Perspectives on current issues and trends in Public Sector & Infrastructure/September 2018

Public Sector & Infrastructure Insight

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Introduction – Public Sector Insight

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Benson was interviewed by Allen Kimani, Manager, Government, Public Sector & Infrastructure, PwC Kenya

1. *What is your assessment of the current level of Government and Public Sector reforms?*

There has been tremendous progress in the public sector reforms that started with our 2010 Constitution. The new Constitution was a significant step towards reforms including the establishment of several independent institutions and commissions.

Through these institutions the government is able deliver efficient and effective services to the citizens. For these institutions to be effective, their independence needs to be safeguarded so that they are able to effectively carry out their mandates.

There has also been significant progress in human resource development. As an example, the Kenya School of Government dedicates its training facility and resources to train civil servants towards having a properly skilled and trained workforce.

Devolution is another significant step in improving service delivery; it has taken the services closer to the people. In the last four years we have seen the great potential of devolution. I believe that if the focus is maintained on devolving services, citizens will continue to appreciate devolution and the fact that government is now much closer to home than it was before.

2. *To improve service delivery going forward, what areas should the public sector focus on?*

There are some very specific areas where a lot of work needs to be done:

a) **Health Sector –** The sector is very important to any government because if it is not functional, the productivity of the country will be jeopardized. The government needs to cover significant steps and milestones in the health sector to be at a level where citizens are satisfied that their priorities in terms of health are being taken care of. It's important for all the concerned authorities, including the Ministry of Health, the Council of Governors and other stakeholders to get together to iron out issues that have come up in the health sector in the last two years especially on devolution of health, motivation of health workers, facilities and governance.

b) **Food Security –** A comprehensive proactive strategy that addresses the food value chain 'from farm to fork' needs to be in place. This will avert food shortages, post-harvest losses and ensure gainful income for farmers.

c) **Corruption has been a significant issue.** The government has delivered several infrastructure projects like the SGR, Roads, Ports, and so on, but we

need to continuously interrogate the fundamental question of whether we are indeed getting value for money. In addressing corruption, the independence of the Ethics and Anti-Corruption Commission is key, where its actions and recommendations are respected.

More importantly is changing culture and ethics. People need to realise that when they are given responsibilities that involve many other citizens, they need to consider these responsibilities as benefiting the citizens and not themselves.

3. In Kenya, elections seem to interfere with the normal running of government and the public sector every five years; in other countries, economics and politics are separated. How do we get to that stage of separation as a country?

It is very unfortunate that every time we have elections in Kenya, there's quite a high level of apprehension. There are uncertainties, worries and a marked slowdown in spending even at the individual level; investors adopt a wait and-see approach and this has a negative impact on the economy. This issue in Kenya is deeply rooted in history and it's time that we take a step and consider what is really good for our country. Our country should be one where peace prevails at all times. Business activities should continue to run at all times regardless of elections and this is what we should aim for as a people.

In my view as a public sector practitioner, a number of aspects are pertinent:

i. **Leadership –** The key motivator for any person wanting to be a leader should be service and benefits to the people and not selfish gain. So long as the latter prevails, we will continue to have deficiencies in effective leadership.

ii. **Independence of institutions –** The constitution has created a number of independent institutions which if interfered with will defeat the course of justice and peace.

iii. **The National Values and Principles of Governance** as enshrined in the Constitution of Kenya Article 10 (human dignity, public participation, rule of law, good governance, patriotism, etc.) should be embraced and enforced to guide our moral behaviours and moral compass. The national values should be incorporated in the education curriculum, at the family level and very importantly amongst corporations by setting the tone at the top.

4. How can the donor community/DFIs plug in to accelerate Kenya's transformation?

The donor community can plug in better by first identifying government priorities. There needs to be a partnership between government and development partners, and the agenda should be very clear: address the needs of the country. I see a situation where for the DFIs and the global partners to be effective they must understand the government priorities without necessarily imposing their own conditions on the government.

Indeed we have recently seen changes in geopolitics that would have an impact on international development assistance within the development world. Brexit has resulted in a slowdown in funding and funds reduced to ensure that they focus on significant aspects of the economy. US government policies and priorities have also changed. This undoubtedly has an impact on funding available to development partners. The implication is that the minimum resources available to the development partner will then go into various specific areas that are important to the government.

5. How can the counties generate a substantial part of their own revenue? What would the ideal county look like?

The intention of devolution was to devolve the resources and services closer to people and hence the creation of the 47 counties. The first four years were the first phase of devolution. Counties were formed and they inherited a lot from the local authorities like assets, overstaffed teams, and a bloated wage bill and so on.

These are issues that have affected counties performance and a significant proportion of the revenues received from the central government goes towards salaries whilst a smaller proportion goes towards development expenditure. County Development Plans that would have been developed in the first phase of devolution have not been realized due to lack of resources.

PwC has played a significant role in the public sector and I'm proud as the G&PS leader for Kenya and Africa that a number of our firms in Africa have partnered with their local governments to help them realise their objectives.

The first phase of devolution has been a learning phase for the county governors and the government as a whole. The issue of corruption as aforementioned has been an impediment to county growth whereby internally generated revenues and allocations from the national government have not been necessarily used for the intended purpose. There have been delays by The National Treasury in remitting the funds to the county governments which in turn has affected the implementation of the county government projects/ activities.

Despite the challenges faced by the county governments, there have also been gains realized. A few counties have been successful in delivering the projects required like roads, markets, health facilities, etc.

In my view, if historical issues and governance are addressed, then devolution should be on the right track.

A model county would be a county that:

- Uses the resources available at its disposal for the intended purposes. In other words they reorganize, restructure and become sharp and responsive to ensure that the resources gotten are sufficient enough to take care of their recurrent and development expenditure;
- Identifies the needs of its people right from the grass root level and factors them into their County Integrated Development Plan (CIDP) and
- Should be able to identify the potential sources of revenue at the county level based on the resources that exist, map the resources and ensure that they have been fully exploited and are properly accounted for. Automation of processes will increase efficiencies and reduce 'gate keeping' opportunities.

In summary, systems, processes and people will actually define a model county.

6. How can the private sector partner with government better to be an enabler to the government's transformation agenda?

We need the private sector in business coming to partner with government institutions to drive the government agenda. The private sector must have a significant interest in government and in the public sector as a whole. Government provides a platform for everybody and if you are in an unstable political/ economic environment then you can't thrive as well as a private sector player.

This then demonstrates the need for the private sector to show more interest and support the government so that the reforms can actually be realized.

In Kenya, we have seen several initiatives led by the Kenya Private Sector Alliance (KEPSA) to develop policies, guidelines, frameworks, regulations and recommendations on how the government can enhance the business environment. The private sector came up with some peace initiatives such as "Daima mKenya" during the elections period to remind and promote unity and oneness in Kenya.

When experiencing disasters such as draught, we've seen the private sector joining together to contribute. These examples demonstrate that the private sector has come to the realization that it need to support government so as to have a good platform and environment to be able to provide services to its people. But we need more, and in fact private public partnerships are becoming a very common mechanism for partnering with governments to be able to provide services and goods to its citizens.

We need the private sector to provide input into the legislation that Parliament is yet to pass. Firms like PwC can actually participate in relevant legislation and other private sector players should participate either as individual firms or through the professional bodies that we subscribe to.

PwC has played a significant role in the public sector and I'm proud as the G&PS leader for Kenya and Africa that a number of our firms in Africa have partnered with their local governments to help them realise their objectives.

In Kenya for example we've done some very iconic assignments that involved partnering with government institutions such as the Salaries and Remuneration Commission (SRC) that was set up to rationalize the salaries within the public sector and enabling it to realise its mandate. The work we've been doing for The National Treasury in collaboration with county governments ensuring that the government institutions adopt an appropriate financial reporting framework will enhance accountability and transparency.

My final thought is around governance. My wish is that we would get the governance structure right that would ensure we are citizen centric, so that that the needs of the citizens are at the core of the decisions that we make. We should make proposals and recommendations to promote any ideas that will enable us achieve this aim.

Introduction – Infrastructure Insight

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Edward was interviewed by Allen Kimani, Manager, Public Sector & Infrastructure, PwC

1. *Why is infrastructure important to Kenya?*

I see the development of infrastructures being a necessity in an economy that is developing like ours to enable us to develop more rapidly and productively.

As a developing country, not all facilities are in place for ease of doing business. We have to invest in infrastructure to progress to becoming a more developed nation.

I see infrastructure as being very integral to the development of any country but particularly those that are still on the development journey. Of course, infrastructure requires consistent upkeep and upgrading as an economy develops, matures and transforms and so in a certain sense, infrastructure and countries are never fully 'developed'.

