BUDGET GUIDE

June 2011

INSIDE

Budget 2011/2012, Great Intentions but Bumpy Road Ahead.

By Institute of Economic Affairs

1.0 INTRODUCTION

Globalization has deepened interdependence between and across nations. The austerity measures and economic stimulus policies adopted by the developed countries to counter the effects of the 2008 financial crisis have sustained global economic recovery efforts, resulting in an impressive global growth rate of 4.6% in 2010 compared to 1.0% in 2009. The Sub Saharan Africa (SSA) countries growth of 5.0% in 2010 compared to 2.8% in 2008 benefited in part from the global economic recovery, favourable economic climate and increased commodity demand from emerging economies of Brazil, Russia, India and China (BRICs). Consequently, African countries must as a priority, remain alert by monitoring global events, in order to take full advantage of increased economic activities and resultant opportunities to position themselves on higher growth paths.

The sustained prudent fiscal and monetary policies complemented by the Economic Stimulus Programmes and the long term strategies anchored on Kenya's Vision 2030 have started to bear dividends. With improved weather conditions in 2010, the Kenyan economy registered a GDP growth rate of 5.6%, likely to be a springboard to sustained growth in line with Vision 2030 aspirations.

1.2 Economic Performance

In line with the 2010/2011 budget theme "*Towards Inclusive and Sustainable Rapid Economic Growth*", the strategic focus prioritized enhanced national competitiveness to spur increased private sector investment across diverse economic sectors, thus creating wealth and employment opportunities for Kenyans across board. In this regard, the policy platform was anchored on macroeconomic stability, deepening structural reforms,

Budget Highlights for Budget 2011/12

- Overall total expenditure of KShs.1,154.9 billion
- Total development expenditure of 35% of the total budget
- Total recurrent expenditure of 65% of the total budget
- Implementation of the new constitution, KShs.20.1 billion
- On health
  - KShs.60 billion for health services delivery plan
  - Out of the above amount, KShs.540 million will be finalization of rehabilitation of health facilities under ASP.
- On education
  - Provision of Free Primary Education KShs.8.25 billion
  - Free Secondary Education KShs.18.5 billion
  - Free school feeding programme mainly in ASAL areas KShs.1.65 billion
  - Early Child Development KShs.387.7 million
  - Upgrading of National Schools KShs.750 million
  - Purchase of computers to enhance access to quality education KShs.680 million
  - Scale of bursary programme allocated KShs.840 million
  - Girl child KShs.300 million
  - CDF KShs.19 billion translating to KShs.90.5 million per constituency
  - Girl child – KShs.300 million to provide sanitary towels to all needy primary school going girls
- Establishment of a Livestock Fund of KShs.400 million and provision of KShs.492 million for ongoing and additional slaughter houses in ASAL areas.
- Youth Enterprise Fund KShs.385 million
- Women Enterprise Fund KShs.440 million
- Monthly cash transfer for the elderly persons of KShs.2,000
- Review of the existing VAT Act to make it simpler and easy to administer
- Abolished filling of tax returns by employees who have no other income and their PAYE has been paid to the exchequer by their employers.

Table1: Macroeconomic Indicators

Items	2005	2006	2007	2008	2009	2010
Real GDP growth rate (%)	5.9	6.3	7.0	1.6	2.6	5.6
Income per capita (KShs.)	40,292	44,894	49,128	55,255	60,223	63,184
Population growth rate (%)	2.6	2.8	3.0	3.0	2.9	3.1
Avg annual Inflation rate (%)	9.87	6.39	4.27	16.27	9.37	4.1
Treasury Bill rates (nominal) %	8.14	5.83	8.75	8.5	6.82	2.6
Exchange rate (KShs./USD)	79.3	72.1	67.3	69.2	77.4	78.03
Public debt as % of GDP	51.9	46.8	44.6	48.5	48.1	44.5
Public external debt as % of GDP	28.4	23.2	22.5	24.7	21.5	20.6
Public domestic debt as % of GDP	18.3	19.4	17.4	20.6	23.5	22.2

Source: Statistical Annexe to the Budget Speech 2011/12: Central Bank Monthly Economic Review, January 2011

raising productivity and improving business climate. The 2010 strong recovery of agriculture and industrial sectors that grew by 6.3% and 5.3% respectively, complemented the services sectors which had hitherto recorded positive growth trends.

1.2.1 Macroeconomic Framework

Inflation for 2010 as shown in Table 1 averaged 4.1% below the 5% target from a high of 9.37% in 2009. The improved weather conditions boosted agricultural production and in turn led to reduced food prices. Further, the intense competition in the mobile sector resulted in low call rates. The combined effects of these price reductions contributed to the low rates of inflation during the year.

With stable inflation rates and well managed fiscal and monetary policies, Central Bank Rate (CBR) and Cash Reserve Ratios (CRR) were reduced in 2010 leading to increased liquidity. However, it seems that the expectation from commercial to pass on this benefit by lowering their lending rates did not happen as the average lending rate was 13.87% in December 2011. On the contrary, there was increased credit access by the privates that grew by 18.2% in 2010.

The exchange rates changed marginally from KShs.77.4/$ in December 2009 to KShs.78.03/$ in December 2010. The recovery of the developed economies resulted in increased international remittances from the diaspora, which recovered from US$ 609.2 million to US$ 641.9 in 2010, which partly contributed to the stabilization of the shilling.

These positive trends in the macroeconomic framework suffered draw backs from a 19.2% public debt expansion with more than half of it constituting the more expensive domestic debt. Consequently, the current account deficit expanded to 8.5% in 2010.

Growth Drivers: growth in 2010 was broad based with all the sectors especially agriculture and industry posting positive growth rates following a stable macro environment as shown in Table 1. In addition, the other drivers to growth were: positive momentum from the new constitution with abundant governance promises, expanded opportunities from deepening regional integration, diverse opportunities associated with ICT innovations, and sustained investments in infrastructure. Further, the improved weather conditions stimulated agricultural production while the continued recovery of the developed countries from global financial crisis generated increased global demand for consumer goods thus increased global trade. Indeed exports of goods and services grew by 16.5% compared to 9.1% in 2009. Imports during the same period grew at 3.8%. The business community has responded with heightened investments, taking into account the realities of worldwide globalization and liberalization. The challenge is that Kenyans (or Sub-Saharan Africa) participation in global trade remains insignificant.

The sustained investment in infrastructure, energy, business climate and training resulted in part to improved competitiveness. The remarkable growth of electricity supply (7.7%), the deepening financial sector reforms (NSE), strengthening of the communication sector with the connectivity to sub marine cables (TEAMS, SEACOM and EASSY), coupled with transport infrastructure development have consolidated consumer and business confidence. Investment in fixed assets (Gross Fixed Capital Formation) increased from 0.2% in 2009 to 7.3% in 2010.

Employment: Compared to the existing high unemployment, the half million job generated in 2010 are grossly inadequate. Nevertheless, the Youth and Women Enterprise Funds expanded outlets for accessible credit for starting or expanding business thus generating employment. Commercial banks contributions to the SME business interventions, currently standing at KShs.20 billion per year, have in particular assisted women expand their business horizons.

Social economic development: Apart from MDGs on universal primary education, reduction of child mortality and global partnership through ICT technology whose targets are likely to be achieved by 2015, challenges are abound with the others goals. Primary school gross Enrollment Rates increased from 107.8% in 2003 to 109.8% in 2010 while net enrollment rates rose from 84.3% to 91.4% over the same period[1]. Equally immunization as a proxy for child mortality stood at 78% in 2008 and mobile coverage stands at 55.7% of the population as at March 2011.

Demographic realities- Challenges and Opportunities

Kenya is in a demographic transition from several fronts. On the basis of the 2009 population census, the Kenyan population of about 40 million is predominantly youthful, with 73% under 30 years and 43% under 15 years. The youthful nature of the population has an inbuilt momentum of high population growth, with over a million Kenyans being added every year for the foreseeable future. By 2040, Kenya's population is projected to grow to 75 million. Another unique demographic character is that of longevity due to improved education, healthcare and incomes. Technological development has also improved awareness on global issues through diaspora, information access facilitating Kenyans to tap on emerging opportunities. Kenya is also urbanizing very fast with a third of the population currently residing in the urban areas. By 2030, close to 50% of Kenyans will be living in urban areas and this can present the opportunity of land consolidation for agricultural development. This process will be heightened with the devolution of Government. From the most recent data on poverty levels, 46% of Kenyans lived below the poverty line of under $1/day as of 2006; the picture is likely to be different today as shown by improved per capita income from KShs.44,894 in 2006 to KShs.63,182. This is attributed to the bulging middle class which stands at about 10%, making Kenya home to one of the largest middle class populations in sub-Saharan Africa.

