KIPPRA

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Improving public policy making for economic growth and poverty reduction

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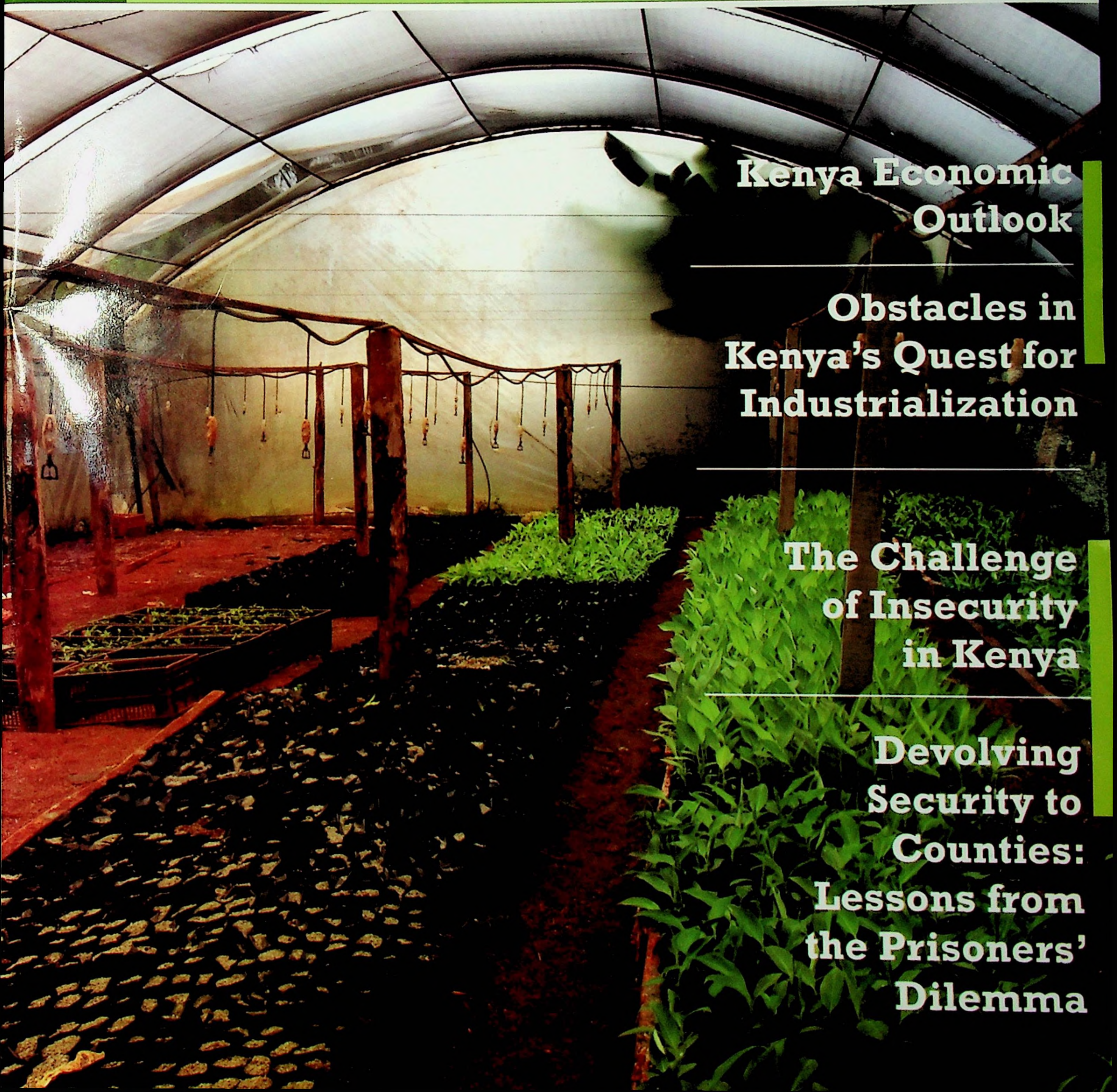

Kenya Economic Outlook

Obstacles in Kenya's Quest for Industrialization

The Challenge of Insecurity in Kenya

Devolving Security to Counties: Lessons from the Prisoners' Dilemma

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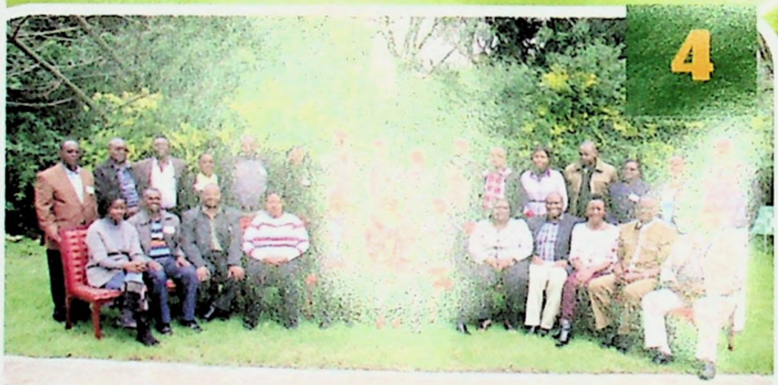

1. **KIPPRA staff participate at the International Conference on Great Lakes Region Summit**
2. **KIPPRA staff with the Economics and Management Studies (CEEG), University Eduardo Mondlane (UEM) in Maputo, Mozambique delegation who visited the Institute**
3. **Visitors at KIPPRA's stand during the 14th Nairobi International Book Fair**
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Vision

To be the leading institute in public policy research and analysis; an international centre of excellence

Mission

To provide quality public policy advice to the Government of Kenya and other stakeholders by conducting objective research and through capacity building in order to contribute to the achievement of national development goals

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Editorial

With the many cases of insecurity that have plagued Kenya in the recent past, a number of articles in this issue of the Policy Monitor address various aspects of insecurity and what the government can do to stop the wave of crime and restore security.

One of the worst forms of insecurity Kenya is currently grappling with is recurrent terrorist attacks by the Al-Shabab, especially since the Kenya Defense Forces entered Somalia. There have also been sporadic attacks on both security forces and civilians in Baragoi, Turkana, Garissa and Mandera. Devolution has also introduced new security parameters and there is need for the national government to work with county governments to come up with interventions to address specific security challenges affecting each county.

To further illustrate the need for collaboration between the national and county governments in matters security, another writer uses an interesting economics conceptual framework known as the prisoners' dilemma. Find out what lessons the President and the Governors can draw from this analogy.

Technological advancement has also introduced another form of insecurity that, if not checked, can be catastrophic, not just for individuals but for government and private institutions. With the many cases of hacking and data theft, cyber criminals seem to beat IT experts at their game. Even as Kenya embraces new technology, it must come up with ways to guarantee the safety of data and internet users.

The lead articles, on the other hand, focus on the role industrialization and Micro and Small Enterprises (MSEs) in growing Kenya's economy. To show the importance of industrialization in transforming the economy, the writer uses the example of Japan and Singapore, which were once on the same economic level with Kenya. The articles propose measures the government can take to tackle specific challenges affecting the two sectors.

Find these and many other informative articles in this issue of the Policy Monitor.

Economic Outlook

By Benson Kiriga, Policy Analyst, Macroeconomics Division

The rebasing of Kenya's economy in September 2014 saw Kenya move from a low income country to a lower middle income country. From the rebased figures, the economy recorded a growth rate of 5.7 per cent in 2013, up from 4.5 per cent in 2012. Clearly, the resilience of the Kenyan economy has been affirmed keeping in mind the security challenges experienced and the fact that 2013 was an election year.

In 2015, continued growth and more investment activities are expected that will see Kenya record a growth of 6.4 per cent. The economic outlook is informed by the assumption that counties are now expected to rise above the initiation challenges and focus on development projects that will see them collect more revenue, create conducive macroeconomic conditions suitable for investment, and leverage on their comparative advantage. At the same time, fiscal responsibility is one of the areas to aid in holding them accountable, thus we look forward to strict adherence to the Public Finance Management Act that will lead the country to achieving higher economic growth.

Declining oil prices saw inflation levels in 2014 drop from the month of August through to December recording an average inflation rate of 7.54 per cent by the end of the third quarter of 2014. It is envisioned that in the medium term, the inflationary trends will still project a downward trend, recording annual averages of 6.8 per cent in 2015, 6 per cent in 2016, and a further decline to 5 per cent by 2017. This will mainly be occasioned by the downward trend in oil price which will see commodity prices reduce, easing inflationary trends. At the same time, short term interest rate is expected to remain stable between 2015-2017.

The rebasing of Kenya's economy in September 2014 saw Kenya move from a low income country to a lower middle income country. From the rebased figures, the economy recorded a growth rate of 5.7 per cent in 2013 up from 4.5 per cent in 2012

The introduction of the Kenya Bank Reference Rate (KBRR) and Annual Percentage Rate (APR) was expected to ease the lending rate and at least lower the short term interest rate. However, the impact has been almost

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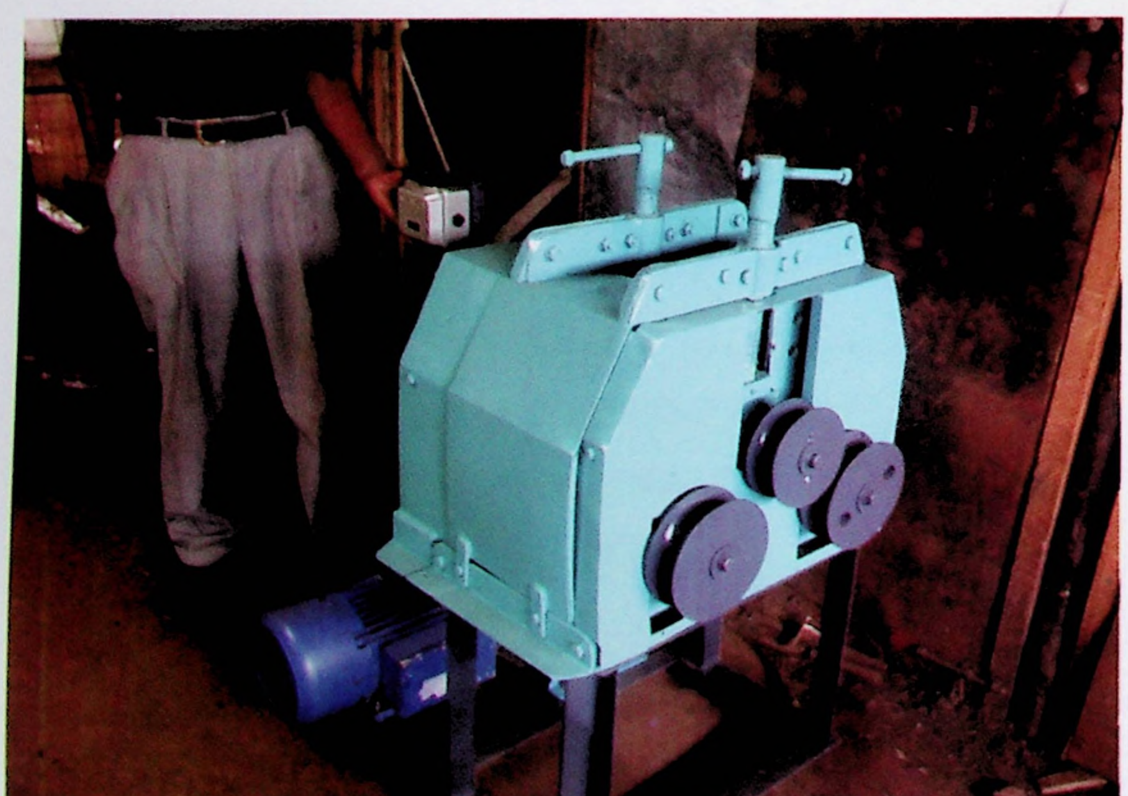
negligible judging from the changes in 2014 and the projections. Anecdotal evidence suggests that the average lending rate moved from 16.91 per cent to 16 per cent from July to December 2014. This implies that the measures put in place by the Central Bank of Kenya to lower lending rates are sticky downwards, and there is need for restrategizing in order to ease the credit cost for consumers.

