



**Institute of Economic Affairs**

**ALTERNATIVE BUDGET 2008/09**

**SUBMISSIONS FOR BUDGET 2008/09  
MADE BY DIFFERENT INTEREST GROUPS  
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## Acronyms & Abbreviation

AIA	Appropriation in Aid
BOPA	Budget Outlook Paper
CMA	Capital Markets Authority
GDP	Gross Domestic Product
ERSWEC	Economic Recovery Strategy For Wealth and Employment Creation
ICT	Information, Communications and Technology
ITA	Income Tax Act
KRA	Kenya Revenue Authority
KFS	Kenya Forestry Secretariat
KEMSA	Kenya Medical Supplies Agency
LPG	Liquefied Petroleum Gas
MTEF	Medium Term Expenditure Framework
M & E	Monitoring and Evaluation
NIMFS	National Integrated Monitoring and Evaluation System
NFS	Non – Formal Schooling
ODM	Orange Democratic Movement
PNU	Party of National Unity
R & D	Research and Development
SEA	Strategic Environmental Assessment

## 1.0 Introduction

The Alternative Budget 2008/09 presents alternative choices to the government so that they can make policy priorities. This alternative budget draws upon some of the issues and concerns raised by sector stakeholders during the Institute's annual pre budget hearings that took place on 26<sup>th</sup> and 27<sup>th</sup> of February 2008 and others who sent in written budget proposals. It also seeks to act as an instrument to influence government decisions and help civil society develop viable alternatives to government policy.

The rest of this text provides a brief background, the context of the budget environment as well as a brief opportunity, risk and threat analysis of Budget Outlook Paper 2008/09-2010/11. The sector proposals are structured in line with the requirements by the Treasury to provide proposals that address the following four areas (i) measures to encourage private sector investment and growth (ii) regional integration issues (iii) limitations of the current economic and financial policy framework and, (iv) any other relevant issues at general improvements of the economy<sup>1</sup>. Lastly a summary and conclusion are provided.

## 1.1 Background, Theme and Rationale

The Government of Kenya has made substantial progress in implementing the Economic Recovery Strategy for Wealth and Employment Creation 2003-07 (ERSWEC) according to various annual progress reports. In 2007, the Government now initiated formulation of Vision 2030 as the succeeding blueprint for sustainable economic development. However following the recent national political development where a power sharing deal has been signed, the endorsement of Vision 2030 may face challenges. The likely outcome could be an arrangement where the parties in the coalition harmonise their visions and manifestoes for an agreed common development agenda to chart the way forward for Kenya.

Furthermore the post election crisis poses a myriad of challenges to the government in terms of delivering goods and services to the citizenry. This comes against the background of loss of lives, destruction of property, displacements, weak institutions, some stuttering reform agenda and other governance challenges that have eroded to some extent, the gains that the government had made since 2003. With a view to mitigating the impact of the recent post election crisis on the economy and returning Kenya to its recovery path, Budget 2008/09 must review the economic trajectory by taking cognisance of these realities. The Government should focus on the reconstruction of the economy to its initial trajectory and putting in place measures to maintain the economy in the initial growth trajectory.

In departure from Budget 2007/08 theme of "Vision 2030 – Working Together, on the Path of prosperity, the forthcoming budget may likely focus on reconstruction of the economy through lasting economic, institutional and constitutional reforms. It is for this reason that the chosen THEME of the Citizens Alternative Budget is **"Lasting reforms for socio-economic reconstruction."**

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<sup>1</sup> Call to the public to submit budget proposals for Budget 2008/09 via [www.treasury.go.ke](http://www.treasury.go.ke)

## 1.2 Principles

The Alternative Budget is based on the following principles:

- Fiscal discipline where budget proposals informed by research and sound economic principles
- Allocative efficiency where expenditures should be based on priorities and the effectiveness of public programmes and lastly
- Operational efficiency where systems and institutions are supported

## 2.0 Budget Environment

The Government has initiated a number of reforms in the area of public finance management that are aimed at improving service delivery, promoting good governance, reducing poverty levels and increasing economic growth. Some of these reforms have led to the budget process being increasingly open to the public. Additionally, there is mention of creating a legal framework through which citizens can participate in the budget making process.

