INSTITUTE OF ECONOMIC AFFAIRS

Budget 2009/2010 A Guide for MPs

June 2009

On Thursday June 11th 2009, the Minister for Finance presented to the House Budget 2009/2010. The theme of the Budget "Overcoming Today's Challenges for a Better Kenya Tomorrow", seeks to stimulate growth and protect jobs, reduce poverty, enhance food security and protect the poor. This Budget Guide 2009/2010, presents the analysis of this year's Budget, with an aim to inform debate in Parliament

BUDGET 2009/2010: TRUE TO THE MANTRA OF "BALANCING ACT"

INTRODUCTION

In accordance with the requirements of the Constitution of the Republic of Kenya, the Minister for Finance presented the budget speech before the legislative assembly on 11th June 2009. In addition to the speech presented to legislature were the estimates of Revenue and Expenditure, the Financial Statement, the Finance Bill and the Statistical Annex to the budget speech. This budget was presented against the backdrop of low growth in the GDP domestically and a depressed international economy. Indeed, at 1.7%, this growth rate for the Financial Year ending in June 2009 was the lowest since 2002 against a forecast of 4.5 to 6% range owing to a variety of factors.

In addition to the political crisis, the Kenyan economy was affected by failure of rains and the delayed spillover of the effects of the international financial and economic crisis. The financial pressures faced by Kenya's main export markets reduced demand for some of Kenya's main foreign exchange products. In addition, Kenya has also experienced lower receipts from tourism. As a result, the domestic pressures coincided with external pressures and severely limited the country's prospects for growth. Naturally therefore, the country is well behind the ambitious growth targets envisaged in the Vision 2030 and the Medium Term Plan (2008-2012). Kenya needs to dedicate efforts towards catching up with the growth targets and maintaining it for much longer than the last time.

The chosen theme for this year's budget speech is "Overcoming Today's Challenges for a Better Kenya Tomorrow". It is surmised from this theme that the Minister for Finance recognises that the budget today continues to lay the groundwork for consistent growth in the future. As is stated, the objective is to stimulate growth and protect jobs, reduce poverty, enhance food security and protect the poor. There is the concession that the state of economic and social affairs in Kenya is far from ideal and that the deployment of public resources should reflect not only this awareness but also use the same resources in an efficient way to enhance the welfare of Kenyans. In principle, the response from the government should be in directing expenditure to spur growth of economic opportunities while also placing the country on a more stable growth path.

The Minister chose to be guided by five underpinning principles:

- Maintaining a stable macroeconomic environment and creating an enabling environment for business
- Developing key infrastructure facilities and public works countrywide to stimulate growth, create employment and reduce poverty
- Promoting equitable regional and social development for stability
- Investment in environment and food security
- Strengthening governance as a way forward in improving public service delivery

It is difficult to argue against the chosen principles as they acknowledge socio-economic realities, the fragility of the state and the prominent place of the private sector and business enterprises in driving growth. It is in this context that this budget can be characterised as an economic stimulus. Therefore, the emphasis on labour intensive infrastructure development and infusion of cash into the constituencies is part of the overall plan to ensure that income is available so that it may spur demand in the overall economy. At the same time, the budget speech acknowledged that there is inequitable regional development and this must be tackled as a mechanism for enhancing social stability.

Budgeting process takes place in a governance context and this is without doubt one of the enduring challenges for the country. Notwithstanding the reiteration of the fifth principle about strengthening governance as a way towards improving public service delivery, the rest of the budget speech contained few statements connecting the large expenditure to concrete governance strengthening improvements. Therefore, it is clear to the Institute of Economic Affairs that the implementation of this year's budget and achievement of its purposes will depend on concurrent improvements in the economic and political governance institutions of the country. A strong and unequivocal commitment to governance reforms should be called for by the Members of Parliament and in particular the devolved funds

MACROECONOMIC FRAMEWORK

The impact of the global financial crisis and climatic change led to economic contraction arising from declining demand for products originating from the region and Kenya in particular to the export markets; reduced agricultural production and productivity due to the post election political crisis; failure of the rains; high oil, fertilizer and food import bill; delayed investments due to political uncertainty; and continued governance issues and reduced earnings from the Diaspora. These economic shocks were experienced for the better part of 2008 and into 2009 and thus define the framework for Budget 2009/10. The way these shocks play out will impact on the growth and fiscal policy context of Kenya over the medium term.

Economic Growth: After posting increasing real GDP growth rate from 2.9% in 2003 to 7.1% in 2007 as shown in table 1 below, the year 2008 saw real GDP growth rate significantly dip to 1.7% following subdued performance of the following key sectors; tourism, manufacturing, agriculture, transport and communication and wholesale and retail. The first and the last quarters of 2008 posted zero growth in real GDP which weighed down the quick recovery witnessed in the second quarter posting 2.5% growth and third quarter posting 3.3% growth. There were shortages of food supplies occasioned by rain failure, high fuel and fertilizer prices besides reduced export demand and remittances and private capital inflows occasioned by the effects of the global financial crisis.

As a result, the outcome of economic performance in 2008 was significantly below the projected target of 5.8% in 2008/09 as reflected in the Budget Strategy Paper and also short of the revised target of 2.5% for the same period. The revision of the targets was informed by the

Table 1 : Macroeconomic Indicators

	2004	2005	2006	2007	2008*
Real GDP growth Rate (%)	5.1	5.9	6.3	7.1	1.7
GDP per capita (Constant) KShs	32,463	33441	34570	36000	35611
Avg. Annual inflation rate (%)	11.62	10.31	14.45	9.8	26.2
Treasury Bill rate (nominal) %	8.29	8.14	5.83	8.75	8.5
Exchange Rate (KShs./US$)	79.28	75.55	72.10	67.32	78.1
Public debt as % of GDP	50.8	46.7	42.7	41	39.8
Public external debt as % of GDP	32.1	28.4	23.3	23.7	22.5
Public Domestic debt as % of GDP	18.7	18.3	19.4	17.3	17.3

Source: KNBS, BSP, Economic Survey, Statistical Annex to the Budget Speech 2009/10
*Provisional

disruptive effects of the post election violence and the high fuel prices and the global financial crisis that led to a slowdown in economic activity. The government did not meet its revenue target of KShs.512.7 billion in 2008/09 but only managed to raise KShs.501.9. The economic outlook for the country is projected to modestly grow to 3.1% in 2009/10 and further to 5.2% in 2010/11, hence will impact the tax revenue targets.

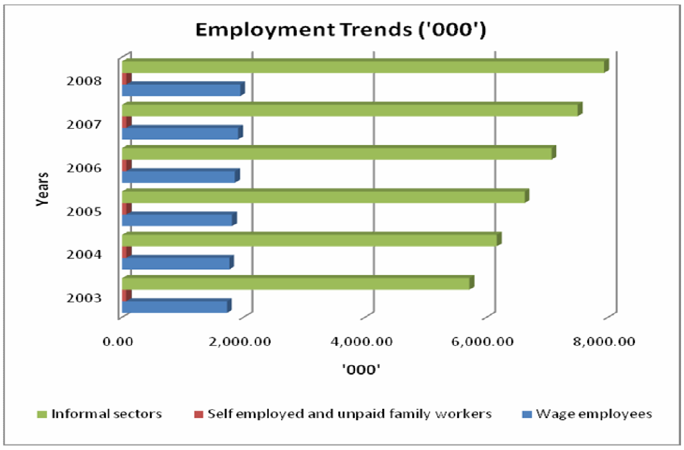
Interest Rates: the nominal 91 day Treasury-Bill interest rates averaged over 8% from 2004 to 2008, with the exception of 2006 which posted 5.83 percent. Between January and March 2009, T-bills rates hovered between 7-8% despite some activity on the domestic infrastructure bond front. Generally interest rates were somewhat stable. Similarly the interest rates spread, which is the difference between the commercial bank lending and the deposit rate, remained at around 9-10 percent. The lending rates averaged 14% while deposit rates averages 5 percent.

Inflation: Generally in 2008 both the underlying inflation which excludes food and energy prices and the overall inflation rates reached unprecedented levels in comparison to previous 4 years. The underlying inflation rate surpassed the 5% target in 2008 while the average annual overall inflation rate posted 26.2% in the same period in comparison to an average of about 11% from 2004 to 2007. This has pushed prices of most basic commodities further upwards increasing the cost of living for the low income households. These households' budget comprises over 50% on basic commodities such as food although much of it is VAT zero rated. Unchecked inflationary tendencies will lead to erosion of people purchasing power and hence reduced consumer demand.