The socio-economic implications of these transitions call for proactive actions. While the quality of labour is likely to improve, there is urgent need to plan for urban settlements, transform and diversify production structures to create more opportunities for the masses.

Challenges

Going forward, Kenya has to navigate the terrain of high inflation with a weakening shilling; and a youthful population in the midst of high unemployment and deepening poverty. Further, select export markets such as Egypt, are going through turbulent times, with a likelihood of lower demand in the interim period. There is particular need for political maturity in managing the upcoming 2012 elections alongside the prosecution of the ICC post election cases. The transition to devolved governments under the new constitution will create its own unique challenges, before final entrenchment. Further, slippage on growth or untimely release of donor funding is likely to result in massive domestic borrowing with associated risks, crowding out the private sector and putting pressure on the interest rates. Environmental issues, in particular climate change, calls for reclamation and reforestation of the key water towers and agro-forestry and their impact on food security. Finally, the resettlement of the IDPs and the landless people in Kenya within the context of the new constitution before 2012 elections is another challenge.

Budget Strategies and Implementation mechanisms for 2011/12

The 2011/2012 budget is underpinned by the global economic recovery, the challenges of rising commodity prices, drought related concerns on food security and a challenged shilling with the resolve of "*Building Resilience and Sustaining Inclusive Growth*" to assure Kenyans of gainful employment that reduces the high societal inequalities and high cost of living. In this regard, interventions are aimed at targeting the emerging domestic and global challenges; maintaining macroeconomic stability; enhancing the nation's competitiveness to take advantage of the East Africa Community (EAC) Common market and global opportunities; diversify social development programmes especially in health and education to produce globally employable human resource; and sustaining the citizen confidence through timely implementation of the new constitution and delivery on key rights of co-existence and related human rights and entitlements. Towards

1. Republic of Kenya (2011) Economic Survey 2011by Kenya National Bureau of Statistics

this end, the Institute of Economic Affairs interrogates how Budget 2011/12 addresses the aforementioned challenges by reviewing the proposed fiscal policy, sector budget proposals and the rationale of taxation proposals.

2.0 FISCAL POLICY

The estimated Budget for 2011/12 as proposed by the Minister is KShs.1,155 billion, an ambitious one by all means. The budget increased by 15.6% from the previous financial year and it indeed translates to about KShs.28,873 per person. This huge amount raises questions from Members of Parliament and indeed Kenyans at large on how the government will finance this budget without worsening our overall debt position and destabilizing the economy. As was mentioned by the Minister in his Statement, the targeted revenue is premised on projected economic growth, the on-going reforms in tax and customs administration and new tax measures and therefore how to ensure that economic growth is sustained is imperative. The following section interrogates this further and indicates financing both from local and external source as well as the overall fiscal implications thereof.

2.1 Revenue Analysis

The Minister of Finance targets to collect total revenue of KShs.787.5 billion in 2011/12 accounting for 24.7% of GDP. This comprises of KShs.713.6 billion of Ordinary Revenue and KShs.73.9 billion of Appropriation-in-Aid. Table 2 below gives a summary of outturn of Budget 2010/11 and estimates of Budget 2011/12.

Table 2 : Fiscal Outturn 2011/12 (KShs. Billion)

	Items	Original 2010/11	Revised 2010/11	Forecast 2011/12	% change
	Total Receipts	**831.6**	**812.4**	**970.6**	**19.5**
1	**Recurrent**				
2	Ordinary Revenue	609.6	605.9	713.6	17.8
3	Appropriation in Aid (incl. LATF)	71	70.7	68.7	-2.8
4	AIA no cash receipts local	7.9	9.2	5.2	-43.5
5	Total local AIA	78.9	79.9	73.9	-7.5
6	Total revenue	688.5	685.8	787.5	14.8
7	**Development**				
8	AIA no cash receipts -grants	22.9	30.1	28.4	-5.6
9	AIA no cash receipts -Loans	67.8	55.9	102.5	83.4
10	Total external AIA	90.7	86	130.9	52.2
11	Total projects grants & loans	52.4	40.6	52.2	28.6
12	**Gross Expenditure**	**998.8**	**999.3**	**1155**	**15.6**
13	**Recurrent expenditure**	**675.6**	**695.5**	**754.4**	**8.5**
14	Supply services (GoK)	487.9	508.1	544.9	7.2
15	CFS	187.7	187.4	209.5	11.8
16	**Development Expenditure**	**321.2**	**303.8**	**398.6**	**31.2**
17	Supply services (GoK)	170.2	168	210.3	25.2
18	Project grants	17.4	13.6	12.7	-6.6
19	Project loans	35	27	39.5	46.3
20	AIA no cash receipts -grants	22.9	30.1	28.4	-5.6
21	AIA no cash receipts -Loans	67.8	55.9	102.5	83.4
22	AIA no cash receipts local	7.9	9.2	5.2	-43.5
23	Civil Contingency Fund	2		2	
24	Deficit before grants and loans (#12-#6)	310.3	313.5	367.5	17.2
25	**Deficit after grants and loans**	**-167.2**	**-186.9**	**-184.4**	**-1.3**
26	**Deficit Financing :**				

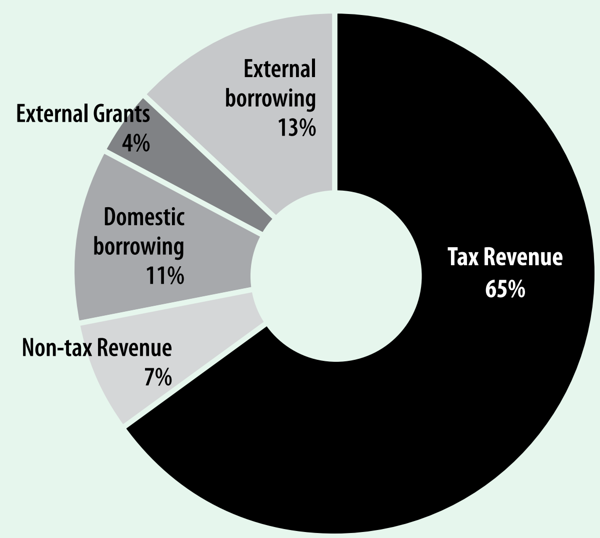
	Items	Original 2010/11	Revised 2010/11	Forecast 2011/12	% change
27	Net domestic borrowing				
28	Treasury Bills/Bonds	73.7	94.5	83.6	-11.5
29	Infrastructure Bonds	31.6	30.5	35.9	17.7
30	Domestic Debt rollover	61.4	61.4	62.3	1.5
31	Debt/Swap	0.48	0.48	0.45	-6.2
32	Cash adjustment (LATF)	0	0	2	
34	**Total**	**167.2**	**186.9**	**184.3**	**-1.4**

Source: Financial Statement 2011/12, Republic of Kenya

Further, a breakdown of where the money is coming from excluding domestic debt rollover of KShs.62.3 billion is shown below:

