SUPPLY CHAIN SECURITY DURING ELECTION PERIOD
As 2012 came to a close, private sector business leaders under the umbrella of Kenya Private Sector Alliance (KEPSA) together with a section of the Diplomatic Community and government agencies responsible for internal security met to discuss ways of preventing violence ahead of the March 4th 2013 general elections. This meeting was informed by the violence that paralyzed the country and effectively the region after the 2007 elections and recent cases of insecurity in parts of the country that have resulted in loss of lives and property.

Kenya went to the polls in March amid a high alert from the East African Community partner states, South Sudan and the Democratic Republic of Congo. The chaotic political party nominations triggered fear of a repeat of the 2007 post-election violence which disrupted trade in the region.

Few voters will head to the polls to make their decision based on freight transportation and trade policy issues, but that will not stop the election results from affecting shippers and users of freight transport services in the years to come. Whatever the varied political persuasions, the one certain thing about the coming elections is that there will be a new president with new policies and practices that will affect business.

The Port of Mombasa and the Jomo Kenyatta International Airport (JKIA) serve as important gateways to the Eastern and Southern African regions. These gateways are complemented by the Northern Corridor transit route, which connects the Port of Mombasa to landlocked Eastern Africa; and also serves as a transit route for approximately 1,250 trucks daily which carrying an estimated 140,000 tonnes of cargo.

The post election violence in 2008 not only injured people, claimed lives, traumatized people and displaced over 350,000 people it also seriously disrupted the economy of the EAC region. During this period, fuel costs in Uganda, Eastern DR Congo and Burundi rose by up to 50% while those in Rwanda more than doubled causing shortages and prompting the government to institute fuel rationing. Trade networks especially those of the land-linked economies of Uganda, Rwanda and Burundi, South Sudan and the Eastern DR Congo were disrupted since they rely on trade through the Kenyan port of Mombasa.

Parts of the Northern Corridor were adversely affected by road blockades, burning of trucks, pilferage and total theft of cargo and general slowdown of movement leading to intervention by security agencies through armed escorts. Truck turnaround times went up high leading to slow evacuation of cargo from the ports and the resultant congestion that took about three months to clear. Many truckers withdrew their trucks from the roads and with some trucks and cargo not having sufficient insurance covers, some industries and transport companies in the region collapsed.

The uprooting of parts of the main railway line to Uganda also caused unprecedented delays for cargo to the western part of the country and the land-linked countries. The disruptions on the main distribution arteries additionally led to a hike in the cost of consumer goods and in case of fresh produce, loss of markets for external bound goods.

Losses

Both the Port of Mombasa and JKIA, which handled a total of 771,000 TEUs and a projected total of 293,000 tonnes of cargo respectively in 2011 are not only a critical revenue source for Kenya but also important infrastructure that support trade for the EAC Partner States, South Sudan and DR Congo. However, since the last general election and the related violence, this position is no longer assured and these countries are reportedly actively seeking alternative routes to support their trade. More than 80% of Uganda's exports for instance pass through the port of Mombasa, as do all of Rwanda's exports and any disruptions of trade due to election violence would mean losses for their businesses and meaningful revenue loss for Kenya that would run into billions of shillings.

The Uganda Revenue Authority is reported to have lost an equivalent of Ksh. 50 million in daily revenue collections during the tumultuous period while the revenue authority in Kenya lost estimated daily revenue of Kshs. 2 billion during that period. Although the Private Sector Federation (PSF) – Rwanda, the umbrella organization of the country's business community did not quantify the losses Rwandese traders incurred during the post election violence period in Kenya, estimates indicate that together with Ugandan traders, they incurred losses of up to USD 47 million (Ksh. 4.9 billion).

The regional traders have lodged a formal claim to the Government of Kenya for compensation, sighting the United Nations Convention on Economic, Social and Cultural Rights that compels states to guarantee security of goods transiting through their countries. A modest estimation therefore, based on the figures of revenue losses provided above and the current 4.7% economic growth rate would then place the loss due to another post election violence at well over Ksh. 2008 (USD. 250 million).