On the other hand, private consumption in 2014 declined from 8 per cent to 5.5 per cent. One of the contributing factors was the rise in the cost of living in the first half of the year occasioned by variability in weather that affected production in the agricultural sector. The recent decline of fuel prices that has resulted in easing inflation is expected to reduce the cost of living in the medium term. Further, there was an increase in private investment that might have compensated the private consumption recording 8.1 per cent in 2014 from -2 per cent in 2013 and is projected to rise to 10.7 per cent by 2017. Besides, the consumption levels are expected to increase up to 8.3 per cent in 2015 and reach 9.2 per cent by 2017.

Table 1: Macroeconomic projections for 2015-2017

	2011	2012	2013	2014	2015	2016	2017
GDP growth	6.2	4.5	5.7	6.4	7.1	7.8	8.2
Inflation (overall)	14	9.6	5.7	6.9	6.8	6	5
Short-term interest rate	8.7	12.8	8.9	9	9.2	9.3	9.3
Private consumption	9	4	8	5.5	8.3	8.5	9.2
Private investment	12	8	-2	8.1	8.3	9.3	10.7
Government consumption	4	7	1	11.9	8	6.5	6.1
Government investment	-19	18	1	9.7	6.2	9.8	9
Exports G&S	9	0	-1	6.7	5.1	8.5	8.1
Imports G&S	13.2	5.4	0	8	9.9	10.2	11.1
Current account balance	-11	-10.5	-10.5	-12.1	-12.8	-13.5	-14
Financial deficit	-4	-4	-3	-2	-1	-1	-1
Public expenditure	25	25.6	24.5	24.6	23.6	22.5	21.5

Source: KIPPRA- Treasury Macro Model (KTMM)



Government consumption is expected to decline from 11.9 per cent in 2014 to 8 per cent in 2015 and 6.1 per cent by 2017. This is occasioned by the various partnerships the government is undertaking with private investors to realize planned development projects. The cleaning of the public sector's pay roll that saw fresh registration of civil servants and wage reforms by the salaries and remuneration commission is bound to further reduce expenditure by the government. Investments by the public sector are also expected to increase in adherence to the 70:30 rule for recurrent and development expenditure.

Noting that most of government expenditure is recurrent with structures and institutions in place, we foresee increased public investments in infrastructure, energy and health. This fact maybe affirmed by the projected growth in imports (Table 1) as opposed to exports with the margin expected to reduce over time. As a result, the current account deficit is projected as worsening from -12.8 in 2015, -13.5 in 2016 and -14 in 2017. There is need to increase our exports by addressing the challenges that face our key export products, including value addition and decreasing auction prices for tea.

For the economy to continue on a growth trajectory, some baseline measures are mandatory such as maintaining macroeconomic stability, deepening structural reforms, and strengthening institutions. This will provide a good background for the high and stable levels of economic growth and creation of employment while minimizing the inequality that is currently very high in the country.

Obstacles in Kenya's Quest for Industrialization

By Adan Shibia, Prof. Joseph Kieyah and Anne Gitonga, Policy Analysts, Private Sector Development Division

Kenya has since independence made several initiatives towards growing the industrial sector, but with little success. The sector has not been dynamic enough to play the anticipated catalytic role in economic growth and employment

The aspiration to industrialize Kenya and enhance quality of life for the citizens is currently anchored in the long-term development blueprint, the Vision 2030. At the core of industrialization is a vibrant manufacturing sector for value addition and export sophistication. The catalytic role of the sector is attributable to its linkages with other sectors such as agriculture, mining and trade. The performance of Kenya's manufacturing sector has, however, remained low since independence, with

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average contribution to Gross Domestic Product (GDP) of about 10 per cent. Moreover, share of manufactured goods in merchandise exports is only 35 per cent, which is unfavourable if compared with aspirator countries including Singapore and Malaysia at about 70 per cent. In recent years, high costs of production have been of major concern for the industrialization agenda in Kenya.

With the high public sector wage bill facing the country, private sector remains the viable option for addressing high unemployment with an average of 12.7 per cent. However, youth unemployment is disproportionately higher than the national statistic.

Newly industrialized countries including Singapore, Korea and Malaysia are a testimony of the role of manufacturing sector in economic development. In 1965, the share of manufacturing in GDP for Kenya, Korea, and Malaysia were almost at par. Currently, manufacturing sector's share in GDP are in excess of 30 per cent and 24 per cent for Korea and Malaysia, respectively. Kenya's GDP per capita has grown only at 5.3 per cent compound rate between 1965 and 2013, while that of Korea and Malaysia has remarkably grown by 12.2 per cent and 7.5 per cent, respectively, over the same period. Weak industrial transformation has forced Kenya to continue relying on low value commodity exports.

Despite numerous post-independence industrialization policy interventions, the manufacturing sector's contribution to the GDP has stagnated. In fact, the contribution trend has recently nosedived.

The sector is predominantly concentrated in low-value primary manufactures such as food, beverages and tobacco, which account for about 40 per cent of sector GDP. Diversification into high value manufactures such as electronics is still sparse.

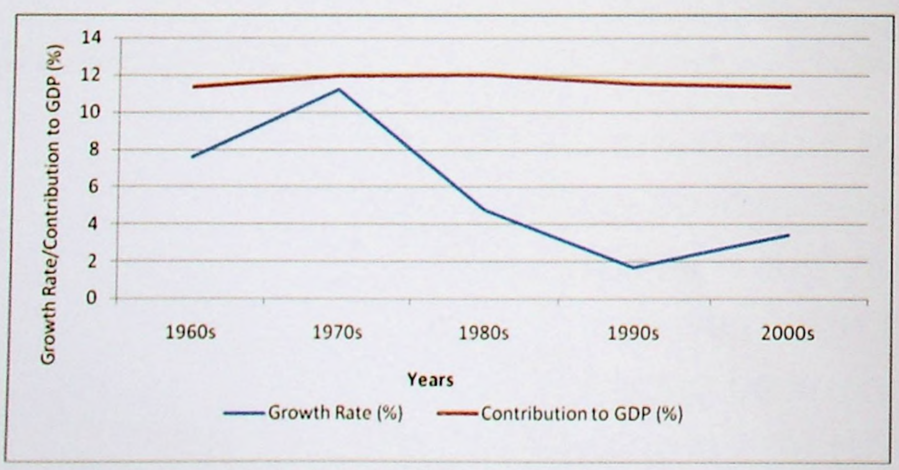
This article sheds light on two pertinent questions surrounding Kenya's industrialization agenda. First, what

explains the sluggish performance of the sector in spite of various interventions? Second, what interventions are required to change the situation?

Poorly sequenced policies and high costs of doing business largely explain the structure and sluggish performance of the sector. The inward looking import substitution policy inherited from the colonial government at independence was successful in one aspect – growth of primary industries, mainly textiles and consumer goods. On the downside, the policy was unsustainable as a result of weak competition and low capacity utilization due to limited local demand and deficient incentives for exports. Market liberalization in 1980s and 1990s further exposed the weak industries to external competition.

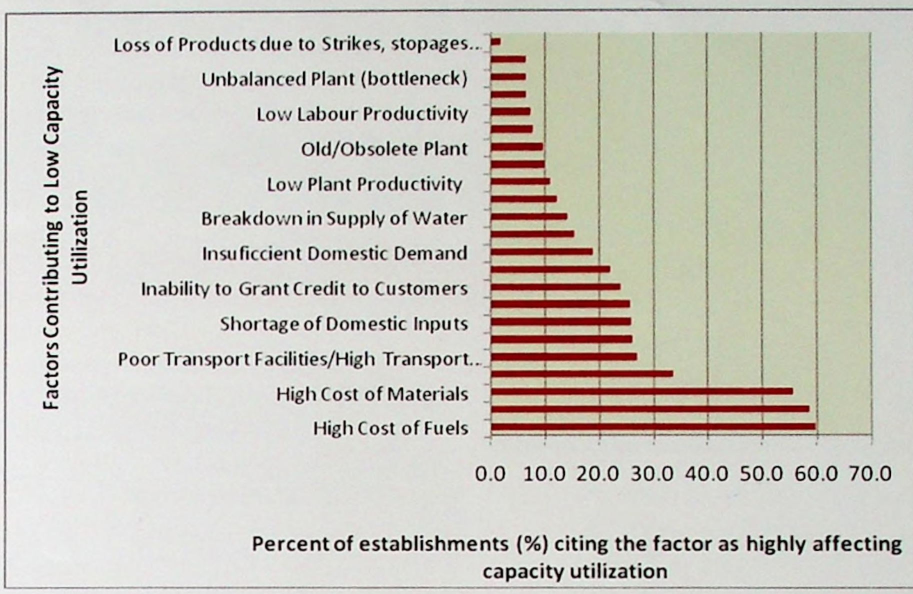
The investment climate – set of policy, institutional and physical environment within which enterprises operate, remained on the periphery for decades. Public investments in infrastructure such as rail, roads, ports, and energy remained scarce. Low public investments in infrastructure had two undesirable interrelated consequences: high costs of production, and crowding out of private investments in industries due to low expected returns. The investment climate reforms largely driven by donors are also narrowly focused on regulatory reform, and failed to holistically encompass wide-ranging issues such as infrastructure, energy, skills development, and macroeconomic stability. The problem is further compounded by influx of cheap imports and counterfeit products. Such imports include second-hand clothing popularly known as *mitumba* almost crippled the textile industry. Other casualties like Eveready have been forced to shut down due

Figure 1: Kenya's manufacturing sector growth rate and contribution to GDP: 1965-2012



Source: Authors' compilation from the World Bank Database

Figure 2: What industrialists say contribute to low capacity utilization in Kenya



Source: Authors' compilation from the Kenya National Bureau of Statistics (2013) Basic Report on the 2010 Census of Industrial Production

high production cost attributable to influx of sub-standard products.

Taking cognizance of these challenges, the government has adopted policies that are likely to turn around the sector if well implemented. The Kenya Vision 2030 prioritizes improving critical infrastructure such as energy distribution, ports, rail and major highways. The National Industrialization Policy Framework 2012-2030 similarly prioritizes addressing of multiple challenges facing the sector including business environment, skills development and low investments as well as establishing an industrial fund for supply of affordable long term credit. The government has recently initiated major steps in cutting high costs of production through investments in energy, ports, and transport network. Some of the major projects include geothermal power plants in Naivasha, wind power projects in Isiolo and Marsabit, and the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET), just to mention a few. Recent commissioning of the Olkaria IV geothermal power that injects 140 megawatts of electricity is a relief for industries given that energy ranks as the major obstacle for their competitiveness. Continued investment in such infrastructure is imperative to further lower the production costs.

There are, however, still areas in urgent need of policy interventions. First, heavy reliance on imported intermediate products which account for close to 50 per cent of raw material costs in the presence of unstable exchange rate pose challenges. Second, the influx of counterfeits, mainly driven by weak coordination among responsible agencies and weak fines is a disincentive for investments as they dig into market share of genuine manufacturers. International best experiences demonstrate the effectiveness of interagency collaborations in combating the vice. Such collaborations are vital in terms of both tracing proceeds of crime and consolidation of fines to make trade in counterfeit goods unprofitable. Inter-agency collaborations to facilitate intelligence sharing and resource leverage are thus imperative. However, Kenya still lacks a counterfeits policy to guide the requisite interventions.