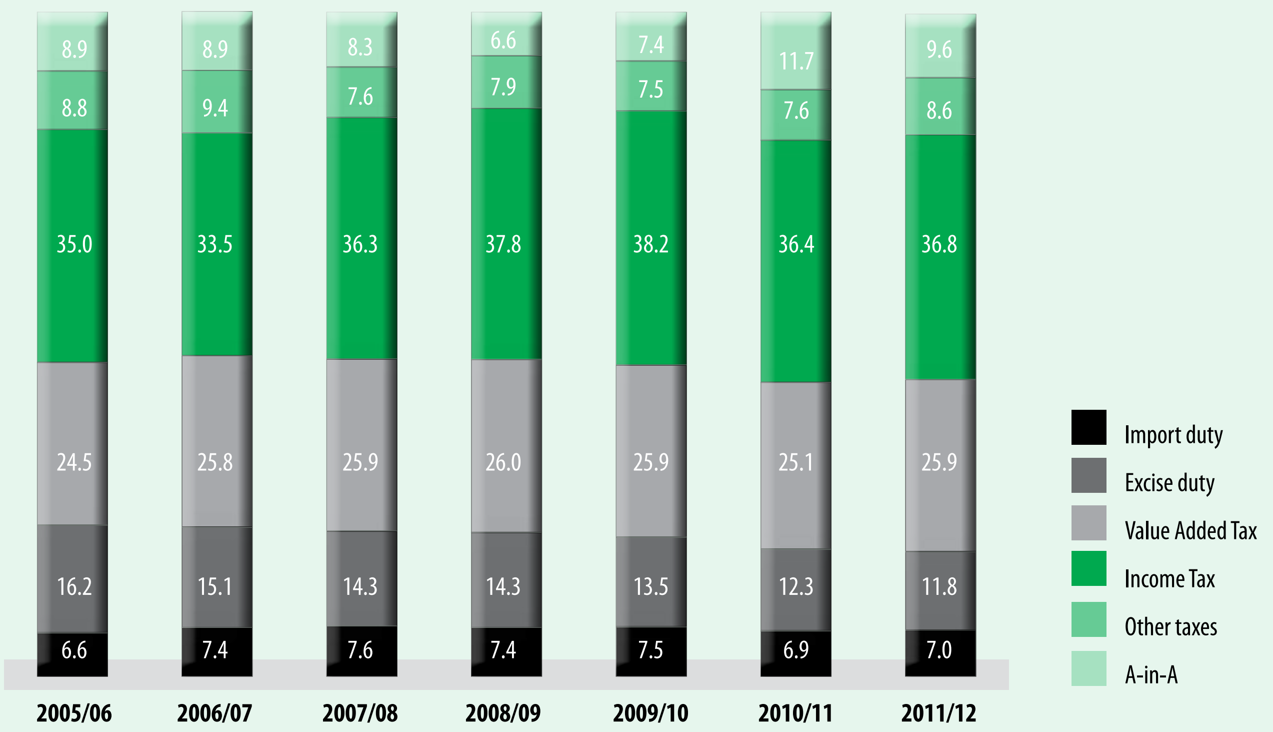
Domestic resources: the main source of government resources is tax revenue that includes income tax and tax on goods and services which comprise of 65% of Budget 2011/12. Further, the other sources of domestic resources, including money that is obtained from court fees, licenses, passport application fees and other user charges comprise 7% as non tax revenue whereas money to be borrowed from our local financial institutions through Treasury Bills/Bonds and Infrastructure Bonds comprises 11%. In total, the budget is expected to be financed to the tune of 83% from domestic/local resources a slight drop from average of over 90% in recent years.

Figure 1: Government Resources for budget 2011/12



Source: Statistical Annexe to the Budget 2011/12

Figure 2: Composition of Government Revenue



Source: Statistical Annexe to the Budget 2011/12

- **Composition of government revenue trends:** for the 7 year period indicated in the graph above, income tax averages about 35%, and is the largest source of ordinary revenue, followed by VAT at an average of 25% where as Appropriation-in-Aid is expected to contribute about 7%. Generally the pattern of the composites of government revenue has remained static over the past 7 years. It is expected that the enactment of the draft VAT legislation Bill is likely to boost its collection but at the same point out of the need for government to creatively and innovatively explore to broaden the tax base as well as explore other financing options.
- **External resources: this is channeled** via the development budget. Donor assistance comes in the form of grants and loans disbursed either as revenue or Appropriation in Aid. Of the total KShs.183 billion expected from both bilateral and multilateral donor countries, external grants are expected to comprise 4% of the budget and external loans are estimated to be 13%. This implies that total donor financing as a share of the budget is 17% up from 14.3% in this outgoing financial year.

- **Budget deficit:** overall budget deficit including grants is KShs.367.5 billion whereas after loans and grants it comes to KShs.184.3 billion, approximately 7.2% of GDP. The planned budget deficit financing options is borrowing from local sources, KShs.119.5 billion and externally from bilateral and multi-lateral donors is KShs.141 billion. In addition, the Minister proposed to finance the deficit by delaying or deffering payment of domestic debt worth KShs.62.3 billion.

2.2 Expenditure Analysis

Government spending decisions are largely guided by both Medium Term Plan 2008-12 and the Vision 2030 as the key development strategies. One of the purposes of this section is to assess how consistent these allocations and indeed the entire budget of KShs.1,155 billion to meeting the national priorities of Kenyans. From Table 2, the estimated recurrent expenditure is KShs.754.5 whereas development expenditure is projected at KShs.398.6, representing an expenditure mix of 65.5% to 34.5% respectively. Despite the fact that allocation of expenditure and implementation are two different things, the fact that the projected proportion of development expenditure to the total spending outlay increased from 30% in 2010/11 to the proposed 34.5% in 2011/12 is an indicator of the priority the government is giving to capital development.

The proportionately large shares of the total budget to the infrastructure ministries of road, energy and water confirm this. The other large beneficiary of the budget, in line with national priorities, is the human resource development sector comprising the education and health ministries. Equally, donor focus in terms of financing expenditure needs matches the focus that government gives to the various MTEF sectors revealing that the physical infrastructure and human resource sector in that order to be the largest beneficiaries of donor funds. Further what constitutes discretionary expenditure is 81.8% vis a vis the mandatory expenditure comprising Consolidated Fund Services which is 18.2%, implying that budget flexibility seems to be improving minimally.

It is worth noting that the new constitution, it stipulates establishment of a number of new independent offices and commissions intended to bring out better and effective public service delivery. In this regard, the independency and autonomy of these constitutional offices is reflected in the Budget Estimates of Expenditure books. From the table below these offices include Vote 55-Directorate of Public Prosecution all the way to Vote 58-National Police Service Commission in the Summary of estimates Table 3.

Table 3: Summary of Estimates 2011/12 (KShs. Million)

Vote	Details of Vote	Recurrent		Development		Total		% change of Total Expend. from 10/11 to 11/12	% share of Total Budget 2011/12
		Approved Gross Expend. 2010/11	Gross Estimates 2011/12	Approved Gross Expend. 2010/11	Gross Estimates 2011/12	Approved Gross Expend. 2010/11	Gross Estimates 2011/12		
1	Min. of State for Provincial Admin. & Internal security	49,148.4	55,946.0	3,109.5	4,734.5	52,257.9	60,680.5	16.12	5.3
2	State House	1,077.3	1,277.0	266.4	423.0	1,343.7	1,700.0	26.52	0.1
3	Min. of State for Public Service	1,346.4	5,131.1	359.8	714.1	1,706.2	5,845.2	242.59	0.5

Table 3: Summary of Estimates 2011/12(Kshs Million)... cont.

Vote	Details of Vote	Recurrent		Development		Total		% change of Total Expend. from 10/11 to 11/12	% share of Total Budget 2011/12
		Approved Gross Expend. 2010/11	Gross Estimates 2011/12	Approved Gross Expend. 2010/11	Gross Estimates 2011/12	Approved Gross Expend. 2010/11	Gross Estimates 2011/12		
5	OVP and Min. of Home Affairs	12,143.7	13,868.0	1,648.0	1,918.0	13,791.7	15,786.0	14.46	1.4
6	Min. Of Planning and National Devt and Vision 2030	2,387.2	2,868.8	18,200.0	27,893.8	20,587.2	30,762.6	49.43	2.7
7	ODPM and Min. of Finance	24,615.3	22,943.2	18,766.1	39,955.8	43,381.4	62,899.0	44.99	5.5
8	Min. of State for Defence	50,393.7	45,230.1	-	-	50,393.7	45,230.1	(10.25)	3.9
9	Min of Regional Devt Authorities	817.4	809.7	7,526.0	5,133.2	8,343.4	5,942.9	(28.77)	0.5
10	Min. of Agriculture	8,570.7	8,688.8	14,660.1	10,877.2	23,230.8	19,566.0	(15.78)	1.7
11	Min. of Medical Services	27,089.9	27,550.0	4,474.3	4,134.5	31,564.2	31,684.5	0.38	2.7
12	ODPM and Min. of Local Govt.	13,496.4	18,413.3	5,173.5	6,117.1	18,669.9	24,530.4	31.39	2.1
13	Min. of Roads	23,690.6	27,483.5	66,527.8	73,424.2	90,218.4	100,907.7	11.85	8.8
14	Min. of Transport	3,568.4	4,096.4	6,827.9	13,277.3	10,396.3	17,373.7	67.11	1.5
15	Min. of Labour	1,314.6	1,784.3	1,128.1	1,167.0	2,442.7	2,951.3	20.82	0.3
16	Min. of Trade	1,750.8	1,860.8	579.8	614.4	2,330.6	2,475.2	6.20	0.2
17	Min. of Justice, National Cohesion and Const. Affairs	3,376.3	2,112.1	870.2	1,040.4	4,246.5	3,152.5	(25.76)	0.3
18	Min. of Gender, Children and Social Devt	2,853.1	3,976.3	3,281.5	4,814.4	6,134.6	8,790.7	43.30	0.8
19	Min. of Livestock	3,703.9	3,743.0	3,567.7	4,278.6	7,271.6	8,021.6	10.31	0.7
20	Min. of Water and Irrigation	5,830.4	6,060.1	32,783.2	36,931.5	38,613.6	42,991.6	11.34	3.7
21	Min. of Environment and Mineral Resources	2,453.2	2,602.2	2,553.9	4,105.8	5,007.1	6,708.0	33.97	0.6
22	Min. of Cooperative and Development and Marketing	1,058.9	1,161.0	146.3	368.0	1,205.2	1,529.0	26.87	0.1
23	Cabinet Office	901.6	1,356.6	464.4	4,185.6	1,366.0	5,542.2	305.72	0.5
24	Min. of East Africa Community	944.8	1,058.5	109.9	74.4	1,054.7	1,132.9	7.41	0.1
25	State Law Office	1,480.1	1,387.6	40.1	42.8	1,520.2	1,430.4	(5.91)	0.1
26	Judicial Dept	3,323.8	6,807.0	588.5	2,519.0	3,912.3	9,326.0	138.38	0.8
27	Public Service Commission	418.9	666.6	-	-	418.9	666.6	59.13	0.1
28	Kenya National Audit Office	1,452.3	1,547.7	-	-	1,452.3	1,547.7	6.57	0.1
29	National Assembly	7,555.8	6,500.0	-	1,600.0	7,555.8	8,100.0	7.20	0.7
30	Min. of Energy	2,283.0	2,432.2	32,623.3	63,273.6	34,906.3	65,705.8	88.23	5.7
31	Min of Education	133,366.3	37,137.3	9,913.8	8,739.5	143,280.1	45,876.8	(67.98)	4.0
32	Min.of Information and Communication	1,660.0	1,942.9	4,322.8	5,360.2	5,982.8	7,303.1	22.07	0.6