In Kenya, this would entail executing projects in electricity supply and distribution, telecommunications, roads, air, sea ports and the blue economy in addition to the existing development plans in agriculture, financial services and manufacturing.

Our primary form of transport in Kenya is still roads. You'll have noted that the last three governments have been focusing on infrastructure developments and a key sector has been roads. For example, road development from Nairobi to Thika has reduced the travel time from two hours to 30-40 minutes, saving fuel, maintenance costs and time for transporters and commuting citizens alike. Road expansion also opens up various places in terms of settlement and new business set up.

Rail is well known globally as a preferred mode of inland transport. In Kenya we were lagging behind significantly before the investment in the Standard Gauge Railway (SGR) which is meant to ease the movement of goods.

Sea and water infrastructure are just as important, particularly in Kenya's Coast region, Lake Victoria and the Islands. Primarily, we have focused on the port of Mombasa as an entry point for moving bulk cargo out of and into Kenya. The movement is further extended to the landlocked countries on the continent. Development of the infrastructure facilities around the port of Mombasa show this commitment.

Airport expansion in Eldoret, Kisumu, Isiolo and Nairobi have improved the transport of cargo and people by air.

The stimulus coming from an infrastructure project has significant forward and backward linkages which is very good for the economy, both from a job creation perspective for the people involved and from a money circulation perspective. The money pumped into the economy when infrastructure development is deployed appropriately creates growth in various sectors from cement producers, the quarries, oil companies who supply both fuel oil and bitumen for road construction, the steel industry and all the support structures involved towards supporting that development of the infrastructure.

2. *The essential role of infrastructure in development cannot be downplayed. What are the main barriers to its development?*

I see the main barriers being the cost of these projects. The larger projects cannot be undertaken by individuals or small companies since they need big pools of funds and often have to be government supported.

The rate of budget absorption is also a significant factor. Every year the government will have a budget for infrastructure projects but at the end of the year, not all these funds are utilized. This is because the country does

not have the capacity to absorb all the funds due to issues like procurement processes, technical competencies, and unfortunately also corruption which inflates the costs of these projects and often will lead to less than ideal output from the infrastructure projects.

Other concerns include land issues in Kenya. An example is that of electricity wayleaves acquisition for the development of the high voltage power line for geothermal projects in Suswa. This took about four years due to protracted land issues. Another key project that may cost us dearly through penalties is the Turkana wind power project where the turbines for generation are ready but there's no infrastructure to evacuate the power generated due to funding and project management issues linked to technical competencies and capabilities.

3. ***Implementing an efficient infrastructure network calls for significant investment, and the financing issue is often seen as a major challenge. Do you think that, by better mobilising its own resources and by allocating them strategically, Kenya has the means to tackle this challenge?***

Yes, we definitely can do that, though we need to first acknowledge our significant budget deficit. The level of debt that the country has now means that there's not much head room to support borrowing compared to five years ago. We have to be smarter about how we borrow, who we borrow from and how we use the funds that we have borrowed. The pricing of some of this borrowing is going to change and already has started changing.

That said, the models around Public Private Partnerships (PPPs) could be a way out. Some of the low volume roads currently being built across the country are structured in such a way that the contractors are supposed to build the road and then bill the government. The Mombasa- Nairobi Highway is another example where a toll system is being considered to ensure that the project pays for itself in a given period of years.

Strategic allocation of resources is crucial. We have to prioritise projects which will give the highest return on investment and also from an economic perspective. Choosing projects that can better spur economic growth of the country is where the strategic allocation of resources comes in.

4. ***In terms of regional integration between the East African countries where there would be economies of scale, what are your views around that and the pace at which the integration is happening?***

With respect to infrastructure, there's definitely much more room to operate as a regional bloc. There are significant benefits to be gained as we've seen in the west (ECOWAS), in the south (SADC) and the east (EAC). The main benefit will come from attracting large investments where the market will be seen as not the 48 million people in Kenya but as the 100+ million in Eastern Africa.

We've seen companies going into single markets like Rwanda and finding in a very short while that the market is not substantial enough to support certain levels of investment. Instead, a regional investment can leverage economies of scale such as we've seen in the oil extraction sector in Uganda, Kenya and South Sudan.

A project like the pipeline that was planned to transport the crude to the port of Mombasa would leverage economies of scale if the three countries came together. But now Uganda plans to export its oil through the Tanzania pipeline, South Sudan is not in a stable position now and Rwanda will probably follow the cheapest and most efficient route. This is affecting the port of Mombasa since the ports of Dar-es-Salaam and Bagamoyo are going to challenge Kenya Ports Authority with competition.

5. ***What is the role of private sector in accelerating infrastructure development towards economic transformation?***

Government as a single entity is said to be the largest spender in the country. The private sector, though individually small, when put together is a substantial force as well. We've seen this in the energy, utility and roads operations sectors where government has partnered with the private sector to achieve commendable results. The government will come and set up the enabling infrastructure while the operations and maintenance aspects are best left to the private sector.

From a funding perspective, most of the government's borrowing through treasury bills and bonds is taken up by the private sector and in these and other ways, the private sector plays a significant role.

The private sector also provides the technical know-how such as in insurance contracts. Some of the work can only be undertaken by the private sector; project management, technical advice or spearheading some of the feasibility studies are areas where private sector companies play a significant role.

For example, PwC has been involved in the Mombasa-Nairobi Highway to offer technical support in tax, project management, transaction advice and conducting feasibility studies.

6. In conclusion, and considering the infrastructure's role in industrialization, what do you think the key to success will be for Kenya?

I think there's light at the end of the tunnel. Without infrastructure, we cannot industrialise as we will struggle to move raw materials and finished goods and people from one place to the other. The key factor is strategic prioritization of these projects and the selection of locations naturally endowed with competitive advantage. Mombasa, located at the coast, is a strategic location to set up a lot of industries like textile manufacturing and motor vehicle assembly plants.

Our road network is key being our primary form of transport in Kenya. You'll have noted that the last three governments have been focusing on infrastructure developments and a key sector has been roads.

The raw materials are processed from there and then exported. Another scenario would be transporting the raw materials from Mombasa to Eldoret for processing, and then back to Mombasa for exporting. This scenario greatly and unnecessarily increases the cost of production. Therefore, strategic location of the industries, prioritization of infrastructure projects and wise borrowing will be the keys to our success.

The government needs to acknowledge and appreciate the technical support it can get from the private sector and leverage that support to save time and prioritise its leadership mandate.

We cannot underestimate regional and international cooperation. Some of the trade agreements that we have in the region such as AGOA and the European Horticulture Union can help us to leapfrog in terms of economic growth and industrialization. We should invest and reap the advantages of them as much as possible.

Oil and Gas landscape in Kenya: Keys to its success

2018 is proving to be a busy year for the Ministry of Petroleum and Mining, following the separation of Petroleum from Energy and combination with Mining after the 2017 elections.

Several key initiatives are coming into fruition with the aim of improving the availability of petroleum products in the country and the region. However, the most notable project involves the exportation of crude from Turkana.

The Early Oil Pilot Scheme ("EOPS") is the delivery of 480,000 barrels of crude oil to the Mombasa refinery terminal for export. EOPS is expected to provide experiential learning to assist in full field development planning, and to test the market before a $2.1 billion pipeline of about 855 kilometres is built.

However, this project is not free of criticism. EOPS will see Turkana crude transported via road using heated 20ft isotainers. It is estimated that the round trip will take approximately three days with 30 trucks being loaded per day.

This lengthy and complicated procedure, which is estimated to go on for three years, will require heavy expenditure at probably no profit. Following discussions between the national government and Turkana county government agreeing on the revenue share mechanism, the trucks are set to begin shipping in June 2018.

Government intends to facilitate the distribution of 5,140 MT of petroleum products, construct two LPG storage facilities, and purchase and distribute 1.2 million LPG cylinders for low income households.

This investment in LPG will go a long way in converting the citizenry into cleaner fuels, as well as help bring down the product costs relating to logistics. The upcoming LPG terminal being privately developed in Mombasa will further support this initiative.

The Kenya Pipeline Company is expected to complete the new 20 inch pipeline

from Mombasa to Nairobi, set up to pump from the second half of the year, and immediate benefits being improved product availability in Nairobi and reliable supply into East and Central Africa. The Kisumu Oil Jetty is now complete, allowing petroleum products to be exported from Kenya to the surrounding countries via Lake Victoria.

