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ELEVENTH PARLIAMENT – THIRD SESSION



REPORT OF THE SENATE STANDING COMMITTEE

ON FINANCE, COMMERCE & BUDGET ON THE CONSIDERATION OF;

THE ANNUAL ESTIMATES OF REVENUE AND EXPENDITURE FOR THE NATIONAL
GOVERNMENT, JUDICIARY AND THE PARLIAMENTARY SERVICE COMMISSION
FOR THE FINANCIAL YEAR 2015/16

*Hon. Speaker
You may approve
for tabling.
28/05/15*

PARLIAMENT BUILDINGS
NAIROBI

MAY, 2015

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1.0 PREFACE

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 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 13th March 2014 during the Second Session of the Eleventh (11th) Parliament and comprises of 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.
16. The Hon. Sen. (Dr.) Agnes Zani, MP

Mr. Speaker, Sir,

The Estimates of Revenue and Expenditure for 2015/16 were tabled in the House on Thursday 14th May, 2015 and subsequently committed to the Standing Committee on Finance, Commerce and Budget for consideration pursuant to Standing Order 130, where it stipulates the Committal of Bills to Committees and public participation, among other provisions.

Mr. Speaker, Sir,

The Committee at its sitting of 21st, 27th and 28th May, 2015 held deliberations on the budget for the National Government, for the 2015/16 financial year, and noted the following pertinent issues:

1. That budgetary allocation for state corporations is approximately Ksh. 558 billion out of total discretionary budgetary allocation of Ksh. 1,461 billion; translating to approximately 32% of total MDA expenditure.
 - This allocation is almost twice the total allocation to the devolved level of government for 2015 as proposed in the Division of Revenue Bill, 2015.
 - The detailed estimates for these state corporations have not been provided, and are instead reflected as “one line items” which means that 32% of total discretionary expenditure is not available for scrutiny by Parliament and the public.
 - Some of the state corporations receiving resources at National level are performing devolved functions listed in the 4th schedule of the constitution and there are currently no clear mechanisms to transfer these functions to the Counties.

2. The equalization fund is yet to be operationalized and implemented 5 years after the promulgation of the Constitution. Over the years, the Fund has been allocated a total of Ksh 9.8 billion for the period 2012/13 to 2014/15. Regarding the FY 2015/16, the total proposed allocation to the Fund is Kshs 6 billion taking the total allocation since the FY 2012/13 to Kshs 15.8 billion. This reflects an increase of kshs 2.6 billion compared to an approved allocation of kshs 3.4 billion in the current fiscal year of 2014/15. The Committee noted that it is not clear on the actual cumulative amount in the fund especially given that Article 204 (5) of the Constitution requires that any unexpended money in the equalization fund at the end of a particular financial year remains in that fund for future use. In that regard there is need to ascertain the total allocation to the fund since the promulgation of the Constitution and fast-track the implementation of the equalization fund to accelerate the provision of key public infrastructure and services in marginalized counties and areas.
3. Despite reported heavy investment in Agriculture and irrigation, the country is yet to make significant strides in achieving food security and is still reliant on rain-fed agriculture.
 - The Committee further noted disconnect between Agricultural policies at the national level funded under the national government and efforts by individual counties to implement policies and supplement national government initiatives.
4. The Budget contained mitigation measures in the tourism sector including tax rebates to hotels, tax rebates on domestic travel, infrastructure development particularly in touristic regions to improve linkages and allocations to enable extensive marketing the country as a tourist destination.
5. There is likelihood of underperformance of revenue collection as the revenue projections are based on a high GDP growth projection which may necessitate a supplementary budget to reflect economic realities that would jeopardize programme implementation.
6. Resolutions of Parliament on the 2015 Budget Policy Statement (BPS) ceilings have not been adhered to and details provided to explain the changes are not adequate.

The Committee thanks the Offices of the Speaker and Clerk of the Senate for the support extended to the Committee in the execution of its mandate. The Chairperson of the Committee also takes this opportunity to thank all Members of the Committee for their patience, sacrifice and commitment to public service, which enabled the Committee complete the assigned task within the stipulated time.

Mr. Speaker Sir, It is now my pleasant duty and privilege, on behalf of the Standing Committee on Finance, Commerce and Budget, to present to the Senate, this Report of the Committee on the Annual Estimates of Revenue and Expenditure for the National level of Government for the 2015/16 financial year.

Signed

(SEN. BILLOW KERROW, MP)
CHAIRPERSON,
STANDING COMMITTEE ON FINANCE, COMMERCE AND BUDGET

Date:

2.0 OVERALL EXPENDITURE

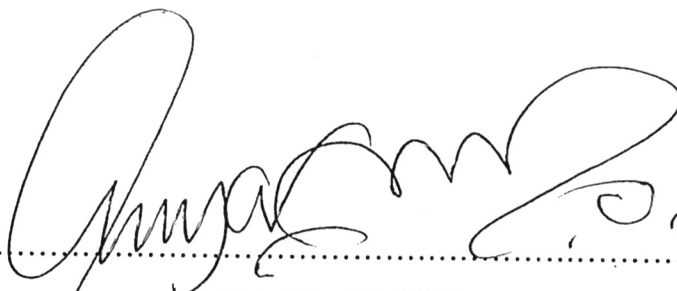
1. The Committee examined the national budget and observed that their key expenditure areas were as follows;
 1. Recurrent expenditure – Ksh. 786.8 billion
 2. Development expenditure – Ksh. 721 billion
 3. Consolidated Fund Services – Ksh. 229.8 billion
 4. Contingencies Fund – Ksh. 5 billion
 5. Equalization fund - Ksh. 6 billion
2. The Committee observed with concern a trend in commitment towards allocation to recurrent type spending as opposed to development as capital expenditures remain significantly lower than recurrent expenditure and also have a lower absorption rate.
3. The Committee was further concerned with the high deficit of more than kshs.550 billion which would necessitate high borrowing levels to finance. This had resulted from increasing expenditure without a corresponding increase in revenues which would force to borrow to meet its increasing expenditure demands.
4. The Committee observed that allocations for debt repayments on both redemptions and interest are much higher than the current financial year and if this trend continues indefinitely, it would threaten the sustainability of the debt levels of the country.

