INSIDE

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- Improving budget transparency to foster data credibility
- Monetary and fiscal policy in Kenya: Is the government getting it right

The intricate road of Kenya’s economic development
Sustainable development is the pathway to the future we want for all. It offers a framework to generate economic growth, achieve social justice, exercise environmental stewardship and strengthen governance.”

- Ban Ki-moon - UN Secretary General
Kenya is making progress as we head towards 2030

Vision 2030 seeks to transform Kenya into a newly industrializing, middle-income country, providing a high quality of life to all its citizens in a clean and secure environment. The vision is implemented through five-year medium-term rolling plans and currently Kenya is in the second medium term plan, 2013 – 2017. The success of the development blueprint can be determined by continuous review of progress against planned targets.

Through the Policy Magazine issues, we attempt to feed into this review process by providing information on development issues that affect Kenya’s Vision 2030 goals. In this fifth issue, we look at different aspects of development that contribute into the accomplishment of our national goals.

In review, we have made marked progress in meeting the Millennium Development Goals (MDGs) targets, for example, primary net school enrolment rate increased from 67.8 percent in 2000 to 95.9 percent in 2013. Primary school completion rate increased from 57.7 percent to 80.3 percent during the same period. Poverty incidence equally reduced from 52 percent in 2000 to 34.8 percent in 2012. As we transition into SDGs, Kenya is at a better position in addressing the targets particularly in reference to SDG#12 that looks at development that deals with inclusiveness and institutions where the latter are seen as key enablers in Kenya’s development blue print.

Devolution remains a key focus area until there’s a clear separation of functions between county and national governments. This issue reviews the challenges associated with public finance management within the devolved system of governance. Admittedly, there is progress in regards to implementing the Public Finance Management Act 2012 but several challenges such as reduced cash flow occasioned by poor revenue performance and debt obligation, transparency and public participation have both national and county governments performing below par.

In matters trade, Kenya made history as the first African country to host the World Trade Organization (WTO) ministerial conference. Every two years, the Ministers of WTO member countries meet to discuss progress made in trade negotiations geared towards removing any form of impediment to trade. One key outcome of the Nairobi conference was the immediate abolition of export subsidies that would ensure that the export market was a level playing field for all exporters whether from developed, developing or least developed countries. There are still a lot of issues that require agreement among member governments if this trade round is to be completed.

In subsequent articles, the authors explore the variety of policy areas within the Institute of Economic Affairs (IEA Kenya) including the assessment of the contribution of Micro, Small and Medium companies to the economy and the role of youth in the country’s economic development.

We endeavor to publish insightful and balanced commentary from researchers and experts in their field of expertise and invite you, the reader, to share your ideas and opinions in the issues to come.

Enjoy the read!

Kwame Owino
Chief Executive Officer
Institute of Economic Affairs
Overview

This magazine takes stock of the current status of development in Kenya. The government at both national and respective county levels has to take deliberate action and put in place measures to address governance and institutional challenges if the country is to attain sustained economic development. There is need to strengthen public institutions; effective, responsive and accountable institutions and systems; and efficient institutions that enable stakeholders work together efficiently.

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Kenya’s Economic Outlook

Kenya continues to lead in the East Africa region both in terms of the nominal Gross Domestic Product and in per capita terms. As at 2014, Kenya’s GDP at market price was US$ 61 billion and GDP per capita of US$ 1,358. This is illustrated in the charts below:

Economic Growth Rates

According to The Regional Economic Outlook Report, October 2015 by IMF, Kenya’s economy is projected to grow at 6.5% in 2015 and 6.8% in 2016. The projection in 2015 is higher compared to 2014 by 1.2 percentage points and it’s also grown and a further 0.3 percentage points in 2016.

In 2010, Kenya marked the highest economic growth rate at 8.4% from a measly 3.3% in 2009 representing an increase by 5.1 percentage points. On average the economic growth of Kenya between 2011 and 2014 has been 5.43% which is lower than the projected growth in 2015 and 2016.

Exchange Rate

Generally Kenya’s exchange rate has considerably depreciated against world’s major currencies. For instance, as at February 10, 2016 the US dollar exchanged at Ksh 101.9 which compared to Ksh 79.23 at the year ending 2010. Similarly, the Kenyan shilling has also lost value against the Euro and the Sterling Pound. The weakening Kenyan shilling is mainly as a result of a strengthened US economy that has affected other currencies as well. In addition, Kenya’s trade deficit has resulted in increased supply of Kenyan Shilling in the international market leading to its low demand.

Public Debt

The total public debt as at October 2015 Ksh 2.9 Trillion comprising external debt (Ksh 1.5 Trillion) and domestic debt (Ksh 1.4 Trillion). The current public debt is four times that of 2005 and five times that of 1999. This implies that Kenya’s public debt is rapidly increasing. Considering Kenya’s GDP of Ksh 5.3 Trillion in 2014, public debt is more than half of GDP, which makes Kenya an indebted country.
Inflation Rates
Inflation rates measure changes in the general price levels of commodities. High levels of inflation reduce the Purchasing Power of the shilling thus raising the cost of living. Between January – December 2015, there has been a general increase in the prices of commodities in Kenya. As at January 2015, the inflation rate was at 5.53% while in December 2015 it was at 8.01%. This represents an increase of 2.48 percentage points.

Consistent increases in budgets, high planned and deliberate fiscal deficits in the context of poor spending habits, lacklustre revenue generation and aggressive borrowing are fundamentally compromising Kenya’s fiscal health

Budget Transparency
In 2015, Kenya scored 48 out of 100 in the Open Budget Index which looked at the level of budget transparency, citizen participation and independent oversight institutions in the budgeting process. Kenya’s OBI score of 48 means that the government makes limited budget information to the public. There’s need to increase public participation as enshrined in the Public Finance Management Act 2012 in order to enhance accountability and transparency of public revenue.

Public Revenue vs. Public Expenditure
Public revenue consists of tax revenue and non-tax revenue. Trends in the total tax revenue indicate and public expenditure been on an upward trend since 2010. It’s however observed that the total public expenditure is above the total tax revenue. This implying the revenue generated by the Government, has been below the actual expenditure. It partly explains the increase in public debt.

Corruption
Kenya continues to be bedeviled with cases of corruption which has consequently led to loss of large amounts of public revenue and sparked outcry from the members of the public on the blatant abuse of these resources and lack of accountability of public officers and slow action from the oversight institutions and the government.

In 2015, Kenya had a Corruption Perception Index of 25 and was ranked 139 out of 175 countries. Although the country has improved in terms of ranking compared to 2014, Kenya’s CPI remains at 25, indicating no change in perception.

Ease of doing business
Ease of doing business reflects the attractiveness of the business environment to investors. The components measured to gauge the ease of doing business include the easiness in starting a business, the level of protection of minority investors, etc. In EAC, Kenya ranks second after Rwanda but at position 108 out of 189 globally. In regard to getting credit, Kenya also ranks second to Rwanda in EAC countries but 28 globally. However Kenya performs poorly in terms of protecting minority investors; it ranks third in EAC countries but 115 globally.

Compiled by Noah Wamalwa and Susan Mbalu

Source: Central Bank of Kenya

Source: International Budget Partnership (IBP)

Source: Transparency International (TI)

Domestic borrowing estimates

Initially, Treasury Secretary Henry Rotich estimated that domestic borrowing would be KShs.141.7 billion in 2015/16 fiscal year. This was revised upward to KShs.219.2 billion in April 2015 and then revised again upward to KShs.229.7 billion in June 2015.

P 26

KShs. 26.3b

In the aggregate, this has never been true: counties raised KShs.26.3 billion in 2013/14, which is slightly more than the KShs.24.5 billion collected by local authorities in 2012/13.

P 18

61pc

of all unemployed adults in Kenya are in the age group of 18-35 years. This age group is, by the Constitution of Kenya, 2010 (CK 2010), in Article 260, officially recognized and defined as youth.

According to Kenya Private Sector Alliance (KEPSA), the MSE sector employs over 11.8 million people directly and contributes slightly over 18 percent to the country’s GDP.

P 40

34.8pc

Kenya managed to reduce the population living below the absolute poverty line from 52 percent in the year 2000 to 34.8 percent in the year 2012.

P 8

According to the 2009 Population Census by the Kenya National Bureau of Statistics (KNBS)
The Institute of Economic Affairs (IEA Kenya) is a Nairobi based think tank that seeks to promote plural and informed debate on current public policy issues. This issue reviews Kenya’s economic development progress and has been made possible by International Development Research Centre (IDRC).

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Setting the agenda for realization of the sustainable development goals

The overarching purpose of the Sustainable Development Goals (SDGs) which come into effect starting January 2016, is to eradicate poverty and combine elements of economic, social and environmental action. It is important that the SDGs, while laudable, be rooted in the reality faced by the people of Kenya on how far we have come since the genesis of the Millennium Development Goals (MDGs).

By Chrispine Oduor

The United Nations millennium declaration setting out the Millennium Development Goals to be attained by the year 2015 was endorsed in September 2000. The declaration was a commitment by world leaders to work jointly towards a safer, prosperous and equitable world. The goals rallied the world around a 15-year agenda to tackle the indignity of poverty.

Though Kenya made progress in meeting targets laid down under each of the goals, underperformance in the realisation of some of the targets and emerging lessons on some of the factors that may have contributed to this are important for government; both the national and county level as these inform measures that should be put in place with the objective of ensuring that the country realizes the seventeen sustainable development goals, most of which build onto the Millennium Development Goals. Critical to success in realising the sustainable development goals will be good governance and effective institutions. Weak institutions will undermine the country’s prospects for growth.

An examination of the status of Kenya in

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<td>1. End poverty in all its forms everywhere</td>
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<td>3. Attain healthy life for all at all ages</td>
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<td>5. Attain gender equality, empowering women and girls everywhere</td>
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<td>6. Secure water and sanitation for all for a sustainable world</td>
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<td>7. Ensure access to affordable, sustainable, and reliable modern energy services for all</td>
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<td>8. Promote strong, inclusive and sustainable economic growth and decent work for all</td>
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<td>9. Promote sustainable industrialization</td>
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<td>10. Reduce inequality within and among countries</td>
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<td>11. Build inclusive, safe and sustainable cities and human settlements</td>
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<td>12. Promote sustainable consumption and production patterns</td>
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<td>13. Promote actions at all levels to address climate change</td>
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<td>14. Attain conservation and sustainable use of marine resources, oceans and seas</td>
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<td>15. Protect and restore terrestrial ecosystems and halt all biodiversity loss</td>
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<tr>
<td>16. Achieve peaceful and inclusive societies, rule of law, effective and capable institutions</td>
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<td>17. Strengthen and enhance the means of implementation and global partnership for sustainable development</td>
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regard to the realization of the Millennium Development Goals is critical as the world shifts focus to the Sustainable Development Goals. Under goal one on: Eradicating extreme poverty and hunger, and according to the World Bank, Kenya managed to reduce the population living below the absolute poverty line from 52 percent in the year 2000 to 34.8 percent in the year 2012. The country witnessed marked improvement in the poverty gap ratio between the year 2005 and 2009, where the ratio was registered as 16.3 percent and 12.2 percent respectively. The share of the poorest quintile in national consumption improved by about 9.8 percent by the year 2009 at the national level compared to 4.6 percent in the year 2005.

The country made progress in the realisation of goal two on achieving universal primary education. The country witnessed a steady increase in primary schools gross enrolment rate from 110 percent in the year 2009 to 117.3 percent in the year 2013. The country also witnessed steady increase in primary schools net enrolment rate from 67.8 percent in the year 2000 to 95.9 percent in the year 2013; increase in primary school completion rate from 57.7 percent in the year 2000 to 80.3 percent in the year 2013; and increase in primary to secondary school transition rate from 66.9 percent in the year 2009 to 73.3 percent in the year 2011.

Progress has also been made in the realisation of goal three on promoting gender equality and empowering women. The ratio of girls to boys in primary schools increased from 0.95 in the year 2000 to 0.98 in the year 2013. The ratio of girls to boys in secondary education increased from 0.86 in the year 2011 to 0.89 in the year 2013 while that of females to males at tertiary level increased from 0.63 in the year 2000 to 0.81 in the year 2013. The proportion of women in public institutions increased from 32.4 percent in the year 2008 to 38 percent in the year 2012. The number of female members both in the National Assembly and Senate was 20.8 percent in the year 2013.

Women occupy 33.3 percent and 26.9 percent of positions as Cabinet Secretaries and Principal Secretaries respectively.

The country made progress towards the realization of goal four on reducing child mortality. The infant mortality rate as per the Kenya Demographic and Health Survey (KDHS, 2008/09) was 52 per every 1,000 live births, an improvement from 77 per every 1,000 live births in the year 2003. Under five mortality improved from 115 per every 1,000 live births in the year 2003 74 per every 1,000 live births in the year 2009. The goals target was 22 deaths per every 1,000 live births and 32 for every 1,000 live births for infant mortality and under five mortality rates respectively. The proportion of one year olds immunized against measles rose to 85 percent in 2009 from a low of 76.1 percent in 2000. Immunization coverage stood at 80 percent in 2011.

