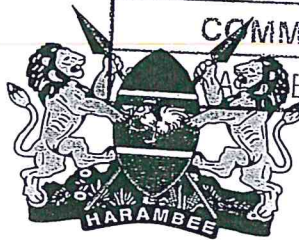


REPUBLIC OF KENYA BY
COMMITTEE
TABLE



PARLIAMENT

THE SENATE

TWELFTH PARLIAMENT – FOURTH SESSION

DATE 27/02/20

Chair, Finance Committee
and Budget Committee
George Otieno

Approved

27/2/2020

Hon Speaker
recommended for
approval.

27/02/20

REPORT OF THE STANDING COMMITTEE ON FINANCE AND BUDGET

ON

THE 2020 BUDGET POLICY STATEMENT AND MEDIUM TERM DEBT
MANAGEMENT STRATEGY

CLERK CHAMBERS
THE SENATE
PARLIAMENT OF KENYA
NAIROBI

FEBRUARY 2020

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PREFACE

The Committee on Finance and Budget was constituted by the House on Thursday, 14th December, 2017 during the First Session of the Twelfth (12th) Parliament. The Committee as currently constituted, comprises the following members:

- | | |
|--|--------------------|
| 1. Sen. (Eng) Mohamed M. Mahamud, CBS, MP | - Chairperson |
| 2. Sen. (Dr) Isaac Mwaura, CBS, MP | - Vice Chairperson |
| 3. Sen. Wetang'ula Moses Masika, EGH, MP | - Member |
| 4. Sen. Mutula Kilonzo Junior, MP | - Member |
| 5. Sen. Aaron Cheruiyot, MP | - Member |
| 6. Sen. (Dr.) Ali Abdullahi Ibrahim, CBS, MP | - Member |
| 7. Sen. (Dr) Rose Nyamunga, MP | - Member |
| 8. Sen. CPA Farhiya Haji, MP | - Member |
| 9. Sen. Boniface Mutinda Kabaka, MP | - Member |

The Standing Committee on Finance and Budget is established pursuant Section 8 of the Public Finance Management Act, 2012 and standing order 218(3) of the Senate Standing Orders and is mandated to -

- a) Investigate, inquire into and report on all matters relating to coordination, control and monitoring of the county budgets and to examine -
 - i) *the Budget Policy Statement presented to the Senate;*
 - ii) *report on the Budget allocated to Constitutional Commissions and independent offices;*
 - iii) *the Division of Revenue Bill, County Allocation of Revenue Bill, and cash disbursement schedule for county governments;*
 - iv) *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 and monetary policies and public debt, planning and development policy.*
- b) *Pursuant to Article 228 (6) of the Constitution, to examine the report of the Controller of Budget on the implementation of the budgets of county governments*

Executive Summary

The 2020 Budget Policy Statement and Medium term Debt Management Strategy was tabled in this House on 13th February, 2019. Pursuant to standing Order 180(4), of the Senate Standing Orders the Budget Policy Statement (BPS) was committed to Standing Committee on Finance and Budget to deliberate upon and make recommendations. The Finance and Budget Committee hereby tables the report containing its recommendations on the BPS to the House for consideration and approval.

Pursuant to standing order 180(5) of the Standing Orders, the Committee invited the Cabinet Secretary, National Treasury and Planning, Commission on Revenue Allocation (CRA), the Council of Governors. Further, the Committee invited Senate Standing Committees, which oversight different state departments, to consider respective sector provisions in the BPS and forward the observations and recommendations. Other interested parties like the Institute of Certified Public Accountants of Kenya (ICPAK) and IBP submitted their memorandum.

The Committee in making the recommendations, considered the views of all the stakeholders. The Committees made significant observations on the BPS policy proposals for the 2020/21 and the medium term debt strategy, identifying broad policy issues with great impact on counties and proposals on revenue allocation.

It is significant to mention that the purpose of the approval of this report on the BPS is to communicate the Senate's position on the preparation of all subsequent budget documents for next financial year. These documents include Division of Revenue Bill, 2020 and County Allocation of Revenue Bill, 2020. It is also important to note that 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. Thus, by extension, this House's resolutions on this report will form the basis of evaluating the 2020/21 estimates for the various spending agencies at both national and devolved level.

Examination of the 2020 Budget Policy Statement and Medium Term Debt Management Strategy

Pursuant to Public Finance Management (PFM) Act, 2012 Section 25 (2), the National Treasury submitted the 2019 BPS. Further, pursuant to PFM Act section 25 (7), and standing orders 180 of the Senate Standing Orders, the BPS was committed to the Standing Committee on Finance and Budget for consideration and recommendation. In considering the 2020 BPS, the Committee held six sittings.

The perspective of the Senate Committees and the role of Senate in protecting the interest of counties, the broad issues in the 2020 BPS can be categorized as follows:

- (i) National policies and programmes that have a direct impact on economic performance of counties; and
- (ii) Proposals on division of revenue between the two levels of government and among counties for the 2020/21 financial year.

The 2020 BPS mainly focuses on the “Big Four” which focused on “job creation and economic prosperity.” Below are the highlights on the 2020 BPS.

Revenue Performance & Outlook

The government projects the total revenue collection for the FY 2020/21 including appropriation-in-aid (A.I.A) to be Ksh. 2,134.1 billion (18.3 percent of GDP) as compared to Ksh. 2,084.2 billion (20.1 percent of GDP) in 2019/2020. Ordinary revenue in the next financial year is projected at Ksh.1, 856.7 billion (16 percent of GDP).

The growth in revenue projections will be occasioned by an increase in revenue collection from income tax head as well as VAT head. Generally, it is projected that overall revenue in the FY 2020/21 is expected to grow by 2 percent as compared to FY 2019/20 with ordinary revenue expected to grow by 1 percent while A.I.A is expected to increase by 18 percent to Ksh. 249.6 billion. It's worth noting that there is volatility in A.I.A, therefore the projection may not be achieved over the medium term.

The National Treasury projects the total shareable revenue for the FY 2020/21 to be Kshs. 1,856.70 billion which is an increase by Kshs. 89.8 billion from the FY 2019/20 total shareable revenue of Kshs. 1,766.90 billion. The National Treasury proposes that the additional revenue be directed towards Consolidated Fund Services (CFS), specifically on non-discretionary expenditures (pension and debt repayment -principal & interest) which take first charge in the public budget.

Economic Growth

Kenya experienced slow economic growth in 2019. The economy grew by 5.6% which was below the government's target of 6.2%. Further, the 5.4% expansion over the first three quarters of 2019 was one percentage point lower than the 6.4% economic growth recorded over a similar period in 2018. The dampening of economic growth in 2019 was due to poor performance of the agricultural sector. This was occasioned by the contraction in production and sales of most of the major cash crops. Secondly, decline in export prices of the major agricultural exports over the first three quarters of 2019 also contributed to the slow growth.

Inflation Rate

There was an uptick in food inflation in the last quarter of 2019, with the price of some foodstuff such as maize and beans increasing. However, the impact of increasing food prices was dampened by the relatively low fuel inflation. Consequently, the overall inflation rate in December 2019 was 5.8% which was similar to the inflation rate in December 2018. The inflation rate rose to 5.8% in January 2020 up from 4.7% in January 2019 due to the upward trend in both food and fuel inflation over the last quarter of 2019. Going forward, the impact of the desert locusts on agriculture and food production as well as the possible rise in fuel prices due to the tensions between the United States of America and Iran may result in higher inflation rates.

Interest Rates and Credit

Interest rates remained stable over the period January 2018 to September 2019 with the weighted average lending rate by commercial banks decreasing to 12.5% over the first three quarters of 2019. Between November 2018 and November 2019, net credit to the private sector expanded by 7%. In 2019, robust credit growth was channelled towards consumer

durables, finance, and insurance sectors as well as the manufacturing sector while credit to the agriculture and mining sectors contracted. Credit to the private sector is expected to expand in 2020 due to the repeal of the interest rate cap.

Exchange Rate and External Sector

Kenya's exports have experienced steady decline over the past decade. As a share of GDP, exports have declined from 14% in 2011 to 7% in 2018. This was driven by relatively slower growth in the value of all the principal domestic exports. Remittances have replaced underperforming principal domestic exports such as tea, and international tourism as main source of foreign exchange. In addition to being a major foreign exchange earner, remittances have had a greater impact on expenditures through their contribution to poverty alleviation, increased savings and human capital development. Growth in remittances as a share of GDP has contributed to the maintenance of the current account deficit at about 5% of GDP over the past year. In addition, remittances also contributed to maintenance of foreign reserves at above 5 months of import cover throughout 2019. Going forward, reliance on remittances poses a risk because of the erratic nature of their annual growth. It is clear that any negative shock to remittances could adversely affect Kenya's foreign reserves in the medium-term.

County Revenues

The National Treasury proposes that out of the total projected shareable revenue of Kshs. 1,856.70 billion, Kshs. 1,533.67 Billion will be allocated as the equitable share to National Government while an allocation of Ksh. 369.87 Billion to the County Governments for FY 2020/21. The county government allocation comprises Ksh. 316.5 Billion as county equitable share and Ksh. 13.73 billion as GOK conditional grants, Kshs. 9.43 billion from the Road Maintenance Levy and Kshs. 30.20 billion from loans and grants. It is important to note that National Treasury propose no growth on county equitable share.

County Own-Source Revenue (OSR)

Counties to unlock their revenue potential, they should review their OSR streams in order to increase their tax base by venturing other untapped revenue sources that can supplement their revenue collection potentials. They require to increase revenue collection to finance any planned growth in their expenditures from own-source revenue (OSR).

There is need for efficient revenue collection systems to ensure there is no revenue leakage.

According to the Controller of Budget (CoB), the Counties raised Ksh 40.3 billion in FY 2018/19 from OSR, equivalent to 75% of targeted collections, and a 24% improvement from recorded collections in FY 2017/18. Assuming that Counties maintain this growth trajectory in OSR collections in FY 2019/20 and FY 2020/21, there should be sufficient additional resources to finance an expansion in service delivery.

The Committee recommends that the Senate approves 2020 Budget Policy Statement (BPS) and Medium Term Debt Management Strategy (MTDMS) with recommendations. The recommendations include -

- a) Allocation of **Ksh. 316.5 Billion** County governments' equitable share for Financial Year 2020/21.
- b) Allocation of **Ksh. 47.158 Billion** Conditional Grants to county governments.
- c) Suspension of allocation and payment to the Leasing of Medical Equipment Project and removal of the same from the Division of Revenue Bill until ongoing investigations are concluded.

Acknowledgement

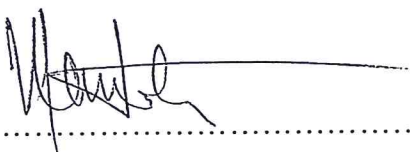
The Committee is also particularly grateful to the Offices of the Speaker and the Clerk of Senate for the support received as it discharged its mandate of examining the 2020 BPS and MTDMS as well as to the Senators who participated in the process.

The Committee is grateful to all the stakeholders who made contributions including the Senate Standing Committees, the National Treasury and Planning, the Commission on Revenue Allocation (CRA), Council of Governors, IBP, NCCI and ICPAK. The Committee acknowledges the submission from IBP which was a memorandum on behalf of 28 Civil Society Organisations.

Mr. Speaker Sir,

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

Signed



SEN. (ENG) MOHAMED MAALIM MOHAMUD, MP
CHAIRMAN, FINANCE AND BUDGET COMMITTEE

DATE: 27TH FEBRUARY, 2020

Adoption of the Report

Adoption of the Report

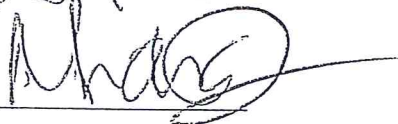
Pursuant to standing order 213 (2) of the Senate Standing Orders, the Senate Standing Committee on Finance and Budget Committee adopted the report on 2020 Budget Policy Statement (BPS) and Medium term Debt Management Strategy (MTDMS). The Members of the Committee hereby affix their signatures to this Report to affirm support for the Report –

Sen. (Eng) Mohamed M. Mahamud, CBS, MP -Chairperson



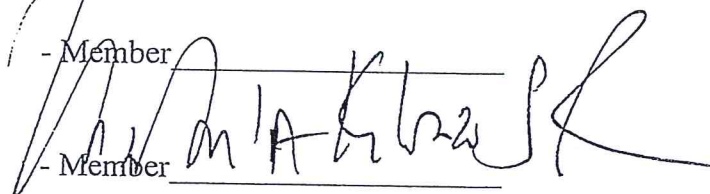
Sen. (Dr) Isaac Mwaura, CBS, MP

-Vice Chairperson



Sen. Wetang'ula Moses Masika, EGH, MP

- Member



Sen. Mutula Kilonzo Junior, MP

- Member

Sen. Aaron Cheruiyot, MP

- Member

Sen. (Dr.) Ali Abdullahi Ibrahim, CBS, MP

- Member

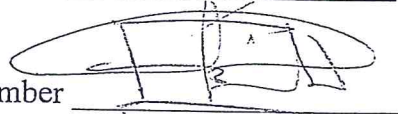
Sen. (Dr) Rose Nyamunga, MP

- Member



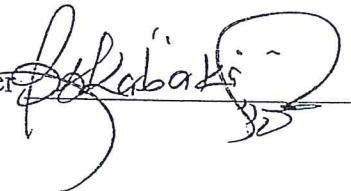
Sen. CPA Farhiya Haji, MP

- Member



Sen. Boniface Mutinda Kabaka, MP

- Member



I. REVIEW OF THE 2020 BUDGET POLICY STATEMENT AND MEDIUM TERM DEBT MANAGEMENT STRATEGY

1.0 Introduction

- 1) The Budget Policy Statement (BPS) is a policy document that sets out the broad strategic priorities and policy goals that will guide the national and county governments in preparing their budgets for the financial year and over the medium term. The BPS gives details on the resource envelop by setting out the revenue amounts to be raised by the National Government over the medium term; these are invariably the resources that are actually allocated to each level of government.
- 2) The strategic direction of the BPS is informed by the policies outlined in the various government policy documents such as Vision 2030, Ministerial and Sectoral Development Plans among others and is geared towards achieving overall economic growth and development. In addition, the vertical allocation during the approval of the BPS gives indicative allocations that guide the approval of the County Fiscal Strategy Paper (CFSP) by the County Assemblies.

2.0 Legal Basis for Processing the Budget Policy Statement

- 3) The Budget Policy Statement is prepared and published in accordance with Section 25 of the Public Finance Management Act, 2012.
- 4) Further, section 25(7) states that Parliament shall not later than fourteen days after the BPS is submitted to Parliament, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The Cabinet Secretary for the National Treasury shall take into account resolutions passed by Parliament in finalizing the budget for the relevant financial year as per Section 25(8) of the Act. The submission and processing of the BPS by the standing committee on Finance and Budget is further anchored in Standing Order 180.
- 5) The Budget Policy Statement (BPS) is the most critical document in the budget process because it is the basis upon which the draft Division of Revenue Bill, County Allocation Revenue Bill and the budget estimates for the subsequent year and over the medium term is prepared.

- 6) Pursuant to Section 25 of the Public Finance Management (PFM) Act, 2012 and standing orders 180 of the Senate Standing Orders, the following four documents were laid in the Senate on 13th February 2020 and committed to the Standing Committee on Finance and Budget for consideration and recommendation
- a) The 2020 Budget Policy Statement,
 - b) The medium term Debt Management Strategy
 - c) Draft Division of Revenue Bill, 2020
 - d) Draft County Allocation Revenue Bill, 2020

3.0 Analysis of the BPS 2020

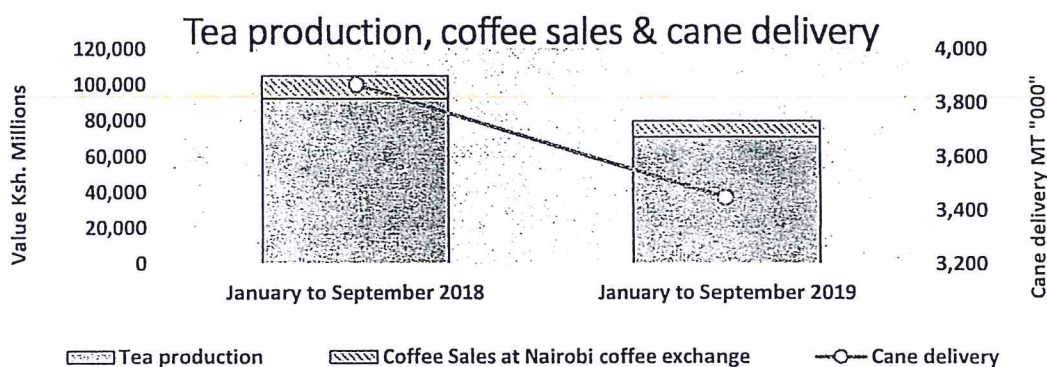
3.1 Highlights of the BPS 2020

3.1.1 Recent economic developments

a) Economic Growth

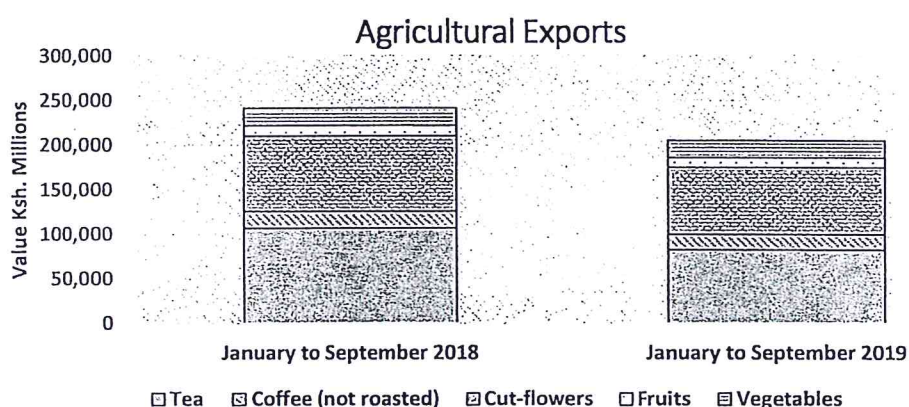
- 7) Kenya experienced slow economic growth in 2019. The economy grew by 5.6% which was below the government's target of 6.2%. **The main contributor to the dampened economic growth in 2019 was the poor performance of the agricultural sector.** This was occasioned by the contraction in production and sales of most of the major cash crops. Over the first three quarters of 2019, the quantity of tea production, coffee sales at the Nairobi Coffee Exchange and cane delivery fell by 9%, 4%, and 11% respectively. Figure 1 shows production and sales of tea, coffee and cane comparison between the first three quarters of 2018 and 2019.

Figure 1: comparison between the first three quarters of 2018 and 2019



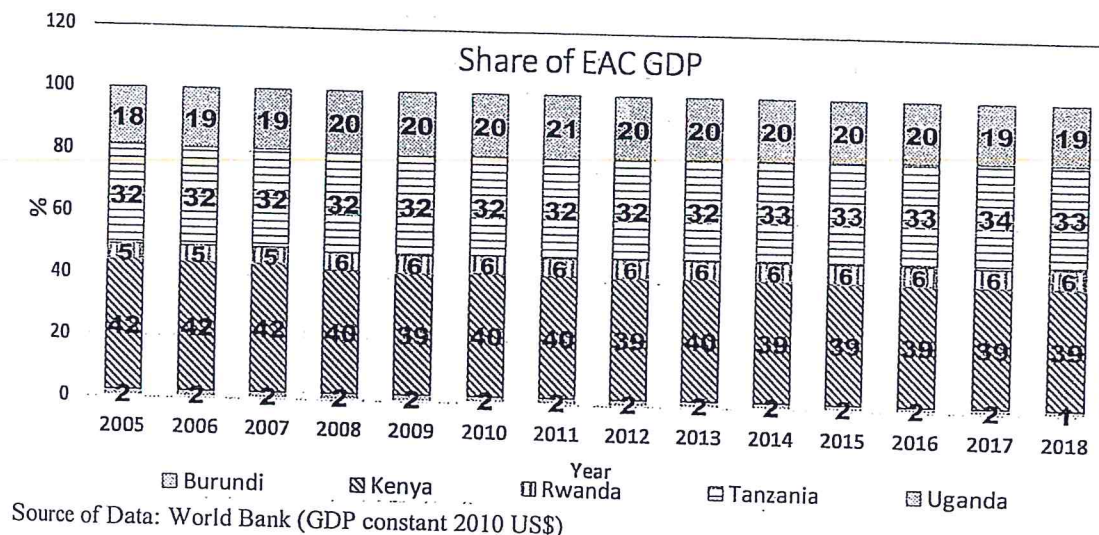
Source of Data: Kenya National Bureau of Statistics

- 8) Declining export prices of the major agricultural exports over the first three quarters of 2019 also contributed to the slow growth in the agriculture sector. The average price per kg of tea and coffee between January and September 2019 was 23% and 29% lower than the average price over a similar period in 2018. Consequently, the value of tea, coffee, and horticultural exports declined by 23%, 10%, and 9% respectively in the first three quarters of 2019.

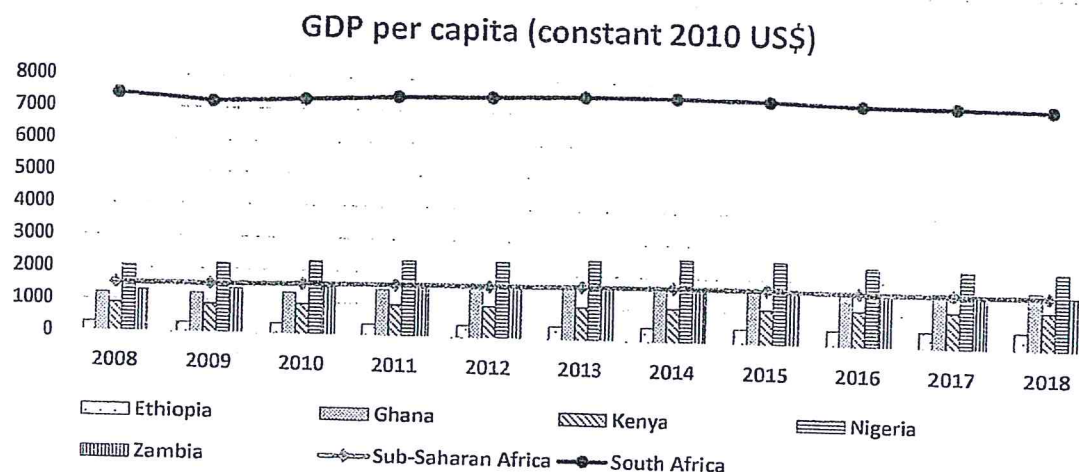


Source of Data: Kenya National Bureau of Statistics

- 9) Kenya has experienced slower economic growth relative to some of the East African Community (EAC 5) countries over the last fifteen years. This has resulted in a decrease in her share of EAC cumulative GDP. Its share of EAC GDP declined from 42% in 2005-2007 to 39% over the last five years.

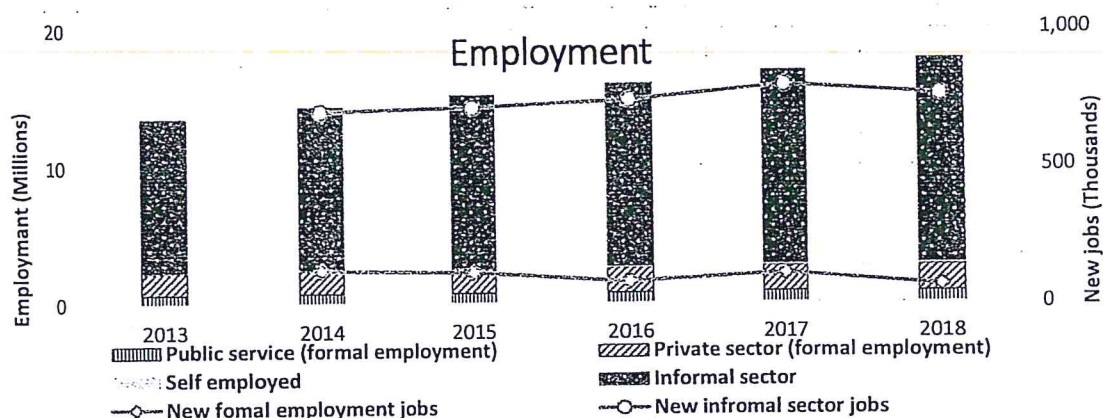


- 10) The real per capita income has remained lower than that of other comparable African countries, despite Kenya having made some progress over the last fifteen years. Kenya's per capita GDP (current prices) grew from Ksh. 47,000 in 2005 to Ksh. 204,000 in 2019. However, as of 2018, Kenya's real per capita GDP (constant 2010 US\$) was US\$ 1,200 while that of Zambia, Ghana and Nigeria was US\$ 1700, US\$ 1800 and US\$ 2400 respectively see figure below.



- 11) The number of new jobs created each year between 2014 and 2018 was below the government's target of creating one million new jobs annually. Further,

over 83% of the 800,000 new jobs created annually between 2014 and 2018 were in the informal sector.

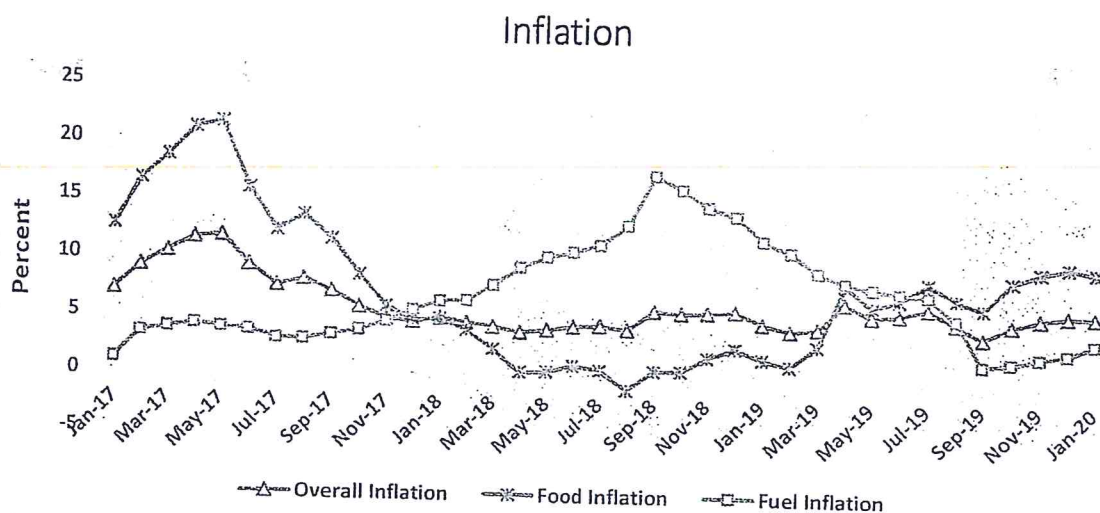


Source of Data: Kenya National Bureau of Statistics

b) Inflation rate

- 12) There was an uptick in food inflation in the last quarter of 2019, with the price of some foodstuff such as maize and beans increasing. The average price per kg of dry maize in September 2019 (Ksh. 41) was 32% higher than it was in a similar period in 2018 while that of dry beans (Ksh. 85 per Kg) was 14% higher. However, the impact of increasing food prices was dampened by the relatively low fuel inflation. Consequently, the overall inflation rate in December 2019 was 5.8% which was similar to the inflation rate in December 2018.

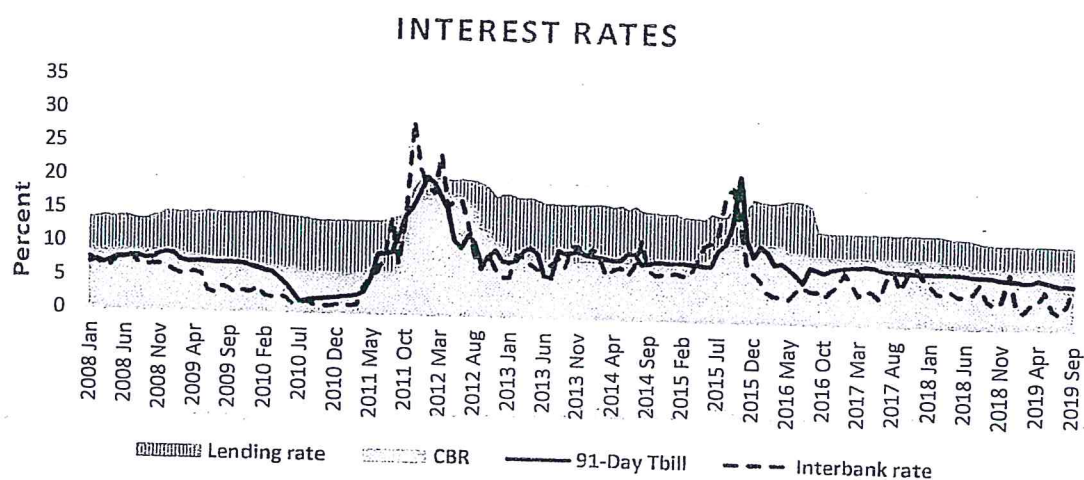
- 13) The inflation rate rose to 5.8% in January 2020 up from 4.7% in January 2019 due to the upward trend in both food and fuel inflation over the last quarter of 2019. Going forward, the impact of the desert locusts on agriculture and food production as well as the possible rise in fuel prices due to the tensions between the United States of America and Iran may result in higher inflation rates.



Source of Data: Kenya National Bureau of Statistics

c) Interest rates and credit

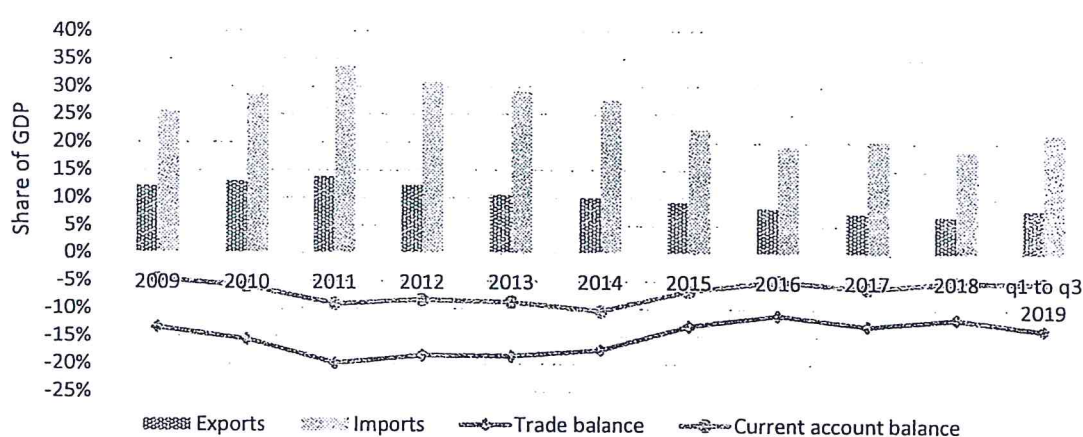
- 14) Interest rates remained stable over the period January 2018 to September 2019 with the weighted average lending rate by commercial banks decreasing to 12.5% over the first three quarters of 2019. Between November 2018 and November 2019, net credit to the private sector expanded by 7%. In 2019, robust credit growth was channeled towards consumer durables, finance, and insurance sectors as well as the manufacturing sector while credit to the agriculture and mining sectors contracted. Credit to the private sector is expected to expand in 2020 due to the repeal of the interest rate cap.



Source of Data: Central Bank of Kenya

d) External sector

- 15) **Kenya's exports have been on a steady decline over the past decade.** Exports as a share of GDP declined from 14% in 2011 to 7% in 2018. The downward trend was driven by the relatively slower growth in the value of all the principal domestic exports. Exports of tea as a share of GDP decreased from 3% in 2010 to under 2% in 2019 while horticulture exports as a share of GDP decreased from 2% to about 1.2% over the same period.
- 16) **Remittances have replaced underperforming principal domestic exports such as tea, and international tourism as Kenya's main source of foreign exchange.** In addition to being a major foreign exchange earner, remittances have had a greater impact on expenditures through their contribution to poverty alleviation, increased savings and human capital development
- 17) Growth in remittances as a share of GDP has contributed to the maintenance of the current account deficit at about 5% of GDP over the past year. Further, remittances also contributed to the maintenance of foreign reserves at above 5 months of import cover throughout 2019.
- 18) **Going forward, reliance on remittances poses a risk because of the erratic nature of their annual growth.** The varied annual growth was single digits in 2010 and 2015 and over 30% in 2012 and 2018. Consequently, a negative shock to remittances could adversely affect Kenya's foreign reserves in the medium-term.



Source of Data: Central Bank of Kenya and KNBS

3.2 BUDGET FOR FY 2020/21 AND THE MEDIUM TERM

- 19) The FY 2020/21 budget framework aims at fiscal consolidation strategy with the aim of containing upward pressures of debt accumulation. In order to achieve this, the budgetary allocations is proposed as follows (Ksh. Millions):

i. National Government	Ksh. 1,778,133
ii. Parliament	Ksh. 36,222
iii. Judiciary	Ksh. 18,051
iv. Consolidated Fund Services	Ksh. 574,650
<u>Total</u>	<u>Ksh. 2,407,056</u>
v. County Equitable Share* ¹	Ksh. 316,500
vi. Equalization Fund	Ksh. 6,500
vii. Contingency Fund	Ksh. 5,000
<u>Grand Total</u>	<u>Ksh. 2,735,053</u>

Source: BPS 2020, National Treasury

3.2.1 Revenue Performance & Outlook

- 20) The 2020 BPS has revised the ordinary revenue target for FY 2019/20 downward by Ksh 33.4 billion. The tax heads that have had their projections reduced include; income tax, import duty, and VAT as shown in the table below. However, Excise duty and other revenues (including investment revenues) are projected to increase by Ksh 19.4 billion and Ksh 79.2 billion respectively.
- 21) Total revenue collection for the FY 2020/21 including appropriation-in-aid (A.I.A) amounts to Ksh. 2,134.1 billion (18.3 percent of GDP) as compared to Ksh.2,084.2 billion (20.1 percent of GDP) in 2019/2020. Ordinary revenue in the next financial year is projected at Ksh.1, 856.7 billion (16 percent of GDP).

¹ *composed of domestic interest, foreign interest and pension

Table 2: Revenue Performance and projections for the FY 2017/18-2020/21

	2017/18 (Ksh. billions) (Actual)	2018/19(K sh. billions) (Actual)	2019/20 (Printed Estimates) (Ksh. billions)	2019/20(revised projections) (Ksh. billions)	Deviations (Printed Vs. Revised) (Ksh. billions)	2020/21(Ksh. billions)	2020/21 vs. 2019/20 (Ksh. billions)
Total Revenue	1,522.5	1,698.8	2,115.9	2,084.2	(31.7)	2,134.1	49.9
Ordinary Revenue	1,365.1	1,496.9	1,877.2	1,843.8	(33.4)	1,856.7	12.9
<i>Income Tax</i>	640.6	685.4	884.4	804.5	(79.9)	862.3	57.8
<i>Import Duty</i>	93.9	107.7	135.4	128.2	(7.2)	126.5	(1.7)
<i>Excise Duty</i>	167.8	194.3	242.2	261.6	19.4	258.0	(3.6)
<i>Value Added</i>	356.9	413.2	496.0	464.5	(31.5)	496.4	31.9
<i>Investment Income</i>	24.1	23.8	33.0	19.7	(13.3)	21.0	1.3
<i>Other</i>	81.8	72.6	86.1	165.3	79.2	92.5	(72.8)
<i>Railway Development Levy</i>	20.8	21.3	27.7	28.4	0.7	27.8	(0.6)
A.I. A	136.6	180.6	211.0	212.0	1.0	249.6	37.6

Source: National Treasury, 2020

3.2.2 Expenditure

- 22) The government has contracted expenditures with the aim of contracting the fiscal balance deficit to 5.3 percent of GDP from 7.6 percent of GDP in FY 2019/20. Overall, expenditures are expected to contract from Ksh. 2,874.2 billion to Ksh. 2,748.2 billion (23.6 percent of GDP). The recurrent expenditure will witness an increment of Ksh. 21 billion occasioned by an increase in interest payments, wages & salaries and pensions payments. The development expenditure is set to be reduced by 143.5 billion or 5 percent of GDP. Under development expenditure, both foreign-financed, as well as domestically financed projects, are set to reduce by 0.6 percent and 1.4 percent to stand at 2.1 percent of GDP and 2.9 percent of GDP respectively.

- 23) It is important to note that reductions in the budget is under the development expenditures which may lead to stalling of ongoing projects. Table 3 shows the expenditure performance and outlook for the FY 2017/18-FY 2020/21 and over the medium term.

