

Clear lines on the playing field

The importance of effective institutions in building productive capacities in Kenya

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Outline of the presentation

1. The importance of effective institutions
2. Kenya's institutional performance
3. Gaps and recommendations



The importance of effective institutions



Institutions are the formal and informal rules and norms that organise social, political and economic relations.

Key features of institutions:

- They are not the same as organisations.
- People and organisations bring institutions to life.
- They provide predictable structures and shape behaviours in social, political and economic life, but they also change.
- Institutions can be strong or weak, inclusive or exclusive, complimentary or contradictory.
- As a result, institutions contribute to development outcomes, for better or worse.
- Institutions are often referred to as “the rules of the game”.

Institutions include:

- Formal constitutions, laws, policies, rights and regulations.
- Informal social norms, customs and traditions.

Sources: (North, 1990), (Carter, 2014)

Institutions influence confidence, the distribution of opportunities and transaction costs...

Confidence:

- Do entrepreneurs and investors trust that institutions will provide a minimum protection for their businesses, investments, IP and opportunities to earn a fair return?
- Do people trust that investing in education and training will improve their livelihood opportunities?

Distribution of opportunities:

- Are government concessions, contracts and assistance fairly distributed among potential applicants?
- Is credit widely accessible, according to equitable criteria and terms?
- Are laws applied consistently across actors and groups?

Transaction costs:

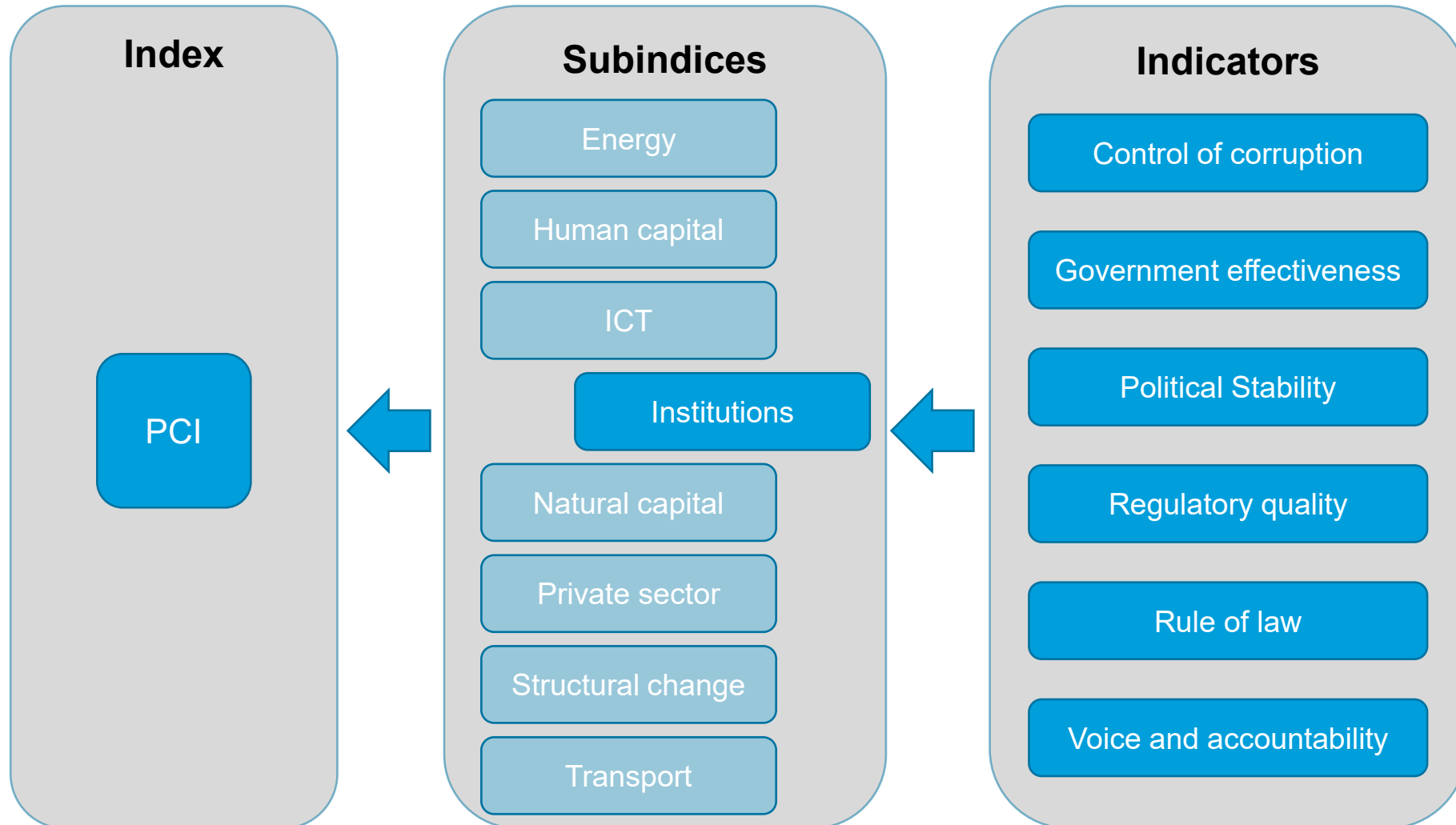
- Do the lead times, fees and other costs to obtain necessary permits to open a business, operate and trade help or hinder firms' competitiveness?