Exchange Rate: the Kenya Shilling had appreciated to KShs.63.8 per US dollar by June 2008 where it subsequently weakened in the second half of 2008 to close the year at KShs.78.1 per US dollar according to the CBK Monthly Economic Review. A number of reasons may have led to the depreciation of the Kenyan Shilling against the major international currencies including: the demand for foreign exchange to support importation of food; and diminished export demand and reduced capital inflows.

Employment: According to the Economic Survey 2009, the number of new jobs created by the domestic economy declined from 485.5 in 2007 to 467.3 thousand in 2008 (See Chart 1). A further look at the graph shows that the informal sector which constituted 79.8% of total employment continued to form the bulk of total jobs created (433.5 thousand jobs) as compared to 33.7 thousand new jobs (20.2%) from the modern sector wage employment in 2008 and down from 52.2 thousand in 2007 while the number of self employed and unpaid family workers within the modern sector remained more or less the same as the 2007 levels. The Chart shows that the growth of formal employment is somewhat stable probably explaining the narrow tax base and the low income levels, whereas in the informal sector where a majority of jobs were generated, there could be challenges of sustainability and quality. Additionally, about 70% of all households in Kenya are involved in agricultural activities which is characterised by low production capacity.

Chart 1: Employment Trends from 2003-2007

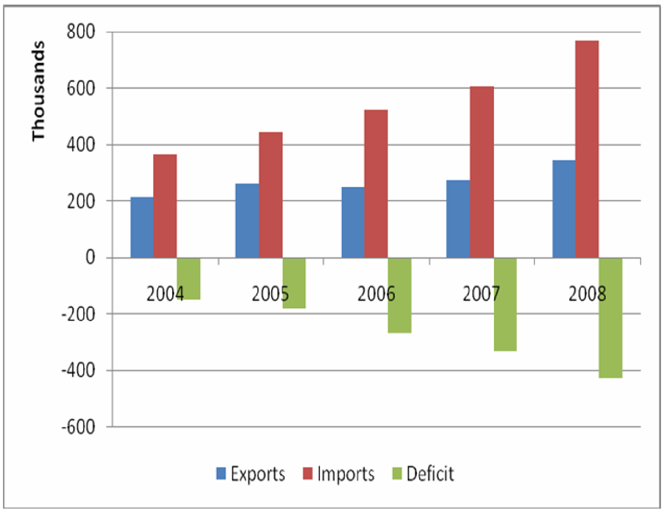


Source: Economic Survey 2009, KNBS

Balance of Trade: Chart 2 below shows that the value of exports rose at a rate of 23.3% while imports grew relatively faster at 27.4%, Chart 2 shows that value of imports has risen faster than the value of exports over the period 2004 to 2008. This may be due to the fall in export prices while import prices have been on the increase, decline in remittances from abroad, tourism decline and so on. Overall the export-import ration further declined to 44.8 from 45.4 percent.

The Minister proposed reduction in a number of import taxes on industrial sugar, sanitary towels, intermediate products for paper products manufactures and synthetic fibers to provide a stimulus for the industrial sector. Whether these results in loss of revenue will depend on whether there is increased domestic

Chart 2: Trends in the Balance of Trade from the year 2004 to 2008.



Source: Economic survey 2009, KNBS

production of commodities which use imported intermediate goods, so that the revenue loss will be offset by increased volumes of imports in the affected commodities

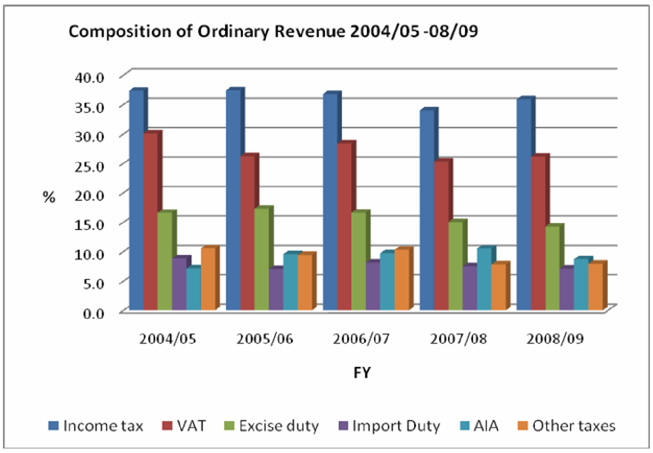
FISCAL POLICY

The projected total expenditure of KShs.867.6 billion in 2009/10 is expected to be financed 65.6% from local revenues of KShs.569 billion which include ordinary revenue of KShs.522.8 and KShs.46.2 billion from local total Appropriation in Aid (AIA). Subsequently total donor funding constitutes about 11.96% of the total budget of which KShs.64.5 billion is in-kind assistance and KShs.39.5 billion is in the form of project loans and grants. The deficit after loans and grants is KShs.194.96 billion to be financed variously as indicated in table 2 on fiscal outturn: net borrowing of KShs.109.5 billion; domestic debt rollover of KShs.76.5 billion; privatisation proceeds of KShs.6 billion and Italians debt swap of KShs.0.45 billion.

The Chart below shows the composition of ordinary revenues for the period 2004/05-2008/09. A closer look shows that income tax as a percentage of ordinary revenue hovered around 35% for the period 2004/05 to 2008/09 with the exception of 2007/08 where the contribution of AIA as a percentage of ordinary revenue was the highest at 10.5 percent. However the percentage proportion of the six sources of ordinary revenues is more or less the same over the same period

Despite several impressive tax reform measures undertaken by Kenya Revenue Authority, there is need for a study on whether marginal tax is a deterrent to investment and if average tax effort of about 22% to the GDP can be increased in order to finance the expanding infrastructure and social needs

Chart 3



Source: Statistical Annex to the Budget 2009

without being excessive. Parliament should note that there may be limited scope for further increase in revenues by expanding tax base and improving revenue administration as shown in the trends of the composites of ordinary revenue. Of importance to note is the underperforming Appropriations in Aid (AIA) whose potential could be realised with increased efficiency and reduced leakages by ministries.

Fiscal implication on Budget 2009/10

Domestic borrowing: in 2008/09 Budget, the then Minister proposed to raise KShs.54.5 billion that was expected to partly finance a projected KShs.127 billion overall fiscal deficit. However the revised amount that was borrowed domestically increased to KShs.73.9 billion probably due to the unrealised sovereign bond of KShs.33.6 billion that was unfavorable to float at the time and tax revenue shortfalls. The planned domestic borrowing of KShs.109.5 billion may leave the private sector without many resources to borrow for investment and also put an upward pressure on interest rates. This is despite Kenya's debt as a ratio of GDP being slightly less than 40 percent. On the contrary, treasury bill rates for the period 2004-2008 were stable.

	Table 2: Fiscal Outturn 2009/10 (KShs. Billion)				
	Item	**Original 2008/09**	**Revised 2008/09**	**Forecast 2009/10**	**% change**
	Total Receipts	**593.53**	**597.99**	**672.8**	**12.5**
1	**Recurrent**				
2	Ordinary Revenue	467.9	463.6	522.8	12.8
3	Appropriation in Aid (incl. LATF)	39.7	40.6	41.8	3.0
4	AIA no cash receipts local	4.7	5.99	4.4	-26.5
5	Total local AIA	44.4	46.59	46.2	-0.8
6	Total revenue	512.3	510.19	569	11.5
7	**Development**				
8	AIA no cash receipts -grants	17.03	14.8	20.2	36.5
9	AIA no cash receipts -Loans	30.9	40.6	44.1	8.6
10	Total external AIA	47.93	55.4	64.3	16.1
11	Total grants and loans	33.3	32.4	39.5	21.9
12	**Gross Expenditure**	**759.79**	**761.35**	**867.76**	**14.0**
13	**Recurrent expenditure**	**563.56**	**558.16**	**606.76**	**8.7**
14	Supply services	388.9	390.6	419.2	7.3
15	CFS	174.66	167.56	187.56	11.9
16	**Development Expenditure**	**196.23**	**203.19**	**259**	**27.5**
17	Supply services	110.3	109.4	150.8	37.8
18	Project grants	16.8	14.5	15.1	4.1
19	Project loans	16.5	17.9	24.4	36.3
20	AIA no cash receipts -grants	17.03	14.8	20.2	36.5
21	AIA no cash receipts -Loans	30.9	40.6	44.1	8.6
22	AIA no cash receipts local	4.7	5.99	4.4	-26.5
23	Civil contingency Fund	0	0	2	0.0
24	Deficit before grants and loans (#12 - #6)	247.49	251.16	298.76	19.0
25	**Deficit after grants and loans****	**166.26**	**163.36**	**194.96**	**19.3**
27	**Deficit Financing :**				
28	Net domestic borrowing	88.1	92.4	109.5	18.5
	Treasury Bills/Bonds	54.5	73.9	76.65	3.7
	Infrastructure Bonds	33.6	18.5	32.85	77.6
29	Domestic Debt rollover	67.96	67.96	76.5	12.6
30	Italian Debt/Swap	0.45	0.45	0.45	0.0
31	Privatization proceeds	8	0	6	0.0
32	Other receipts	0	2.5	2.5	0.0
33	Cash adjustment	1.8	0	0	0.0
35	**Total****	**166.31**	**163.31**	**194.95**	**19.4**