In summary, Kenya's aspiration to industrialize has since independence remained a mirage as evidenced by stagnation of the trend of GDP share contribution of the manufacturing sector that has been declining in the last three years. The high public sector wage bill has handicapped the public sector's ability to reduce the level of unemployment that conservatively stands at 12.7 per cent, and is even disproportionately higher among the youth. Thus, drawing lessons from the experiences of newly industrialized countries like Korea and Malaysia, revival of the manufacturing sector becomes imperative. The government is alive to many challenges facing the sector as evidenced by its new industrialization policy. This policy is further complimented by counterfeiting policy which is out to fight the menace, and the execution of development strategy that encompasses massive public investment on energy and infrastructure with an aim of reducing production costs.

NEWS

Training on Corporate Governance

The Board of Directors and Senior Management of KIPPRA attended a one day corporate governance induction course on 5-6 September 2014 at Enashipai Lodge, Naivasha. The course focussed on various topics including the concepts, practice and principles of corporate governance, the KIPPRA Act, and Board Charter.

KIPPRA at the 17th Nairobi International Book Fair

KIPPRA participated in the 17th edition of the 'Nairobi International Book Fair'. The theme of the event which was held at the Sarit Centre, Westlands, Nairobi, from 24-28 September 2014 was 'Catch the Reading Bug!'

The book fair was marked by several other events including book march, the Wahome Mutahi literary award, digital workshop on digital publishing in Africa and beyond, children's activities, book launches, author signings, seminars, and digital writing competition for schools. Also, there was the 'Big Debate' where scholars, teachers, publishers and other book lovers' brainstormed on the topic 'The Critic is Dead'.

During the book fair, the institute showcased its publications. Members of the public had an opportunity to interact with KIPPRA staff and learn more about the institute and its products.

KIPPRA has produced over 400 research papers and client reports covering various policy issues in different sectors of the Kenyan economy, and over 80 policy papers and policy briefs.

Climate Smart Agriculture Validation Workshop

The Food Agriculture and Natural Resources Policy Analysis Network (FANRPAN) in partnership with FAO and country local institutions are implementing climate smart agriculture (CSA) projects in 16 member countries. The overall objective of the FANRPAN CSA programme is to increase agricultural productivity and strengthen the resilience of vulnerable smallholder farmers to the impact of climate change.

KIPPRA, with support from FANRPAN, the African Capacity Building Foundation (ACBF), and the Food and Agriculture Organization of the United Nations (FAO), held a one day national validation workshop on 29 October 2014. The objectives of the workshop were to share the draft CSA scoping study report outputs, validate them and solicit policy recommendations from stakeholders. Given that a majority of the rural population in Kenya are highly vulnerable to weather variability and climate change due to high dependency on rain-fed agriculture for food and livelihoods, the attainment of food and nutrition security goals is closely linked to the development of market based agricultural systems so as to increase and sustain yields in the face of climate change. Thus, there is need to develop resilient food systems.

The driving force of CSA policies are the global agenda/meetings and increased drought frequency and food insecurity that indicate that some activities undertaken in the past have not worked well. Nonetheless, more people are now conscious of climate change as evidenced by the programmes developed in different ministries. For example, 10 per cent tree cover on individual farms is now a policy and, as a result, the speed of responding to climate change is encouraging as donors and development partners are citing the legal framework in the country to support their funding for CSA projects.

Key challenges to implementing the CSA programme in Kenya are low uptake of CSA technologies pointing to the challenges related to finance/resources, knowledge and poverty; top-down as opposed to bottom up approach strategy; current education system/curriculum which does not address CSA issues; and land use change from agricultural to real estates. Constraints to adoption of CSA include insecurity, especially in ASALs; lack of political goodwill; illiteracy; and inadequate finances. Several opportunities exist including water use efficiency in agricultural sector; potential in the youth as most are picking up high value and commercialized farming; technology-use of media to pass information on climate change to a wider audience can be tapped, and more donor willingness to support climate change initiatives.

A common basket with a consolidated policy, regulatory framework for the donors to contribute to CSA projects would be a more efficient way to manage finances for the CSA programme, instead of funding individual sectors as is the practice currently. Climate change could be incorporated in the school curriculum at all levels of education to help increase awareness and build capacity. Creation of a platform where the Ministry of Agriculture, Livestock and Fisheries can engage with development partners would be another viable option to coordinate CSA programme, since the ministry prioritizes the same.

The Challenge of Insecurity in Kenya

By Pamela Inoti, Young Professional, Governance Division

Ensuring adequate security for people and property is one of the key issues promoted by various legislations and policy frameworks in Kenya. Article 28 of the Constitution of Kenya acknowledges the right to freedom and security of the person as a sacrosanct right. Further, the government through its manifesto and Vision 2030 observes that security is a vital foundation for socio-economic transformation. Undoubtedly, improving security in Kenya will contribute to a better environment for doing business, boost tourism, encourage flow of foreign direct investment into the country, and improve the country's Gross Domestic Product (GDP) and the standards of living.

The problem

Growing attacks from local and regional terror networks in Kenya within the last decade has proved to be a challenge for the government and citizens. Since 2011, at least 135 Al-Shabaab attacks have been reported in Kenya. Save for the Al-Qaida related terror attack against US embassy in Kenya in 1998 and an attack against an Israeli owned resort in Mombasa in 2002, Kenya had been spared of any direct attention from regional and local extremism. The country was also not a direct Al-Shabaab target from 2008 when it took control of most of South and Central Somalia. However, the narrative shifted following Kenya's Defence

Feature

Forces (KDF) incursion in Somalia from 2011 that was dubbed '*Linda Nchi*' in an effort to secure Kenya's porous border with Somalia.

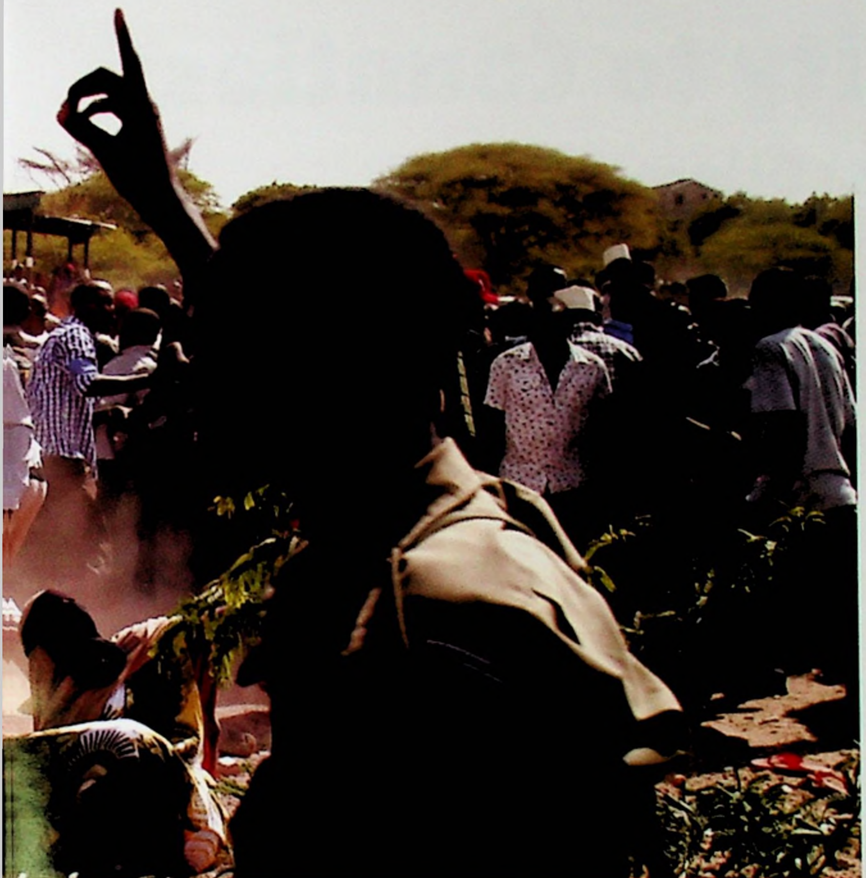
Indeed, in the International Crisis Group report No102 titled Kenya: Al-Shabaab-Closer to Home, some observers and local peace networks note that prior to the intervention by the KDF in Somalia, there were no attacks by the Al-Shabaab in Kenya. This is because security forces manning the North Eastern border had devolved some kind of *mondus vivendi* with Somalia militants through local community peace networks. However, the KDF incursion in Somalia resulted to severance of such locally negotiated 'peaceful-coexistence' links causing a series of Al-Shabaab coordinated attacks across the country, such as the highly coordinated massacre in the town of Mpeketoni in Lamu County in June 2014 where about 50 lives were lost and the bus attack in Mandera County in November 2014 that claimed 28 lives.

Local insecurity incidents raging from cattle rustling, threats posed by vigilante groups and general insecurity episodes continue to affect the citizens resulting to loss of lives and destruction of property. Overall, the price of insecurity in Kenya is devastating. It has resulted to a decline in the tourism sector and foreign direct investment due to travel advisories issued against Kenya by the Western Governments, countries that make up vast numbers of tourists visiting Kenya. The decline has caused serious macro-economic ramifications for the economy of Kenya due to loss of jobs affiliated with the tourism sector and declining foreign exchange reserves. Insecurity also causes unsafe environment for the operations of formal and informal business enterprises negatively impacting on the business sector's contribution towards the country's GDP.

Differentiated security response

The series of ostensibly coordinated terror attacks from both home-grown radicals and regional extremists and the ensuing amorphous Kenyan security response show there is a security vacuum. At best, response by the Kenyan security forces has been inconsistent and uncoordinated as evidenced by security response towards the Nairobi's Westgate Mall assault in September 2013, which claimed about 67 lives. The country has also witnessed sporadic attacks on both security forces and civilians in places such as Baragoi, Turkana, Garisa and Mandera. Such flawed responses show there has been lack of preparedness and swift counter response by security forces. Citizens have also blamed the government for responding to attacks in some areas better than others, accusations that have ethnic, class and religious difference undertones.

Kenya's security response to worsening insecurity and terror attacks has also at times been based on a notion of politicizing the attacks and causing ethnic partisanship, an approach that has not provided a sound policy basis for effectively addressing and mitigating violence. For instance, following the Mpeketoni attacks in Lamu County, the government blamed the incident on 'local political networks', and not



Kenya's security response to worsening insecurity and terror attacks has also at times been based on a notion of politicizing the attacks and causing ethnic partisanship, an approach that has not provided a sound policy basis for effectively addressing and mitigating violence

Al-Shabaab in a State House Press statement released on 19 June 2014.

Rhetoric aside, steps taken by the government to address insecurity in Kenya are inadequate and unstructured. First, there is lack of coherent national debate on local and regional causes of insecurity. Second, there is need for a clear strategy to address rising insecurity and radicalization. Lastly, there is need to address the declining public confidence in security forces, especially as the government advocates for community policing where citizens are expected to cooperate with the police in enhancing national security.

Need to consider devolution dynamics

Devolution has changed not only the way in which security is provided, but has also altered important drivers of peace and security at county and national levels such as the political and socio-economic contexts, security considerations, and ethno-political power balance within counties. As such, there are changing patterns of violence emerging within the counties as evidenced by increasingly violent Al-Shabaab attacks by its radical supporters and sympathizers, especially at the Coast and North Eastern. These attacks seem to capitalize on long-standing grievances of Kenya's Muslim community, such as discrimination and marginalization. Such local violent insurgency can best be countered by including more members from the Muslim community in intelligence gathering that can infiltrate the gangs and local networks to flush out sympathizers, especially in North Eastern, the Coast, and Eastleigh area in Nairobi.

County resource endowments also raise the stakes for conflict due to the feeling of inequity in resource benefits-sharing by the locals. There are also cases of conflict associated with land boundaries, possession grievances, and cattle rustling. While the constitution is explicit that security is the mandate of the national government, devolution has introduced new variables to the processes that can either generate security or insecurity. Drawing from ongoing practices, it seems that while counties do not have a direct mandate to provide security, they have vital functions in priority setting and an important development mandate which impacts upon drivers of insecurity such as marginalization, youth unemployment, land disputes, and inequality.

