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Improving Public Policymaking for Economic Growth and Poverty Reduction

KIPPRA VISION: To be the leading public policy research institute in Africa, an international centre of excellence

KIPPRA MISSION: 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

In this Issue

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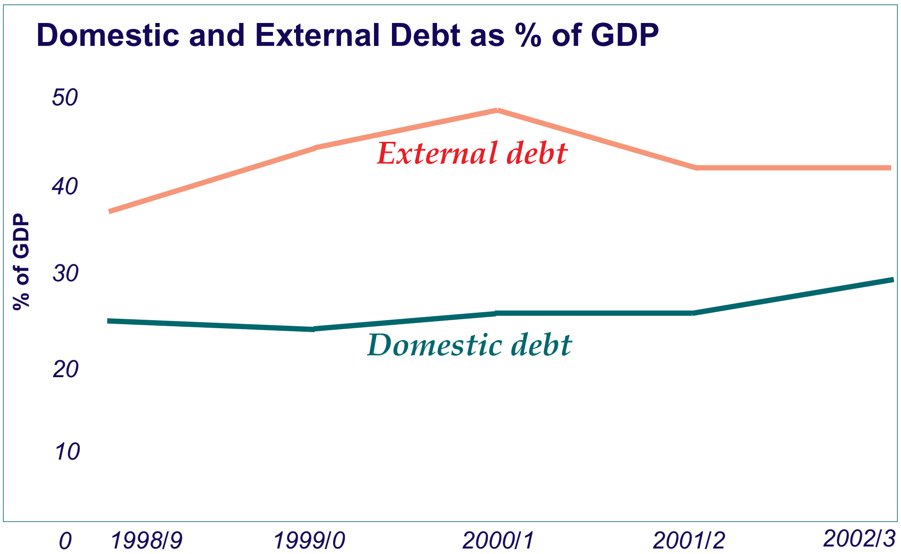
Kenya's Domestic Debt: Risks and the Challenge of Sustaining Recent Economic Gains

One of the fundamental public goods that a government can provide to its citizens is a stable macroeconomic environment supported by prudent fiscal policies. Prudent fiscal policies enable the government to, among other things, run a sustainable debt. Debt service payments are usually made at the expense of essential or productive public spending. Private investment, moreover, is crowded out by government borrowing and debt, and this adversely impacts on economic growth.

Total public debt in Kenya increased from about 59 percent of Gross Domestic Product at the end of 1998/99 to about 70 percent by the end of 2002/03. The share of domestic debt to total debt has been increasing in recent years due to increased reliance on the more expensive internal financing of fiscal deficit. The cost of servicing domestic debt, which had come down from about 16 percent of total expenditure in 1998/99 to about 10 percent in 2000/01, has started rising again.



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Editorial

It is with great pleasure that we welcome you, our dear readers, to the third issue of the *KIPPRA Policy Monitor*, covering the January-March 2004 period. It was an exciting period for the Institute because we were honored by a visit by the Minister for Planning and National Development, and we also recruited excellent new staff. The Institute, moreover, established new partners and networks in the form of visiting professors and institutional collaborators such as the UNEP. The Institute's staff, in collaboration with professionals from outside the Institute, initiated some important studies on public wages policy, maize seed pricing and related problems, and on the dynamics and cost of insecurity in the Kenyan economy. The Institute's study on the decline in primary school enrolment in Kenya received an award for outstanding research from the Global Development Network (GDN), and the paper has been chosen for publishing as a chapter in a book by GDN. The same study has already been published in a leading journal, *Journal of African Economies*. Another milestone during the period was the preparation of several training manuals or toolkits, which are going to be used in the Institute's capacity building program for government, the private sector, and in the Institute's in-house training program.

Besides news and events highlighting these achievements, this issue of the *KIPPRA Policy Monitor* discusses the problem of domestic debt in Kenya. This is a very pertinent issue for it impacts on prospects of Kenya's economic recovery and growth. A heavy domestic debt burden diverts critical resources from essential social services and from productive investments. Moreover, government borrowing crowds out private sector borrowing, with adverse implications on economic efficiency and growth. The feature article in this issue shows that Kenya is at the risk of losing the gains that had been made recently in the fight against escalating domestic debt.

We, at the *KIPPRA Policy Monitor*, continue to gain wisdom and draw great encouragement from the feedback we get from our readers. We are very grateful for these comments and urge you to continue sending them to us through *monitor@kippra.or.ke* or through the Institute's other channels of communication.

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is 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. KIPPRA serves as a centralized source from which the government and the private sector can obtain information and advice on public policy issues.

KIPPRA acknowledges generous support from the European Union (EU), the African Capacity Building Foundation (ACBF), the United States Agency for International Development (USAID), the Department for International Development of the United Kingdom (DfID), International Development Research Centre (IDRC), the Government of Kenya, among other development partners and organisations.