Source: Financial Statement 2009/10, Republic of Kenya

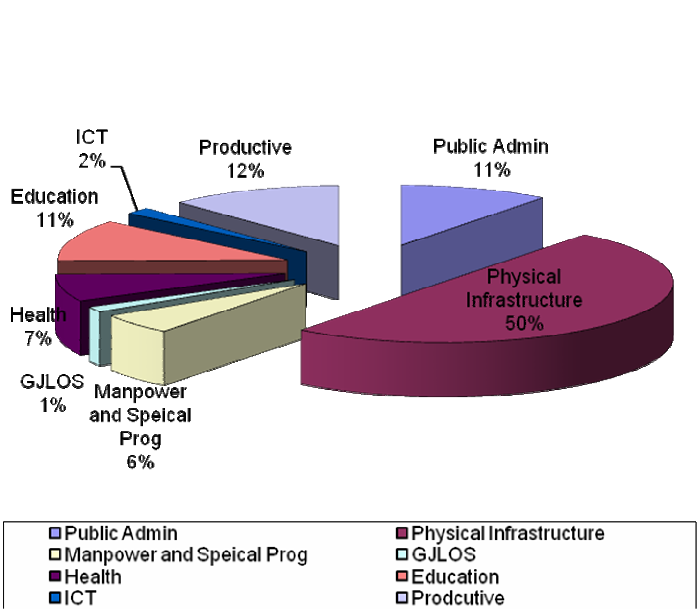
****** The slight differences are due to rounding off

Privatisation: Budget 2008/09 planned to raise 8 billion from privatisation proceeds which was not realised due to a number of reasons. However, there is a high likelihood of raising the planned KShs.6 billion in this Budget as the restructuring process of the shareholdings of the companies to be sold is underway.

Donor Spending: According to the Printed Estimates of Expenditure (2009/10) net development assistance for 2009/10 was KShs.103.8 billion compared to KShs.80.9 billion in 2008/09 in nominal terms, accounting for 11.96% and 10.7% of the estimated total budget (recurrent and development) respectively. Furthermore the total external financing commitment in 2009/10 represents about 40.1% of the estimated development expenditure relative to 41.3% in 2008/09. Of the grand total development assistance, the total loans amounts to KShs.68.4 billion in 2009/10 representing 65.9% while the rest, 34.1% is total grants. In terms of the contributors of the external funding, multilateral donors are the majority contributors in comparison to bilateral donors in line with the global trends. The following pie charts illustrate the share of donor funds by MTEF sectors for the 2008/09 and 2009/10.

The physical infrastructure sector, comprising the ministries of roads, public works, housing, energy and water and irrigation, is the largest beneficiary of total external funding for the financial year 2008/09. It represents 50% of the total external funding, whereas the productive sector is second at 12% and the education and public administration sectors are tied in

Pie Chart 1: Sectors as a share of total external funding-2008/09

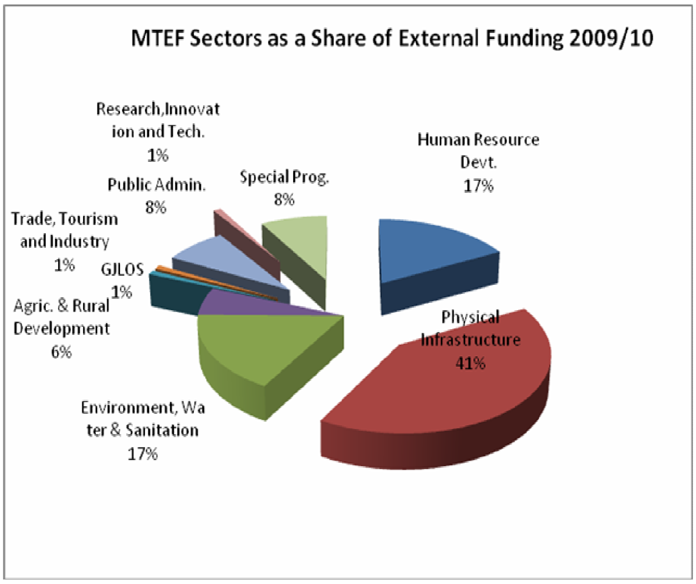


Source: Republic of Kenya Printed Expenditure Estimates 2008/09 and 2009/10

position three at 11% apiece. It is more or less the same in 2009/10, the only difference is that there has been revision of the MTEF sectors working groups. For instance, the two education ministries which were in the education sector were merged together with the health ministries and the Ministry of Labor into the human resource sector. When compared to 2005/06 sectoral breakdown of donor funding according to the Development Cooperation Report, the public administration sector was 20%, physical infrastructure was 19%, HIV/AIDS was 15%, and health at 11% as the sectors commanding largest share of donor funding. Indeed the largest beneficiary ministries are the Ministry of Roads and Public Works, Ministry of Energy, Ministry of Education and the Ministry of Health[1]. The share of MTEF sectors in total external funding indicates the focus the sector is receiving from development partners and is in line with the national priorities of Kenya as captured in Vision 2030 and in the Vision's first Medium Term Plan, the *Strategy for National Transformation* 2008/09-2010-11.

EXPENDITURE ANALYSIS

Rationalisation of Expenditure



Informed by the limited options of raising tax rates in light of declining consumer demand, the ministers resulted to shoring declined resources through savings arising from expenditure rationalisation coupled with responsible borrowing as a deficit financing measure. To this end a number of proposals were made including reduction from the ceiling of all ministries a number of non-priority expenditures such as 80% on furniture and fittings, 40% on telephones expenses, just to mention a few. Besides he mentioned plans to introduce a transport policy early this financial year as transport costs related to the purchase, maintenance and running of

[1]Republic of Kenya (2007 and 2008) Estimates of Development Expenditure 2007/08 and 2008/09

government are a major source of high costs in the public sector. In the quest to reduce costs, the Minister for Finance issued new guidelines on a moratorium for the purchase of vehicles in the public sector in addition to limiting all public officers to vehicles whose capacity is 1800 cc or lower. However, the legislature should note that similar proposals have been made in budget speeches including last year's budget speech. It is clear that the Minister did not go far enough to make sure that this would work. The Transport Policy should not aim at limiting the engine size of the vehicles but should be aimed at reducing drastically the number of vehicles owned by the public sector. The most effective way is to monetise the cost of transport for every public sector officer and pay that as part of the overall pay of all officers. There is no reason for the government to own vehicles apart from those required for critical offices such as the security and emergency services. Failure to take forward the policy will ensure that this latest announcement will fail just in the same way that other pronouncements have failed earlier. Furthermore, there are numerous other non-priority areas that should be looked into and expenditure rationalisations should be made the norm.

Furthermore Budget 2009/10 like the previous Budget 2008/09 is an expansionary one with a projected total expenditure of KShs.865.6 billion, the highest in Kenya's history, in nominal terms. The government in response to the declined economic activity and hence a reduction in consumer demand resulted to increased spending by 15.18% compared to approved expenditure for 2008/09. With regard to the mix between recurrent and development expenditure, the projected development vote increased to 29.9% in 2009/10 from 25.7% of the revised total expenditure in the previous year.

