BUDGET GUIDE

June 2014

INSIDE

Budget 2014/2015: Balancing financing concerns while responding to spending inefficiencies.

By Institute of Economic Affairs

Talking Points:

Budget Transparency

- Government has made positive strides in terms of improving budget transparency in timely dissemination of Programme Based Budget (PBB) Estimates for 2014/15 via internet, and provision of more details with regard to programmes and their objectives as well as disaggregated information on sub-programmes linked to outputs, indicators and targets.

- However, information on personnel remuneration presentation of previous year's expenditure and information on Appropriation in Aid is still missing, making comparison difficult. Further linkage of sub-programmes to outputs, indicators and targets should be made smarter.

- There is need to consolidate gains in the presentation and format of Programme Based Budgets. For instance, the 2013/14 PBB distinguished expenditure by programmes into recurrent and development, unlike in 2014/15.

- Publishing of the long overdue Regulations to the Public Finance Management (PFM) Act 2012 is crucial in streamlining the budget process and documentation towards improved budget transparency.

Revenue

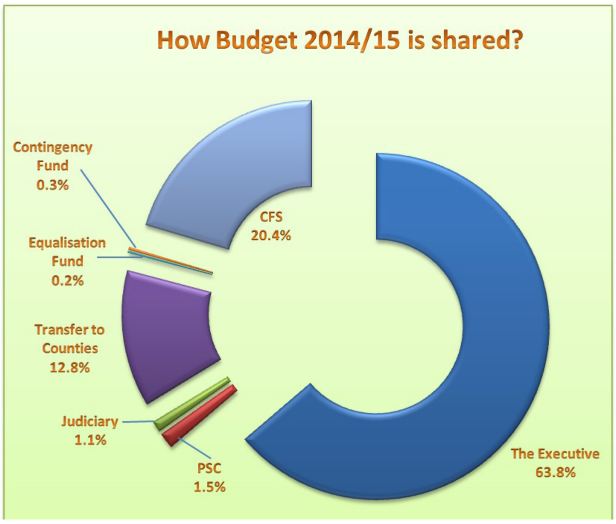
- Total revenue is projected to grow nominally by 18% to Ksh 1,212.9 billion up from Ksh 1,027.2 billion in 2013/14 on back of recent fiscal development.

- Revenue performance has improved, 90.7% in 2012/13 and 99.5% in half year 2013/14 against respective targets. However, revenue performance in 2014 and in the medium term will face a threat from likely economic shocks of insecurity. Tax performance is closely linked to economic activity. Secondly, the impact of VAT amendment may also dampen overall revenue performance.

- The National Treasury Budget Summary shows that the overall budget deficit is Ksh 342.6 billion different from our computation of Ksh 375.5 billion. Given the limited information, we note that the financing gap only adds to 227.68 billion, leaving a further unexplained deficit of Ksh 147.8 billion based on our computation.

Expenditure

- Overall spending is estimated to nominally increase by 8% from Kshs 1.64 trillion in 2013/14 to Ksh 1.77 trillion in 2014/15. The pie chart in the next page shows how the budget is to shared.



Source: 2014/15 Programme Based Budget

- Over the last five years, compensation to employees has accounted for on average 40% of recurrent expenditure. Indeed, expenditure on employees' compensation has grown nominally from 7.7% to 33.2% over the same period.

- To meet its fiscal policy stance of building strong revenue base and containing growth of expenditure, the government needs to deal with the question of improving efficiency in public spending by implementing the following:
    - Address low budget execution to realize government targets and outputs by initiating amendments to Public Procurement and Disposal Act, 2005 to address causes of lengthy procurement as well as incentivize spending units to integrate procurement and planning processes. The hiccups in IFMIS roll-out to counties also needs to be addressed.
    - Undertake cautious austerity measures targeted at curbing "inflation pricing" as blanket austerity measures can dampen economic activity.
    - Contain growth of public wages

Strict and prudent management of public debt and pension liabilities through the public wage policy is critical for improving budget flexibility or freeing resources for social spending and infrastructure development.

Sector specific issues

- 76% is proposed to be spent to the 10 MTEF sectors and in turn, the respective Ministries, Departments and Agencies (MDAs)out of Ksh 1.54 trillion national government budget. The big spenders are the education sector, 20%, Energy, Infrastructure and ICT, 16.6%, Public Administration and International relations 12.6%.

- Low budget execution among infrastructure related ministries, on average 60% below 80% government target is a threat to realizing economic growth. There is need to improve it through enhanced coherence of planning and procurement processes, as well as Amendment of Public Procurement and Disposal Act to address lengthy procurement processes.

- Public spending in the social sector should be focused on addressing equity concerns or inequalities in Arid and Semi Arid Lands (ASALs) and in urban informal settlements for better outcomes.

- There is need for MDAs especially in health, agriculture, roads, energy land and housing, to ensure that their policies and strategies are aligned to the constitution with respect to devolved functions for clarity and elimination of confusion.

- There is need for elaborate mechanism for consultation and collaboration between the two levels of government especially in agriculture and health but also in roads, housing, land and energy sector, to facilitate smooth service delivery.

- Education, health and the infrastructure sectors together account for over 40% of the national budget and hence a source of fiscal pressure in the medium term. There is need to emphasize on the scope for improving quality of spending for better outcomes.

- The National Government should institute techniques or mechanisms to subject proposals for establishment of Funds or infrastructure projects to cost effectiveness or cost benefit analysis. This test should be the basis of informing the worthiness of selection of projects or for instance informing the need of creating a Fund.

1.0 INTRODUCTION

The government of Kenya has made tremendous strides in public finance management reforms with regard to improving budget transparency and public participation. This assertion is evidenced by the recent events surrounding the submission of the Executive Budget Estimates 2014/15 to the National Assembly on 30th April 2014. This bulletin not only captures IEA's analysis of the Executive Budget Estimates 2014/15, but also notes some of the positive strides made by the National Government with regard to detailed budget information, improved budget format and presentation, and timely dissemination of the same to the public. We have also noted some areas that need to be strengthened in line with best practices going forward.

The positive strides:

i. It is commendable that the National Treasury (NT) for the very first time upon submission of the Programme Based Budget (PBB) Estimates 2014/15 to the National Assembly on 30th April, also availed the same to the public on the same day through their website. In 2013/14 and in the previous year,s the detailed Executive Budget Proposal was only available in hard copy from Government Printers. In addition there were other supporting documents that accompanied this (PBB) Estimates 2014/15 including a Budget Summary of the Estimates and Highlights of the Estimates which is a simplified non-technical version (citizen budget) of the budget dubbed "Mwananchi" Guide.

ii. A few days later, the NT also posted on their website Estimates of Recurrent and Development Expenditure 2014 on the 6th of May 2014, presented in the conventional line-item budgeting approach, which was preceded by the posting of information on mandatory/non discretionary expenditure as captured under Consolidated Fund Services on 2nd May.

iii. A review of the PBB 2014/15 clearly reveals significant improvements, with a comprehensive budget information relative to 2013/14. For instance, the PBB for 2014/15 provides information not only for programs and objectives by Ministries, Departments and Agencies (MDAs) but also information on sub-programs within each programme and the expected outcome for the programme. Indeed each sub-programme is linked to a delivery unit that is in turn aligned to key outputs, key performance indicators and targets.

iv. Unlike in 2013/14, the narrative information is broader. For instance, for each MDA, there is information on vision and mission as well as background information on performance, challenges and focus for financial year 2014/15.

The transition to PBB is very important because it enhances transparency which is documented to lead to efficient use of public resources. PBB captures information in terms of who is spending money, why and whether spending is in line with goals of the country. As such, citizens, parliament, media and the general public are able to better engage with budget information.

However, despite the positive strides, we also outline some areas that need improvement towards making PBB and budget presentation conform to best practices:

i. The National Treasury should strive to provide machine readable-MS excel of the budget estimates, to facilitate easier computation and analysis.

ii. We noted that the number of MDAs with budget vote or budget line has increased in 2014/15 more than in the previous financial year because a number of ministries, the supposed large ministries were split into state department. For instance, the Ministry of Interior and Coordination of National Government in 2013/14 as a budget vote was split into State Department for Interirior and State Department for Co-ordination of National Government with no explanation provided.

iii. Good budgeting practice requires that budgets present expenditure in a multi-year framework and information on two years prior to the budget year, capturing revised and actual spending. Similar to 2013/14 PBB for 2014/15 does not provide prior year expenditure figures, making it difficult for one to carry out any comparative analysis despite the fact that one can refer to the previous budget estimates and other supporting budget documents. Notwithstanding the restructuring of MDAs, it is a legal requirement in line with PFM Act, 2012 for this information to be provided.

iv. We also noted a retrogression in 2014/15 PBB budget presentation, which did not distinguish the summary of expenditure for MDAs by programmes into recurrent and capital expenditure - like it did in 2013/14.

v. Unlike in the former line item budget estimates, the PBB 2014/15 does not give comprehensive and disaggregated information on Appropriation in Aid and personnel remuneration/staff salaries and wages.

vi. Generally, there is need to improve and make the indicators and targets smarter, by ensuring that they are well linked and that the narrative information speaks to the figures.

We did not anticipate that the National Treasury would still publish Estimates of Recurrent and Development Expenditure 2014/15, now that the country has shifted to PBB. This may have been done by the NT as a way of providing complimentary budget information, given that the Estimates have some detailed information, for instance on AiA. However our expectation is that given the issues highlighted above, that PBB can be improved further to be a comprehensive stand-alone document. Besides it is important that anticipated Regulations to the PFM Act are published soon, to enhance streamlining of the whole budget process and documentation.