One of the key challenges in policy research and analysis is how to ensure that results are used effectively to influence policy making. Traditionally, policy researchers and analysts focused on preparing reports for policy makers without engaging them during the process, except where the policy information is explicitly requested. This model of influencing policy works very well for policy research units that are established within government or in-house advisory units. However, the method may not be effective in influencing policy making when used by external agents who largely depend on the good will of their clients (government organizations or private sector) or the reputation of the institutes to influence policy making.

KIPPRA's ability to influence policy making is enhanced by the good working relationship it enjoys with the government, the private sector and civil society. The Institute appreciates that working closely with clients during policy research and analysis has a higher potential of influencing policy making. The Institute has therefore made it a policy to engage stakeholders in the research process right from problem identification and formulation, through data collection, analysis and dissemination of the results. The objective is to get stakeholders to contribute in refining the research problem and questions, in validating the findings to make the outputs of research and analysis more relevant to the needs of society, and in general to get the stakeholders to own the research findings.

The study on security risk and its impact on private sector growth in Kenya initiated during the January-March period took the approach of involving stakeholders right from the start of the study. An initial stakeholders' workshop to help refine policy research questions and methods of undertaking the study provided a lot of insights into the dimensions of crime especially in Nairobi. Participants in this workshop included Prof. Kivutha Kibwana, Assistant Minister, Office of the President in charge of Internal Security; Mr. Dave Mwangi, Permanent Secretary in the same ministry; Mr. Joe Aketch, the Mayor of the City of Nairobi and many other stakeholders representing the public and private sectors and civil society. Initial findings of this study will be presented to the stakeholders at the next stage and the final findings will be presented to stakeholders again at the end of the study. This approach has proved to be successful and popular with stakeholders and the Institute will therefore endeavor to follow this approach in most of its studies.

Dr Hezron Nyangito (left), Acting Executive Director of KIPPRA, welcomes Prof. Anyang' Nyong'o (second right), Minister for Planning and National Development during a recent visit to the Institute. Looking on (second left) is Prof. Francis Gichaga, Chairman of KIPPRA Board of Directors, and David S. Nalo (right), PS, Ministry of Planning and National Development

During the period covering January to March, the Ministry of Planning and National Development and the Ministry of Trade and Industry requested the Institute to assist in organizing the International Investment Conference. Just as with the National Investment Conference held in November 2003, the Institute provided the link between government and private sector in preparing the activities of the conference and in documenting the proceedings. The Institute also collaborated with the Ministry of Finance in undertaking a study on public wage policy, which is aimed at making recommendations on policy and institutional reforms that will ensure that public pay is adequate, affordable, sustainable and supportive of economic recovery.

On international networks, the Institute in collaboration with the United Nations Environment Program (UNEP) finalized the preparation of a training toolkit for use in environmental and natural resources management. The two institutions also organized a workshop for participants from various African countries, where the toolkit was used and tested. The Institute also organized a workshop on agriculture, food security and the environment in collaboration with the International Food Policy Research Institute (IFPRI) of Washington DC, USA; and on poverty analysis in collaboration with Cornell University, USA. The Institute also once again won an outstanding research award, second prize, during an international workshop organized by the Global Development Network (GDN) in New Delhi, India. Researchers in the Social Sector Division of the Institute had undertaken the research on the decline in primary school enrolment.

The capacity of the Institute to undertake policy research and analysis was enhanced by recruitment of 13 Analysts and 13 Young Professionals from public and privates sectors. The Young Professionals will go through a one-year training program to strengthen their capacity to undertake policy research and analysis. I take this opportunity to welcome the new staff to KIPPRA and wish them a successful stay at the Institute.

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In the Poverty Reduction Strategy Paper (PRSP) adopted in 2000, the government set a target of containing domestic debt at 15 percent of GDP by 2003/04. This was to be achieved by maintaining an overall framework of budget surpluses or minimal deficit, scaling back reliance on Treasury bills as a budget financing instrument, developing long-term financial instruments, reversing the net outflows reflected in the external debt repayment, and by restricting borrowing to external concessional terms. However, this target has not been achieved, as is evident from Table 1. Domestic debt, in fact, increased from about 23 percent of GDP in 1999/2000 to about 29 percent in 2002/2003 due to increasing fiscal deficit. The overall fiscal deficit as a percentage of GDP increased from about 2 percent in 2000/01 to about 4 percent in 2002/03, and this excludes payment arrears (pending bills), which stood at Ksh 11.6 billion at the end of fiscal year 2001/02.

The debt policy of the new government is outlined in the Fiscal Strategy Paper (FSP) 2004/05 and the revised Investment Program of the Economic Recovery Strategy for Wealth and Employment Creation. In principle, the government targets a rapid reduction in domestic debt to not more than 20.8 percent of GDP in 2006/07 primarily through greater reliance on concessional external borrowing. The government, moreover, has committed itself to reducing the budget deficit from about 4 percent of GDP in 2003/04 to below 3 percent by 2005/06.