From table 3, one can decipher the composition of the total budget by ministries, departments and agency votes. The estimated expenditure on the consolidated fund services accounts for 21.7% of the total budget in 2009/10 followed closely by two ministries of education that account for 18.6%. Furthermore, the infrastructure ministries of roads, energy, public works and housing comprise 12.7% and the rest of ministries are as captured in the table 3. These trends in the composition of expenditure by MDAs are similar to Budget 2008/09. Besides the total government expenditure salaries and allowance on average account for about 24%, while total interest payment accounts for about 8% with the remaining percentage shared between other non

Table 3: Summary of Estimates 2009/10 (KShs Million)

		Recurrent		Development		Total			
Vote	**Details of Vote**	**Approved Gross Expend. 2008/09**	**Gross Esti-mates 2009/10**	**Ap-proved Gross Expend. 2008/09**	**Gross Esti-mates 2009/10**	**Approved Gross Ex-pend. 2008/09**	**Gross Esti-mates 2009/10**	**% change of Total Expend. from 08/09 to 09/10**	**% share of Total Budget 2009/10**
1	Min. of State for Pro-vincial Admin. & In-ternal security	40,747.3	40,488.5	2,995.9	3,643.0	43,743.2	44,131.5	0.89	5.1
2	State House	1,088.6	960.2	222.0	239.0	1,310.6	1,199.2	(8.50)	0.1
3	Min. of State for Pub-lic Service	1,245.6	1,462.2	323.1	433.0	1,568.7	1,895.2	20.81	0.2
4	Min. of Foreign Affairs	7,826.4	7,448.8	4,021.5	1,055.0	11,847.9	8,503.8	(28.23)	1.0
5	OVP and Min. of Home Affairs	9,522.5	9,910.2	1,139.0	1,796.0	10,661.5	11,706.2	9.80	1.4
6	Min. Of Planning and National Devt and Vision 2030	2,755.5	6,303.0	12,791.7	15,849.4	15,547.2	22,152.4	42.49	2.6
7	ODPM and Min. of Finance	13,355.0	20,166.5	14,970.0	23,168.0	28,325.0	43,334.5	52.99	5.0
8	Min. of State for De-fence	41,209.5	44,820.0	-	-	41,209.5	44,820.0	8.76	5.2

Table 3: Summary of Estimates 2009/10 (KShs Million)									
Vote	Details of Vote	Recurrent		Development		Total		% change of Total Expend. from 08/09 to 09/10	% share of Total Budget 2009/10
9	Min of Regional Devt Authorities	711.7	835.1	1,206.7	3,640.7	1,918.4	4,475.8	133.31	0.5
10	Min. of Agriculture	7,819.4	7,799.1	8,896.4	5,673.6	16,715.8	13,472.7	(19.40)	1.6
11	Min. of Medical Services	23,126.1	21,212.6	3,451.5	6,326.4	26,577.6	27,539.0	3.62	3.2
12	ODPM and Min. of Local Govt.	10,547.1	11,307.9	3,462.4	4,353.8	14,009.5	15,661.7	11.79	1.8
13	Min. of Roads	21,159.5	21,434.6	36,136.6	50,496.6	57,296.1	71,931.2	25.54	8.3
14	Min. of Transport	3,214.3	3,362.6	2,481.5	4,806.3	5,695.8	8,168.9	43.42	0.9
15	Min. of Labour	999.6	1,204.9	399.8	911.5	1,399.4	2,116.4	51.24	0.2
16	Min. of Trade	1,521.4	1,695.5	394.7	1,010.9	1,916.1	2,706.4	41.24	0.3
17	Min. of Justice, National Cohesion andn Const. Affairs	1,617.5	2,193.6	596.3	999.1	2,213.8	3,192.7	44.22	0.4
18	Min. of Gender, Children and Social Devt	1,640.2	2,592.3	1,421.4	3,150.8	3,061.6	5,743.1	87.58	0.7
19	Min. of Livestock	3,579.4	3,171.9	2,272.3	1,496.7	5,851.7	4,668.6	(20.22)	0.5
20	Min.of Water and Irriga-tion	4,677.6	4,478.8	20,006.3	24,695.5	24,683.9	29,174.3	18.19	3.4
21	Min. of Environment and Mineral Resources	2,164.0	2,065.0	1,661.1	2,268.7	3,825.1	4,333.7	13.30	0.5
22	Min. of Cooperative and Development and Market-ing	863.2	934.0	134.8	223.2	998.0	1,157.2	15.95	0.1
23	Cabinet Office	1,221.5	1,086.1	2,933.6	1,523.7	4,155.1	2,609.8	(37.19)	0.3
24	Min.of East Africa Com-munity	455.2	912.4	-	120.9	455.2	1,033.3	127.00	0.1
25	State Law Office	1,031.4	1,123.6	43.0	80.3	1,074.4	1,203.9	12.05	0.1
26	Judicial Dept	2,013.2	2,499.3	436.7	580.5	2,449.9	3,079.8	25.71	0.4
27	Public Service Commission	365.1	407.9	-	-	365.1	407.9	11.72	0.0
28	Kenya National Audit Office	1,408.0	1,437.0	-	-	1,408.0	1,437.0	2.06	0.2
29	National Assembly	6,782.5	7,688.9	-	-	6,782.5	7,688.9	13.36	0.9
30	Min. of Energy	365.9	372.1	27,062.6	30,640.6	27,428.5	31,012.7	13.07	3.6

Table 3: Summary of Estimates 2009/10 (KShs Million)									
Vote	Details of Vote	Recurrent		Development		Total		% change of Total Expend. from 08/09 to 09/10	% share of Total Budget 2009/10
31	Min of Education	106,193.0	117,008.3	9,581.1	17,654.6	115,774.1	134,662.9	16.32	15.6
32	Min.of Information and Communication	1,245.7	1,239.2	2,017.6	3,268.5	3,263.3	4,507.7	38.13	0.5
33	Interim Independent Electoral Commis-sion	838.4	1,251.0	-	-	838.4	1,251.0	49.21	0.1
34	Kenya Anti-Corruption Com-mission	1,239.0	1,346.4	62.8	50.0	1,301.8	1,396.4	7.27	0.2
35	Min. of State for Special Prog.	12,078.1	3,002.0	3,880.2	4,255.7	15,958.3	7,257.7	(54.52)	0.8
36	Min. of Lands	1,756.3	1,674.8	595.7	860.0	2,352.0	2,534.8	7.77	0.3
40	Min. of State for Immigration and Reg'n of Persons	3,210.7	3,432.5	641.0	1,914.4	3,851.7	5,346.9	38.82	0.6
41	Min. of State for National Heritage & Culture	1,523.5	1,779.3	288.4	458.3	1,811.9	2,237.6	23.50	0.3
42	Min. of Youth Af-fairs and Sports	4,230.9	5,335.6	7,830.2	4,950.2	12,061.1	10,285.8	(14.72)	1.2
43	Min of Higher Educ., Science and Tech.	19,334.6	21,616.2	3,385.9	4,045.9	22,720.5	25,662.1	12.95	3.0
44	Min. of Housing	1,715.6	1,857.1	2,066.0	2,254.7	3,781.6	4,111.8	8.73	0.5
45	National Security Intelligence Service	7,702.0	9,518.3	-	-	7,702.0	9,518.3	23.58	1.1
46	Min. of Tourism	1,689.4	1,874.8	446.5	1,277.0	2,135.9	3,151.8	47.56	0.4
48	Office of Prime Minister	1,065.7	1,275.3	77.3	622.7	1,143.0	1,898.0	66.05	0.2
49	Min. of Public Health and Sanita-tion	4,563.3	6,971.8	3,624.3	12,500.6	8,187.6	19,472.4	137.83	2.2
55	Min. of Forestry and Wildlife	3,704.8	3,769.7	1,882.5	2,004.0	5,587.3	5,773.7	3.34	0.7
56	Min. of Fisheries Devt.	891.8	1,264.5	156.3	1,337.0	1,048.1	2,601.5	148.22	0.3
57	Min. of Nairobi Metropolitan Devt	268.2	339.3	1,690.4	1,420.2	1,958.6	1,759.5	(10.16)	0.2
58	Min. of Devt of Northern Kenya and other Arid Lands	196.3	315.8	2,584.2	4,013.7	2,780.5	4,329.5	55.71	0.5
59	Min. of Public Works	990.8	1,375.8	2,287.0	5,148.9	3,277.8	6,524.7	99.06	0.8
60	Min. of industrialisa-tion	1,092.2	1,208.0	819.6	1,684.5	1,911.8	2,892.5	51.30	0.3

Table 3: Summary of Estimates 2009/10 (Kshs Million)									
Vote	**Details of Vote**	**Recurrent**		**Development**		**Total**		**% change of Total Expend. from 08/09 to 09/10**	**% share of Total Budget 2009/10**
61	Interim Independent Boundaries Review Commission	-	351.0	-	-	-	351.0	-	0.0
	Total Discretionary Expenditure	**390,564.2**	**419,181.6**	**193,377.8**	**258,904.1**	**583,942.0**	**678,085.7**	**16.12**	**78.3**
	Add Consolidated Fund Services (CFS)	**167,592.4**	**187,534.2**			**167,592.4**	**187,534.2**	**11.90**	**21.7**
	TOTAL EXPENDITURE OUTLAY	**558,156.6**	**606,715.7**			**751,534.4**	**865,619.9**	**15.18**	**100.0**

Source: Printed Estimates of Expenditure 2009/10 and own calculations

recurrent expenditure and development at 38-39% and 28-29% respectively.

