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INNOVATION AND TRANSFORMATION IN KENYA

A Conversation with Honorable Governor, H.E Ukur Yatani, Minister of Finance, Republic of Kenya and Chair of the Africa Constituency Group I

Technological progress has long been accepted as having significant impact on economic growth and development. The rapid technological change the world has witnessed since the second world war has been an important driver of the rising incomes as well as the substantial reduction in the share of people living in absolute poverty. The good news in this early part of the 21st century has been the increasing realization within African countries and among Africa's development partners that science, technology and innovation (STI) plays a critical role in ensuring rising productivity, wealth creation and national transformation.

This realization heightened significantly in this early part of the 21st century as a result of the accelerating pace of technology diffusion, the convergence of multiple technologies, and the emergence of global platforms which are disrupting traditional business and development models. It is clear that science, technology and innovation must be an essential part of the development equation in Africa if the continent is to accelerate its socio-economic development and transformation.

Many countries on the continent are now investing and are embarking on upgrading their STI capabilities. While the continent continues to lag behind, progress is visible on many fronts. The establishment of technology parks and innovation hubs, the pledge to invest more funds in research and development, and the changing policy landscape to encourage innovation and entrepreneurship are some of the changes taking place on the continent. In quite a few countries today, innovation competitions and the emergence of technology start-ups have taken center stage, especially among the youth.

One of the leading countries working on upgrading its STI capabilities is Kenya. In fact, the Kenyan experience needs to be shared. It will provide lessons for other developing countries, especially those in Africa. It is in this regard that we talked to the Honorable Governor, H.E. Ukur Yatani, Minister of Finance of the Republic of Kenya and Chair of the Africa I Constituency Group. The conversation was meant to explore the Kenyan experience in working towards upgrading its STI capabilities to achieve the nation's Vision 2030.

Question 1.

Honorable Chair, thank you for accepting to participate in this conversation. We are grateful that you accepted to be the first in this new endeavor by the Constituency Office. Governor, could you kindly tell us about the roles that science, technology and innovation are expected to play in the achievement of Kenya's development agenda?

Response

Let me begin by congratulating the Constituency Office for this initiative and to thank the team for the invitation to participate in this conversation.

Our national development is guided by our Vision 2030. In fact, Vision 2030 provides the guiding principles, the framework and the future that we want to build for our nation. In this future, we are very clear on the importance of science, technology and innovation.

We live in a changing world. The only thing that is constant is rapid scientific and technological change. Moreover, in the emerging world of 5G, the rate of change is expected to rise exponentially. As such, we have prioritized our nation's transformation to a knowledge-based economy. This we are working on by integrating STI in our development agenda and plans.

We know now the importance of technological advancement on productivity, competitiveness, and wealth creation. The fact is, if we want to re-write our development story, we have no option but to build and upgrade our capabilities in STI. It is the only way we can ensure continuous rise in our productivity, the diversification of our economy, and the enhancement of our capacity to compete on an equal footing in the global marketplace.

This is why STI has become a key element of our development agenda, and I must dare say should also be for all African countries. It is the only way we can achieve the dreams of Africa's industrialization and transformation of our founding fathers and mothers, and lately, of the AU's Agenda 2063. This is quite important in today's era of scarcity of resources and climate change. We have to innovate. We have to turn to science and technology to ensure that we are able to adapt and to develop new approaches to development and transformation that are friends of the environment.

Question 2.

Honorable Governor, how is Kenya going about placing STI at the center of its development agenda?

Response

Our approach has been to work towards building a national innovation system that is robust and that will ensure that our nation is welcoming and supportive of the emergence



Ukur Yatani, Minister of Finance, Republic of Kenya and Chair of the Africa Constituency Group 1

of scientific and technological progress. So what we are doing is to fast track the building of the capabilities of our national innovation system. We have also put in place policy framework that we hope will ensure our competitiveness in the international technology market. This includes implementing targeted programmes in key priority areas as well as creating supporting institutions to help lead our efforts.

In 2013, for example, we passed the Science, Technology and Innovation Act and as provided for by the law, we established the National Commission for Science Technology and Innovation (NACOSTI) at the apex of our efforts. Other institutions that we have created to promote, support and regulate the STI include the Kenya National Innovation Agency (KENIA), and the National Research Fund (NRF). We also have the Ministry of Education, Science and Technology which is focused on policy and capacity building as well as research through a multiplicity of agencies and the educational system.

We are not there yet. But we are building the right institutions and working to ensure they are fulfilling their respective roles while also working together for a common purpose and objective. Our innovation ecosystem is emerging, and it is making it easier by the day for innovators and entrepreneurs to build exciting technologies and products like Mpesa.