Recent Gains

The government has made considerable gains in reducing domestic debt service payments on account of low interest rates on the 91-day Treasury bills, which has declined from 18 percent in 2002 to below 2 percent by December 2003. Resumption of donor support and domestic debt restructuring has helped ease government's demand for domestic credit. A policy of restructuring domestic debt by shifting from Treasury bills to Treasury bonds was initiated in May 2001 to support development of the domestic capital market, and

Table 1: Deficit and debt profile (Ksh millions)

	1998/99	1999/00	2000/01	2001/02	2002/03
GDP at market prices (Ksh millions)	**716,540**	**769,054**	**839,348**	**926,039**	**984,176**
Total revenue	196,256	178,443	192,313	197,768	210,750
Expenditure	197,341	175,119	232,921	226,915	264,144
Grants	4,920	4,247	24,080	6,823	14,942
Overall def. (Revenue+Grants-Expenditure)	3,835	7,571	(16,528)	(22,324)	(38,452)
Overall deficit/GDP (%)	0.54	0.98	(1.97)	(2.41)	(3.91)
Domestic debt (Ksh millions)	168,744	174,305	211,812	235,991	289,376
External debt (Ksh millions)	254,388	325,261	393,978	377,748	399,636
Total debt (Ksh millions)	**423,132**	**499,566**	**605,790**	**613,739**	**689,012**
Domestic debt/GDP (%)	23.55	22.66	25.24	25.48	29.40
External debt/GDP (%)	35.50	42.29	46.94	40.79	40.61
Total debt/GDP (%)	**59.05**	**64.95**	**72.18**	**66.27**	**70.01**
Interest Payment (Foreign)	8,312	8,635	7,803	6,640	8,459
Interest Payment (Domestic)	31,743	20,752	23,232	23,744	27,567
Interest payment (Domestic)/Exp. (%)	16.09	11.85	9.97	10.46	10.44
Interest payment (Foreign)/Exp. (%)	4.21	4.93	3.35	2.93	3.20
Interest payment (Domestic)/Rev. (%)	16.17	11.63	12.08	12.01	13.08
Interest payment (Foreign)/Rev. (%)	4.24	4.84	4.06	3.36	4.01
Interest payment (Domestic)/GDP. (%)	4.43	2.70	2.77	2.56	2.80
Interest payment (Foreign)/GDP. (%)	1.16	1.12	0.93	0.72	0.86

Source: Economic Survey 2003; Quarterly Budget Outturn 2002/03; Central Bank of Kenya, Statistical Bulletin facilitate a reduction in risks associated with domestic borrowing and the cost of borrowing in the medium to long-term. The average maturity of domestic debt lengthened to 1 year 7 months in June 2003 from 1 year and 1 month in June 2002. Similarly, the ratio of the stock of Treasury bills to Treasury bonds improved from about 53:47 in June 2002 to about 40:60 in June 2003.

Macroeconomic Risks of Domestic Debt

Extensive use of domestic borrowing to service domestic and external debt can have a serious negative impact on the economy. First, service costs of domestic debt may take a substantial amount of government expenditure that would otherwise go to essential goods and services, and to productive investment such as infrastructure. Interest payments took about 16 percent of total expenditure and of revenue in 1998/99. Although the costs of interest have come down, there are risks that these costs may start increasing again as the stock of debt increases.

Second, continued borrowing by the government in the local financial market may lead to higher domestic interest rates especially where domestic debt is concentrated on a narrow investor base. The depth of the financial sector is an important determinant of the scope for expanding domestic debt. Available data indicates that the depth of Kenya's financial sector as measured by the ratio of broad money to GDP has stagnated in the last four years. During the same period, the ratio of domestic debt to broad money supply also increased, therefore reducing the scope of expanding domestic debt. A narrow investor base creates monopoly tendencies that make reduction of the cost of domestic debt difficult. Although the government has made some efforts to broaden the investor base for domestic debt, banking institutions still hold the largest share in terms of Treasury bills and bonds. A closer examination of data on the investor base for domestic debt reveals that there is still scope for diversification. For instance, of the outstanding stock of Treasury bills at the end of December 2003, commercial banks held 70 percent, non-bank financial institutions 1.4 percent, while corporate entities and individuals held about 28 percent. With regard to Treasury bonds, banking institutions held about 45 percent of the outstanding stock.

Third, there is a risk associated with crowding out private investment. By incurring domestic debt, the government eats into domestic savings that would otherwise be available to private investors. This crowding out can be more aggravated where the investor base is dominated by commercial banks as is the case in Kenya.

