

PARLIAMENT  
OF KENYA  
LIBRARY

REPUBLIC OF KENYA



PARLIAMENT  
THE SENATE

---

Paper laid on  
25/2/2015 by  
Sen. Bellow Kerod  
Chairperson, Standing  
Committee on Finance,  
Commerce & Budget



ELEVENTH PARLIAMENT – SECOND SESSION

---

REPORT OF THE SENATE STANDING COMMITTEE ON FINANCE,  
COMMERCE & BUDGET ON THE MEDIUM TERM BUDGET POLICY  
STATEMENT, 2015

---

PARLIAMENT BUILDINGS  
NAIROBI

FEBRUARY, 2015

## Table of Contents

PREFACE.....	iii
EXAMINATION OF THE MEDIUM TERM BUDGET POLICY STATEMENT .....	iv
ACKNOWLEDGEMENT .....	v
I. INTRODUCTION.....	1
II. REVIEW OF THE 2015 BPS.....	2
A. Economic Growth.....	8
B. Inflation, interest rates and exchange rates.....	8
C. Expenditure performance.....	9
III. FISCAL DEFICIT .....	10
IV. INTERGOVERNMENTAL FINANCING FRAMEWORK: DIVISION OF REVENUE.....	12
V. FISCAL FRAMEWORK AND IMPLICATIONS TO COUNTIES .....	14
VI. RECOMMENDATIONS.....	22

## PREFACE

**Mr. Speaker Sir**, on behalf of the Members of the Finance, Commerce and Budget Committee and as required under the second schedule of the revised Senate Standing Orders, I hereby present to this House, the Committee's Report on the 2015/16 Medium term Budget Policy Statement which was submitted to this House on 13<sup>th</sup> of February, 2015.

Upon submission to the House, the Medium term Budget Policy Statement (BPS) was committed to each Standing Committee to deliberate upon and make recommendations to the Finance, Commerce and Budget Committee in relation to their respective mandates. In considering the Statement, the Committee consulted each Standing Committee and hereby tables a report, containing its recommendation on the BPS to the House for consideration and approval.

**Mr. Speaker Sir**, it is significant to mention that the purpose of the approval of this report on the Medium term Budget Policy Statement is to communicate the Senate's position on the preparation of all subsequent budget documents for the remainder of the financial year beginning with the Division of Revenue Bill. It is also important to note that the section 25 of the Public Finance Management Act, 2012, stipulates that the resolutions of Parliament, comprising both Houses, on the BPS must inform the preparation of the Annual Estimates and therefore by extension, this House's resolutions on this report will form the basis of evaluating the 2015/16 estimates for the various spending agencies at both national and devolved level.

**Mr. Speaker Sir**,

The Standing Committee on Finance, Commerce and Budget is established pursuant to Standing Order No. 208 and is mandated, to investigate, inquire into and report on all matters relating to coordination, control and monitoring of the county budgets and to:

- A. Discuss and review the estimates of County governments and make recommendations to the Senate;
- B. Examine the Medium term Budget Policy Statement presented to the Senate;
- C. Examine and report on the Budget allocated to constitutional commissions and independent offices;

- D. Examine bills related to the Counties;
- E. Examine the Budget, including the Division of Revenue Bill; and
- F. Examine and consider all matters related to resolutions and Bills for appropriations, share of national revenue amongst the counties and all matters concerning the National Budget, including public finance, monetary policies and public debt, trading activities and commerce, tourism, investment and divestitures policies, planning and development policy.

**Mr. Speaker Sir,**

The Committee on Finance, Commerce and Budget was constituted by the House on Thursday 13<sup>th</sup> March 2014 during the Second Session of the Eleventh (11<sup>th</sup>) Parliament and as currently constituted, comprises the following members:

- 1. The Hon. Sen. Billow Kerrow, MP. -Chairperson
- 2. The Hon. Sen. Peter Ole Mositet, MP. -Vice-Chairperson
- 3. The Hon. Sen. G. G. Kariuki, EGH, MP.
- 4. The Hon. Sen. Moses Wetang'ula, EGH, MP.
- 5. The Hon. Sen. Beatrice Elachi, CBS, MP.
- 6. The Hon. Sen. Mutahi Kagwe, EGH, MP.
- 7. The Hon. Sen. Boni Khalwale, MP.
- 8. The Hon. Sen. (Prof.) Peter Anyang' Nyong'o, EGH, MP.
- 9. The Hon. Sen. (Dr.) Zipporah Kittony, MP.
- 10. The Hon. Sen. James Mungai, MP.
- 11. The Hon. Sen. Catherine Mukite Nabwala, MP.
- 12. The Hon. Sen. Mutula Kilonzo Junior, MP.
- 13. The Hon. Sen. (Prof.) John Lonyangapuo, CBS, MP.
- 14. The Hon. Sen. Paul Njoroge Ben, MP.
- 15. The Hon. Sen. (Dr.) Wilfred Machage, MGH, MP.

The Finance, Commerce and Budget Committee is further given legal backing under the Public Finance Management Act, 2012 as well as the Constitution.

## **EXAMINATION OF THE MEDIUM TERM BUDGET POLICY STATEMENT**



## **EXAMINATION OF THE MEDIUM TERM BUDGET POLICY STATEMENT**

In reviewing the 2015 Medium Term Budget Policy Statement the Committee held four sittings during one of which the Cabinet Secretary, National Treasury was invited to give his views and clarify on matters concerning the BPS. The Committee also received submissions from the Departmental Committees and held extensive discussions with the respective Chairpersons.

### **ACKNOWLEDGEMENT**

**Mr. Speaker Sir,**

The Committee is grateful to the both the Cabinet Secretary and the Principal Secretary, National Treasury who appeared before the Committee and also acknowledges the contribution made via written submissions by various stakeholders.

The Committee is also particularly grateful to the Offices of the Speaker, the Clerk of Senate as well as to the Parliamentary Budget Office for the support received as it discharged its mandate of examining the 2015 Medium term Budget Policy Statement as well as to the Senators who participated in the process.

**Mr. Speaker Sir,**

It is therefore my pleasant duty and privilege, on behalf of the Finance, Commerce and Budget Committee to table this Report and recommend it to the House for adoption.