Table 3: Expenditure Performance and Outlook

	2017/18	2018/19	2019/20 P.E	2019/20 Revised	Deviations (2019/20 Printed vs. Revised	2020/21	Deviations (2020/21 estimates vs. Revised 2019/20)
Ksh. Billions							
Expenditure & Net Lending	2,146.7	2,433.7	2,789.5	2,874.2	84.7	2,748.2	(126.0)
Recurrent Expenditure	1,349.9	1,531.1	1,760.0	1,760.0	-	1,781.0	21.0
Interest Payments	323.9	375.7	441.5	441.5	-	456.0	14.5
Wages & benefits	388.9	417.5	483.5	487.6	4.1	500.7	13.1
Pensions	65.1	70.8	108.6	108.6	-	118.7	10.1
Other	445.9	531.7	574.2	575.4	1.2	550.0	(25.4)
Development & Net Lending	469.5	541.9	652.3	730.8	78.5	587.3	(143.5)
Domestically Financed	266.0	307.0	390.2	442.5	52.3	334.5	(108.0)
Foreign Financed	201.0	225.4	255.8	281.9	26.1	246.3	(35.6)
Net Lending	2.5	2.5	0.6	0.6	-	-	(0.6)
Contingency	-	-	5.0	5.0	-	5.0	-
Equalization Fund	-	7.0	5.8	5.8	-	6.5	0.7
County Allocation	327.3	360.7	371.8	378.3	6.5	375.0	(3.3)

Source: National Treasury

3.2.3 MTEF Sectors Allocations for the Financial Year 2020/21

- 24) The total allocation for ministerial expenditure is set to decrease to Ksh.1.83 trillion compared to Ksh.2.00 trillion in FY 2019/20. There is significant decreases in most sectors except Education, National Security, Environment Protection, Water & Natural Resources which have received modest budgetary increments. Table 4 shows a summary of the changes in allocation to all the sectors.
- 25) The decrease in budgetary allocation for the Agriculture, Rural & Urban Development sector is a result of the reorganization of government as some departments have been moved to the Ministry of Water, Sanitation and Irrigation. Budgetary reduction in Energy, Infrastructure, and ICT is a result of a budgetary reduction in the Roads and Rail transport Programmes while the reduction in GECA sector is due to a budgetary reduction in the Programmes such as industrial development and investments and Integrated Regional Development.

Table 4 Sectors ceiling for financial year 2019/2020(Kshs. Millions)

Sector	2019/20 Supplementary Estimates Ceiling	BPS Ceiling - 2020/21	Percentage Change
Agriculture, Rural & Urban Development	59,408.9	48,094.2	-19.0%
Energy, Infrastructure & ICT	480,866.0	388,974.8	-19.1%
General Economic & Commercial Affairs	32,734.2	23,553.8	-28.0%
Health	115,629.1	114,477.5	-1.0%
Education	496,732.1	497,798.5	0.2%
Governance, Justice, Law & Order	210,379.1	201,909.5	-4.0%
Public Administration & International Relations	285,925.1	232,187.4	-18.8%
National Security	159,150.6	159,319.8	0.1%
Social Protection, Culture & Recreation	71,354.4	69,361.7	-2.8%
Environment Protection, Water & Natural Resources	94,784.8	96,728.9	2.1%
Grand Total	2,006,964.3	1,832,406.1	-8.7%

Source: The National Treasury

3.3 The Big Four Agenda and Devolution

- 26) Despite the Government's efforts to spearhead manufacturing as one of the big four agenda, there is minimal progress made as at the third year of implementation. Very ambitious targets were set in 2019/2020 and the medium-term. The targets are unlikely to be met due to the slow absorption over the first half of the financial year. It is also important to note that the programmes implemented so far have not spurred the manufacturing sector. Its share of GDP has been steadily declining over the last five years and more
- 27) The realization of the agenda on food and nutrition security appears to be a bleak unless concerted effort is meted out on diminishing agricultural productivity, declining land sizes, underfunding, and prevalence of pest and diseases among others. There is further need to revive or strengthen the support services including agricultural extension services for improved and sustainable productivity of agriculture. These issues are activities under the purview of the County governments, however, there is no indication of the role of counties in achieving this important function
- 28) The proposed allocation to the sector is Kshs 114.4 Billion (6.2 % of the total sectoral allocations). The allocation is expected to increase to Kshs 130.5 Billion in 2022/23. Thus, over the next medium term, the proposed sector resource is Kshs. 365 Billion. However, with health being a devolved function, the role of county governments is not openly stated and there is no framework which breaks down county specific goals, outcomes targets, timelines and deliverables in achieving the Universal Healthcare.
- 29) Despite the targets set out in the BPS 2020, the housing programme seems to be off track. The State Department for Housing and Urban development is mandated with the delivery of 500,000 housing units by 2022 however, only 228 units have been achieved since inception of the programme. There is therefore need for a comprehensive status report on the implementation and viability of pursuing the programme. And as it is the case with the other Programmes under the Big four agenda, there is no framework to involve county governments, despite the fact that the Counties are supposed to avail land for the programme.

4.0 VERTICAL SHARING OF RESOURCES IN A FISCAL CONSOLIDATION REGIME

30) According to OECD, Fiscal consolidation is a policy aimed at reducing government deficits and debt accumulation. The Government continues to pursue the fiscal consolidation policy in order to provide and maintain necessary balance between revenues and expenditures. The objective is to ensure that the overall fiscal deficit is kept under control to safeguard macroeconomic stability and reduce the pace of growth of the public debt. The driving policies that underpin a fiscal consolidation regime include;

i. Reduction in overall government spending

31) The government having embraced a fiscal consolidation path in the last 3 years has consequently reduced government expenditure. The Government embarked on expenditure rationalization to ensure a sustainable fiscal position in the FY 2019/20 and the medium term, and to reaffirm its commitment to the fiscal consolidation plan and to prudent fiscal management in general. The table below shows the reductions in overall government expenditure for the FY 2020/21. However, to ensure that government commitment to realization of the EAC fiscal deficit target of 3% by 2022/23 more deliberate efforts in undertaking austerity measures will be required.

Table 5 : Summary of proposed Budgetary Allocations in KSh. Millions

	FY 2019/20 including Sup I	FY 2020/21	FY 2021/22	FY 2022/23
Total	2,873,527	2,723,556	2,955,132	3,191,701
<i>Of which:</i>				
(i). The Executive	1,947,873	1,778,133	1,897,105	2,067,139
(ii).The Judiciary	19,202	18,051	18,572	19,308
(iii).The Parliament	39,889	36,222	38,468	40,529

2.Consolidated Fund Services*	550,063	574,650	675,293	729,889
3.County Governments**	316,500	316,500	325,694	334,836

NB* Consolidated Fund Services is composed of domestic interest, foreign interest and pension

NB** the allocation to counties is based on sharable revenue

ii. The Principle of Subsidiarity

- 32) The principle demands that decisions on resources, priorities, service delivery and performance targets are assigned to the lowest level of government that is capable of delivering. The principle of subsidiarity stems from the idea that decentralization benefits citizens by giving them greater influence over decisions affecting the services they receive
- 33) In accordance to the Fourth Schedule of the Constitution on functions of the National and the County government, the principle requires that issues pertaining to the largely devolved functions such as Agriculture and Health are undertaken by the devolved units.
- 34) An assessment of the 2020/21 Key Performance Indicators (KPIs) envisaged to be undertaken in various programmes under the National Government include, procurement of tractors and rice, pest control, on farm water provision and crop development. This goes beyond the realms of agricultural policy, a mandate that is constitutionally bestowed to the National Government.
- 35) In regards to the health function, the government had allocated Kshs. 63.83 billion in the FY 2010/11 which is before devolution, however the national government health budget has been increasing despite the health function being devolved. The National Government may need to increase the allocations to the County Governments to enable delivery of services and gradually reduce the allocation towards the Health sector under the National Government.

iii. Unlocking County Own-Source Revenue (OSR)

- 36) Counties are constitutionally mandated to impose taxes namely; business permits, property tax and entertainment taxes. To unlock their revenue potential, counties should review their OSR streams in order to increase their tax base by venturing

other untapped revenue sources that can supplement their revenue collection potentials.

- 37) With the reduction in government spending, the counties need to increase revenue collection to finance any planned growth in their expenditures from own-source revenue (OSR). According to the Controller of Budget (CoB), the Counties raised Ksh 40.3 billion in FY 2018/19 from OSR, equivalent to 75% of targeted collections, and a 24% improvement from recorded collections in FY 2017/18. Assuming that Counties maintain this growth trajectory in OSR collections in FY 2019/20 and FY 2020/21, there should be sufficient additional resources to finance an expansion in service delivery.

iv. Quality of Investments

- 38) The achievements of targets under the various Programmes envisaged in the 2020 BPS are hinged on the budgetary allocation efficiency and effectiveness at both levels of government. It takes both reduction in wastages of public resources and strategic prioritization of public expenditure to achieve efficiency and effectiveness.
- 39) Reports by the OCoB and the AG cast a negative image on Kenya's expenditure management framework. Therefore implementation of findings from these reports to inform the budget process is critical to instill prudence in public finance management.
- 40) It is important for the National and County governments to commit funds towards development expenditure and ensure that the funds are absorbed as appropriated. There is also need to audit infrastructure projects to determine the effectiveness and value for money before investing funds.

v. Appetite for Borrowing by the National Government

- 41) The higher the share of ordinary revenue that is taken up by public debt and other national obligations the lower the sharable revenue and allocations to counties.
- 42) Table 7 provides a summary of changes in equitable share to counties as a proportion of GDP.

Table 7: Equitable share and Debt Service as % of GDP FY 2013-2023

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Nominal GDP(billions)	4,321	5,811	6,710	7,658	8,525	9,348	10,383	11,637	13,044	14,674
Equitable share (billions)	190	227	260	280	302	314	316.50	316.50	325.70	334.80
% GDP	4.40	3.90	3.87	3.66	3.54	3.36	3.05	2.72	2.50	2.28
Gross Debt	2,422.80	2,843.70	3,611.30	4,407.00	5,039.00	5,809.00	6,463.20	7,031.30	7,533.00	7,990.30
%	56.07	48.94	53.82	57.55	59.11	62.14	62.25	60.42	57.75	54.45

Source: The National Treasury

- 43) The equitable share to county governments has consistently been dropping from a high of 4.40 percent of GDP in the FY 2013/14 to a low of 2.72 percent of GDP in the FY 2020/21 as shown in table 7. The National Treasury projects that the equitable share will further go down to 2.50 percent in the FY 2021/22 and 2.28 percent in the FY 2022/23

DIVISION OF REVENUE BETWEEN THE TWO LEVELS OF GOVERNMENT

4.1 Review of historical budget allocation to counties

- 44) The counties have received a total of Ksh.1.906 trillion as at the FY 2018/2019. The total annual disbursements to counties grew from Kshs. 195.66 billion in the FY 2013/2014 to Kshs. 364.38 billion in the FY 2018/19. The nominal growth was driven mainly by: an increase of equitable share; nominal growth of GoK funded conditional grants; and increase in additional conditional allocations from the Road Maintenance Levy Fund and other conditional allocations. Table 8 provides a summary of the disbursements to the counties for the period 2013/14-2018-19.

Table 8: Summary of Disbursement to Counties in the FY 2013/14-2018/19 in Kshs. Millions

Transfer Type	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total
1. Equitable share transfer	190,000	226,660	259,774	280,300	302,000	314,000	1,572,735
2. GoK-Funded Conditional Allocations	5,665	3,261	10,901	13,705	15,408	19,317	60,558
a) <i>Level Five Hospital</i>	3,419	1,863	3,600	4,000	4,200	4,326	21,409
b) <i>Free Maternal Healthcare²</i>	2,246	1,398	3,321	4,105	3,400	4,300	11,070
c) <i>Managed Equipment Services</i>	-	-	3,080	4,500	4,908	8,830	21,318
d) <i>Foregone User Fees Compensation</i>	-	-	900	900	900	900	3,600
e) <i>Rehabilitation of Youth Polytechnics</i>	-	-	-	-	2,000	961	2,961
f) <i>Emergency Medical Service Grant</i>	-	-	-	200	-	-	200
g) <i>Construction of County HQs</i>	-	-	-	-	-	-	-
3. Additional conditional allocations	-	1,137	5,547	10,905	17,797	31,070	66,456
a) <i>Road Maintenance Levy Fund</i>	-	-	3,300	4,307	10,262	7,424	25,293
b) <i>External Loans and Grants</i>	-	1,137	2,247	1,756	7,535	23,646	36,321
4. Allowances for County medical personnel	-	-	-	4,842	-	-	4,842
5. Coffee Cess	-	-	-	107	-	-	107
Total Disbursements	195,665	231,058	276,222	309,859	335,205	364,387	1,704,591
% Share of Conditional Allocations to the Total Disbursement	2.90	1.90	5.95	7.98	9.91	13.83	7.46

Source: The National Treasury, 2019

- 45) Other efforts by the National Government to enhance service delivery include conditional allocations to each county governments and conditional allocations financed by proceeds of loans or grants from development partners to each county governments.
- 46) The disbursements to the GOK funded conditional grants increased from Kshs. 5.67 billion in the FY 2013/14 to Kshs. 19.32 billion in the FY 2018/19. While the number of the grants have increased over the years there is no clear basis/criteria

² In FY 2017/18 and FY 2018/19, Ksh. 3.4 billion and Ksh 4.3 billion, respectively, from the National Government's revenue share was paid to the National Hospital Insurance Fund (NHIF) as a special grant for Free Maternal Healthcare, to be disbursed directly to Counties on reimbursement basis.

that determines how much conditional grants is allocated and the basis of distribution.

- 47) Conditional allocations financed by loans and grants from development partners have increased from Kshs. 1.11 billion in the FY 2014/15 to Kshs. 23.64 billion in the FY 2018/2019. It is necessary to take stock of utilization of conditional allocations in addressing specific issues of national importance under the purview of devolved governments. This will help in carrying out an assessment on how conditional grants have impacted on targeted service delivery and its discharge mechanisms.
- 48) The share of disbursements as equitable share to the counties grew from Kshs. 190 billion in the FY 2013/14 to Kshs. 314 billion in the FY 2018/19. There is however no established criteria on how they are distributed. To spur economic growth and enhance service delivery in line with the scheduled county functions, there should be clear criteria used in sharing of resources across sectors once the funds reach the counties and a further need to assess the impact of equitable share on delivery of services.

4.2 Comparison between the National Treasury and Commission on Revenue Allocations proposed County Allocations

- 49) Out of the total projected shareable revenue of Kshs. 1,856.70 billion, Kshs. 1,533.67 Billion will be allocated as the equitable share to National Government. The National Treasury also proposes an allocation of Ksh. 369.87 Billion to the County Governments for FY 2020/21. This amount comprises of Ksh. 316.5 Billion as county equitable share and Ksh. 13.73 billion as GOK conditional grants, Kshs. 9.43 billion allocation from the Road Maintenance Levy and Kshs. 30.20 billion as allocations from loans and grants.
- 50) In the Budget Review and Outlook paper (BROP) 2019 as well as the draft BPS 2020, the National Treasury had proposed an equitable share of Kshs. 317.8 billion to county governments for the FY 2020/21, however this was revised to a proposal of Kshs. 316.5 billion

- 51) The CRA on the other hand recommends County Equitable share revenue of Kshs. 321.74 billion to be shared among county governments on the basis of its proposed third basis formula of revenue sharing.
- 52) The Commission in its recommendations considered an adjustment of 5.7 per cent (based on the Country's three year 2016-2018 average economic growth) on the actual three-year average development expenditure for each level of government. The adjustment translates to additional allocation of Kshs. 5.24 billion to the counties thus translating to a proposed equitable county allocation of Kshs. 321.74 billion in the FY 2020/21 and additional Kshs. 31.35 billion to the National Government to finance development activities.
- 53) Table 10 shows comparison of the proposals by the National Treasury and CRA in County allocations and basis for the proposals

Table 10: Proposals by N.T and CRA for Equitable Share of Revenues for FY 2020/21 In Ksh. Billion			
	Baseline FY 2019/20	Proposed FY2020/21	Remarks
National Treasury BPS			
	316.5	316.50	The FY 2019/20 figure remains the same. There is however no basis for this
The CRA	316.5	321.74	Adjustment of 5.7 per cent (based on the Country's three year 2016-2018 average economic growth) on the actual three-year average development expenditure. The adjustment translates to additional allocation of Kshs. 5.24 billion to counties (equivalent to 31% of Kshs. 1,038,035 of 2014/15)

Source: BPS 2020, CRA 2019

- 54) The CRA and National Treasury in the (Budget Review and Outlook Paper (BROP)) projections are based on the audited reports for the FY 2014/2015 with approved revenue of Kshs. 1,038.04 billion. The latest audited accounts approved by National Assembly is for FY 2016/2017 with revenue of Kshs. 1,357.698 billion.

- 55) The CRA in its submission to the Committee during the deliberations of the BPS 2020, indicated that the revised revenue projection from Kshs. 1,883.7 billion to Kshs. 1,856.7 billion by the National Treasury on account of non-performing revenues have informed a new proposal of Kshs. 316.50 billion by CRA to be allocated as equitable share to the County Governments.
- 56) The allocation towards additional conditional grants (National Government share of Revenue) for the FY 2019/2020 was Kshs. 22.895 billion. The National Treasury has proposed an allocation of Kshs. 23.164 billion as additional conditional grants to the counties for the FY 2020/21. This is an increase of Kshs. 268.85 million compared to the FY 2019/20 allocation.
- 57) The increase is explained majorly by the increase in Road Maintenance Levy which has increased by Kshs. 449 million (from the previous allocation of Kshs. 8.98 billion).
- 58) However, there is a decrease of Kshs. 185.15 million in allocation towards Supplement for construction of county headquarters which had an allocation of Kshs. 485.15 million and has a decreased proposal of Kshs. 300 million.

Table 11: changes in conditional grants between FY 2019/20 and FY 2020/21

Conditional Grants	Allocation 2019/20	Proposed Allocation 2020/21	Change in Allocation
Kshs. Millions			
Conditional Grants to Level 5 Hospitals	4,326.00	4,326.00	-
Supplement for construction of county headquarters	485.15	300.00	(185.15)
Conditional Grant Compensation for User Fee Foregone	900.00	900.00	-
Conditional Grant Leasing of Medical Equipment	6,200.00	6,205.00	5.00
Conditional Grant Road Maintenance Fuel Levy	8,984.00	9,433.00	449.00
Conditional Grant Rehabilitation of Youth Polytechnics	2,000.00	2,000.00	-

Total	22,895.15	23,164.00	268.85
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Source: The National Treasury

- 59) The CRA have not given a proposed allocation for each of the conditional grants, however they have recommended a total figure of Kshs. 27.50 billion as conditional grants to the Counties. The Commission has however, proposed a new conditional grant for financing of Cities.
- 60) According to CRA, alternative approaches have estimated the gap in funding to cities. These approaches include;
- i. the historical expenditures approach which compared city expenditures pre-devolution and during devolution and estimated a funding gap of Kshs. 36.1 billion between FY 2013/14 and FY 2015/16.
 - ii. The fiscal needs assessment – a bottom-up costing of seven Schedule Four functions that are unique to cities estimated a fiscal need of **Kshs. 184.4 billion** and;
 - iii. The State Department for Urban Development and Planning estimated a funding gap of USD 1 billion or approximately **Kshs. 100 billion** for all urban ;areas in Kenya.
- 61) The CRA recommends a grant of **Kshs. 5 billion per year** to the five cities beginning the FY 2020/21. The Commission has however not indicated how much the gap to be filled is and for how long the five cities will be receiving the conditional grant.
- 62) In the FY 2020/21 the BPS is proposing Kshs. 30.20 billion as conditional allocations financed from loans and grants from development partners. This allocation has decreased from the Kshs. 39.09 billion allocated in the FY 2019/20.
- 63) In regards to conditional loans and grants, there is lack of approved and published criteria on the distribution of external loans and grants from development partners particularly the negotiation process and selection of projects/counties which benefit;
- 64) In as much as the BPS has attempted to provide information on the rationale for the changes in allocation of the conditional grants, it has not given sufficient

information. For example, it is not clear why the Kenya Devolution Support Project level 2 grant and the Kenya Urban Support project (Urban Institution Grants) have not been allocated any funds in the FY 2020/21.

II. MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDMS)

INTRODUCTION

- 65) Public Finance Management Act, 2012 Section 64(2) and Section 33 and National Government Regulations paragraph 184 & 185 requires National Treasury to annually submit Medium Term Debt Management Strategy to Parliament for consideration and approval.
- 66) The Cabinet Secretary is required to provide the following information-
- i. the total stock of debt as at the date of the statement,
 - ii. the sources of loans made to the national government and the nature of guarantees given by the national government,
 - iii. the principal risks associated with those loans and guarantees,
 - iv. the assumptions underlying the debt management strategy, and,
 - v. Analysis of the sustainability of the amount of debt, both actual and potential.

REVIEW OF 2020 MEDIUM TERM DEBT MANAGEMENT STRATEGY

- 67) The MTDS 2020 proposes a borrowing framework of 28 percent from external borrowing and 72 percent for domestic borrowing to finance the national budget deficit. External Debt will be financed through 14 percent from concessional financing, 1 percent from semi-concessional financing and 13 percent from commercial financing.
- 68) In financing the fiscal deficit, external borrowing will account for 60% while domestic borrowing will account for 40%. This indicates that domestic borrowing

will play a large role in debt repayment while a large portion of external debt will relate to deficit financing.

Public and Publicly Guaranteed Debt Stock

a) Stock of Debt

69) As at end of December 2019, public debt amounted to Ksh. 6.048 trillion. This is equivalent to-

- i. 61% of the Gross Domestic Product (GDP), and
- ii. 67% of the Ksh. 9 trillion national debt ceiling

70) The total stock of debt is composed of-

- i. Domestic debt - Ksh. 2.94 trillion (49%), and
- ii. External debt - Ksh. 3.06 trillion (51%)

b) Guaranteed Debt

71) The national debt of stock, also comprises of debt guarantees pursuant to Article 213 of the Constitution and Section 58 of the PFM Act, 2012. As at the end of December 2019, guarantees worth Ksh. 158.1 billion had been provided to seven institutions, compared to Ksh. 133.79 provided as at end of December 2017. The fiscal room available for further guarantees is Ksh. 41.9 billion for both county and national government.

Risks & Costs Profile of Kenya's Debt Portfolio

a) Refinancing Risk

72) The country continues to face increased debt refinancing pressure from maturing of domestic debt. This is indicated by-

- i. As of December 2019, up to 34.9% (Kshs. 990.9 billion) of total domestic debt is expected to reach maturity in the next 1 year compared to 3.9% of external debt;
- ii. In addition, domestic debt had a lower Average Time to Maturity of 5.7 years, compared to that of the external debt of 11 years.

The risk to debt sustainability therefore does not arise from external debt but domestic debt.

b) Interest Rate Risk

73) Interest rate risk is indicated by-

- i. Weighted average interest rate i.e. Domestic debt – 11.4% vs External debt – 4.2%.
- ii. Ratio of debt with fixed interest rate – that fell from 93.2% of total debt to 85.3% indicating increased volatility of interest rate.

c) Exchange Rate Risk

74) The foreign exchange risk arises as a result of-

- i. External debt forms 51 percent of total debt and is exposed to exchange rate risk.
- ii. Foreign currency composition of external debt- out of the total external debt, 69 percent is U.S dollar denominated, 18.1 percent in Euro, 5.5 percent in Chinese Yuan, 4.5 percent in Japanese Yen, 2.6 percent in Great Britain Pound and other currencies account for 0.3 percent.

Public Debt Sustainability Analysis (DSA)

75) Public debt sustainability is the ability of a country to service its debt obligations as they fall due without disrupting budget implementation.

76) Debt sustainability analysis compares debt burden indicators to thresholds over a 20-year projection period. In case of any breach of any of the thresholds, it would mean there is a risk of experiencing some form of debt distress.

77) The DSA framework consists of two complementary assessments of the sustainability of the following-

- i. Total public debt, and
- ii. total external debt

a) Public & Publicly guaranteed Debt DSA

1) The overall DSA ratios indicated that Kenya's debt (Public & Publicly Guaranteed Debt) is within sustainable range and is expected to remain so into the medium term. However, Public and Publicly Guarantee (PPG) debt service as a percentage of revenue remains breached into the medium term. This indicates liquidity shocks

from debt service which is a first charge and takes up a large amount of the revenue collected.

b) External debt DSA

- 2) Review of External debt sustainability indicates that Kenya faces a moderate risk of external debt distress due to breach of external debt service to Exports indicator. Without a proper export strategy then the volatility of exports could jeopardize the ratios operating just above the threshold.
- 3) The rising debt levels lead to increased debt refinancing requirements and interest payments that shrink the fiscal space in the forward years.

III. SUBMISSIONS FROM STAKEHOLDERS

SUBMISSION BY STAKEHOLDERS ON THE 2020 BUDGET POLICY STATEMENT

- 4) Pursuant to Standing Order 180 (5), the Commission for Revenue Allocation (CRA); Institute of Certified Professional Accountants of Kenya (ICPAK); International Budget Partnership of Kenya (IBP); and the Cabinet Secretary, National Treasury and Planning appeared before the Committee on 20th February, 2020 to deliberate on the 2020 Budget Policy Statement. Kenya National Chamber of Commerce and Industry (KNCCI) submitted a memorandum. Their views are outlined herein:

Submission by the National Treasury and Planning

The Cabinet Secretary submitted that:

- 5) The 2020 Budget Policy Statement was prepared in accordance with Section 25 of the Public Finance Management Act, 2012. The theme for the 2020 BPS was *“Harnessing the Big Four for Job Creation and Economic Prosperity”* which resonated well with the ongoing initiatives under the “Big Four” Agenda. Accordingly, the policy measures outlined in the 2020 BPS prioritized the “Big Four” Agenda and were anchored on the Third Medium Term Plan (MTP III) of the Kenya Vision 2030.
- 6) Economic growth of the country remained strong and resilient. The economy was projected to expand by 6.1 percent in 2020 up from the estimated 5.6 percent in 2019. This growth would be supported by the strong services sector, stable macroeconomic environment and ongoing investments in strategic priorities of the Government under the Big Four Agenda.
- 7) The Fiscal Framework for the FY 2020/21 supported the fiscal consolidation plan. The plan would see a gradual reduction of fiscal deficit from the estimated 6.3 percent of GDP in FY 2019/20 to 4.9 percent of GDP in FY 2020/21 and further to around 3.0 percent of GDP over the medium term. To achieve these targets, the Government would continue to restrict growth in recurrent spending and double its effort in domestic resource mobilization.

- 8) In that regard, total revenue for FY 2020/21 was projected at 2,134.1 billion (18.3 percent of GDP) while overall expenditure and net lending was projected at Ksh.2748.2 billion (23.6 percent of GDP).
- 9) As a result, fiscal deficit (including grants) in FY 2020/21 was projected at Ksh. 571.2 billion (4.9 percent of GDP). The deficit would be financed by net external financing of Ksh.345.1 billion (3.0 percent of GDP), Ksh.222.9 billion (1.9 percent of GDP) net domestic borrowing and other net domestic receipts of Ksh. 3.2 billion.
- 10) Given the tight resource envelope amidst significant expenditure demands, budget allocations in the 2020 BPS have been realigned to the “Big Four” Agenda. Further, detailed budgets of all government Ministries, Departments and Agencies (MDAs) were scrutinized to curtail spending on non-productive areas and to ensure public expenditures focus on impactful programmes with highest welfare benefits to Kenyans.
- 11) The committee heard that in view of the aforementioned, the National Treasury had provided Ksh 128.5 billion for the “Big Four” projects; Kshs 1,832.4 billion for the National Government; Ksh.574.6 billion for the Consolidated Funds Services and Kshs.316.5 billion as equitable share to County Governments. Under the National Government, the ministry provided Kshs.128.5 billion for the “Big Four” projects.

Proposals by the Ministry on the Division of Revenue between the two levels of Government for the FY 2020/21

- 12) The Ministry observed that ordinary revenue continued to underperform. In the Budget Review and Outlook Paper (BROP) 2019 as well as in the draft BPS 2020, the National Treasury had proposed that County Governments be allocated Kshs.317.8 billion as their equitable share of revenue raised nationally in FY 2020/21. That proposal was informed largely by the underperformance in ordinary revenue witnessed in recent years. Between FY 2013/14 and FY 2018/19, cumulative ordinary revenue shortfalls amounted to Ksh 932 billion.

Ordinary Revenue (Ksh Billions)				
	Ordinary Estimate	Actual/Revised estimates	Shortfall	Cumulative shortfall
2013/14	1027.2	919.0	108	108
2014/15	1087.1	1031.8	55	163
2015/16	1242.7	1153.0	90	253
2016/17	1380.2	1306.6	74	327
2017/18	1560.3	1365.1	195	522
2018/19	1769.2	1496.9	272	94
2019/20	1877.2	1766.9	110	904
2020/21	1883.7	1856.7	27	931

Budgets cuts

- 13) In the wake of revenue shortfalls, the National Treasury submitted that the National Government had borne all revenue shortfalls, through spending cuts. As per the respective Annual Division of Revenue Acts (DORA), the National Government had always borne the revenue shortfall. To balance the budget, the budgets of MDAs had to be downsized, thereby leaving the county allocations unaffected by the shortfalls. In FY 2017/18 when ordinary revenue grew by 4% against a target of 13% that culminated in a Ksh 195 billion shortfall, counties allocation grew by 8% (from Ksh 280.3 billion to Ksh 302 billion). In contrast, the National Government net issues (Table 2) contracted by 7% (from Ksh 1,149 billion in FY 2016/17 to Ksh 1072 billion). Similarly, actual net issues in FY 2018/19 reflected a Kshs 82 billion reduction from what was proposed in the revised budget (II) estimates.

Composition of National Government Net Issues (Ksh Billions)								
	Development	Wages & Salaries	FPE, FSE & SGR	IEBC	KRA	Defence & NSIS	Other O&M	Total

2013/14	191.0	281.2	35.4	1.9	13.7	93.8	168.8	786
2014/15	241.5	298.0	0.0	0.0	0.0	93.7	242.5	876
2015/16	277.1	307.4	47.1	1.9	13.5	113.7	212.3	973
2016/17	353.2	336.6	52.1	12.2	14.1	130.2	250.4	1,149
2017/18	229.2	388.9	79.4	28.0	19.8	126.1	201.1	1,072
2018/19	262.2	417.5	82.3	4.5	18.9	135.3	278.4	1,199
2019/20	374.2	487.6	77.5	4.7	23.8	142.1	306.3	1,416
2020/21	257.7	500.7	86.7	3.2	24.3	145.3	262.6	1,281

NB: FPE= Free Primary education, FSE=Free Secondary Education, SGR= Strategic Grain Reserves

14) The Cabinet Secretary mentioned that an FY 2019/20 funding gap would cause more cuts in spending by the National Government. The National Government estimated net issues for FY 2019/20 of Ksh.1,416 billion shown in Table 2 are not fully funded. The proposed budget contains a Kshs. 161 billion gap, the bridging of which would require further expenditure cuts of a similar magnitude. The scope for those cuts existed only in the development budget and to a small extent in 'other O&M'. Accordingly, the base for the 2020/21 FY would be adjusted to account for the above funding gap. That meant that the National Government net issues for development and 'other O&M' would drop from Ksh 681 billion to Ksh 520 billion. The implication was that in FY 2020/21:

- a) The National Government spending on development and other O&M would not grow at all, and
- b) The National Government total spending would expand by only Ksh 26 billion or 2% (i.e. from Ksh1,255 billion to Ksh.1,281 billion). The growth was itself uncertain considering the revenue collection challenges experienced in previous FYs.

- 15) It would follow that in FY 2020/21, net spending by the National Government would contract.
- 16) As part of measures to narrow the projected deficit, the BPS 2020 reflected a Kshs 136 billion or 9.6 % contraction in the National Government estimated FY 2020/21 net issues (i.e. from Kshs.1,416 billion in FY 2019/20 to Ksh. 1,281 billion) as summarized:
- a) Development spending by National Government would contract by 31% (i.e. from Kshs 374 billion in FY 2019/20 to Ksh 258 billion in FY 2020/21. The last such contraction happened in FY 2017/18. As a result, development spending in FY 2020/21 would comprise 20% of net issues, a drop from the 26 % average recorded in the last seven FYs.
 - b) Expenditure on 'Other O&M' would contract by 14 % (from Ksh 306 billion in FY 2019/20 to Kshs 263 billion in FY 2020/21). That was only slightly less than the 20% contraction in FY 2017/18.
 - c) Spending on wages & salaries would increase albeit insignificantly by 3% (i.e. from 488 billion in FY 2019/20 to Ksh 501 billion in FY 2020/21) making this the smallest expansion in recent times. Although wages & salaries in FY 2020/21 would equal 39% of National Government net issues/expenditure (*vis-a vis* an average of 34% over the last six FYs), that was primarily due to the large drop in overall net issues.
 - d) Among the few expenditure components that will grow notably in FY 2020/21 are:
 - **Free primary education (12%)**- the growth is intended to facilitate implementation of FPE
 - **Free Secondary Education (12%)**-the growth is intended to sustain the 100 % primary-to-secondary school transition as a result of which capitation for secondary education had increased by 73% (i.e. from Ksh 12,870 to Ksh 22,244).
 - **The Strategic Grain Reserve (6%)** - The growth would contribute towards the Big Four goals of reducing both the cost of food and the number of food insecure Kenyans.

- 17) For this reason, Revenue Growth in FY 2020/21 would go to neither level of Government.
- 18) Despite the depressed revised revenue forecasts for FY 2019/20 and 202/21 *vis-à-vis* original estimates for both years, collections in FY 2020/21 were projected to grow by Ksh.89.8 billion (i.e. from Kshs 1,766.9 billion to Kshs 1,856.7 billion). The National Treasury proposed that the additional revenue be directed towards Consolidated Fund Services (CFS), specifically debt repayment, pensions and gratuities and some salaries for Constitutional Offices and Independent Commissions. These non-discretionary expenditures take first charge in the public budget.
- 19) Accordingly, of the projected additional revenue in FY 2020/21, an estimated Ksh 57.2 billion would be earmarked for debt repayment i.e. principal and interest (Table 3). The focus on debt repayment was in accordance with the deficit financing policy by the government, which was elaborated in both the BPS, 2020 and the Medium Term Debt Management Strategy. The balance from the anticipated revenue growth (i.e. approximately Ksh. 19.7 billion) would be earmarked for retirees' pension payments as well as GOK contributions to civil servants pension. The enhanced allocations were intended to make up for shortfalls experienced in FY 2019/20 that were due but had not been paid due to slow processing of pension payment.
- 20) The Kshs 89.8 billion revenue growth was itself inadequate to cover the above mentioned CFS, and would therefore be supplemented with part of the 'savings' from reduced National Government net issues.

Proposal on Counties' FY 2020/21 equitable share of revenue raised nationally

- 21) The revised proposal by the National Treasury for County Government equitable revenue share allocation for FY 2020/21 is informed by five (5) factors namely:
 - a) Continued underperformance in ordinary revenue, which formed the base for the annual division of revenue;
 - b) The fact that the National Government continued to solely bear shortfalls in revenue in any given FY;
 - c) The Ksh 161 billion funding gap in the FY 2019/20 budget;

- d) The 10.3% projected contraction in National Government net spending in FY 2020/21 vis-à-vis FY 2019/20; and ,
 - e) The proposal by National Treasury that the entire incremental revenue in FY 2020/21 be earmarked for CFS, specifically debt repayment and pensions.
- 22) Based on the preceding factors, it was proposed that the County Governments equitable revenue share for FY 2020/21 be retained at Ksh. 316.5 billion. The implication of that was there would be no additional funding from the equitable revenue share for wage and salary costs for County Governments as well as development and other O&M costs. Nevertheless, the National Treasury noted that an opportunity existed for the counties to finance any planned growth in their expenditures from own-source revenue (OSR). The CS stated that according to the Controller of Budget, the counties raised Ksh 40.3 billion in FY 2018/19 from OSR, equivalent 75% of targeted collections, and a 24% improvement from recorded collections in FY 2017/18. Assuming that counties maintain this growth trajectory in OSR collections in FY 2019/20, there would be sufficient additional resources to finance an expansion in service delivery.