Kenya s Domestic Debt in a Comparative Perspective

Table 2 shows Kenya's debt burden in comparison with a few selected African countries on which consistent data is available over the period 1995-2001. Data may be different from that used elsewhere in this article, as it is taken from different sources. The data reveals that within the East African Community (EAC), Kenya has the highest ratio of domestic debt to GDP. However, the country's domestic debt burden is lower compared to countries such as Egypt, South Africa, Seychelles and Mauritius.

Table 3 shows comparative costs of domestic debt in terms of the share of total revenue that goes towards paying interest on domestic debt. Although the share of revenue going to interest payments in Kenya has declined, it is still higher than that of Uganda and Tanzania. In comparison to Seychelles, however, Kenya has a

Table 2: Domestic debt as % of GDP (Selected African countries)

	1995	1996	1997	1998	1999	2000	2001
Egypt. Arab Rep.	59.2	57.6	57.9	57.1	60.2	60.0	61.7
Kenya			28.8	25.9	33.6	31.8	22.8
Mauritius	32.6	33.4	36.1	37.0	39.5	41.6	43.7
Seychelles	84.7	79.3	79.0	94.4	102.2	107.8	113.1
South Africa				46.1	44.0	41.1	36.4
Tanzania	10.6	14.0	14.9	10.9	9.6	8.2	
Uganda	0.4	1.3	1.4	1.8	2.4	3.4	3.1
Zambia	6.9	6.7	11.8	11.6	9.1	19.3	16.8

Source: World Bank, African Development Indicators, 2003 lot to do in terms of expanding the scope of her domestic debt. Although Seychelles had a much higher domestic debt to GDP ratio (113.1 percent) in 2001 than Kenya, interest payments as a percentage of GDP (12 percent) were almost the same as Kenya's (11 percent).

The scope of expanding domestic debt, as noted earlier, depends on the depth of the financial sector. The data on tables 3 and 4 demonstrates that countries with deeper financial sectors are able to carry larger domestic debt burdens. Seychelles, Mauritius, Egypt and South Africa have deeper financial sectors than Kenya. The development of Kenya's financial sector has been stagnant and has actually worsened between 1995 and 2001 as shown in Table 4.

Conclusion and Policy Implications

A key challenge facing the government is to reduce the current domestic debt to the target set in the Fiscal Strategy Paper 2004/5. This can only be achieved if the government is able to lower the fiscal deficit by observing its commitments to the deficit and debt strategies.

The government will need to remain on track on its commitments with development partners and deepen reforms to keep external resources flowing on concessional terms in order to ease domestic credit demand and boost investor confidence. Past experience shows that if the government fails to honour its commitments, external resource inflows will be difficult to come by.

Since banks hold the largest share of outstanding domestic debt, rapid expansion in domestic debt can have a significant negative impact on private investment. This calls for increased diversification of domestic debt investor base. Given the negative real interest rates on government paper, there is room for increasing domestic borrowing in the short-run but this should be predicated on reforms to strengthen the financial sector and continued restructuring of domestic debt. This may need to be accompanied by broad reforms that increase long-term paper, such as strengthening the pension, insurance and corporate sector. The policy initiatives contained in the Finance Budget Statement for 2004/2005 seem designed to develop and deepen the financial sector.

On the revenue side, the government will need to deepen tax policy and tax administration reforms to increase revenue without necessarily increasing the rates of taxation. Expenditures would also have to be restructured to improve quality and direct resources to areas that can yield faster economic growth, create employment and reduce poverty. Since most government expenditures are recurrent in nature, serious efforts will have to be directed at increasing resources available for development purposes in order to meet the above growth objectives.

Table 3: Interest payments as % of total revenue (Selected African countries)

	1995	1996	1997	1998	1999	2000	2001
Egypt. Arab Rep.	20.1	20.1	19.1	18.0	19.2	20.1	21.2
Kenya	20.7	18.9	18.3	17.3	13.7	10.9	10.9
Malawi	20.7	27.9	16.1	13.0	10.7	16.1	21.7
Mauritius	13.2	16.1	14.6	16.4	14.7	14.6	20.8
Seychelles	20.3	21.7	21.6	22.5	11.6	5.8	12.0
South Africa							
Tanzania	17.4	17.3	12.8	8.2	5.5	10.5	8.4
Uganda	2.1	2.2	3.0	3.6	2.3	2.9	5.3
Zambia	12.9	14.9	11.3	7.1	7.9	7.2	8.3

Source: World Bank: African Development Indicators, 2003

Table 4: Broad money supply as a % of GDP

	1995	1996	1997	1998	1999	2000	2001
Egypt. Arab Rep.	80	79	78	79	77	78	82
Kenya	44	48	48	45	44	43	39
Malawi	19	16	14	18	15	17	15
Mauritius	81	79	81	80	84	84	85
Seychelles	50	51	67	75	87	93	107
South Africa	50	51	54	57	58	56	60
Uganda	12	13	14	15	16	17	16
Tanzania	25	22	20	18	19	19	20

Source: World Bank: African Development Indicators, 2003

MACROECONOMICS DIVISION

The Division continued to actively engage in research leading to policy advice to the government and private sector on policy options for an enabling economic environment for economic growth. During the quarter, several economists joined the Division in various capacities. The Head of Division, Dr. Stephen Njuguna Karingi proceeded on a two-year leave of absence, during which he will work with the Economic Commission for Africa (ECA) in Addis Ababa. Consequently, Dr. Dickson Khainga has been appointed acting Head of Macroeconomics Division.

