

UNIVERSITY OF NAIROBI



**THE EFFECTS OF CORRUPTION AS AN ECONOMIC CRIME ON
ECONOMIC GROWTH AND IMPLICATIONS ON NATIONAL
SECURITY IN KENYA, 2005-2016**

BY

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DECLARATION

I declare that this project is my own original work and has not been presented to any other institution for the award of Diploma, Bachelors or Master's Degree.

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DEDICATION

I dedicate this project to my wife Purity Chirchir, my son Bradley Kipchumba and daughters Brine Chepkemboi and Beryl Koech, my brothers, my sisters and my friends who have been steadfast in encouraging me to pursue greater academic heights and excellence. I also dedicate this project to my employer in recognition of the immense support I received during my studies.

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My sincere gratitude foremost goes to the Almighty Father for His grace without which, this project and my entire education journey could not have been realized. To my employer, the National Intelligence Service, I am very grateful and honored to be the recipient of the Scholarship award to undertake my master's studies. I am also grateful to my employer and colleagues for the support I received in the pursuit of my studies. To my supervisor Prof. Katumanga Musambayi, thank you, who by his example as a scholar, teacher and mentor has motivated me to demand excellence from myself. I also wish to sincerely appreciate the support of all my lecturers and their efforts to impart knowledge to the best of their ability and in the process open my mind to pursue research in this area of study. To my entire family, relatives and friends thank you for your understanding and for bearing with me during the period of my studies. To all I say thank you and may God bless you.

LIST OF ABBREVIATIONS

ADF	Augmented Dickey Fuller
ARDL	Auto Regressive Distributed Lag
CPI	Corruption Perception Index
CR	Corruption Rank
EXTD	External Debt
FDI	Foreign direct investment
FRC	Financial Reporting Centre
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GFI	Global Financial Integrity
GMM	Generalized Methods of Moments Estimation
IIF	Illicit Financial Flows
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
MS	Money Supply
ODA	Official Development Aid
OLS	Ordinary Least Squares
PINV	Public Domestic Investment
RCR	Relative Corruption Ranking
UNECA	United Nations Economic Commission for Africa
UNEMPL	Unemployment Rate
USD	US Dollar
VAT	Value Added Tax
WB	World Bank

ABSTRACT

The goal of this thesis is to explore the effects of corruption as an economic crime on economic growth and its implications on national security in Kenya in the period 2005-2016. While Kenya is faced with myriad of endemic economic crimes that increase in magnitude and dimension daily that have devastating effects on the wellbeing, security and consequently the economy, in particular, there has been an apparent surge in the number and magnitude of corruption cases. And yet there is a dearth of literature linking corruption as an economic crime to economic growth. Additionally, few studies if any have attempted to wade into the trilemma of the nexus between corruption, economic growth and national security thereby leaving a huge literature and methodological gap. Specifically, the study addressed three objectives; first, to examine and analyze the effect of corruption on Kenya's economic growth. Second, the study sought to examine and analyze the security implications of corruption in Kenya. And third, the study sought to examine and analyze the apparent growth of corruption notwithstanding a wide range of Government measures to counter it. To achieve these objectives, the study sought to respond to the question how does corruption affect Kenya's economic growth; what explains the apparent growth of corruption notwithstanding a wide range of Government measures to counter it; and what are the security implications of corruption in Kenya? The central arguments in this study is that corruption undermines economic growth through a wide range of negative political, economic, military, societal and environmental effects it engenders; The argument underlying this increase in corruption is corruption derived in relation to the cost incurred. The net effect of this are the national security threats.

In advancing the central arguments, the study adopted Barry Buzan's framework which states that security can be undermined by factors from different sectors namely military and social political factors. The study was underpinned on the classical growth theory by Adam Smith, Thomas Malthus, David Ricardo, François Quesnay, John Stuart Mill and Karl Max which posits that high level of corruption represents a leakage from the economic systems and therefore distorts capital accumulation and the allocation of public resources in form of public investment resulting in disruption of income distribution.

To close the literature and methodological gaps, the study employed explanatory research design to examine the relationship between corruption as an economic crime and economic growth in Kenya. The study utilized both primary and secondary data from the Kenya National Bureau of Statistics, (KNBS), Global Financial Integrity, World Bank and Transparency International from the period 2005 to 2016. Findings from the study led to the conclusion that Kenya's economic performance has been negatively affected by corruption and that deterioration of national security is partly on account of corruption.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

To achieve its aspirations of economic sovereignty and create employment to its citizens, countries primarily target to achieve positive economic growth. To achieve this goal, Governments have predominantly focused on key factors that enhance economic growth such as government expenditure, gross capital formation, foreign direct investment and the general macro-economic stability with little to no emphasis on factors undermining growth. One of the factors that have potentially devastating effects on the economic growth, security and wellbeing of a country is corruption. Given that corruption can be interlinked with other forms of economic crimes such as illicit financial flows, terrorism financing and money laundering may aggravate the potential impact of this economic crime on a country's economic growth.

Corruption has emerged as the most challenging destruction to social-economic development in the African Continent among other developing nations in the world. The vice has very negative effects on the social fabric of our society since it deters foreign direct investment, reduces chances of employment opportunities, reduction on tax targets, revenue loss, increases the cost of doing business across the board as well as causing loss of revenue to local and multinational firms in different countries in the world. In the political sphere, corruption encourages abuse of human rights, disregards the implementation of rule of law, weakens all government systems in terms of loss of transparency and accountability on governance issues and causes loss of public trust to government institutions. More so with regard social aspects, corruption causes increase of poverty levels among households due to delayed or denied opportunities to ordinary citizens. It also encourages inequalities on resource allocation as well as income levels among members of the public. Generally, corruption is a major impediment to Millennium SDG's that ought to be addressed urgently through collective responsibility of all Nations (Economic Commission for Africa and Advisory Board on Corruption in Africa, 2017).

Githongo observes that corruption involves “large-scale economic delinquency”, “scams whose figures are so huge that when they are successfully concluded, they have macroeconomic consequences”¹. He observes that the escalation from grand corruption to looting is usually symptomatic of regimes which are so desperately insecure. Githongo, who exposed a £500m corruption scandal² (Anglo-leasing) that implicated several senior politicians, points out that government corruption remained a serious and deepening problem in Kenya. Organized crime involves human trafficking, drug peddling, and piracy among other. More importantly such crimes are all driven by funding from proceeds of corruption practices. The situation is worsened when the same criminal gangs influence government institutes to conduct their illicit activities.³

Corruption and mass accumulation of public resources by political elites has been conceptualized as a ‘political-business’ in a ‘marketplace’ (de Waal, 2015). de Waal’s concept of a ‘political marketplace analogy’, is premised on the analysis of the actions of violent warlords who a also business tycoons that use their political power to engage in business of buying and selling of goods and services through back door dealings and cooperation thus politics is business and business is politics. So politicians operate in a shadow world of illicit finance.

The simplest form of getting political money is primary accumulation: theft and extortion. This was seen in the 1980s and 1990s in Sudan and Somalia (de Waal, 2015).de Waal observes that more complex forms are exacting payments from trade or local production, monopoly renterism (for example oil revenues) which are today dominant in Sudan and South Sudan. Various forms of organizing political power and business generate different levels and kind of political financing. Certain industries – oil, banking and arms, in particular – are ideal sources of political funds.

The genesis of corruption can be traced back in the colonial era. The act corruption is criminal in nature and it affects all sectors of the economy when left to flourish The cause of corruption in post-colonial Africa can be assessed by the method of governance during the colonial era.

¹ Anything, any one is a better alternative to looting Jubilee, by David Ndi. <http://www.nation.co.ke/oped/Opinion/Anything--any-one-is-a-better-alternative-to-looting-Jubilee/440808-3472996-hself5z/>

² <https://www.theguardian.com/world/2009/feb/05/anglo-leasing-kenya-fraud-inquiry>

³ Peter Gastrow (2011). Termites at Work: Transnational Organized Crime and State Erosion in Kenya, International Peace Institute

However, this is at the detriment of development in Africa, where a larger number of Africans are living below \$1 per day. This is simply as a result of social exclusion by the few elite who had benefited from corrupt practices. Accordingly, corruption has proved to be a big challenge that hampers economic growth and thus calls for teamwork in dealing with it.

Corruption has a multiplier effect and tends to encourage other forms of economic crimes in order to conceal plundered resources. In fact, economic crimes continue to increase in scale and evolve into various forms across the global economy. Cybercrime targeted at undermining corporate and governments, tax fraud which denies a country the fiscal revenue to advance infrastructure development, accounting scandals achieved through falsification of financial statements which have led to collapse of leading global corporations such as Enron, WorldCom and Parmalat⁴, drug trafficking, smuggling, money laundering, and plunder of public resources are just some of the economic crimes that feed into other forms of crime such as transnational terrorism. These crimes frustrate the pace at which an economy expands by increasing the cost of doing business, undermining a country's external competitiveness, and increasing risks to foreign investors (Neanidis & Papadopoulou, 2013).

Often, the brunt of the effect of economic crimes is borne by society's welfare, with the resultant sub-optimal functioning of the economy. For instance, the United States reported more than 23 million crimes committed in 20017 that led to 15 billion US dollars economic losses through 179 billion US dollars expenditures by significant government departments that involved the judiciary as well as the police departments.(McCollister, *et al.*, 2010). The costs of these crimes are not limited to these financial losses as there are other opportunity costs associated with them, the money spent as kickbacks could yield some benefits to the country if invested on key economic sectors and infrastructural projects with positive impacts on the economic growth of a country (Gaibulloev & Sandler, 2008).

⁴ Creative Accounting, Fraud and International Accounting Standards
[https://www.unisa.edu.au/Global/business/centres/cags/docs/seminars/creative%20accounting%20and%20fraud\(aus\).pdf](https://www.unisa.edu.au/Global/business/centres/cags/docs/seminars/creative%20accounting%20and%20fraud(aus).pdf)

The surge in corruption and other forms of economic crimes in Kenya has coincided with rise in terrorism and cybercrime. For instance, episodes of escalating corruption coincided with the aftermath of the bombing of the US embassy in 1997, the attack on the Westgate Mall in 2013, the Mpeketoni attack in 2014, and the Garissa University college attack in 2015.

1.2 Statement of the Problem

Although Kenya has faced the problem of corruption⁵ over the years, the period 2005-2016 point to an apparent spike. The number of corruption cases reported and handled by the Ethics and Anti-Corruption Commission in this period increased significantly by 39.6%⁶ (from 5,678 to 7,929cases). At the same time, overall economic crimes increased significantly by 152%⁷ (from 1,390 to 3,503 crimes) while illicit financial flows grew sharply by 255%, (from \$185 million to \$829 million)⁸(Oyeka & Uzuke, 2016).

Following this surge in corruption and other economic crimes, a raft of legislations anchored on the Constitution of Kenya 2010⁹ such as the Proceeds of Crime and Anti Money Laundering (Amendment) Act¹⁰, 2012 and the Ethics and Anti-Corruption Commission Act, 2011 were effected by the Government in a bid to combat the problem. However, corruption still go unabated despite these legislations, and it is still evident that corruption continues to affect people's daily lives both economically and socially.

Some of the previous researchers noted that corruption is an enable in obtaining ones needs thus a contributing to their economic growth. (Hall & Jones, 1999; Mauro, 1995; Myrdal, 1989), other studies suggest that corruption may contribute to development by "greasing the wheels" (Méon & Weill, 2010; Vial & Hano-teau, 2010). Medez and Sepulveda (2006) established that corruption has positive implications on economic development since gifts offered through corruption dealings stimulate an alternative option for investment for concerned parties.

⁵ Terrorism, drug trafficking, smuggling, money laundering, and systemic corruption

⁶ KNBS Statistical Abstract, 2005 and 2017

⁷ KNBS Statistical Abstract, 2015 and 2016

⁸ Global Financial Integrity database, 2016

⁹ Article 79 establishes the Ethics and Anti-Corruption Commission

¹⁰ Established the Financial Reporting Centre to tackle terrorism financing and money laundering

Leff (1968) noted that corruption provides an opportunity for military dictators to suppress and modernize their democratic regions where the role of law is weak. This allows increased productivity from citizens on matters of economic development. Some scholars argue that the cost of combating crime is much more than the benefits expected from such an effort, as such it is left to prevail. More importantly, corruption has a way of fighting back and it becomes a challenge to fight especially if it involves the political elites and leaders in different countries hence left out to become part of social culture (Mishra, 2006).

Moreover, existing studies in Kenya have mainly focused either on corruption influences growth, or corruption and security (SODNET, 2000; Maina, 2013; TI - Kenya, 2018). However, most studies are yet to explore the trilemma of the nexus between corruption, growth and security.

This study seeks to contribute to this debate by responding to three core issues. Foremost, what is the effect of corruption on Kenya's economic growth? Secondly, what explains the evident growth of corruption activities notwithstanding the broad range of measures by the government to counter them? Thirdly, what are the security implications of corruption on economic growth in Kenya? And lastly, what policy actions are needed in order to contain this phenomenon?

1.3 Research Questions

The study was based on the following research questions;

- a) How does corruption affect Kenya's economic growth?
- b) What explains the apparent growth of corruption notwithstanding a wide range of Government measures to counter it?
- c) What are the security implications of corruption in Kenya?

1.4 Objectives of the study

The main objective of this study is to examine and analyze factors underlying corruption in Kenya, their effects on economic growth and implications on national security in Kenya's in order to provide policy recommendations. More importantly, the study seeks to;

- a) To examine and analyze the effect of corruption on Kenya's economic growth

- b) To examine and analyze the apparent growth of corruption notwithstanding a wide range of Government measures to counter it
- c) To examine and analyze the security implications of corruption in Kenya

1.5 Justification of the study

Foremost, on a policy perspective, Kenya has enacted legislations including the Constitution of Kenya 2010 as the anchor law, the Proceeds of Crime and Anti Money Laundering (Amendment) Act, 2012 and the Ethics and Anti-Corruption Commission Act, 2011 to curb corruption yet the vice has continued unabated since independence. This study will not only facilitate an understanding, evolution, mutation and effects of corruption but also provide vital policy options on development of frameworks and strategies to counter the problem. Specifically, the findings and recommendations of this study are useful to the government security apparatus in providing a framework to guide security policy discourse, their design and implementation in order to achieve a secure environment devoid of the negative consequences of corruption.

Second, in responding to the core argument that there is an inverse relationship between corruption, investment, employment, economic growth and national security, the study seeks to effectively move the debate of corruption beyond the mere costs on growth. Instead, the study seeks to enhance theoretical and conceptual understanding that would facilitate the demonstration of other related impacts such as the low level of investment and employment. In so doing, therefore, the study is of utmost importance to academics and researchers through its contribution to the nascent literature and eliciting academic discussions and further research on the subject. In particular, the recommendations for further studies will highlight areas that can be explored by future researchers. In the long run these will facilitate convergence in findings and recommendations. These studies will guide theoretical discourse on this subject and methodological approaches in analysis of economic crimes.

1.6 Scope of the study and limitations of the study

The study is confined to corruption as an economic crime in Kenya. With regard to secondary data, the study utilized time series data and covered the period 2005 to 2016. The period 2005-2016 is chosen primarily because of the apparent increase in corruption cases despite concerted measures to tame the vice. In addition, the period is chosen because of data availability as reliable secondary

data from the Kenya National Bureau of Statistics (KNBS) on economic crimes pre-2005 could not be established. The prevalence of economic crimes such as corruption, money laundering, illicit financial flows and trade mis-invoicing and increased security concerns arising from terror related activities provides further motivation to study the effects of economic crimes on economic growth over this period. While there are various methodological and empirical strategies that can be adopted in a study of this nature, the study adopted the content analysis approach in order to establish the relationships between corruption as economic crime and economic growth.

The first limitations of this study is basically on the small number of previous studies done on corruption thus having very little information availability for reference. Secondly, there are various forms of economic crimes and other dimensions are emerging while existing ones are evolving especially given the central role that technology continues to play in the economy. However, the study does not consider certain forms of economic crimes such as corruption in the realm of cybercrime due to data limitations. Therefore, the findings of the study could be limiting in understanding the magnitude of the effects of these crimes even though their prevalence has increased in recent years. The third limitation relates to availability of data from national authorities. For instance, nascent but critical institutions in the fight against corruption and economic crimes such as the Financial Reporting Centre, (FRC) are yet to gather enough data to facilitate research in this area.

1.7 Definition of Concepts

Economic crime: This study adopts the definition by the Organization for Economic Cooperation and Development (OECD)¹¹ and Federal Bureau of Investigation (FBI)¹² that an economic crime is a crime of financial nature involving fraud, bribery, corruption, embezzlement committed with a motive of obtaining an economic gain. This definition is appropriate for the study as it anchors the motive as essential in distinguishing a crime as being economic or not and therefore having implications on economic growth.

Economic Growth: the study adopts the definition by (Goulas & Zervoyianni, 2012) who define economic growth as an indicator of economic development and quantified by GDP which is

¹¹<http://www.oecd.org/corruption/anti-bribery/39532693.pdf>

¹²<https://www.fbi.gov/investigate/white-collar-crime>

measured as the %age increase in the value products produced and services offered by an economy in the current year compared to the previous year. This definition is appropriate for the study as it provides a quantifiable measure of economic growth for which data is available from the Kenya National Bureau of Statistics (KNBS).

Corruption: The definition of this concept is borrowed from the Anti-Corruption and Economic Crimes Act, 2003 with slight modifications and is defined in this study to include acts of embezzlement, fraud, bribery misappropriation of public funds or the misuse of authority for public gain such as abuse of police authority, judicial authority or misuse of public office. This definition allows the demarcation of the scope of corruption to public sector corruption which is of concern to a variety of stakeholders, provides a link between corruption, economic activity and crime.

National Security: the study adopts the definition by Paleri, (2008) and Buzan B., (1998) who define national security as the measurable state of the capability of a nation to overcome the multi-dimensional threats to the apparent well-being of its people and its survival as a nation-state at any given time, by balancing all instruments of state policy through governance and is extendable to global security by variables external to it. This definition is appropriate for the study as it considers national security from different dimensions such as economic, political, military and environmental. This enables the examination and analysis of the different aspects of corruption in these sectors and how they relate to national security and economic growth.

1.8 Literature Review

This review of literature examines the nexus between corruption, economic growth and national security with a view to identifying existing gaps. The review attempts to bring out the underpinnings of this nexus. It is organized into three sections; the first section discusses the nexus between corruption as an economic crime and economic growth, the second section focuses on security implications inherent in a bandit economy, the third section examines the theoretical framework for this study.

In this section, literature concerning economic growth and its determinants is reviewed. In particular, literature linking economic growth and economic crimes is reviewed.

1.8.1 The Nexus between Corruption as an Economic Crime and Economic Growth

The scale of Africa's losses due to corruption and other forms of illicit financial flows has become so vast, overshadowing official aid and debt relief, that several anti-poverty campaigning organizations have made it their priority (de Waal, 2015). The high level panel on illicit financial flows commissioned by the African Union (AU) ministers of Finance, Planning and Economic Development and chaired by Thabo Mbeki estimates that US \$ 50 billion each year is spirited out of the continent. Raymond Baker disaggregates these flows into three elements: commercial tax evasion (estimated at up to two thirds of the total), the laundering of the proceeds of crime (up to a third), and corrupt payments and the theft of state assets (3-5 % of the total). By far the largest way that Africa is deprived of funds is through multinational companies mispricing the value of internal transactions between different subsidiaries, so that it pays taxes where it chooses- typically where those taxes are lowest. In the continent, Kenya ranks poorly in the World Bank Corruption Perception Index implying that a huge chunk of these corruption proceeds emanate from Kenya therefore depriving the state the highly needed resources to finance critical projects geared towards national development.

Most empirical studies investigating the effect of economic crimes on economic growth have employed the Ordinary Least Squares (OLS) approach (Fabayo, et al., 2011; Akindele, 2005; Nageri, *et al.*, 2013). Fabayo, *et al.*, (2011), investigated the effect of corruption on investment in Nigeria using annual data between the period 1996 and 2010. Their findings show that the high level of corruption, leads to low investment and thus low economic growth in Nigeria. The current study adopts explanatory research design and triangulates secondary and primary data to better understand the implications of corruption on economic growth and national security.

Akindele, (2005) estimated a modified production function to establish the effect of corruption on economic growth. Findings from the study show that there is a strong significant negative relationship between economic crimes and economic growth. However, the study considered a considerably short time series data raising questions on the veracity of the conclusions and the possibility of spurious relationships given the methodological approach used. Nageri, *et al.*, (2013) sought to determine the effect of corruption perception on economic growth and found the result to be statistically significant; implying that economic crimes negatively affect economic growth.

Gaibulloev & Sandler, (2008) did a study on how domestic relates to transnational terrorism on income per capita through 1971-2004 in Western EU nations and the study established that there were negative relationships between the study variables.

In order to establish causality between growth in the economy vis a vis crimes affecting the economy, some studies adopted more robust econometric approaches such as the Granger Causality Test and Auto Regressive Distributed Lag (ARDL) models (Narayan & Smyth, 2004; Adewale, (2011). Narayan & Smyth, (2004) adopted the ARDL and the Time Allocation Model to examine the effect of economic crimes (arms trafficking and human trafficking) on economic growth in Australia. Findings from the study showed that economic crimes undermined economic activity.

Adewale, (2011) while controlling for private and public investment, money supply, external debt and unemployment estimated the causal effect of economic crimes on economic growth in Nigeria over the period 1996 to 2009. The study concludes that economic crimes divert resources to black market activity therefore frustrating economic growth.

1.8.2 Security Implications Inherent in a Bandit Economy

Economic crime economies involve the destruction of the economy that breeds black market circumstances through criminal gangs and warlords. This therefore leads them to own huge assets that control the economy hence creating an informal economic environment that is far much destructive to the poor majority in the population. The warlords in conflict economies exploit coercion and as a means of raising revenue to fund their activities by relying on illicit exploitation of trade and lucrative natural resources (Kamwende, 2015). Cross-border trade flourishes due to the existence of outlawed sects such as Boko Haram, Al-Shabab and Al-Qaida. They also grow through global networks of drug trafficking as well as human trafficking. The system allows association with legitimate business enterprises to serve their interests through provision of financial support to outlawed sects.¹³

¹³ Le Billion Philippe (2001) *The Political economy of War: An Annotated Bibliography* (London, HPG)

Outlawed sects causes fear among members of the society and by extension effecting the economic sectors such as tourism and commercial trade firms. They abduct tourists and business personalities to demand ransom. This is a common case on coastal towns in East Africa where tourists are always abducted by Al-Shabab thus demanding huge ransom payments and as such, causing fear and affecting tourism sectors through losses thus less contribution to a countries GDP (Pinotti, 2011). Black Market flourishes more on corruption chocked environment; as such, the existence of underworld dealings that are not regulated by law such as drug peddling and counterfeit goods. This eventually breeds bandit economy which further grows on conflict related environment such as war and ethnic fighting. The counterfeit goods accounts for USD \$ 1.2 Billion annually (Kenya Association of Manufacturers, 2016).The same applies to situations in Sierra Leone, Afghanistan, and the Balkans¹⁴.

Other forms of security include, political, military, economic, societal and environmental or ecological (Buzan, 1991;Buzan, *et al.*, 1998; Rumley, 2013). Buzan illustrates this argument by showing that military security must be backed by financial resources in form of budgetary allocation therefore there is a critical link between economic security and military security. According to Buzan, the idea of economic security is nested within the international political economy (Buzan 1991). The overriding principle is split between states and private entities on whether states and societies or markets should have priority and whether private economic actors have security claims of their own that must be taken into consideration. Buzan, *et al.*, (1998) broadly categorizes these positions into mercantilists, liberalists and socialists and describes their view of economic security.

Out of these broad categories, Buzan suggests varied agenda of specific issues cast in terms of economic security which are impacted by corruption. The major issues are inherent with the fear of trading in arms through back door dealings that legitimate procedures are to be followed then it may affect their trade network. Also countries fear that the emergence of china as alternative trading partners to the world it may affect other super powers GDP. Global trade is also another

¹⁴ Ibid

issue that has mostly done little to stop corruption. Multinationals handle huge contractual obligations through boardroom agreements as opposed to open tendering systems.

The collapse of economic security yields in situations of civil conflicts that emerge due to lack of opportunities and lack of resources that have been grabbed by the little economic saboteurs for their own benefits. The situation affects most of the developing nations in Africa as much as the few developed countries in Asia. Moreover Civil Wars displacement of people from their ancestral homes, refugees from neighboring countries is a common feature of countries suffering from economic insecurity.

This further pose additional security challenges such as growing radicalization and violent extremism within camps (Buzan, 2006). The spike in al-Shabaab attacks in Kenya for example has been associated with radicalization, violent extremism in refugee camps and corruption¹⁵. “That debate is common in Africa where countries such as Kenya, Mali and Somalia have their own local and international outlawed criminal gangs that cause fear, deaths and destruction of property.

Keen, demonstrates the importance of understanding the role of corruption and economics underpinning violence in civil wars. This is an important augment that has facts established in our society. More studies needs to be done and create framework for mutual understanding on how corruption can be managed in not eliminated. This calls for collective responsibility to all stakeholders across the globe.¹⁶

Economic security and the probability of civil conflict have been associated with the level of state capacity. Thus, conflict risk tends to be lower in established democracies and autocracies leads to prolonged periods of recovery and reconciliation of economic security (UN DESA, 2008). It has been argued that overcoming economic insecurity calls for legitimate consistencies of creating transparent institutions that deal with corruption in general as well as prosecution of culprits of the

¹⁵Kenya has become a “bandit economy”, says Chief Justice Willy Mutunga, January 11, 2016 by Koert Lindijer<http://africanarguments.org/2016/01/11/kenya-has-become-a-bandit-economy-says-chief-justice-willy-mutunga/>

¹⁶ Keen, D (1998). *The Economic Functions of violence in Civil Wars*. Adelphi: London.

same crime including all the top perpetrators that have political networks. To achieve these all the political good will must be cooperative enough to correct such a mess from the economy.

