

ICPAK PRESS STATEMENT ON THE FISCAL BUDGET 2018/19

19th June 2018

Ladies and gentlemen of Forth Estate, the Vice-Chairman, the Chief Executive and I are very pleased to welcome you to our press conference.

The Institute of Certified Public Accountants of Kenya (ICPAK) commends the Cabinet Secretary, National Treasury on presentation of the fiscal Budget for the Financial Year 2018/19. This is a historic budget and one of its kind in the entire East African Community. The Cabinet Secretary for Treasury, Henry Rotich, presented a budget of **3.07 Trillion** Kenya Shillings from **2.77 Trillion** the previous year.

As we prepare to implement this ambitious budget, the Institute wishes to raise the following concerns.

Macro-Economic Environment

We note that stable microeconomic environment in Kenya has provided a platform to anchor this year' s budget. Kenya' s economic growth prospects have been propelled by the recovery of the tourism sector, strong private sector investment, completion of key public projects in road, rail and energy generation. The economy remained resilient and expanded by 4.9% albeit the challenges the Country faced. It is also projected that it will grow by at least 5.8% this year.

We commend the ongoing efforts towards national reconciliation and integration through the building bridges initiative. This will further guarantee stability and certainty in the political arena which is key for economic growth and development.

Implication of the Tax measures

The Institute notes that the government projects to raise Kshs. 1, 942.2 billion as total revenue.

(a) Income Tax

We also note that income tax is going to be the primary driver of the 2018/19 budget. As such, the Institute proposes the following:

- The government should fast-track the enactment of the new Income Tax Bill 2018
- However, the enactment of this Bill should be anchored clear policy proposals.

- The government should put in place fiscal policy frameworks that prioritize development expenditures to support growth, whilst curtailing growth of nonproductive recurrent expenditures.

(b) VAT

The change in VAT regime on commodities like LPG, bread, sugar, maize flour, bottled water and processed fish shifting them from zero rating to VAT exempt is bound to make them more expensive. Moving these basic commodities to exempt status implies that manufacturers cannot claim input VAT which is then passed the final consumer through the commodity prices.

We note that these are basic consumables for the citizens among whom some live below a dollar a day. Any trigger that increases the cost of these commodities adds to the high cost of living experienced already. We therefore advise the government to reconsider this with a view to making the burden of the citizens lighter.

Similarly, mobile money transfer and other digital financial platforms have penetrated the remote parts of the country and benefits both the low-income earners as well as high earners.

We believe that other than imposing further taxes on basic commodities, the government can explore other innovative ways of raising revenues to fund the projects and programs that would improve food security whilst cushioning the low-income households against the brunt of increase in prices of other basic commodities.

(c) Import Duty

We commend the government for raising the import duty on iron and steel products from 25% to 35%. This and other initiatives Buy Kenya, Build Kenya will boost the local manufacturing industry.

The Big Four Agenda

ICPAK commends the Government for coming up with an elaborate economic development blueprint that will create jobs, reduce poverty and distribute wealth among all citizens. The budget has in a bid to achieving this plan, put in place fiscal measures in the budget to achieve the plan.

The Big Four plan will complement ongoing investment initiatives in infrastructure that includes

- Phase II SGR construction
- LAPSET project
- Mombasa Port Development project
- Energy projects such as geothermal development

However, we remain concerned that most of these projects are never completed on time. Delay in the implementation causes absorption problems which often lead to projects extending to the next financial year.

We urge the government to deal decisively with the corruption dragon which has diverted public resources for personal interest. Corrupt officials should face the full force of the law and be barred from holding public office. The Institute is ready and willing to work closely with government in vetting of professionals in the public sector.

While we support the current directive by the President for a mandatory lifestyle audit for all state and public officers, we implore that the process be undertaken in a manner that is objective and respects the rules of national justice. We will draw the attention to a similar exercise undertaken for members of the bench in which judges and magistrates were vetted while in office. A similar approach for the current phase of vetting as directed by the President would be welcome. We wish to reiterate that corruption is systemic in Kenya and must be fought at all levels, right to the top.

Devolution

We appreciate the National Treasury for increasing the allocation to the counties to Kshs **376** for the FY 2018/19. This demonstrates the commitment of the government in empowering the countries to better the lives of people.

However, the Institute notes that the performance of the county governments has been hampered by the following factors:

- Pending bills within the counties
- Underperformance in Own Source Revenue collection
- Lack of capacity to evaluate county plans and weak link in public participation.
- Development funding to crucial sectors such as agriculture and health has been minimal. These sectors being devolved functions, they require massive resources to actualize.

We therefore urge the two levels of government to continuously cooperate especially in the areas of capacity building for the success of devolution. Crucial frameworks such as policy on own source revenue should be complemented and implemented.

FCPA Julius Mwatu

Chairman, ICPAK