We will continue to build on the emerging innovation ecosystem. We will continue investing and we are also encouraging the large private sector with the resources to engage and invest in research and development, as well as to adopt and work with the many technology start-ups in Kenya which our youth are leading.

Question 3.

Honorable Governor, you have just mentioned Mpesa. It is one of the biggest fintech products in the world today. Could you please explain how Kenya emerged as one of the fintech leaders in the world today, using the MPESA example?

Response

In a way, it is the supportive environment that facilitated the growth of Mpesa. The regulatory environment is highly focused on serving as an enabler. Many actors were against Mpesa originally because of fear of competition and potential for illicit activities. But our system provided the space and Mpesa took off. By allowing Mpesa to start despite the unknowns and fear at the time, we ignited a revolution in the payment sector in Kenya.

The key lesson for me is the need for regulators that have a light touch. Regulators that aim to serve as an enabler and not as an obstacle. Our public sector agencies have to work in a manner to ensure that while they serve as the guardian and protector of the public interest, it is also in the public interest to provide an enabling environment that enables and not focused on blocking initiatives.

Today, a major portion of GDP happens through Mpesa transactions. Mpesa has now spread to many other countries in the region. This example has also made Kenya known as a country with a good environment for innovation and serving as a catalyst. We now have investors (both local and foreigners) investing in technology start-ups and we also now have founders coming from different parts of the world to setup their companies in Kenya. This is good and it is in alignment with our Vision 2030.

Question 4.

Honorable Governor, what is Kenya doing to maintain its STI leadership and to extend this leadership to other areas?

Response

The good news is that we have gotten many things right. But we are just beginning, and it is going to be a long journey. As the popular proverb states, a journey of a thousand miles begins with the first step.

We cannot rest on our laurels and we must engage continuously to build the ecosystem that is conducive and supportive of innovation. This is why we will continue to

invest in building the supporting institutions, ensuring that we are promoting collaboration among the public agencies, as well as with industry. As the experts have informed us, innovation is a social activity and it is built on the strength of relationships between the actors within the system, especially the government, industry and the academy.

Each of these have their respective roles to play within the ecosystem. However, it is not clear-cut nor do we have full segregation of roles. The key is to promote collaboration and working together for a common purpose. What we are doing, and continue to do is strengthen the institutions, empower and enable innovators, facilitate collaborations among the various actors, as well as invest.

One of the areas, we as government are investing in is education and in building talent. We are also investing in R&D through our government agencies and research institutes. We are ensuring that we have an institutional environment that encourages investment. We are also building the necessary infrastructure. One of this is the Konza Technopolis which we believe is potentially a game changer when it is completed. It will facilitate the quantitative jump that we need.

Question 5.

Yes, Honorable Governor, talent is important. In the emerging world, talent is key. In fact, in the so called fourth industrial revolution which is emerging, what will matter most for countries is the ability to build talents. What is Kenya doing to build the talents?

Response

Yes. I cannot agree more. Education is key. We have no choice. We must build talents. Education is a priority for the government of Kenya, not today, but since the independence. Free primary education was introduced in 2003. For day students in secondary schools, free education was introduced in 2008. Enrollment in both primary and secondary school has increased substantially. Net enrollment in primary school and graduation rates are both well over 90%. This is a trend we want to encourage to continue. It is why we will continue to invest in education.

At the high education level, we have also witnessed significant growth. We now have over 50 universities, about equally divided between public and private institutions. We also have over 500 Technical and Vocational Education and Training (TVET) institutions across the country. The free education in primary and secondary schools is fueling large demand for high and technical education.

We have made significant progress in resolving the challenge of access. The main issues left now are quality and relevance. For this, we now have systems for accreditation to ensure minimum standards. Our goal as a nation is to ensure that Kenyan youth acquire quality skills that are in demand in the marketplace. We want them to

have access to quality and relevant competence-based learning. Also, we need to engage and facilitate opportunities for lifelong learning. Learning must not end after graduation.

In this respect, we are reforming our education system to ensure that outputs are relevant to the needs of the market as well as ensuring that our educational system place emphasis on quality. One of the things we are also doing is encouraging research in our universities and public research institutes. We are facilitating linkages between academia and industry to encourage the translation of research into practical products. Not only are our universities engaging in research, they are also now engaged in coaching, mentoring and incubating startups.

Question 6.

Funding has emerged as a major bottleneck for STI on the continent, both for governments and private sector. Honorable Governor, what is Kenya doing to ensure it addresses this challenge.

Response

Finance has always been a constraint. Our needs are huge, as a nation trying to develop and transform both its economy and society. We have competing needs for the limited resources which we do have. The fact is we do not have enough.

The focus of the government under the leadership of the President is using what we do have responsibly. It is the funds of the people. We are only caretakers. Our goal is to use the funds wisely and effectively to achieve our national goals. Better management and transparency are a must. We are also improving our tax administration to ensure we reduce all the leakages. The result has been an improvement in domestic resource mobilization.

