

# Policy Monitor

Supporting Sustainable Development through Research and Capacity Building

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Building **Resilience** to  
**Droughts and Floods**

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

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# Editorial

**W**elcome to this edition of the KIPPRA Policy Monitor for 2017/18. While the Institute undertook many high-profile activities during the last quarter of the work plan year, two of them stood out because of the high level of engagement with stakeholders.

After many years, the Institute successfully hosted the KIPPRA Regional Annual Conference from 5<sup>th</sup>-7<sup>th</sup> June 2018 whose theme was “Building Resilience to Mitigate the Effects of Droughts and Floods”. The conference attracted stakeholders from national and county governments, private sector and international institutions. It was opened by the Cabinet Secretary, National Treasury and Planning Hon. Henry Rotich (EGH, MGH) and closed by the Principial Secretary, State Department for Planning, Mr Julius M. Muia (EBS). The conference provided a forum to address emergencies of drought and floods that so often affect the country. A list of Action Areas was presented at the end of the conference.

Secondly, the Institute engaged various stakeholders in validating the Strategic Plan (2018/19-2022/23). This fourth Strategic Plan aims to consolidate the gains of the Institute over the 20 years and lay ground for a more effective, efficient and innovative Think Tank of the Government of Kenya. The inputs from stakeholders will be crucial in completing the Strategic Plan.

Back to the main content of this Policy Monitor, it is important to observe during the Budget Speech by the Cabinet Secretary, The National Treasury and Planning, on 14<sup>th</sup> June 2018, there were strong indications that the “Big Four” agenda will receive substantial financial allocations. This is expected to boost investments and support a strong and inclusive economic growth. However, high public debt levels will continue putting fiscal pressure especially due to declining exports to regional markets. This edition provides a snapshot of the expected challenges towards fiscal consolidation.

Recently, the European Union (EU) launched the General Data Protection Regulation (GDPR) which has implications on its relations with Kenya. Kenya-EU relations encompass trade and investment cooperation, security cooperation, political collaboration on governance and human rights issues. The launch of GDPR will impact on key sectors of Kenya’s economy because the stringent requirements for data protection.

Kenya may need to consider developing a personal data-based law not only to comply with the EU’s GDPR but

also to safeguard personal data of Kenyan innovators, companies and citizens.

The flagging of the first barrels of oil for export from Turkana oil fields to Mombasa by President Kenyatta in early June under the ‘Early Oil Pilot Scheme’ was a key milestone in supporting development of the extractive industry. The government has developed a policy and institutional framework to ensure that the extractive sector is properly managed for the benefits of citizenry and local community. The enactment of the 2016 Mining Act, the merging of Department of Petroleum and Mining under one ministry, establishment of Mineral Rights Board and National Mining Corporation are commendable initiatives. However, significant cooperation at the national and county government level is required in managing expectations of Kenyans and ensuring institutions work for the common good in exploiting the extractive sector.

Technology is emerging as an important tool in developing effective coping mechanisms especially with increased vulnerability to natural disasters. Financial technology (Fintech) is increasingly enhancing coping mechanisms that government and other stakeholders are deploying to mitigate the effects of droughts and floods especially among vulnerable communities. Areas in which Fintech is already being implemented include early warning system (focus-based credit), index-based insurance and safety nets through deployment of mobile money platforms.

Finally, the quarter has been awash with public discussion on corruption in the country. This edition highlights the effects of graft on economic growth, investment, public sector choices, decision making, and service delivery. It re-emphasizes the need to inculcate values in public leadership and integrity in public service sector, separation of powers and sharing of responsibility among various arms of the government and state agencies in the fight against corruption in both public and private sectors. Despite the principle of independence of institutions, it is evident that any success in the fight against corruption will require strong collaboration among anti-corruption agencies.

A lot more exciting activities are planned for the next financial year and we welcome you to continue engaging with us in all our activities.

*Thinking Policy Together*

# Recent Developments in the

## Kenyan Economy

By Benson Kiriga



Economic growth rate slowed to 4.9 per cent in 2017 compared to 5.9 per cent in 2016. The sectors which made significant contribution to GDP in 2017 were agriculture (31.5%), manufacturing (8.4%), transport (7.7%), wholesale and retail (7.6%), real estate (7.4%) and construction (5.8%). However, agriculture growth rate slowed to 1.6 per cent in 2017 compared to 4.7 per cent in 2016 while manufacturing sector growth rate declined to 0.2 per cent from 2.7 percent in the same period in 2016.

Majority of the sectors that registered above 5 per cent growth rate were in the non-agricultural sectors, for example construction (8.6%), transport (7.4%), real estate (6.2%) and wholesale and retail (5.7%). These sectors have sustained the growth momentum for quite a while, with a stable contribution to GDP.

Inflation maintained a single digit with an average of below 5 per cent between November 2017 and May 2018. With the long rains, the months of April and May 2018 recorded inflation levels of 3.73 per cent and 3.95 per cent, respectively, due to a net decline in food prices. The Kenya shilling against the US

### Overall Economic Performance

The 2018/19 budget speech was read on 14<sup>th</sup> June with a theme: “Creating Jobs, Transforming Lives and Sharing Prosperity”. The policy proposals were mainly informed by the “Big Four” agenda including growing the manufacturing sector, attaining universal healthcare, improved food security and providing affordable housing. The aim is to ensure a strong inclusive growth while ensuring fiscal sustainability as resources are channeled to finance the “Big Four” drivers and enablers.

Government revenue is expected to reach Ksh 1.95 trillion (20% of GDP) and expenditure Ksh 2.56 trillion (26.3% of GDP). The deficit of Ksh 558.9 billion (5.7% of GDP) will be financed through external sources (3.0% GDP) and the rest from domestic sources.

Inflation maintained a single digit with an average of below 5 per cent between November 2017 and May 2018. With the long rains, the months of April and May 2018 recorded inflation levels of 3.73 per cent and 3.95 per cent, respectively, due to a net decline in food prices

dollar remained stable at Ksh 102.0 per dollar in the first half of 2018 while interest rates (91-day Treasury Bill) averaged 7.88 per cent in the same period.

## Growth Forecast for Kenya

The budgetary allocation to the “Big Four” initiatives in 2018/19 is expected to have a significant boost on investments and eventually economic growth for Kenya. Growth forecasts assume that proposed policies will be fully implemented in the medium term, particularly the review of the interest rate cap to boost private sector credit and the fiscal consolidation path to maintain debt at a sustainable level. The forecasts also recognize that there are some inherent downside risks such as high fiscal demand that could lead to rising public debt, and slow growth in exports that could impact on external balance with increasing imports bill.

In this context, economic growth is expected to reach above 6 per cent from the year 2019 and possibly reach 7.1 per cent by 2021. The expected increase in private investments mainly due to credit


availability with the upcoming repeal of the interest rate cap could support this growth. Moreover, public investments could also give a strong impetus in the economy with the solid allocations to the “Big Four” projects and the enablers. The existing strong complementarity between public and private investments is still expected to continue as the country aspires to achieve high levels of investments to reach the 30 per cent required to deliver double digit growth. Macroeconomic stability is expected to continue as inflation remains within the policy level of 5.0 per cent. Interest rates are expected at below 6.0 per cent. As the government puts more efforts on food security and increased spending on social safety programmes, reduced poverty levels are expected to decline further and bear fruits on reducing inequalities in the country. However, the manufacturing sector requires continued stable budget allocations to trigger its growth as it only grew by 0.2 per cent in 2017 and 2.3 per cent in the first quarter of 2018. One of the sub-sectors that needs to be considered to boost more growth is the food, beverages and tobacco sub-sector which accounts for about 40 per cent of total sector value added.

## Economic growth prospects, 2018 -2021

	2015	2016	2017	2018	2019	2020	2021
GDP growth	5.7	5.9	4.9	5.8	6.4	7.5	8.6
Inflation	6.6	6.3	8.0	4.7	5.1	5.0	5.0
Private consumption	2.9	6.8	6.6	6.7	6.9	7.6	8.7
Government consumption	11.5	8.5	8.4	7.5	6.6	7.4	7.8
Private investment	5.9	-8.1	15.1	8.6	9.1	8.8	9.3
Government investment	2.0	-15.6	-2.7	6.8	7.1	8.3	9.4
Exports of goods and services	6.2	-2.6	-6.2	5.7	6.5	6.7	7.4
Imports of goods and services	1.2	-6.3	8.4	5.8	6.8	7.5	7.5
Current account balance	-6.7	-5.2	-6.7	-6.5	-5.5	-5.8	-5.6
Fiscal deficit	-6.0	-5.4	-6.2	-6.4	-6.3	-6.1	-5.9
Public expenditure	26.1	25.2	26.6	25.8	26.2	27.6	28.1
Interest rate	10.8	8.5	8.1	8.8	8.8	8.8	8.8
Ksh per dollar	98.2	101.5	103.4	103.4	103.6	103.0	103.5

Source: KIPPRA Treasury Macroeconomic Model (KTMM)





# Building Resilience to Droughts and Floods by Leveraging on Financial Technology

By Rogers Musamali, Adan Shibia and Benson Igesa

## Droughts in Kenya

Africa is disproportionately affected by droughts which account for 25 per cent of natural disasters compared to a global average of 8 per cent. In East Africa, the frequency of droughts has increased due to variable rainfall. Kenya's agroecological composition makes it prone to the impacts of droughts, with 89 per cent of the land being Arid and Semi-Arid Lands (ASALs), and carrying approximately 36 per cent of the population. Kenya has increasingly experienced frequent and intense incidences of droughts and floods over time, making the economy more prone to extreme, contrasting climate variability shocks that have devastating effects.