Some progress has been witnessed in the realization of the targets under goal five on improving maternal health. Trained health personnel attend to 44 percent of births in the country. The maternal mortality rates increased from 414 per 100,000 live births in 2003 to 488 per 100,000 live births in 2009 against a target of 147 per 100,000 live births, an improvement from 77 per every 1,000 live births in the year 2003. Under five mortality improved from 115 per every 1,000 live births in the year 2003 74 per every 1,000 live births in the year 2009. The goals target was 22 deaths per every 1,000 live births and 32 for every 1,000 live births for infant mortality and under five mortality rates respectively. The proportion of one year olds immunized against measles rose to 85 percent in 2009 from a low of 76.1 percent in 2000. Immunization coverage stood at 80 percent in 2011.

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Contraceptive use among married women, increased from 39.3 percent in 2003 to 46 percent in 2009 against a target of 70 percent. There has been an upward progress trend in antenatal coverage from 80 percent in the year 1990 to 92 percent in 2009. Total unmet need for family planning has been on the decline and has remained above 25 percent.

The country made strides towards the realisation of **goal six** on combating HIV/AIDS, malaria and other diseases. Kenya Aids Indicator Survey 2012 reported a HIV prevalence of 5.6 percent. According to KIIS 2007, prevalence among adults aged 15-49 years was 7.4. Number of new infections reduced from over 300,000 to an estimated 100,000 in 2013. Kenya has reached the World Health Organization targets on tuberculosis, that is, case detection rate of 70 percent and achieved 85 percent treatment success rate. Anti retroviral therapy uptake among adult HIV infected persons increased from three percent in 2003 to 77.85 percent in 2009. Uptake of anti retroviral therapy among children increased from two percent in 2005 to 42 percent in 2013. Use of anti retroviral therapy has contributed to reduction in the number of AIDS deaths from an estimated 190,000 annual deaths in 2000 to 58,000 in 2013. Proportion of Kenyan households owning at least one insecticide treated net increased from six percent in 2003 to 56 percent in 2009. Proportion of under-five children using insecticide treated nets increased from 2.9 in 2000 to 42.2 percent in 2011 while that of pregnant women increased from 4 percent in 2003 to 49 percent in 2009. Mortality rates in deaths associated with tuberculosis remained constant and is estimated by the World Health Organization at 22 per 100,000 in the year 2012.

Under the **goal seven** on ensuring environmental sustainability, the proportion of land covered by forest increased from 6.3 percent in 2003 to 6.6 percent in 2011 against a 2015 target of 10 percent. According to the 2009 Kenya Housing and Population Census, 52.6 percent of Kenyans used an improved source of drinking water. However, according to the Annual Water Sector Review 2012/13 this proportion increased from 51.3 percent in 2011 to 53.3 percent in 2013. Water storage per capita increased from 4.5 cubic meters in 2008 to 6.0 cubic meters in 2013. The proportion of households with access to improved sanitation was at 61.1 percent in 2009. This, according to the Annual Water Sector Review (2012/13) increased to 66.7 percent in 2013. However, according to the National Water Master Plan 2030, only 31 out of 137 urban centres have sewerage systems.

Progress in the realisation of **goal eight** on developing global partnership for development, the information and communica-
tion technology sector remained vibrant in 2013. Mobile penetration has been on the upward trend to reach 74.9 percent in 2013. By 2013, the mobile sector had 31.2 million subscribers and a penetration of 76.9 percent. Internet penetration rose from 15.7 percent in 2011 to 31.7 percent in 2013. Internet subscriptions rose from 8.5 million in 2012 to 13.2 million in 2013. According to the Communication Authority of Kenya (2014) there were 26 million mobile money subscribers and an estimated 47.1 per 100 inhabitants having access to internet services.

Kenya increased her share of free trade value to developed countries. The total exports increased from KShs. 344,949 million in 2009 to KShs. 502,287 million in 2013 representing a 284.93 percent increase. The total imports increased from KShs. 788,096 million in 2009 to KShs. 1,413,316 million in 2013. Kenya’s debt service as a percentage of export of goods and services increased from 3.57 percent in 2011 to 4.91 percent in 2013. Total public debt increased to KShs. 1,622,801 million or 49.5 percent of Gross Domestic Product (GDP) in June 2012 from KShs. 1,487,110 million or 53.4 percent of GDP in June 2011. Domestic debt rose to KShs. 858,830 million or 26.2 percent of Gross Domestic Product from KShs. 764,222 million. External debt rose to KShs. 763,971 million in June 2012 from KShs. 722,888 million in June 2011. As a percentage of Gross Domestic Product, external debt decreased from 25.9 percent to 23.3 percent over the period.

The Sustainable Development Goals

Moving forward and as the country shifts attention to the Sustainable Development Goals, governments have to take deliberate action and put in place measures to address governance and institutional challenges if the country is to attain the goals. There is need to build stronger public institutions as this will enable better management of development and the achievement of positive developmental outcomes. Effective, responsive and accountable institutions and systems will be critical as they play the vital role of defining how power is managed, how the government and citizens arrive at decisions; and how the government implements decisions, measures and accounts for the results. Efficient institutions are also critical as they enable stakeholders to work together efficiently.

Public institutions should ensure fairness and objectivity as this will ensure that all citizens have equal opportunities to advance their lives. Formal institutions, including laws and formal public management processes such as public financial management, norms and values that can influence behaviour remain critical for the realisation of Sustainable Development Goals. The country will require: robust legal frameworks; an efficient judiciary that upholds the rule of law; representative parliament and county assemblies with strong capacity for oversight; and proficient public service.

Strong public institutions which uphold principles of integrity and disclosure, and are subject to thorough oversight processes, are more accountable and less prone to corruption and mismanagement of public funds. The government has to ensure that public institutions are well resourced. Adequately resourced public institutions are key to the delivery of public services and form an essential part of the enabling environment for attracting investment and supporting private sector development.
STATUS ON DEVELOPMENT

Mainstreaming integrity and fighting corruption in government is critical as integrity is a key attribute of well-functioning public institutions.

Both levels of government should step up measures aimed at curbing corruption in public institutions. This should include measures towards enhancing accountability and transparency in the management of public finances and development projects. This includes all funds being managed, and public projects being implemented at the national level, devolved funds and any decentralised funds being managed at the constituency level.

Mainstreaming integrity and fighting corruption in government is critical as integrity is a key attribute of well-functioning public institutions. Both levels of government should prioritise strengthening the integrity, openness and credibility of government institutions and the policy-making process. This will require institutionalized mechanisms for disclosure, monitoring and enforcement, as well as for addressing complaints. Ensuring veracity of government decisions is not compromised by conflicts of interest, for example, is critical to maintaining public trust in government.

Enhanced accountability and transparency will make the government(s) and public officers more responsive and accountable to citizens. Government(s) should encourage citizen and non-state actors lead social accountability initiatives as well as external oversight mechanisms if they are to reduce corruption. Corruption and bribery in all its forms should be reduced to ensure public access to information and as such public institutions should promote access to information. This will create more responsive and equitable policies and better targeted public services that respond to diverse needs. The national and county governments should also protect fundamental freedoms, in accordance with national legislation and international agreements. Public institutions should promote access to information.

Economic growth will require inclusive political processes which actively and meaningfully engage all stakeholders. Both levels of government should ensure that decision-making processes including among others planning for development, budgeting and the development of policies are more inclusive. Disclosing budgets will contribute to fiscal discipline, effective allocation of resources and operational efficiency. It will also enable stakeholders to hold government accountable for producing realistic and sustainable budgets, and for the social and economic impact of planned policy measures and the realisation of the sustainable development goals.

Government should establish an enabling environment for the delivery of quality and cost effective public services by strengthening relational and technical skills of public officials, civil society, citizen groups and public organizations. Evidence-based approaches to capacity-building along with the adequate...
use of technology, particularly the Information and Communication Technologies in public service delivery, can be used to make social accountability stronger and sustainable. Cooperation on strengthening civil society and promoting connectivity between state and non-state actors should be encouraged.

Inclusive political processes are critical as it helps create more responsive and equitable policies and public services that are better suited to diverse needs. Government(s) should ensure full participation of all segments of society, including women, youth, the poor and disadvantaged, in decision-making processes. This includes supporting participatory, community-led strategies aligned with national development priorities and strategies.

Government institutions should actively consult non-state actors in the formulation of policies in order to ensure these best serve the public interest. Government should also include stakeholders in the monitoring and evaluation of programmes as a means of obtaining feedback on the impact of development programmes.

Strong tax administrations and sound public financial management should be ensured at both levels of government as this will assist in maximising domestic resources that are necessary for government to function. Government should also sustain social safety nets, maintain long-term fiscal sustainability, and to free up fiscal space for pursuing socio-economic objectives.

Last but not least, government at both levels should expand the democratic space in the country by encouraging political pluralism. The ability of public institutions to perform efficiently depends largely on democratic decision-making processes. Enabling a dynamic, pluralistic and free media will help keep citizens informed and empowered to scrutinise and hold government to account for decisions and results. Allowing a free and independent media will enhance government performance and contribute to a reduction in wastage of public resources invested for the realisation of both national and the sustainable development goals.
Improving Budget Transparency key to fostering credibility

By John Mutua

Budget transparency is a key pillar of good governance. It is at the heart of transparent and accountable financing for development and the effective governance of public resources. Kenya has made strides in progressive constitutional and legal framework for public finance management. Despite this progress, more should be done as discussed in this article.

The recent months from September 2015 to date have been punctuated by a chronology of economic upheaval for the country. For the better part of September, the country was treated to the now familiar teachers’ strike. The President on 20th of September through an address to the nation reiterated that the pay rise demanded by teachers was not only unsustainable but also a threat to the budget as this would require an additional KShs.118 billion annually for both salary and pension obligations, up from KShs.174 billion set aside for the 2015/16 financial year. In his speech the President noted that this pay rise would drive up the public wage bill which accounts for 52 percent of our revenue to 61 percent based on revenue collected in 2014/15, which is above the 35 percent global average for a country like Kenya. Dismissively, the opposition party argued that the revenue collected can sustain the teachers’ pay rise demands albeit not brandishing any figures to back their argument. Noteworthy, soon after the President’s speech, the Kenya National Union of Teachers (KNUT) called off the strike on 3rd October.

In the month of October the financial position of the country was brought to question. The talk that dominated both media and public debate was that the nation was and is still experiencing a cash crunch. This was evidenced by delays in release of funds to counties, parliament and to certain government agencies such as the Teachers Service Commission. In these debates, varied reasons were given as cause for the cash crunch. The cash crunch was attributed to lower than expected revenue collection. This point was strengthened by the media that Kenya Revenue Authority missed revenue targets by KShs.28 billion by the end of the first quarter of 2015/16. In fact, according to KRA, poor performance from income tax in particular from employment (Pay As You Earn-PAYE) for example, non-payment of teachers salaries in the month of September and contracted income from corporations were cited as the reasons for missing revenue targets for the quarter.

Treasury on its part sees this more as a cash management issue than anything else. This means not having the right amount of money in the right place and time to meet government obligations in the most cost effective way. And so
for the treasury, the drag in first quarter revenue performance is a normal occurrence, marked by low economic activity in the first quarter of budget implementation which peaks as the year progresses. However, is it a case of ambitious revenue projections? A comparison of the Controller of Budget first quarter reports on budget implementation of the last two financial years reveals that the government collected KShs.201 billion in 2013/14 and KShs.227 billion in 2014/15 - on average 21.7 percent total tax income (tax revenue) against annual target.

Although the first quarter 2015/16 report has not been released yet, based on revenue collection up to August and from extrapolation, there are indications that the performance in this quarter will be in the same neighborhood as the first quarter performance of the two prior financial years. This implies that other sources of non tax revenue, in particular borrowing, may be the cause of the shortfall. Interestingly, this is backed up by the same Controller of Budget and National Treasury in-year reports aforementioned which show that the impressive overall revenue performance was largely driven by an upsurge in borrowing. Pointedly it is not from domestic borrowing but commercial loans. For example, proceeds from external commercial loans to the government amounted to KShs.103 billion by end of the first quarter of 2014/15 against an annual target of KShs.36.2 billion, representing a performance of 283%. Therefore, are cash flow challenges perhaps partly attributed to this, that is, overestimation of proceeds from commercial loans? In the whole of this debate, there has been contestation about data mainly from the opposition party especially on how realistic revenue projections are.

The cash crunch issue is also compounded by debt payment obligations. On this issue, which has rightly raised a lot of public concern, rising stock of public debt and in turn debt servicing reduces the amount of budgetary funds left for public service delivery. According to the Economic Survey 2015, Kenya’s total public debt increased from Ksh 1.1 trillion in June 2010 to Ksh 2.2 trillion in June 2014. This represents 81% per capita increase from Ksh 28,953 in 2010 to Ksh 52,295 in 2014, with the debt burden close to close to 50% of Gross Domestic Product (GDP) as at 31st July 2015. This is despite government consolation that Kenya’s public debt levels are sustainable, something that has been contested by the opposition and from various civil society groups. Related to this, the amount of money paid out to service the country’s public debt exceeded budget-
any allocation by KShs. 17.1 billion in the first quarter, that is, out of KShs. 118.8 billion that was released, actual expenditure was KShs. 135.9 billion. As a result, the Controller of Budget has called for the need to undertake an urgent reconciliation and verification of the Public Debt account to explain this difference.

From October 2015 to date, discussions have climaxed in the recent few weeks raising suspicion few weeks in regard to the suspicious issuance, use and accounting of proceeds from Sovereign Bond (Euro bond) money. According to the Treasury, USD 2 billion was raised from issuance of the Eurobond in June 2014 and two months later part of the net proceeds was used to offset a syndicated loan of USD 600 million incurred in 2011/12. This bond was split into USD 500 million five-year tranche and a USD 1.5 billion 10-year tranche. Given the success of this Eurobond, the government went back for an additional USD 750 million popularly known as the Tap Sale. Linked to the cash crunch situation, incessant concern from the media, parliament and civil society regarding transparency surrounding Eurobond led the Treasury to issue the first press release on 30th October as public disclosure.