The transport of product on barges will see countries like Uganda that presently rely on product largely trucked from the end of the pipeline in Kisumu and Eldoret to receive larger consignments and at lower transport cost, and potentially faster without the need to pass through the busy land borders in Busia and Malaba. The jetty is expected to increase product flow to 350,000 tonnes per hour from the previous 110,000 tonnes per hour.

One of the major stumbling blocks inhibiting the availability of and access to reliable petroleum products is the bottleneck at the port of Mombasa caused by limited storage capacity, which subsequently leads to heavy demurrage charges that are being passed on to the consumer.

The current leasing arrangement and possible eventual acquisition of Kenya Petroleum Refineries Limited (”KPRL”) by KPC is key to mitigating this challenge. The refinery’s idle storage capacity, though in need of upgrade, presents a logical solution to increase capacity in the KPC system.

KPRL’s significant acreage that is available for future expansion is another benefit potentially contributing to Mombasa becoming a regional trading hub for petroleum products.

The facility may also allow KPC to make its maiden venture into LPG storage and catalyse the introduction of an LPG open tender system which may also help bring down the cost of LPG to consumers.

Looking ahead, the ministry needs to take full advantage of its current opportunities to enhance and cement Kenya’s position as the main port of entry and most efficient transporter of petroleum products in the region.

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The Kenya Pipeline Company is expected to complete the new 20 inch pipeline from Mombasa to Nairobi, set up to pump from the second half of the year, with immediate benefits being improved product availability in Nairobi and reliable supply into East and Central Africa.

Which way for the sugar industry in Kenya?

The sugar industry is a source of livelihood for over five million people in Kenya. It has been almost ten years since the Government of Kenya first announced plans to privatize five state owned sugar companies located in Western Kenya namely Chemelil, Nzoia, South Nyanza (Sony), Muhoroni and Miwani (the latter two are in receivership) under a process guided by the Privatization Commission.

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The plan entails the sale of the Government's 51% stake in each of these companies to strategic investors, 24% to farmers and employees and the balance 25% to members of the public through an initial public offering once the companies are profitable.

However, the process has been marred by political interference with a court application made in 2015 by some legislators from the region to have the privatization stopped on various grounds including that (a) the sale process was illegal as the Privatization Commission had ignored mandatory processes and procedures prescribed for the privatization of the companies, (b) they (legislators) had not been consulted, (c) the legislators were opposed to the State retaining the 25% stake and (d) that issues raised by cane farmers had not been dealt with.

The High Court, while throwing out the legislators' application in November 2017, ruled that the privatization of the sugar companies could proceed as the dispute resolution mechanisms available to the national and county governments had not been fully explored. It waits to be seen when and if the political meddling will stop and whether these privatizations will go ahead by August 2018 as planned.

The sugar industry in Kenya has grappled with several issues over the past three decades including mismanagement, cheap sugar imports from corrupt cartels, shrinking viable land, huge debts (at one time estimated at KES 100 billion) which have seen factories unable to pay dues to farmers, cane poaching, ageing/obsolete machinery that is prone to breakdown and inefficient systems resulting in high costs of production.

The Kenya Sugar Directorate estimates the cost of producing a tonne of sugar in Western Kenya at USD 570 which is double that of other sugar producing members of the Common Market for Eastern and Southern Africa (COMESA) such as Egypt.

Our local sugar companies cannot compete with their rivals in their current state and especially with the impending end to sugar import quotas from COMESA (which the country has been surviving on for more than a decade).

Success stories that Kenya can borrow from, where privatization has led to the turnaround of previously ailing companies in the sugar sector, include Kakira Sugar in Uganda.

Privatization is the way to go to avoid the looming collapse of Kenya's sugar industry.

Strategic investors will come with much needed financial, management, technical and operational expertise. As a precursor to the sale process, the Privatization Commission will need to engage reputable consultants to assist them in the privatization process in areas such as providing privatization strategy option analysis, due diligence (financial, tax, legal, human resource etc.), valuation, bid management, agreement preparation, structuring the offer, assistance in negotiation with selected bidders, etc. The due diligences and valuations previously carried out on these companies will be out of date and will need to be refreshed/ updated so that potential investors have a sense of the current state of the companies to enable them make informed investment decisions.

Success stories that Kenya can borrow from, where privatization has led to the turnaround of previously ailing companies in the sugar sector, include Kakira Sugar in Uganda.

The company is jointly owned by the Government of Uganda and the Madhvani Group. While under government control, the factory ground to a halt and was not in production at the time of takeover.

Under the new management, Kakira Sugar was revamped with financing from the World Bank, African Development Bank (AfDB) and Uganda Development Bank. Kakira is now Uganda's largest sugar producer and is considered by the World Bank and AfDB as one of the most successful projects in the region. Zambia Sugar Company is another successful privatization story.

It is currently listed on the Lusaka Stock Exchange (as Zambia Sugar Plc) and is 76% owned by Illovo Sugar Ltd of South Africa with the balance owned by institutional and private investors in Zambia. Kilombero Sugar Company Limited (KSCL), Tanzania's largest sugar producer was also successfully privatized in 1998.

Savanna Sugar Company Limited of Nigeria (privatized in 2003) has been successfully turned around following its acquisition by Dangote Industries Limited.

This was through investment in factory and estate rehabilitation and in management. Closer to home, privately owned sugar mills such as Kibos Sugar in Kisumu are profitably running their operations on the back of state of the art technology and good management.

The privatisation process as set out in law should be shortened to allow for a quick privatisation process. Since 2009 when the Privatization Commission started running privatisation transactions, they have only concluded a process with Kenya Wine Agencies Limited (KWAL).

The sugar companies have continued to deteriorate in the period due to limited reinvestment. A quick process would have allowed the assets to be sold when they were in much better shape. Absorption of the liabilities carried by these entities is critical to a successful privatisation process.

Public Private Partnerships in healthcare

In his second term, President Uhuru Kenyatta has put forward the “Big Four” agenda as his key focus. The “Big Four” agenda includes; ensuring food security, provision of affordable housing, expansion of manufacturing and provision of affordable healthcare.

The Public Private Partnerships (PPP) act (2013) is currently under review to allow counties to engage directly with private sector in the funding of infrastructure projects in the counties.

In the provision of affordable healthcare, citizens who had no access to healthcare due to its unaffordability will now be able to access medical services once they have been enrolled on the National Health Insurance Fund (NHIF).

This will result in an increase in demand for health services with health facilities receiving more patients. It is on record that the Linda Mama program, which provides free delivery services to women, has led to more hospital deliveries than previously recorded.

In the promulgation of the constitution in 2010, healthcare was devolved to the counties. The increased pressure on health facilities will require that county governments upgrade existing facilities or build new facilities. This will require funds for both construction and equipping of these facilities. Further, more human resources will need to be hired to work in these facilities.

Counties have taken over management of all hospitals at Level 5 and below with the national government managing Level 6 hospitals. In this change of responsibility, most of the former district hospitals were assigned the role of county referral hospitals. These hospitals were ill prepared for this role and therefore require heavy investment in infrastructure, equipment and human resources.

The universal healthcare program and the devolution of healthcare has clearly created a huge need for investment in healthcare. National or county governments will not be able to bridge the infrastructure gap and there is therefore a need to look at private sector funding to bridge this gap.

The Public Private Partnerships (PPP) Act (2013) is currently under review to allow counties to engage directly with the private sector in the funding of infrastructure projects in the counties.

PPPs in healthcare have been used around the world in the provision of healthcare with some level of success.

There are examples of hospital PPP projects in South Africa and the UK where positive health outcomes have resulted in the private sector managing healthcare facilities.

The point to note in healthcare PPPs is that the contracting authority (county or national government) should be very clear about what they expect out of the PPP arrangement and communicate that to the private sector at the outset as Key Performance Indicators (KPIs). These KIPs should be part of the contract between the contracting authority and private sector.

Further, there should be a mechanism to ensure that patient numbers remain within agreed parameters. One way to ensure this happens is to have a referral system that works. It is not uncommon for patients with common illnesses to visit Kenyatta National Hospital (KNH) whereas there are many lower level hospitals that could treat such ailments.

An influx of patients to a hospital run on a PPP basis could lead to the contracting authority paying for the extra patient numbers beyond the agreed cap. This is not the desired result of a PPP arrangement.

In the design of PPP projects in healthcare, consideration should be made on community needs in healthcare. There is a tendency by the private sector to focus on hospitals in urban areas where the population can afford services but the greatest healthcare need is at the primary healthcare level.

The mother in Isiolo County who has to walk for six hours to take her child for immunization needs a health facility that is more accessible. The question then remains on how the private sector can provide access to healthcare at this level.