To set the pace for the forthcoming budget, it is wise to review the performance of the previous budgets since the adoption of the Medium Term Expenditure Framework (MTEF) in the year 2000. Kenya's prospects have been brighter because of the progress made in implementing economic reforms, however challenges of governance, infrastructure, inequality and poverty remain. Besides the post election crisis has led to adverse publicity for the country tainting our image and also lowering investor confidence. The outlook for Budget 2008/09 should focus on addressing the aforementioned issues for Kenya to return to its economic recovery path again.

## 2.1 Trends in Economic Performance

**GDP Growth:** The economy has experienced steady economic growth posting increasing real GDP rate of 0.6% in 2002 to 6.1% in 2006. Moreover the figures for 2007 indicate that the growth may average about 6.5% after having posted 6.6% and 7.1% growth rates in the first and second quarters respectively. This is against a target of 6.1% according to the Budget outlook paper (BOPA). The steady GDP growth rate was largely attributed to impressive growth in the manufacturing, tourism, construction, communication and Financial Sectors. Equally the agricultural sector recovered from a drought in January 2007 to contribute to the growth rate occasioned by the growing exports from the horticultural and teas production.<sup>2</sup>

**Inflation Rate:** The annual average overall inflation has reduced from 14.45% in 2006 to 9.76% in 2007 despite increases in oil prices with underlying inflation stabilizing around 5% for the better part of 2007. However the average annual overall inflation has trended upwards from 18.2% in January 2008 to 19.1% in February 2008. This increase in the inflation rate is influenced mainly by rising food and non –alcoholic drinks prices.

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<sup>2</sup> Republic of Kenya ,Economic Survey 2007

## 2.2 Fiscal Trends

**Revenue Collection:** There has been a general improvement in revenue collection from Kshs 308 billion in 2004/05 to Kshs 336 billion in 2006/07. Similarly, the quarterly nominal collection for 2007 surpassed the targets where Kenya Revenue Authority (KRA) collected Kshs 34.22 billions against a target of kshs 34.19 billions in January 2008. As per the BOPA the revenues are expected to rise by 15% again a reflection of the government to accelerate on the on going tax reforms.

**Expenditure:** For the past five years, Kenya's government expenditure has been rising steadily. Gross expenditure for the 2005/06 was Kshs 383 Billion and in 2006/07, it rose to Kshs 461 billion. Furthermore the expenditure for 2007/08 as per the Budget outlook paper totalled to 581billion (provisional).

**Fiscal Deficit:** From the BOPA 2008/09-2010/11 the overall fiscal deficit in 2006/07 (before grants) decreased to 2.6% of GDP down from 4.6% of GDP in 2005/06. However, including grants, the fiscal position recorded a deficit of 1.7% compared with a deficit of 2.5% of GDP over the same period. The decrease was driven by improved revenue collections.

## 2.3 Social Indicators

The latest estimates from Kenya Integrated Household Budget Survey 2005/06 show that the incidence of overall poverty levels to have dropped from 52% in 1997 to 46% in 2005/06 indicating substantial improvement in Kenyan citizenry well being. Similarly over the same period the overall rural and urban poverty dropped to 49.1% and 33.7% from 52.9% and 49.2% respectively. This translates to incomes of Kshs 1,562.00 and Kshs 2,913.00 for rural and urban areas respectively. Of interest is the huge regional disparity in poverty incidences. It is worth noting amongst the poor households about <sup>3</sup>83% of their expenditure is entirely on food.

**Education:** The overall national literacy levels stand at 64.5% while the breakdown shows that 64.2% of are literate relative to 58.9% of female according to survey conducted by Kenya national adult literacy 2006. Similarly after the introduction of the fully subsidized primary school education in 2003, primary school enrolment rates have been going up and the same is expected for secondary education following the introduction of the partial subsidization of secondary tuition fees in 2007/08.<sup>4</sup>

**Health:** The health sector registered remarkable improvement. For example there is increased construction of health centers across the country over the last five years financed by the Constituency Development Funds. Moreover HIV prevalence rates dropped from 6.1% in 2005/06 to 5.7% in 2006/07. Expansion of the immunisation coverage has improved over the years and this has reduced the mortality rate particularly for the under five years of age.