Signed



**THE HON. SENATOR BILLOW KERROW, MP**  
**CHAIRMAN, FINANCE, COMMERCE AND BUDGET COMMITTEE**

**Date: 24<sup>th</sup> February, 2015**

## I. INTRODUCTION

- 1) **Mr. Speaker Sir**, the Medium term Budget Policy Statement (BPS) is perhaps the most critical document in the budget cycle that is prepared by the National Treasury because it is the basis upon which all subsequent budget documents are prepared. It is also the first stage at which Parliament, and by extension, the public whom we represent, gets a feel of the main areas of expenditure as well as revenue policies and debt levels that for the coming financial year.
- 2) In brief, the document is supposed to set out the broad objectives, policy goals and strategic priorities that guide the National and County Governments in preparing their budgets both for the following financial year and over the medium term.
- 3) **Mr. Speaker Sir**, as provided in law, the BPS must include the following:
  - (a) An assessment of the current state of the economy and the financial outlook over the medium term, including macro-economic outlook.
  - (b) Financial outlook with respect to Government revenues, expenditures and borrowing for the next financial year and over the medium term.
  - (c) The proposed expenditure ceilings for the 3 arms of Government and indicative transfers to County Government.
  - (d) The fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt.
  - (e) The total resources to be allocated to individual programmes and projects within sector, ministries, departments and agencies indicating outputs expected during the period.
- 4) The role of Senate in the review and approval of government economic and spending policies contained in the BPS are clearly buttressed in the functions of Senate as set out in Article 96 of the constitution. The BPS sets out the annual revenue amounts in a 3 year period to be raised by the National government; these are invariably the resources that are actually allocated to each level of government including counties (Article 203).
- 5) Further, specific policies of national government in sectoral spending, on macroeconomic stability, on governance, infrastructure development, and financial sector all affect counties whether carried at national government or



county level. For example, policies on interest rates and exchange rate do affect the performance of counties. Similarly, increased spending by national government on large projects (such as rail construction) also interconnects various counties and many ways affect the economic conditions in counties.

- 6) The Senate's role therefore spans protecting the financing of counties, ensuring unified economic policies and prosperity in counties for the benefit of all Kenyans, and to improve national and intra-county business climate. Thus, there is an overwhelming case for Senate for pronounce itself on any matter it deems fit as articulated in the BPS
- 7) **Mr. Speaker Sir**, after careful consideration of the BPS, the Committee observes that the BPS achieved a compliance rate of 87.9 % implying that most of the information required by law was availed. However, and crucially, the BPS did not portray programmes outputs and targets which are crucial for use by Parliament in evaluating the efficacy of the various government programmes and therefore prioritising resource allocation.
- 8) Lack of this information hinders the Finance, Commerce and Budget Committee as well as the Standing Committees from making informed decisions in further awarding well-performing programmes and mitigating the shortcomings of those performing below expectations. If programme targets as well as their implementation status are availed, collaborative governance between the two arms of government would be enhanced since Parliament would be able to assist the executive by making decisions that are geared towards increased output and service delivery to the public.

## II. REVIEW OF THE 2015 BPS

- 9) The Committee reviewed the 5 policy pillars, macroeconomic performance, spending, revenue and debt framework, and the proposed sharing of revenue between the national and county governments. The Committee considers the 5 policy pillars as critical since they set out the broad government policies and proposed reforms which in many ways will affect the economic and expenditure plans of counties.

- 10) To expedite the review, the Committee critically reviews the policies and medium term fiscal framework including the proposed sharing of revenue and makes concise opinion about them and specific recommendations on a set of issues. The recommendations are mainly decanted from the deliberations of Senate Standing Committees and the meetings with the CS, National Treasury on 19th February, 2015.
- 11) The following sections briefly expound on the level of compliance of the BPS with existing regulations and procedures. The subsequent sections assess the five policy pillars, followed by a review of macroeconomic proposals, expenditure, revenue, and revenue sharing proposals. The review of BPS is followed by Committees review and resolutions on various sectoral policy issues, which serves as a prelude to general and specific recommendations of the Committee.

### 3.1. Compliance

- 12) The 2015 BPS was submitted to Parliament within the timelines required by the PFM Act: by the 15th February 2015. However, given the tight deadlines for its consideration and approval by the Senate, the BPS should ordinarily be submitted much earlier to allow for thorough review by Committees of Parliament. It is expected that additional time to review the BPS would allow Senate committees to compare the BPS policies with those articulated in County Fiscal Papers with view to helping align county policies to the overall policies of Kenya as set out in the BPS.
- 13) In addition to this, subsequent documents such as the Division of Revenue Bill (DORB) and the County Allocation of Revenue Bill (CARB) should be submitted in due time to ensure their sequential and meaningful contribution to the Budget process. The Committee further undertakes to bring amendments to this House on the Public Finance Management Act, 2012 to provide clear timelines on submission of the documents.
- 14) Even though the BPS sets out government policies (under the five pillars), and outlines the budget and financing frameworks for the two levels of government, the document is short on details on the performance of programmes. For example, policy review and allocation of new resources is best done when information on performance, especially attainment of

outputs and targets is well reported. There was also widespread restatement, review, merging, and introduction of new programmes in the BPS relative to the BPS of 2014. **To further help strengthen the link between policy, planning and resources allocation in the medium term, it is recommended that the BPS policies, programmes, and resources be approved three years in advance.**

### 3.2. The Five Policy Pillars and Implications to Counties

15) The BPS further articulates 5 policy pillars, namely: creating a conducive business environment for employment, agricultural transformation and food security, transport, logistics, energy and water for inclusive growth, access to quality social services, and entrenching devolution for better service delivery. The Committee reviewed each of the pillars as follows. Specific policy considerations are set out in the reviews of Standing Committees.

#### A. Pillar 1: creating a conducive business environment for employment

16) The key thrust of this policy pillar is the attainment of macroeconomic stability and deepening structural and governance reforms, improving business environment and improving security. The main goal of this pillar is to foster growth and expansion of economic and employment opportunities in the country. The primary aspects of this policy pillar include:

- i. **Achieving Macroeconomic Stability:** this will be attained through strengthening the revenue effort, containing the growth of total expenditure, increasing the ratio of capital expenditure relative to recurrent spending, maintaining a low rate of inflation of around 5 percent, maintaining international foreign exchange reserves position to over 4.5 months of import cover, and attain low and stable interest rates and exchanges rates
- ii. **Structural Reforms:** The Government commits to deepen certain critical reforms for better private sector growth under the following areas:
  - a. **Governance:** addressing (i) corruption prevention; (ii) economic crime investigation and assets recovery; (iii) strengthening prosecutorial capacity; and (iv) improving governance in priority areas, of medical supplies, free primary and tuition in schools, public



works, national police service, revenue administration, procurement and others. The development of a Kenya Integrity Program (KIP) in 2014. The 2015 BPS further targets that Ethics and Anti-Corruption Commission (EACC) will develop a medium term governance strategy in 2015.

- b. PFM Oversight Institution:** Strengthening the institutional capacity of public finance management oversight agencies (National Treasury, Controller of Budget, Auditor General and Public Procurement Oversight Authority) is key to ensure efficiency, effectiveness, transparency and accountability in the use of public finances. The Office of the Auditor General which is grossly underfunded is identified, in this report, for enhanced funding. It is noted that the BPS proposes to allocate only additional kshs.100 million to the Auditor General office (from kshs.2.6 billion to kshs.2.7 billion)
- c. Expenditure Management:** The 2015 BPS targets to achieve the following: conduct every year, at least one Public Expenditure Tracking in any sector, operationalize Procure to Pay in all MDA's before end of 2015, develop in the first half of FY 2015/16 a framework for enforcing cost benchmark, undertake independent audit of the IFMIS in 2015, develop a leasing policy framework in FY 2015/16
- d. Other structural reforms:** other reforms include the proposal to rationalize the parastatal sector and establishment of Government Investment Corporation (GIC) as holding company for the commercial parastatals, enhancing **Security through improved** coordination among security agencies, and hastened installation of CCTV system in all urban buildings

## **B. Pillar II: agricultural transformation and food security**

17) Agriculture is one of the primary functions of county governments but is equally critical sector for both levels of government. In the BPS, the Government plans to prioritize investments in agriculture. In particular, the BPS proposes that by end of May, 2015 a comprehensive transformation strategy for securing markets and forward contracts will be in place, including

setting up an Agri-business Fund. The Committee considers that given agriculture sector is a devolved function, it is critical to increase funding to counties to achieve the targets under this Pillar.