The Medium term Debt Management Strategy (MTDS) 2020

- 23) Debt Sustainability Analysis (DSA) for Kenya indicates that public debt remained sustainable over the medium term.
- 24) To finance the fiscal deficit in the FY 2020/21, MTDS recommends a ratio of 60:40 borrowing from external and domestic sources respectively. In this strategy, Treasury Bonds will be the main source of net domestic financing, while Treasury Bills will be used only for cash management purposes and not as a budget-financing tool and thus the quantity and proportion of Treasury Bills are projected to decrease

Submission by the Commission on Revenue Allocation

- 25) The Chairperson, Commission on Revenue Allocation (CRA) submitted to the committee the following:

Recommendations on Sustainable Fiscal Position

- 26) Economic growth of Kenya has remained strong and resilient, registering on average growth of more than 5 percent over the devolution period. However, the high growth had not translated to high revenue performance

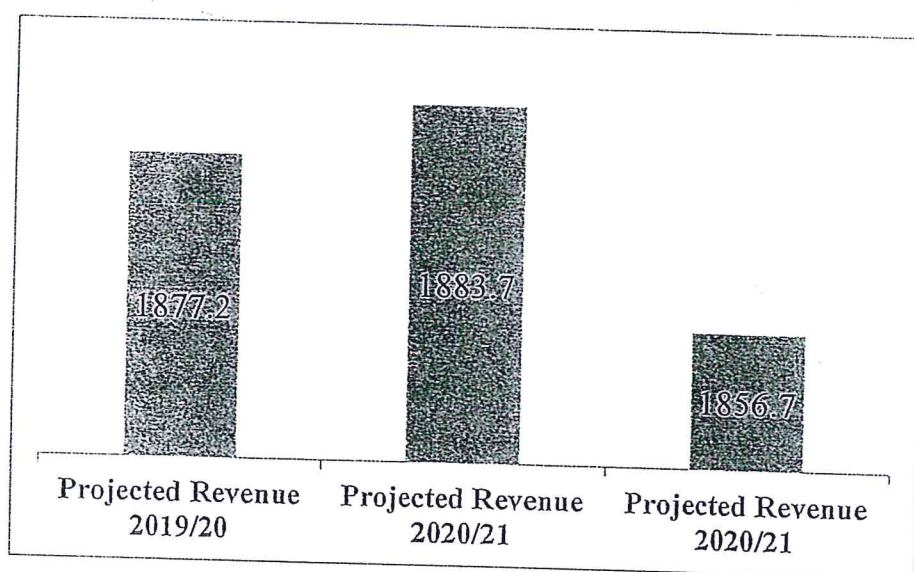
Year	Projected Revenue	Actual/ Revenue	Revised	Revenue Shortfall
2013/14	1027.2	919		(108)
2014/15	1087.1	1031.8		(55)
2015/16	1242.7	1153		(90)
2016/17	1380.3	1306.6		(74)
2017/18	1560.3	1365.1		(195)
2018/19	1769.2	1496.9		(272)
2019/20	1877.2	1773		(104)
2020/21	1883.7	1856.7		

- 27) As a matter of policy, the government intended to curtail growth in public expenditures to ensure a lower fiscal deficit and maintain debt at sustainable levels. A targeted aggregate expenditure reduction from 26 percent of GDP in 2018/19 to 23 percent of GDP in 2020/21 was highly risky. The intended aggregate expenditure reduction on development from a revised level of Kshs. 731 billion in 2019/20 to Kshs. 587 billion may trigger a slump of the economy and even worse performance of revenues.

- 28) Given that the public debt was still sustainable, and with the revised public debt ceiling on Ksh 9 trillion, the CRA recommended that national government development expenditure should at the very least be retained at its current levels or be increased by either exercising further austerity measures of operations and maintenance or slightly increasing the public debt.

Revenue Sharing between National and County Government for the FY 2020/21

- 29) Informed by the revenue projection of Ksh 1,883.7 billion in December 2019, CRA recommended to Parliament that Kshs.1,561.96 billion be allocated to the national government and Kshs.321.74 billion to the county governments as equitable shares and Ksh.5.77 billion to the Equalization Fund.



- 30) The additional allocation of Ksh. 5.24 billion to the counties and Kshs. 102 billion to the national government was to finance development activities to sustain economic growth momentum. CRA observed that the National Treasury in February 2020 revised the revenue projection downwards to Kshs. 1856.7 billion on account of non-performing revenues (BPS 2020). The revised revenue projection underpinning the revenue sharing for FY 2020/21 was below the projection of Kshs.1,877 billion that informed revenue sharing between the two levels of governments for FY 2019/20. Technically, there was no additional ordinary revenue to share for FY 2020/21 between the two levels of government.

31) The Commission therefore agreed with IBEC resolution that each level of government retained the same shares in 2020/21 as shared in 2019/20, that is county governments be allocated Kshs.316.5 billion and national government Kshs. 1534 billion.

32) Performance of County Revenues

- a) Counties are differently endowed and therefore exhibit different revenue potentials. The Cities, namely Nairobi, Mombasa, Kisumu, Nakuru and Eldoret have huge revenue potential.
- b) BPS 2020 provides Kshs.6.4 billion for FY 2020/21 towards the Urban Development Grant which supports 45 counties, excluding Nairobi and Mombasa. There was therefore need to consider the remaining two city counties of Nairobi and Mombasa.
- c) The Commission recommended that a new Conditional Grant be designed to incentive the five cities to optimize revenue collection.

33) **The Third Revenue Sharing Basis among County Governments**

- a) The Commission submitted its recommendations on the Third Basis for Revenue sharing among County Governments to Senate in April 2019. The Senate had not considered the recommendations in line with the provisions of Article 217.
- b) The First and Second Basis for revenue sharing among county governments had been in use for more than six years, which is contrary to the provisions of the Sixth Schedule Section 16.
- c) The BPS 2020 allocated the county equitable share among the 47 counties based on the Second Basis. The second basis largely used 2009 Statistics. The Commission notes that much has changed over the last ten years, and that with the availability of new data on poverty and populations, there was merit to revise the basis for revenue sharing to ensure fairness in revenue sharing. The Commission implored on the Senate to expedite the finalization and

determination of the Third Sharing before the approval of County Allocation of Revenue Act (CARA) 2020.

Submission by the Institute of Certified Public Accountants of Kenya (ICPAK)

34) The Institute of Certified Public Accountants of Kenya (ICPAK) appeared before the Committee and gave their views and recommendations as follows:

	BPS 2020 PARAGRAPH	ICPAK RECOMMENDATIONS
a.	Para 9: Domestic Economic Development	Although this projection is consistent with World Bank data of to 5.9% in 2020 and 6.0% in 2021, there is need to lower expectations due to the following factors: a) Impact of locust invasion to food security in the medium term b) Continued charged political climate as a result of ongoing campaigns for Building Bridges Initiative (BBI) c) Changing and unpredictable weather patterns given that Kenya still relies heavily on rain-fed agriculture.
b.	Para 10: Value of Per Capita Income and Job creation	Since majority of Kenyans are employed in the informal sector, the Institute recommended; a) Improving the regulatory environment for the informal sector to support stability and growth of MSMEs to overcome start-up challenges and contribute to economic development. b) Limiting cash-based transactions as a means of capturing all business activities in the economy. c) KRA to device mechanism to capture data on informal sector for purposes of tax revenue given that so many jobs are created in the sector, yet it was not considered in the expansion of tax base. d) More research needed to be done on the informal sector to establish feasible data. The potential of the sector can thus be harnessed for economic growth.
c.	Para 50: Modernized Income Tax Bill	a) Tabling of the Income Tax Bill to Parliament is expedited.

	BPS 2020 PARAGRAPH	ICPAK RECOMMENDATIONS
		b) The need to commence initiatives to finalize an overarching tax policy for Kenya
d.	Para 50: Government Policies to support Fiscal Consolidation	According to the World Bank Economic Update: a) There was need to re-ignite private sector led growth and ensure that fiscal consolidation was growth friendly b) Fiscal consolidation needed to be recalibrated towards recurrent spending such as - lowering of transfers to state owned enterprises, cleaning and regular audit of the payroll register, keeping wages, salaries and allowance adjustments in line with recommendations from the Salaries and Remuneration Commission (SRC) c) There was need to assess the uptake and impact of already established austerity measures by the National Treasury in 2019
e.	Para 61 and Annex table 1: Macroeconomic Indicators	The Government should reduce domestic borrowing to allow the banks to lend to the private sector and MSMEs for sustained growth.
f.	Risks to the Economy Corona virus	A ripple effect is expected in different sectors of the economy even as trade between Kenya and China has been growing rapidly. According to the Economic Survey 2019, China is the largest contributor of imports to Kenya for the past 5 years. This pandemic will impact on the global economy greatly given a shutdown in manufacturing, tourism, hospitality and service industry.
g.	Risks to the Economy – Brexit	Post-Brexit Opportunities a) Kenya can negotiate new bilateral trade deals directly with the United Kingdom (UK). More Kenyan produce could then reach the UK market without barriers and regulations which were enforced by the European Union (EU)

	BPS PARAGRAPH	2020 ICPAK RECOMMENDATIONS
		b) Agricultural sector- Britain was a critic of the EU Common Agriculture Policy (CAP), which allows subsidies to European farmers. The CAP reduced access of African farmers to the EU which could change with Brexit. c) Countries which were buying Kenyan export produce through UK could now trade directly with Kenya. This could see Kenya increase its overall wallet-share of the European market and potentially enjoy better margins from direct trade with the end buyers and also lead to less reliance on the UK for exports. Potential Post-Brexit Challenges d) Kenya exports tea, coffee and flowers to the UK which equals to 27% of fresh produce and 56% of black tea to the UK. Any renegotiations of the deals may lead to export delays and probable loss of revenue. Even worse, it may lead to the current account deficit widening, as well as less inflows of foreign exchange. e) The EU is the main market for cut flowers from Kenya, which stands at about 60% of the exports. In the EU, Britain is one of the largest consumers of these flowers thus the market is likely to suffer.
h.	Para 74: Food and Nutrition Security	a) The legal, policy and institutional capacity of the sector should be strengthened in realization of core mandates. This is more so with, regard to devolved functions, which require guidelines for implementation. b) Build and improve rural infrastructure to open space for movement of goods and services. c) Revisiting policies on trade agreements to boost export of some agricultural products. d) Improve access to financial services and credit in agriculture and rural development.

	BPS 2020 PARAGRAPH	ICPAK RECOMMENDATIONS
		e) Irrigation should be enhanced; more dams should be constructed to cushion the country in times of drought and reduce overreliance on rain-fed agriculture. f) Taxation incentive to companies that manufacture and sale irrigation related accessories such as waiver of taxes on water harvesting accessories, borehole drilling equipment, approval permits for drilling of boreholes among others. other efforts include reduce soil testing costs by KALRO from 1500m to Ksh 500 per sample. Raw material for plastic tanks should also be tax exempt. g) There is need for introduction of subsidies to farmers especially on inputs such as fertilizers and high yield seeds. h) Increase funding levels especially to the sectors that contribute to food security such as Agriculture and manufacturing. Exchequer releases should be within the prescribed timeline to facilitate implementation of development programs. Agriculture should be at least 10% as per Maputo Declaration.
i.	Para 81-84: Universal Health Coverage	a) The government should complete reconfiguration and digitization of NHIF to ensure the system is ready for roll out before fully implementing the UHC. b) Reform NHIF to support public health care by: - Ensuring that at least 70% of NHIF disbursements go to public health institutions and service providers; with 30% going to the private sector. This will help build capacity of public health institutions as opposed to utilizing public funds to support private entities. - Putting in place mechanism to enroll more Kenyans to the scheme. The current 15.8% is very far from the target 100% Universal Health Coverage which NHIF is central to.

	BPS 2020 PARAGRAPH	ICPAK RECOMMENDATIONS
		• Strengthen accountability mechanisms in the disbursement and utilization of NHIF funds. c) There is need to increase the health budgetary allocation to the recommended 15% of the total annual budget as recommended by the African Union (AU) under the auspices of Abuja declaration. d) Sector players should dialogue to end persistent labour unrest in the sector. We urge Labour Unions, National Government and County Governments to work together to address the concerns of the doctors, nurses and other cadres within the health sector.
j.	Para 165: Realism of revenue forecast	In order to enhance tax administration and seal leakages, the Institute proposed the following: a) Proper controls and monitoring of taxpayer activities through a single identifier- This will lead to enhanced efficiency in tax administration. b) Review the penalty system on tax evasion c) Develop a change management strategy to address income tax matters d) Leverage on simplified technological solutions to enhance integration of taxpayer information systems.
k.	Contribution of Tax Revenue to GDP	a) There is need to design a targeted, measurable and transparent criterion for granting exemptions b) Periodically align the tax policy with the economic agenda of the country to realize economic development.
l.	Para 167-168: Deficit financing	a) Re-negotiate debt repayment by stretching the debt tenure quantum. According to Parliamentary Budget Office, the bulk of external public debt carries concessional terms. Recent commercial borrowing entailed significant repayment needs in 2019 and 2024 (2014 sovereign bond issuance). b) The government needs to scale down domestic borrowing which crowds out private investments. Prioritize increase in debt

	BPS 2020 PARAGRAPH	ICPAK RECOMMENDATIONS
		maturity profiles by opting for longer term external debt rather than domestic debt to increase debt sustainability, and lower risks of crowding out private sector c) Pre-approval of projects financed through public borrowing: no new debt financed projects should be introduced within the budget cycle as these may fail to go through proper appraisal. d) There is need to rationalize expenditure- In the past few years, public expenditure had been growing at a faster pace than revenue. The major outcome has been huge budget deficits. e) Rely more on concessional loans and grants rather than on expensive bilateral loans that are non-concessional, thus reduce high interest rates payments, averting possibility of debt overhang. f) Implement government-to-government partnerships and other Public Private Partnerships (PPP) models based on independent cost-benefit, Cost-Effectiveness and Value-for-Money Studies, to prevent expensive low priority bilateral, donor-led
		investments funded by debt. g) Diversifying the currency mix in which debt is denominated to reduce exposure to foreign exchange risks. h) Enhance debt transparency and accountability in order to enhance management of public debt in Kenya. i) An audit of current projects is critical to wipe out white elephant projects. A clear framework for tracing and auditing debt financed projects is needed for equity. j) The government should also consider the following measures to enhance public financial management. • <i>Expenditure Vs Revenue:</i> In the past few years, public expenditure has been growing at a faster pace than revenue. The major outcome has been huge budget deficits.

BPS PARAGRAPH	2020	ICPAK RECOMMENDATIONS												
		• <i>Implementation of budget monitoring reports:</i> Act on Auditor General and Controller of Budget recommendations in respect to public debt • <i>Audit of the Public Debt Register:</i> Establishing the authenticity of the public debt register including the true debt sustainability position is critical. Government sources and the World Bank continue to give conflicting statistics of debt situation of Kenya. • <i>Accounting for debt:</i> The public is not sure on the accuracy and completeness of the debt register. National Treasury and Central Bank of Kenya have conflicting statistics on national public debt. The Auditor General in its Report for the Financial Year 2017/18 pointed out misstatements and differences between the financial statements and the confirmed balances. Further, a comparison of the statement of receipts and payments and the ledger for the period under review reflected different account balances as indicated below: <table><tr><th>Item Description</th><th>Financial Statement Balance KSh.</th><th>Ledger Balance KSh.</th><th>Variance KSh.</th></tr><tr><td>Interest Payments on Foreign Borrowings</td><td>84,357,487,111</td><td>84,725,600,971</td><td>368,113,860</td></tr><tr><td>Principal Repayment on Domestic Loans</td><td>111,700,845,296</td><td>294,836,376,343</td><td>183,135,531,047</td></tr></table>	Item Description	Financial Statement Balance KSh.	Ledger Balance KSh.	Variance KSh.	Interest Payments on Foreign Borrowings	84,357,487,111	84,725,600,971	368,113,860	Principal Repayment on Domestic Loans	111,700,845,296	294,836,376,343	183,135,531,047
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Principal Repayment on Domestic Loans	111,700,845,296	294,836,376,343	183,135,531,047											

	BPS 2020 PARAGRAPH	ICPAK RECOMMENDATIONS			
		CBK -Pre-1997 Loans	1,110,000,000	2,220,000,000	1,110,000,000
		Repayment of Principal from Foreign Lending and On-Lending	141,532,524,729	141,360,882,966	171,641,763
		Exchequer Releases	517,161,876,534	-	517,161,876,534
e) Source: Auditor General Report for National Government- FY 2017-2018					
m.	Para 223: Absorption of Development Funds	a) To increase absorption of development funds, the National Treasury should ensure that funds allocated to the MDAs and Counties are released in a timely manner b) Parliament continued to use FY 2013/14 audited accounts until FY 2019/20 when it used FY 2014/15. The National Assembly must expedite its process of considering the most recent audited financial statements as submitted by the Auditor General. c) In the distribution of the Equalization Fund there is need to relook at the unit of disbursements. The Government should adopt proposal by CRA to use locations as the smallest units.			
n.	Para 225-229: County Government's Own Source Revenue	a) Revenue forecasting and mapping: a clear, consistent and standard forecasting model needs to be adopted by the country as a basis for determining revenue projections. There is further need for a comprehensive analysis and mapping of counties' revenue potential. b) Revenue collection systems: There is need to standardize revenue collection management systems across counties for uniformity and easy reporting. In addition, counties should			

	BPS 2020 PARAGRAPH	ICPAK RECOMMENDATIONS
		strive to automate revenue collection systems to seal loopholes and leakages. This standardized ICT-based system prescribed should provide real time revenue information in a consistent manner to enable consolidation and analysis, as well as periodic reports for use by the National Treasury, the Controller of Budget, the CRA and the Office of the Auditor General, and also easily accessible by the general c) Collaboration with KRA: To enhance efficiency and effectiveness in revenue collection and administration, county units should consider engaging KRA for technical support. d) Public Participation in Revenue collection: Counties should empower citizens with revenue information through revenue clinics- for citizens to understand the importance of taxes and charges to county service delivery. e) County Treasuries should continuously review the performance of revenue collection vis-à-vis targets and shall include a status report in the Quarterly and Annual reports which shall be published in various media.
o.	Para 227: Reasons for underperformance of OSR	a) Continuously lobby County entities to establish audit committees. b) Capacity build established audit committees on their roles. c) Support proposals by CRA to have this as a parameter under the Fiscal Prudence criterion for revenue share. This will obligate counties to establish and operationalize these committees.
p.	Para 232-238: Pending Bills	a) The National Treasury should consider accrual accounting as opposed to cash accounting which presents challenges in terms of monthly and annual financial reporting on pending bills and other liabilities. b) There is need to develop a database of all owed dues to counties and MDAs, and assess the multiplier effect/impact to the economy

	BPS 2020 PARAGRAPH	ICPAK RECOMMENDATIONS
		c) The Institute supports recent efforts by the National Assembly to amend the Public Procurement and Assets Disposal Act 2015, compelling the National and County Governments to pay suppliers and contractors within 30 days. Legislative Proposals The Institute proposes Amendment to 17 of Public Finance Management Act 2012. Amend 8(b) to read “by inserting the following new subsection immediately after subsection (7)— <i>"(8) (a) six months prior to a general election, no procurement shall be carried out by the national and county governments, or their respective entities, in respect of their respective development votes unless with the approval of the National Treasury".</i> <i>(8) (b) All pending bills incurred by the national and county governments, or their respective entities, in respect of their respective development votes, shall be cleared not later six months prior to a general election</i> This amendment will help curb pilferage of public resources during an election year and increase of pending bills during the same period. Such an Amendment was first introduced through the Public Finance Amendment Bill 2017.
q.	Para 240: Status of transfer of devolved functions	Expedite completion of the functional assignment and unbundling of functions exercise.
r.	Para 246 and table 4.2: County governments Equitable Share	a) It was the considered opinion of ICPAK that as the process of revenue share FY 2020/21 commences, National Treasury, Commission on Revenue Allocation (CRA) and Parliament should use the most recent audited financial statements as the basis for revenue allocation.

BPS PARAGRAPH	2020	ICPAK RECOMMENDATIONS
		b) Parliament should consider amending Section 37 (9) of the PFM Act 2012 to enable prior enactment of DORA before Appropriations Bill. c) National Assembly to consider, expedite scrutiny and adoption of these reports from the Auditor General. This will enable not only the revenue share to rely on the most recent and approved financial statements, but also enhance accountability of public funds on a timely manner. d) The Institute recommended further amendment to Section 191 of the Public Finance Management Act as follows • <i>The National Assembly shall within three months after receiving an audit report adopt and approve the report;</i> • <i>In the event that the audit report is not adopted and approved by the National Assembly within three months, it shall be deemed as the most recent audited accounts for purposes of determining sharable revenue.</i> e) Therefore, the National Assembly must expedite its process of considering the audited financial statements as submitted by the Auditor General

Submission by the International Budget Partnership -Kenya (IBP)

- 35) Dr. Abraham Rugo, Country Manager IBP-Kenya presented a memorandum on behalf of 24 Civil Society Organizations working in different sectors at national and county levels. In their submission, they raised the following issues and recommendations:
- 36) **Public participation:** The preparation of the BPS is supposed to be inclusive of all stakeholders in line with the Constitution of Kenya, Public Finance Management (PFM) Act 2012 and other attendant laws of Kenya. Public participation is a key component of this process and one that should progressively improve the engagement between the state and its citizens. Unfortunately, the public sector

hearings by the National Treasury are held in Nairobi only with Budget Policy Statement having no citizen interaction with Parliament. This is a huge gap in the preparation of these documents considering that the BPS gets to set the total size of the budget and ceilings for each sector. Towards this, we propose that parliament amends the law to require public engagement on the BPS.

- 37) **Contracting fiscal space:** The Budget Policy Statement 2020 comes for approval to Parliament at a time that the fiscal space in the budget is contracting outside of public and debt and pension spending. The National Treasury indicated that all additional resources collected in 2020/21 would go to debt service and payment of pensions. The net result was that the MDA budget at the national level was contracting and the equitable share to counties was also not going to grow for that year. Therefore, the BPS 2020 is a key opportunity for Parliament to get clarity from the executive on the tradeoff that have to be made in such a constrained revenue space with many competing priorities from the Big Four to MTP III among others.
- 38) **National Government and County Revenues:** At both levels, revenue projections and collection remained unrealistic and uncertain. National ordinary revenue growth was declining year on year and was expected to only have a 2 per cent growth in the 2020/21 financial year. The county equitable share growth was declining but at a faster rate than national ordinary revenue growth at 6 and 13 per cent respectively. Disbursements to counties were also lower than of the national government institutions. We propose that Parliament firms the commitments towards strengthening the performance of the economy especially on job creation that determines increase in tax. Further, there is need to ensure that the tax bracket is widened.
- 39) **Public Debt:** Public debt levels have risen to unsustainable levels and are eating into critical spending on social services. While the national ordinary revenue has grown at an average of 13 per cent over the last six years, debt financing has grown at an average of 30 per cent. We propose that Parliament must reduce the deficit approved in this BPS and hence tame the increment in debt in the medium term. Parliament must also tame within year increment of the deficit for the next financial

year (2020/21). Over the long term, Parliament should through the debt strategy seek ways to negotiate the composition of our current debt obligations.

- 40) **Health Sector:** the national government made a commitment on Universal Health Coverage. Noting that health is a largely devolved function, there is a need to ensure that national and county efforts are coordinated. In the past, the national government provided Conditional Grants to specific health functions at the county level. However, the criteria and conditions related to those grants remained unclear. There is therefore need to strengthen the intergovernmental coordination in the health sector. Additionally, parliament needs to Parliament needs to get clarity on how the grants will be rolled out among counties.
- 41) **Environment, Water and Natural Resources:** Despite Kenya being water scarce country and highly vulnerable to climate change, the absorption of development expenditures in this sector was very low. Just to note from the sector report a significant number of projects were still incomplete. This affected progress towards Kenya achieving its Nationally Determined Contributions (NDCs) and service delivery to the citizens. Parliament needs to provide its oversight role and ensure that MDAs are held accountable on the absorption rate of development expenditures to ensure completion of projects to the point of service delivery.
- 42) **Education:** There was a notable increase in the share of the education sector budget to the total budget from 25 per cent in 2019/20 to 28 per cent in 2020/21. This was largely towards allocations to TSC. There was however limited focus on the governments agenda of 100 per cent transition especially in expanding infrastructure to ease congestion in current facilities. We urge parliament to balance the allocations to ensure all round development of the sector.

Submission by Kenya National Chamber of Commerce and Industry (KNCCI)

43) Kenya National Chamber of Commerce and Industry (KNCCI) submitted its memorandum on the 2020 BPS.

44) The Chamber observed that

- i) both levels of government have steep revenue targets for the FY 2020/21.
- ii) revenue projection and collection are not reflective of the reality and are uncertain. Key sources especially in income tax and VAT are declining as a proportion of total revenue while non-tax income proportion is increasing.
- iii) the share of county equitable allocation has also been declining in comparison to national ordinary revenue growth.
- iv) The BPS 2020 indicates that current revenue shortfalls have been as a result of underperformance of all broad categories of ordinary revenue except non-tax revenue. Government plans to double its effort in domestic resource mobilization and rationalize expenditure as key to lowering the budget deficit. In the medium term no growth in the percentage of revenue to GDP is envisioned and it is expected to remain at 18.4 per cent in the medium term.

45) The Chamber implores parliament commitment to strengthening the performance of the economy especially in job creation through relooking the investments that will determine tax increment. They submitted that-

- a) National ordinary revenue growth is declining year on year for the last 6 years. On average the growth of revenue has been at 13 per cent over the last 6 years. This is to be commended. It is clear that save for the projections of 2019/20 there has been a decline from 18 per cent in 2013/14 to 2 per cent in 2020/21 in the growth of revenue. There is need for a revamping of productive economy that creates gainful employment to enhance the growth in the ordinary revenue for future sustainability.
- b) While tax revenue has shown a decline, non-tax revenue has filled the shortfall. This is expected to change in 2020/21 where growth of all tax sources are expected to decline. Key among them is import duty and exercise duty which shall have a negative one per cent decline while non-tax revenue is expected to

register a negative seven per cent decline. This explains an expected two per cent growth in total ordinary revenue in 2020/21. All sources have had booms and bursts which indicates unpredictability of revenues and that could explain the cash flow challenges experienced in the government.

- c) Income tax and VAT share of total revenue has been on a decline and yet these are key sources. They have declined from 71 per cent in 2012/13 and projected to be at 63 per cent in 2020/21. This indicates poor growth in productive economy and incomes. Non-tax revenue as a proportion of total tax revenue is expected to grow to 18 per cent of total revenue in 2020/21. The challenge with non-tax revenue is that it is based on onetime expenses like renewal of passports. Further it suggests that Kenyans are probably having to pay extra fees in services that are already covered by budget expenditures.
- d) To address the declining growth of corporate income tax, the chamber recommends -
 - i) that the government should increase its taxes horizontally rather than vertically.
 - ii) the government should consider expanding its tax base (tax revenue components) instead of its tax rates. This will enable the government to collect more revenue by bringing in more people to tax bracket while at the same time help avoid exorbitantly charging tax to businesses. This will promote efficiency and compliance in tax collection and by extension, create an enabling environment to the businesspeople.
 - iii) Implementation of an exemption reform to reduce or curb exemptions through which many governments incur a significant loss in their revenues.
- e) While the ease of doing business continues to indicate commendable improvement, its notable that the approach is majorly tailored towards big businesses and multinationals. Recognizing that challenge and to ease business environment and formalization of SMES, the Chamber recommend that parliament considers providing a waiver of legal provision on licensing of MSMEs aged less than 3 years to provide incentive to the businesses to transition from informal to formal establishments: this will bring approximately 5.85

million unlicensed MSMEs, which comprise over 78% of all MSMEs, back to the formal economy.

- f) Recognizing that the Finance Act 2019, Kenya re-introduced the presumptive tax which is to be charged at a rate of 15% of a single business permit and a turnover tax (TOT) which will be a final tax whose rate would be 3% of the gross sales for a business whose income is not more than Ksh 5 million and further recognizing the multiple taxes, licenses and fees that SMES have to pay to operate, the Chamber recommend that the government adopts a graduated scale of turnover tax and to simplify the same in order to encourage compliance and further that SMEs who fall in the TOT tax be exempt from presumptive tax. We also call for the parliament to consider modalities of reducing the multiple fees and rates like cess which SMEs have to pay across various counties.

IV. SENATE STANDING COMMITTEES' SUBMISSIONS ON THE 2020 BPS

STANDING COMMITTEE ON ROADS AND TRANSPORTATION		
	Observation	Recommendation
1.	The State Department for Housing and Urban development is to deliver of 500,000 housing units by 2022 under the affordable Housing programme. However, it is observed that only 228 units have been achieved since inception of the programme. The programme seems to be off track hence the need for a comprehensive status report on the implementation and viability of pursuing the programme from State Department.	There is need to establish a collaborative framework between the two levels of government and policy to ensure that urban planning across the country is informed by the envisaged targets under housing as a pillar of the Big Four. There is also need to develop a policy on how to collaborate with county governments in the achievement of the targeted housing units of 500,000 by 2022.
2.	Based on the analysis of resource requirement versus the ceilings provided in the BPS all the State Departments have proposed ceilings below what they were allocated in the financial year 2019/20.	All spending agencies should prioritize their programmes and activities, implement efficiency and productivity measures in order to use the limited resources to achieve the performance targets including supporting the big four agenda since resources due to the hard budget constraints.
3.	Whereas it is commendable to achieve the set targets with the voted resources, it may not be logical to exceed the targeted output if policy costings were prudently done. Exceeding the targeted outputs accounts for accumulation of pending Bills.	The State Department for Infrastructure should provide a plausible explanation that is within the law to demystify the likelihood that the huge pending Bills reported every financial year are not as result of the overachieved KPIs.

4.	The Two ferries MV Jambo and MV Safari were to be delivered in April, 2018 at a cost of Kshs. 1,8630 million, however, the delivery for one of ferries was fast-tracked and the cost varied by Kshs. 300 million effectively taking the total cost to Kshs. 2,1630 million. While MV jambo was delivered under fast-tracking arrangement, the MV safari was not delivered. The delay was attributed to court injunction by a consultant whose contract was terminated.	The State Department should provide information on the fate of the second ferry (MV safari) and realism of procuring and delivering two more ferries in the financial year 2020.
5.	The BPS 2020 targets construction/rehabilitation of 8 Airstrips, however, the list of the Airstrips and locations are not provided.	The State Department for Transport should provide the list with a view to ascertain the extent to which it complies with the Committee's recommendation in 2018/19 that the Airstrips be distributed fairly across the country giving priority to regions/areas with poor road networks.
6.	The State Department for Shipping and Maritime intends to increase the revenues from the restructured Kenya National Shipping Line (KNLS) from the current Kshs. 17 million to Kshs. 152 million in the Financial Year 2020. It is however, noted that these internal revenues from KNLS were never reported in the previous financial years.	The State Department should provide accounts complying with requirement on full disclosure on what was collected and how it was utilized.
7.	It is noted that construction of Police and Prisons housing units has been slow in the last 2 financial years. It is also worth noting that the State Department still pursues the programme as outlined in the BPS 2020 against the recent policy of paying House allowances to police officers.	The State Department should clarify how the two policy positions will be reconciled.

8.	The execution of planned Public Private Partnership (PPP) projects seem to have stalled since most of the projects stagnated at the same stage that was reported in the BPS 2019.	The State Departments for Infrastructure, the State Department for Transport and the State Department for Housing should provide a status report on each of the affected with a view to addressing the challenges
9.	Duplication in functions between National and County Governments: According to 2020 BPS, some of the envisaged targets under the KPIs reveal that the National Government sets out to undertake some programmes that should ideally be done by County Governments. Such include construct and complete some markets which is a function of the county government	National Treasury should indicate in the BPS the role of County government in achieving common good for the nation.
STANDING COMMITTEE ON AGRICULTURE, LIVESTOCK AND FISHERIES		
1.	The Budget Policy Statement 2020 fails to adhere to the Maputo Declaration that requires the allocation of at least 10% of the budget to the agriculture sector.	The government should endeavour to allocate at least 10% of the budget of the nation the agriculture sector in line with the Maputo Declaration as the sector is the backbone of the economy.
2.	The Ministry has plans and strategies in place and well espoused in the Budget Policy Statement with the objective of making the country food and nutrition secure. However, the resources provided under the BPS may not be adequate to realize this goal. The sector's resource requirement stands at Kshs 105.4 billion against an allocation of Kshs 51.2 billion in the FY 2020/21.	A policy framework be put in place to guide budget allocation and provide a standard legal framework as to how monies will be expended by the county governments and to ensure that they are in line with the Maputo Declaration

3.	There is need to improve on the efficiency on implementation of capital projects to ensure that expected returns and service delivery is achieved	The Government must fast-track the implementation and completion of various projects to ensure that projects are completed within the planned duration and that the expected returns and services are achieved
4.	The counties need to revive or strengthen support services including agricultural extension services for improved and sustainable productivity of agriculture	There is need for a policy framework to guide the allocation of the budget by the county governments to ensure that they are in line with the Maputo Declaration that requires that at least 10% of the budget be allocated to agriculture
5.	With regard to disease and pest control, the resource requirement for the control and management of pest and diseases should be allocated. The government needs to be strategic and efficient in procuring and distribution of pesticides to affected counties.	The Budget Policy Statement 2020 should clearly prioritize and address issuance of conditional grants to support county extension services
6.	An assessment of the 2020/21 Key Performance Indicators (KPIs) envisaged to be undertaken in various programmes in agriculture under the national government include, procurement of tractors and rice harvesters, pest control, on farm water provision and crop development. This goes beyond the realms of agricultural policy, a mandate that is constitutionally bestowed to the county governments.	The National Government should release devolved functions and funds to the counties;
STANDING COMMITTEE ON LANDS, ENVIRONMENT AND NATURAL RESOURCES		
1.	The implantation of the NLIMs is critical to the digitization of the sub-sectors functions and cannot be left to be held	The Committee recommends that ICT funds to do with Land matters be domiciled at both the National Land Commission and the Ministry of

	back by bureaucratic hiccups between the Ministry of ICT and the implementing agency.	Lands and Physical Planning to curb the bureaucracies involved in obtaining the funds from the Ministry of ICT and to prioritize the boosting of capacity and manpower to the National Land Commission
2.	Inadequate policy on settlement of the landless and database of genuine squatters and poor landless has led to 'professional squatting' on both private and public land in anticipation for settlement.	Government should develop a clear policy on settlement of the landless.
3.	Uncontrolled subdivision due to inadequate policy guideline on minimum and maximum land holding has led to haphazard developments and conversion of viable agricultural land into real estate leading to decline in land under agriculture. The BPS 2020 seeks to mitigate this by seeking to lease idle arable land held by public institutions for food and nutrition security	The Ministry of Lands and Urban Development should operationalize the Physical Planning and land use Act, 2019.
STANDING COMMITTEE ON HEALTH		
1.	The BPS 2019 had envisaged the allocation to the sector to reach 15% of the sectoral allocations by 2021/22. However, a check at the MTEF allocation, the 15% may not be achieved.	The Health is a devolved function hence it is recommended that all funds meant for implementation of various projects should be devolved to the counties rather than the Ministry of Health.
2.	The Government aimed at establishing 10 referrals hospitals at the inception of UHC. However, given the MTEF allocation for this sector, this goal may not be attained due to resource constraints.	The ministry should provide a framework on collaboration with the county government to upgrade the existing county referral hospitals into national referral hospitals.

3.	Committee observed that in the four counties which were piloting the UHC implementation has not created a huge impact as was envisaged owing to various challenges including human resource challenges, budgetary allocations for purchase of drugs and the overwhelming number of patients' turnover.	NHIF should be retained to operate as it has been operating and no funds should be allocated to UHC until proper mechanisms for operationalization and its implementation are put place. Since health is devolved the Ministry should facilitate county governments to develop health facilities by according them the financial resources as conditional grants to develop them depending on their needs
4.	Reforms at NHIF – there is need to modernize NHIF systems and improve governance structure through legal and institutional reforms.	The ministry should fast track the necessary reforms envisaged at NHIF as well as giving clear timelines on the same.
5.	the PPP projects under the sector have been reported in the last three years and their status have remained the same, that is, procurement of transaction advisors	The National Treasury should provide a status on this PPP projects since it is in charge of implementing the PPP framework
6.	The Ministry intends to operationalize 80% of portable clinics in 2020/21. This is the project under the slum upgrading programme which is subject to EACC investigations	The National Treasury should not allocate any resources to the project until the investigations are completed.
7.	That the government had allocated Kshs. 63.83 billion in the FY 2010/11 which is before devolution; however the national government health budget has been increasing despite the health function being devolved.	The National Government should increase the allocations to the County Governments to enable delivery of services and gradually reduce the allocation towards the Health sector under the national government.
8.	Managed Equipment Services- A conditional grant of KShs. 6.2 Billion has been included in the BPS 2020 for leasing medical equipment. Further that the project is under active	The National treasury should not allocate any funds to the project until all outstanding issues are resolved.

	investigation both by the Senate and the Directorate of Criminal Investigation.	
	STANDING COMMITTEE ON LABOUR AND SOCIAL WELFARE	
1.	There has been an overall increase of conditional grants to Counties, there lacks a clear implementation framework within the counties;	The ministry of devolution should develop implementation Framework for conditional grants.
2.	That the regulations of PFM (Sports, Arts and Social Development Fund) stipulate that allocations under the fund be shared as 40% for social development including UHC, 35% in promotion of sports and development, 20% for promotion of arts and 5% for government strategic interventions. The Ministry of Sports and Heritage has no specific programs for its share of allocation which is about 4.9Billion.	The Ministry of Sports and Heritage should come up with specific programs with clear objectives to justify budgetary allocations.
3.	There is no policy shift in the Ministry of Sports and Heritage and the Ministry seems to continue funding ongoing projects.	The Ministry of Sports and Heritage should review its policies to spur growth in the areas of Sports development, Arts and culture.
4.	The construction of the seven regional stadia started in 2016 and should have been completed in 2019. Completion is at 50% while the expenditure is Kshs. 544 million	The Ministry of Sports and Heritage should allocate some of its share from the Sports Arts and Social Development Fund to fully complete the stadia construction.
5.	There is an issue of an aging workforce within the National Archives with 70% of the regional staff retiring.	The Ministry of sports should build capacity of other employees for continuity.

