



Review of the 2018 Budget Policy statement

To:

Dr. Kamau Thugge
Principal Secretary
The National Treasury
Treasury Building, Harambee Avenue
P.O Box 30007-00100
Nairobi.

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About TISA

The Institute for Social Accountability (TISA) is a civil society organization committed towards the achievement of sound policy and good governance in local development, to uplift livelihoods of, especially, the poor and marginalized in Kenya. TISA has been operational since March 2008, and is a locally registered Trust that has engaged with various relevant state and non-state actors in the quest to promote effective local governance in Kenya

1. Lack of Public Participation in the BPS Review Process

Article 201 of the constitution provides that there shall be *openness and accountability, including public participation in financial matters*. The National Treasury is thereby required to seek and take into account the views of stakeholders including the public.¹

Whereas the prolonged electioneering period delayed the commencement of the budget process, it commenced with the publishing of the Budget circular, which invited submissions by the 28th of February. The Treasury also organised sector hearings from Wednesday 24th January to Friday 26th February. The Treasury also subsequently published the BPS late on Friday 19th January and invited stakeholder inputs by Wednesday 24th January contrary to the date given in the circular.

Whereas the BPS is bound by statutory constraints and must be tabled before parliament by 15th February 2017, the BPS is to be informed by the MTP III. In deed the BPS states, ‘the policies in this BPS are aligned to the medium term priorities and strategies outlined in the Third Medium Term Plan (2018-2022) of the Kenya Vision 2030, although this is not possible as the MTP process is incomplete. Whereas, the MTP sector groups were launched prior to the elections period, due to

¹ PFM 25 (5-f)

the prolonged electioneering period the process stalled. The MTPIII process has not been restarted and most importantly has not undergone public participation and so cannot inform the BPS!

It is also a matter of concern that the time accorded for stakeholder input into the BPS is too short to allow input by most institutions. Although TISA has been able to do so because of our specialist policy nature and ongoing contribution in the sector groups, other stakeholders are functionally locked out of this critical process due to the inadequate and conflicting timelines given by the Treasury in its public communication.

We recommend the following to allow effective public participation in the BPS process;

- i) The completion of the MTPIII process precede the BPS process**
- ii) The BPS provide adequate time for public participation and**
- iii) The Treasury prepare a report on public participation in each budget processes within 14 days of the close of each process.**

2. Review of the Big Four Agenda – creating jobs, transforming lives

Whereas the BPS correctly cites three perennial development challenges facing the country as unemployment, poverty and inequality- the BIG FOUR agenda fails to respond to the drivers of unemployment, poverty and inequality in Kenya and in this regard is based on a false development premise out of sync with governments own policy statements in the following critical instances.

2.1 Value Addition (manufacturing, agriculture)

The BPS makes very progressive policy statements on value addition as a basis for job creation however; it critically fails to address the barriers to inclusive job creation as articulated in the GoK Trade Policy 2016. It also entirely ignores the MSME sector, which provides 85% of jobs in Kenya, majority of which are in the agriculture sector. Some proposals made in the Trade policy, which the BPS should adopt, include:

2.1.1 Intergovernmental Coordination

The BIG FOUR PLAN correctly focuses on devolved functions but fails to align its proposals to the functional mandates of national and county governments. There is therefore risk that if implemented as it is it will duplicate functions, cause intergovernmental contestation that frustrated the realisation of socio-economic goals in most sectors in Kenya since 2013.

Proposal: Introduce the proposal for coordinative and intergovernmental framework as the basis for trade and industrial development.

2.1.2 Value addition and supply chains tightening premised on *trickle-down economics*: Strengthening associations and cooperative development missing

Given Kenya's widespread smallholder, informal and small-enterprise context competent associations are very important to represent the trade interests of MSME's. The strengthening of

supply chains and trade in general can therefore only take place in the context of strong associations, which can negotiate, for MSME owners' interests in a competitive commercial environment. They provide a basis for negotiation, capacity building, and capital investment if well supported, facilitated in a context of robust accountability requirements. Unfortunately, the BPS takes a *trickle down-economics* approach, and targets SMEs and larger corporations in value addition, which will reinforce already existing inequalities. The foundations for the BIG FOUR is not borne out of development experience in countries such as the Asian tigers which took an inclusive approach to supporting small share-holder business interests.