### C. Pillar III: transport, logistics, energy and water for inclusive growth

- 18) The 2015 BPS outlines Government plans to establish a first-class rail and road networks, navigable waterways, modern and efficient ports and harbors, in order to enhance competitiveness and transform Kenya into a logistics hub for Eastern Africa. construction Standard Railway Gauge phase 1 has commenced and is expected to be completed in 2017, modern JKIA railway commuter rail to be commissioned in 2017, commissioning of new terminal 4 and commencing work on green field before end of June 2015.
- 19) Other objectives include: to improve investment and access to energy, **including ensuring that** at least 1 million Kenyans are connected in 2015 and to reduce the cost of power. On road network the 2015 BPS states that 140 Km of new roads have been constructed, 115 km of existing roads have been rehabilitated while 24,770 Km of existing roads have been maintained. On environment and water access, investments will be made to enhance access to sustainable water supplies and clean environment through environmental conservation. The BPS further proposes to introduce on a pilot basis, in FY 2015/16, a programme using the Annuity method of construction (privately financing initiative) to pave the road network and subsequently roll it out, after review and drawing lessons, to fast track delivery of roads throughout the country.
- 20) Another critical objective is to support manufacturing. The 2015 BPS proposes establishment of technology based green industrial parks along the Mombasa – Western Kenya railway line at Voi, Athi-River, Naivasha and at shore of Lake Victoria. Further to this, the BPS proposes to modernize Kenya Industrial Estates shades and Constituency Industrial Centers.
- 21) Other miscellaneous issues include that the BPS identifies the need to improve disbursements of funds under the Uwezo and Women Enterprise Fund and procurement reservations for youth, women and people with disability. On tourism the BPS seeks to align investments in education, health and energy towards promoting tourism, establishment of large free trade area (free port)

around Nairobi and along the borders and to facilitate increased investments in accommodation facilities in Nairobi and Western Kenya.

22)The BPS also seeks to re-organize and develop niche beach tourism at the Coast among others. The Committee recommends that an independent study be done to establish the effectiveness of the Uwezo, youth and women funds with a view to mitigating the cost of capital available to special interest groups.

#### **D. Pillar IV: access to quality social services**

23)The strategies in the BPS seek to support health care and education which are critical for social and economic development. On health, the BPS reports that free maternity and free primary health care has been rolled out in 2,288 and 3,313 health facilities, respectively. This BPS targets that the National Government, working with County Governments and CDF Board will develop a program in the medium term for health care infrastructure upgrade and modernize equipment.

24)On education, the 2015 BPS targets to roll out free tuition under the tertiary programme in 2016/17 and investing in expanding and modernizing technical and village polytechnics. Whereas education is a largely a national government function, health is substantially devolved with the exception of health policy and referral hospitals. As pointed out in the Committee resolutions in this report, more health related resources should be sent to counties.

#### **E. Pillar V: further entrenching devolution for better service delivery**

25)The 2015 BPS targets to enhance political and financial accountability necessary for efficiency and effectiveness in service delivery, alleviation of poverty and convergence in county development. A framework will be developed that will involve giving conditional grants to counties that adhere to fiscal responsibility principles and meet minimum service delivery targets. Further, given that some of the functions or activities are devolved, it could be useful as indicated in this report to enhance county funding.



### 3.3. Macroeconomic Developments and Forecasts

#### A. Economic Growth

26) According to the 2015 BPS, the economy will grow by 5.3 percent in 2014, 6.9 percent in 2015 and 7.0 percent over the medium term. This translates to 5.5 percent growth rate in 2013/14, 6.1 percent in 2014/15, 7.0 percent in 2015/16 and 7.1 percent in 2016/17. The main drivers of growth will be: activities in the construction of the Standard Gauge Railway; increased production in agriculture following implementation of strategic interventions to revamp the sector; continued investment in infrastructure projects; and expansion of activities in sectors such as building and construction, manufacturing, retail and wholesale, financial intermediation. Domestic demand for goods and services will also fuel growth in Kenya.

27) Nevertheless, the Committee considers that the growth for 2015 will be achieved if its main factors are met. Possible downsides include low absorption of development expenditure (especially on large infrastructure projects) and global economic factors such as the persistence of recession in the Euro area and economic deceleration in emerging markets. Attainment of stable and low inflation, stable interest rates and reduction in the interest rate spreads, and competitive exchange will help support economic performance in 2015/16 and the medium term.

#### B. Inflation, interest rates and exchange rates

28) Kenya has managed to sustain fairly low inflation rates. Recent overall inflation, which includes food and energy prices is marginally above 5% and may fall further owing to the effect of declining fuel and energy prices. Overall inflation was down to 5.5 percent in January 2015. The BPS expects inflation to stay at single digit level and within the target of 5 percent.

29) Interest rates are expected to remain low and stable, while the spreads will be managed through the effects of Kenya Bank's Reference rate (KBRR), the credit bureau effect on information asymmetry, and the effect of monetary and fiscal policy. Kenya's Doing Business indicators for access to credit are not so good, for example under the credit category Kenya dropped from position 111 in the year 2014 to 116 in the year 2015 out of the 189 economies; its

position in the starting a business category also dropped to 143 in 2015 from 134 in 2014. Measures therefore need to be taken to improve credit access.

- 30) On exchange Rate and Foreign Exchange Reserves, the BPS assumes continued stability of the exchange rate and at least 4.5 months of import cover. The decline in Kenya's shilling is partly attributed to a very weak current account which is mainly driven by massive imports relative to exports. Given that the country is currently undertaking major infrastructure projects in the transport and energy sectors, which involve importation of machinery and equipment, the current account deficit is likely to persist.

### 3.4. Fiscal Performance: Expenditure and Fiscal Balance

#### C. Expenditure performance

- 31) The total envisaged overall Budget for FY2015/16 as outlined in the Budget Policy Statement is Kshs. 1.88 trillion. This year's budget framework will see expenditure increase by 5.8 percentage points relative to baseline (2013/14) over the medium term expenditure framework (MTEF).
- 32) Fiscal balance is projected to decline from 8.8 percent of GDP in 2014/15 to a sustainable level of 4.1 percent of GDP over the medium term. To ensure fiscal responsibility over the medium term, a minimum of 30 percent of the National Budget shall be allocated to development expenditure. The national government's expenditure on wages and benefits for public officers shall not exceed a percentage as prescribed by the regulations.
- 33) The development projects are set to rise over the medium term. However most of these projects shall be financed through loans. In 2015/16, it is projected that new project loans shall increase by Kshs.64 .7 billion compared to the previous financial year to reach Ksh. 269.3 billion. Over the medium term, new project loans shall account for on average, 3.1 percent of GDP.
- 34) The government has reiterated its commitment to promoting faster and more inclusive growth through shifting the composition of spending



towards social programmes (health and education), infrastructure and Vision 2030 flagship projects.

