FY 2018 / 2019 BUDGET ENGAGEMENT

PRE-BUDGET ENGAGEMENT AND ANALYSIS OF THE BUDGET POLICY STATEMENT

The Institute of Certified Public Accountants of Kenya

INTRODUCTION

Over the years, the Institute's engagement on budget making process in the country has been robust and progressive with substantive input and profiling achieved in the last year's engagement. From the engagement, it was recommended that going forward, there needs to be a pre-planned engagement schedule to ensure that the gains accrued are cemented whilst making improvements in areas of weaknesses.

It is on this basis that this paper is generated to provide a schedule of the activities to be undertaken prior to the reading of the budget for the FY 2018/19. The following activities are proposed:

a) Robust media engagement

To profile the Institute as a thought leader in the budget making process, the Institute shall seek speaking slots in the media as follows:

MEDIA HOUSE	REPRESENTATIVE(S)	POSITION AT ICPAK	AVAILABILITY/TIME
KBC	1.		
	2.		
NTV	1.		
	2.		
K24	1.		
	2.		
Citizen	1.		
	2.		
KTN	1.		
	2.		
INOORO TV	1.		
CNBC Africa	2.		
Others: Vernacular, local etc	3.		
	4.		

b) **Organized Pre-budget Seminar / Workshop for presenters, Council members, branch leaders etc**

To develop a common framework and mindset, there will be need to hold a forum bringing together the members who will be representing the Institute in various media channels, for them to be prepared to comment and engage with the budget in the different channels.

