

**BUDGET ESTIMATES 2016/17 FY: ESTIMATES  
OF EXPENDITURES PROJECTIONS VS. REVENUE  
PROJECTIONS AND PERFORMANCE**

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# OBJECTIVES OF THE PRESENTATION

**This presentation seeks to respond to the following five salient fiscal policy issues:**

1. The level of compliance of FY 2016/17 budget estimates to legal framework. An assessment by PBO Kenya
2. Debts and deficit financing. Is there a deficit in the FY 2016/17 budget?
3. Revenue performance, outlook . Why are revenues forecasts consistently overstated?
4. The expenditure projections and the underpinning fiscal framework. The views of Parliamentary Budget Office (PBO) Kenya.
5. Expenditure priority areas in 2016/17 FY and the medium term

# INTRODUCTION

- **Sessional paper No.10 of 1965:**  
“African Socialism and its application in planning in Kenya”:-  
The ultimate objectives of all societies are remarkably similar
  - **political equality;**
  - **social justice;**
  - **human dignity including freedom of conscience;**
  - **freedom from want, disease, and exploitations**
  - **equal opportunities; and**
  - **high and growing per capita incomes, equitably distributed.**



# THEME FOR 2016/17 BUDGET

- Budget an instrument for economic growth and development
- The theme for the 2016/17 budget is to **“Sustaining prosperity in a volatile global economy” OR “Consolidating gains for a prosperous Kenya”** ?????
- Government aims at supporting rapid and inclusive economic growth; ensure gradual decline of public debt; rationalize expenditures and reorient to capital investments.

# WHERE IS THE MONEY GOING?

Total budget for 2016/17 FY

## ○ CONSOLIDATED FUND SERVICES

- PUBLIC DEBT:466,514,040,169
  - **Interest: 250,787,239,80**
    - Domestic :197,266,820,801
    - External: 53,520,419,000
  - **Redemptions: 215,726,800,368**
    - Internal: 172,104,225,000
    - External: 43,622,575,368
- **Ministerial : 1,626,901,778,027**
  - Recurrent : 817,007,728,476
  - Development:809,894,049,551
- **Judiciary:19.519 billion**
  - Recurrent: 13.570 billion
  - Development: 5,949 billion
- **County Transfers including level IV hospital but excluding grants Ksh. 284.4 billion**
- **PSC:27.494 Billion...likely to reach Ksh. 31.494 billion**
  - National Assembly: 17.027
  - PSC+ Senate: 10.467 Billion.

# LEGAL UNDERPINNING THE SUBMISSION

- The submission and approval of the 2016/17 budget estimates by National Assembly is anchored in the Constitution pursuant to Article 221, the Public Finance Management ((PFM) Act, 2012 (section 38), Public Finance Management (National Government Regulations) 2015; and National Assembly Standing Orders 2013
- The National Government and Judiciary submitted their respective budget estimates pursuant to Article 221(3) to Parliament on the 28<sup>th</sup> of May 2016 while Parliament submitted its budget estimates to National Assembly on the 27<sup>th</sup> May 2016.

# CRITERIA FOR ASSESSING THE BUDGET

- **Comprehensiveness, Clarity and credibility:** - Were the budgets designed within clear and credible limits for fiscal policy?
- **Alignment with medium-term priorities:**-- Were the budgets closely aligned with the medium-term strategic priorities of government?
- **Efficacy of capital budgeting framework-** Does the capital budgeting framework meet the national development needs in a cost-effective and coherent manner?
- **Justification of the allocations-** Did the budgets present a comprehensive, accurate and reliable account of the public finances?
- **Quality of proposed management and monitoring of the plan-** Is there a concrete plan to manage and monitor the commitments made in FY2016/17 Budget?

## EMERGING ISSUES: LEGAL UNDERPINNING

- *The spending agency ceilings in the adopted report BPS by the House were not adhered to as required under section 25(8) and 27(4) of the PFM Act and PFM Regulations respectively.*
- *Some of the fiscal responsibility principles spelt out in PFM section 15 and PFM Regulations 26 (1) have not been adhered to.*
- *Debt policies are not well articulated therefore it's hard to evaluate whether fiscal consolidation will be achieved.*
- *No publication of citizens' budget (**Mwananchi's guide**) on National Treasury Website as required under PFM regulations 6(2).*