Given the persistent criticism by the leader of the opposition that the government cannot account for about KShs.140 billion (or is it KShs. 100 billion), the National Treasury invited him to their office to offer clarification and explanation on this matter. In response, the Opposition Leader requested the National Treasury instead to publish and publicize this information in compliance of Article 35 of the Constitution. This issue did not only stir political debate but can also be credited with bringing to the fore at least some debate on the importance of budget transparency.

The foregoing events, particularly the one on Eurobond have raised audit queries, in some cases numbers from public and budget documents do not add up raising general data credibility questions. Further, despite Treasury’s press release intended to shed light on the projects that have benefitted from the Eurobond proceeds, with the exception of on-going construction of SGR, the public is in the dark of where the other projects are and as a result raising value for money queries.

What does this chorus or calls for transparency and accountability based on the above events say about the state of budget transparency in Kenya? Are these questions driven by improved access to budget information, or is it inability to decipher this information, conversely is there a gimmick to deliberately make the information complex and technical and in turn difficult for public consumption and in turn disempowering them from exercising their oversight role, these are some of the questions begging for answers. Whatever the case, the one common thread among the events aforementioned is the question of data credibility and overall transparency, the focus of this piece. Among other international or local benchmarks that assess budget transparency, the Open Budget Survey may provide some answers.

Kenya failed to increase the amount of national budget information it provides to citizens, enough to be considered sufficiently transpar-

![Graph: Kenya's GDP and National Budget (2011-2015)](Image)
ent, according to the International Budget Partnership’s Open Budget Survey 2015. The report, the fifth of its kind, is the world’s only independent, comparative survey of budget transparency, citizen participation, and independent oversight institutions in the budgeting process. Combined, these components are the main pillars of accountable budget systems.

Kenya’s OBI score of 48 out of 100 means that the government makes limited budget information publicly available, it does not provide citizens with sufficient information to fully understand the budget and hold the government to account. Kenya has been placed in the middle category in the last four rounds of the Open Budget Survey because the government is not publishing sufficient details in the documents it makes publicly available.

Undoubtedly, Kenya has made strides since 2012 to increase the availability of budget information, in particular by introducing programme based budgeting in Budget Estimates, publishing and publicizing seven (year-end report) out of eight key budget documents throughout the budget cycle and improving comprehensiveness of the “Mwananchi Guide” (citizen budget). Nevertheless and related to the above events, Kenya has failed to make substantial progress by not increasing the comprehensiveness of the Budget Estimates, such as detailed projection of revenues, detailed public debt information, exclusion of narrative to explain numbers and so on. Equally with the information provided the challenge is often on its presentation, invariably disjointed and incomplete thus making it difficult for citizens and parliamentarians to carry out any policy analysis and promote accountability. A case in point is the information on Eurobonds which was very scant in budget documents except for the recent press releases.

Further, despite progress on in-year information on budget implementation, that is information on approved revenue and expenditure vis a vis that on revenue collected, disbursement and actual spending as provided by the Officer of the Controller of Budget and the National Treasury, the level of disaggregation is often limited. Equally, there are inconsistencies between the Office of the Controller of Budget (OCoB) and Treasury, perhaps owing to challenges of reports submitted by ministries, department and agencies as generated from the Integrated Financial Management Information System (IFMIS). One example is on the revenue outturn, where you find tax revenue performance reported by the National Treasury for the same period or quarter differs with that reported by the Controller of Budget. Another is differing information on the uptake of development budget by ministries.

According to Economic Survey 2015, Kenya’s total public debt increased from Ksh 1.1 trillion in June 2010 to Ksh 2.2 trillion in June 2014

In addition to improving comprehensiveness and usefulness of budget information in the Budget Estimates, the foregoing event presents the government a crucial opportunity to publish a Mid Year Review (MYR). This is a document that contains comprehensive update on the implementation of the budget, including a review of the economic assumptions underlying the budget and an updated forecast of the budget outcome for the current budget year. It should be released to the public three months after the mid-point of the financial year. In our case, the MYR for 2015/16 should be released by end of March 2016.

This report gives the government an opportunity to explain current perspective on the budget outlook and factors that are responsible for changes since approval of Budget 2015/16. For example, given the questions and debate on unrealistic revenue projections, expenditure and public borrowing, this report can explain what adjustments need to be made based on revised assumptions six months into the financial year. Further details like scope to adjust fiscal policy stance such as austerity measures can be expounded in this report. Other key pieces of information would be to provide state of play with regard to budget implementation. A number of countries including Uganda and South Africa do publish and publicize these reports and hence rank comparatively higher than Kenya on budget transparency. In the Open Budget Index 2015 Uganda had a score of 62 and South Africa as the leader in Africa had 86 out of 100. It is important to also mention that as important as it is to provide detailed information on public resources in budget documents produced throughout the budget cycle, additional information on certain key public policy issues like Eurobonds are welcome.

**CONCLUSION**

Kenya has made strides in progressive constitutional and legal framework for public finance management. This has been a major impetus for economic and structural reforms. It is however important to point out that sometimes what happens in practice does not match what the laws say due to political, administrative, capacity and infrastructural inefficiencies.

Besides, these and other factors also undermined effectiveness of oversight institutions such as parliament to discharge their role to ensure effective use and management of public funds. All said and done, fiscal transparency is important not only because people have a right to know how the government is using taxpayers money but also for enhancing citizen and government relationship and overall good governance.

Therefore initiatives such as open budget survey, public expenditure and financial accountability and other such as open data portal is key to fuel transparency and accountability.
Somewhere along the bumpy road: democratizing public finance in Kenya

By Dr Jason Lakin

The promulgation of the Constitution of Kenya, 2010 ushered in an era in which Kenya began devolving a number of functions and national revenues to counties. Out of these reforms, financial decision-making should come closer to the people on the ground, and lead to more efficient and effective allocations of public resources.
Form without substance.

It is one of the most ancient of shell games.

We now have fancy words for it, like “isomorphic mimicry” (Andrews, Pritchett, and Woolcock 2012). But it is essentially the same tale. It is easy enough to alter the superficial aspects of what governments and societies do. Politicians and even ordinary people will in fact change the way they talk and look in order to command respect or legitimacy if the right amount of pressure is applied. But changing the core of what people believe and how they act is not so easy.

Public financial management reform has this property globally, and the last few years have seen plenty of it in Kenya, too. Counties now regularly produce documents with names like “County Integrated Development Plan”, “County Fiscal Strategy Paper,” and “Program-Based Budget.” They do so because that is what the law requires and because it is ultimately fairly easy to copy-paste a few things from here and there, and put together a few tables, and slap some comforting words on the front that will satisfy the Controller of Budget or the County Assembly or other constituencies that will not look too carefully between the sheets.

But the production of documents was not meant to be an end in itself; these documents are meant to reflect a new way of doing business. I will refer to this new way of doing business, enshrined in the 2010 constitution and further elaborated by the Public Finance Management Act 2012, as the democratization of public finance. This term is apt because the new approach is modeled on a conversation with various actors, each of which must make inputs and justify those inputs over time, and each of which should receive some kind of feedback on whatever inputs they have made. This is all intended to promote deliberative democracy, a philosophy of governance that is “organized around an ideal of public justification” (Bohman 1998).

So where are we today? Are we in the realm of empty isomorphism or the realm of robust deliberation? I believe we are somewhere in between. Signs of form without substance abound, but there are also promising signs of democratization. As we navigate this transitional moment, it is for ordinary citizens to decide in which direction we will move. Will we move toward the democratization promised by the constitution? Or will we settle for old chang’aa in new bottles?

The problem begins with planning.

There is a strong perception in Kenya that the country has a high capacity to plan but a poor capacity to implement. This view animated the drafters of the County Governments Act (CGA) and the Public Finance Management Act (PFMA), which endeavor to force counties to create a series of plans and then to follow them. The CGA is often cited in this regard, as it creates “an obligation to plan by the county” and then creates a requirement that budgeting be linked to those plans: “no public funds shall be appropriated outside of a planning framework” (CGA 104).

While it is hard to fault the intention here, it is not clear that the law goes about encouraging planning in a particularly effective way. Let us look at what it requires of counties. The CGA requires counties to prepare five year County Integrated Development Plans (CIDPs), 10 year sector plans, 10 year spatial plans, and finally, urban plans to be reviewed every five years. The PFMA requires counties to prepare Annual Development Plans in addition to those in the CGA. That is five plans of differing timeframes with no further guidance on how they are to relate to one another.

The direct link to the budget is the Annual Development Plan (ADP), which must be tabled in September every year. Logically, the ADP should be a one year version of the CIDP: it must extract from the five year plan the priority items to be taken up in a given year.

The requirements for the ADP in the law are quite onerous, however. The ADP is supposed to contain all major programs and capital investments for the year, with a description of key goods and services, and measurable indicators of progress, plus a summary budget at the program level. This is essentially asking government to prepare a draft budget in September, seven months before the budget proposal actually has to be tabled!

There is a strong perception in Kenya that the country has a high capacity to plan but a poor capacity to implement.

After preparing this detailed ADP and sending it to the assembly for approval, the county is then required a few weeks later to start the budget formulation process by preparing its County Budget Review and Outlook Paper (CBROP), giving its view of how money should be divided between sectors (health, education, etc.). These are then discussed through a series of sector hearings, involving the public, and firmed up in February in the County Fiscal Strategy Paper. After this, money is distributed to programs and capital projects through the budget estimates.
Now, if we take seriously the process of developing a provisional sector distribution, holding hearings, refining the sector distribution, and then allocating funds at the program and project level, why would we develop a draft budget (the ADP) a few weeks before we undertake this extensive set of activities?

A reasonably intelligent county officer cannot take seriously both of these requirements. Either the ADP is not important, and we focus on the annual sector process, or we take the ADP very seriously and not the sector hearings. It is not possible to do the same thing twice in succession. Our obsession with planning has actually led us to encourage form without substance. In a situation where the planning framework is contradictory, plans will be produced to meet legal requirements, not to facilitate decision-making.

The easiest resolution to this problem, in my view, is to eliminate the ADP. The law could be amended to force counties to link their CBROPs directly to their CIDPs, using the CBROP as an opportunity to provide a justification for sector ceilings based on the relevant parts of the CIDP to be implemented in a given year. This would eliminate one of the planning documents and at least one incentive for isomorphism.

The broader point is that the multiplication of documents and forms does nothing, on its own, to encourage proper planning or to force counties to implement their plans through the budgets. If anything, it tends to create opportunities for confusion and contradiction, as many county documents appear to diverge from one another in respect of priorities and justifications.

While the legal morass around planning has contributed to the malaise, the deeper problem is one of supply and demand.

The new budget process demands of citizens that they, and their elected representatives in the assemblies, engage with budget documents. In the absence of such demand, there is unlikely to be much supply. Or rather, the supply we will get will be of the type adequate to satisfy the box-tickers, but not of the quality necessary for proper deliberation.

I can demonstrate this with national budget documents, which are theoretically more sophisticated and more open to public scrutiny. Consider the 2015 national Budget Policy Statement. Arguably, this is the single most important budget document in the new budget cycle. Produced in February, it is the moment when Treasury proposes and Parliament modifies the total size of the budget (total revenue, total spending, and deficit) and the sector distribution of that budget. The final ceilings set in this document are meant to be fixed as the budget enters its final stage.

You would expect, then, that the document would dwell on the justification for the sector distribution of the budget. To the contrary, this 120 page document has exactly one page that discusses the sector distribution of the budget. And what does that one page say? The first thing it says is that the “critical social areas” will get the bulk of the budget. This apparent enthusiasm for the social sector does not actually match the proposed budget, however. Instead, the proposed share of the budget going to education is dropping from 26.1 to 23.5 percent in 2015/16. The proposed share of the budget for health is also slightly falling, from 4.0 to 3.7 percent, and the medium term projections show it continuing to fall to 3.3 percent in another two years. The BPS also emphasizes energy and infrastructure as a priority sector, and proposes that its share of the budget will continue to rise over the medium term. The 2015/16 ceilings show an increase from 21.7 to 27.6 percent. However, this then drops back down to 24.4 percent over the next two years.

The point I want to make is not about the choices themselves. The point is rather that the fairly weighty decision to reduce spending on education and health in favor of infrastructure receives no explicit justification in the document. And the narrative in the document is simply mistaken about what is happening even to infrastructure over the medium term. How is it possible that such a key document contains effectively no credible explanation of the choices proposed?

The lack of any sort of justification for these choices (and many others) is an affront to the notion of deliberative democracy in the realm of public finance. This omission happens because there is no serious attention paid to the contents of the Budget Policy Statement. Where the demand is low, but the supply is guaranteed by law, we can expect that supply to be of correspondingly low quality.
Unfortunately, you cannot legislate quality. You cannot put into the law what constitutes a justification and what constitutes adequate deliberation. These things must be defined through active engagement between citizens and their governments. The constitution gives us that responsibility. Are we ready for it?

Returning to the counties, we may ask whether the matter of public participation, so frequently cited in the constitution and in the PFM Act, is also a victim of the isomorphism we have described.