Consolidated Funds Services

Because the items in the Consolidated Funds Services (CFS) represent the first charge on government revenue, they represent items upon which the Minister for Finance has no discretion. This constitutional requirement has enormous implications for the overall budget because these have to be paid for before any other public services. Therefore a comparison of the Consolidated Services to the overall budget is an important marker of the amount of public services that may be provided. As the table 4 shows, the proposed expenditures imply that the expenditure head has grown by 11.9% in nominal terms when compared to the fiscal year 2008/09. Based on the estimates, the CFS forms 21.7% of the total expenditure anticipated in 2009/10 while it constituted 22.3% of last year's revised estimates.

Table 4: Consolidated Fund Services (CFS)

	2008/9	**2009/10 ***	**% Change**
CFS			
Public Debt	140.1	160.7	14.6
Pensions	25.2	24.3	-3.4
Salaries & Allowances	0.91	1.2	11.7
Miscellaneous	1.32	1.3	-0.05
Subscriptions to Int. Orgs	0.05	0.05	_
Total	**167.6**	**187.5**	**11.9**

Apart from the overall growth, it is essential to note that the public debt obligation is not only the largest proportion of the CFS but also grew by the highest proportion. From the point of public finance management, this is not discretionary expenditure and one that requires proper management.

Pensions

A significant change in government's pensions policy during the outgoing financial year explains the slight reduction in pensions obligations i.e. the upward adjustment of the retirement age to 60 years. However, from the public finance point of view, this has merely had the effect of suspending the payments by five years. This significant policy change has an effect on the Consolidated Fund Services (CFS) payments in the future. Thus the introduction of this rule has provided minimum respite in respect to the financial obligations. Given the low uptake from public sector workers for the contributory pensions scheme, the legislature should ask the Minister for Finance to address this issue by addressing the legislature on the fiscal implications of tax policy change.

Sector Budget Analysis

Accelerating Infrastructure Investment

The Finance Minister announced in his speech that infrastructure is a targeted sector in Budget 2009/2010 as a pro-growth priority area and indeed highlighted as part of government fiscal programme an allocation of KShs.140 billion for spending towards roads, rail, ports, broadband and energy. The importance of infrastructure development as being critical for socio-economic transformation is shown by government's continued commitment of allocating more resources to it in the last four years, both recurrent and development expenditures where it received an estimated expenditure of KShs.144 billion in 2008/09 from actual spending of KShs.123 billion in the previous year. Spending towards the physical infrastructure has been growing and it is projected to comprise about 19-20% of consolidated government expenditure in the medium term.

Roads: the Ministry of Roads was allocated KShs.71.9 billion in 2009/10 accounting for 8.3% of the total budget as compared to an approved expenditure of KShs.57.3 billion in the previous fiscal year. In recognition of the significant progress in expanding road network in the rural areas, the Finance Minister announced that 22% of the Roads Maintenance Levy Fund (RMLF) meant to fund maintenance of rural roads, totaling KShs.4.7 billion, be channeled through the CDF for maintenance of roads at the constituency level. However, Parliament need to be aware that this may pose operational and reporting challenges between the Kenya Rural Roads Authority whose role is to manage, develop, rehabilitate and maintain rural roads classified as D, E and others and the CDF committees on development of rural roads. The other questions that may arise are issues of capacity to undertake rural roads maintenance at the constituency levels and the efficacy of using the CDF framework? Additionally it is not clear which authority is supposed to provide the framework for this arrangement and what the timeframe is like.

Railway Network: The railway network received a boost when the Minister of Finance announced that the Government of Kenya, working jointly with the Government of Uganda will construct a new standard gauge railway line from Mombasa to Kampala in follow-up to these intentions that were also mention in Budget 2008/09. The minister proposed to, in consultation of the Ministry of Roads, amend the RMLF Act and the Kenya Roads Board (KRB) Act to make road-bed for railway line development and maintenance eligible for funding, besides allocating KShs.3 billion to initiate this process.

Light Rail System for Nairobi Metropolitan: work has commenced on this where government has partnered with InFraCo to upgrade the Nairobi commuter railway system serving the heavily populated parts of Nairobi to reduce traffic jams and transport related costs currently hurting businesses.

Port of Mombasa: The Finance Minister announced plans for the government to establish a single window port community based system to facilitate faster, efficient and competitive clearance of cargo as a way of dealing with the current challenges and delays in clearance of cargo. Additionally, he mentioned that plans were underway to dredge the port and make it accessible for bigger ships as well as putting up a second container terminal. Of concern to Parliament is the need to monitor the absorption of KShs.20 billion allocated for dredging the port in Budget 2008/09 through the support of the Government of Japan and also the progress of modernizing the port of Mombasa. There is need too for the relevant departmental committee of parliament to inquire the progress of the establishment of a free port at Dongo Kundu in Mombasa as was mentioned in the previous Budget.

Access to Affordable Energy: High cost of energy and the limited supply reduces Kenya's trade competitiveness and in acknowledgment of the critical role of energy in the economic growth, the Minister announced that the focus by government was on diversification of clean and least cost energy sources through geothermal, wind, bio-fuel, biomass and use of solid waste through Public Private Partnerships (PPP). In addition, the Finance Minister allocated KShs.7 billion towards the expansion of rural electrification programme compared to KShs.6.8 billion in the previous fiscal year.

Out of a total KShs.31 billion allocated to the Ministry of Energy in Budget 2009/10, about KShs.30.6 billion comprises the development vote up from the revised figure of KShs.27 billion in 2008/09 in nominal terms implying that this is a capital intensive Ministry. The challenge in this is on absorption of funds and capitalisation of the PPP framework

Information Communication and Technology: it is commendable that Kenya will soon be hooked on the global digital village through the undersea fibre optic cables and as a result expected to lead to reduced telecommunication costs. In turn, this is expected to spur growth of BPOs and ICT regional hub and employment creation.

The Minister proposed to allocate KShs.7 billion, for rural electrification to major trading centres countrywide. Transmission of power countrywide remains a major impediment to individual, household and community innovation, productivity, and well-being. For rural-based women and girls in particular, lack of power has been a major factor in the trade-offs they make between carrying out household chores and the pursuit of educational, training and/or business opportunities. The Minister's proposal is therefore commendable in that it will serve to boost other initiatives geared towards facilitating increased productivity at the constituency level. However, we need to ask what happened to last year's allocation of KShs.6.8 billion to the same i.e. who the beneficiaries were and where.

Despite increased expenditure allocation to the infrastructure sector over the last four years, absorption of these funds by the respective ministries has been around 50% of their consolidated expenditure although the absorption rates vary from ministry to ministry. The main challenge is on the absorption of donor funds due delays in disbursements. There is need to check the implementation of the planned establishment of project monitoring unit at the Treasury to address constraints responsible for implementation delays.

Parliament needs to also impress on the government to take advantage of a number of alternative source of concessionary funds from both bilateral and multilateral donors by increasing its capacity to bid for these funds at national, regional and Pan-African level and also improving its governance position as a way of easing pressure on domestic borrowing. For instance, EU Africa Partnership Infrastructure Fund, Monterrey consensus commitments of 0.7% of GNP, and environment associated funds.

Agriculture and Rural Development Sector

The country has lately experienced food security challenges occasioned by declined agricultural productivity levels. On the budgetary front, the Ministry of Agriculture was allocated KShs.13.4 billion in 2009/10 representing 1.6% of the total budget relative to the approved budget of KShs.16.7 billion in 2008/09. In addressing the foregoing challenges, the Minister announced plans to initiate a programme in coordination with relevant ministries to implement a strategy over the medium term on reducing reliance on rain-fed agriculture towards a path of food security. To this end, KShs.3 billion was allocated towards rehabilitation and expansion of irrigable land various water basins.