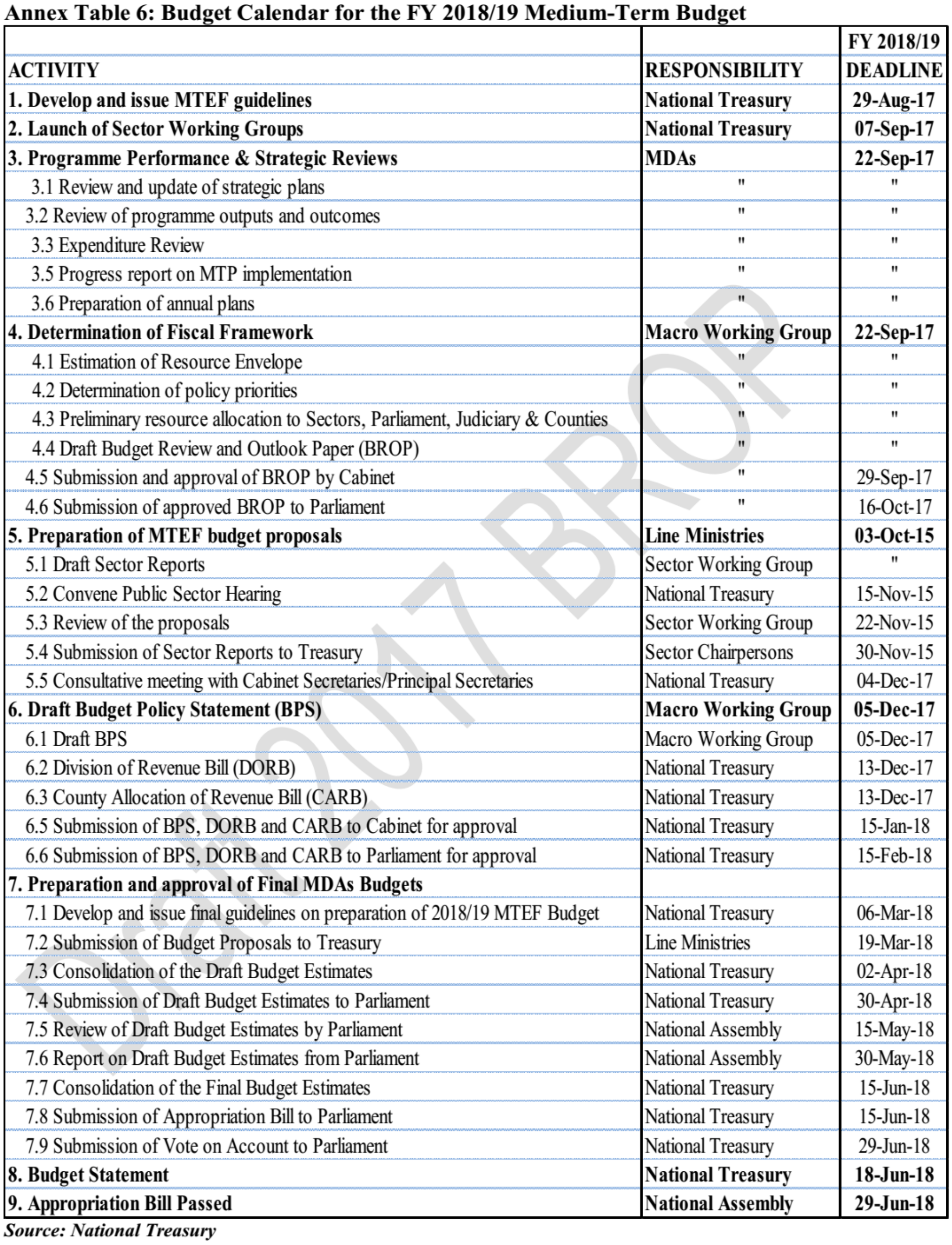
c) **Engagements on Income Tax Act**

The review process on Income Tax Act is at an advanced stage and it is anticipated to be finalized early April. Through BAF Grant, it would be necessary to plan and factor in how the Institute can play an active role in sensitization of its members and participate in public participation strategies as shall be adopted by the National Treasury.

d) **Development of Tax-Wide National Policy**

The Institute should continue pushing for establishment of a policy pre-legislation. With the already submitted policy perspective, there is need to, in line with the National Treasury school of thought, take lead in the development of the Tax Policy in collaboration with the National Treasury.

2018 BUDGET CALENDAR



Annex Table 6: Budget Calendar for the FY 2018/19 Medium-Term Budget

		FY 2018/19
ACTIVITY	**RESPONSIBILITY**	**DEADLINE**
1. Develop and issue MTEF guidelines	**National Treasury**	**29-Aug-17**
2. Launch of Sector Working Groups	**National Treasury**	**07-Sep-17**
3. Programme Performance & Strategic Reviews	**MDAs**	**22-Sep-17**
3.1 Review and update of strategic plans	"	"
3.2 Review of programme outputs and outcomes	"	"
3.3 Expenditure Review	"	"
3.5 Progress report on MTP implementation	"	"
3.6 Preparation of annual plans	"	"
4. Determination of Fiscal Framework	**Macro Working Group**	**22-Sep-17**
4.1 Estimation of Resource Envelope	"	"
4.2 Determination of policy priorities	"	"
4.3 Preliminary resource allocation to Sectors, Parliament, Judiciary & Counties	"	"
4.4 Draft Budget Review and Outlook Paper (BROP)	"	"
4.5 Submission and approval of BROP by Cabinet	"	29-Sep-17
4.6 Submission of approved BROP to Parliament	"	16-Oct-17
5. Preparation of MTEF budget proposals	**Line Ministries**	**03-Oct-15**
5.1 Draft Sector Reports	Sector Working Group	"
5.2 Convene Public Sector Hearing	National Treasury	15-Nov-15
5.3 Review of the proposals	Sector Working Group	22-Nov-15
5.4 Submission of Sector Reports to Treasury	Sector Chairpersons	30-Nov-15
5.5 Consultative meeting with Cabinet Secretaries/Principal Secretaries	National Treasury	04-Dec-17
6. Draft Budget Policy Statement (BPS)	**Macro Working Group**	**05-Dec-17**
6.1 Draft BPS	Macro Working Group	05-Dec-17
6.2 Division of Revenue Bill (DORB)	National Treasury	13-Dec-17
6.3 County Allocation of Revenue Bill (CARB)	National Treasury	13-Dec-17
6.5 Submission of BPS, DORB and CARB to Cabinet for approval	National Treasury	15-Jan-18
6.6 Submission of BPS, DORB and CARB to Parliament for approval	National Treasury	15-Feb-18
7. Preparation and approval of Final MDAs Budgets		
7.1 Develop and issue final guidelines on preparation of 2018/19 MTEF Budget	National Treasury	06-Mar-18
7.2 Submission of Budget Proposals to Treasury	Line Ministries	19-Mar-18
7.3 Consolidation of the Draft Budget Estimates	National Treasury	02-Apr-18
7.4 Submission of Draft Budget Estimates to Parliament	National Treasury	30-Apr-18
7.5 Review of Draft Budget Estimates by Parliament	National Assembly	15-May-18
7.6 Report on Draft Budget Estimates from Parliament	National Assembly	30-May-18
7.7 Consolidation of the Final Budget Estimates	National Treasury	15-Jun-18
7.8 Submission of Appropriation Bill to Parliament	National Treasury	15-Jun-18
7.9 Submission of Vote on Account to Parliament	National Treasury	29-Jun-18
8. Budget Statement	**National Treasury**	**18-Jun-18**
9. Appropriation Bill Passed	**National Assembly**	**29-Jun-18**