Our consideration of this issue reveals that even what can be legislated cannot be enforced without active citizen engagement. Recall that under the previous dispensation, there was a fairly elaborate scheme of participatory budgeting at the local authority level. This scheme, known as the Local Authority Service Delivery Action Program, was itself a good example of isomorphic mimicry. On paper, it was a Brazilian import, closely modeled on the Brazilian participatory budgeting approach, with a certain share of the capital budget set aside for citizens to decide how to spend. In practice, LASDAP was thought to be fairly ineffective, in spite of the fact that it was bolstered by a grant (the Local Authority Transfer Fund) that was conditional on its functioning.

In with the new constitution, out with local authorities and LASDAP. These were replaced by vague exhortations to public participation at both national and county level, but no equivalent structures. However, there is one formal legal body created by the PFM Act for budget participation: the County Budget and Economic Forum. This forum is hardly as elaborate as LASDAP, but its role is to facilitate public consultation on key budget documents, like the Fiscal Strategy Paper. It is meant to have as members the county executive plus an equal number of non-state actors representing specific interest groups, such as women, professionals, business, labour

The availability of budget documents over time

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Source: Open Budget Survey 2015, International Budget Partnership

Nakuru County Assembly Members engage in a fierce fist fight on the floor of the house over county leadership decisions on March 10, 2015.

and so on. The law provides minimal guidance on how it is supposed to work, but with specific membership requirements and specific documents to review, there is certainly enough to get started.

A year after the counties had come into being, most still had not set up these forums. Another year later, most had set them up, but they were not meeting regularly. Indeed, when the Commission on Revenue Allocation (CRA) issued CBEF guidelines in March 2015 and then visited over 30 counties to share them, many counties were forced to organize their very first CBEF meeting to host the commissioners from CRA. In a few counties, they have still refused to constitute the CBEF to this day.

I do not claim that CBEF is a pana-
It is for public participation in the budget process. My point is that it exists in law, it fills a gap left by LASDAP, it is one way of meeting the broader legal requirements of public participation in public finance, it has now been promoted by the CRA—and it is still, halfway through the first devolution governments, largely a paper structure. How would it be otherwise? In a few cases, such as Nyeri County, which has flatly refused to set up the CBEF, one could go to court. But in the vast majority of counties where they have the form but not the substance, it is not clear what going to court will achieve. What is missing are frustrated women, business leaders, professionals and so on who are willing to organize and push for this body to be properly operationalized. Without the demand, we are not likely to get the quality of supply we want.

In spite of all of this, things are changing rapidly, reflecting mainly the power of pluralism.

The centrifugal force of the constitution, which has set in motion the dispersion of power outward from the old centers of power has, almost single-handedly, brought about profound reform.

Let me give a very simple and seemingly trivial example from the health sector. To be sure, there have been many challenges in the devolution of health, the most expensive and complex function that was transferred to counties. However, consider the following fact: no one knows how much it actually cost to run provincial hospitals before devolution. If you look through available documents, you will not find any information about the individual costs of these facilities. There are only block figures which cannot be broken down into facility figures. This is where we are coming from: a situation where no one knew how much money it cost to run some of the largest public hospitals in the country. It should be obvious that if you don’t know how much these facilities are absorbing, you also do not know how well they were using the funds or which facilities were most efficient.

In 2013, the provincial hospitals, now known as “regional” hospitals, were devolved. Today, understanding how much it costs to run these facilities is still a challenge. However, something fundamental has changed. We now know how much the counties receive in conditional grants for these facilities. And we have county budgets that tell us something about how much is spent in these facilities. And we have Auditor General Reports raising queries about why these hospitals are not receiving the full amount they are entitled to. The AG knows what that figure is because the transfer for hospitals is published in the annual County Allocation of Revenue Act.
Government is finding itself forced to reveal information that was a closely held secret in the past. That information is raising questions. Those questions are spurring discussion. That discussion may still be in whispers among a small elite, but the gossip is beginning to spread and in Kenya, gossip is the fodder for political wars. As the various new elected officials, opposition leaders, commissions, media and others look for ammunition in their political struggles, they will eventually bring this gossip into full view, where it can further advance the democratization of public finances.

There are also indications of the power of separating powers at the county level. There has been considerable attention given to the fact that MCAs are, as county executives are known to say, “Mutilating” the county budgets. And indeed, MCAs have used their budgetary powers in ways that are often self-serving, based on a feeble understanding of public finance. However, in another, and important, sense, MCAs have also done exactly what they were supposed to do. The old way of allocating resources was executive-driven, and resulted in inequities that drove the determination to reduce executive budget powers in the 2010 constitution.

MCAs now represent wards, and the incessant question they are asking about public resources is: what is in it for my ward? While this has led to an unhealthy obsession with unconstitutional Ward Development Funds and attempts to divide county-wide projects into ward slivers, it has also highlighted the issue of equity in resource distribution. We need to elevate this discussion with data and serious reflection on the meaning of equity, and we need to do so without giving MCAs unconstitutional powers of budget implementation. But the basic discussion about equity across wards in access to resources is exactly the discussion we hoped to foster through the creation of powerful assemblies at the county level with budget amendment powers.

Fights over the distribution of resources between executives and assemblies are an indication that we are on the right track, in spite of the poor quality of debate and the lack of information to make reasoned choices. This is the power of competition at work, and it is the one thing that the constitution has been able to guarantee in these early days of the democratization of public finances.
And what of the money that has gone to the counties?

We are awash in audit reports claiming money has been poorly managed. But money is managed poorly all the time and things still get done. It is not easy to know from reading the first set of audit reports how deep the rot is. There is no evidence about changes over time that would allow us to assess whether what occurred during the first chaotic year of transition is the new normal, or whether it is a record of the proverbial “growing pains” of systemic change.

I prefer to begin with the data provided by the Controller of Budget, since this has the virtue of being available now for two full years and allows some insight into the direction of change. It is often claimed that counties are raising even less revenue than local authorities did, and this has been used as evidence of corruption by the media. In the aggregate, this has never been true: counties raised KShs.26.3 billion in 2013/14, which is slightly more than the KShs.24.5 billion collected by local authorities in 2012/13 (according to the World Bank). It is true that some individual counties fell short of their former local authority revenue figures: for example, Kisumu raised KShs.1.7 billion in 2012/13 and only KShs.623 million in 2013/14.

In 2014/15, what happened? Local revenue collection continued to rise,
by roughly 30 percent to nearly KShs.34 billion. Kisumu’s revenue still fell below its 2012/13 levels, but it increased by more than 50 percent from 2013/14. Kisumu is one of only seven counties whose 2014/15 revenues remain below 2012/13. On balance, counties are collecting more than the local authorities did with roughly similar taxing powers, and they were able to achieve this within their first year.

What is happening on the spending side? In 2014/15, the counties spent KShs.2.58 billion out of the KShs.2.62 billion released to them, quite an impressive absorption rate. Consider Turkana. In 2013/14, Turkana received more than three times what it used to receive for devolved services in 2012/13. It received KShs.7.6 billion from the national transfer in 2013/14, and had a budget of about KShs.8 billion including local revenue. However, it was not able to spend even half of this, with total annual expenditure of KShs.3.4 billion. In 2014/15, Turkana’s budget rose to KShs.13 billion, but this time, it was able to spend KShs.9 billion. Turkana increased its absorption rate from roughly 40 to 70 percent, and it was able to increase its absolute spending by 265 percent, in a single year.

A more complicated picture emerges in counties like Mombasa. Mombasa actually received less from the national transfer in 2013/14 than it had received in 2012/13, dropping from about KShs.5 billion to KShs.3.8 billion in a single year. This was a result of the failure of CRA and Parliament to consider a provision to “hold harmless” all counties in the first few years, so that none would fall below their service levels in 2012/13. Mombasa then prepared a wildly unrealistic budget, expecting to receive KShs.5 billion in local revenue, which was in turn more than three times what the local authority had collected in 2012/13. It collected less than half of this. It was able to spend only KShs.5.2 billion in 2013/14, leaving it with roughly the same expenditure as the year before devolution. In 2014/15, however, it increased its expenditure by a substantial amount, up to KShs.7.7 billion. This reflected an increase in the equitable share to KShs.4.8 billion and an increase in local revenue to KShs.2.5 billion (plus a balance carried forward).

These figures suggest that the transition to devolution was actually surprisingly smooth, in terms of the ability to maintain and increase revenue raising and spending capacity for new governmental units in a compressed period with limited support. Of course, what these figures do not tell us is how well or poorly this money was spent.

Audit reports do indicate substantial limitations in the capacity of counties to spend money according to established procedures. A brief review suggests challenges in following procurement rules, and managing payroll properly.

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Fiscal and monetary policies in Kenya: is the government getting it right?

By Anzetse Were

This article will explore fiscal and monetary policies designed and implemented by the Government of Kenya with the aim of understanding the extent to which these policies have informed the articulation of Kenya’s economy and the iterative interaction the policies have had or will have with the Kenyan economy.

FISCAL POLICY

When the government presented the 2015/16 fiscal policy, Treasury had already written a Letter of Intent to the International Monetary Fund in January 2015 and stated, ‘our fiscal anchor is to maintain gross public debt below 45 percent of GDP in present value terms’ and envisaged ‘a gradual fiscal adjustment, to be achieved through a combination of (i) lower current spending; and (ii) a further mobilization of revenues’. So government said in terms of fiscal policy it planned to: maintain debt at 45 percent of GDP, lower spending and increase revenue.

What is the status a year later? The debt to GDP ratio is 53 percent according to the IEA, 50.56 percent of GDP according to the Treasury in July 2015, but still higher than planned. As will be elucidated, government is over-spending and revenue earnings have been subpar. Clearly there was ineptitude either while formulating the fiscal policy or during implementation. Thus while analysing Kenyan fiscal policy and implementation there are five anchors that will be analysed: planned expenditure, the
fiscal deficit, and actual government spending, borrowing and revenue generation. These criteria will allow an elucidation of what government planned and juxtapose that with what is happening with the aim of understanding the implications of Kenya’s current fiscal trajectory.

**Planned Expenditure**

The government had intentions of lowering spending yet annual budgets presented by the Kenyan government have been consistently increasing year on year. According to the IEA, in 2012/13 the budget stood at KShs.1,459.9 billion, in 2013/14 it was KShs.1,640.9 billion, 2014/15 the budget presented was KShs.1,773.3 billion and for 2015/16 it was a massive KShs.2.2 trillion. The trend has not been to lower spending but to increase spending. These consistent increases in annual budgets are important for two reasons; firstly, it puts pressure on government to increase revenue generation yet as will be discussed, government seems to have hit its upper limit in terms of the scale of revenue it can generate particularly in the context of growing expenditure. Secondly, yearly increases in planned spending have been correlated by growing fiscal deficits as government finds itself unable to raise the funds for the annual budgets. Let us look at the latter issue now.

**Fiscal Deficit**

A fiscal deficit refers to the excess of total expenditure over total receipts (excluding borrowings) during the given fiscal year. Treasury’s 2015/16 budget stood at KShs.2.2 trillion including a planned fiscal deficit of 8.7 percent of GDP that Treasury aimed to finance through external financing worth KShs.340.5 billion and domestic financing worth KShs.229.7 billion. The first point to note is that the fiscal deficit has already exceeded what government intended and stands at a much higher estimate of 9.4 percent as of October 2015 according to Standard and Poor’s. The second point is that Treasury has a 5 percent fiscal deficit target yet has repeatedly exceeded this target: if you look at projected fiscal deficits over the past few years, they stood at 6.5 percent in 2012/13, 7.9 percent in 2013/14, 7.4 percent in 2014/15 and 8.7 percent in 2015/16. Thirdly, these hikes in fiscal deficits are occurring in a context of decelerating GDP growth: in 2012 GDP growth was 6.9 percent, in 2013 growth stood at 5.7 percent, 2014 hit 5.3 percent and in 2015 the hope is that it hit 5.4 percent. Bear in mind that in 2015 GDP growth was revised downward by both the government and the World Bank; growth will be anaemic this year and indeed already is. In the first quarter of 2015, the economy grew at a meagre 4.4 percent and the second quarter stood at 5.5 percent; thus, the economy is performing even below the modest growth projections. This anaemic performance fuels anxiety around growing fiscal deficits. Bear in mind it can be argued that one can understand that decelerating growth has warranted fiscal deficit hikes as government fails to earn sufficient revenue to meet planned expenditure. But increases in fiscal deficits buttressing increased expenditure in the context of decelerating growth puts pronounced pressure on government to ensure sufficient revenue is generated to meet these costs. So now the question must be asked as to how government will finance growing fiscal deficits in the context of a slowing economy. How will these deficits be financed in a manner that allows government to service the borrowing required to plug the deficit? These questions query the prudence of Kenya’s fiscal policy with regard to fiscal deficits.

The second red flag with the fiscal deficit was how finance sourcing was structured from the onset. Treasury aimed to finance the deficit through external financing worth KShs.340.5 billion and domestic financing worth KShs.229.7 billion. Thus, Treasury planned to finance almost 60 percent of the fiscal deficit in foreign currency. Reasons informing the preponderance of foreign financing given by government were, as Finance Cabinet Secretary Rotich stated, to ensure that ‘state borrowing does not crowd out private business’. Though understandable and generous, the reality is that the debt heavily weighted towards foreign currency is bound to be strenuous to service given the fact that the Kenyan economy is structured in a manner in which FX is difficult to generate. As an import economy there is always a scarcity of FX in Kenya thus in order to raise foreign currency, the government has to either ensure FX earners are performing robustly, or sell shillings to buy dollars. The reality is that FX earners in Kenya, who are primarily exports and tourism, have been underperforming. Secondly, the shilling has weakened significantly over the course of the year and the implication is that...
any borrowing government does in FX has become more expensive to service. The additional concern is that according to Standard and Poor’s, the cost of external debt for Kenya is climbing and higher interest costs are expected. Thus, while well-intended, the Kenyan government is determined to borrow from foreign sources to plug the fiscal deficit while all signs point to the escalating costs of doing so.