The National Treasury estimates that droughts and floods have a combined impact of loss of approximately 2.5 per cent of Gross Domestic Product (GDP). Left unmitigated, the effects of drought and floods can derail the achievement of the Kenya Vision 2030 agenda of ending emergencies that constrain economic growth and development. Equally, Kenya's "Big Four"



Coping mechanisms to drought and floods have been achieved using financial instruments. Recent developments in the financial sector through innovative solutions and services (referred to as financial technology; fintech) to meet needs of clientele cannot be ignored.

agenda alongside the Sustainable Development Goal (SDG) Number 13 may not be realized. It is against this background that approaches to adapt and mitigate the effects of droughts and floods are important in building resilience.



Mitigation of drought and floods can be realized through *ex ante* and *ex post* strategies. *Ex ante* strategies help reduce drought and floods risk *a priori* while *ex post* strategies help in reducing undesirable outcomes after the shock. *Ex ante* strategies can be achieved through diversification and application of flexible decision making. On the other hand, *ex post* strategies manage shortfalls in consumption when income reduces below the required levels due to climatic shocks.

Coping mechanisms to drought and floods have been achieved using financial instruments. Recent developments in the financial sector through innovative solutions and services (referred to as financial technology - fintech) to meet needs of clientele cannot be ignored. Fintech refers to the innovative use of technology in design and delivery of financial services and products. The role of fintech is essentially to bridge the gap between business and technology. Importantly, Fintech reduces transaction costs, and increases competition and wider access to financial services to more households. These financial technologically instigated developments are cross-sector cutting and are important in matters of climate change adaptation, including building resilience to droughts and floods. They are mainly used in early warning systems, weather index insurance and creation of safety nets.

### Early Warning Systems

Technology is useful when in early warning, ensuring that communities are better prepared and thereby become less prone to or affected by disasters. Kenya is on the forefront of technological savviness with 88.7 per cent mobile penetration as reported by the Communication Authority of Kenya (CA) in 2017. Kenyans have largely embraced short messaging services (SMS) as a communication tool and mobile money transfer platform. The Kenya Red Cross, for instance, uses the Trilogy Emergency Relief Application (TERA) SMS platform to send geographically targeted messages to communities to prepare for flooding and encourages them to get in touch with emergency responders when they need assistance.

Early warning system as a component of disaster risk reduction is also useful in providing seasonal forecasts in situations where credit risk is not functional. These forecasts can be used to offer opportunities to improve availability and terms of credit to farmers by identifying the years when production conditions are good and risk of default to the lender is reduced. To spread the risk associated with rainfall variability and forecast uncertainty, combining forecast-based credit with insurance markets

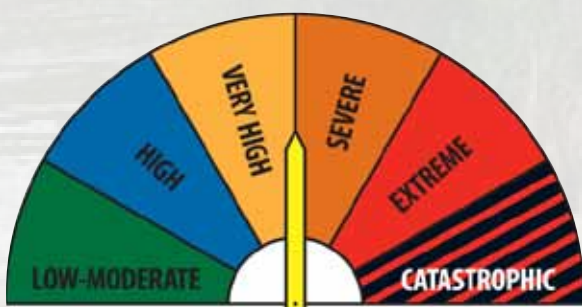




is a timely intervention. As previously noted, early warning systems can be deployed through mobile technology platforms while insurance transactions can be done through weather data for provision of credit and insurance products to small scale farmers. For instance, FarmDrive partners with ACRE Africa to create accurate and data-centered products for unlocking and securing credit for farmers in Africa. Some of the challenges facing the use of Fintech in early warning systems include poor network coverage in rural areas and limited distribution of weather stations for crop insurance.

### Weather Index Insurance

Risk transfer approaches such as insurance play a role in mitigating drought and floods. Recent advances in climate science help in the development of an index insurance based on weather patterns. Index insurance is a type of insurance that is linked to an index such as rainfall, temperature, humidity, crop yield or forage, rather than the actual loss which is difficult to



observe. The merits attributed to index-based insurance include low transaction costs; financial viability for private sector insurers; affordability to small farmers; applicability in rural areas where existing weather stations allow observing changes in rainfall levels; and less adverse selection and moral hazards than traditional insurance. Whenever weather patterns go below certain levels, the index triggers out certain payout of indemnities. When payouts occur, the policy holders are contacted through SMS and receive their payments through mobile money platforms.

Index-based insurance in Kenya is currently provided through public or private initiatives. Examples of index-based insurance include: Index Based Livestock Insurance (IBLI) implemented by the International Livestock Research Institute (ILRI) in partnership with local financial

institutions; and the Index Based Livestock Takaful (IBLT) rolled out by the Takaful Insurance of Africa as a scale up programme of IBLI to provide *Shariah* compliant products. Other notable index-based initiatives provided in livestock and crop insurance (wheat, barley, maize, groundnuts, and lentils) are provided by financial institutions such as CIC group insurance, APA insurance and Equity Bank (through Finserve). The Government of Kenya in partnership with World Bank, ILRI, and private insurance companies implemented the Kenya Livestock Insurance Programme (KLIP) in 2015 initially covering Turkana, Wajir, Mandera, Garissa, and Isiolo counties. This has since been increased to eight counties covering an average of 5,000 households.

Notable challenges facing the use of Fintech in weather index insurance include low financial literacy levels, adverse selection and moral hazard issues, low affordability of premiums, and low levels of risk pooling.

### Safety Nets

Safety nets are important in protecting vulnerable populations from persistent impacts of shocks caused by disasters and are meant to provide livelihood support and contribute to immediate food security mostly through community-driven schemes and transfers to vulnerable households.







A panel discusses the economic impact of drought and floods

In enhancing safety nets to increase reach, the link between index insurance and the concept of triggering payments to affected areas is important, hence the need for mobile payment platforms.

**Conclusion and Recommendations**

Adoption of financial technology provides an enabling platform to build resilience to droughts and floods. Mobile and digital solutions are important platforms in shelving many delivery programmes before, during or after disasters. Improving decisions using climate information, improving access to credit through weather index

insurance, use of early warning systems and monitoring information to forewarn and encourage optimal *ex ante* strategies and build safety net and social protection programmes create resilient communities in the face of drought and floods. Areas of policy concern include building adequate telecommunication infrastructure to improve on network coverage; continuously investing in programmes that improve financial literacy among communities; ensuring institutional collaboration to allow for synergy and targeted interventions before, during and after disasters; and risk pooling in areas of index-based insurance.



Panel discussion on drought and floods adaptation and mitigation

# Implications of European Union's General Data Protection Regulation on Kenyan Economy

By Dr Humphrey Njogu and Charity Kageni

Every day, vast amounts of data are collected, transmitted and stored globally by ever growing computing and communication technologies. Data is a critical resource in this century as oil was in the twentieth century. In the digital economy, information is increasingly becoming a critical commodity that must be managed carefully. Generally, public and private sectors collect and use personal data at an unprecedented scale and for multiple purposes. The transformative developments in computing and the arbitrary use of personal data has raised concerns regarding the privacy and control of personal data globally. To address the privacy concerns, different jurisdictions have initiated legislative efforts to address data security and protection issues. The European Union countries have recently adopted General Data Protection Regulation (GDPR) which will have far reaching implications to countries that interact closely with the region.

In the recent years, both small and large organizations globally have suffered personal data breaches. As a result, huge financial losses are reported and at times the reputation of the affected businesses suffers. Cyber criminals target repositories that have personal data such as date of birth, names, addresses, and bank accounts. With

availability of hacking tools on the Internet, criminals have intensified their activities to breach security of personal data. Recently, Cambridge Analytica was allegedly involved in exposing 50 million Facebook users, while Yahoo breach involved 3 billion user accounts. Other major breaches on personal data affecting millions of users have been reported on Sony's PlayStation network, ebay, Uber and JP Morgan Chase.