1.9 Theoretical Framework

This section reviews theories of economic growth. Subsequently, the conceptual framework presented and empirical literature is reviewed. Theory stresses on the key factors that influence economic growth that involves human capital and technology transfer. (Aghion & Howitt, 1992). Moreover Macroeconomic factors such as FDI are also important contributors to economic growth. (Borensztein, *et al.*, 1998; Lensink, *et al.*, 1999).

1.9.1 The Classical Growth Theory

The classical theory of economic growth sought to find out different parameters that emerge from the external environment and that they influence its growth. The proponents (Adam Smith, Thomas Malthus, David Ricardo, François Quesnay, John Stuart Mill and Karl Max) posit that distribution of resources plays a significant role in economic growth locally, regionally and internationally. This is applicable to all nations including developed as well as developing nations.

The shortcoming of this theory is that for economic growth to occur, the system has to be closed implying that there are no leakages. However, in reality there are leakages in virtually every economy particularly in form of economic crimes. Consequently, high level of corruption represents a leakage from the economic systems and therefore distorts capital accumulation and the allocation of public resources in form of public investment resulting in disruption of income distribution. Gupta, *et al.*, (2001) in a study on corruption, inequality and poverty different forms of economic crimes creates situations of poverty by the mere fact that social amenities such as hospital, schools, churches, markets are not developed to create opportunities for the population.

These leakages not only affect economic growth but also national security. As advanced in Barry Buzan's framework, national security can be undermined by factors from different sectors (Buzan B., 2007). These sectors include military, political, economic, societal and environmental sectors. A country's national security is at stake as a consequence of corruption undermining the military, political, economic, societal and environmental sectors.

The thrust of this thesis therefore is the savings-investment model of the classical growth model but acknowledging the role of leakages in the model. The thesis therefore adopts a modified classical growth model by introducing leakages in form of corruption into the economic system that result in sub-optimal allocation of public resources to public investment. Consequently, corruption is viewed not only as an impediment to economic growth but also a national security concerns as it could exacerbate poverty and inequality which has implications on national security.

1.10 Hypotheses

H₀₁: that corruption undermines economic growth through a wide range of negative political, economic, military, societal and environmental effects it engenders;

H₀₂: that underlying the increase in corrupt cases is the value derived in relation to the costs incurred;

H₀₃: That consequent effect of corruption engenders national security threats.

1.11 Methodology

1.11.1 Research Design

Explanatory research design was adopted as the study is of cause and effect nature. This design is appropriate in establishing the causal links between the economic growth and economic crimes and testing the strength and direction of these relationships as hypothesized in the study (Ivankova, *et al.*, 2006). Exploratory research design helps to explain, and simply describe the phenomena being studied.

1.11.2 Study Area and Study Population

The study focuses on the effect of economic crimes on economic growth in Kenya. The study used both primary and secondary data for analysis. For secondary data, the study targets quarterly secondary data on the study variables over the period 2005-2016. The period 2005-2016 is relevant given the apparent increase in economic crimes in Kenya over this period despite concerted measures by the government to limit their spread. Moreover, this period provided sufficient data points to conduct an empirical estimation. The data was obtained from the Global Financial Integrity database, The World Bank database, and the KNBS and CBK.

For primary data, the study obtained data through questionnaires and key informant interviews. The questionnaires are semi-structured and were self-administered. In addition, data was collected through a structured face-to-face

1.11.3 Data Collection Procedure

The procedure of collecting secondary data involved downloads of various target variables' data from the respective databases. The relevant data items was then be picked and recorded in the excel template to obtain a time series (Appendix III and Appendix IV).

1.11.4 Sampling

The study adopted stratified and simple random sampling technique to identify respondents. This is because the population of the study is organized in the hierarchical order of the identified institutions and allowed collection of useful data across the cadres of seniority. A sample size of 300 respondents distributed into 50 top management staff, 100 middle management and 150 lower level cadre of staff. Primary data was collected from key institutions such as the Department of Criminal Investigations (DCI) of the Kenya Police Service, the performance management department of the Judiciary, Director of Public Prosecution (DPP), Ethics and Anti-Corruption Commission (EACC), Financial Reporting Centre (FRC), the National Crime Research Centre (NCRC) Transparency International (TI) and the Auditor General (AG). In addition, purposive sampling was used to select key informants for interviewing purposes from these institutions.

Table 1.1: Sample Size

Category	DCI	DPP	TI	EACC	FRC	NCRC	AG	Total	% of Total
Senior Management	10	10	5	10	10	5	5	55	17
Middle Management	20	20	10	20	20	10	10	110	33
Other staff	30	30	15	30	30	15	15	165	50
Total	60	60	30	60	60	30	30	330	100

Source: Researcher, 2018.

1.11.5 Data Analysis and Presentation

Data was checked for completeness before analysis commences. Thereafter, data was analyzed in order to draw explanatory patterns. Secondary data was analyzed mainly through content analysis techniques. This involved computation of frequencies, %ages and growth rates. Transcription was applied in analyzing primary data from the questionnaires and interviews through qualitative analysis and computation of descriptive statistics such as means, frequencies and %ages. Results were presented using tables, graphs and charts.

1.12 Internal Consistency and Reliability Tests

The study sought to establish reliability and validity of the instruments. In order to establish internal consistency, reliability and validity tests were conducted using Cronbach's Alpha and the test retest techniques.

1.14 Chapter Outline

The thesis is organized around five chapters. CHAPTER ONE provides a background that shapes the thesis by outlining the problem statement, the research questions, and objectives of the study, justification of the study, scope and limitations of the study, literature review, theoretical framework and the methodology of the study. The rest of the document disentangles corruption as an economic crime and how it relates to economic growth and national security.

CHAPTER TWO provides an historical perspective of corruption in Kenya and categorizes corruption into four distinct periods. It begins with a brief description of corruption in the pre-independence period and proceeds to provide a dichotomy of corruption in the 1963-1980 period, 1981-2000 period and the 2001-2017 period.

CHAPTER THREE delves into the effects of corruption on economic growth. The chapter begins with an analysis of the performance of Kenya's economic growth. It also considers the implications of corruption on Kenya's economic performance, fiscal policy and development expenditure with a view to bringing out the forgone cost of corruption. In addition, the chapter details the effects of corruption on domestic and foreign direct investment therefore demonstrating its implications on public and private investment.

CHAPTER FOUR presents the implications of corruption on Kenya's national security. The effects of corruption on national security include transnational terrorism by outlining these effects in four separate ways. Foremost, the chapter brings out the implications of corruption on food

security by demonstrating the negative consequences of corruption on the performance of agricultural sector, handling of critical farm inputs such as seeds and fertilizer and strategic grain reserves. The chapter also brings out how corruption has led to wanton destruction and depletion of critical natural resources such as forests in Kenya's water towers and wildlife poaching. Additionally, the chapter considers corruption as an intermediary to other economic crimes such as money laundering and drug trafficking and demonstrates how this has affected Kenya's economic growth. The link between corruption, electoral crimes and maritime security is also considered in this chapter.

CHAPTER FIVE recapitulates the thesis by specifically responding to the research objectives. The first part is the recapitulation of the objectives of the study and a summary of the key findings along each of the objectives; demonstrating the extent to which each of the objectives has been addressed. The second part is the recapitulation of the hypotheses of the study while drawing conclusions for each from the findings. Finally, the chapter outlines policy recommendations on how to tame corruption in order to enhance economic growth and national security in Kenya.

CHAPTER TWO

HISTORY OF CORRUPTION DEVELOPMENTS IN KENYA: PRE- INDEPENDENCE TO 2005

2.0 Introduction

This chapter examines and analyzes the reasons why there is apparent increase in the magnitude and number of corruption cases in Kenya over the administrative periods despite increased measures to counter it. The overriding argument in the chapter is that underlying the increase in corrupt cases is the value derived in relation to the costs incurred. By recapitulating historical developments relating to corruption around the distinct administrative periods, the study attempts to examine the institutional, legal, political, governance and socio-economic factors that underlie the apparent increase in corruption in Kenya. In so doing, it attempts to respond to the question, “What explains the apparent growth of corruption notwithstanding a wide range of Government measures to counter it?”

While examining the historical evolution of corruption, emphasis is put on grand corruption in the public sector and how this wanton plunder of public resources resulted in low investment in infrastructure, low levels of economic growth, unemployment. Although various administrations at the outset are desirous of accomplishing legacy projects for the nation’s good, conflict of interest driven by greed among public servants seem to come in the way. The review also outlines the security implications of these grand corruption episodes. The chapter demonstrates that while the foundation of corruption is traced to pre-independence period, the lack of strong institutional, legal and governance frameworks provided a favorable environment for it to thrive. As a result, grand corruption cases went on unabated notwithstanding efforts by various administrations.

The chapter is structured around five distinct periods that correspond to political administrative periods. The first section focuses on the pre-independence period by examining the role of the British colonial government and white settlers in land grabbing as a key hallmark of corruption and land injustices in Kenya. The second section examines the era of Mzee Jomo Kenyatta and demonstrates how the rallying call of *harambee* for communities to pool resources for nation building was high-jacked and became a conduit for corruption and plunder of national resources. In addition, this section demonstrates how the recommendations of the Ndegwa Commission in 1970-71 on Public Service Structure and Remuneration laid a critical foundation of public sector corruption by allowing civil servants to engage in trade with the

government in total disregard of conflict of interest concerns. The third section examines corruption during Daniel Arap Moi's era and demonstrates that corruption increased rapidly despite the establishment of independent legal and institutional framework to tackle corruption during this period. The chapter concludes by examining corruption during the era of Mwai Kibaki and shows that even though the legal and institutional capacity was reinforced, corruption in the public sector increased further.

2.1 Corruption in Kenya in the Pre-Independence Period

The declaration of Kenya as a British colony followed a series of processes that enabled the expropriation of land core among them were corruption, bribery, deception and intimidation. The seed of corruption was planted by the imperial British colony in form of corruption in land allocation as they scrambled and partitioned Kenya. They grabbed land by evicting communities to high population density, poor soil, low rainfall, less productive regions and killing those who resisted eviction. This resulted in the so-called white highlands, highly productive arable land annexed exclusively for the benefit of the colonial administration. In addition, colonial masters confiscated domestic animals as a form of tax on the natives. This by itself not only constituted land grabbing but also corruption. It institutionalized abuse of power where state instruments are used to gain control over common public goods. Therefore, this development is fundamental in the history of corruption in Kenya as it marked the initial seed upon which land grabbing manifested in allocation of prime land to the elites in society.

Corruption emerged as a critical problem to Kenya's prosperity during the colonial period (Gathii, 2010). Consequently, the country embarked on a drive to root out the vice through an array of measures. During this period, corruption was not endemic and was seen as a problem that could be addressed through legislative measures. In this regard, the first anticorruption legislation, "*The Prevention of Corruption Bill, 1956*" was enacted. This legislation focused primarily on defining corrupt behavior and how to punish the offenders as it was believed that enacting punitive laws for the purpose of frightening people from committing crime does not yield favorable anticorruption outcomes¹⁷.

However, the efforts under this legislation were not fruitful and corruption went on unabated. The main challenge of the *Prevention of Corruption Act, 1956* were to be found in the

¹⁷Kenya, The National Assembly, Debates on the Prevention of Corruption Bill, July 20 1956, col. 137-38 (statement by Mr. Conroy, Minister for Legal Affairs).

language of the legislation. This was demonstrated by a case in which an offender defended himself against bribing a public servant by arguing that he was offering the bribe to test if the official would accept it and was subsequently acquitted¹⁸. To address these shortcomings in the law, the Act was amended in 1967. This amendment tightened the loopholes that were exploited by offenders to evade prosecution.

2.2 The Harambee Era and the Political Economy of Corruption

The thrust of this section outlines corruption in the transfer of critical resources from the colonial masters, the disingenuous opening up of state officers to engage in business with the government with a view to enhancing indigenization of commerce and smuggling of coffee during the chepkube scandal. In particular, the allocation of land resources to elites and political cronies at the expense of freedom fighters and other Kenyans which in the end mutated into a security concern with a huge section of the population displaced from the land during the colonial period being left landless even after independence (Lafargue & Katumanga, 2008)¹⁹. As a result the injustices perpetuated by the colonial government were largely extended by the founding administration leaving a huge section of the population with limited scope to contribute to Kenya's economic advancement. This is particularly critical considering that Kenya's economy is driven by agriculture whose backbone is access to land. The ultimate impact of this economic crime has during this period has been its negative influence on the performance of this critical sector and therefore the overall economy.

The independence Government had inherited a colonial system that was designed to serve the British imperial and financial interests. The colonial structure was designed to benefit the minority white population in allocation of financial and natural resources including land. To depart from this juncture, the post-independence Government set out to achieve an ambitious development agenda with a focus on the natives as espoused in the sessional paper number 10 of 1965 on *African Socialism and its Application to Kenya* (Republic of Kenya, 1965). In this development blueprint, the country identified key impediments to prosperity including poverty, disease, and illiteracy.

¹⁸Kenya, The National Assembly, Debates on the Prevention of Corruption (Amendment) Bill, Oct. 19, 1967, col. 942-43 (statement by Mr. Njonjo, Attorney General).

¹⁹<https://journals.openedition.org/eastafrica/665>

The rallying call of “*harambee*” (which translates to ‘let us pull together’) initiated by Kenyatta to encourage communities to pool resources and develop critical infrastructure such as schools and hospitals was hijacked and became a conduit for corruption and plunder of national resources. The concept was noble therefore attracting the interest of the masses in contributing towards development. In addition, international donors also joined in contributing towards the *harambee* projects. Individuals interested in exclusive government tenders and privileges used the *harambees* to catch the eye of the head of state by lining up with huge contributions and fat cheques during the fund drives. They then used their closeness with government officials to irregularly award themselves tenders in government, (Khamisi, 2018).

In the pursuit of this development agenda, however, corruption continued to pose threats to the country’s path to prosperity. Measures to forestall the vice were anchored on the amended *Prevention of Corruption Act, 1967*²⁰. Consequently, the fight against corruption were not institutionalized. Rather, efforts and enforcement of legislative measures were predominantly undertaken by the police (Gathii, 2010).

In 1970-71, the **Ndegwa Commission** on *Public Service Structure and Remuneration* was established. Among its landmark recommendations that paved the way for public corruption was to allow state officers to engage in trade with the government. The net effect was to blur the line between public service and private business. This created opportunities for conflict of interest, abuse of office and corruption²¹. As expected, and consistent with the finding of (Ngunyi & Katumanga, 2014)²², civil servants started to inflate prices of goods and services they had supplied to the government as they competed to expand their private gain at the expense of service delivery to the citizens. In addition, state officers in some cases would create fictitious invoices on the basis of which they would be paid when they had not supplied anything to the government.

Another notable instance of corruption in Kenya is the issue of land grabbing where officials allocate public land to well-connected prominent citizens, high ranking government officers and politicians (Republic of Kenya, 2004). Though inaugurated by the colonial government,

²⁰ Kenya, The National Assembly, Debates on the Prevention of Corruption (Amendment) Bill, Oct. 19, 1967, col. 942-43 (statement by Mr. Njonjo, Attorney General).

²¹How the Ndegwa Report brought riches to the Public Service

<https://www.nation.co.ke/oped/blogs/dot9/bankelele/2274454-3785836-n7368t/index.html>

²²<https://www.undp.org/content/dam/kenya/docs/Peace%20Building/From%20Monopoly%20to%20Oligopoly%20Exploration%20of%20a%20Four%20Point%20Hypothesis%20regarding%20organized%20and%20organic%20militia%20in%20Kenya.pdf>

land grabbing soon became the mainstay of the political class in Kenya as the elite and political class with the aid of professionals and bureaucrats allocated themselves the former white-farms to themselves at the expense of the ordinary freedom fighters. The Report of Commission of Inquiry into the Illegal/Irregular Allocation of Public Land otherwise known as the Ndung'u Report provides evidence of how land was illegally allocated to prominent families, ministers, members of parliament and civil servants, as well as to individuals in the military and the judiciary (Republic of Kenya, 2004). The report concludes that illegal annexation and award of public land was used as a tool of buying and maintaining political patronage and a manifestation of high level corruption.

Coffee smuggling, the infamous *chepkube*, became a major concern by the year 1974. This was precipitated by an acute global shortage of coffee following a frost that destroyed the crop in Brazil, the world leading coffee producer. Consequently, coffee prices increased sharply prompting merchants to trace the commodity up to local villages where the crop was being grown. As a result Kenya's coffee was highly sought after to satisfy the demand in international markets. Uganda's coffee soon became a target of the merchants. However, since Uganda was under a trade embargo from the US during the reign of Iddi Amin, the traders could not access the coffee (Khamisi, 2018). The small village of chepkube at the border of Kenya and Uganda played a major role in smuggling coffee across the border. So lucrative was the black market that senior government officials, politicians and businessmen pitched tent at the village using government vehicles to smuggle coffee and evade security checks, (Khamisi, 2018).

In 1978, the country went a notch higher in modernizing its transport infrastructure. In a tender to worth 3.4 billion Kenyan shillings to transform the Embakasi Airport (now Jomo Kenyatta International Airport) into a modern facility, high ranking government officials engaged in bribery and extortion to the tune of 20 % of the cost of the upgrade (Khamisi, 2018).

2.3 The Nyayo Administration and the Dynamics of Grand Corruption

The period marks onset of the establishment of a proper institutional framework to address corruption. The chapter demonstrates that the formative institutional framework under the leadership of police and KACA was not only weak but also failed to curb corruption. This is evidenced by widespread large scale corruption cases such as Goldenberg and bad governance associated with electoral fraud which negatively affected the performance of the economy.

The one party rule established under Kenyatta continued to reign in the first one and half decades of Moi regime. This period was characterized by the “*fuatanyayo*” (interpreted as ‘follow the footsteps’) philosophy. This meant that Moi’s leadership would follow the policies pursued by Kenyatta. As a result most corrupt practices including land grabbing easily transitioned into this regime by virtue of the *nyayo* ideology. *Harambee* was at the peak in the 1980’s and a frenzy of activity took place across the country every weekend. The situation was aggravated by the one party regime under the Kenya African National Union (KANU) that demanded political patronage as opposed to accountability. The amounts donated by politicians were so huge that soon doubts emerged whether this was their own money or drawn from the exchequer. This prompted the Transparency International (TI) to raise alarm concerning the plunder of resources under the pretext of *harambee* and the potential negative consequences on the economy.

As a reward for political patronage, the government allocated public land to politicians and elites in the society. This saw the distribution of key agricultural land that was formerly available for the Agricultural Development Authority (ADC) and key water towers such as the mau complex being allocated to politicians. This resulted in low agricultural productivity due to declining rainfall performance following destruction of forests and more subsistence production following subdivision of large scale farms to politicians. The allocated land was later sold to government entities such as the National Social Security Fund (NSSF) at extremely overprice values setting in a motion a second or third level of corruption (Ndung’u, 2006).

The interest of the public on governance reforms were in tandem with the agitation for multiparty system. Public outcry against high level corruption was amplified by exposure of mega corruption scandals. However, the legal framework to combat corruption remained largely unchanged after the 1967 amendment. In support of the local demands to weed out corruption in the public sector, a group of donor countries christened The Paris Club²³ weighed in demanding stronger measures against corrupt officials in government, privatization of public entities to enhance management and reduce embezzlement of public resources and liberalization of the economy by removing price controls and transitioning to a market based economy.

In response to these demands, the government established the anti-corruption squad to deal with the vice ((Tuta, 2005). This squad was drawn from the Criminal Investigations

²³ <http://www.clubdeparis.org/en>

Department of the Kenya Police and was mainly responsible for investigations and prosecution of corruption cases. Being part of the police that has been widely seen and believed to be corrupt, the efforts of this squad were futile in tackling corruption. In addition, the government embarked on privatization of public entities that required huge budgetary allocations despite producing minimal output. The government was also required by the Paris Club to ensure that the appointment of the management of these institutions be based on merit and not political patronage. This went against the earlier practice where politicians and well-connected individuals connived to buy public entities at very low prices and later dispose of at a premium. The efforts yielded results such as the privatization of the Kenya Posts and Telecommunications Corporation (KP&TC) which gave birth to one of Africa's most profitable telecommunications company, Safaricom limited. Despite the privatization efforts, a number of loss making parastatals remain including the Kenya Meat Commission (KMC), Kerio Valley Development Authority (KVDA),

The failure of anti-corruption measures over the years culminated in the *Goldenberg scandal* unearthed in 1993 and estimated to have taken place between 1990-1993. This scandal is estimated to have fleeced in excess of US \$600 million or an equivalent of ten % (10%) of Kenya's Gross Domestic Product (GDP) (Warutere, 2018). The ravaging effects of this grand corruption scheme would later reverberate across the economy over an extended period of time. Consequently, at the aftermath of the Goldenberg scandal Kenya's debt service on total external debt increased significantly by 35 % in the period 1992-1995 from 670.2 million US dollars to 904.4 million US dollars. Similarly, it increased to 187 % in the period 2009-2016 from 388.7 million US dollars to 1,117.2 million US dollars (Figure 3.13).

The situation regarding corruption in Kenya deteriorated over the years (Table 2.1). As indicated by the TI's, Corruption Perception Index (CPI), Kenya ranked favorable at position five (5) in Africa and position fifty-two (52) globally. However, the situation continued worsening as the level of corruption increased. Evidently, the country's ranking deteriorated to position 129 and position 28 globally and regionally, respectively, by the year 2004. This development suggests that systemic corruption continued to spread and has reached endemic levels. This is despite numerous efforts to curb the vice yet such measures in other peers in the continent and other parts of the world registering success as indicated by their improving performance.

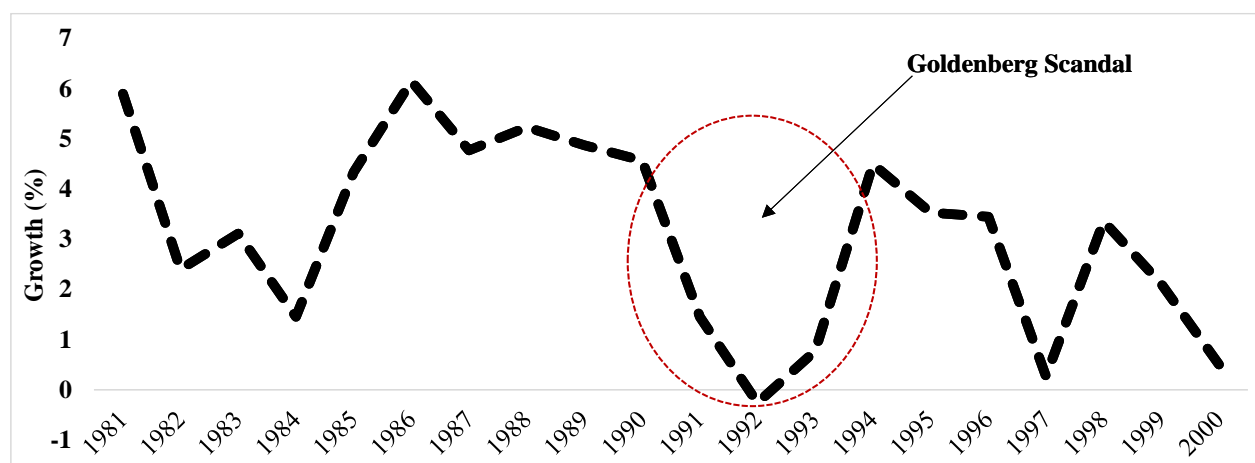
Table 2.1: Evolution of Kenya’s Corruption Perception Index, Regional and Global Ranking: 1980-2004

	CPI Score	Regional Rank	Global Rank
1980-1985	3.3		
1988-1992	1.6		
1993-1996	2.2	5	52
1998	2.5	11	74
1999	2.0	15	90
2000	2.1	15	82
2001	2.0	14	84
2002	1.5	17	96
2003	1.9	26	122
2004	2.1	28	129

Source: Transparency International, <https://www.transparency.org/research/cpi/overview>

The effects of corruption on economic growth during this period were evidently negative. Consistent with the deterioration in Kenya’s corruption rank, economic performance decelerated from an average of 5.1 % in the period 1985-1989 to 1.6 % in 1990-1993 (Figure 2.1). While other factors could explain the slowdown in economic growth, the decline in this period is largely associated with the Goldenberg scandal.

Figure 2.1: Evolution of Kenya’s Economic Growth, 1981-2000

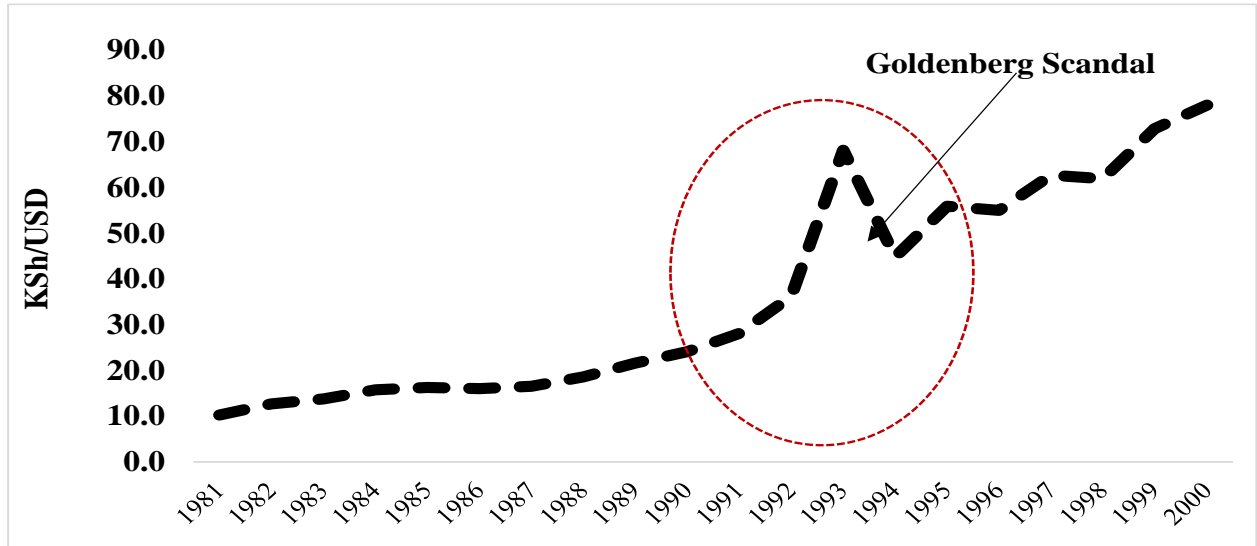


Source: Various Economic Surveys (Kenya Bureau of Statistics)

Similarly, Kenya’s external position deteriorated quickly. This is reflected by the rapid depreciation of the value of Kenya Shilling against the US Dollar (Figure 2.2). The depreciation of the Kenya Shilling would have a second round effect on the performance of the economy

through worsening of exports and consequently tilting the trade balance in favor of Kenya's trading partners.