Spending

There are several concerns with the spending patterns the Kenyan government is displaying in the FY 2015/16. Firstly, reports make it clear government is having trouble meeting basic bills and this is no wonder given its spending habits. Let us take a look at the pattern: between July 2014 and January 2015 monthly spending by the Kenyan government rose from KShs.48.6 billion per month to KShs.765.2 billion; that is more than a 15 fold increase. Then between February 2015 and June 2015 it rose from KShs. 864.2 billion per month to KShs.1,587.47 billion in June; that is an additional increase of over 1.5 fold. Therefore, from July 2014 to June 2015, monthly expenditure by the Kenyan government rose over 32 fold. This is completely unsustainable and government simply cannot finance the uncontrollable ballooning in spending.

It is no wonder taps have run dry to the extent that disbursement of funds to County governments, Parliament and some constitutional commissions has failed to happen. As a result, government finds itself not only borrowing heavily and on very expensive terms as will be discussed later, but agreed to a USD 750 million bailout from the IMF. Top on the list of conditions in the bailout was the retrenchment of 40,000 public servants aimed at controlling the wage bill and reducing recurrent expenditure. Further, Finance Cabinet Secretary Henry Rotich made it clear there will be austerity plans targeting ministries and state agencies to cut down on non-essential expenditure and ease the burden on the exchequer. This leads to the next point; the structure of government spending.

The second problem with government spending is how it is structured. Analysis by the International Budget Partnership (IBP) indicates that in 2013/14 government allocated 58 percent of the budget to recurrent expenditure but spent 78 percent on the same. In 2014/15, recurrent expenditure was allocated 58 percent of the budget but IBP projects government will eat into 63 percent of the budget. This year, the recurrent vs. development estimate split stands at 52 percent to 48 percent. To be clear, there are certain docket such as health and education that have high recurrent expenditure; it is not being suggested that these be cut. Rather more effort should be made to prevent money from being lost, in large amounts, to items such as exceptionally high salaries, allowances, ‘learning trips’ and workshops. The good news is that the conditions of the IMF bailout facility should reduce needless spending. If not, the question is: How can government hope to leverage its fiscal policy towards fuelling economic growth when most of the funds go to unnecessary recurrent expenditure? The bias should be towards development financing in order to fully manipulate fiscal policy in a manner that is more economically productive.

The final ‘spending’ problem with the Kenyan government is corruption; a great deal of money is not
going into productive activity but disappearing into the pockets of faceless individuals. The government has already been rocked with numerous high level, grand graft cases such as the fraudulent procurement scandal of the National Youth Service. Further, as the Institute of Certified Public Accountants of Kenya (ICPAK) CEO reminded the country, the 2013/14 Auditor General’s report highlighted grand corruption through payments not supported by invoices and receipts from service providers, lack of updated asset registers, audit committees and risk management policies as required by the Public Finance Management Act, weak debt recovery systems and flouting of procurement regulations among others’. Indeed, in October 2015 ICPAK cited corruption and unsustainable spending as factors that could push Kenya in a debt crisis of a scale that Greece has experienced. The core concern with the scale of corruption and financial mismanagement is that there has yet to be an example of corrupt officials being punished in the form of confiscating proceeds from corruption and imprisoning those found guilty of the same. As a result, the current momentum in government both at central and county levels is one where corruption is essentially accommodated putting Kenya in an even more precarious fiscal position.

Finally, with regards to spending, it must be said a conundrum exists: spending is high, yet there are problems with absorbing allocated funds. Analysts at IEA make the point that government spending is very high given the ability to absorb the money allocated. The infrastructure sector has faced the biggest challenge in absorbing funds in recent years with absorption standing at less than 50 percent; the State Department for Infrastructure spent about 27 percent of the funds allocated in the first half of 2014/15. Thus it must be asked: if there are absorption problems, why are budgets and fiscal deficits increasing year on year and why is government engaging in such heavy borrowing? From where is the massive demand for cash coming?

Revenue Generation

Given the factors elucidated above where there are high fiscal deficits and uncontrollable spending, it is crucial that government raises sufficient revenue to meet costs accrued via its fiscal policy and implementation thereof. Sadly, the factors at work with regards to revenue generation are not favourable either. Let us look at two important revenue earners for government: tax and economic activities that earn FX.

Tax

The first point to note is that although government budgets have been increasing each year, revenue generation by the Kenya Revenue Authority (KRA) in particular, has been increasing but not sufficiently. In 2012/13 KRA collected KShs. 800 billion, in 2013/14 KShs.963.7 billion, and in 2014/15 KRA collected 1.001 trillion. This year the KRA target stands at KShs.1.18 trillion, juxtapose that with the 2015/16 budget of KShs.2.2 trillion. Already there are signs this year’s targets will not be met; it emerged that the Kenya Revenue Authority missed its revenue target by KShs.10 billion shillings for the first quarter ending September. Further, in June 2015 Treasury announced it would scrap the 5 per cent Capital Gains Tax (CGT) designed to increase tax collection, and replace it with a 0.3 percent withholding tax on sales value thereby taking a step that would have negative implications on tax collection. Such action would be understandable if done in a context where revenue generation is growing at the pace of budget size; this is not the case. But it should be said that one of the main reasons that informed the removal of the CGT is that although it was a strategy government used to try and raise more taxes, it was not working. Indeed, it became clear that the government will be unable to raise nearly all of the KShs.7 billion it had expected from CGT. Indeed the Kenya National Bureau of Statistics expects KRA to collect a paltry KShs.200 million in CGT. Thus, it is clear that
in terms of tax-related revenue generation, the government is struggling. This has important fiscal implications: firstly there is likely to be yet another increase in the fiscal deficit this year because insufficient funds would have been raised this year. Secondly, fiscal deficit related domestic debt servicing will be compromised as government is having difficulty in raising the funds necessary to meet revenue targets. Finally, government will truly feel the pressure of missing revenue targets even in servicing foreign denominated debt as FX earning is also feeble; which leads to the next point.

FX Earners

As earlier stated, part of the fiscal strategy was to plug the fiscal deficit via external financing worth KShs.340.5 billion or about 60 percent of the total fiscal deficit. Given this weighting, FX must be earned; yet the story here is grim too. The two main sources of FX for Kenya are tourism and exports.

With regards to tourism, it is an open secret that the sector has been under-performing; in fact the sector’s earnings have been falling for three straight years. In 2015, according to the Kenya Tourism Board, the number of visitors to Kenya fell by 25 percent in the first five months of the year. The sector is still reeling from the damage caused by insecurity related to Islamist militant attacks. Thus although tourism is a crucial FX earner, earnings from the sector are likely to be extremely muted.

As far as exports are concerned, the top exports Kenya has are horticulture, apparel clothing and accessories, coffee and tea. According to the Kenya National Bureau of Statistics, the country’s horticultural sector earned KShs.100.8 billion in 2014, a 6 percent growth in comparison with the KShs.94.7 billion earned in 2013. With regards to horticulture the biggest product is flowers and accounted for 71 percent of Kenya’s horticulture export earnings in 2014, according to analysts. With regard to performance of this sub-sector, there are conflicting views. According to the Kenya Flower Council, the sector exported 136,601 metric tonnes valued at KShs.54.6 billion in the year 2014 - representing growth for the sector at 9 percent in volume and 18 percent in value when compared to 2013. However, other reports indicate the opposite; that Kenya had projected a 10 per cent drop in earnings from its flower exports in 2014 attributed to the European Union’s decision to impose an 8.5 percent tax on the exports. The same report by the Business Daily also states that Kenya’s flower sector is facing stiff competition from India and Ethiopia which produce cheaper flowers. It is difficult to ascertain which of the sources is correct.

In reference to exports in apparel, clothing and accessories, the trajectory is upwards. Exports to the United States, a major market for Kenyan clothing, have been increasing at an average rate of 17 percent each year between 2010 and 2014. Good news.

With regards to coffee the news is also favourable. Partly due to high coffee prices and improved production, 2014 earnings
from exports rose 17 percent to USD 254.2 million. According to the Coffee Board of Kenya the sub-sector is expected to produce 45,000 tonnes of coffee in 2014/15 and earn USD 50 million from an estimated average price of USD 200 per bag.

Finally with regards to tea, the news is also encouraging as in 2015 there was a growth in tea revenues attributed to the decline in volumes of tea sold at the Mombasa auction, which has helped to push demand for commodity, resulting to better prices.

Thus the export picture is a mixed bag but generally positive. However when juxtaposed with the abysmal performance of tourism, there are signs that overall, government will be under pressure to generate enough FX to service foreign denominated debt, including that accrued to partially plug the fiscal deficit.

In short, with regards to revenue generation, tax revenue is subpar as is FX generation overall. This will therefore translate into government experiencing difficulty in meeting the debt servicing obligations of both domestic and foreign denominated debt that is a core part of the overall fiscal strategy with regards to the fiscal deficit.

Borrowing

Given that planned expenditure has been ballooning in a context where government is not hitting revenue targets and FX earners underperforming, government has essentially been forced to borrow to meet fiscal obligations. Sadly, the manner in which they are borrowing is imprudent but let us begin with the contextualisation of the propensity for borrowing government has demonstrated this year alone.

Initially, Treasury Secretary Henry Rotich estimated that domestic borrowing would be KShs.141.7 billion in 2015/16 fiscal year. This was revised upward to KShs.219.2 billion in April 2015 and then revised again upward to KShs.229.7 billion in June 2015, the exact same amount as that initially indicated by government as required domestic borrowing for the fiscal deficit.

However, it has since been reported that a key target for the borrowing has been to plug the KShs.600 billion budget deficit; has this amount more than doubled from the KES 229.7 billion government initially announced it would borrow domestically to plug the deficit? Why did government state they only wanted to borrow KES 141.7 billion when the fiscal deficit alone, with regards to domestic borrowing alone, needed KShs.229.7 billion? David Ndii, Managing Director of Africa Economics, argues that net repayment of domestic debt was not in the budget. The clarity on these figures is wanting. But what IS clear is that as per the July 2015 Monthly Debt Bulletin released by the Treasury, government net domestic debt increased by KShs.7.3 billion to stand at KShs.1,183.48 billion in July 2015. Government is demonstrating an appetite for cash and this even seems to have informed an increase in interest rates on the 91-day Treasury Bills which hit 21.353 percent in early October. Treasury borrowed KShs.26.84 billion at 21.6 percent through the Treasury bills, raised KShs.24.97 billion at 19.06 percent through a one-year KShs.30 billion bond and is likely to pay over 20 percent for a one-year, KShs.20 billion amortised bond. However since then, the 91-day T-Bill dropped from 19.47 percent to 13.73 percent, 182-day dropped from 21 percent to 16.5 percent, the 364 day dropped from 21.2 percent to 17.1 percent. Further, Treasury acquired a two-year, KShs.77.43 billion (USD 750 million) syndicated loan from Standard Chartered, Standard Bank and Citi Bank which was priced at a more favourable 6 percent. It would be good news for government if interest rates charged on T bills continued to drop and it would bring relief to Kenyan borrowers as well.

However, despite the rate drops, the overall trend in borrowing is one where the government is accruing very expensive, short term debt to meet financial obligations including plugging the fiscal deficit. Yet as we have seen revenue generation is weak, and when combined with depressed GDP growth, it is a wonder as to how government will service its imprudent borrowing strategy. The scenario unfolding seems to be one where short term debt servicing will eat into revenues and further impair government’s ability to service medium to long term debt obligations.

Conclusion: Fiscal Policy

In conclusion, Kenya is in a precarious fiscal position due to questionable fiscal policy and behaviour. Consistent increases in budgets, high planned and deliberate fiscal deficits in the context of poor spending habits, lacklustre revenue generation and aggressive borrowing are fundamentally compromising Kenya’s fiscal health. Government needs a fundamental redrawing of its fiscal policy and strategy given all the factors elucidated above.

But let us now turn to monetary policy and explore the behaviour of government in this area and whether action taken here will mitigate the challenges presented by Kenya’s fiscal policy.
MONETARY POLICY

In terms of monetary policy, the economy due to both internal and external factors, has put the Central Bank of Kenya under pressure. We will look at three important functions that have informed monetary policy in Kenya this year: the Kenya Shilling depreciation, interest rates and inflation.

Management of Kenya Shilling Depreciation

It is no secret that the Kenya shilling has been tanking, nearing 102 to the US dollar at the time this article was written. Although it is important to note that this is not the lowest the shilling has ever reached (the Kenya Shilling reached 107 to the USD in October 2011) current conditions make Kenya Shilling depreciation more anxiety inducing. Not only does Kenya’s Current Account Deficit remain substantial, the country is racking up foreign denominated debt. As per the monthly debt bulletin released by the Treasury in July 2015, Kenya’s public debt stood at KShs. 2,891.71, 49.06 percent of the total debt is domestic debt while 50.94 percent is external debt. The good news here however is that, according to the Treasury, in terms of foreign denominated debt the grace period on the external debt portfolio was 6.4 years, with an average maturity period of 21 years, as per July 2015. But in July alone, that meant that principal and interest payments during the month of July 2015 were KShs.2.25 billion and KShs.5.51 billion respectively. Clearly the value of the Kenya Shilling still matters.