Globally, the subject of protection of personal data has become critical. In fact, the right to privacy on personal data is enforced by the Universal Declaration of Human Rights (1948) and the International Covenant on Civil and Political Rights (1976). Data protection is expected to bring a definite shift for businesses because it discourages data hoarding and personal data is treated as a shared asset. To address the misuse of personal data and unwarranted invasion of privacy in the digital economy in Europe, the European Union has enacted new regulation – General Data Protection Regulation (GDPR) – which became effective on 25<sup>th</sup> May 2018 replacing Directive 95/46/EC. The GDPR standardizes data protection law across all the 27 EU countries. This was a milestone and a turning point to address the high rates of security breaches and unequal playing rules between countries in the

EU. GDPR gives consumers control over their personal data. As companies in the EU adopt and comply with the new requirements of the regulation, companies outside the EU targeting consumers in the EU are subjected to the GDPR. The rights of the owner of personal data (data subject) are safeguarded at all time by entities that collect and process the personal data (data controllers). In addition, the data subjects have a right to the information being corrected, deleted, updated, and availed upon request.





Further, GDPR places obligations on data controllers to demonstrate compliance to the law, which adds new requirements and liabilities on businesses. This is expected to restrict interactions or introduce barriers to foreign economic operators such as Kenya, with adverse effects on trade.

Kenya is a host to companies that interact closely with personal data that belongs to the citizens and residents of the EU bloc. For example, Nairobi is a key trade partner with the EU and largely exports agricultural products such as horticulture, tea and fish to the EU. Likewise, Kenya imports automobiles, machinery, pharmaceutical products, fertilizers and capital among others from the EU. Other key sectors in Kenya–EU relations include tourism, airline, hospitality, entertainment, education, finance and civil societies. For instance, there are financial institutions in Kenya that keep personal data of the EU citizens as clients. Similarly, travel agencies offer air transport to EU citizens. Telecommunication, hotels and entertainment industries offer services to EU citizens when they visit Kenya. Likewise, there are Kenyan institutions that are affiliate or subsidiary of institutions in the EU.

Kenyan companies that had earlier collected personal data from EU citizens without their consent will be required to seek such consent. These consents are required if the companies wish to continue storing or processing such data. The regulation demands that such consents must be freely given by the data subject and should be specific and clear. When personal data is collected, such data shall not be used for direct marketing or for any other reason that was not specified at the time of collection through consent. This will significantly be a big blow to the companies that rely on personal data collected from EU consumers for marketing purposes.

If a data breach happens, companies serving the EU consumers are expected to report all the breaches within 72 hours to the Data Protection Regulators based in the respective EU member states. For instance, if a breach of personal data belonging to EU citizens happens in a hotel while visiting Kenya, such hotel should notify the Data Protection Regulators based in the EU. Companies including Kenya Airways have started putting in place clear personal data policies on their digital platforms such as websites to comply with the new regulation. The regulation requires every company interacting with personal data for the EU region to establish a framework for accountability and designate an officer to oversee

data protection matters. GDPR expects that privacy be embedded into the design and development of products handling personal data, and safeguard of the privacy rights of the data subjects.

Failure to comply with the GDPR would negatively affect local companies as they are likely to be fined heavily. Fines can go up to €20 million, 4 per cent of annual worldwide turnover or both. In addition, Kenyan companies could risk being cut-off from trade opportunities with the EU because many trade transactions require cross-border transfers of personal data that are subject to Kenya having minimum legal requirements for data protection. The Constitution of Kenya 2010 under Article 31 recognizes the rights to privacy. However, Kenya like many African countries does not have data protection laws to safeguard privacy. Internationally, Kenya reasserts the Universal Declaration of Human Rights 1948 and is party to the International Covenant on Civil and Political Rights 1966. Kenya enacted access to information laws in 2016 to grant access to information. Granting of access to information can only be productive if it happens in a regulated way and hence the need for data protection laws. Kenya has recently formed a taskforce on data protection with a goal of developing a policy and bill on data protection.

GDPR is also likely to create opportunities and attract investment to several sectors. For instance, software companies in Kenya have business opportunities to develop specialized information systems for managing personal data known as Personal Information Management Systems (PIMS). PIMS are systems which give individuals a singular view over their personal data from a variety of sources. Individuals will potentially be able to analyze, delete, or transfer data between companies, and use the platform to share their data with new service-providers. Such platforms will allow companies to use personal data in a GDPR-compliant way, and bring data sources together and therefore lead to new opportunities within data aggregation, cognitive technologies, and innovation. With growing innovation culture in the country, local companies stand to gain in building products and services for data protection. In addition, the new regulation may necessitate Kenyan companies to invest more in security safeguards and hire specialists such as Data Protection Officers to safeguard personal data.

# Role of Extractives Industry in Contributing to Food Security, Wealth and Job Creation in Kenya

By Joshua Laichena and Dr Evelyne Kihiu

## Extractives Industry in Kenya

Since the discovery of oil in Turkana County in 2012, the extractives sector has witnessed increased investments especially with the discovery of other mineral resources such as natural gas in Lamu, gold in Kakamega and coal in Kitui. As noted by Foreign Investment Surveys (FIS) 2013 and 2015 conducted by the Kenya National Bureau of Statistics, total inflows of direct investments increased to Ksh 183,853 million in 2012 from Ksh 149,122 million in 2010, an increase of 20 per cent. Of this, 5.72 per cent was attributed to increased capital investments in the extractives sector. The extractives sector is expected to attract more investments and thus provide opportunities for local investors in form of auxiliary services such as insurance, legal and banking services.

Extractives resources bring significant opportunities for the country to achieve its developmental agenda as spelt out in the Kenya Vision 2030. For example, revenues from minerals, oil and gas exploitation can provide financing to catalyze economic and human development and technology transfer. As such, the government is keen to develop appropriate policy and incentive framework to attract international investors to the sector. Exploitation of the extractives has the potential to support the “Big Four” agenda by boosting job creation and contributing to poverty alleviation.

Despite this potential, extraction of natural resources has had some mixed effects on economies, with evidence pointing at some countries having fallen into what economists describe as the “resource curse”. As such, the contribution of the extractives to economic growth in Kenya depends on the ability of the country to harness the value chain of the new sector for the benefit of the immediate communities

where extraction is being carried out and the country in general.

## Institutional Structures for Extractives Industry

Establishment of strong institutions prior to the exploitation of minerals, oil and gas could be the safest way for the country to avoid a “resource curse”.

In Kenya, many positive developments have taken place since the creation of a stand-alone Ministry of Mining. In 2016, the Mining Act was signed into law and regulations developed to operationalize the Act. In February 2018, the Department of Petroleum was merged with the Ministry of Mining to create the Ministry of Petroleum and Mining, thus ensuring that all extractives are administered under one Ministry.

The Mining Act 2016 has created institutions such as the Mineral Rights Board (MRB) whose function is to advise the Cabinet Secretary on granting, rejection, retention, renewal, suspension, revocation, variation, assignment, trading, tendering or transfer of mineral rights. It is expected that the new Board will help clear the piled up expired licenses and ensure new applications are considered in reasonable time to give investors an opportunity to prospect and develop mineral resources.



The establishment of an independent National Mining Corporation (NMC) will help the government manage the proceeds from natural resources efficiently and for the benefit of the population.

### Extractives Industry and Economic Growth

An understanding of the impact of the extractives industry on the economy requires examination of at least four (4) linkages: Fiscal, Production, Infrastructure and Consumption.

The *fiscal linkage* enables income generated through royalties and taxation of excess profits from the extractives industry to be used to finance development in unrelated sectors such as health and education and access to quality social services.

The *production linkage* ensures major inputs other than the resource being extracted are used in other related sectors.

The *infrastructure linkage* ensures that the extractives industry contributes to industrial development through financing infrastructure such as electricity, rails, roads and ports.

Finally, the *consumption linkage* ensures that income from the extractives sector is spent on goods and services produced by other sectors within the economy and can stimulate the local economy through consumption and use of locally produced goods and services.

In view of the above four linkages, the government has initiated various efforts to actualize the linkages. For example, in late 2017, the Ministry of Mining built a US\$5 million gemstone processing centre at Voi, Taita Taveta County, to cut, polish, value and package gemstones for sale in the international market and help small-scale miners fetch better prices for their gems. More value addition centres for other resources such as gold, gas and oil can be created to accord local investors opportunity to participate. The focus should be on boosting the broader economy by processing the natural resources to produce intermediate or finished goods rather than exporting them in their raw form. It is expected that such initiatives in other areas where extraction is being carried out will help stimulate the various linkages.

Although the extractives industry tends to be capital-intensive, it can generate jobs through three main channels. The first is directly through the activities in the value chain of the sector. For instance, geological and geophysical surveys are promising areas for job creation. The second is the indirect channel where jobs are created by distributors and suppliers within the value chain. These jobs are mainly generated through the procurement of goods and services at every stage of the exploration, development, production and value addition of extractive products. The indirect channel also includes jobs

Extractive resources bring significant opportunities for the country to achieve its developmental agenda as spelt out in the Kenya Vision 2030.

generated in the linkages discussed above. Lastly, is the induced channel where jobs are created when income earned directly or indirectly from the extractives industry is spent on other commodities in the local and national economy.