Draft 2017 BROP

Source: National Treasury

THE NATIONAL TREASURY

ANALYSIS OF BUDGET POLICY STATEMENT AND OTHER DISCUSSION POINTS

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
1.	**Macro-economic environment-General**	**1.1. Economic Growth Prospects** Global growth is projected to improve to 3.7% in 2018 up from 3.6% in 2017. • The GDP is projected to expand by 5.9% in FY 2018/19. This growth prospect is projected to be buoyed by sustained investment in infrastructure, recovery in tourism, restored investor and consumer confidence and macroeconomic stability. • This is expected to be fueled by- output from agriculture, recovery of the tourism sector, strong private sector investment, completion of key public projects in road, rail and energy generation. • Most important is that Kenya has outperformed its regional peers in Sub-Saharan Africa by sustaining growth rates at above 5% • The average growth forecast for Sub-Saharan Africa in 2016 is 1.7% **1.2. Favorable factors to Kenya's economic growth** • stable macroeconomic environment, • resilient domestic demand • ongoing public infrastructural investments. • sustained ongoing infrastructural investments • continued recovery in tourism • increased consumer confidence • conducive business environment • Growth in private consumption- this is supported by rising incomes and growing middle class with higher disposable income • Fiscal expansion- driven by public investments/County Governments- spending by devolved units • Prevailing low oil prices • Surge in remittances which counter the impact of the global down turn- leads to a contracting current account deficit • Vibrant services sector – both formal and informal • Stable macro-economic environment characterized by currency stability and low inflation.	- Measures in place to deal with internal and external shocks Globally - Potential spike in oil prices. Energy prices are expected to rise in the next four years. Domestic - The improved weather conditions have improved agriculture and trade to recover from the drought related problems that led to underperformance in various sectors of the economy. - The relative peace and calm that has been brought about by the famous handshake between the President and Opposition chief is a good signal to the investors to encourage business and boost the tourism sector. - This will increase investor confidence, attract more tourists, make the shilling stronger and increase export

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
		• The demand for coffee in foreign markets is increasing especially in US with huge prospects of foreign exchange influx into the economy.	prospects for our products such as coffee, tea etc. - Diaspora remittances have also increased from 175,181.19 in November 2017 to 203,819.83 in December 2017. - Kenya has also improved in the ease of doing business and his is something that should be taken advantage of to encourage more foreign and domestic investors into the country to improve our economy.
2.	**Inflation**	• Inflation is the rate of increase in prices over a given period. It is normally a broad measure of the overall increase in prices or the increase in the cost of living. • Consumers' cost of living depends on the prices of goods and services and the share of each in the household's budget. • Overall inflation rate month on month was 4.5% in December 2017 from 6.4% in December 2016. • The Consumer Price Index (CPI) indicates the change in prices of the basket from the base year (normalized to 100) to the given year. • According to the KNBS, the CPI increased from March to May peaking at 187.64. However, it declined to 182 in November 2017 but picked up again from November reaching 188 in February 2018.	- Inflationary pressures started to ease in the second half of 2017due to improved weather conditions and other government intervention measures such as; - Allowing duty free import of food items such as maize, wheat, sugar and milk. - Introduction of a temporary subsidy on maize meal prices. However, the subsidy was withdrawn and had a great effect on many

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
		 KENYA CONSUMER PRICE INDEX (CPI) SOURCE: TRADINGECONOMICS.COM | KENYA NATIONAL BUREAU OF STATISTICS	- Heavy rains experienced can also spur agricultural growth to reduce inflation. - What can be done to leverage on the improved economic indicators such as politics, weather, improved global economic growth - Increased cost of production attributed to increases in cost of electricity, kerosene and house rents
3.	**Foreign exchange market**	• The exchange rate has been stable against major international currencies. • In January 2018, the Kenya Shilling strengthened against at Ksh 102.9 but weakened against the Euro, Sterling Pound and Japanese Yen at Ksh. 126.3, Ksh 142.3 and Ksh 94 respectively.	- resilient diaspora remittances; it has been impressive in the recent times. - Tourism sector rebounded and performing well after protracted period of travel advisories due to terrorists' attacks and prolonged election and related fears

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
			that kept away investors and tourists.
4.	**Private Sector Credit**	○ Private sector credit is defined as all the financial resources provided to the private sector through either loan, purchase of non-equity securities, credits and other accounts receivables that are marked as claims for repayment ○ The lending rate remained within the interest cap pegged to the CBR, at an average of 13.7 percent compared to at least 17 percent before the interest capping law. ○ The credit to private sector has gradually improved to a growth rate of 2.4 percent in December 2017 from 1.5 percent in June 2017 ○ The Purchasing Managers Index for January 2018 was 52.9 percent an indication that business conditions were slightly weaker than those in December 2017 when the PMI was at 53 percent. ○ The BPS 2018 projects that the interest rate will remain low and stable over the medium term supported by improved liquidity conditions and fiscal consolidation policies.	- The private sector plays a major role in economic development. - Review of CBR has encouraged borrowing - Current momentum to amend the interest rate capping which is at 14.5% has other factors such as increased government borrowing which has an impact on private sector credit since it will borrow more from private sector - private sector credit plays an important role towards economic growth by providing resources for investment to the private sector - Private sector has provided employment opportunities to many Kenyans who could not be employed by the government. Any slowdown in the private sector hurts the economy.