2.0 PICTURE OF THE OVERALL BUDGET 2014/15

The overall spending is estimated to nominally increase by 8% from Kshs 1.64 trillion in 2013/14 to Ksh 1.77 trillion in 2014/15. The Executive inclusive of mandatory expenditure (Consolidated Fund Services) takes the bulk of the budget, Ksh 1.49 trillion, whereas transfers to County Government are estimated at Ksh 226.7 billion. The estimated budgets for the other two arms of government, Parliament and Judiciary are Ksh 26.5 billion and Ksh 18.5 billion respectively. The pie chart below illustrates how the entire budget is to be shared.

It is clear from the pie chart above, that about 64% of the entire Budget 2014/15 is going to the Executive. Taken together with the other two arms of government and the proportion for CFS, about 87% of the total expenditure outlay will constitute the national government. Expected transfers to county government comprise 13%, similar proportion to the one in 2013/14.

This pie chart denotes the importance of not losing sight of the need to engage on public finance management at the national government level even as the public and media attention is increasingly focused on the county government public finance management affairs. Most importantly however, is that for a comprehensive understanding, budget issues should be debated and analyzed holistically and not in isolation.

2.1 Where is the money coming from?

The government seeks to pursue fiscal policy for growth. This poses the challenge of how to create "fiscal space" for meeting various competing demands for public spending, but at the same time endevor to maintain macro-economic stability. Key among these competing needs that lead to expansionary expenditure include: *social sector spending, investment in infrastructure development, public wage bill, transfer for county government structures and other transitional related challenges.* This scenario compels the government to put measures to enhance revenue collection, but at the same time, re-orient expenditure to priority areas as well as commit to improve efficiency in spending. Table 1 below captures a summary of the overall budget estimates for 2014/15, and the percentage change relative to 2013/14 estimates.

Table 1: Overall Budget Estimates 2014/15 (Ksh Billion)

	Forecast 2013/14	Forecast 2014/15	% Change
Revenue			
Total Revenues	1027.2	1212.9	18.1
Ordinary Revenue	961.3	1086.4	13.0
Total Receipts (inc. of grants & loans)	1284	1397.8	8.9
Expenditure			
Total Discretionary expenditure			
The Executive	1010.5	1130.5	11.9
Parliamentary Service Commission	19	26.5	39.5
Judiciary	16.1	18.7	16.1
Transfer to Counties	210	226.7	8.0
Equalization Fund	3.4	3.4	0.0
Contigency Fund	5	5	0.0
Non Discretionary expenditure			
Consolidated Fund Service	380.3	362.5	-4.7
Total overall expenditure	**1640.9**	**1773.3**	**8.1**
Financing:			
Overall (fiscal) deficit before grants and loans	**-614**	**-560.4**	**-8.7**

Total external grants	67.4	51.3	-23.9
Total external loans	187.6	133.6	-28.8
Budget Deficit (after grants and loans)	**-358.7**	**-375.5**	**4.7**
Budget deficit financing			
Net domestic borrowing	106.7	190.8	78.8
Domestic roll over	126.1		
Sovereign bond	123		
Debt swap		0.48	
Commercial financing		36.4	
Cash adjustment(LATF)			
Total	**356.7**	**227.68??**	**-36.2**

Source: 2014/15 Programme Based Budget

For Budget 2014/15, total revenue is projected to grow by 18% to Ksh 1,212.9 billion up from Ksh 1,027.2 billion in 2013/14, on the back of recent fiscal development. This development includes the new VAT law that is anticipated to increase revenue collection through reduced administration costs and enhanced compliance, as well as through other ongoing tax reforms including automation of the system. Total revenue comprises revenue from tax and non taxes and Appropriation in Aid (AiA). Addition of grants and loan amounting to Ksh 51.3 billion and Ksh 133.6 billion respectively, the total revenue is anticipated to bring estimated total receipts to Ksh 1,397.8 billion. Out of this anticipated resource envelope, the Budget Summary for 2014/15 depicts an overall budget deficit of Ksh 342.6 billion which is different from our own computation of Ksh 375.5 billion based on the available information.

It is therefore important to pit the above revenue projection to revenue performance in 2013/14 and in the previous years, in order to understand how the persistent challenge or risk of budget shortfall is going to be dealt with. There has however been some good news with regard to revenue performance in the last two years. Reports show that the government posted improved revenue collection in 2012/13. Actual revenue collected stood at 90.7% of the budgeted estimates for the same financial year. Similarly, for an estimated revenue of Ksh 973.5 billion in 2013/14, Kenya Revenue Authority collected revenue amounting to Ksh 437.8 billion against a target of Ksh 439.3 billion a performance rate of 99.5% as at the end of December 2013.

Despite improved revenue collection in the recent past, this analysis points out a number of fiscal policy issues for parliament to note. Among other things, these issues are likely to adversely affect this recent revenue performance. They include:

- The projected revenue for 2014/15 is anchored on an economic growth rate of 5.8% in 2014 and rising to 6.4% in 2015. Of importance to note, is the fact that the country has experienced subdued economic activity in the last three years, with a growth rate of less than 5% on average. Given the risk and threats to the economy from the rising threats of insecurity and its related consequences on the hospitality sector, lack of concrete measures to curb these shocks will automatically lead to reduced revenue collection due to the strong positive correlation of the two variables.

- Although VAT collection was estimated to have increased by 19% between 2012/13 and 2013/14, there is need to interrogate the likely impact of newly approved amendments to VAT on anticipated revenue collection in the second half of 2013/14. The effect of the new amendments is to increase the list of goods and services that will be exempt and VAT zero-rated, which is counter-productive to the initial objective the new VAT Act of streamlining tax waivers and exemptions in order to make the VAT code simple and reduce market distortions. In fact, the IEA through its Citizen Alternative Budget 2014, had instead proposed a reduction of applicable VAT by 2 percentage points to 14% in order to neutralize the effect on price increases.

- Through the IEA Citizen Alternative Budget 2014, we outlined a number of new areas for the government to explore as alternatives to enhancing revenue collection. These areas are subject for

[1] Republic of Kenya (2014). Economic Survey 2014, Kenya National Bureau of Statistics: Nairobi

[2] Office of the Controller of Budget (February 2014), Budget Implementation Review Report Half year 2013/2014

debate in parliament. They include:

- Exploring the issue of widening PAYE tax brackets and personal relief to stimulate increased disposable income that could have aneffect on increased consumption (increase in VAT).
- Expand tax base - The National Treasury should commission studies to understand the impact of underground economy on revenue potential for Kenya. There is need to revisit turnover tax and consider redesigning it, in order to increase compliance.
- Re-introduce Capital Gains tax. On the basis of understanding its failure, resistance and overall political economy this can be used to inform gradual targeting in the way it is introduced.

- A total of Ksh 226.7 billion is proposed as the transfer to county governments in 2014/15 up from Ksh 210 billion in the previous financial year. County governments already prepared and submitted their budgets to their respective county assemblies based on this proposed transfer. However given the delay in passing the Division of Revenue Bill 2014 by 26th March as stipulated in the PFM Act, 2014, it may necessitate revision of county budgets at a later stage. Future recurrence of this habit would be a sign of poor budgeting practices.

- Budget Deficit financing: Our computation indicates that the overall budget deficit is Ksh 375.5 billion different from Ksh 342.6 billion as indicated in the Treasury's Budget Summary 2014/15. The information provided on the sources of financing this deficit include domestic borrowing of Ksh 190.8 billion, commercial financing of Ksh 36.4 billion and a Debt Swap of Ksh 0.48 billion. Therefore from our computation based on the available information, we establish a financing gap of Ksh 147.8 billion, with no details of how it is going to be plugged. It is likely though that this may be plugged by floating a sovereign bond according to media reports.

2.2 Who is getting what?

Out of a total expenditure outlay of Ksh 1.77 trillion in 2014/15, the national government budget is estimated at Ksh 1.54 trillion. The sectors taking the lion's share of the national government budget are education sector, 20%, Energy, Infrastructure and ICT, 16.6%, Public Administration and International relations 12.6%. These sectors tallied together account for about a half of the National Government budget. As priority sectors, they constitute a source of fiscal pressure for the financial year and in the medium term. Similarly, there is substantial attention given towards the contextual challenges of governance and insecurity through considerable allocations to the GJLOS, 8.4% and the National Security at 5.9%. A further breakdown of the allocation by ministries, department and agencies (MDAs) that is by Vote heads is captured in annexe 1 of the summary of expenditure .2.3.1 Economic Classification of National Government Expenditure.

The The largest proportion of recurrent expenditure for the national government - over a third - goes to employees' compensation, as can be seen in Table 2 below. Notably, compensation of employees which entails wages and salaries and social contributions have being increasing from Kshs 222.2 billion in 2009/10 to Ksh 372.2 billion in 2013/14. Indeed allocation to employees' compensation increased significantly by about 33.2% in the last two financial years, and is partly attributable to the implementation of negotiated salary increments for teachers and health personnel.

As far as current grants are concerned, accounting for over a quarter of total recurrent expenditure in the 5-year period, reduced by 23.7% from Kshs 283.9 billion to Ksh 216.6 billion as a result of services transferred to county governments. On the capital development side, acquisition of non-financial assets - including construction of buildings and structures, purchase of machinery and equipment and others, constitutes over 30% of total capital expenditure.