6.	The country's historical monuments are in dilapidated conditions due to lack of maintenance and adequate funding.	The Ministry of Sports should provide some allocations for maintenance of historical monuments.
STANDING COMMITTEE ON EDUCATION		
1.	The State Department for Early Learning and Basic Education proposed resource ceiling of Kshs 95.6 billion is a reduction from the current expenditure for 2019/20 which is 98.228 billion. This is despite the ministry projection to construct and rehabilitate classrooms.	The criteria to be used to identify schools that will benefit from the construction and rehabilitation of classrooms should be clearly spelt out and should ensure that every county benefits.
2.	The allocation to the State Department for Vocational and Technical Training allocation has been decreased by Kshs. 3,274 billion with a proposed ceiling being Kshs. 23.6 billion down from the current Kshs. 26,888 billion	There is need to increase resources to the State Department for Vocational and Technical Training to cater for increased enrolment, capitation and infrastructural development

V. COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

Observations

The Committee observed the following -

- 1) During the consideration of amendments to Regulation 26(1) c) of the Public Finance Management (National Government) Regulations 2015 (Legal Notice No. 34 of 2015) to provide a numerical ceiling of Kshs. 9 trillion to the total public debt, one of the rationale advanced by the National Treasury to expand the debt ceiling was to create space to refinance the expensive debts, however in the fiscal framework it is indicated that the commercial debt projected for the FY 2019/20 (Kshs. 213.1 billion) is now projected to increase to Kshs. 274.4 billion in the FY 2020/21.
- 2) Revenue-Growth Nexus: The economy is projected to grow at 6.2 percent yet the ordinary revenue is projected to go down as a percentage of GDP.
- 3) The growth of revenues in the medium term is underpinned by on-going reforms in tax policy and revenue administration, automation, modernizing and simplifying various tax laws.
- 4) Principle of subsidiarity- In regards to allocation of resources to devolved functions, the principle of subsidiarity demands that decisions on resources, priorities, service delivery and performance targets are assigned to the lowest level of government that is capable of delivering it. The principle stems from the idea that decentralization benefits citizens by giving them greater influence over decisions affecting the services they receive. Therefore, it is expected that conditional grants should contract giving way for an increase in equitable share.
- 5) The 2020 BPS seeks to accelerate the implementation of the “Big Four” Agenda which has gained traction over the past two years. However, there is no framework which breaks down county specific goals, outcomes targets, timelines and deliverables for effective and efficient service delivery.
- 6) The number of new jobs created each year between 2014 and 2018 was below the government’s target of creating one million new jobs annually. Further, over 83% of

the 800,000 new jobs created annually between 2014 and 2018 were in the informal sector.

- 7) The BPS 2020 outlines that over the medium term, the Government will curtail growth in public expenditures to ensure it attains its fiscal consolidation path with the fiscal deficit (inc. grants) expected to decline from 7.7 percent of GDP in 2018/19 to approximately 3.0 percent of GDP by FY 2023/24. It is important to note that the reductions in the budget is mainly under the development expenditures which is set to decline from Kshs. 731 billion in the FY 2019/20 to a proposed figure of Kshs. 587 billion in FY 2020/21. This may lead to delays in ongoing projects, further escalation of pending bills and stalling of projects.
- 8) Through its interaction with stakeholders, the Committee was informed that out of the total expenditure by NHIF for the FY 2018/2019 (Kshs. 37 billion), private hospitals received KES 22 billion while government and mission hospitals received KES 7 Billion and KES 8 Billion respectively. This implies that government health facilities received only 18.6% allocation of NHIF disbursement in that year. This deprives the financial capacity of relying on NHIF reimbursements to improve facilities in public health hospitals.
- 9) The equitable share to county governments has consistently been dropping from a high of 4.40 percent of GDP in the FY 2013/14 to a low of 2.50 percent of GDP in the FY 2020/21. This further goes down to 2.28 percent in the FY 2022/23.
- 10) The disbursements to the GOK funded Conditional grants increased from Kshs. 5.67 billion in the FY 2013/14 to Kshs. 19.32 billion, while conditional allocations financed by loans and grants from development partners have increased from Kshs. 1.11 billion in the FY 2014/15 to Kshs. 23.64 billion in the FY 2018/2019. The number of conditional grants also increased over the same period. However, there is no clear basis/criteria that determines how much conditional grants is allocated and the basis of distribution.
- 11) The proposal by the Commission on Revenue Allocation through its recommendations to Parliament in December 2019 sets the county equitable share at Kshs 321.74 billion. This is derived by adjusting the National and County governments' development expenditures on the basis of the average rate of the country's economic growth (5.7%).

The adjustment translates to additional allocation of Kshs. 5.24 billion to the counties. The Committee observes that CRA has submitted a memorandum moving from their proposal of equitable share of Kshs 321.74 billion to Ksh. 316.5 Billion. In addition, the CRA proposed a total figure of Kshs. 27.50 billion for the conditional grants, rather than a breakdown proposal for each of the conditional grants.

- 12) The National Treasury proposes an allocation of Ksh. 369.87 Billion to the County Governments for FY 2020/21. This amount comprises of Ksh. 316.5 Billion as county equitable share and Ksh. 13.73 billion as GOK conditional grants, Kshs. 9.43 billion allocation from the Road Maintenance Levy and Kshs. 30.20 billion as allocations from loans and grants.
- 13) The National Treasury and CRA are using the audited reports for the FY 2014/2015 with revenue of Kshs. 1,038,035 million while the latest approved audited reports are for FY 2016/2017 *with revenue of Kshs. 1,357,698 million.*
- 14) The proposed county shareable revenue for the FY 2020/21 is Kshs. 316.50 billion which is 30 percent of the FY 2014/2015 audited accounts of Kshs. 1,038.035 billion. However, in using the latest audited accounts of FY 2016/2017 with revenue of Kshs. 1,357.698, the proportion of the proposed county equitable share drops to 23 percent of the total shareable revenue.
- 15) According to the BPS 2020, a special audit report indicated that out of a total Kshs. 88.98 billion pending bills presented to OAG for audit, bills amounting to Ksh 51.2 billion (58%) were reported as payable while Ksh 37.7 billion (42%) lacked sufficient documentations to support services rendered or work done and therefore were not recommended for payment. This position was communicated to the County Governments with a requirement to immediately commence payment of these bills. As at 3rd February 2020, the amount of eligible pending bills paid was Ksh 31.42 billion leaving an outstanding balance of Ksh 19.78 billion as at February 2020.
- 16) That payment of pension continued to be a huge obligation to the national government. Further, processing of pension payment was a challenge, slow and delayed. Consequently, State Agencies were holding huge debt owed to pensioners.
- 17) That National Treasury in drafting clause 5 of the draft Division of Revenue Bill, 2020 has vacated the usual reading of the clause. The new bill reads as follows 'that if the

actual revenue raised nationally in the financial year falls short of the expected revenue set out in the Schedule, the shortfall shall be borne by the national government, *to the extent of the threshold prescribed in Regulations by the Cabinet Secretary*'.

- 18) The Committee noted that the BPS 2020, was submitted together with draft Division of Revenue Bill and a draft County Allocation of Revenue Bill. This is the correct sequence in which legislation giving effect to the BPS should be considered.
- 19) That allocations for conditional grant on Supplement for Construction of County Headquarters has been fluctuating over the years, this hampers proper planning and expeditious implementation of the project.
- 20) The draft County Allocation of Revenue Bill submitted by National Treasury used the 2nd Revenue sharing formulae, However, Parliament was concluding the approval of the 3rd revenue sharing formulae.

Observations on Medium Term Debt Management Strategy-

- 21) Fiscal deficit projections for the medium term, which are given under the Budget Policy Statements and the Medium-Term Debt Management Strategy (MTDMS) paper, are never realized. This has led to debt accumulation over the years. The rising debt levels lead to increased debt refinancing requirements and interest payments that shrink the fiscal space in the forward years.
- 22) The debt limit was increased based on the need to undertake debt restructuring and limit commercial borrowing, however the strategies and efforts to achieve this has not been discussed in the MTDMS 2020.
- 23) Thresholds relating to debt service i.e. to revenue and exports, have been breached indicating sustained pressure on both domestic and on externally generated income.
- 24) External debt which forms 51 percent of total debt is exposed to exchange rate risk, sixty-nine percent of the total external debt is U.S dollar denominated.
- 25) Although the proportion of domestic debt represents 49 percent of the total public debt, domestic interest payment is about twice that of external debt. This is because the maturity profile of the outstanding domestic debt is characterised by high refinancing risk with 34.9 percent of the debt maturing within 12 months compared to 3.9 percent

of external debt. The risk to debt sustainability therefore does not arise from external debt but domestic debt.

- 26) As at December 2019, a total of Kshs. 158.1 billion worth of guarantees had been provided to seven Institutions. This is against a ceiling of Kshs 200 billion, therefore the fiscal room available for guarantees as at end of 2019 is Kshs. 41.9 billion for both National and County governments.
- 27) Public and Publicly Guarantee (PPG) threshold for debt service as a percentage of revenue is at 30 percent. In the year 2019, this ratio was at 45.2 percent while it is projected to be 35.2, 46.1 and 47.9 percent in the year 2020, 2021 and 2022 respectively. The ratio therefore is projected to be above the threshold which can create liquidity shocks.

Recommendations

A. Policy Recommendations

- 1) Increase funding levels especially to the sectors that contribute to food security such as Agriculture and manufacturing. Allocation to agriculture sector should be at least 10% of the total national budget as per Maputo Declaration. Exchequer releases should be within the prescribed timeline to facilitate implementation of development programs.
- 2) The government should complete reconfiguration and digitization of NHIF to ensure the system is ready to complement the Universal health Care Program. In addition, County governments should enhance budgetary allocations to the health sector for the country to achieve allocation of 15per cent of the total annual budget as recommended by the African Union under the auspices of Abuja Declaration.
- 3) The National Treasury should provide realistic revenue projections backed up by data. Further, focus on the measures to address the declining levels of income tax and Value Added Tax (VAT) as a proportion of the total tax revenue.
- 4) There is need to re-look at how the vertical revenue sharing is determined to avoid situations whereby the CRA and the National Treasury are proposing different figures using different formula/basis. The debate should not be based on absolute

numbers, but a formula/basis which gives a growth factor for equitable sharing that is linked with growth in the national revenue.

- 5) To spur economic growth and enhance service delivery in line with the scheduled county functions, there should be clear criteria used in identifying and distributing conditional grants, sharing of resources across sectors once the equitable share allocations are allocated to the counties and a further need to assess the impact of equitable share and conditional grants on delivery of services.
- 6) The National Treasury should adhere to the County Governments' Cash disbursement Schedule to address cash flow receipts and disbursements to counties that explains absorption and pending bills among other pending obligations.
- 7) The National Treasury through the accounts board should adopt the accrual based fiscal accounting as opposed to cash accounting which presents challenges in terms of monthly and annual financial reporting on pending bills and other liabilities by all government entities. The accrual based system provides a more comprehensive view of the governments' financial performance and the cost of government activities to avoid pending bills.
- 8) The Ministry of Devolution and Arid and Semi-Arid Lands in conjunction with Council of County Governors should develop a framework through which the Big Four Agenda will be achieved as some of the priority areas under the agenda are functions of county governments.
- 9) The national government should pursue Public Private Partnerships (PPP) models based on independent cost-benefit, Cost-Effectiveness and value-for-money studies, to prevent funding of projects through expensive commercial loans
- 10) The County Governments should replicate the Public Investment and management unit in the National Treasury to guide the appraisal of all projects, improving project selection, budgeting and management before their inclusion in the budgets
- 11) Since approximately 83% of the jobs created annually are in the informal sector, the Kenya Revenue Authority should device mechanisms to establish data on informal sector for purposes of understanding the sectors potential to increase tax revenue through expanding of the tax base

- 12) The Ministry of Lands and Physical Planning should operationalize the Value Index Act, 2019 and Physical Planning & Land Use Act, 2019 to ensure agricultural productivity is not affected by other non-agricultural activities.
- 13) Clause 5 of the proposed Division of Revenue Bill, 2020 should be amended to read *'if the actual revenue raised nationally in the financial year falls short of the expected revenue set out in the schedule, the shortfall shall be borne by the National Government'*
- 14) The Ministry of Health should comply with the policy which is in place in determining national referral hospitals and the level five hospitals.
- 15) Kenya's national government has made a commitment on Universal Health Coverage. Noting that health is a largely devolved function, there is a need to ensure that national and county efforts are coordinated and that the Ministry of Health should develop a guideline/framework on implementation of Universal Health Coverage project by both the National and County governments.
- 16) The National Treasury should fast track the reforms and restructuring of the pensions department to ensure there is efficiency in processing of pension and prompt payments of pension. Further all due pension should be processed and disbursed to the beneficiaries within the next four (4) months.
- 17) That the Division of Revenue Bill should be approved before consideration of the Appropriation Bill in order to ensure that division of revenue precedes legislation on expenditure of said revenue.
- 18) The allocation for conditional grant on Supplement for Construction of County headquarters should be consistent to ensure proper planning and timely implementation of the projects.

Medium Term Debt Management Strategy- Recommendations

- 19) The National Treasury should annually submit to parliament an updated debt register for oversight purpose.
- 20) The National Treasury should provide an analysis of the public debt, projects financed by the debt and impact on the country's economy to improve on project implementation and targeting.

21) The debt limit was increased based on the need to undertake debt restructuring and limit commercial borrowing. The National Treasury should actualise this strategy and submit to Parliament.

22) Since the external debt forms 51 percent of the total debt and is exposed to exchange rate fluctuation risk, this the country debt vulnerability, therefore efforts should be made to reduce debt in major currency to reduce debt Vulnerability.

B. Financial Recommendations

The Committee recommends the following financial recommendations: -

1. That the proposed allocation of shareable revenue to County Governments for FY 2020/21 in the 2020 BPS and the draft Division of Revenue Bill 2020, be as follows

Type/level of allocation	Amount in Kshs (Million)	
Total County 1+2+3	363,663.35	
Of which:		
1. County equitable share	316,500.00	23% OF 2016/2017 AUDITED AND APPROVED REVENUE OF Kshs. 1,357,698
2. GOK Conditional allocations of which:	16,959.00	
1. Leasing of Medical Equipment**	-	
2. Compensation for user fees forgone	900.00	
3. Level 5 hospitals	4,326.00	
4. Supplement for construction of county headquarters	300.00	
5. Rehabilitation of Youth Polytechnics	2,000.00	
6. Allocation from Fuel Levy Fund (15%)	9,433.00	
3 Conditional allocations (Loans & grants) of which:	30,204.35	
4.1 IDA-Kenya Devolution Support Program (KDSP) Level 1	2,115.00	
4.2 IDA-Transforming Health Systems for Universal Care Project	4,345.38	
4.3 DANIDA-Universal Healthcare For Devolved System Program	900.00	
4.4 IDA-National Agriculture & Rural Inclusive Growth Project (NARIGP)	4,261.65	
4.5 EU-Instruments for Devolution Advice and Support (IDEAS)	216.01	

4.6 IDA (World Bank) - Kenya Climate Smart Agriculture Project (KCSAP)	7,119.73	
4.7 World Bank- Kenya Urban Support Program(KUSP)- UDG	6,366.00	
4.8 IDA- Water and Sanitation Development Project (WSDP)	3,400.00	
4.9 Sweden Agriculture Sector Development Programme II (ASDP II)	652.58	
4.10 EU- Water Tower Protection and Climate Change Mitigation and Adaptation Programme (WaTER)	528.00	
4.11 German Development Bank Drought Resilience Programme in Northern Kenya	300.00	

2. The allocation to conditional grant on Leasing of Medical Equipment should be withdrawn and payment discontinued until such a time when the ongoing investigations are complete.
3. That the fiscal deficit (on commitment basis including grants) be binding at 4.9 percent of GDP in FY 2020/21 as projected in the BPS.

APPENDIXES

1. Minutes of the Committee
2. Submission from stakeholders

MINUTES OF THE 131ST MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON THURSDAY, 27TH FEBRUARY, 2020 IN COUNTY HALL, GROUND FLOOR BOARDROOM, PARLIAMENT BUILDINGS AT 11:00 AM.

PRESENT

- | | |
|---|--------------------|
| 1. Sen. (Eng) Mohamed M. Mahamud, CBS, MP | - Chairperson |
| 2. Sen. (Dr) Isaac Mwaura, CBS, MP | - Vice Chairperson |
| 3. Sen. Mutula Kilonzo Junior, MP | - Member |
| 4. Sen. CPA Farhiya Haji, MP | - Member |
| 5. Sen. Boniface Mutinda Kabaka, MP | - Member |
| 6. Sen. (Dr) Rose Nyamunga, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|---|----------|
| 1. Sen. Moses Wetangula, EGH, MP | - Member |
| 2. Sen. (Dr) Ali Abdullahi Ibrahim, CBS, MP | - Member |
| 3. Sen. Aaron Cheruiyot, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|------------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Lucy Makara | - Deputy Director, PBO |
| 3. Ms. Lucy Radoli | - Legal Counsel |
| 4. Ms. Yunis Amran | - Fiscal Analyst |
| 5. Mr. Ian Otieno | - Audio Officer |

MIN. NO. 636/02/2020:

PRELIMINARIES

The Chairperson called the meeting to order at 11.05 am and followed a word of prayer.

MIN.NO. 637/02/2020:

ADOPTION OF THE AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. (Dr) Rose Nyamunga, MP and seconded by Sen. CPA Farhiya Haji, MP.

MIN.NO. 638/02/2020: Confirmation of minutes

- a) The minutes of the 125th meeting held on Tuesday, 18th February, 2020 at 10:00 am were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. (Dr) Rose Nyamunga, MP and seconded by Sen. CPA Farhiya Haji, MP
- b) The minutes of the 126th meeting held on Wednesday, 19th February, 2020 at 11:00 am were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. CPA Farhiya Haji, MP and seconded by Sen. (Dr) Rose Nyamunga, MP.

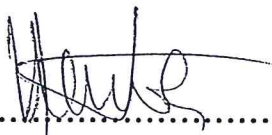
- c) The minutes of the 127th meeting held on Thursday, 20th February, 2020 at 9:30 am were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Mutula Kilonzo Junior, MP and seconded by Sen. (Dr) Rose Nyamunga, MP.
- d) The minutes of the 128th meeting held on Thursday, 20th February, 2020 at 12 noon were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Mutula Kilonzo Junior, MP and seconded by Sen. CPA Farhiya Haji, MP
- e) The minutes of the 129th meeting held on Tuesday, 25th February, 2020 at 10:00 am were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Mutula Kilonzo Junior, MP and seconded by Sen. CPA Farhiya Haji, MP
- f) The minutes of the 130th meeting held on Wednesday, 26th February, 2020 at 11:00 am were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. CPA Farhiya Haji, MP and seconded by Sen. (Dr) Rose Nyamunga, MP

MIN.NO. 639/02/2020: ADOPTION OF REPORT ON 2020 BUDGET POLICY STATEMENT AND MEDIUM TERM DEBT MANAGEMENT STRATEGY

~~The Committee adopted its report on 2020 Budget Policy Statement and Medium Term Debt~~
Management Strategy (MTDMS) having being proposed by Sen. Sen. Mutula Kilonzo Junior, MP and seconded by Sen. CPA Farhiya Haji, MP

MIN.NO. 640/02/2020: ANY OTHER BUSINESS AND ADJOURNMENT

There being no other business the Chair adjourned the meeting at 12.15 pm.

SIGNATURE.....

(CHAIRPERSON: SEN. (ENG) MOHAMED MAALIM MAHAMUD)

DATE.....27/02/2020

MINUTES OF THE 130TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 26TH FEBRUARY, 2020 IN COUNTY HALL, GROUND FLOOR BOARDROOM, PARLIAMENT BUILDINGS AT 11:00 AM.

PRESENT

- | | |
|---|--------------------|
| 1. Sen. (Eng) Mohamed M. Mahamud, CBS, MP | - Chairperson |
| 2. Sen. (Dr) Isaac Mwaura, CBS, MP | - Vice Chairperson |
| 3. Sen. CPA Farhiya Haji, MP | - Member |
| 4. Sen. Boniface Mutinda Kabaka, MP | - Member |
| 5. Sen. (Dr) Rose Nyamunga, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|---|----------|
| 1. Sen. Moses Wetangula, EGH, MP | - Member |
| 2. Sen. Mutula Kilonzo Junior, MP | - Member |
| 3. Sen. (Dr) Ali Abdullahi Ibrahim, CBS, MP | - Member |
| 4. Sen. Aaron Cheruiyot, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|------------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Mr. Martin Masinde | - Deputy Director, PBO |
| 3. Ms. Lucy Makara | - Deputy Director, PBO |
| 4. Ms. Lucy Radoli | - Legal Counsel |
| 5. Ms. Yunis Amran | - Fiscal Analyst |
| 6. Mr. Ian Otieno | - Audio Officer |

MIN. NO. 631/02/2020:

PRELIMINARIES

The Chairperson called the meeting to order at 11.15 am and thereafter followed a word of prayer.

MIN.NO. 632/02/2020:

ADOPTION OF THE AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. Boniface Mutinda Kabaka, MP and seconded by Sen. CPA Farhiya Haji, MP.

MIN.NO. 633/02/2020: CONSIDERATION OF 2020 MEDIUM TERM DEBT MANAGEMENT STRATEGY

The Committee considered 2020 Medium Term Debt Management Strategy (MTDMS) submitted to Parliament pursuant to sections 33 and 64(2) of Public Finance Management Act, 2012.

The Committee made the following observations-

- 1) Analysis of the previous BPS and MTDMS indicate that fiscal deficit projections are never achieved. This had led to debt accumulation over the years. This adversely affected the shareable revenue hence county equitable share increased at a diminishing rate.
- 2) The Public and Public Guaranteed Debt- the overall DSA ratios (as a percentage of GDP) indicated that Kenya's debt is within sustainable range and is expected to remain so into the medium term. However, Public and Publicly Guarantee (PPG) debt service ratio (relating to debt service- as a percentage of revenue) will remain breached into the medium term.
- 3) The external debt sustainability analysis- indicates that risk will emanate from the pressures of external debt service to Exports and revenues. Without a proper export strategy then the volatility of exports could jeopardize the ratios operating just above the threshold. DSA indicates that the external debt is within the threshold of all the ratios.
- 4) The debt limit was increased based on the need to undertake debt restructuring and limit the use of commercial debt. However, the issue of debt restructuring had not been raised under the 2020 MTDMS.
- 5) Thresholds relating to debt service i.e. to revenue and exports, have been breached indicating sustained pressure on both domestic and on externally generated income.
- 6) The critical focus should be on debt vulnerability rather than debt sustainability.
- 7) Debt vulnerability will likely arise primarily from domestic debt portfolio than external debt portfolio.
- 8) The increase in public debt guarantees reduces the guarantee window which could have an impact on debt guarantee to national and sub-national institutions

**MIN.NO. 634/02/2020: CONSIDERATION OF REPORT ON 2020 BUDGET POLICY
STATEMENT AND MEDIUM TERM DEBT
MANAGEMENT STRATEGY**

The Committee considered the draft report and made the following-

Policy recommendations

- 1) Increase funding levels especially to the sectors that contribute to food security such as Agriculture and manufacturing. Allocation to agriculture sector should be at least 10% of the total national budget as per Maputo Declaration. Exchequer releases should be within the prescribed timeline to facilitate implementation of development programs.

- 2) The government should complete reconfiguration and digitization of NHIF to ensure the system is ready for roll out before fully implementing the UHC.
- 3) The National Treasury should provide realistic revenue projections backed up by data. Further, focus on the measures to address the declining levels of income tax and Value Added Tax (VAT) as a proportion of the total tax revenue.
- 4) There is need to establish a basis for equitable revenue sharing between the two levels of government for there to be certainty for county equitable share in order to ensure predictability.
- 5) The National Treasury should adhere County Governments' Cash disbursement Schedule to Address cash flow receipts and disbursements to counties that explains absorption and pending bills among other pending obligations.
- 6) The National Treasury should fast-track adoption of accrual based fiscal reporting by all government entities which provide a more comprehensive view of the governments financial performance and the cost of government activities to avoid pending bills.
- 7) The Ministry of Devolution and Arid and Semi-Arid Lands in conjunction with Council of County Governors should develop a framework through which the Big Four Agenda will be achieved as some of the priority areas under the agenda are functions of county governments.
- 8) The national government should pursue the PPP financing model specifically for development projects that qualify for such funding under infrastructure.
- 9) The Ministry of Lands and Physical Planning should operationalize the Value Index Act, 2019 and Physical Planning & Land Use Act, 2019 to ensure agricultural productivity is not affected by other non-agricultural activities.
- 10) Clause 5 of the proposed Division of Revenue Bill, 2020 should be amended to read '*if the actual revenue raised nationally in the financial year falls short of the expected revenue set out in the schedule, the shortfall shall be borne by the National Government*'.
- 11) The Ministry of Health should develop policy guideline for determining national referral hospitals and the level five hospitals.
- 12) The Ministry of Health should develop a guideline on implementation of Universal Health Coverage project.
- 13) The National Treasury should fast track the reforms and restructuring of the pensions department to ensure there is efficiency in processing of pension and expeditious payments of pension. Further all due pension should be processed and disbursed to the beneficiaries within the next four (4) months.
- 14) The National Treasury should regularly submit an updated debt register to parliament for accountability, openness and public scrutiny.
- 15) The National Treasury should provide an analysis of the public debt, projects financed by the debt and impact on the country's economy. This will reduce projects that do not

address key economic priorities and will wipe out white elephant projects which are in the budget

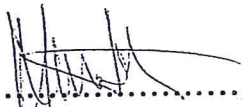
- 16) The debt limit was increased based on the need to undertake debt restructuring and limit commercial borrowing, the National Treasury should actualise this strategy and seek ways to renegotiate the current debt obligations.
- 17) Since the external debt forms 51 percent of the total debt and is exposed to exchange rate risk, efforts should be made to contract debt in the major currencies. The critical focus should be on debt vulnerability rather than debt sustainability.

Financial recommendations

1. That the allocation of revenue to County Governments for FY 2020/21 that is proposed in the 2020 BPS and the draft Division of Revenue Bill 2020, be as follows –
 - (i) Total County Allocation be **Ksh. 363.663 Billion** of which
 - County Equitable share be **Ksh. 316.5 Billion**
 - County Conditional Grants be **Ksh. 47.163 Billion** which comprises of the following-
 - ✓ Compensation for user fees foregone- **Ksh. 0.90 Billion**
 - ✓ Level 5 Hospitals- **Ksh. 4.326 Billion**
 - ✓ Rehabilitation of Youth Polytechnics- **Ksh. 2.00 Billion**
 - ✓ Supplement for Construction of County HQs- **Ksh. 0.30 Billion**
 - ✓ Allocation from the Road Maintenance Fuel Levy Fund (15 percent)- **Ksh. 9.433 Billion**
 - ✓ Allocation from Development Partners as Loans and Grants- **Ksh. 30.20 Billion**
2. The allocation to conditional grant on Leasing of Medical Equipment should be withdrawn and payment discontinued until such a time when the ongoing investigations are complete.
3. That the fiscal deficit (on commitment basis including grants) be binding at **4.9 percent of GDP** in FY 2020/21 as per 2020 BPS.

MIN.NO. 635/02/2020: ANY OTHER BUSINESS AND ADJOURNMENT

There being no other business the Chair adjourned the meeting at 1.35 pm. Next meeting Thursday, 27th February, 2020 at 11 am.

SIGNATURE.....
(CHAIRPERSON: SEN. (ENG) MOHAMED MAALIM MAHAMUD)

DATE.....27/2/2020.....

MINUTES OF THE 129TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON TUESDAY, 25TH FEBRUARY, 2020 IN COUNTY HALL, GROUND FLOOR BOARDROOM, PARLIAMENT BUILDINGS AT 10:00 AM.

PRESENT

- | | |
|---|--------------------|
| 1. Sen. (Eng) Mohamed M. Mahamud, CBS, MP | - Chairperson |
| 2. Sen. (Dr) Isaac Mwaura, CBS, MP | - Vice Chairperson |
| 3. Sen. CPA Farhiya Haji, MP | - Member |
| 4. Sen. Mutula Kilonzo Junior, MP | - Member |
| 5. Sen. (Dr) Rose Nyamunga, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|---|----------|
| 1. Sen. Moses Wetangula, EGH, MP | - Member |
| 2. Sen. (Dr) Ali Abdullahi Ibrahim, CBS, MP | - Member |
| 3. Sen. Aaron Cheruiyot, MP | - Member |
| 4. Sen. Boniface Mutinda Kabaka, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|-------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Lucy Radoli | - Legal Counsel |
| 3. Ms. Yunis Amran | - Fiscal Analyst |
| 4. Mr. Ian Otieno | - Audio Officer |

INATTENDANCE – ATTACHEES FROM PARLIAMENT OF REPUBLIC OF UGANDA

- | | |
|-----------------------------|--------------------|
| 1. Ms. Mataka Janet Gladys | - Economist |
| 2. Ms. Babirye Flavia Ritah | - Senior Economist |

MIN. NO. 627/02/2020:

PRELIMINARIES

The Chairperson called the meeting to order at 10.17 am and there followed a word of prayer.

MIN.NO. 628/02/2020:

ADOPTION OF THE AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. (Dr) Rose Nyamunga, MP and seconded by Sen. CPA Farhiya Haji, MP.

**MIN.NO. 629/02/2020: CONSIDERATION OF STANDING COMMITTEES
SUBMISSIONS ON 2020 BUDGET POLICY STATEMENT
AND MEDIUM TERM DEBT MANAGEMENT STRATEGY**

The Committee considered submissions from Senate Standing Committee as follows-

STANDING COMMITTEE ON AGRICULTURE, LIVESTOCK AND FISHERIES		
	OBSERVATIONS	RECOMMENDATIONS
1.	The Budget Policy Statement 2020 fails to adhere to the Maputo Declaration that requires the allocation of at least 10% of the budget to the agriculture sector.	The government should endeavor to allocate at least 10% of the budget of the nation the agriculture sector in line with the Maputo Declaration as the sector is the backbone of the economy.
2.	The Ministry has plans and strategies in place and well espoused in the Budget Policy Statement with the objective of making the country food and nutrition secure. However, the resources provided under the BPS may not be adequate to realize this goal. The sector's resource requirement stands at Kshs 105.4 billion against an allocation of Kshs 51.2 billion in the FY 2020/21.	A policy framework be put in place to guide budget allocation and provide a standard legal framework as to how monies will be expended by the county governments and to ensure that they are in line with the Maputo Declaration
3.	There is need to improve on the efficiency on implementation of capital projects to ensure that expected returns and service delivery is achieved	The Government must fast-track the implementation and completion of various projects to ensure that projects are completed within the planned duration and that the expected returns and services are achieved.
4.	The counties need to revive or strengthen support services including agricultural extension services for improved and sustainable productivity of agriculture	Formulate a policy framework to guide the allocation of the budget by the county governments to ensure that they are in line with the Maputo Declaration that requires that at least 10% of the budget be allocated to agriculture.
5.	With regard to disease and pest control, the resource requirement for the control and management of pest and diseases should be allocated. The government needs to be strategic and efficient in procuring and distribution of pesticides to affected counties.	The Budget Policy Statement 2020 should clearly prioritize and address issuance of conditional grants to support county extension services
6.	An assessment of the 2020/21 Key Performance Indicators (KPIs) envisaged to be undertaken in	The National Government should release devolved functions and funds to

	various programmes in agriculture under the national government include, procurement of tractors and rice harvesters, pest control, on farm water provision and crop development. This goes beyond the realms of agricultural policy, a mandate that is constitutionally bestowed to the county governments.	the counties;
	STANDING COMMITTEE ON LANDS, ENVIRONMENT AND NATURAL RESOURCES	
	OBSERVATIONS	RECOMMENDATIONS
1.	The implantation of the NLIMs is critical to the digitization of the sub-sectors functions and cannot be left to be held back by bureaucratic hiccups between the Ministry of ICT and the implementing agency.	The Committee recommends that ICT funds to do with Land matters be domiciled at both the National Land Commission and the Ministry of Lands and Physical Planning to curb the bureaucracies involved in obtaining the funds from the Ministry of ICT and to prioritize the boosting of capacity and manpower to the National Land Commission
2.	Inadequate policy on settlement of the landless and database of genuine squatters and poor landless has led to 'professional squatting' on both private and public land in anticipation for settlement.	Government should develop a clear policy on settlement of the landless.
3.	Uncontrolled subdivision due to inadequate policy guideline on minimum and maximum land holding has led to haphazard developments and conversion of viable agricultural land into real estate leading to decline in land under agriculture. The BPS 2020 seeks to mitigate this by seeking to lease idle arable land held by public institutions for food and nutrition security	The Ministry of Lands and Urban Development should operationalize the Physical Planning and land use Act, 2019.

STANDING COMMITTEE ON HEALTH		
	OBSERVATIONS	RECOMMENDATIONS
1.	The BPS 2019 had envisaged the allocation to the sector to reach 15% of the sectoral allocations by 2021/22. However, a check at the MTEF allocation, the 15% may not be achieved.	The Health is a devolved function hence it is recommended that all funds meant for implementation of various projects should be devolved to the counties rather than the Ministry of Health.
2.	The Government aimed at establishing 10 referrals hospitals- at the inception of UHC. However, given the MTEF allocation for this sector, this goal may not be attained due to resource constrains.	The ministry should provide a framework on collaboration with the county government to upgrade the existing county referral hospitals into national referral hospitals.
3.	Committee observed that in the four counties which were piloting the UHC implementation has not created a huge impact as was envisaged owing to various challenges including human resource challenges, budgetary allocations for purchase of drugs and the overwhelming number of patients turnover.	NHIF should be retained to operate as it has been operating and no funds should be allocated to UHC until proper mechanisms for operationalization and its implementation are put place.
		Since health is devolved the Ministry should facilitate county governments to develop health facilities by according them the financial resources as conditional grants to develop them depending on their needs
4.	Reforms at NHIF – there is need to modernize NHIF systems and improve governance structure through legal and institutional reforms.	The ministry should fast track the necessary reforms envisaged at NHIF as well as giving clear timelines on the same.
5.	the PPP projects under the sector have been reported in the last three years and their status have remained the same, that is, procurement of transaction advisors	The National Treasury should provide a status on this PPP projects since it is in charge of implementing the PPP framework
6.	The Ministry intends to operationalize 80% of portable clinics in 2020/21. This is the project under the slum upgrading programme which is subject to EACC investigations	The National Treasury should not allocate any resources to the project until the investigations are completed.

7.	That the government had allocated Kshs. 63.83 billion in the FY 2010/11 which is before devolution; however the national government health budget has been increasing despite the health function being devolved.	The National Government should increase the allocations to the County Governments to enable delivery of services and gradually reduce the allocation towards the Health sector under the national government.
8.	Managed Equipment Services- A conditional grant of KShs. 6.2 Billion has been included in the BPS 2020 for leasing medical equipment. Further that the project is under active investigation both by the Senate and the Directorate of Criminal Investigation.	The National Treasury should not allocate any funds to the project until all outstanding issues are resolved.
6.	The country's historical monuments are in dilapidated conditions due to lack of maintenance and adequate funding.	The Ministry of Sports should provide some allocations for maintenance of historical monuments.

MIN.NO. 630/02/2020: ANY OTHER BUSINESS AND ADJOURNMENT

There being no other business the Chair adjourned the meeting at 11.40 am. Next meeting Wednesday, 26th February, 2020 at 11 am.

SIGNATURE.....
(CHAIRPERSON: SEN. (ENG) MOHAMED MAALIM MAHAMUD)

DATE.....

MINUTES OF THE 128TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON THURSDAY, 20TH FEBRUARY, 2020 IN COUNTY HALL, GROUND FLOOR BOARDROOM, PARLIAMENT BUILDINGS AT 12:00 NOON.

