



REPUBLIC OF KENYA
EXECUTIVE OFFICE OF THE PRESIDENT

ON-GOING PARASTATAL REFORMS
(RATIONALE AND STATUS)

STATE CORPORATIONS ADVISORY COMMITTEE (SCAC)

INTRODUCTION / BACKGROUND



H.E The President appointed a Taskforce on Parastatal Reforms on 23rd July 2013 tasked with the responsibility of reviewing and recommending policies on management and governance of State Corporations to ensure that:

- They contribute to National Development Goals
- They align with the Constitution of Kenya, 2010
- Reduce over-dependence of State Corporations on the Exchequer



INTRODUCTION/ BACKGROUND...cont

The Taskforce developed:

- A report on Recommended Parastatal Reforms
- A draft Government Policy on Management of Government Owned Entities

H.E The President adopted the report and issued the **Government Policy on Management of Government Owned Entities** in October 2013.

THE UNDERLYING REFORM PHILOSOPHY



Scaling up efficiency, effectiveness and accountability of Parastatals

Removing duplication & overlaps by re-clustering activities of every sector into Policy; Development and Promotion; Regulation; Research; Education & Training

POLICY IMPERATIVES THAT INFORMED THE REFORM PROCESS



Challenge 1: Unclear policy and policy coordination: Previously, Government policies relating to State Corporations:

Were scattered in various circulars and policy briefs

Lacked a single reference point with a coherent policy to provide guidance on governance leading to poor definition, conflicts as well as fragmentation of mandates

Gave room to a proliferation of poorly resourced State Corporations.

Solution:

- The Reforms have heralded the development of an overarching policy; *Government Policy on Management of Government Owned Entities* (2013) which has created a new institutional framework for governance, management and oversight of State Corporations



Challenge 2: Lack of an over-arching Law:

Previously, State Corporations

could be established, dissolved and regulated through various pieces of legislation eg:

The State Corporations Act

The Public Finance Management Act, and

The individual enabling legislations

Solution:

- The Government Policy on Management of Government Owned Entities (2013) requires enactment of a single over-arching law which is currently *The Government Owned Entities Bill, 2015*;

Challenge 3: Corporate governance:



The management of State Corporations has for long been characterised with:

Poor governance leading to resource loss and burdening the public purse

Weak and/or ineffective Boards, leading to failure to provide strategic direction

Myriad of oversight institutions that generate multiple reporting and accountability.



Solution:

A Code of Governance dubbed *MWONGOZO* has been developed with the following expected outcomes:

- Effectiveness of Boards
- Transparency and disclosure
- Accountability, risk management and internal controls
- Ethical leadership and good corporate citizenship.
- Enabling Kenya to become the first African Country to gain membership of the Organisation for Economic Co-operation and Development (OECD)
- Ensuring that performance and excellence become the hallmark of governance in the Government Owned Entities (GOEs).

Challenge 4: Poor Linkage with the National Development Goals:



There has for long existed lack of clarity on the role that State Corporations should play in the economy. This is compounded by the apparent differences in opinion in respect to the exact role of the state in the national development effort.



Solution: The Policy on Reforms has:

- Rationalised and consolidated some State Corporations so as to ensure they address national development priorities, including Vision 2030.
- Made deliberate measures to separate commercial activities from the non-commercial roles of policymaking, regulation and service delivery
- Established the *Government Investment Corporation (GIC)* as an investment holding company to exercise ownership and management oversight over commercial State Corporations on behalf of the National Treasury.

Challenge 5: Duplication and overlaps



Due to lack of a definitive policy to guide establishment of State Corporations, the country has witnessed a proliferation of institutions that are ineffective and lack capacity to create any impact in terms of service delivery.



Solution: The Policy has provided clear direction for the establishment, merger and acquisitions, transfers of functions, dissolution and operations of GOEs. It has also merged various State Corporations with an aim of:

- Increasing efficiency and effectiveness
- Enhancing the ability of the State Corporations to participate in flagship projects of Vision 2030
- Removing overlaps & duplication

Challenge 6: Dwarfish State Owned Banks



State Owned banks are not well capitalized to enable them participate effectively in the economy by providing capital to finance required infrastructural projects.

Solution: It is therefore the intention of Government that State Owned Banks be consolidated with a view to:



Increasing size, scale, efficiency and effectiveness

Reforming the distribution and market impact of Government securities, justifying Primary dealerships and creation of a wider Secondary Market, thus guiding Market interest rates

Enhancing the ability of Kenyan banks to participate in flagship projects of Vision 2030

Helping position Kenya as a Regional Financial Hub and support establishment of the Nairobi International Financial Centre NIFC



Challenge 7: Management of Natural Resources

The Policy

recognizes the need for the country's preparedness for economic management of natural resources whose exploitation is expected to accelerate in the medium term.

Solution: To this end, the policy establishes the **National Sovereign Wealth Fund** whose key objectives are to:



Protect and stabilize the budget and economy from excess volatility in revenues/exports;

Diversify from non-renewable commodity exports;

Assist monetary authorities sterilize unwanted liquidity;

Increase savings for future generations;

Fund social and economic development; and

Enhance sustainable long term capital growth

Current Status



- ❖ Govt' has developed & issued MWONGOZO; the Code of governance for State Corporations
- ❖ State Corporations earmarked for MERGERS have prepared their respective merger Road Maps
- ❖ State Corporations whose functions were determined to be moribund had the functions transferred to Ministries
- ❖ The Government Owned Entities Bill, 2015 has been prepared and is now within Cabinet for consideration
- ❖ The National Sovereign Wealth Fund Bill, 2015 is undergoing round table consultations with the CIC

Current Status...cont



- ❖ Deliberate action has been taken to ensure that Ministries retain the policy formulation portfolio while State Corporations operate within the reform philosophy of clearly delineated and separated mandates, ie:
 - ✓ Regulatory
 - ✓ Development & promotion (commercial & service)
 - ✓ Research
 - ✓ Education & training

Way Forward



- ❖ Fast track enactment of the Government Owned Entities Bill, 2015
- ❖ Fast track enactment of the National Sovereign Wealth Fund Bill, 2015
- ❖ Fast track enactment of all the other enabling legislations
- ❖ Provide seed capital for NSWF
- ❖ Establish the Government Investment Corporation (GIC)
- ❖ Establish the National Oversight Office (NOO)
- ❖ Coordinate a change management strategy and plans