Current efforts by the government towards creating more jobs in the mining sector include implementation of artisanal and smallscale mining (ASM) as envisaged in the Mining Act 2016. The Act recognizes, for the first time, artisanal and small-scale miners by creating the Artisanal Mining Committee and gives power to the Cabinet Secretary to set aside areas for ASM operations. This has helped to legitimize the artisanal miners who have always been treated as illegal miners, and opened opportunities for them to do business legally and improve their incomes. The Ministry has drafted regulations to operationalize the section of the Act and is set to conduct a baseline survey to establish the profile of the ASM sub-sector.

The Mining Act 2016 sets out the management and allocation of mining and exploration land through the MRB and strict environmental stewardship. This is crucial because it will ensure that water bodies, forests and other protected lands are preserved. Secondly, extractive activities can generate revenue that can supplement the income of farmers who opt to work in the mining sector, thereby allowing them to improve the productivity of their farms by buying inputs such as fertilizer and hiring of labour for use in their farms. Thirdly, agriculture may be the beneficiary of improved infrastructure, access to water and electricity, supported by extractive operations. For example, new roads constructed in Kwale by companies mining titanium decreased the time farmers take to reach the markets and lowered the cost of transport. Lastly, companies in this sector can contribute to the development of local communities by moving beyond the traditional corporate social responsibility towards corporate economic responsibility activities such as supporting programmes that encourage agricultural value addition, among many other benefits.

There are several possible policy measures that can leverage the extractive industry to promote economic growth, generate employment and improve food security in the country

## Way Forward

There are several possible policy measures that can leverage the extractives industry to promote economic growth, generate employment and improve food security in the country.

First, the Petroleum (Exploration Development and Production) Bill 2015 which is with the Senate needs to be fast-tracked and enacted into law since there is no legally agreed revenue sharing model for hydrocarbon resources. This is necessary to ensure that the benefits accruing from these resources are shared among different levels of government and the immediate communities in strict conformity with the constitution. That said, it is important that a more encompassing law is put in place to guide revenue sharing beyond the hydrocarbon resources.

Second, new technology, innovation and research imported by extractives companies can form an essential input into the country's industrial growth agenda. This can be achieved by putting in place mechanisms to transfer the technology and related skills to the local workers and companies. However, technology transfer will require skilled workers to absorb the technology so that this absorptive capacity becomes a key component of developing local content. Training programmes in extractives activities are necessary in boosting the capabilities in the sector.

Third, success in leveraging on the extractives sector for shared development requires partnerships and cooperation between the national government, county governments, the private sector and communities together with sector policy coherence to leverage on the synergies of the partners.

Lastly, because the extractives sector generates very few direct jobs, there is need to enhance linkages between extractives and non-extractives tradable sectors which offer the bulk of employment opportunities. The success of such initiatives will require adherence to local content to give opportunity to the locals to participate in the value chain. The Local Content Bill will be key in operationalizing this.



# Promoting Collaboration between Institutions in **Anti-Corruption Efforts in Kenya**

By Beverly Muthoki Musili



## SAY NO TO CORRUPTION

Corruption poses major challenges which are detrimental to the political, social and economic development in Kenya and globally. Corruption and governance have been identified in the Kenya Vision 2030 as some of the challenges undermining socio-economic transformation in the country. Corruption impedes growth and investment and has disproportionate distortionary effects on all sectors of the economy. It distorts public sector choices and decision making, resulting in undesirable consequences such as poor service delivery. In recognition of the adverse effects of corruption and to redress the myriad of corruption scandals, the Government has placed emphasis on values of leadership and integrity in the public service under the 2010 Constitution of Kenya. To this end, the Government has established various laws and several institutions to fight corruption in Kenya.

In Kenya, anti-corruption strategies and actions are not carried out at the behest of any one arm of government, agency or individual but are spread across many agencies. This demonstrates the need for separation of powers and collective exercise of power and shared responsibility in the fight against corruption. To this end, Kenya has put in place various institutions conferred with distinct mandates aimed at fighting corruption through various strategies. The Ethics and Anti-Corruption Commission (EACC) is undoubtedly the main body charged with spearheading the anti-corruption initiative. Besides the EACC, Kenya applies a multi-agency approach with various institutions playing distinct roles and exercising discrete mandates in the anti-corruption chain. However, there is need

to enhance cohesion and collaboration across the institutions.

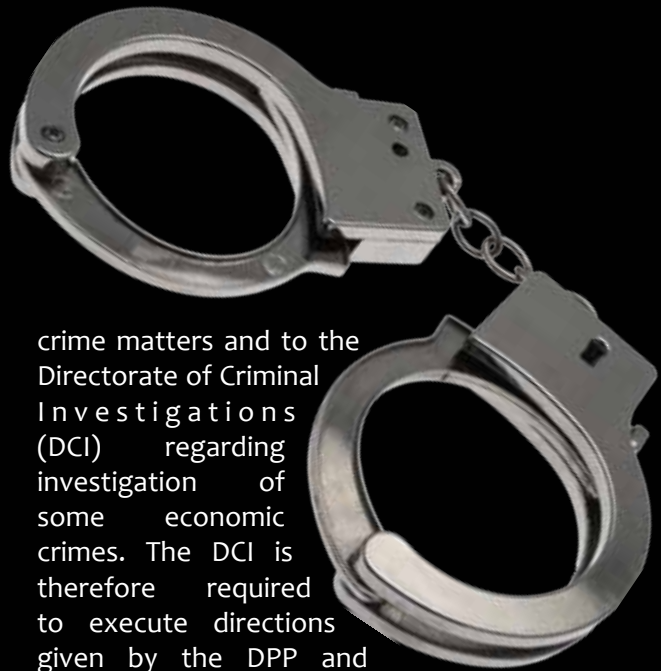
The current Kenyan model is coordinated through shared responsibility, with investigations carried out by the EACC, prosecution by the Office of the Director of Public Prosecutions (ODPP) and adjudication by the Judiciary. Other agencies that play complementary and oversight roles include the Commission on Administrative Justice (CAJ); the Office of the Auditor-General; Inter-Electoral and Boundaries Commission; Parliament; National Anti-Corruption Campaign Steering Committee; Directorate of Criminal Investigations; the Mutual Legal Assistance Central Authority; the Assets Recovery Agency; and the Financial Reporting Centre. This article focuses on the roles and functions of the EACC, CAJ, the ODPP, the Judiciary and the Office of the President in the fight against corruption.

At the apex in the fight against corruption is the EACC which is bestowed with the overarching mandate through investigations, prevention, public education and awareness, monitoring and asset recovery. The EACC, *inter alia*, receives complaints on the breach of the code of ethics by public officers; investigates and recommends to the Director of Public Prosecutions the prosecution of any acts of corruption; recommends appropriate action to be taken against State Officers or public officers alleged to have engaged in unethical conduct; and institutes and conducts proceedings in court for purposes of the recovery or protection of public property, or for

the freeze or confiscation of proceeds of corruption, or the payment of compensation, or other punitive and disciplinary measures. Therefore, the EACC does not prosecute and its power to institute and conduct proceedings is limited to the items stated above.

The Commission on Administrative Justice (CAJ) also known as the Office of the Ombudsman enquires into complaints arising out of an administrative action of a public office, state corporation or any other body or agency of the State; investigates complaints of abuse of power, unfair treatment, manifest injustice or unlawful, oppressive, unfair or unresponsive official conduct perpetuated by public officers; and inquiries into allegations of maladministration, delay, administrative injustice, discourtesy, incompetence, misbehaviour, inefficiency or ineptitude within the public sector. CAJ then makes recommendations to a public entity for action. CAJ, however, cannot investigate any criminal offence and it resolves cases by conciliation, mediation, negotiation and recommendation. In this regard, there is a distinction between CAJ and EACC; nonetheless, there is an overlap in their functions especially in relation to addressing matters related to abuse of power. The role of CAJ in fighting corruption needs to be clarified and strengthened to complement the EACC through appropriate filtering of complaints, sharing of information between the two commissions and increasing awareness on CAJ's ability to resolve certain categories of complaints through alternative dispute resolution mechanisms. This would prevent overburdening of EACC or the Courts.

Besides the EACC, the ODPP plays a critical role as it prosecutes corruption and economic crimes investigated by the EACC. Under the previous Constitution, prosecutions were handled by the office of the Attorney General. However, this was deemed unfavourable as the Attorney General was also a member of the Cabinet. The 2010 Constitution of Kenya attempted to cure this anomaly by creating an independent Office of Director of Public Prosecutions to discharge the prosecutorial functions of the State. Pursuant to the provisions of the Constitution and the Anti-Corruption and Economic Crimes Act 2003, the DPP is charged with the mandate of prosecuting criminal cases including all corruption and economic crime matters investigated by EACC. The DPP also provides directions to EACC over the investigation of corruption and economic



crime matters and to the Directorate of Criminal Investigations (DCI) regarding investigation of some economic crimes. The DCI is therefore required to execute directions given by the DPP and undertakes investigations over some corruption and economic crimes.