... with knock-on effects on the development of productive capacities.

Kenya's institutional performance

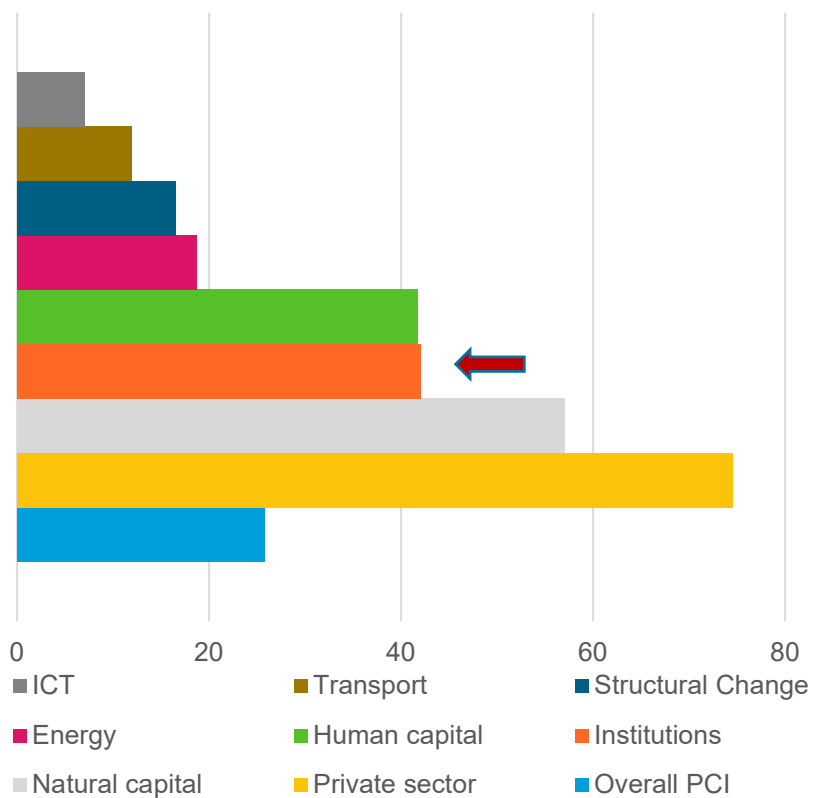


Institutions are represented as one of the PCI's eight subindices, computed from the six Worldwide Governance Indicators.