India has made strides towards getting private sector involved in the provision of primary healthcare. The private sector provides technology innovations like telemedicine where patients in rural areas can interact with doctors in urban areas by having their data captured at rural clinics and doctors in city hospitals providing offsite diagnostic services.

The private sector is also involved in the provision of mobile clinics that serve remote areas and receive compensation from state governments. This has led to improvement in health outcomes.

In conclusion, there is a need for the national and county governments to engage seriously with the private sector and identify gaps that the private sector can fill in the provision of healthcare to ensure the universal healthcare agenda is a success.

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Mega projects: the poisoned chalice?

Reading recent Kenyan media, including social media, may cause one to conclude that all mega capital projects are nothing but avenues to 'eat'.

Before you come across one article that discusses the benefits of a highway, railway, power plant, pipeline, port or airport, you will probably come across several that question the motive for the project, its sponsors, its cost, timing, the procurement of the contractor, the location of the project, etc.

Despite the integrity questions, few people will question the need for the infrastructure projects.

So what is it that makes these infrastructure projects poisoned chalices with the potential to taint reputations, and even destroy careers? Is there a way to reduce the perception of corruption and indeed any actual fraud and corruption that exists in these mega projects?

Assuming the problem is one of perception, one could argue that better communication especially as regards designs, including feasibility and environmental studies, would go a long way in changing perceptions. Not being a communications specialist, I will leave the prosecution of this argument to the experts and focus on the corruption and fraud risks and related mitigation options.

There are some inherent features of mega projects that make them particularly susceptible to real or imagined fraud. One is the limited number of financiers, consultants and contractors that are involved in the financing, design, building and supervision of these projects. Unlike purchasing vegetables where you can easily move to the next vendor or even influence their terms, buyers of mega projects are in many cases confronted with an attitude of take as is or leave it. This, in an environment where the buyer has limited internal capacity to determine how to deliver exactly what is needed within the tight timelines, limited options and financial constraints. Even where there are options to begin with, a buyer will often thereafter be saddled with expensive add-ons or maintenance costs that may not provide value for money.

The limited option of suppliers also comes with an increased chance that various providers will not be independent. You will often find cases where the 'independent' consultant advising the buyer (government in most cases), is closely related to the contractor. Consultants may also be biased in favour of the technologies or providers that they are more familiar with such as an

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engineer from Country A is more likely to recommend Country A technology and thus provider even where say a Country B firm could have delivered better value for money.

The risks go beyond the procurement and design phase to the execution phase. It should be apparent to most that it is difficult to predict accurately what you will need in executing a project that runs for hundreds of kilometers, would be implemented over a number of years and by hundreds of people or that involves dealing with thousands of stakeholders ranging from landowners and public interest groups to regulators and county governments. Add the vagaries of nature and you end up in a situation where you will almost always need to vary your designs at some point in the project.

The availability and flow of funds in the course of a project is another dynamic that tends to introduce real or perceived malfeasance. The need to meet financiers' conditions may mean that some rules are changed or done away with such as limiting bidders to a specific country. Equally, the appetite of contractors to be paid regularly and the power of consultants to decide whether payments are due or not and the omnipotence of the bank signatories is another fertile ground for corruption, real or perceived.

The above list of risks is nowhere near exhaustive. These risks, the large sums of money involved and the difficulty in assessing the real value of mega projects have two main consequences from a fraud and corruption perspective. One is that they create an environment where various entities and individuals are motivated to defraud in the knowledge that they can get away with it. The second is that genuine and legitimate decisions and actions are often looked at suspiciously.

Due to the nature of these projects, well-meaning and upright officials in charge of the projects may have to take one for the team and accept criticism and suspicion even where none is deserved. But there are a number of interventions that could be considered to reduce the risk and perception of irregularities in these projects.

As a start, better due diligence on all providers should be done, and done by people with the capacity to do it. Who the contractors are, what other projects they have successfully executed, who they are related to, what the reputation of their key officers and agents is, are some of the questions that should be answered before engaging. A truly independent Project Manager or independent engineer is another good idea to consider.

Preferably one that is funded directly by government in the case of public projects and who has a good understanding of the entire project. The Project Manager should for instance advise on whether payments are due or not.

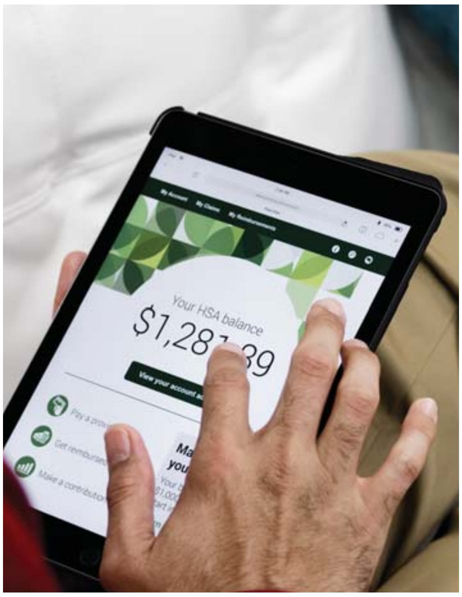
Where specific cases of irregularities are alleged, it would be best if they are comprehensively investigated by an independent party and dispensed with expeditiously.

In addition to weeding out corrupt elements, such investigations and subsequent action will send a clear message that people will not and do not get away with fraud. Public procurement laws may also need to be better adopted for such projects to take into account their unique features.

With these and other actions, we should get to the point where the mega projects are met with mega joy as opposed to mega suspicion.

Exploring digital possibilities in international development

This article considers the application and potential benefits of digital technologies in international development, before exploring some of the key challenges to realising their full potential. It concludes with a consideration of what might come next.



As a concept, digital can best be defined as the increasing trend towards greater information intensity and connectedness of physical resources. Organisations, processes, people, teams become digital through applying technologies that can extract information and connect a resource and its information to other resources.

Heralded as the fourth industrial revolution, digital technologies are dramatically changing the scope of our lives across the globe at an unprecedented rate. Just as the steam engine powered the second industrial revolution, the new digital age has been driven forward by innovations in the internet and personal computing.

Over the last 3 decades or so, the evolution of online search, the mass migration to mobile devices, the creation of social networks and crowd sourced collaboration has created an unstoppable wave of digital innovation that is transforming whole industries, societies, economies and people.

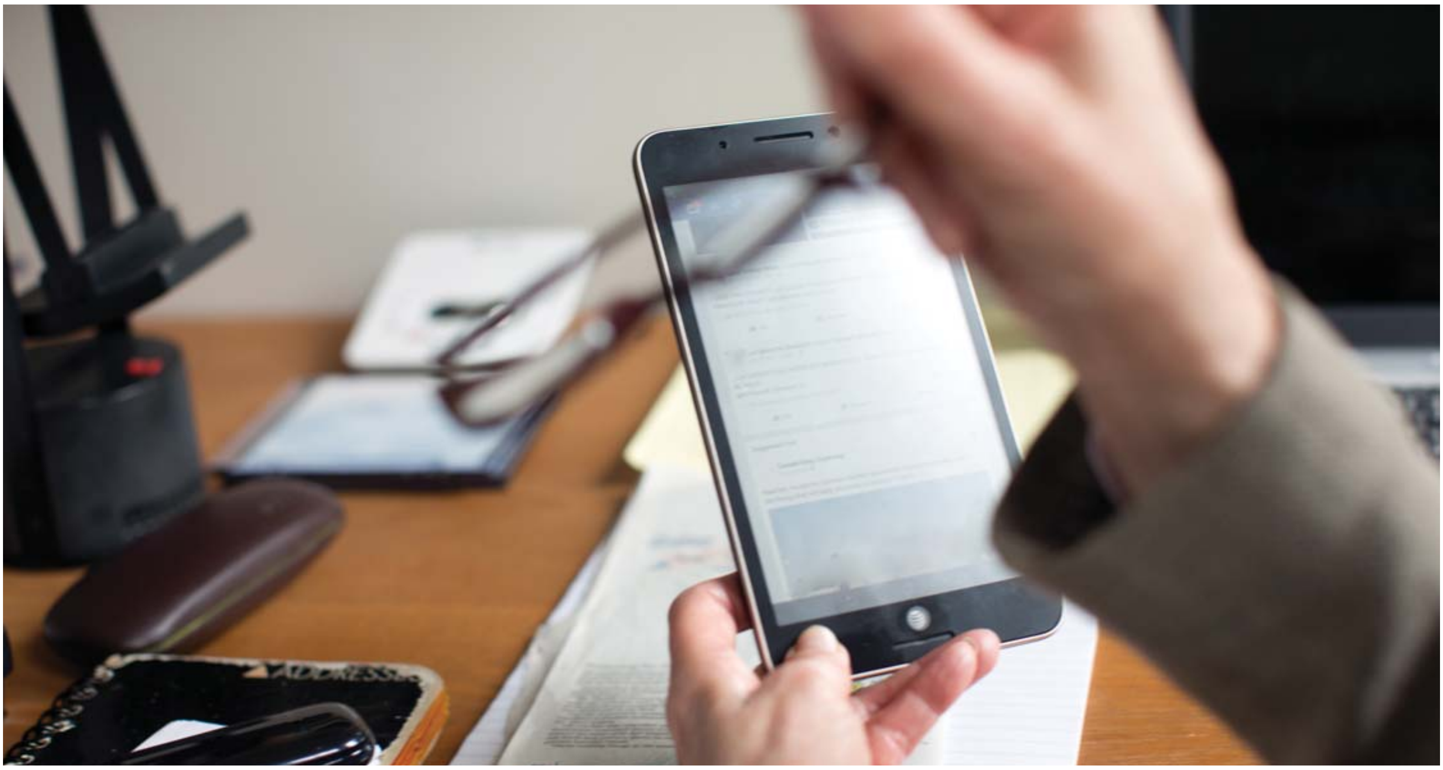
In looking at 'digital', it is important to understand that this is more than just a set of instrumental technologies like analytics, big data, mobile, cloud and social networks. For example, a smartphone has information intensity and connectedness, but also has applications that can bring real value to its user, and transform and disrupt industries. To understand the full potential of 'digital', one needs to go beyond single technologies and 'apps' to consider the ecosystems that are being built based on making things digital.