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
5.	**Fiscal Risks**	External and domestic shocks remain unchallenged risks to the economy of Kenya. There are risks associated with; ❖ Macroeconomic assumptions Unexpected changes in the macroeconomic variables create risks to both revenue and expenditure projections. The sources of this risk include reduction in real GDP, inflation instability, exchange rate volatility and volatility of commodity prices on imports. ❖ Public debt dynamics Huge investment in infrastructure and related projects require huge financial investment that cannot be adequately funded through the revenue generated locally. To plug the budget deficits created by the execution of these projects, the government resorts to debt financing increasing debt levels both foreign and domestic. This also comes with debt related costs and payment of interests which shrinks the funding for other essential programs and services needed by the citizens. ❖ Contingent liabilities ❖ Vulnerabilities of the financial sector	- We recommend that Kenya should make good use of the relative calm in Kenya and the strength of the shilling against the dollar to increase revenue and decrease expenditure. - Tax has is expected to increase in September 2018 especially now that Kenya has capitulated to the tough demands of IMF. - We also advocate for Diversification of revenue and leverage on ICT platforms to create more revenue both at the National and County Governments. - Concise measures should be clearly demonstrated in the budget on how to deal with these shocks for Big Four Plan to succeed -
6.	**The Banking Sector**	The Banking Sector • The banking sector has experienced hard times since the Banking Amendment Act 2016 came into effect. The interest cap has led to many banks downsizing because of reduced revenue generation. Debate has raged on for long and Kenya is finally on the path of abolishing the interest cap.	Need to look at the implementation of this Law and its impact on the sector. According to the CBK MPC report, the prices of banking sector listed stocks registered significant

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
		• The Act set the maximum interest rate chargeable for a credit facility in Kenya at no more than 4 percent above the base rate set and published by the CBK. It also set the minimum interest rate granted on a deposit held in an interest earning account in Kenya to at least 70 percent of the base rate. • Capping interest rates protects consumers from high interest rates increases access to finance and makes loans affordable • However, Interest rate capping can inefficiently exclude some borrowers from getting credit. Being denied credit not only has an instant effect on the borrower, it also affects his ability to build a credit history, which is critical for being able to borrow at lower rates in the future; • Interest rate ceilings also limit access to credit, reduce transparency and decrease product diversity and competition;	declines after the enactment of the Banking (Amendment) Act, 2016 capping interest rates on lending and deposits. However, the same report indicates that this downward trend in the prices of the stocks has since stabilized. Some have argued that the capping of interest rates has slowed down lending to SMEs and the Private sector in general.
7.	**Balance of Payments(BOP)**	• Balance of Payments entails all transactions between a country's residents and its nonresidents involving goods, services and income; financial claims on and liabilities to the rest of the world. • Current account is defined as the sum of the balance of trade (exports less imports), net income from abroad and net current transfers. • The overall balance of payments position improved to a surplus of $ 879.7 million (1.2% of GDP) in the year to November 2017 from a deficit of $ 821.4 million (1.3% of GDP) in November 2016. • Kenya's current account registered a deficit to USD 5,095.2 million (7.0 percent of GDP) in the year to November 2017 from a deficit of USD 3652.8million (5.2% of GDP) in the year to November 2016 reflecting widening of the trade account balance and the increased payment to foreign investors. • Deficit in the merchandise account widened by $2,477.7 million to $10,243 million in the year to November 2017 reflecting increase of payment for import of oil due to rebound in international prices and increase in import of machinery and transport equipment. • Net export of goods and services declined indicating lower global demand for exports of manufactured goods and raw materials • Flows in the financial account. Increased to $5,300 million in November 2017 compared with 4137.4 million in November 2016. This reflected higher liabilities than assets	• Construction of the first phase of SGR has been concluded. This demands for explanation for the increase in import of machinery and transport equipment that increased the budgetary allocation • The current political stability can help improve export earnings • Kenya should take advantage of the Africa Free Trade agreement of which Kenya is a signatory.

