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Competition Policies Open Markets in Kenya

PROJECT AT A GLANCE

COUNTRY/REGION **KENYA/SUB-SAHARAN AFRICA**

PRODUCT **PRIVATE PARTICIPATION IN INFRASTRUCTURE AND SOCIAL SECTORS**

THEME **COMPETITION POLICY**

Many developing economies still do not fully enjoy the benefits of competitive markets. Distorted markets reduce investment opportunities, increase business risks, raise the cost of essential business inputs needed to compete in domestic and international markets, and lessen the benefits of private sector participation for economic development and poverty reduction.

The World Bank Group's Competition Policy team has been supporting the government of the Republic of Kenya's efforts to increase competition in its markets in support of Kenya's *Vision 2030*, a national development blueprint that aims to transform Kenya into a newly industrializing middle-income country by 2030.

RESULTS AND IMPACTS

- Removing association-related market constraints is expected to generate savings for consumers of at least \$18 million per year in the insurance sector alone.
- Introducing greater private sector participation in Kenya's pyrethrum sector is expected to increase agricultural exports and improve incomes for more than 40,000 farmers.
- Focusing on assessing merger and acquisition transactions that are likely to harm consumers will lower private sector compliance costs for such transactions by approximately 70 percent.

IN PARTNERSHIP WITH **FIAS, UK DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)**

CONTEXT

Kenya ranks in the bottom half of all countries with regard to competition in domestic markets, according to the World Economic Forum. Furthermore, the Bank Group's 2010 *Investing Across Borders* survey noted that 45 percent of select Kenyan sub-sectors have markets with either only one or a few large firms. In addition, some trade and professional associations are legally allowed to control the prices their members charge consumers, further hindering market competition. Factors such as these result in higher prices for essential business inputs (e.g. insurance and logistics services) and primary household goods (e.g. food). And sector-specific regulations have limited private investment in certain sectors such as agribusiness, fueling the perception of higher risks of entry for new businesses.

The new Competition Act, which came into effect in August 2011 as part of Kenya's *Vision 2030*, is expected to strengthen the ability of the Competition Authority of Kenya (CAK) to promote and safeguard competition, protect consumers from anticompetitive market conduct, and prevent mergers and acquisitions that would cause negative effects on consumers.

OUR ROLE

In support of Kenya's *Vision 2030*, the Bank Group is helping to strengthen the government's ability to encourage competition and private investment in its markets. The Bank Group staff are engaging with key institutions within the Kenyan government, such as the Competition Authority of Kenya (CAK) and the Ministry of Finance, and consulting with sector regulators and other important stakeholders. CAK's role is to advocate for well-functioning markets, identify

policies that can deter competition, and work with sector regulators and ministries to make Kenya more competitive.



Among the reform initiatives that have emerged from this partnership are interventions in three areas:

- Lowering barriers to entry in the pyrethrum sector: In 1980, Kenya was the world's leading supplier of pyrethrin, an organic insecticide made from the pyrethrum flower. Since then, Kenya's share of the world market has fallen from 82 percent to only 4 percent (2009), in part due to the existence of a statutory state monopoly, the Pyrethrum Board of Kenya, the only firm allowed to purchase and process pyrethrum flowers. The Bank Group has helped draft reforms—and is providing implementation support—to remove this monopoly, unlocking investment opportunities in the pyrethrin sector for at least two local companies and potentially three international investors. This effort will also benefit close to 40,000 farmers who will be able to grow and sell pyrethrum to new manufacturers and exporters.
- Removal of market constraints imposed by professional and trade associations: CAK adopted regulations proposed by the Bank Group that will bar associations from being able to control the prices that members set for consumers (e.g. for legal fees).
- Reducing the cost of implementing mergers and acquisitions (M&As): The Bank Group helped develop a new policy for the review and authorization of M&As. Quicker, easier, and cheaper implementation of transactions will lower private sector costs of complying with the M&A regime by approximately 70 percent in sectors such as agribusiness, tourism, and logistics.

“The World Bank Group has been a valued and dependable partner over the last few years. We expect substantial increases in competition—with subsequent visible positive impacts on consumers, especially the poor—and business to arise from our collaboration with the World Bank Group.”

FRANCIS W. KARIUKI
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