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<sup>2</sup> Republic of Kenya ,Economic Survey 2007.

<sup>4</sup> Via www. Central bureau of statistics Website.

**Crime Reported:** Kenya recorded a crime reduction from a high of 71,225 reported cases in 2006 to 68,028 the year 2007 translating to around 13 % reduction in the total national crime. This is attributed to the sustained police action against organized group which are responsible for the violent criminal activities. However for the security forces to keep this numbers coming down measures have to be put in place to curb the resurgence of organized criminal groups.

### **3.0 Opportunities, Risks and Threats of 2008 and Medium Term Outlook**

The economic performance of the country in the last three years to 2008 especially on the economic front has substantially improved. In 2007 all macro economic indicators significantly posted positive results save for employment rates and widening of current account deficits. Whereas there is substantial performance on the economic front the social front has not performed as well, albeit the reduction of poverty levels which are fraught with disparities. In this regard, there are some opportunities as well as risks and threats to 2008 and medium term outlook occasioned especially by the post election crisis.

#### **3.1 Opportunities for 2008 and Medium Term Outlook**

**A resilient private sector:** Despite the post election chaos, private sector has been able to carry out business albeit with some supply and production limitations. This strength should be enhanced over the medium term.

**Donor funds for reconstruction process:** Several donors and development partners have started giving funds towards addressing the humanitarian crisis that arose after the elections. These funds if managed well can help supplement public expenditure.

**An emerging shift towards regional and China trading:** There has been reported growth in trade between Kenya and the region, as well as Kenya and China. This might present a chance for Kenya to improve its trade balance.

**Economic partnerships with Europe:** There are collaborations that can be explored between Kenya and Europe to enhance learning and sector growth. This includes innovative sector financing, human resource building and institutional reforms.

**Business opportunities within Eastern and Central Africa:** The recent move by the company Fly 540 to start flying the Nairobi-Entebbe route, and interest by Nakumatt Holdings to set up a branch in Rwanda indicate that there are business opportunities outside Kenya. If tapped, this could improve revenue income for Kenya.

**Dynamic and active tenth parliament:** Although the tenth parliament consists of Members who are largely new to parliamentary procedure, their professional backgrounds, varied age groups and indeed newness to the House, could have positive implications for national reforms.

### 3.2 Risks and Threats - 2008 Outlook

The outlook for 2008 is economic growth of at least 6.5%. The agricultural sector is expected to be driven by the tea and horticultural sectors. The other growth sectors are transport and communication. According to the BOPA 2008/09-2010/11 the risks to the outlook for 2008 outlook include rising international oil prices and unfavourable weather conditions. However, the Alternative Budget observes a number of other risks to the 2008 Outlook exacerbated by the post election crisis. These are;

**Uncertainty of the power sharing agreement:** Both the Party of National Unity (PNU) and the Orange Democratic Movement (ODM) representatives agreed to the formation of a coalition government that will share power. This agreement is only in the formation stages and each party including Orange Democratic Movement (ODM) Kenya will need to find its place within the new governance structure. As the agreement moves from formation to implementation, fiscal policy will be affected because there are cost implications

**Review of planning agenda:** Following the agreement to have a coalition government there is need to reflect the priorities of the collaborating partners in the national vision and form medium term implementation plan to guide the MTEF to fill the national vision void that has been created. The Treasury and the macro economic planning technocrats may therefore need to review macro targets as contained in the BOPA that is used to guide medium term planning and forecast of the budget.

**The delayed implementation of budget 2007/08:** the post election experience is bound to affect implementation of budget 2007/08 and this could mean that some of the programmes might need revisions of timeframes and costings. Besides implementation of projects under the development expenditure could be deferred to a later date after some recovery in the economic performance.

**Meeting the demands of Budget 2007/08:** A number of the demands on budget 2007/08 include the Youth Enterprise Fund, Women's Enterprise Fund as well as the Secondary School Tuition waiver. Although these subsidies can be useful in increasing the number of players in the economy, they also have an opportunity cost for other public programmes.