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<tr><th></th><th>AREA</th><th>FACTS AND FIGURES</th><th>DISCUSSION POINTS</th></tr>
<tr><td></td><td></td><td>

- Financial inflows in form of Foreign Direct Investments and other Investments stood at $360.6 million and $6439.6 million respectively in November 2017

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- Cash inflows from other investments is higher than Foreign Direct Investment. There must be a balance between revenue generated through exports and foreign financing.

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<tr><td>8.</td><td>The Big Four Agenda</td><td>
<table>
<tr><th>Sectors</th><th>2017/18</th><th>2018/19</th><th>2019/20</th><th>2020/21</th></tr>
<tr><td>Agriculture, Rural and Urban Development</td><td>36,645</td><td>37,286.50</td><td>39,972.20</td><td>30,406.30</td></tr>
<tr><td>Environment Protection, Water and Natural Resources</td><td>13,213</td><td>15,624.5</td><td>17,227</td><td>18,192</td></tr>
<tr><td>Energy, Infrastructure and ICT</td><td>15,998</td><td>19,138.1</td><td>10,036.0</td><td>20,837</td></tr>
<tr><td>Health</td><td>61,700</td><td>69,986.70</td><td>72,820.0</td><td>73,145.0</td></tr>
<tr><td>General economic and commercial affairs</td><td>7,722</td><td>10,217.3</td><td>10,917</td><td>11,099</td></tr>
<tr><td>Total Allocations</td><td>135,278</td><td>152,253.10</td><td>150,972.20</td><td>153,679.30</td></tr>
</table>

These are the sectors that are expected to spur economic growth through a medium-term implementation plan for the next four years.

<table>
<tr><th></th><th colspan="2">2017/18 allocation</th><th>Absolute changes (Millions)</th><th>% changes in total budget</th></tr>
<tr><td>Sectors</td><td>Budget estimates</td><td>Budget Allocation</td><td></td><td></td></tr>
<tr><td>Agriculture, rural and urban development</td><td><i>38,397</i></td><td><i>38,882</i></td><td><i>485</i></td><td><i>1.2%</i></td></tr>
<tr><td>Energy, infrastructure and ICT</td><td><i>415,743</i></td><td><i>401,583</i></td><td><i>(14160)</i></td><td><i>-3.4%</i></td></tr>
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- Are these expenditure priorities aligned to the Big Four Agenda?
- Considering the four major sectors that were earmarked for the implementation of Big Four Agenda, are the allocations sufficient to realize them?
- Challenges facing healthcare in terms of inadequate supply of medical facilities, drugs, personnel that often lead to industrial strikes by the health professionals.
- What can we do with our policies to fix the problems being experienced in some of our referral hospitals like Kenyatta?

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<tr><th></th><th>AREA</th><th>FACTS AND FIGURES</th><th>DISCUSSION POINTS</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><td>General economic and Commercial Affairs</td><td>19,794</td><td>16,364</td><td>(3430)</td><td>17.3%</td></tr>
<tr><td>Health</td><td>61,700</td><td>64,300</td><td>2600</td><td>4.2</td></tr>
<tr><td>Education</td><td>374,987</td><td>431,475</td><td>56488</td><td>15.06</td></tr>
<tr><td>Governance, Justice, Law and Order</td><td>202,551</td><td>197,411</td><td>(5140)</td><td>2.54%</td></tr>
<tr><td>Public Administration and International Relations (PAIRs)</td><td>270,191</td><td>290,660</td><td>20469</td><td>7.6%</td></tr>
<tr><td>National security</td><td>130,223</td><td>134,742</td><td>4519</td><td>3.5%</td></tr>
<tr><td>Social protection, culture and recreation</td><td>46,180</td><td>54,765</td><td>8585</td><td>18.6%</td></tr>
<tr><td>Environment protection, water and Natural resources</td><td>73,587</td><td>74,852</td><td>1265</td><td>1.7</td></tr>
<tr><td>Total</td><td>1,705,034</td><td>1,743,828</td><td>71,681</td><td>4.2%</td></tr>
</table>

From the table, it is demonstrated that the amounts allocated to the Big Four Agenda programs are never adequate to realize the envisioned program objectives of universal healthcare, adequate housing, improving manufacturing and proper nutrition for the citizens.
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Article 43 stipulates that every citizen has a right to health, education. As such, allocation to these sectors directly impacts on the welfare of the citizens.

Can we tap into the increased demand of Kenyan products in foreign markets such as tea and coffee? This will increase the influx of foreign exchange in our country.
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<tr><td>9.</td><td>Public Debt</td><td>Guaranteed Debt to State Parastatals
In the FY 2016/17, allocated towards settlement of guaranteed loans to state parastatals was 1.2 B. A total of 1.6 B was released for settlement of guaranteed debts to state parastatals with a total expenditure of 1.4 B.</td><td>Concerns:
Public debt accumulation in Kenya has been on a steady path of growth for the past four years thereby</td></tr>
</table>

AREA

FACTS AND FIGURES

Borrowing has been mainly to support the development agenda- infrastructure, increased energy production, increased access to electricity and improved security.