As part of capacity building, the Division organized a two-week training on the KIPPRA-Treasury Macro Model (KTMM) focusing on basic macroeconomic theory, calibration, forecasting, policy simulation and analysis. Participants included Young Professionals from the Institute, new staff, and officials from various government ministries.

The Division actively interacted with the Ministry of Planning and National Development, and Ministry of Finance in conducting Ministerial Public Expenditure Reviews and preparation of the Public Expenditure Review 2004; revision of the Investment Program of the Economic Recovery Strategy; preparation of the 2004/5 Fiscal Strategy Paper for the MTEF 2004/5 to 2006/7; and in preparation of the annual budget for 2004/5.

During the quarter, the Division initiated, at the request of the National Transport Task Force, a study on multiplicity of taxes in the transport sector. The study entails assessing the impact of various taxes and fees on the operations of the road sector. The study is motivated by the fact that multiple taxes increase the tax burden, therefore making the country uncompetitive in the regional market.

The Division is also conducting a study on taxation and the agriculture sector in Kenya, jointly with the Productive Sector Division, with the aim of assessing the impact of direct and indirect taxation on agriculture. The findings will form a basis for designing a tax policy to enrich the tax base and also encourage agricultural production.

Participants listen keenly during the KTMM training held at KIPPRA from 23 Feb-5 March

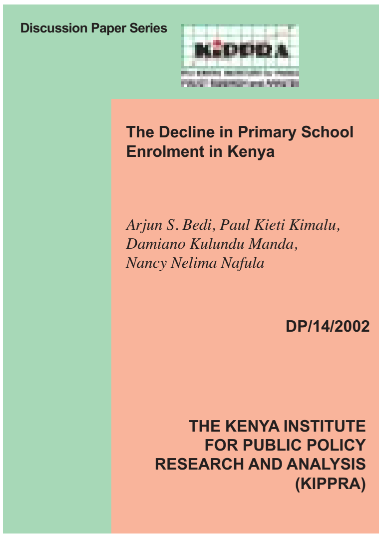
PRODUCTIVE SECTOR DIVISION

The Division continued supporting the government through active participation in government task forces. The Division was part of the task force on the sessional paper on Micro and Small Enterprises (MSE). Findings of the work on MSEs were disseminated to stakeholders during the quarter. Further, a stakeholder's workshop was held to discuss the draft curriculum for the envisaged training of policy analysts and implementers in the MSE sector. Participants made useful comments that are being used to revise the curriculum. Detailed training modules will thereafter be prepared and training will commence.

The Division made substantial progress in its work to support trade negotiations between the African-Caribbean Pacific (ACP) group of countries and the European Union (EU). One of the Division's researchers was involved in training negotiators to represent Kenya in trade negotiations. The Division also participated actively in helping Kenya formulate a coherent position in other trade negotiations in the region and internationally. The relationship with the Ministry of Trade will continue to influence the Division's research on trade issues.

SOCIAL SECTOR DIVISION

The Division made remarkable achievements during the January-March 2004 period. A paper on decline in primary school enrolment in Kenya, authored by Arjun Bedi, Paul Kimalu, Damiano Kulundu and Nancy Nafula received the second



prize for outstanding research from the Global Development Network (GDN). The paper was also selected as one of the 15 papers that will constitute a chapter in a book published by the GDN. The paper was presented at the Global Development Network conference on understanding reforms held in New Delhi, India. All the authors received certificates for the achievement. Moreover, the paper has been published in the *Journal of African Economies* Vol. 13, No.1., 2004. Another paper on rural poverty in Kenya was also published by ICRISAT and Livelihoods and Diversification Directions Explored by Research (LADDER) in their book entitled *Rural livelihoods and poverty reduction policies*.

INFRASTRUCTURE AND ECONOMIC SERVICES DIVISION

The Division was heavily engaged with policy makers through preparation of the Integrated National Transport Policy for Kenya, culminating in presentation of recommendations to the Minister for Transport and Communications on 10 February 2004. The Division was also instrumental in guiding the process that led to a stakeholders' workshop on the Privatization Bill 2003. The views and proposals made by stakeholders were used in revising the Bill.

Finally, the Division is in the process of launching four very important studies covering urban public transport; improvement of the performance of the construction industry; optimizing the information communication and technology challenge in Kenya; and on urban housing market. In addition, the Division will also undertake a review of the petroleum sector in Kenya.