**Swelling expenditure:** Additional expenditure will be channeled towards support to the displaced, food supply relief, provision of enhanced security and other immediate humanitarian needs. Consequently, for the government to stimulate the economy and the key sectors that have been affected by the post election violence, including manufacturing, tourism, agriculture, construction, transport and communication, SMEs, Budget 2008/09 is likely to factor the creation of rescue packages, including reconstruction funds, compensation fund for loss of lives, limbs and property. Additionally, we are likely to see the creation of various commissions like the proposed Truth, Reconciliation and Justice Commission which will be funded from the public coffers.

**Resource implications of the national reconstruction process:** The costs of the human resource redistribution following post election violence particularly in the health and education sectors.

**Export constraints:** Exports are mainly driven by the horticulture sector which over the last 2 months saw human resources displaced. This could worsen the already widening trade deficit and therefore affect GDP.

**Inflationary tendencies:** The country may be faced with a possible food supply shortage and distribution challenges due to effects of the post election violence. This could also result in higher food prices.

**Leakages from external funding for the national reconstruction process:** Some development partners have pledged to give the government financial assistance to help in the nation reconstruction process. However without clear checks and balances the funds may be misused by the administrators.

### **3.3 Risks and Threats - Medium Term Outlook**

In regard to the medium term outlook, BOPA 2008 states that Kenya's economic outlook is bright buoyed largely by consumer and investor confidence, continued structural reforms and projected growth in Kenya's trading partner's economies. The role envisaged by Government is one that will mainly be facilitative in regard to private sector growth and will therefore entail maintaining a conducive macroeconomic environment, deepening structural reforms, crowding in private sector investment through increased public infrastructure development and continued improvement in government. Whereas these goals are commendable, they overlook the following factors;

**Widening fiscal deficit:** Due to anticipated revenue shortfall we are likely to see the fiscal deficits widening further. The situation may be aggravated further if grants from development partners are not forthcoming

**Need for regular assessments of structural reforms:** Although government has embarked on a number of structural reforms, a number of them are at the stage where a law has been enacted, a plan formulated or officers trained. These are all critical inputs for reforms but Government must ensure that the reforms do not end here, but are instead, taken to full fruition and assessed regularly for impact.

**Changing demographics:** Over the past five years, enormous changes to the family structure have occurred. These changes include a rise in the number of single parents, orphans, as well as children dependant on the elderly for support. This has implications social welfare and hence on the fiscal policy and must therefore be considered.

#### 4.0 Comments on Budget 2008/09 Framework

**Revenue Projections:** BOPA 2008 gives revenue projections for 2008/09 as 20.8% of GDP, or Kshs 485.4 billion, which is within the 21% of GDP target. It is however mentioned that this performance will be underpinned by on-going tax and customs administration reforms. Of particular interest are the following projections:

**Income tax:** BOPA 2008 shows that 33.3% of total revenue is projected to come from income tax payments. This places a high burden on the already small number of income tax payers. To ease some of the tax burden on the tax payer, as well as the administrative burden on central government, local government particularly city councils should be required to raise more revenues to finance their costs.

*A-I-A* -There is a possibility that A-I-A collections could be a lot higher than the projections. Ministry of Finance can examine the potential for increased A-I-A from ministries and parastatals.

**Expenditure forecast:** Overall expenditure is projected at 25.4% of GDP or Kshs 594.7 billion which is an increase of Kshs 17.3 billion this fiscal year. Of this amount, 27% is to go towards development expenditure, which is both a nominal and proportional improvement over budget 2007/08. Of particular interest are the following projections or issues:

**Wages and benefits:** As the government steps in to play a more provider role in the medium term this will pose a challenge when it comes to meeting the target of 26% of total expenditure is to be allocated to wages and benefits (civil service) and 8.9% to interest payments.

**Transfers:** It is noted from BOPA 2008 that government will continue maintaining the nominal value of transfers to parastatals and semi-autonomous agencies at 2007/08 level to provide space for core poverty programmes. Although this move may be unpopular, it may assist in encouraging agencies to diversify their sources of funding and thereby free central government coffers for development programmes.