The table below illustrates how public debt related costs and interests shrinks the funding available for other services especially at the national government level.

Debt is accumulated at a higher rate than revenue generated therefore the cost of servicing the debt becomes burdensome to the citizens denying them quality service delivery.

	2014/15	2015/16	2016/17	2017/18	2018/19
Ordinary. revenue	**1032**	**1153**	**1306**	**1486**	**1688**
Debt service	**250.9**	**250.4**	**307.2**	**453.4**	**687.6**
County allocations	**229.9**	**273.1**	**294.0**	**314.2**	**331.2**
Bal for national allocation	**218.7**	**249.8**	**277.6**	**259.9**	**164.3**

- Debt financing in most cases puts pressure on future generations in their ability to continue paying debt and related costs while at the same time maintaining economic stability.
- Consequently, a debt is sustainable if it is used to generate economic benefits higher than the initial costs.
- According to the Cabinet Secretary, National Treasury, Kenya’s debt is principally focused on development of infrastructure and such it will significantly be beneficial to Kenyans.
- As such, the economic benefits of the Standard Gauge Railway and other infrastructural projects may outweigh the initial costs incurred through debt financing.

DISCUSSION POINTS

raising the cost of servicing these loans.

- Borrowing has mainly been to fund the huge infrastructure investments in SGR, electricity etc
- The Eurobond issuance has increased the level of debt in Kenya to unsustainable levels
- It is evident that our borrowing policies have been to fund recurrent expenditure as opposed to development expenditure. This must be changed since it imposes more debt burden on the tax payer.
- We therefore propose as follows;
- Since Kenya’s debt is shrinking and most loans are maturing in 2019, we should stretch the debt tenure quantum to ease the pressure of repayment.
- Re-negotiate debt at concessionary terms covering both the cost and tenure of resulting debt

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
			- Undertake cost benefit analysis for the various projects that are funded through debt financing to keep debt within sustainable levels in Kenya. The cost of debt should be borne by both the current and future generations in bearable proportions.
10	**Multi-Agency Taskforce on Corruption**	• During the 2013/14 FY, the sector was allocated Ksh. 13,789.88 million and Ksh. 13,504.70 million for 2014/15. • 2017/18 The sector was allocated 45.35 B • There are several institutions that these funds will strengthen to fight corruption. There should be notable impact in the fight owing to the massive investment in this taskforce.	Allocation has been increased to facilitate the various agencies to deal with corruption. There is scanty statistics on high profile corruption cases that have been prosecuted. Is it worth the much allocated? Kenya is still among the top 50 most corrupt countries in the world with a score of 28 over 100 in the Corruption Perception Index. This is below the global average of 43 . Public report on what was done with the allocations and if there will be additional funds

<table>
<tr><th></th><th>AREA</th><th>FACTS AND FIGURES</th><th>DISCUSSION POINTS</th></tr>
<tr><td>11</td><td>Public Sector Wage Bill</td><td>

- Public wage bill has been a serious matter of concern to the nation. Recurrent expenditure in terms of salaries and allowances
- The public sector's wage bill has been steadily increasing over the years to unsustainable levels.
- Both levels of government have experienced industrial strikes that impact negatively on service delivery. The protracted nurses and doctors' strike left the health sector paralyzed while the strikes by teachers and university lectures also paralyzed learning in schools and universities. \

<table>
<tr><th>Financial year</th><th>2010/11</th><th>2011/12</th><th>2012/13</th><th>2013/14</th><th>2014/15</th><th>2015/16</th><th>2016/17</th></tr>
<tr><td>Recurrent</td><td>584</td><td>650</td><td>816</td><td>753</td><td>861</td><td>1,014</td><td>1,178</td></tr>
<tr><td>Wages and salaries</td><td>198</td><td>219</td><td>274</td><td>281</td><td>298</td><td>307</td><td>337</td></tr>
<tr><td>Other recurrent</td><td>386</td><td>432</td><td>452</td><td>471</td><td>563</td><td>707</td><td>842</td></tr>
<tr><td>Development</td><td>236</td><td>295</td><td>306</td><td>355</td><td>549</td><td>490</td><td>646</td></tr>
<tr><td>% of development to expenditure</td><td>29%</td><td>31%</td><td>27%</td><td>32%</td><td>39%</td><td>33%</td><td>35%</td></tr>
</table>

Source: ***National Treasury Quarterly Economic Review Reports***

- Yielding to their demands means an upward pressure on the wage bill.