A majority of counties continue to see security in terms of policing provisioning, and therefore, as a national government's mandate. Whereas a number of counties have invested in security through financial allocations to support the purchase of policing equipment like police motor vehicles, only a few have made the obvious connection between their development mandate and the preventive aspect of enhancing security. Capacity for this form of analysis and consequent policy planning and resource allocations is urgently needed for both the county executives and the assemblies. This will allow counties to adopt a multi-actor approach to dealing with security challenges and logically incorporate the contributions of the business actors, civil society, and other concerned actors into their planning and development implementation processes.

Consequently, county governance is inextricably weaved with the national functions of security management and governance. Therefore, instead of looking at security response in homogeneity, it is prudent for the national government to work closely with county governments to formulate tailored approaches on security that best suit the uniqueness and challenges evident in various counties.

Feature

Devolving Security to Counties:

Lessons from the Prisoners' Dilemma

By Githinji Njenga, Policy Analyst, Private Sector Development Division; and Jacob Chege, Senior Policy Analyst, Governance Division

In May 2014, President Uhuru Kenyatta restructured the administration of executive authority at county level, giving substantial powers to county commissioners to implement programmes for the national government in their counties. The legality of President's action seems to be anchored on Article 132, sub-article 3b and operationalization of the fourth scheduled as stipulated in Article 186, sub-article 1 of the Constitution.

Security is a public good and its provision can only draw from public funds

Ten executive powers were delegated to the 47 county commissioners including acting as national government's spokespersons in counties; supervision of all national government officials in counties; ensuring peace and security; handling issues of alcohol and drug abuse; roads management; overseeing national immunization programmes; anti-poaching measures; reading out speeches of the President or Cabinet Secretaries; and coordinating the policies and programmes of the national government..

However, the opposition parties in Kenya and County Executives suggest that this will compromise the jurisdiction of county government since it creates two centres of power and duplicates duties at county level. To understand how best to handle this governance challenge, lessons can be drawn from a conceptual framework of choice in economics referred to as the prisoners' dilemma.

The prisoners' dilemma is a game of strategy that illustrates how to balance individual interests and the common good. The dilemma concerns two individuals who are arrested for allegedly engaging in a serious crime and are held in separate cells. The interrogators try to extract a confession from each prisoner. Each is privately told that if he is the only one to confess, then he will be rewarded a light sentence of one year, while the uncooperative one will go to jail for 10 years. However, if he

is the only one that does not confess, then it is he who will serve the 10 year sentence. If both confess, they will both be shown some mercy, each will get five years sentence. Finally, if neither confesses, it will be possible to convict both of a lesser crime that carries a sentence of two years.

It is the wish of each player to minimize the time he spends in jail. If prisoner one believes that prisoner two will confess, he will choose to confess and serve only five years instead of ten years in jail. Alternatively, if prisoner one believes that prisoner two will not confess, he will still choose to confess. Therefore, prisoner one's optimal strategy is to confess regardless of what prisoner two does. Similarly, prisoner two's optimal strategy is to confess regardless of what prisoner one does. Hence, confession is a strictly dominant strategy for both prisoners, where each is jailed for five years. However, this dominant strategy does not result to best outcome for both players. Both prisoners can be better off if each does not confess and they get a two years jail term.

The prisoners' dilemma thus presents a classic example of self-interest rational behaviour that is not socially optimal. Since the goal of each prisoner is to minimize the jail term, each acts in their own finest interest, pursuing a path of action that does not attain the ideal outcome. Each individual chooses to protect oneself at the expense of the other. The prisoners therefore find themselves in an awful situation than if they had cooperated in their decision making process. We can mirror the prisoners' dilemma in devolving some functions to county level, where the Governors and the President represent the two prisoners.

To illustrate why the President and Governors need to agree on how to devolve the functions for mutual benefit, let us use the proposal of devolving security function to county level. The goal of the Governors and the President is to maximize the probability of being re-elected. Hence, they would want to perform tasks that maximize the chances of them being re-elected. However, if for example the Governors choose to carry the security function alone, they are unlikely to succeed and they will be voted out. This is because the dynamics of peace and security transcend county jurisdiction and cut across the whole nation, making it impossible to be fully dealt with in a county in a segregated manner. Further, security involves both internal and external threats, therefore it is the responsibility of national security organs to protect the country from these threats. Indeed, Article 240 of the Constitution mandates the National Security Council, chaired by the President, to exercise the supervisory control over the national security organs. Thus, the Governors cannot operationalize the security operations without it being delegated from the National Security Council and the President.

Equally, the President may not fully succeed if he exercises the security function at county level without the support of the respective governors who head the executive at that level. Security affects fundamental values of human rights such as freedom, democracy and development. The acts of insecurity disrupt development process in the sense that functionality of persons and institutions get disoriented and slows economic activities, in addition to loss of accumulated capital. Insecurity adds to production costs, at both county and national level, due to extra spending on security, limited working period and spending associated with anti-counterfeit initiatives. It is also a disincentive to investment due to uncertainty created as well as physical and psychological costs that emanate from criminal activities. Consequently, to succeed in managing security issues, there is need to integrate them into the overall democratic and developmental process at the county level.

What then is the ideal cooperation mechanism of national and county executives that can maximize security premium as well as raise the popularity of these two-level executives?

To start with, security is a public good and its provision can only draw from public funds. Therefore, for national government to effectively and efficiently use the national budget allocated to security operations, it must leverage on resources and infrastructure at the county level. This can only happen if a County Security Council, chaired by the Governor with the County Commissioner as National Security Council representative, is established. The proposed County Security Council should be subordinate to National Security Council to ensure policy direction and implementation. The membership of County Security Council should also include the heads of security agents at county level, particularly the police service. Such a security coordination mechanism will only materialize if the President and respective Governors cooperate in facilitating a legal framework that lays ground for establishment of county security councils.

Thus, unlike prisoners, these two-levels of leadership will act rationally in pursuit of their individual goals as well as national welfare. The President and the Governors need to know that they would be mutually better off if they cooperate and coordinate their activities, especially when it comes to the security function rather than engage in competition for supremacy.

NEWS

Kenya Economic Report 2014 Stakeholders Workshop

KIPPRA held the 'Kenya Economic Report 2014 Stakeholders Workshop' on 10 July 2014 at Utalii Hotel. The workshop attracted stakeholders from Ministry of Devolution and Planning; and Ministry of East African Affairs, Commerce and Tourism; Central Bank of Kenya; and Vision 2030 Delivery Secretariat. The stakeholders gave useful observations meant to improve the draft report before it is published.

The Kenya Economic Report is the flagship publication of the Institute. The report, which is produced annually, analyzes Kenya's economic performance for the last year, prospects for the next three years, and benchmarks the performance against comparator and selected countries. The report is produced by KIPPRA in consultation with the Ministry of Devolution and Planning, The National Treasury, and Central Bank of Kenya.

KIPPRA at the Special Summit of the International Conference on the Great Lakes Region

KIPPRA was among the exhibitors at the 'Special Summit of the International Conference on the Great Lakes Region' (ICGLR) on the 'Fight against Youth Unemployment through Infrastructure Development and Investment Promotion' that took place in Nairobi, Kenya on 24 July 2014.

The Institute showcased its products highlighting its role in youth employment and empowerment. In addition, the Institute disseminated some of its products.

Water Policy Day Workshop

KIPPRA in conjunction with Environment for Development and University of Nairobi held the 'Water Policy Day Workshop' on 27 Oct. 2014 at Sarova Panafric Hotel. The workshop was graced by the Deputy Director of Water Services from the Ministry of Environment, Water and Natural Resources (MEWNR). Participants were drawn from KIPPRA, Water Service Regulatory Board, Nairobi Water and Sewerage Company, Water Service Providers Association, Water Resources Management Authority, Association of Water Resource Users, National Irrigation Board, World Bank, University of Nairobi, Environment for Development, and Athi Water Service Board among others.

> During the workshop four main areas were discussed including global developments on water policy, increasing block tariffs and the relationship with income and water use in Kenya, water sourcing in rural Kenya, and water policy direction in Kenya

During the workshop, four main areas were discussed including global developments on water policy, increasing block tariffs and the relationship with income and water use in Kenya, water sourcing in rural Kenya, and water policy direction in Kenya. Funding for water and sanitation has been shrinking globally and water utilities around the world are broke, and heavily subsidized, thus it is increasingly becoming difficult to provide and maintain water services. Water related mortality rates in sub Saharan Africa are on an increasing trend, contrary to other continents.

Increasing block tariffs (IBT) is not unique to Kenya and the subsidy associated with IBT is not pro-poor. The rural population in Kenya has multiple sources of water and is willing to change to safer and healthier sources which will reduce the distance of walking to the water source as well as waiting time and conflicts. However, the price of water should be affordable. Water is one of the devolved functions and is a social and economic human right in Kenya. This comes with opportunities and challenges that require sobriety in role playing, service delivery, infrastructure development and resource management. Since the Water Bill (2014) is at the second reading stage in the National Assembly, it is expected to offer policy direction.

The water sector is faced with challenges including low access to clean and safe drinking water, low sewerage coverage, inefficiency of utilities, destruction of water catchment areas, increased competition/conflicts in natural resource utilization, pollution, poor waste management, and water scarcity, among others. Going forward, these challenges, among others, need to be addressed by building synergies among stakeholders who include regulatory bodies, service providers, researchers, development partners and the communities.

NEWS

Green Economy Strategy and Implementation Plan

The Government of Kenya is developing a Green Economy Strategy and Implementation Plan (GESIP) towards realization of sustainable development. This is in line with the Kenya Vision 2030 which aims at transforming Kenya into a newly industrialized, middle-income country, providing high quality life to all its citizens in a clean and secure environment. Sustainable development is also a key tenet in the Constitution of Kenya that recognizes clean and healthy environment as a basic human right and provides for sustainable exploitation, utilization, management and conservation of the environment and natural resources.

The Ministry of Environment, Water and Natural Resources (MEWNR) together with other partners (KIPPRA, UNEP, WWF, DANIDA, AfDB) are developing the GESIP. The key focus areas are: sustainable infrastructure development, natural resource management; building resilience to climate change; and promoting resource efficiency.

County consultations were held between June and August 2014 to elicit views on priority areas pertaining to development of sectoral 'green' projects. County consultations involved presentations, plenary discussions and break-out sessions. Participants were drawn from Civil Society and County Governments.

The feedback will be incorporated in the draft GESIP document that has been developed by the Institute for Sustainable Development (IISD) of Canada in partnership with KIPPRA. The forum provided opportunities to engage county governments thereby capturing county-specific issues pertaining to green growth.

Trade and Foreign Policy Division Roundtable

The Trade and Foreign Policy Division held a roundtable discussion titled 'County Taxes and its Implications on Trade in Kenya'. The aim of the meeting held on 20 Nov. 2014 was to get views from stakeholders on the issues that need to be taken into account when undertaking a study on the subject matter.

The research objectives were:

- To establish the types of taxes being imposed by various county governments;
- To evaluate the effect of county taxes on intra and inter county trade;
- To evaluate the effect of county taxes on international trade; and
- To identify county taxes that contradict the East African Community common market

The discussions by the 18 participants in attendance were informative and it was agreed that the study incorporates the following areas:

- Administration capacity at the counties with regards to taxes;
- How border counties are addressing the issues importantly with regards to regional trade as new taxes would hamper this;
- To evaluate adherence to the single business permits; and
- To assess whether county residents are getting value for money for services received.

ACBF Executive Secretary visits KIPPRA

The Executive Secretary of the African Capacity Building Foundation (ACBF), Prof. Emmanuel Nnadozie, visited Kenya Institute for Public Policy Research and Analysis (KIPPRA) on 14 Nov. 2014.