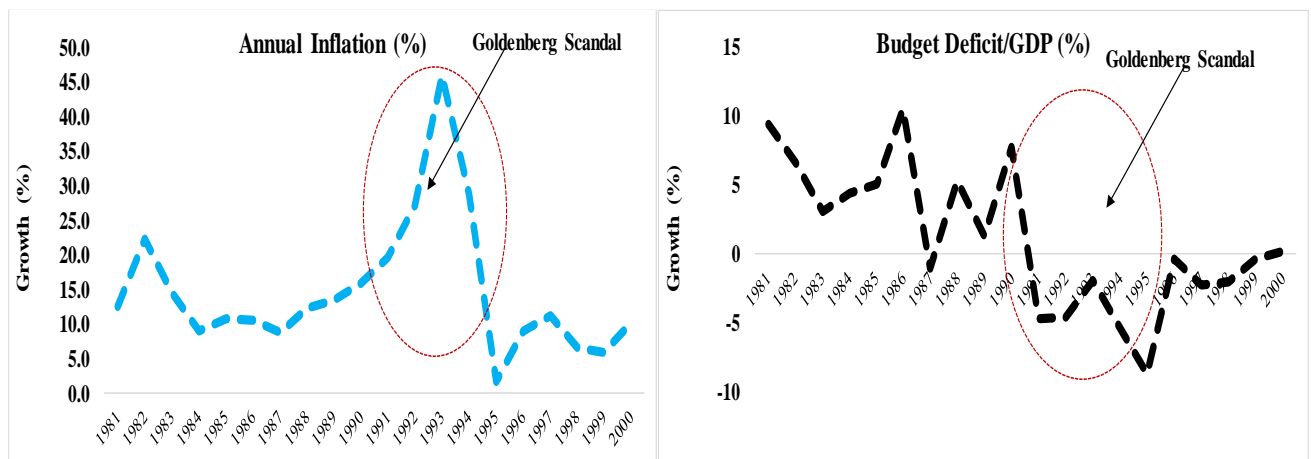
Figure 2.2: Evolution Kenya's Exchange Rate (KSh/USD): 1981-2000



Source: Various Economic Surveys (Kenya Bureau of Statistics)

At the same time, the budget deficit as a proportion of GDP widened suggesting that the Goldenberg scandal denied the economy resources that could have otherwise been used to finance the much needed infrastructure (Figure 3.17). Moreover, subsequent to the Goldenberg scandal the cost of living skyrocketed as indicated by the sharp rise in inflation, (Figure 2.3).

Figure 2.3: Evolution of annual inflation (%) and Budget Deficit (% of GDP): 1981-2000

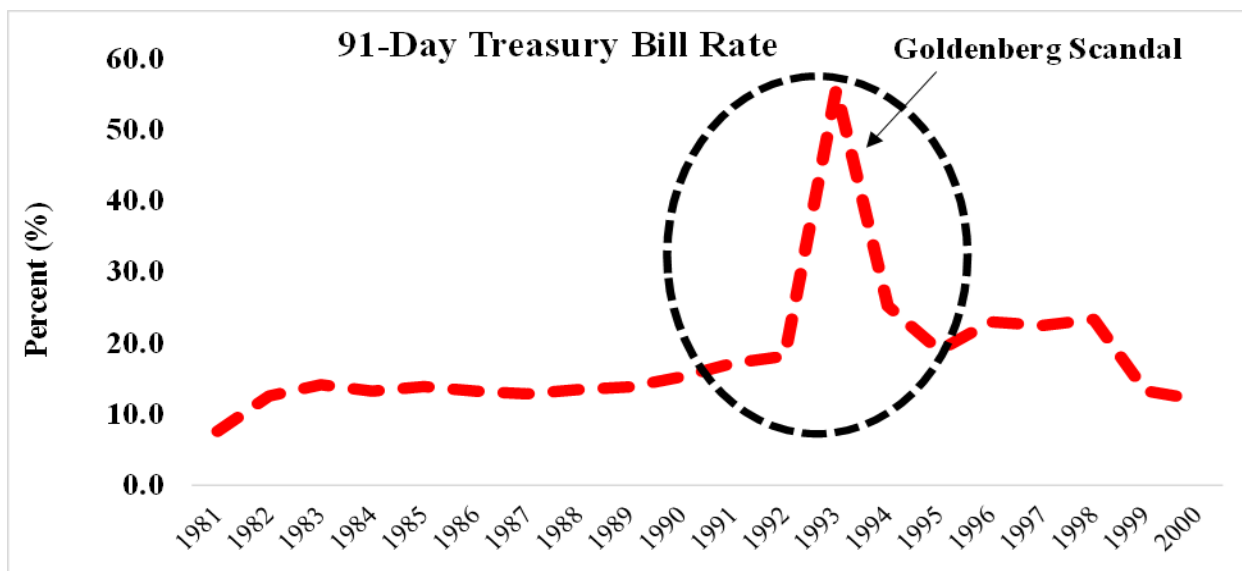


Source: Various Economic Surveys (Kenya Bureau of Statistics)

International financial institutions, bilateral and multilateral development partners withdrew their support for the government following the widespread and high level corruption. At the

height of re-introduction of multi-party politics which culminated in the 1992 general elections, the Goldenberg scandal and withdrawal of donor support, the government was desperate to borrow domestically at the bidders' rate for government bills and bonds. Arising from this phenomenon and largely on account of the Goldenberg scandal, Treasury bill rates attracted the highest rates ever forcing the government to accept very expensive domestic debt (Figure 2.4). Besides the negative consequences of expensive debt, lending to the private sector was significantly curtailed as it was more profitable to lend the government than the private sector. This resulted in further negative effects on economic growth as productivity of the private sector dropped drastically following significant decline in financing to either sustain or expand their operations.

Figure 2.4: Evolution of the 91-Day Treasury Bill Rate: 1981-2000



Source: Various Economic Surveys (Kenya Bureau of Statistics)

In response to the coordinated local and international crusade against public sector corruption, the negative consequences of the Goldenberg scandal and the need to restore trust among the international donor communities, the government established the Kenya Anti-Corruption Authority (KACA) in 1997 through an amendment of the Prevention of Corruption Act (Khamisi, 2018). The role of KACA as defined in the amendment included taking preventive measures, conducting investigations and forwarding cases to the Attorney General for prosecutions. KACA would fail to deliver on its expectations chiefly on account of lack of prosecutorial powers to pursue identified corruption cases. In addition, the lack of autonomy impaired the ability of KACA to investigate and prosecute high profile corruption cases.

In the year 2000, the anti-corruption efforts were dealt a major blow after the landmark ruling by a constitutional court in the *Stephen Mwai Gachiengo & Albert Muthee Kahuria v. Republic of Kenya*²⁴. In this ruling, the judge held that having Justice Aaron Ringera as a judge of the high court and head of KACA was unconstitutional as it breached the separation of powers between the Judiciary and the executive (Gathii, 2010). This ruling therefore rendered the creation and existence of KACA null and void.

In a bid to revive the fight against corruption and restore donor funding to critical government programs, the government created an Anti-Corruption Police Unit (ACPU) similar to the anti-corruption squad to take over from the defunct KACA. While this unit recorded some success in the fight against corruption, its effectiveness was bedeviled by similar challenges as the anti-corruption squad.

2.4 Corruption during the 2003-2004 Period

While there were measures to curb corruption at the onset of this regime, large scale corruption such as the Anglo-leasing scandal became apparent shortly after. This was particularly of concern as it not only touched on wastage of public resources and loss of job opportunities but also involved acquisition of security as well as immigration equipment which play a critical role in ensuring national security. Moreover, corruption during this period resulted into electoral fraud which culminated in mass displacement of people, destruction of property and loss of life following disputed elections in 2007.

At the heart of the corruption pandemic is an unholy trinity that provides the nexus between bureaucracy, tenderpreneurship and security. Bureaucratic officials at government ministries and departments collude with agents of corruption to float tenders whose singular purpose is to defraud the public. For instance, secretive security procurements done under the guise of strategic procurement are single sourced only for the public to later learn that the procured equipment is faulty and cannot provide the required service to national security agencies such as the police and the military. These actions not only affect the ability of the security forces to function properly but also expose the nation to both domestic and external threats.

²⁴*Stephen Mwai Gachiengo & Albert Muthee Kahuria v. Republic of Kenya* from the Republic of Kenya in the High Court of Kenya at Nairobi, High Court Miscellaneous Application No. 302 of 2000.

The coming in of the National Rainbow Coalition (NARC) administration brought a new impetus into the fight against corruption. Government efforts to eradicate systemic corruption were seen to be coordinated and successful at the onset. This included enactment of stringent legislations such as the Anti-Corruption and Economic Crimes Act and the Public Officer Ethics Act in 2003. The nexus of the Anti-Corruption and Economic Crimes Act 2003 was to institutionalize the fight against corruption through the establishment of the Kenya Anti-Corruption Commission (KACC) which took over from the ACPU (Republic of Kenya, 2003). In addition, the Act created the Kenya Anti-Corruption Advisory Board with the responsibility advising KACC generally on the exercise of its powers and the performance of its functions under this Act.

Compared to its predecessor, KACA, KACC enjoyed autonomy and independence and was therefore viewed as being more effective in tackling corruption. Kenya's roadmap to prosperity as enshrined in the Sessional Paper No. 10 of 2012 on Kenya's Vision 2030. In this blueprint, Kenya has made ambitious commitments towards attaining a high level of industrialization that would propel to a middle income country by the year 2030 (Republic of Kenya, 2012). In order to attain this status, the government committed itself to pursuing governance reforms including eradication of public sector corruption so as to enhance investor confidence, optimize resource mobilization and utilization and spur economic growth.

In addition, the Government set up a commission of inquiry into the Goldenberg affair in 2003 headed by Justice Bosire (Republic of Kenya, 2005). The Commission made a raft of recommendations aimed at bringing to closure the Goldenberg scandal by recovering proceeds of the crime and prosecuting those culpable in the scandal. This saw the recovery of the Grand Regency Hotel, a five star hotel owned by the chief architect of the scandal Mr. Kamlesh Patni (Warutere, 2018).

However, it was not long before another scandal emerged, the infamous *Anglo-leasing scandal* in which the country lost billions of Kenyan shillings in procurement scams involving a passport equipment system from France, and forensic science laboratories for the police from Britain. The scandal was partly inherited from the Moi regime as 12 contracts had already been entered before 2003 but its full actualization was realized under the Kibaki regime with the signing of six more contracts with the Anglo-leasing company, a ghost firm that was neither registered in France, Kenya, UK or Switzerland. This corruption scandal unearthed in 2005

involved 18 dubious security contracts estimated at a value of US \$750(Bechelard, 2010). This eroded public confidence and re-ignited outrage from the donor community. The government responded by suspending and firing some public servants mentioned in the scandal including the Minister of Finance, and the Financial Secretary at the Treasury (Makena, 2011).

Moreover, the Kibaki administration inherited the Goldenberg scandal which gobbled at least a fifth of Kenya's annual GDP and adversely affected the financial sector a critical driver of the country's development. In particular, the recovery of assets from the anglo-leasing scandal led to another scandal. In 2008, the Central Bank of Kenya (CBK) repossessed the five-star Grand Regency Hotel now Laigo Regency in exchange for dropping all claims against the mastermind Mr. Kamlesh Pattni. The hotel was renamed Laico Regency after it was sold to the Libyan Arab African Investment Company at USD 45 million. However, it is estimated the hotel was valued at more than USD 115 million at the time increasing the magnitude of the scandal further.

2.6 Conclusion

The chapter has demonstrated that there has been an apparent growth of corruption notwithstanding a wide range of Government measures to counter it. The chapter begun by showing that corruption is not a new phenomenon in Kenya and emerged as a problem even in the colonial period. This is evidenced by early attempts to address the vice through legislative measures in 1956. However, corruption was not pervasive and prevalent in the day to day life as is in present times. The framework to fight corruption at the time was not institutionalized as the police were the main actors in the prevention of corruption. The law was amended after independence following its shortcomings and the need to have a robust mechanism to fight corruption.

Despite measures in place, corruption soon took center stage in the form of illegal allocation of public land (land grabbing) to well-connected individuals. As mega corruption scandals emerged, public outcry increased while multilateral donor agencies joined in demanding an end to corruption and a proper institutional framework to combat it. These culminated in the establishment of the KACA, ACPU and later KACC. However, the frequency, complexity and magnitude of corruption increased as new measures were put in place. The review of historical developments as having institutionalized abuse of power for personal gain has laid a foundation for an examination of the effects of corruption on Kenya's economic growth.

CHAPTER THREE

THE EFFECTS OF CORRUPTION ON KENYA'S ECONOMIC GROWTH

3.0 Introduction

This chapter builds on the detailed review of the history of corruption developments in Kenya which institutionalized abuse of power using state instruments to gain control of public goods for personal gain. The thrust of this chapter is to examine and analyze the effect of corruption on Kenya's economic growth over the period 2005-2016. It attempts to respond to the question; how corruption affects Kenya's economic growth.

The central argument advanced in the chapter is that corruption undermines economic growth through a wide range of negative political, economic, military, societal and environmental effects it engenders. The chapter demonstrates that in its pervasive nature, corruption permeates through critical government functions and major sectors of the economy that support broad based and inclusive growth. These include embezzlement of funds meant for critical sectors that support the economy such as health, education, infrastructure, electricity and water supply and agriculture. The chapter demonstrates that as a consequence of corruption, delivery of social services is impaired, the wellbeing of the citizens is undermined and the general economic activity slows down leading to lower rate of economic growth.

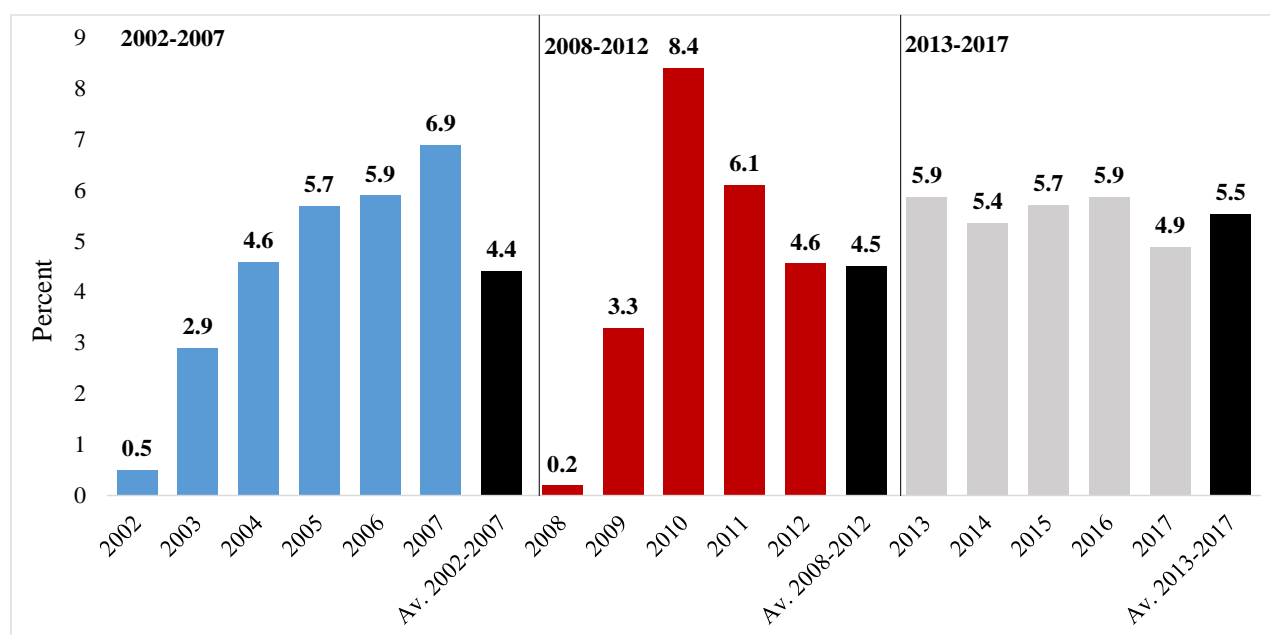
The chapter is organized into five broad sections. The first section provides an in-depth analysis of the performance of Kenya's economic growth. The second section demonstrates the impact of corruption on critical sectors of the economy while the third section sums up the impact on the overall economy. The fourth section examines the implications of corruption on public debt dynamics by showing that corruption is in part responsible for the ballooning public debt. The fifth section examines the impact of corruption on development expenditure and points out that public infrastructure projects have often been inflated to benefit corrupt actors and hence the cost-benefit dynamic of most projects is not favorable. The chapter concludes with an analysis of the implications of corruption on foreign direct investment and links these impacts on economic growth.

3.1 Kenya's Economic Performance

Were it not for corruption, the confluence of other favorable domestic factors such as the youthful population, a dynamic private sector, highly skilled workforce, improved infrastructure, a new constitution, and Kenya's pivotal role in East Africa would result in double digit economic growth that would propel the country into an industrial middle income status as espoused in the development blueprint Vision 2030.

The Kenyan economy recovered steadily in the period 2002-2007 growing at an average of 4.4 % (Figure 3.1). Growth increased from 0.5 % in 2002 to reach a high of 6.9 %. The economy remained resilient in the period 2008-2012 and registered a growth of 4.5 % despite a slower growth of 0.2 % in 2008 following the effects of the post-election violence of 2007-2008. The economy recorded a strong performance of 8.4 % in 2010 before gradually declining to 4.6 % in 2012. The economy, specifically, grew at an average of 5.5 % per year in the five years (2013 - 2017) outperforming the average growth rate of 4.5 % in the period 2008 to 2012. However, uncertainty associated with elections coupled with the effects of adverse weather conditions slowed down the performance of the economy in 2017. As a result, the economy grew by 4.9 % in 2017, which is a slowdown from the 5.9 % in 2016.

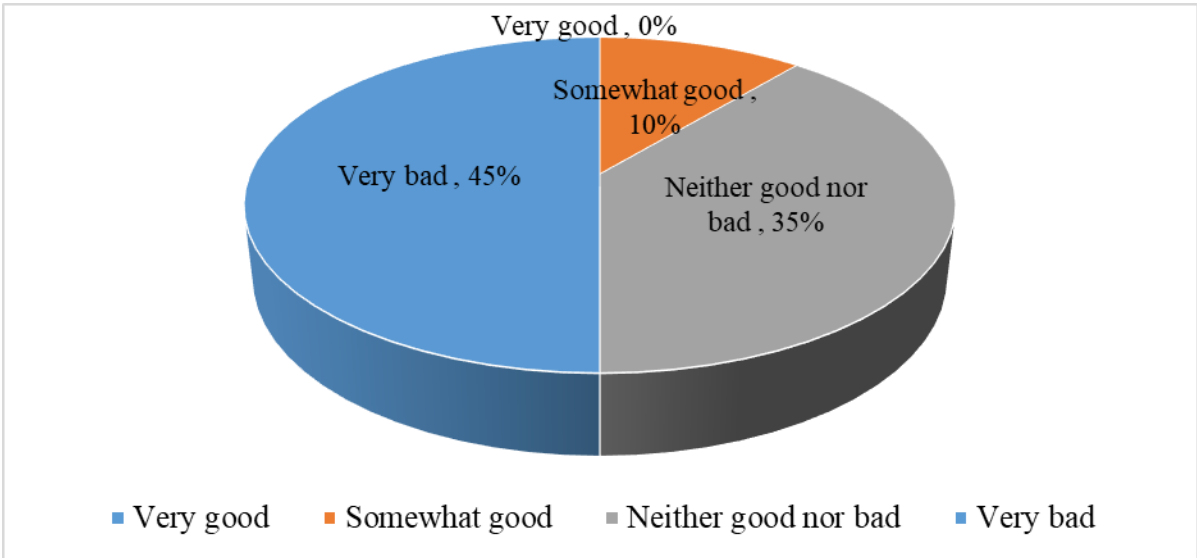
Figure 3.1: Trends in Kenya's Economic Growth Rates



Source: Kenya National Bureau of Statistics

The state of the economy in the period under review has been negatively affected by flourishing corruption as the level of economic growth falls short of the double digit economic growth target set in Vision 2030 which has resulted in worsening poverty (Ng’ethe, Katumanga, & Williams, 2004)²⁵. As shown in Figure 3.1, findings reveal that 45 % of the respondents feel that the current economic situation in Kenya is very bad. In addition, 35 % of the respondents were indifferent as to whether the state of the economy is good or bad. Only 10 % of the respondents felt that the state of the economy is good while none of the respondents indicated that the economy is doing very well.

Figure 3.2: Views on the current economic situation in Kenya

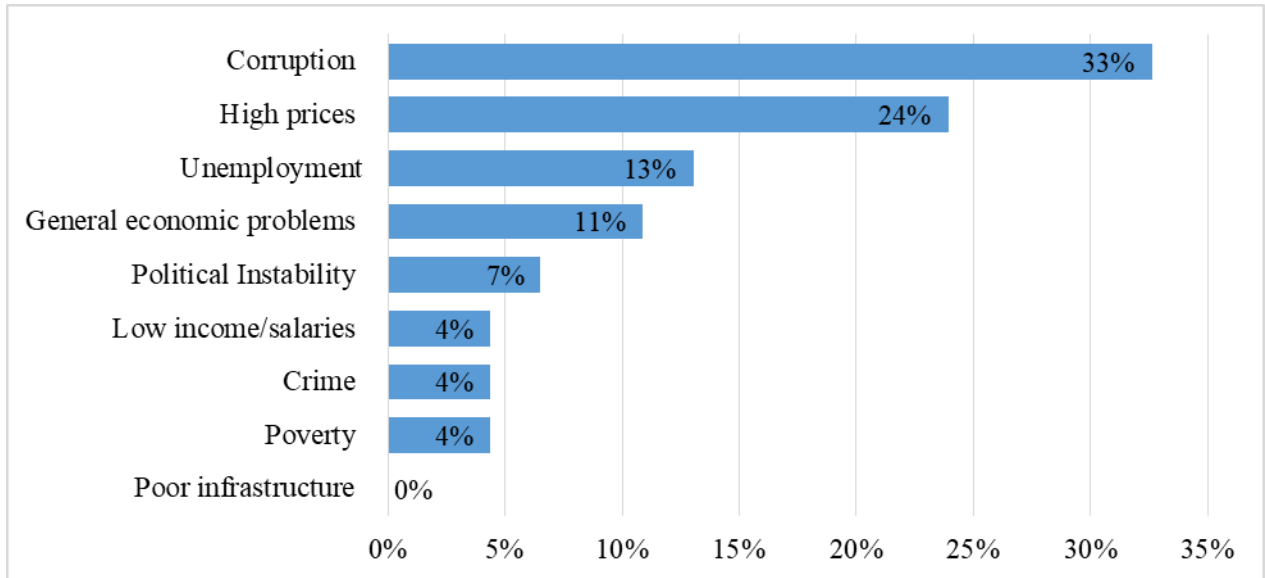


Source: Survey Data

Findings show that the main negative influence of the current state of the economy is corruption. Figure 3.3. Show that 33 % of the respondents see corruption as the most serious threat facing the Kenyan economy. In addition, the high cost of living as reflected by high consumer prices which could be in part a result of corruption is ranked the second most serious problem facing the country with unemployment ranking third at 24 % and 13 % respectively.