2.0 PENDING BILLS

The Committee thanks the Offices of the Speaker and Clerk of the Senate for the support extended to the Committee in the execution of its mandate. The Chairperson of the Committee also takes this opportunity to thank all Members of the Committee for their patience, sacrifice and commitment to public service, which enabled the Committee complete the assigned task within the stipulated time.

Mr. Speaker Sir, It is now my pleasant duty and privilege, on behalf of the Standing Committee on Finance, Commerce and Budget, to present to the Senate, this Report of the Committee on the Annual Estimates of Revenue and Expenditure for the National level of Government for the 2015/16 financial year.

Signed



(SEN. BILLOW KERROW, MP)

CHAIRPERSON,

STANDING COMMITTEE ON FINANCE, COMMERCE AND BUDGET

Date:

28th May 2015

2.0 OVERALL EXPENDITURE

1. The Committee examined the national budget and observed that they key expenditure areas were as follows;
 1. Recurrent expenditure – Ksh. 786.8 billion
 2. Development expenditure – Ksh. 721 billion
 3. Consolidated Fund Services – Ksh. 229.8 billion
 4. Contingencies Fund – Ksh. 5 billion
 5. Equalization fund - Ksh. 6 billion

2. The Committee observed with concern a trend in commitment towards allocation to recurrent type spending as opposed to development as capital expenditures remain significantly lower than recurrent expenditure and also have a lower absorption rate.

3. The Committee was further concerned with the high deficit of more than kshs.550 billion which would necessitate high borrowing levels to finance. This had resulted from increasing expenditure without a corresponding increase in revenues which would force to borrow to meet its increasing expenditure demands. In addition, revenue collection, management and legislation at the counties need also to be critically examined and scrutinized in line with Article 207 of the Constitution and relevant sections in the PFM Act 2012 as well as adhering to the various fiscal principles and financial objectives. The obtaining situation of underperformance, lack of accountability and transparency is a call for concern that must be addressed including the introduction of national legislative intervention. County revenues supplement the share of national revenue transfers to support various county expenditure outlays, and proper oversight and accountability of these resources are a key determinant of the extent of implementing devolution and service provision to all kenyan.

4. The Committee observed that allocations for debt repayments on both redemptions and interest are much higher than the current financial year and if this trend continues indefinitely, it would threaten the sustainability of the debt levels of the country.

3.0 PENDING BILLS

5. the Committee also observed that the National Government is currently undertaking 1,109 capital projects with a total cost of Ksh 4.2 trillion. The Committee further noted that most of these projects had a timeline of completion within the next 3 financial years yet the commensurate resources to complete them had not been allocated in the medium term budgeting framework.
6. The Committee observed that in order to avoid incomplete projects which would be detrimental to economic growth, on-going projects should be prioritized in the budget for any ministry before any other discretionary expenditure is provided for. This is especially the case given that the number and amounts related to pending bills was on the rise and would become detrimental to the economy if not checked. The Committee further noted the need for a proper framework of settling pending bills to ensure that this is not carried to the supplementary budgets.

4.0 FUNDING AT NATIONAL LEVEL FOR DEVOLVED FUNCTIONS

7. The Committee further observed that several functions that are devolved under the 4th schedule of the constitution were receiving significant allocations at the National level as follows;
 - a. **Irrigation and the Supply of Water**
8. The Committee was informed that there were funds allocated to the National Youth Service for construction of water pans and dams under the Ministry of Devolution and planning. This was despite the programme targets for the construction of water pans and dams being at the State Department of Water, under the Ministry of Environment, Water and Natural resources where the technical expertise and capacity to implement the project lies.
9. The Committee further noted that implementation of this programme would face challenges with the introduction of a new ministry of water services as well as the apparent lack of any interface with the county level of government in constructing dams and waterpans to avoid duplication by either level of government and ensure efficient utilization of resources by the country.

b. Agriculture, Livestock and Cooperatives

10. The Committee observed several concerns with this sector including access to fertilizer by farmers as well as a problem with its distribution. In addition to this, the Subsidy programme only caters for approximately 40% of farmers' needs and should therefore be expanded to cater for additional crops which include Sugar, Tea and Coffee.
11. The Committee was informed that in 2015/16 financial year, the National Cereal and Produce Board has not been allocated any funds to purchase grains and food reserves which would threaten food security. This coupled with an apparent disconnect with county programmes and policies on agriculture may lead to high food prices within the financial year resulting in high levels of overall inflation

c. Health

12. The Committee noted that the Ministry of Health had been proposed to be allocated kshs.59 billion up from kshs.49 billion in 2014/15 with allocations towards free maternal health, capacity building, and research and policy formulation. The Committee further observed that consecutive increments in the health budget should be met by commensurate increments in conditional allocations to counties to cater for health services at devolved level.
13. The Committee was also informed that the Kenya Medical Research Institute (KEMRI) was underfunded especially on research on communicable diseases as well as infrastructure upgrading.