**Development expenditure:** The highest sector ceiling is Education which is set at 22% of total expenditure (Kshs 131 billion) followed by Physical Infrastructure at 18.6% and then Governance, Justice, Law and Order at 9.7 percent. These sectors are indeed critical and in need of public investment. It may however arise that the health, manpower and special programme sectors need increased budget resources following the post election violence and resulting insecurity of displaced persons.

**Absorption capacity:** It is noted from BOPA 2008 that improvement in the procurement system is seen as necessary for better absorption capacity of project funds. Beyond procurement system reforms, it is necessary for government to ensure that the Executive is well staffed to implement policy. Areas that are particularly weak are physical infrastructure as well as ICT.

**Deficit and deficit financing:** BOPA 2008 projects a deficit (commitment basis excluding grants) of 4.7% of GDP equivalent to Kshs 109.3 billion which is less than that of budget 2007/08, in terms of share of GDP (6.2%-PRGF) and nominal terms i.e. Kshs 130 billion (PRGF). This is a good move but may be challenged by unforeseen demands on the Exchequer following post election violence.

**Project grants:** These are projected to increase from Kshs 26.9 billion in 2007/08, to Kshs 31.3 billion in 2008/09, however this may change as some development partners are likely to adopt a wait and see mode.

**Drought expenditures:** This is projected to be Kshs 1 billion in 2008/09. This may be inadequate given the recent unpredictability of weather not only in Kenya but around the world. Besides, Kenya may need to look at ways of mitigating droughts rather than merely funding the repercussions.

## **5.0 Sector Proposals**

### **5.1 Measures to encourage private sector investment and growth**

#### ***a) Information Communication and Telecommunication***

The following measures should encourage private sector investment and growth:

- Gradually abolish the 10 % excise duty on mobile telephony services<sup>5</sup>;
- Gradually reduce 10% import duty on telecommunications hardware and 25% duty on telecommunications software;
- Provide clear guidelines on claiming VAT output on bad debts write offs and provisions thereof;
- Provide a tax benefits exemption of the use of company motor vehicles that are primarily used for business purposes;
- Provide budgetary funds for the formation of a Special Purpose Vehicle for a Public Private Partnership in TEAMS fibre optic project; and
- Subsidise capacity building of content providers, including the private sector and universities to increase preparedness for implementation of the TEAMS fibre optic project.

*Justification:* This will enhance use of ICT in various sectors of the economy as well as increase efficiency and effectiveness in service delivery.

#### ***b) Capital Market Development***

The following measures should encourage private sector investment and growth:

- Reduce the annual listing fee for listed companies to 0.05% from 1% and restrict open ended approval criteria by Capital Markets Authority to a maximum of 60 days to approve or deny listing;

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<sup>5</sup> . According to the GSM Association study on the impact of Taxation on the Growth of Mobile in Kenya that was released in February 2007 ([www.gsmworld.com](http://www.gsmworld.com)) and on a study commissioned by the London Business School and funded by the Leverhulme Trust on the impact of telecoms on Economic Growth in Developing Countries, excise duty on is one single driver of the high cost of Mobile telephone services in Kenya and the stagnating growth thereto. .

- Lower corporate tax for new second tier companies (AIMS) to 20% for an appropriate period;
- Eliminate double taxation by abolishing withholding tax on dividends;
- Provide modalities for issuance of corporate bonds by financial institutions as well as guidelines and fiscal incentives for special purpose vehicles to facilitate securitisation;
- Exempt debt securities market with long terms bonds over 5 years from paying withholding tax to encourage their development as well as offering tax incentives to private equity funds (*e.g. acacia*) to generate more long term development funds; and
- Revise licencees' financial requirements by increasing paid up capital requirements for Stockbrokers from Kshs 5 million to Kshs 50 million, and Investment Banks from Ksh 30m to Ksh 100m for competition and efficiency in the capital market.

*Justification:* These proposals aim to deepen capital market, and to encourage more companies to go public as well as build intellectual capital and professionalism in corporate finance and investment.