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- Debate that Kenyans can have with respect to the constitution of 2010 include;
- Is our workforce sustainable? Do we need all the MCAs, Senators and nominated officials in both parliament and senate or we should rethink the structure?
- What can we do to contain the ballooning wage bill?

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<tr><td>12</td><td>Devolution</td><td>

Allocation to County Governments BPS 2018, CRA

<table>
<tr><th><i>2014/15</i></th><th><i>2015/16</i></th><th><i>2016/17</i></th><th><i>2017/18</i></th><th><i>2018/19</i></th></tr>
<tr><td>235,243.3</td><td>287,044.2</td><td>302,198.5</td><td>336,221.4</td><td>372,741.9</td></tr>
</table>

Source: BPS 2018, CRA

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1. Questions abound as to which methodologies were used in allocating resources to the county governments
2. Which parameters were used? Were they appropriate in determining what counties were to get?

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	AREA	FACTS AND FIGURES	DISCUSSION POINTS
		• Focus and emphasis has been on the share of revenue as opposed to revenue generation. Over-reliance by the counties on the allocation from the national government. The delay that is often synonymous with the National Government when it comes to releasing equitable share of revenue to the counties in most circumstances paralyze operations at the county governments. • Secondly, the formula used to allocate resources is based on the audited financial account statements for the fiscal year 2013/14 yet the latest report of audited financial accounts for the fiscal year 2016/17 is available.	3. How equitable share was computed. The BPS 2018 has not provided information on the rationale of increasing some of the conditional grants as highlighted in the table The national government must make recommendations for prudence in the use of equitable share to the county governments since by law, the deficit is borne by the national government and surplus accrued to the national treasury. OSR initiatives are imperative in plugging the deficit at the county government levels. It also helps counties not to be dependent on national government transfers for their operations. We recommend that the most allocations to the counties should be based on the most recent audited financial accounts records available to adequately apportion allocation of equitable

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
			share to the counties based on the revenue generated.
		Challenges Encountered by Counties The BPS 2018 has highlighted some of the challenges that the county governments face financial management and execution; (i) Lack of proper income generating avenues to avoid overreliance on transfers from national government which are either insufficient or delayed. This jeopardizes the operations of the county. (ii) Dependence by some counties on one major own-source revenue hence exposing them to fiscal shocks occasioned by a dip in their main revenue source (iii) Unrealistic own source revenue projections which results to unrealistic expenditure estimates inevitably generating pending bills and causing general cash flow problems. (iv) Duplication of functions that risk generating intergovernmental conflicts, wasteful spending and financing gaps that could adversely affect implementation of the fiscal framework; (v) Borrowing by the counties without following the due process of the law. This makes it impossible for government guarantee as required by the law thereby exposing the counties to the actions of the commercial banks which might include impounding of property. (vi) Unreconciled variances between County Governments' financial statements and fiscal transaction records as captured by IFMIS. This means there is still a problem with the use of IFMIS. (vii) The Auditor General also highlighted non-compliance with the Public Procurement and Asset Disposal Act, 2015. E.g. procurement of goods and services outside the approved procurement plan, variation of contract sums and inflation of initial contract prices, unconfirmed asset purchases, unjustified single sourcing of tenders, poor maintenance of asset registers. (viii) Lack of proper management frameworks to manage the county funds (ix) In most counties, development projects being implemented are weakly linked to the approved CIDPs or ADPs. There is also lack of transparency and accountability.	The most pressing challenges that the counties must deal with to improve their economic growth prospects include; a. Enhancing County Own Revenue to supplement the allocations from the National Exchequer in providing services to the citizens. b. Promoting the principles of accountability and prudent use of the available resources to benefit all the citizens. c. Build capacity of the county government workers to enhance efficiency and effectiveness in service delivery. d. Institute of Certified Public Accountants of Kenya is one of the professional bodies that has the wherewithal to build capacity in counties and equip the county staff with requisite skills and expertise around public finance that they can use to

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
			enhance performance in the counties. e. Having an updated assets and liabilities register as provided for by the Public Finance Management Act 2012 to enhance principles of accountability and prudence in the use of public resources. f. Since most problems revolve around delayed release of funds from the national government, we propose robust strategies for Own Source Revenue by the counties so as to avoid reliance on the national government. Diversification of these revenue generation channels serves to put the counties on a vantage point to generate enough funds to execute their budgets. g. Considering reports from both the Auditor General and Controller of budget concerning the performance of various sectors of the economy in both the national and county government, there are loopholes that are