Insecurity Concerns Identified By The Shipping Industry

While there have been gradual improvements in the political climate since 2007/2008, shippers in Kenya and indeed the region are still skeptical about the political environment as the March 4th elections approach. KSC has analyzed the political risk to businesses in Kenya and evaluated the key governance and security challenges that pose a threat to the prevalence of a conducive logistics environment during the election period. The risk of re-
newed violence cannot therefore be elimi-
nated unless the following key challenges are
addressed.

1. Hate Speech and Political Incitement
Politicians are constantly making
inflammatory statements that may incite
hatred amongst individuals based on
shape. This may result in a climate of hate or
prejudice, which may in turn foster the
committing of hate crimes in the form
of violent acts against a specific group.
Political intolerance is very expensive to
business as it affects the workforce. As
witnessed in 2008, political incitement
led to labour flights from labour-intensive
areas including flower and horticulture
farms, coffee and tea plantations, sugar
belt and industrial concerns.

2. Organized Crime and Militia Groups along
the Transport Corridor
In the 2007/2008 violence, disruptions and
road blocks along the Northern Corridor
resulted in a huge gridlock at the port of
Mombasa and inland border stations. This
situation was compounded by the
increased demand for police presence and
services and lack of police presence in the
most affected sections of the transport
corridor. Youth unemployment is still very high and coupled with poverty and
equality, it creates a steady flow of
recruits for criminal groups and militias
that can be easily mobilized to intimidate
opponents and their supporters or contest
the election results, as they have in the
past. This will pose a great threat to the
efficient movement of goods along the
transport corridor.

3. Police Force to Population Ratio
The police force is severely understaffed,
with a police to population ratio of 1:1,500
against the United Nations-recommended
ratio of 1:450. This ratio points to the
inadequacy of the police force to effectively
deal with election related violence and
restore the rule of law within the shortest
time possible. There is need for the
country to build confidence in its citizens
and investors that their business will not be
upset regardless of the election outcome.

4. Delays in Implementation of Police
Reforms
Police reforms has lagged and the security
forces look ill prepared to secure the polls.
While an Inspector General of police, David
Kimaiyo, has been appointed, the delay in
his selection and that of his two deputies
means little time is available for significant
security reform. Multi-agency security
planning, which has also lagged behind,
must be completed and implemented.

Shippers commend the passing of the
National Police Service Act 2011, the National
Police Service Commission Act 2011, the
Independent Policing Oversight Authority
Act 2011, and subsequent appointment of
the members of the Oversight Board,
members of the National Police Service
Commission and the Inspector General.
However, we recognize that the challenges
within the Police Department cannot be
resolved by institutional, legislative and
policy reforms alone. More effort needs to
be put in place to improve service delivery
standards as well as the welfare of the
police officers themselves. For instance, the
current quality and availability of
equipment is not sufficient to enable the
police effectively respond to emergency
situations along the transport corridor.

WHY EAC PARTNER STATES, DR CONGO
AND SOUTH AFRICA ARE WORRIED
ABOUT THE KENYAN ELECTIONS
Bearing in mind the losses incurred by
the land-linked countries in 2007/2008,
traders in Uganda, Rwanda and Burundi,
DR Congo, South Sudan are taking steps to
ensure trade flows are not disrupted this year.
Uganda for instance has already set up a
ministerial task force which has
negotiated and facilitated the signing of an
MOU between the Ugandan and Tanzania
governments, for preferential rates for
Ugandan traders using the Dar-es-Salaam
port.

The Ugandan government has advised
its traders to consider using alternative
supply routes via Tanzania to avert any
problems resulting from disruption of the
supply chain during the Kenyan election.
The Ugandan business community is wary
of the fact that five years later and despite
repeated calls, the Kenyan government
has not compensated its traders for losses
incurred in 2007/8. They therefore cannot
afford to fall victim again.

