SUPPLY CHAIN SECURITY DURING ELECTION PERIOD

A KENYA SHIPPERS COUNCIL POLICY PAPER

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.

Scenes from the 2007 post-election violence. Destruction and blockage of transport infrastructure led to loss of billions of shillings worth of infrastructure, goods, contracts, production in factories and delays in deliveries

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 COST OF ELECTION VIOLENCE

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 upto 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. 200B (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 renewed violence cannot therefore be eliminated 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 certain group characteristics they share. 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 inequality, 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: 1,150 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 disrupted 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 SUDAN 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 ECONOMY

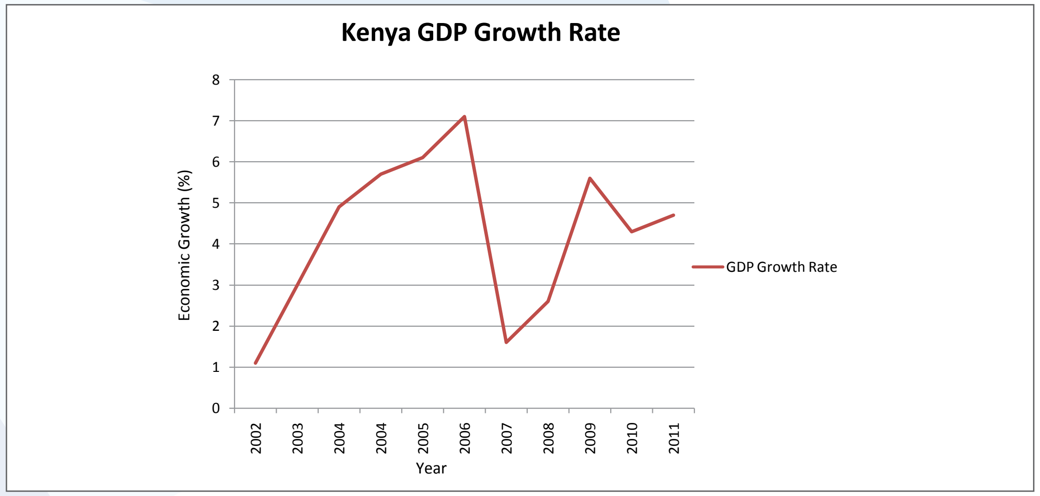
After decades of economic stagnation, Kenya's economic growth realized a steady increase from 1.1% in 2002 to a high of 7.1% in 2007. However, growth fell to 1.6% in 2008 resulting from the devastating effects of the post-election violence.

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

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP Growth Rate	1.1	3	4.9	5.7	6.1	7.1	1.6	2.6	5.6	4.3	4.7

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



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 results, if need be, through legal, non-violent means. 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 in the region expect all EAC partner states to fully implement the recently ratified East African Community (EAC) Elections Charter whose objective is to promote democracy and prevent violence arising from political contests. The rules which draw heavily from the African Union's charter on democracy, elections and governance call for timely announcement and declaration of results through secure, speedy and efficient medium. The rules which also require electoral management bodies to conduct civic education and promote transparency to boost acceptance of results also have in place provisions for handling electoral disputes. Kenya will be the first member state to go to the polls after ratification of the rules and the business community is urging the EAC partner states to support efforts to fully implement the provisions of this charter and other initiatives such as the joint East African Community election observation team.

- Shippers must remain aware of the risk of loss of business due to election violence and take measures to insure their businesses against such losses. There is a growing trend within the insurance industry where new products such as insurance against damage or vandalism have been made available to businesses. Shippers are therefore urged to take up such insurance covers, even though they may come as an extra cost to business.

- All national and provincial security committees must complete their security planning, identify vulnerable regions and deploy adequate security personnel and equipment before the election date. In order to backup the lean police force, shippers recommend NYS recruits be called to supplement the lean force.

- The government must support the IEBC proposed Joint Risk Assessment and Response Centre for sharing information and coordinating operations among national and local security organizations and committees, as well as civil society and business association groups. This may be done in partnership with the private sector to develop a mechanism for real time alerts using the social media network and other initiatives such as the police short text message (SMS) hotline.

- The Commission and the Registrar of Political Parties should build alliances with key stakeholders to improve outreach and timely communication of election information. Such stakeholders include political parties, candidates, the media, civil society and business associations.

The IEBC should take strong action in accordance with the law, and in coordination with the National Cohesion and Integration Commission, against political parties and candidates who violate rules, campaign divisively or use hate speech.

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 electrol 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.

ABOUT KENYA SHIPPERS COUNCIL

The Kenya Shippers' Council (KSC) is a business membership organization that advocates for the interests of cargo owners (importers and exporters) in the region, on policy, regulatory and operational issues in transport and logistics, across all modes of transport – road, rail, air and maritime. The Council was formed out of the need to address key issues that characterized trade facilitation in Kenya and the region;

- High and uncompetitive transport and logistics costs despite the global demands for rapid, timely and cost effective delivery of goods.
- The lack of a unified voice of shippers in the East African region as per the global practice.
- Recognition that trade liberalization and regiona integration can only be realized if trade facilitation and related challenges are effectively addressed.
- Integrity of our supply chain systems and cargo interventions.

In the strategic period 2013-15, the Kenya Shippers Council will tranform to the Shippers Council of Eastern Africa to strategically position itself to effecively lobby East African governments for improved logistics services, infrastructure and regulations.

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