	AREA	FACTS AND FIGURES	DISCUSSION POINTS
			identified each fiscal year. However, no deliberate measures are undertaken to fix them. Sealing these loopholes can increase performance in revenue growth that would fix the problem of escalating public debt and budget deficits.
13	**REVENUE RAISING MEASURES**	13.1. Revenue as a percentage of GDP • The BPS projects Revenue to increase from 18.3 % of the GDP in 2016/17 to 19.2% of the GDP by FY 2020/21. 13.2. Revenue Targets • In the FY 2018/19 revenue collection including Appropriation-in-Aid (AiA) is projected at Ksh 1,849.4 billion (18.9 percent of GDP) from Ksh 1,643.1 billion (19.0 percent of GDP) in the FY 2017/18. This performance is underpinned on the tax policy and revenue administration • The projections are supported primarily by ongoing reforms in tax policy (the review of the Income Tax Act) and automation through interagency collaboration. • Ordinary revenues are projected at Ksh 1,684.0 billion (17.2 percent of GDP) in FY 2018/19 up from Ksh 1,486.3 billion (17.2 percent of GDP) in FY 2017/18. • Kenya's revenue collection has been on a consistent increase for the past 5 years. The medium-term projections also indicate increased revenues anticipated over the next four years.	• The BPS 2018 indicates that the growth of revenue will be underpinned on ongoing tax reforms policy and revenue administration. • Reforms to be undertaken include; ➢ roll out of the integrated customs management system (ICMS) to seal loopholes at the Customs; implementation of the regional electronic cargo tracking (RECTS) to tackle transit diversion; ➢ enhance scanning activities to detect concealment;

	FY 2016/17	FY 2017/18		2018/19	2019/20	2020/21

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<tr><th></th><th>Actual</th><th>Revised</th><th>Budget</th><th>BPS 2018</th><th>Dev</th><th></th><th></th><th></th></tr>
<tr><td></td><td>billion</td><td>billion</td><td>billion</td><td>billion</td><td>billion</td><td>billion</td><td>billion</td><td>billion</td></tr>
<tr><td>Total Revenue and Grant</td><td>1,426.9</td><td>1,514.1</td><td>1,763.3</td><td>1,702.4</td><td>(61.0)</td><td>1,904.4</td><td>2,157.2</td><td>2,470.2</td></tr>
<tr><td>Total Revenue</td><td>1,400.6</td><td>1,455.4</td><td>1,704.5</td><td>1,643.1</td><td>(61.4)</td><td>1,853.9</td><td>2,105.6</td><td>2,417.8</td></tr>
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</td><td>➢ scaling up of ongoing and routine activities such as pre-verification of conformity (PVOC) benchmarking and auctions;
➢ data matching and use of third party data to enhance compliance through integration of iTax with IFMIS;
➢ expansion of tax base by targeting informal sector, pursue non-filers and increase focus on taxation of international transactions and transfer pricing;
in the spirit of the Big Four Agenda, the revenue forecasts must deliberately consider allocating enough resources to the sectors directly linked to the plan. The BPS has policy recommendations but lacks clear plan on how implementation will be achieved.</td></tr>
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	AREA	FACTS AND FIGURES	DISCUSSION POINTS
14	**Key Highlights for the Budget 2018-19 against 2017/18**	**14.1. Overall expenditure**	• Heavy investment in infrastructural investment ○ The implementation of the various development projects may prove difficult to monitor and lead to a thin distribution of resources. ○ The allocation to development expenditure tends to be reduced during the preparation of the supplementary budget preparation, primarily due to low absorption.

Comparison of Expenditures		
	2017/18	2018/19 (Kshs Billions)
National Government	1578.03 B	**1,428,533.9**
Parliament	40.21 B	**31,768.9**
Judiciary	18 B	**17,783.2**
Consolidated Fund Services		**690,368.9**
County Equitable Share		**314,000**
Equalization Fund	699	**4,700**
Contingency Fund	7.7 B	**5,000**

14.2. Select sector ceilings

These are the selected sectors that would be directly responsible for the implementation of the Big Four Agenda. The total allocation as per the BPS 2018 amounts to 152,253 B as compared to 135,278 B for the current FY. This is an increment of 17 B to implement the Big Four Agenda. The question is; will the additional 17 B be sufficient to fund all the programs that will help realize the objectives of the Big Four Agenda?

Sectors	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Agriculture, Rural and Urban Development	36,645	37,286.50	39,972.20	30,406.30
Environment Protection, Water and Natural Resources	13,213	15,624.5	17,227	18,192
Energy, Infrastructure and ICT	15,998	19,138.1	10,036.0	20,837
Health	61,700	69,986.70	72,820.0	73,145.0
General economic and commercial affairs	7,722	10,217.3	10,917	11,099
Total Allocations	**135,278**	**152,253.10**	**150,972.20**	**153,679.30**