According to the Anti-Corruption and Economic Crimes Act and the EACC Act, cases investigated by the EACC are referred to the ODPP for prosecution or appropriate direction. Upon receipt of a report from EACC, the ODPP may direct prosecution, further investigations, administrative action or closure of a file depending on the assessment of the available evidence. It is important to note that the ODPP Act 2013 provides that it is the ODPP's function to decide to prosecute or not to prosecute an offence or to institute, conduct and control prosecutions for any offence. The 2010 Constitution of Kenya has underscored the independence of the ODPP by stating that "the Director of Public Prosecutions shall not require the consent of any person or authority for the commencement of criminal proceedings and in the exercise of his or her powers or functions, shall not be under the direction or control of any person or authority." It is for this reason that the ODPP has been granted the exclusive mandate of prosecuting corruption and economic crime cases to ensure independence and impartiality in anti-corruption cases.

However, proposals have been made to grant EACC prosecutorial powers as a measure of enhancing the efficiency and institutional capacity of the ODPP in carrying out prosecution of corruption-related offences and economic crimes. It is noted that this would be discordant with the independence conferred on the ODPP and would overlap with



the mandate of the ODPP. Granting the EACC prosecutorial powers would also risk bias and oppressive conduct where they have also conducted investigations and provided recommendations on the same matters. In this regard, it would be ideal for the EACC and ODPP to enhance their collaboration, cooperation and communication channels in fighting corruption. Further, measures should be put in place to enhance the institutional, personnel and technical capacity of the ODPP and to increase the resources allocated to them to undertake prosecution of cases investigated by the EACC effectively, efficiently and promptly.

Another facet in the Kenyan anti-corruption model is the Judiciary which undertakes adjudication of corruption and economic crimes. The Anti-Corruption Court was established in 2002 to handle cases of corruption and exercises the same jurisdiction as magistrate's courts as set out in various statutes. Special Magistrates who are magistrates of or above the position of a Principal Magistrate preside over Anti-Corruption Courts and adjudicate over corruption and economic crime cases. The Chief Justice has gazetted over 160 Special Magistrates to the Anti-Corruption Courts. To ensure efficiency in adjudicating over corruption and economic crimes, Special Magistrates should not be assigned any other cases. The Chief Justice also established an Anti-Corruption and Economic Crimes Division of the High Court with Anti-Corruption Judges. However, these judges should exclusively adjudicate over corruption cases to enhance efficiency. The EACC reported in its 2016/17 Annual Report that 25 cases have been finalized in Court and 601 cases are pending before Court from 2005 to the date.

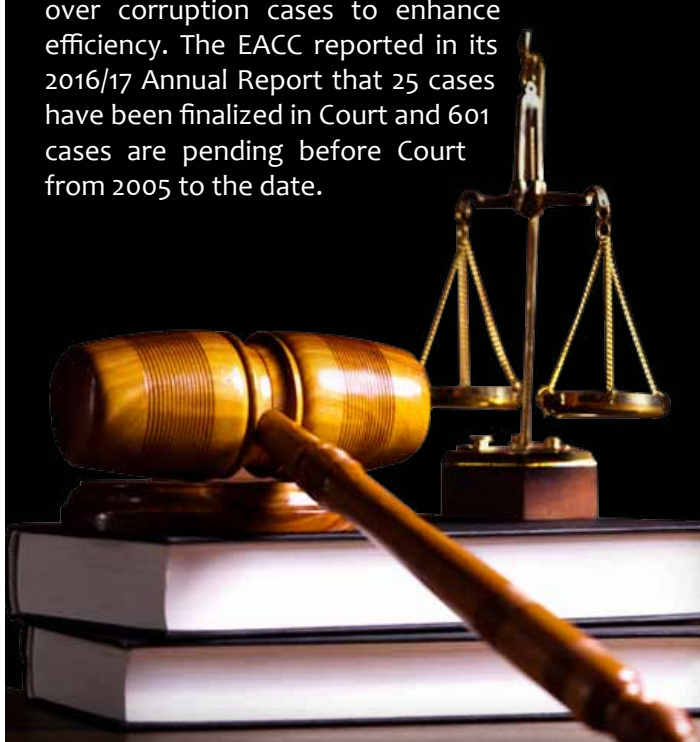
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Penultimately, in the fight against corruption, the President of Kenya plays a fundamental role especially by publicly vocalising a stance against corruption, developing the nation's anti-corruption agenda and personally setting and upholding standards of good governance, leadership and integrity. The President of Kenya is the Head of State, the Commander-in-Chief of the Kenya Defence Forces and is a symbol of national unity. Nonetheless, exercise of the President's mandate must be in cognizance of the roles of the key institutions in the Kenyan anti-corruption model. The President has, *inter alia*, the power to nominate, and subject to approval of the National Assembly, appoint and dismiss persons appointed as Cabinet Secretary or Principal Secretary, the Attorney General, high commissioners, ambassadors and diplomatic and consular representatives; and any other State or public officer whom the Constitution requires or empowers the President to appoint or dismiss. Therefore, the President has the power to refuse to appoint or remove from their positions, the persons if they are being investigated or prosecuted for offences related to corruption and economic crime. However, the Office of the President does not have power to prosecute or to adjudicate over prosecutions or determine the outcome of prosecutions as these mandates are executed by Independent Offices. Nonetheless, the President receives reports from the EACC, ODPP, other constitutional commissions and Independent Offices which, if acted on, would inform decisions on appointments, and continued service and reappointments of State and public officers. It is important for the Executive not to usurp or influence the mandate of the Judiciary, the EACC or the ODPP which are all independent as per the Constitution. However, their technical, human and financial resources and capacity can be enhanced.

From the above, it is evident that there are agencies with distinct mandates in the anti-corruption model in Kenya. There are agencies tasked with



investigation, prosecution and oversight and the Office of the President ought to continue supporting them in the execution of their functions. It is important for each player in the anti-corruption chain to respect the mandate of the other agencies and to act within their constitutional and statutory mandates. With the multi-agency model adopted in Kenya in anti-corruption, therefore, it is important to understand the limit and extent of each party's role and mandate to avoid vilification of any one party. It is also important to measure the performance of institutions against their legal mandate and not with a broad brush.

Nonetheless, collaboration, complementary of activities, sharing and exchange of information and prompt facilitation of information received across the various agencies would enhance the effectiveness of anti-corruption strategies in Kenya. Although there is an existing framework which

provides for the legal and institutional mandate to anti-corruption, it is fragmented as it involves various institutions. A multi-stakeholder Committee should be established under the auspices of the Office of the Attorney General and Department of Justice (OAG&DOJ) comprising representatives from OAG&DOJ, EACC, ODPP, the Judiciary, CAJ, Parliament, the Kenya Law Reform Commission and the Auditor General with the option to co-opt any other institution. The Committee would, *inter alia*, regularly analyze anti-corruption legislation to establish whether there is need for legal reforms at the national level; conduct research and comparative analysis of anti-corruption efforts and strategies in other jurisdictions; exchange information among the members; monitor, evaluate and report on the progress of anti-corruption efforts; and receive and consider all anti-corruption proposals from relevant stakeholders. This would enhance the synergy between the various institutions engaged in anti-corruption.

## Legislative Developments

### The Computer Misuse and Cybercrimes Act No. 5 of 2018



The period saw enactment of the Computer Misuse and Cybercrimes Law that provides for offences relating to computer systems; to enable timely and effective detection, prohibition, prevention, response, investigation and prosecution of computer and cybercrimes; and to facilitate international cooperation in dealing with computer and cybercrimes.

### The Supplementary Appropriation Act No. 2 of 2018



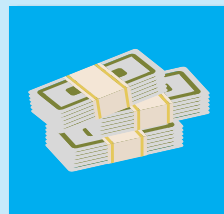
This Act commenced on 7<sup>th</sup> May 2018 and it authorizes the issue of certain sums of money out of the Consolidated Fund and their application towards the service of the year ending on 30<sup>th</sup> June 2018. It appropriates those sums for certain public services and purposes.

### The Division of Revenue Act No. 1 of 2018



This Act which commenced on 11<sup>th</sup> May 2018 provides for the equitable division of revenue raised nationally between the national and county governments in the 2018/19 financial year. However, there is a Division of Revenue (Amendment) Bill No. 7 of 2018 which was gazetted on 15<sup>th</sup> May 2018 for introduction into the National Assembly and whose objective is to provide for three additional conditional allocations to county governments in the financial year 2018/19 to be financed by loans and grants from donors. These additional conditional allocations had not been provided for in the Division of Revenue Act No. 1 of 2018.

### The Equalization Fund Appropriation Act No. 3 of 2018



This Act commenced on 7<sup>th</sup> May 2018 and its objective is to authorize the issue of a sum of money amounting Ksh 11, 97764,688 out of the Equalization Fund by the Equalization Fund Secretariat and its application towards the service of the year ending 30<sup>th</sup> June 2018 and to appropriate that sum for certain public basic services.