5.0 INPUT BY STAKEHOLDERS

1. Parliamentary Budget Office

The Committee noted the following issues arising from meetings with the Parliamentary Budget Office on the 2015/16 Estimates that require redress;

- **Unclear status of 2014/2015 targets:** the Medium Term Expenditure Framework (MTEF) requires the presentation of the budget estimates to include the proposed estimates for 2015/16, the projected estimates for 2016/17 and 2017/18, the approved estimates for 2014/15 and the actual expenditures for 2013/14. The budget estimates for 2015/16 has not comprehensively presented the actual performance of 2013/14 and the status of 2014/15 budget implementation. This limits the National Assembly from using past performance of the budget in deciding the allocation for 2015/16 and the medium term.
- **Poor linkage of allocations to outputs:** a comparison of the 2014/15 and 2015/16 budgets indicate an enhancement in the allocations to some ministerial programmes. Despite the increase, a review of the programme based budgets show no evident change in the outputs and targets. This raises concerns as to whether the funds voted in each programme are based on the programme's outputs and targets presented in the estimates.
- **Operationalization of the Equalization Fund:** the equalization fund has been allocated a total of Ksh 9.8 billion for the period 2012/13 to 2014/15. In FY 2015/16, the total proposed allocation to the Fund is Kshs 6 billion taking the total allocation since the FY 2012/13 to Kshs 15.8 billion. However, these funds have not been utilized since inception due to lack of an operationalization framework for the fund. In that regard there is need to ascertain the total allocation to the fund since the promulgation of the Constitution and fast-track the implementation of the equalization fund to accelerate the provision of key public infrastructure and services in marginalized counties and areas.
- **Unclear outputs for Tourism Recovery Programme:** the tourism sector has seen poor performance in the last few years with a decline in tourist arrivals and low operations in hotels especially along the Kenyan coast. The sector has been adversely affected by the current insecurity situation causing a number of countries to issue travel advisories, and

poor infrastructure hindering ease of access to the tourism sites. The government has thus allocated Ksh 6 billion for tourism recovery programme under the State Department of Commerce and Tourism. The funds will be utilized by both the department and parastatals under the ministry. However, a critical analysis of this allocation in the estimates shows no specific output for the tourism recovery programme and how it will be implemented. The parastatals to benefit have also not been identified. With the factors affecting the tourism sector being partly an external issue to the ministry, the recovery programme should be inclusively address other critical sectors like infrastructure.

- **Delayed audit reports by Auditor General:** The Constitution requires the Auditor General to present the Audit Reports for the National and County Government Entities within six months from the end of a financial year. The audit reports for FY 2013/14, which were to be presented to Parliament in December 2014, are still pending. This being their main output, the Auditor General should explain to Parliament the reasons for the delay.
- **Limited funds for capital spending:** The National Government is currently undertaking 1,109 capital projects with a total cost of Ksh 4.2 trillion. By the end of FY 2014/15, the government is projected to spend about Ksh 1.6 trillion indicating that Ksh 2.6 trillion is required to finalize all these on-going projects. Most of these projects have a timeline of 2016-2018. A review of the budget estimates for 2015/16 and the medium term indicates that the government has allocated a total of Ksh 2.1 trillion for capital expenditure. This indicates that not all on-going capital projects will have been completed by end of 2017/18. The government should increase its allocations for capital projects to ensure completion of these on-going projects within the next three years. Further, the government should consider a freeze on introduction of any new capital projects until all on-going projects have been completed.

2. THE NATIONAL TREASURY

The following was discussed between the Committee and Officials from National Treasury lead by the Permanent Secretary:

- That the Estimates largely took into account the views of Parliament contained in the BPS 2015.
- That there is enhanced allocation to the security sector to curb the security challenges affecting the country and that the budgets for the other MDA's have been rationalized especially on travels and training expenses to reduce on the overall expenditures.
- That the main reason why the Kenya shilling is losing value is because the US economy has been robust and this has affected the currencies of other countries and not Kenya only.
- That the CBK is trying to tighten its monetary policy to mop up excess liquidity in the Economy in a move aimed at strengthening the Kenya Shilling;
- Regarding the projected economic growth which seems ambitious, the Committee was informed that the projections are based on the assumption that the capital expenditures especially in the infrastructure sector will drive the economic growth. Further, the Committee was informed that there is a dedicated unit under the Ministry of industrialization which specifically looks on how the ease of "doing business" in the country can be improved to attract investments in various sectors of the economy.
- On the persistent shortfall in attaining the projected revenues, the Committee was informed that the National Treasury is planning to engage with KRA to exactly find out why the revenues projected are not realized. However, it was mentioned that unforeseen administrative challenges always pose a problem to revenue collection.
- Regarding the concern that there is a lot of wastage of public resources, the Committee was informed that full implementation of the E-procurement is meant to assist in curbing this vice. The E-procurement will first be fully implemented by the National Government, then rolled out to county governments and eventually

the system will be adopted by state corporations. The Committee was also informed that the government has already identified the market prices of common items used by the government to minimize price variations on these items among MDA's.

- On whether the National Treasury maintains an inventory of all projects being undertaken by MDA's, the committee was informed that there is a system called E-promise which captures all donor funded projects only. Going forward and beginning of the next financial year Treasury plans to ensure that all projects being undertaken by the GOK are also captured in this system. The National Treasury plans to reject budget proposals from MDA's if the MDAs do not comply with ensuring that the projects they undertake are in the E-promise. The need for strengthening monitoring and evaluation was also stressed.
- Regarding the state corporation's budgets, the committee was informed that the National Treasury plans to move from the traditional practice where their budgets are given in block figure. SAGA's will be required to submit their itemized to allow scrutiny.
- Regarding the RDAs performing devolved functions, the committee was informed that the National Treasury has no objection to transferring them to county governments provided that a legal framework is developed to guide the process in order to avoid confusions. The Committee was of the opinion that the funds being held by the SAGAs performing devolved functions need to be transferred to county governments to compel the National Treasury to spearhead the process of coming up with a framework.
- Regarding the low absorption capacity of budgets by MDAs, the national treasury intends to have a meeting with Permanent Secretaries from various ministries to try address this problem.
- Regarding the reason why the proposed estimates as presented are higher than the estimates contained in the BPS, the committee was informed that deviation is a result of negotiations on foreign financing which had not yet been signed by the time the BPS was presented to Parliament. The negotiations have now been

concluded and signed and therefore the increase is as a result of foreign financing.