[3] Parliament Budget Office (2010) "Unlocking Revenue Potential in Kenya." Policy Working Paper Series No. 2/2010 Parliamentary Service Commission of Kenya

Table 2: Economic Classification of National Government Expenditure, 2009/10 - 2013/14 (Ksh. Million)

	2009/10	2010/11	2011/12	2012/13*	2013/14
Compensation of employees	222,273.0	239,317.6	251,017.0	279,424.9	372,160.7
% increase		7.7	4.9	11.3	33.2
Use of Goods and Services	82,785.3	102,256.8	107,260.2	111,968.1	162,361.0
Subsidies	94.0	107.3	148.3	52.0	56.0
Interest	55,786.4	68,677.8	95,191.1	92,950.6	126,568.0
Grants	135,363.7	204,206.3	212,695.0	283,854.5	216,558.2
% growth of Grants		50.9	4.2	33.5	23.7
Social Benefits	27,709.8	25,907.1	32,060.8	29,116.1	39,832.9
Other Expenses	1,659.1	631.0	2,040.3	5,106.7	11,739.4
Total Current Expenditure	**525,671.2**	**641,162.3**	**700,421.8**	**802,517.7**	**929,285.5**
Capital grants (Transfers)	48,581.8	91,939.4	119,132.4	126,618.6	205,009.2
Acquisition of Non Financial Assets (ANFA)	114,823.7	91,566.4	96,275.5	137,193.7	183,471.2
% increase ANFA		**20.3**	**5.1**	**42.5**	**33.7**
Equity Participation and on - lending	5,660.0	6,394.6	5,755.4	9,839.6	11,128.0
Public debt redemption	91,715.0	121,656.7	92,495.2	162,745.1	213,953.0
Total capital expenditure	**260,780.5**	**311,536.7**	**313,663.5**	**436,439.5**	**613,595.2**
Total expenditure outlay	**786,451.7**	**952,699.0**	**1,014,085.3**	**1,238,957.2**	**1,542,880.7**

Source: Economic Survey 2014

Unfortunately the 2014/15 PBB does not provide a summary of the national government expenditure by economic classification, but does provide this for each Ministry, Department and Agency (MDA) or Vote. Calculation of the summary is possible although it would be quite laborious and cumbersome, since the accessible PBB Budget Estimates is in PDF, hence not machine readable. Notably these figures are not expected to be very different from the ones for 2013/14.

The government's fiscal policy stance is to build a strong revenue base and contain growth of expenditure, and in turn ensure sustainable public debt towards supporting rapid economic growth. On this basis, the IEA outlines a number of policy issues that parliament should note that may derail government's pursuit of its fiscal policy and growth objectives:
The question of how to improve efficiency of public spending and reduce wastages is quite critical. This is one of the public expenditure management issues that the government seeks to address. We point out policy issues to be considered in the 2014/15 budget, towards enhancing results and better outputs, as well as adding value for money in spending.

- **How to address absorptive capacity constraints in order to realize government targets and outputs:** A comparison of the budgeted and actual outturns of expenditure shows that absorption of recurrent expenditure in 2012/13 stood at 94% while that for development expenditure was relatively low at 66.2% against a performance benchmark of at least 80%. The reason for this low absorption rate was the persistent challenge of lengthy procurement processes and delays in disbursement of donor funds. For the first half of 2013/14, disbursements amounted to Ksh 585.6 billion out of gross estimates of 1.65 billion and a net estimate of Ksh 1.39 billion. In relation to this,

[4] Republic of Kenya (2014). Economic Survey, Kenya National Bureau of Statistics: Nairobi

it is only the health sector (85.1%); Agriculture, Rural and Urban Development (59.7%) and the Education sector that had received over 50% of the total net estimated budgets an indicator of absorption or uptake capacity. In particular by first half of 2013/14 the absorption rate for development funds was a meager 15.8% of the annual development budget against a mid-year target of 50%. This clearly denotes that low budget execution is still a major challenge and thus calls for parliament attention in the following two remedial areas:

- The National government needs to review the Public Procurement and Disposal Act 2005 with a view to addressing causes of delays, and bring these proposed amendments for parliament's debates
- There is need to strengthen spending units' capacity and incentive to integrate procurement into planning processes.
- Improve institutional frameworks and streamline use of financial performance information, in order to address delays in release of funds.

- **Undertake cautious austerity measures:** Despite improvement in revenue performance, data for the period 2009/10-2013/14 shows that on average, growth of expenditure at 18.7% outpaces revenue growth rate at 15.5%. As such it important that the National Government continues with the austerity measures, but the focus should not be on wholesale cuts in expenditure for goods and services deemed non – priority, but rather on curbing the menace of inflated pricing. It should be noted that austerity just for the sake of it, and if not well focused can be a drag to economic growth.

- **Growth of public wages:** Economic classification of expenditure shows that over the five-year period, compensation to employees has accounted for on average 40% of recurrent expenditure. Equally this expenditure on employees' compensation has grown nominally from 7.7% to 33.2% over the same period. This is evidence of government concern on public wage bill and its growth, and is what led to the recent national debate driven by the Salaries and Remuneration Commission (SRC) on the subject. Among the reasons documented for the growing public wage bill is salary adjustments for teachers and medical personnel, increase in the number of commissions (e.g. Staff of 9 commissioners including the chair and vice chairperson commands a total wage bill of Kshs. 144.46 million per annum, translating to a monthly per capita wage bill of Ksh 1.3 million) and remuneration for increasing county government staff. In pursuit of the roles anticipated in article 230 (4) of the Constitution, the Salaries and Remuneration Commission (SRC) has commenced work that is expected to result in a binding wages policy for the entire public sector, but also call for transparency around the real quantum of wages that is paid by the public sector. Further, we expect that the National government will outsource services for active identification of *ghost workers* and staff audit as a priority with published results, and to inform staff rationalization at the two levels of government as a way of cleaning up the payroll. The Auditor General has also always highlighted in audit reports, the lack of adherence to the existing policy on refunds of balances for allowances issued to facilitate travel as a control measures that need to be observed.

- **Operationalisation of PFM reforms:** The government has over the last decade undertaken a number of PFM reforms aimed at enhancing fiscal transparency and accountability. The Integrated Financial Management System (IFMIS) is one of the reforms intended to automate PFM processes and indeed streamline government financial management processes and procedures. Past challenges have led to IFMIS revamping in 2011 in a bid to pace up its implementation and roll out to all the ministries, department and agencies. Recently, IFMIS launched its strategic plan 2013-2018 and is set to roll out e-procurement from July 2014.
    - Amidst these positive developments, Parliament needs to note that the roll-out of IFMIS to some county governments is experiencing challenges due to distance and connectivity constraints. As such, they should put pressure and monitor its implementation and roll-out, especially to county governments as well as its integration into other agencies such as KRA and CBK as stated in the their strategic plan, to ensure its full functionality. The country is expected to realize overall results in financial controls, accountability and transparency in budgeting and reporting from IFMIS functionality. Equally IFMIS is also instrumental in partly addressing delays in release of funds to spending units.

2.2.1 Non-Discretionary Expenditure

Consolidated Fund Service (CFS) comprises mandatory payments or government commitments on which all money raised or received by the National Government is first charged on the Consolidated Fund. Public debt and pensions, at over 95% have over the years comprised the largest components of CFS. The other items are as indicated in the table 3 below.

Table 3: Trends in Consolidated Fund Services (CFS)

			Revised		Estimates		
Item	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**% age 2014/15 vs. 2013/14**
Public Debt payment	161.13	157.20	175.39	322.11	331.17	324.92	-1.89
Pensions	26.51	26.73	29.26	28.15	28.15	32.36	14.96
Salaries & Allowances	1.81	2.06	3.30	3.35	3.72	4.07	9.41
Miscellanous Service	1.26	0.06	0.06	0.13	0.13	0.13	0.00
Subscription to Int'l Orgs.	0.06	0.00	0.00	9.16	0.00	0.00	0.00
Guaranteed Debt	0.00	1.36	1.46	1.46	1.18	1.01	-14.41
Total	**190.78**	**187.41**	**209.47**	**364.36**	**364.35**	**362.49**	**-0.51**
Public debt + pension as % of CFS	**98.4**	**98.1**	**97.7**	**96.1**	**98.6**	98.6	
CFS as % Total Public Spending	18.8	18.2	17.9	23.7	23.2	20.4	

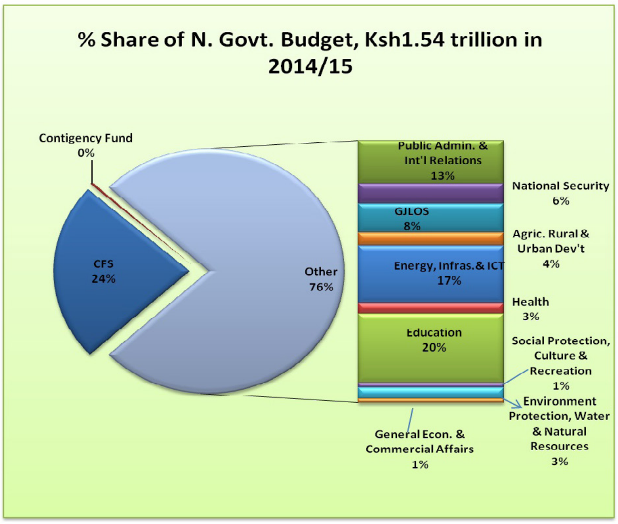
Source: Varoius Issues of Estimates of Recurrent Expenditure

CFS is estimated to reduce marginally by 0.5% from Ksh 364.4 billion in 2013/14 to Ksh 362.5 billion in 2014/15. Obviously, the key drivers to changes in CFS expenditure which has been increasing in absolute terms over the year but remained steady in the last two financial years is public debt and pension. In 2014/15, pension and salaries to constitution office holders increased by 15% and 9% respectively on the back of increase in the number of commissions, denoting the relationship between wage adjustments and pension growth. It is estimated that the CFS will command 20.4% of the entire budget of Ksh 1.77 trillion and 24% of the National Government budget. Changes in the CFS expenditure due to increase in debt repayment and in pensions cumulatively reduces the flexibility of the budget or funds available for spending in other areas. The implication of CFS calls upon strict and prudent management of public debt and pension liabilities through the public wage policy.