# DEBT AND DEFICIT FINANCING

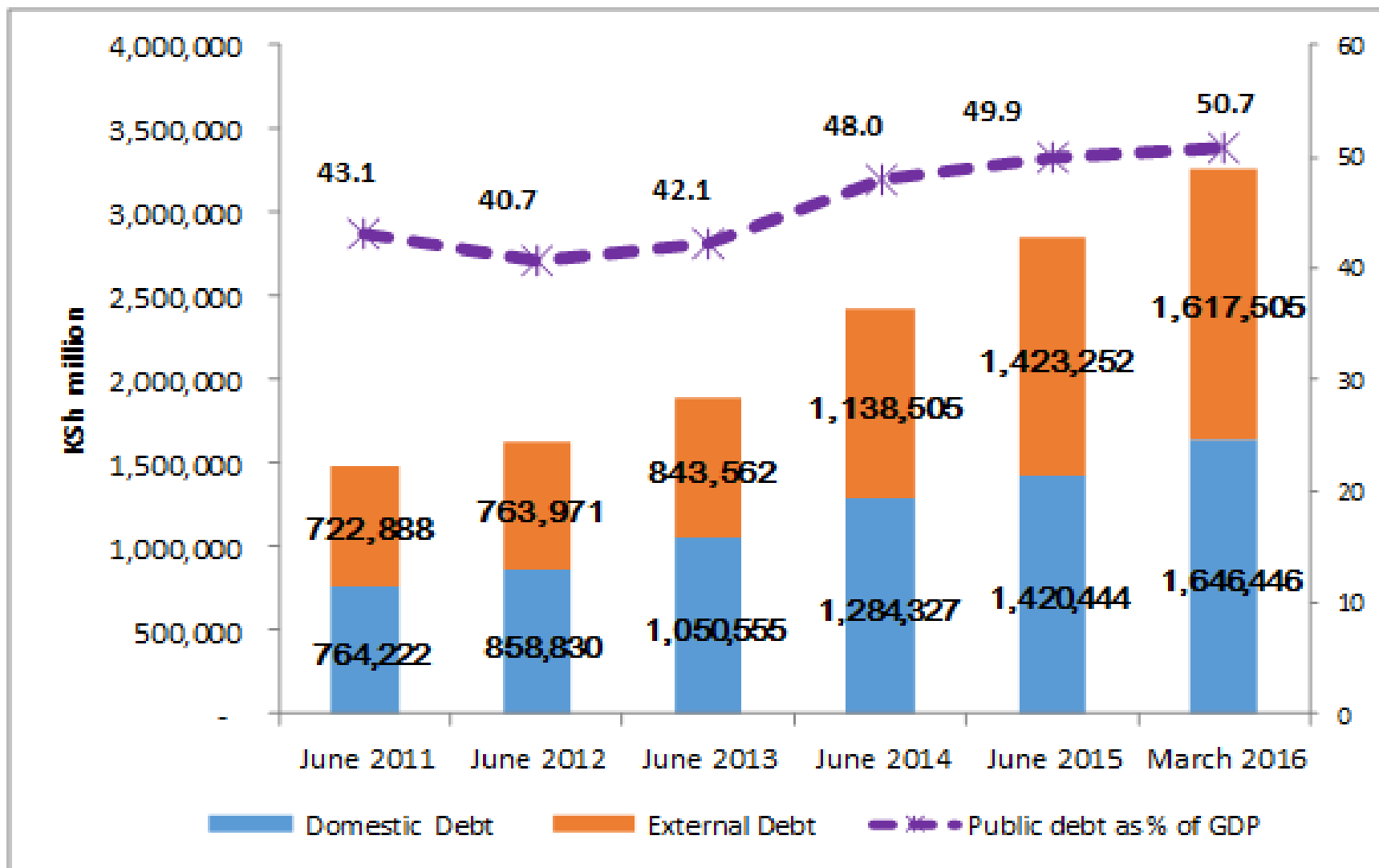
- **Deficit a moving target:** The strategy of government is to reduce public debt over the medium term. However, the increase in budget deficit shows lack of commitment to debt sustainability in the long run.
- **Financing gap:** The framework may not fully be financed due to lower than expected performance of revenue
- **Noted increase in domestic borrowing:** In the BPS domestic borrowing for financial year 2015/16 was projected at Kshs.197.6 billion, but has increased to Kshs.241.2 billion. This negates the government policy of facilitating private sector growth as this trend will crowd out the private sector.

# LOW DEFICIT A MOVING TARGET:- PRIMARY BALANCE PROJECTIONS

	<b>Financial Years(%GDP)</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
BPS 2012	Balance(Commitment basis excl grants)	-5.20%	-6.30%	-5.60%	-4.90%	-4.60%				
BPS 2013	Balance(Commitment basis excl grants)	-5.50%	-6.10%	-7.00%	-5.50%	-4.90%	<b>-4.80%</b>			
BPS 2014	Balance(Commitment basis excl grants)		-6.20%	-7.40%	-10.80%	-7.90%	<b>-7.20%</b>			
BPS 2015	Balance(Commitment basis excl grants)			-5.80%	-6.50%	-8.80%	<b>-8.20%</b>	-6.20%	-4.80%	
MTEF (2015/16 Budget)	Balance(Commitment basis excl grants)						-8.70%	-5.30%	-4.00%	
BPS 2016	Balance(Commitment basis excl grants)				-6.50%	-9.30%	-9.20%	-7.70%	-6.20%	-4.90%
MTEF (2016/17 Budget)	Balance(Commitment basis excl grants)						-10.10%	-9.30%	-6.40%	-5.30%