- On the reasons why linking of allocations to outputs under the PBB has not been well attained, the committee was informed that Treasury has not yet fully perfected the PBB considering that the PBB was introduced at once. The Committee was also informed that under the PBB the output and the outcomes are not likely to change and that what is majorly expected to change are the targets. The MDA's have not fully understood PBB and that the National Treasury will be sending technical Officers to the MDAs to try provide clarity on PBB. The Committee noted that Parliament is only interested with performance rather than incremental budgets and hence the need to implement the PBB across all the MDAs.
- As an AOB the Treasury and the Committee there was a need to having a consultative meeting regarding the PFM (county regulations) to try iron out outstanding issues and build consensus on the same.

6.0 COMMITTEE RECOMMENDATIONS

Arising from the Committee's interaction with the stakeholders and its own deliberations, the Committee recommends that this house resolve that:

- (a) A public and inclusive debt sustainability analysis be undertaken to examine the impact of foreign debt, especially its effect on domestic interest rate movements, exchange rate volatility and future financial sector stability.
- (b) That in order to avoid incomplete projects which would be detrimental to economic growth, on-going projects in line ministries be prioritized in all subsequent budgets for any ministry before any other discretionary expenditure is provided for.
- (c) That a framework of settling all outstanding pending bills and ensuring that no new ones accrue is developed by the National Treasury and submitted to Parliament for approval within the course of the 2015/16 financial year.

The Committee further recommends that;

- (a) The allocations in the Agriculture and Health Sectors for the National Government, which continue to reflect an increase in current allocations, should instead reflect a gradual decrease in allocations in favour of increased allocations to the counties through the shareable revenue to support devolved functions in the next financial year. Similarly an increase in National Government allocations for devolved function should also reflect a commensurate increase in county allocations.
- (b) Allocations to regional and water bodies performing devolved functions should be part of county shareable revenues in subsequent financial years, so as to avoid duplication of functions and empowering counties to perform devolved mandates effectively.
- (c) The allocations under the National Treasury to support and offer capacities to counties on public financial management and prudent use of resources are promptly implemented. These will among other things improve technical capacity, curb wastages and improve efficiency of resource use at the county levels. Projects such as connecting counties to the fibre infrastructure and electricity connections which have a combined allocation of ap-

proximately kshs 91 billion have the potential to transform counties including enhancing technology based fiscal management and attracting private sector investment and there is to fast-track the completion of these flagship projects.

(d) That the programme based budget (PBB) be strengthened and properly linked with the itemized budget since the current PBB as submitted is not comprehensive in terms of the outputs and targets in the medium term as well as providing clear key performance indicators. This may potentially led to inconsistencies of budget outcomes and erode budget credibility.

(e) The Committee recommends that the National Treasury gives to parliament a compelling reasons on the variations from the ceilings on Budget Policy Statement as approved by Parliament indicating further the reductions and increases and the impact of such actions

**MINUTES OF THE 117TH SITTING OF THE STANDING COMMITTEE ON FINANCE,
COMMERCE AND BUDGET HELD AT COUNTY HALL, GROUND FLOOR BOARD
ROOM ON THURSDAY, 28TH MAY, 2015 AT 10.00 AM**

PRESENT

- | | |
|--------------------------------|------------------|
| 1. Sen. (Prof.) Anyang Nyong'o | -Ag. Chairperson |
| 2. Sen. Mutula Kilonzo Jnr. | -Member |
| 3. Sen. Mutahi Kagwe | -Member |
| 4. Sen. Beatrice Elachi | -Member |
| 5. Sen. Paul Njoroge Ben | -Member |
| 6. Sen. (Dr.) Wilfred Machage | -Member |
| 7. Sen. Moses Wetangula | -Member |
| 8. Sen.(Dr.) Agnes Zani | - Member |

ABSENT WITH APOLOGY

- | | |
|----------------------------------|----------------|
| 1. Sen. Billow Kerrow | -Chairman |
| 2. Sen. Peter Ole Mositet | -Vice Chairman |
| 3. Sen. (Prof.) John Lonyangapuo | -Member |
| 4. Sen. Mungai James | -Member |
| 5. Sen. Zipporah Kittony | -Member |
| 6. Sen. G.G. Kariuki | -Member |
| 7. Sen. (Dr.) Boni Khalwale | -Member |
| 8. Sen. Catherine Mukiite | -Member |

IN ATTENDANCE

- | | |
|------------------------|---------------------------------|
| 1. Ms. Brenda Ogembo | -Committee Clerk |
| 2. Mr. Victor Bett | -Committee Clerk |
| 3. Dr. Johnson Okello | -Deputy Director, Legal Counsel |
| 4. Mr. Gorod Abdi | -Parliamentary Budget Office |
| 5. Mr. Mwaniki Gichohi | -Parliamentary Budget Office |

MIN. NO. 146/2015 PRELIMINARIES

The chairperson called the meeting to order at 10.25 a.m., followed by a word of prayer.

MIN. NO. 147/2015 ADOPTION OF THE AGENDA

Members adopted the agenda of the sitting after it was proposed by Sen. Mutahi Kagwe and seconded by Sen. Mutula Kilonzo Jnr.