### III. FISCAL DEFICIT

- 35) Fiscal deficit including grants is set to rise by Kshs.23.6 billion in 2015/16 compared to the previous year to stand at Kshs.479.7 billion. Over the medium term the fiscal balance, however, declines to Kshs.398.2 billion and Kshs.341.2 billion in 2016/17 and 2017/18 respectively. The deficit is financed through both foreign financing and domestic financing.
- 36) The fiscal deficit in FY 2015/16 will be financed by net external financing of 4.1 percent of GDP and 3.2 percent of GDP of net domestic borrowing. Using 2013/14 as a baseline, the net external financing for FY 2015/16 is set to increase by 2.1 percentage points while net domestic borrowing is set to decrease by 2.0 percentage points. Foreign borrowing is forecast to rise to Kshs. 269.3 billion while domestic debt will reach Kshs. 208.3billion.
- 37) Over the medium term, the government's borrowings shall be used only for the purposes of financing development expenditure and not recurrent expenditure. Public debt and obligations shall be maintained at a sustainable level approved by parliament and county assemblies.

#### i. Medium Term Revenue Forecasts

- 38) In 2015/16, the government projects total revenue to amount to Ksh.1.348 trillion (equivalent to 20.7 % of nominal GDP). Ordinary revenues will reach Ksh.1.249 trillion in 2015/16 (19.2 % of GDP). The other components of revenue are outlined in Table 2. Of special note is that total revenues will reach Ksh.1.348 trillion in 2015/16 rising to Ksh.1.846 trillion in the outer year.
- 39) Ordinary revenues, which constitute shareable revenue in the revenue allocation process, will rise to Ksh.1.249 trillion from the projected Ksh.1.070 trillion in 2014/15. The largest component of revenue is income tax, followed by VAT, and Excise tax.

Table 5: BPS Revenue forecasts, Medium Term (Kshs. Billions)

	2013/14*	2014/15	2015/16	2016/17	2017/18
Total Revenue	974.4	1,164.0	1,347.7	1,594.6	1,845.5
Ordinary Revenue	919.0	1,069.9	1,249.9	1,490.2	1,730.4
Import Duty	67.6	74.7	82.2	92.9	98.5
Excise Duty	102.0	119.8	142.1	162.0	185.1
Value Added Tax	232.6	268.0	310.3	378.4	449.7
Income Tax	449.6	527.0	623.2	753.7	883.2
Investment income	10.2	16.4	18.4	20.0	21.8
Other Taxes	57.0	64.0	73.7	83.2	92.1
A-in-A	35.7	71.2	72.1	75.6	82.9
Railway Development Levy	19.7	22.9	25.7	28.8	32.2

Source: BPS, 2015

40) A brief comparison of forecasted revenue growth in the BPS and average revenue performance in 2008/09 to 2013/14 is quite revealing. Indeed, ordinary revenues are expected to rise at a about 1-2% points higher than 15% average for the last five years. This has important implications on the sharing of revenue approach discussed in the revenue sharing section. As usual, AIA remains quite unstable.

## ii. Tax and Revenue Reforms

41) The 2015 BPS targets to achieve the following: Simplification of the tax systems and enactment of modern tax laws i.e. submission to National Assembly the Excise Duty Bill and Tax Procedure Bill in 2015. Submission of two Bills on re-organization of KRA in 2015 the two inter-dependent revenue agencies – the Inland Revenue Agency and Customs and Border Control Agency.

42) Despite these proposed reforms, the Committee noted absence of an overarching law under Article 209 {3(c)} to authorize and guide counties in revenue collection and streamlining of revenue collection measures.



#### IV. INTERGOVERNMENTAL FINANCING FRAMEWORK: DIVISION OF REVENUE

- 43) The Committee took note of the BPS analysis of the sharing of revenue. As a review, the BPS enumerates several challenges that have been experienced in the first two years of budgeting under devolution. These include disputes on national ceilings with national institutions (the Commission on revenue Allocation and the Controller of Budget) business-unfriendly county finance bills and the submission of budget documents in formats that are not approved by law as well as the absence of medium term planning in budget cycles.
- 44) Other challenges identified are weak methods used in the projection of revenues, coding of expenditures in the budget books and the absence of notes to the budget statements and line items that are unclear. Despite these challenges, the review by the Committee of the BPS has identified huge allocations in Health and agriculture which are substantially devolved. Also, the review has identified areas or programmes which could be let go by the national government.

##### A. Revenue sharing basis in the BPS

- 45) The BPS outlines the basis for the proposed sharing of nationally raised revenue among the national and county governments. Briefly, the basis entails the following:
- i. **Adjustment of the baseline costs of devolved functions (2014/15 revenue of kshs.226.66 billion):** The national treasury takes the equitable portion of the revenue allocated to counties in the 2014/15 FY and adds the following items;
  - ii. Allocation for Personnel Emoluments for staff transferred to CGs from the State Department of Livestock Development amounting to **Ksh.1,466 million**;
  - iii. Adding an allocation of **Ksh.935 million** for village polytechnics previously under the Ministry of Education; and
  - iv. Adding an allocation of **Ksh.545 million** for functions transferred to County Governments vide TA gazette notice of March 2014.
- 46) This results in a total revenue figure of **kshs.229.606 billion**:
- i. **Revenue growth:** the Treasury then proposes to grow the resultant figure by an "agreed" rate of revenue growth of 10.41%.

- ii. **Increases in allowances:** an additional allocation of kshs.4.5 billion is provided for salary and allowances awarded to State and other Public Officers of the county government by the SRC in the 2014/15 financial year.

Table 7: Proposed determination of the equitable share of revenue (2015/16)

Budget Item	Amount
Baseline (Allocation for FY 2014/15)	226,660
Baseline Adjustments	
<i>Add:</i>	
1. Allocations for Personnel Emoluments for staff transferred to Counties from the State Department of Livestock Development	1,466
2. Village polytechnics currently under the Ministry of Education	935
3. Transfer of Funds relating to a county function transferred to county governments in 2014 (Agricultural Training Centres/Agricultural mechanization Stations) through Transitional Authority gazette notice March 2014)	545
New Baseline	229,606
<i>Additional Revenues</i>	
· Adjustment for Revenue Growth (growth factor, 10.41%)	23,902
· Adjustment for salaries and allowances awarded by the SRC in 2014/15	4,500
<b>Equitable Revenue Share allocation for FY 2015/16</b>	<b>258,008</b>

Source: 2015 BPS

47) Apart from the equitable share, the BPS further proposes to provide conditional grants to counties as follows;

- i. Free maternal healthcare – kshs.4.298 billion
- ii. Leasing of medical equipment – kshs.4.5 billion
- iii. Allocation for level 5 hospitals – kshs.2.06448 billion
- iv. Compensation for forgone user fees (health) – kshs.900 million Allocation from the Road Maintenance fuel levy fund (15%) – kshs.3.3 billion
- v. Conditional Allocations – loans and grants kshs.10.671 billion

48) Adding this to the equitable share, the total allocations to counties in BPS is Ksh.283.741 billion equivalent to 37% based on 2012/13 revenue numbers.