PRESENT

- | | |
|---|---------------------|
| 1. Sen. CPA Farhiya Haji, MP | - Member (Chairing) |
| 2. Sen. Mutula Kilonzo Junior, MP | - Member |
| 3. Sen. Moses Wetangula, EGH, MP | - Member |
| 4. Sen. (Dr) Ali Abdullahi Ibrahim, CBS, MP | - Member |
| 5. Sen. Aaron Cheruiyot, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|---|--------------------|
| 6. Sen. (Eng) Mohamed M. Mahamud, CBS, MP | - Chairperson |
| 7. Sen. (Dr) Isaac Mwaura, CBS, MP | - Vice Chairperson |
| 8. Sen. (Dr) Rose Nyamunga, MP | - Member |
| 9. Sen. Boniface Mutinda Kabaka, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|-------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Lucy Radoli | - Legal Counsel |
| 3. Ms. Yunis Amran | - Fiscal Analyst |
| 4. Mr. Ian Otieno | - Audio Officer |

INATTENDANCE – NATIONAL TREASURY AND PLANNING

1. Hon. (Amb.) Ukur Yatani, EGH – Cabinet Secretary
2. Hon. Nelson Gaichuhie – Chief Administrative Secretary
3. Mr. Albert Mwenda – Director General, Intergovernmental Budget and Fiscal Affairs
4. Mr. Amos Gathecha – Principal Administrative Secretary
5. Mr. Musa Kathanje – Director Macro & Fiscal Affairs
6. Ms. Josephine Kanyi – Senior Deputy Director
7. Prof. Dulacha Barano – Senior Advisor
8. Mr. Fred Owegi – Advisor, IGFA

MIN. NO. 623/02/2020:

PRELIMINARIES

The Chair called the meeting to order at 12.03 pm and there followed a word of prayer.

MIN.NO. 624/02/2020:

ADOPTION OF THE AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. Mutula Kilonzo Junior, MP and seconded by Sen. Aaron Cheruiyot, MP.

**MIN.NO. 625/02/2020: MEETING WITH THE NATIONAL TREASURY AND
PLANNING TO DELIBERATE ON THE 2020 BUDGET POLICY
STATEMENT AND MEDIUM TERM DEBT MANAGEMENT STRATEGY.**

The Chair welcomed the Cabinet Secretary and his team to the meeting and allowed around of introductions. After introductions, the Chair invited the Cabinet Secretary to make his presentation.

The Cabinet Secretary submitted as follows-

- a) The theme for the 2020 Budget Policy Statement is: Harnessing the "Big Four" for Job Creation and Economic Prosperity which resonates well with the ongoing initiatives under the "Big Four" Agenda. Accordingly, the policy measures outlined in the 2020 BPS prioritizes the "Big Four" Agenda and are anchored on the Third Medium Term Plan (MTP III) of the Kenya Vision 2030.
- b) Kenya's economic growth remained strong and resilient and was projected to expand by 6.1% in 2020 up from the estimated 5.6% in 2019.
- c) The fiscal framework for FY 2020/21 focuses on fiscal consolidation plan. This would be gradual reduction of fiscal deficit from the estimated 6.3% of GDP in FY 2019/20 to 4.9 percent of GDP in FY 2020/21 and further to around 3% of GDP over the medium term.
- d) This would be achieved through continued restriction on growth in recurrent spending and increased effort in domestic resource mobilization.
- e) The total revenue projection for FY 2020/21 is projected at Ksh 2,134.1 billion (18.3% GDP) while total expenditure and net lending is projected at Ksh 2,748.2 billion (23.6% GDP).
- f) The fiscal deficit (including grants) in FY 2020/21 was projected at Ksh 571.2 billion (4.9% GDP). This would be financed by net external financing of Ksh 345.1 billion (3% GDP), Ksh 222.9 billion (1.9% GDP) net domestic borrowing and other net domestic receipts of Ksh 3.2 billion.
- g) Given the tight resource envelope amidst significant expenditure demands, budget allocations in the 2020 BPS, detailed budgets of all Government Ministries, Departments and Agencies (MDAs) have been scrutinized to curtail spending on non-productive areas and ensure that public expenditures focus on programmes with highest welfare benefits.

- h) The "Big Four" Projects have been allocated Ksh 128.5 billion, Ksh 1,832.4 billion for the National Government; Ksh 574.6 billion for the Consolidated Funds Services and Ksh 316.5 billion as equitable share to County Governments.
- i) The BPS proposes 2020/21 county equitable share to be retained as in the previous FY at Ksh 316.5 Billion. Further, Ksh. 53.4 Billion as conditional grants. Thus total allocation to county would be Ksh. 369.9 Billion.
- j) Regarding the Medium-Term Debt Management Strategy (MTDS), 2020-
 - i. Debt Sustainability Analysis (DSA) for Kenya indicates that the public debt remained sustainable over the medium term.
 - ii. To finance the fiscal deficit in the FY 2020/21, MTDS recommends a ratio of 60:40 borrowing from external and domestic sources respectively. Treasury Bonds will be the main source of net domestic financing, while Treasury Bills will be used only for cash management purposes and not as a budget financing tool and thus the quantity and proportion of Treasury Bills are projected to decrease.

Further, the CS and his team responded as follows to issues raised by the Committee-

- a) County Own Source Revenue- the National Treasury had constituted a task force which was working on standardised/ uniform revenue collection systems and several options were being considered. Once concluded, communication will be made to the Committee.
- b) Conditional grant allocation – the planning, implementation and monitoring is under the line ministry and identified county governments. However, Treasury had resulted to holding regular meetings with representatives from line ministry and concerned county governments with view of reviewing the implementation status.
- c) Management of Pension which affects Consolidated Fund Services (CFS)- several changes/ reforms had been initiated including changing the management team and ensuring employees personal files are digitised. Retirement Benefit Authority (RBA) had shared information on all pending pensions. National Treasury was considering the unpaid pension as a pending bill which must be cleared. All institutions are required to submit payment plan for such pending bill. Secondly, a change in national policy on pension was critical since defined benefit scheme was unsustainable. In addition, there was a need to

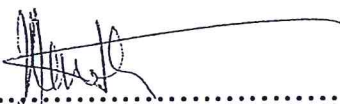
have a framework which would cater for pension for citizen working under microenterprises.

- d) Commercial debt refinancing- though the debt ceiling was increased, it did not give way for one time borrowing. The FY 2020/21 borrowing plan was to finance existing projects. Further, the government was engaging several multilateral partners to enable refinance commercial debt using cheaper concessional loans.
- e) Revenue performance- in order to improve revenue collection there were proposed tax administration restructuring and targeted reforms. The revenue growth target was 4% but was to be grow to 5%. Further, there was need for scientific projection of revenue since over revenue projection led to pending bills.
- f) Capital intensive infrastructure projects – the return on such investments/ projects takes time to be realised. However, some projects such as SGR is about to break even on both cargo and passenger capacity. Some of stalled projects require huge investments, thus, initiation of new projects has been suspended.
- g) Mechanism to improve economic performance – the performance was affected by late passage of Finance Bill. There was need to ensure the Bill was passed before the FY commences. The economic performance is also affected by non-substantive production and low contribution by agriculture sector to GDP.
- h) Universal health Care- the pilot project has been very informative. Several issues have been realised/ identified and a lot of adjustments were required in order to roll out a successful project. Further, legal framework is required in order to ensure reinforcement.

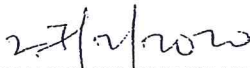
The Chair thanked the Cabinet Secretary and his team for availing themselves and responding to the issues raised.

MIN.NO. 626/02/2020: ANY OTHER BUSINESS AND ADJOURNMENT

There being no other business the Chair adjourned the meeting at 2.05 pm. Next meeting Tuesday, 25th February, 2020 at 10 am.

SIGNATURE.....

(CHAIRPERSON: SEN. (ENG) MOHAMED MAALIM MAHAMUD)

DATE.....

MINUTES OF THE 127TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON THURSDAY, 20TH FEBRUARY, 2020 IN COUNTY HALL, GROUND FLOOR BOARDROOM, PARLIAMENT BUILDINGS AT 9:30 AM.

PRESENT

- | | |
|---|-------------------------------|
| 1. Sen. (Dr) Isaac Mwaura, CBS, MP | - Vice Chairperson (Chairing) |
| 2. Sen. CPA Farhiya Haji, MP | - Member |
| 3. Sen. Mutula Kilonzo Junior, MP | - Member |
| 4. Sen. Moses Wetangula, EGH, MP | - Member |
| 5. Sen. (Dr) Rose Nyamunga, MP | - Member |
| 6. Sen. (Dr) Ali Abdullahi Ibrahim, CBS, MP | - Member |
| 7. Sen. Aaron Cheruiyot, MP | - Member |
| 8. Sen. Boniface Mutinda Kabaka, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|---|---------------|
| 1. Sen. (Eng) Mohamed M. Mahamud, CBS, MP | - Chairperson |
|---|---------------|

SECRETARIAT

- | | |
|----------------------------|-------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Lucy Radoli | - Legal Counsel |
| 3. Ms. Yunis Amran | - Fiscal Analyst |
| 4. Mr. Ian Otieno | - Audio Officer |

INATTENDANCE

See the attached list

MIN. NO. 620/02/2020:

PRELIMINARIES

The Vice Chairperson called the meeting to order at 9.33 am and followed a word of prayer.

MIN.NO. 621/02/2020:

ADOPTION OF THE AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. Mutula Kilonzo Junior, MP and seconded by Sen. CPA Farhiya Haji, MP.

MIN.NO. 621/02/2020: MEETING WITH STAKEHOLDERS TO DELIBERATE ON THE 2020 BUDGET POLICY STATEMENT AND MEDIUM TERM DEBT MANAGEMENT STRATEGY.

The Vice Chairperson welcomed the Members and stakeholders to the meeting and indicated that the purpose of the meeting was to deliberate on the 2020 Budget Policy Statement and

Medium Term Debt Management Strategy. After introductions, he welcomed various stakeholders to make their submission.

Institute of Certified Public Accountants of Kenya (ICPAK)

The Chairperson, FCPA Rose Mwaura, on behalf of the Institute informed the Committee as follows-

- a) Domestic Economic development – the economy is projected to grow by 6.1% in 2020 and 7% over the medium term which was consistent with World Bank’s data. However, the projection may not be achieved due to-
 - i. Impact of locust invasion to food security,
 - ii. Continued charged political climate - campaigns for Building Bridges Initiative (BBI)
 - iii. unpredictable weather patterns noting the agriculture sector largely relies heavily on rainfall.
 - iv. Profit warning been issued by listed firms.
- b) Value of per capita income and job creation – there was need to put in mechanism to promote informal sector since it accounts for a significant proportion of workforce and immensely contributes to economic growth. Recommended-
 - i. Improve the regulatory environment for the informal sector to support stability and growth of MSMEs.
 - ii. Limiting cash-based transactions to enable capture all business activities in the economy.
 - iii. KRA to device mechanism to capture data on informal sector for purposes of tax revenue.
- c) Modernised income tax regime – initiate and finalize an overarching tax policy.
- d) Government policies to support fiscal consolidation – there was proposal to reduce fiscal deficit with aim of reducing the rate of growth on public debt. There was need to put up mechanism as observed by the World Bank’s Economic such as-
 - i. re-ignite private sector led growth and ensure that fiscal consolidation is growth friendly.
 - ii. Fiscal consolidation needs to be recalibrated towards recurrent spending,
 - iii. Assessment of the uptake and impact of already established austerity measures.
- e) The was need to reconsider arising risks to the economy such as corona virus which would affect tourism, United Kingdom (UK) Brexit which would affect exports to European Union.
- f) Food and Nutrition security - According to Global Hunger Index (GHI) 2018, Kenya is classified as a food deficit country, close to 1 in every 3 Kenyans (14.5 million) suffer from chronic food insecurity and poor nutrition annually. There is need to strengthen legal, policy and institutional capacity of the sector in order to realise food security.

- g) Universal Health Coverage (UHC) – the government should complete reconfiguration and digitization of NHIF to ensure the system is ready for roll out before fully implementing the UHC. To build capacity of public health institutions there is need to ensure that at least 70% of NHIF disbursements go to public health institutions and service providers. According to the Health Financing Reforms Expert Panel (HEFREP) Report, private hospitals received KES 22 billion (59.45%) from NHIF while government and mission hospitals received KES 7 Billion (18.9%) and KES 8 Billion (21.6) respectively out of the KES 37.7 billion expenditure in FY 2018/19.
- h) Realism of revenue forecast- it was ambitious and lead to budget deficit. There was need to address/ enhance tax administration and seal leakages. This may be achieved through-
- i. proper controls and monitoring of taxpayer activities through a single identifier,
 - ii. Review the penalty system on tax evasion,
 - iii. Develop a change management strategy to address income tax matters,
 - iv. Leverage on simplified technological solutions to enhance integration of taxpayer information systems.
- i) Contribution of tax revenue to GDP – data from KRA shows that Tax Revenue GDP ratio was at 16.7% in FY 2018/19. There was need to-
- i. design a targeted, measurable and transparent criterion for granting exemptions,
 - ii. Periodically align the tax policy with the county's economic agenda to realize economic development.
- j) Deficit financing – the BPS proposed to continuously reduce the deficit over the medium term. There is need to enhance public financial management. Through –
- i. Avoiding public expenditure which is far beyond the target revenue collection,
 - ii. Implementation of budget monitoring reports- COB and OAG,
 - iii. Establishing authentic Public Debt Register which should be accessible for Audit and scrutiny,
 - iv. Transparency and proper accounting of public debt.
- k) Absorption of development - to increase absorption of development funds, the National Treasury should ensure that funds allocated to the MDAs and Counties are released in a timely manner.
- l) County government's Own Source Revenue (OSR) – many counties have not met their revenue targets in the past years. Therefore, there was need for revenue forecasting and mapping, installation of standardised revenue collection systems, ensuring public participation in revenue collection and ensure county treasuries continuously review performance of the revenue collection system, establish audit committees.
- m) Pending bills - the government should adopt accrual accounting which recognises pending bills and other liabilities.
- n) County governments equitable share – consider amending Section 37 (9) of the PFM Act 2012 to enable prior enactment of DORA before Appropriations Bill. On revenue share allocation there is need for consideration of fairness and equity.

International Budget Partnership (IBP)

The Country Director, Dr. Abraham Rugo, submitted a joint memorandum which he indicated was prepared by 24 Civil Society Organizations which were working in different sectors at national and county levels. He highlighted the following areas in the BPS which the National Government that need to reconsider-

- a) Ordinary Revenue for National and County Governments - Revenue projections for national ordinary revenue are unrealistic and the collections uncertain. Allocation to equitable share for county is declining and the growth factor uncertain. There seems to be structural and governance challenges with the revenue systems that would require addressing if revenue growth is to be a reality at both levels of government.
- b) Public debt – there is need to maintain a favourable domestic vs External borrowing mix. Since excessive domestic borrowing is harmful to economic growth. Secondly, debt sustainability should be considered since based on the IMF threshold, two of the debt sustainability indicators (debt service to revenue ratio and debt service to export ratio) Kenya is beyond the provided threshold. To address the increasing debt, the following proposals were made-
 - i. Implementing balanced budgets with very well-defined budget deficit limits.
 - ii. Accumulate public debt based on national priorities with clear impact analysis based on the Country's economic challenges.
 - iii. Shift debt composition towards external debt relative to domestic debt.
 - iv. Rely more on concessional loans and grants rather than on expensive bilateral loans that are non-concessional.
 - v. Implement government-to-government partnerships and other Public Private Partnerships (PPP) models based on independent cost-benefit, cost-effectiveness and value-for-money studies.
 - vi. Enforcement of austerity measures.
- c) Health sector- there is need to refocus on Universal Health Care (UHC), the model to implement the same need reconsideration. Both NHIF and Conditional grant models have their own challenges which must be dealt with before implementation of the project. It is notable that there is no growth on disbursement of conditional grants to primary health care.
- d) Environment, natural resources and water – the sector is affected by low absorption rate in development budget leading to poor service delivery. It is likely to suffer further due to budget cuts.
- e) Education – the additional funding to the sector is allocated to Teachers Service Commission for hiring teachers, post training and skills development. The TVETs are not considered yet the enrolment has continued to increase.

Commission on Revenue Allocation (CRA)

The Chairperson, submitted a memorandum and indicated as follows-

- a) The country economic growth was strong and resilient, however, the high growth has not translated to better revenue performance.
- b) The development expenditure for next financial year should be retained at its 2019/20 levels since revising them downwards is risky as it would trigger a slump of the economy hence adversely affecting revenue performance.
- c) The Commission had proposed county equitable share for FY 2020/21 of Ksh 321.74 Billion based on 2019 Budget Review and Outlook paper. However, afterwards revenue projections were revised downwards. Following the revision, the Commission proposed that the County Equitable share for FY 2020/21 be Kshs 316.5 Billion while National government gets Ksh 1,534 Billion.
- d) Noting that Urban Development Grant supports all counties except Nairobi and Mombasa, which had city status before devolution, the Commission recommended a new conditional grant be designed to incentivise the five cities (Nairobi, Mombasa, Kisumu, Nakuru and Eldoret) to optimise revenue collection.
- e) The allocation of equitable share among county governments for FY 2020/21 should be determined using the Third Basis/ criteria. The criterion was yet to be approved by Parliament. There was need to fast track the process.

The vice Chairperson acknowledged all stakeholders for their proposals and noted that the Committee would consider them when preparing the report for submission to the Senate.

MIN.NO. 622/02/2020: ANY OTHER BUSINESS AND ADJOURNMENT

The Chairperson informed the members that the Committee was scheduled to meet with Cabinet Secretary, National Treasury and Planning at 12 noon.

The Chairperson adjourned the meeting at 11:53 am.

SIGNATURE.....

(CHAIRPERSON: SEN. (ENG) MOHAMED MAALIM MAHAMUD)

DATE.....

IN ATTENDANCE- LIST OF STAKEHOLDERS

Name	Institution
Mr. Denis Kioko	Tro'caire
Mr. Jacob Kumenda	Consumer Grassroots
Mr. John Nyangi	Institute of Public Finance
Mr. Wanjohi Ndirangu	Institute of Public Finance
Mr. Kimanzi Nicholas	Economic Liberation Front
Mr. Mungai Michael	Economic Liberation Front
Mr. Ojiambo Milton Owiji	99.9 Ghetto FM SIDAREC
Ms. Faith Ann Kinyanjui	International Budget Partnership – Kenya Chapter (IBP-K)
Ms. Christine Akinyi	TISA
Ms. Veronica Kimani	Tro'caire
Dr. Abraham Rugo	IBP-K
FCPA Rose Mwaura	Chair, ICPAK
CPA Elias Wakhisi	ICPAK
CPA Reuben Orwaru	ICPAK
CPA Hillary Onami	ICPAK
Dr. Jane Kiringai	Chair – Commission on Revenue Allocation (CRA)
Prof. Peter Kimuyu	Commissioner, CRA
Dr. Irene Asienga	Commissioner, CRA
Ms. Linet Oyugi	Director, CRA

MINUTES OF THE 126TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 19TH FEBRUARY, 2020 IN COUNTY HALL, GROUND FLOOR BOARDROOM, PARLIAMENT BUILDINGS AT 11:00 AM.

PRESENT

- | | |
|---|--------------------|
| 1. Sen. (Eng) Mohamed M. Mahamud, CBS, MP | - Chairperson |
| 2. Sen. (Dr) Isaac Mwaura, CBS, MP | - Vice Chairperson |
| 3. Sen. CPA Farhiya Haji, MP | - Member |
| 4. Sen. Moses Wetangula, EGH, MP | - Member |
| 5. Sen. (Dr) Rose Nyamunga, MP | - Member |
| 6. Sen. (Dr) Ali Abdullahi Ibrahim, CBS, MP | - Member |
| 7. Sen. Aaron Cheruiyot, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|-------------------------------------|----------|
| 1. Sen. Mutula Kilonzo Junior, MP | - Member |
| 2. Sen. Boniface Mutinda Kabaka, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|------------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Lucy Mukara | - Deputy Director, PBO |
| 3. Dr. Abel Nyangwach | - Fiscal Analyst |
| 4. Ms. Yunis Amran | - Fiscal Analyst |
| 5. Ms. Lucy Radoli | - Legal Counsel |
| 6. Ms. Joyce Chelang'at | - Audio Officer |

MIN. NO. 616/02/2020:

PRELIMINARIES

The Chairperson called the meeting to order at 11.08 am and followed a word of prayer.

MIN.NO. 617/02/2020:

ADOPTION OF THE AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. (Dr) Isaac Mwaura, CBS, MP and seconded by Sen. CPA Farhiya Haji, MP.

MIN.NO. 618/02/2020: BRIEFING ON THE 2020 BUDGET POLICY STATEMENT

The Chairperson informed the Committee that the purpose of the meeting was for the Committee to be apprised on the 2020 Budget Policy Statement (BPS) and Medium Term Debt Management Strategy (MTDMS).

Thereafter he welcomed the secretariat to brief the Committee on the highlights of BPS and MTDMS.

The Committee was informed as follows-

- a) Submission the BPS was a requirement by the Public Finance Management Act, 2012 section 25.
- b) Kenya's economy growth had remained stable but below the target. For the Financial year 2020/21 it was expected to grow at 6.2%. Secondly, the real per capita Gross Domestic (GDP at US\$ 1,200) was lower than that of comparable African countries like Ghana.
- c) The overall monthly inflation remained relatively stable within 5%. This was within the target.
- d) The interest rates remained stable, weighted average lending rate by commercial banks at 12.5%, but this was bound to fluctuate following the repealing of the interest cap.
- e) Exchange rate has been relatively stable though there has been decline in Kenya exports. The stability may be attributed to diaspora remittances.
- f) The contribution of manufacturing sector to GDP was steadily declining. The benefits of efforts made through the Big 4 Agenda were yet to be realised.
- g) To achieve Universal Health Care (UHC) the health sector was proposed to be allocated Kshs 114.4 Billion (6.2% of the total sectoral allocations). The role of county governments on achieving UHC was not outlined.
- h) The government was intending to deliver 500,000 housing units by 2022 under the affordable housing programme under Big 4 Agenda.
- i) The proposed allocation to enable achieve food and nutrition security was Kshs 51.2 Billion. The allocation may not be adequate to enable achieve required agricultural productivity. Secondly, the proposed allocation was not in accordance with Maputo Declaration.
- j) The shareable revenue was expected to increase from 1,843. 6 billion in FY 2019/20 to 1,856.7 Billion in FY 2020/21.
- k) The proposed allocation were equalisation fund Kshs 6.532 Billion, county equitable share Kshs 316.5 Billion, Roads Maintenance Levy Fund Kshs 9.4 Billion, grants from national government share of revenue Kshs 13.7 Billion and funding from proceeds from external loans and grants Kshs 30.2 Billion.

- l) It is proposed that the incremental overall revenue in FY 2020/21 be allocated to Consolidated Fund services (CFS) to specifically be spent on debt repayment.
- m) There was a shrinking trend on collection of counties Own Source Revenue (OSR). Secondly, counties with high revenue collection had highest expenditure on wages.

Observations

- a) The annual economic growth rate was below target compared to Kenya Vision 2030 targets. The Vision 2030 had targeted the economy to grow at 10% annually. Further, the current economic growth was not translating to better living standards.
- b) There was need to put up reliable mechanism to ensure exchange rate relied on stable factors. Such mechanism would include encouraging Foreign Direct Investment (FDI).
- c) The allocation to health sector was quite huge noting that health sector was largely devolved. The strategy for implementing UHC was not outlined noting that health was a devolved function.
- d) The role of county governments in achieving affordable housing programme was not outlined yet the function was fully devolved.
- e) There was need to evaluate proposed allocation to national government departments whose mandate are similar to devolved function including health, agriculture and housing.
- f) The criteria for identification and allocation of conditional grants among counties was not elaborate. There was need to formulate a framework which would guide in establishing allocation of conditional grants.

MIN.NO. 619/02/2020: ANY OTHER BUSINESS AND ADJOURNMENT

The Chairperson noted that the Committee was set to hold a meeting with stakeholders to deliberate on the 2020 BPS and MTDMS on 20th February, 2020.

The Chairperson adjourned the meeting at 12:23 pm.

SIGNATURE.....
(CHAIRPERSON: SEN. (ENG) MOHAMED MAALIM MAHAMUD)

DATE.....

**MINUTES OF THE 125TH MEETING OF THE SENATE STANDING COMMITTEE
ON FINANCE AND BUDGET HELD ON TUESDAY, 18TH FEBRUARY, 2020 IN
COUNTY HALL, GROUND FLOOR BOARDROOM, PARLIAMENT BUILDINGS AT
10:00 AM.**

PRESENT

- | | |
|---|---------------|
| 1. Sen. (Eng) Mohamed M. Mahamud, CBS, MP | - Chairperson |
| 2. Sen. CPA Farhiya Haji, MP | - Member |
| 3. Sen. Moses Wetangula, EGH, MP | - Member |
| 4. Sen. (Dr) Rose Nyamunga, MP | - Member |
| 5. Sen. (Dr) Ali Abdullahi Ibrahim, CBS, MP | - Member |
| 6. Sen. Aaron Cheruiyot, MP | - Member |
| 7. Sen. Boniface Mutinda Kabaka, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|------------------------------------|--------------------|
| 1. Sen. (Dr) Isaac Mwaura, CBS, MP | - Vice Chairperson |
| 2. Sen. Mutula Kilonzo Junior, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|-----------------------------|
| 1. Ms. Emmy Chepkwony | - Principal Clerk Assistant |
| 2. Mr. Christopher Gitonga | - Clerk Assistant |
| 3. Ms. Lucy Radoli | - Legal Counsel |
| 4. Mr. Ian Otieno | - Audio Officer |

MIN. NO. 609/02/2020:

PRELIMINARIES

The Chairperson called the meeting to order at 10.04 am and followed a word of prayer. Thereafter, he welcomed the members for the meeting indicating it was the first meeting of the Committee in the 4th session.

MIN.NO. 610/02/2020:

ADOPTION OF THE AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. CPA Farhiya Haji, MP and seconded by Sen. Boniface Mutinda Kabaka, MP.

**MIN.NO. 611/02/2020: CONSIDERATION AND ADOPTION OF 2020 COMMITTEE
WORK PLAN**

The Committee considered and adopted its 2020 annual work plan after it was proposed by Sen. CPA Farhiya Haji, MP and seconded by Sen. Boniface Mutinda Kabaka, MP.

**MIN.NO. 612/02/2020: ROAD MAP FOR CONSIDERATION OF 2020 BUDGET
POLICY STATEMENT AND MEDIUM TERM DEBT
MANAGEMENT STRATEGY**

The Committee considered the proposed road map and resolved as follows-

DATE	ACTIVITY
Wednesday, 19 th February, 2020	Briefing session for all Senators (Breakfast meeting) Briefing Session for the Committee at 11:00am
Thursday, 20 th February, 2020	Meeting with Stakeholders including CRA, COG and National Treasury.
Tuesday 25 th February, 2020	consideration of submissions from Standing Committees
Wednesday, 26 th February, 2020	Consideration and adoption of the report.

**MIN.NO. 613/02/2020: ROAD MAP FOR CONSIDERATION OF THIRD BASIS/
CRITERIA FOR ALLOCATING REVENUE AMONG COUNTIES**

The Committee noted that there was need to expedite conclusion of the criteria/ formulae since it would be applied in County allocation of Revenue for financial year 2020/2021. To expedite the matter, the Committee resolved as follows-

DATE	ACTIVITY
4 th March, 2020	Meeting with CS National Treasury and Planning
11 th – 14 th March, 2020	- Retreat in Naivasha with Commission on Revenue Allocation (CRA) and selected stakeholders - Report writing retreat
17 th March, 2020	Adoption of the report
18 th March, 2020	Briefing of all Senators on the Committee's proposed formulae
19 th March, 2020	Tabling of the report

Further, the Committee resolved to

- a) request the Speaker to allow the Committee retreat to start on Wednesday 11th – 14th March, 2020.
- b) Invite a few selected stakeholders to submit their views on the parameters in the proposed criteria.

MIN.NO. 614/02/2020: ANY OTHER BUSINESS

- a) The Chairperson informed the Committee that he would not be available to preside over the meeting scheduled on Thursday, 20th February, 2020. Consequently, he requested that a Member of the Committee would preside over the meeting.
Members raised concerns over the persistence absence of the Vice- Chairperson and whether he was still interested in the leadership of the Committee. It was resolved that before invoking standing order 207 of the Senate Standing Orders, the Vice Chairperson be invited for the next meeting to address the members on the concerns raised.
- b) The Committee was informed that Equalisation Fund Regulations had been quashed by the High Court on the ground that the projects implemented by the fund were devolved functions. Consequently, the National Treasury had proposed to constitute a taskforce to revise the guidelines in line with the Court Ruling.

MIN.NO. 615/02/2020: ADJOURNMENT

The Chairperson adjourned the meeting at 11:33 am.

SIGNATURE.....
(CHAIRPERSON: SEN. (ENG) MOHAMED MAALIM MAHAMUD)

DATE.....



The Institute of Certified Public Accountants of Kenya

SUBMISSIONS

ON

THE BUDGET POLICY STATEMENT 2020

SUMMARY OF ICPAK SUBMISSION ON BPS 2020

PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
Para 9: Domestic Economic Development	The Institute notes stable and consistent economic growth for the past 6 years. However, the country has failed to attain the double-digit growth to meet the Vision 2030 target. The BPS 2020 projects the economy to expand to 6.1 percent in 2020 up from 5.6 percent in 2019, and 7.0 percent over the medium term. However, the impression by the public is that the growth has not been felt on the ground. There is therefore need to consider the macroeconomic variables to ensure the growth is cascaded to all sectors of the economy that affect the common man's purse, voice and aspirations. There is need to look at the real lives beyond the statistics. (a) Profit Warning For instance, a total of 17 companies of the 63 listed firms on the Nairobi Securities Exchange issued profit warnings in the 2019 indicating that investors should expect earnings to decline significantly (by at least 25%) when compared with that of the previous year, or the company may even make a loss. The drop-in firms earnings can be expressed in other terms such as net profits, sales, earnings before interest and taxes among others. The profit warnings were attributed to tough economic conditions as well as slow economic activity. A number of Kenyans lost their jobs in the last one year through retrenchments, involuntary retirements and business closures. 17 Firms represents approximately 26% of listed firms. This is pointer to sluggish performance in the financial services sector. This could in the long run impact negatively to economic	Although this projection is consistent with World Bank's data of to 5.9% in 2020 and 6.0% in 2021, there is need to lower our expectations due to the following factors: - Impact of locust invasion to food security in the medium term. - Continued charged political climate as a result of ongoing campaigns for Building Bridges Initiative (BBI) - Changing and unpredictable weather patterns given that Kenya still relies heavily on rainfed agriculture.

PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS																												
	growth. b) Drop in corporate tax indicates sluggish economic growth Over the years, contribution of corporation tax to total tax revenue has been on a decline as highlighted below: Contribution to total tax revenue <table><tr><th>Tax Head</th><th>2016/17</th><th>2017/18</th><th>2018/19</th></tr><tr><td>Pay As You Earn (PAYE)</td><td>26.4%</td><td>27.2%</td><td>26.6%</td></tr><tr><td>Other Income Tax</td><td>22.9%</td><td>20.8%</td><td>20.1%</td></tr><tr><td>VAT</td><td>26.4%</td><td>26.6%</td><td>27.8%</td></tr><tr><td>Excise Duty</td><td>12.8%</td><td>12.5%</td><td>13.3%</td></tr><tr><td>Import Duty</td><td>6.8%</td><td>7.0%</td><td>7.1%</td></tr><tr><td>Other</td><td>4.6%</td><td>5.9%</td><td>5.1%</td></tr></table> Source: Kenya Revenue Authority (KRA)	Tax Head	2016/17	2017/18	2018/19	Pay As You Earn (PAYE)	26.4%	27.2%	26.6%	Other Income Tax	22.9%	20.8%	20.1%	VAT	26.4%	26.6%	27.8%	Excise Duty	12.8%	12.5%	13.3%	Import Duty	6.8%	7.0%	7.1%	Other	4.6%	5.9%	5.1%	
Tax Head	2016/17	2017/18	2018/19																											
Pay As You Earn (PAYE)	26.4%	27.2%	26.6%																											
Other Income Tax	22.9%	20.8%	20.1%																											
VAT	26.4%	26.6%	27.8%																											
Excise Duty	12.8%	12.5%	13.3%																											
Import Duty	6.8%	7.0%	7.1%																											
Other	4.6%	5.9%	5.1%																											
Para 10: value of Per Capita Income and Job creation	According to the BPS 2020, Per capita income rose from Ksh 113,539 in 2013 to an estimated Ksh 202,859 in 2019, a 79 percent increase. This enabled generation of around 831,000 new jobs per year in the period 2013 - 2018 up from 656,500 new jobs per year in the period 2008 -2012. This means that a meagre increase of 9000 jobs were created. It is evident that the informal sector accounts for a significant proportion of workforce and contributes immensely to the growth of economy. The informal sector in Kenya comprises of all small-scale activities that are semi-organized, unregulated and use low and simple technologies. According to the study done by Institute of Economic Affairs (2016), informal sector has particular characteristics such as; a majority of the	Since majority of Kenyans are employed in the informal sector, the Institute recommends as follows; - Improve the regulatory environment for the informal sector to support stability and growth of MSMEs to overcome start-up challenges and contribute to economic development. - Consider limiting cash-based transactions as a means to capture all business activities in the economy. - KRA to device mechanism to capture data on informal sector for purposes of tax revenue given that so many jobs are created in this sector, yet it isn't considered in the expansion of tax base. - Since the informal sector is growing at a rapidly faster rate than the formal sector, more research needs to be done to establish feasible data the sector's potential can be harnessed for economic growth.																												

PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
	employees do not register or comply with any regulations; they make sales and pay for inputs including labor in cash; they do not have bank accounts and cannot access facilities provided for by banks and; they do not pay income tax.	
Para 50: Modernized Income Tax Bill	The Institute is concerned with the delay in the enactment of the Income Tax legislation. This has been pending for the last three years. ICPAK recognizes that legislation, including subsidiary legislation, traces its foundation on an agreed policy framework, to establish the most appropriate approach to resolve a problem. As such, the review of the Income Tax Act should be predicated on an overarching Tax policy as a precursor to the review of the law. The Institute is of the opinion that enactment of a modernized Income Tax Legislation is critical due to the following: - The Kenyan Economy has diversified and grown since 1975 when the current Act was enacted - Emergence of digital economy and its implication to tax revenue - International taxation issues -such BEPS and transfer pricing - Kenya has a new Constitution and attendant laws that require modernization of income tax	The Institute proposes the following: - Expedite tabling of the Income Tax Bill to Parliament. - Commence initiatives to finalize an overarching tax policy for Kenya.
Para 50: Government Policies to support Fiscal Consolidation	The reduction in the fiscal deficit will reduce the pace of growth of the public debt. In FY 2020/21, The BPS 2020 targets a fiscal deficit of 4.9 percent of GDP down from 6.3 percent of GDP in FY 2019/20. The fiscal deficit is projected to decline further to 3.3 percent of GDP over the medium term. The Institute takes note and commends the Government for recognizing the need for fiscal consolidation to reduce budget deficit. The recent expenditure rationalization measures adopted by the National Treasury such as controlling foreign travel, hospitality cleaning and regular audit of the payroll register among others.	According to the World Bank's Economic Update: - There is need to re-ignite private sector led growth and ensure that fiscal consolidation is growth friendly - Fiscal consolidation needs to be recalibrated towards recurrent spending such as - lowering of transfers to state owned enterprises, cleaning and regular audit of the payroll register, keeping wages, salaries and allowance adjustments in line with recommendations from the Salaries and Remuneration Commission (SRC)

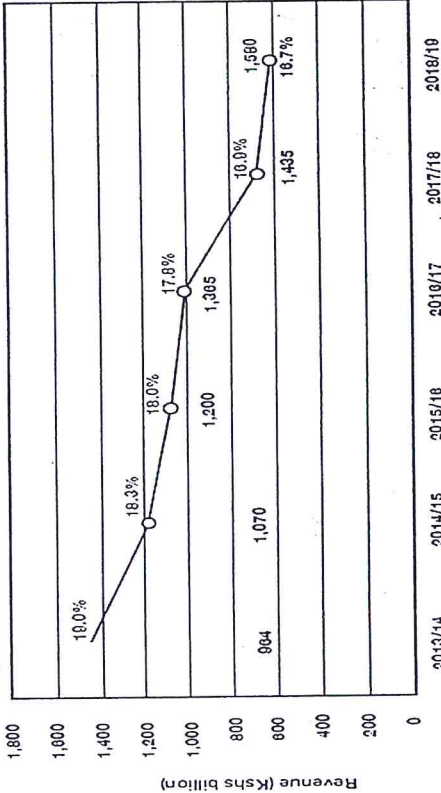
PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS																														
	However, these measures should have tangible targets and outcomes and should not be seen as measures to hinder service delivery. Efficiency gains, not additional funding, is the key to effective implementation of government projects without further accumulation of debt. The BPS 2020 has indicated a commitment to fiscal consolidation through limiting government spending as well as enhancing revenue collection. Efficiency gains entail effective utilization of public resources such that the country is able to achieve more with fewer resources	There is need to assess the uptake and impact of already established austerity measures by the National Treasury in 2019																														
Para 61 and Annex table 1: Macroeconomic Indicators	Data from the Economic Survey 2019 indicates total domestic credit recorded a decelerated growth of 4.6 per cent in December 2018 compared to a growth of 7.2 per cent in December 2017.	The evidence shows that domestic credit has been declining. This can be attributed to several factors including the increase in Government borrowing from the domestic market. The Institute proposes that the Government should reduce domestic borrowing to allow the banks lend to the private sector and MSMEs for sustained growth.																														
Risks to the Economy Corona virus	The global economy is also facing dangers from the outbreak of the novel coronavirus that was first reported from Wuhan, China in December 2019 According to the latest situation report by World Health Organization (WHO), by 10th February 2020, globally, there were 40,554 confirmed cases, with 40, 235 of these cases reported in China, 909 deaths reported. The spread of the Corona Virus has indirectly affected international trade with China. This is because all countries, by an advisory from WHO, are required to observe caution. In early February, the Kenya Airways suspended its flights to Guangzhou, China	A ripple effect is expected in different sectors of the economy even as trade between Kenya and China has been growing rapidly. According to the Economic Survey 2019, China is the largest contributor of imports to Kenya for the past 5 years. <i>Value of Imports by Origin in Kshs. Millions</i> <table><tr><th>Country</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th></tr><tr><td>China</td><td>248,648.3</td><td>320,815.5</td><td>337,450.1</td><td>390,622.3</td><td>370,826.4</td></tr><tr><td>Indonesia</td><td>48598.4</td><td>45939.0</td><td>45372.5</td><td>56861.9</td><td>46,104.6</td></tr><tr><td>Japan</td><td>86553.6</td><td>88239.2</td><td>82409.6</td><td>81662.8</td><td>99822.7</td></tr><tr><td>Singapore</td><td>14623.8</td><td>9612.3</td><td>6794.6</td><td>5829.2</td><td>10105.0</td></tr></table> Free movement of people is one of the key success factors in international trade. This pandemic will impact on the global economy greatly given a shutdown in manufacturing, tourism, hospitality and service industry.	Country	2014	2015	2016	2017	2018	China	248,648.3	320,815.5	337,450.1	390,622.3	370,826.4	Indonesia	48598.4	45939.0	45372.5	56861.9	46,104.6	Japan	86553.6	88239.2	82409.6	81662.8	99822.7	Singapore	14623.8	9612.3	6794.6	5829.2	10105.0
Country	2014	2015	2016	2017	2018																											
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PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS								
		According Economic Survey, arrivals from China have been increasing over time as illustrated below: Hotel Bed-Nights Occupancy by Country of Residence, 2016-2018 <table><tr><th>Year</th><th>2016</th><th>2017</th><th>2018</th></tr><tr><td>China</td><td>131, 900</td><td>192, 300</td><td>230, 500</td></tr></table> Source: Economic Survey 2019	Year	2016	2017	2018	China	131, 900	192, 300	230, 500
Year	2016	2017	2018							
China	131, 900	192, 300	230, 500							
Risks to the Economy – Brexit	The Brexit process began on June 23, 2016 when the United Kingdom voted to leave the EU. The UK finally left the EU on January 31st, 2020. It is worth noting that U.K is one of the Kenya’s leading trade partner and has been one of the top export destinations, buying products like flowers, vegetables, fruit, tea and coffee. According to the latest Foreign Investment Survey by the Kenya National Bureau of Statistics (KNBS), at least 100 UK based firms operate in Kenya, bringing in Sh15 billion in 2015. According to latest data by the Central Bank of Kenya, Kenya exported goods worth Sh32.28 billion to UK in a period between January to October in 2019 but imported goods worth Sh24.34 billion during the same period. In conclusion, there are both positive and negative consequences of Brexit as summarized below	Post-Brexit Opportunities ▪ Kenya can negotiate new bilateral trade deals directly with the UK. More Kenyan produce, like snow peas, French beans and bananas, can then reach the UK market without barriers and regulations which were enforced by the EU ▪ Agricultural sector- Britain has been a critic of the EU’s Common Agriculture Policy (CAP) which allows subsidies to European farmers. The CAP reduced access of African farmers to the EU which might change with Brexit. African farmers will also get easier access to the UK. ▪ Countries which were buying Kenyan export produce through UK can now directly trade directly with Kenya. This could see Kenya increase its overall wallet-share of the European market and potentially enjoy better margins from direct trade with the end buyers and also lead to less reliance on the UK for exports. Potential Post-Brexit Challenges ▪ Kenya exports tea, coffee and flowers to the UK which equals to 27% of fresh produce and 56% of black tea to the UK. Any renegotiations of the deals may lead to export delays and probable loss of revenue. Even worse, it may lead to the current account deficit widening, as well as less inflows of foreign exchange.								

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Para 74: Food and Nutrition Security The Government will continue to implement measures in the agricultural sector in order to ensure food and nutrition security.	According to Global Hunger Index (GHI) 2018, Kenya is classified as a food deficit country. Currently, close to 1 in every 3 Kenyans (14.5 million) suffer from chronic food insecurity and poor nutrition annually. In addition, about 30% of the children countrywide are stunted, 13% moderately wasted, while 7% are moderately underweight. Approximately 20% of the population does not attain the minimum dietary requirements to sustain a healthy and productive life. Agricultural sector has faced numerous challenges lowering its productivity in the recent years. Stagnation in productivity has been largely due to frequent droughts in parts of the country, high costs of domestic food production due to high costs of inputs especially fertilizers and farming equipment, rural-urban migration of young energetic population, low purchasing power for large proportions of the population due to high poverty levels, lack of incentives and lack of diversified agricultural activities.	▪ It may lead to the current account deficit widening, as well as less inflows of foreign exchange. Kenya's main market for cut flowers is the EU with about 60% of the exports. In the EU, Britain is one of the largest consumers of these flowers thus the market is likely to suffer. ▪ The sector legal, policy and institutional capacity should be strengthened in realization of core mandates. This is more so with, regard to devolved functions which require guidelines for implementation. ▪ Build and improve rural infrastructure to open space for movement of goods and services. ▪ Revisiting policies on trade agreements to boost export of some agricultural products. ▪ Improve access to financial services and credit in agriculture and rural development. ▪ Kenya still relies heavily on rainfed agriculture. Irrigation should be enhanced; more dams to be constructed to cushion the country in times of drought. ▪ Taxation incentive--waive taxes on water harvesting accessories, borehole drilling equipment, waive approval permits for drilling of boreholes, no metering and charging for borehole water purely for agriculture purposes, reduce soil testing costs by KALRO from 1500m to sh500 per sample. Raw material for Plastic tanks like ROTTO, etc. should be tax exempt. Companies that manufacture and sale irrigation related accessories should be incentivized. ▪ There is need for introduction of subsidies to farmers especially on inputs such as fertilizers and high yield seeds. ▪ Increase funding levels especially to the sectors that contribute to food security such as Agriculture and manufacturing. Exchequer releases should be within the prescribed timeline to

PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS												
Para 81-84: Universal Health Coverage	In 2018, the Government promised to review and amend the NHIF Act, 1998 to align it to the universal health coverage as well as review the laws governing private insurance companies to encourage investment by private health insurers and bring the cost of cover within the reach of every Kenyan. The Institute is keen to know whether this has been achieved According to the Economic Survey 2019, only 7.5 million Kenyans are registered with NHIF Scheme from a population of 47 Million Kenyans, a paltry 15.8% of the population. This is illustrated below: TABLE 1: REGISTERED NHIF MEMBERS <table><tr><th>Year</th><th>Principal Members</th></tr><tr><td>2013/2014</td><td>4,713,662</td></tr><tr><td>2014/2015</td><td>5,475,180</td></tr><tr><td>2015/2016</td><td>6,136,256</td></tr><tr><td>2016/2017</td><td>6,817,888</td></tr><tr><td>2017/2018</td><td>7657,463</td></tr></table> Source: Economic Survey 2019	Year	Principal Members	2013/2014	4,713,662	2014/2015	5,475,180	2015/2016	6,136,256	2016/2017	6,817,888	2017/2018	7657,463	facilitate implementation of development programs. Agriculture should be at least 10% as per Maputo Declaration ▪ The government should complete reconfiguration and digitization of NHIF to ensure the system is ready for roll out before fully implementing the UHC. ▪ Reform NHIF to support public health care by: i. Ensuring that at least 70% of NHIF disbursements go to public health institutions and service providers; with 30% going to the private sector. This will help build capacity of public health institutions as opposed to utilizing public funds to support private entities. According to the Health Financing Reforms Expert Panel (HEFREP) Report, private hospitals received KES 22 billion from NHIF while government and mission hospitals received KES 7 Billion and KES 8 Billion respectively out of the KES 37.7 billion expenditure in FY 2018/19. This implies that government health facilities received only 18.6% allocation of NHIF disbursement in that year. ii. Putting in mechanism to enroll more Kenyans to the scheme. The current 15.8% is very far from the target 100% universal health coverage which NHIF is central to. iii. Strengthen accountability mechanisms in the disbursement and utilization of NHIF funds. ▪ There is need to increase the health budgetary allocation to the recommended 15% of the total annual budget as recommended by the AU under the auspices of Abuja declaration. ▪ Sector players should dialogue to end persistent labour unrest in the sector. We urge Labour Unions, National Government and County Governments to work together to address the concerns of the doctors, nurses and other cadres within the
Year	Principal Members													
2013/2014	4,713,662													
2014/2015	5,475,180													
2015/2016	6,136,256													
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PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS																				
Para 165: Realism of revenue forecast ---- it is ambitious and leads to budget deficit	The Institute is concerned with the accuracy and the ambitious nature of National Treasury's revenue projections. This exacerbated by failure by the Tax Authority to meet the set targets over the years. A trend analysis of revenue growth is critical in informing revenue projections for the coming years. Kenya's budget process has inadequately facilitated accurate forecasts for resource collection. The common tendency has therefore been to make overly optimistic revenue projections leading to an increased uncertainty of resource flows. Revenue Projections FY 2017-18- 2019-2020 <table><tr><th>Fiscal Year</th><th>FY 2017/18</th><th>FY 2018/19</th><th>FY 2019/2020</th><th>FY 2020/2021</th></tr><tr><td>Total Revenue</td><td>Ksh1,643.1 billion</td><td>Ksh1,831.5 billion</td><td>Ksh2,084.2 billion</td><td>Ksh2,133.5 billion</td></tr><tr><td>Revenue including A-I-A</td><td></td><td></td><td></td><td></td></tr><tr><td>Ordinary Revenue</td><td>Ksh1,486.3 billion</td><td>Ksh1,651.5 billion</td><td>Ksh1,843.8 billion</td><td>1843.8 billion</td></tr></table> The Institute notes the need to address the issue of revenue leakages caused by various factors including complicated tax systems, discretionary power on exemptions as well as a dampened morale to pay taxes occasioned by the culture of corruption.	Fiscal Year	FY 2017/18	FY 2018/19	FY 2019/2020	FY 2020/2021	Total Revenue	Ksh1,643.1 billion	Ksh1,831.5 billion	Ksh2,084.2 billion	Ksh2,133.5 billion	Revenue including A-I-A					Ordinary Revenue	Ksh1,486.3 billion	Ksh1,651.5 billion	Ksh1,843.8 billion	1843.8 billion	health sector. According to ICPAK's, "Kenya Revenue Analysis Report, 2015". The role of Parliament is critical in providing oversight over the revenue projections. According to the Parliamentary report on the Budget Policy Statement, the Budget and Appropriations' Committee expressed concerns over the revenue projections provided by the executive in the FY 2014/2015 which the Committee thought of as ambitious and not backed by economic fundamentals. This calls for a holistic approach and a review of economic data and macroeconomic trends when setting revenue targets. ICPAK proposes that a clear, consistent and standard forecasting model should be adopted by the country as a basis for determining revenue projections based on either inflationary adjustments or the average revenue performance over the years. In order to enhance tax administration and seal leakages, the Institute proposes the following: - proper controls and monitoring of taxpayer activities through a single identifier will lead to enhanced efficiency in tax administration. - Review the penalty system on tax evasion - Develop a change management strategy to address income tax matters - Leverage on simplified technological solutions to enhance integration of taxpayer information systems.
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Contribution of Tax Revenue to GDP	Decline in Tax Revenue to GDP Data from KRA indicate that Tax Revenue/GDP ratio peaked in 2013/14 at 19.0%, before declining to about 16.7% in FY 2018/19	- There is need to design a targeted, measurable and transparent criterion for granting exemptions - Periodically align the tax policy with the county's economic																				

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	According to KRA, the decline in revenue to GDP ratio has been attributed to among other factors, a) Sharp increase tax exemptions and remissions leading to erosion of the taxable base; and b) Sharp drop in FY 2017/18 attributed to underperformance of corporation tax as a result of interest rate capping for banks  SOURCE 1: KRA Revenue Performance Report FY 2018/19 The Institute notes that the exemptions framework within the income tax law lacks clarity thus hindering its proper implementation. In the absence of an objective criteria to determine eligibility, the granting of exemptions is discretionary. This creates room for private interests to supersede the national good.	agenda to realize economic development.
Para 167-168: Deficit financing	The fiscal deficit (including grants), is projected at Ksh 569.4 billion (4.9% of GDP) in FY 2020/21 which will be financed by net external financing of Ksh 247.3 billion (2.1% of GDP), Ksh 318.9 billion (2.7% of GDP) net domestic borrowing and other net domestic receipts of Ksh 3.2 billion.	Re-negotiate debt repayment by stretching the debt tenure quantum. According to Parliamentary Budget Office, the bulk of Kenya's external public debt carries concessional terms, recent commercial borrowing entails significant repayment needs in 2019 and 2024 (2014 sovereign bond issuance).

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The Government will utilize and maximize the official external sources for loans on concessional terms. ICPAK is concerned that the Public debt portfolio is large and may pose substantial risk to the government's balance sheet and the country's financial stability.

Fiscal Year	FY 2018/2019	FY 2019/2020	FY 2020/2021
Net External financing	214.7 billion	306.5 billion	247.3 billion
Net Domestic Borrowing	368.8 billion	277.5 billion	318.9 billion

BPS 2018/2019/2020

According to the Controller of Budget, Annual National Government Budget Implementation Review Report for financial year 2018/19, the revised allocation for public debt was Kshs.848.3 billion, recording 30.6% growth compared to Kshs.649.4 allocated in FY 2017/18.

Public debt repayment obligations and interests charged from the disbursed borrowed loans crowd out service delivery as they are paid from the consolidated funds. Compared with revenue generated, the remaining amount cannot be sufficient to fully fund the government's programmes. For the two financial years, 2018/19 and 2019/20, the budget estimates indicate performance as follows:

PUBLIC DEBT REDEMPTION

Debt	2018/19	2019/20
Interest	399,980,973,122	441,481,154,086
Public debt redemption	470,634,984,624	255,073,007,901
Total	870,615,957,746	696,554,161,987

Source: Budget estimates 2019

ICPAK RECOMMENDATIONS

- The government needs to scale down domestic borrowing which crowds out private investments. Prioritize increase in debt maturity profiles by opting for longer term external debt rather than domestic debt to increase debt sustainability, and lower risks of crowding out private sector
- Pre-approval of projects financed through public borrowing: no new debt financed projects should be introduced within the budget cycle as these may fail to go through proper appraisal. There's need to rationalize expenditure. In the past few years, public expenditure has been growing at a faster pace than revenue. The major outcome has been huge budget deficits. Rely more on concessional loans and grants rather than on expensive bilateral loans that are non-concessional, thus reduce high interest rates payments, averting possibility of debt overhang.
- Implement government-to-government partnerships and other Public Private Partnerships (PPP) models based on independent cost-benefit, Cost-Effectiveness and value-for-money studies, to prevent expensive low priority bilateral, donor-led investments funded by debt.
- Diversifying the currency mix in which debt is denominated to reduce exposure to foreign exchange risks.
- Enhance debt transparency and accountability in order to enhance management of public debt in Kenya.
- An audit of current projects is critical to wipe out white elephant projects. A clear framework for tracing and auditing debt financed projects is needed for equity.
- The government should also consider the following measures to enhance public financial management.
 - a) *Expenditure Vs Revenue:* In the past few years, public expenditure has been growing at a faster pace than revenue. The major outcome has been huge budget deficits. We should

PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS																				
		b) <i>Implementation of budget monitoring reports:</i> Act on Auditor General and Controller of Budget recommendations in respect to public debt c) <i>Audit of the Public Debt Register:</i> Establishing the authenticity of the public debt register including the true debt sustainability position is critical. Government sources and the world bank continue to give conflicting statistics of Kenya's debt situation. d) <i>Accounting for debt:</i> The public is not sure on the accuracy and completeness of the debt register. National Treasury and Central Bank of Kenya have conflicting statistics on national public debt. The Auditor General in its Report for the Financial Year 2017/18 pointed out misstatements and differences between the financial statements and the confirmed balances. Further, Further, a comparison of the statement of receipts and payments and the ledger for the period under review reflected different account balances as indicated below: <table><tr><th>Item Description</th><th>Financial Statement Balance KSh.</th><th>Ledger Balance KSh.</th><th>Variance KSh.</th></tr><tr><td>Interest Payments on Foreign Borrowings</td><td>84,357,487,111</td><td>84,725,600,971</td><td>368,113,860</td></tr><tr><td>Principal Repayment on Domestic Loans</td><td>111,700,845,296</td><td>294,836,376,343</td><td>183,135,531,047</td></tr><tr><td>CBK -Pre-1997 Loans</td><td>1,110,000,000</td><td>2,220,000,000</td><td>1,110,000,000</td></tr><tr><td>Repayment of Principal</td><td>141,532,524,729</td><td>141,360,882,966</td><td>171,641,763</td></tr></table>	Item Description	Financial Statement Balance KSh.	Ledger Balance KSh.	Variance KSh.	Interest Payments on Foreign Borrowings	84,357,487,111	84,725,600,971	368,113,860	Principal Repayment on Domestic Loans	111,700,845,296	294,836,376,343	183,135,531,047	CBK -Pre-1997 Loans	1,110,000,000	2,220,000,000	1,110,000,000	Repayment of Principal	141,532,524,729	141,360,882,966	171,641,763
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ICPAK Submissions on BPS 2020

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Para 223: Absorption of Development Funds	This has been a worrying trend at the two levels of government. One of the main causes cited by the Controller of Budget is the delay in Exchequer Releases. The BPS 2020 indicates that while absorption rate of recurrent budget has remained high over the last five years (i.e. more than 80 percent in each year), absorption of development budget initially increased from 53.1 percent in FY 2014/15 to 65.2 percent in FY 2015/16 before declining to 48.1 percent in FY 2017/18 and then increasing to 57.8 in FY 2018/19. The low absorption rate is attributed to procurement challenges at the County Government level and capacity deficits, especially in terms of planning.	<table><tr><td>from Foreign Lending and On- Lending</td><td></td><td></td><td></td></tr><tr><td>Exchequer Releases</td><td>517,161,876,534</td><td>-</td><td>517,161,876,534</td></tr></table> Source: Auditor General Report for National Government- FY 2017-2018 - To increase absorption of development funds, the National Treasury should ensure that funds allocated to the MDAs and Counties are released in a timely manner - Parliament has continued to use FY 2013/14 audited accounts until FY 2019/20 when it used FY 2014/15. The National Assembly must expedite its process of considering the most recent audited financial statements as submitted by the Auditor General. - In the distribution of the Equalization Fund there is need to relook at the unit of disbursements. The Government should adopt CRA's proposal to use locations as the smallest units.				from Foreign Lending and On- Lending				Exchequer Releases	517,161,876,534	-	517,161,876,534
from Foreign Lending and On- Lending													
Exchequer Releases	517,161,876,534	-	517,161,876,534										
Para 225-229: County Government's Own Source Revenue	The BPS 2020 indicates many counties have not met their revenue targets in the past mainly due to challenges in OSR forecasting.	- Revenue forecasting and mapping: a clear, consistent and standard forecasting model needs to be adopted by the country as a basis for determining revenue projections. There is further need for a comprehensive analysis and mapping of counties' revenue potential. - Revenue collection systems: There is need to standardize revenue collection management systems across counties for uniformity and easy reporting. In addition, counties should strive to automate revenue collection systems to seal loopholes and leakages. This standardized ICT-based system prescribed should provide real time revenue information in a consistent											

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		manner to enable consolidation and analysis, as well as periodic reports for use by the National Treasury, the Controller of Budget, the CRA and the Office of the Auditor General, and also easily accessible by the general ▪ Collaboration with KRA: To enhance efficiency and effectiveness in revenue collection and administration, county units should consider engaging KRA for technical support. ▪ Public Participation in Revenue collection: Counties should empower citizens with revenue information through revenue clinics- for citizens to understand the importance of taxes and charges to county service delivery. ▪ County Treasuries should continuously review the performance of revenue collection vis-à-vis targets and shall include a status report in the Quarterly and Annual reports which shall be published in various media.
Para 227: Reasons for underperformance of OSR	BPS 2020 indicates that lack of effective internal controls and audit mechanisms among other challenges contributes to the underperformance of OSR among the Counties. The absence and/or ineffectiveness of internal audit committees contravenes part XIII of the PFM (County Governments) Regulations, 2015 as one of the county financial risks.	▪ Continuously lobby County entities to establish audit committees. ▪ Capacity build established audit committees on their roles. ▪ Support CRA's proposals to have this as a parameter under the Fiscal Prudence criterion for revenue share. This will obligate counties to establish and operationalize these committees.
Para 232-238: Pending Bills	The National Treasury in December 219 released a Pending Bills Update which revealed that County governments owed Sh88.9 billion. Of this amount, Ksh 51.2 billion (58%) was reported as payable while Ksh 37.7 billion (42%) lacked sufficient documentation to support services rendered or work done and therefore were not recommended for payment. As at 8th January 2020, the amount of eligible pending bills paid was Ksh 30.35 billion leaving an outstanding balance of Ksh 20.94 billion. According to the Kenya Enterprise Survey 2018, approximately 12	▪ The National Treasury should consider accrual accounting as opposed to cash accounting which presents challenges in terms of monthly and annual financial reporting on pending bills and other liabilities. ▪ There is need to develop a database of all owed dues to counties and MDAs, and assess the multiplier effect/impact to the economy ▪ The Institute supports recent efforts by the National Assembly to amend the Public Procurement and Assets Disposal Act 2015, compelling the National and County

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	percent of the 1,001 firms surveyed have had a contract with government that was in arrears. Pending bills if allowed to persist, could reduce firm liquidity and cause postponement of new investments. It could also increase firms' default rate (in business to business transactions), which can be associated with a rise in non-performing loans for the banking sector.	Governments to pay suppliers and contractors within 30 days. Legislative Proposals The Institute proposes Amendment to 17 of Public Finance Management Act 2012. Amend 8(b) to read "by inserting the following new subsection immediately after subsection (7)— <i>"(8) (a) six months prior to a general election, no procurement shall be carried out by the national and county governments, or their respective entities, in respect of their respective development votes unless with the approval of the National Treasury".</i> <i>(8) (b) All pending bills incurred by the national and county governments, or their respective entities, in respect of their respective development votes, shall be cleared not later six months prior to a general election</i> This amendment will help curb pilferage of public resources during an election year and increase of pending bills during the same period. Such an Amendment was first introduced through the Public Finance Amendment Bill 2017. The Majority Leader, Hon. Aden Duale in his submission to the National Assembly (captured in the Hansard Report dated 13th February 2019 indicated the following: "Clause 8 of the Bill proposes to amend Section 7 of the principal Act, which is the PFM Act, by inserting a new subsection to prohibit procurement at both levels of Government during the three months period before a general election. Any procurement

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		during that time may only be done with the approval of the National Treasury. You have seen that people commit public expenditure three months to general elections. An example is even with governors. They use that money to campaign. This amendment says that there will be no use of public funds three months to general elections. No procurement will be done. Procurements are done left, right and centre even two weeks to the general elections. The moment the governor loses, he takes away money. That is why we have huge pending bills, some of which cannot be verified. Some of them cannot be seen. The amendment to Section 7 of the PFM Act prohibits procurement at both levels of the Government three months before general elections. If there will be necessity, if that procurement is important and there will be an emergency, the approval of the Cabinet Secretary of the National Treasury must be sought” – HON Aden Duale, Majority Leader
Para 240: Status of transfer of devolved functions	BPS 2020 provides the status of unbundling and transfer of functions. Completion of this exercise is critical for the success of devolution.	Expedite completion of the functional assignment and unbundling of functions exercise.
Para 246 and table 4.2: County governments Equitable Share	The National Treasury proposes that County Governments be allocated an equitable share of revenue raised nationally of Ksh 317.8 billion in the FY 2020/21 which is a 1.3 billion increase from Ksh 316.5 billion in the FY 2019/20. ICPAK's analysis of the Division of Revenue Process shows that for the past three years, the Division of Revenue Act (DORA) has used FY 2013/14 audited accounts as the basis for equitable share, and in 2019, used audited accounts for the FY 2014/15.	- It is our considered opinion that as we commence the process of revenue share FY 2020/21, National Treasury, Commission on Revenue Allocation (CRA) and Parliament should use the most recent audited financial statements as the basis for revenue allocation. - Consider amending Section 37 (9) of the PFM Act 2012 to enable prior enactment of DORA before Appropriations Bill. - National Assembly to consider, expedite scrutiny and adoption of these reports from the Auditor General. This will enable not only the revenue share to rely on the most recent and approved

PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS										
	<table><tr><th>Division of Revenue Act (DORA)</th><th>Audited Financial Statements</th></tr><tr><td>DORA 2016</td><td>935, 653 million</td></tr><tr><td>DORA 2017</td><td>935, 653 million</td></tr><tr><td>DORA 2018</td><td>935, 653 million</td></tr><tr><td>DORA 2019</td><td>1,038,035 million</td></tr></table> This affects fairness and equity in the revenue share. These disadvantages county governments given that any surplus accrues to the national government.	Division of Revenue Act (DORA)	Audited Financial Statements	DORA 2016	935, 653 million	DORA 2017	935, 653 million	DORA 2018	935, 653 million	DORA 2019	1,038,035 million	The Institute recommends further amendment to Section 191 of the Public Finance Management Act The National Assembly shall within three months after receiving an audit report adopt and approve the report; In the event that the audit report is not adopted and approved by the National Assembly within three months, it shall be deemed as the most recent audited accounts for purposes of determining sharable revenue. Therefore, the National Assembly must expedite its process of considering the audited financial statements as submitted by the Auditor General
Division of Revenue Act (DORA)	Audited Financial Statements											
DORA 2016	935, 653 million											
DORA 2017	935, 653 million											
DORA 2018	935, 653 million											
DORA 2019	1,038,035 million											

NATIONAL TREASURY

BRIEF TO THE SENATE COMMITTEE ON FINANCE AND BUDGET MEETING ON THE 2020 BUDGET POLICY STATEMENT, THE DIVISION OF REVENUE BILL, 2020, THE COUNTY ALLOCATION OF REVENUE BILL, 2020 AND THE MEDIUM-TERM DEBT MANAGEMENT STRATEGY, 2020 HELD ON 20TH FEBRUARY 2020

I. THE 2020 BUDGET POLICY STATEMENT

1. The 2020 Budget Policy Statement is prepared in accordance with section 25 of the Public Finance Management Act, 2012.
2. The theme for the 2020 Budget Policy Statement is: *Harnessing the "Big Four" for Job Creation and Economic Prosperity* which resonates well with the ongoing initiatives under the "Big Four" Agenda. Accordingly, the policy measures outlined in the 2020 BPS prioritizes the "Big Four" Agenda and are anchored on the Third Medium Term Plan (MTP III) of the Kenya Vision 2030.
3. Kenya's economic growth remains strong and resilient. The economy is projected to expand by 6.1 percent in 2020 up from the estimated 5.6 percent in 2019. This growth will be supported by the strong services sector, stable macroeconomic environment and ongoing investments in strategic priorities of the Government under the "Big Four" Agenda.
4. Fiscal framework for FY 2020/21 supports the fiscal consolidation plan. The plan will see a gradual reduction of fiscal deficit from the estimated 6.3 percent of GDP in FY 2019/20 to 4.9 percent of GDP in FY 2020/21 and further to around 3.0 percent of GDP over the medium term. To achieve these targets, the Government will continue to restrict growth in recurrent spending and double its effort in domestic resource mobilization.
5. In this regard, total revenue for FY 2020/21 is projected at Ksh 2,134.1 billion (18.3 percent of GDP) while overall expenditure and net lending is projected at Ksh 2,748.2 billion (23.6 percent of GDP).
6. As a result, fiscal deficit (including grants) in FY 2020/21 is projected at Ksh 571.2 billion (4.9 percent of GDP). The deficit will be financed by net external financing of Ksh 345.1 billion (3.0 percent of GDP), Ksh 222.9 billion (1.9 percent of GDP) net domestic borrowing and other net domestic receipts of Ksh 3.2 billion.
7. Given the tight resource envelope amidst significant expenditure demands, budget allocations in the 2020 BPS have been realigned to the "Big Four" Agenda. Detailed budgets of all Government Ministries, Departments and Agencies (MDAs) have been scrutinized to curtail spending on non-productive areas and ensure that

UAG/2/15/1 SAU/01/1/1
public expenditures focus on impactful programmes with highest welfare benefits to Kenyans.

8. In this regard, we have provided **Ksh 128.5 billion** for the “Big Four” Projects; **Ksh 1,832.4 billion** for the National Government; **Ksh 574.6 billion** for the Consolidated Funds Services and **Ksh 316.5 billion** as equitable share to County Governments. Under the National Government, we have provided **Ksh 128.5 billion** for the “Big Four” Projects;

II. DIVISION OF REVENUE BILL, 2020 AND COUNTY ALLOCATION OF REVENUE BILL, 2020

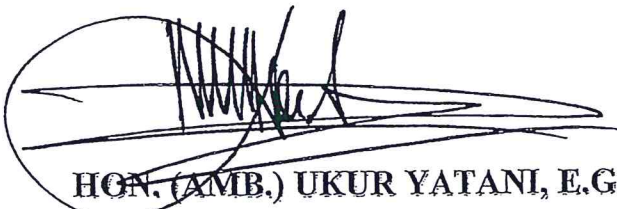
9. We propose that the Counties’ equitable revenue share for FY 2020/21 be retained at **Ksh 316.5 billion**, the same as the FY 2019/20 allocation. In addition to their proposed equitable share of revenue, County Governments will receive a total of **Ksh 53.4 billion** as conditional grants;

10. Accordingly, in FY 2020/21, the Counties will share an estimated **Ksh 369.9 billion**. The County Allocation of Revenue Bill, 2020 is attached.

III. THE MEDIUM-TERM DEBT MANAGEMENT STRATEGY (MTDS), 2020

11. Debt Sustainability Analysis (DSA) for Kenya indicates that Kenya’s public debt remain sustainable over the medium term.

12. To finance the fiscal deficit in the FY 2020/21, MTDS recommends a ratio of 60:40 borrowing from external and domestic sources respectively. In this strategy, Treasury Bonds will be the main source of net domestic financing, while Treasury Bills will be used only for cash management purposes and not as a budget financing tool and thus the quantity and proportion of treasury bills are projected to decrease.



HON. (AMB.) UKUR YATANI, E.G.H

CABINET SECRETARY/THE NATIONAL TREASURY AND PLANNING

20th February 2020

ANNEX TABLES:

Table 1: Summary of Budget Allocations for the FY2020/21 – 2022/23 (Ksh Million)

	FY 2019/20 Supplementary Estimates No. 1. 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
1. National Government	2,006,964	1,832,406	1,954,145	2,126,976
Executive	1,947,873	1,778,133	1,897,105	2,067,139
Judiciary	19,202	18,051	18,572	19,308
Parliament	39,889	36,222	38,468	40,529
2. Consolidated Fund Services*	550,063	574,650	675,293	729,889
3. County Governments**	316,500	316,500	325,694	334,836
TOTAL.....	2,873,527	2,723,556	2,955,132	3,191,701
% Share in Total Expenditure				
1 National Government	69.8%	67.3%	66.1%	72.0%
Executive	67.8%	65.3%	64.2%	70.0%
Judiciary	0.7%	0.7%	0.6%	0.7%
Parliament	1.4%	1.3%	1.3%	1.4%
2. Consolidated Fund Services*	19.1%	21.1%	22.9%	24.7%
3. County Governments**	11.0%	11.6%	11.0%	11.3%

NB: * Consolidated Fund Services is composed of domestic interest, foreign interest and pension

NB: **The allocation for County Government is based on the sharable revenue

Table 2: Allocations to County Governments, FY 2020/21

Type/level of allocation	2016/17	2017/18	2018/19	2019/20	2020/21
County equitable share	280,300	302,000	314,000	316,500	316,500
Additional conditional allocations, of which:					
Free maternal healthcare	4,121	-	-	-	-
Leasing of medical equipment	4,500	4,500	9,400	6,205	6,205
Compensation for user fees forgone	900	900	900	900	900
Level 5 hospitals	4,000	4,200	4,326	4,326	4,326
Special Purpose Grant (Emergency Med. Serv.)	200	-	-	-	-
Supplement for construction of county headquarters		605	605	300	300
Rehabilitation of Village polytechnics		2,000	2,000	2,000	2,000
Allocation from Fuel Levy Fund (15% of collections)	4,306.8	7,875	8,269	8,984	9,433.3
Allocations from loans and grants	3,870.7	12,541.4	33,241.9	39,089.9	30,204.3
Total County Allocations	302,198.5	334,621.4	372,741.9	369,329.9	369,868.6

Proposals by the National Treasury on the Division of Revenue between the Two Levels of Government for FY 2020/21

Brief by the Cabinet Secretary/National Treasury and Planning to the Senate Committee
on Finance and Budget

February 20th, 2020

Ordinary revenue continues to underperform

1. In the Budget Review and Outlook Paper (BROP) 2019 as well as in the draft BPS 2020, the National Treasury had proposed that County Governments be allocated Ksh 317.8 billion as their equitable share of revenue raised nationally in FY 2020/21. This proposal was informed largely by the underperformance in ordinary revenue witnessed in recent years. Between FY 2013/14 and FY 2018/19, cumulative ordinary revenue shortfalls amounted to Ksh 932 billion. (Table 1).

	Original estimate	Actual / Revised estimates	Shortfall	Cumulative shortfall
2013/14	1,027.2	919.0	108	108
2014/15	1,087.1	1,031.8	55	163
2015/16	1,242.7	1,153.0	90	253
2016/17	1,380.2	1,306.6	74	327
2017/18	1,560.3	1,365.1	195	522
2018/19	1,769.2	1,496.9	272	794
2019/20	1,877.2	1,766.9	110	905
2020/21	1,883.7	1,856.7	27	932

Note: Revised estimate for FY 2019/20 excludes Ksh 76.9 billion, being a one-off mop-up from State Corporations

The National Government has borne all revenue shortfalls, through spending cuts

2. As per respective annual Division of Revenue Acts (DoRA), the National Government has always borne the revenue shortfall. To balance the budget, this has been

FY	Development	Wages & salaries	FPE, FSE & SGR	IEBC	KRA	Defense & NSIS	Other O&M	TOTAL
2013/14	191.0	281.2	35.4	1.9	13.7	93.8	168.8	786
2014/15	241.5	298.0	0.0	0.0	0.0	93.7	242.5	876
2015/16	277.1	307.4	47.1	1.9	13.5	113.7	212.3	973
2016/17	353.2	336.6	52.1	12.2	14.1	130.2	250.4	1,149
2017/18	229.2	388.9	79.4	28.0	19.8	126.1	201.1	1,072
2018/19	262.2	417.5	82.3	4.5	18.9	135.3	278.4	1,199
2019/20	374.2	487.6	77.5	4.7	23.8	142.1	306.3	1,416
2020/21	257.7	500.7	86.7	3.2	24.3	145.3	262.6	1,281

Notes: FPE = free primary educ; FSE = free secondary educ; SGR = strategic grain reserves

achieved by downsizing spending by MDAs; County allocations have never been affected by the shortfalls. In FY 2017/18 when ordinary revenue grew by 4%

against a target of 13% culminating in a Ksh 195 billion shortfall, Counties' allocation grew by 8% (from Ksh 280.3 billion to Ksh 302 billion). In contrast, the National Government's net issues (**Table 2**) contracted by 7% (from Ksh 1,149 billion in FY 2016/17 to Ksh 1,072 billion¹). Similarly, actual net issues in FY 2018/19 reflects a Ksh 82 billion reduction from what was proposed in the revised budget (II) estimates.

An FY 2019/20 funding gap will cause more cuts in National Government's spending

3. The National Government's estimated net issues for FY 2019/20 of Ksh. 1,416 billion shown in **Table 2** are not fully funded -- the proposed budget contains a Ksh 161 billion gap, the bridging of which will require further expenditure cuts of a similar magnitude. The scope for these cuts exists only in the development budget and to a small extent in 'other O&M'. Accordingly, the base for the current FY will be adjusted to account for the above funding gap. This means that the National Government's net issues for development and 'other O&M' will drop from Ksh 681 billion to Ksh 520 billion. The implication is that in FY 2020/21:

- a) The National Government's spending on development and other O&M will not grow at all; and,
- b) The National Government's total spending will expand by only Ksh 26 billion or 2% (i.e. from Ksh 1,255 billion to Ksh 1,281 billion). This growth is itself uncertain considering the revenue collection challenges experienced in previous FYs.