It is anticipated that all the above investment in this fiscal year and into the medium term will translate to harvesting a million bags of rice and maize by end of December 2009 and Kenya to emerge as a net exporter of food by 2012. One of the key challenges facing the agriculture sector is under funding. The Ministry of Agriculture budgetary allocations for 2009/10 is under 5% of the total budget and the under funding aspect is confirmed by the request for additional funds amounting to KShs.3.2 billion of development budget during 2008/09 revised budget albeit a substantial sum going towards purchase grains during shortfalls in 2008. Equally, Parliament needs to exercise its oversight on the implementation of the above planned Programme on food security by monitoring implementation against set targets and timelines.

Employment Creation and Social Spending through the CDF Framework

The table below captures Minister of Finance 2009/10 Budget proposals and initiatives by sectors to be channeled through the CDF framework. These initiatives are intended to achieve regional development for equity through employment creation and social spending. Over and above the general Budget 2009/10 allocations to CDF amounting to KShs.12 billion (2.5% of ordinary revenues) and KShs.60 million per constituency, the total CDF Kitty and indeed at the respective constituency allocations is likely to increase.

Investments to healthcare

The proposed government spending to the two health ministries as a percentage of the total proposed budget comes to 5.4% - approximately 10 percent points below what the government committed to under the Abuja Declaration. This is however an increase from the previous year's expenditures on these two

Table 5: Summary of Proposals to be Channeled through CDF Framework

Sector	Budget allocation (KShs. Billion)	Allocation per constituency (KShs. Million)	Mandate
CDF Kitty	12	60	Usual CDF kitty comprising 2.5% of ordinary revenue to finance constituency development projects
RMLF	4.7		maintenance of constituency rural roads at 22% of RMLF
Conditional Economic Stimulus	22	105	Financing infrastructure development in education, health and other development projects
Education	1.5	7	Upgrading of 2 primary schools within each constituency (including equipping for water harvesting and water storage facilities).
	6	30	Construction of one secondary schools per constituency, to serve as centres of excellence
	1.3	6	Recruitment of 10,500 additional primary school teachers, or 50 primary school teachers per constituency
	0.353	2	Recruitment of 2,100 secondary school teachers or 10 secondary school teachers per constituency
	1.3	6	Purchase of a digital laboratory buses
	1.3	6	Purchase of mobile computer laboratories for use by high schools as a pilot to be replicated to primary schools
Health	4	20	Construction and equipping of health centers, as part of a three-year health care facility up-grading programme
	0.655	3.1	Hiring of 20 nurses per constituency country-wide towards promotion of preventive health care
	0.105	1	Purchase of 5 motor cycles for health workers, and 30 bicycles for community health workers- per constituency for staff mobility
	1.05	5	Purchase for medical supplies kits (additional to moneys allocated directly for the purchase of medical supplies from KEMSA in the purchase of medical supplies
Infrastructure	0.525	2.5	Construction of Jua Kali sheds
	0.21	1	Equipping of the constructed Jua Kali sheds.
Agriculture	1.1	8	Construction of an estimated 200 fish farming ponds in 140 constituencies estimated to create 120, 000 income generating opportunities, job creation and improve nutritional levels in the country.

ministries- the budget of the Ministry of Medical Services saw an increase of 3.6% while the Ministry of Public Health and Sanitation budget increased by 137.8 percent.

The proposals on upgrading healthcare facilities at the constituency level and budgetary provision towards healthcare staff mobility and into the purchase of medical supplies are commendable measures of enhancing health care accessibility countrywide. However, there are a number of challenges that Parliamentarians need to be aware of when it comes to execution of these proposal

- Firstly, the rationalisation of the distribution of such investments and human resources raises questions given the current clear differences between regions and constituencies in terms of population sizes and densities, and the differences (by age and sex), in healthcare performance indicators. There are also cross-constituency and cross-regional differences in the levels and distribution of healthcare facilities and staff. The rationalisation of resources and staff, need to be based on a strategy that responds to these diverse issues.
- Secondly, it also needs to be guided by already existing challenges in preventative healthcare provisioning. For example, a service provision assessment survey undertaken in 2004 by the government, found that only a small percentage of facilities had all items for infection control in service delivery areas, thus contributing to overall weakness. Waste disposal was found in most facilities to be inadequate, particularly in health centres and dispensaries. Additionally, one-third of health facilities had all items for infection control at Sexually-Transmitted Infections (STI) service sites and less than half of facilities offered Tuberculosis (TB) services while about only quarter provided Prevention-of-Mother-to-Child Transmission (PMTCT), Anti-Retroviral Therapies (ART) and Post-Exposure Prophylaxes (PEP). Progress may have been made since this last assessment of 2004, but it is important to establish what the current gaps are, in preventative care and address these, before discussing other measures.
- Thirdly, the initiatives on healthcare facilities upgrades were said to be geared towards the promotion of preventive care, and it seems to be the only initiative geared towards this (beyond recurrent expenditures), given that the development expenditure estimates for the Ministry of Medical Services for 2009/10, do not factor in any other expenditures towards preventive healthcare. If by 2008/09, slightly over 300 dispensaries out of 900 built using CDF were registered and fully operational, then the whole amount of KShs.4 billion should have been dedicated towards equipping health facilities at the constituency levels

Investments to Education

Investments to the education sector, through the two ministries within this year's budget make up 18.6% of the budget, the larger majority of which is recurrent expenditures. This is also an increase on last year's budget-the Ministry of Education's budget went up by 16.2% while that of the Ministry of Higher Education, Science and Technology rose by 12.9 percent. The following are issues that for further consideration:

- Whereas the Minister appreciated that FPE has led to increased enrollments in schools (putting pupils back to class) and emphasised on the need to focus on improving quality, the case for children of school going age missing out from FPE should have been highlighted in his speech. Children attending non-formal schools/community schools in the urban slums should have secured more FPE funding to bring their book-pupil ratio at par with those attending public schools. All children are entitled to the Right to Free Quality Primary Education and the government has an obligation to provide free education to all children. Those children in Non-formal schools/community schools must be provided for equitably since they are not private schools; they are only bridging a gap in areas where there are no public primary schools
- The proposal to construct one secondary school per constituency as a center of excellence is great. However, KShs.30 million is not sufficient to construct a secondary school, not unless in the sub-sequent year's budget these specific schools will

always be allocated specific votes for construction until they fully become centers of excellence. At the same time, for the schools to provide equal life-long opportunities to all our pupils throughout the country; there needs to be one design or proposed school plan that would be used in all constituency for us to have 210 similar schools.

- The ostensible rationale is to take advantage of the completion of the undersea fibre optic link. While the expanded ownership of computers in Kenya is a desirable goal, the reason for the provision of this subsidy is unsound. Computers in Kenya are available widely through a diverse number of retail firms while Kenyan banks are capable of financing the demand for computers throughout the country. There is no need for government to use public funds to provide a subsidy that will most probably benefit the participating broadband owners who already face favourable treatment in depreciating the infrastructure. Parliament should not support the use of public funds to provide such a poorly targeted subsidy whose beneficiaries will be primarily the broadband firms at the expense of the taxpayers. On the other hand, any subsidy on computers for college students should be funded through the Higher Education Loans Board (HELB)
- The KShs.6 million per constituency toward the purchase of a digital laboratory bus, is a great proposal. However, the amount is not sufficient for a bus that would serve all the school in the constituency sufficiently. There is need to rethink this proposal and consider allocating the 6 million towards putting up the digital laboratory in the proposed center of excellence in the constituency. This would be more economical if one looked at the cost of running and maintaining a bus that would be moving around schools in the constituency.

Overall, rationalisation of investments and education staff raises questions about the objectives of the proposals, if they are in fact informed by the need to improve on educational outcomes and the quality of education, respectively. Cross-country and cross-constituency variations in performance are challenged largely by a lack of evidence-based planning and budgeting which would factor in the specific challenges facing each region.

Gender Issues

Being that gender issues are cross-cutting, an analysis of the budget from a gender perspective would require that each proposal (expenditure and revenue) be reviewed and their implications analysed from a gender perspective. This guide has made an attempt toried to address this. Allocations to the Ministry of Gender, Children and Social Development saw an increase of 87.58% in 2009/10. The net recurrent expenditure allocation was KShs.2.58 billion, while net development expenditure was KShs.1.98 billion of which 46% of development expenditures and 51% of recurrent expenditures were directed towards children's services while the balance goes towards gender and social development issues. Below are specific proposals which have been directed at the different sexes and their implications for existing gender inequalities in specific areas.

