ICPAK PRESS STATEMENT - DELIVERED DURING THE OPENING OF KISUMU PHYSICAL BRANCH

16th March 2018

Ladies and gentlemen of the fourth estate ICPAK is very pleased to welcome you to our press conference. First of all, we are excited to be here in this great city of Kisumu to open an ICPAK physical branch office. This demonstrates the Institute's commitment to supporting devolution and taking our services closer to our members and Kenyans at large.

Secondly, we wish to draw the attention of the public to the various national issues and accountability concerns in the country.

(a) Recent talks between The President H.E Uhuru Kenyatta and The Right Honorable Raila Odinga

The Institute welcomes the recent talks between His Excellency President Uhuru Kenyatta and the Right Hon. Raila Odinga, the outcome of which is to champion unity and cohesiveness among the various communities. These talks could not have come at a better time. The stand-off arising from the 2017 acrimonious election indeed created anxiety resulting in a slump in economic activity in the last two quarters evidenced from the figures recently issued by the Kenya Revenue Authority.

The Institute calls upon the public, professionals and all leaders to support this initiative for the nation to achieve prosperity and stability. We believe that this is the right step in providing an enabling environment for all stakeholders in the country to play their role towards achieving Vision 2030. Going forward, the dilemma that befalls the nation every electioneering cycle must now be addressed in a candid, amicable, open and transparent manner through continuous dialogue by all. This national dialogue should be embraced at all spheres of the society starting from the village, the Ward, inter and intra counties to the national level. Time is now ripe for the call to nationhood.

In the same spirit, the Institute takes note of the Government's Big Four agenda on manufacturing; food security and improved nutrition; universal health coverage and; affordable housing for all Kenyans. This Agenda is indeed in sync with the priorities deemed appropriate to meet the pressing needs of the people of Kenya. We however take note that unless the governance challenges experienced before are addressed, actualization of the "Big Four" Agenda, may suffer the same fate as other similar programmes rolled out in the past.

(b) Auditor General's Report Findings and Recommendations – FY 2015/6

As you all know, the Constitution and enabling laws provide for the enforcement of transparency and accountability in the management of public resources. The capacity of counties to operate effective financial management systems and adopt the principles of transparency and accountability in their operations has raised concern. The concern is particularly around the expenses of County Assemblies, use and application of resources by County Executives, and adherence to public procurement laws.

Reports by the Auditor General also arraign the county governments for the failure to prudently use public resources. The reports show instances where some county governments have failed to comply with the PFM Act, the Public Procurement and Disposal Act, and other fiscal responsibility principles. The reports also cite instances of misuse of funds through spending on foreign trips, and payments to non-existent entities. There are also unauthorized expenditures on car and house mortgage loans, and spending above budget lines in previous reports, outstanding impressts and undocumented pending bills.

A review of the previous year audited reports for the counties within the greater Nyanza region point to similar findings. It is worrying to note that in spite of the recommendations carried in the prior year audit reports for corrective actions, the problems of non-compliance still persist.

In this regard, we propose the following:

- Parliament through PAC to robustly enforce implementation of the Auditor General and Controller of Budget Recommendations.
- County Assemblies should provide appropriate oversight over the County Executive and any other county executive organs. In particular, follow-up should be made on implementation of the Auditor General's recommendations.
- Establishment of robust audit committees at both the County government and County assembly level
- We urge other accountability institutions, namely, Ethics and Anti-Corruption Commissions (EACC) and the Directorate of Public Prosecutions (DPP) to follow-up and act, particularly on suspected economic crimes and outright pilferage of resources as pointed out the Auditor General's report.

- We urge the public, professionals, the church, media and the private sector to join hands to pursue greater accountability from elected leaders.

(c) Public debt

The overall public debt as at December 2017 stood at **KShs. 4.573 Trillion**. This comprises of **KShs. 2.22** trillion of domestic debt and **KShs. 2.353** of external debt. In Budget Policy Statement 2018, the National Treasury is proposing that out of the **KShs 1.68 trillion** that is budgeted as ordinary revenue in the FY 2018/19, **KShs 688 billion** shall be applied to service existing public debt. This translates to forty percent (40%) of ordinary revenues going into debt servicing. By the very spending intentions of government in the FY 2018/19, it is observed the overall spending deficit shall stand at **7.2% of GDP**, which Treasury proposes to plug through additional borrowing further exacerbating the public debt problem.

In comparative terms, it can be demonstrated that the rate at which the economy is accumulating public debt is higher than the rate of growth of the economy. This points to a mismatch between the fiscal policy and the broader economic policy a situation which should be evaluated critically to assess the sustainability levels of public debt.

Whilst we underscore the significance of debt in public financial management, we must imbue prudence in our debt management strategy. The prevailing debt statistics point to a need to re-look at our debt strategy. In this regard, the Institute is of the opinion that we must strive to negotiate debt at concessionary terms covering both the cost and tenure of resulting debt. On average, the debt tenure of public loan stock in Kenya is between fifteen and twenty years whereas optimality is achieved at longer loan tenures. For example, Japan is the world most indebted country with debt to GDP of 249 per cent implying that Japan owes twice the size of its economy yet debt sustainability is seldom an issue. The strategy adopted by Japan is negotiate longer tenure loans with very low rates. The trick is to work on the countries credit standing by focusing on investing on key sectors that stimulate economic activity.

Consequently, we urge the government to keep an eye on the red flags and warning indicators to ensure that the country is not caught-up in a debt crisis in the near future.

FCPA Julius Mwatu

Chairman, ICPAK