The solutions – what benefits can digital deliver in developing countries?

Digital technologies are having a transformative impact on the lives of many in developing countries. Mobile phones, in particular, have been the driving force of the digital revolution in developing countries.

65% of Sub-Saharan Africans, for example, now own a mobile phone and this is projected to increase to 91% by 2020. This widespread adoption of mobile devices is making a real difference in the lives of many people in developing countries.

Millions of farmers, for example, now use mobile applications such as Esoko and Manobi to search prices and sell in more markets thereby helping to improve their income and welfare. Uganda and Kenya are increasingly using e-government portals to digitise the delivery of public



services such as the registration of drivers' licenses and payment of taxes which in turn reduces the need to travel long distances or the opportunity for bribery.

M-PESA (the mobile money platform made possible as a result of seed investment by the UK Department for International Development) is the currency of choice across most of Kenya, allowing many families to easily pay bills and buy goods and services using their mobile phones.

The benefits (and potential) of digital can also been seen in the delivery of basic services such as education and health. Many developing countries are facing a youth demographic bulge as they continue to grow their development trajectory.

Africa's population is projected to rise from 1 billion in 2010 to 2.7 billion by 2050. The implications of this will involve dramatic increases in the number of children to be educated and technology will play a central role in addressing this. Mobile devices and apps are increasingly being used to deliver learning and education to children in remote areas across many developing countries.

In Malawi, for example, Onebillion.org has established learning centres, providing education applications in the local language on tablets powered by solar power. The use of this technology is allowing educators to reach many more children without the prohibitive costs of having to build more schools.

Organisations like Camfed are at the forefront of using mobile technology to monitor individual girls' progress through school, uploading data on bursaries, family situation, attendance and performance and using the insights generated by data analysis to inform positive action.

Mobile innovation is also delivering positive health outcomes. For example, maternal and infant mortality is a major healthcare challenge in developing countries with a new-born baby dying every 30 seconds due to delivery complications.

Many health workers in the periphery of these health systems (such as midwives in remote areas) do not have sufficient levels of training and are difficult to reach with traditional classroom training.

Mobile innovations such as the Delivery App (developedby the Maternity Foundation) can deliver guidance (via animations) for health workers in handling childbirth complications, for example if the mother begins to bleed after giving birth or the newborn is not breathing. The animated videos,

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available both in English and local languages, can be used irrespective of poor literacy skills and language barriers and help to save lives.

Digital possibilities aren't just confined to the widespread application of mobile technology. Other technologies such as blockchain, smart cards, 3-D printing, big data analytics, sensors, drones and machine learning are increasingly being used to deliver positive solutions in international development.

For example, the use of smart card readers was critical to delivering a relatively fraud-free outcome in the 2015 Nigerian elections. India's National Aadhaar program has biometrically identified 900 million Indians, thereby making it easier for its citizens to attain fuel and food subsidies.

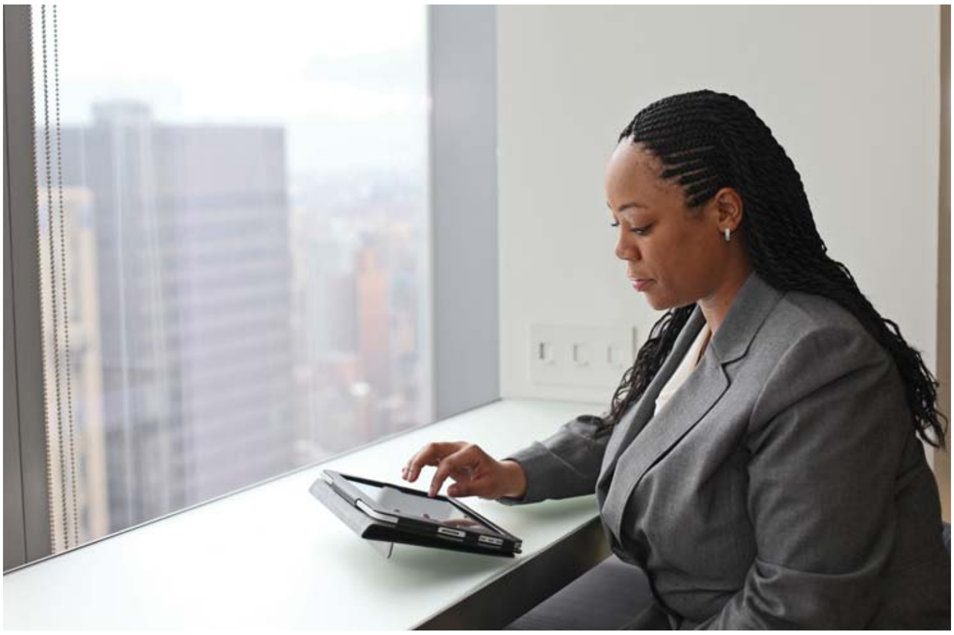
In Rwanda, authorities are currently drafting regulations to allow for the building of the world's first drone airport. This will enable more effective shipping of health equipment, goods and food to remote rural areas.

Big data analysis of mobile call data records and data from sensors are delivering insights into real time economic activity patterns in urban areas thereby informing better planning around social services and infrastructure as these communities grow.

The challenges – what's stopping the potential development?

The benefits and potential of digital in developing countries are clear. Despite this, however, there remain significant challenges to realising its full potential. These include constraints around affordability, literacy, gender, relevant local content and physical access.

- ***Affordability:*** Although there have been concerted efforts to bring down the costs of mobile devices and data plans, the costs of accessing the internet still remains prohibitively high for many people in developing countries. As a consequence, connectivity remains beyond the reach of the poor, particularly those who must prioritise basic needs (such as food, shelter, water and energy) over access to the internet.
- ***Literacy:*** Significant progress has been made improving adult literacy rates across developing countries. Even so, around 37% of the adult population in Sub Saharan Africa still lacks basic literacy skills. In addition to basic literacy, digital literacy (i.e., the ability to navigate, evaluate and create information using a range of digital technologies) is also a major constraint to the effective take-up of digital technologies in developing countries. There are also gender and age related dimensions to the effective use of digital technologies in many of these countries.
- ***Local content:*** Digital content and services that are relevant, accessible, and available to users in local languages are necessary to realise the full benefits of digital applications in developing countries. The majority of digital applications and services used by people in these locations, however, continue to be developed in OECD markets with little customisation for local markets. Local content developers often face significant barriers to entry including lack of access to the main mobile application stores and necessary developer skills, and fragmentation caused by multiple operating systems and devices. The go-to-market costs for new apps can also be substantial due to the significant marketing investment required to build awareness and discoverability in app stores.
- ***Physical access:*** Many people in developing countries live in rural and geographically remote areas. Whilst 2G networks have been extensively developed in many developing countries (for example, 70% of the mobile connections in India and China are on 2G networks), higher speed mobile broadband network coverage remains limited to urban areas due to the lack of investment in 3G/4G networks and local internet exchange points. These areas have additional infrastructure challenges such as a lack of electricity infrastructure and low road density, which can provide additional obstacles to accessing digital services.