# DEBT TRENDS

Trends in public debt (June 2011 to March 2016)



Data Source: National Treasury

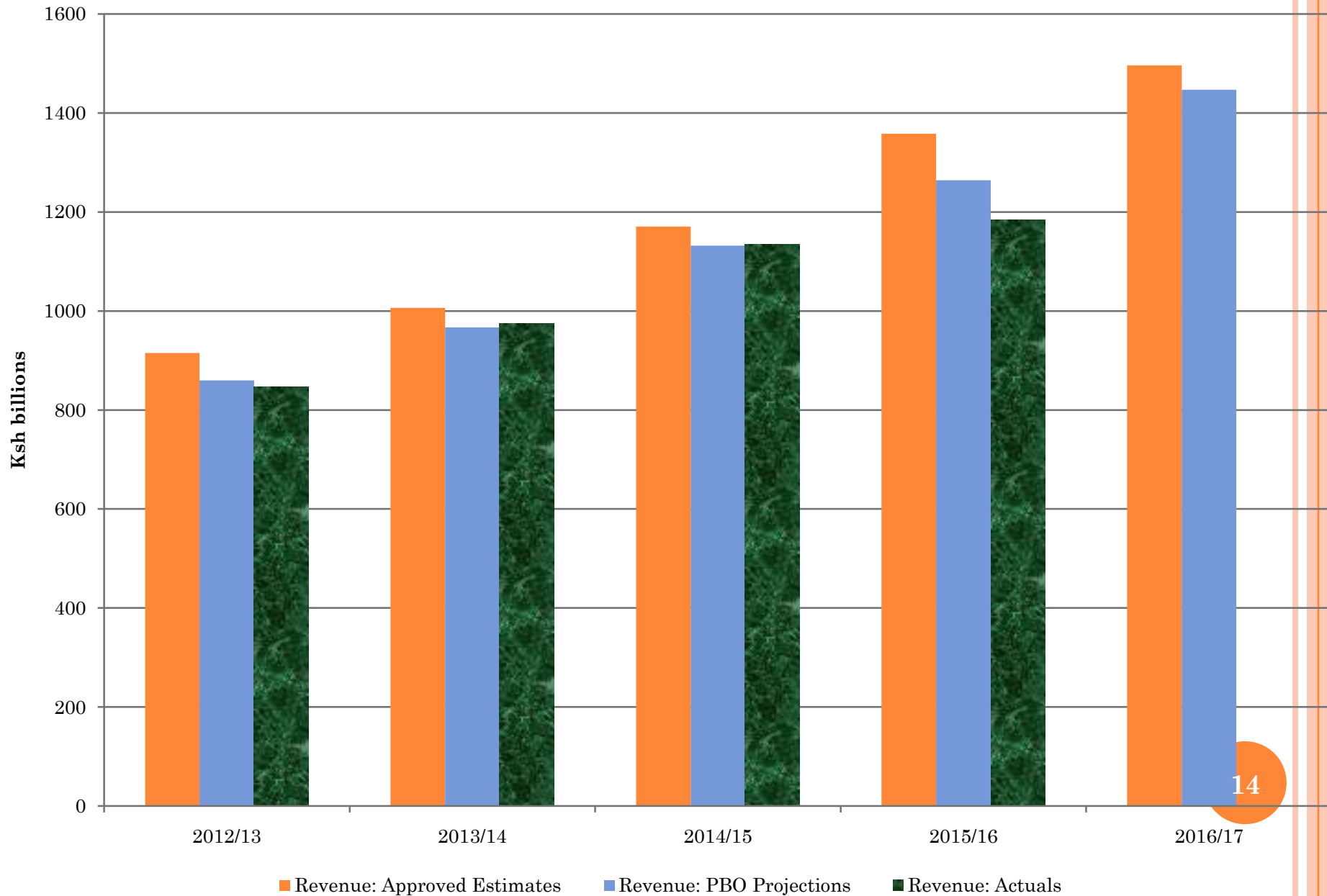
## DEBT AND DEFICIT FINANCING... EMERGING ISSUES

- **Lack of Commitment to Debt Sustainability:-** *The strategy of government is to reduce public debt over the medium term. However, the increase in budget deficit shows lack of commitment to debt sustainability in the long run. This is a worrisome trend since according to the Constitution Art.201 (c), the government is obliged to maintain debt levels sustainable for future generations also.*
- **Fiscal Framework not fully financed:-** *The government may not be able to raise the revenue projected due to the fact that the revenue projection is premised on a higher growth trajectory.*
- **Debt Management Strategy:-** *The new proposed level of financing is not accompanied with other supporting documents. For instance, in light of the new developments of financing the new budget deficit, there is need for the Government to adhere to the MTDS 2016 as approved by the Parliament.*
- **Supply Driven Rather than Demand Driven Budget:-***In the BPS, 2016 the domestic borrowing for FY 2016/17 was projected at Kshs.197.6 billion, however in the estimates submitted the domestic debt is set to rise by Kshs.43.5 billion to Kshs.241.1 billion. This clearly shows the budget is not driven by any policy as the policies in the BPS were those of austerity and containing the deficit expansion.*