The factors that are causing the Kenya Shilling depreciation are numerous and include high liquidity in the market after the government releases payments to state-linked entities and ministries, strengthening of the US dollar, Kenya’s high current account deficit which has led to a scarcity of FX, high imports, and poor tourism inflows the latter of which is an important FX earner. There are three core strategies the Central Bank of Kenya used over the course of last year to address these pressures on the shilling; yet each strategy was constrained.

One step the CBK took to manage the Kenya Shilling depreciation was the direct sale of FX, which it did and led to a fall in FX reserves from USD 6.8 billion in late May to USD 6.5 billion in July. However, such a strategy is constrained by two factors; firstly, Kenya is an import economy, thus by definition, FX is scarce. That said, in September 2015, CBK stated that it had a USD 688 million stand-by facility with the International Monetary Fund but such mitigation efforts have been put in place to ensure relative dollar liquidity, it ought to be noted that there is also on-going momentum for dollar outflow. Not only must dollars be drained from the economy to make trade payments, mediocre export performance and the poor performance of tourism negatively inform the CBK’s ability to throw dollars at the depreciation problem.

Further, as mentioned, government is getting into high levels of foreign denominated debt including that to service fiscal deficits, and thus has to start saving (or generating) FX in order to make the repayments that are maturing on this type of debt.

Secondly, the CBK sought to address depreciation problem by fiddling with interest rates. CBK raised the Central Bank Rate (CBR) to 10.0 percent in June 2015 from 8.50 percent, which had been stable since May 2013. CBK then again raised CBR from 10 percent to 11.5 percent in July 2015. Further, it revised the Kenya’s Bank Reference Rate (which commercial banks use to price loans) from 8.54 percent to 9.87 percent. There are several problems with raising interest rates to influence the performance of the shilling. Firstly, it often has the effect of slowing economic
growth due to reduced investments and consumption. The conundrum here is that the performance of the Kenyan economy will be negatively affected by a hike in interest rates; yet the Treasury’s initial rosy growth projection of up to 7 percent this year was based on interest rates remaining stable at around the May 2013 levels. Remember that the Kenyan economy is already performing at the subpar level of overall growth of 4.9 percent thus far. Yet interest rate hikes make the prospects of the rates of future GDP growth even grimmer.

The CBK is using to try and control the Kenya Shilling depreciation may well compromise GDP growth and thus the government’s ability to accumulate the funds needed to meet debt obligations including fiscal deficits.

Finally, in order to manage the Kenya Shilling depreciation, the CBK sought to drain excess liquidity from the market by offering KShs.6 billion in repurchase agreements in June. But again the CBK is constrained, mainly by political considerations. Given the government’s high levels of recurrent public expenditure, the reality is that substantial amounts of the Kenya Shilling are regularly being released into the market pushing the Kenya Shilling liquidity in the market up at regular intervals. Further, last year Kenyan teachers secured a pay rise of 50 percent; that hike, if calculated up to 2017, will be KShs.99.8 billion incurred on teachers’ pay alone. This puts pressure on government, to further increase annual budgets and if the teacher’s pay is honoured would push the fiscal deficit up to about 10 percent of GDP according to Kwame Owino of the IEA. Sadly, government’s options in creating the funds to make such payments possible will, again, affect government’s ability to control the depreciation of the Kenya Shilling. Further, given that budget amounts have been escalating, how can government pay escalating public expenditure? One is by raising taxes which reduce investment and consumption and reduce GDP growth, or they can seek additional borrowing in the domestic market which they have done, essentially crowding out SMES and private sector, and putting upward pressure on interest rates. The other option is to go for additional foreign borrowing which adds to the problem of additional foreign denominat
FISCAL AND MONETARY POLICY

Interest Rate Management

In October 2015, the government announced that it had acquired a two-year, KShs.77.43 billion ($750 million) syndicated loan part of which is likely to be used to plug the fiscal deficit. Some banks responded by raising their interest rates which is generally deemed unfavourable in Kenya. But when the interest rate issue is scrutinised, the government, specifically the CBK has to contend with several compounding variables that put pressure to keep rates high as well as to lower them.

In terms of the pressure to keep rates high, the Kenya Shilling depreciation has been a huge factor. As previously mentioned, the CBK raised interest rates in an attempt to stem the depreciation of the shilling and control upward inflationary pressure. This act was arguably warranted given that Kenya is an import economy and has to service foreign denominated debt, including that for the fiscal deficit, which currently stands at about 50 percent of total debt. Therefore, if the Kenya Shilling depreciation is not managed, import bills will become more costly and foreign denominated more expensive to service. These are real short to medium term pressures that the government has to manage.

The problem however is that raising interest rates often has a dampening effect on economic growth due to reduced investments and consumption. High interest rates will likely exacerbate the subpar performance of the economy and government will fail to generate the revenue required to pay import bills and service debt. Therefore in this scenario, CBK has to tussle with keeping rates high to stem the Kenya Shilling depreciation and control inflation while contending with the negative consequences of doing so.

At the same time, there is pressure to lower rates. Indeed, to lower the cost of money, the CBK has been injecting fresh liquidity into the money markets, with its latest intervention being an injection of 6 billion shillings in early November. Why? Well, as mentioned, high interest rates tend to dampen economic growth due to reduced investments and consumption. High inflation will raise the cost of living which will mean that basic goods such as food become more expensive for Kenyans. This is when the politics of economics comes in; no government wants to be in power when basic goods become unaffordable as social unrest usually ensues. Therefore, although there is pressure to lower interest rates, the potential negative consequences of doing so are not phenomena with which any government would want to contend.

In short there are dangers in keeping rates high as well as in lowering them; what should the CBK do? The recommendation here is that given the fact that banks are already raising rates due to heavy domestic borrowing by government, the CBK should lower rates. This is because domestic borrowing by government has prompted rate hikes beyond what CBK had orchestrated. Therefore, a lowering of the CBR and even KBRR will buffer the economy and Kenyans from the recent hike in rates. Including fiscal deficits, unaffordable. High inflation will raise the cost of living which will mean that basic goods such as food become more expensive for Kenyans. This is when the politics of economics comes in; no government wants to be in power when basic goods become unaffordable as social unrest usually ensues. Therefore, although there is pressure to lower interest rates, the potential negative consequences of doing so are not phenomena with which any government would want to contend.

Again, here we see how fiscal policy, particularly the fiscal deficit strategy as well as heavy borrowing by one arm of government, has to be managed through monetary policy by another arm of government.
**Inflation**

For most of 2015 inflation remained within government’s inflation target of 5 percent +/- 2.5. However in December 2015 inflation went up to 8 percent largely attributed to import inflation linked to KES depreciation. Further, if one were to look at food inflation in terms of the percent change on same month of previous year the story is troubling:

<table>
<thead>
<tr>
<th>Month</th>
<th>Inflation rate</th>
</tr>
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<tbody>
<tr>
<td>September</td>
<td>5.97 percent</td>
</tr>
<tr>
<td>August</td>
<td>5.84 percent</td>
</tr>
<tr>
<td>July</td>
<td>6.62 percent</td>
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<tr>
<td>June</td>
<td>7.03 percent</td>
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<tr>
<td>May</td>
<td>6.87 percent</td>
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<tr>
<td>April</td>
<td>7.08 percent</td>
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<tr>
<td>March</td>
<td>6.31 percent</td>
</tr>
<tr>
<td>February</td>
<td>5.61 percent</td>
</tr>
<tr>
<td>January</td>
<td>5.53 percent</td>
</tr>
</tbody>
</table>

Source: Kenya National Bureau of Statistics (KNBS)

These figures indicate that basic food prices are on an upward trend in Kenya which is particularly concerning for poor Kenyans who, according to analysts at the KNBS, spend 42.5 percent of their income on food. Given that according to the World Bank, 45.9 percent of the population live at or below the poverty line, food inflation is an important indicator of how increases in the same affect large portions of the population. Further given that inflation went above the target, there is a change that the CBK may push up interest rates to reign in inflation in an environment where there is pressure to lower interest rates.

**Conclusion: Monetary Policy**

This year monetary policy has been primarily focused on managing the Kenya Shilling depreciation as a weak shilling negatively informs government debt servicing ability, including foreign borrowing for the fiscal deficit. The challenge is that the resultant high interest rates are likely to negatively inform government revenue generation which has implications for future fiscal strategy in terms of planned expenditure and fiscal deficits; either spending will have to cut drastically or fiscal deficits will go up next financial year given the rate hikes this year. Inflation was within range for most of the year but spiked in December 2015 creating a scenario where an interest rate hike is plausible. Therefore, the CBK will find that any action taken, particularly on interest rates, will inform Kenya’s fiscal health in 2016.

**Conclusion and recommendations**

Clearly, fiscal and monetary policies have an incestuous relationship where action taken in one docket directly informs activity in the other. The overall recommendation therefore is that the CBK and Treasury have to keenly follow the goings on in the other’s dockets. With regard to fiscal policy the recommendations are clear: lower planned expenditure, lower actual spending, reduce fiscal deficits and limit borrowing. With regards to monetary policy, the recommendation is to carefully weigh the benefits of focussing on controlling the Kenya Shilling depreciation with the losses that may be accrued in the economy by doing so.

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The WTO and the Nairobi ministerial conference (MC10): Why it matters

By Dr. Miriam Omolo

The WTO’s 10th Ministerial Conference was held in Nairobi, Kenya, from 15 to 19 December 2015. It culminated in the adoption of the “Nairobi Package”, a series of six Ministerial Decisions on agriculture, cotton and issues related to least-developed countries (LDCs). The Conference was chaired by Kenya’s Cabinet Secretary for Foreign Affairs and International Trade, Ambassador (Dr.) Amina C. Mohamed.

The World Trade Organization (WTO) is considered the largest trading bloc with the goal of facilitating a free global trading system by ensuring that trade impediments are gradually removed. Multilateral negotiations began after the World War II with the objective of establishing an umbrella body “International Trade Organization” (ITO). However, due to political difficulties, the ITO was never established. A group of 23 countries began trade negotiations under a provisional set of rules known as the General Agreement on Tariffs and Trade, GATT. The GATT was an agreement where contracting parties operated on a set of rules in order to reduce tariffs. In 1995, the World Trade Organization (WTO) was created while the GATT rules remained in force. The fundamental differences between GATT and the WTO are: while GATT was an agreement, the WTO is an international organization which is concerned with members following the trade rules set out. The GATT was concerned with trade in goods and tariff reductions only. The table below provides a summary of the events that led to the creation of the WTO.
The WTO has five main functions, the first one being the important role of administering agreements that members have agreed to. Secondly, it provides a forum where members negotiate on how to reduce barriers to trade such as tariff and non-tariff measures. The WTO has a dispute settlement mechanism that handles trade disputes among its members. In order to establish progress that members make towards trade liberalization, they conduct national trade policy review every four years and also provide technical assistance to developing countries, such as training in negotiation skills or to understand and interpret the WTO agreement. The stylised process used to gain progress in these negotiations is called the trade round. Countries meet to negotiate a set of tariff reductions and other measures that liberalize trade. There have been eight trade rounds since 1949, of which the Uruguay round completed in 1994, established the WTO.

The WTO Agreement

The WTO agreements cover goods, services and intellectual property. These agreements map out the principles of liberalization and the permitted exceptions. They include individual country commitments to lower custom tariffs and other barriers and also set out procedures for dispute settlement. The dispute settlement focuses on settlement of disputes among members and trade policy review which focuses on the review of government trade policies. The agreement starts with the broad principles of General Agreement on Tariffs and Trade (GATT), General Agreement on Trade in Services (GATS) and Trade Related aspects of Intellectual Property Rights (TRIPS). This is followed by extra agreements and annexes dealing with special requirements of specific sectors or issues.

- The GATT deals with goods under several headings: agriculture, sanitary and Phytosanitary measures, textile and clothing, technical barriers to trade, trade

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Source: Hoekman (2002)
related investment measures, antidumping, customs valuation pre-shipment inspection, rules of origin, import licensing, subsidies and countervailing measures and safeguards. Members have made commitments in these areas to eliminate or reduce tariffs and non-tariff measures in order to reduce any forms of barriers to trade. The Uruguay round saw members commit to reduce barriers to trade by committing to specific targets and agreeing to negotiate the ‘modalities’ of how to reach the agreed targets.

The GATS deals with services supplied from the territory of one party (member) to another party’s territory. They are largely in four categories - services provided from the territory of one country to the territory of another, services provided in the territory of one party to consumers of another territory such as tourism; services provided through the presence of an entity in another party’s territory such as banking and multinational firms, services provided by nationals of one party in the territory of another such as consultancies. Under the GATS, members provide a schedule of national commitments under these four areas with continuous discussions on how to further liberalize the services market.

TRIPS seeks to establish a framework under which there is a standardized protection and enforcement of intellectual property rights under the multilateral trading system. The agreement focuses on protection of patents, copyrights, trademarks in services, geographical indications, industrial designs, layout designs in integrated circuits and trade secrets.

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Members of the WTO, through their ministers, meet every two years to discuss the progress made in the negotiations towards removal of impediments to trade and make decisions on all matters affecting the multilateral trading system of its members.

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The Nairobi Ministerial Conference- What was expected?