### **c) Public Transport**

The following measures should encourage private sector investment and growth:

- Reduce fuel levy on public transport;
- Abolish import duty on imported buses;
- Zero rate VAT on public transport ;
- Exempt public service vehicles from paying parking fee; and
- Provide fuel rebates to organized mass transit operators.

*Justification:* The above mentioned tax incentives measures can be partly financed by the introducing congestion charge which will also curb private cars as well as address the traffic congestions in Nairobi and other cities.

- Promote new operation concept in road transport including franchising, leasing hire purchase and route associations to advance public transport;
- Fast track legislation of an Integrated Transport Policy and create a metropolitan transport authority, national road safety council and light /bus rapid transport implementation; and
- Review of the Traffic Act and Transport and Licencing Board Act to conform it to the new development in the transport sector.

*Justification:* Kenya's public transport is characterised by a plethora of negative externalities as well as costs and losses approximately amount to Kshs 29.08 billion annually<sup>6</sup>.

### **d) Energy**

The following measures should encourage private sector investment and growth:

- Introduce targeted and time limited subsidies for reducing the cost of small size LPG cylinders to encourage wider use among middle and low income earners;

- Standardise LPG cylinders to make them compatible to different LPG suppliers in order to reduce the cost of LPG;
- Introduce targeted and time limited subsidies for kerosene stoves and lamps to Kenya's poorest;
- Incentivise private sector participation and investment in power generation; and
- Incentivise private sector led investment in alternative energy sources such as wind and biogas waste from sugar cane factories by setting attractive buy-in tariffs with reasonable payback period like 10-15 years.
- The power tariffs should reflect the full cost energy used by consumers to encourage energy conservation

*Justification:* With the above recommendation the market for diverse energy, rural electrification and LPG would expand as well as that for kerosene stoves and lamps lead. In turn this will lead to local investment in kerosene stove and lamp manufacture and reduce overall costs.

#### ***e) Agriculture, Fishing & Livestock***

The following measures should encourage private sector investment and growth:

- Temporarily subsidise agricultural inputs especially in fertilizer in regions affected by post election violence;
- Encourage agricultural based value addition through incentives like tax breaks;
- Design and fund a more elaborate national livestock disease control programme rather than the current piece-meal disease free zones;
- Institute a programme to promote storage and processing of fish in order to reduce post landing losses in the fishing industry; and
- Increase allocation to agricultural research together with a re-orientation toward market based issues.

*Justification:* the agricultural, fishing and livestock sectors are in need of support to enhance productivity. Measure to reduce cost of production

#### ***f) Philanthropy***

The following measure should encourage private sector investment and growth:

- Amend the Income Tax Act (ITA) to allow for deductibility of donations to all charitable organisations.

*Justification:* Currently, donations allowable for taxation are only those made to charitable organizations. Currently, donations allowable for taxation are only those made to charities registered as NGOs under the Non Governmental coordination Act or under the Societies Act. This restricts corporate social Responsibility activities.

## **5.2 Regional Integration Issues That Need Addressing**

The following are issues that affect regional integration issues:

**Business environment:** This can be improved by gradually reducing the number of licences that one needs in order to invest in Kenya as well as fast tracking the competition Bill.

**Infrastructure:** For enhanced trade within Eastern and Central Africa, Kenya's roads, air and rail need to be improved.

### **5.3 Limitations of the Current Economic and Financial Policy Framework and Proposals for Improvement**

**Weak regulation:** The previous government did indeed make steps to introduce better mechanisms for regulation particularly in the public utilities sector by the introduction of the Energy Regulation Commission and the Communication Commission of Kenya. However, these bodies are very young and in need of human resource and institutional support. Additionally, there are sectors such as health where the present regulatory bodies are fraught with operational challenges that are eroding planning efforts. As a result we need better regulation models and principles.

**Piecemeal financial policy:** The investment, pensions, credit, savings and insurance sub-sectors are growing at different paces. The past few budgets have included piecemeal proposals for the financial sector, and ranged from tax incentives for greater investment to increasing the levy of capital market offences. Given the importance of financial security for increased development, there is need for the entire sector to be reviewed and a comprehensive framework adopted. Similarly because of the convergence of all these financial institutions there is need for an integrated financial authority.