### **The Government Contracts Bill No. 9 of 2018**



The Government Contracts Bill 2018 was gazetted on 10<sup>th</sup> April 2018 for introduction into the National Assembly and proceeded to its First Reading during this period. The principal object of the Bill is to provide for the making of contracts on behalf of the Government and for connected purposes. The Bill contains provisions relating to conditions of contract entry. One of the outstanding conditions is that all contracts entered by the national government or county government shall, subject to the pecuniary threshold, be cleared by the Attorney General or the County Attorney, respectively, before they are signed.

### **The County Governments Retirement Scheme Bill No. 10 of 2018**



During this period, the County Governments Retirement Scheme Bill 2018 was gazetted on 10<sup>th</sup> April 2018 for introduction into the National Assembly and proceeded to its First Reading. The principal object of this Bill is to establish the County Government's Retirement Scheme as a mandatory Scheme for all County Government Officers; provide for the establishment of the Scheme's Board of Trustees and provide for the Scheme's management and administration. The Bill proposes to have the scheme offer lumpsum payments as provident, periodic payments as pensions and income draw-downs. The proposed Scheme will transition the former local authorities' and National Government employees under a national retirement scheme and retirement arrangements into one universal scheme for all the 47 county governments besides being open to other public officers and any other person approved by the Board.

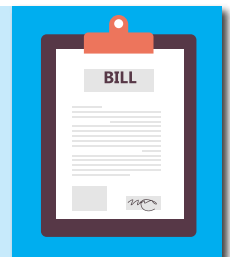
### **The Tax Laws (Amendment) Bill No. 11 of 2018**



The Tax Laws (Amendment) Bill 2018 was gazetted on 10<sup>th</sup> April 2018 for introduction

into the National Assembly and proceeded to the Second Reading during this period. It seeks to make several amendments to a few tax-related statutes. The Income Tax Act (Cap. 470) - The Bill seeks to amend the Income Tax Act to introduce a tax on winnings and to enhance the tax incentive on home ownership. The Stamp Duty Act (Cap. 480) - The Bill seeks to amend the Stamp Duty Act to provide an incentive to first-time home owners. The Value Added Tax Act 2013 (No.35 of 2013) - The Bill seeks to amend the Value Added Tax Act to move some items from zero rate to exempt to limit zero rating to exports.

### **The Kenya Accreditation Service Bill No. 17 of 2018**



The Kenya Accreditation Service Bill 2018 was gazetted on 7<sup>th</sup> June 2018 for introduction into

the National Assembly and proceeded to the First Reading during this period. The object of the Bill is to establish the Kenya National Accreditation Service and an internationally recognized and effective accreditation system. The Bill shall establish the Service as the sole recognized body for accreditation in Kenya

### Ban on Logging

The ban on forest logging imposed by the government in February was extended by six months after lapse of the initial three-month moratorium. The move has seen the prices of charcoal go up to an average of Ksh 3,000 per bag, hitting hard the budgets of low-income households that use the commodity for cooking. The anti-logging ban has also cut off raw material supply for charcoal dealers and timber merchants who have in turn increased prices. Further, saw millers have laid off employees. The 2018/19 Budget Statement presents a duty remission of 100 per cent for inputs and raw materials for assembly of clean energy cooking stoves imported by manufacturers.



### Anti-money Laundering Guidelines Released



The Central Bank of Kenya has issued guidelines on conducting money laundering/terrorism financing risk assessment dated March 2018 for application to all banks. The guidelines aim at informing policy and curbing money laundering and terrorism financing. The institutions are expected to appoint a money laundering officer who should annually report to the CBK on the number of domestic and international funds transfers, types of customers, geographic locations of the bank's business area and customer transactions to the bank. The Cabinet Secretary of the National Treasury while presenting the 2018/19 Budget Statement further proposed to amend the Proceeds of Crime and Anti-Money Laundering Act to address money laundering and terrorism financing risks associated with nonface- to-face businesses and transactions.

### Enhancing Financial Access

The Cabinet Secretary for the National Treasury during the 2018 Budget Statement announced the intention to repeal the section of the law capping interest rates and proposed additional reforms measures aimed at enhancing financial access which include the introduction of a National Credit Guarantee Scheme, the establishment of the Kenya Development Bank and the establishment of the Biashara Kenya Fund, the establishment of a Financial Markets Conduct Bill 2018 and the development of a Collateral Registry.





## Developments in Kenya's Aviation Sector

The Kenya Civil Aviation Authority (KCAA) registered progress towards authorization for direct flights to USA. Within the quarter, the US Transportation Security Administration (TSA) met KCAA to check compliance with category 1 status. KCAA is now waiting for a response before Jomo Kenyatta International Airport (JKIA) is given the Last Point of Departure (LPD) status. Part of the things checked include documentation of the processes at the airport, security perimeter at the facility and access control measures enacted by the authority.



## Kenya's Technopolis Development

The Parliamentary Budget Committee allocated Ksh 400 million to Konza Technopolis Development Authority, increasing funding for the financial year 2018/19 to Ksh 8.3 billion to support the ongoing construction of Konza Complex. The amount is part of the Ksh 52.2 billion the government is expected to inject into the setting up of the city's basic infrastructure. Konza is a key strategy in Kenya's ambition to become East Africa's technology hub. It is also part of a long-term goal to attain a knowledge economy by year 2030. Access to funding has been a constraint to development of the tech city since inception.



## Kenya Launches Satellite into Space

Kenya launched its first locally made Ksh 100 million satellite on 11<sup>th</sup> May 2018 in Japan, officially marking the country's venture into space science. The 10cm cube satellite, dubbed Nano Satellite, was developed by researchers and students at the University of Nairobi with the help of Sapienza University (Italy) and experts from Japanese

Aerospace Exploration Agency (JAXA). The cube satellite will be used in various sectors including weather forecasting, food security mapping, livestock and wildlife monitoring and disaster management.



## Phase 1 of the Dongo Kundu bypass road commissioned



The first phase of the Dongo Kundu bypass road in Mombasa was commissioned by the President on 14<sup>th</sup> June 2018. This component of the project is anticipated to ease traffic congestion and create access and connectivity to the Port of Mombasa, the Moi International Airport, the Standard Gauge Railway, and the Mombasa-Nairobi Highway. The 10-kilometre bypass runs from the Second Container Terminal of the Mombasa Port and joins the Mombasa-Nairobi Highway at Bonje near Mazeras. The next two phases of the project will link the Mombasa-Nairobi Highway with the Likoni-Lungalunga Road and will include an 8.9 kilometre road from Mwache Junction to Mteza and a 6.9 kilometre road from Mteza to Kibundani. It will also include an Interchange on the Likoni-Lungalunga Road and the installation of a 900 metres long bridge at Mwache and another bridge spanning 1.4 kilometre at Mteza.

## The Northern Corridor Integration Projects Summit

Kenya hosted the NCIP Summit in Nairobi on 26<sup>th</sup> June 2018. The NCIP is a multilateral development initiative established in 2013 to speed up growth in the region through improvement of infrastructure for ease of movement of people, goods and services. Key clusters under the NCIP include flow of cargo, construction of the Standard Gauge Railway (SGR), crude oil pipeline and refined petroleum products pipeline, ICT, oil refinery, financing, power generation, transmission and interconnectivity, commodity exchanges, human resource capacity building and land, among others.



The conference was attended by the host President Uhuru Kenyatta and Presidents Yoweri Museveni of Uganda and Paul Kagame of Rwanda while President Salva Kiir of South Sudan was represented by a special envoy. Ethiopia, Tanzania, Burundi and DR Congo attended the summit as observers. The summit discussed progress of mega infrastructure projects designed to benefit the wider Eastern Africa region and specifically the progress of implementation of the outcomes of the 13th Summit which was held in Kampala in April 2016. The deliberations at the summit underscored the importance of accelerating socio-economic transformation, industrialization and creation of employment opportunities for the citizens. The Summit resolved to hold sessions once every four months as it was in the past. Respective Ministers were directed to ensure that cluster meetings are held once every two months to effectively follow up on the implementation of Summit directives.

### Potential of Pension Funds for Public Private Partnerships

According to the Retirements Benefits Authority (RBA) assets are estimated to have grown to Ksh 1,080 billion in 2017 more than double when compared to 2010 when it was Ksh 450 billion and over 10 times compared to 2001 (Ksh100 billion). A report by the Actuarial Services of East Africa shows that pension funding enjoyed good return of up to 6.7 per cent for the period January to March 2018. This is because of the good performance recorded by equities for the same period at the NSE. The overall portfolio is heavily invested in three key assets: government securities, quoted securities and immovable property at 37 per cent, 27.14 per cent and 21.34 per cent, respectively. Investments in fixed deposits, offshore, unquoted equities and private equity is still relatively low.

