of Public Policy Research And Analysis (KIPPRA)</p> <p>25. Kenya Industrial Research And Development Institute (KIRDI)</p> <p>26. Kenya Marine And Fisheries Research Institute (KMFRI)</p> <p>27. Kenya Medical Research Institute (KEMRI)</p> <p>28. Kenya Sugar Research Foundation (KESREF)</p> <p>29. National Crime Research Centre (NCRC)</p> <p>30. Tea Research Foundation of Kenya (TRFK)</p> <p>Sub-Sectors:</p> <ol style="list-style-type: none"> 1. National Assembly 2. State Law Office 3. The Judiciary 4. Kenya National Audit Office (KENAO) 5. Ministry of Justice, National Cohesion and Constitutional Affairs (MOJNCCA) 6. Provincial Administration and Internal Security 7. Interim Independent Electoral Commission (IIEC) 8. Kenya Anti-Corruption Commission (KACC) 9. Ministry of Immigration and 10. Office of the Vice President and Ministry of Home Affairs 11. Interim Independent Boundaries Review Commission (IIBRC) <p>SAGAs include:</p> <ol style="list-style-type: none"> 1. National Campaign Against Drug Abuse Authority (NACADAA) 2. Kenya National Commission on Human Rights (KNCHR), |

| Sector | Sector Ministries and SAGAs |
|--|--|
| 6. Agriculture and Rural Development, Water And Irrigation Sector Report | <p>3. Kenya School of Law (KSL). 4. National Council for Law Reporting. 5. The Kenya Law Reform Commission (KLRC)</p> <p>Three ministries namely:</p> <ol style="list-style-type: none"> 1. Ministry of Agriculture 2. Ministry of Environment and Mineral Resources (MEMR), 3. Ministry of Water and Irrigation (MWI) and 4. Ministry of Forestry and Wildlife (MFW). <p>SAGAs</p> <ol style="list-style-type: none"> 1. Water Appeals Board (WAB); 2. Water Services Regulatory Board (WASREB), 3. Water Resources Management Authority (WRMA), 4. Water Services Trust Fund (WSTF), Regional Water Services Boards, The National Water Conservation and Pipeline Corporation (NWCPC), Kenya Water Institute (KEWI), National Irrigation Board (NIB), 6. National Environment Management Authority (NEMA), Kenya Wildlife Service (KWS), Kenya 7. Forest Service (KFS), Kenya Forest Research Institute (KEFRI), Wildlife Clubs of Kenya (WCK). <p>8. Financial Corporations:</p> <ol style="list-style-type: none"> 1. Agricultural Finance Corporation; 2. Coffee Development Fund. <p>Commercial/Manufacturing Corporations:</p> <ol style="list-style-type: none"> 1. Agrochemical and Food Company Limited; 2. Sony Sugar Company; 3. Nzota Sugar Company; |

| Sector | Sector Ministries and SAGAs |
|--------|---|
| | <p>4. Chemelil Sugar Company; 5. Kenya Seed Company; 6. Nyayo Tea Zones Development Corporation; 7. Pyrethrum Board of Kenya; 8. National Cereals and Produce Board; 9. Miwani Sugar Company (in receivership); 10. Muhoroni Sugar Company (in receivership).</p> <p>Service Corporations: 1. Agricultural Development Corporation.</p> <p>Regulatory Corporations: 1. Coffee Board of Kenya; 2. Tea Board of Kenya; 3. Horticultural Crops Development Authority; 4. Kenya Sisal Board; 5. Cotton Development Authority; 6. Kenya Sugar Board; 7. Kenya Plant Health Inspectorate Service; 8. Pest Control Products Board; 9. Kenya coconut Development Authority.</p> <p>Training Institution: 1. Bukura Agricultural College.</p> <p>Statutory Boards: 1. Central Agricultural Board; 2. Agricultural Information Resource Centre; 3. Sugar Arbitration Tribunal; 4. Seed Tribunal. 5. Cooperative Development & Marketing 6. Cooperative College of Kenya;</p> |

| Sector | Sector Ministries and SAGAs |
|--------|--|
| | <p>7. SACCO Societies Regulatory Authority (SASRA);</p> <p>8. New Kenya Cooperative Creameries (New KCC)</p> <p>Livestock Development</p> <p>1. Kenya Dairy Board;</p> <p>2. Kenya Meat Commission;</p> <p>3. Central Artificial Insemination Station;</p> <p>9. Kenya Veterinary Board</p> |

References

- AfDB, 2011. Southern Africa Development Strategy Paper (2011-2015)*
- AICD, 2010. Country Report: Kenya's Infrastructure: A Continental Perspective*
- AU, 2000. Abuja Treaty. Treaty establishing the African Economic Community*
- AU, 2000. Implementing Yamoussoukro Declaration of Open Skies*
- CCK, 2012. Mobile subscribers Lists*
- CES Tripatite 2010*
- COMESA Treaty, 194*
- EAC Treaty, 2000*
- EAC, ... Protocol on Environment and Natural Resource Management*
- EAC, 2006. EAC Agricultural policy and strategy (2005-2030)*
- EAC, 2010. EAC Trade Report (2019)*
- EAC, 2011. EAC Port Development Strategy*
- EAC, 2011. EAC Food Security Action Plan*
- GoK, 2000. Economic Survey, 2000*
- GoK, 2007. Vision 2030.*
- GoK, 2010. Economic Survey, 2010*
- GoK, 2010. The Agricultural Sector Development Strategy (ASDS) (2010-2020)*
- GoK, 2010. 1st Annual Progress Report, On the Implementation of the 1st MTP (2008-2012)*
- GoK, 2011. 2nd Annual Progress Report, On the Implementation of the 1st MTP (2008-2012)*
- GOK, 2011. Updated Least Cost Power development Plan (2011-2013)*
- GOK, 2011. Scaling up renewable energy programmes, Investment Plan for Kenya*
- GoK, 2012. 3rd Annual Progress Report, 2012, On the Implementation of the 1st MTP (2008-2012)*
- GoK, 2012. Ratification of Treaties Bill, 2012*
- <http://databank.worldbank.org>. retrieved on 13th November, 2012*
- IDA, 2009. IDA Mid-Term Review of Regional Programmes*
- IGAD, 2006. Agreement Establishing IGAD*
- ITU, 2009. International Telecommunications Union's 2009 on ICT Development Index*

- KAA, 2011. Airport Statistics
- KCA, 2009. Management of Business Challenges among Small and Micro Enterprises in Nairobi-Kenya
- KIPPRA, 2004. *Kenya Economic Report*
- KIPPRA, 2004. Implications of the COMESA Free Trade Area and the Proposed Customs Union: An Empirical Investigation
- Odhiambo W., Paul Kamau P., and McCormick D, 2012. Managing the Challenges of WTO
- UNCTAD, 2005. *Investment Policy Review Kenya*
- UNCTAD, 2011 . Export dependence and export concentration
- UNCTAD, 2011. Export Dependence and Export Concentration
- World Bank, 2007. Enterprise Survey (2007),
- World Bank, 2011, Global Competitiveness Report