**MIN. NO. 148/2015 CONSIDERATION OF THE COMMITTEE REPORT ON BUDGET
CIELINGS FOR THE FY 2015/2016**

The Committee debated and deliberated on the draft report for onward submission to the House for consideration in the sitting.

The Chairman of the committee requested the secretariat to lead the Committee through the entire report and a few amendments were suggested by the members.

The Committee was of the opinion to address the following concerns:

- That the Committee requires a bill on how water bodies should be managed given that water is a devolved function.
- The Committee proposed that a meeting be organized with the devolution Committee, possibly a retreat to address issues on devolved functions.
- That the Committee should spearhead legislation such that there is no duplication in money to hospitals and this kitty should be provided for under Conditional Allocation.
- The Committee was also concerned with the amount of Money that is held nationally on health compared to what is disbursed to Counties.
- That the budget office prepares a paper to operationalize and manage the health fund.
- That an analysis on the Impact of the Countries current exchange rate on the debt the country is owed given article 56 of the PFM Act.

The Committee Members made the following conclusions and recommendations:

Arising from the Committee's interaction with the stakeholders and its own deliberations, the Committee recommends that this house resolve that:

- (a) A public and inclusive debt sustainability analysis be undertaken to examine the impact of foreign debt, especially its effect on domestic interest rate movements, exchange rate volatility and future financial sector stability.
- (b) That in order to avoid incomplete projects which would be detrimental to economic growth, on-going projects in line ministries be prioritized in all subsequent budgets for any ministry before any other discretionary expenditure is provided for.
- (c) That a framework of settling all outstanding pending bills and ensuring that no new ones accrue is developed by the National Treasury and submitted to Parliament for approval within the course of the 2015/16 financial year.

The Committee further recommends that;

- (a) The allocations in the Agriculture and Health Sectors in the national government which reflect an increase should reflect a gradual reduction in favour of more allocations towards counties through the shareable revenue to support devolved functions in the next financial year.
- (b) Allocations to regional and water bodies performing devolved functions be considered to be part of the share of revenues in subsequent financial years that is due to the counties to avoid duplication and empowering counties to perform devolved mandates effectively.
- (c) The allocations under the National Treasury to support and offer capacities to counties on public financial management and prudent use of resources are promptly implemented. These will among other things improve technical capacity, curb wastages and improve efficiency of resource use at the county levels. Projects such as connecting counties to the fibre infrastructure and electricity connections which have a combined allocation of approximately kshs 91 billion have the potential to transform counties including enhancing technology based fiscal management and attracting private sector investment and there is to fast-track the completion of these flagship projects.
- (d) that the programme based budget (PBB) be strengthened and properly linked with the itemized budget since the current PBB as submitted is not comprehensive in terms of the outputs and targets in the medium term as well as providing clear key performance indicators. This may potentially led to inconsistencies of budget outcomes and erode budget credibility.

The Committee members collectively agreed and adopted the report.

MIN. NO. 149/2015

ADJOURNMENT

There being no other business, the meeting was adjourned at 11.55 pm

SIGNED

(CHAIRPERSON)

DATE

**MINUTES OF THE 116TH SITTING OF THE STANDING COMMITTEE ON FINANCE,
COMMERCE AND BUDGET HELD AT COUNTY HALL, GROUND FLOOR
BOARDROOM ON WEDNESDAY, 27TH MAY, 2015 AT 10.00 AM**

PRESENT

- | | |
|--------------------------------|-----------------------|
| 1. Sen. Billow Kerrow | -Chairman |
| 2. Sen. Peter Ole Mositet | -Vice Chairman |
| 3. Sen. Mutahi Kagwe | -Member |
| 4. Sen.(Dr.) Agnes Zani | - Member |
| 5. Sen. (Dr.) Wilfred Machage | -Member |
| 6. Sen. (Prof.) Anyang Nyong'o | -Member |
| 7. Sen. (Dr.) Boni Khalwale | -Member |
| 8. Sen. Mutula Kilonzo Jnr. | -Member |
| 9. Sen. Paul Njoroge Ben | -Member |
| 10. Sen. Moses Wetangula | -Member |
| 11. Sen. Zipporah Kittony | -Member |
| 12. Sen. Beatrice Elachi | -Member |

ABSENT WITH APOLOGY

- | | |
|----------------------------------|---------|
| 1. Sen. Mungai James | -Member |
| 2. Sen. (Prof.) John Lonyangapuo | -Member |
| 3. Sen. Catherine Mukiite | -Member |
| 4. Sen. G.G. Kariuki | -Member |

IN ATTENDANCE

- | |
|----------------------|
| 1. Dr. Kamau Thugge |
| 2. Dr. G. Mwau |
| 3. Mr. F. Anyona |
| 4. Mr. F. Kivisi |
| 5. Mr. K. Ondieki |
| 6. Mr. Albert Mwenda |
| 7. Mr. G. Malombe |

NATIONAL TREASURY

- | |
|--------------------------------------|
| -PS National Treasury |
| -Director General BFEA |
| -Director Budget |
| -Ag. Director Debt |
| -Director, Investment |
| -Advisor IGFR |
| -Senior Assistant Accountant General |

SENATE SECRETARIAT

- | | |
|-----------------------|---------------------------------|
| 1. Ms. Brenda Ogembo | -Committee Clerk |
| 2. Mr. Victor Bett | -Committee Clerk |
| 3. Dr. Johnson Okello | -Deputy Director, Legal Counsel |
| 4. Mr. Gorod Abdi | -Parliamentary Budget Office |
| 5. Mr. Simeon Muinde | -Audio Recording |

MIN. NO. 143/2015 PRELIMINARIES

The chairperson called the meeting to order at 9.25 a.m., followed by a word of prayer.