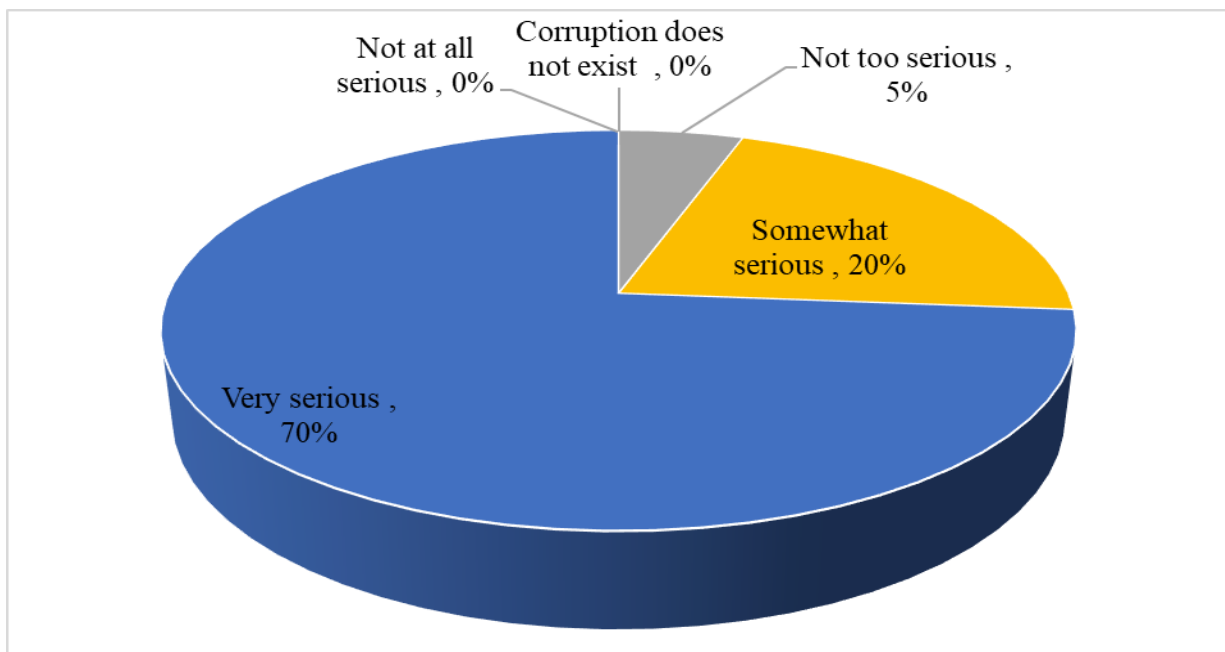
²⁵<http://www.gsdr.org/docs/open/doc24.pdf>

Figure 3.3: What in your opinion are the most serious problems facing Kenya as a country today



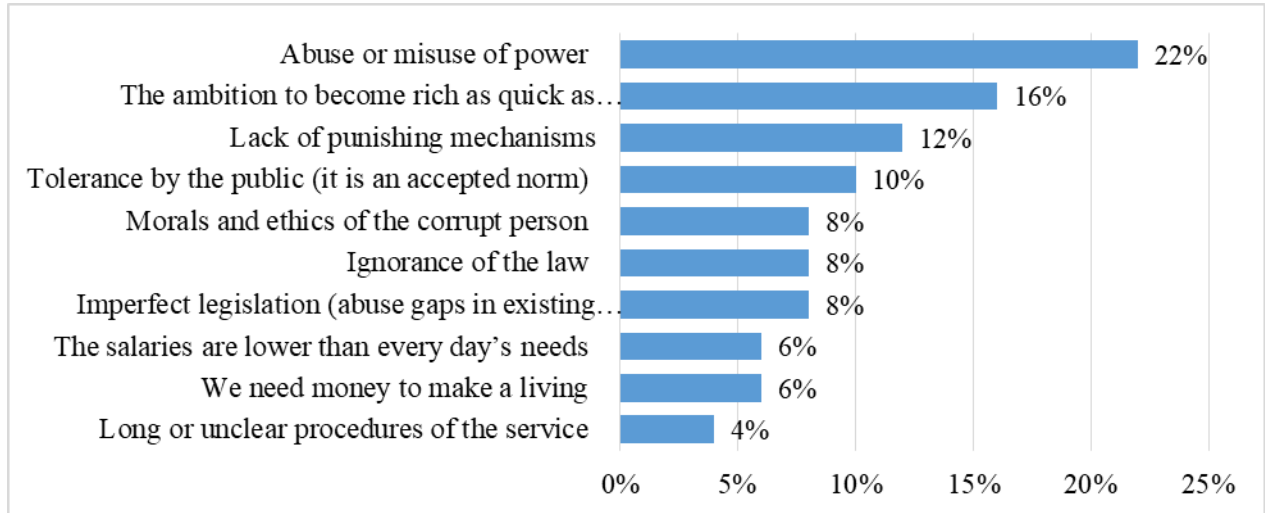
The magnitude of the seriousness of corruption as a problem is indicated in Figure 3.4 with 70 % of the respondents agreeing that it is a very serious problem. Those who view corruption as somewhat serious were 20 %, while 5 % view it as not a serious problem. Moreover, none of the respondents think that corruption is not serious at all.

Figure 3.4: In your opinion, how serious is the issue of corruption in Kenya



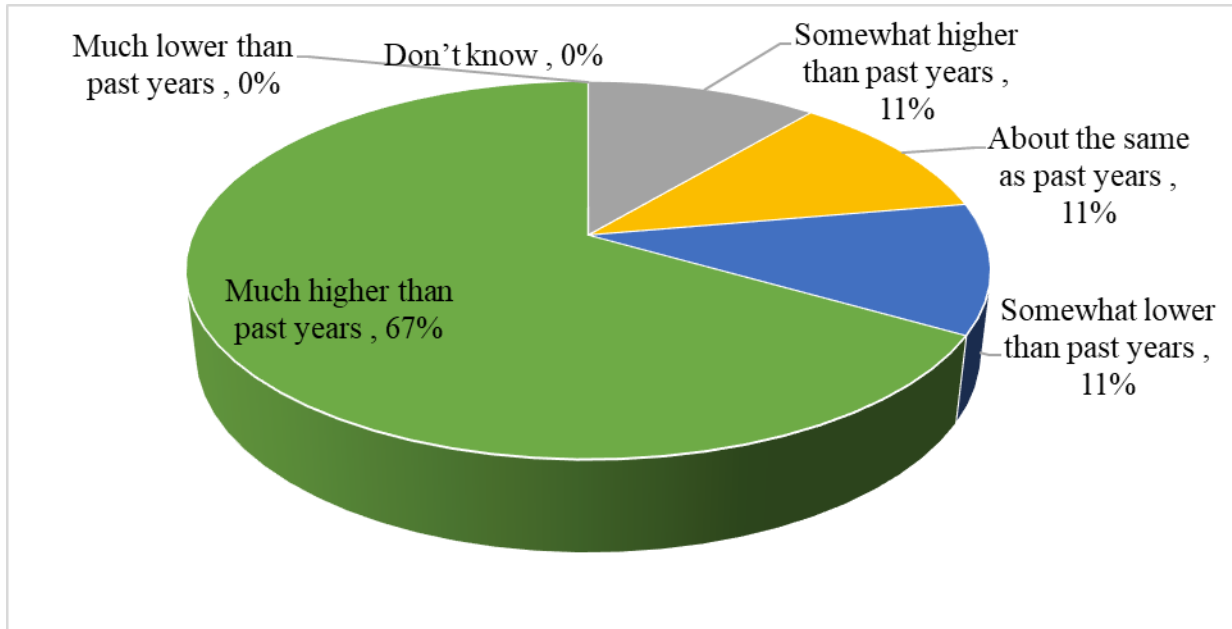
On the main causes of corruption, respondents ranked these as abuse/misuse of power (22 %), ambition to get rich quick (16 %), absence of punishing mechanisms (12 %), tolerance by the public (10 %), morals/ethics of the corrupt individual (8 %), ignorance of the law (8 %) and abusing gaps in legislation (8 %), (Figure 3.5). The other factors accounted for 16 %.

Figure 3.5: Factors causing corruption in Kenya?



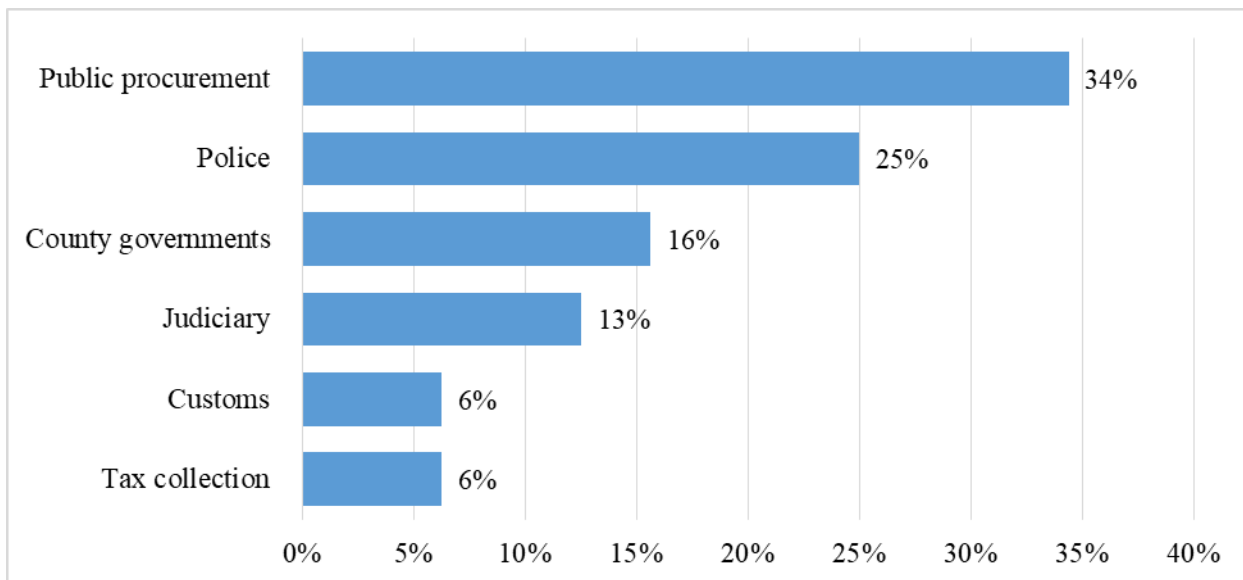
Evidence also shows that the level of corruption has been rising from year on year. When asked on whether corruption is higher this year than the previous year, 67 % of the respondents indicated that corruption was much higher in the current year than the previous year, (Figure 3.6). 11 % of the respondents also indicated that the level of corruption was about the same as the previous year while another 11 % indicated that the level of corruption was the same as the previous year.

Figure 3.6: How would you compare the level of corruption in Kenya today with the level of corruption in the past few years?



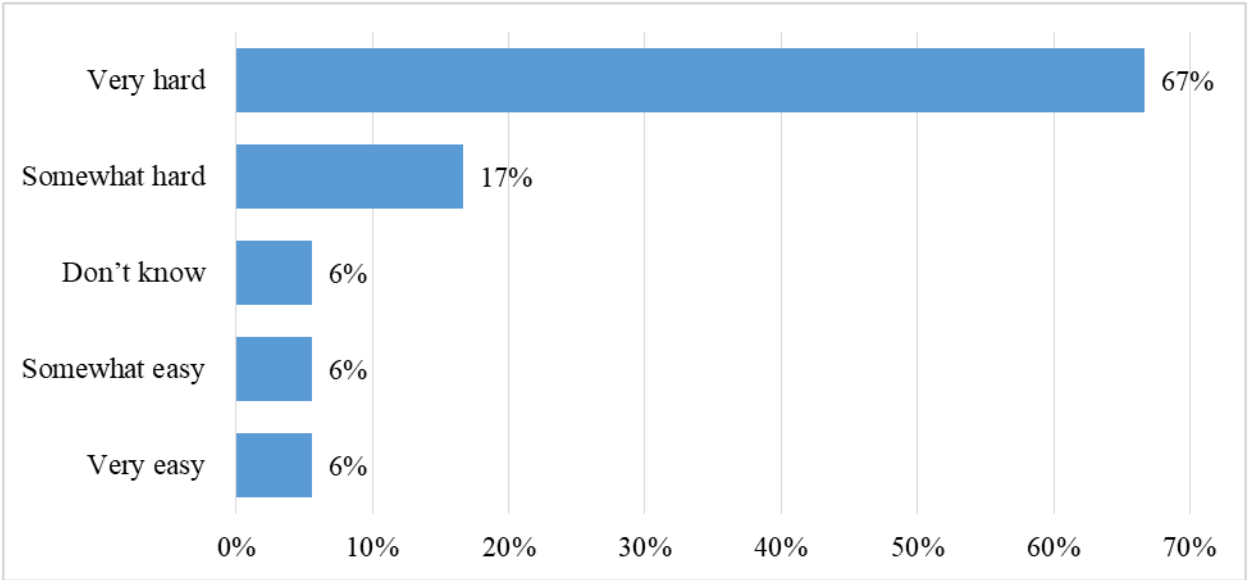
Corruption is most prevalent in public procurement, the police and county governments. Respondents indicated that the prevalence of corruption in public procurement stood at 34 % while in the police and county governments it stood at 25 % and 16 % respectively, (Figure 3.7). The incidence of corruption at the Judiciary was found to be 13 % while customs and tax collection stood at 6 % respectively.

Figure 3.7: Which sectors boast most cases of corruption in Kenya?



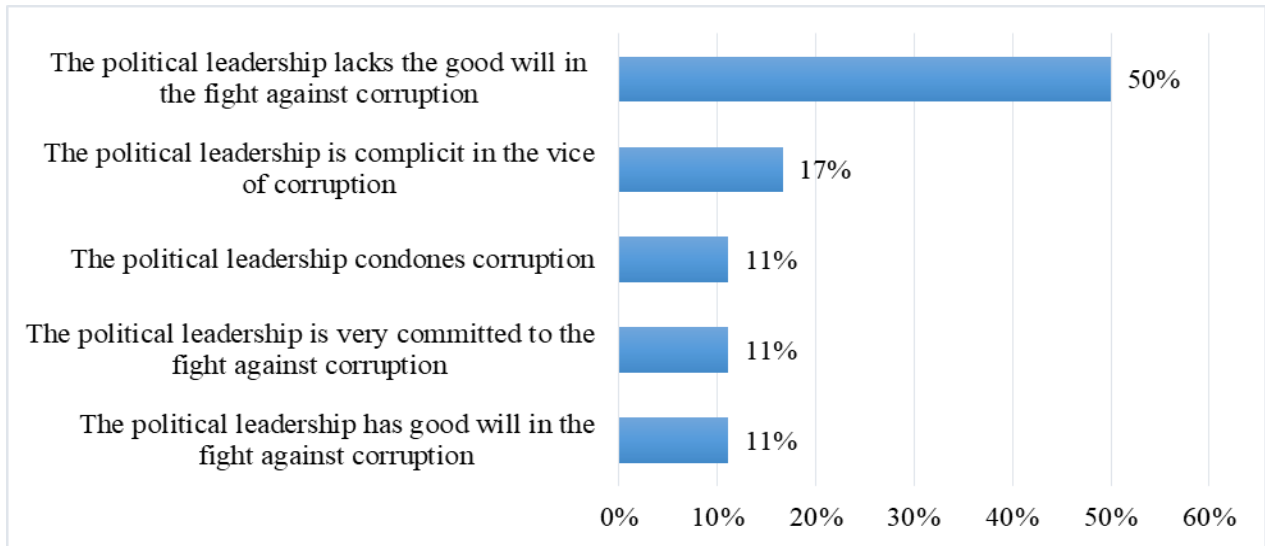
Corruption in Kenya because it is very hard to report the vice to the relevant authorities, perhaps since relevant government agencies such as the police and the judiciary are deeply involved in it. Evidence show that 67% of the respondents find it very hard to report corruption cases, while 17% find it somewhat difficult to report corruption, (Figure 3.8).

Figure 3.8: How easy or hard is the process of corruption reporting in Kenya?



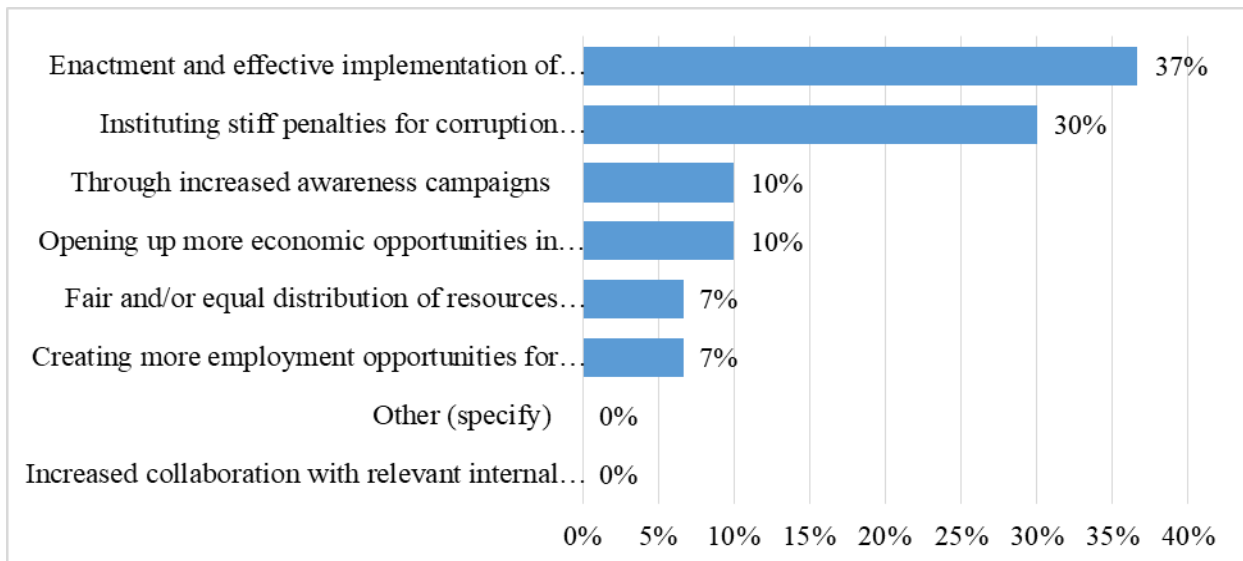
The absence of political goodwill was blamed for the high level of corruption. 50% of the respondents indicated that the political leadership lacks the goodwill in the fight against corruption while another 17% indicated that it was complicit in corruption. In addition, 11% of the respondents indicated that the political leadership condones corruption. Results also show that only 11% of the respondents have confidence that political leadership is committed to the fight against corruption with another 11% agreeing that it has goodwill in the fight against corruption.

Figure 3.9: Views regarding the political goodwill to fight corruption in Kenya



Evidence shows that in order to curtail corruption, efforts should be tilted towards proper legislation, their effective implementation and punitive penalties for those found guilty, (Figure 3.10). When asked on what needs to be done to improve the situation, 37 % of the respondents indicated that there was need to enact and effectively implement anti-corruption laws, 30 % proposed stiff penalties for offenders, 10 % suggested improved awareness campaigns and another 10 % indicated that there was need to expand economic activities in the country.

Figure 3.10: How can government improve in its efforts to stop corruption in the country?



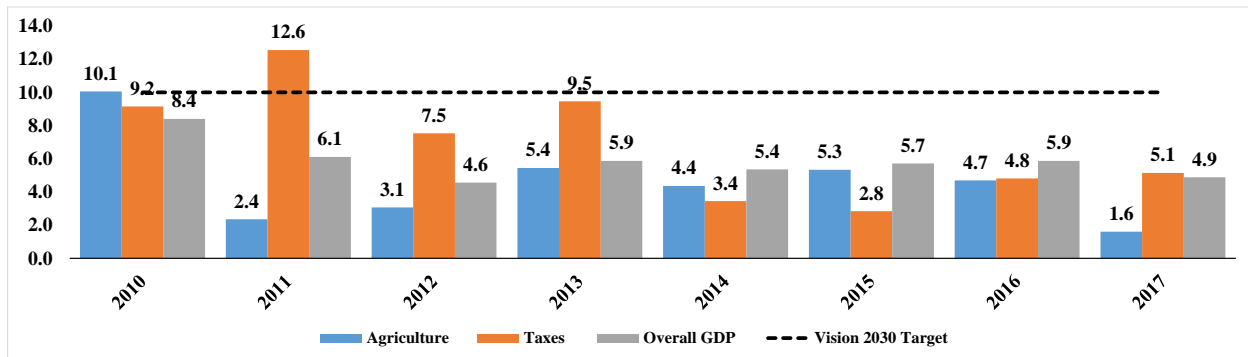
3.2 Impact of Corruption on the growth of critical sectors of the economy

Kenya aspires to be a middle income industrialized nation by the year 2030. To achieve this goal, the country is expected to post a two digit annual economic growth consistently between the years 2008-2030. This growth is expected to be a shared prosperity by the citizens of Kenya. Therefore, economic growth should be broad based and inclusive.

3.2.1 Impact of Corruption on Agriculture

Agriculture is one such critical sector that would ensure food security, job creation and production of raw materials required for industrial processing. However, the rate of growth of the agriculture sector has been low and only reached the Vision 2030 target in 2010. This has exposed the country to food insecurity and curtailed industrial activity. At the core of the underperformance of agriculture is the corruption pandemic. This is manifested in the form of distribution of uncertified seeds to farmers, corruption in the sale and distribution of government subsidized fertilizer and payment of farmers for the supply of their produce. In addition, the collection of taxes has grown at a low pace, only surpassing the Vision 2030 target in 2011 (Figure 3.11). This outcome is largely associated with corruption and embezzlement of funds at the collection point by the revenue collectors and later at the exchequer level. This is consistent with the argument that corruption has become the “fifth” factor of production in Kenya²⁶ (Ngunyi & Katumanga, 2014).

Figure 3.11: Evolution of Growth in Agriculture Sector, Taxes and Overall GDP Growth



Source: Kenya National Bureau of Statistics

²⁶<https://www.undp.org/content/dam/kenya/docs/Peace%20Building/From%20Monopoly%20to%20Oligopoly%20Exploration%20of%20a%20Four%20Point%20Hypothesis%20regarding%20organized%20and%20organic%20militia%20in%20Kenya.pdf>

Corruption is at the epicenter of food insecurity in Kenya and is undermining the country's Vision 2030 goal. Major irrigation projects such as the Galana Kulalu irrigation project²⁷ and the Turkana²⁸ aimed at enhancing food production to secure food supply have been riddled by corruption scandals exposing millions of citizens to vagaries of weather and hunger. The Galana Kulalu project though ongoing has recorded dismal yields per hectare despised colossal amounts being allocated annually in the national budget to ensure the project's success.

Food insecurity has been turned into an enterprise for wheeler dealers to profit from as they exploit dire food shortages to import and sell to the government and private entities. While the country has a strategic grain reserve policy aimed at ensuring that the country is food secure at any point in time, the National Cereals and Produce Board (NCPB) which is mandated to implement the policy is always battling embezzlement and cases of corruption scandals. While there many cases of pilfering, the maize scandals of 2009²⁹ and 2018³⁰ stand out.

3.2.2 Impact of Corruption on Services Sectors

In addition, growth of other critical social sectors has been below par. The education sector, notwithstanding the misappropriation of the free primary education and other critical funds managed to reach the Vision 2030 target in 2010 and 2012. The rest of the sectors (health, electricity, water supply, transport and infrastructure have never reached the Vision 2030 target partly due to the impact of corruption. This is consistent with the finding of the National Council of Churches of Kenya (NCCCK) which estimates that Kenya loses an equivalent of KSh 700 billion every financial year (KSh 2 billion daily)³¹. NCCCK further opines that this amount is sufficient to pay a KSh 250,000 salary to 230,000 doctors which means 30 doctors in each of the 8000 health

²⁷ Corruption in the Galana Kulalu project <https://www.nation.co.ke/newsplex/ruto-galana-kulalu/2718262-3995280-hqowwhz/index.html>

²⁸ Corruption in the Turkana irrigation project <https://www.nation.co.ke/business/How-Sh953-million-scandal-turned-Turkana-food-security-project/996-3485830-r50wiesz/index.html>

²⁹<https://www.nation.co.ke/news/1056-525410-k7tpwsz/index.html>

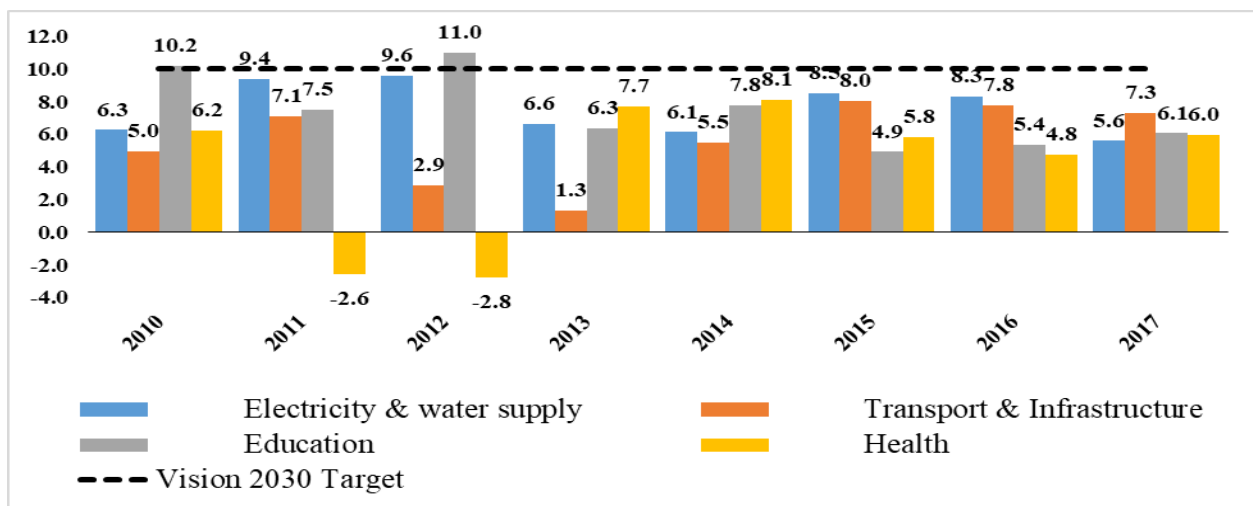
³⁰https://www.the-star.co.ke/news/2018/05/25/inside-story-of-the-ncpb-maize-scam_c1763469

³¹<http://www.nccck.org/newsite2/index.php/information/news/905-press-statement-by-the-executive-committee-meeting-on-17-05-2018>; <http://www.nccck.org/newsite2/index.php/information/news/583-resolve-corruption-now>

facilities across the county. In addition, these funds can finance one hundred % free primary, secondary and technical training in Kenya every year.

Investments in services sectors have been plagued by major corruption scandals such as the Kenya Power and Lighting Company and the Kimwarer and Aror dams scandals in the electricity and water supply sector, the mobile clinics scandal in the health sector, the free primary education scandal in the education sector, the Standard Gauge Railway (SGR) land compensation scandal in the transport and storage sector and the National Youth Service (NYS) I & II scandals in the public administration sector. Cumulatively, these corruption episodes are estimated to have deprived these sectors of approximately KSh. 25 billion.