Budget estimates 2014/15 were not accompanied by a document explaining how the budget relates to fiscal responsibility principles as stipulated in Sec. 37(2) of the Public Finance Management Act, 2012. This notwithstanding, we did our own computation to check whether Budget 2014/15 was on target or not. Failure to observe fiscal responsibility has implications on meeting fical objectives of the country. One of the principles notes that over the medium term, a minimum of 30% of the national government budget shall be allocated to the development expenditure. Out of total expenditure including CFS of Ksh 1543.2billion, 30.8% is estimated to cater development expenditure up from 27.9% in 2013/14 estimates and thus on target. The latest (February 2014) medium term debt management strategy shows that Kenya's debt is sustainable and below the 50% threshold in terms of net presents value of GDP. Given the available information and limited time, we were not able check whether national government expenditure on compensation to employees is below 35% of tax revenue. Although we have the figure for tax revenue, as mentioned earlier, calculation of expenditure on compensation to employees without a summary table or MS excel readable data is very laborious.

3.0 SECTOR BUDGET ANALYSIS

The budget for the National Government is expected to increase by 22.8% from Ksh 1,256.5 billion in 2013/14 to Ksh 1,543.1 billion. Out of this expenditure outlay, 24% is set to cater for mandatory expenditure/CFS. In addition Ksh 5 billion comprising about 0.3% of the entire National Government budget is allocated for the Contingency Fund to cater for emergencies. The remaining 76% is proposed to be spent to the 10 MTEF sectors and in turn, the respective MDAs that fall within these sectors as highlighted in the bar of pie chart below.



Source: 2014/15 Programme Based Budget

3.1 Education Sector

The Education Sector comprises the *State Department of Education, the State Department of Science and Technology, the Teachers Service Commission (TSC) and their affiliated institutions.* The sector undertakes "to provide, promote and coordinate quality education and training; integration of Science, Technology and Innovation in sustainable socio- economic development processes ." Its overall goal is to increase access to education and training; improve quality and relevance of education, reduce inequality as well as exploit knowledge and skills in science, technology and innovation for global competitiveness.

Given the sector's vision and overall goal and in line with national priorities, it is no wonder that it is the sector that takes the largest share, 20% of the National Government budget with the exception of CFS. Indeed reports show that public investment in the sector has been increasing over the last decade. Specifically, the sector's budget is expected to increase from Ksh 298.2 billion in 2013/14 to Ksh 308.6 billion in 2014/15, representing a 3.5% nominal growth. The largest expenditure growth rate of 10.7% was posted by the Teachers Service Commission (TSC). Equally TSC takes the bulk of the sector's budget, 53.7% followed by the State Department of Education and the State Department of Science and Technology at 24.8% and 21.5% respectively.

The State Department for Education whose mission is to promote, co-ordinate quality education, training and research for empowerment of individuals is categorized into four programmes, namely: *Primary Education, Secondary Education, Quality Assurance and Standards and General Administration and Support Services.* About 87% of the Department's budget of Ksh 76.5 billion is targeted towards enhancing access to primary education through increased enrolment rates as well as increase transition rate to secondary education. It is noteworthy that there is a new sub-programme called ICT capacity Development, with a proposed allocation of Ksh 17.6 billion under the Primary Education Programme, with a higher allocation than FPE. This sub-programme is intended to train teachers in ICT, development of digital content and rolling out computer laboratories for class 4 to class 8 in all schools throughout the country.

University education at 84.4% is the largest component of the Department for Science and Technology budget of Ksh 66.5 billion and the balance is intended for the other tertiary institutions including Technical, Vocation Education and Training, Youth Training and Development and Research management and innovation. Some of the policy issues or questions that arise with regard to proposed budgetary allocations in this sector and realizing its objectives and goal are as follows:

- An assessment of education outcome indicators shows that Kenya has made significant progress in student enrolments rates at all levels of education, especially at primary level. Overall participation rates as measured by gross enrollment rate (GER) increased from 115.8% in 2012 to 119.6% in 2013 while the net enrollment rate (NER) increased marginally from 95.3% to 95.9% over the same period. However reports show geographical

[5] MTEF Education Sector Report 2014

disparities in ASALs and urban informal settlements, and this call for scale up of the proposed Ksh 2.3 billion for school health, nutrition and meals and Ksh 32.4 million for Alternative Provision of Basic Education sub-programme. This is critical in improving the low enrolment and retention rates in these areas.

- Further, there is need to strengthen the voucher system programme and provision of sanitary towels with improved targeting mechanisms and implementation, in order to ensure that the intended beneficiaries are reached.

- Although absorption rates in the largely recurrent oriented education sector (over 90%) is not a problem, there is need to note that from economic classification of expenditure, about 83% of capital expenditure is intended for acquisition of non-financial assets, including for the laptop project and the requisite infrastructure. Curiously a new sub-programme, ICT capacity building development is proposed and therefore it is important to establish whether there is already in place a structural and implementation plan, or whether it would have been more effective administratively to integrate this to a related existing sub-programme. Similarly because development expenditure is associated with low absorption due to a number of reasons, there is need to be aware of this and put mechanisms in place to ensure the integration of plans to procurement processes, as a way of curbing expected lengthy procurement processes.

- Employee's compensation through salaries and allowances of Ksh 164.5 billion is not only the largest component within TSC but also in the entire education sector budget. This amidst calls for increasing and recruitment of more teachers to lower PTR and the need to contain the growing public wage bill, requires other measures to enhance teacher utilization for better education outcomes. For instance, there is need to manage and curb teacher absenteeism through institutionalization of monthly teacher attendance data sheet via Education Management Information System (EMIS).

3.2 Food Security and Transforming Kenyan Agriculture

3.2.1 Agriculture

Agriculture remains the bedrock of the Kenyan economy. The sector contributes about 25% of GDP and about 75% of industrial raw inputs. In 2013/14, notable budget focus areas included scaling up of irrigable land through Ksh 3 billion for phase 1 of Galana, and allocation of Ksh 8.8 billion for other irrigation projects. To this effect, the Ministry commendably managed to set up irrigation and drainage structure with 55,000ha put under irrigation. A further seed capital of Ksh 2 billion was injected in the Agri-Business Fund towards improving farmers' access to credit. With half year 2013/14 absorption rate of 61% as well as inadequate rainfall , agricultural performance and growth rate declined from 4.2% in 2012 to 2.9% in 2013.

In 2014/2015 budget, the government objectives are largely similar to the previous year's, namely: to ensure food security, improve productivity and commercialize Kenyan agriculture with irrigation still the top priority. It is noteworthy that the State Department for Agriculture (SDA) account for about 50% of the Agriculture, Rural and Urban Development sector, with Livestock and Fisheries each accounting for 9% and 4% proportionate shares respectively. The balance of the sector's budget is dedicated to the Ministry of Lands, Housing and Urban Development.

Under the State Department for Agriculture with a budget of Ksh 29.3 billion, the two largest programmes are Crop Development and Management accounting for 44% of the Department's budget and 40% proposed for Irrigation and Drainage Infrastructure. In particular, the government plans to spend Ksh 9.5 billion for on-going irrigation projects countrywide including Ksh 3.5 billion to bring an additional 3,000 hectares under irrigation in Galana Ranch. The aim of this is to expand productive commercial farming. The other important target under the Irrigation Programme is Ksh 2.7 billion set aside for acquiring 1.8 million bags of cereals, in order to meet the strategic food reserve of 4 million bags of cereals. Focus has been given to small scale farming, with government allocating nearly Ksh 3.3 billion towards improving

[6] World Bank Kenya Economic Update December 2013 and Economic Survey 2013

small scale farming productivity and incomes under various initiatives including the Kenyan Agricultural Productivity and Agri-business project, the National Agriculture and Livestock Extension Program and Smallholder Horticulture Marketing programs. In addition, half a billion shillings has been allocated to improve small-scale dairy farming. Lack of inputs has been documented as a major factor impeding the growth of the agricultural productivity in Kenya. To address this, the government intends to subsidize the cost of fertilizer to Ksh. 2,800 for a 50 kilogram bag of fertilizer by importing nearly 90,000 metric tons of fertilizer during the 2014/2015 fiscal year at a cost of nearly Ksh 3 billion.

While the above measures are laudable, they elicit critical policy questions, as follows:

- One such question regards the input subsidy. There are reported equity concerns from farmers and reports suggesting geographical bias in targeting of this subsidy. Besides targeting should not only be evidence-driven but also transparent for accountability.