Recommendation: There is a need to review the philosophy behind the BPS towards the promotion of MSME associations and cooperatives as a means to redressing the power imbalances, which drive inequality in Kenya.

2.1.3 Informal sector

Whereas successive develop policy in Kenya calls for the mainstreaming of informal trade into the overall economy through friendly regulation, a supportive national and county Trade policy framework, the establishment of markets, capacity building/business development of informal traders/businesses, alongside value chains development, the BPS ignores this sector. Policy further addresses the need for trading space and spatial planning as a priority in the informal trade sector.

Recommend the BPS to mainstream the informal sector and prioritise the need to secure trading sites in major urban sectors for informal traders.

2.1.4 Drivers of unemployment

Low job creation in the country is due to a large extent to weak manufacturing sector development. This in turn can be attributed to excessive diversification in use of imported goods and technology. Low job creation is also due to the lack of competitive access to market opportunities, low investment in research and development. A key driver is the political capture of development policies and opportunities, and poor governance, which fails to protect entrepreneurs and traders from insider dealings by politically connected individuals (See GoK Trade policy 2016).

Proposal: Review the draft plan to include political-economy context on the drivers of low job creation in Kenya and attendant recommendations.

2.2 The BPS ignores Devolution

The BIG FOUR focus areas are all devolved government functions and yet the proposals in the BPS indicate that the national government will implement county functions including large scale agricultural projects which are likely to undermine support for small shareholder agriculture dominate in Kenya. Large-scale projects also require high-level technology, which requires foreign exchange at the expense of local industrial development by *jua kali*. India is an example where the development of lower level technology standardised models of cars allowed the development of a vibrant car-parts manufacturing industry.

The BPS is therefore philosophically incoherent with respect to devolution and the proposed manufacturing development model. The implementation of the BIG FOUR agenda as crafted in the BPS will undermine county level development priorities which are more likely to consider small shareholder interests as opposed to large projects. The BPS also take a bias on infrastructure investment at the expense of social policy as exemplified in the trade and environmental sectors within this paper.

Recommendation: The BPS BIG FOUR agenda should focus on development of integrated policy frameworks to enable county economic blocks to realise national target goals under a functionally aligned intergovernmental framework.

2.3 CONDITIONAL GRANTS

The BPS envisages new conditional grants alongside the plethora of already existing funds as the way for boosting county development. However, conditional grants pose numerous risks, which are already evident in the implementation of devolution in Kenya; they may undermine county autonomy in budget decision-making, the lead to additional unnecessary costs, and result in unfunded operating costs leading to inefficiencies. The cap by national government on shared revenue is a means of killing devolution and the BPS as presently drafted must be construed as a strategy to kill devolution in Kenya.

2.4 AGPO and enterprise funds

The Jubilee administration has made efforts to boost MSME's through the implementation of the 30 per cent preferential access to public procurement opportunity. The BPS proposes increase MSME opportunities through the implementation of the 40% local content proposal. However practical experience in Kenya demonstrates that AGPO remains largely out of reach for the target MSME groups and has been exploited by economically empowered companies and individuals and so has no real impact on employment creation. Key considerations with respect to AGPO and the enterprise funds that the BPS needs to address include;

- The design of enterprise funds and AGPO opportunities is greatly closing out the people living in poverty and rural areas and excluding them from benefiting from the opportunity. The design of the opportunity needs to be reconsidered and have the groups that benefit involved in the redesigning of the opportunity to accommodate people from all lifestyles.
- AGPO design is disempowering to target beneficiaries due to their undemocratic nature; there is need to involve the youth, women and PWDs in the design of the fund products to ensure that the products respond to the needs of the target population.
- There are silent policies that are disempowering to the youth. There is need for greater transparency in the AGPO application process.
- There is need to implement the recommendations of the presidential taskforce on Parastatals reforms that recommended the merging of all agencies, funds and initiatives supporting, financing and developing SMEs in Kenya. However, this must be done under a devolved

framework as trade development fall under county governments (See GoK Taskforce Report 2013).