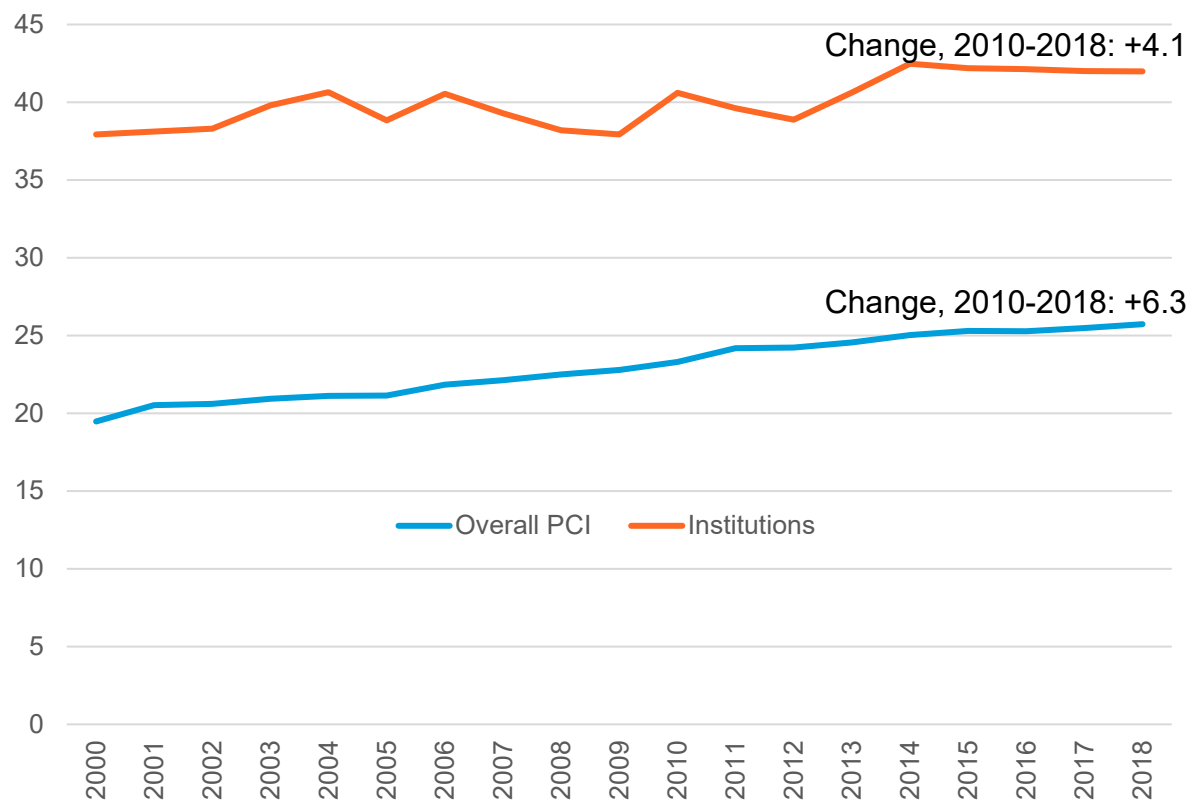


Institutions are among Kenya's strengths in its overall PCI score.

Kenya PCI scores by subindex, 2018



Kenya overall and institutions PCI scores, 2010-2018



Kenya scores slightly above regional averages on the overall PCI and institutions subindex.