Figure 3.12: Evolution of Growth in Services Sectors of the Economy

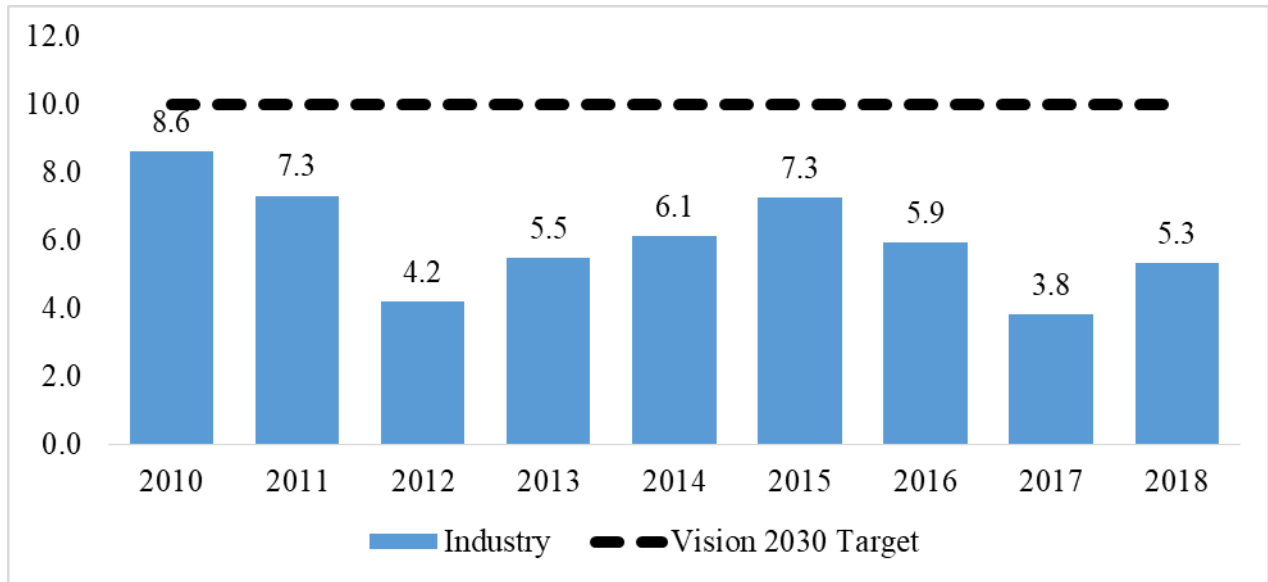


Source: Kenya National Bureau of Statistics

3.2.3 Impact of Corruption on Industrial Sector

Industrial sectors are mostly responsible for export oriented growth in many countries and provide a critical source of growth. However, Kenya’s industrial sector has not only declined from 8.6 % in 2010 to 5.3 % in 2018 but has also never reached the Vision 2030 growth target (Figure 3.13).

Figure 3.13: Evolution of Growth in Industry



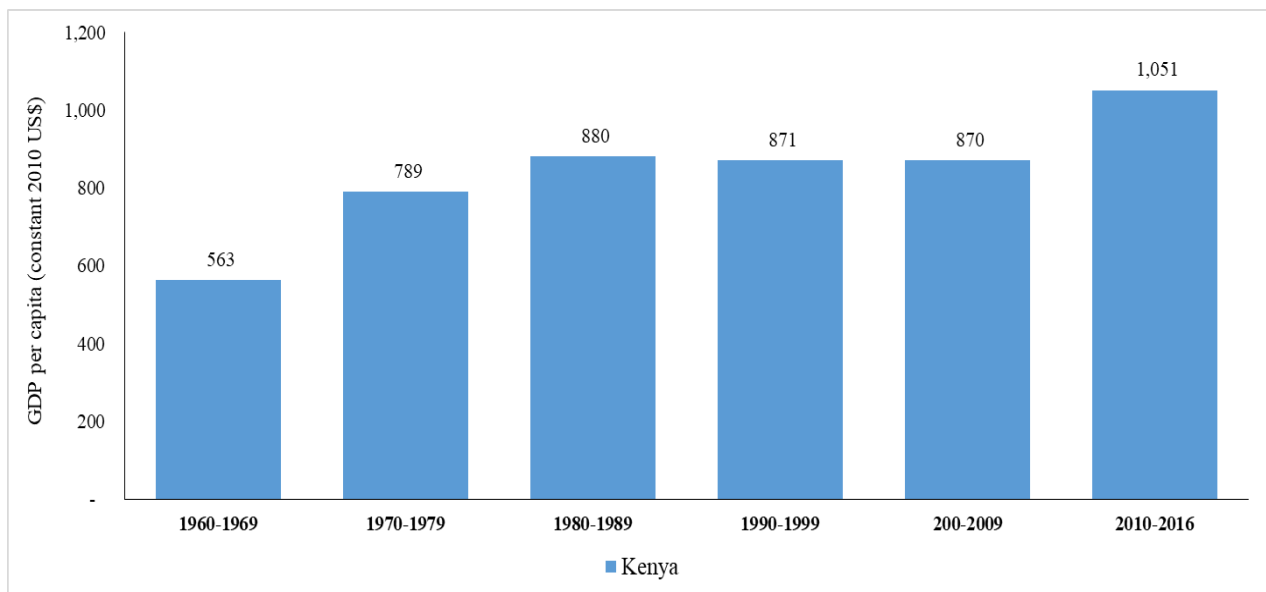
Source: Kenya National Bureau of Statistics

This is in part due to mismanagement and embezzlement of funds in key industries across the country such as the Kisumu Cotton Mills (KICOMI); the Kenya Meat Commission (KMC), The Kenya Rivatex and the Special Economic Zones enterprises. As a result several industries have witnessed rampant closures, low production, and poor quality products resulting in persistent losses. At a national level, these have manifested in form of low economic growth in the industry sector.

3.3 How Corruption Stagnated Economic Growth

To demonstrate the effects of corruption on Kenya's economic Figure (3.14) corroborates the high level of poverty, income inequality and unemployment in Kenya which continues to pose a national security challenge during the period of the study.

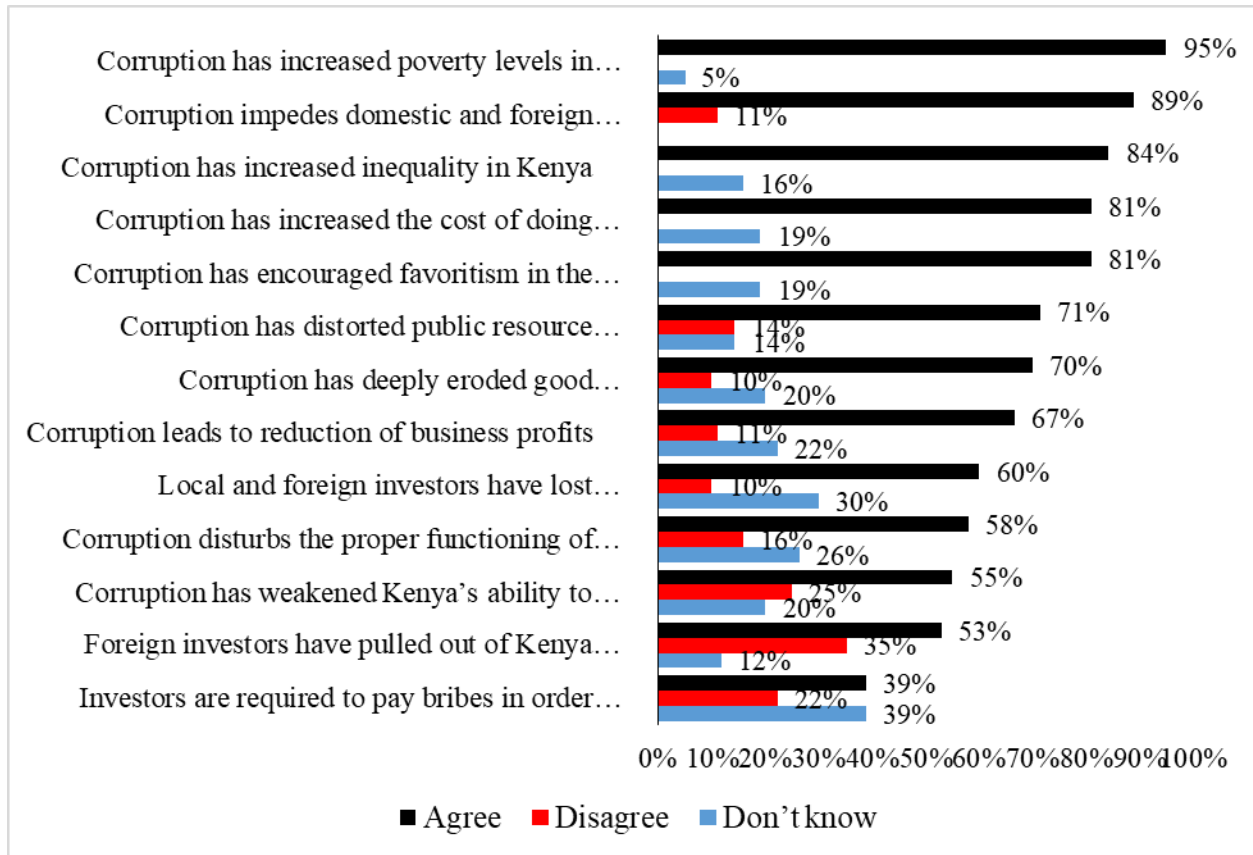
Figure 3.14: Kenya GDP per capita (constant 2010 US\$): 1960-2016



Source: World Development Indicators

Corruption has been blamed for many challenges faced in Kenya's economy, (Figure 3.15). These include increased poverty levels (95%), impediment to domestic and foreign investment (89%), increased inequality (84%), increased cost of doing business (81%), and favoritism in the award of contracts (81%), and misallocation of public resources to sub-optimal uses (71%). In addition, results show that corruption has negatively impacted on the country's governance (70%) and the proper functioning of markets, (58%).

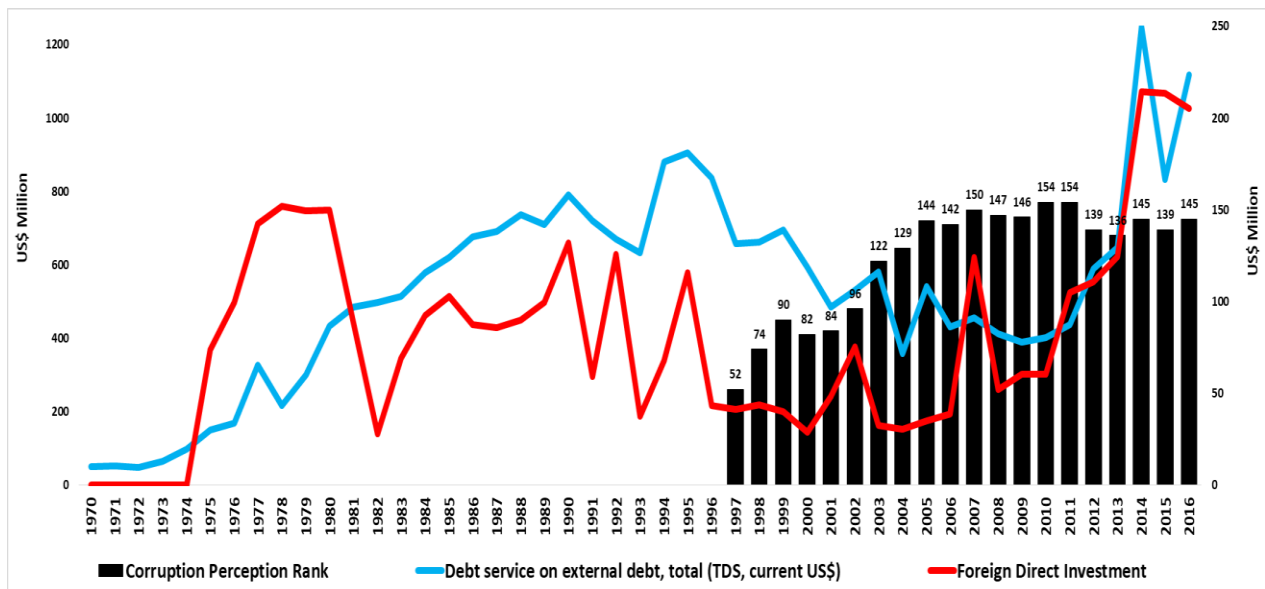
Figure 3.15: Effects of Corruption on the Economy



3.3(a) Implications of Corruption on Public Debt and Economic Growth

The shrinking Kenya’s fiscal space in recent times coincided with a period of heightened corruption. Indeed, anecdotal evidence shows that Kenya loses one-third of the national budget to corruption –the equivalent of approximately \$6 billion (Kshs.608 billion) every year (Kimeu, 2017). The scarcity of resources arising from corruption leakages has forcing the government to seek alternative financing sources to fund critical public investment in social programs and infrastructure.

Figure 3.16: Debt service on total external debt, (current US\$): 1970-2016; Foreign Direct Investment and Kenya’s Ranking on Transparency International’s Corruption Perception Index

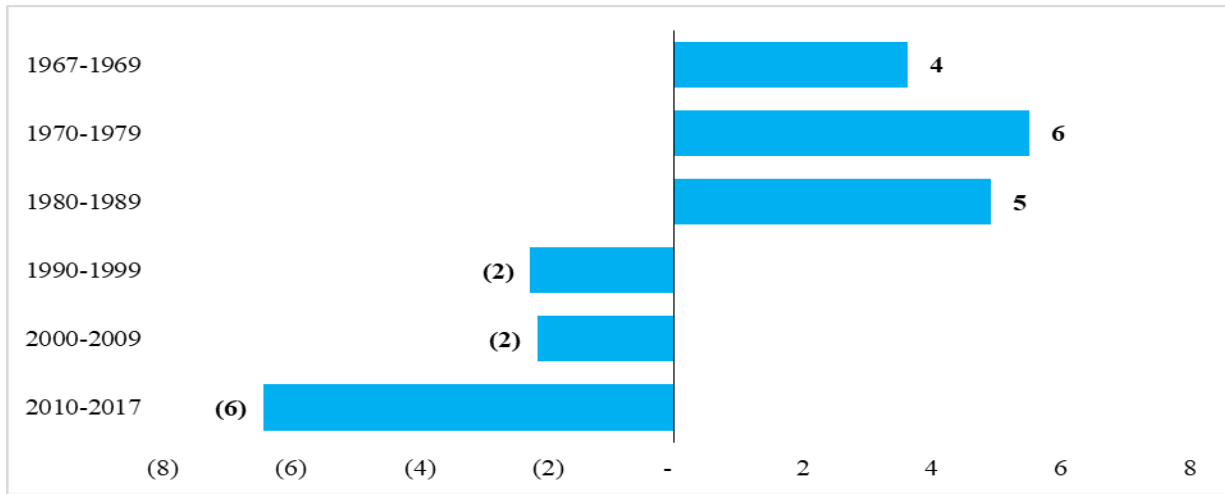


Source: World Development Indicators and Transparency International

The increase in accumulation of debt to finance critical government programs is reflected by difficulties to finance the national budget. This increase coincided with deterioration of Kenya’s ranking in the Transparency International Corruption Perception Index from position 52 globally in 1997 to position 145 in 2016. This points to the fact that resources collected domestically by the Kenya Revenue Authority (KRA) were embezzled to the extent that they could not adequately cater for the budgetary needs of the county. Consequently, this necessitated borrowing to finance the budget leading to a rapid increase in public debt and subsequently public debt service (interest payments on public debt).

Moreover, in the period 1967-1990, Kenya operated a budget surplus. However, in the period 1990-2016, the country has consistently operated a budget deficit which continued to widen over time (Figure 3.17). Resulting from a resource constraint, Kenya’s budget deficit as a proportion of GDP increased from 2 % in the period 1999-2009 to 6 % in the period 2010-2017.

Figure 3.17: Budget Deficit (% of GDP): 1967-2017

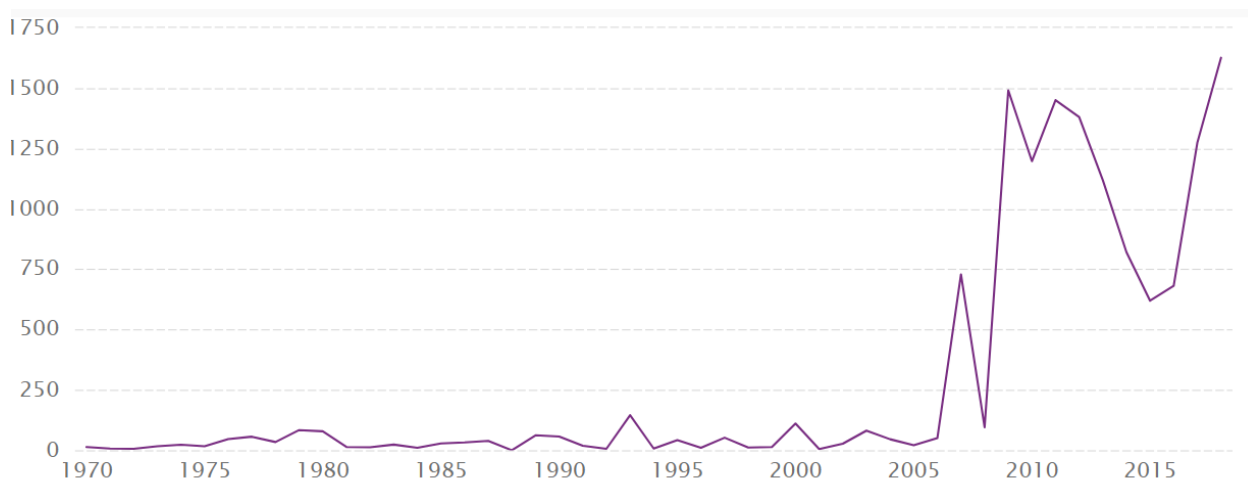


Source: Kenya National Bureau of Statistics

3.3(b) Implications of Corruption on Development Expenditure

The effects of wanton plunder of Kenya’s resources soon manifested itself. Kenya’s level of official development assistance from multi-lateral development institutions and donor countries expanded rapidly pointing to the continued reliance on foreigners and suggesting the inability of the country to raise sufficient revenue to finance development. From 2013-2016, though declining Kenya’s development assistance remained elevated.

Figure 3.18: Net official development assistance and official aid received (current US\$): 1970-2016

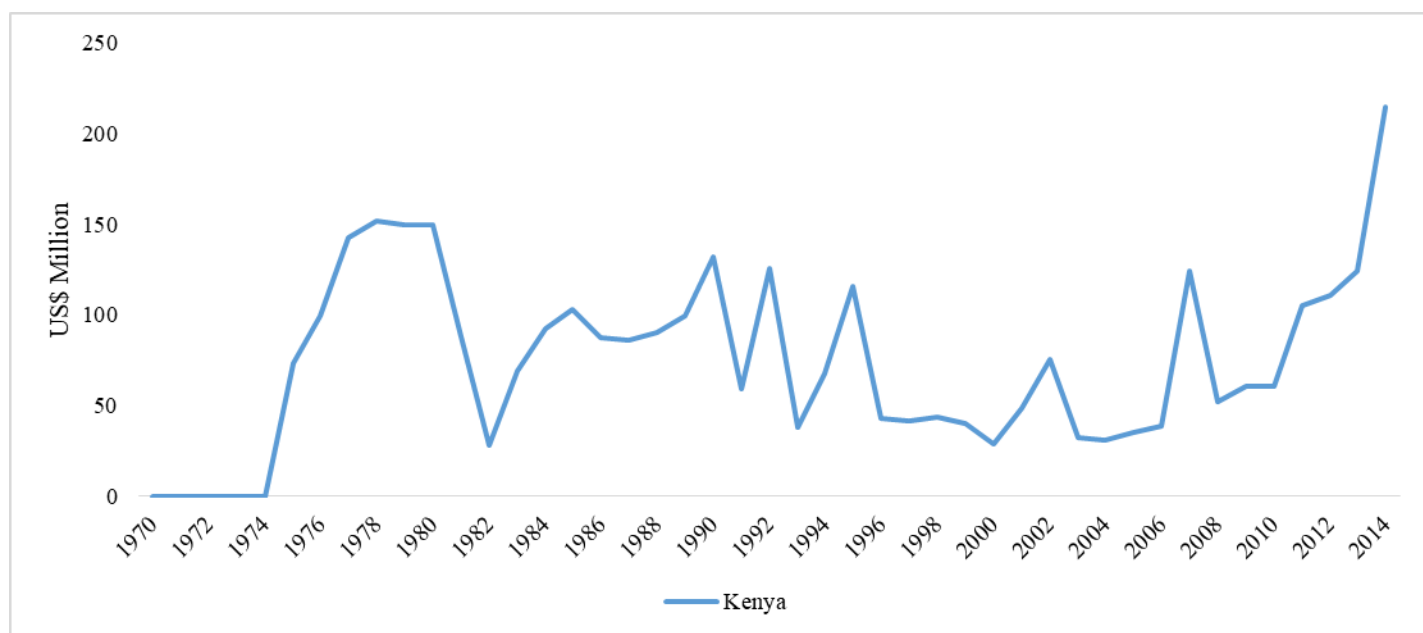


Source: World Development Indicators

3.3(c) Impact of Corruption and Foreign Direct Investment

Foreign Direct Investment (FDI) provides a critical support and anchors favorable sentiment on a country's governance and investment climate. In the period 1974-1980, Kenya was as an investment destination as reflected by the increase in FDI. However, as corruption became rampant and Kenya's ranking in the Transparency International's Corruption Perception Index deteriorated, the flow of foreign investment into the country waned over the period 1981-2010 (Figure 3.19). This has denied Kenya critical resources to boost its economic activity. This evidence is consistent with those of Castro & Nunes, (2013) who in their examination of the nexus between corruption and FDI inflows in 73 countries during the period of 1998-2008 established that countries with a lower level of corruption have greater FDI inflows.

Figure 3.19: Primary income on FDI to Kenya, payments (current US\$)



Source: World Development Indicators

3.4 Underlying The Increase in Corrupt Cases is the Value Derived in Relation to the Costs Incurred

The common thread that cuts across the pre-independence to the current regime is bribery and corruption which retard progressive policies. And despite concerted legal and institutional measures including the enactment of several anti-corruption legislations and establishment of specialized police units such as ACPU, KACC, KACA DCI, DPP and EACC corruption cases

increased in number and magnitude suggesting that underlying the increase in corrupt cases is the value derived in relation to the costs incurred.

Costs of corruption vary and could be measured in different dimensions. There are broadly two dimensions of costs. First is the cost of supervision borne by governments, namely the direct costs of the implementation of government supervision of civil servants and entities that engage in business with the government. Second is the cost of risk borne by corrupt individuals and entities, namely the corruption of civil servants and business entities once they are discovered to bear the loss which include legal punishment and loss of political economy. Well intended policies that would otherwise result in improved public welfare are turned around by selfish politicians and individuals for personal gain. In the infrastructure projects, profiteers deliver substandard roads, ports, electricity and water supply projects and share the gains in form of kickbacks with politicians and civil servants for protection. In addition, the time taken to complete these projects are intended denying the public the benefits that the project was intended to deliver.

Costs of corruption could also be viewed in form of legal corruption where power is abused within the confines of law to protect corrupt individuals and entities. There is evidence showing cases where police prosecutors and investigators are compromised to alter or destroy evidence related to corruption cases. This has resulted in delays in prosecution and very limited convictions particularly of high profile corruption cases. Corruption has therefore made the work of the DCI, DPP and EACC difficult.

Moreover, these costs are borne by the public in form of deteriorating national security. For instance, corruption in the agriculture sector threatens national food security and leads to worse poverty, inequality and employment outcomes. Additionally, corruption in the mining and tourism sectors lead to inappropriate exploitation of national resources. Successful drug trafficking, illegal arms sale and money laundering continue to pose existential threats to national security.

The government incurs budgetary costs of hiring and training staff in the investigative and judicial arms of government to tackle corruption. This cost has continued to rise with every additional effort by the government to curb corruption. As a result, corruption has not only become an

expensive issue by way of embezzled and misappropriated public funds but also the administrative and legal costs involved in the fight against corruption.

There are returns to corruption which could be viewed in two fold. Corrupt behavior requires investment and therefore a return is expected from it. A corrupt individual or entity who go scot free enjoy the return from looting public funds considers their investment in corruption has having yielded returns. The implications of a successful return on investment imply rampant corruption in subsequent periods as individuals and entities seek to gain a share in the lucrative venture of corruption. On the other hand, the government views the returns on investment in form of asset recoveries, timely and quality execution of public projects, successful prosecution and punishment of corrupt individuals and entities and the general decline in corruption. It can therefore be said that there exists an inverse relationship between the returns to corrupt actors and the government. This implies that as the return to the government increases, the return to corrupt actors' declines and vice versa.

In Kenya however, it can be said that the returns to the government have been diminishing. This is reflected by the ever rising corruption cases and the continued increase in the plunder of public funds. This suggests that corrupt actors view corruption as a viable venture therefore attracting the interest of many in the vice and this explains the rise in the number of individuals entities involved in corruption. The examination of the historical trends of corruption since pre-independence to date has demonstrated that there has been an apparent increase in the magnitude in terms of the amounts involved and number of cases. this therefore demonstrates that underlying the increase in corrupt cases is the value derived in relation to the costs incurred.

3.7 Conclusion

The chapter has demonstrated that Kenya's economic performance has remained sluggish largely on account of the negative consequences of corruption. Evidence shows that periods of low economic performance were preceded by elevated levels of corruption while periods of recovery

in economic activity or even robust economic performance were preceded by stronger and punitive measures to combat corruption.