# FISCAL FRAMEWORK AND BUDGET CREDIBILITY

	<b>2016/17 BPS Estimates</b>	<b>2016/17 Printed Estimate s</b>	<b>2016/17 BPS Estimate s</b>	<b>2016/17 Printed Estimate s</b>	<b>Difference</b>	<b>% change</b>
	<b>Ksh billions</b>		<b>As a % of GDP</b>			
<b>Total Revenue and Grants</b>	<b>1,556.2</b>	<b>1,573.2</b>	<b>21.1%</b>	<b>21.3%</b>	<b>16.96</b>	<b>1.1%</b>
Total Revenue (incl. AiA)	1,496.4	1,500.6	20.2%	20.3%	4.21	0.3%
External Grants	59.8	72.6	0.8%	1.0%	12.75	21.3%
<b>Total Expenditure and Net Lending</b>	<b>2,051.7</b>	<b>2,276.3</b>	<b>27.8%</b>	<b>30.8%</b>	<b>224.61</b>	<b>10.9%</b>
Recurrent	1,094.2	1,168.6	14.8%	15.8%	74.43	6.8%
<i>CFS (Interest &amp; Pensions)</i>	<i>275.4</i>	<i>310.6</i>	<i>3.7%</i>	<i>4.2%</i>	35.16	12.8%
<i>Ministerial Recurrent</i>	<i>818.8</i>	<i>858.1</i>	<i>11.1%</i>	<i>11.6%</i>	39.27	4.8%
Development	667.7	817.9	9.0%	11.1%	150.19	22.5%
<i>Domestic</i>	<i>351.3</i>	<i>400.9</i>	<i>4.8%</i>	<i>5.4%</i>	49.56	14.1%
<i>Foreign</i>	<i>310.4</i>	<i>411.0</i>	<i>4.2%</i>	<i>5.6%</i>	100.64	32.4%
<i>Equalization Fund</i>	<i>6.0</i>	<i>6.0</i>	<i>0.1%</i>	<i>0.1%</i>	-	
Contingencies	5.0	5.0	0.1%	0.1%	-	
County Allocation	284.8	284.8	3.9%	3.9%	(0.01)	0.0%
<b>Overall Balance (incl. grants)</b>	<b>(495.5)</b>	<b>(703.1)</b>	<b>-6.7%</b>	<b>-9.5%</b>	<b>(207.65)</b>	<b>41.9%</b>
Statistical Discrepancy	-	-	0.0%	0.0%	-	0.0%
<b>Financing</b>	<b>495.5</b>	<b>703.1</b>	<b>6.7%</b>	<b>9.5%</b>	<b>207.65</b>	<b>41.9%</b>
External Financing	310.7	459.4	4.2%	6.2%	148.73	47.9%
Domestic Financing	184.8	243.7	2.5%	3.3%	58.91	31.9%
<b>Nominal GDP</b>	<b>7,392.2</b>	<b>7,392.2</b>	<b>100.0%</b>	<b>100.0%</b>		