- There was indication in Budget 2013/14 that the Agribusiness Fund would be scaled in the medium term, but this is not clear in the 2014/15 proposals. Instead, a Seed and Fertilizer Fund of Ksh 3 billion is proposed to be created. It is important that Parliament seeks answers and evaluation report on the performance of the Agribusiness Fund, but also ensure that creation of Funds is subjected to a cost effectiveness test. Further, it is important to know what implementation mechanism will be adopted for operationalization of this Fund.

- With the onset of devolution, operations of the agriculture sector have changed significantly with a number of functions, largely service delivery oriented functions such as provision of extension service devolved to counties. As such, there is need to realign the Agricultural Sector Development Strategy 2010-2020 to this reality. Secondly, overall the policies in the agriculture sector should reflect elaborate mechanisms for consultation and collaboration between the two levels of government to facilitate smooth public service delivery.

The agricultural sector has a number of Semi-Autonomous Government Agencies (state corporations) including the two biggest spenders, the National Irrigation Board and Kenya Agricultural Research Institution (KARI). Economic classification shows that current transfers to the entire number of SAGAs in the sector account for 48% of SDA recurrent expenditure. Capital grants to these SAGAs on the other hand account 65% of total capital expenditure. As such Parliament should seek to ensure that funds allocation to these SAGAs is reflective of the rationalized roles and functions they play. Of importance though is, the call for weaning off of transfer to the commercially viable SAGAs, but also recovery of lost funds for SAGAs such as Pyrethrum Board of Kenya that the government proposes to revamp.

3.2.2 Land Reforms

As Kenya is a predominantly agro-based economy, land is arguably one of the important natural resources. In this respect, Kenya has adopted critical land reforms aimed at improving land governance and reducing land related conflicts.

However, the implementation of land reforms faces risks due to lack of clarity of roles between the Ministry of Lands, Housing and Urban Development and the National Land Commission, and the ensuing confusion thereof. For example, the Estimates show that the National Land Commission and the parent ministry share a similar output of issuing title deeds. The National Land Commission is targeting to issue 1.8 million title deeds during the fiscal year 2014/2015 while Ministry is planning to issue 750,000 titles. It is necessary that this matter of who is in charge and of what, is addressed urgently to forestall disruption of land reforms.

A key target during the 2014/2015 for land reforms is the enactment of 4 land legislations. However, the targeted legislations for enactment have not been named and identified, making it hard for monitoring purposes.

3.2.3 Housing

Kenya is on the verge of urban housing crisis as the country rapidly urbanizes. At present, the Ministry of Land, Housing and Urban Development estimates there is annual deficit of 150,000 units and a backlog of nearly 2 million units. Supply of affordable housing has been a government priority since independence. However the government has failed to provide decent housing, particularly for the urban residents.

In the recent past, the government has started to address the housing challenges particularly in the slums, through slum upgrading program. Although Nairobi is home to the largest informal settlement in Kenya and hence the concentration of this slum upgrading programme, information and reports on the actual roll-out to other major urban areas is crucial for public knowledge and accountability.

The National Housing Policy of 2004 set up a Housing Fund whose goal is to reduce the cost of housing finance. However, the Fund has yet to be set up ten years later. High cost of financing is one major reason for the high cost of housing in Kenya. It is imperative that this fund is set up and explanation to how this will be done is given.

3.3 Investing in Access to Health-care

The The Constitution states that every Kenyan has the right to affordable health care. In this case, the government is therefore mandated to take legislative, policy and budgetary measures to progressively ensure that these rights are realized.

The health sector mandate is to promote equitable and accessible health care to Kenyans. To this effect, the government has initiated a number of policies and strategies towards meeting this mandate. Some progress has been made towards addressing equity challenge; including reducing user fees at primary health care facilities, roll out of free maternity healthcare programme in all public facilities and developing a health financing strategy.

The proposed allocation for the health sector in 2014/15 is Ksh 47.4 billion up from Ksh 46.8 billion in 2013/2014. A comparison of these allocations to the two previous financial years shows a significant reduction in allocations on account of funds allocated to cater for devolved health care functions. Although budgetary allocation to the sector has maintained a steady rise nominally, its share of government's total budget has remained relatively constant at 4.5%, far below the Abuja targets of 15% . On the basis of select key indicators, the sector's performance in the recent past has been mixed, posting reduced HIV prevalence rates, reduced infant mortality rates but high maternal mortality rates. Further, although incidences of malaria has gone down, this disease together with other respiratory diseases continue to be the leading causes of morbidity accounting for 54.2% of the total diseases causing morbidity in the period 2009-2013.

For efficient and effective health service delivery, budget 2014/15 and in the medium term focuses on scaling up interventions aimed at enhancing the equitability of access to health care and training and building capacity of health sector personnel. The budget proposes to set aside Ksh 4 billion for furtherance of free maternal health care, Ksh 16 billion for the two tertiary hospital, Ksh 300 million for upgrading facilities in slums and Ksh 2.4 billion for a medical personnel internship programme, to mention but a few. Commendable as the above proposals may be, the following questions arise:

- Curative Health Services Programme is expected to take Ksh 18.97 billion, about 40% of the Ministry of Health's budget in 2014/15. This programme is mandated to deliver medical care and improve lives through responding to health care needs of the citizens. The Programme among other things oversees the operations of national referral hospitals, provision of specialist services and free primary healthcare through Rural Health Centre and Dispensaries. Clearly, construction and operation of Rural Health Centre and Dispensaries is a function of County government health facilities. As a result, this presents a conflict as this is a function delineated for county governments. Therefore Parliament should seek clarification on the rationale for allocating the ministry funds for this function.

- There are certain functions including procurement of drugs and immunization that are not clearly specified in terms of who between the national government and the county government is in charge of delivering these services. As a result of this confusion or lack of clarity, services may be disrupted due to lack of budgetary allocation. On the flip side, budgetary allocations for health centers and dispensaries to the Ministry of Health despite this being a county function may lead to duplication.

- Generally, there is need to strengthen partnership mechanisms between the two levels of government in order to address challenges of staffing,

[7] MTEF Health Sector Report 2014

secondment and other human resource related issues, including having in place a functional payroll system.

- It is important that Parliament shifts focus on health budget, to allow allocation of more resources to go to program areas and lower level health facilities. A benefit incidence analysis study conducted by IEA-Kenya, shows that it is only the rich who benefit from public spending on tertiary health facilities and hence the need to channel more funding to lower level facilities that are frequented by the poor and vulnerable Kenyans.

- Universal coverage is unlikely to be achieved unless the country adopts a systemic approach to health financing reforms. Such an approach should be informed by the wider health system goals of equity and efficiency. Besides, the WHO recommends spending in the health sector to target provision of a minimum health package for their citizens.

Cushioning the Poor and the Vulnerable

The social Protection and Recreation sector report notes creating an efficient, motivated and healthy human resource base, while promoting decent work, fundamental rights at work, adequate income from work, representation and social security as its priority areas. The sector's focus thus, is to improve livelihood of vulnerable groups specifically the orphans and vulnerable children, the elderly, and persons with disability, through National Safety Net Programme that integrate the various cash transfers.

Budgetary allocation to the Ministry of Sports, Culture and Arts recurrent expenditure decreased by 7.6% while the development expenditure recorded an increase in allocation of 100.9%, but overall allocation increased by a margin of 14.2%.This is consistent with the sector-set priorities of increasing allocations toward development expenditure to enhance the requisite infrastructure that will have a major impact on people's welfare.

The Social Protection and Recreation sector budget for 2014/2015 relative to 2013/2014, shows improvement toward programme based budgeting for the sector. Some drawback for the last financial year in terms of making the output and timeliness clearer, were noted in the sector. However, more information would be required in the sub programme, detailing the various components allocation in both the programme and economic classification of expenditure level. For example, the programme-based budget summary released by Treasury indicates that the allocation to orphans and vulnerable children is Ksh 7.2 billion while the allocation to elderly people's amounts to Kshs 4.9 billion. The programme-based budget estimates however, give a global figure with clearly stated targets at the sub programme level.

Table 4: Allocations to the marginalized groups in the sector 2014/15 (Ksh.)

	Recurrent	Development	Total
Social Welfare	248,175,271	0	248,175,271
Vocational rehabilitation	194,943,140	33,000,000	227,943,140
Rehabilitation School	234,165,805	25,000,000	259,165,805
Children's Remand Homes	123,847,610	15,000,000	138,847,610
Street children Rehabilitation Centre	0	15,000,000	15,000,000
Children's Services	1,178,274,577	478,827,500	1,657,102,077
Cash Transfer to Older Persons	2,452,935,940	2,892,000,000	5,344,935,940
Cash Transfer to Orphans and Vulnerable	825,330,220	6,497,400,386	7,322,730,606
Cash Transfer to Persons with Severe Disabilities	770,000,000	0	770,000,000
Urban Food Subsidy Cash Transfer	334,550,000	32,100,038	366,650,038

Source: 2014/15 Programme Based Budget

The allocation for cash transfers has increased over time, due to increased number of targeted households and increase in the number of neglected and/or abandoned elderly members of the society. The sector has set clear policies across board, which offers social protection to the needy in the community. However, from the above table, it's very clear that development expenditure was significantly huge for cash transfer to the elder persons and transfers to orphans, relative to the other areas. There is therefore need to articulate the huge allocation of development expenditure on transfer to elderly person, to verify if there is any intention to construct any infrastructure for the elderly home. This issue is not however highlighted in the sector report.

Whereas there has been an upward improvement in the allocation of the cash transfers by the national government and increase in beneficiaries and capitation, there has being no report on the previous year's performance from the sector. Provision of a report would provide an assessment of the required infrastructure to efficiently monitor the progress so far made, in realization of sector programme on social development.