High levels of corruption are marked not only by mega scandals such as Goldenberg and Anglo-leasing but also poor ranking of Kenya by the Transparency International's Corruption Perception Index. The chapter has also demonstrated that corruption has resulted in shrinking fiscal space with negative consequences on financing of critical social programs and public investment in critical infrastructure to support economic activity. In addition, the chapter has provided evidence on worsening economic performance.

CHAPTER FOUR

THE IMPLICATIONS OF CORRUPTION ON KENYA'S NATIONAL SECURITY

4.0 Introduction

This chapter examines and analyses the nexus between corruption and national security by attempting to respond to the question “What are the security implications of corruption in Kenya?” “The overriding argument in this chapter is that consequent effects of corruption engender national security threats. In order to advance this argument, security is conceptualized based on Buzan’s framework which states that security can be undermined by factors from different sectors (Buzan B., 2007). These sectors include military, political, economic, societal and environmental sectors. In examining security threats by adopting Buzan’s framework the study considers the political, economic, societal and environmental sectors explicitly and military sector implicitly.

The political sector is examined from the perspective of linkages between electoral fraud and national security. The environmental sector is considered from the perspective of implications of corruption on natural resource exploitation and utilization; and the impact of corruption on Kenya’s maritime security. The economic sector is examined by assessing the link between corruption and the agriculture sector which has implications on national food security. In addition, this sector is examined through the linkages between corruption money laundering and drug trafficking. The consequence of corruption on the societal sector is examined by looking at its implications on youth unemployment and how this impacts on national security. In addition, the impact of corruption is demonstrated by showing that corruption is not only endemic but also pervasive as it permeates through every facet of life thus negatively affecting the lives of citizens both directly and indirectly. The implications of corruption on political, economic, societal and environmental sectors have direct and indirect consequences on the military sector. By undermining the very foundations of a nation state through infiltration of critical institutions that act as custodians of national security by curtailing the functioning of these institutions from within as state officials get compromised through bribery to aid their criminal activity they threaten the legitimacy and even the very existence of the nation state hence undermining the military sector. The chapter shows that as Kenya confronts these threats, it runs the risk of being criminalized (captured by these criminal networks) should it fail to succeed.

The chapter is organized into five broad sections with the first introducing the broad implications of corruption on national security. The second section considers the implications of corruption on economic sector and delves specifically on the impacts of corruption on national food security, corruption money laundering and drug trafficking. The third considers the implications of corruption on the political sector by specifically addressing the consequences of corruption on electoral fraud and national security. The fourth sections examines the implications of corruption on the environmental sector with a specific focus on the impact of corruption on wanton exploitation and depletion of natural resources, and the impact of corruption on Kenya's maritime security. The fifth section considers the impact of corruption on the societal sector by specifically examining its implications on youth unemployment and its implications on national security.

4.1 Corruption and National Security

Corruption in Kenya is a standing threat to national security. When government officials accept bribes in order to release criminals, these elements return to the society and perpetuate other criminal acts on the citizens. These could range from mugging, robbery to large scale terrorist attacks that undermine national security. Indeed the President in his State of the Nation address in 2015 declared with immediate effect corruption as a national security threat³². In effect, the National Intelligence Service (NIS) and the National Security Council mainstreamed corruption intelligence gathering and monitoring.

The damage caused by corruption has a significant negative impact on society's welfare, leading to serious impediments for the creation and maintenance of a developed and well-functioning economy. In Kenya, the surge in corruption coincides with a surge in criminal activity including drug trafficking, money laundering, criminal gangs and terrorism. As a result Kenya faces a significant threat from transnational terrorist attacks including from Somalia and other criminal elements, as evidenced by the 1997 US embassy attack by Al Qaeda, September 2013 Westgate

³²<https://www.bloomberg.com/news/articles/2015-11-23/kenyan-president-declares-corruption-a-national-security-threat>

Mall, the Mpeketoni attack, Garisa university Al Shabaab terrorist attacks that killed hundreds of civilians and destroyed property worth billions of Kenya shillings.

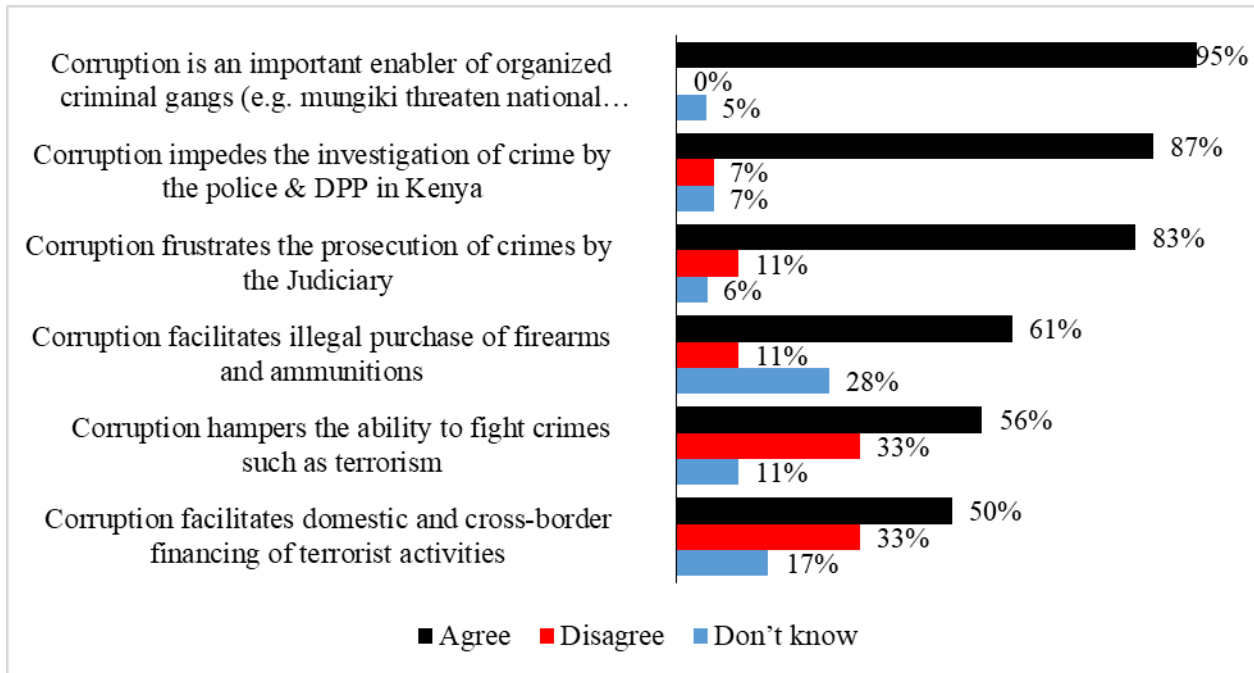
The smuggling and handling of weapons have found their way into the country largely by virtue of facilitation through corrupt networks. These weapons are used by used by criminal gangs to pursue crime. Every, year the government impounds an assortment of illegal weapons in the hands of criminals and destroys them. These weapons are not only dangerous to the citizens but threaten national peace and security. The ease of arms pilfering into Kenya can be explained by high levels of corruption by officers manning its long and porous border with several countries that have experienced civil war and conflict including Somalia, Uganda, Ethiopia and South Sudan. These arms are used to destabilize the neighboring regions such as Mandera, Garisa, West Pokot, Turkana and Marsabit.

Smuggling of arms is often disguised and facilitated by other economic crime such as contraband sugar, counterfeit goods such as electronics from Middle East and Asia and narcotics. Arms from Somalia have been impounded severally along the Garisa Nairobi route via the Dadaab refugee camp³³. In addition, SPLA remnants smuggle arms into Kenya and sell them to pastoralist communities especially Turkana and Pokot which fuel instability in the region. Moreover, these weapons not only threaten the peace of residents in these regions but have also been used to attack security personnel whenever they respond to distress calls from the citizens.

Findings show that corruption has negatively affected national security, (Figure 4.1). Respondents indicated that corruption is an enabler of organized criminal gangs that threaten national security (95 %), impedes criminal investigation by relevant authorities such as DPP by influencing investigators (87 %), frustrates prosecution of criminals by unduly influencing judicial officers (83 %), facilitates illegal purchase of firearms and ammunitions (61%), frustrates the fight against terrorism (56 %), by facilitating domestic and cross-border financing of terrorist activities (50 %).

³³<http://natoassociation.ca/the-threat-from-within-dadaab-refugee-camp/>

Figure 4.1: Effects of Corruption on National Security



4.2 Corruption as a Threat on the Economic Sector

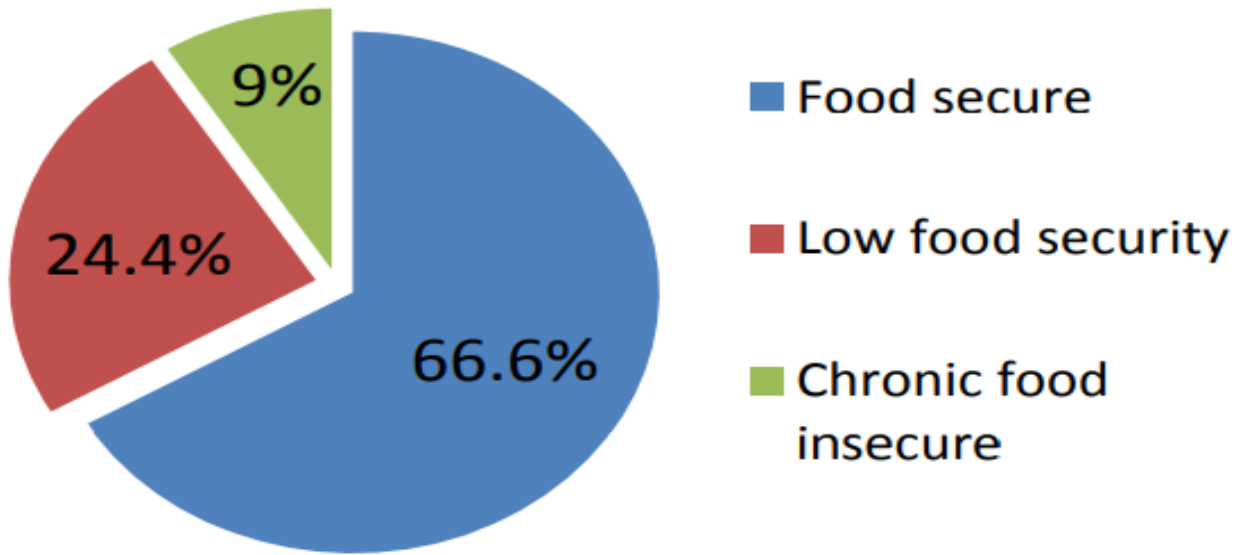
The economic sector has a broad range of variables. However, for purposes of this study, the economic sector is assessed by examining the implications of corruption on agricultural production which impacts on national food security. In addition, the section considers the impact of corruption on money laundering, drug trafficking and its implications on national security.

4.2.1 Effect of Corruption on National Food Security

Corruption fuels food insecurity in Kenya despite numerous government and donor programmes targeted at setting the country on a path to food security. As a result, more than 33 % of the population is faced by moderate to acute level of food insecurity (Figure 4.2). Kenya ranked poorly in 2017 at position 86 out of 113 countries in the world according to the Global Food Security Index³⁴. Therefore, combating corruption is seen as one of the measures needed to eradicate hunger and facilitate a food security.

³⁴<https://foodsecurityindex.eiu.com/Country>

Figure 4.2: Status of food security in Kenya



Source: Status Report on the Kenya National Food Security

Corruption is at the epicenter of food insecurity in Kenya and is undermining the country's Vision 2030 goal. Major irrigation projects such as the Galana Kulalu irrigation project³⁵ and the Turkana³⁶ aimed at enhancing food production to secure food supply have been riddled by corruption scandals exposing millions of citizens to vagaries of weather and hunger. The Galana Kulalu project though ongoing has recorded dismal yields per hectare despised colossal amounts being allocated annually in the national budget to ensure the project's success.

Food insecurity has been turned into an enterprise for wheeler dealers to profit from as they exploit dire food shortages to import and sell to the government and private entities. While the country has a strategic grain reserve policy aimed at ensuring that the country is food secure at any point in time, the National Cereals and Produce Board (NCPB) which is mandated to implement the

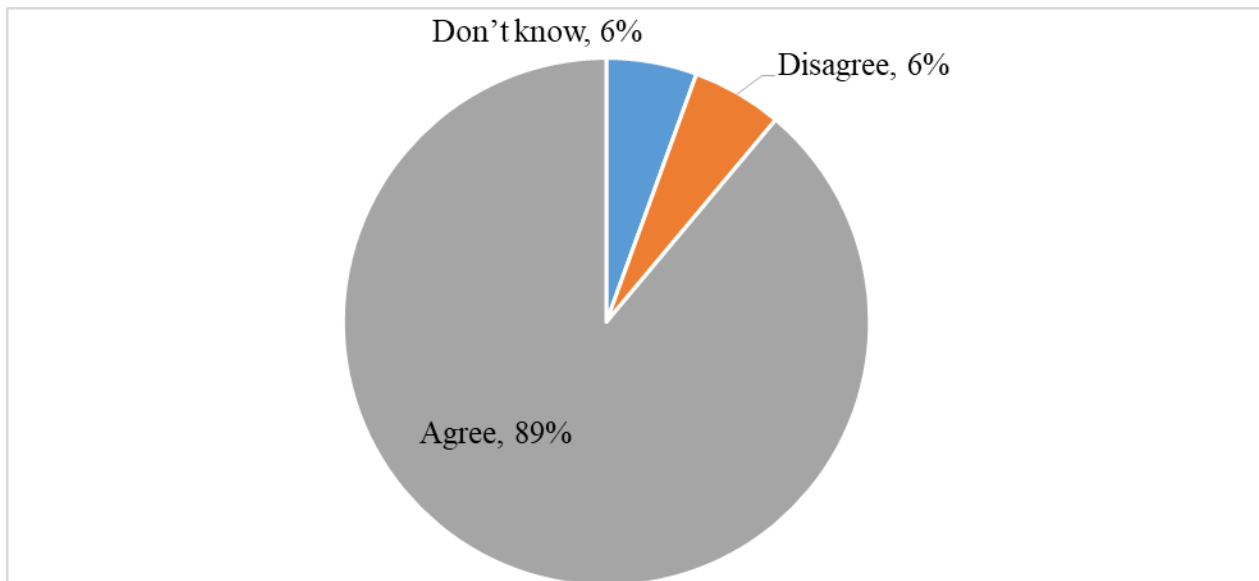
³⁵ Corruption in the Galana Kulalu project <https://www.nation.co.ke/newsplex/ruto-galana-kulalu/2718262-3995280-hqowwhz/index.html>

³⁶ Corruption in the Turkana irrigation project <https://www.nation.co.ke/business/How-Sh953-million-scandal-turned-Turkana-food-security-project/996-3485830-r50wiesz/index.html>

policy is always battling embezzlement and cases of corruption scandals. While there many cases of pilfering, the maize scandals of 2009³⁷ and 2018³⁸ stand out.

Results show that corruption has significantly negative consequences on the nation’s food security. 89 % of the respondents agreed that corrupt officials in government departments such as those involved in irrigation projects, strategic grain reserves at the National Cereals and Produce Board, fake fertilizer and uncertified seeds directly threaten Kenya’s food security situation, (Figure 4.3). Respondents who did not know or did not agree that corruption threatens national security constituted only 12 %.

Figure 4.3: Effect of Corruption on National food Security



4.2.2 Corruption, money laundering and drug trafficking

Corruption is nested within complicated web of several economic crimes. The proceeds of corruption is often laundered through various financial institutions across many countries in a bid to obscure the vice. In addition, the proceeds of corruption are in some cases used to fund illicit trade in narcotics. These funds later find their way into criminal hands and terrorists that threaten

³⁷<https://www.nation.co.ke/news/1056-525410-k7tpwsz/index.html>

³⁸https://www.the-star.co.ke/news/2018/05/25/inside-story-of-the-ncpb-maize-scam_c1763469

the country's national security. These criminal elements exploit the local banking system as well as underground payment systems such as the hawala to channel funds Al Shabaab terrorist group. Evidence of terrorist financing is demonstrated by the government ban on a number of Non-Governmental Organizations (NGOs) in 2017³⁹.

A US State Department report on money laundering indicates that Kenya's financial system may be laundering more than \$100 million each year, including an undetermined amount of narcotics proceeds and Somali piracy-related funds⁴⁰(Gastrow, 2011).In addition, \$100 million in drug money is laundered through Kenya's financial system every year(Gastrow, 2011).

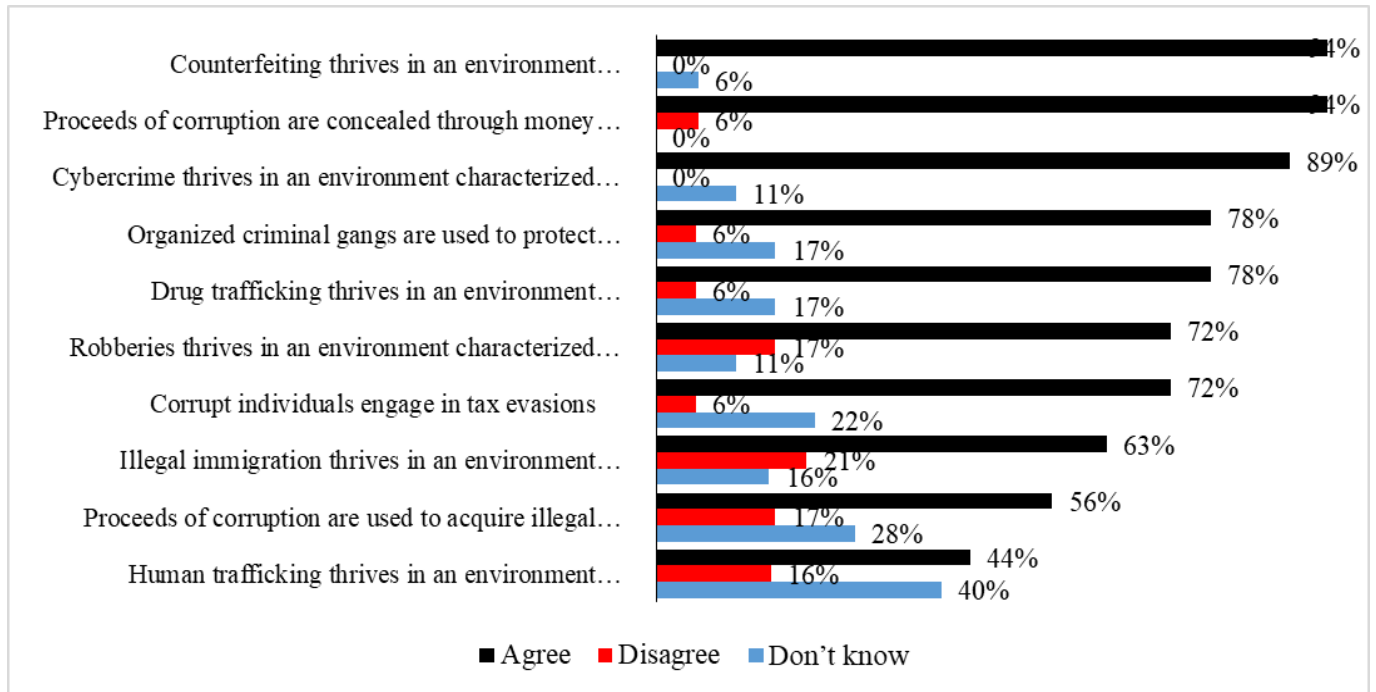
These crimes have undermined the integrity of financial institutions and market that otherwise play a pivotal role in enhancing economic growth in Kenya. The surge in corruption in terms of size, sophistication and magnitude threaten the country's financial system.

Findings show that corruption is a critical intermediary and enabler of other forms of economic crimes that have far reaching negative consequences on the economy. As shown in Figure 4.4, 94 % of the respondents agreed that trade in counterfeit goods such as sugar, electronics, human drugs and other consumable goods is facilitated by corruption where government officials in agencies that are mandated with ensuring standards such as the Kenya Bureau of Standards (KEBS) are influenced by the perpetrators of the illegal trade. Similarly, 94% of the respondents agreed that proceeds of corruption are concealed through money laundering via domestic and international banking institutions which in turn damages the reputation of Kenya's banking system with significant negative consequences on its ability to positively contribute to economic growth. Other economic crimes facilitated by corruption include cybercrime (89%), organized criminal gangs (78%), drug trafficking (78%), tax evasions (72%), robberies (72%), illegal immigration (63%), trade in illegal firearms and ammunitions (56%), and human trafficking (44%).

³⁹<https://www.nation.co.ke/news/15-NGOs-deregistered-terror-funding/1056-2558570-bqjvrm/index.html>

⁴⁰ Available at <https://www.state.gov/j/inl/rls/nrcrpt/2015/vol1/238969.htm> and <https://www.state.gov/j/inl/rls/nrcrpt/2015/vol2/239088.htm>

Figure 4.4: Linkages between Corruption and other economic crimes



4.3 Corruption as a Threat to the Political Sector

Corruption has wide ranging implications on the political sector. However, for purposes of this study it is examined from the perspective of electoral fraud and its implications on national security.

4.3.1 Corruption, Electoral Crimes and National Security

The push for robust and wide-ranging reforms at the turn of the millennium culminated in the promulgation of the Constitution of Kenya 2010 (Republic of Kenya, 2010). The constitution laid a solid institutional foundation upon which the fight against corruption would be anchored on. Article 79 under Chapter Six on Leadership and Integrity of the Constitution of Kenya 2010 establishes the Ethics and Anti-Corruption Commission (EACC) and gives it powers and independence to investigate and prosecute corruption cases. The EACC therefore replaced the KACC and entrenches the efforts to eradicate corruption in the Constitution. Moreover, the constitution clearly defines the leadership, transparency, integrity and accountability which public servants are expected to observe at all times during the course of their duty. Chapter thirteen clearly

outlines the values and principles of public service, which combined with the principles of leadership and integrity in chapter six anchor the fight on corruption.

The establishment of EACC reenergized and fortified the campaign against corruption in the period immediately after 2010. However, it was not long before other corruption scandals were unearthed. Kenya went into the first election conducted by the Independent Electoral and Boundaries Commission (IEBC) after promulgation of the Constitution in 2013. The aftermath of this election left a trail of bribery and high level corruption christened the “*Chickengate Scandal*”. This corruption case involved a British firm Smith & Ouzman Ltd involved in security printing and officials of the IEBC. The sum of money involved totaled nearly half a million British Sterling pounds⁴¹. These were kickbacks from the officials of the printing firm to win printing tenders from the IEBC and inflated costs of printing election materials. The case was successfully prosecuted in the United Kingdom (UK) and the company surcharged for engaging in corruption. However, the officials involved in the plunder of public resources at the IEBC are yet to be brought to book. An estimated KSh 52 million has since been recovered in relation to this scandal⁴².

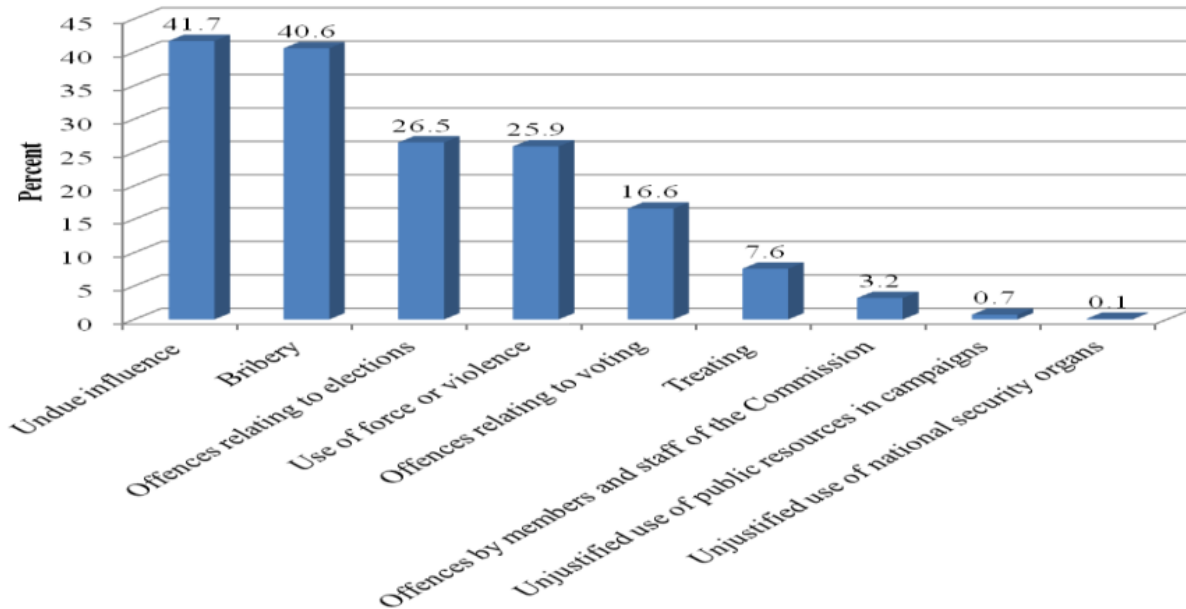
Electoral cycles in Kenya come with bated uncertainty, usually of criminal nature as politicians exploit gangs to scare and terrorize opponents and their supporters with the aim of winning elections.

These gangs are induced by politicians through corrupt means to engage in electoral malpractices. Typically, the inducement takes a monetary form or promise of allocation of public resources or assurance or protection from state security organs once the politician is elected. It is these inducements that lead to severe electoral violence as gangs of opposing politicians clash as they seek to decimate opponents and propel their master to victory.