2.5 Promoting environmental conservation and water supply

The BPS seeks to promote environmental conservation and water supply, which is an integral pillar for sustainable development. The BPS seeks to build mega dams to address the challenge of poor environmental conservation once again demonstrating policy incoherence between problem diagnosis and the proposed policy solution. In fact, whereas significant infrastructure investments are needed in the sector, poor governance may be cited as the larger problem as manifest in poor intergovernmental coordination, non-compliance and lack of political will.

The BPS should instead prioritise;

- a. Review and harmonisation of environmental policy towards a strong, coherent devolved legal and institutional framework for good governance, effective coordination and management of the environment and natural resources.
- b. Good governance entails transparency, accountability, participation, inclusiveness, responsiveness, equity, effectiveness and efficiency, which if implemented the result is a sustainable urban democracy that empowers citizen, sustainable urban social society that will build societal coherence, solidarity and lead to sustainable urban life that will build a liveable city and defend urban environment.²
- c. Polices should stress job creation in the green economy through social development which will result in job creation, and improvement of environment hygiene and degradation by avoiding informal disposal of waste.

2.8 Governance

The BIG FOUR Agenda needs to prioritize governance issues particularly

LAND REFORM: Restart the stalled land reform process, reclamation of grabbed land and resolution of historical land injustice.

PUBLIC PARTICIPATION- VILLAGE GOVERNANCE

The constitution assigns counties the function of building village governance structures that would provide the foundation for bottom up inclusive development policies. However, most counties have failed to decentralise services and have not invested in the establishment of village governance structures for effective public participation. Furthermore, national government has opted to duplicate county local governance structures through the national government coordination framework. There is presently a move to subsume the county administration structure into the national framework in some jubilee-led county governments - a move with is inimical to the basic tenants of devolution. The National government has steadfastly refused to include

² <http://www.ijset.net/journal/1337.pdf>

Function 14 as a fundable function under the Division of Revenue process frustrating citizen voice and effective public participation.

Recommendation the BPS needs to prioritise public participation as a bed rock for effective devolved governance through the development of vibrant communities, neighbourhoods, associations and cooperatives as a means for sustainable development in Kenya.

Conclusion

The BPS puts forward the BIG FOUR Agenda for job creation and inclusive growth. However, the BPS demonstrates fundamental policy disconnects which threatens to undermine its success if not redressed;

- i) It takes a project approach and largely ignores existing policy positions on key sectors such as environmental conservation, trade development and most fundamentally devolution. The BPS lacks an integrated development approach as is heavily focused on infrastructure investments with inadequate focus on social and governance aspects of development.
- ii) The BIG FOUR action points all reside in county development functions. There is no attempt to address the intergovernmental mandates of national government *vis-a-vis* county government. The BPS will therefore result in duplication, contestation which will further drive up the cost of government and undermine the attainment of set goals
- iii) The BIG FOUR BPS ignores the role of MSMEs in economic development and if implemented will increase inequalities. It ignores the role of cooperatives and associations (MSMEs) which contrary to the development approaches of the ASIAN TIGERS which Kenya seeks to emulate
- iv) The BIG FOUR ignores the governance challenges which presently undermine development such as unresolved land issues/lack of land reforms, duplication of government efforts, lack of transparency, accountability and inadequate public participation.

In summary, philosophy and proposals of The BIG FOUR development agenda is inimical to the tenants of inclusive, devolved and government and without a fundamental rewrite must be understood as an attempt to undo the constitution.