**Non institutionalised monitoring and evaluation:** The creation of the National Integrated Monitoring and Evaluation System (NIMES) was a major step towards formation of a national M & E system. However, more that needs to be done to ensure that the District Office plays a more central role in linking local and national efforts, and that the Annual Progress Report indicators are evaluated for each sector. Additionally, ministries must be made to cooperate with M & E efforts by the Monitoring and Evaluation Directorate, by including M & E budget lines in budget votes, as well as a report by the Minister of Finance to Parliament, on budget implementation prior to the Budget Speech. Lastly, the MTEF Sector Working Groups can also play a role in M & E process by commissioning qualitative sector assessments so that the sector reports go beyond reporting on quantitative sector achievements.

**Improved planning but weak implementation:** Although a number of semi-autonomous agents have been created by the previous government to off load some of the burden on central government, these agents are limited by weak financial management as indicated by the continual bailing out of some entities particularly in the agricultural sector.

**Uncoordinated fiscal decentralisation:** Kenya currently has more of a sectoral form of fiscal decentralisation. There are great problems in the management and use of these funds and this leads to the possibility of their marginal value being eroded if the issues are not addressed.

**Relatively weak parliamentary policy oversight:** The creation of the Office of Fiscal Analysis has assisted in interpreting budget documents for Members of Parliament. However, the overall need for greater capacity of parliamentary support departments in particular legislative and research slows down parliamentary oversight. This inevitably has an impact on Executive performance and overall pace of reforms.

## **5.4 Any other Relevant Issues Aimed at General Improvements of the Economy**

### **a) Welfare**

The following measures should generally improve the economy:

- Increase funds to the internally displaced kitty with an elaborate funding scheme that will address both the short and long term aspects; and
- Ensure that displaced children can still access health services such as immunisation.

*Justification:* The 2007/08 budget allocation of Kshs. 1.3 billion towards resettlement of internally displaced persons will need to be substantially increased beyond the recently gazetted Humanitarian Fund and children will need special health attention to prevent the occurrence of a health crisis.

### **b) Education**

The following measures should generally improve the economy:

- Include specific measures to reach and provide education to marginalized groups such as orphans, children with disabilities, ethnic and language minorities, refugee communities and working children;
- Include a budget line for support of Non-Formal schooling (NFS) and be transparent in reporting the criteria used for resource allocation to NFS;
- Make Functional Adult Literacy more inclusive, attractive and relevant to the 7.8 million illiterate adult by increasing allocation to the Department of Adult Education to be allocated an equivalent of 3% of the education sector budget;
- Develop national policy standards on teaching and guidelines to regulate the operations of the private sector in the provision of education services;
- Encourage relevant skills building in various levels of education through revised curriculums and training programmes; and
- Legislate Free Primary education in Kenya and enforce prevention of hidden cost in primary education.

*Justification:* Human resource is key for national growth, development, competitiveness and productivity. Therefore more attention needs to be paid to various components of the education sector.

### **c) Health**

The following measures should generally improve the economy:

- Rationalize medical personnel by reducing the surplus lower cadre employees like clerical officer and free up funds to cater for increased number of professional staff who engage in healthcare delivery;
- Strengthen the Human Resource department of the Ministry of Health in order to take care of the issues affecting and concerning the human resources for health like brain drain;

- Institute and implement a policy on the engagement of external funds in the health sector to harmonise use and payment of human resource personnel;
- Strengthen the capacity of KEMSA to procure, store and distribute the medicines to all parts of Kenya and also consider pooled procurement arrangements within the region

*Justification:* The foregoing proposals will serve to improve the delivery of health care service and enhance accessibility of health by the citizen.

**d) Water and Sanitation**

The following measures should generally improve the economy:

- Provide tax incentives and budget allocation to increase water storage inform of rain water harvesting, pans, ponds, and dams;
- Revise the tariff structure and policy currently in place is old and out of tune with current demands;
- Provide tax incentives to encourage irrigation; and
- Urgently fund rehabilitation and construction sewers and plants.