## B. Concerns arising from the revenue allocation approach

49) The following are the key issues arising from the revenue allocation and procedure used:

- I. Growth rate of ordinary revenue: revenue baseline is grown by 10.41% “agreed growth factor” to obtain the 2015/16 revenue numbers for counties. However, this is a small rate compared with about 12-15 percent average rate of growth of ordinary revenue. This means that the revenue allocation can be altered to use the correct growth rates, and then corrected further by addition conditional allocation.
- II. Salaries allocated to state officers: The BPS provides for increased allocation for state and public officers in the counties. Indeed, the incorporation of the salary adjustments (Ksh. 4.5 billion) occasioned by the Salaries and Remuneration Commission is contrary to the assertion that counties are spending a lot of resources on wages and the government policy of taming the overall wage bill in the country. The proposed principle of containing wages at 35% of total budget in counties and the rest of government could help resolve this problem.
- III. Inclusion of “fuel levy fund” and “loans and grants” in the computations: The BPS regards these resources as conditional allocations, but a keen look at Article 202(2) seems to imply otherwise. According to the constitution, the national government may allocate additional resources to counties from its own share of revenue as conditional or unconditional allocations. Thus, these resources should be part of national government share, rather than county share and should therefore be shown under the national government revenue allocation.

## V. FISCAL FRAMEWORK AND IMPLICATIONS TO COUNTIES

50) **Mr. Speaker Sir**, the Committee received reports and recommendations from various Standing Committees of The Senate on the BPS. Once again, the Committee decries the limited time within which the Committee were given to consider and give recommendations on the BPS. Consequently, time constraints inhibited detailed scrutiny of past performance and future policy proposals of various government spending agencies.



51) **Mr. Speaker Sir**, even as my Committee undertakes to engage the National Treasury in order to have future BPSs submitted early, I urge the Standing Committees to continually interrogate government policies, programmes, and resource utilization of ministries and agencies with direct implications on the performance of counties. Through regular interactions with ministries and agencies under their jurisdiction the Committees of the Senate will be better equipped for the onerous task of reviewing budget documents.

52) **Mr. Speaker Sir**, the following are the sectoral issues and recommendations made by various Committees.

#### **A. Social Sector**

53) **Mr. Speaker Sir**, the Committee received submissions from the Health Committee on the review of the BPS and makes the following observations;

- I. That the Committee was concerned about pending bills in the health sector. The Committee notes that pending bills affect service delivery in the health sector by crowding out resources that could be used to take up new projects and incurring unnecessary interest rate charges.
- II. That the 2015 BPS contains allocation towards free maternity, leasing of health care equipment, and financing for the Level 5 Hospitals. The BPS indicates that some of the resources will be rightly sent to the county governments as conditional grants in line with Article 202(2) of the constitution, however, the framework and the amounts require greater clarity and involvement of the county governments.
- III. That though the BPS indicates that more health workers will be hired in 2015/16 financial year, there is limited detail on this provided in the BPS.

54) The Committee further observed that the health sub-sector is faced with the following issues;

- I. Inadequate health facilities and equipments: particularly the fact that available infrastructure and equipment in health facilities is inadequate or dilapidated.

- II. The health sector faces staffing problems. For example, Kenya has 19 doctors per 100,000 persons compared to World Health Organizations' (WHO) recommended minimum staffing levels of 36 doctors per 100,000). In addition, Kenya has 173 nurses against the recommended 356 nurses per 100,000 populations.
- III. Widespread inequities in distribution of health workers: the Committee observed that arid and semi-arid areas of Kenya have fewer health staff per given population compared to other regions in Kenya. Additionally, health staff replacement is often misaligned to the high level of staff attrition rates in these underserved areas.
- IV. That the BPS proposes significant resources to curative and preventive health care services in National Government. However, since health is substantially devolved, it is important to transfer most of these resources to counties.

55) **Mr. Speaker sir**, the Committee further observed the governments undertaking to double the allocations to orphans, people with disability and vulnerable children through the broad policy area of social protection. The Committee recommends that henceforth, direct cash disbursements for older persons, orphans and persons with severe disability be based on a criterion submitted to and agreed by Parliament. Such a criterion should be based on statistics on target population. This will go a long way in improving equitable distribution of the social protection funds.

### **B. Energy, Communication and Technology**

56) The Committee received submissions from the Senate standing committee on Information, Communication and Technology and notes significant lopsidedness of resource allocations to this critical ICT sub-sector. In particular, the Committee observes that ICT subsector is underfunded and recommends that other methods of financing to the sub-sector be explored. The Committee further observes that the resources provided in the ICT sub-sector have not been clearly demarcated. For instance, the Konza Technopolis, which is a flagship project, is not portrayed clearly as a separate programme. The Committee specifically noted that;

- I. In view of the total ministerial request submitted at the sector level, the Ministry responsible for ICT seems under-funded which may potentially affect the realization of key flagship projects such the

establishment of ICT Parks, development Konza Smart City as well as completion of the ICT connectivity infrastructure across the country.

- II. According to the Energy, ICT and Infrastructure sector report, the problem of pending bills is still prevalent.
- III. Key challenges in the ICT sub-sector include inadequate policies, standards, guidelines, and regulations to mainstream ICT usage in the economy.

### C. Agriculture, Rural and Urban Development sector

57) **Mr. Speaker Sir**, the Committee received submissions from the standing committee on Agriculture, Livestock and Fisheries as well as the Land and Natural Resources committee. The Committee notes that with the exception of agricultural policy, most of the roles on agriculture such plant and animal husbandry, livestock, disease control and market rests with the county governments. Consequently, any resources with the national government relating to county roles should be transferred to counties.

58) Arising from the deliberations, the Committee noted that resource allocation and policy interventions should be enhanced to strengthen agricultural output and productivity. In terms of contribution to GDP, agriculture directly contributes 25.3% of the GDP, excluding substantial economic linkages to the rest of the economy (for instance, manufacturing, distribution and food service sectors). It's one of the sectors expected to support the target 10% economic growth rate under the Vision 2030.

59) Despite the central role of agriculture in Kenya's economy and food sufficiency, the sector hardly meets some benchmark targets. For example, food production hardly keeps pace with the population growth. Per capita livestock and fish production is also quite low, partly contributing to high food prices and to poor nutrition among low income urban populations.

60) To correct these challenges in the sector, the Committee observed the following;

- I. That there is urgent need for research on disease resistant varieties of food crops, at best to secure food sufficiency in Kenya;



- II. The introduction of a minimum price guarantee to farmers: as an incentive to farmers, the minimum price guarantee is expected to help boost production and make Kenya food secure; and
- III. The development of the Kenya Animal Genetic Resource Centre (KAGRC).

61) Arising from the submission by the Land and Natural Resources, the Committee noted that the ceilings of several programmes were below 50% of what the respective ministries in the lands and natural resources sub-sector had identified as essential in service delivery. Some of the programmes that appear under-funded are:-

- I. Environment Policy Management receives 16% of request;
- II. Environmental Governance, receives 28% of request;
- III. Wildlife Security, National Parks and Reserves Management, to receive 39% of resource request; and
- IV. Modernization of Meteorological Services, to receive 46% of resource request.