The Private Sector Federation (PSF)
of Rwanda is also keeping close tabs on this
year’s elections in Kenya. Mombasa Port
is the biggest entry and exit point for
Rwanda’s imports and exports and any
disruptions to the northern trade corridor
will adversely affect Rwanda’s trade. PSF
Rwanda had also lodged a compensation
claim to the Kenyan government claiming it
was its responsibility to protect and
safeguard goods as partners in trade. But
the Kenya authorities convinced the
regional traders to stay the case for some
time to allow for negotiations in the spirit
of the East African Community. Kenya
Shippers Council cannot overstate the need
to develop a high level of confidence in
the region that cargo can move freely and
efficiently through the corridor without any
disruption.

IMPACT OF ELECTION VIOLENCE ON
BUSINESSES
Globally, the impact of crime to business
includes direct costs such as loss of assets,
damage to property and personal injury.
Businesses are also incurring the indirect
burden by spending up to 10% of total sales
revenues on crime and security-related
costs.

In Kenya, businesses spend an average of
4% of sales to insure themselves against
crime. During the 2007/8 post-election
period, costs were evidently much higher.
Such spending increases the cost of
business thereby constraining the growth
of the private sector.

There has been an increased need for
businesses to procure insurance for their
premises and cargo against acts of violence
which in turn has raised the cost of doing
business, making the region uncompetitive.
Unfortunately this is not confined to Kenya,
but all the regional economies which
use the port of Mombasa, JKIA and our
transport corridor.

IMPACT OF INSECURITY ON THE
ECOMOMY
After decades of economic stagnation,
Kenya’s economic growth realized a steady
increase from 1.1% in 2002 to a high of 7.1% in
2007. However, growth fell to 1.6% in 2008
resulting from the devastating effects of
the post-election violence.

The recovery path has been an uphill task
as evident in the sluggish growth rates of
subsequent years. It is worth to note that
it took six years to return the country to a
positive growth rate of approximately 4.7
% in 2012. The benefits resulting from the
6% growth were negated in one month of civil
strife and a concerted reconstruction effort
of five years is yet to return the economy to
its original peak.

Table 1 presents this growth trends for the
past decade

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<tbody>
<tr>
<td>GDP Growth Rate</td>
<td>1.1</td>
<td>3</td>
<td>4.9</td>
<td>5.7</td>
<td>6.1</td>
<td>7.1</td>
<td>1.6</td>
<td>2.6</td>
<td>5.6</td>
<td>4.3</td>
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Civil strife impacts a country’s economy significantly, often costing on average 30 years of GDP, while it takes trade 20 years to return to its original state, depending on how long the violence lasts. As for each neighbouring country, the losses average 0.7% of GDP for every year of civil strife. This means that civil strife in Kenya will cost a country like Uganda an estimated USD 1.986 billion per year.

**HOW CAN THE SUPPLY CHAIN BE SECURED DURING THE ELECTORAL PERIOD?**

- Shippers expect and strongly urge political competitors to fully observe the election code of conduct, commit publicly to respect election rules, campaign peacefully and contest the polls after ratification of the rules. They should also publicly commit to accept election results and concede defeat/congratulate winners within six hours of the Independent Electoral and Boundaries Commission (IEBC) announcing the results. This will reduce the tension that grows in supporters of political players whenever results are due for announcement.

- Shippers also call on Kenya’s international partners to make it known to Kenyan authorities and politicians the implications of interfering with the IEBC, the judiciary and/or the electoral process, on the cordial relationship between the international community and Kenya and the impact this will have on the Kenyan economy.

Elections will come and go but businesses will remain the lifeline to the economy. WE at KSC are committed to ensuring that we engage the leadership of the country to guarantee security and implement reforms leading to reduction of the costs of logistics, hence lower costs of doing business. This will see the region become a competitive destination attracting more foreign direct investments.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth Rate</th>
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<tr>
<td>2004</td>
<td>1.986 billion per year</td>
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<tr>
<td>2007</td>
<td>4.8%</td>
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<tr>
<td>2008</td>
<td>5.9%</td>
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<tr>
<td>2009</td>
<td>7.3%</td>
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<tr>
<td>2010</td>
<td>7.8%</td>
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<tr>
<td>2011</td>
<td>8.1%</td>
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**Kenya GDP Growth Rate**

*Figure 1: Kenya’s Economic Growth Rates over the Past Decade. Source: Kenya National Bureau of Statistics*