- Low-cost housing for female-headed households: The Minister of Finance proposed an allocation of KShs.2.2. billion towards the re-settlement of IDPs. He also proposed a further KShs.500 million to assist in the re-building of businesses over and above the expected proceeds from disposal of vehicles exceeding 1800 cc in line with aforementioned expenditure rationisation measures. The Minister did not specify if gender equity will be a consideration in support directed towards business reconstruction. However, he said that the Ministry of State for Special Programmes in conjunction with the African Development Bank, would be re-settling displaced persons in the two districts of Uasin Gishu and Molo. He indicated that this project would include the construction of 19,000 low cost houses and that female-headed households would be given priority. However a clear strategy of support needs to be set out that factors in the most vulnerable households, which would include child and female headed households.
- Cheaper skincare, make-up products for women and girls: The Minister proposed to reduce excise duty on skincare and make-up–from 10 to 5 percent. He also proposed removing excise duty on jewellery products. It would be useful to see if this

will lead to any reductions in the prices of these products, given the fact that traders and business entities have consistently failed to pass on the savings made from other tax reductions, to the consumer.

- Cheaper materials for sanitary pads: the Minister has also proposed the remission of all import duties on raw materials for the manufacture of sanitary towels to make them cheaper and more available locally. Previously, these products had been zero-rated. Again, it would be useful to see if this will lead to any reductions in the pricing of such products.
- Women's Enterprise Development Fund: The Minister proposed an additional boost of KShs.500 million to this fund, to support women's entrepreneurship. However, there is a need for more board-based initiatives geared towards boosting women's economic participation. In this regard, all proposals it would be useful if the minister were to provide (with each employment creation initiative) for gender equity as a guiding principle in the award of opportunities.

Implications of using the CDF Framework to channel budgetary resources

There is a critical need to address these issues- otherwise this country's taxpayers risk seeing substantial amounts of money going to waste. Although the Minister of Finance did indicate that much of the additional funding to the constituencies will be released under strict guidelines to be developed by the Treasury, more needs to be done to ensure that tax-payers' moneys are adequately protected, accounted for and effectively utilised. The proposed introduction of an Electronic Project Monitoring Information System therefore needs to be pursued – and efforts made to ensure that it constitutes an improvement on current monitoring and evaluation, and other safeguards (CDF National Management Board, KACC, District Development Committees etc.)[2]. The Minister would also need to clarify how much has been allocated towards this initiative.

However, the main concern arising from the manner in which resources are being distributed between constituencies, is the fact that the Minister for Finance took the politically expedient approach of distributing the bulk of resources equally across all constituencies, notwithstanding clear variations and inequalities in development and well-being indicators, clear differences in the challenges and opportunities facing different constituencies. Should this raft of proposals therefore be approved, it is likely that it will lead to increased (rather than reduced) cross-constituency inequalities.

At the constituency level also, while many of these initiatives do have the potential to lead to employment and other income generation opportunities at the constituency level, this will only be the case if opportunities are equitably distributed (and not captured by certain groups or individuals within the constituency). Clear guidelines need to be developed and put in place to allow for the equitable distribution of opportunities within the community, between the genders, and allowing for persons with disabilities to effectively participate.

In nominal terms, this year's budget represents the largest expenditure outlay that the Republic of Kenya has undertaken. This expenditure is characterised by a large fiscal stimulus on one side that targets expenditure at the lowest levels of the government. Evidence for this is derived from the fact that the Minister for Finance proposed a massive expansion of funds towards the Constituencies through the Constituency Development Funds (CDF). To that extent therefore, it calls to question the degree of accountability and transparency in the management of public funds at all levels of expenditure. Given the identified management challenges that face the Constituency Development Funds (CDF) committees on the one side and the incomplete Public Finance Management Reforms on the other, we consider that there is a high probability of misuse of funds at both levels. It is essential to reiterate that an expansion of the national debt and total expenditure have not been accompanied by the enhancement of oversight. Without adequate oversight and implementation of the Public

[2]The Minister also needs to expound upon how this monitoring system will fit in the reports generated by the CDF National Management Board and the Board's responsibility towards such reports i.e. taking action on these reports

Finance Management Reforms (PFMR), it is almost certain that the goals will not be achieved because of the heightened risk of misuse.

In addition, while acknowledging the popularity and achievements of the CDF, it is important to take note of the lack of capacity in virtually all committees to manage large sums of money and to properly administer and execute tasks from public finances. This capacity question will become even more acute as the funds to be managed get larger. Having made the decision to use the CDF as a channel for delivery of services and development initiatives, the time to consider the need to separate the CDF committees from the control and influence of elected officials is at hand. In sum, the large tasks being handed over to the CDF committees mean that they have outgrown the model that presently exists.

Financial Sector

Banking Sector: According to the recent FinAccess Survey 2009, the number of banked adult population aged 18 year and above has increased from 18.9% of the total adult population to 22.6% in 2009 and one of the contributors to this was increased number of bank branches. It therefore makes sense that the Minister proposed an amendment of the Banking Act to allow for branchless banking through agencies with wide distribution network as a way of increasing the number of banked populace. The Minister also proposed to amend Kenya Post Office Savings Act by allowing Postbank to transact in foreign exchange in accordance with the Central Bank Act. This is intended to boost the profitability and competitiveness of Postbank in the banking sector.

Retirement Benefit Authority (RBA): The Minister made a number of policy proposals affecting various sectors in the economy. The most significant is the proposal to amend the Retirement Benefits Authority (RBA) Act to compel the NSSF to limit its investments to the purchase of government securities and infrastructure bonds. This implies that the NSSF will be precluded from diversifying its investments by having them locked up entirely in government securities which traditionally have lower returns relative to other asset classes. This is an imprudent unfair lock-in of the money of retirees into an investment class that will provide lower returns. Considering too that the NSSF has been providing lower returns on account of internal governance failures, this policy prescription punishes the working public for the sins of the managers of the NSSF. As a result, the legislature should request for proper information behind this decision because as presented in the public speech, this policy will only ensure that all pensioners are compelled to lend money to the government when there may be higher returns elsewhere. The RBA has already provided regulations limiting the holding of assets in any one class by all retirement benefits schemes. There is no reason to further limit the scope of investments by the NSSF though it is essential to ensure that the NSSF adheres to existing regulations and publishes its accounts to the public every year.

Capital Market Authority: The government in the past year's budget made key policy initiative to ensure safety of the investor and increase investor confidence in the capital market. To give full effect to the reform adopted, the Minister proposed to increase the minimum capitalisation from the KShs.5 million to KShs.50 million for the stock brokers and KShs.30 million to KShs.250 million for the investment banks within three years. This may lead to consolidation of licensees and restrict entry into the sector.

The Minister also proposed to amend the Capital Market Regulation to require entities under the capital market that collect money from the public to secure professional indemnity insurance to cover for the losses that may arise from the default besides proposed stringent periodic reporting requirements. Listing in the Nairobi Stock Exchange has not improved in the past even after the government has availed numerous fiscal incentives. For this reason, and in order to deepen the capital development authority, the Minister proposed to amend the laws to reduce the listing fee by 50% from the 0.3 % of the value of the issue for new public offers of equity.