62) The Committee further notes that for cohesive implementation of policy and result based governance it was important to merge the Environmental Policy Management and Environmental Governance. No doubt, such a merger would help reduce the administrative costs of running the agencies.

63) The Committee also observed that the programme to “construct and rehabilitate at least 3,000 water pans of 50,000 M3” every year was a target that had been identified in both the 2014 as well as the 2015 BPS. The Committee found it important that the outputs arising from these targets for this particular programme be appropriately identified and published on a regular basis. Indeed, since these are essentially devolved functions it is important that duplication and overlaps of roles are avoided between the two levels of government.

#### **D. Governance, Justice Law and Order Sector**

The Committee received submissions from the Committee on legal Affairs and human rights and observed the following:

- I. It is important to create a specific programme for 'Provision of Litigation Services to County Governments' under the office of the Attorney General. These services will help expedite justice at the county level. Furthermore, provision of such services is set out in Article 189 of the Constitution whereby the national government may assist, support or enhance the capacity of the county governments to perform their functions and exercise their powers.
- II. The Committee further recommends that Parliament should fast-track the legislative process for the enactment of the Office of the County Attorney Bill, 2014 (Senate Bill No. 37) which seeks to establish the Office of the County Attorney in every County.
- III. That the allocations for the judiciary of Ksh 17.9 billion in 2015/2016 were insufficient to allow the construction of the proposed 17 new High Courts and 15 new Magistrates' Courts.
- IV. There was need for a specific programme to 'Combat Grand Corruption' under the Ethics and Anti-Corruption Commission. The Committee notes that grand corruption undermines human rights, good governance and the economic development of the country and thus there is need for a specific programme to fight grand corruption with specific key performance indicators.
- V. Further, there is need for Parliament to re-establish or extend the life to the Commission for the Implementation of the Constitution under Section 5(7) of the Sixth Schedule to the Constitution noting that the Commission will stand dissolved by January 2016.
- VI. It was important that the independent Electoral and Boundaries Commission to put in tangible mechanisms to ensure that it meets its target of registering 11 million additional voters in 2015/2016 and 2016/2017 financial years and sanctions should be visited upon any person or institution that derails the achievement of the target.

#### **E. General Economic and Commercial Affairs Sector**

- 64) The Committee of Finance, Planning and Trade noted the need to scale-up activities related to promotion of regional integration and cooperation; growth and development of commerce; tourism promotion and development; savings and investment mobilization; employment creation; and industrial and



entrepreneurship development. Owing to absence of high frequency data household income and labour markets, the Committee further urges the government to expedite the production of a new comprehensive household and budget survey to update nearly obsolete household data in last 2005/06 Kenya Integrated Household and Budget Survey.

The Committee further noted that the ceiling for the Parliamentary Service Commission (PSC) was lower than the amount allocated to PSC in the 2014/15 budget. Notably, the resources to PSC will decline from the approved Ksh. 23.104 billion to Ksh. 22.947 billion (a reduction of Ksh. 157 million). To enable both the Senate and National Assembly carry out their oversight functions, the 2015/16 budget ceiling for PSC should be enhanced.

#### **F. Public Administration and international relations sector**

65) The Committee received submissions from the Standing Committee on National Security and Foreign Relations on the BPS and observed the following;

- I. On foreign relations: that the Ministry of Foreign Affairs should reprioritize location of foreign missions such that the missions are set up in strategic countries in line Kenya's economic, international and diplomatic objectives in view of limited resources.
- II. The Committee further observed absence of direct correlation between the programmes to be implemented by the Ministry of Foreign Affairs and International Trade and the five pillars outlined in the 2015 BPS;
- III. On national security and vehicle leasing, the government intends to lease 800 motor vehicles in FY 2015/16 and thereafter 500 motor vehicles annually over the medium term to facilitate mobility and enhance security operations. However, the leasing should be managed properly to ensure the vehicles located in far flung areas are serviced and fuelled within their stations,
- IV. The Committee further observed that the vehicle leasing programme is currently managed by the National Treasury rather than by the user ministries. To correct this, all leasing programs should be located and managed in parent ministries. It is also worth noting that by end of January 2015, the program of leasing 2700 vehicles approved in the 2014/15 budget estimates had not started.

## G. Roads and public Works

66) The Senate Standing Committee on Roads and Transportation considered the 2015 BPS and noted that:

- I. The BPS did not have a specific provision for expansion and upgrading of airstrips within the country. The Committee noted that the lack of a programme on this matter would hinder the development of the air transport sector.
- II. Similarly, Kenya's fuel pipeline system requires urgent modernization. The Committee detected that specific program performance indicators on the revival of the fuel pipelines were missing in the 2015 BPS.
- III. The Committee observed that the ongoing construction of the Standard Gauge Railway would soon reach Nairobi within the medium term. According to FY 2014/2015 the Phase II of the Standard Gauge Railway was to cover the line up to Malaba. However, the Committee noted that the 2015 BPS does not contain any specific pronouncement on the second phase SGR which ideally should be envisioned in the medium term (in 2015 BPS) so as to remove potential bottlenecks once Phase I is completed.
- IV. That the programme named 'Urban and Metropolitan Development' under the directorate of Housing and Urban Development was allocated Kshs 8.0 billion in FY 2014/15 yet it is undertaking devolved functions. The said devolved functions include installation of street lighting, construction of bus parks, construction of dispensaries, construction of sewage and storm water drainage system and construction of produce markets (Paragraph 5, Part 2; Fourth Schedule of the Constitution of Kenya).
- V. There was notable mismatch between the resource utilization levels in the transport and infrastructure sub-sector relative to the housing and urban development sub-sector. For instance, the transport and infrastructure sub-sector reported a 44% absorption rate while the department of Housing and Urban Development reported 86%. The likely reason for this is the late disbursement of development funds to the infrastructure departments.



## VI. RECOMMENDATIONS

67) **Mr. Speaker Sir**, given above issues the Committee recommends that this House pronounces itself to the critical policy matters identified in the scrutiny of the 2015 BPS with a view to seeking remedy or additions to the expenditure plans of government in 2015/16 and the medium term.

68) **Consequently, Mr. Speaker Sir**, the Committee recommends as follows;

**A. That all the relevant spending agencies;**

1. Provide a clear framework to enable counties for access pharmaceutical products from the Kenya Medical Supplies Agency (KEMSA);
2. Clearly demarcate and enhance the allocation for research in the health sector;
3. Institute curriculum reform in health care training so as to match the training of health care personnel the requirements of the market. In addition, necessary personnel should be provided to operate the newly leased medical equipment.

**B. The House further recommends;**

4. That the criterion for direct cash disbursements to disadvantaged groups such as older persons, orphans and persons with disability should be approved by Parliament. The criterion should be based on statistics on target population.
5. That future BPSs be submitted by December to allow sufficient time for Parliament and the respective Committees of both Houses to scrutinize and make recommendations that will guide the budget preparation process.
6. That the office of the Auditor-General, be provided with sufficient funding to enable the office audit all public spending agencies as well as provide prompt special-purpose audits as requested by Parliament.