Despite the limitation, we are making all the efforts to ensure we provide funding to build our scientific and technological capabilities and to support innovation. For example, the government is committed to spending 2% of the nation's GDP on research and development, as well as other innovation activities over time. We have a system in place through the National Research Fund to mobilize resources in support of research, as well as for dissemination of research findings and capacity building.

We know the government's resources alone is not sufficient. All the other sectors must engage in this effort. Our approach is to ensure that there are incentives for the private sector, individuals as well as foreign investors to fund innovation in Kenya.

SOMALIA RECEIVES DEBT RELIEF

On 25th March 2020 Somalia reached a significant important milestone following the World Bank and International Monetary Fund determination that Somalia had taken necessary steps to receive debt relief under the Heavily Indebted Poor Countries Initiative (HIPC). The HIPC was designed to ensure that the poorest countries in the world would not be overwhelmed by unsustainable debt burdens, thereby reducing the debt of countries that meet their strict eligibility criteria. Somalia is the 37th country, since the inception of the HIPC Initiative in 1996, to reach the HIPC "Decision Point".

As a country that was devastated for many years by civil war and the economy and infrastructure of which had been destroyed, Somalia has implemented policies to guide its recovery from the stateless stage and is now in the progressive phase of state rebuilding. Prior to the country's qualification for debt-relief under the HIPC Initiative, access to financial resources, which Somalia was in desperate need of was constrained due to debt accumulation which had not been serviced since 1991 when the state collapsed. The reaching of the HIPC Decision Point was the culmination of a long journey. Somalia first re-established relations with the IMF in 2013, a year after the Transitional Federal Government gave way to the establishment of the Federal Government. Since then, Somalia has completed three Staff-Monitored Programs and made significant progress in demonstrating the government's commitment to fiscal responsibility and to rebuilding the institutions that allow the financial system as well as the country to function.

February 26, 2020 saw the approval of Somalia's Arrears Clearance framework by the African Development Bank Group Board. This clears the way for the Bank to reengage with Somalia fully and opens new opportunities for enhanced financing for the country. A Policy Based Operation was also immediately approved which will help boost economic growth.

Moreover, the process of normalizing relations with the World Bank Group was completed on March 5, 2020, when the Federal Government of Somalia cleared its arrears to the International Development Association (IDA) by means of a bridge loan from Norway which was repaid from the Somali Development Operations approved by the World Bank Board on 27th February. Henceforth Somalia will have access to new resources from the IDA.

In addition, on March 25th, arrears to the IMF were cleared with the assistance of bridge financing from the government of Italy, which the authorities have reimbursed using the front-loaded access which the new IMF financial arrangement allow. Consequently, the IMF Executive Board approved a new 3-year financial arrangement under the Extended Credit and Extended Fund Facilities. Thus, the Federal Government has cleared arrears to the IFI's, thanks to the assistance from the European Union and the Governments of Italy, Norway, Qatar, the United Kingdom.

On March 31st, the Federal Government of Somalia led by the Minister of Finance took part in a virtual meeting with the Paris Club creditors. The members of the Paris Club commended Somalia's strong case for debt relief and agreed to restructure its external public debt, leading to the immediate non-ODA cancellation of \$1.4 billion US Dollars effective immediately.



The World Bank Group President David Malpass and Abdirahman D. Beileh, Minister of Finance, Federal Republic of Somalia

The developments of the last two months are a big moment for the government of Somalia and its people. Ms. Anne Kabagambe, Executive Director for Africa Constituency Group 1 congratulated the government of Somalia under the leadership of President Mohamed Abdullahi Farmajo, Prime Minister Hassan Ali Khaire and the Minister of Finance, Abdirahman Beileh for reaching this historical milestone. She further highlighted that Somalia's re-engagement with the WBG would provide access to much needed resources for the government of Somalia to deliver services to its people by bringing stability and reducing poverty and that the opening of this new chapter will continue as the government deepens and expands the implementation of the reforms.

Somalia's debt relief discussions with the Paris Club creditors will continue on a bilateral basis. Additionally, the Government of Somalia will seek to engage positively with Non-Paris Club creditors in order to find a way forward on the remaining bilateral arrears, seeking a solution comparable to that reached with the Paris Club creditors. The Creditors committed to cancelling the remaining debt of Somalia as soon as it successfully reaches Completion Point in March 2023.

For its part, Somalia commits to maintaining macro-economic stability; to implementing reforms focused on fiscal stability, and to improving governance and debt management. Together with programs to reduce poverty and strengthen social conditions while supporting inclusive

growth, this will lead to greater stability for Somalia as the country builds on what has already achieved. Technical assistance and policy guidance will continue to come from World Bank and IMF in the context of ongoing and newly agreed projects and commitments.