PRIVATE SECTOR DEVELOPMENT DIVISION

The main research areas in the Division cover investment climate, financial needs of the private sector, and role of government in promoting the private sector. The Division is also responsible for management and implementation of the Umbrella Project for improving the enabling environment for business in Kenya and coordinating the Regional Program on Enterprise development (RPED).

One main activity during the January-March period was the holding of a course on Creating an Enabling Environment for Private Sector Growth. The course, which is part of the Umbrella Project component on capacity building for government and private sector was held from 23-27 February, 2004 in Nyeri and was attended by senior officials from government ministries, regulatory agencies and the private sector. The imperatives for an enabling environment for businesses in Kenya were discussed

Promotion! Work longer, and harder!

After 10 years of selfless service, a man realized that he has not been promoted, no transfer, no salary increase, no commendation and that the company is not doing any thing about it. So he decided to walk up to his boss one morning and after exchanging greetings, he told his boss his observation. The boss looked at him, laughed and asked him to sit down saying; My friend, you have not worked here for even one day. The man was surprised to hear this, but the boss went on to explain.

Boss: How many days are there in a year?
Man: 365 days and some times 366
Boss: how many hours make up a day?
Man: 24 hours
Boss: How long do you work in a day?
Man: 8am to 4pm, i.e. 8 hours a day
Boss: So, what fraction of the day do you work in hours?
Man: (He did some arithmetic and said 8/24 hours ie. 1/3(one third)
Boss: That is nice of you! What is one-third of 366 days?
Man: 122 (1/3x366 =122 in days)
Boss: Do you come to work on weekends?
Man: No sir
Boss: How many days are there in a year that are weekends?
Man: 52 Saturdays and 52 Sundays equals to 104 days
Boss: Thanks for that. If you remove 104 days from 122 days, how many days do you now have?
Man: 18 days.
Boss: OK! I do give you 2 weeks sick leave every year. Now remove that 14 days from the 18 days left. How many days do you have remaining?
Man: 4 days
Boss: Do you work on New Year day?
Man: No sir!
Boss: Do you come to work on workers day?
Man: No sir!
Boss: So how many days are left?
Man: 2 days sir!
Boss: Do you come to work on the 1st of October (independence day)?
Man: No sir!
Boss: So how many days are left?
Man: 1 day sir!
Boss: Do you work on Christmas day?
Man: No sir!
Boss: So how many days are left?
Man: None sir!
Boss: So you see why I said you have not worked here even for one day?
Man: I see! thank you sir for all the money you have been giving me, so it is out of charity if you enjoy it hope to get more.

The second group of Young Professionals (YPs) arrived at the Institute at the beginning of the quarter. Due to the high demand, the number was much higher than the last group. A total of thirteen Young Professionals was admitted to the Institute. Majority of the YPs are from the government, following a deliberate policy to give priority to the government, as per the Institute's key mandate of capacity building in the public policy process. Six YPs are from various government ministries, one each from the Nairobi City Council and the Kenya Revenue Authority, while the others have diverse backgrounds ranging from the banking sector, public universities, and research institutes. The diverse range of background is expected to have significant positive impact on the Institute's public policy research and analysis.

Besides their work in the respective Divisions, the YPs are expected to write internship research papers, which must be completed before the end of their one-year training. They are also expected to take courses developed and delivered by senior researchers from the Institute and from outside the Institute. The first course on applied econometrics is more or less completed.

The objective of the Young Professional's programme is to build capacity for policy research and analysis among young economists. Such capacity building is expected to improve policy analysis, formulation, implementation and monitoring and evaluation, especially in the public sector. At least half of the YPs admitted every year must be economists with Masters degree qualification and working in the public sector, although similarly qualified economists from the private sector are also eligible. The positions are advertised in the press and the YPs selected from the applicants on a competitive basis. The programme runs for one year.

Meanwhile, four KIPPRA staff continued with their doctoral studies. They are Moses Sichei, Jane Kiringai, Maureen Were, and Lydia Ndirangu.

The Institute also recorded another milestone in capacity building by starting preparation of several training manuals/toolkits. A toolkit on *Applications and Use of Economic Instruments for Environmental and Natural Resources Management* was developed with support from UNEP. The toolkit was used to train about 30 policy practitioners and policy makers from nine African countries. UNEP plans to use the kit for extensive training within and outside the continent. Further, the Productive Sector Division continued preparing three training manuals in various aspects of policy within the micro and small enterprises.