Conclusion

The potential of digital technologies to improve lives in developing countries cannot be overstated. Digital tools can open access to free education via mass open online courses and mobile devices; farmers can use mobile information to improve their crop yields and get better prices for their produce; midwives in remote areas can use mobile information to support the safe delivery of babies and citizens can use digital technology to access services, better understand what their governments do and improve transparency and accountability. As momentum gathers around the digital revolution in developing countries, it will be important for public and private sector stakeholders to focus on the following:

- ***Connect the unconnected:*** The U.N. has tied global development goals to universal, affordable Internet access and many key global stakeholders have signed up to the Connectivity Declaration. The private sector has been at the forefront of initiatives to bring better digital access to the unconnected in developing countries. Innovative projects like Google's Loon, in addition to drone based pseudo satellites, have demonstrated the potential to bring high quality mobile and internet access to remote areas of the globe. Stakeholders from the public and private sector should continue to support these innovative projects to bring better connectivity to the unconnected.

- ***Make content local and relevant:*** The potential of digital technologies to create new eco-systems and open up economic opportunities (for example the 'App' economy driven by the Apple App Store and Google Play) is already evident in trends observed in many developed economies. The explosion in mobile subscriptions and availability of increasingly affordable smart phones points to similar possibilities in developing countries. The provision of digital content that is local, accessible and relevant will be a key aspect of making this happen. Multiple stakeholders (i.e. governments, mobile operators, tech companies, device manufacturers, donors and NGOs) will need to play an active role in facilitating more local digital content in developing countries.

- ***Make the technology more affordable***: Low GDP per capita income levels in developing countries means that consumer digital technologies such as smartphones are simply unaffordable for a majority of people in these countries. Similarly the cost of running these devices (e.g. data plans) can also be prohibitively expensive for many people. Efforts are already underway to produce affordable smartphone handsets in Africa such as the MTN Steppa $50 smartphone recently released in South Africa.

- ***Strengthen the real world foundations for digital growth:*** As set out in the recent World Bank World Development Report 2016, developing countries need to ensure that the real world foundations for digital growth are not neglected in their economies. Improvements in the business and regulatory environment will be key to stimulating the right levels of private investment into the infrastructure and support services necessary to drive digital growth and innovation in developing countries and protect the poor and marginalized in these countries.

As digital technologies continue to evolve, it is imperative that developing countries are not left behind. The benefits that digital can bring to these countries is huge and bringing connectivity to the unconnected has the potential to transform lives for the better across the globe.

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Opportunities for County Governments to transform the agriculture sector in Kenya

Agriculture remains a vital sector for most counties in Kenya. What can counties do to grow the sector going forward?

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Case for the agricultural sector

According to the World Bank, agriculture's contribution to Kenya's GDP has been on the decline from 26.5 percent in 2006 to 22 percent in 2014. Despite its weak performance, the sector continues to be the mainstay of Kenya's economy, as seven in 10 Kenyans depend on it for their livelihood. Agricultural productivity remains low, however, undermining Kenya's overall productivity and food security.

The agriculture sector is key to achieving inclusive growth because, in Kenya and Africa as a whole, it consists mostly of smallholder farmers. With higher agricultural productivity, access to land, seed, and fertilizer and overall better performance in rural economies, growth will reach the most disadvantaged.

However, considerable effort is needed to ensure that institutions and mechanisms for inclusion are put in place, while at the same time pushing toward the development of large commercial farming.

Irrespective of the current challenges, the outlook for this sector not only in Kenya but the whole Africa is positive.

Tap into a sector that will feed Kenya, Africa – and the world

According to the World Factbook, Kenya's rate of urbanization from 2010 to 2015 stood at 4.34% compared to the world average of 2.05%. More and more people are shifting into urban areas and more arable lands are being converted to urban areas. Also, Africa has the fastest growing population in the world.

On the contrary, the demand for food will always be there and it will grow immensely.

According to the World Bank, around 60% of the world's arable land that is currently not under cultivation is found in Africa. With an ever growing world population, many predict that Africa will

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become the world's food basket.

Interestingly, the World Bank estimates that Africa imports food staples valued at about US$25 billion annually, essentially because food production, supply, and consumption systems are not functioning optimally.

Closer home in Kenya, as a result of poor performance of the 2016 short rains season,(a similar pattern to that which preceded the 2010/2011 Horn of Africa drought crisis), Kenya's government declared a national disaster. GoK sent out a call for international aid from development partners. As a result of the natural disaster, the GoK also procured 5 million bags of maize from Mexico.

With these opportunities and potential, the County Governments have significant roles to play in the provision of significant ingredients needed to transform Kenya's agriculture to make it more competitive and attractive to investment.

Integrate to create agricultural value chains within traditional cash crops

Most of the counties in Kenya currently produce traditional cash crops (Coffee, tea, sugar, milk, cotton and tea) to local and internal markets mainly as raw materials. There are opportunities for County Governments to integrate and pull resources to develop production chains to facilitate product differentiation and quality upgrading of these cash-crops.

In fact, product differentiation presents various opportunities for increasing agricultural income from cash crops, through branding and grading specialty coffee and establishing grading systems, for example, as well as by segregating different qualities for export.

Invest in Agricultural infrastructure

County Governments can enhance food production by investing in agricultural infrastructure.

Specifically, investment is required in irrigation schemes, relevant machinery, extension services and storage and warehousing facilities to enhance productivity.

Also, investment is required to expand better crop and soil management techniques including provision of soil testing services as well crop rotation practices.

Supportive economic and policy environment is vital

Counties can also help to develop functioning markets to handle the surge in production, ensuring farmers have access to inputs and receive a fair reward for their investments.

In addition, County Government interventions are crucial to ensure that small farmers are included rather than left behind.

Pro-small farms policies including policies relating to provision credit, incentive prices for crops, enhancing the role cooperatives and subsidized input prices all help to inspire inclusive growth.

Investment in research

Counties can also increase investment in research in areas such as plant breeding, developing high yielding crop varieties and research on weather resistant crops. Counties can pool resources together in order to achieve economies of scale with shared research facilities.

Leveraging technology

Just like other sectors, the agricultural sector can profit from technology if applied appropriately.

Today, for instance, it is possible to grow crops which withstand various climatic conditions by use of agricultural biotechnology. Certain seed varieties

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have been engineered to produce fast-growing and disease-and pest-resistance plants that require reduced use of pesticides and improve yields and return on investment.

With targeted and specific investments by County Governments, technology can help transform farming in Kenya into a vibrant and healthy economic sector that contributes revenue, income and job creation for Kenyans.

Assessing the agriculture potential across Kenya's counties

Kerio Valley (which traverses to the counties of Baringo, Elgeyo Marakwet and West Pokot Counties) has been poised to establish fruit processing plants, a region where mango, pawpaw and banana production thrives.

Counties of Narok, Nandi Trans Nzoia and Uasin Gishu lead in maize and wheat production. These counties can establish milling plants jointly or individually to add value to produce. Sustainable plans could be put in place to build several milling plants which will also process animal feeds which will be marketed locally and internationally.

The counties of Turkana, Garissa, Samburu, Marsabit, Mandera and Wajir have high investment opportunities in irrigation, livestock, hide and skin tannery and cottage industry. Establishing abattoirs could enable livestock farmers to market processed beef products.

Baringo County has potential investment opportunities in cotton, sisal, pyrethrum farming and processing, honey processing and marketing, horticulture value addition.

Tea farmers especially from Nandi, Kericho, Meru and Kiambu Counties produce their tea as raw material for industries outside Kenya. 95 per cent of locally produced tea goes to international market while a paltry 7 to 10 per cent is consumed locally. There is a need to push for wider markets and better internal prices.

Most counties in the Highlands are focused on dairy farming. These counties can focus on processing and packaging products such as ghee, cheese, yoghurt, powder milk and other by-products for local consumption and export.

Conclusion

Kenya's economic revolution can be driven by productive sectors. Agriculture has many untapped opportunities. County Governments have a role in turning the page and realizing the potential with towards revolution in the agriculture sector.

Focus needs to move towards increasing production per acreage, fewer workers in the farms and many workers in factories processing agriculture raw materials and adding value.

Potential can be maximized by getting more output from the same set of inputs. Farmers will reap greater benefits from their efforts and to a greater extent stimulate the economic activity in their respective Counties.