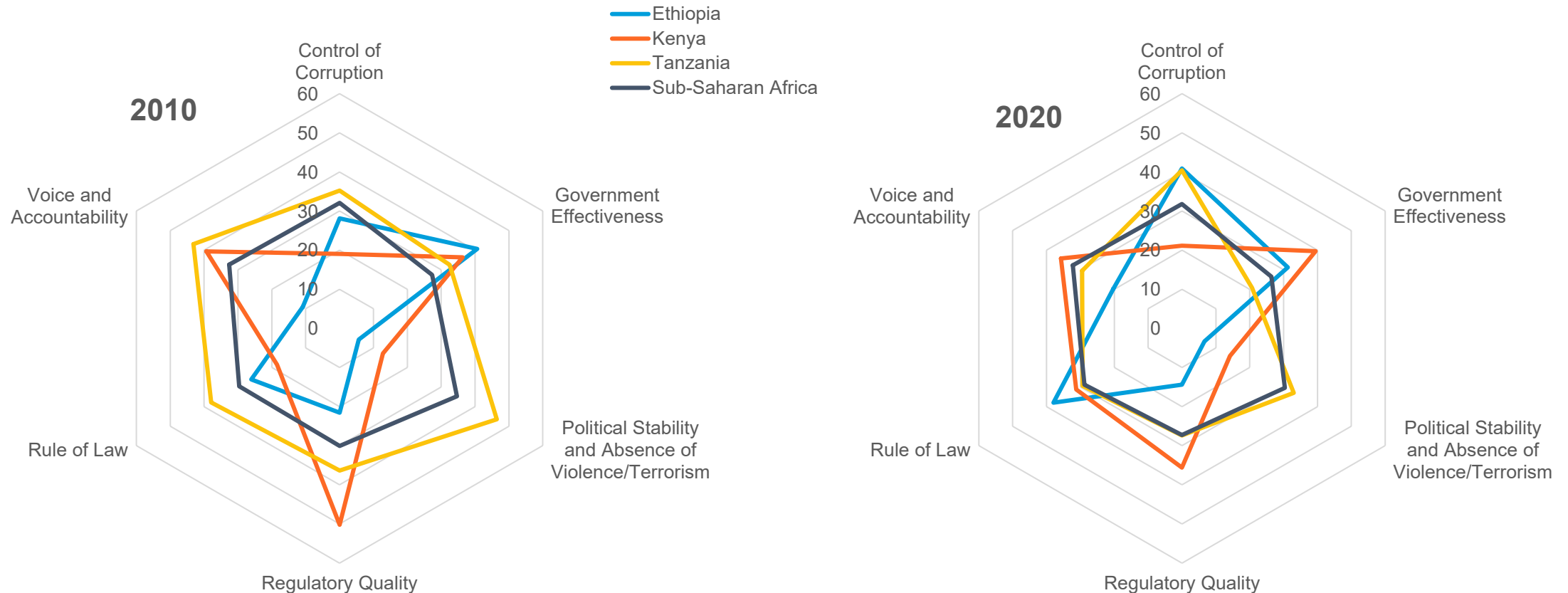


Productive Capacities Index, Kenya and comparators, 2018		
Country / average	Overall	Institutions subindex
Ethiopia	23.53	34.92
Kenya	25.73	42.00
Tanzania, United Republic	24.22	42.35
Sub-Saharan Africa avg (n=46)	24.54	41.60
Africa (n=54)	24.87	39.93

Productive Capacities Index, <https://unctadstat.unctad.org/EN/Pci.html>.

The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

Among institutional indicators, Kenya scores relatively well in “government effectiveness”, “regulatory quality” and “voice and accountability”.



Unit: percentile rank, ranging from 0 (lowest) to 100 (highest)

Kenya's institutional performance contributes to relatively low business transaction costs and high financial inclusion.



Country / average	Ease of doing business	Cost of start-up procedures	Time required to start a business	Account ownership	Borrowed from a financial institution
Year	2019	2019	2019	2017	2017
Measure	(0 = lowest, 100 = best)	% of GNI per capita	Days	% of age 15+	% of age 15+
Ethiopia	48.0	45.4	32.0	34.8	10.6
Kenya	73.2	22.4	23.0	81.6	16.8
Tanzania, United Republic	54.5	40.6	29.5	46.8	5.3
Sub-Saharan Africa avg	51.8	36.3	21.5	42.6	7.0
World avg	63.1	19.8	19.6	69.0	11.0

Sources: World Bank, Doing Business Index, Global Findex Database, <https://databank.worldbank.org>.

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Gaps and recommendations



Gaps and recommendations

General

- **Gap:** Decentralization in Kenya has challenged inter-ministerial coordination mechanisms with the added dimension between national and local governments, complicating a holistic approach to Vision 2030.
 - **Recommendation:** Adjust and harmonize coordination mechanisms along the horizontal and vertical dimensions.
 - **Recommendation:** Incorporate public participation in the coordination mechanisms, to enrich the process and respond to the 2018 Public Participation Bill.

Gaps and recommendations

Confidence

- **Gap:** Corruption and tax evasion continue to erode wider institutional performance and confidence among investors and underserved populations.
 - **Recommendation:** Strengthen the budgets, independence and legislative tools for anti-corruption bodies, revenue authorities and the judicial system to combat corruption and tax evasion.
 - **Recommendation:** Buttress revenue sharing and the decentralization of power to county governments with capacity-building and enforcement of national standards for governance, financial management and service delivery.

Gaps and recommendations

Distribution of opportunities

- **Gap:** Fragmented and unequal distribution of economic opportunities among provinces, ethnic groups, women and youth undermines national solidarity and political stability.
 - **Recommendation:** Enforce standards for equal access to higher education, public sector employment and procurement.
 - **Recommendation:** Continue to expand transportation infrastructure and rural value chains to bring opportunities to underserved provinces and populations.
- **Gap:** Recent growth and socioeconomic progress remains vulnerable to shocks, as evidenced by the COVID-19 pandemic.
 - **Recommendation:** Expand social protection to vulnerable populations, including women, youth, ethnic minorities and informal workers.

Gaps and recommendations

Transaction costs

- **Gap:** Despite Kenya's success in developing renewables and expanding access to energy, the reliability and quality of electricity supply remain problematic, undermining investments and operations in productive industries, such as value-added processing.
 - **Recommendation:** Expand the national grid with turnkey investments in electricity transmission and distribution infrastructure.
 - **Recommendation:** Increase grants, rebates and other incentives for user to connect to the grid.
 - **Recommendation:** Enforce forest conservation to curtail the supply of cheap charcoal derived from deforestation.
- **Gap:** Kenya has relatively high penetration rates for mobile payment services, but access to affordable credit remains low.
 - **Recommendation:** Update legal frameworks to facilitate mobile and e-commerce platforms expanding their offering of digital financial services, to include lending and insurance, among others.

References

- Carter, B. (2014). Inclusive Institutions: Topic Guide. Birmingham, UK: GSDRC, University of Birmingham.
- North, D. C. (1990). Institutions, Institutional Change and Economic Performance. Cambridge: Cambridge University Press.

Thank you!