3.4 Investing in Infrastructure Development for a competitive economy

This sector is recognized by Vision 2030 as an enabler of sustained development of the economy. Related to this, the sector seeks to provide efficient, affordable and reliable infrastructure for sustainable economic growth and development through construction, modernization, rehabilitation and effective management of all infrastructure facilities.

This sector has recorded mixed results in the last five years. Contribution of the transport and communication sector to GDP growth was between 9.9 per cent and 9.1 per cent in the period 2009 and 2013 while the contribution of the construction sector was 4.1 per cent and 4.4 per cent respectively over the same period. Unlike these two sectors, performance of electricity and water supply was on average less than 2% during the same period (Economic Survey 2014). Domestic demand for electricity recorded a growth of 8 per cent to 6,928.1 million KWh 2013 (Economic Survey 2014). As far as rural electrification is concerned the number of customers connected rose by 18.5% to stand at 453,544 customers as at the end of June 2013 up from 382,631 customers as at June 2012. On the ICT front, the main achievement has been on mainstreaming e-commerce in the economy including automation of access to government services through the recently established one-stop shop called HUDUMA Centers and on-going digitization of government records, for instance.

Budgetary allocation to the Energy, Infrastructure and ICT sector has evidently been growing. The allocation to the sector increased nominally by 19.7% from Ksh 255.9 billion in 2014/15 to Ksh213.7 billion in 2013/14, in a bid to improve competitiveness and accelerate growth. The largest spender in the sector is the State Department of Infrastructure with a 48.3% share of the sector's budget followed by the Ministry of Energy and Petroleum budget share of 30.1%. Just over 90% of the State Department of Infrastructure budget is set aside for construction of roads and bridges, 1/5 of which is for maintenance of roads. On transport and logistics, the State Department of Transport has earmarked part of its budget for expansion of JKIA commuter rail (Ksh 3.5 billion) and Ksh 19.4 billion for construction of Standard Gauge Rail. Further there are additional allocation to various flagship projects including Ksh 3.5 billion for enhancing security at JKIA; Ksh 1.65 billion for upgrading 2 airports and construction of 3 new airports, and projects on enhancing capacity and safety of the port. To meet the energy demands of a growing economy, a total of Ksh 21.9 billion is set aside for geothermal generation with a target of adding 210 MW to the national grid. Further about Ksh 10.6 billion is targeted for Rural Electrification Programme with additional allocations for other alternative sources of energy.

Despite increasing budgetary allocation, the state of affairs show that Kenya's global competitiveness is still weak, attributed to the high cost of doing business and high cost of power and overall infrastructure deficit. These are issues that should be considered for better budget outputs and outcomes on enhancing a competitive business environment:

- This sector has a history of low budget execution. Reports from the World Bank Kenya Economic Update report showed that as at end of June 2013, it posted the lowest execution rate of 63% compared to the other MTEF sectors. Although its budgetary allocation has been increasing, project completion and in turn realization of set targets will be undermined by under spending. As such, there is need for concerted efforts by respective ministries to improve harmonization of work plans with procurement plans and to strengthen reporting mechanism among other measures, towards enhancing project cycle management.

- To improve value for money, there is need to align relevant policies in transport, communication and energy sectors to the assigned functions for the two level of government, and in turn generally strengthen the institutional framework for infrastructure development. For instance, the functions of the National Government and County Government are well spelt out in the Fourth Schedule of the Constitution, where national trunk roads are the responsibility of the National Government while county roads are for counties. To avoid the recent contestations between the national government and governors there is need for harmonization and coordination, to ensure that there is consensus and clear understanding of who is in charge of what roads and for consequent financing. On the energy sector, coordination by the two levels of government on provision of electricity through expenditure on the Equalizations Fund is imperative.

What is holding the roll-out of PPPs as an alternative financing of infrastructure projects? Infrastructure development is an expensive affair that exerts a lot of fiscal pressure on the economy. This is the reason the government has gone to great lengths to ensure that we have a robust legal and regulatory on PPP for implementation in order to not only free public funds for other competing needs, but to also accelerate infrastructure development. Therefore parliament should interrogate why there seems to be low attraction on this front.

3.5 Governance, Justice, Law and Order Sector (GJLOS) Sector Analysis.

The sector plays a significant role in providing a stable environment for political, social and economic development of the country, and the prevention of corruption and economic crimes. The sector aims to facilitate the implementation of the Constitution and to improve access to judicial and legal services for all Kenyans. The sector further seeks to enhance the national security and social economic development by maintaining a comprehensive population database, proper migration management and timely registration and issuance of secure identification.

In 2014/15 the sector was allocated 8.4% of the total national government expenditure outlay. This is a marginal increase relative to 2013/2014 which had an allocation of 7.91% of the total national government expenditure outlay. State Department for Interior got the highest allocation in the sub sector with 5.4% of the sector allocation with National Registration of Persons Bureau allocated Ksh 739 million. The sub sector on National Gender and Equality Commission and Independent Police Oversight Authority received an allocation of 0.01% of the sub sector allocation and the spending units are on compensation to employees and use of goods and services. One of the reforms agendas in the GJLOS is the establishment, and allocation to the Independent Police Oversight Authority of Ksh 205 million with the sub sector having requested Ksh154 million.This is a positive move, given the security threat the county is currently experiencing. However, the National Gender and Equality Commission sub sector had requested for Ksh 194 million and the allocation for 2014/2014 stood at Ksh189 Million. A review of the allocation is necessary given the gain so far realized in promoting gender equality.

Key policy question that should be focused on sector are as follows in the sector;

- **Low absorption of funds for the financial year 2013/2014:** The cumulative recurrent expenditure for the GJLOS sector during the first half of the FY2013/2014 sums up to Kshs 32.1 billion , an absorption rate of 32.4 per cent of the total recurrent budget, where The office of the Director of Public Prosecution sub-sector had the lowest absorption rate while the cumulative development expenditure for the GJLOS sector during the first half of 2013/2014 totalled to Kshs. 8.4 billion , an absorption rate of 8.6 per cent of the total recurrent budget. The increase in allocation for the finacial year 2014/2015 by 32% raises concerns on what measures the sector will put in place to enhance the absorption capacity of the development expenditure especially the subsector on ODPP.

- **Performamnce of 2013/14 programmes and priorities as per the 2014/15 GJLOS sector report**

State Department for Interior and Coordination of National Government

a. Last financial year, the policing services programme attributed the lack of implementation of installing CCTV in major cities due to inadequate funds. In the FY 2014/15 the funding level of the programme is almost 30 billion less than what the ODPP had initially required during the sector consultations. In addition, the development budget for acquisition of non-financial budget has marginally increased by 4% from the current financial year. The installation of 100 CCTV will prove a challenge and a revision would be necessary.

b. Planning, Administration and field services programme attributed the lack of construction and furbishing of sub-county headquarters to lack of funds. Although the increase from Kshs. 885.5 million to Kshs. 7,354 million this year, implies a major increase in staff numbers for decentralised staff. The construction of sub county headquarters is no longer a key output of this programme in the FY 2014/15. There is need to continue to decentralize its services to enable the public access to administrative services.

c. Offender services under the correctional Services programme attributed the shortages in providing prisoners with blankets, shoes and uniforms to insufficient funding. This financial year, this is no longer an output of the programme. These are basic human rights and there is need to reallocate funds towards this programme.

Office of the Attorney General and Department of Justice

a. The deliverables of the Non-State Actors Support Programme (NSA-NET) / Bridging Divides through Accountable Governance (BDAG) Programme where Promotion of good governance across the country by 12 Non State Actors (who were working with another 22 partners) through various initiatives in the country was achieved and discontinued for this financial year. There remains a need for non-state actors to play an instrumental role in assisting the AG&DJ operationalise social accountability mechanisms.

b. Challenges experienced in delivery of outputs due to high staff turnover have not been addressed this financial year. Across the board, compensation to employees has marginally increased from Kshs. 890.1 million to Kshs. 910.5 million.

c. Weak inter-agency collaboration, MDAs and OAG & DOJ, on matters of civil litigation thereby Government loosing cases with material financial implications. Over the years, the national government has lost billions in civil litigations with only recently having to pay out Kshs. 1.4 billion to the Anglo leasing scandal. This challenge has not been addressed in any of the outputs this financial year. Inter-agency cooperation inevitably affects the efficient delivery of services by the entire justice system, which works as a chain.

Ethics and Anti-Corruption Commission (EACC)

a. Sector challenges of understaffing have not been addressed as recruitment of staff is not an output of the programme this financial year. In addition, it is difficult to ascertain from the figures, whether the programme has budgeted for additional, staff because the budget line under "compensation to employees" is unclear.

b. There is lack of clarity and cohesion in the books of estimates. Regional expansion, a priority of the sector although budgeted for in the input development budget, has not been addressed in the outputs of the programme.

Office of the Director of Public Prosecutions (ODPP)

a. ODPP's ability to attract and retain staff has been a challenge due to unattractive remuneration staff package. The office has increased compensation to employees by 62 percent from last financial year, partly attributed to the interim prosecution allowance. However it is not clear if this adequate to address the challenge of understaffing, where recruitment of staff is a priority of the sector, but under the current programme, it is not an output of the programme in the financial year 2014/2015.

b. The funding level is Ksh 5.87 billion less than what the ODPP had initially required during the sector consultations. In addition the sub-sector records the lowest absorption rates across the GJLOS[11].