# REVENUE PROJECTIONS



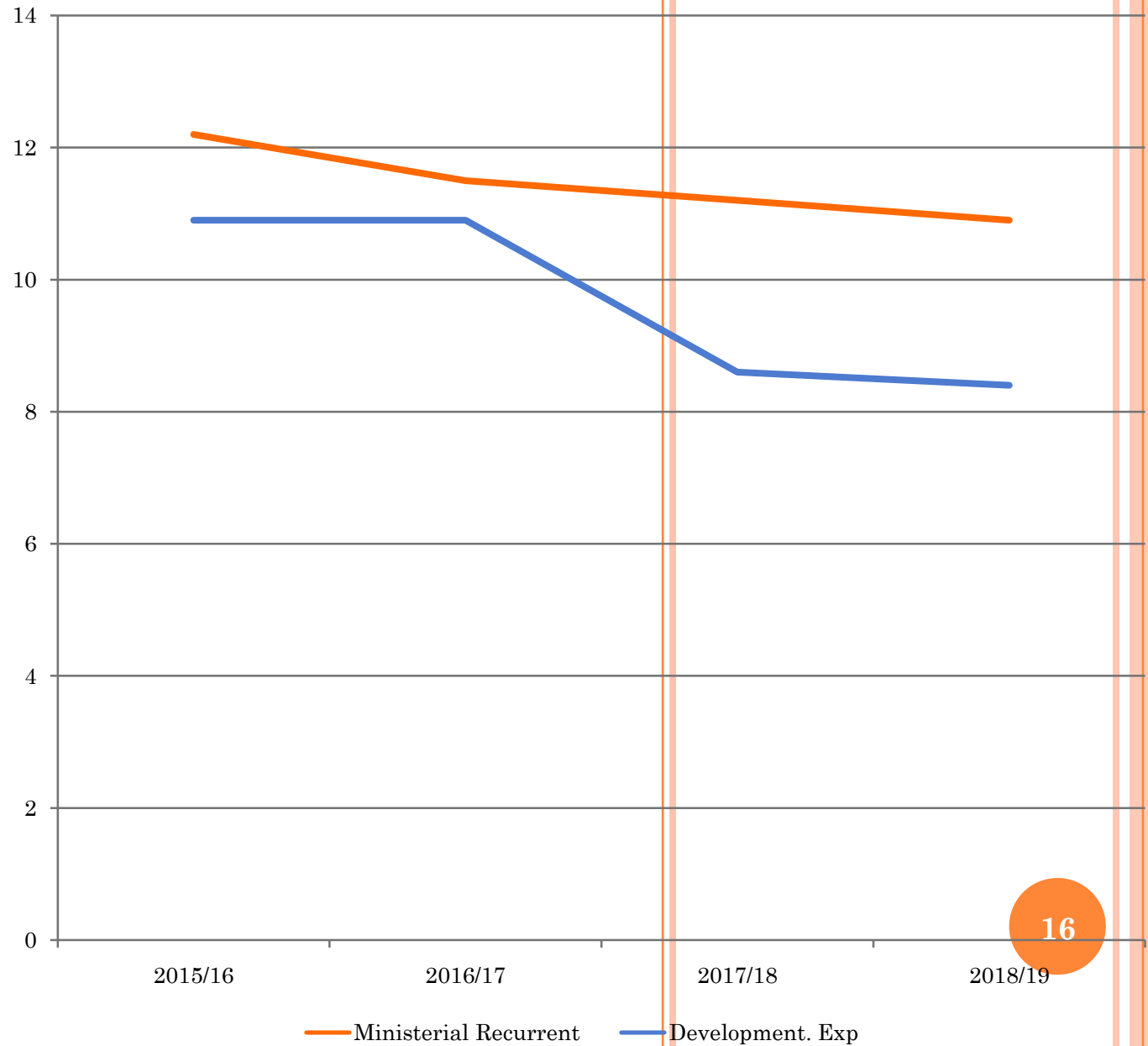


That's a Point to Ponder

## POINTS TO PONDER

	2016/17 BPS Estimates	2016/17 Printed Estimates	Printed Estimates
	Ksh billions		
<b>Total Revenue and Grants</b>	<b>1,556.20</b>	<b>1,573.20</b>	1.09%
Total Revenue (incl. AiA)	1,496.40	1,500.60	0.28%
External Grants	59.8	72.6	21.40%
<b>Total Expenditure and Net Lending</b>	<b>2,051.70</b>	<b>2,276.30</b>	10.95%
Recurrent	1,094.20	1,168.60	6.80%
<i>CFS (Interest &amp; Pensions)</i>	275.4	310.6	12.78%
<i>Ministerial Recurrent</i>	818.8	858.1	4.80%
Development	667.7	817.9	22.50%
<i>Domestic</i>	351.3	400.9	14.12%
<i>Foreign</i>	310.4	411	32.41%
<i>Equalization Fund</i>	6	6	0.00%
Contingencies	5	5	0.00%
County Allocation	284.8	284.8	0.00%
<b>Overall Balance (incl. grants)</b>	<b>-495.5</b>	<b>-703.1</b>	41.90%
Statistical Discrepancy	-	-	
<b>Financing</b>	<b>495.5</b>	<b>703.1</b>	41.90%
External Financing	310.7	459.4	47.86%
Domestic Financing	184.8	243.7	31.87%
<b>Nominal GDP</b>	<b>7,392.20</b>	<b>7,392.20</b>	0.00%

# IS THE FISCAL FRAMEWORK LOSING CREDIBILITY?





# CRITIQUE OF FISCAL FRAMEWORK

- Expenditures growing faster than revenues.
- Revenue likely to underperform as its estimation is based on overly optimistic GDP thereby increasing borrowing
- Primary balance (**government net borrowing/lending excluding interest payment**) is widening;
- For debt to reduce over the medium term as envisioned in the budget, the primary balance needs to be maintained at 3 per cent or less