In FY 2020/21, net spending by the National Government will contract

4. As part of measures to narrow the projected deficit, the BPS, 2020 reflects a Ksh 136 billion or 9.6% contraction in the National Government's estimated FY 2020/21 net issues (i.e. from Ksh 1,416 billion in FY 2019/20 to Ksh 1,281 billion). Below is a summary of the FY 2020/21 proposals as contained in the BPS:

- a) The National Government's development spending will contract by 31% (i.e. from Ksh 374 billion in FY 2019/20 to Ksh 258 billion in FY 2020/21). The last such contraction happened in FY 2017/18. As a result, development spending in FY 2020/21 will comprise 20% of net issues, a drop from the 26% average recorded in the last seven FYs.

¹ The National Government's net issues excludes: **i)** domestic and foreign interest; **ii)** contribution to civil service pension and other consolidated fund services (CFS); **iii)** recurrent conditional transfers to Counties (i.e. "level-5" and "foregone user fees"); **iv)** ministerial recurrent and development appropriations-in-aid (AIA); **v)** foreign financing and net lending; and, **vi)** capital transfers to Counties funded from the National Government's equitable revenue share.

- b) Expenditure on 'other O&M' will contract by 14% (from Ksh 306 billion in FY 2019/20 to Ksh 263 billion in FY 2020/21). This is only slightly less than the 20% contraction in FY 2017/18.
- c) Spending on wages & salaries will increase albeit insignificantly by 3% (i.e. from 488 billion in FY 2019/20 to Ksh 501 billion in FY 2020/21), making this the smallest expansion in recent times. Although wages & salaries in FY 2020/21 will equal 39% of National Government's net issues/expenditure (vis-à-vis an average of 34% over the last six FYs), this is primarily due to the large drop in overall net issues.
- d) Among the few expenditure components that will grow notably in FY 2020/21 are:
- **free primary education** (12%). This growth is intended to facilitate continued implementation of the FPE.
 - **free secondary education** (12%). This growth is intended to sustain the 100% primary-to-secondary school transition, as a result of which capitation for secondary education has increased by 73% (i.e. from Ksh 12,870 to Ksh 22,244).
 - **the strategic grain reserve** (6%). The growth will contribute towards the "Big Four" goals of reducing both the cost of food and the number of food insecure Kenyans.

Revenue growth in FY 2020/21 will go to neither level of Government

5. Despite the depressed revised revenue forecasts for FY 2019/20 and 2020/21 vis-à-vis original estimates for both years, collections in FY 2020/21 are now projected to grow by Ksh 89.8 billion (i.e. from Ksh 1,766.9 billion to Ksh 1,856.7 billion). The National Treasury proposes that the additional revenue be directed towards Consolidated Fund Services (CFS), specifically debt repayment, pensions and gratuities, and some salaries for Constitutional Offices and Independent Commissions. These are non-discretionary expenditures which take first charge in the public budget.

6. Accordingly, of the projected additional revenue in FY 2020/21, an estimated Ksh 57.2 billion will be

Payments in Ksh billions	FY 2019/20	FY 2020/21	Variance
Debt repayment (principal)	131.4	174.1	42.7
Debt repayment (interest)	441.5	456.0	14.5
Pensions	108.6	118.7	10.1
Contribution to civil service pension	4.8	14.4	9.6
TOTAL	686.3	763.2	76.9

earmarked for debt repayment i.e. principal and interest (**Table 3**). This focus on debt repayment is in accordance with the Government's deficit financing policy, which is elaborated in both the BPS, 2020 and the Medium Term Debt Management Strategy. The balance from the anticipated revenue growth (i.e. approximately Ksh 19.7 billion) will be earmarked for retirees' pension payments as well

as GoK contribution to civil servants' pension. The enhanced allocations are intended to make up for shortfalls experienced in FY 2019/20, which was due to slower than targeted processing of pension payments. Clearly, the Ksh 89.8 billion revenue growth is itself inadequate to cover the above-mentioned CFS, which will therefore be supplemented with part of the 'savings' from reduced National Government net issues.

Proposal on Counties' FY 2020/21 equitable share of revenue raised nationally

7. The National Treasury's revised proposal for County Governments' equitable revenue share allocation for FY 2020/21 is informed by five (5) factors namely:

- a) Continued underperformance in ordinary revenue, which forms the base for the annual division of revenue;
- b) The fact that the National Government continues to solely bear shortfalls in revenue in any given FY;
- c) The Ksh 161 billion funding gap in the FY 2019/20 budget;
- d) The 10.3% projected contraction in National Government's net spending in FY 2020/21 vis-à-vis FY 2019/20; and,
- e) The proposal by National Treasury that the entire incremental revenue in FY 2020/21 be earmarked for CFS, specifically debt repayment and pensions.

8. Based on the above factors, it is proposed that County Governments' equitable revenue share for FY 2020/21 be retained at Ksh 316.5 billion. The implication of this is that there will be no additional funding from the equitable revenue share for County Governments' wage and salary costs as well as development and other O&M costs. Nevertheless, the National Treasury notes that an opportunity exists for the Counties to finance any planned growth in their expenditures from own-source revenue (OSR). According to the Controller of Budget (CoB), the Counties raised Ksh 40.3 billion in FY 2018/19 from OSR, equivalent to 75% of targeted collections, and a 24% improvement from recorded collections in FY 2017/18. Assuming that Counties maintain this growth trajectory in OSR collections in FY 2019/20 and FY 2020/21, there should be sufficient additional resources to finance an expansion in service delivery.



HON. (AMB.) UKUR YATANI, EGH

CABINET SECRETARY/THE NATIONAL TREASURY AND PLANNING

COMMISSION ON REVENUE ALLOCATION

Attc/01

The Commission Recommendation on the Medium Term 2020 Budget Policy Statement

1. Recommendations on Sustainable Fiscal Position.

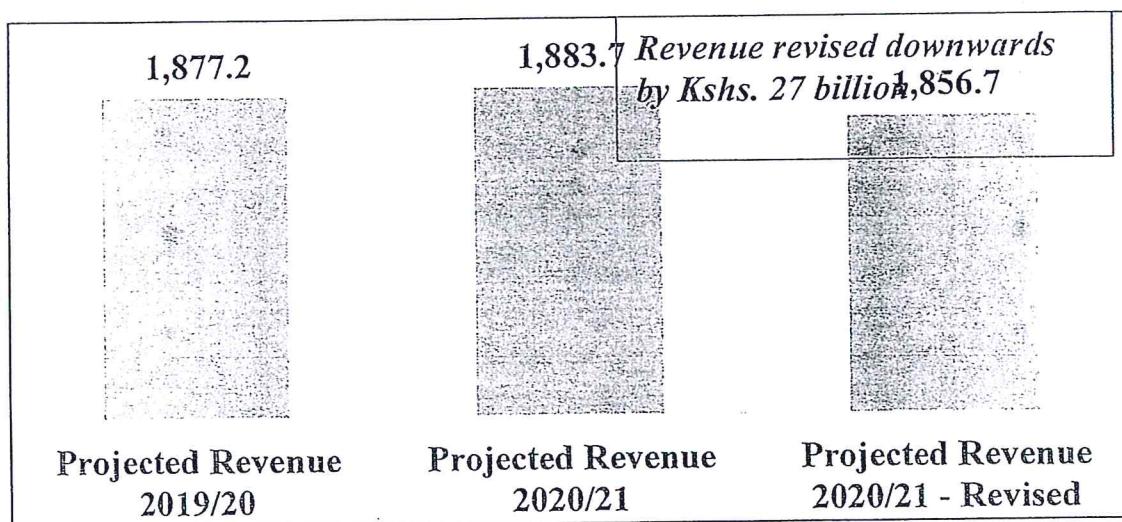
- Kenya's economic growth has remained strong and resilient, registering on average, a growth of more than 5 percent over the devolution period. However, the high growth has not translated to high revenue performance as shown in Table 1.

YEAR	PROJECTED REVENUE	ACTUAL/ REVISED REVENUE	REVNEUE SHORTFALL
2013/14	1027.2	919	(108)
2014/15	1087.1	1031.8	(55)
2015/16	1242.7	1153	(90)
2016/17	1380.2	1306.6	(74)
2017/18	1560.3	1365.1	(195)
2018/19	1769.2	1496.9	(272)
2019/20	1877.2	1773	(104)
2020/21	1883.7	1856.7	

- As a matter of policy, the government intends to curtail growth in public expenditures to ensure a lower fiscal deficit and maintain debt at sustainable levels. A targeted aggregate expenditure reduction from 26 percent of GDP in 2018/19 to 23 per cent of GDP in 2020/21 is highly risk. The intended aggregate expenditure reduction on development from a revised level of Ksh. 731 billion in 2019/2020 to Ksh. 587 billion may trigger a slump of the economy and even worse performance of revenues.
- Given that the public debt is still sustainable, and with the revised public debt ceiling on Ksh 9 trillion, the commission recommendations that national government development expenditure should at the very least be retained at its current levels or be increased by either exercising further austerity measures of operations and maintenance or slightly increasing the public debt.

2. Revenue sharing between national and county governments for FY 2020/21

- Informed by the revenue projection of Ksh 1,883.7 billion, in December 2019, the Commission recommended to Parliament that Kshs. **1,561.96 billion** be allocated to the national government and **Ksh. 321.74 billion** to the county governments as equitable shares, and **Ksh. 5.77 billion** to the Equalisation Fund.



- The additional allocation of **Kshs. 5.244 billion** to the counties and **Kshs. 102 billion** to national government was to finance development activities to sustain the economic growth momentum.
- The National Treasury in February 2020 revised the revenue projection downwards to Kshs. 1,856.7 billion on account of non-performing revenues (BPS 2020).
- The revised revenue projection underpinning the revenue sharing for financial year 2020/21 is below the projection of Kshs. 1,877 billion that informed revenue sharing between the two levels of governments for financial year 2019/20. Technically, there is no additional ordinary revenue to share for FY 2020/21 between the two levels of government.
- The Commission therefore agrees with the IBEC resolution that each level of government retains the same shares in 2020/21 as shared in 2019/2020. That is, that county governments be allocated Kshs. 316.5 billion and national government Ksh. 1,534 billion

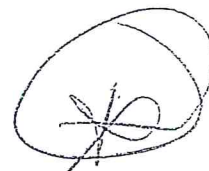
3. Performance of County revenues.

- Counties are differently endowed and therefore exhibit different revenue potentials. The cities, namely: Nairobi, Mombasa, Kisumu, Nakuru and Eldoret have huge revenue potential.
- The BPS 2020 provides Kshs.**6.4 billion** for FY 2020/21 towards **the Urban Development Grant** which supports 45 counties, excluding Nairobi and Mombasa. There is need to consider the remaining 2 city counties of Nairobi and Mombasa.
- The Commission recommends that a new **conditional grant** be designed to incentivize **the five cities to optimize revenue collection**.

4. The Third revenue sharing Basis among county governments.

- The Commission submitted its recommendation on **the third basis for revenue sharing among county governments** to Senate in April 2019.
- The Senate is yet to consider the third basis recommendation in line with the provisions of Article 217.
- The first and second basis for revenue sharing among county governments have been used for more than six years- this is contrary to the provisions of the Sixth Schedule Section 16.
- The BPS 2020 allocates the county equitable share among the 47 counties based on the second basis. The second basis largely uses 2009 statistics. The Commission notes that much has changed over the last ten years, and that with the availability of new data on poverty and population, there is merit to revise the basis for revenue sharing to ensure fairness in revenue sharing. The Commission implores on the Senate to expedite the finalization and determination of the third revenue sharing before the approval of the CARA 2020.

IBP



MEMORANDUM TO PARLIAMENT ON THE BUDGET POLICY STATEMENT (BPS) 2020

Introduction

This memorandum was prepared by 24 Civil Society Organizations that are working in different sectors at national and county levels. We submit a number of issues related to the Budget Policy Statement 2020 proposals. We have limited our focus to five areas namely, national and county government revenue; public debt; health; education; and environment protection, water and natural resources sectors. Below is a summary of the main points and the sections thereafter detail the issues and recommendations.

- 1. **Public participation:** The preparation of the BPS is supposed to be inclusive of all stakeholders in line with the Constitution of Kenya, Public Finance Management (PFM) Act 2012 and other attendant laws of Kenya. Public participation is a key component of this process and one that should progressively improve the engagement between the state and its citizens. Unfortunately, the public sector hearings by the National Treasury are held in Nairobi only with Budget Policy Statement having no citizen interaction with Parliament. This is a huge gap in the preparation of these documents considering that the BPS gets to set the total size of the budget and ceilings for each sector. Towards this, we propose that parliament amends the law to require public engagement on the BPS.
- 2. **Contracting fiscal space:** The Budget Policy Statement 2020 comes for approval to Parliament at a time that the fiscal space in the budget is contracting outside of public and debt and pension spending. The National Treasury indicates that all additional resources collected in 2020/21 will go to debt service and payment of pensions. The net result is that the MDA budget at the national level is contracting and the equitable share to counties is also not going to grow for that year. Therefore, the BPS 2020 is a key opportunity for Parliament to get clarity from the executive on the trade off that have to be made in such a constrained revenue space with many competing priorities from the Big Four to MTPIII among others.
- 3. **National Government and County Revenues:** At both levels, revenue projections and collection remains unrealistic and uncertain. National ordinary revenue growth has been declining year on year and is expected to only have a 2 per cent growth in the 2020/21 financial year. The county equitable share growth has also been declining but at a faster rate than national ordinary revenue growth at 6 and 13 per cent respectively. Disbursements to counties have also been lower than those of the national government institutions. We propose that Parliament firms the commitments towards strengthening the performance of the economy especially on job creation that determines increase in tax. Further, there is need to ensure that the tax bracket is widened.
- 4. **Public Debt:** Public debt levels have risen to unsustainable levels and are eating into critical spending on social services. While the national ordinary revenue has grown at an

average of 13 per cent over the last six years, debt financing has grown at an average of 30 per cent. We propose that Parliament must reduce the deficit approved in this BPS and hence tame the increment in debt in the medium term. Parliament must also tame within year increment of the deficit for the next financial year (2020/21). Over the long term, Parliament should through the debt strategy seeks ways to negotiate the composition of our current debt obligations.

- **Health Sector:** Kenya's national government has made a commitment on Universal Health Coverage. Noting that health is a largely devolved function, there is a need to ensure that national and county efforts are coordinated. In the past the national government has provided conditional grants to specific health functions at the county level. However, the criteria and conditions related to those grants remain unclear. We propose that there is need to strengthen the intergovernmental coordination in the health sector.
- **Environment, Water and Natural Resources:** Despite Kenya being a water scarce and highly vulnerable to climate change (ranking as the 32nd most vulnerable country globally¹) the absorption of development expenditures in this sector is very low. Just to note from the sector report a significant number of projects are still incomplete. This has affected progress towards Kenya achievement of its Nationally Determined Contributions (NDCs) and service delivery to the citizens. Parliament need to provide its oversight role and ensure that MDAs are held accountable on the absorption rate of development expenditures to ensure completion of projects to the point of service delivery.
- **Education:** There is a notable increase in the share of the education sector budget to the total budget from 25 per cent in 2019/20 to 28 per cent in 2020/21. This is largely towards allocations to TSC. There is however limited focus on the governments focus on 100 per cent transition especially in expanding infrastructure to ease congestion in current facilities. We urge parliament to balance the allocations to ensure all round development of the sector.

Ordinary Revenue for National and County Governments

The BPS 2020 comes against a background of government recognizing that there are revenue shortfalls and rising expenditure pressures. Ordinary revenue is a key determinant of flexibility and consistency in a government's ability to meet its obligations. Revenue shortfalls increase the fiscal deficit which occasion non-delivery of services or increased borrowing that further constrains the fiscal space. The BPS 2020 indicates that current revenue shortfalls have been as a result of underperformance of all broad categories of ordinary revenue except non-tax revenue. Government plans to double its effort in domestic resource mobilization and rationalize expenditure as key to lowering the budget deficit. In the medium term no growth in the percentage

¹ ND-Gain Index. <http://gain-new.crc.nd.edu/country/kenya>

of revenue to GDP is envisioned. Expected to remain at 18.4 per cent in the medium term. This section raises three pertinent issues on national and county revenues, namely;

- Revenue projections for national ordinary revenue are unrealistic and the collections uncertain. Key sources especially in income tax and VAT are declining as a proportion of total revenue while non-tax income proportion is increasing.
- Allocation to equitable share for county is declining and the growth factor uncertain. The 2020/21 allocation is set to remain at the same level as in 2019/20 which in essence is a decrease if we are to factor in a 5.7 per cent year-on-year inflation. Counties own source revenues are also not showing growth and may need greater action if they are too.
- There are structural and governance challenges with the revenue systems that would require addressing if revenue growth is to be a reality at both levels of government.

To address these challenges, we are proposing that the 2020 BPS addresses the following;

- Provide for realistic revenue projections backed up by data. We need clarity on what exactly will contribute to the additional numbers. Most important is the measures to address the declining levels of income and value added tax as a proportion of the total tax revenue
- There is need to establish the growth factor for equitable revenue sharing for there to be certainty for counties allocation
- Address cash flow receipts and disbursements to counties that explains absorption and pending bills among other pending obligations
- Parliament to make a call on the growing expenditure pressure that seems to be determining revenue projections

Issues and recommendations

National ordinary revenue growth is declining year on year for the last 6 years. On average the growth of revenue has been at 13 per cent over the last 6 years. This is to be commended. That said, Table 1 shows that save for the projections of 2019/20 there has been a decline from 18 per cent in 2013/14 to 2 per cent in 2020/21 in the growth of revenue. There is need for a revamping of productive economy that creates gainful employment to enhance the growth in the ordinary revenue.

Table 1: National Tax and Non-Tax Revenues in Kes. Millions

Year	Import Duty	Excise Duty	Income Tax	VAT	Total Tax Revenue	Non- Tax Revenue	Total Revenue	% Total Revenue Growth
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2012/13	61,484	91,810	370,600	216,000	739,894	82,773	822,667	
2013/14	67,555	102,029	449,590	232,630	851,804	117,358	969,162	18%
2014/15	74,048	115,872	508,581	259,685	958,186	123,007	1,081,193	12%
2015/16	79,188	139,540	564,475	289,213	1,072,417	149,598	1,222,015	13%
2016/17	89,943	165,474	625,050	339,034	1,219,501	181,077	1,400,578	15%
2017/18	93,691	167,881	642,290	356,729	1,260,591	278,815	1,539,405	10%
2018/19	107,702	194,289	685,390	413,186	1,400,567	298,300	1,698,867	10%
2019/20 (revised estimates)	128,200	261,600	804,500	464,500	1,658,800	425,400	2,084,200	23%
2020/21 (projections)	126,500	258,000	862,300	496,400	1,743,200	390,900	2,134,100	2%

Source: BPS 2020, BROP 2019

While tax revenue has shown a decline, non-tax revenue has filled the shortfall as table 2 and figure 1 shows. This is expected to change in 2020/21 where growth of all tax sources is expected to take a nose-dive. Key among them is import duty and exercise duty that will have a negative one per cent decline while non-tax revenue is expected to register a negative seven per cent decline. This explains an expected two per cent growth in total ordinary revenue in 2020/21. All sources have had booms and bursts (figure 1) which indicates unpredictability of revenues and that could explain the cash flow challenges experienced in the government.

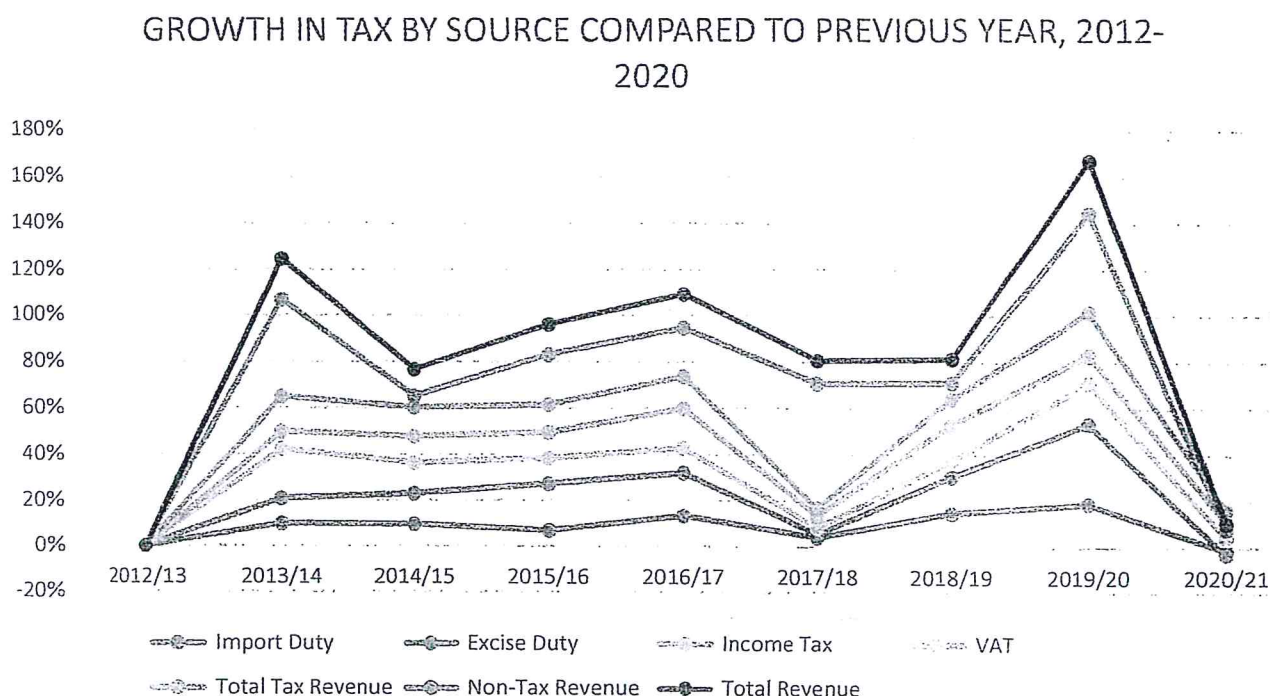
Table 2: Growth in tax sources compared to previous year

Year	Import Duty	Excise Duty	Income Tax	VAT	Total Tax Revenue	Non-Tax Revenue	Total Revenue
2012/13							
2013/14	10%	11%	21%	8%	15%	42%	18%
2014/15	10%	14%	13%	12%	12%	5%	12%
2015/16	7%	20%	11%	11%	12%	22%	13%
2016/17	14%	19%	11%	17%	14%	21%	15%
2017/18	4%	1%	3%	5%	3%	54%	10%
2018/19	15%	16%	7%	16%	11%	7%	10%
2019/20	19%	35%	17%	12%	18%	43%	23%

2020/21	-1%	-1%	7%	7%	5%	-8%	2%
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Source: Organizations' Calculations based on various National Treasury and CBK sources

Figure 1: Growth in tax by source compared to previous year, 2012-2020



Income tax and VAT share of total revenue has been on a decline and yet these are key sources. They have declined from 71 per cent in 2012/13 and projected to be at 63 per cent in 2020/21. This is indicating a poor growth in productive economy and incomes. Non-tax revenue as a proportion of total tax revenue is expected to grow to 18 per cent of total revenue in 2020/21. The challenge with non-tax revenue is that it is based on onetime expenses like renewal of passports. Further it suggests that Kenyans are probably having to pay extra fees in services that are already covered by budget expenditures.

Table 3: Share of each tax to the total revenue

Year	Import Duty	Excise Duty	Income Tax	VAT	Total Tax Revenue	Non-Tax Revenue	Total Revenue
2012/13	7%	11%	45%	26%	90%	10%	100%
2013/14	7%	11%	46%	24%	88%	12%	100%
2014/15	7%	11%	47%	24%	89%	11%	100%
2015/16	6%	11%	46%	24%	88%	12%	100%
2016/17	6%	12%	45%	24%	87%	13%	100%
2017/18	6%	11%	42%	23%	82%	18%	100%

2018/19	6%	11%	40%	24%	82%	18%	100%
2019/20	6%	13%	39%	22%	80%	25%	100%
2020/21	6%	12%	40%	23%	82%	18%	100%

Source: Organizations' Calculations Based on CBK and National Treasury Publications

Revenue shortfalls have shown an unpredictable pattern. A review of the shortfalls shows that on average the country has missed 8 per cent of revenue targets. Specific years show booms and bursts as table 4 and figure 2 show. There is a connection between revenue shortfalls and revisions in budget deficit like was the case in 2019/20 where the deficit was revised from KES. 630 Billion in BPS 2019 to KES. 789 Billion in BROP 2019. This suggests not only poor forecasting but also poor governance of expenditures at a time when the government has a commitment on austerity and fiscal consolidation.

Table 4: National Revenue Performance 2013-2020

Year	Original Estimates	Actual/ Revised Estimates	Shortfall	Shortfall as a proportion of Original Estimates
2013/14	1027.2	919	108	11%
2014/15	1087.1	1031.8	55	5%
2015/16	1242.7	1153	90	7%
2016/17	1380.2	1306.6	74	5%
2017/18	1560.3	1365.1	195	12%
2018/19	1769.2	1496.9	272	15%
2019/20	1877.2	1766.9	110	6%
2020/21	1883.7	1856.7	27	1%

Source: BPS 2020

Although county governments are key in delivery of services, the equitable share allocations to them has been on a decline the last six years. Year on year growth has declined from 15 per cent in 2015/16 to an anticipated zero growth in 2020/21 (see table 5). If one was to factor inflation of 5.7 per cent (as of December 2019) then the allocations to the counties will be a negative. This compares poorly with a constant growth of ordinary revenue of about 13 per cent over the period. As a percentage the equitable share as total of the total national revenue has declined from 22 per cent to 17 per cent. This excludes conditional grants. To address this challenge, we propose that parliament sets a growth factor for equitable sharing that is linked with growth in the national revenue. The incomplete functional analysis that would provide indicative costs for both levels of government would go along way in informing division of revenue.

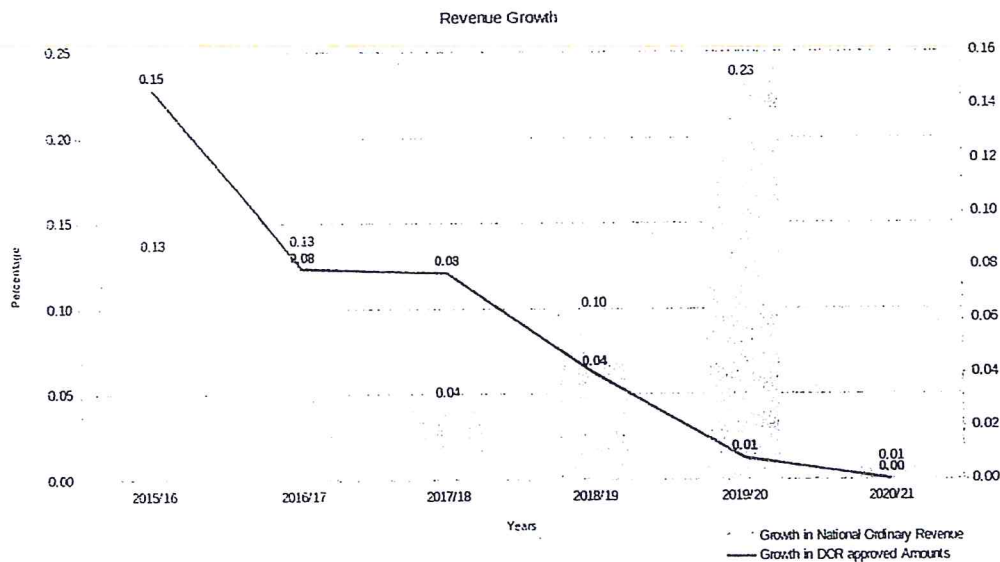
Table 5: Key indicators in Equitable sharing of revenue

	Proposed Growth		Basis for Proposed Revenue Growth				Equitable Share Approved in the DoR (2019/20 is proposed)	Growth in DOR approved Amounts	Sharable Revenue (KES Billion)	Equitable share as a % of Sharable Revenue
Year	CRA	National Treasury	CRA	National Treasury	Ordinary Revenue	Growth in National Ordinary Revenue		-	1,031.80	22%
2015/16	10.4%	10.4%	3-Year average growth in ordinary revenue	3-Year average growth in ordinary revenue	1,152.97	13%	259.77	15%	1,251.67	21%
2016/17	15.0%	7.8%	3-Year average growth in ordinary revenue	Not provided	1,306.57	13%	280.30	8%	1,380.20	20%
2017/18	15.0%	6.7%	3-Year average growth in ordinary revenue	3-Year average month on month inflation	1,365.06	4%	302.00	8%	1,549.41	19%
2018/19	8.5%	4.0%	3-Year average inflation	Not Clear	1,496.93	10%	314.00	4%	1,681.07	19%
2019/20	6.9%	2.0%	3-Year average inflation	Not Clear	1,843.81	23%	316.50	1%	1,877.18	17%
2020/21	5.7%	0.0%	The country's 3-year (2016-2018) average economic growth	Not Clear	1,856.71	1%	316.50	0%	1,857.00	17%

Source: RPS 2020 and Parliamentary Divisional Data

Source: BPS 2020 and Respective Division of Revenue Bills/Acts

Figure 2: Growth in National Ordinary Revenue and Division of Revenue approved for Counties



Source: CRA Recommendations, BPS 2020 and Respective Division of Revenue Bills/Acts

Counties own source revenue growth is uncertain and only covers a small proportion of their expenditures. All counties are dependent on the equitable share to fund their budgets. The last full year of data we have covered the period of 2018/19. In that year, counties raised Ksh 40 billion from their own sources. This was just 11 per cent of the Kshs. 376 billion expenditure across all the 47 counties for that year. Therefore, revenue collected by counties funded only one-tenth of the actual spending for the year. In 2013/14 this number stood at 16 per cent, it then dropped to 13 per cent in 2014/15 and it has kept on that downward trend since the start of devolution. Therefore, over time, counties are becoming more dependent on the national government and not vice versa. In fact, in 2018/19, own-source revenues funded less than 10 per cent of 34 of Kenya's 47 counties' budgets. This also explains why fights around revenue sharing send major panic across counties because they cannot run without intergovernmental transfers.

It is also important to highlight that one-quarter of all revenue raised by counties was collected in Nairobi alone in 2018/19. The top 5 counties collected 56 per cent of all county-level revenue. Therefore, 42 counties collect less than half of all the subnational revenue. The capacity of many counties to fund any significant proportion of their budgets is much lower than what some seem to think.

Secondly, the revenue sources that counties have access to are the same ones that the former local authorities had before devolution. Looking at revenue collection across all counties even in the period before devolution shows very erratic revenue growth patterns of sharp increases and this is reflected across all revenue sources and all counties or local authorities that today form our counties. Data going back as far as 2007/08 has these same patterns. For a curious eye, 10 years'

worth of data with such an uneven rise and drops in revenue growth could be an indication of systemic problems with the revenue sources devolved to counties. Some government officials have indicated that there might be some explanations to these patterns. One example is the random waivers given to clear property rates by county governors. However, that does not explain why the same trends in other revenue sources that fall outside this explanation. Therefore, there is need for the National Treasury and the Parliament to review these sources. Counties may have access to revenue sources that are impossible to predict due to these erratic trends and that has a direct impact on budgeting

The disbursements to county governments are lower than other national releases. The exchequer issues to the disadvantage of counties has been registered over several years in the past. For instance, as at 31 December 2019 (half year of 2019/2020 FY) Counties had received only 31 per cent of their estimated revenue as compared 57 per cent to Consolidated Fund Services (CFS) and 40 per cent to national government expenditures (see table 6). This could explain the low absorptions and increasing levels of pending bills as counties prioritize recurrent expenses. To address this challenge, parliament should focus and enforce that the cash disbursements schedules are followed.

Table 6: Exchequer Issues to CFS, National and County Governments as at 31 December 2019

CATEGORY	2019/20 REVISED ESTIMATES	ACTUAL RECEIPTS	RECEIPTS AS % OF ESTIMATES
CFS	805,779	461,887	57%
National Government	1,467,671	592,411	40%
County Governments	378,485	117,293	31%
TOTAL	2,651,935	1,171,591	44%

Source: Kenya Gazette No 16, National Treasury

There are broad structural and governance challenges on revenue collection at both levels of government. There is a concern about the revenue leakages that have persisted, and hence total collections are not accounted for. Use of multiple revenue accounts for multiple streams have affected reconciliation of revenue collected. A more compounding factor is the number of Kenyans who do not pay income tax. Efforts made to ensure that all in business, formal and informal, have a PIN does not seem to have translated in actual increase in revenues. The BPS indicates that 831000 jobs have been created every year since 2013. This would translate to over 4 million jobs yet the number of Tax Payers as per the revenue authority records does not reflect that. There is need to review the sources and modes of administration of the same. Forecasting by source is key to ensure certainty in the sharing.

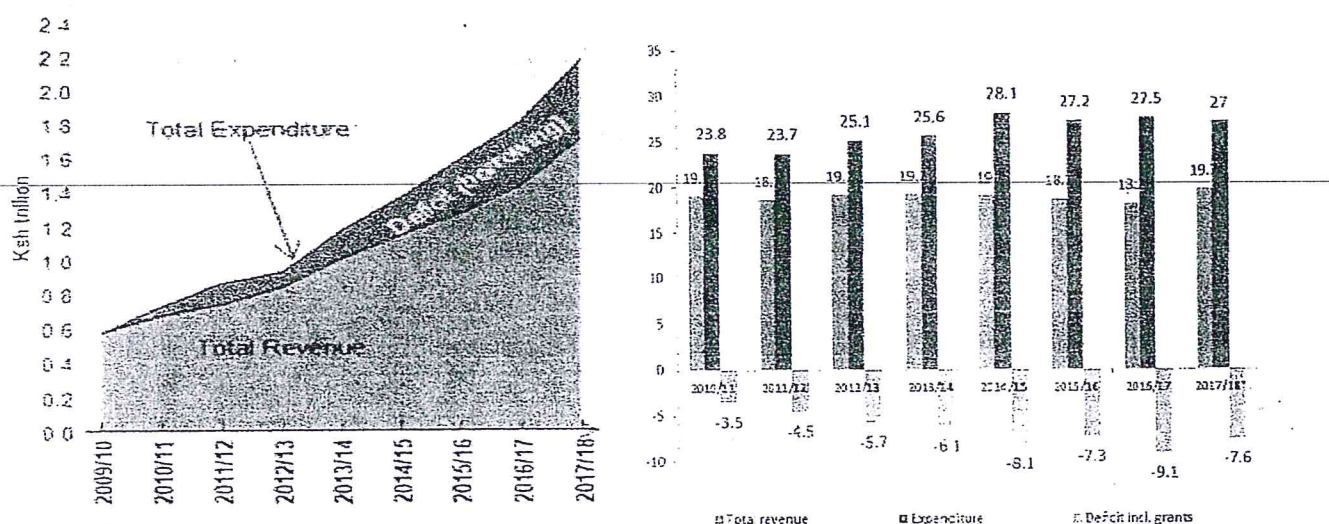
Transparency on actual debt obligations

Article 214 defines public debt as all financial obligations attendant to loans raised or guaranteed and securities issues or guaranteed by the national government. This definition understates debt obligations with missing components of significant expenditures such as pension. In Addition, Article 203 provides that the criteria for determining the equitable shares between the national and county governments shall take into account public debt and other national obligations. We therefore implore upon parliament to demand for more transparency on Kenya's trues picture of debt obligation inclusive of pension and other contingent liabilities; pending bills, fines, and VAT refunds.

Credibility of Deficit Estimates

Analysis of this BPS also reveals dramatic deviations between the final approved deficit ceiling in the BPS 2019 and the revised supplementary estimates 2019/20 that incline towards widening the budget deficit. Revenue and expenditure estimates are not matching (as shown in figure 3 below).