⁴¹ Estimates by the Serious Fraud Office see <https://www.sfo.gov.uk/cases/smith-ouzman-ltd/>

⁴² Kenya recovers Ksh 52 million from ‘Chickengate’ scandal see <https://citizentv.co.ke/news/kenya-recovers-ksh-52-million-from-chickengate-scandal-120362/>

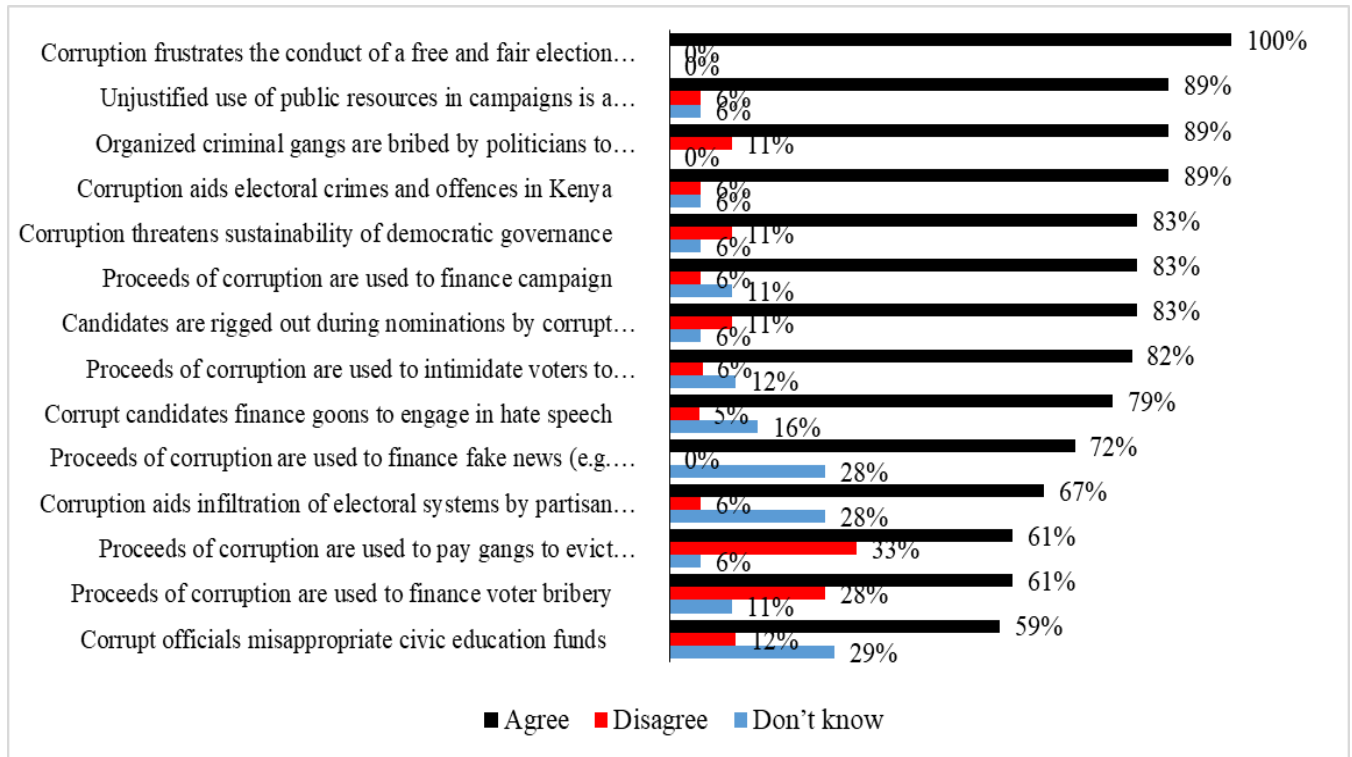
Figure 4.5: Classification of corruption related electoral offenses in Kenya



Source: Electoral Crimes and Offences in Kenya

Results in Figure 4.5 and 4.6 shows that corruption has negatively and unfairly tilted the electoral and political landscape in Kenya with the ensuing political instability resulting in significant economic losses. Respondents agreed that corruption frustrates the conduct of free and fair elections (100%), unjustified use of public resources in campaigns (89%), use of gangs to threaten competitors and coerce voters to support certain candidates (89%), use of proceeds of corruption to finance campaigns (83%), and use of corruption proceeds to finance and spread fake news against political opponents (72%). In addition, findings show that proceeds of corruption are used to infiltrate electoral systems to facilitate rigging out certain candidates (67%), finance eviction of voters based on tribal lines (61%), fund voter bribery (61%), and misappropriation of civic education funds with the aim of ensuring voters are not enlightened (59%).

Figure 4.6: Effects of Corruption on Electoral Processes



4.4 Corruption as a Threat to the Environmental Sector

An assessment of the impact of corruption on the environmental sector is assessed from the perspective of its implications on natural resource exploitation by demonstrating that a wanton depletion of natural resources ultimately impacts on national security. In addition, the impact of corruption on this sector is considered by looking at its implications on maritime environment and how it impacts on national security.

4.4.1 Corruption as a Threat to Kenya’s Natural Resources and National Security

Corruption aids wanton depletion of natural resources including marine, forest, wildlife and mineral resources resulting in civil conflict and natural resource course in nation states. Kenya’s natural resources face a never ending threat as a result of corruption. Criminals engaging in

trafficking of wildlife have endangered species such as rhino with the northern white rhino facing extinction following the death of the last male at Ol Pajeta conservancy⁴³.

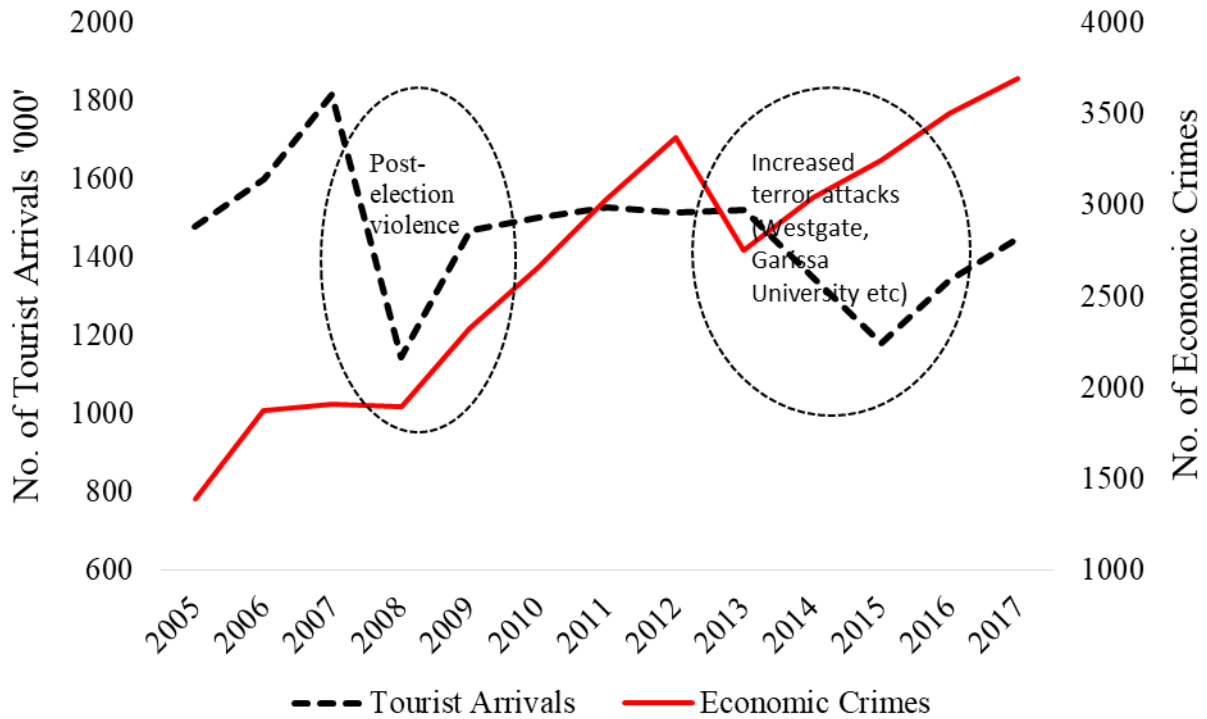
In addition, other wildlife animals face an existential threat due to corruption. As a consequence, a negative correlation between this economic crime and tourist arrivals emerges threatening the country's foreign exchange earnings, employment and economic growth (Figure 4.7). A thriving trade in elephant tusks in Asia supported by corrupt networks in Africa is decimating elephants in the continent. It is estimated that the number of elephants killed in the period 2006-2016 increased tenfold as a result of the increasing demand in Asia. In April 2011, 247 tusks were seized in Thailand an equivalent of at least 124 elephants killed. And in 2016, President Uhuru Kenyatta burned the largest ever ivory haul weighing 105 tons and estimated to have been obtained from 6700 elephants across the continent⁴⁴. This was the third time after the first haul was burned by retired presidents Daniel Arap Moi and Mwai Kibaki in 1989 and 2011, respectively.

These poaching activities have a direct negative effect on the tourism industry in Kenya which is one of the leading foreign exchange earners and source of employment in the country as wild animals are the leading natural attractions that are sought after by tourists in Kenya. Evidence show that tourism has witnessed continued decline while at the same time economic crimes increased coinciding with a period of deteriorated security situation following increased terrorist attacks.

⁴³<https://www.olpejetaconservancy.org/sudan-a-tribute-to-an-icon/>

⁴⁴<http://www.bbc.com/news/world-africa-34313745>

Figure 4.7: Trends in Economic Crimes and Tourist Arrivals



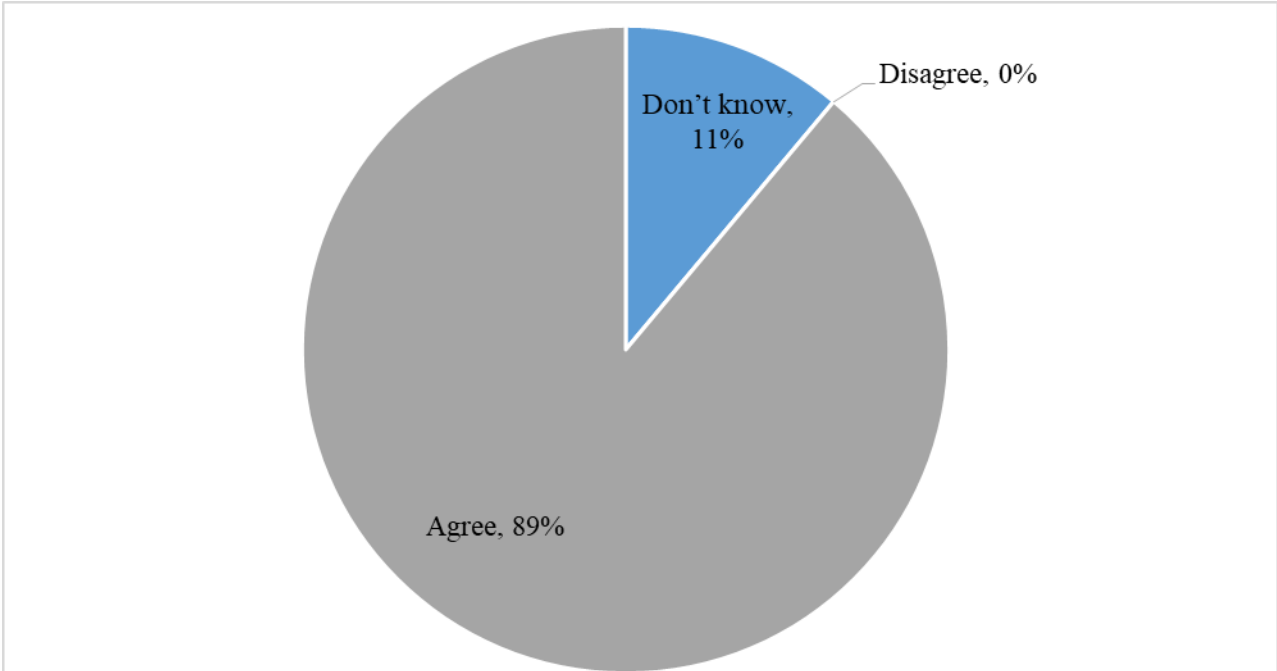
Source: Kenya National Bureau of Statistics (KNBS)

Corruption as revealed by an interim report by a taskforce on logging has also aided forest depletion in Kenya threatening crucial water towers and food security⁴⁵. In 1963, forests covered 10 % of Kenya’s land mass. However, this has sharply declined as a result of illegal logging and currently stands at approximately 5 %. Illegal logging is facilitated by corrupt forest officials who accept bribes in exchange for wanton destruction of forests. In addition to illegal logging, communities have encroached forests abated by politicians for political expediency. Forests have therefore become a battleground upon which political scores are settled and political supremacy tested. These illegal activities have affected the Mau, Aberdare, Mount Kenya, Embobut, Arabuko Sokoke forests among others. The acute water shortage in cities such as Nairobi, Mombasa and Kisumu and the prolonged drought conditions that lead to loss of human life and animals reflect the negative consequences of these activities.

⁴⁵<https://www.standardmedia.co.ke/lifestyle/article/2001274709/report-links-forest-plunder-to-corruption>

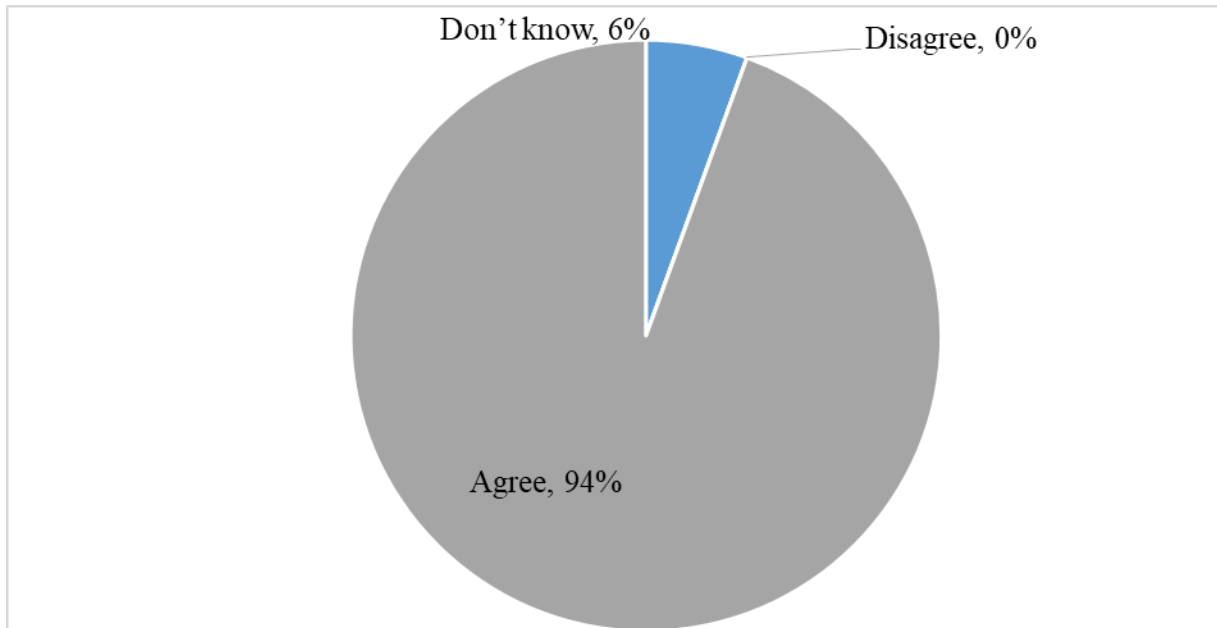
Findings show that corruption is a facilitator of illegal trade in wildlife products. As shown in Figure 4.8, 89 % of the respondents agree that corruption has aided trade in products such as ivory and rhino horns. In this regard, the custodians of wildlife and customs officials are compromised by corrupt individuals.

Figure 4.8: Corruption and illegal trade in wildlife products



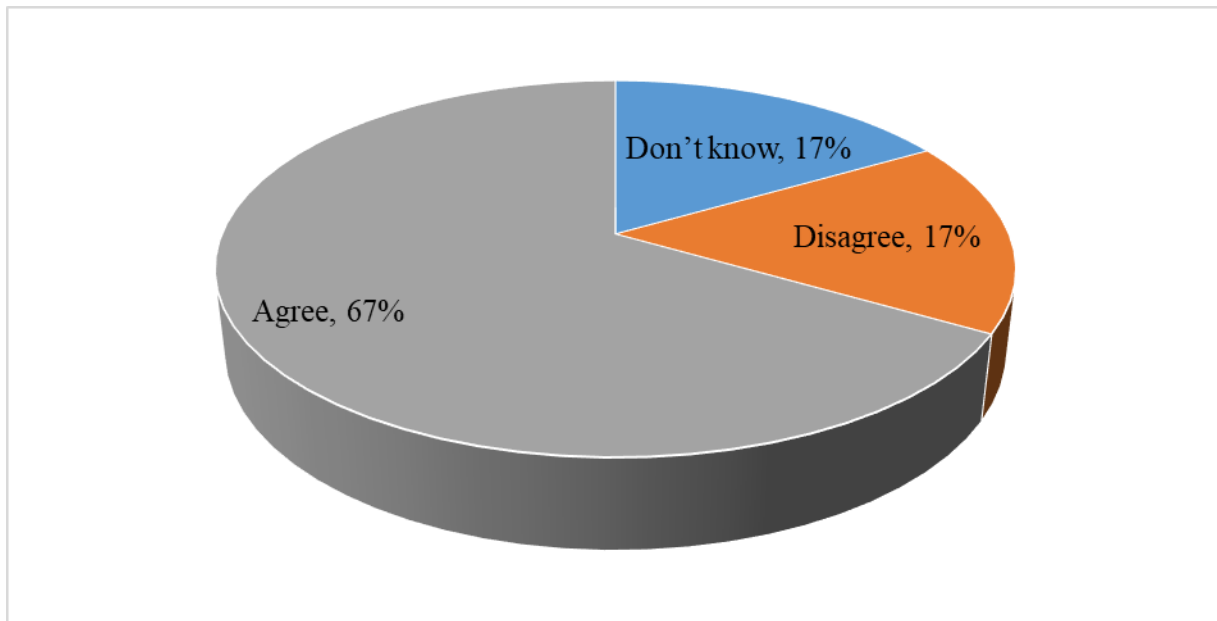
Moreover, findings show that corruption has negatively affected the ability of the country to derive full benefits from its natural resources and therefore negatively affecting the country's economic performance. Results in Figure 4.9 show that 94 % of the respondents agreed that corruption facilitates criminal networks in the illegal extraction, mining and trade in natural resources such as rare minerals and oil.

Figure 4.9: Effect of corruption on exploitation of mineral resources



Conservation efforts in the country are threatened by corruption. As shown in Figure 4.10, 67 % of the respondents agree that key water towers are at risk following wanton logging aided by corrupt officials. Those who did not know or either disagreed that corruption has a negative effect on the conservation of water towers constituted 34 % of the respondents.

Figure 4.10: Effect of corruption on conservation of water towers



4.4.2 Corruption and Maritime Environment and National Security

Maritime piracy off the Somali coast has been a threat not only to Kenya's but also global, regional, economic strategic and security interests. The 2010 and 2011 statistics showed that the number of piracy attacks continued to increase. Embedded in the thriving piracy activities is corruption and money laundering network between Kenya and Somalia that facilitates movement of proceeds of piracy to Al Shabaab⁴⁶.

With the rise in piracy and surge in terror activity in Kenya, the government moved to secure its national interests. Anecdotal evidence suggests that thriving pirate activities supported a boom in the real estate sector in Nairobi. However, this also had negative impacts on Kenya's economy. The Inchcape Shipping Services in 2011 estimates that the costs of piracy to the shipping industry in Kenya alone were between US \$300million and US\$ 400 million a year. Consequently, the shipment costs of both imports and exports increased dramatically due to piracy surcharge added to the shipping tariffs as insurance companies shouldered the risk attached to traversing pirate-infested waters. For twenty foot container imports, an additional US\$ 200-300 extra was added to costs as a piracy surcharge. For dry bulk and liquid cargo, which are anticipated to average 13 million tons in 2012, the piracy surcharge raised costs by approximately US\$ 260 million. In the case of exports, this runs to US\$ 12.6 million⁴⁷.

Maritime piracy was also negatively linked to the tourism industry and especially the cruise liner business. In 2008, a total thirty five cruise ships called at Kenyan ports which dwindled to zero by 2011 at the height of piracy. With roughly US\$ 300 000 worth of revenue generated by each call by way of port duties, taxes, immigration, tourist activities and shopping being lost, the Kenyan economy was losing about US\$ 15 million a year⁴⁸.

The above costs were being borne by the local consumer thus worsening the high levels of unemployment and poverty in Kenya. Food prices rose dramatically, with commodities imported

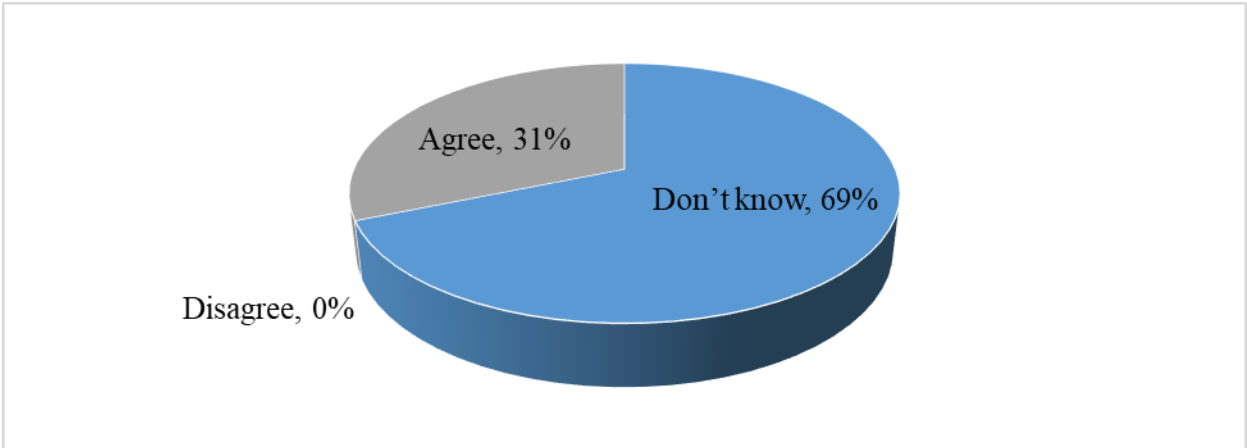
⁴⁶<https://www.state.gov/j/inl/rls/nrcrpt/2015/vol2/239088.htm>

⁴⁷ International Maritime Bureau Piracy Reporting Centre Op. cit

⁴⁸ Ibid

being ten per cent more expensive on average than the preceding years. The cost of doing business in Kenya was associated with high risks resulting to reduced inflow of foreign currency as investors sought safer destinations for their capital. Moreover, illegal fishing along Kenya's territorial waters continues to deplete Kenya's blue economy. As shown in Figure 4.11, corruption aids marine piracy for ransom work in cahoots with corrupt individuals.

Figure 4.11: Effect of corruption on maritime security



4.5 Corruption as a Threat to the Societal Sector

The impact of corruption on the societal sector can be demonstrated by showing that it is not only endemic but also pervasive as it permeates through every facet of life thus negatively affecting the lives of citizens both directly and indirectly with dire consequences on the society as a whole. However, for purposes of this study, the implications of corruption on this sector are examined by assessing its impact on youth unemployment and how this affects national security.

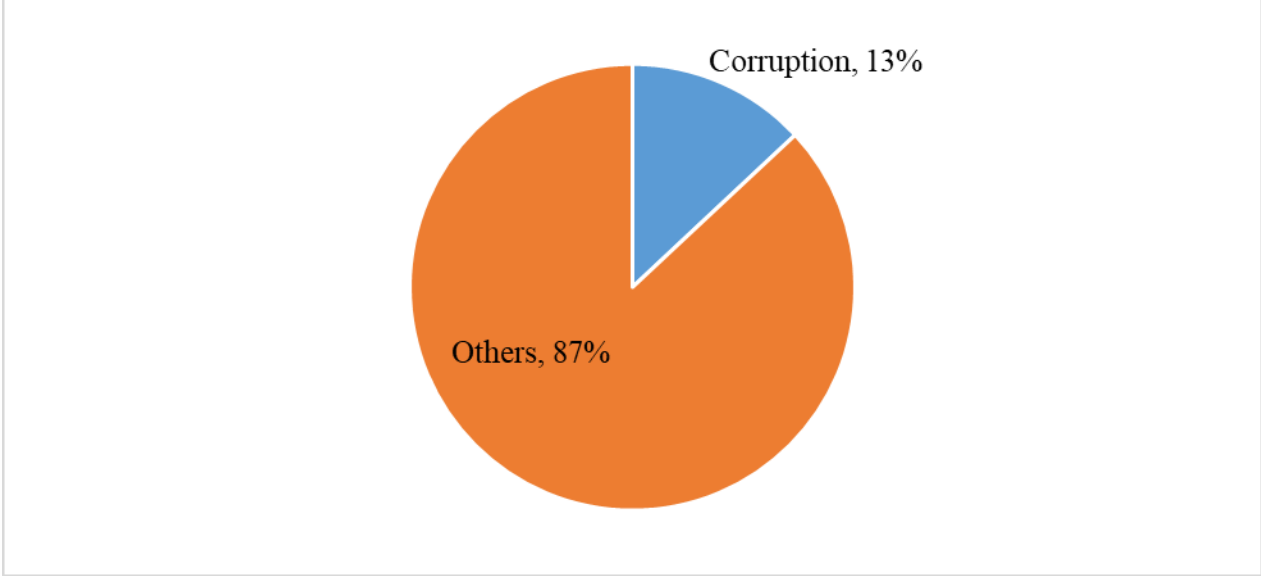
4.5.1 Impact of Corruption on Youth Unemployment and Implications on National Security

A key threat to Kenya's security is the large youthful population and the high rate on unemployment. In an effort to address the unemployment challenge, the government initiated various programs including the National Youth Service (NYS) to help equip youth with vital technical skills both for self-employment and industry relevant skills. To ensure a critical mass of youth is absorbed into the program, the government channeled sizable amounts of funds to this

institution. However, corruption has bedeviled the institution with high ranking officials colluding with tenderpreneurs in the private sector and political actors to swindle funds. In 2016, the first scandal emerged involving an individual with 20 phony companies and touching several senior officials in the Ministry of Devolution. This scandal not only denied the youth employment opportunities but also threatened national security as the-would be beneficiaries would be tempted to engage in crime to earn a living.