Table 3: Summary of Estimates 2011/12(Kshs Million)... cont.

Vote	Details of Vote	Recurrent		Development		Total		% change of Total Expend. from 10/11 to 11/12	% share of Total Budget 2011/12
		Approved Gross Expend. 2010/11	Gross Estimates 2011/12	Approved Gross Expend. 2010/11	Gross Estimates 2011/12	Approved Gross Expend. 2010/11	Gross Estimates 2011/12		
34	Kenya Anti-Corruption Commission	1,490.8	1,617.0	100.0	232.0	1,590.8	1,849.0	16.23	0.2
35	Min. of State for Special Prog.	5,620.9	4,097.0	6,981.9	5,139.2	12,602.8	9,236.2	(26.71)	0.8
36	Min. of Lands	2,061.7	2,201.0	3,440.6	1,304.2	5,502.3	3,505.2	(36.30)	0.3
37	The Commission on Revenue Allocation	-	400.1	-	-	-	400.1	-	-
38	Min. of State for Immigration and Reg'n of Persons	3,529.5	4,048.0	1,943.6	2,387.4	5,473.1	6,435.4	17.58	0.6
39	Min. of State for National Heritage & Culture	1,730.5	1,804.0	438.5	686.0	2,169.0	2,490.0	14.80	0.2
40	Min. of Youth Affairs and Sports	5,755.5	6,005.9	4,672.4	3,772.2	10,427.9	9,778.1	(6.23)	0.8
41	Min of Higher Educ., Science and Tech.	41,647.3	41,351.2	8,181.2	11,854.3	49,828.5	53,205.5	6.78	4.6
42	Min. of Housing	1,714.9	1,706.1	2,082.0	2,319.4	3,796.9	4,025.5	6.02	0.3
43	National Security Intelligence Service	10,627.1	13,146.1	-	-	10,627.1	13,146.1	23.70	1.1
44	Min. of Tourism	1,513.1	1,634.3	1,195.2	1,242.0	2,708.3	2,876.3	6.20	0.2
45	The Teachers Service Commission	-	103,488.0				103,488.0		9.0
46	Office of Prime Minister	2,124.6	1,812.0	833.6	1,224.4	2,958.2	3,036.4	2.64	0.3
47	Min. of Public Health and Sanitation	10,118.5	10,756.6	15,694.2	21,580.5	25,812.7	32,337.1	25.28	2.8
48	Min. of Forestry and Wildlife	5,159.7	5,174.2	2,791.5	3,488.9	7,951.2	8,663.1	8.95	0.8
49	Min. of Fisheries Devt.	1,131.4	1,350.8	3,201.1	3,316.5	4,332.5	4,667.3	7.73	0.4
50	Min. of Nairobi Metropolitan Devt	321.3	313.8	857.6	1,980.7	1,178.9	2,294.5	94.63	0.2
51	Min. of Devt of Northern Kenya and other Arid Lands	248.5	334.7	2,588.4	2,151.5	2,836.9	2,486.2	(12.36)	0.2
52	Min. of Public Works	2,084.9	1,613.1	4,559.9	4,961.0	6,644.8	6,574.1	(1.06)	0.6
53	Min. of industrialization	1,570.9	1,964.9	3,241.9	2,300.8	4,812.8	4,265.7	(11.37)	0.4
54	Interim Independent Boundaries Review Commission	124.0	-	-	-	124.0	-	-	0.0
55	Directorate of Public Prosecutions	-	355.0	-	-	-	355.0	-	0.0
56	Human Rights and Equality Commission	-	324.5	-	-	-	324.5	-	0.0
57	Commission for the Implementation of the Constitution		524.0				524.0		0.0

Table 3: Summary of Estimates 2011/12(Kshs Million)... cont.

Vote	Details of Vote	Recurrent		Development		Total		% change of Total Expend. from 10/11 to 11/12	% share of Total Budget 2011/12
		Approved Gross Expend. 2010/11	Gross Estimates 2011/12	Approved Gross Expend. 2010/11	Gross Estimates 2011/12	Approved Gross Expend. 2010/11	Gross Estimates 2011/12		
	Total Discretionary Expenditure	**508,072.2**	**544,858.4**	**303,792.9**	**398,551.4**	**811,865.1**	**943,409.8**	**1,346.3**	**81.8**
									0.0
	Add Consolidated Fund Services (CFS)	**187,412.3**	**209,523.8**			**187,412.3**	**209,523.8**	**11.80**	**18.2**
	TOTAL EXPENDITURE OUTLAY		**754,382.2**	**303,792.9**	**398,551.4**	**303,792.9**	**1,152,933.6**	**1,358.1**	**100.0**

Source: Printed Estimates of Expenditure 2011/12 and own calculations

2.2.1 Consolidated Fund Services

The Consolidated Fund is established under article 206 of the constitution and contains all the funds raised by and on behalf of the National Government. It is also the main account of the Government through which the wages and allowances of the constitutional office holders, redemption of national debt and all pensions in the public service workers are charged. Given its significance, the payments made from the Consolidated Fund are not capable of variation and the quantum is important in comparison to the overall expenditure. The table below shows the three-year nominal trend in expenditures for the Consolidated Fund Services.

Table 4: Trends in Consolidated Fund Services (CFS)

Consolidated Fund Services	Actual 2008/9	Revised 2009/10	Revised 2010/11	Estimates 2011/12
Public Debt	125.9	161.1	157.2	173.3
Pensions	25.2	26.5	26.7	31.8
Salaries, Allowances & Misc	1.49	2.5	2.1	3.1
Subscriptions to Intl. Orgs	0	0.05	0.05	0.5
Guaranteed Debt	0	0	1.4	1.41
Total	**147.8**	**190.2**	**187.5**	**209.5**

Source: Appropriation Accounts 2009/10 and various issues of the Estimates of Recurrent Expenditure

As the figures show, the public debt together with pensions consistently speaks for at least 95% of expenditure under the CFS. The table also shows that both proposed figures for payments of public debt and pension components have risen in nominal terms by 9% and 16% respectively. Considering that inflation in the last year was closer to 10%, it is clear that the redemption of debt value remains at the same level as that proposed last year while the pensions component has grown. Again, this calls for a comprehensive statement on the public sector pension's scheme. Parliament should seek to be informed of the participation rates in the pensions scheme since this issue was highlighted in the budget speech for the last financial year.

The growth of debt as a charge in the CFS is a reflection of the overall rise in debt and borrowing as part of financing the proposed expenditures. While Kenya's debt position is within the accepted range, the growth in debt and pensions as a proportion of the CFS calls for a policy review of the consistent use of domestic borrowing to finance deficits. As it is now, the budget deficit compares unfavorably to the growth rate which was at 5.1% for last year.