Further, the World Bank is considering a range of new IDA investments, made possible now by the normalizing of relations. The focus will be on providing immediate relief for communities impacted by recent disasters including flooding and the locust invasion. In addition, with the current global pandemic, COVID19, threatening to disrupt economies, Somalia anticipated tremendous challenges in addressing COVID19 related outcomes. There, therefore, could not have been a more opportune moment that the current for Somalia to have reengaged with the World Bank Group as it is now eligible to access the WBG Fast Track Facility on Emergency Response and Pandemic Preparedness. The new assistance that has been unlocked will be essential for Somalia's response to the COVID19 pandemic.



H.E.M. Abdirahman D. Beileh, Minister of Finance, Federal Republic of Somalia

As the country continues on its path towards stability and development, the normalization has re-opened access to and indeed already provided critical financial resources to meet current challenges as well as strengthening the economy, help improve social conditions, raise millions out of poverty, and generate sustainable employment for Somalis.

DEVELOPMENT COMMITTEE

Joint Ministerial Committee of the Boards of Governors of the WBG and the IMF

Transfer of Real Resources to Developing Countries

ONE HUNDRED AND ONE MEETING WASHINGTON, DC (VIRTUAL)

April 17, 2020

Statement by H.E. Thambo Gina Minister of Economic Planning & Development Eswatini For Africa Group 1 Constituency

1. The novel COVID-19 pandemic continues to plunge the world into a socio-economic turmoil of unprecedented magnitude. Additional to its devastating human and health crisis, the pandemic has brought a sizeable part of the world economy to a stand-still. African countries are expected to be hardest hit due to their frail private sector characterized by the large informal sector, weak fiscal balances and limited coverage of social safety nets. In our constrained health systems, the spread of the virus and inadequate containment efforts pose significant risks to the well-being, social and economic security of many African economies.

2. At a time when the world is facing this fast-moving and complex pandemic, the role of the WBG as a global convener, knowledge and multilateral development institution, is even more critical. We, therefore, commend the WBG for launching the Fast-Track COVID-19 Facility to respond to the spreading coronavirus across the world. We are in support of the objectives of the Facility, to provide a fast and flexible response, including emergency financing, policy advice, and technical assistance to support developing countries in dealing with the spread of COVID-19. We urge the WBG to increase support to the most affected and least resourced countries to respond to the pandemic. This pandemic has moved from being a health sector crisis to a development crisis and the containment efforts are having serious impact on the agricultural sector particularly, in those African countries recently invaded by locusts and armyworms.

3. Our Constituency further urges the WBG and IMF to provide post-pandemic financial support and interventions to stabilize, improve and enhance the recovery efforts and resilience of our countries to deal with the pandemic and similar outbreaks that could have a significant impact on economies. In this respect, we suggest that a full assessment of the impact on economies, livelihoods and social environment be carried out to inform the design of policies and a post-pandemic economic stimulus package for the affected countries. We also call for the strengthening of African institutions to respond to similar crisis in the future.

4. We support the call by the Heads of the two Bretton Woods Institutions to the G20 that bilateral creditors suspend debt repayments for countries affected by the COVID-19 pandemic when they request forbearance. We also call on them, as well as other multilateral institutions, to extend debt service relief to low-income African Countries for two years. Similarly, we support the call by the African Finance Ministers in Addis Ababa for development partners to consider debt relief and forbearance of interest payments for all African countries, LICs and MICs alike, given that the global economy has entered a period 2 of a synchronized slow down. We urge the IMF also to consider similar debt relief support as a response for countries that were recently impacted by the Ebola Virus Disease.

5. As emphasized by the African Finance Ministers, we urge that debt relief for all of Africa be undertaken in a coordinated and collaborative way. Additionally, since a pandemic like the coronavirus does not respect boundaries between countries, we call on the WBG to ensure that all countries including those in non-accrual status get the fiscal space required to deal with the COVID-19 crisis.

6. To support the post-pandemic recovery, we encourage the WBG to deepen its engagement with our countries to accelerate the implementation of the Jobs and Economic Transformation (JET) Agenda in Africa. The pressing demand for quality jobs calls for urgent action both on upstream analytical works as well as designing appropriate operations, supportive of national development strategies. We particularly expect the WBG to prioritize interventions within the Agriculture sector that engages a substantial proportion of Africa's population.

7. Finally, we urge the WBG to adopt mechanisms to facilitate systematic cooperation with other MDBs to tackle the pandemic and related post-development without duplicating each other's efforts. The WBG, in collaboration with other international agencies, should also facilitate and accelerate learning and information sharing on the most effective strategies in addressing such pandemics and recovery. We suggest the allocation of areas of expertise for each MDB to work on in this respect.