Prof. Nnadozie commended KIPPRA for its contribution to public policy research. He urged the Institute to continually report on the impact of its research and encouraged it to operate optimally with the available resources. He also noted the Institute's continued growth would require innovative ways to ensure sustainability.

ACBF is one of KIPPRA's development partners.

NEWS

Status of Social Cohesion in Kenya Report Launched

The National Cohesion and Integration Commission (NCIC) released the 'Status of Social Cohesion in Kenya' report on 8 Dec. 2014 at the Sarova Stanley Hotel, Nairobi. The report, which was a result of a study by KIPPRA, sought to compute a social cohesion index for Kenya and document the status of social cohesion in the country.

The Kenya Vision 2030 and other policy documents and initiatives envision an equitable society that is politically, economically and socially cohesive and integrated, where the citizens have a shared vision and sense of belonging while appreciating diversity. However, this is yet to be attained, judging from the sporadic community conflicts in the country. This necessitated the study, which focused on the social cohesion in Kenya in 2013.

The study encompassed six dimensions of social cohesion: trust, peace, equity, diversity, prosperity and national identity. Nationally, the Social Cohesion Index was estimated at 56.6 per cent. Social cohesion was marginally higher among rural relative to urban residents and increased marginally with age. At county level, Kiambu County had the highest composite index at 65.9 per cent, while Wajir County had the lowest composite score at 22.0 per cent.

> The impediments to social cohesion as highlighted by the study included tensions over land rights as a direct or indirect source of conflicts

The impediments to social cohesion as highlighted by the study included tensions over land rights as a direct or indirect source of conflicts. Some can be traced back to the colonial era, while others had a more recent root. These included high rate of youth unemployment, growing drug and substance abuse, delinquency and incidences of crime, food insecurity, income inequality and poor infrastructure. On the other hand, the discussions isolated the potential for inter-marriage and religion to provide the basis for conflict resolution and reconciliation. Activities such as sports and other cultural pursuits were also seen to have great potential.

Launching the report, Kenya's Chief Justice, Dr Willy Mutunga, said that the elites in Kenya were the architects and beneficiaries of a divisive society, adding that cohesion was a choice because we all are naturally equal.

KIPPRA's Executive Director, Dr John Omiti, introduced the report and urged the government to invest in early warning signs systems and ensure equity in access of opportunities. Dr Eldah Onsomu, a Policy Analyst at KIPPRA, gave a detailed overview of the study.

According to NCIC Chairman Francis ole Kaparo, who was among the guest speakers at the launch, the arms of government were leading in the gloomy state of social cohesion in Kenya. He cited the turf wars between the Senate and National Assembly, and also the differences between the Executive and Judiciary.

The report suggests various remedies to stem out lack of social cohesion in the country. These include reducing horizontal and vertical inequalities; access to public services and opportunities; promoting social values, trust, peace and positive management of ethnic diversities; stemming poverty through a growth, redistribution and productivity oriented strategy; among others. The Social Cohesion Index Report 2013 will be presented to key actors who will facilitate or spearhead the implementation of the recommendations from the study, both at the National and the County levels.

Feature

How to Beat Cyber Criminals

By Humphrey Njogu, Policy Analyst, Infrastructure and Economic Services Division

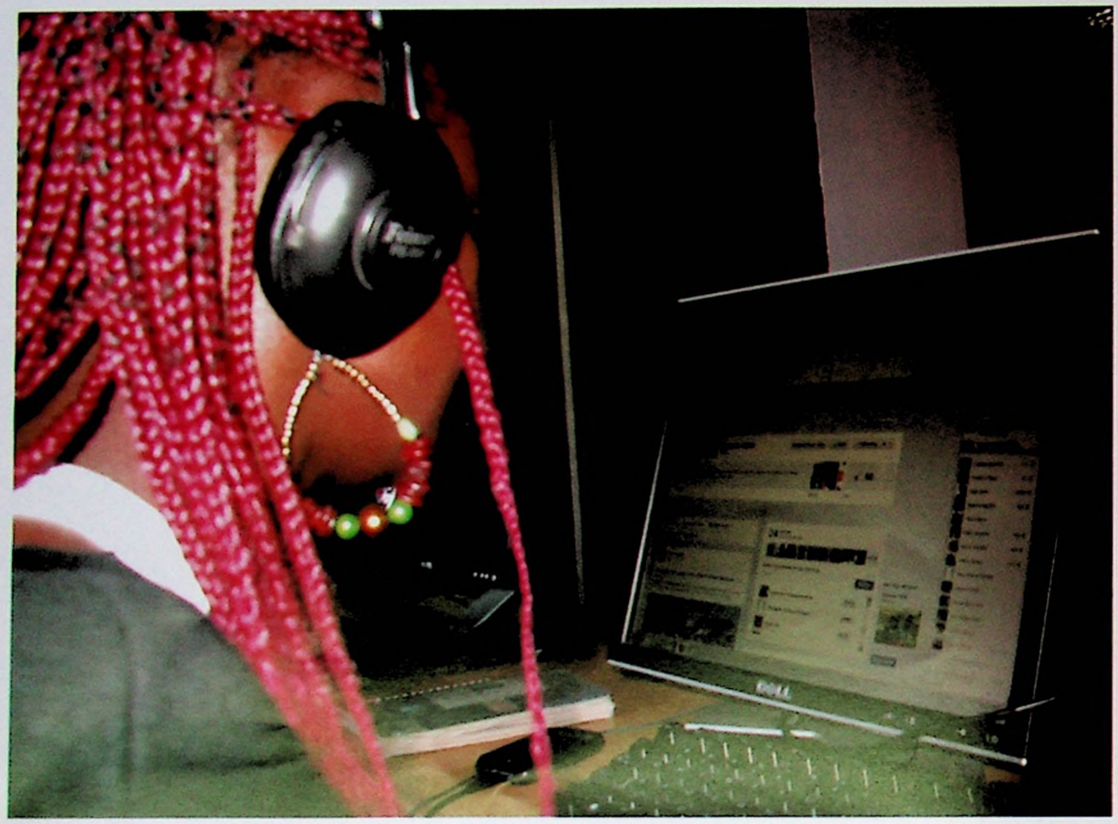
It makes an ordinary computer user to start doubting the seriousness of IT systems every time one hears of intrusions and data breaches. Previously, many computer users thought they were safe from cyber criminals who have a long history of attacking the developed countries.

One of the latest but serious security bug that spared no one on the internet was heart bleed, a weakness in a security protocol that allowed stealing of private information. Developed countries have now clearly understood that no one is safe from cyber criminals. The President of United States, Barrack Obama, has already declared Cyber Security as one of the top national issues that must be dealt with.

Locally, hardly a month passes without some news on attacks from cyber criminals. For example, the Kenya Defense Forces twitter account was recently hacked by group anonymous. Again, more than one hundred government websites were hacked by an Indonesian. In fact, such cases are slowly building up. What should worry us is not what is reported but what is not reported? Cyber related crimes are hardly reported due to factors ranging from fear of losing trust to lack of ability to detect the intrusions. Statistics indicate that Kenya loses about Ksh 2 billion annually to cyber criminals. The actual figure could be higher.

There are a few lessons that we can learn from the security breaches recently reported in the country. Kenya is no longer safe from cyber criminals. The criminals are from all parts of the globe. We have continuously invested heavily in building IT infrastructure, yet no one is concerned about securing it. Kenya is losing this fight because IT security is not a priority. We need to wake up and smell the coffee.

A majority of the computer users do not have a basic understanding of what IT security entails. They do not know the basic security measures including creating strong passwords, storing and updating passwords. It is not surprising when an innocent Kenyan asks an agent of a mobile money service provider how to send money. There are cases of people requesting a bank guard to assist them with withdrawing money from an ATM facility. Many users neither understand what an Antivirus is nor how it is used. Some have no idea of whether or not they are using vulnerable software. Use of pirated copies or old software could expose users to criminals. A more aggressive way to handle this



issue is to launch a public awareness on the basics of IT security.

There is an acute shortage of well-trained IT security professionals to secure our digital space. The few that are there are not versatile enough to match the agility of intruders. Several reports have been prepared on Kenya by various entities with recommendations, but Kenya is not improving. The effort of tour experts is not clearly seen and is not matching the intrusions reported. It is time the experts became more proactive than reactive.

Several initiatives are being put in place such as implementing a Public Key Infrastructure (PKI) which still is not capable of addressing issues such as insiders' intrusions as well as social engineering attacks. The government is establishing Kenya Computer Incident Response Team Coordination Centre (KE-CIRT/CC), which will offer advice on cyber security matters nationally. The biggest challenge of this initiative is likely to be lack of adequate expertise. Such establishments should work closely with the private sector. Many universities lack adequate IT security courses, which is a clear indication of where we place IT security matters. More so, Kenya lacks a serious research institution to deal with IT security matters.

Strategic plans and policies are critical to guide the development of ICT sector. The government has formulated several ICT documents to address cyber security. Some are well formulated while others such as e-government standards require revision. This is a good starting point to fight the crime. The biggest challenge of any policy lies in implementation. An effective plan on implementation could take us further in the fight against cyber crime. The government should make cyber security a top priority. It should invest in the right resources including each government agency empowering its ICT personnel with IT security skills. Policy makers need to be guided so that they can formulate better policies and laws that address the emerging issues in cyber security. Other important elements that should be captured include mechanisms of auditing how cyber security complaints are in Kenya. Issues that have been brought by mobility and portability of computing devices should be addressed urgently.

Social media platforms such as facebook and twitter are changing the way we work and interact. In December 2013, there were 21 million internet users in Kenya. This growth is attributed to increased use of mobile data services, mainly by young people on social media sites. However, social media is providing new avenues for intruders to harvest information. Social media users are generous with their private information, and intruders have developed new ways of harvesting or tricking users to share this information. The war on cyber crime will not be won if users do not understand the importance of IT security. In addition, companies should be encouraged to develop social media policies that offer guidelines to employees on how to participate in social media. Besides, there are emerging issues such as hacktivism, cyber bulling and social hatred.

Developing countries have more to lose if IT security is not prioritized. It is an uphill battle to win back citizens' trust once it is gone, which is a core value proposition in e-government services. Despite the fact that we have fewer resources at our disposal than developed countries, new e-financial services such as IFMIS and MPesa, and provision of government e-services on digital platforms such as Huduma centres, will continue to attract intruders. Kenya can beat criminals only if it manages information assets like all other critical assets and limit information access to those who need to know.

Feature

Think Small First:
A Market Access Strategy for Small Enterprises

By Anne Gitonga, Policy Analyst, Private Sector Development Division

The contribution by small enterprises in employment innovation and entrepreneurship globally is well documented. Small enterprises, however, need to surmount a number of challenges, most of which relate to market access. Some countries have taken cognizance of this as evidenced by the various market support strategies adopted to enhance market accessibility for small enterprises. These strategies, if well implemented, have potential to address this key challenge in developed and developing countries like Kenya.

A common strategy is facilitating market accessibility by reserving a certain threshold of public procurement for small enterprises. The European Union and the United States of America, for instance, introduced regulations and laws to facilitate market access for small enterprises. The EU's "Think Small First" principle anchored in the Small Business Act for Europe (2008) aims at reducing obstacles to access in public procurement. In US, 23 per cent of all government procurement is reserved for SMEs. Japan legally obligates the government to annually place a proportion of procurement orders with SMEs. The strategy in India involves the identification and reservations of specific products for exclusive public sector purchase from the small scale sector.

Kenya's efforts in facilitating public procurement market access commenced in 2005 when the government made a policy prescription that 25 per cent of public procurement be reserved for the Micro and Small Enterprise (MSE) sector. This proposal was later embedded in the Public

Procurement and Disposal Act, with introduction of 10 per cent reservation which was increased to 30 per cent by a legal notice in 2013. The legal notice further identifies MSEs owned by youth, women, and persons with disability as the target group for the reservations.