The topmost decision making organ within the WTO is the ministerial conference. Members of the WTO, through their ministers, meet every two years to discuss the progress made in the negotiations towards removal of impediments to trade and make decisions on all matters affecting the multilateral trading system of its members. The WTO works to ensure a ‘single undertaking approach’ where all must agree to the results of the negotiations. There have been ten ministerial conferences since the establishment of the WTO in 1995. The tenth ministerial conference was held in Nairobi, Kenya from 13-18 December 2015. This is the first time the WTO has held its Ministerial conference in Africa.

There are several issues that the Nairobi conference was expected to address building from the Bali Ministerial conference held in Bali Indonesia in 2013. After Bali and follow up meetings in Geneva at the WTO special sessions. The key issues to be addressed in Nairobi included:

- The elimination of agricultural export subsidies, new regulations governing export credits, issues around international food aid and state trading export entries with the objective of reaching an agreement on how to minimize their trade distorting effects.
- Agreement on how to handle public stockholding programmes undertaken by several developing countries for food security purposes, since these programmes are considered as trade distorting subsidies when they exceed a defined threshold of ‘aggregate measurement of support’.
- The Special Safeguard Mechanism (SSM) proposed by the G-33 group of developing countries (they advocate for limited opening up of agricultural sector in developing countries). It allows developing countries to raise the level of import tariffs on agricultural commodities in cases where there are import surges or price declines that threaten local producers.
- Preferential treatment for least developed countries under services.
- Removal of subsidies that distort cotton trade. The Cotton initiative focuses on trade distorting subsidies that least developing countries face due to developing countries subsidizing their cotton farmers. It was expected that members would make commitments to reforming policies with trade distorting effects in this sector.
The ‘Nairobi Package’

The Nairobi conference delivered a package that was received with mixed reactions. It contained six ministerial decisions relating to agriculture, cotton and LDC issues. Under agriculture, the ministers committed to:

- Abolish subsidies for agricultural exports that distort international trade. The developed countries would remove subsidies immediately except for selected agricultural products while developing countries would do the same by 2018. Developing countries would further have the flexibility to offer marketing and transportation costs up to 2023, while poor countries and net food importing countries would continue up to 2030.

- On public stockholding for food security purposes, members committed to engage constructively in finding a permanent solution. The countries therefore will continue negotiating and must reach a decision by the 11th Ministerial conference in 2017 as agreed in Bali. In the meantime, developing countries (such as India) will continue with their food stockpiling programmes for food security as long as they notify the WTO.

- The ministerial decision recognized that developing countries had the right to increase tariffs when faced with import surges using special safeguard mechanisms, it was agreed that members would continue to negotiate these issues under special sessions in agriculture.

On Decisions relating to LDCs:

- Preferential access for least developed countries, the ministerial conference provided directions on what qualifies as a product from an LDC. It was agreed that preference-granting members to consider simplifying documentary procedures for verifying origins of a product made by an LDC.

- In order to increase LDC participation in services trade, it was agreed that services suppliers from LDCs should be granted preferential treatment by non-LDC members up to 31 December 2030. The granting of preference in services remains voluntary in nature and as such is not binding.

Under Cotton, export credit, guarantees or insurance schemes was abolished. Developing country members who provide export financing support will have a maximum of 18 months repayment period with an implementation period starting in 2016 to 31 December 2020. Least developed and net food importing countries shall have 34-54 months repayment term for the acquisition of basic foodstuff. Duty free and quota free market access for cotton products originating from LDCs to developing/developed countries would remain on voluntary basis and subject to the preferential trade arrangement between the LDC and developing/developed country.

Conclusion

A first glance at the ‘Nairobi Package’ would give impression of remarkable progress on the negotiations, especially the decision that was reached on the abolition of export subsidies. While this is remarkable progress, the other decisions reached on LDCs and cotton are voluntary in nature, this by extension makes the agreement non-binding since the decisions are at the discretion of developing and developed country members. As long as the agreements are non-binding, the LDCs will continue to face the same challenges.
Opportunities in the Micro and Small Enterprises (MSEs) Sector in Kenya

The informal sector and MSEs form the largest primary driver of employment in Kenya, yet the sector continues to face hurdles despite offering job creation and contributing significantly to Kenya’s Gross Domestic Product (GDP) over the years.

By Stephen Jairo

The informal sector largely comprising of workers in Micro and Small Enterprises (MSEs) employs over 11.8 million adult Kenyans annually. The largest creator of employment in Kenya is the informal sector (Economic Survey 2015), with MSEs under this category, making it the primary driver of employment growth constituting 82.7 percent of total employment in 2014 and contributing 18 percent of the Gross Domestic Product (GDP).

Since the mid 1980s, MSEs in both the formal and informal sectors have been the major drivers in job creation, although the formal sector has not grown commensurately with the growth in population of Kenyans reaching working age.

MSEs are central to the economic growth and development of an economy as they provide basic goods as well as other services to a broad population, both in rural and urban areas, cutting across all sectors of the economy including agriculture, services and manufacturing, etc.

Classification of MSEs

The definition and classification of MSEs is not universal but dependent, in most cases, on a country. In Kenya, micro enterprises are different from small enterprises based on number of employees, annual turnover, amount of investment in plant, machinery and registered capital; and investment in equipment and its registered capital.

Thus in Kenya, a micro enterprise (whether in trade, service industry or business activity), has less than 10 people, with an annual turnover not exceeding KShs. 500,000 and the investment in plant and machinery including registered capital not exceeding KShs. 10 million. In terms of equipment investment and registered, it should be more than KShs. 5 million but less than KShs. 20 million.

On the other hand, small enterprises have 10 to 50 employees, and make an annual turnover of between KShs. 0.5 – 5 million with the investment in plant and machinery plus registered capital, more than KShs. 10 million but less than KShs. 20 million. (D. Ong’olo, 2013).

Table 1: Classification of Micro and Small Enterprises in Kenya

<table>
<thead>
<tr>
<th>Entity (Trade, service, industry or business activity)</th>
<th>No of Employees/ People</th>
<th>Annual Turnover Limit</th>
<th>Investment in Plant and Machinery + Registered Capital</th>
<th>Equipment Investment + Registered Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprise</td>
<td>Less than 10 people</td>
<td>Not exceeding KShs. 500,000</td>
<td>Not exceeding KShs. 10M</td>
<td>Not exceeding KShs. 5M</td>
</tr>
<tr>
<td>Small Enterprise</td>
<td>More than 10 but less than 50</td>
<td>Between KShs. 0.5M – 5M</td>
<td>More than KShs. 10M but less than 50M</td>
<td>More than KShs. 5M but less than 20M</td>
</tr>
</tbody>
</table>

Source: D. Ong’olo, 2013.
At the regional level, MSEs have been outlined in Tanzania’s National Strategy for Growth and Reduction of Poverty (NSGRP) as being vital to the development of the economy among a host of other strategies on poverty reduction in the country.

In Uganda, the active economy largely comprises of MSEs, which according to its National Bureau of Statistics, employs over 90 percent of those involved in activities off-the-farm (non-agricultural).

Indeed, both sectors (formal and informal) make an invaluable contribution to the country’s economy with trends showing steady growth with the informal sector at the fore. For instance, as at 2014, wage employees constituted 17.6 percent while in 2010, this was at 16.6 percent. In 2014, in comparison, 82.7 percent of total employment constituted informal sector employees while in 2010 at 81.8 percent, (Economic Survey 2015).

Challenges in the MSE Sector

The MSE sector faces a number of challenges including: legal and regulatory framework, infrastructure, financing gaps, lack of coordination amongst the various entities involved, problems in marketing and related issues, policies related to the sector, information dissemination, and ease of getting into and exiting the industry.

<table>
<thead>
<tr>
<th>Modern Sector</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage Employees</td>
<td>2,016.2</td>
<td>2,084.1</td>
<td>2,155.8</td>
<td>2,283.1</td>
<td>2,370.2</td>
</tr>
<tr>
<td>Self employed</td>
<td>69.8</td>
<td>73.8</td>
<td>76.9</td>
<td>83.8</td>
<td>103.0</td>
</tr>
<tr>
<td>Sub total</td>
<td>2,086.0</td>
<td>2,157.9</td>
<td>2,232.7</td>
<td>2,366.9</td>
<td>2,473.2</td>
</tr>
<tr>
<td>Informal sector</td>
<td>9,371.1</td>
<td>9,958.3</td>
<td>10,548.4</td>
<td>11,150.1</td>
<td>11,843.5</td>
</tr>
<tr>
<td>Total</td>
<td>11,457.1</td>
<td>12,116.2</td>
<td>12,781.1</td>
<td>13,517.0</td>
<td>14,316.7</td>
</tr>
<tr>
<td>Percent of Wage Employees</td>
<td>17.6%</td>
<td>17.2%</td>
<td>16.9%</td>
<td>16.9%</td>
<td>16.6%</td>
</tr>
<tr>
<td>Percent of Informal Sector Employees</td>
<td>81.8%</td>
<td>82.2%</td>
<td>82.5%</td>
<td>82.5%</td>
<td>82.7%</td>
</tr>
</tbody>
</table>

In essence, small business owners should be protected under the Micro and Small Enterprises Act 2012 which was passed in December 2012, following extensive advocacy and consultative meetings with target stakeholders. The Act provides for the promotion, development and regulation of micro and small enterprises and the establishment of the Micro and Small Enterprises Authority. However, key aspects of it are not fully implemented or not implemented at all.

The MSE Act places enormous responsibilities on the registrar and the Micro and Small Enterprises Authority (MSEA). But upon review, based on documents and information on the MSEA website, it is not possible to derive if there is a registrar, yet this office is important into bringing the Act into operation.

The MSE Act places enormous responsibilities on the registrar and the Micro and Small Enterprises Authority (MSEA). But upon review, based on documents and information on the MSEA website, it is not possible to derive if there is a registrar, yet this office is important into bringing the Act into operation.

There is still some uncertainty regarding the tenure of the Chief Executive Officer. This is a curious state of affairs, since the required complement of 8 members of the board of directors are properly in place. However, the Chief Executive Officer has been working in an acting capacity for several months without confirmation of tenure. This situation continues to affect performance of a young institution but more importantly, represents non-compliance with good principles of corporate governance.

A further look under Section 71 of the MSE Act 2012, the MSEA is required to submit an annual report of its activities to the Cabinet Secretary responsible for MSE affairs for onward transmission to the National Assembly. Despite the existence of the MSEA for three years since its inception, there is no published record of the reports having been submitted to the cabinet secretary. That the MSEA has not published the reports of its activities on its website or other forms presents a difficulty in taking a systematic review of its performance in implementing the requirements of the law and policy.

Also, an examination of the budget estimates for the financial year that commenced on July 1, 2015 confirms that for the third consecutive year, parliament has not allocated funding for the MSE development fund as required by law. This issue is a priority because many MSEs are unable to receive funding from other funds as there is broad knowledge that there is a dedicated fund available under Section 51 of the Micro and Small Enterprises Act (MSE) 2012.

The MSEs that should be registered under this law are seeking registration through alternative laws and administrative mechanism indicating that the authority is failing to consolidate its constituency of enterprises and associations. The registration of both individual businesses and associa-
tions that represent MSEs in Kenya would enable the MSE Authority to have a database of these institutions and therefore design its programs to ensure adequate coverage and informed intervention. At the same time, Section 48 of the Act places a direct responsibility on the MSE Authority to undertake capacity building programs for MSEs while Section 49 creates additional responsibility for market development and marketing services.

Policy Recommendations

Taking into account the above challenges, it is important to note that at the national level, those tasked with the smooth flow of activities in the sector as a whole; top of mind being Kenya Private Sector Alliance (KEPSA) - which is a national organization - should ensure that they are at the forefront in the clamor for an investor friendly business environment.

Creation of a symbiotic relationship between SMEs and large enterprises, at county, country, regional and global levels will be fundamental so as to give impetus to the already existing as well as upcoming ones to penetrate and compete in local and global levels. This will also go a long way in terms of aiding local MSEs build capacity and to be dynamic so as to meet both local and international market demands.

If the main objectives for setting up the MSE authority are to be met, the framework within which it has been set up should be one that seeks to realize and enhance equitable and sustainable development of the sector. In this endeavor, it should be funded as much as possible, or indeed, to enable it conduct its operations seamlessly.

Information acquisition and dissemination has been a key impediment to growth of the MSE sector in the country. This goes hand in hand with mentoring SME projects around a given locality. Equally important is the acquisition of skill and knowledge in areas of accounting and finance as well as the infrastructural system in the country. This calls for collaboration with Government agencies, financial institutions including banks and micro-finance institutions to assist in setting up strong structures and processes; whether generic or specific to the MSEs.

Further to the above, it is important that public-private partnership be fostered and enhanced both at the county and at national levels. Noting this challenge, it will be imperative to strengthen already existing MSE umbrella bodies, and where possible provide support in all ways possible, including funding and development of technical capacity.

Finally, it is important to note that the MSE sector in Kenya carries with it great potential not only for employment creation, but indeed, economic growth and prosperity in the long run at both local (county), national, and regional levels. It is therefore imperative upon the duty bearers to among other things endeavor to achieve the following as outlined in the MSE Act 2012:

- Provide financing for those in the sector
- Offer mentorship programs to MSEs
- Create linkages with large organizations
- Assist in market identification and creation of linkages
- Provide for, or offer training opportunities to those in the sector in a variety of areas
- Help to develop programs that facilitate MSEs to gain access to available resources
- Train and develop capabilities required for local, but more so, international markets.