- How will the less than required budget affect the ministry's execution of its programmes and objectives?
- Are there any measures to bridge this gap?
- Are there any measures to better utilize funds?
- What are the cost-cutting measures the ministry will/has implemented in light of the strained resources?

Commission for the Implementation of the Constitution (CIC)

a. In 2013/14, about 85 percent of the laws reviewed by the CIC did not follow due process, due to delays in submission of Bills by the implementing agencies. Although a priority in the legislative development programme, the coordination of implementing agencies and among parties involved is not an output the programme.

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[8] Does not include Judiciary and Judiciary Services Commission estimates

[9] Does not include Judiciary and Judiciary Services Commission estimates

[10] Merged because although programmes from last year can be separated, administration could not

3.6 Investing in National Security and Prosperity for all

Under the Constitution of Kenya 2010, the responsibility of protecting Kenya against internal and external threats to its territorial integrity and sovereignty, its people, their rights, freedoms, property, stability and prosperity, and other national interest is vested in the national security organs. These organs are the Kenya Defence Forces (KDF) and the National Intelligence Services (NIS) under the National Security Sector. The National Police Service (NPS) is the third organ, but it falls under GJLOS which is covered in the section above.

The National Security Sector is currently facing a number of challenges, which in effect undermines the capacity of the sector to effectively deliver on its mandate. Some of these challenges include emerging security threats such as terrorism, sporadic attacks in the counties, lack of modern equipments; lack of adequate personnel to effectively respond to the needs of the sector besides resource constraints, which adversely affects the implementation of the sector's planned programmes.

As shown in Annexe 1 there was marginal increase, 1.4% in the budgetary allocation for the National Security sector from Ksh 89.4 Billion in 2013/14 to Ksh 90.7 Billion in 2014/2015. This however, is still inadequate, considering the challenges that are affecting the sector.

It is important to note that the bigger share of the allocation for the sector is taken up by the Ministry of Defence, 80.78% while The National Intelligence Service that is responsible for crime research and provision of intelligence information takes up the remaining 19.12% of the total allocation for the sector. It is also evident that all the allocation for the sector is financing recurrent expenditure. Majority of spending in both the Ministry of Defence and the NIS is set aside for current transfers to government agencies.

In order to enhance security for Investment, Growth and Employment, the government has, in the fiscal year 2014/15, proposed the following allocations:

i. Ksh. **3.3 billion** for enhanced security operations compared to Ksh 4.5 billion in the previous year. This upward adjustment is commendable, although there is still need for additional funding in order to effectively enhance security operations.
ii. Kshs. 3.5 billion has been set aside for procurement of modern security equipments; a decline from previous year's allocation of Ksh 4.0 billion. This reduction in budgetary allocation is worrying because in light of the emerging security challenges, one would expect an increase in the vote.
iii. Kshs. 2.9 billion has been proposed for the recruitment of 10,000 police officers to address the challenges of inadequate personnel within the service. In as much as this is laudable, it is still not sufficient and hence more officer need to be recruited.
iv. In addition, there is an increased allocation for the financing of new and serviced police vehicles from Ksh 3.0 billion in 2013/14 to Ksh 6.7 billion in 2014/15. This is a significant increase, which will enhance police patrols among others.
v. Kshs. 6.1 billion has been allocated to the African Mission in Somalia (AMISOM) besides proposing allocations for leasing helicopters for boosting surveillance within its borders. This will go a long way in addressing the challenges of increased cases of terror attacks and reinforce the government's engagement in Somalia.

It is is however worth noting that there is no allocation made towards the acquisition of modern security equipments and technology for addressing the emerging new forms of crime. There is also no allocation for crime research and investigation in this year's estimates while in the previous year, the government allocated Ksh 1.5 billion towards the same.

In an attempt to address the challenges of internal security within the wider sector, the government launched the *"Nyumba Kumi"* Initiative', which aims at improving security in the neighbourhood. However, in both the fiscal year 2013/2014 and 2014/2015, this initiative has not received any allocation and besides, there is no policy or legislation supporting the implementation of the same.

In order to ensure a secure and sustainable living and working environment, there is need for more allocation and further re-allocation of the national security budget with a view of modernising the national defense, and addressing the welfare of the officers.

[11] COB, half year budget implementation review FY 2013/14

Focus therefore should be on the overall personnel productivity in terms of crime detection, response and management. This can be done by investing in meaningful security reforms with respect to policies and practices that are geared towards assisting the sector to respond more effectively to the challenges currently facing it. Additional funding should also be allocated for decentralizing the National Intelligence Services, as this will help in strengthening its capacity to collect, collate and act on the security intelligence from the grass-roots, thereby improving security operations.

Annex 1: Summary of Estimates 2014/2015 (Kshs. Million)

		Recurrent		Development		Total					
Vote	Details of Vote	Revised Gross Expend. 2013/2014	Gross Estimates 2014/2015	Revised Gross Expend. 2013/2014	Gross Estimates 2014/2015	Revised Gross Expend. 2013/2014	Gross Estimates 2014/2015	% change of Total Expend. from 13/14 to 14/15	% share of Executive Budget 2014/15	share of MDA as a % of total sector budget	share of Devt. Expend. to total MDA Expend. for 2014/15
	Public Admin. & Int'l Relations	**81,973.84**	**97,881.08**	**103,085.30**	**96,987.18**	**170,730.63**	**194,868.26**	**14.1**	**12.6**	**100**	
101	The Presidency	4,703.84	3,463.02	1,540.52	786.50	6,244.36	4,249.52	-31.9	0.3	2.2	18.5
135	State Department for Planning	16,565.49	15,260.07	58,635.27	51,084.33	60,872.26	66,344.40	9.0	4.3	34.0	77.0
136	State Department for Devolution	0.00	1,786.02	0.00	5,097.13	0.00	6,883.15		0.4	3.5	74.1
105	Min. of Foreign Affairs and International Trade	11,027.26	10,893.84	341.51	1,560.00	11,368.77	12,453.84	9.5	0.8	6.4	12.5
107	The National Treasury	27,482.41	39,616.00	39,375.99	33,754.21	66,858.40	73,370.21	9.7	4.8	37.7	46.0
206	The Commission on Revenue Allocation	269.64	264.82	0.00	0.00	269.64	264.82	-1.8	0.0	0.1	0.0
207	Public Service Commission	677.74	882.20	232.00	225.00	909.74	1,107.20	21.7	0.1	0.6	20.3
208	Salaries and Remuneration Commission	692.32	340.65	0.00	0.00	692.32	340.65	-50.8	0.0	0.2	0.0
211	Auditor-General	2,560.84	2,311.02	525.00	405.00	3,085.84	2,716.02	-12.0	0.2	1.4	14.9
212	Controller of Budget	425.30	415.96	0.00	0.00	425.30	415.96	-2.2	0.0	0.2	0.0
213	The Commission on Administrative Justice	0.00	272.49	0.00	0.00	0.00	272.49		0.0	0.1	0.0
	Parliament Service Commission (PSC)	17,569.00	22,375.00	2,435.00	4,075.00	20,004.00	26,450.00	32.2	1.7	13.6	15.4
	National Security	**89,444.00**	**90,721.00**	**0.00**	**0.00**	**89,444.00**	**90,721.00**	**1.4**	**5.9**	**100.0**	**0.0**
104	Ministry of Defence	74,577.00	73,281.00	0.00	0.00	74,577.00	73,281.00	-1.7	4.7	80.8	0.0
123	National Intelligence Services	14,867.00	17,440.00	0.00	0.00	14,867.00	17,440.00	17.3	1.1	19.2	0.0
	GJLOS	**105,104.84**	**117,399.27**	**11,530.47**	**12,928.39**	**116,635.31**	**130,327.66**	**11.7**	**8.4**	**100**	**9.9**
133	State Department for Interior	94,289.47	78,891.36	6,441.73	-4,698.02	100,731.20	83,589.38	-17.0	5.4	64.1	5.6
134	State Department for Coordination of National Government	0.00	15,411.37	0.00	657.12	0.00	16,068.49		1.0	12.3	4.1
120	Office of The Attorney General and Department of Justice	2,199.80	2,779.49	746.67	534.18	2,946.47	3,313.66	12.5	0.2	2.5	16.1