By Dr. Moses Ikiara,
Programme Coordinator, KIPPRA

Participants from Ethiopia, Egypt, Ghana, Kenya, Nigeria, Senegal, South Africa, Tanzania, and Uganda during the UNEP/ KIPPRA capacity building workshop on use of economic instruments for environmental and natural resources management, held at the UNEP headquarter, Nairobi from 23-25 February 2004

New Members of Staff

Macroeconomics Division

Dr. Dickson O. Khainga (Analyst)
Dr. Alfred Ouma (Analyst)
Benson Kiriga (Assistant Analyst)
Willis Wasala (Assistant Analyst)
James Njeru (Assistant Analyst)
David I. Ngarama (Young Professional)
Jacob Oduor (Young Professional)
Bernadette Wanjala (Young Professional)

Productive Sector Division

Dr. Samuel Mwakubo (Analyst)
Nicholas Waiyaki (Assistant Analyst)
Fred Miencha (Young Professional)
Timothy Nyanamba (Young Professional)
Richard O. Nyaliech (Young Professional)

Social Sector Division

Dr. Moses Ngware (Analyst)
Eldah Bwonda (Assistant Analyst)
Stephen Muiruri (Young Professional)
George Kosimbei (Young Professional)

Infrastructure and Economic Services Division

Fredrick Owegi (Assistant Analyst)
Lucy Simiyu (Young Professional)
Charles Osengo (Young Professional)

Private Sector Development Division

Moses Njenga (Assistant Analyst)
Samuel Mwaura (Assistant Analyst)
Esther Kariuki (Young Professional)
Salome Chirchir (Young Professional)
Duncan Ndirangu (Young Professional)

Finance and Administration

Charles Kimiti (IT Specialist)

Public Lecture

Prof. Jean-Perre Lehman, a professor of international political economy, International Institute for Management Development (IMD), Lausanne, Switzerland was the guest speaker at a KIPPRA lunch seminar on 10 March 2004. Prof Lehman is the founding director of The Evian Group, a forum, think-tank and advocacy group for enhanced trade, investment, development and governance. The Group is composed of government, industry, and opinion leaders from industrialized and developing countries. Prof. Lehmann was visiting the country to familiarize with Kenya's economy and especially with trade issues. The lecture on globalisation and trade was part of the Institute's capacity building programme through invitation of top professionals in public policy analysis.

Prof. Lehman delivers a public lecture to KIPPRA researchers

KIPPRA-Cornell SAGA workshop

This workshop focusing on *Qualitative and Quantitative Methods for Poverty Analysis* was held on 11 March at the Grand Regency Hotel. The Chief Guest was Mr. David S. Nalo, Permanent Secretary, Ministry of Planning and National Development. Among those who presented various papers were Prof. G. Mwabu (Quantitave methods), Prof. E. Njeru (Qualitative methods), and Prof. C. Barret (Integrated methods). Others were Dr. Mary Omosa of the Institute of Development Studies, University of Nairobi; Dr. Patti Kristjason of the International Livestock Research Institute; Mr. Kilele of the Central Bureau of Statistics; Dr. Kulundu Manda of KIPPRA; and Prof. W. O. Kosura of the Department of Economics, University of Nairobi.

KIPPRA Work Plan Retreat

The Institute held its Annual Work Program Planning Retreat from 15-17 March 2004 at the Elementaita Lodge, Naivasha. During the retreat, staff reviewed the performance of all divisions of the Institute against the 2003/4 Work Plan and 2003/8 Strategic Plan. Achievements, weaknesses and constraints faced during implementation of the 2003/4 Plan were reviewed and a Work Program for the year 2004/5 developed.

KIPPRA staff team during the Work Plan (2004/5) Retreat held in March 2004

KIPPRA Wins GDN Award

Mr Paul Kimalu of the Social Sector Division of KIPPRA attended the Global Development Network (GDN) workshop on understanding reforms held in New Dheli, India between 26 January and 1 February 2004. He presented a paper on *the decline in primary school enrolment in Kenya* under the pro-market reforms category. The paper won an award on outstanding research, second prize. The study is co-authored with Arjun Bedi, Damiano Kulundu Manda, and Nancy Nelima Nafula. All the authors were awarded certificates for this paper. The award, once again, demonstrates the Institute's quality work in policy research and analysis.

Security Risk Study

The Institute embarked on a study on security risk and private sector growth. A very successful breakfast meeting for stakeholders in the City of Nairobi was held on 21 January 2004 to launch the study. Those who attended include Assistant Minister, Office of the President Hon. Kivutha Kibwana, and Joe Aketch, the Mayor of Nairobi. Stakeholders indicated their appreciation of the project and promised to provide the necessary support when requested. Other participants included the USAID Head of Mission and the Managing Director of Kenya Airport Authority. Various stakeholders lauded the approach of involving stakeholders in the research process early at the start of a project.

