

The Effect of National Policies on Small scale Cotton Production: Experiences from Kenya

By

Anthony Muriithi
&
Alex Mungai

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- Production and performance of cotton industry in Kenya has a correlation with the policy environment embraced by the government.
- Within the last 50 years, there has been a significant shift in the national, regional and international policy environment in relation to the Kenyan textile sector.



Import substitution Regime 1963-1986

- Kenya's cotton sector was still dominated by private investor ginners till independence in 1963.
- After independence, Kenya adopted an import substitution policy that ensured a backward integration of textile mills to cotton production.



- Cotton was also introduced as a cash crop across the country, with emphasis in the ASAL areas.
- This was in recognition of the fact that cotton production offers the greatest potential for increased employment, poverty reduction, rural development and generation of increased incomes in these areas.



Key Interventions

- Helping cooperative societies buy ginneries from pre-independence private owners through Africanisation and Kenyanisation
- Controlling marketing margins such that all stakeholders along the chain made profit
- Fixed producer prices regardless of effort or market demands
- Heavy Government investment in textile mills
- Donor support to complement Government subventions



- Imposition of a 100% duty on imported goods, this ensured the rapid growth of the local textile industry with an average production capacity of over 70%.
- Public sector support in form of government subsidies- marketing through government Parastatals, elaborate extension services MOA, MOCD, Public Sector Investments in the mills and some garment manufacturers.



Structural Adjustment Programmes Regime 1986 - Mid 90's

- In the 1980s, stabilization and adjustment packages, spearheaded by IMF and World Bank, were introduced in many developing countries .

The key ingredients of SAP's were:

- Economic model of private ownership,
- Competitive markets and an
- Outward-oriented development strategy



As a precondition for accessing the highly subsidized World Bank structural adjustment loans and IMF financial restructuring resources, Countries implementing the SAPs were expected to;

- Devalue their currencies
- Lift import and export restrictions
- Balance their budgets
- and remove price controls and state subsidies and state marketing boards.

Liberalization was characterized by:

- Lack of a policy framework to manage the cotton/textile sector in a liberalized environment
- No lead time to prepare policy and regulatory environment adjustments and put in place safeguard mechanisms
- This led to influx of *mitumbas* (second hand clothing) and cheap imported textiles
- Poor coordination, institutional and policy failure and lack of competitiveness .



Globalisation and Multilateral Agreements

Globalization:

In the mid-90s with the establishment of the WTO in 1995. It covers trade, investment, migration and movement of people, information communication and dissemination and climate change.



Principles of WTO:

- **Non-discrimination**/equal opportunity, freer business environment with minimum barriers to trade,
- **Progressive trade liberalization** through negotiation
- **Predictable** policy and business environment tariff rates in which market-opening commitments are "bound" in the WTO. Governments cannot raise trade barriers (including tariffs and non-tariff barriers) arbitrarily;
- **Special and Differential Treatment (SDT)**, in which more benefits are extended to the **less developed countries**.



- During this period , the government did not put in place legal and regulatory frameworks for managing globalization, liberalization and privatization .
- Apart from the limited EPZ opportunities which the garment sector took advantage of particularly under AGOA
- Expiry of the MFA in 2005 led to the flight of foreign investors out of Kenya.



Bilateral Agreements

These include the successive Lome agreements, EPA and AGOA.

- The coming into force of AGOA diversified Kenya's trade basket, which had suffered from the export ban of 1998, to include textiles and apparel and market destinations to include USA.
- The requirement of democratization and respect for human rights which is anchored on continued eligibility of AGOA has to a large extent served to undertake requisite political, economic and social reforms. Additional incentives to the standard EPZ incentives include express processing of customs documentation.



Regionalization

- Regional integration in SSA was in part sparked by globalization. Individual country markets were too small to sustain meaningful investment and trade.
- The policy environment characterizing regional integration consists of preferential market arrangements in tariff structures, harmonized trade facilitation instruments including transport, insurance and technical regulations- effectively leading wider market access, opening up to large scale investments.
- Serious regional integration initiatives started with COMESA FTA in 2000, EAC CU in 2005 and EAC CM in 2010. The regional markets remain key destinations for Kenyan manufactured exports.

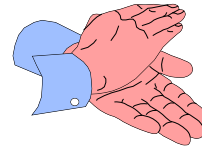


Vision 2030

- Kenya's blue print, adopted in 2007 guiding future development scenarios to 2030. The vision built on the successful ERS policy regime of 2003-2007. A number of policy reforms were undertaken during the ERS period.
- the prioritization of the target sectors that the government put more focuses on to turn around the economy. Cotton is one of the main industrial crops that the Government of Kenya has earmarked for promotion, value addition and integration with the manufacturing sector to create employment opportunities for Kenyans.
- The ministries of agriculture and industrialization have been directed to pay special attention to the cotton sector and proactively develop intervention measures that will support the numerous linkages of the textile industry.



THANK YOU!



**COMMENTS OR
QUESTIONS INVITED**