This article emphasizes on a different market access strategy employed by Japan and India with notable success; sub-contracting between small and large enterprises. Specifically, Japan's policy created unique agglomerations (clusters) of SMEs known as 'company-castle-towns' such as Toyota-city, where SMEs would form critical outsourcing or subcontracting functions to larger companies. Toyota, which is known for successfully participating in sub-contracting, essentially started out as a small factory. The policy direction in Japan emphasizes on developing local technological capabilities, consequently promoting domestic production and demand.

The promotion was done through use of what was termed as local content rules and other government mandated supply chain policies. Sub-contracting in Japan is said to have contributed to competitiveness and industrial development of the textile and automotive industry (e.g. Toyota). India, a country known for a vibrant small enterprise sector (cottage industry), also promotes sub-contracting between large and small enterprises. The same applies in the US where sub-contracting plans for small business in the execution of the contract forms a significant factor for evaluating contract offers.

While sub-contracting enhances efficiency and technology, and promotes skills transfer on one hand, it can lead to over dependency in small companies as opposed to the parent companies. Large companies or contractors can also be faced with challenges relating to the consistency, reliability of supply, and quality of goods or services provided by the small enterprises.

Well designed market access strategies can effectively address a key challenge faced by SMEs relating to markets. Kenya can draw from these strategies and adopt an appropriate sub-contracting strategy aimed at promoting the development of dynamic Kenyan SMEs

Key success factors

The methods for effective sub-contracting can be drawn from strategies established in selected countries where it has worked. First, there is a need to develop a capacity building framework for SMEs to guarantee and maintain high quality standards. However, such a framework may generate unintended consequences of weakening the same sector it is attempting to reinforce. Through acquisition of requisite skills, SMEs enhance their ability to produce high quality products. Such production creates a dichotomy of increasing the demand for the product the SMEs may not have capacity to meet. To address this dichotomy, SMEs have come up with innovative strategies of consortium bids, and collective/joint tendering to enhance collective capacity. In Brazil, for instance, such collaborations are done through associations of small producers.

Second, the government's support in form of financial and technical assistance has played a critical role. The US SME Support Centres, for instance, provide technical assistance including quality control, and managerial assistance to small enterprises. A number of countries in the EU such as France, Germany and United Kingdom offer SME support services, aimed at improving market access. The Japanese government offers tax concessions to enterprises participating in sub-contracting and further promotes linkages between small and large enterprises. Japan introduced a website aimed at matching SME businesses with potential partners based on the need.

Mechanisms for lowering transaction costs for SMEs offer the third strategy. High transaction costs can impede effectiveness of sub-contracting policies. Electronic procurement tools have a great impact on the procurement process as established in the EU, where it contributed to lowering of transaction costs and addressing information asymmetry, thus enhancing competition and market assess. Such tools should be imbedded with feedback mechanisms for contractors and suppliers aimed at evaluating quality of goods and services. The publicly available performance reports would provide enterprises with the incentive to ensure their goods and services are of good standards.

In summary, well designed market access strategies can effectively address a key challenge faced by SMEs. Kenya can draw from these strategies and adopt an appropriate sub-contracting plan aimed at promoting the development of dynamic Kenyan SMEs.

Feature

Prospects of Public Diplomacy in Realizing Kenya's Interests

By Paul Odhiambo, Policy Analyst, and Priscilla Mugo, Young Professional, Trade and Foreign Policy Division .

The deployment of public diplomacy by government to win hearts and minds of people in foreign countries has become a common practice in the world today. Public diplomacy aims at improving a country's economic, political, cultural and social relations; creating a positive perception; and moulding public opinion in other countries. Today, sovereign states advance their national interests abroad through events and actions that transcend the strategies of classical diplomacy.

Given its importance and influence, Kenya is yet to fully exploit the potential public diplomacy has in communicating and promoting the country's image and foreign policy objectives. Even though it has been highlighted in the cultural diplomacy pillar of Kenya's foreign policy, it has not been given prominence as a means through which Kenya can communicate and export its ideas, culture, and national goals and policies to foreign nationals. Nonetheless, Kenya has in the past engaged in public diplomacy activities, though it neither has a written public diplomacy policy nor a distinct public diplomacy directorate.

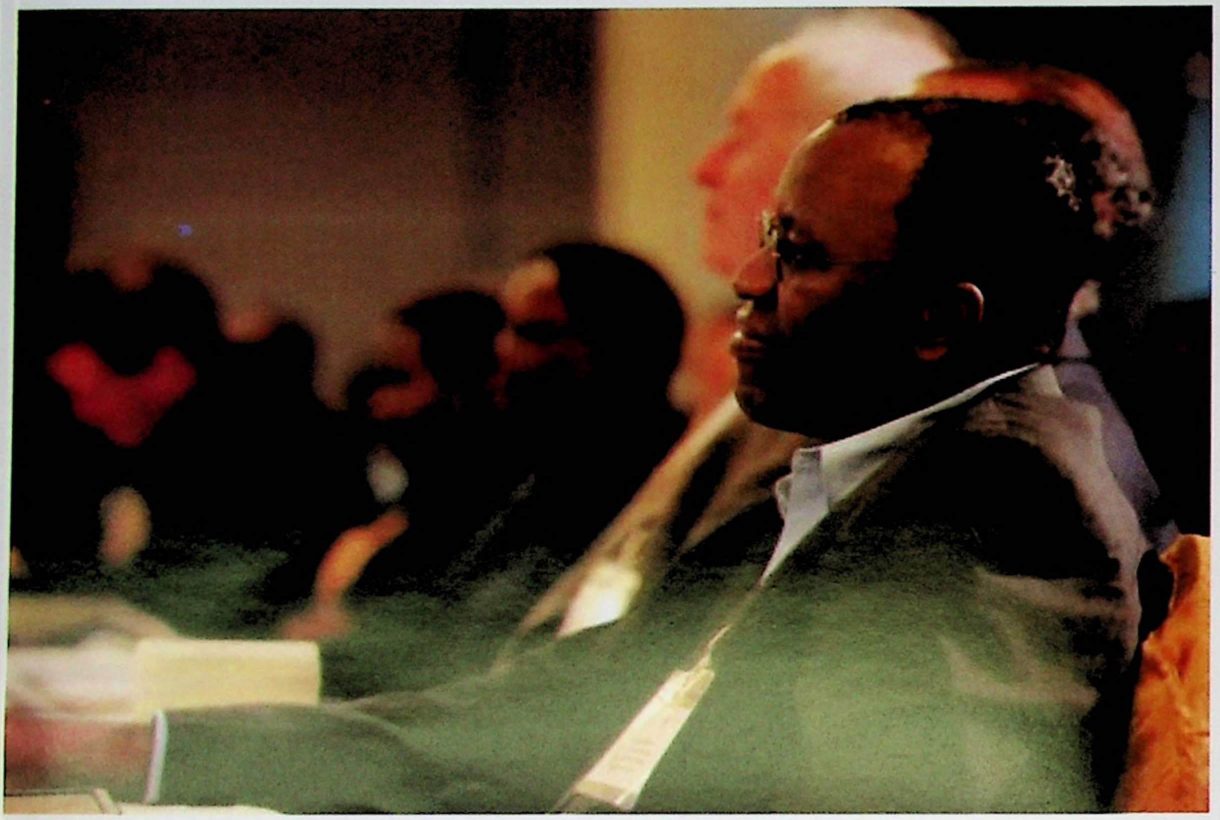
Kenya has employed public diplomacy strategies such as participation in trade fairs and trade weeks in foreign countries, and participation in regional and international sporting events. In addition, Kenyan diplomats make use of Kenya's national days in host countries to promote the country's image and interests. The Ministry of Foreign Affairs and International Trade also collaborates with state agencies such as Brand Kenya Board, KENTRADE, Kenya Tourism Board, KenInvest and Chamber of Commerce and Trade and other ministries to enhance the country's interests abroad.

Being a major economic power in the Eastern Africa sub-region, Kenya can enhance its economic and business profile by institutionalizing a credible public diplomacy that will not only play a role in attracting more investors, but also in boosting the country's competitive edge. Terrorist threats and attacks in north eastern region, Coast and Nairobi; cattle rustling and banditry menace in arid and semi-arid counties; and other security threats have undermined safety and security hence adversely affecting tourism, business conferencing and other socio-economic activities. Cases of insecurity have also "tainted" Kenya's reputation as a stable and secure country.

As efforts are being made to address the aforementioned security challenges, there is need to have an effective public diplomacy institution that can not only give a true picture of reality on the ground, but also maintain Kenya's image and prestige. Even though Kenya is known as an athletic powerhouse due to sterling performance of its middle and long-distance runners, the country is yet to reap considerably from sports tourism, especially in relation to the high altitude training camps. Though various state agencies have engaged in marketing the country abroad, it is critical to have an institutionalized public diplomacy office that will coordinate all public diplomacy activities for the common good of the country.

India and China institutionalized their public diplomacy in 2006 and 2009, respectively. Over the last few years, public diplomacy has experienced phenomenal growth in the two Asian economic powers. South Africa's Public Diplomacy Unit is playing a significant role in enhancing Pretoria's image, both locally and abroad. Public diplomacy institutions in China and India have invested heavily in both traditional and social media to enhance their

Feature



communication with the foreign audience. While the traditional media tends to be one-way communication, the entry of social media, especially Twitter and Facebook, has promoted two-way communication between the two countries and the citizens in target countries.

The establishment of Confucius Institutes and Classrooms, and the Indian Council for Cultural Relations by Beijing and New Delhi respectively, has also contributed to the influence of public diplomacy of the two countries as these cultural institutions are located in various countries across the world. Through hosting international sporting events and other high profile international meetings, South Africa, India and China have raised their international standing. Pretoria and New Delhi have also projected themselves as viable and strong democracies.

Experience from these three countries could form best practice which Kenya can emulate in enhancing its public diplomacy. Even though Kenya acknowledges the significance in enhancing the country's image, the establishment of an effective public diplomacy will require tireless efforts from relevant government departments and state agencies. There exists many inexpensive means of promoting Kenya's image. Firstly, establishing a distinct office will ensure that public diplomacy activities are coordinated in a structured manner. Secondly, social media is a powerful tool in influencing and drawing attention to enable communication of positive messages about the country, thus promoting its image and prestige. Thirdly, cultural diplomacy is seen as the linchpin of public diplomacy. The richness of Kenya's cultural heritage and resources could be harnessed as a means of strengthening it. Kenya can explore ways of exploiting its cultural richness to build lasting friendships and foster mutual understanding with foreign audiences. Kenya's international achievers in arts, sports, music and literature, can contribute immensely to projecting the country's image positively both at regional and global levels. Lastly, Kenya can also explore avenues to promote Kiswahili as a language of diplomacy.

There are major benefits Kenya could derive from public diplomacy. The most important one is the role it can play in the quest for increased investments, promoting and expanding markets for increased trade, promoting tourism and enhancing cooperation and interaction. Moreover, Kenya will be able to improve its image abroad and at the same time influence and shape perceptions through soft power as opposed to hard power. Citizens will also be able to depend on the government for information on foreign events and opportunities.

It is therefore important for Kenya to consider its public diplomacy potential, while adopting Information and Communication Technology in establishing and strengthening its public diplomacy in projecting its image abroad. Definitely, public diplomacy in the competitive world will require new and different skills and techniques.