2.3 Fiscal Implication

The Minister mentioned that the implementation of Budget 2010/11 was satisfactory but with some challenges including falling short of the revenue target of about KShs.3.2 billion by end of June 2011. He also mentioned a number of other challenges on VAT, expected revenue loss from mobile telephony, cigarettes and beer industry dynamics despite improving on economic growth. The following are some talking points that the Members of Parliament should note as they interrogate the budget

- The Economic Survey 2011 shows that Kenya grew by 5.6% in 2010 with this economic growth rate expected to minimally dip to 5.3% in 2011 as indicated in the Budget Statement. This downward expectation is occasioned largely by the inflationary pressures fuelled by high food and oil prices. Since targeted revenue is predicated on projected growth and studies show that tax performance is closely linked to the size of the economy, Members, in their scrutiny of the budget need to be aware of other additional risks to economic growth in 2011/12 including:

- **Election related risks:** past trends in economic and political history indicate that whenever there are elections looming, there is subdued growth

- **Time lag in economic pick up** as investor adopt wait and see mode in anticipation of change of political regime.

- It is not clear what measures, the Government has put in place or plans to put in place, to counter this shocks as this could negatively impact growth.

- The Minister also proposes to deepen on-going tax reforms such as new VAT law to simplify and modernize its collection and customs administration as well as introduce new tax measures. These proposals are targeted towards increasing collection of custom duty, reduction of compliance costs via online tax returns through the implementation of integrated tax management system, curbing tax evasion and in simplifying VAT tax code. These proposals are timely and well intended. However, improved compliance is likely to be dependent on the extent to which they are implemented. Besides, the benefits of implementing these proposals are likely to be realized in the medium to long term. Further, is revenue effort of about 22-24% of GDP, largely achievable through targeted tax reforms?

  It is expected that since Minister proposed to public universities and other parastatals to include fees they collect into Appropriation in Aid in 2010/11, that this would increase the expected AIA for 2011/12. It is however not clear from Table 2 why projected total AIA for 2011/12 is expected to decrease by 7.5% relative to 2010/11.

- According to the Budget Policy Statement, containing expenditure and eliminating unproductive expenditure is one of the fiscal objectives. It is commendable that in the shift of the composition of expenditure from recurrent to capital, there are positive results. However, unlike in the outgoing Budget and despite the heavy expenditure needs, Budget 2011/12 is not deliberate on continued austerity measures and expenditure rationalization.

- Despite the improved priority given to the infrastructural investment, execution rate of both domestically and especially foreign financed development budget remains a challenge. The minister should have reported on whether this has improved from the average of 50% to the targeted 80% especially with the introduction of the Electronic Projects Monitoring System (e-Pro MIS) in 2010/11.

- Is the budget going to contain the stock of debt to a sustainable level of about 45% of GDP in line with medium term goals so as to allow sufficient access to credit by the private sector, which is necessary for driving economic recovery?

2.4 State Corporations

Together with the presentation of the Estimates of revenue and expenditure, the Minister for Finance provided an annex stating the revenue and expenditure for state corporations. It is commendable because this annex, limited though it is, provides a clearer view of the burden financing the large number of state corporations and the liabilities that arise from their continued operations. A review of the annex shows that while state corporations, taken together, show a surplus of Kshs.76.8 billion in the last financial year, there is a significant number which are perennially run on growing deficits.

A picture of the financial position of state corporations is incomplete unless the liabilities of the firms are included in the annex. The legislature should insist on a more detailed chart for each state corporation inclusive of financial liabilities as this is necessary to make an independent assessment of its service provision, management capability and the risks that each institution passes to the public. Notwithstanding the fact that limited data is provided in the annex, it is immediately evident that the Ministry of Agriculture and the Ministry of Education have the largest number of state corporations under them. It is also clear that a majority of corporations generating deficits over the last three financial years are in the two ministries. Reduction of deficits within the state corporations is necessary because the grants provided by the government for the operation of these state corporations means that other public services cannot be supported.

Perpetuation of corporations that address very small areas of the agriculture sector also suggests that the deficit reduction in these ministries is unlikely to happen.

Parliament should require that state corporations that run deficits over consecutive years, balance their budgets in the medium term or be absorbed within others or liquidated altogether.

3.0 SECTOR BUDGET ANALYSIS

As a prelude to sector budget analysis, the following section captures some submissions for the Budget 2011/2012 made by different interest group submitted to treasury through a memorandum prepared by the institute of economic affairs that were incorporated in the Budget:

- **The taxation proposal on tobacco:** a case review of taxation system in Kenya was well captured in the budget speech. Simplification of the taxation structures in particular the excise tax system.
- **Security:** recruitment of new police officers and enhanced operations and maintenance in the police force
- **Water and Sanitation:** Enforce policy toward rain water harvesting and storage of domestic water, animal and irrigation
- **Youth:** Enhancement of the Youth Enterprise Fund
- **Expansion of the Tax Base:** Proposal on reviewing the turnover tax and redesigning it to increase compliance. The budget speech mentioned the reviewing of the VAT Act.
- **Social Safety nets:** strengthening the safety net for the poor and vulnerable thus reducing prevalence of hunger in poor households.
- **Livestock farming:** Establishment of a Livestock Contingency Fund
- **Early Childhood Education Development:** provision of more funds and focus on early childhood development

3.1 Private Sector Development

The budget proposals made by the Minister of Finance to facilitate the private sector for growth and employment were concentrated on developing physical infrastructure and enhancing the business environment to drive economic development. The focus given to the physical infrastructure sector, also in line with Vision 2030 is evident by the proposed allocation of KShs.221.4 billion up from KShs.165.8 billion. This represents about 23.5% of the total government expenditure, slightly higher than the Human Resource Development sector. A breakdown of the physical infrastructure reveals that the road construction takes the lion share at KShs.100.9 billion, followed by the energy sector at KShs.65.7 billion and the transport network including construction of a new Standard Gauge Railway and urban commuter rail follow in that order.

Ongoing road networks improvement will be a plus for businesses especially the road networks linking counties. This will lay a foundation for increased economic activities especially when the county Governments become operational in 2013. In addition, the funding allocation also caters for development of the major transport corridors connecting Kenya and the East African member states. This will increase the volume of cross border trade.

The funding proposals for the development of alternative energy sources are medium term to long term in nature and should be pursued. However, short term measures that immediately impact on the business environment and indeed the cost of doing business should also be considered. For instance, rationalizing electricity tariffs for manufacturing industries will reduce energy costs which may be passed onto consumers therefore relieving inflationary pressures on commodity prices; also reducing excise duty on diesel used for industrial purposes will result in downward easing of prices across all economic sectors.

The high fuel costs are driven by factors in the primary market which are entirely exogenous to Kenya. The Government has rightly focused on addressing supply chain constraints related to sourcing, discharge, refining, transportation, storage and distribution. In the past, Government regulation has focused on ensuring that domestic prices follow international prices by way of the Energy Regulatory Commission (ERC) petroleum pricing regulations formulae, contrary to popular belief the formulae only ensures that domestic prices follow the direction of international prices and not that low priced fuel will be made available to Kenyans. In light of this, energy regulation theory should focus on stabilizing fuel prices at the pump and fostering adoption of new energy efficient technologies. Low prices of oil may never be a reality in Kenya because oil as a commodity is influenced by the geopolitics of the oil producing nations and its price point is independent of free market forces. *Therefore if government decides that it has a mandate to provide affordable fuel for its citizens, then it must as a point of principle use economic instruments for this to be achieved.*

Further poor urban transportation leads to externalities such as congestion which increases the cost of doing business. The step taken by Government to develop a commuter rail system to ease transport within the major cities and towns is welcome. Therefore, the proposal to build a new branch line connecting Embakasi to JKIA as well as expanding the Nairobi-Ruiru line will bring some relief to urban workers residing in population dense areas of Makadara, Dandora, Githurai, and Kahawa. However, in the short to medium term, the Institute of Economic Affairs proposes that the government boldly considers various economic instruments such as differentiated parking fees, and road pricing to manage road transport traffic.