To address the problem of corruption at the institution, the government made sweeping changes at the top management level including the Ministry of Devolution. The government’s desire to create jobs for the youth, address exclusion and inequality saw it revamp the institution and continued funding its programmes. However, unknown to many, corruption soon found its way into the programme again with another mega scandal being investigated in 2018. As shown in Figure 4.12, results show that corruption constitutes 13 % of all the drivers of youth unemployment in Kenya.

Figure 4.12: Causes of youth unemployment



4.6 Conclusion

This chapter has demonstrated that corruption has wide ranging implications on various facets of Kenya’s national security. The chapter detailed the various facets in which corruption undermines national security. These include aiding and abating terror activities, undermining economic growth

and wanton depletion of nation resources. In addition, the chapter brings out the link between corruption and other economic crimes that threaten national security such as money laundering, drug trafficking, electoral crimes and maritime security.

CHAPTER FIVE

SUMMARY OF FINDINGS CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter recapitulates the study by focusing on four main issues in separate sections. The first section recapitulates the objectives of this study by evaluating the extent to which each has been achieved. The second section recapitulates the main arguments that guided the study by examining the extent to which each hypothesis was addressed. The third section draws conclusions from the findings along the broad arguments that guided the study. Finally, the fourth sections outline specific policy recommendations to curb the scourge of corruption in Kenya.

5.1 The Apparent Surge of Corruption in Kenya and its Implications

5.1.1 Effects of Corruption on Kenya's Economic Growth

In the first objective, the study sought to examine and analyze the effect of corruption on Kenya's economic growth over the period 2005-2016. It attempted to respond to the question; how corruption affects Kenya's economic growth". The central argument advanced under this objective was that corruption undermines economic growth through a wide range of negative political, economic, military, societal and environmental effects it engenders.

To attain this objective, the effects of corruption on Kenya's economic growth were organized into four broad categories: first, the impact of corruption on critical sectors of the economy; the impact on the overall economy; second, the implications of corruption on public debt dynamics by showing that corruption is in part responsible for the ballooning public debt; third, the impact of corruption on development expenditure and points out that public infrastructure projects have often been inflated to benefit corrupt actors and hence the cost-benefit dynamic of most projects is not favorable; and fourth the implications of corruption on foreign direct investment and links these impacts on economic growth.

To examine the impact of corruption on critical sectors of the economy the study assessed its impact on the broad sectors, namely, agriculture sector, services sector and industry sector. Results showed that the growth of the agriculture sector has been low and remained below the 10 % target as set out in the Vision 2030 largely on account of prevalent corrupt practices. This is manifested in the form of distribution of uncertified seeds to farmers, corruption in the sale and distribution of government subsidized fertilizer and payment of farmers for the supply of their produce by the National Cereals and Produce Board (NCPB). This has exposed the country to food insecurity and curtailed industrial activity as most agricultural produce is used as raw materials for agro-processing.

In addition, the study demonstrated that corruption has negatively impacted the growth of services sector. For instance, findings showed that the education sector, health, electricity, water supply, transport and infrastructure have performed below the Vision 2030 target partly due to the impact of corruption. Some of the prominent corruption scandals analyzed that have plagued the services sector include the free primary education scandal, the Kenya Power and Lighting Company and the Kimwarer and Aror dams scandals in the electricity and water supply sector, the mobile clinics scandal in the health sector, the free primary education scandal in the education sector, the Standard Gauge Railway (SGR) land compensation scandal in the transport and storage sector and the National Youth Service (NYS) I & II scandals in the public administration sector. Cumulatively, these corruption episodes are estimated to have deprived these sectors of approximately KSh. 25 billion.

Findings also showed that growth of Kenya's industrial sector has remained low and has never reached the Vision 2030 growth target in part due to mismanagement and embezzlement of funds in key industries across the country such as the Kisumu Cotton Mills (KICOMI); the Kenya Meat Commission (KMC), The Kenya Rivatex and the Special Economic Zones enterprises. As a result several industries have witnessed rampant closures, low production, and poor quality products resulting in persistent losses.

Additionally, findings show that corruption denied Kenya Foreign Direct Investment (FDI) as investors got weary of the country's governance and investment climate as reflected by the TI

corruption and governance ranking therefore negatively affecting economic activities. Evidence showed that Kenya's FDI position which was on an equal footing with South Africa in the period 1972-1978, significantly deteriorated and widely diverged from South Africa's in the period 2005-2006. This finding is in line with that of Castro & Nunes, (2013) who in their examination of the nexus between corruption and FDI inflows in 73 countries during the period of 1998-2008 established that countries with a lower level of corruption have greater FDI inflows. Indeed, the findings confirm the hypothesis that underlying the increase in corrupt cases is the value derived in relation to the costs incurred.

On the misappropriation of the country's revenue and the attendant surge in public debt to bridge financing gaps in the national budget, findings show that shrinking fiscal space coincided with a period of heightened corruption. Consequently, the scarcity of resources arising from corruption leakages forced the government to seek alternative financing sources to fund critical public investment in social programs and infrastructure as reflected by the significant rise by 35 % in Kenya's debt service on external debt at the aftermath of the Goldenberg scandal from 670.2 million US dollars to 904.4 million US dollars. In addition, findings showed that debt service on external debt increased further to 187 % in the period 2009-2016 from 388.7 million US dollars to 1,117.2 million US dollars, coinciding with another episode of increased corruption cases.

5.1.2 Effects of Corruption on Kenya's National Security

The second objective of the study sought to examine and analyze the security implications of corruption in Kenya by responding to the question "What are the security implications of corruption in Kenya?" The main argument under this objective was that consequent effects of corruption engender national security threats. In order to advance this argument, security is conceptualized based on Buzan's framework which states that security can be undermined by factors from five main sectors, namely military, political, economic, societal and environmental sectors.

On the economic sector, findings showed that corruption was responsible for low economic outcomes due to corrupt activities affecting major and key economic investments. Findings revealed that the current state of economic affairs is not good with 45% of the respondents agreeing that the economic situation was very bad. Additionally, 33% of the respondents agreed

that corruption was the main cause of the negative economic outcomes implying that all other factors put together explain 77% of the performance of the economy. This is reflected by the finding showing that 70% of the respondents see corruption as the most serious threat facing the economy. Findings also showed that corruption has been the main cause of most challenges afflicting Kenya's economy including increased poverty levels (95%), impediment to domestic and foreign investment (89%), increased inequality (84%), increased cost of doing business (81%), and favoritism in the award of contracts (81%), and misallocation of public resources to sub-optimal uses (71%). In addition, results show that corruption has negatively impacted on the country's governance (70%) and the proper functioning of markets, (58%).

Findings also showed that the effects of corruption on the economy manifested in the slowdown in Kenya's economic progress reflected in official development assistance from multi-lateral development institutions and donor countries expanding rapidly. In addition, from 2013-2016, Kenya's development assistance remained elevated. Findings show that 94 % of the respondents agreed that trade in counterfeit goods such as sugar, electronics, human drugs and other consumable goods is facilitated by corruption where government officials in agencies that are mandated with ensuring standards such as the Kenya Bureau of Standards (KEBS) are influenced by the perpetrators of the illegal trade. Similarly, 94 % of the respondents agreed that proceeds of corruption are concealed through money laundering via domestic and international banking institutions which in turn damages the reputation of Kenya's banking system with significant negative consequences on its ability to positively contribute to economic growth. Other economic crimes facilitated by corruption include cybercrime (89%), organized criminal gangs (78%), drug trafficking (78%), tax evasions (72%), robberies (72%), illegal immigration (63%), trade in illegal firearms and ammunitions (56%), and human trafficking (44 %).

On the implications of corruption on the political sector, results showed that corruption such as the *Chickengate scandal* have negatively and unfairly tilted the electoral and political landscape in Kenya with the ensuing political instability resulting in significant economic losses. Evidence show that the cycle of electoral fraud in Kenya has been accompanied by acrimonious outcomes and political instability characterized by low economic performance resulting from the disruption of productive sectors of the economy. This is reflected by low economic performance as Kenya's economic growth reached a low of 0.5 % in 2002 and 0.2 % in 2008. Evidence also shows that corruption scandals associated with the institutions mandated to

conduct elections such as the chicken gate scandal not only deprive the country of critical resources but also compromise the credibility of elections. Findings from the study show that corruption frustrates the conduct of free and fair elections (100 %), leads to unjustified use of public resources in campaigns (89 %), facilitates use of gangs to threaten competitors and coerce voters to support certain candidates (89 %), use of proceeds of corruption to finance campaigns (83 %), and use of corruption proceeds to finance and spread fake news against political opponents (72 %); that proceeds of corruption are used to infiltrate electoral systems to facilitate rigging out certain candidates (67 %), finance eviction of voters based on tribal lines (61 %), fund voter bribery (61 %), and misappropriation of civic education funds with the aim of ensuring voters are not enlightened (59 %). Findings showed that respondents attribute corruption to organized criminal gangs that threaten national security (95 %), impedes criminal investigation by authorities such as DPP by influencing investigators (87 %), frustrates prosecution of criminals by unduly influencing judicial officers (83 %), facilitator of illegal purchase of firearms and ammunitions (61%), frustrates the fight against terrorism (56 %), by facilitating domestic and cross-border financing of terrorist activities (50 %).

On the environmental sector, findings show that corruption is a facilitator of illegal trade in wildlife products with 89 % of the respondents agreeing that corruption has aided trade in products such as ivory and rhino horns. In this regard, the custodians of wildlife and customs officials are compromised by corrupt individuals. Moreover, findings show that corruption has negatively affected the ability of the country to derive full benefits from its natural resources and therefore negatively affecting the country's economic performance. Results showed that 94 % of the respondents agreed that corruption facilitates criminal networks in the illegal extraction, mining and trade in natural resources such as rare minerals and oil. Conservation efforts in the country are threatened by corruption with 67 % of the respondents agree that key water towers are at risk following wanton logging aided by corrupt officials. In addition, results showed that corruption aids marine piracy for ransom work in cahoots with corrupt individuals.

On the societal sector, the study demonstrated that corruption has played a huge role in fueling unemployment in the country. A number of critical initiatives targeted at creating employment have been afflicted by corruption including the NYS, SGR, Galana Kulalu among others. The consequence of these crippling scandals has been shrinking job opportunities for the ever growing youth population. Results showed that corruption constitutes 13 % of all the drivers of youth unemployment in Kenya.

5.1.3 Factors Responsible for the Apparent Surge in Corruption on Kenya

The study also sought to examine and analyze the reasons behind the apparent growth of corruption notwithstanding a wide range of Government measures to counter it. To do this, the study analyzed corruption in distinct administrative periods namely, pre-independence period, Mzee Jomo Kenyatta's regime, Daniel Arap Moi's regime and the Kibaki Regime. The central argument around this objective was that underlying the increase in corrupt cases is the value derived in relation to the costs incurred. By recapitulating historical developments relating to corruption around the distinct administrative periods, the study attempts to examine the institutional, legal, political, governance and socio-economic factors that underlie the apparent increase in corruption in Kenya. In so doing, it attempts to respond to the question, "What explains the apparent growth of corruption notwithstanding a wide range of Government measures to counter it?"

The study established that corruption in Kenya dates back to the colonial period. The study began by showing that corruption is not a new phenomenon in Kenya and emerged as a problem even in the colonial period. This is evidenced by early attempts to address the vice through legislative measures in 1956. However, the magnitude and frequency of corruption related cases escalated in the independent Kenya with major corruption cases being associated with land grabbing and preferential allocation of land to elites and the political class. Subsequently, the single party rule amplified and perfected corruption culminating in the landmark Goldenberg scandal. Consequently, Kenya's economic growth continued to dwindle reaching its lowest point at 0.5 % in 2002. A commission of enquiry was setup to investigate and recover property and funds from the perpetrators with little success. However, despite renewed efforts, corruption went on unabated and soon the anglo-leasing scandal came to the fore, another major scandal in Kenya's history.

Despite government response in form of legal measures to seal loopholes in the law and enforce punitive measures with the aim of eradicating systemic corruption it continued to increase in complexity, number of cases and financial magnitude. Government efforts included the legislation of the Anti-Corruption and Economic Crimes Act and the Public Officer Ethics Act in 2003 which established the Kenya Anti-Corruption Commission (KACC) which took over from the ACPU (Republic of Kenya, 2003). In addition, the Act created the Kenya Anti-

Corruption Advisory Board with the responsibility advising KACC generally on the exercise of its powers and the performance of its functions under this Act. As mega corruption scandals emerged, public outcry increased while multilateral donor agencies joined in demanding an end to corruption and a proper institutional framework to combat it.

5.2 Recapitulation of Hypotheses

The study was guided by three hypotheses: first, that corruption undermines economic growth through a wide range of negative political, economic, military, societal and environmental effects it engenders. Second, that underlying the increase in corrupt cases is the value derived in relation to the costs incurred. And third, that consequent effects of corruption engender national security threats.

The first hypothesis: that corruption undermines economic growth through a wide range of negative effects it engenders. The guiding assumption was that corruption denies the economy the much needed financial lifeline and hence would choke the economy in the long run. Findings from the study showed that corruption has negatively impacted critical sectors of the economy including agriculture, services and industry. In addition, findings showed that corruption has resulted in unfavorable public debt outcomes, Foreign Direct Investment (FDI), development expenditure. The study shows that as a consequence of corruption, Kenya has trailed its peers in all development indicators despite being on an equal footing at independence.

The second hypothesis: that underlying the increase in corrupt cases is the value derived in relation to the costs incurred. The underlying assumption here was that there is a benefit associated with corruption that drives various actors to engage in it and as a consequence, corruption would continue to increase in size, complexity and financial magnitude. Findings from the study demonstrated that corruption cases have continued to increase in Kenya in terms of the number of cases and the financial magnitude.

The third hypothesis: That consequent effect of corruption engenders national security threats. This hypothesis was anchored on the assumption that by undermining the very foundations of a nation state through infiltration of critical institutions that act as custodians of national security by curtailing the functioning of these institutions from within as state officials get compromised through bribery to aid their criminal activity they threaten the legitimacy and

even the very existence of the nation state hence undermining the military sector. This assumption was framed along five sectors as conceptualized by (Buzan B., 2007). Evidence from the study showed that corruption has explicit negative consequences on the economic, political, environmental and societal sectors. In addition, the implications of corruption on the economic, political, environmental and societal sectors would play out implicitly as second round effects on the military sector.

5.3 Conclusions

The study examined and analyzed the impact of corruption as an economic crime on economic growth and its implications on national security in Kenya in the period 2005-2017. Specifically, the study addressed three objectives; first, to examine and analyze the effect of corruption on Kenya's economic growth. Second, the study sought to examine and analyze the security implications of corruption in Kenya. And third, the study sought to examine and analyze the apparent growth of corruption notwithstanding a wide range of Government measures to counter it.

The study established that Kenya's economic performance has been negatively affected by corruption. This finding is grounded on evidence indicating that corruption has led to increased poverty levels, impacted negatively on investment, increased cost of doing business, and misallocation of public resources to sub-optimal uses. This is reflected by increased uptake to debt to bridge funding gaps occasioned by pilferage of tax revenues, continued dependence on development assistance from donors while peer countries at independence have transitioned to donor fund givers from donor fund recipients and inability to attract foreign direct investment. On the basis of this finding therefore, the study concludes that corruption has negatively affected economic growth in Kenya.

Additionally, the study established that the deterioration of Kenya's national security in the period under review is attributable to corruption. This was demonstrated by increased terrorist attacks such as the 1997 US embassy attack by Al Qaeda, September 2013 Westgate Mall, the Mpeketoni attack, Garissa university Al Shabaab, smuggled weapons into the country which have been used to attack citizens in regions such as Mandera, Garissa, West Pokot, Turkana and Marsabit. In addition, the study demonstrated that corruption has been an impediment to criminal investigation, prosecution of criminals by unduly influencing judicial officers. These

findings therefore lead to the conclusion that corruption has had direct negative consequences on Kenya's national security.

Lastly, the study demonstrated that corruption has played a critical role in Kenya's electoral process and election outcomes are largely influenced by corruption. This was backed by evidence showing that Kenya's economic performance was lower than the long term average in the year succeeding the election year partly due to misappropriation of public resources, acrimonious election outcomes due to unfair influence from corruption, plundering national resources finance campaigns; rigging facilitated by corrupt networks, electoral violence and eviction of voters based on tribal lines by corrupt candidates and voter bribery. These findings lead to a conclusion that corruption fuels electoral fraud which undermines investment and conducive business environment therefore negatively affecting economic growth.

5.4 Recommendations of the Study

5.4.1 On the Implications of Corruption on Economic Growth

In order to curb negative effects of corruption on economic growth, the study recommends that the legal framework on corruption should be reviewed and make corruption a capital offense punishable by death sentence. This will not only institute stiffer and punitive penalties but also deter the vice of corruption. This will not only improve the investment environment but also seal loopholes exploited by corrupt networks to compromise the country's security situation and electoral systems. Countries such as Malaysia that instituted stiffer penalties have recorded tremendous success in the fight against corruption.

5.4.2 On the apparent growth of corruption notwithstanding a wide range of Government measures to counter it

The government should also make it easier to report corruption by providing direct anonymous mechanisms to report corruption to relevant authorities. In addition, the government should enhance the whistleblowing legislation and witness protection to safeguard evidence and encourage citizens to report corruption.

5.4.3 On the Security Implications of Corruption in Kenya

To improve asset recovery efforts, the government should embrace a multi-agency approach in the fight against corruption. In addition, the government should collaborate with relevant regional, bilateral and multilateral institutions to flag illicit flow of proceeds of corruption and return the same to the country.

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Appendix I: Data Compilation Schedule for Secondary Data

Year	GDP	Corruption Perception Index	Illicit Financial Flows	Money Laundering	Inflation	Exchange Rate	Interest rates
2005Q1							
2005Q2							
2005Q3							
2005Q4							
2006Q1							
2006Q2							
2006Q3							
2006Q4							
2007Q1							
2007Q2							
2007Q3							
2007Q4							
2008Q1							
2008Q2							
2008Q3							
2008Q4							
2009Q1							
2009Q2							
2009Q3							
2009Q4							
2010Q1							
2010Q2							
2010Q3							
2010Q4							
2011Q1							
2011Q2							
2011Q3							
2011Q4							
2012Q1							
2012Q2							
2012Q3							
2012Q4							
2013Q1							
2013Q2							
2013Q3							
2013Q4							
2014Q1							
2014Q2							
2014Q3							
2014Q4							
2015Q1							
2015Q2							
2015Q3							
2015Q4							
2016Q1							
2016Q2							
2016Q3							
2016Q4							

Appendix II: Questionnaire

SECTION A: Demographic information

1. What is your gender?
Male
Female
2. What is your age?
Below 25 years
25-35 years
35-40 years
Above 40 years
3. Marital Status. Tick the applicable one
Single/Never Married
Married
Divorced
Separated
Widowed
4. Highest Level of Education. Tick the applicable one
None
Primary
Secondary
Middle Level
University
Adult Literacy
Other (Specify)

SECTION B: General State of the Economy

5. In general, how would you describe the current economic situation in Kenya?
Very good
Somewhat good
Neither good nor bad
Neither good nor bad
Very bad

6. What in your opinion are the most serious problems facing Kenya as a country today?

- Unemployment []
- Poverty []
- Political Instability []
- Poor infrastructure []
- Corruption []
- Crime []
- General economic problems []
- Low income/salaries []
- High prices []
- Other, specify.....

7. In your opinion, how serious is the issue of corruption in Kenya?

- Very serious []
- Somewhat serious []
- Not too serious []
- Not at all serious []
- Corruption does not exist []

8. What do you think, are factors causing corruption in Kenya?

- We need money to make a living []
- The salaries are lower than every day's needs []
- Lack of punishing mechanisms []
- The ambition to become rich as quick as possible []
- Imperfect legislation (abuse gaps in existing laws) []
- Ignorance of the law []
- Abuse or misuse of power []
- Long or unclear procedures of the service []
- Tolerance by the public (it is an accepted norm) []
- Morals and ethics of the corrupt person []

9. How would you compare the level of corruption in Kenya today with the level of corruption in the past few years?

- Much higher than past years []
- Somewhat higher than past years []
- About the same as past years []
- Somewhat lower than past years []
- Much lower than past years []
- Don't know []

10. Which sectors boast most cases of corruption in Kenya?

- Judiciary []
- Tax collection []
- Public procurement []
- Police []
- Customs []
- County governments []

11. How easy or hard is the process of corruption reporting in Kenya?

- Very easy []
- Somewhat easy []
- Somewhat hard []
- Very hard []
- Don't know []

12. What is your view regarding the political goodwill in the fight against corruption in Kenya today?

- The political leadership has good will in the fight against corruption []
- The political leadership is very committed to the fight against corruption []
- The political leadership lacks the good will in the fight against corruption []
- The political leadership is complicit in the vice of corruption []
- The political leadership condones corruption []

13. 14. How can government improve in its efforts to stop corruption in the country?
- Creating more employment opportunities for youths []
 - Opening up more economic opportunities in the country []
 - Fair and/or equal distribution of resources and infrastructure []
 - Enactment and effective implementation of anti-corruption laws []
 - Instituting stiff penalties for corruption offenders []
 - Through increased awareness campaigns []
 - Increased collaboration with relevant internal and external stakeholders []
 - Other (specify) _____ []

SECTION C: Effects of Corruption

Please rate the following statements. 1=strongly disagree; 2=disagree; 3=I don't know; 4=agree; and 5=strongly agree

	1	2	3	4	5
Corruption impedes domestic and foreign direct investments					
Foreign investors have pulled out of Kenya because of corruption					
Investors are required to pay bribes in order to win contracts					
Local and foreign investors have lost contracts because of corruption					
Corruption has encouraged favoritism in the award of business contracts					
Corruption has deeply eroded good governance in Kenya					
Corruption has distorted public resource allocation to less optimal uses					
Corruption has increased the cost of doing business in Kenya					
Corruption has increased inequality in Kenya					
Corruption has increased poverty levels in Kenya					
Corruption has weakened Kenya's ability to attract foreign aid					
Corruption disturbs the proper functioning of markets					
Corruption leads to reduction of business profits					

SECTION C: Corruption as an intermediary of other economic crimes

Please rate the following statements. 1=strongly disagree; 2=disagree; 3=I don't know; 4=agree; and 5=strongly agree

	1	2	3	4	5
Proceeds of corruption are concealed through money laundering					
Corrupt individuals engage in tax evasions					
Marine piracy for ransom work in cahoots with corrupt individuals					
Human trafficking thrives in an environment characterized by corruption					
Drug trafficking thrives in an environment characterized by corruption					
Organized criminal gangs are used to protect resources acquired through corruption					
Cybercrime thrives in an environment characterized by corruption					

Counterfeiting thrives in an environment characterized by corruption					
Robberies thrives in an environment characterized by corruption					
Illegal immigration thrives in an environment characterized by corruption					
Proceeds of corruption are used to acquire illegal firearms and ammunition					

SECTION D: Corruption and Electoral Fraud

Please rate the following statements. 1=strongly disagree; 2=disagree; 3=I don't know; 4=agree; and 5=strongly agree

	1	2	3	4	5
Corruption aids electoral crimes and offences in Kenya					
Proceeds of corruption are used to finance voter bribery					
Proceeds of corruption are used to intimidate voters to prevent them from voting or unduly influence how they vote					
Organized criminal gangs are bribed by politicians to achieve their goals					
Candidates are rigged out during nominations by corrupt individuals					
Corrupt officials misappropriate civic education funds					
Corruption aids infiltration of electoral systems by partisan elements in order to influence election outcomes					
Proceeds of corruption are used to finance campaign					
Corrupt candidates finance goons to engage in hate speech					
Proceeds of corruption are used to pay gangs to evict voters based on tribal and/or religious backgrounds					
Proceeds of corruption are used to finance fake news (e.g. publishing false statements of withdrawal or defection of other candidates; fake ballot papers and destruction of opponent's campaign materials)					
Corruption frustrates the conduct of a free and fair election e.g. corrupt candidates compromising election officials					
Unjustified use of public resources in campaigns is a common malpractice during nominations and elections					
Corruption threatens sustainability of democratic governance					

SECTION E: Corruption and National Security

Please rate the following statements. 1=strongly disagree; 2=disagree; 3=I don't know; 4=agree; and 5=strongly agree

	1	2	3	4	5
Corruption facilitates domestic and cross-border financing of terrorist activities					
Corruption hampers the ability to fight crimes such as terrorism					
Corruption impedes the investigation of crime by the police & DPP in Kenya					
Corruption frustrates the prosecution of crimes by the Judiciary					
Corruption facilitates illegal purchase of firearms and ammunitions					

National food security is threatened by corrupt officials in government (e.g. corruption in the irrigation projects, strategic grain reserves at the National Cereals and Produce Board, fake fertilizer and uncertified seeds)					
Key water towers are at risk following wanton logging aided by corrupt officials					
Corruption is an important enabler of organized criminal gangs (e.g. mungiki threaten national security by demanding protection fee from businesses and citizens)					
Corruption facilitate criminal networks in the illegal extraction, mining and trade in natural resources such as minerals, forests and oil.					
Corruption facilitates illegal exploitation and trade in wildlife products such as ivory and rhino horns					

*****Thank You for Taking Your Time to Respond to the Questionnaire*****