### Automobiles Industry

The Government of Kenya has been making some interventions to promote local assembly of motor vehicles. Incentives include 50 per cent corporate tax reduction for firms assembling motor vehicles. The Finance Act 2017 provides, effective 1st January 2018, a lower corporate tax rate of 15 per cent (from 30%) for local assembled motor vehicles for the first five years of launching operations in Kenya with a possibility of another five years extension if the company adheres to a 50 per cent local content requirements. Re-establishing Kenya's automobile industry to manufacture new affordable vehicles has further been identified as a priority as presented in the 2018/19 Budget Statement which further increased excise duty from 20 per cent to 30 per cent for private passenger motor vehicles whose engine capacity exceeds 2500cc for diesel and 3000cc for petrol powered vehicles.

In a related matter, Mobius has received funding from Overseas

Private Investments Corporation, a U.S. Government agency that assists American businesses invest in emerging markets, amounting US\$ 5 million to expand its motor vehicle production. Currently, the company uses Kenya vehicle manufacturers plant based in Thika. The company is looking forward to launching its generation 2 model soon. It is reported to have sold about 50 units and expects to produce 1,900 units by 2019.

Further, Auto-Springs East Africa (a motor vehicle equipment manufacturer established in 1979) has opened a factory in Limuru, Kiambu County. Ascent Rift Valley Fund, a SME Private Equity Fund investor has entered an investment deal with the company, acquiring a majority stake. This is a partnership deal with a Mauritius-based non-bank financial institution, SFC Finance Limited.



### Prospects of Ethiopia's Liberalization to Kenya

Ethiopia is set to liberalize some of its major state enterprises including Ethiopia Telecom, national carrier (Ethiopian Airlines), electric power generations, shipping lines and logistics. The ruling coalition (Ethiopian Peoples' Revolutionary Democratic Front) Executive Committee has resolved to allow both local and foreign investors to buy shares in the said corporations, though the state will maintain majority of the stake. Ethiopia's policy shift could benefit Kenya's private sector in expanding their investment to the northern neighbour with a population of over 100 million. Though Kenya and Ethiopia had signed Special Status Agreement in 2012 to deepen economic cooperation, little progress has been made largely due to the state monopoly of Ethiopia's economy.



### Kenya Deepens Cooperation with Pakistan

The Kenya-Pakistan Trade and Investment Conference in Karachi, Pakistan on 2<sup>nd</sup> May 2018 was important in enhancing bilateral ties between Nairobi and Islamabad. During the occasion, the Cabinet Secretary for Foreign Affairs and International Trade Ambassador, Monica Juma, articulated areas in which the two countries could deepen their cooperation. Of great interest were issues of trade, manufacturing, security, health sector, among others. The CS also emphasized that Kenya was looking forward to the implementation of Pakistan's "Look Africa Policy" that was launched by Pakistan's Ministry of Commerce a year ago.



### Dissemination Workshop on Appraisal of Kenya's Excisable Goods Management System

On 29<sup>th</sup> June 2018, KIPPRA held a dissemination workshop on “Appraisal of Kenya’s Excisable Goods Management System: Its Implementation Challenges and Contribution in Enhancing Excise Revenues and Tackling Illicit Trade in Tobacco Products”. The workshop brought together stakeholders from the manufacturing sector; Ministries, Departments and Authorities (MDAs); and Non-Governmental Organizations. The objectives of the workshop were to share the study findings on the EGMS study, specifically on operational issues and implementation challenges; and share discuss the concept for the study on excise taxes.



Participants at the workshop



KIPPRA Strategic Plan Workshop

### Validation Workshop on KIPPRA 4<sup>th</sup> Strategic Plan

KIPPRA held a validation workshop on the Institute’s fourth Strategic Plan (2018/19 – 2022/23) on 21<sup>st</sup> June 2018. The objective of the workshop was to engage stakeholders in providing their views on the draft plan and validating its content. The workshop was attended by participants from government ministries, departments and agencies and other partners. It was highlighted that the development of the Strategic Plan draft was informed by KIPPRA Act (2007), ISO 9001:2015 certification standards, 2010 Constitution of Kenya, Kenya Vision 2030, Medium Term Plan III, the “Big Four” agenda, United Nations Sustainable Development Goals (SDGs) and African Union’s Agenda 2063. The inputs from the stakeholders will be crucial in finalizing the Strategic Plan.



Dr Eldah Onsomu  
presents the strategic  
plan

Ms Sabina Maghanga,  
KIPPRA Board  
Member and Director  
at the The National  
Trasury and Planning

KIPPRA Staff Felix  
Murithi

### Policy Seminar on Public Sector Reforms

On 22<sup>nd</sup> May 2018, KIPPRA held a policy seminar on “The Challenges and Opportunities for Public Sector Reforms in Kenya” in line with its key function to engage key stakeholders in exchanging views on key policy issues. The preliminary findings showed that public sector reforms in Kenya began in the 1960s and gained momentum in the early 1990s, expanding in scope in 2000s and continuing to date. Despite numerous reform initiatives, a lot more is required in improving delivery of public service. It was observed that success in reforms requires benchmarking on principles and not practices.



Participants at the Public Sector Reforms workshop



## Policy Seminar on Status of Youth Employment in Kenya

KIPPRA conducted a stakeholder workshop on “Status of Youth Employment in Kenya” on 17<sup>th</sup> May 2018. The objective of the forum was to take stock of government efforts in creation of youth employment, and to engage stakeholders in coming up with policy recommendations to address youth unemployment. A background study on youth employment in Kenya was presented by the KIPPRA Young Professionals (YPs) 2017/2018 cohort with a focus on: labour demand, labour market entrants and productivity; youth distribution, employment preference and their determinants; and a review of government initiatives. Findings from the study will be published for dissemination to the public.



2017-2018 KIPPRA Young Professionals



Participants at the inclusive business workshop

## Policy Seminar on Economic Inclusion of Youth and Women

On 10<sup>th</sup> April 2018, KIPPRA held a policy dialogue with stakeholders on “Economic Inclusion of Youth and Women through Inclusive Entrepreneurship in Kenya”. The workshop provided an opportunity for KIPPRA to gather information from relevant stakeholders practicing inclusive business in various sectors in the economy to inform the research project being undertaken by the Institute. Among the key issues highlighted during the workshop

include: lack of business incubation in the agricultural sector; slow adoption of technology in agriculture; poor funding for youth and women projects; and the need for a graduation policy for Micro- Small and Medium Enterprises (MSMEs).

## PEFA validation workshops in Makueni and Kakamega counties

KIPPRA conducted two validation workshops on Public Expenditure and Financial Accountability (PEFA) reports in Makueni and Kakamega counties on 5<sup>th</sup> April and 24<sup>th</sup> April 2018, respectively. During the workshops, KIPPRA team shared with the technical staff in the two counties and other stakeholders the findings of the PEFA sub-national assessment that was carried out between 27<sup>th</sup> March and 14<sup>th</sup> April 2017. The rationale of the assessment was to evaluate county governments’ Public Finance Management (PFM) systems, processes and institutions with an aim of improving budget preparation and execution for effective service delivery in the devolved units. During the presentation, the KIPPRA team noted that counties had made considerable efforts in establishing various PFM structures, timely preparations of budget documents and implementation of IFMIS. among others. However, the counties need to address revenue and expenditure deviations, strengthen management of assets and liabilities, improve transparency in budget preparation and execution, enhance public participation, and improve investment procedures in the counties.



KIPPRA Staff at the PEFA workshop

## The Fifth Annual Devolution Conference

Between 23<sup>rd</sup> and 27<sup>th</sup> April 2018, KIPPRRA participated in the 5<sup>th</sup> Annual Devolution Conference which took place in Kakamega County. The conference was hosted by The Council of Governors in partnership with the Ministry of Devolution and ASALs, the Senate, the County Assemblies Forum and others. The theme of the conference was “Sustainable, Productive, Effective and Efficient Governments for Results Delivery.” It was conceptualized to focus on realization of the “Big Four” agenda and thus the key sectors given attention through break away sessions were: universal healthcare; affordable housing; food security; and manufacturing. The plenary sessions included key note addresses by heads of the Executive and Legislature at the National and County level, as well as the Judiciary. Donor partners



KIPPRRA Executive Director, Dr Rose Ngugi (left) in a panel discussion during the conference



Visitors at the KIPPRRA Stand



Nyandarua Governor Hon. Francis Kimemia (second from left) at the KIPPRRA stand

and heads of foreign missions also addressed the plenaries. KIPPRRA was actively involved in the breakaway sessions and disseminated information and products on capacity building and research. One of the Key resolutions of the conference was that National and County Governments will consult, coordinate and collaborate to achieve the “Big Four” agenda. For additional information, please see the conference website on: <http://devolution.cog.go.ke/>

## KIPPRRA at Makueni Health Conference

KIPPRRA participated in the Universal Healthcare Conference held in Makueni County from 4<sup>th</sup>-5<sup>th</sup> April 2018 at the Kusyombunguo Hotel in Wote. The theme of the conference was “Meeting Kenya’s Universal Healthcare Challenge.” KIPPRRA made a presentation based on a paper titled “An Assessment of Healthcare Delivery System under Devolution in Kenya”. Participants included the Governors of Makueni and Laikipia counties. Some of the key issues arising from the proceedings were that Universal health Care (UHC) is realizable but would require, among others: leadership, innovativeness, enhanced investments in social and physical infrastructure, and a supportive regulatory/policy framework.