Feature

Corruption

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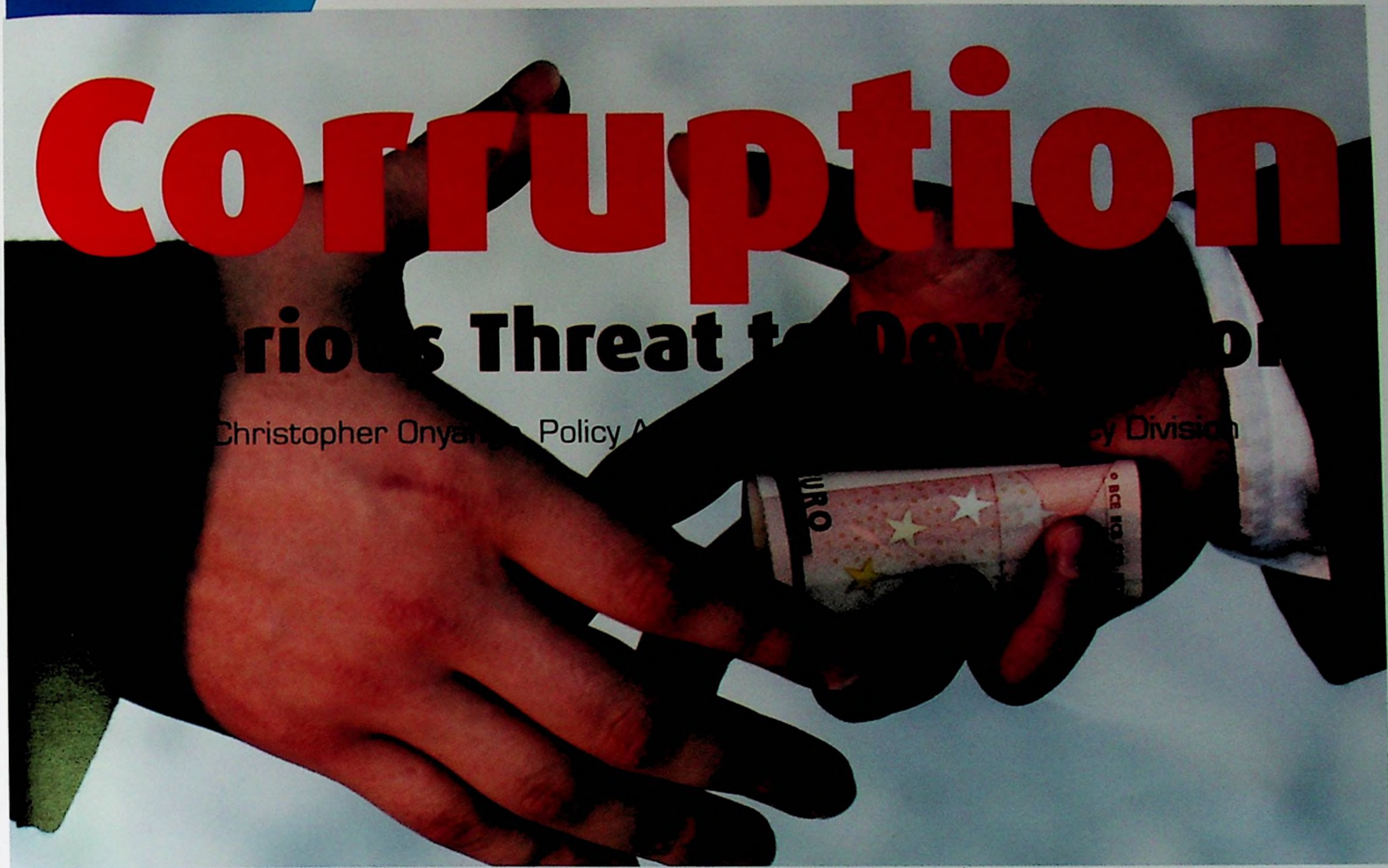
...Christopher Onya... Policy A... ...y Division



There were high expectations and optimism about the prospects of devolution in spreading development to all parts of the country when a new constitution was adopted in Kenya in 2010. Under this constitution, the devolved system of government seeks to spread resources across the counties and give them autonomy for planning, identifying and implementing priority projects. However, three years later, a new wave of corruption seems to be rearing its ugly head, and there is growing skepticism amongst many Kenyans about the ability of the devolved system of government to generate wealth and to salvage people from the grips of poverty.

It may be recalled that one of the objectives of devolution was to limit the powers of the executive by devolving some powers to the counties. The other objectives were to ensure a more inclusive form of governance, closer to the people; one that would lead to equitable development. Ideally, Kenya's 47 counties share sovereignty with the national government, but reserve the right to determine a set of laws for themselves, including those aimed at attracting new investments. Unfortunately, the size and character of many counties largely reflect ethnic enclaves.

Many lessons can be drawn from the United States, India and South Africa on the establishment of credible institutions capable of standing the test of non-inclusivity. For instance, in recent ANC policy documents, the call is "to reform, rationalize and strengthen provinces" by, among other things, having "fewer provinces which are functional, effective, economically sustainable; integrate communities on non-racial basis; and do away with ethnic boundaries".

Kenya has for long ranked poorly in the corruption index, despite several measures in place including setting up of anti-corruption bodies. Kenya continues to rank poorly in the Transparency International corruption index ratings. Indeed, the TI report has in the past indicated that corruption is the highest risk to devolution standing at 36 per cent, while insufficiency of funds and political interference are positioned slightly more than 20 per cent.

The culture of impunity among political leadership and the weaknesses in existing laws and regulations has, in many ways, contributed to this state of affairs and little has been achieved by the government to decisively deal with corrupt practices. It may as well be the case that corrupt practices will be devolved to the county levels. Since many of the elected leaders happen to be those initially famed for siphoning public funds in the previous regimes.

The devolved system of government is critical in wealth creation, if guided by strategic approaches of attracting foreign investments. In order to enhance the benefits of devolution and minimize opportunities for corruption, there is need for the government to strengthen internal and external auditing systems in counties. There is need for strict adherence to a budgetary system and county leaders should be tasked to produce regular update reports on revenue generation and expenditures, development plans and achievements. Such systems are critical in sealing any loopholes in revenue generation and expenditures, particularly those relating to provisions of chapter 12 of the constitution on public finances, especially the clauses relating to revenue-raising powers and expenditures.

The government also needs to rationalize all devolved funds, including CDF, youth and women's fund, to enhance efficiency of expenditures and avoid duplication of efforts by the county and national government.

In addition, there should be a clear separation of powers, duties and responsibilities among the two levels of government. Most importantly, there are no clear lines of accountability hence one level often shifts blame to the other. They often hide the question of who is responsible for what. It is a case where everyone is responsible for everything and no one is accountable for anything.

Some immediate measures must be taken to prevent or at least minimize the depth of run-away malpractices in the county governments. For one, the office of the Controller of Budget must be firm and ensure funds are only disbursed to counties with prudent budgets. The fact that non-priority projects like purchasing four-wheel drive vehicles and suspect overseas trips under the guise of looking for development funds appeared in the recent county government budget proposals was a clear sign of intentions to misuse public funds.

Besides, employment of staff in many counties has been controversial with qualifications and competencies given a back seat as elected leaders front their friends and relatives for key positions. The priority setting in budgets and development tends to suggest limited consultations and involvement of the people in decision making at county levels. On the other hand, waiting for the Auditor General's report or the investigations of the Ethics and Anti-Corruption Commission is self-defeatist since the damage will already have been done.

Feature

Why Jump the Queue?

By Peter Njiraini, Policy Analyst, Productive Sector Division

Ever been on a long and winding queue and then someone comes and heads straight to the front in total disregard of those queuing? It is very annoying.

It seems many people have no comprehension of the principle of waiting for your turn. It is the same obtuse behaviour that racks many a motorist on our roads every day. The concept of lining up is not merely about decorum. It is the core of the rule of law. The respect each of us has for another person's priority, based in this instance on chronological precedence. It is indeed integral to the social contract writ. A person who does not, for instance, heed the road rules/signs is aptly deemed a person who will not honor their word. He/she demands more than he/she can contribute.

But what could possibly explain it? It might have to do with unbearable socio-economic pressure and the associated competition for everything including empty space. This seems to hold some truth particularly in our cities. However, perceptions deceive. Past deprivation is at the heart of it all and it makes people rush into any gap that opens up within a crowd.

No doubt, the vestiges of poverty continue to affect many people who have endured it in the past. They recall hunger, and they are driven by it. You have to throw your elbows or leave empty handed. It is fear compelling a person to grab what they can. Once a person sees that civility is not mutual and thoughtfulness will be detrimental, one will respond rationally, which is selfishly. The next person has no motivation to do otherwise. Ratcheting phenomenon is difficult to reverse. After the course has been set, it only gets worse. In which case then, it is only through confidence in social norms that we can relent.

Feature

Bangla-Pesa:

Should Kenya Adopt Complimentary Currencies?

By Rose Muraya, Policy Analyst, Social Sector Division

Bangla-Pesa also referred to as community currencies, local currencies, barter currencies, reciprocal exchange and common tender among other terms, is an agreement within a community to accept something else other than legal tender as a means of payment. The currencies are introduced with the aim of meeting unmet needs and/or to use underutilized capacity and resources. Bangla-Pesa is one such currency.

With high poverty levels and unemployment, business can be sluggish, especially mid-month. During such downturns, majority of the people go without basic necessities. This was the case in Bangladesh slum of Mombasa. Rather than give people aid in form of national currency, Koru Kenya came up with the Bangla-Pesa concept as a different way of fighting poverty. Bangla-Pesa, re-launched as Bangla voucher, is, therefore, a complementary currency for members of Bangla Business Network (BBN), to cushion the slum residents from poverty.

With denominations of 5, 10, 20 and 50 notes, Bangla-vouchers facilitate business within the slum even when members are short of the national currency. It provides the community group access to interest free credit and a mechanism for the community to finance social services. It also increases local trade and business development, decreases corruption associated with aid funding, and creates local economic stability.

The BBN members use the national currency and Bangla vouchers side by side and Bangla vouchers for local trade among BBN members and the national currency mostly for savings and investment as well as external trade or to trade with non BBN members. The possibility of transferring Bangla vouchers via the mobile networks is being investigated. To prevent fake coupons from being printed, they are printed by one of Kenya's top security printer, with features such as Ultra Violet Ink, special paper, micro-lettering and serial numbering.

The network members, who must operate within the slum, obtain an equal number of Bangla vouchers after providing four guarantors, who are fellow operators within the slum. Each member is allocated 400 Bangla vouchers, which is guaranteed with the goods they trade in as well as the goods being traded by the guarantors. The members must commit to buy and sell goods and services in the currency and each trader is encouraged to take as many Bangla vouchers as they can, as long as they can spend it all at the end of that day. Traders are considered to have defaulted if they use their allocated coupons in buying goods from other stores, but do not accept the currency in their own business. Disciplinary measures include expulsion from the group/network. The coupon increases trade within the slum since it leads to increased transactions. The non network members living in or visiting the slum purchase goods and services using the national currency. Members also use the national currency for transactions with non-members as well as those outside the slum. At no time is the Bangla voucher exchanged with the national currency.

Bangla-Pesa and Eco-Pesa are not unique, neither are they a pioneer in the class of complementary currencies even in Kenya

The authorities viewed the currency from a political perspective and assumed the issue was criminal. Programme administrators were arrested and aligned in court and trading in the currency stopped. However, the initiators were able to prove that this is a community empowering tool, which the government should support and embrace to enhance poverty reduction. The court case against the initiators of Bangla voucher was dismissed and the coupon has now been re-launched.

How is the coupon a poverty reduction tool?

The traders are able to use excess capacity, which was previously lying idle as people could not afford the goods and services due to limited national currency. With the coupon, turnover increases and hence profitability as well as access to more goods and services, which were previously beyond reach for the network members. A survey focusing on the currency revealed that a vegetable vendor may not have afforded to transport his wares on a motorcycle from the earnings using national currency. A motorcycle rider, on the other hand, who could be doing an average of five trips per day could not afford enough vegetables. Both the vegetable vendor and the rider join the network and get the coupons. The vendor is then able to hire the rider and the rider can buy vegetables from the vendor. Both gain what was previously beyond reach, but within their capacity. The success of this coupon as a complimentary currency is, therefore, based on acceptability by the network members, who have benefited from increased trading, higher consumption, as well as increased employment from increased local trading. Bangla-voucher is similar to Eco-Pesa, another complementary currency also used in Kongowea, Mombasa.