MIN. NO. 144/2015 ADOPTION OF THE AGENDA

Members adopted the agenda of the sitting after it was proposed by Sen. Mutahi Kagwe and seconded by Sen. Paul Njoroge Ben.

The Chairperson then proceeded and invited the National Treasury to give their presentation.

MIN. NO. 145/2015 KEY HIGHLIGHTS OF THE 2015/16 ESTIMATES OF EXPENDITURE AND REVENUE

Presentation by Dr. Kamau Thugge – PS, National Treasury;

The following was discussed between the Committee and Officials from National Treasury lead by the Permanent Secretary:

- i. That the Estimates largely took into account the views of Parliament contained in the Budget Policy Statement 2015.
- ii. That there is enhanced allocation to the security sector to curb the security challenges affecting the country and that the budgets for the other Ministries, Departments and Agencies (MDA's) have been rationalized especially on travels and training expenses to reduce on the overall expenditures.
- iii. That the main reason why the Kenya shilling is losing value is because the US economy has been robust and this has affected the currencies of other countries and not Kenya only.

- iv. That the Central Bank of Kenya is trying to tighten its monetary policy to mop up excess liquidity in the Economy in a move aimed at strengthening the Kenya Shilling;
- v. Regarding the projected economic growth which seems ambitious, the Committee was informed that the projections are based on the assumption that the capital expenditures especially in the infrastructure sector will drive the economic growth. Further, the Committee was informed that there is a dedicated unit under the Ministry of industrialization which specifically looks on how the ease of “doing business” in the country can be improved to attract investments in various sectors of the economy.
- vi. On the persistent shortfall in attaining the projected revenues, the Committee was informed that the National Treasury is planning to engage with Kenya Revenue Authority to exactly find out why the revenues projected are not realized. However, it was mentioned that unforeseen administrative challenges always pose a problem to revenue collection.
- vii. Regarding the concern that there is a lot of wastage of public resources, the Committee was informed that full implementation of the E-procurement is meant to assist in curbing this vice. The E-procurement will first be fully implemented by the National Government, then it will be rolled out to county governments and eventually the system will be adopted by state corporations. The Committee was also informed that the government has already identified the market prices of common items used by the government to minimize price variations on these items among MDA’s.
- viii. On whether the National Treasury maintains an inventory of all projects being undertaken by MDA’s, the committee was informed that there is a system called E-promise which captures all donor funded projects only. Going forward and beginning of the next financial year Treasury plans to ensure that all projects being undertaken by the National government are also captured in this system. The National Treasury plans to reject budget proposals from

MDA's if the MDAs do not comply with ensuring that the projects they undertake are in the E-promise. The need for strengthening monitoring and evaluation was also stressed.

- ix. Regarding the state corporation's budgets, the committee was informed that the National Treasury plans to move from the traditional practice where their budgets are given in block figure. State Corporations will be required to submit their itemized to allow scrutiny.
- x. Regarding the Regional Development Authorities performing devolved functions, the committee was informed that the National Treasury has no objection to transferring them to county governments provided that a legal framework is developed to guide the process in order to avoid confusions. The Committee was of the opinion that the funds being held by the State Corporations performing devolved functions need to be transferred to county governments to compel the National Treasury to spearhead the process of coming up with a framework.
- xi. Regarding the low absorption capacity of budgets by MDAs, the national treasury intends to have a meeting with Permanent Secretaries from various ministries to try address this problem.
- xii. Regarding the reason why the proposed estimates as presented are higher than the estimates contained in the BPS, the committee was informed that deviation is a result of negotiations on foreign financing which had not yet been signed by the time the BPS was presented to Parliament. The negotiations have now been concluded and signed and therefore the increase is as a result of foreign financing.
- xiii. On the reasons why linking of allocations to outputs under the PBB has not been well attained, the committee was informed that Treasury has not yet fully perfected the PBB considering that the PBB was introduced at once. The Committee was also informed that under the PBB the output and the outcomes are not likely to change and that what is majorly expected to change are the targets. The MDA's have not fully understood PBB and that the

National Treasury will be sending technical Officers to the MDAs to try provide clarity on PBB. The Committee noted that Parliament is only interested with performance rather than incremental budgets and hence the need to implement the PBB across all the MDAs.

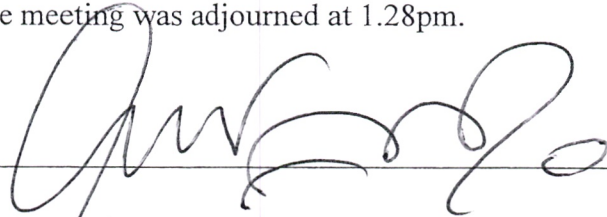
- xiv. As an AOB the Treasury and the Committee there was a need to having a consultative meeting regarding the PFM (county regulations) to try iron out outstanding issues and build consensus on the same.

MIN. NO. 146/2015

ADJOURNMENT

There being no other business, the meeting was adjourned at 1.28pm.

SIGNED



(CHAIRPERSON)

DATE

28/5/2015.