3.1.1 Business operating environment

The economic environment is crucial to private sector development and as such the Minister of Finance included a number of proposals to enhance the operating environment that businesses are exposed to. The following are his proposals:

1. **Security:** Government has undertaken to conduct additional police recruitment drives and salary reviews for the entire police force to change their operations and conduct in line with the new constitution and the Vision 2030. To achieve this, an allocation of 3.5 billion has been proposed towards operations and maintenance. However, short term measures that improve observance of the rule of law by police officers as well as reduction/ elimination of unethical conduct and corruption in the service will greatly impact on the cost of doing business in the country.
2. **Initiating reforms in the lands registry and company registry:** the pace of implementation of reforms especially at the lands registry are a cause of worry, digitization and enhancing access remains a key concern for the private sector. It is unclear whether funds have been allocated towards this particular activity. The state of the lands registry has hindered access to credit as land is the biggest asset available to Kenyans, yet the integrity of title deeds has been compromised reducing their overall acceptance by commercial banks.
3. **Business regulatory reforms and quality public service delivery:** the Minister has proposed to table in Parliament three bills i.e. companies bill, insolvency bill and partnership bill. However existing laws introducing key regulatory institutions are yet to be fully implemented. For example, the Competition Act 2010 establishes the Competition Authority, which is a regulatory institution charged with ensuring fair competition practice across all economic sectors. Clarification is needed to identify the level of funding if any is allocated for its establishment.
4. **Address high wage levels affecting competitiveness:** the Minister indicates that currently the wage bill stands at 222.6 billion, equivalent to 7.2 percent of the GDP, excluding defence and national security budget. He proposes to rationalize the wages in the public sector in order to improve competitiveness. Indeed, there is reason to rationalize the wages paid to civil servants. However, to enhance competitiveness, it is important to also focus on improving the productivity levels per worker within the broader productive sectors of the economy.
5. **Financial services:** the Minister of Finance proposes the following:
   a. Introducing deposit insurance corporation bill and national payments systems bill.

      The National Payments Systems Bill if passed by parliament will revolutionize the payment transactions market in Kenya. The bill will enhance payment services in Kenya with payments being possible on virtually all platforms including internet, mobile phones, debit/credit/loyalty cards, etc at a fraction of current costs in shorter periods of time. With the success of mobile money transfer in Kenya, this will be the next innovation to have a high impact on consumer welfare in Kenya.

   b. Reforms to lower the lending rates by examining interbank markets, bank rating, performance and productivity, and aligning treasury bonds to reference rates used by commercial banks.

      The treasury has taken the first steps in addressing the high lending rates that borrowers are often faced with. By addressing bank efficiency constraints, interbank market inefficiencies, and CBR transmission mechanisms, Kenyans will finally benefit from a stable and reliable monetary policy.

   c. Improve regulations relating to collateral with a unified framework for both moveable and immoveable collateral as well as streamlining stamp duty regime and simplifying the registration process.

      The proposed unified framework for moveable and immoveable collateral is welcome. This will allow businesses to be able to factor in immoveable assets especially when sourcing for credit from banks, therefore increasing access to credit for Micro, Small and Medium Enterprises (MSME). In addition, Stamp Duty has been prohibitive *for MSMEs, lowering it will have a positive impact on formalization of new and existing businesses.*

6. **Competition Commission:** The Ministerial Policy Statement failed to appraise the legislature on the state of implementation and establishment of the Competition Commission. Formation of the commission is important not only because the bill was passed by legislature more than one year ago and received presidential assent, but also because there is no compelling reason to delay its establishment. Given that one of the principal objectives of the bill was to empower the Competition Commission to investigate and respond to anti-competitive behaviour by firms and traders, this may have a positive impact on checking increase in prices.
7. **Improving governance:** the Minister has proposed an allocation of 20.8 billion towards the implementation of the new constitution. As is the case, the level of attraction for any business environment is determined by independence of the judiciary, rule of law and enforcement of contracts. Any legislation or regulation that governs these three factors has a significant impact on the economic environment. In this case, implementation of the constitution has set in motion a number of reforms aimed at strengthening the judiciary's independence, enhancing the rule of law and enforcement of contracts. Its success will depend on factors that directly or indirectly impact its implementation.

3.2 Boosting regional trade for economic growth

Trade forms a basic part of the negotiations and basis of the eventual decision for integration that led to the re-birth of the EAC. In the budget speech, it was mentioned that there will be renewed efforts towards supporting the negotiations of the EAC as well as those of the East African Monetary Union Protocol, aimed at achieving a single monetary unit by the year 2012.

The growth of Kenya's major trading partners in the East Africa Region, Uganda, Tanzania and Rwanda, is projected to remain strong in the range of 6 – 7 % in 2011/12. Kenya's GDP is projected to grow at 5.7%. Scaling up of road and transnational rail construction of Mombasa and Kampala as outlined in the budget is expected to aid in facilitating trade and commerce by opening new frontiers in terms of markets for produce and various opportunities for people and as a result thereof, fostering the integration process. The expanded local and regional market will provide ground for international competition that in the end yields to better living standards for inhabitants of the member states of the EAC and spur economic growth.

Within the EAC, there is need to check on the policies that guide investments, for instance, the Doing Business Index places Kenya third after Rwanda and Tanzania. In the endeavor to make Kenya the destination of choice for investment, appropriate policies need to be put in place and implemented. To this end, it is important that Parliament debates and passes the following proposed bills: Companies Bill, Insolvency Bill and the Partnership Bill, as they are envisaged to create a conducive environment for existing businesses whilst creating an attractive business environment to woo would be investors to the country.

Cross border banking services has seen Kenya set up its bank branches in other member countries of the EAC, e.g. Kenya Commercial Bank in Tanzania. The proposal to have banks offer limited banking services to Kenyans abroad is a welcome move as other than offering more opportunities to invest in other countries and boosting trade opportunities, it is a source of foreign exchange to the country.

There are various policy options that should be put in place to ensure that there are favorable conditions for continued trade amongst the EAC partner states in a manner that is of mutual benefit to each member state.

3.3 Human Capital Development

Education: Estimates of Revenue and Expenditure that were placed before the legislature at the end of May this year show that the policy focus on supporting development of Kenya's human capital remains a priority. The Estimates show that the proposed allocations to both the Ministry of Education and that of Higher Education constitute 13% of the total expenditure for the Financial Year 2011-2012. On the other hand, the proposals show that with parliament's approval, the Teachers Service Commission (TSC) would receive allocations of KShs.103.5 billion, equivalent to 4.6% of the total annual expenditure. In total, 17.6% of proposed expenditures to be utilized for training as compared to 19% as proposed in the previous year.

Inclusive in these figures are the proposed allocations for Free Primary Education (FPE) programme and the Free Tuition for day secondary education. These proposed allocations at the secondary school level are important because of the need to raise the transition rates from primary to secondary schools. It is unclear from the Minister's statement and the presented Estimates whether the secondary school subsidy is available for all students who join secondary school. In earlier years, parents have been concerned that the bursary was only available to cater to a limited number of students per class and a limited number of streams per school.

Health: Proposed allocations to the Ministry of Public Health and Sanitation and the Ministry of Medical Services for the coming financial year will constitute 5.5% (2.8% and 2.7% respectively) of total expenditure. Total proportional allocation compares favourably with the estimates for the last financial year where the consolidated allocation to both Ministries was 5.6%.

Further KShs.903 million has been allocated for the purchase of ARVs and 150 million for the purchase of modern equipment for screening cervical and breast cancer. KShs.534 million has been earmarked towards the finalisation of health facilities and KShs.6.6 billion towards the immunization programme throughout the country. Additionally, the Government plans to remove duty on motorcycle ambulances. If these proposals are effectively implemented, they can result to improved access to quality health care services for women and children thereby enhancing national health outcomes. Amendments to excise duty regime for cigarettes and beer taxation is also notable in achieving public health objectives.

3.4 Promoting Rural Development, Food Security and Employment

The Minister rightly points out what the Government has done towards local service delivery improvement through the ESP that started in 2009/10 with an allocation of KShs.22 billion for initiating various infrastructure projects under health, education, markets, industrial centres and fish enterprise development. He further goes to mention how the ESP was boosted with KShs.21 billion in 2010/11. However, it is important for the Members to question how these funds were implemented and whether there is any evaluation done to assess the impact of the first ESP in 2009/10. The first phase of ESP was reported to have encountered low absorption capacity challenges occasioned by lack of an implementation framework and the assumption is the second phase leveraged on this already set framework. It is commendable that a website was established for the public to monitor ESP projects as a way of improving transparency and accountability but how successful has this been so far?. Therefore an implementation and evaluation report for Members and the public to review is imperative. The table below shows that the total allocations towards CDF including the conditional grants is KShs.22.7 billion

Table 5: Allocations towards promoting rural development, food security and employment

Activity/project	Average cost per Unit ("000,000")	No. of Constituencies covered	Total costs ("000,000")
CDF	**81.9**	**210**	17,200
CDF arrears	**-**	**-**	1800
Total CDF	**90.5**	**210**	**19,000**
Conditional grant to CDF Board	17.6	210	3700
Water harvesting and storage for sustainable agricultural development			
Provision of water for domestic use & farming	6.4	170	1088
Construction of water pans (100,000 cubic metres) in needy areas	30	35	1050
Conditional grant to provide access to clean drinking water for school children	0.25 per school	10 primary sch per rural based constituency (190)	475
Supporting Livestock			
Establish a Livestock Fund			400
On-going and new slaughter houses			492
Securing food security and rural development			
Direct transfer from MoF to National Irrigation Board for countrywide irrigation projects			8600

Activity/project	Average cost per Unit ("000,000")	No. of Constituencies covered	Total costs ("000,000")
Large irrigation projects in Nyanza through MoRD			1200
Expansion of small-holder irrigation projects			400
Total allocations towards expansion of irrigation countrywide			**10,200**
Risk sharing facility to encourage lending by commercial banks to small holder farmers			10000
Impact investment Fund under Kenya Incentive Based Risk Sharing Agricultural Lending (KIRSAL) to boost agribusiness			1000
Scaling Youth employment programme and engagement			
Youth sports talent development	1	210	210

Source: Budget Statement 2011/12

Promoting Food Security and Rural Development through expanded Irrigation: The agricultural and forestry sector recovered in 2010 to post a positive growth of 6.3% following subdued performance in the last two consecutive years. However food security remains a major challenge as agricultural production is largely dependent to favourable weather conditions. The Minister makes a number of proposals towards expanding irrigable land, water harvesting and storage in shifting into irrigation based farming methods for medium term outcomes.