7. That in order to enhance competitiveness and reduce the cost of doing business in the country, the government allocates more resources towards the speedy development of Konza Technopolis City and other ICT parks.
8. That the Ministry should fast track the ICT policy to guide all stakeholders in the ICT sector including county governments on ICT development and policy.
9. That spending agencies should curtail unbudgeted expenditure items and practices that result into pending bills by ensuring that there are effective and robust monitoring units in MDAs.
10. That the government policy on leasing of equipment be developed and presented to Parliament for scrutiny and approval;
11. That, to boost agricultural production, the government provides for;
  - I. Research on the development of disease resistant food crops;
  - II. minimum price guarantees to farmers as an incentive to help boost food production and make Kenya food secure; and
  - III. Progressive allocation of resources to meet the Maputo declaration of 10% total expenditure;
12. That the Division of Revenue Bill (DORB) be enacted by early April to allow for the speedy enactment of the County allocation of revenue Bill which guides Counties on budget preparation.
13. That an independent study be done to establish the effectiveness of Uwezo Fund, Youth and women funds with a view to harmonizing their operations and securing capital available to special groups.
14. That the government provides for a new program Attorney General to be known as 'Provision of Litigation Services to County Governments' as a way of the National Government to provide legal services at the county level in line with Article 189. In addition, legislative process for the enactment of the Office of the County

Attorney Bill, 2014 (Senate Bill No. 37) which seeks to establish the Office of the County Attorney in every county be fast-tracked;

15. That Parliament re-establishes and extends the life of the Commission for the Implementation of the Constitution under Section 5(7) of the Sixth Schedule of the Constitution given that its term is coming to an end early 2016;
16. That the Independent Electoral and Boundaries Commission put in mechanisms to meet its target of registering 11 million additional voters in 2015/2016 and 2016/2017 financial years and that sanctions be visited upon any person or institution that derails the achievement of the target;
17. That the relevant spending agency expedites in 2005/06 the production of a new household and budget survey to replace the 2005/06 Kenya Integrated Household and Budget Survey whose statistics are now outdated.
18. That timelines for works on the Phase II of the Standard gauge Railway be clearly stipulated in the BPS to address continuity of the project and deal with any bottlenecks that may be created upon completion of Phase I of the project.

#### **C. On Transfer of Functions and Revenue Sharing, the House Resolves:**

19. All devolved functions together with resources tied to them on health and agriculture currently being performed by the National Government be immediately sent to counties in the absence of a clear framework under Article 187.
20. That the revenue growth factor used to grow baseline revenue allocation to counties be revised from 10.41% to a factor of 12-15% over the medium term which is consistent with average historical ordinary revenue (shareable revenue) growth. That the conditional allocations set out in the 2015 BPS be maintained and enhanced to reflect the usual expenditure inflation to safeguard the real cost of

implementing the respective county programmes such as health or agriculture.

21. The Committee recommends that the 2015/16 budget ceiling for Parliamentary Service Commission be enhanced to enable both the Senate and National Assembly carry out their oversight functions.
22. That to enhance oversight of devolved resources, the Auditor General, the Ethics and Anti-Corruption Commission and the Senators be provided with sufficient financial resources to enable them check inefficient spending and misappropriation of resources at the counties.



**MINUTES OF THE 96<sup>TH</sup> SITTING OF THE STANDING COMMITTEE ON FINANCE, COMMERCE AND BUDGET ON CONSIDERATION AND ADOPTION OF THE DRAFT BUDGET POLICY REPORT HELD AT ENASHIPAI HOTEL AND SPA, NAIVASHA ON FRIDAY 20<sup>TH</sup> FEBRUARY, 2015**

**MEMBERS PRESENT**

- |                                   |             |
|-----------------------------------|-------------|
| 1. Sen. Billow Kerrow             | -Chairman   |
| 2. Sen. (Eng.) Peter Ole Mositet  | -Vice Chair |
| 3. Sen. G.G. Kariuki              | -Member     |
| 4. Sen. Moses Wetang'ula          | -Member     |
| 5. Sen. Catherine Mukiite         | -Member     |
| 6. Sen. (Prof.) Anyang Nyong'o    | -Member     |
| 7. Sen. Zipporah Kittony          | -Member     |
| 8. Sen. Mutula Kilonzo (Jnr.)     | -Member     |
| 9. Sen. Paul Njoroge Ben          | -Member     |
| 10. Sen. Beatrice Elachi          | -Member     |
| 11. Sen. (Prof.) John Lonyangapuo | - Member    |

**ABSENT WITH APOLOGY**

- |                       |         |
|-----------------------|---------|
| 1. Sen. Mungai James  | -Member |
| 2. Sen. Mutahi Kagwe  | -Member |
| 3. Sen. Boni Khalwale | -Member |

**SECRETARIAT**

- |                        |                              |
|------------------------|------------------------------|
| 1. Ms. Emmy Chepwony   | -Snr. Clerk Assistant        |
| 2. Mr. Gichohi Mwaniki | -Parliamentary Budget Office |
| 3. Mr. Robert Nyagah   | -Parliamentary Budget Office |
| 4. Mr. Francis Makau   | -Serjeant-At-Arms            |
| 5. Mr. Peter Mulesi    | - Clerk Assistant            |
| 6. Mr. Charles Ngatia  | -Clerk Assistant             |
| 7. Mr. Chelang'a Maiyo | -Researcher                  |
| 8. Ms. Diana Munene    | - Office Secretary           |
| 9. Ms. Anne Wanjiru    | - Intern                     |

**MINUTE 051/2015: PRELIMINARIES**

The Chairman Called the meeting to Order at 9.30am followed with a word of prayer.

The Chairman informed the Committee that in reviewing the 2015 Medium Term Budget Policy Statement, the Committee held four (4) sittings during one of which the Cabinet Secretary, National Treasury was invited to give his views and clarify on matters concerning the BPS. The Committee also received submissions from the Departmental Committees and held extensive discussions with the respective Chairpersons.

He stated that as a result of the consultations and briefings held on the Budget Policy Statement, a draft report had been prepared for approval by the Committee and subsequent tabling to the House on Tuesday, 24<sup>th</sup> February, 2015.

He then invited Parliamentary Budget Officers to take the Members through the draft report.

### **MINUTE 52/2015: PRESENTATION OF THE REPORT BY THE PARLIAMENTARY BUDGET OFFICERS**

Following presentations by the Parliamentary Budget Office, it was observed that;

- i. The Medium term Budget Policy Statement (BPS) is perhaps the most critical document in the budget cycle because it is the basis upon which all subsequent budget documents are prepared. It is also the first stage at which Parliament, and by extension, the public interact with the budget making process;
- ii. The BPS document is supposed to set out the broad objectives, policy goals and strategic priorities that guide the National and County Governments in preparing their budgets both for the following financial year and over the medium term;
- iii. The 2015 BPS was submitted to Parliament within the timelines required by the PFM Act: by the 15<sup>th</sup> February 2015. However, given the tight deadlines for its consideration and approval by the Senate, the BPS should ordinarily be submitted much earlier to allow for thorough review by Committees of Parliament. It is expected that additional time to review the BPS would allow Senate committees to compare the BPS policies with those articulated in County Fiscal Papers with view to helping align county policies to the overall policies of Kenya as set out in the BPS;
- iv. Subsequent documents such as the Division of Revenue Bill (DORB) and the County Allocation of Revenue Bill (CARB) should be submitted in due time to ensure their sequential and meaningful contribution to the Budget process. The Committee further undertakes to bring amendments to this House on the Public Finance Management Act, 2012 to provide clear timelines on submission of the documents;
- v. Even though the BPS sets out government policies (under the five pillars), and outlines the budget and financing frameworks for the two levels of government, the document is short on details on the performance of programs. For example, policy review and allocation of new resources is



best done when information on performance, especially attainment of outputs and targets is well reported.