*Justification:* Globally Kenya is categorised as ‘water scarce’. The water reforms will assist in improving service delivery and to enhance reforms, more attention must be given to water storage and sanitation infrastructure.

**e) Housing**

The following measures should generally improve the economy:

- Reduce taxes on housing raw materials like cement to make houses more accessible and affordable;
- Publish Housing Bill 2006 to facilitate the creation of a housing fund that will provide credit to persons who want to invest in houses or build their own houses;
- Introduce tax rebates to credit institutions willing to support housing programme;
- Provide incentives for innovative use of appropriate technology and readily available materials for building; and
- Introduce tax-free special bonds for infrastructural needs for housing as well as education.

*Justification:* Demand for housing far exceeds the supply of housing, and this has contributed to a proliferation of slums and extensions. Additionally the private sector investment in urban areas housing is only focused on high income groups. The proposals will help government will save resources that would be channelled towards addressing high incidence of social instability such as crimes and burglary, high school dropout rates, unstable families and teenage pregnancies among others.

**f) Public Safety Law and Order**

The following measures should generally improve the economy:

- Fast track implementation of the draft “*National Crime Prevention Strategy*” to prevent crime through strengthened criminal justice systems;
- Review the effectiveness of community policing because of the opportunity costs;
- Fully implement the Kenya National Action Plan for Arms Control and Management should be expedited as a matter of urgency in order to reduce and manage the proliferation of these arms;
- Provide for police research and development (R&D) to keep ahead of criminals in terms of knowledge, equipments and techniques of crime detection, prevention and prosecution amongst many other needs; and
- Regulate the private security industry which is one of the fastest sectors of the economy.<sup>7</sup>
- Make each police station head responsible for crime in their area of jurisdiction through enhanced performance contracts for police officers.

*Justification:* Insecurity negatively impacts on the quality of life and private sector development. These proposals can help curb crime in Kenya.

**g) *Environmental Services and Forestry***

The following measures should generally improve the economy:

- Develop mechanisms for retaining revenues for conservation purposes and for long term;
- Make it difficult for illegal logging to occur;
- Increase budget allocation to Kenya Forest Service; and
- Introduce measures to encourage controlled timber production to facilitate rural electrification.

*Justification:* If well funded, staffed and managed, projected revenue from KFS has been estimated by the Strategic Environmental Assessment (SEA) of the implementation of the Forests Act 2005 report to rise from Kenya shillings 1.57 billion in 2007-8 to Kenya shillings 4.29 billion in 2014-5. Projected expenditure to enable KFS to deliver is estimated at Kenya shillings 3.5 billion in 2007 and rises to Kenya shillings 3.85 billion in 2008 before falling and stabilizing at around Kenya shillings 3 billion from 2010-11. This shows that KFS could reach a break-even state within four to five years of its establishment. However, major support will be required from the government initially. Additionally, it is estimated that over 60 KFS staff comprising foresters and forest guards have been displaced from their work stations while others are being threatened to stay away. This has left the forests open to abuse and it has led to destruction of forests. KFS estimates that it has lost 100million Kenya Shillings as a result of illegal logging.

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<sup>7</sup> The private security industry in Kenya is one of the fastest sectors of the economy with a value of US\$ 43million, and supports 244,405 persons with 48,881 direct employees and 195,524 dependants.

## **6.0 Conclusion**

In the spirit of making the budget process more open, Treasury has requested the public to submit proposals for budget 2008/09. It is in this regard, that the Institute of Economic Affairs has drafted an Alternative Budget.

The Alternative Budget has brought out the need for BOPA 2008 to consider certain opportunities, risks and threats not only for 2008, but for the medium term. The document has also presented a number of proposals to Treasury to encourage private sector investment and growth, regional integration, enhance the current economic and financial policy framework and generally improve the economy. It is anticipated that these proposals if taken into consideration will greatly assist in enhancing socio-economic development for Kenyans.

### Sector Proposals – Contributors

	<b>Presentation</b>	<b>Area of Submission</b>
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