		Recurrent		Development		Total					
Vote	Details of Vote	Revised Gross Expend. 2013/2014	Gross Estimates 2014/2015	Revised Gross Expend. 2013/2014	Gross Estimates 2014/2015	Revised Gross Expend. 2013/2014	Gross Estimates 2014/2015	% change of Total Expend. from 13/14 to 14/15	% share of Executive Budget 2014/15	Share of MDA as a % of total sector budget	Share of Devt. Expend. to total MDA Expend. for 2014/15
122	Ethics and Anti-corruption Commission	1,245.07	1,546.00	0.00	277.60	1,245.07	1,823.60	46.5	0.1	1.4	15.2
124	Office of the Director of Public Prosecution	1,388.45	1,732.48	87.00	119.30	1,475.45	1,851.78	25.5	0.1	1.4	6.4
125	Commission for the Implementation of the Constitution	4222.53	306.00	0.00	0.00	422.53	306.00	-27.6	0.0	0.2	0.0
126	Registrar of Political Parties	324.73	466.96	0.00	0.00	324.73	466.96	43.8	0.0	0.4	0.0
127	Wine Protection Agency	168.81	169.68		0.00	168.81	169.68	0.5	0.0	0.1	0.0
210	National Police Service Commission	413.00	278.12	0.00	0.00	413.00	278.12	-32.7	0.0	0.2	0.0
201	Kenya National Commission on Human Rights	263.77	256.34	0.00	0.00	263.77	256.34	-2.8	0.0	0.2	0.0
203	Independent Electoral and Boundaries Commission	3,953.41	3,000.10	206.67	91.28	4,160.07	3,091.38	-25.7	0.2	2.4	3.0
214	National Gender and Equality Commission	0.00	189.25	0.00	0.00	0.00	189.25		0.0	0.1	0.0
215	Independent Police Oversight Commission	0.00	205.12	0.00	0.00	0.00	205.12		0.0	0.2	0.0
205	Judicial Service Commission	435.80	12,167.00	4,048.40	6,550.90	4,484.20	18,717.90	317.4	1.2	14.4	35.0
	Education	**266,927.98**	**273,379.71**	**31,230.33**	**35,214.45**	**298,158.32**	**308,594.15**	**3.5**	**20.0**	**100**	**11.4**
139	State Department for Education	101,188.95	54,118.03	31,230.33	22,381.60	132,419.28	76,499.09	-42.2	5.0	24.8	29.3
140	State Department for Science and Technology	0.00	53,782.69	0.00	12,698.39	0.00	66,481.08		4.3	21.5	19.1
209	Teachers Service Commission	165,739.04	165,478.98	0.00	135.00	165,739.04	165,613.98	-0.1	10.7	53.7	0.1
	Health	**22,622.34**	**26,311.25**	**24,132.25**	**21,051.10**	**46,754.59**	**47,362.26**	**1.3**	**3.1**	**100**	**44.4**
108	Ministry of Health	22,622.34	26,311.25	24,132.25	21,051.10	46,754.59	47,362.26	1.3	3.1	100	44.4
	Energy, Infrastructure and ICT	**36,766.41**	**35,660.49**	**176,957.70**	**220,233.79**	**213,724.12**	**255,894.28**	**19.7**	**16.6**	**100**	**86.1**
143	State Department for Infrastructure	32,076.75	25,804.71	92,922.81	97,728.82	124,999.56	123,533.53	-1.2	8.0	48.3	79.1
144	State Department for Transport	0.00	5,762.70	0.00	39,797.25	0.00	45,559.95		3.0	17.8	87.4
112	Min. of Information, Communication and Technology	2,334.87	2,088.75	8,765.33	7,790.61	11,100.19	9,879.36	-11.0	0.6	3.9	78.9
115	Min. of Energy and Petroleum	2,354.80	2,004.34	75,269.57	74,917.11	77,624.37	76,921.44	-0.9	5.0	30.1	97.4

		Recurrent		Development		Total					
Vote	Details of Vote	Revised Gross Expend. 2013/14	Gross Estimates 2014/15	Revised Gross Expend. 2013/2014	Gross Estimates 2014/2015	Revised Gross Expend. 2013/14	Gross Estimates 2014/2015	% change of Total Expend. from 13/14 to 14/15	% share of Executive Budget 2014/15	Share of MDA as a % of total sector budget	Share of Devt. Expend. to total MDA Expend. for 2014/15
	Environment, Protection of Water and Natural Resources	**14,215.43**	**14,074.00**	**45,012.69**	**35,315.31**	**59,228.12**	**49,389.31**	**-16.6**	**3.2**	**100**	**71.5**
119	Ministry of Mining	727.07	722.23	776.91	1,342.50	1,503.98	2,064.73	37.3	0.1	4.2	65.0
145	State Department for Environment and Natural Resources	13,488.36	9,110.22	44,235.78	7,934.92	57,724.13	17,045.13	-70.5	1.1	34.5	46.6
146	State Department for Water and Regional Authorities	0.00	4,241.55	0.00	26,037.90	0.00	30,279.45		2.0	61.3	86.0
	Agriculture, Rural and Urban Development	**17,216.49**	**15,389.44**	**47,421.31**	**43,960.47**	**64,637.80**	**59,349.91**	**-8.2**	**3.8**	**100**	**74.1**
152	State Department for Agriculture	12,604.37	7,905.00	28,815.36	21,408.18	41,419.74	29,313.17	-29.2	1.9	49.4	73.0
153	Department for Livestock	0.00	1,838.43	0.00	3,695.56	0.00	5,533.99		0.4	9.3	66.8
154	State Department for Fisheries	0.00	971.41	0.00	1,162.52	0.00	2,133.94		0.1	3.6	54.5
111	Min. of Land,Housing and Urban Development	4,006.02	4,140.26	18,605.95	17,576.21	22,611.98	21,716.47	-4.0	1.4	36.6	80.9
202	National Land Commission	606.09	534.34	0.00	118.00	606.09	652.34	7.6	0.0	1.1	18.1
	Social Protection, Culture and Recreation	**11,189.15**	**11,151.88**	**9,020.27**	**12,729.95**	**20,209.43**	**23,881.83**	**18.2**	**1.5**	**100.0**	**53.3**
113	Min. of Sports, Culture and Arts	3,275.25	2,504.45	946.43	1,367.99	4,221.69	3,872.44	-8.3	0.3	16.2	35.3
114	Min. of Labour, Social security and services	7,913.90	8,647.42	8,073.84	11,361.96	15,987.74	20,009.39	25.2	1.3	83.8	56.8
	General Economic and Commercial Affairs	**7,627.91**	**6,653.63**	**4,453.13**	**8,594.03**	**12,081.04**	**15,247.66**	**26.2**	**1.0**	**100**	**56.4**
117	Min. of Industrialization and Enterprise Development	3,180.25	2,283.72	3,552.97	6,944.63	6,733.23	9,228.35	37.1	0.6	60.5	75.3
156	State Department for East African Affairs	4,447.66	1,618.60	900.15	65.00	5,347.82	1,683.60	-68.5	0.1	11.0	3.9
157	State Department for Commerce and Tourism	0.00	2,751.31	0.00	1,584.40	0.00	4,335.71		0.3	28.4	36.5
	Total Discretionary Expenditure	**653,088.41**	**688,621.74**	**452,843.45**	**487,014.59**	**1,105,931.86**	**1,175,636.32**	**6.3**	**76.2**		**10,625.89**
	Contigency Fund	**5,000.00**	**5,000.00**			**5,000.00**	**5,000.00**	**0.0**	**0.3**		
	Add Consolidated Fund Services (CFS)	**364,335.54**	**362,448.21**			**364,335.54**	**362,448.21**	**-0.5**	**23.5**		

Vote	Details of Vote	Recurrent		Development		Total		% change of Total Expend. from 13/14 to 14/15	% share of Executive Budget 2014/15	Share of MDA as a % of total sector budget	Share of Devt. Expend. to total MDA Expend. for 2014/15
		Revised Gross Expend. 2013/14	Gross Estimates 2014/15	Revised Gross Expend. 2013/2014	Gross Estimates 2014/2015	Revised Gross Expend. 2013/14	Gross Estimates 2014/2015				
	Total Nat. Govt. Expenditure outlay	**1,022,423.95**	**1,056,069.95**			**1,475,267.40**	**1,543,084.54**	**4.6**	**100.0**		
	Equalisation Fund	**3,400.00**	**3,400.00**			**3,400.00**	**3,400.00**	**0.0**			**1,688,667.40**
	Transfer to counties	**210,00**	**226,700**			**210,000**	**226,700**	**8.0**			
	TOTAL EXPENDITURE OUTLAY	**1,235,823.95**	**1,286,169.95**	**279,191.55**	**487,014.59**	**1,688,667.40**	**1,773,184.54**	**5.0**			

Source: Printed Estimates of Expenditure 2013/14 and 2014/15 and own calculations

Annex 2: Proportionate Shares in the Economic Classification of National Government Expenditure 2009/10 - 2013/14 (%)

Items	2009/10	2010/11	2011/12	2012/13	2013/14*
Compensation of employees	42.3	37.3	35.8	34.8	40.0
Use of Goods and Services	15.7	16.0	15.3	14.0	17.5
Subsidies	0.0	0.0	0.0	0.0	0.0
Interest on debt repayment	10.6	10.7	13.6	11.6	13.6
Grants	25.8	31.9	30.4	35.4	23.3
Social Benefits	5.3	4.0	4.6	3.6	4.3
Other Expenses	0.3	0.1	0.3	0.6	1.3
Total Current Expenditure	**100**	**100**	**100**	**100**	**100**
Capital grants (Tranfers)	18.6	29.5	38.0	29.0	33.4
Acquisition of Non Financial Assets	44.0	29.4	30.7	31.4	29.9
Equity Participation and on-lending	2.2	2.1	1.8	2.3	1.8
Public debt redemption	35.2	39.0	29.5	37.3	34.9
Total capital expenditure	**100**	**100**	**100**	**100**	**100**

Source: Economic Survey 2014 and own computation

Annex 3: List of Contributors

	Name	Organization
1.	Enock Rono	Transparency International - Kenya
2.	Rose Wanjiku	Centre for Economic Governance
3.	Rosemary Irungu	The Institute for Social Accountability
4.	Peter Nguri	DSW (Health)
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6.	Carol Othim	National Tax Payers Association
7.	David Kisiang'ani	African Institute for Health and Development

NOTES

BUDGET GUIDE

The Institute of Economic Affairs is a civic forum which seeks to promote pluralism of ideas through open, active and informed debate on public policy issues. It is independent of political parties, pressure groups and lobbies, or any other partisan interests

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