Figure 3: National Revenue, Expenditure and Deficit

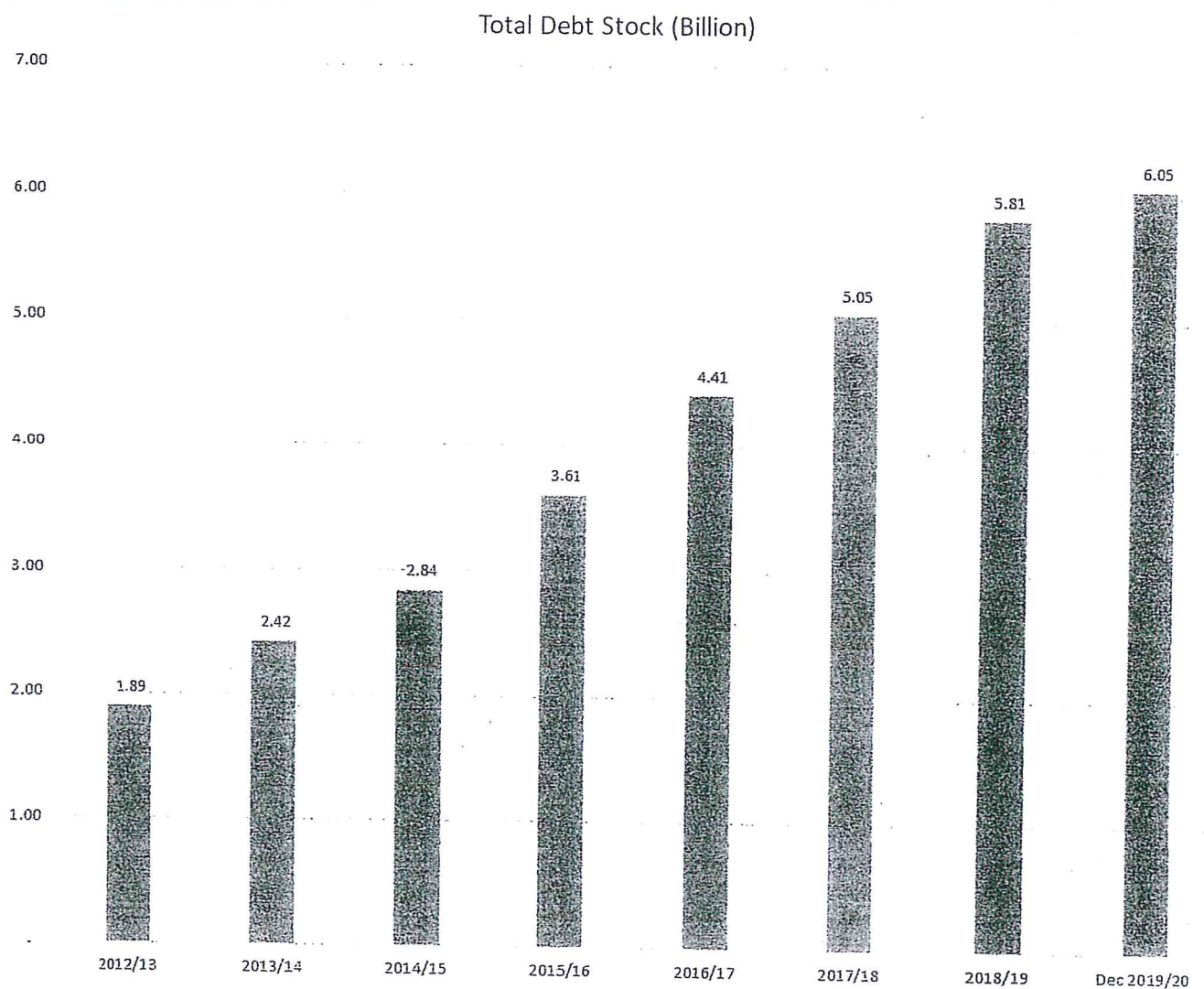


Source: National Treasury Sources

Trends in public debt

Debt Stock

Kenya's debt stock has steadily risen over the years and now stands over Ksh 6 trillion as of December 2019. This puts more impedance on a more robust debt management policy as well as oversight from Parlaiment. This will be key as Kenya weights the risks and opportunities of its current debt mix and repayment.



Source: Annual Debt Report 2018/19 and the 2nd Quarter QEBR 2019/20

Domestic debt can have severe implications for the economy if not well utilized because its servicing absorbs a major part of government revenues thereby creating a persistent deficit implying that government has fewer resources to spend on development projects (Ayres and Warr, 2010). Therefore, internal debt servicing is more harmful for the economic growth than the stock of internal debt.

Figure 4: Share of Domestic and External Debt, 2002-2021

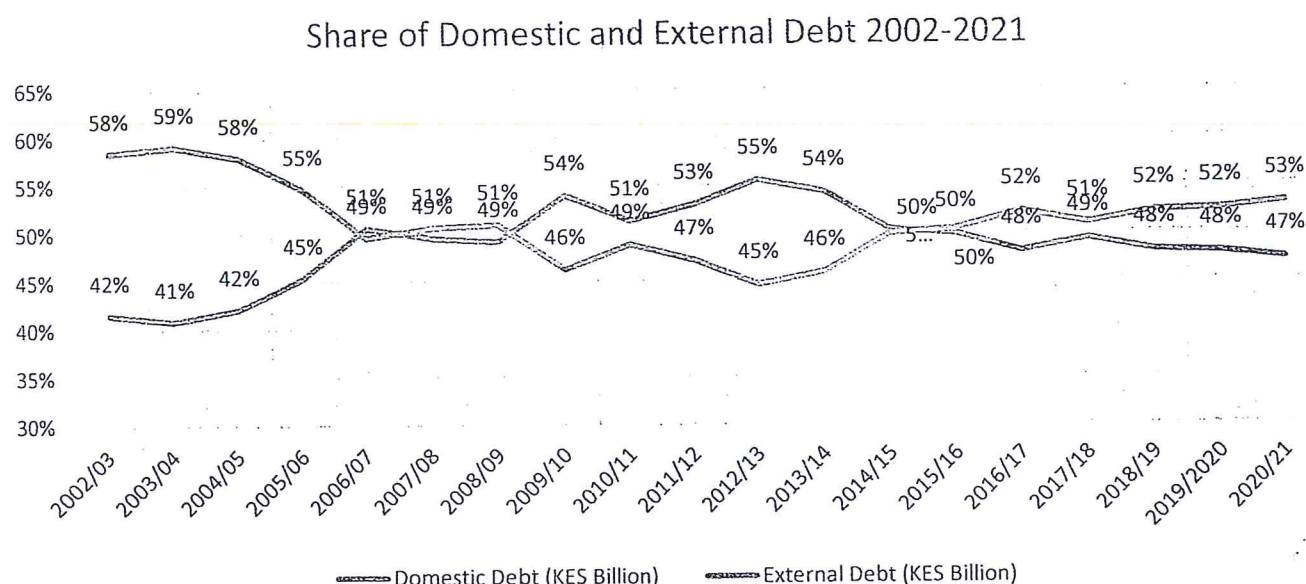


Table 7: External Debt Composition

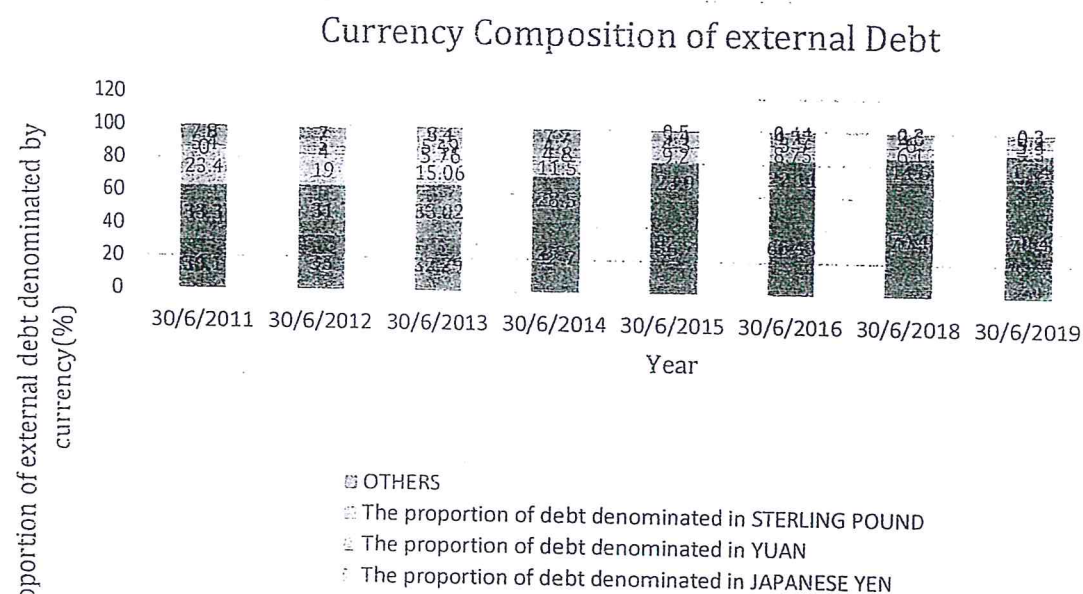
FINANCIAL YEAR	MULTILATERAL	BILATERAL	COMMERCIAL	GUARANTEED DEBT
2011	32%	16%	49%	3%
2012	32%	14%	51%	3%
2013	32%	14%	51%	3%
2014	30%	13%	55%	2%
2015	27%	16%	55%	2%
2016	26%	16%	56%	2%
2018	32%	30%	33%	5%
2019	30%	30%	34%	5%

% Composition of the stock of external public and publicly guaranteed debt by creditor {MoF, Monthly Debt Bulletins (June)}

Currency Mix of our Public Debt

Kenya external debt is in form of foreign currency and that presents some foreign exchange risks that could have serious implications on our debt repayment bill each year. The government has to put in place a forex cover for 4 months to reduce susceptibility of the external shocks which affect the importation. Consequently, the Central bank is involved in open market operations to maintain foreign currency in the economy. Diversifying the currency mix in which debt is denominated to reduce exposure to foreign exchange risks.

Figure 5: Currency composition of external debt



Debt Sustainability

Based on the IMF threshold (Table 8), two of the debt sustainability indicators (debt service to revenue ratio and debt service to export ratio) are beyond the provided threshold in Kenya. That has consequently pushed the overall risk level from low risk to moderate risk. Implying that public debt level in Kenya is less sustainable as compared to previous periods. Breach on these thresholds shows that the fiscal rules are weak and non-binding therefore parliament should ensure that fiscal rules including debt management thresholds and targets are explicitly indicated in the debt policy and management framework, medium term debt management strategy and these priorities espoused in accompanying budget policy statement.

Table 8: Debt Sustainability indicators

Indicator	Threshold (%)	2016 Act.	2017 Est	2018 Proj	2019 Proj
PV of Public Debt to GDP	70	50.6	55.4	60.6	59.9
PV of Public Debt to revenue ratio	300	275.9	285.0	299.6	292.9

Debt Service (Total) to revenue ratio	30	36.3	42.7	44.8	49.4
Debt service (External Debt) to export ratio	21	9.0	16.5	19.9	26.2
Overall Risk Level	Low	Low	Moderate	Moderate	Moderate

Source: World Bank's Africa Pulse Biannual report, 201

Debt Servicing

The proportion of ordinary revenue to debt repayment has been increasing progressively from 16.6% in 2011-2012 to 42.8% by December 2019. Increased spending on debt repayment has an implication on sharable revenue between national and county governments' and a direct impact on service delivery. As Figure 6a and Table 8a show, debt servicing is growing faster than ordinary revenue and allocation to counties. The later is set to remain the same in 2020/21. Figure 6b indicates comparison between allocation to social services sectors (Agriculture, Education and Health). Of concern is that the BPS 2020 makes a proposal that any additional revenue shall be directed towards repayment of debt and pension. This will have an implication on service provision.

Figure 6a: Growth in Ordinary Revenue vs. Public Debt Service

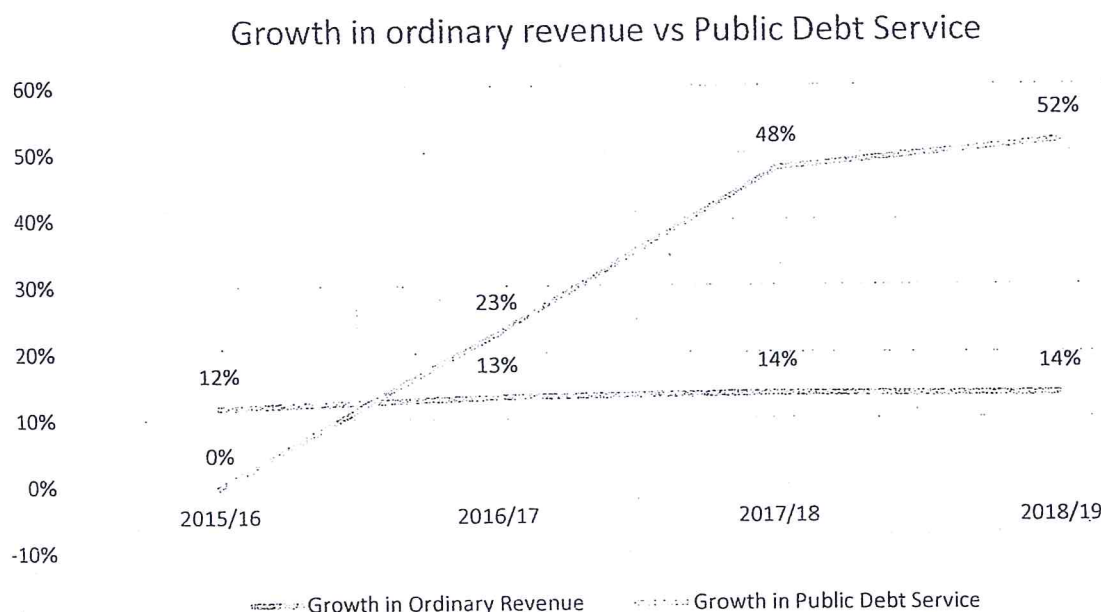
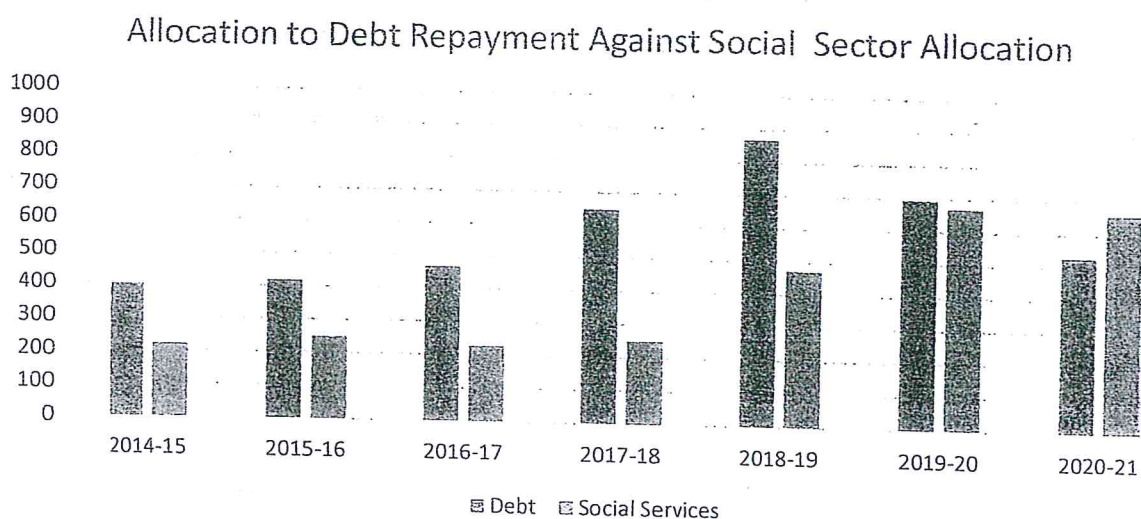


Table 8b: Public Debt Service, Ordinary Revenue and County Allocation

Year	Public Debt Service	Ordinary Revenue	Counties' allocation	Growth in Public Debt Service	Growth in Sharable Revenue	Growth in County Allocation
2014/15	250.97	1,031.82	229.93			
2015/16	250.39	1,152.97	273.07	0%	12%	19%
2016/17	307.16	1,305.79	294.02	23%	13%	8%
2017/18	453.36	1,486.29	314.21	48%	14%	7%
2018/19	687.57	1,688.49	331.23	52%	14%	5%
Average				30%	13%	10%

Figure 6b: Allocation to Debt Repayment Against Social Sector, 2014-2021



Source: BPS 2020

To address the increasing debt we propose that parliament considers the following,

- Implementing balanced budgets with very well-defined budget deficit limits if necessary, in order avoid large deficit budgets.
- Accumulate public debt based on national priorities with clear impact analysis based on the Country's economic challenges. This will reduce populist projects that do not address key economic priorities by taking into consideration socioeconomic impacts of debt financed projects.

- c) To Shift debt composition towards external debt relative to domestic debt, to reverse the current trends.
- d) Rely more on concessional loans and grants rather than on expensive bilateral loans that are non-concessional, thus reduce high interest rates payments, averting possibility of debt overhang and
- e) Implement government-to-government partnerships and other Public Private Partnerships (PPP) models based on independent cost-benefit, Cost-Effectiveness and value-for-money studies, to prevent expensive low priority bilateral, donor-led investments funded by debt.

Health Sector

Funding for the Roll Out of the Universal Health Coverage

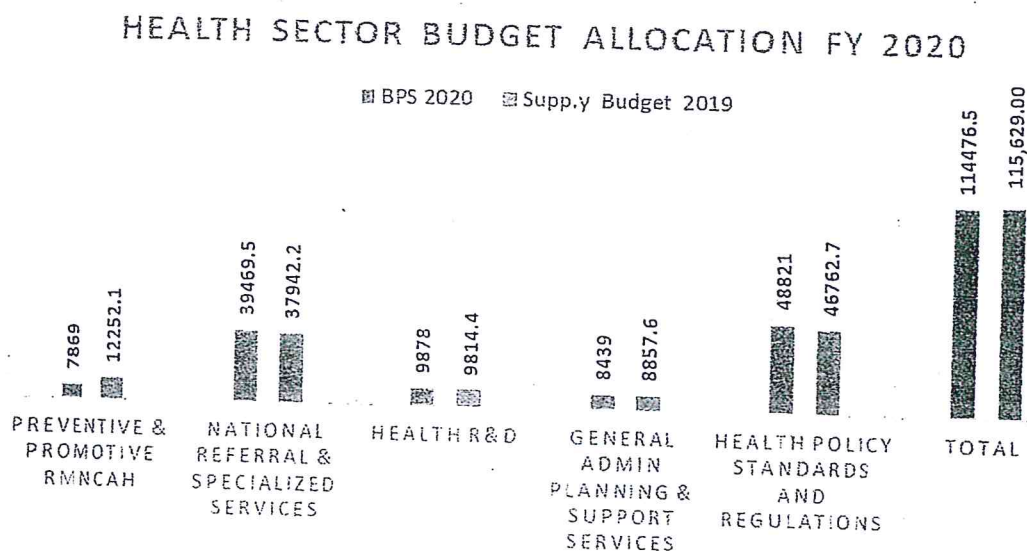
The health sector's budgetary allocation for the Financial Year (FY) 2020/21 warrants urgent attention due to its key role in determining the country's capacity to fulfil its UHC ambition and by extension the Big Four agenda's health component. The 2020 Budget Policy Statement (BPS) indicates the commitment by the State Department of Health to promote UHC as demonstrated in the snippet below:

80. Moving forward, the Government will focus on primary healthcare, progressively address human resources needs, provide basic equipment in primary health care facilities and ensure availability of pharmaceutical and non-pharmaceutical commodities in all health facilities. In a bid to achieve this, the Government will accord preference to locally manufactured medicine as incentives to local pharmaceutical manufacturers to produce essential medicines at affordable rates, to minimize overreliance on imported products. The Government will also forge multi-sectoral collaboration to make UHC a success in the rest of the 43 counties upon full roll out slotted for 2020 (Figure 2.3).

While the above narration clearly demonstrates commitment, there is a notable reduction in allocation of funds to the health sector from the supplementary 2019/20 budget as well as the ceiling for FY 2020/21 as demonstrated in the Figure 7. Whereas the allocated budget in 2019/20 was raised to Kshs. 115 billion in the supplementary budget 1 (2019/20), the Country was implementing UHC pilot project in only 4 counties at a cost of Kshs. 4 billion. The budget statement presented to Parliament for 2019/20 indicated that the government allocated Ksh 48 billion for the rollout of UHC. In 2020, the country anticipates rolling out the UHC project in the remaining 43 counties with 23 counties already having committed to the project. A key question is what percentage of the the projected state department of Health funding of the Kshs. 114 billion will be committed for the country wide roll-out of the UHC. In addition, how will the funding be rolled out to counties? Is the national government going the conditional grants way or will the

funds be channeled through NHIF similar to the Linda Mama arrangement? Parliament needs to get clarity on this approach to anticipate the challenges that have been observed in both options.

Figure 7: Health Sector Allocations



We propose that the BPS ceiling for the FY 2020/21 is revised to address the funding needs with reference to the current 5.8% inflation rates. At the bare minimum, the government should endeavor to cover the costs codified within the supplementary budget No. 1 of FY 2019/20. Currently, the BPS ceiling of 2020 is Kshs. 1 billion less than the total supplementary budget 1 of 2019/20 which is 115.6 billion, and this undermines the strides realized under UHC implementation. Ensure all resources earmarked for health for the FY 2020/21 meet all the programming needs underscored in the BPS 2020/21 and increase the average total of the expenditure to have emergency funds that in totality are cushioned from 5.8% inflation rate.

No growth and poor Disbursement of Conditional Grants to Primary Health Care

The devolution of majority of health functions has created multiple streams of funding from the county and the national government dedicated to the provision of primary health care. The streams are both for conditional and unconditional funds that come from government and donors. The disbursement of these funds to the facilities is not well documented in publicly available documents thus making it difficult to track them. Key grants for use fees forgone and level 5 hospitals have not grown overtime and this does not reflect reality on the ground. Further, there is very little information on the conditions or restrictions attached to their use. Lastly, there have been significant delays in disbursement of the funds to health facilities, some coming as late as the end of the financial year. The result is that the monies are underutilized for the services earmarked. For example, data from the National Treasury shows that in 2017/18 only 50 percent of the user forgone grants to dispensaries and health centres had been disbursed just one month to the end of the financial year.

Figure 8: Conditional Grants

Table 4.4: Division of Revenue Raised Nationally FY 2016/17 – 2020/21 (Ksh Million)

Type/level of allocation	2016/17	2017/18	2018/19	2019/20	2020/21
National Government	1,099,899	1,247,412	1,367,069	1,554,916.5	1,533,668
Of which:					
<i>Free maternal healthcare</i>	4,121				
<i>Rehabilitation of Village polytechnics</i>		2,000	2,000	2,000	2,000
<i>Leasing of Medical Equipment</i>	4,500	4,500	9,400	6,205	6,205
<i>Compensation for user fees forgone</i>	900	900	900	900	900
<i>Level 5 hospitals</i>	4,000	4,200	4,326	4,326	4,326.0
<i>Special Purpose Grant (Emergency Med. Serv.)</i>	200				
<i>Supplement for construction of county headquarters</i>		605	605	300	300
Equalization Fund	6,000	7,727	4,700	5,760	6,532
County equitable share	280,300	302,000	314,000	316,500	316,500
Total shareable revenue	1,380,199	1,549,412	1,681,069	1,877,176	1,856,700

Source: BPS 2020

We propose that as parliament evaluates the BPS, it is vital that there is clarity about the conditions of all the grants in health care and also the specifications of what they can be spent on. In addition, challenges around disbursements and the decision makers who have a role in their efficient flow to health services at both levels of government should be solved with clear direction and oversight from Parliament.

Environment, Natural, Resources and Water

This section while on the broader sector takes a particular focus on water. This is in appreciation that Kenya is a water scarce country and prone to climate change induced hazards, the Government of Kenya has set out to adopt and implement climate sensitive policies, laws and budgets as stipulated in its medium term plan III.

Low absorption rate in development budget leading to poor service delivery

There is need to improve absorption of development expenditure especially in development heavy sectors e.g. environment which houses Ministry of water and sanitation, for the citizens to access quality and timely services. Just to note from the sector report a significant number of projects are

still incomplete. Table 9: above indicates low absorption in the environment protection, water and natural resources from FY 2016/17 up to 2018/19. In the sector report, this low absorption rate has been linked to late disbursement of funds by the exchequer.

Figure 9: Absorption of development budget for the sector

2.3: Development Expenditure Analysis

Vote and Vote Details	Economic Classification	Approved Budget (Kshs. Millions)			Actual Expenditure (Kshs. Millions)		
		2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
Summary of Sector Development Expenditure	Gross	62,024	53,302	48,373	48,572	43,428	40,144
	GOK	26,300	17,960	22,972	22,824	16,813	21,308
	Loans	32,933	31,278	22,888	24,167	23,654	17,653
	Grants	2,792	4,064	2,512	1,577	2,961	1,171
Total Development For the Sector		62,025	53,302	48,372	48,568	43,428	40,132

Source: BPS 2020

Lack of justifications for MDAs and Development budget allocation reductions

We note that despite the increase of the total budget the the BPS proposes to reduced allocations to the sector. The ministry of water and sanitation allocations have been reduced from KES 67B to KES 61B (excluding irrigation) despite the Ministry having requested KES 107B. The current KES 70B allocations are from the shift of the irrigation and land reclamation and water harvesting and storage.

Figure 9: Proposed MDA expenditure reduction in 2020/21

SECTOR/ VOTE/ PROGRAMME DETAILS	2019/20 SUPPLEMENTARY ESTIMATES NO. 1			2020/21 CEILING		
	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	23,862.8	70,919.1	94,781.9	25,194.5	71,534.0	96,728.5
1107 Ministry of Water & Sanitation and Irrigation	5,480.3	61,723.9	67,204.2	6,292.0	64,655.0	70,947.0
1001000 P.2 General Administration, Planning and Support Services	730.4	84.0	814.4	891.0		891.0
1004000 P.3 Water Resources Management	1,549.2	9,130.4	10,779.5	1,122.0	8,984.0	10,106.0
1017000 P.4 Water and Sewerage Infrastructure Development	3,100.8	41,961.5	45,062.3	3,530.0	37,505.0	41,035.0
1015000 P.1 Water Storage and Flood Control	-	10,548.0	10,548.0		8,340.0	8,340.0
Programme 5: Irrigation and Land Reclamation				724.0	8,128.0	8,852.0
Programme 6: Water Harvesting and Storage for Irrigation				25.0	1,698.0	1,723.0
1108 Ministry of Environment and Forestry	10,094.4	7,279.4	17,373.9	10,153.8	5,643.0	15,796.8
1012000 P.3 Meteorological Services	1,666.0	2,391.4	4,057.5	1,078.8	592.0	1,670.8
1002000 P.2 Environment Management and Protection	1,056.1	1,030.0	2,086.1	1,661.0	1,487.0	3,148.0
1010000 P.1 General Administration, Planning and Support Services	277.3	-	277.3	301.0		301.0
1018000 Forests and Water Towers Conservation	7,095.0	3,858.0	10,953.0	7,113.0	3,564.0	10,677.0
1192 State Department for Mining	551.5	447.8	999.3	660.8	312.0	972.8
1007000 P.1 General Administration Planning and Support Services	288.8	55.8	344.6	284.8		284.8
1021000 Geological Survey and Geofomation Management	59.1	102.8	161.9	84.0	112.0	196.0
1009000 Mineral Resources Management	203.5	289.2	492.7	292.0	200.0	492.0
1203 State Department for Wildlife	7,736.5	1,468.0	9,204.5	8,088.0	924.0	9,012.0
Programme 1: Wildlife Conservation and Management	7,736.5	1,468.0	9,204.5	8,088.0	924.0	9,012.0
Total	1,224,277.4	782,686.7	2,006,964.1	1,216,075.1	616,330.7	1,832,405.8

Source: BPS 2020/21

From the Environment sector report we note that the Sector development expenditure FY 2018/19 Ksh 17,653 million is financed from loans and in the same report there is proposed allocation of Ksh 35,348 million which is equally to be financed by loans. Between 2016/2017 to 2018/2019 the sector (environment) spent KES 24.2B, KES 23.7B and KES 17.7B towards development expenditure.

Figure 10: Sector Development Requirements

Table 3.2.3: Sector Development Requirements/ Allocations (Kshs. Million)

Sector	Economic Classification	Baseline	Requirements			Allocations		
		2019/20	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Environment Protection, Water and Natural Resources	Gross	74,614	122,578	151,504	171,413	71,851	77,107	78,999
	GoK	32,935	58,462	69,350	89,339	29,478	34,734	36,626
	Loans	35,348	56,642	73,455	73,455	35,348	35,348	35,348
	Grants	6,331	7,474	8,699	8,619	7,025	7,025	7,025
	Local AIA	-	-	-	-	-	-	-

Source: Environment sector Report

We propose that parliament considers the following in approving the BPS 2020;

1. **Value for Money.** There is need for parliament to provide oversight role to ensure that the loans taken are utilized efficiently for realization of value for money. It is evident that most

infrastructure development projects are 50% incomplete and yet more is being borrowed to fund infrastructure development.

2. **Equitable allocations.** Parliament to ensure that spending for critical sectors are allocated based on the need of the community especially on essential services like water and sanitation.
3. **Justification for MDAs budget reductions.** The government needs to give justification on the reductions MDAs and Development budget allocation reductions being made. Water and sanitation for instance is a main enabler for the Big Four agenda (Universal health, Manufacturing, Affordable housing and Food security) and a basic human right as stipulated in the 2010 Constitution of Kenya.
4. **Timely disbursements of funds to MDAs.** Parliament need to strengthen oversight to ensure that funds are released in a timely manner to different Ministries. This will be through Parliament understanding the root cause of delays and acting in accordance to the constitution.
5. **Coordination of shared functions.** National Government is implementing programmes in counties especially on shared responsibilities e.g. water and sanitation and climate change. It is incumbent that the National and County Governments jointly prioritize and implement such programs to ensure that they reach the underserved, avoid duplication and foster sustainability.

If these proposals are adopted and implemented there will be;

- ❖ Improved service delivery in the MDAs
- ❖ Equitable allocation and utilization of resources within the country
- ❖ Improved Value for money for development funds
- ❖ Strengthened communities that are resilient to climate change

Education

The funding for education sector is increasing from 25% in FY 2019/20 to 28% in FY 2020/21. However, this is primarily driven by TSC allocation and post training and skills development as indicated in the table 9 below.

Table 9: 2019/20 Supplementary Budget VS 2020 BPS Ceilings

Programmes	2019/20 Supplementary Budget (KES. Million)	Sector Ceilings FY2020/21 (KES. Million)	Variance	%
Teachers Service Commission	253,531.7	265,004.8	11,473.1	4.5%
University Education and Research	117,958.3	113,431	-4,527.3	-3.8%

Early Education and Basic Education	98228.3	95620.7	-2607.6	-2.7%
Vocational Technical and Training	26888	23614	-3274	-12.2%
Post training and skills development	125.9	128	2.1	1.7%
Total for Education Sector	496732.2	497798.5	1066.3	0.2%

Source: BPS 2020

Table 10: Resources Requirement VS Allocation (in Kshs. Millions)

Programmes	Sector ceilings FY2020/21	Sector Requirement FY2020/21	Variation	%
Teachers Service Commission	265004.8	319380	-54375.2	-21%
University Education and Research	113431	159305	-45874	-40%
Early Education and Basic Education	95620.7	122674	-27053.3	-28%
Vocational Technical and Training	23614	49323	-25709	-109%
Post training and skills development	128	2995	-2867	-2240%
Total for Education Sector	497798.5	653677	-155879	-31%

Source: Sector Working Group Report 2020

Enrolment in public Technical and Vocational Colleges increased from 101,108 in 2016/17 to 175,278 in FY 2018/19 while that of Youth Polytechnics grew from 77,465 to 89,598 and University enrolment increased from 539,749 to 559,210. This enrolment is driven by large number of TVET institutions which increased from 874 in 2016/17 – 1707 in 2018/2019. The reduction in the budget puts in question the sustainability of these newly established institutions. According to BPS 2020, Recurrent expenditure in FY 2019/20 was Ksh 17,100.9 million which is

proposed to reduce to Ksh 16,836 million in FY 2020/21 ceilings. Development expenditure on the other hand is expected to decline d by Ksh 264.9 million,

Technical and vocational education and training (TVET) are critical components of development and if well attended could play a strategic role to deliver the Vision 2030 and contributes to the realization 2030 Sustainable Development Goals. Failure to address the concerns arising ot of the TVET structuring will lead to compromised quality of education and training in the TVETS and inability to achieve the big 4. Lost gains

To safeguard the gains made through the TVETS, government needs to retain the previous budget of 2019/20 by reducing the resources directed towards servicing public debt. The National government should consider promotion of TVETs as one of the functions for onward transfer to county governments over the medium term and subsequent support via conditional grants.

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Annex 2: LOGOS

1. International Budget Partnership Kenya (IBPK)



2. The Institute of Public Finance Kenya (IPFK)



3. AFDEV

4. CESPAD



5. Consumer Grassroots Organization (CGA)



6. Development Initiatives (DI)



7. Diakonia



8. Deutsche Stiftung Weltbevölkerung (DSW)

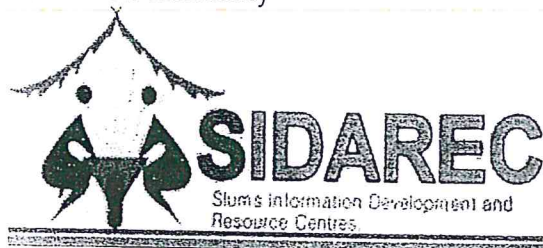


9. Economic Liberation Front (ELF)



Economic Liberation Front

10. Follow the Money



11. Health Rights Advocacy Forum (HERAF)



12. Kenya Aids NGOs Consortium (KANCO)



13. Kenya Human Rights Commission (KHRC)



14. Kenya National Chamber of Commerce & Industry (KNCCI)



15. National Taxpayers Association (NTA)



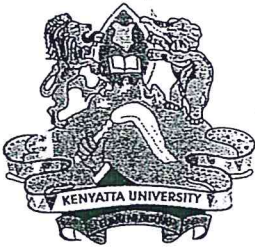
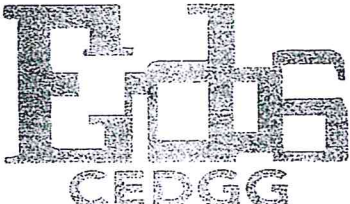
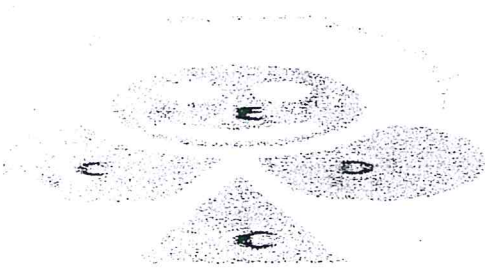
16. Open Institute (OI)



17. Oxfam



18. Oxygene

19. Pawa 254 	20. Transparency International (TI)  TRANSPARENCY INTERNATIONAL
21. TISA  The Institute for Social Accountability	22. Kenyatta University 
23. University of Nairobi  UNIVERSITY OF NAIROBI	24. Daystar University 
25. Trocaire 	26. VSO Kenya 
27. Water for Sanitation for the Urban Poor  Water & Sanitation for the Urban Poor	28. Centre for Enhancing Democracy and Good Governance (CEDGG) 
29. Community Empowerment and Development Centre (CEDC) 	

SUBMISSION BY THE KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY ON
BUDGET POLICY STATEMENT 2020

Introduction

KNCCI is a non-profit, autonomous, private sector business membership organization whose overall mandate is to protect and develop the interests of its members in attaining continued and sustainable economic growth. The Chamber works in close collaboration with the National and County Governments, stakeholders and business membership organizations regionally and internationally on behalf of the private sector. KNCCI has devolved its operations to ensure a countrywide outreach within its 47 County Chambers Chapters to advocate for the creation of a favourable commercial, trade and investment environment that supports enterprise expansion.

This memorandum is the Private Sector's submission on the Budget Policy Statement 2020 (BPS 2020). The Chamber recognizes that both levels of government have steep revenue targets for the FY 2020/21. We further note that revenue projection and collection are not reflective of the reality and are uncertain. Key sources especially in income tax and VAT are declining as a proportion of total revenue while non-tax income proportion is increasing. It is expected that national ordinary revenue will have a 2 per cent growth in the 2020/21 financial year.

Further, we recognize that the share of county equitable allocation has also been declining in comparison to national ordinary revenue growth. This unrealized revenue scenario has over the years been occasioned by unpredictable disbursements of funds to counties. The BPS 2020 indicates that current revenue shortfalls have been as a result of underperformance of all broad categories of ordinary revenue except non-tax revenue. Government plans to double its effort in domestic resource mobilization and rationalize expenditure as key to lowering the budget deficit. In the medium term no growth in the percentage of revenue to GDP is envisioned and it is expected to remain at 18.4 per cent in the medium term.

It is the chambers proposition that parliament commits to strengthening the performance of the economy especially in job creation through relooking the investments that Kenya is making and that will determine tax increases; Among the concrete measures we submit include:

- i. National ordinary revenue growth is declining year on year for the last 6 years. On average the growth of revenue has been at 13 per cent over the last 6 years. This is to be commended. That said, Table 1 shows that save for the projections of 2019/20 there has been a decline from 18 per cent in 2013/14 to 2 per cent in 2020/21 in the growth of revenue. There is need for a revamping of