**MINUTES OF THE 115TH SITTING OF THE STANDING COMMITTEE ON FINANCE,
COMMERCE AND BUDGET HELD AT COUNTY HALL, GROUND FLOOR
BOARDROOM ON WEDNESDAY, 20TH MAY, 2015 AT 10.00 AM**

PRESENT

- | | |
|--------------------------------|-----------------------|
| 1. Sen. Billow Kerrow | -Chairman |
| 2. Sen. Peter Ole Mositet | -Vice Chairman |
| 3. Sen. Mutahi Kagwe | -Member |
| 4. Sen.(Dr.) Agnes Zani | - Member |
| 5. Sen. G.G. Kariuki | -Member |
| 6. Sen. Zipporah Kittony | -Member |
| 7. Sen. (Dr.) Wilfred Machage | -Member |
| 8. Sen. Catherine Mukiite | -Member |
| 9. Sen. (Prof.) Anyang Nyong'o | -Member |

ABSENT WITH APOLOGY

- | | |
|----------------------------------|---------|
| 1. Sen. Mungai James | -Member |
| 2. Sen. Beatrice Elachi | -Member |
| 3. Sen. Moses Wetangula | -Member |
| 4. Sen. (Prof.) John Lonyangapuo | -Member |
| 5. Sen. (Dr.) Boni Khalwale | -Member |
| 6. Sen. Mutula Kilonzo Jnr. | -Member |
| 7. Sen. Paul Njoroge Ben | -Member |

IN ATTENDANCE

- | |
|--------------------------|
| 1. Ms. Phyllis Makau |
| 2. Mr. Victor Bett |
| 3. Mr. Mwaniki Gichohi |
| 4. Ms. Josphine Kusyinyi |
| 5. Mr. Chelang'a Maiyo |

SENATE SECRETARIAT

- | |
|--|
| -Director, Parliamentary Budget Office |
| -Committee Clerk |
| -Parliamentary Budget Office |
| -Legal Counsel Senate |
| -Researcher |

MIN. NO. 143/2015 PRELIMINARIES

The chairperson called the meeting to order at 9.25 a.m., followed by a word of prayer.

MIN. NO. 144/2015 ADOPTION OF THE AGENDA

Members adopted the agenda of the sitting after it was proposed by Sen. Mutahi Kagwe and seconded by Sen. Catherine Mukiite.

The Chairperson then proceeded and invited the Parliamentary Budget Office to give their presentation.

MIN. NO. 145/2015 KEY HIGHLIGHTS OF THE 2015/16 ESTIMATES OF EXPENDITURE AND REVENUE

Presentation by Phyllis Makau – Director, Parliamentary Budget Office;

The theme for 2015/16 budget was to ‘*enhance economic transformation for a shared prosperity*’; therefore;

- Budget an instrument for economic growth and development
- Government aims at supporting rapid and inclusive economic growth; ensure gradual decline of public debt; rationalize expenditures and reorient to capital investments.

With respect to Legal provisions;

- **Comprehensiveness:**
 - There is no comprehensive list of all projects being funded which compromises accountability.
 - Details on Budgetary allocations to state corporations are not provided thereby limiting oversight (state corporation budgets account for 32% of total MDA expenditure)
 - The estimates do not have an update of actual targets/results achieved with the last resources
 - There is no summary of external financing with the programs /projects being funded.
- **Public consultation:** There is lack of evidence on whether the public was involved in preparation of the estimates by the National Government, Parliament and the Judiciary.
- **Disconnect in BPS and Budget:** New programs have been introduced in the estimates after the BPS has been passed. This clearly shows a disconnect in the planning stage of budgeting.

Challenges to Macro outlook would comprise of the following;

- (a) **Inadequate rainfall which is likely to lead to food shortage; rising inflation – country still reliant on rain-fed agriculture,**
- (b) **Insecurity and its effects on tourism; investor confidence**
- (c) **weak outlook of global economy which dampens Kenya's trade outlook –** In Europe debt and unemployment levels high. In Sub-Saharan Africa, economic growth is expected to slow down to 4.5 percent in 2015 from 5.0 percent in 2014 due to subdued growth in the oil exporting countries due to declining oil prices; impact of the Ebola outbreak and particularly sluggish growth in South Africa.
- (d) **Likelihood of revenue underperformance** with projections based on high GDP growth projection of 7.0 percent. *No significant policy adjustments to warrant growth leap of almost two percentage points from 5.3 percent in 2014 to 7.0 percent in 2015. Thus economy likely to grow by 5.6 percent in 2015 rising to 6.0 percent in the medium term.*
- (e) **Deficit a moving target:** The strategy of government is to reduce public debt over the medium term. However, a review of past budgets it is clear that the target has been a moving target i.e. reducing the deficit over the medium term and when the medium term comes the deficit goes up and the medium term target moves.
- (f) **Financing gap:** The framework may not be fully financed due to likelihood of underperformance of revenue due to lower than expected GDP growth rate
- (g) **Noted increase in domestic borrowing:** In the BPS domestic borrowing for financial year 2015/16 was projected at Kshs.208.3 billion, but has increased to Kshs.219.2 billion. This negates the government policy of facilitating private sector growth as this trend will crowd out the private sector.

Critique of fiscal framework

- (a) Expenditures growing faster than revenues. From 2012/13 to 2015/16, total expenditures (%GDP), have risen from 24.6% to 30.6% compared to revenues which have increased from 18.8% 2012/13 to 20.8%.
- (b) Revenue likely to underperform as its estimation is based on overly optimistic GDP thereby increasing borrowing.
- (c) Primary balance is widening; projected at more than 5 percent in FY 2015/16 and is likely to increase even further even though the fiscal framework indicates a reduction in the medium term.

- (d) Using debt stabilizing primary balance analysis, for debt to reduce over the medium term as envisioned in the budget, the primary balance needs to be maintained at 3 per cent or less.

Sectoral allocations;

- Rise in the allocations to ‘energy, infrastructure and ICT’ sector while most other sectors have seen their budgets maintained.
- Apart from infrastructure development, increase in nominal expenditures for 2015/16 follow traditional expenditure patterns with little connections to the challenges the government proposes to address when setting its policy framework.
- Medium term targets deviate extensively from the policy targets of the government.