Guests at the universal healthcare conference



KIPPRRA Policy Analyst Dr Eldah Onsomu (left) ready to present the report



KIPPRRA staff at the conference



# KIPPRA Hosts a Successful Three-day Regional Conference on Mitigation of the Effects of Droughts and Floods



KIPPRA Executive Director Dr Rose Ngugi welcomes Planning PS Dr Julius Muia to the conference



A discussion on the implications of drought and floods on agriculture



AFC staff display their products at the conference



Planning PS Dr Julius Muia and KIPPRA Policy Analyst Dr Naomi Mathenge in one of the panel discussions during the conference

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) Annual regional conference was held from 5-7 June 2018. The theme of the conference was “Building Resilience to Mitigate the Effects of Droughts and Floods.”

Changes in weather patterns in many regions in Sub-Saharan Africa have seen persistence in occurrence of droughts and floods, which have become more frequent and severe, culminating as emergencies as they cause loss of lives, livelihoods and infrastructure. For Kenya, more than 70 per cent of natural disasters are because of extreme climatic events that include droughts and floods. These emergencies can complicate the realization of Sustainable Development Goals and for Kenya, the Vision 2030 and the “Big Four” agenda of moving the country to a middle-income country.

Conference delegates represented over 150 institutions, including international organizations such as World Food Programme, United Nations, Embassies, Airbus, International Development Research Centre (IDRC), academia, regional think tanks, and various special groups such as people living with disabilities. The conference provided a platform to share information and experiences on the impacts of droughts and floods and disaster management throughout the region and agreed on action areas going forward

During the official opening, the Chief Guest, Cabinet Secretary, the National Treasury and Planning, Hon. Henry Rotich pointed to various actions that the government has undertaken in ending emergencies of drought and floods. In 2011, the government established the National Drought Management Authority (NDMA) to coordinate all matters relating to drought management, including implementation of policies and programmes. More recently, the government has developed the National Disaster Risk Management (DRM) Policy 2017 which will serve as the overarching framework on Disaster Risk Management for the country. Further, the National Drought Emergency Fund (NDEF) with an allocation of Ksh 2 billion has been established and the National Drought Emergency Fund Regulations 2018 approved to operationalize the fund.

Other interventions include the allocation of Ksh 5 billion annually towards the Contingencies Fund to respond to disasters, integration of disaster risk management in planning and budgeting in both national and subnational levels to reduce risks, and the development of a Disaster Risk Financing Strategy to proactively mitigate disasters by increasing the national and county governments’ ability to respond to disasters. At global level, Kenya is a signatory to the Sendai Framework for Disaster Risk Reduction 2015–2030.

This event came in the wake of major occurrences of drought recorded in 1999-2011 and 2016-2017 and flood events related to the El Nino phenomenon experienced in 1997/98 and 2003.

Currently, the country is experiencing another occurrence of floods. The Cabinet Secretary noted that “prolonged drought and devastating floods in recent years and months have disrupted the livelihoods of millions of Kenyans and caused economic losses”.

Between 2008 and 2011, the total drought loss and damage amounted to Ksh 968.6 billion. On average, the economic costs of droughts and floods alone are estimated to create a long term fiscal liability equivalent to about 2.4 per cent of GDP annually.

The conference covered a wide range of topics including: socio-economic costs of drought and floods; the impact on gender roles, children,

elderly, and vulnerable group, food security and agricultural systems, coping mechanisms, coordination and institutional framework for disaster risk management, and adaptation and mitigation strategies.



NHIF Choir performs during the KIPPR Conference

From the deliberations, the following were observed as critical in ending emergencies of drought and floods.

### 1. Scaling up the Early Warning System

Strengthening the current early warning system (EWS) is a priority in planning for, responding to and recovery from the adverse impacts of weather related hazards. The EWS network could be expanded to cover the country’s diverse agro-climatic zones. One way of scaling up EWS is through use of remote sensing technologies and mobile phone applications.

### 2. Leveraging on Technology

Implementation of various pilot projects in the country have demonstrated that technology can improve the resilience of affected communities, particularly those prone to droughts and floods. Further, opportunities exist in integrating satellite-based applications to support disaster reduction measures. This will require investments in research and development to enable identification of appropriate technologies while blending modern and traditional technologies to enhance their relevance and increase uptake.



Deliberations on financial products to scale up adaptation to drought and floods

### 3. Institutional Strengthening and Coordination

Strengthening coordination between the national and county governments is necessary given that both levels of government have a role to play in disaster management as per Schedule IV of the 2010 Constitution of Kenya. Further, given the intertwined nature of droughts and floods, the mandates of the institutions set up should cover both disasters.

### 4. Adoption of Comprehensive Approaches to Disaster Risk Management

Kenya and the region should respond with multi-sectoral approaches and move quickly towards mainstreaming the management of risks from natural hazards into all aspects of development planning and in all sectors of the economy. Countries should ensure a balanced approach that incorporates structural measures, and community-based prevention measures, emergency preparation, insurance, and other non-structural measures such as education and training or land use regulation.



Day 2 of the KIPPR Conference 2018





KIPPRA Regional Conference on Building Resilience to Mitigate the Impact of Drought and Floods

### 5. Design Programmes that Promote Gender Empowerment in Building Resilience

Incidences of droughts and floods worsen the burden for women because of challenges in accessing food, sanitation and health services, especially when households are far away from health facilities and other social amenities. The problem is more complex among pastoral communities that migrate with livestock in search for water and pasture, leaving women to take more male responsibilities. There is need to mainstream gender in the interventions.

### 6. Mainstreaming Interventions for Vulnerable Groups in Disaster Management

Special interest groups including women and persons with disabilities (PWDs) are disproportionately affected by droughts and floods. It is, therefore, important to understand the vulnerable nature of these groups to disasters and integrate their concerns into disaster management at all levels. Collecting comprehensive information on PWDs is, therefore, imperative.

### 7. Enhancing Financing Mechanisms

Deepening the use of financial instruments including insurance and credit will play a key role in building robust coping mechanisms at household and firm level against impacts of droughts and floods. With weather-related insurance and credit, at infancy stage, government support is required to increase participation in disaster risk financing. There is also need for greater collaboration among regulatory agencies, industry associations, and developers of financial products to increase awareness and financial literacy.

### 8. Strengthen Research and Development

Investments in disaster risk reduction research will be key while at the same time strengthening the link between research, policy and industry.

### 9. Data and Information and Knowledge Sharing

Generation of localized data across the various agro-climatic zones will serve to specifically address the needs of local communities. Coupling this should be a framework for data and knowledge sharing across the various players.

### 10. Promoting Sustainable Environmental Management

Efforts to reclaim lost forests and wetlands should be expedited alongside programmes to increase the country's tree cover to enable them to perform their flood and drought mitigation functions. Geothermal, solar and wind power usage could be scaled up to increase their overall share in the country's energy mix, and help diversify the sources of energy. There is also opportunity to reposition the fodder value chain by strengthening investments in fodder and production of fodder seeds for large-scale pasture fodder production at the national and county levels, especially in areas with abundant idle land.



Prof Agnes Wakesho Mwang'ombe chairs a session on coping mechanisms

### 11. Land Use and Spatial Planning

Policies need to be put in place to promote water harvesting during the rains, as well as ensuring that there is appropriate utilization and location of settlements. Revisiting the design and building codes is important to ensure they are climate-proofed. There is need for community involvement in cost-effective planning for housing development especially in the arid and semi-arid areas. Focused attention needed to integrate development of housing schemes as a resilience measure in mitigating the impacts of drought and floods.

## 12. Investment in Infrastructure and Human Capital Development

To reduce the impacts of drought, it is necessary for the national and county governments to improve infrastructure development (transport, storage and information communication technology) by upgrading the existing ones and expanding to areas with low coverage to allow for timely distribution of food from excess surplus areas to scarce areas, and enhance access to the market. Quality communication networks are also key to supporting social support programmes such as cash transfers by the government and development partners.



ACBF stand at the KIPPRA Conference

## 13. Use Incentives to Boost Trade and Investment

Investments that support climate change adaptation through climate-friendly consumption and production decisions can also be promoted through fiscal and trade incentives. Realization of these goals requires, continued regional efforts to eliminate non-tariff barriers and lower common external tariffs, and use of tax incentives to promote investments in industries that produce products that are ecofriendly and build superior household coping mechanisms.



Bendi Huru presents a poem on the effects of droughts and floods during the KIPPRA Conference



A sign language interpreter during the conference



MC Michael Oyier welcomes guests during the KIPPRA Conference





# National Values & Principles of Governance

*Supporting Sustainable Development through  
Research and Capacity Building*

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# ABOUT KIPPRA

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 policy issues you would like KIPPRA to prioritize.



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