# REVENUE PERFORMANCE AND OUTLOOK

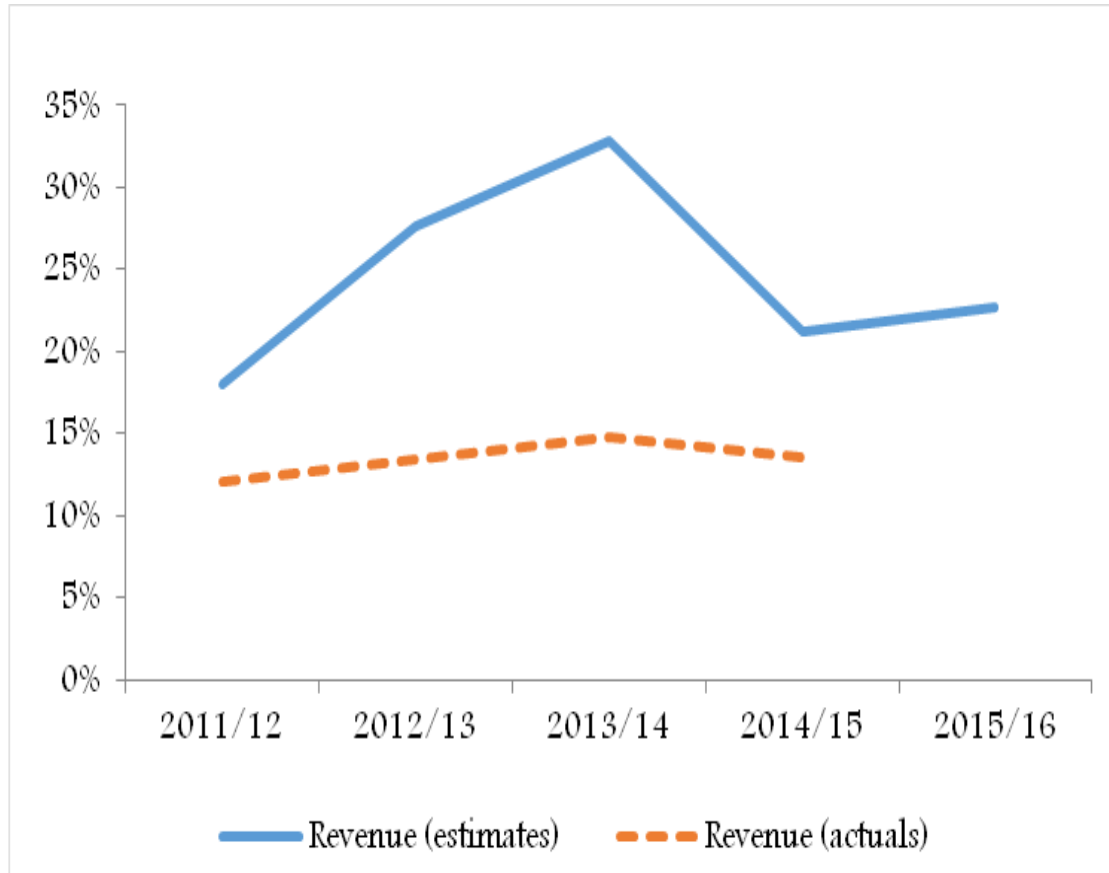
## Growth rates of revenue forecasts relative to actual revenue collections

	2011/12	2012/13	2013/14	2014/15	2015/16	Average growth
Approved Revenue Forecasts						
Total Revenue	18%	28%	33%	21%	23%	24%
Ordinary Revenue	17%	26%	34%	18%	22%	23%
Import Duty	21%	30%	69%	15%	11%	29%
Excise Duty	16%	17%	17%	17%	23%	18%
Value Added Tax	19%	26%	24%	15%	19%	21%
Income Tax	13%	23%	22%	21%	23%	20%
Other Taxes	30%	49%	105%	20%	33%	47%
AIA	27%	48%	24%	70%	37%	41%
Actual Revenue Outturn						
Total Revenue	12%	13%	15%	14%		13%
Ordinary Revenue	13%	13%	18%	12%		14%
Import Duty	12%	11%	17%	10%		13%
Excise Duty	-2%	9%	19%	14%		10%
Value Added Tax	7%	1%	26%	12%		11%
Income Tax	21%	19%	21%	13%		18%
Other Taxes	24%	19%	-12%	9%		10%
AIA	-2%	24%	-22%	36%		9%

Sources: QEBR (various issues); Budget Estimates (various issues)

# REVENUE PERFORMANCE AND OUTLOOK.....CONTINUED

## Growth Rates of Revenue Estimates and Actuals



Sources: QEBR (various issues); Budget Estimates (various issues)

# EXPENDITURE FRAMEWORK..ANALYSIS OF 2016/17 FY PBB

- The policy behind the adoption of programme based budgeting is to link the various programs being funded in the budget with its indicators and targets. This linkage enables one to track the efficiency of delivery of services to its citizens. The narrative for program based budgeting in the 2016/17 estimates is weak.