Deviation from BPS resolutions

- Total expenditures have increased by Ksh 118.2 billion; recurrent expenditures have increased by Ksh 23 billion while development by Ksh 96 billion.
- Ordinary revenues and ministerial AiA have increased by Ksh 5 billion each.
- Proceeds from grants have increased by Ksh 20 billion. These increments will be used to fund part of the additional expenditures.
- The deficit has also been widened by Ksh 87.8 billion to be funded from foreign and domestic borrowing. The government intends to increase foreign borrowing by Ksh 71.2 billion while domestic borrowing will increase by Ksh 16.6 billion.

Recurrent expenditure changes not explained by Treasury

	House Resolution on BPS	Budget Estimates	Deviation	% Change	Remarks
Ministry of Defence	93,930	92,329	(1,601)	-2%	Reduction not explained
State Department for Infrastructure	26,312	29,953	3,641	12%	Treasury explained an increment of only Ksh 278 M to cater for new rates for allowances
State Dept for Environment and Natural Resources	9,809	13,783	3,974	29%	Treasury explained an increment of only Ksh 597 M to cater for new rates for allowances
Ministry of Lands, Housing & Urban Development	5,459	3,940	(1,519)	-39%	Treasury explained a reduction of only Ksh 411 M for transfer of Civil Servants Housing Scheme to Capital vote of ministry
Ministry of Labor, Social Security and Services	7,995	9,315	1,320	14%	Treasury explained an increment of only Ksh 711 M to cater for new rates for allowances
State Department for Agriculture	6,845	8,314	1,469	18%	Treasury explained an increment of only Ksh 394 M to cater for new rates for allowances
Salaries and Remuneration Commission	219	923	703	76%	Treasury explained an increment of only Ksh 447 M to cater for Job Evaluation

Tentative list of functions yet to be devolved

Function	Ministry	Comment
Library Services	Ministry of Sports, Culture and Arts	will take time for services to be fully devolved as some of remnants of ongoing projects under national government— need to establish status
Commerce Services <ul style="list-style-type: none"> • Weights & measures • Retail markets 	State Department of Commerce and Tourism	will take time for services to be fully devolved as some of remnants of ongoing projects — need to establish status
Agricultural Services	State Department of Agriculture	Existing donor agreements have maintained some functions at national level
Health Services	Ministry of Health	Some programmes partly donor funded therefore further analysis and framework required
Water and Regional Authorities	State Department of Water and Regional Authorities	Some programmes partly donor funded framework required on how funds can be shifted between both levels of government RDAs remain at National level yet most of their functions are devolved. Requires policy and legislative framework

Emerging Concerns:

- **Unclear status of 2014/2015 targets:** proposed budget has not comprehensively presented the actual performance of 2013/14 and the status of 2014/15 budget implementation. Thereby limiting oversight
- **Poor linkage of allocations to outputs:** A comparison of the 2014/15 and 2015/16 budgets indicates enhanced allocations to some ministerial programmes but review of the programme based budgets shows no evident change in the outputs and targets. This raises concerns as to whether the funds voted in each programme are based on the programme's outputs and targets presented in the estimates.
- **Pending bills:** funding is requested for a high number of pending bills through supplementary budgets showing this is prioritized on the commencement of the fiscal year. All spending entities should indicate to their procedure for settling their pending bills in the current estimates so that this cannot be carried to the supplementary budgets.
- **Operationalization of the Equalization Fund:** The equalization fund has been allocated a total of Ksh 12.3 billion for the past four years (2011/12 – 2014/15). In 2015/16, it is to be allocated Ksh 6 billion taking the total allocation to Ksh 18.3 billion. However, these funds have not been utilized since inception due to lack of an operationalization framework for the fund. The National Assembly should fast-track the implementation of the equalization fund.
- **Civil Contingency Reserves:** The National Treasury has allocated Ksh 5 billion for civil contingency reserves and State Department for Devolution has allocated an additional Ksh 1 billion for civil contingencies under its budget. Allocation of funds for a similar function in two separate spending agencies raises the concern of duplication of functions.
- **Allocation of funds for temporary employees:** the National Treasury has allocated Ksh 5 billion for temporary employees. However, no information has been provided on these temporary employees and this allocation cannot be linked to any outputs.
- **Limited funds for capital spending**
- The total number of capital projects for National Government is 1,109 spread across several sectors. The economic sector has the highest number of projects of about 450. The total cost of all on-going capital projects is **Ksh 4.2 trillion**. The expected actual expenditure on these projects by June 2015 is estimated at Ksh 1.6 trillion indicating a balance of Ksh 2.6 trillion for their completion.
- The projected expenditure for capital projects in 2015/16 is Ksh 721 billion leaving a balance of Ksh 1.9 trillion to complete the ongoing projects. This means at a rate of Ksh 721 billion spent annually on capital projects, it will require the National Government three more years to complete all on-going projects.

The Committee resolved that;

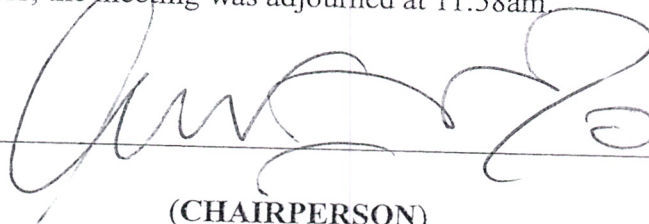
- Invitation made to the National Treasury to come and highlight the areas unexplained mentioned above.
- Invitation made to the Privatization Commission since both Agriculture and Land are devolved functions and therefore Senate should be involved in their decisions.
- The Committee should meet with the taskforce that deals with State Cooperation's and regional development authorities.
- Amendment should be made to the PFM Act such that a copy of the Budget Estimates should always be sent to the Senate.

MIN. NO. 146/2015

ADJOURNMENT

There being no other business, the meeting was adjourned at 11.58am.

SIGNED



(CHAIRPERSON)

DATE

28/5/2015