



Briefing Paper

Greening Kenya's Trade Policy: Suggested Provisions

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Summary

This paper aims to inform the finalisation of Kenya's National Trade Policy, by suggesting trade provisions that can support climate-aware agro-processing development in the country. Kenya has embraced agro-processing as one of the key avenues to achieving its long term industrialization agenda, and has already been taking policy measures in this regard. However, in a world of accelerating climate change and global value chains, synergies are required across the policy landscape to ensure that agro-processing development is climate-aware, trade-driven and food security-enhancing.

Background

Kenya aspires to be an industrialised middle-income country by 2030 to improve the quality of life of its citizens. Development of the industrial sector, therefore, is central to achievement of this important aspiration through reduction of poverty and unemployment, as well as improved foreign exchange earnings from exports. Nonetheless, the industrial sector remains underdeveloped as evidenced by its low contribution to the Gross Domestic Product (GDP), limited technology absorption, low production levels, and lack of competitiveness (Onyango and Nyaberi, 2016). The industrial sector contributes only 15 per cent to the GDP. Further, the contribution of the manufacturing industry to GDP has stagnated at just around 10 per cent for decades (KIPPRA, 2014).

In a bid to resuscitate the manufacturing sector, the government has focused on promoting agro-processing in the country. Agro-processing is a subset of manufacturing industry that produces various finished and intermediate goods using raw materials obtained from the agricultural sector. The choice of agro-processing as one of the engines of growth is based on the importance of agriculture as a major source of employment, raw materials, and foreign exchange earnings in Kenya. The current efforts towards expanding agro-processing focus on improving the business environment, increasing agricultural production, and enhancing market access through multi-lateral and bilateral trade agreements. However, climate change and the environment are equally important factors that need to be taken into account while developing the sector.

Factoring Climate in Agro-processing

Climate change has the potential of constraining agro-processing and trade in agro-processed products due to several reasons. To begin with,

climate change creates adverse climatic conditions such as prolonged draughts, excessive rains, and extreme temperatures among others. These lead to low agricultural production which in turn limits access to agricultural raw materials for agro-processing and undermines efforts to ensure national food security (Otieno and Washington, 2017). Limited agricultural production means that agro-processors have to scale down production or pay higher prices for the available raw materials. What is more, extreme weather conditions such as excessive rains can destroy the infrastructure needed to access factor and product markets. In this context, climate change contributes to poor trade performance in agricultural economies such as Kenya.

Moreover, and although agro-processing has the potential of catalyzing socio-economic transformation in Kenya through rapid industrialisation, its implementation can also be associated with direct impacts on climate change that may reverse the development gains already realised.

For instance, increasing agricultural production with the aim of boosting agro-processing may worsen climate change through land use changes (UNCTAD, 2015), e.g. destruction of trees that serve as carbon sinks to create land for industrial farming. Further, increased production and use of fertilizers and pesticides are known to increase greenhouse gas (GHG) emissions. Agro-processing can also contribute to GHG emissions through use of fossil fuels in production plants, transportation over long distances for imported inputs or exported products etc.

Nyangorora Banana Processing Ltd. : Experience with Climate Change

Nyangorora Banana Processing Limited is a small agri-business company established in Kisii County, Kenya. The company collects raw bananas from smallholder farmers and processes them into various products such as crisps and flour. Climate change is one of the major challenges facing the company in its production and marketing activities. Excessive rainfall often results into post-harvest loss of between 20 and 25 per cent of harvested bananas. It also hinders access to markets through destruction of transportation infrastructure. Dry seasons, on the other hand, limit access to raw materials through crop failure which in turn constrain production.

However, the company is adapting to climate change by taking advantage of the rapid expansion of retail and wholesale sector in Kenya. The company's products are sold through local supermarkets and convenience shops, thereby reaching a large market. This has allowed the company to generate revenue to acquire technologies for adaptation such as the use of biomass obtained from banana wastes as a source of more reliable energy during excessive rains. The company is also able to obtain raw bananas from neighboring sub-counties due to improvement in trade as a result of the trade facilitation measures such as upgrading rural roads and market infrastructure by the county governments. This helps in reducing fluctuations in raw materials supply due to extreme weather conditions.

Therefore, mitigation and adaptation measures must be taken at national and firm level to ensure agro-processing is climate-aware. Greening agro-processing value chains is expected to reduce or prevent climate change through among other strategies reducing GHG emissions. This is expected to enhance sustainable agricultural production, which in turn will improve trade in agro-processed products and national food security (UNCTAD, 2015). Adaptation, on the other hand, involves taking measures to cope with or adjust to existing or expected impacts of climate change. Given that the effects of climate change are already being felt, adaptation strategies must also be embraced to promote trade-driven and food security-enhancing agro-processing.

The government of Kenya, having recognized the importance of mitigating and adapting to climate change, signed the Paris Agreement and subsequently made its commitments to reduce GHG emissions by 30 per cent by 2030 (MENR, 2015). Achieving this objective while at the same time promoting agro-processing will require the government to mainstream climate change across industrialization, agricultural and trade policies among others.