Firstly, a total of KShs.19.5 billion is allocated to the Ministry of Agriculture which accounts for about 1.7% of the Budget. However, in order to calculate the total allocation to the agricultural sector, one has to factor in all the allocations under complementing ministries that will go towards agricultural production such as from the Ministry of Water, livestock and so on. In this regard, the Minister plans to spend KShs.10.2 billion towards expanding irrigation countrywide to gradually cover the 1.7 million acres of potential land to address food security issues. The breakdown of this planned expenditure is shown in the table below. Further, the Minister also proposes other numerous specific and area targeted proposals towards completion of on-going irrigation projects countrywide, initiation of new ones and completion of irrigation projects designs. Some of the on-going irrigation projects were started through the ESP besides other water projects implemented through the CDF and LATF.

It is important to note that part of the allocations indicated in the table above will be used to initiate projects that have a medium span to complete. Equally, the table shows the amounts allocated, the size of irrigable land that will be covered and the expected beneficiaries either as individuals or households.

Table 6: Targeted allocations towards Irrigation Projects

Project	Irrigable land size (Acres)	Nos of expected beneficiaries	Total costs ('000,000')
Fast track completion of on-going irrigation in select Eastern Province counties	36,100	560, 000 H/H	2300
New irrigation projects	16,000	300,000 in medium term	3500
Irrigation projects in Northern Kenya	5575	34,000	1000
Ongoing irrigation projects in Katilu, Turkana	12500 in medium term	50,000 H/H in medium term	250
Initial capital to start irrigation programme in Turkana	2700-a three year project	11000	950
Fast track completion of irrigation project designs in various areas of Turkana			130
Initiate two irrigation projects in Lower Eastern		8,000	550
Irrigation projects in western part of Kenya	49250		2300
design completion for 30 irrigation projects countrywide	85000	375,000 H/H	470
Counterpart Fund towards expansion of Mwea Irrigation			1200

Source: Budget Statement 2011/12

In addition to the investment in boosting agricultural production, the Minister proposed initiatives towards transforming agriculture into business by allocating KShs.1 billion as part of the Impact Investment Fund of KShs.50 billion under the Kenya Incentive Based Risk Sharing Agricultural Lending (KIRSAL) for lending to a target of 1.5 million smallholder farmers and over 10,000 agribusiness country wide over a period of four years.

Livestock farming: Budget 2010/11 allocated a significant portion towards water supply provision and livestock farming with the objective of improving livelihoods in ASALs. The Minister in this Budget goes further to allocate funds for the establishment of a KShs.400 million Livestock Fund and KShs.492 million towards on-going and new construction of slaughter houses. The Livestock Fund is intended to boost livestock trade.

Promoting youth employment: In recognition of the youth who constitute 35.4% of the population according to 2009 Census, as an important driver of the economy and in line with Vision 2030, the Minister has further allocated KShs.385 million and KShs.440 million to enhance the Youth Enterprise Fund and the Women Enterprise Funds respectively. Equally the Minister appreciates the need to revise the SME Fund in order to protect borrowers from unscrupulous credit officers but at the same time boosted the Fund with KShs.1 billion. Further he specifically provided funding to enhance the Kenya Youth Empowerment Programme of KShs.1.6 billion which includes Kazi Kwa Vijana (KKV) and Youth sports for constituencies 210 million.

3.4.1 Emerging issues

Reports and findings from social audit studies show that money has been lost through ghost, abandoned and poorly implemented projects under both CDF and LATF occasioned by poor procurement processes, poor implementation, corruption and also a lack of proper citizen oversight. Mechanisms to address the foregoing are not sufficient to curb loss of money and hence fears of scaled up money especially given that this is the last term for MPs before the next election.

- There is a glaring gap in terms of first, ensuring that the implementation frameworks for new projects in place before disbursing funds. As was the case with ESP, the first phase failed to deliver results due to lack of a comprehensive implementation framework and hence this needs to inform the numerous planned irrigation projects.
- For governance and indeed accountability purposes, there is need to capture the timelines for completion of all the planned water irrigation projects in addition to the information that is already provided.
- The proposals by the Minister to scale up funding towards food security and promotion of rural development are well intended.
- Report on how various funds including KYEP, ESP, CDF, Women and Youth Funds have being utilized should be made public and there is need to periodically conduct impact assessment to inform the rationale for the continuation and/ or scale-up of the project
- Improving productivity per worker should be the main policy goal as it will improve output and raise income levels thereby enabling sustainable wage increases in the face of high costs of living. While at this, incentives should also be put in place to raise the savings rate. Currently, Kenya's savings rate stands at about 12% of the GDP. To achieve a middle income country status, this needs to improve to about 25% anything short of this will result in dampened levels of domestic investments.
- Lack of harmonization for the numerous devolved funds continues to persist. Allocation of KShs.19 billion to CDF (17.2 billion and 1.8 billion) and 3.7 billion as a conditional grant to the CDF board and 40 billion to LATF. The new constitution espouses both accountable and efficient use of public resources; the Government therefore must demonstrate how these devolved funds have been harmonized with other sector allocations with an aim of addressing duplication and wastage.
- KShs.2 billion has been set aside to cater for emerging requirements or constitutional related expenditures. Further, 8.6 billion will be allocated to the Ministry of Finance for direct transfer to the National Irrigation Board for various irrigation projects countrywide. With the view of ensuring a proper accountability framework, this amount needs to be broken down against clearly indentified outputs.
- Policies and implementation framework and structures should come first to avoid misappropriation and low absorption of funds
- Initiatives with more long –term impact on youth empowerment, especially on promoting competitive sports, should be identified for government investment. This could include investment in

construction and/or improvement of sports stadia and well equipped training facilities.

- Disbursement of funds to constituencies should be based on a criteria that factors the geographical context, the population, poverty levels among other variables as opposed to dividing these funds equally across the board.

3.5 Allocations Specific to Promoting Social Equity

Enhancing social equity is a key concern under the socio-economic pillar of Vision 2030. Further, it is a fundamental principle underpinned in the Constitution. Achieving this goal however, continues to pose major challenges including: raising inflation, graft, slow pace of the constitution implementation by the legislature, negative effects of climate change, health challenges and existing gender inequalities. While the Government has made important allocations to initiatives under various sectors towards addressing these challenges, certain gaps continue to exist and need to be addressed to ensure realization of social equity. As stated by the Minister, the Government is in the process of finalizing a comprehensive National Social Protections Policy intended to provide a framework to target better all vulnerable groups in Kenya. Commendably, the Government has allocated funds to several initiatives aimed at promoting gender equity. These include:

3.5.1 Allocations Specific to Marginalised Groups

a) Disabled: additional KShs.385 million allocated under the Ministry of Gender, Children and Social Development

b) Orphaned and vulnerable children (OVC) – KShs. 2.8 billion towards bringing an additional OVC under programme

c) Orphans and children from poor households– secondary school bursary of KShs.840 million under the Ministry of Education to cater for an annual fee of KShs.20,000 for 42,000 children

d) Elderly persons- additional KShs.470 million for the elderly persons translating to a monthly transfer of KShs.2,000 equivalent to 20 households per constituency

e) Retired teachers – scale up monthly pension by allocating an initial amount of KShs.3.3 billion as enhanced retirement entitlement towards this groups social protection.

f) Protection of urban informal settlement households- a total of 80, 000 households from 5 urban slums in Nairobi, 50,000 households from 3 selected households in Mombasa and 50,000 households from 2 slums in Kisumu will be cushioned from high commodity prices be being allocated KShs.845 million under Ministry of Gender to expand piloted sack gardening programme launched in 2008

g) Internally Displaced Persons (IDP) – KShs.4.2 billion allocated to implement the final phase of IDP resettlement programme under appropriate framework to be developed by the Government

3.5.2 Pro-Poor Tax Changes (Beneficial to Marginalised Groups)

The following represent important tax changes that should translate to less economic burden on poor households:

a) Duty remission on inputs for the production of solar panels

b) Zero- rating of excise duty on kerosene

c) Common External Tariffs (CET) application for the importation of all types of rice at 35% for one year as opposed to the previous the 75%

d) Zero-rating of wheat grain importation by gazetted millers for one year

e) Zero-rating of maize grain importation for a period of six months.

f) Reduction of import duty to 10% on food supplements

g) Exemption of Real Estate Investment Trusts (REITs) from corporation tax and exempting investors who receive dividends from payments of withholding tax. By encouraging saving for housing, this will increase access to housing for the poor.