Bangla-Pesa and Eco-Pesa are not unique, neither are they a pioneer in the class of complementary currencies even in Kenya. Most major supermarkets including Nakumatt, Uchumi, Tuskys and Naivas have gift vouchers, which are used to purchase goods within respective supermarkets. The stores also have smart cards in which discount points and, in some cases, small change are accumulated and later used to buy goods from respective stores. Thus these vouchers and discount points as complementary currencies accepted by the communities patronizing each store.

Have such currencies been used elsewhere? Yes and successfully. Complementary currencies are an international phenomenon, and have been used for a very long time in different places across the globe. Japan stands out as the first country in the world to operate more that 600 complimentary currency systems by end of 2003. The earliest from the 1950s were time-based complimentary currencies, time dollars used in the 1970s and other local and regional currencies used since mid 1990s. Some of the complimentary currencies are grass-root initiatives with 100 participants or less, while others have up to 1,000 participants.

Eco-money systems, managed through magnetic strips and smart cards by large businesses, mostly for services, have also been used in Japan albeit on experimental basis. To protect the environment, anyone who performs an ecologically recognizable deed is issued with a smart card loaded with Earth Day Money to use in participating enterprises such as shops, cafes and restaurants, and the money can be transferred via mobile networks in Japan. These currencies are known to promote social cohesion among the users.

In Canada, the Canadian Tire Money (CTM) was first introduced in 1958 as discount coupons against purchases at Canadian tire gas and stores. The coupons acted as a royalty currency mostly used to buy goods from the Canadian Tire, and are also accepted by other vendors who used them to buy goods from Canadian Tire. In 1974, York University of Canada printed its own currency known as 'Scrip',

which was used by students to buy food on campus in place of meal cards. Other examples of Canadian Complimentary currencies include: Toronto Dollars, used in Toronto, Powel River dollar used in Power River and Réel used in Granby, Québec. Most of these complimentary currencies are printed by the same companies that also print the national currency, and are, therefore, legal.

The USA also has hordes of complimentary currencies that include Ithaca Hours, used in Ithaca, New York Region; BerkShares used in Berkshire region, Massachusetts; and REAL dollars used in Lawrence, Kansas among others. Europe also has its own share of complimentary currencies such as Lewes in the UK, Tiroler Stunde used in Tirol Austria; and Wageningen-LETS used in Wageningen, Renkum and Ede in The Netherlands, among others. In Latin America, Redes de Trueque is used in Argentina, while in Australia there is Kingston Bayside LETS used in Melbourne among others. Usage of complimentary currencies in these places is credited with increased business turnover within the community and improved standards of living.

It was later agreed that no laws were broken by the Bangla-Pesa complimentary currency, marking a significant milestone in improving the economies of poor communities in Kenya. After the re-launch of the Bangla voucher and the release by Central Bank of Kenya of the vouchers previously confiscated from the BBN, plans should be made to evaluate the impact of complimentary currencies in Kenya's poor communities.

Such a currency in Kibera and Mathare among other informal settlements can uplift the living standards by strengthening and stabilizing the settlements' economies, increasing demand for goods and services within the settlements, thus trading and commensurate income. Introduction of such programmes can, therefore, be a huge stride for Kenya, and partners like Koru and others should be encouraged to replicate the Bangla-Pesa initiative. An impact evaluation is necessary to measure the real effects of such interventions. A baseline study should, therefore, be carried out before similar currencies are introduced. However, the government should first put in place measures such as licensing to monitor the introduction of such currencies.

Feature

Your Attitude is within Your Control

By Winnie Nguyu, Librarian

"You are today where your thoughts have brought you; you will be tomorrow where your thoughts take you" James Allen

My late father kept talking about attitude, and it was until later that I realized the weight of this word. He said: "one had to improve the attitude one held towards oneself and others. Learn to overcome fear and to deal with rejection and failure in order to increase productivity in life."

There are many things in life that one has no control over. In most cases, there is absolutely nothing one can do about how people react to someone, or their products and services. However, one can control his/her reaction. Notwithstanding that, many people let the reactions of others determine their outlook for the day.

Are you as positive, buoyant and focused on a day full of rejection or criticism as you would be on a highly successful day?

Attitude is 100 per cent within your control. How you react and think, what you say to yourself or what you believe about yourself are within your control and are portrayed by your attitude. Learn to reflect, confirm and take hold of that attitude.

Also, attitude is a mental habit of how you one perceives the world and the actions and behaviour one takes in response. Attitude determines how much of the future one is allowed to see. It decides the size of one's dreams and influences one's strength of mind when faced with new challenges. No other person on earth has dominion over one's attitude. People can affect our attitude by teaching poor habits, misinforming or providing negative sources of influence, but no one can control one's attitude unless one voluntarily surrenders that control.

Each one of us has the ability to put our unique human potential into action and to acquire a desired result. No one else "makes us angry." We get angry when we surrender control of our attitude. What someone else may have done is neither here nor there. It is ones choice. Others merely put our attitude to test. If we select a volatile attitude by becoming unfriendly, annoyed, desirous or apprehensive, then we have failed the test. If we condemn ourselves by believing that we are unworthy, then again, we have failed the test.

We must accept full responsibility of our own feelings. We must learn to guard against the judgment that has the capacity to lead our attitude down the wrong path and to strengthen those feelings that can lead us confidently into a better future.

Our attitude is an asset and a fortune which must be protected accordingly. Beware of vandals and thieves among us who injure our positive attitude or steal it.

A positive attitude gives us a personal vigour and a firm resolve that influences all the other areas of our existence.

SELECTED ONGOING / COMPLETED KIPPRA RESEARCH, 2011-2012

Macroeconomics

1. An input output table for Kenya for 2009 and its application to development planning
2. Business environment and productivity relationship in Kenya
3. Current account deficit dynamics in Kenya
4. Diaspora and labour protection
5. Fiscal reaction function
6. Green jobs
7. Has Kenya's growth been inclusive
8. Implications of uncertainty of macroeconomic policy on capital flight
9. Macroeconomic policy uncertainty and capital flight in Kenya
10. Procurement capacity building levy
11. The optimal currency area: East African Monetary Union
12. US - Africa Relations: Eastern Africa and the Horn Position

Productive Sector

1. Socio-economics of mining in Kwale county
2. An assessment of tourism source markets for Kenya: Constant market share approach
3. Analysis of public expenditures in support of food and agriculture in Kenya, 2006 - 2012
4. Climate financing in Kenya: Status, challenges and policy implications
5. Co-management in natural resources in Kenya: an empirical analysis
6. Drivers of future beef supply in Kenya
7. Equitable benefits sharing from the mining sector
8. Factors affecting youth participation in cattle and sheep and goats production in the arid and semi-arid lands in Kenya
9. Food security, climate change and trade nexus
10. Irrigation, food and nutrition security
11. Kenya green economy strategy and implementation plan
12. National climate change policy
13. Policy coherence in the agricultural sector: The case of agriculture commodity markets
14. Scoping study on climate change, agricultural trade and food security in Kenya
15. Smallholder livestock production systems in Africa: The way forward
16. Tana River delta strategic environmental assessment/land use plan
17. The socio-economic status of ecotourism development in Kenya
18. Tourism and terrorism: Towards safeguarding Vision 2030 tourism investment targets

Trade and Foreign Policy

1. Analysis of possible territorial disputes between Kenya and her neighbours
2. County government taxes and its implications on trade in Kenya
3. How Africa can achieve its Agenda 2063 through effective bi-multilateral relationships
4. Implication of Economic Partnership agreements (EPAs) on Kenya
5. Is East African Community ready to enter into a Monetary Union?
6. Political dimension of trade reforms
7. Prospects of bi-multilateral diplomacy: A Case of Turkey in Kenya
8. Situational and competitiveness analysis of the textile and apparel industry in Kenya
9. Supply response of Kenya's exports to price and non-price factors
10. The multidimensional effects of distance, overlapping membership and Kenya's bilateral trade with COMESA-EAC-SADC countries
11. Trade integration and business cycle synchronization in the East African community
12. US-Africa relations with focus on East Africa and the Horn

Social Sector

1. Cash transfers in Kenya
2. Count revenue baseline survey
3. Determinants of trust
4. Effects of youth unemployment on demographic dividend
5. Efficiency in delivery of maternal health in Kenya
6. Financing healthcare in Kenya
7. Identifying Kenya's high employment generating industries
8. Incorporating health products and technologies into Kenya's health system
9. Inequalities in health care service delivery in Kenya
10. Inequalities in secondary education service delivery in Kenya: a spatial analysis approach
11. Management of Kenya's ethnic diversity
12. Measuring social cohesion index: A methodological note
13. Status of social cohesion
14. The role of water in promoting health in Kenya
15. The Youth Enterprise Development Fund
16. Tobacco use and its effect on poverty in Kenya
17. Understanding determinants of trust
18. Vulnerability in primary education in Kenya
19. Youth employment activities and urban poverty in Kenya

Infrastructure and Economic Services

1. Enhancing energy access in Kenya
2. Efficiency in water service provision in Kenya
3. The effect of renewable energy development on carbon dioxide emission reduction
4. Enhancing private sector investment in road infrastructure development in Kenya
5. Review of metropolitan planning and development in Kenya
6. Review of ICT policies in Kenya
7. Formulation of urban transport and travel demand models in Kenya
8. Assessment of Kenya's road crash data surveillance systems
9. Review of government laptop project
10. Analysis of Public Private Partnerships (PPP) for road infrastructure development in Kenya
11. An approach to verify, identify and prioritize IDS alerts

Private Sector Development

1. Analysis of manufacturing sector market structure in Kenya
2. Appraisal of counterfeiting in Kenya
3. Consumer protection and competition on Kenya
4. Determinants of small and medium manufacturing firms access to finance in Kenya
5. Effects of Informality on manufacturing SMEs access to finance in Kenya
6. Financing constraints amongst SMEs manufacturing firms in Kenya
7. Government domestic borrowing and private sector credit
8. Improving the supply of long term finance in Kenya
9. Interface between intellectual property rights and competition in Kenya
10. Market structure, efficiency and performance of insurance industry in Kenya
11. Monetary policy in Kenya
12. Review of manufacturing sector incentives in Kenya
13. The role of innovation in the manufacturing sector

Governance

1. Actualizing public participation in governing Kenyan counties
2. Alternative dispute resolution mechanisms: Lessons from Rwanda for the judiciary
3. Discrimination and conflicts in Kenya
4. Enhancing security in Kenya: Factors that promote coordination between private and public security
5. Factors impeding political participation and representation of women in Kenya
6. Impact of institutions: Business environment and productivity relationship in Kenya
7. Inclusive participatory process and conflict management in counties
8. Police reforms to enhance security in Kenya
9. Scoping paper on Kenyan manufacturing

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The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is to conduct public policy research leading to policy advice. KIPPRA's mission is to produce consistently high-quality analysis of key issues of public policy and to contribute to the achievement of national long-term development objectives by positively influencing the decision making process. These goals are met through effective dissemination of recommendations resulting from analysis and by training policy analysts in the public and private sectors. KIPPRA therefore produces a body of well-researched and documented information on public policy, and in the process assists in formulating long-term strategic perspectives. KIPPRA serves as a centralized source from which the Government and the private sector may obtain information and advice on public policy issues.

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Other organizations are welcome to contribute to KIPPRA research either as core support, or support to specific projects, by contacting the Executive Director, KIPPRA.

Send to us your comments on the articles published in this newsletter and any other aspects that may help to make the KIPPRA Policy Monitor useful to you. This may include even policy issues you would like KIPPRA to prioritize.

HARAMBEE

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