The MSE Fund

The MSE Act has set up a Micro and Small Enterprises Fund to do the following:
- Finance the promotion and development of micro and small enterprises
- Provide affordable and accessible credit to micro and small enterprises
- Finance research, development, innovation and transfer of technology

A vendor at a local market in Kenya.
At independence in 1963, the inaugural government identified ignorance, poverty and disease as the 3 key socio-economic challenges facing nascent Kenya.

50 plus years on, the 3 challenges remain with us. The vast majority of Kenyans remain ignorant, especially as regards their rights and responsibilities enshrined in the Constitution of Kenya, 2010 (CoK) and our strategic national agenda, Kenya Vision 2030 (KV 2030), which seeks to see Kenya transform into a middle income economy with a high quality of life by 2030.

Poverty too, proliferates. Current estimates place the number of Kenyans living below the poverty line at about 45 percent of the population. This translates to approximately 21 million Kenyans. (Economic Survey, 2014, Kenya National Bureau of Statistics).

Like its other partners in the unholy troika of ignorance, poverty and disease, disease too, appears
to continue stalking our citizens, unabated. Waterborne diseases play a lead role. Yet some of the more fatally debilitating ones like cholera, arise mainly from poor hygiene, thanks to ignorance, bad nutrition and unsuitable sanitation infrastructure.

Not surprisingly, citizens, overburdened by these ills have in many cases sought refuge in their tribal cocoons. At least here, they may access favors like food, clothing, shelter, jobs, financial and other material support.

The upshot of this is that ethnic identity has in recent years ended up trumping national identity and citizenship. This has had tragic outcomes, some with lasting impact. A case in point was the 2007/2008 post election violence, from which many survivors are still in camps as Internally Displaced Persons (IDP), and have never been able to resume their previous lives as meaningfully engaged citizens with a decent source of livelihood.

Yet, tribalism was never our natural stock. Predatory governance by successive governments since independence has caused Kenyans to ‘realize’ that their socio-economic well-being is inextricably intertwined with, and perhaps wholly captive to the ethnic profile of the government in power.

This bleak reality notwithstanding, Kenya has achieved significant progress in key public policy areas. Among these are the Economic Recovery Strategy for Wealth and Employment Creation 2003-2007 (ERSWEC 2003-2007), CoK 2010, which many describe as one of the most progressive constitutions in the world and KV 2030, a significant milestone in so far as strategic public policy agenda setting goes.

Add to this the National Youth Policy 2006 (NYP), The Youth Employment Marshall Plan 2009 (YEMP), and you can be forgiven for thinking we have it all thought through and that, surely, surely prosperity and the envisioned high quality of life must be inescapably ours by 2030.

But …not so fast! Surely it should be clear to one and all, by now; that there is more to progress and high quality life than great policy papers. These are, of course, necessary. They are, however, not enough, if our national track record of poor implementation of public policy in the past is any guide.

Any student or practitioner of governance will tell you that meticulous implementation is what gives the breath of life to any policy, bringing about desired outcomes such as employment opportunities, and over time, desired policy impact such as macroeconomic stability and with it, state stability. This would, in turn, create the appropriate environment for enhanced prosperity and quality life.

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**61pc**

of all unemployed adults in Kenya are in the age group of 18-35 years. This age group is, by the Constitution of Kenya, 2010 (CK 2010), in Article 260, officially recognized and defined as youth.

*According to the 2009 Population Census by the Kenya National Bureau of Statistics (KNBS)*

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It is perhaps pertinent, at this juncture, to consider some demographics that may help us contextualize the discussion. The youth and children make up close to 80 pc of Kenya’s population. Experts refer to countries with such a predominant youth population as a ‘youth bulge’ country.

According to the 2009 Population Census by the Kenya National Bureau of Statistics (KNBS), 61 percent of all unemployed adults in Kenya are in the age group of 18-35 years. This age group is, by the Constitution of Kenya, 2010 (CK 2010), in Article 260, officially recognized and defined as youth.

Further, according to a 2009 study carried out by the Kenya Institute of Public Policy Research and Analysis (KIPPRA), the unemployment rate in urban centers stands at 19.9 percent, about double that in rural areas, thanks in large part to rural urban migration. The worst afflicted are Kenyan youth aged 15-24, whose unemployment rate during the period 2005/2006 was 24 percent compared to the overall national unemployment rate of 12.7 percent (KIPPRA 2009). The overall rate of unemployed youth among those eligible for employment, however, is 67 percent.

Against this backdrop, I think I will not be remiss to lay due emphasis on the role and possible opportunities for the youth in helping make KV 2030 a reality. In 2011, in partial fulfillment of the requirements for an MSc in Governance, I wrote a thesis titled ‘Youth Employment Realities and Policy Implications for Kenya Vision 2030’. As a case study, I carried out a study on the implementation of and impact of the Youth Enterprise Development Fund in Westlands Constituency in Nairobi.

**Key findings were as follows:**

- The Programs planned for the youth in YEMP are not aligned to KV 2030 and, in particular, its flagship projects such as the Standard Gauge Railway, Agribusiness Development and the Lamu Port Sudan and Ethiopia (LAPSET) pipeline, the Lamu Port South Sudan and Ethiopia (LAPSSET) Transport Corridor project, hence;

1. **More awareness is needed on KV 2030.** This is more so following the promulgation of the CK 2010, which may necessitate a review of KV 2030 to align with CK 2010 and implications thereof for youth empowerment and employment.

2. **GoK strategies and plans reviewed** during the course of this study (e.g. Youth Employment Marshall Plan (YEMP), Sector Plan for Labour Youth, Employment and Human Resource Development (SPLYHRD) and others do not demonstrate alignment with KV 2030. A glaring oversight is the absence of clarity on the role the youth will play to help deliver on
projects. Projects designed targeting the youth appear to be low skill labour intensive undertakings such as tree planting, trench clearing etc. which do not meet the ILO’s threshold for so-called decent work. Amazingly, even YEMP, developed by the Ministry of Youth and Sports is guilty of this.

3. The youth lack necessary training and skills yet this is a key consideration by YEDF and other funding mechanisms when evaluating prospective loanees.

4. There is a need to create greater awareness among the youth on both KV 2030 and the funds available for youth empowerment and employment. It is also necessary to consolidate them under one coherent policy and regulatory framework.

5. A one-stop e-Youth online Information portal on youth employment opportunities and how to access funds with a youth component (e.g. CDF, YEDF and WEF) would help youth make better decisions with regard to engagement in national affairs.

6. The funds allocated for youth empowerment were found to be way too low for sustainable and meaningful enterprise development, according to policy implementers, beneficiaries and researchers.

7. The monitoring of the impact of YEDF in Westlands remains inconclusive as there was no data available at the time of research. YEDF had, however, commissioned such a review. This, of course, would be way easier if the YEDF disbursement were on the proposed e-Youth, online portal for youth employment opportunities!

8. There is no national database on skills available, making it difficult for the Ministry of Labour to provide policy guidance to tertiary institutions and technical colleges on priority areas of training that are required by the job market in general and KV 2030 projects in particular.

Of more serious concern is that Kenya is unlikely to realize the ‘youth dividend’ that is the positive promise of the 2 sided coin that is our national youth bulge, unless the underlaying issues are addressed. The flipside of this coin evokes disturbing images one often associates with State Fragility, or worse, State Failure!

Indeed, in a 2016 report by the respected series of surveys, Afrobarometer, the 2 principal issues identified as being of greatest concern to Kenyans were runaway corruption and insecurity. It remains unclear whether Kenyan leaders see the nexus between the two. From where I sit, I posit, at the risk of incurring a few diatribes from the political establishment, that the misalignment between the skills we equip our youth with and the demands of the market comprise negligence bordering on the criminal!
Experts in governance refer to such as ‘structural violence’: violence that is attributable to poor, dysfunctional or non-existent policy!

As an example, at a youth forum organized by the IEA in partnership with Alternatives Africa and with YEDF chairman Bruce Odhiambo as one among key speakers, in October 2015, youthful Kibra MP shocked many present by lamenting the lack of skills among our youth. This, he went on to declare, meant that KV 2030 flagship projects such as SGR and LAPSSET which have a major component that requires ‘quality welders’ may have to be implemented using foreign labour! If you missed my earlier explanation of structural violence, I hope you now have it.

MPs sit at the apex of the national policy making process. We expect them to put in place apt policy, not complain about the lack thereof!!

Crime pays big in Kenya! There is, hence, precious little incentive for those inclined this way to change their ways. Indeed, other than sporadic displays of one upmanship between the opposition and the government in power at any given time, hardly any high profile figure involved in grand larceny and other heartbreaking public funds heists has been brought to book and convicted, since Independence! Unsettling corruption scams in this league include the currently trending circa US$ 2.75 billion Eurobond Scandal, the NYS circa US$ 8 million fraud, the Angloleasing scam and just never mind the circa US 1 billion Goldenberg saga, which gave millions of dollars in export compensation, from the exchequer, to crooks who are still walking scot-free for purportedly exporting non-existent gold!! The aftershocks of this saga remain with us to this day.

Meantime, the Presidency shilly shallies, the Finance CS waffles incoherently, the Opposition rattles sabre, civil society organizations make only token ‘murmurs’ of disapproval, but in the end, melodrama and tough talk notwithstanding, no light is shed and no one is held to account!

On insecurity, a few examples suffice. When we hear of university students attacked and murdered, purportedly by Al-Shabaab, we go into a fresh paroxysm of national indignation before quickly forgetting and ‘moving on’. Ditto, when we hear of villagers raided in the dead of night and maimed or killed in Mpeketoni, Turkana, Pokot or Mandera! The Transparency International Bribery index, has consistently had the Kenya Police Service firmly entrenched at the Number 1 position as the most bribe prone, hence most corrupt institution in the land, since the index was launched.

Corruption kills! This could be direct. For example, by letting in bandits through our borders to harm our citizens. It could also be indirect and barely discernible. As in the case of a public functionary stealing funds meant for health facilities and hence causing slow, painful death to patients. It can also be via a grand scam like the NYS saga which facilitated the diversion of funds meant to empower youth with life skills and employability.

Should we then be surprised when such youth then become easy fodder for payable for tenders offered by Al-Shabaab or Mungiki? I wish Ministry of Interior CS Gen. Ole Nkaissery the very best of luck as he goes about attempting to de-radicalize such youth while not addressing their unemployment and livelihood challenges! Meantime, I recommend that we all read an article in the East African issue of 9-15 January 2016, by Jenerali Ulimwengu. Its title

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**E-GOVERNMENT RANKINGS: Top 10 countries in Africa**

<table>
<thead>
<tr>
<th>Country</th>
<th>EGDI Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tunisia</td>
<td>0.539</td>
<td>1</td>
</tr>
<tr>
<td>Mauritius</td>
<td>0.534</td>
<td>2</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.513</td>
<td>3</td>
</tr>
<tr>
<td>Seychelles</td>
<td>0.511</td>
<td>4</td>
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<tr>
<td>Morocco</td>
<td>0.506</td>
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<tr>
<td>South Africa</td>
<td>0.487</td>
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<tr>
<td>Botswana</td>
<td>0.420</td>
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</tr>
<tr>
<td>Namibia</td>
<td>0.388</td>
<td>8</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.381</td>
<td>9</td>
</tr>
<tr>
<td>Libya</td>
<td>0.375</td>
<td>10</td>
</tr>
<tr>
<td>Regional (Africa) Average</td>
<td>0.266</td>
<td></td>
</tr>
<tr>
<td>World Average</td>
<td>0.471</td>
<td></td>
</tr>
</tbody>
</table>

Source: UNITED NATIONS E-GOVERNMENT SURVEY 2014, E-Government Development Index (EGDI)
is: “Look No Further for the creators of Boko Haram; It’s our Dear Leaders”. Nothing to add.

It is my view that if Government of Kenya implemented true e-Governance, we would be rid of most of these shenanigans. National exams could, for example, be released online to headteachers and principals by the authorized Kenya National Examinations Council (KNEC) officer(s) 1-2 hours before the actual exam, for printing. This would stem leakage and restore the credibility and integrity of our national exam and, perhaps, the entire national education system. IFMIS would have an audit trail, making it impossible for Devolution CS and NYS bosses to keep trading lies and counter lies as to who authorized release of payments to whom. The law enforcement agencies would likewise have a basis for investigating and bringing the culprits to book, as their electronic signatures, complete with time and date stamps would not leave the public procurement system, which according to former Finance PS and Current Head of the Public service, Joseph Kinyua, leaks 25-30% of the procurement budget. Working with a Kenya shilling 2 Trillion Budget, this translates to about US$ 6 billion. For context purposes, the approved budget for UN Peacekeeping Operations in FY 2015/2016 is US 8.27 billion.

However, beyond tracking the culprits, if we care for truly inclusive and sustainable economic growth and development, it is executive will that is mission critical. Policy and systems are not enough. While consulting in Rwanda, I once asked a Minister, in who’s office I served as advisor, how they had managed to make Rwanda almost corruption free and focused on economic growth and development. The straight answer I received was: ‘Rwanda runs by the grace of God, the will of Paul Kagame and the resilience of the Rwandans’.

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The Integrated Financial Management Information System (IFMIS) would have an audit trail, making it impossible for Devolution CS and NYS bosses to keep trading lies and counter lies.
Kenya is a hotbed of vibrant culture, spectacular beauty, wonderful people and possibilities."

- Uhuru Kenyatta, President of the Republic of Kenya