3.5.3 Gender specific allocation

Allocations specifically targeting gender that is either women, men, boys or girls

a) KShs.150 million allocated for the purchase of modern equipment for screening cervical and breast cancer.

b) KShs.300 million for the provision of sanitary towels to all needy primary school girls

There are obviously more gender specific allocations in the budget documents but the ones we have identified are clearly stated in the Budge statement. In addition, the Budget had various proposals that are either implicitly gender sensitive in health, education, youth employment and water sectors.

4.0 TAXATION PROPOSALS

The following are taxation proposals categorized by type:

Taxation Proposal	Intention	Rationale
A .Value Added Taxation		
The VAT Legislation Bill has already being drafted and is ready for public comments. There are no indicative time lines for the bill to be operational in the budget speech.		
B. Income Tax		
Non taxable benefit for full time employee's medical insurance paid by an employer	Encourage employers to offer medical services to their employees.	Increase health insurance coverage
Abolishment of filling of returns for employees who have no other income and PAYE is paid to the exchequer by the employer.	Reduction in filling unnecessary returns by Tax payers.	Reduced burden of filling returns by tax payers
Amendment of Tax Act for commissioner to have express powers for issuance of Personal Identification Numbers	Recruit and increase the number of tax payers	Widening the tax bracket resulting into increased revenue collection.
Amendment to PAYE rules on personal relief	Entitlement to only one personal relief	To reduce double claims for personal relief
C. Corporate tax		
Exemption of Real Estate Investment Trusts (REITs) from corporation tax and dividends paid to investors exemption from withholding tax	Expansion in real estate investment	Spur investment in real estates and access to housing for the poor.
Increase withholding tax on professional fees from 5% to 10%.	Increase revenue collection	Equity and fairness in taxing professionals.
D. Excise Duties		
Harmonization of the excise duty on cigarettes at KShs.1,200 per mille or 35% of the retail selling price whichever is higher.	Meeting the simplification principle and discouraging abuse.	Harmonization of excise duty and ensuring simplicity
Harmonization of excise duty on beer at KShs.70 per litre or 40% of retail selling price whichever is higher.	Meeting the simplification principle and discouraging abuse.	Ensuring simplicity and discouraging abuse.
Removal of Excise duty on Kerosene	Caring and cushioning people from high commodity prices	Making kerosene prices more affordable to Citizens'.
Increase excise duty on wine to KShs.80 or 40% of the retail price.	Increase excise duty collection from a luxurious good	A way to shore up revenue
E. Import duties		
Remission of import duty on Aseptic Plastic bags for fruit storage to 10% instead of common tariff rate of 25%	Promote fruit farming	Enhance competitiveness of fruit farming and encourage exports.
Zero rated import duty premixes used in the manufacture of animal and poultry feeds.	Promote food security and employment	Support the dairy and poultry subsector.
Duty remission on inputs for the production of solar panels	Encourage local production of solar energy equipments	Support the production of clean energy
Exempt duty on battery operated vehicles	Encourage use of green energy.	Reduce carbon emission and pollution

Taxation Proposal	Intention	Rationale
Exempt duty on apron buses used at the airport.	Enhancing competitiveness and service delivery at our airport	Positioning Kenya as an aviation hub and mitigating matters of security and safety.
Exempt duty on vehicles and equipment imported by Kenya police	Enhancing security and positioning the country as a destination for all.	Protection of property rights and security of life for all citizens.
Exemption of duty on Security Equipment Including hand held metal detectors, CCTVs, Bomb detectors, walk through metal detectors and under carriage mirrors	Enhance security and global terrorism	Make security equipment cheaper and encourage security firms in provision of security.
Remission of import duty on wheat grains at 0% instead of 10% granted last year for a period of one year for gazetted millers	Enabling gazetted millers to import wheat grain to meet local demand.	Cushioning Kenyans' against high commodity prices
Extension of Common External Tariff (CET) application to allow importation of all types of rice at the rate of 30% instead of 75% for a period of one year.	Enable rice imports at low prices	To cushion Kenyan's against high commodity prices
Remission of import duty on maize grain at 0% instead of 50% for a period of 6 months for gazetted millers.	To reduce import cost for maize	To cushion Kenyan's against high cost of commodity prices as per the EAC CET
Reduce import duty food for supplement from 25% to 10%	To encourage imports of food supplements.	Make the food supplements more affordable
Removal of import duty on motor cycles ambulances	Support motorized transportation in rural areas	To support rural areas with motor cycle ambulance services.
F. Other taxation measures		
Amendment to the Banking Act	Allow Central Bank to formulate guidelines arrangement for banks outside Kenya to offer limited banking services to Kenyans while abroad	Making banking services easier particularly those in the Diaspora.
Amendment to the law to make it Mandatory for Registration of sim cards before activation for use.	Enhancing security in the country.	Supporting security and further development of the country.
Amendment of Microfinance and Banking Act on sharing of credit information amongst lenders.	Credit information sharing between banks and microfinance	Easier for Bank to establish the credit worthiness of it's customers.

Budget Statement 2011/12 and Finance Bill 2011

5.0 SUMMARY AND CONCLUSION

By all means Budget 2011/12 is quite ambitious and steeped with good intentions. Indeed the context surrounding its implementation is significantly different from this outgoing fiscal year. Last year, unlike in 2011 experienced strong recovery in economic growth and stable macroeconomic environment. In 2011 however, the country is faced with challenges of high inflation fuelled by increasing fuel and food prices, weakening currency relative to majority of international currency, youth unemployment, weak external position and election related risks. All the same the one positive context is the promises of the constitution in changing the landscape of Kenya 's legal, socio-economic, judicial, governance and political environment.

It is in regard to the above that the Minister resolves in Budget 2011/12 to the theme of "*Building Resilience and Sustaining Inclusive Growth.*" The Budget has outlined various proposals towards promoting private sector development and employment as the private sector is viewed as the engine for economic growth, investing in people; promoting rural development, food security and employment and cushioning the vulnerable members of our society. The Budget indeed endevours to have in store something for all social groups in Kenya by spelling, expenditure plans that are pro-poor; pro-growth and those that will have a bearing on promoting equity and regional balance.

From the foregoing the main concern is the lack of a clear implementation mechanism in spending and absorbing these funds especially for new projects and those that will be channeled to sub-national levels and management of targeted social group Funds. Additionally there are some allocations towards the implementation of the new constitution which is a positive step but how this is managed especially in the run up to election when members of parliament shift their focus to campaigning at the expense of discharging their legislative role. This calls for members to prioritize debate for critical bills including those on implementation of the constitution as outlined in the schedule of the constitution. Besides the transition to county government may present it own challenges and it important that the government is well prepared to address these challenges. Further on scaling up infrastructure development, commendable as it is, there is need improve on overall utilization of resources and to also factor short term measures especially on road traffic management and energy supply. On the revenue front, the projected revenue is predicated on economic growth and on-going tax reforms. Nonetheless there is need to find measures of cushioning the country from economic shock and also political stability as this could adversely affect economic growth and in turn revenue performance.

The Constitution in Article 221(5) provides for public hearings where the public's view will be sought during the discussion and review of the budget by parliamentarians in the National Assembly. This therefore means that the public has a chance to influence the Budget after it has been submitted in parliament by participating in this process. It is however worth noting that the process and structure of participation is not in place yet. The Institute of Economic Affairs guide is intended to raise some questions and issues that Members of parliament should look out for in their debate and scrutiny of the Budget for effective oversight of public funds.

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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