## *The following are the emerging Issues:*

- ❖ *There are some changes in programs in the 2016/17 estimates as compared to the BPS, 2016. Furthermore, the indicators and targets lack baselines i.e. there is no progress report for previous years on ongoing programs.*
- ❖ *Some programs have zero indicators and targets especially in the energy sector. This makes it difficult to track the desired output. In addition, there is no information provided for exemption to disclosure of some programs.*
- ❖ *The economic classification provided in the 2016/17 lacks clarity. There is no information provided that entails what qualifies to be other recurrent and development.*
- ❖ *There is no detailed information on Appropriations in Aid, including donor funding. The national treasury has indicated in their budget summary that they have received new funds from donors which they have factored in the budget. However, it's difficult to trace which programs will be funded by donor funds. It's crucial to know programs funded by donor funds, since the low absorption rate among MDAs reported in year is a result of donors not fulfilling their commitments hence resulting to the introduction*

# Estimates of Expenditure on CFS

Consolidated Fund Service Payables 2016/17 - Medium Term (Kshs. Millions)

Items	2015/16	2016/17	2017/18	2018/19
<b>Interest</b>				
Internal	160,676.5	197,266.8	196,858.1	189,184.1
External	34,562.5	53,520.4	55,215.0	52,916.3
<b>Total Interest Payables</b>	<b>195,239</b>	<b>250,787</b>	<b>252,073</b>	<b>242,100</b>
<b>Redemptions</b>				
Internal	187,263.3	172,104.2	161,779.6	154,732.1
External	34,688.7	43,622.6	128,566.4	131,759.8
<b>Total Debt Redemptions</b>	<b>221,952</b>	<b>215,727</b>	<b>290,346</b>	<b>286,492</b>
<b>Total Public Debt Expenditure</b>	<b>417,191</b>	<b>466,514</b>	<b>542,419</b>	<b>528,592</b>
<b>Pensions, salaries, allowances &amp; Others</b>				
Pensions	42,991.1	55,691.1	63,111.1	61,311.1
Salaries	4,437.8	3,956.0	4,149.0	4,326.6
Miscellaneous	128.0	128.0	128.0	128.0
guaranteed Debt	944.7	1,017.2	993.5	969.9
Subscriptions to International Organizations	2.2	0.5	0.5	0.5
<b>Total Expenditure</b>	<b>48,504</b>	<b>60,793</b>	<b>68,382</b>	<b>66,736</b>
<b>Total CFS Expenditure</b>	<b>465,695</b>	<b>527,307</b>	<b>610,801</b>	<b>595,328</b>

Source: Budget estimates 2016/17

## ESTIMATES OF EXPENDITURE ON CFS.... EMERGING ISSUES

- *The level of debt in Kenya is approaching unsustainable levels. Already the ratio of debt service to revenue has reached its limit of 30 percent and is expected to bypass its limit in the 2017 by 4.7% on account of debt redemptions and interest rate costs that are expected to rise substantially in the FY 2017/18.*
- *With the current level of debt growth (15% p.a) and a ratio of 48.5 PV of debt to GDP, the country is likely to exceed the EAC convergence criteria that recommends a level of 50% of PV of debt to GDP.*
- *The rise in CFS expenditure is likely to pose constraints to the level of financial resources available and fiscal space for other budgetary needs.*
- *The country is expected to experience exponential rise in external debt redemption in FY 2017/18 from Kshs. 43 billion in 2016/17 to Kshs. 128.6 billion in 2017/18 and similarly in 2018/19 partly due to the payments to standard chartered \$750 million, syndicated loan and sovereign bonds.*
- *Salaries and allowances are expected to decrease from Kshs. 4.4 billion in FY 2015/16 to Kshs. 3.96 billion due to end of the mandate of the Commission for the Implementation of the Constitution in 2016.*
- *The 2016/17 budget estimates also indicate that the country is to incur Kshs. 10.305 billion as interest payables (Item E002000219) however, the estimates do not indicate when this debt was issued, the principal, amount tenor or due year.*

