

Accountability & Economic Growth

by

CPA Dr. Margaret Nyakang'o
Controller of Budget

Presented during the
ICPAK 29th ANNUAL ECONOMIC
SYMPOSIUM

Outline

- Accountability
- Legal Underpinning of Accountability
- Actors in Accountability
- Economic Growth
- Accountability in Kenya
- How to Improve Accountability
- Challenges in Accountability Process
- Possible interventions
- Conclusion.

What is Accountability

The Discovery of Whales in Kenya

A recent news clip revealed that a British woman had discovered a rare type of whales at the Kenyan coast! What is the similarity of this clip to our subject today?

What is Accountability?

- **Accountability** is about the relationship between the State and its citizens, and the extent to which the State is answerable for its actions.
- Accountability is enshrined in the Constitution as one of the national values and principles of governance ([Article 10 \(2\(c\)\)](#)).
- It ensures alignment between the [development interests](#) of citizens and [economic priorities](#) of the State given resource constraints.
- Accountability is a key element in the budget making process
- Accountability is a key word in the [PFM Act, 2012](#) – In fact, it is mentioned more than [10 times](#).

Transparency and Accountability

- Transparency and accountability are critical for the efficient functioning of a **modern economy** to foster **social well-being**.
- In most societies, many powers are delegated to public authorities. Some assurance must then be provided to the **delegators**—that is, **power is not only effective, but also not abused**.
- Transparency ensures that information is available that can be used to measure the authorities' **performance** and to guard against any possible **misuse of powers**.
- In that sense, transparency serves to achieve **accountability**, which means that authorities can be held responsible for **their actions**.
- Without transparency and accountability, trust will be lost between a government and those whom it governs. The result would be social instability and an environment that is less than conducive to economic growth.

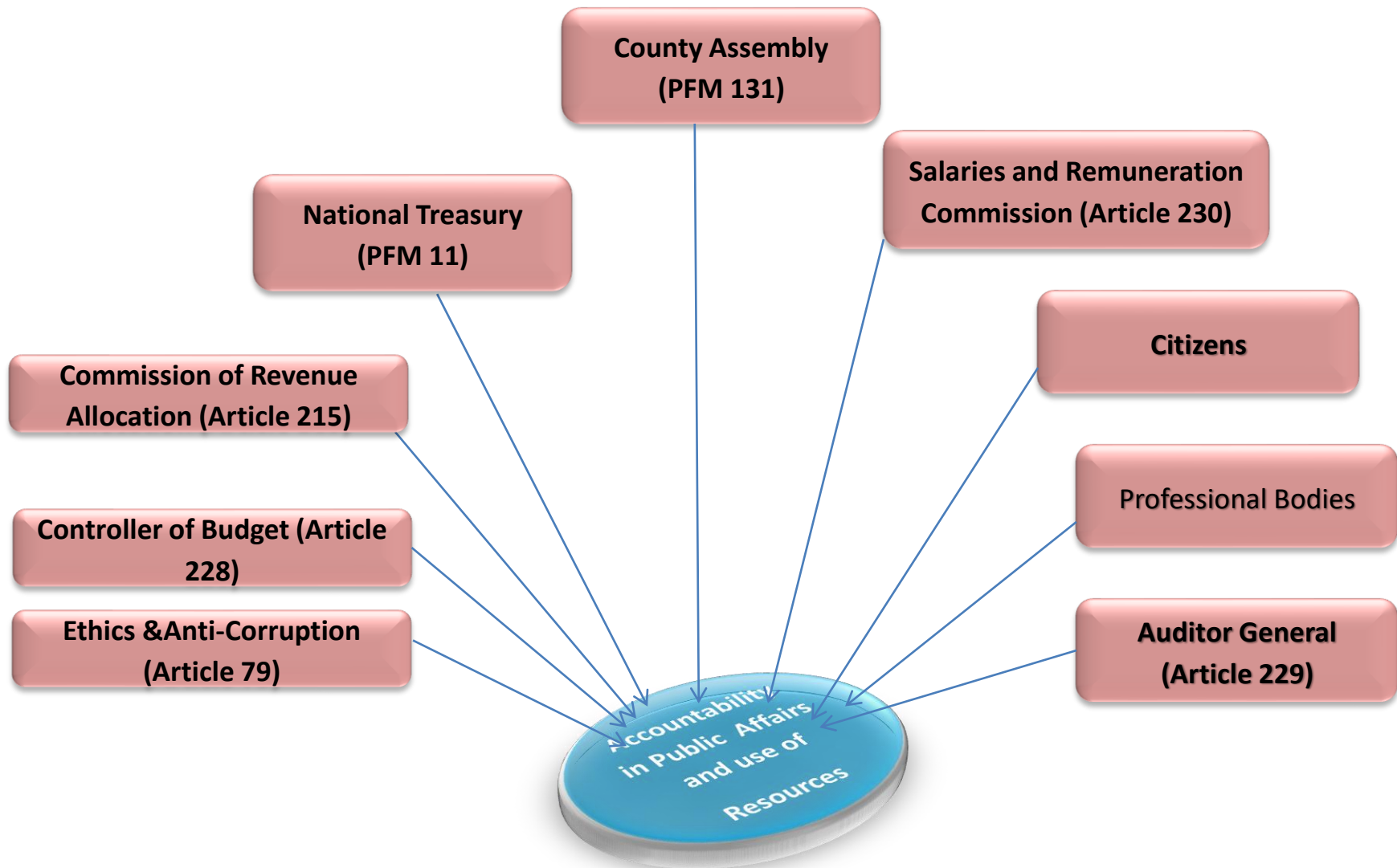
The Legal Underpinning of Accountability