Assistant Minister, Office of the President, in charge of internal security, Prof. Kivutha Kibwana launches the KIPPRA study on security risk and private sector growth

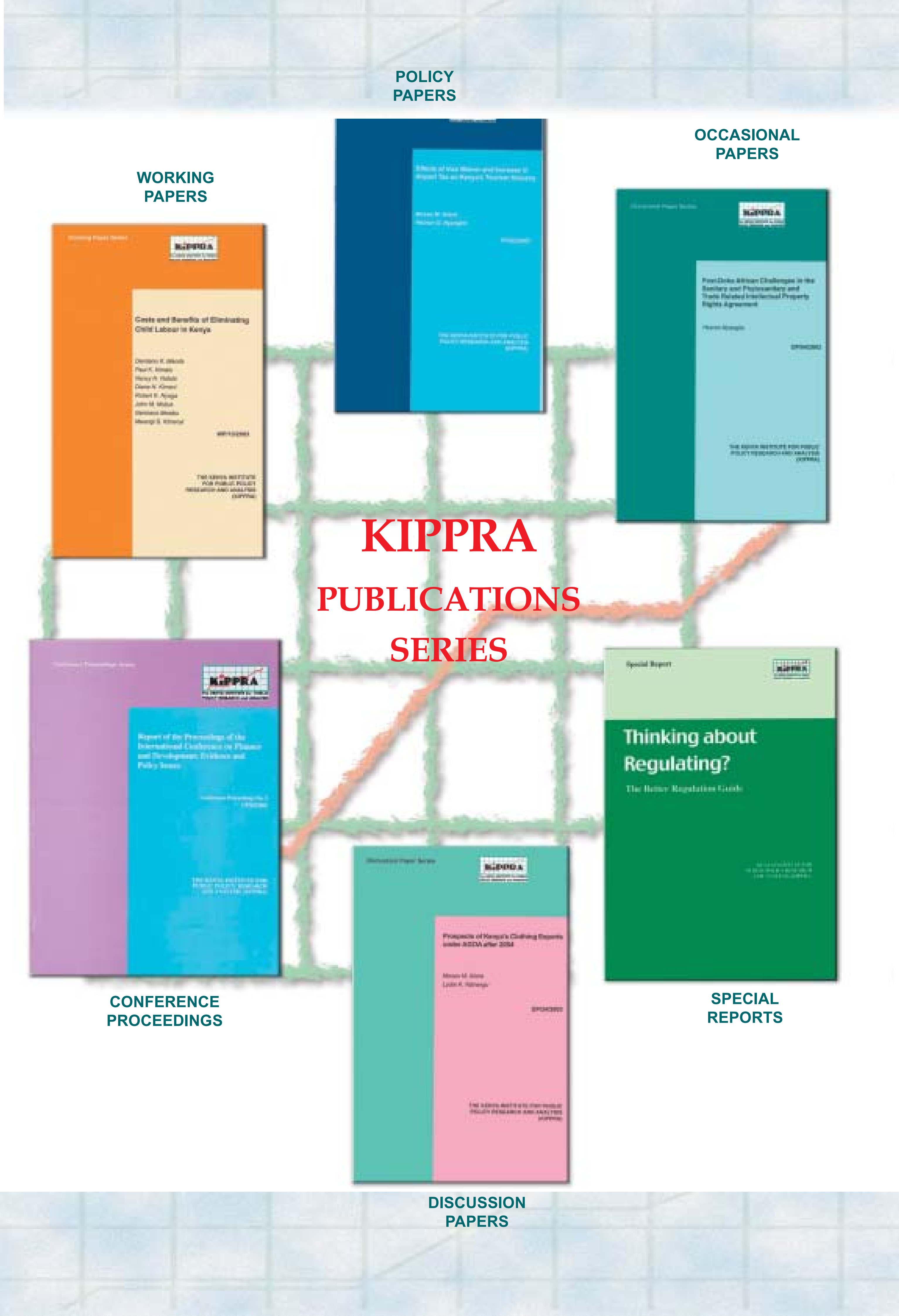
Minister for Planning and National Development, Prof. Anyang' Nyong'o visits KIPPRA

The Minister, accompanied by his Permanent Secretary, Mr David Nalo, the Chairman of the KIPPRA Board, Prof. Francis Gichaga visited the Institute on 14 January 2004. In their remarks, the visitors commended the Institute for its exemplary performance in public policy research and analysis. They advised the Institute to start collaboration with leading institutes around the world.

The Minister signs the Visitor's Book in the Executive Director's Office

Not a joke as such, but (a true story, apparently, as told by a Finance lecturer at LSE):

An economist was about to give a presentation in Washington, DC on the problems with Black-Scholes model of option pricing and was expecting no more than a dozen of government officials attending (who would bother). To his amazement, when he arrived, the room was packed with edgy, tough-looking guys in shades. Still, after five or so minutes into the presentation all of them stood up and left without a word. The economist found out only later that his secretary ran the presentation through a spell-checker and what was "The Problem with Black-Scholes" became "The Problem with Black Schools", a rather more fascinating subject



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