- vi. To further help strengthen the link between policy, planning and resources allocation in the medium term, it is recommended that the BPS policies, programs, and resources be approved three years in advance.
- vii. Strengthening the institutional capacity of public finance management oversight agencies (National Treasury, Controller of Budget, Auditor General and Public Procurement Oversight Authority) is key to ensure efficiency, effectiveness, transparency and accountability in the use of public finances. The Office of the Auditor General which is grossly underfunded is identified, in this report, for enhanced funding. It is noted that the BPS proposes to allocate only additional kshs.100 million to the Auditor General office (from kshs.2.6 billion to kshs.2.7 billion).

## **OBSERVATIONS**

The Committee further observed that the health sub-sector is faced with the following issues:

- a) Inadequate health facilities and equipment; particularly the fact that available infrastructure and equipment in health facilities is inadequate or dilapidated;
- b) The health sector faces staffing problems. For example, Kenya has 19 doctors per 100,000 persons compared to World Health Organizations' (WHO) recommended minimum staffing levels of 36 doctors per 100,000). In addition, Kenya has 173 nurses against the recommended 356 nurses per 100,000 populations;
- c) Widespread inequities in distribution of health workers: the Committee observed that arid and semi-arid areas of Kenya have less health staff per given population compared to other regions in Kenya. Additionally, health staff replacement is often misaligned to the high level of staff attrition rates in these underserved areas;
- d) That the BPS proposes significant resources to curative and preventive health care services in National Government. However, since health is substantially devolved, it is important to transfer most of these resources to counties;
- e) The Committee further observed the governments undertaking to double the allocations to orphans, people with disability and vulnerable children through the broad policy area of social protection. The Committee recommends that henceforth, direct cash disbursements for older persons, orphans and persons with severe disability be based on a criterion submitted to and agreed by



Parliament. Such a criterion should be based on statistics on target population.

## **RECOMMENDATIONS BY THE COMMITTEE**

From the deliberations that ensued, the Committee adopted the report and recommended as follows;

**A.** That all the relevant spending agencies;

1. Provide a clear framework to enable counties for access pharmaceutical products from the Kenya Medical Supplies Agency (KEMSA);
2. Clearly demarcate and enhance the allocation for research in the health sector;
3. Institute curriculum reform in health care training so as to match the training of health care personnel the requirements of the market. In addition, necessary personnel should be provided to operate the newly leased medical equipment.

**B.** The Committee further recommended that;

4. The criterion for direct cash disbursements to disadvantaged groups such as older persons, orphans and persons with disability should be approved by Parliament. The criterion should be based on statistics on target population;
5. Future BPSs be submitted by December to allow sufficient time for Parliament and the respective Committees of both Houses to scrutinize and make recommendations that will guide the budget preparation process;
6. the office of the Auditor-General, be provided with sufficient funding to enable the office audit all public spending agencies as well as provide prompt special-purpose audits as requested by Parliament;
7. In order to enhance competitiveness and reduce the cost of doing business in the country, the government allocates more resources towards the speedy development of Konza Technopolis City and other ICT parks.
8. That the Ministry should fast track the ICT policy to guide all stakeholders in the ICT sector including county governments on ICT development and policy.

9. That spending agencies should curtail unbudgeted expenditure items and practices that result into pending bills by ensuring that there are effective and robust monitoring units in MDAs.
10. That the government policy on leasing of equipment be developed and presented to Parliament for scrutiny and approval;
11. That, to boost agricultural production, the government provides for;
  - ✓ Research on the development of disease resistant food crops;
  - ✓ minimum price guarantees to farmers as an incentive to help boost food production and make Kenya food secure; and
  - ✓ Progressive allocation of resources to meet the Maputo declaration of 10% total expenditure;
12. That the Division of Revenue Bill (DORB) should be enacted by early April to allow for the speedy enactment of the County allocation of revenue Bill which guides Counties on budget preparation.
13. That an independent study be done to establish the effectiveness of Uwezo Fund, Youth and women funds with a view to harmonizing their operations and securing capital available to special groups.
14. That the government provides for a new program Attorney General to be known as 'Provision of Litigation Services to County Governments' as a way of the National Government to provide legal services at the county level in line with Article 189. In addition, legislative process for the enactment of the Office of the County Attorney Bill, 2014 (Senate Bill No. 37) which seeks to establish the Office of the County Attorney in every county be fast-tracked;
15. That Parliament re-establishes and extends the life of the Commission for the Implementation of the Constitution under Section 5(7) of the Sixth Schedule of the Constitution given that its term is coming to an end early 2016;
16. That the Independent Electoral and Boundaries Commission put in mechanisms to meet its target of registering 11 million additional voters in 2015/2016 and 2016/2017 financial years and that sanctions be visited upon any person or institution that derails the achievement of the target;

17. That the relevant spending agency expedites in 2005/06 the production of a new household and budget survey to replace the 2005/06 Kenya Integrated Household and Budget Survey whose statistics are now outdated.
18. That timelines for works on the Phase II of the Standard gauge Railway be clearly stipulated in the BPS to address continuity of the project and deal with any bottlenecks that may be created upon completion of Phase 1 of the project.

**C. On the Transfer of Functions and Revenue Sharing, the committee resolved that:**

19. All devolved functions together with resources tied to them on health and agriculture currently being performed by the National Government should immediately be sent to counties in the absence of a clear framework under Article 187;
20. All the revenue growth factor used to grow baseline revenue allocation to counties be revised from 10.41% to a factor of 12-15% over the medium term which is consistent with average historical ordinary revenue (shareable revenue) growth. That the conditional allocations set out in the 2015 BPS be maintained and enhanced to reflect the usual expenditure inflation to safeguard the real cost of implementing the respective county programs such as health or agriculture;
21. In order to enhance oversight of devolved resources, the Auditor General, the Ethics and Anti-Corruption Commission and the Senators, be provided with sufficient financial resources to enable them check inefficient spending and misappropriation of resources at the counties.

**MIN.NO. 53/2015: ADJOURNMENT AND DATE OF NEXT MEETING**

There being no other business, the meeting was adjourned at 10.15 am. The next meeting was scheduled for 20<sup>th</sup> February, 2015 at 10.30am at the same venue.

**SIGNED:** .....

**CHAIRPERSON** -Sen. Billow Kerrow

**DATE:**..... 25/2/2015 .....