- The Constitution ([Article 201](#)) calls for openness, accountability and public participation in financial matters
- [Accountability](#) is one of the constitutional mandates of the Legislature, Commissions, Independent Offices and other statutory bodies.
- It aims to ensure effective management of public and private entities in pursuit of improved service delivery to all citizens.
- Public entities are accountable to the people ([Article 249\(1\)](#)).
- Accountability is therefore a responsibility of everyone.

The Legal Underpinning of Accountability

- In addition, the Constitution of Kenya 2010 established various institutions to play an oversight role and enhance accountability in the management of public affairs.
- The objectives of these oversight institutions are to:
 - Detect and prevent abuse, arbitrary behavior or illegal and unconstitutional conduct on the part of the government and public agencies.
 - Hold the government to account with respect to how the taxpayers' money is used.
 - Ensure that government policies are actually delivered.
 - Improve the transparency of government operations and enhance public trust.

Actors on Accountability



What is Economic Growth?

- **Economic growth** refers to the increase in aggregate production in an economy. It is the increase in the production of economic goods and services, compared from one period of time to another.
- The accumulation of capital (capital investment) to the economy therefore increases the productivity of labor while technology, better and more tools ensure that workers can produce more output per time period.
- There is therefore a positive relationship between accountability and economic growth.
- This is because if public and private actors are accountable, there will be efficiency in public and private investment which will result to increased per-capita income of the citizens.
- Accountability is therefore paramount to all actors both in the public and private spheres

Accountability in Kenya

- Kenya has been underperforming in the area of accountability. The public is overwhelmed with never ending financial scandals.
- Ironically, these scandals are perpetrated through or by qualified accountants.
- This has led to lose of public trust in our sacred profession
- ICPAK should work closely with both state and non-state actors with a view of improving the tainted image of the profession
- To curb the mismanagement of public funds, ICPAK together with other professional bodies should advocate for the operationalization of the whistle-blowing law

Accountability and the Impact of Corruption

Third of Kenyan budget lost to corruption

- It is now in the public knowledge that the country loses close to a third of its budget to corruption
- As early as 2016, according to a former chair of Ethics and Anti-Corruption Commission, the country was losing an equivalent of about \$6 billion (about Kshs. 600 billion) to corruption every year.
- Although the Finance minister then disputed these estimates, the President is on record acknowledging that corruption has reached levels that are close to threatening national security.
- If we go by the latest media reports, the figure is even higher

what could 600 billion shillings do?

Let me attempt to demonstrate what this amount of money can do!

10 State-of-the-art hospitals to complement the Universal Health Care

- The Kenya's health sector is on its knees.
- More and more people are spending their hard-earned cash to get medical access even sliding into poverty.
- Most Kenyans are seeking treatment from abroad.
- If Kenya was to utilize such resources, it would build referral hospitals that would address the challenge and help ease the burden from poor Kenyans.
- In fact, building ten more referral hospitals would only cost about 500 billion shillings.

what could 600 billion shillings do?