Mainstreaming Climate into the National Trade Policy

In particular, trade policy can play an important

role in promoting a development of agro-processing that is climate-aware, trade-driven and food security-enhancing. Yet, Kenya still lacks a national trade policy, and interventions geared towards trade development and improving the competitiveness of the country are enshrined in numerous policy documents. Further, the coordination and implementation of the interventions is entrusted to several institutions and ministries. This prevents effective implementation of trade policies at a time when Kenya continues to face heightening competitive pressures in regional and international trade arena.

The need for a more coherent national trade policy emerged in early 2000s, when the government began to pursue pro-growth and wealth creation strategies (Omiti, Waiyaki and Fritz, 2007). In 2008, the government launched Vision 2030 which aims at making Kenya a globally competitive and prosperous nation. In 2009, a draft National Trade Policy (NTP) was developed as an important tool for achieving the Vision by facilitating improvement of Kenya's trade performance to spur economic growth, increase employment, and enhance foreign exchange earnings.

Since then, the draft NTP has been reviewed several times in a bid to improve its content. However, all revisions of the draft have so far failed to recognise the interplay between trade, agro-processing and climate change. Thus,

appropriate measures for minimising the effects of climate change on sectors such as agriculture and agro-processing that drive trade in Kenya were not included.

Currently, the NTP is undergoing further revisions before its expected entry into force in 2017. The government of Kenya should not miss this opportunity to undertake the long overdue mainstreaming of climate change into Kenya's trade policy and agro-processing development. In this regard, the below sections provide a number of elements for consideration.

Recommendations

Acknowledging Interplays

The proposed trade policy can facilitate mitigation and adaptation if it recognizes the linkages among agro-processing, trade, climate change, and food security. The mutual impacts of trade and agro-processing should be clearly identified in the NTP. For instance, climate change should be recognized as one of the major constraints to trade through destruction of infrastructure, reduced agricultural production, and limited agro-processing.

In addition, the concerns of the youth and women in relation to climate change, as well as participation in trade and agro-processing should be acknowledged and mainstreamed in the NTP. Indeed, climate change is not gender neutral and women are known to be more vulnerable to climate change compared to men. Yet, they play an integral role in agro-processing, agricultural production, and trade in raw and agro-processed products (Otieno and Washington, 2017). This means that the negative effects of climate change on women, if not addressed, could constrain agro-processing. Therefore, gender, youth and climate change policies should be cited in the NTP among the key policies affecting trade.

Provisions for Climate Change Mitigation

► *Prioritising regional integration*

The NTP should put emphasis on developing domestic and regional markets, as international trade is associated with higher ecological footprint given the long distances that have to be covered to reach export destinations. The local and regional markets for agro-processed products, though underdeveloped, provide a huge potential for expanding exports given the growing demand.

Tapping the potential of these markets provides opportunities for improved trade performance while minimizing the GHG emissions associated with transportation of goods over long distances. Thus, the NTP should identify appropriate strategies such as building the capacity of local agro-processors to improve their competitiveness through value addition. This will allow agro-processors and traders to take advantage of the opportunities offered by regional Regional Economic Communities (RECs).

Although previous drafts recognized participation of Kenya in RECs, there was no mention of strategies for leveraging the opportunities under the Continental Free Trade Area (CFTA) that is expected to come into force in 2017. The CFTA is an Africa-wide FTA that will open up the African continent for trade among its member countries.

Provisions for Climate Change Adaptation

► *Warehouse Receipt Systems (WRS)*

The trade facilitation measures identified in the NTP should be geared towards adapting agro-processing to climate change. For instance, the use of warehouse receipt system (WRS) should be considered in the NTP as a means of facilitating climate-aware, trade-driven agro-processing.

Indeed, the WRS system will allow farmers to reduce post-harvest losses arising from climate change related challenges while at the same time being able to access credit facilities for adaptation from banks using their stocks as collateral (Otieno

and Washington, 2017).

● *Market Management Committees (MMCs)*

Enhancing management of local marketplaces through market management committees (MMCs) elected by market users could facilitate trade driven agro-processing by improving access to factor and product markets.

● *Marketing support for climate-resilient agro-processing*

The NTP should provide for marketing support services in the domestic market to create demand for agro-processed products that are manufactured using climate resilient raw materials such as millet and cassava. This can be achieved through measures such as creating awareness among the public on the availability and benefits of consuming such products.

● *Resolving NTBs on adaptation technologies*

Adaptation to changes in precipitation as a result of climate change calls for effective rainwater, irrigation, and soil management practices. Additionally, improved seed and crop management practices are needed to adapt agricultural production to climate change. The NTP can play a significant role in this regard by enhancing access to environmental goods that are necessary for

effective adaptation. For instance, elimination or reduction of unresolved non-tariff barriers to trade (NTBs) will enable Kenyan farmers to access goods such as irrigation kits, water storage equipment and consultancy services at affordable prices.

Conclusion

Greening the NTP provides a pathway for transforming Kenya's agro-processing to a sustainable, globally competitive industry that facilitates industrialization and wealth creation. In this regard, the NTP should acknowledge the interplay among agro-processing, climate change and trade. Sustainability of agro-processing has to be ensured by enhancing the resilience of the industry to climate change through appropriate mitigation and adaptation strategies.

The NTP should thus prioritize regional intergration, marketing support, warehouse receipt system and resolving NTBs as strategies for promoting climate-resilient, trade driven and food security enhancing agro-processing.

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