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State Capture in Kenya: A case study of Public Financial Management (PFM) system

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Is corruption budgeted?

"From where I sit, I would like to introduce another theory, the theory of budgeted corruption. If we are starting on a journey, say from here to Thika, you can imagine the Thika highway, it has several lanes and the most important thing is the exits. Is our budget really loaded with corruption where you know exactly (at) which exit point it is going to be taken? This is where I am concerned—that we are in a situation where our budget is loaded with corruption."

Mea culpa

"For seven years, we have lied about our debt, we have cooked books, we have cheated people that we do zero-based budgeting. We have taken loans at 9 per cent that left people offering us money at one per cent...As Parliament, we have failed Kenyans because we have sold to them the romantic story that all is well. We failed in our oversight role because we could have said NO, but we said YES, selling lies that all was well because we believed in respecting the Executive, and most of us are members of the ruling party. We have lied to Kenyans."

Moses Kuria, MP

Organising questions

- Is corruption budgeted?

- Budgeted corruption = capture of PFM system by corruption cartels

- Power of the purse is at the core of democratic governance. PFM system capture implies fundamental failure of democratic governance

Research design

- Case study of three (mega) infrastructure sectors; roads, electricity, water
- Covers FY13/14-FY16/17 (i.e. first four years of Jubilee admin)
- “Value for money” expenditure analysis
- Cost analysis, trend analysis, triangulation

Findings

Total infrastructure spending 120% more than GNU comparable period (i.e. first four years). Electricity 46%, Roads 51%, Water 57% higher

Roads

- Portfolio composition shift from low/medium cost trunk roads to high cost urban "mega" projects
- 20% cost increase (KSh16m/km) over and above construction cost index. Translates to KSh49b or 760km of road equivalent

Electricity

- 5,000MW Initiative - Fast tracking of power generation projects targeting 6,800MW in 2016, 8 - 12 yrs ahead of LCPDP demand forecast at the time, 21 years ahead of revised forecast. 47% excess capacity by 2018 (2,800MW against 1,900MW). Even without reaching target country (Amu Power case)

Findings

- Last Mile Connectivity - Saddled KPLC with 880,000 dormant accounts and KSh12b bad debts (KSh15,000 due from each connected customer). Phase 1: 314,000 connections at KSh13.5b, works out to Ksh41,000 per connection, KSh56,000 including (mostly unpaid) customer contribution, more than double the cost of a plug-and-play solar power kit). Suppliers (and KPLC staff) principal beneficiaries (top management of KPLC were subsequently removed in an anti- corruption purge)

- Transmission Lines - KSh33b discrepancy between GoK transmission lines budget and LCPDP cost estimates of the same. Equivalent to 870km of transmission lines, 50% more than the actual project portfolio (1,741km)

- Geothermal
  - Menengai 65% of budget spent, only 45% of target met (170MW/400MW).
  - Cost of development running at KSh440m/MW almost five times the Olkaria field portfolio inherited from Kengen (KSh90m/MW), despite GDC acquiring its own drilling rigs (with AfDB debt funding).
  - GDC also funded for wellhead generators in Menengai, still no generation.
  - Contract for Silali field drilling awarded to phantom company.
    - KSh52b spent on geothermal development in three years FY14/15-FY17/18, at Olkaria field. Ksh90/MW capital cost, translates to 580MW (13% short of 633MW), i.e we spent enough money to double capacity in three years and all we have to show is 170MW under development. The 633MW installed capacity accounts for 46% of generation capacity.

Findings

Water

- Public debt register (which is not public) reflects KSh66b bank debt owed to Arror/Kimwarer dam lenders, suggesting that the dam projects were fronts for commercial borrowing. Where did the money go?

- KSh20b lost in stalled big dam projects (Parliamentary Committee finding)

- KSh143b spent on water projects during the review period to provide water for 6m people translating to capital cost of KSh24,000/person against an estimated capital cost of KSh12,000/person (average across 5 GoK projects).

- Water strategic plan targets proving water for 14m people (increasing access from 60 - 80% of population) at cost of KSh496m by 2022, a capital cost of KSh36,000/person i.e. three times the KSh12,000 average cost of actual projects. We are looking at KSh330b of budgeted corruption.

Conclusions

- Corruption is budgeted
- PFM system is not fit for purpose. The fox is in charge of the hen house.
- In state capture context, it no longer makes sense to have a legal/technical/managerial corruption discourse. Corruption discourse contextualised in political accountability.

Conclusions

"The finance of the country is ultimately associated with the liberties of the country. It is a powerful leverage by which English liberty has been gradually acquired. If the House of Commons by any possibility lose the power of the control of the grants of public money, depend upon it, your very liberty will be worth very little in comparison. That powerful leverage has been what is commonly known as the power of the purse – the control of the House of Commons over public expenditure."[4]

William Gladstone