Build Phase 2 of the SGR

- The second phase of the Standard Gauge Railway (SGR) would cost the country about 570 billion shillings.
- Phase 2A, from Nairobi to Naivasha, cost about 150 billion shillings, while phase 2B from Naivasha to Malaba would cost 370 billion shillings.
- If Kenya was to seal the loopholes, the government would comfortably spent 570 billion shillings for the project and significantly reduces the total public debt – This would free money for other development activities translating to growth in the economy.

what could 600 billion shillings do?

Wind power plants

- Kenya can construct 5 more wind power farms assuming the cost would be the same as that of the Lake Turkana Wind Power, which consumed only 68 billion shillings.
- The Lake Turkana Wind Power project that added 310MW to the national grid is complete and operational and it is set to reduce the price of electricity to consumers – this translates to economic growth.

what could 600 billion shillings do?

Nairobi-Mombasa dual carriage highway

- The estimated cost for the Nairobi-Mombasa dual carriageway is about 300 billion shillings.
- The US was contracted for that purpose and while the Kenyan government was pushing for a Private Public Partnership (PPP).
- The money lost can easily fund the project and save the country from more external debts.
- Kenya is hardly creating any new wealth from the borrowing.
- In fact, the country is struggling to pay some loans and even seeking rescheduling of loans nearing maturity.

How do we Improve Accountability

How do we Improve Accountability

- ❑ Different actors have different responsibilities in promoting accountability
- ❑ The focus should mainly be:
 - Investment in good governance
 - Improving accountability at institutional level – Both public and private institution should invest in improving accountability
 - Improving systems that will foster accountability – These include systems like the IFMIS, Internal Audit functions
 - Public/Citizens accountability – The public has a major role in improving accountability. Accountability should start at the individual level
- ❑ Accountability needs to be rooted in systems, processes and relationships involving all stakeholders.

How OCOB Improves Accountability

Accountability in Withdrawals from Public Funds

- ❑ OCOB ensures that no public funds are withdrawn from the public funds (Consolidated Fund, Equalization Fund and County Revenue Fund) without the same being authorized by law such as the Appropriations Act.

Debt Management

- ❑ OCOB ensures that all Public Debt payments from the Consolidated Fund are supported by loans agreements and repayment schedules. This has promoted accuracy of the loan repayments and prudent use of public funds. All loans repayments have been accompanied by the supporting documents.

Reporting on Budget Implementation

- ❑ The OCOB has been reporting on the Budget Implementation on a quarterly basis. These reports are submitted to Parliament and other stakeholders and highlight key issues on budget implementation such as:~
 - ✓ Performance of development expenditure(Absorption rates) – affects Investment and capital formation (growth)
 - ✓ Accumulation of pending bills – this has a negative effect on economic growth as it kills local economies
 - ✓ High expenditures on non-core activities (hospitality, foreign and domestic travels etc.) – unproductive public expenditure (does not support growth)
 - ✓ Unrealistic revenue targets and low collection – leads to pending bills

Reporting on Budget Implementation

- ❑ As a result, OCOB has observed some improvements in the following;
 - ✓ Absorption of development expenditure improved from 36.4% in FY2013/14 to 55.6% in FY2019/20
 - ✓ Expenditure on non-core activities ~ Domestic travel reduced from 5.8 billion in FY 2015/16 to 5.2 billion in FY 2019/20
 - ✓ Improvement in revenue collections by counties from Kshs.26.3 billion to Kshs.35.8 billion between FY2013/14 and FY2019/20

Public Sensitization on Budget Information

- ❑ OCOB held public participation forums in Nyeri, Kisumu, Mombasa, Eldoret, Machakos and Narok to sensitize the public on their role in Public Finance Management
- ❑ The objectives were to;
 - Explain the role of OCOB in promoting accountability in the public finance
 - Enhance public participation in the budget making process in their respective county government;
 - Partner with the public in monitoring the utilization of public funds through **social audit** as required by law.

Public Sensitization Forum in Narok



Review of Planning & Budgeting Documents

- ❑ The OCOB through the review of planning and budgeting documents (BROP, BPS etc.) has been advocating the need for more comprehensive and clear budgets to promote development.
- ❑ The OCOB analyses budget documents for both national and county governments to check for their compliance with the law and give appropriate recommendations.
- ❑ In most of the times, the documents are adjusted accordingly to reflect the recommendations by OCOB.