# PRIORITIES IN THE FY 2016/17 BUDGET AND THE MEDIUM TERM

Pillar	Details
<p><b>Pillar 1 : Sustaining Conducive Business Environment for Investment Opportunities</b></p>	<ul style="list-style-type: none"> <li>i. Macroeconomic stability for sustained growth and development. to pursue prudent fiscal and monetary policies that are supportive of accelerated inclusive growth and development.</li> <li>ii. Enhancing security for sustained growth and development this is done through police welfare/performance improvement through a comprehensive medical cover and housing, and investment in security infrastructure covering housing, offices, security installation and additional leasing of police vehicles and training facilities.</li> </ul>
<p><b>Pillar 2 : Continued spending in Infrastructure to Unlock Constraints to Growth:</b> transport, logistics, energy and water to encourage growth of competitive industries</p>	<ul style="list-style-type: none"> <li>i. Expanding Road Network- the Construction of 3,800 km of low volume seal roads across the country.</li> <li>ii. Expansion of major roads in the Urban Centers e.g. Outer-ring road in Nairobi.</li> <li>iii. Construction of East Africa Road Network (Voi-Mwatate-Wundanyi), Malindi-Mombasa-Lunga Lunga.</li> <li>iv. Construction of Kisumu-Kakamega Road</li> <li>v. Dredging of Mombasa Port and construction of Road network around and out of the port.</li> <li>vi. Commissioning of new terminal 1E in JKIA.</li> <li>vii. Generation of an additional 5,000 MW comprising of renewable geothermal, wind and coal.</li> </ul>
<p><b>Pillar 3: Sustaining Sectoral Spending for Employment Creation:</b> in particular agricultural transformation to ensure food security and lower prices and employment</p>	<ul style="list-style-type: none"> <li>i. Establishment of Disease Free zones in Bachuma, Kurawa and Miritin.</li> <li>ii. Procurement of offshore patrol vessel (OPV) .</li> <li>iii. Establishment of Fertilizer plant.</li> <li>iv. Facilitating tourism promotion and marketing to increase international arrival and tourism revenue.</li> <li>v. Development of sport facilities and the construction and improvement of the 5 regional stadia.</li> </ul>

# PRIORITIES IN THE FY 2016/17 BUDGET AND THE MEDIUM TERM.....CONT

<p><b>Pillar 4: Sustained Investment in Social Services for the Welfare of Kenyans:</b> quality and accessible health care services as well as relevant education and strengthening the social safety net</p>	<ol style="list-style-type: none"> <li>i. Scaling up universal health coverage initiatives including free maternity services, subsidies for the poor and vulnerable groups; increased funding of the health sector by Government and partners.</li> <li>ii. Equipping public hospitals with specialized medical equipment and equipment modernization in 94 hospitals.</li> <li>iii. Reducing morbidity and mortality from malaria, HIV/AIDs, tuberculosis non-communicable diseases.</li> <li>iv. Recruitment of more health workers and strengthening health research for improved quality of health.</li> <li>v. Improving and expanding schools and training institutions infrastructure through construction/rehabilitation of class rooms, provision of electricity and integration of ICT in curriculum delivery at all levels of education,</li> <li>vi. Construction of low cost boarding facilities in ASALs, construction of special needs education infrastructures) throughout the country over the medium term;</li> <li>vii. Increasing provision of student loans, bursaries and scholarships to fully finance the universal free primary education, free day secondary education and tertiary education.</li> <li>viii. Increase the number of beneficiaries in Cash transfer programmes from 717,000 in FY 2015/16 to 1, 047,000 in FY 2015/17.</li> <li>ix. Decentralization of Single registry for the National Safety Net Programme to 15 additional Counties.</li> </ol>
<p><b>Pillar 5: Enhancing Service Delivery through Devolution.</b></p>	<ol style="list-style-type: none"> <li>i. The enactment of the Public Audit and Public Procurement and Asset Disposal Acts as well as the gazettment of the Public Finance Management Regulations to strengthen County financial management.</li> <li>ii. The strengthening accountability and fiscal discipline by the National Government in the use of devolved resources for better service delivery.</li> <li>iii. The National Treasury through the Intergovernmental Budget and Economic Council (IBEC) will initiate the development of a national framework legislation to support the enhancement of county own-source revenue. In addition, a comprehensive review and harmonization of all existing legislation relating to county taxes, fees, user charges and business licenses will be undertaken.</li> </ol>



# SECTORAL ALLOCATIONS

- Rise in the allocations to ‘energy, infrastructure and ICT’ sector while most other sectors have seen their budgets maintained.
- increase in nominal expenditures for 2016/17 follow traditional expenditure patterns with little connections to the challenges the government proposes to address when setting its policy framework.
- Medium term targets deviate extensively from the policy targets of the government.

# EMERGING CONCERNS:

- **Unclear status of 2015/2016 targets:** proposed budget has not comprehensively presented the actual performance of 2013/14 and the status of 2014/15 budget implementation. Thereby limiting oversight
- **Poor linkage of allocations to outputs:** A comparison of the 2015/16 and 2016/17 budgets indicates enhanced allocations to some ministerial programmes but review of the programme based budgets shows no evident change in the outputs and targets.

# EMERGING CONCERNS

- **Pending bills:** Funding is requested for a high number of pending bills through supplementary budgets showing this is prioritized on the commencement of the fiscal year.
- **Operationalization of the Equalization Fund:** the fund has been allocated Kshs. 6 billion bringing total accumulated arrears to Kshs.12.4 billion.



**YOU'VE REACHED THE**

**END OF 'THE INTERNET'**