M-AKIBA – National Treasury's attempt at broadening financial inclusion

Kenya has been hailed globally for the advanced use of its mobile phone network to innovate services and solutions that have made certain aspects of the livelihoods of the common citizen easier and provided access to services that were hitherto only a preserve of those with means.

Mobile money transfer technology has brought with it a disruption that revolutionized the way Kenyans transact and has been a topic of discussion and even case studies in several of the top Business Schools globally.

Some would argue that M-PESA is currently the largest bank in Kenya and rightly so. With over 28 million customers, 20.5 million of whom are considered active customers and over 8 trillion Kenyan shillings worth of transactions across the platform in 2017, who would argue with this assertion?

On 29 September 2015, The National Treasury had an initial launch of the M-Akiba platform, a mobile phone bond trading platform, meant to not only provide the government with an avenue to raise debt, but also to give the common citizen access to a fixed income investment platform that had been the preserve of large financial institutions and high net worth individuals.

A first of its kind anywhere in the world, with as little as KES 3,000, one could purchase government debt paper electronically and join the bond trading market. The launch had teething problems and after numerous false starts was able to go live with a test run on 23 March 2017 under a special limited offer.

At a coupon rate of 10% and not being subject to withholding tax like other government debt instruments, it provides an attractive investment opportunity accessible to anyone with a mobile money account.

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So what disruption would this one present? M-Pesa disrupted the banking industry, Uber disrupted the transport business and AirBnB is disrupting the hoteling business. Through M-Akiba, the government is able to have a wider pool of funds to raise local debt whenever it needs to. Knowing the voracious appetite of the government to borrow, more options means a better bargaining power on the cost of the debt, i.e., the coupons or interest it needs to pay the lender.

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Prior to this, the pool of funds was limited to a select few, creating the risk of an oligopolistic market that can easily dictate the coupon rates and hence government's costs of borrowing.

Traditional lenders, mostly banks, will now have to rethink their model of investing the funds that they hold. Government paper will now have competition from funds from the larger Kenyan population. Given the squeeze on their margins from the laws capping interest rates, they may need to be innovative to survive as their margins are squeezed in the environment being created.

M-Akiba will also open up a secondary trading platform to enable those participating in the market to easily trade the bonds like shares. Ease of disposal and acquisition of such fixed income securities dictate the vibrancy and attractiveness of that market.

The pilot appears to have gone on without a hitch, and the initial KES 150million of an intended KES 5billion 3-year bond was oversubscribed giving The National Treasury confidence in the platform. Kenyans clearly have an appetite to subscribe to government debt instruments.

The National Treasury floated an additional KES 1 billion, which was poorly subscribed during a volatile electoral period in 2017 raising less than a quarter of the targeted amount.

With a better marketing strategy and with the electoral hangovers hopefully behind us, it would be interesting to see how the M-Akiba platform will operate once fully functional and with a larger pool of investors accessing and trading across it.

In its plans to expand financial inclusion, it's a good sign seeing the government investing in fintech to leverage on the circa 90% mobile phone penetration in the country and enable everyone to access this market to enhance savings and investments.

Should County Governments be tax compliant?

In Kenya, the public sector includes the National Government, County Governments, Parastatals, Independent Commissions, Authorities, and other various government bodies.

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Whereas it is the responsibility of the National Government to collect taxes, there are tax compliance requirements expected of County Governments. Generally, the income of a county government is exempt from Income Tax.

Efficient and effective service delivery in the public sector is crucial to the growth and development of Kenya's economy in terms of making available a conducive environment to attract investments. In addition to the services provided by the public sector with regards to investments, it is critical that the services offered to the citizenry are of high quality and meet expectations - a cardinal principle in public service delivery.

In an attempt to bring service delivery to the people, Kenya ushered in a devolved governance system in the form of county governments through a referendum in the year 2010. The county governments by default took over the functions that were previously undertaken by the city councils, county councils, municipal councils and town councils.

Five years after the inception of devolution, county governments have overcome many hurdles of establishing a new level of government. However, expectations for counties to ensure efficient and effective expenditure, enhance revenue collection for self-sustainability and provision of good service delivery remain high among the citizenry.

Taxation is the key source of revenue that the Government of Kenya uses to provide public goods and services to its citizenry. Whereas it is the responsibility of the National Government to collect taxes, there are tax compliance requirements expected of County Governments. Generally, the income of a county government is exempt from Income Tax.

However, the services the county governments undertake have come with various statutory obligations including and without limitation, accounting for Pay As You Earn (PAYE) on the wages/ salaries and benefits given to the county employees, accounting for Value Added Tax (VAT) and Withholding VAT (WH VAT) on taxable goods and services provided by the county governments and accounting for Withholding Tax (WHT) on payments made in relation to services that are of a contractual or professional nature.

County governments are required to account for PAYE on employee emoluments including basic pay/salary, per diems, housing allowance, transport allowance among other taxable benefits provided to employees. Other statutory deductions that the county governments are required to account for include

National Social Security Fund (NSSF), National Hospital Insurance Fund (NHIF), National Industrial Training Authority (NITA) levies and Higher Education Loans Board (HELB) remittances.

From a VAT perspective, some of the income received/earned by county governments are subject to VAT. Some of these types of income include income from advertising and bill boards, hire of county assets, rental income from commercial properties, disposal of county assets and sale of tender documents, amongst others.

It is important that county governments carry out a detailed analysis of their income streams and ensure full compliance with the VAT legislation. County governments are also eligible to deduct input tax incurred in relation to generation of income that is subject to VAT.

One other key compliance obligation is the implementation of the WHT VAT system which was re-introduced in June 2014 through the Finance Act 2014 and took effect from 19 September 2014.

Under the reintroduced system, the appointed WH VAT agents are required, on purchasing taxable supplies, to withhold and remit directly to the KRA six percent (6%) out of the 16% VAT charged on acquired supplies. The system was however limited to supplies to Government ministries, departments and agents until June 2015 when the Finance Act of 2015 expanded the scope of WH VAT agents to include any other persons (other than non-governmental ministries/agencies) appointed by the Commissioner for Domestic Taxes.

Unlike private entities who have incurred huge costs over time in modifying their Enterprise Resource Programs (ERPs) in order to comply with the WH VAT system, it is mandatory that all county governments use the integrated financial management information systems (IFMIS) in financial management including making payments to suppliers.

In the sphere of government operations, IFMIS refers to the computerization of public financial management processes, from budget preparation and execution to accounting and reporting, with the help of an integrated system for the purpose of financial management.

The main challenge under the WH VAT system is that the IFMIS and the KRA's i-tax systems are not integrated. Whereas County Government's deduct and pay WHT VAT through the IFMIS system, suppliers are not in a position to receive the automated WH VAT certificates making it impossible for suppliers to utilize the WH VAT credits.

This system-related problem is also replicated in payments relating to WHT on specific payments made by county governments. Just like private companies, county governments are required to withhold taxes on specific payments made to suppliers in accordance with the provisions of the Income Tax Act (ITA).

The withholding tax rates range from 3% to 30% depending on the nature of payment. County governments are required to issue WH certificates to suppliers upon deduction and remittance to the KRA. The WH tax deducted is allowed as tax credits when entities are declaring and paying their final corporation tax.

In the absence of such certificates, any claim of such advance tax has in practice been disallowed by the KRA. It remains to be seen whether the IFMIS system and the I-tax system will be integrated to ensure smooth operationalization of both WH VAT and WH tax.

Complying with statutory obligations is not easy given that one has to understand the various legislation governing their administration and some require management and control systems to be put in place as well as an on-going monitoring framework to track the success of the implementation.

Some of the common pitfalls faced by county governments include the failure to:

- register and account for taxes;
- deduct and remit taxes;
- adhere to filing timelines;
- apply tax rates correctly;
- maintain adequate records and
- keep up to date with changes in revenue laws.

The tax implications resulting from non-compliance can result in massive penalties and interest, tax assessments, sanctions such as freezing of bank accounts/issuance of agency notices to the County's bankers, transparency and reputational risk.

It is therefore important that county governments keep abreast with the ever changing tax environment and ensure full compliance to minimize the risks associated with non-compliance.

Addressing the skills and unemployment challenge in Kenya

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Patience was interviewed by **Allen Kimani** - Manager, PwC Government & Public Services Group

The Youth unemployment problem

The youth unemployment challenge is perhaps one of the stickiest issues that any government has to address. The unemployment cycle is not understood well enough as it is driven by market forces and demand for labor on one hand and the national curriculum on the other.

The large number of unemployed youth is a national security risk and Kenya's government remains committed to solving the problem.

Over the last 15 years, we've seen enrollment in primary school at about 1 million per year and 15 million educated young people have come of age. On the other hand, there are about 30-40,000 formal sector jobs created annually.