Accountability in Public Expenditure ~ Use of IFMIS

- ❑ The OCOB has been advocating for the use of Integrated Financial Management System (IFMIS) by both the national and county governments ~ to promote transparency and accountability in management of public funds.
- ❑ As a result, all MDAs and county governments are now using the IFMIS system.

Strengthening Oversight of County Assemblies

- ❑ The OCOB held forums with County Assemblies to strengthen their oversight role in the management of public resources by the county executives.
- ❑ Key areas of focus included;
 - Collaboration with the County Assemblies to strengthen accountability in the budget making and implementation process
 - Linkage between planning and budget documents ~ CIDP, CBROP, CFSP and ADP.
 - Key challenges in budget implementation – Absorption, reporting, pending bills, stalled projects, compliance with PFM Act 2012 requirements etc.

Capacity Building Forum with Members of the Narok County Assembly



How Other Actors can Improve Accountability

How other Actors can improve Accountability

- Generate information/data on areas of concern, and develop proposed policy or programmatic interventions/solutions
- Identify appropriate approaches to elicit effective dialogue with the public to encourage accountability
- Engage communities, other civil society organizations, the media, and the public at large to voice concerns and rally in support of proposed changes
- Conduct investigative journalism to expose ills within the society
- Monitor the performance of the government in fulfillment of its commitments

How other Actors can improve Accountability

- Develop Structures for stakeholder engagement, such as citizens and civil society groups, to provide feedback to and request information from government on policy implementation and service delivery
- Development partners should support accountability initiatives through programmatic and operational frameworks that promote sustainable development processes.
- The Media should use their editorial independence to report on issues relating to accountability and economic growth

Challenges in Accountability Process

1. Lack of effective structures for accountability

- The PFM Act, 2012 provides for the establishment of internal audit functions to ensure accountability
- The Internal Audit functions in most counties are weak and cannot address the issues of accountability and financial controls at the county level. With strong internal audit functions, the Office would rely on their reports to undertake oversight.

2. Inadequate financial management systems

- The financial management systems do not provide complete information to the OCOB for reporting purposes.
- Some IFMIS modules have not been fully operationalized in some counties - e-procurement, e-revenue etc.
 - This affects the accuracy of the information given to the OCOB for reporting hence weak accountability.

Challenges

3. Ineffective County Budget and Economic Forums

- The PFM Act, 2012 provides for the establishment of County Budget and Economic Forums to ensure accountability in the budget making process
- Some counties have not operationalized CBEFs, a key organ that promote accountability in the use of public resources

4. Poorly formulated Budgets

- The Public Finance law requires all budgets to be Programme Based
- A number of budgets do not conform to the Programme Based Budgets as required by law. This makes the Monitoring and Reporting by OCOB quite a challenge.

Why Tackling Challenges Would Lead to Growth

Interventions to Stimulate Economic Growth

Effective Accountability Structures

- The National Treasury should ensure effective functioning of the IFMIS system to promote efficient use of public resources – This will translate to economic growth as there will be value for money in all the sectors of the economy
- Establishment of effective Internal Audit Functions (including Audit committee) will identify any loopholes as public resources are being spent and deter any losses through corruption leading to better accountability.

Interventions to Stimulate Economic Growth

Strong and effective Institutions for Accountability

- All oversight and accountability institutions established through the Constitution and the PFM Act 2012 should endeavour to champion for accountability at all levels – both state and non-state actors. As demonstrated earlier, most of the resources lost through unaccountable ways (corruption) have the potential to stimulate growth in the economy

Good Governance at all Levels

- Good governance is one of the pillars of accountability. Investing on good governance means that institutions will be better managed to maximise output and therefore economic growth

Interventions to Stimulate Economic Growth

Good Budgets

- Budgets should focus on social sectors as well as sectors that contribute to growth and translate to better outcomes.

Conclusion

Conclusion

- Kenya is on record as underperforming in accountability spheres – It is the right time we took drastic measures
- Accountability should be the responsibility of everyone ~ *both state and non-state actors should take the lead.*
- For instance, I see a lot of irresponsibility in our Kenyan roads – *When you overlap and block other motorists, you all end up in a crazy traffic jam.*
- How much time is lost? How much fuel is burnt (lost) in the process? Is this contributing to economic growth or not? *It is estimated that Kenya loses Kshs. 100 billion annually due traffic congestion/jams.*
- Without accountable institutions and administrations, there cannot be meaningful economic growth to guarantee even basic services – *clean water, healthcare and education.*