SUMMARY AND CONCLUSION

In response to the myriad of socio-economic challenges prevailing in the country, Budget 2009/10 unlike the previous budgets resulted to stimulate the depressed

Tax Proposal	Intention	Rationale/Recommendations
Value Added Tax		
Zero rate VAT on locally produced and ginned cotton	Expansion of the cotton sector	Encourage farmers to grow cotton and encourage local manufacturing
Remove VAT on television, cameras, Digital Cameras and video camera recorders.	Growth of the film industry	Promote the entertainment industry and creation of employment
Zero rate VAT on taxable goods and services offered to film producers.	Reduce the cost of shooting and making films	Making Kenya an attractive destination for film makers
Exempt VAT on all telephones for cellular and wireless networks.	Making telephone sets more affordable.	Increase the subscription base
Zero rate VAT on power generators and generating set.	Availability of power in homes and industries.	Promoting power generation and reduce the reliability of hydro power both at the rural and industrial level. Limiting since hydro power is cheaper
Zero rate VAT on heat insulated milk tanks.	Avoid losses occasioned by lack of preservative equipment in the dairy farming subsector.	The incentive should be extended to all food processing plants
Zero rate VAT taxable supplies for the construction of grain silos	Encourage the construction of storage silos to enhance food security.	Review the targeting of this incentive by establishing quantitative measures
Zero rate VAT on refrigerated trucks and parts for agricultural, horticultural and forestry Machinery	Reduce losses by lowering cost of preservation equipment	Narrowly targeted. Should include all food and horticulture processing equipment
Zero rate VAT on bicycles	To encourage the use bicycles as an alternative mode of transport.	This will make bicycles affordable easing transport in the country and also creating employment opportunities in the rural areas.
Zero rated taxable services and goods supplied to the Kenya Committee Red Cross.	Recognition of social development work offered by the Kenya Committee of Red Cross.	Biased fiscal policy and discriminates against other organizations that offer the same services. The minister should have leveled the playing ground for organizations offering such services
Issuance of withholding certificate to the suppliers at the time of making payment.	To ensure prompt issue of certificates	Acceptable recovery measure to ensure that VAT is collected and promptly remitted.
Relief of VAT on goods in stock extended from 30 days to 6 months	Prolonging VAT claim relief upon registration	To allow sufficient time for payment of VAT after sale of goods
Import Duty		
Reduce import duty on all synthetic yarns, acrylic yarn, polyester yarn and high ferocity yarn from the current rate of 10% to 0 %.	To earn more foreign exchange, create employment and exploit the untapped potential in the textile industry	Reviving the textile industry
Exempt import duty on four wheel motor vehicles designed and built for tourist purposes.	Revive and Promote growth of the tourism industry	
Remove import duty on television, cameras, digital camera and video camera recorders.	Reduce the cost of equipment used in film industry	Employment creation especially for the youth and promote entertainment industry.
Exempt import duty on machinery, spare and inputs for direct oil, Gas and geothermal exploration.	Reduction of cost and encourage private sector in the exploration activities	Encourage private sector involvement in exploration
Increase import duty on wheat from 10% or 50 US$ whichever is higher to a rate of 25%.	Protection of wheat farmers from cheap imports.	The proposal does not consider the effects of drought experienced last year and skyrocketing food prices. Wheat product prices will remain high and this not a good policy in light of high food prices
Reduce import duty on second hand clothes to 35% or US$ 0.2 per kg whichever is higher.	Making clothing affordable to ordinary Kenyans	
Exempt duty on heat insulated milk tanks	Reduce the cost of importing insulated milk tanks	To encourage dairy processing

Tax Proposal	Intention	Rationale/Recommendations
Import Duty		
Exempt Import duty on materials, supplies, equipment and motor vehicles for official use in provision of relief services to Kenya Committee of Red Cross.	Support the initiatives of Kenya Red cross Committee	Biased fiscal policy and discriminates against other organizations that offer the same services. The minister should have leveled the playing field for organizations offering such services
Import duty on asbestos fibres removed.	Reduce the cost of importing motor vehicle parts	To promote local manufacturing of brake lining and pads
Exempt import duty on all industrial spare parts.	To reduce the cost of industrial spare parts	To encourage industrial growth
Remission of import duty on raw materials for the manufacture of the sanitary towels	Reduce the cost of inputs into manufacturing of towels	Encourage local manufacturing of sanitary towels
Remission of import duty on inputs for use by paper and paperboard mills.	Reduce the costs of paper manufacturing	To improve the competitiveness of local paper manufacturing
Income Tax		
Tax exemption on pension from KShs.15,000 to KShs.25,000 per month.		To increase the spending power of retirees
Physically disabled granted a tax free income of KShs.150,000 per month and a further deduction of up to KShs.50,000.00		• Review the KShs.150,000 threshold as it is too far above average incomes • Amend the law to define conditions that qualify under this tax measure
Excise Duty		
Reduce excise duty on cosmetic and skin care products from 10% to 5 %.	To reduce costs of cosmetics and skin care products	To increase demand and manufacture of cosmetic and skin care products
Remove excise duty on jewellery products.	To reduce costs of jewellery	
Reduction of excise duty on water from 10% to 5%.	To reduce the cost of bottled water	This is an unnecessary relief as bottled water is an urban luxury
Excise duty on juices and carbonated soft drinks from 10% to 7%.	To reduce the cost of juices and soft drinks	Soft drinks are a luxury thus fresh juices should attract lower rate of excise duty
• Change of Excise duty regime from alcohol by volume to a hybrid type of specific and ad valorem rates • Excise duty on spirit changed from KShs.7 per 1% of alcohol per litre to KShs.120 or 65% whichever is higher. • Excise duty on wines changed from KShs.7 per 1% of alcohol per litre to KShs.70 or 50% whichever is higher	Rationalize taxation of alcoholic beverages	Alcohol taxation policy changes every year. Best practice is to tax by alcoholic volume
Capital Allowances		
Grant a 100% investment deduction on capital expenditure incurred by film producer on purchase of filming equipment	Reduce the cost of filming equipment	Creating employment opportunities for the youth
Increase wear and tear allowance on telecommunication equipment from 12.5% to 20%.	Faster replacement of the telecommunication of equipment	Encourage investment in telecommunication equipment and uptake of the of this facility by the internet service providers
Investment deduction of 150% for investing in any satellite Outside Nairobi, Mombasa and Kisumu.	Encourage investment outside the major cities	Decongest our major urban centres and dispersion of investment outside the central business district
50 % per annum investment deduction on construction of training facilities.	Investors construction of more training facilities.	Promote local and foreign investment and expanding the profile of Kenya as training hub in the region
5 % allowance on computer software	Reduce the cost of software	To encourage purchase of the computer software

consumption demand through a fiscal stimulus package that focuses on sectors that will generate maximum benefits and to address the existing imbalances in regional development using the existing CDF framework. This approach was premised on five underpinning principle objectives, namely: maintaining a stable macroeconomic environment and creating an enabling environment for business; developing key infrastructure facilities and public works; promoting equitable regional and social development for stability; investing in environment and food security and lastly, strengthening governance for better service delivery. The Minister of Finance mentioned a number of varied proposals to this effect. This is in consonance with the theme 'Overcoming Today's Challenges for a Better Kenya Tomorrow."

From our analysis of this Budget we find that from the onset, majority of the Budget proposals are well intended and in line with the Vision 2030 and the first 5 year mid-term plan and that this is an expansionary budget with lots of goodies for all segment of the population. For instance, the intention to mobilise savings through expenditure rationalisation is very commendable and the Budget mentions across board expenditure cuts on a number of non priority expenditure that have no effect on service delivery. It is important to note there is room for more saving from expenditure rationalisation measures and that this should be the norm for the government but not only in times of dire budget constraints. Secondly, the expenditure mix between recurrent and development expenditure improved to 29.9% in 2009/10 from 25.6% in the previous year. This improvement has seen a huge sum of this Budget, about KShs.140 billion, allocated towards infrastructure development and a trend analysis of spending in this sector shows growing budgetary allocation to this sector in the last five years. However the main challenge with these large injection of funds to the sector has to do with absorption capacity of the spending units. Interestingly, there seems to be a strong signal of using the constituency as the administration unit as a number of funds towards social infrastructure development, employment creation and equitable regional development are to be channeled using the CDF framework in conjunction with the respective ministries. However well this proposal is intended, it is fraught with a number of challenges, the main one being the capacity of constituencies to manage and absorb these funds, the efficiency of the CDF mechanism, potential friction with other administrative units at the district and national level among others. Besides, this may be perceived as partial relinquishment of the Executive role to Parliament and hence likely to compromise their oversight role as patrons of CDF despite various channels of accountability.

Furthermore, a number of earmarked funds such as KShs.1 billion for drought relief were mentioned including conditional grants and other social protection measures for the vulnerable. The taxation policy also contained a number of incentives that catered for the business sector, the vulnerable members of the society and basically all the segments of the populace. Lastly, the governance sector was not spared either with plans to introduce strict ethical and integrity code of behavior for officers in public finance management and a framework to enhance financial integrity besides budgetary allocations of KShs.2 billion towards Agenda IV. Overall, this is an expansionary budget where funds were allocated to a vast number of sectors. However oversight and accountability mechanisms to check the use and management of these funds was not adequately strengthened and how this plays out will determine the extent of budget implementation.

Budget 2009/2010
A Guide for MPs

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