Kenya is on a growth path with at least 30% of the major infrastructure projects in East Africa based in Kenya. These mega-projects include the SGR project, Lamu Port berths project, Lake Turkana wind Power Project, crude oil production among others.

These projects require investment in technically skilled people such as welders, masons and other craftsmen to allow the creation of jobs and participation in the industry. The policy to have a technical training institution in every constituency hence diversifying from the exclusive focus on universities, is very welcome. The future is about how much we invest in technical and entrepreneurial skills because there will never be enough jobs. People need to be empowered to create jobs.

Technology is the other area we can leverage on as this provides an environment for quick adaptability. Internet speeds in Kenya are among the highest in Africa at 13.7 megabits per second, and almost twice as fast as the global average (Akamai report 2017).

Mobile phone penetration is high with over 88% of Kenya's population having access to the internet on their mobile phones. This technology environment has the potential to create thousands of jobs including freelance ICT based work. This is the the future of employment in Kenya.

What matters for the future is dealing with the youth bulge, which is getting larger and larger with Kenya's median age being 18 years.

Restructuring institutions like the NYS should be encouraged to focus on giving life skills to youth and enabling them to become not only entrepreneurs but also better citizens. The idea of rolling out NYS as part of the compulsory national curriculum would drive the right attitude

amongst the youth as they prepare to join the work force.

How can the public sector compete with private sector for talent?

Over the last couple of years, as we have seen an increase in the graduate numbers, it has become an employers' market. At an experienced level, government is quite competitive and some people are leaving the private sector and applying for jobs in the public sector.

The gap that needs to be addressed in government is the increase of the public sector productivity index through more robust performance measures. The government needs to further address the need for active consequence management of non-performance in government institutions, however.

The government invests heavily in training in the areas it needs to deliver, resulting in highly trained people. But the public sector also has an ageing workforce and suffers a lack of operational efficiencies across public sector institutions. Going by examples like Rwanda and Singapore, Kenya's government can encourage the best brains to work for it; working for government should be made prestigious; and government needs to work on its image in terms of managing talent. Competence based models need to be adopted to allow for the growth of talent through the ranks of public sector jobs.

How can people develop the digital skills to accelerate the shift towards the online provision of public services?

The majority of Kenyans have access to digital platforms. What remains is for the government to roll out digital platforms for service delivery and operations within its institutions. This will lead to more transparency and faster access to government services for the public.

The roll out of Huduma Centres has been particularly successful in building an organizational culture focused on excellence in customer service and improving transparency, efficiency, and integrity.

Another area where the government can drive the adoption of technology is through the introduction of technology in early childhood curriculum and rolling it out through to the tertiary education level. This will drive creativity and create employment channels in technology driven environments by allowing the youth to develop tech-based products and services.

Is devolution helping to bridge the skills and unemployment challenge in Kenya?

The county governments were set up as instruments of service delivery. What we have seen is counties focusing more on employing people hence increasing the wage bill for an already bloated workforce. To safeguard against the disruption of services and county government organization structures, the government needs to invest in the institutionalization of counties.

This will allow for the setup of the right structures and policy at county levels for posterity to allow the counties live through different regimes. The focus that would drive growth for county governments is the creation of conducive business environment that allows investment and incubation of skills to steer growth.

Delivering value and progressing the Big Four agenda: NGOs' role in Kenya's development

Non-governmental organisations, or NGOs, have a crucial role to play in Kenya's development. Kenyans should consider the role that NGOs have played in our national development and what more they can do going forward, particularly in light of the government's Big Four agenda.

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However, there are barriers that many NGOs experience and that can impact their effectiveness. First, NGOs need to monitor and evaluate the impact of their activities accurately. Second, NGOs need to communicate that impact effectively.

And in order to be effective, NGOs need to combat and prevent fraud. These objectives are certainly related: to monitor and evaluate the delivery of impactful programmes, NGOs also must prevent and combat fraud.

Monitoring, measuring and evaluating results means that NGOs can tell success from failure, correct failures when they occur and also learn from successes. Demonstrating results overall helps to win public support -- amongst Kenyans, their elected leaders and the general public. A comprehensive monitoring and evaluation system addresses four focus areas common to NGOs: scarce financial resources, the aid effectiveness agenda, results-based financing and increased accountability to donors, governments and beneficiaries.

At PwC, we are frequently asked about the difference between monitoring and evaluation. Monitoring is the routine collection and analysis of information, undertaken while the project or programme is ongoing. Evaluation is periodic and a retrospective assessment of a project or programme that might be conducted internally or by external independent evaluators. Evaluation is undertaken to measure outcomes and impacts.

A focused and well-functioning monitoring and evaluation system will improve internal learning and decision making, ensure accountability to key stakeholders, contribute to effectiveness in the achievement of goals and objectives, influence government policy and mobilise resources and fund raising effectively.

One of the most significant inputs for any monitoring and evaluation system is data. Quality data helps an NGO to develop new programmes and improve existing ones. The information that data provides can support adaptability and flexibility in programme implementation. Finally, data can illuminate lessons learned and inform future programming decision-making.

It is no exaggeration to say that for NGOs, visibility is transformational. NGOs need real-time data provided by beneficiaries and project implementers, for example that can be collated in accessible reports and accessed on-the-go, anywhere.

Data quality is key whereas analysis will reveal insights and patterns. In this way, data analytics can help to monitor and evaluate progress and detect fraud whilst saving time that would otherwise be dedicated to manual, parallel processes.

Providing a real-time data analytics platform for NGOs and donors is an advanced technology initiative that PwC is currently developing for our clients in Kenya and the region.

Fraud is a real concern in Kenya and not just amongst NGOs. According to PwC's 2018 Global Economic Crime Survey, three quarters of our survey respondents in Kenya suffered economic crime last year. Fraud not only causes financial damage extending to billions of shillings (that could have been used more effectively elsewhere), it also causes reputational damage for the NGO and

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erodes trust among potential funding partners.

In the NPO sector, fraud tends to occur at three levels: amongst implementing agents, local partners and/or ultimate beneficiaries. For implementing agents, activities include fraudulent reporting or "creative" accounting, collusion with implementing partners and internal asset misappropriation or procurement fraud. For local agents, fraudulent activities include procurement-related collusion with suppliers, employee-related fraud like nepotism or ghost work, expenses falsification and disbursements to non-deserving persons or projects.

Amongst local beneficiaries, fraud can include beneficiaries who are non-existent or non-deserving as well as

overpriced. Roughly half of the fraud occurring in Kenya is internal in nature. For an NGO, this could be the use of someone's position at the NGO for personal enrichment through the deliberate misuse or misapplication of the organisation's resources or assets, for example.

NGOs may be susceptible to fraud for a number of possible reasons. First, there is a high reliance on trust in the industry. Second, NGOs may have a large number of stakeholders involved in the disbursement and receipt of funds, making the value and timing of fund in- and out-flows harder to track.

Third, temporary and seconded employees and agents may not necessarily go through a thorough recruitment process and may not share the organisation's values and finally, funding entities may take a hands-off approach and rely on local partners to execute projects.

Fortunately, there are strategies to combat fraud. Selecting, vetting and only dealing with the right partners and employees is one way. Another is to put in place clear processes and adequate controls, including systems that analyse data and provide insight. NGOs can also design and implement incident response plans to deal with fraud more effectively, should it occur.

Finally, there is no better way to combat fraud that by instilling and supporting an ethical culture supported by clear processes, a whistleblower policy and regular fraud risk reviews.

NGOs provide valuable support to our country. Effective monitoring and evaluation as well as fraud prevention can help them achieve next-level delivery of value and impact and drive forward our Big Four agenda.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, tax and advisory services. Find out more and tell us what matters to you by visiting us at **www.pwc.com/ke**

In Africa we're the largest provider of professional services with close to 400 partners and over 9000 people in 34 countries. This means that we're able to provide our clients with seamless and consistent service, wherever they're located on the continent.

Our in-depth knowledge and understanding of African operating environments enables us to put ourselves in our clients' shoes to offer tailored Tax, Assurance and Advisory solutions for every business challenge. Realising the appeal of the continent as an investment destination, our dedicated Africa Desk provides assistance to organisations looking to expand their presence in Africa.

In East Africa, our member firms in Kenya, Uganda, Rwanda and Tanzania work to build trust in society and solve important problems. Our in-depth knowledge and understanding of operating environments in the region enables us to put ourselves in our clients' shoes and offer truly tailored Tax, Assurance and Advisory solutions to unique business challenges.

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