REPUBLIC OF KENYA

HARAMBEE

KENYA NATIONAL ASSEMBLY

TENTH PARLIAMENT – FOURTH SESSION

THE BUDGET COMMITTEE REPORT ON THE BUDGET POLICY STATEMENT FOR 2012/2013

April, 2012

Preface

Mr. Speaker Sir, on behalf of the Members of the Budget Committee and as required under Standing Order No. 143(4), I hereby present to the House, the Committee's Report on the 2012/13 Budget Policy Statement laid on the table of the House on Tuesday, 17th April 2012. Pursuant to Standing Order 143, once laid before the House, The Budget Policy Statement stands committed to the Budget Committee for examination in consultation with departmental committees and subsequently, a report is laid in this House.

The Constitution of Kenya establishes Parliament as the guardian of public finances and financial measures and it has drastically changed the landscape of Public Financial Management in this country. The role of parliament has shifted from a 'budget approving' legislature to a 'budget making' one. Budget making entails identifying programmes and activities to be carried out during a specific period; and outlining how revenue raised will be shared among competing needs. This is the third report on Budget Policy Statement (BPS) to be tabled in Parliament in accordance with the requirements of Fiscal Management Act, 2009 and the Kenya National Assembly Standing Orders, 2008.

Mr. Speaker sir, based on your ruling on 18th April 2012, you did indicate that in consultation with Departmental Committees, the Budget Committee should immediately embark on reviewing the document and within 7 days, submit a report to this House. I'm glad that we have been able to undertake this task diligently and have adhered to the timelines.

It is important to note that in as much as this report is being laid in the House at a time when the Estimates are being submitted, the Committee reiterates that the report will form the basis of reviewing the Estimates. Thus, the recommendations therein be considered while interrogating the various programmes of Ministries, Departments and Agencies (MDAs) especially with regard to the 2012/13 budget.

Mr. Speaker Sir, the Budget Committee as currently constituted comprises the following:-

1) **The Hon. Elias P. Mbau, M.P.** – **Chairperson**
2) **The Hon. Alfred Sambu, M.P.** – **Vice-Chairperson**
3) **The Hon. Martin Ogindo, M.P.**
4) **The Hon. Danson Mungatana, M.P.**
5) **The Hon. Moses Lessonet, M.P.**
6) **The Hon. Omari Mbwana Zonga, M.P.**

7) The Hon. John Mbadi, M.P.

8) The Hon. Nemesysus Warugongo, M.P.

9) The Hon. Sheik Dor, M.P.

10) The Hon. John Mututho, M.P.

11) The Hon. Nelson Gaichuhie, M.P.

12) The Hon. Emilio Kathuri, M.P.

13) The Hon. Abdul Bahari, M.P

14) The Hon. Johnstone Muthama, M.P.

15) The Hon. Jackson Kiptanui, M.P.

Mr. Speaker Sir, in addition the Chairpersons of all Departmental Committees are ex-officio members of the Budget Committee where they actively participate and this makes the Committee the largest and indeed, this is in line with the importance of the issues which this Committee handles in its day to day operations.

Mandate of the Committee

The Budget Committee is established under the Standing Orders 190 and is further given legal backing under the Fiscal Management Act, 2009. The Committee is mandated to:

a) Examine the Budget Policy Statement presented to the house and report to the House , what, if any, economies that should be made consistent with proper carrying into effect of the policies implied in or by such statement and estimates;
b) Evaluate tax estimates, economic and budgetary policies and programmes with direct Budget outlays and;
c) Study all economic and budgetary questions falling within the competence of the National Assembly and transmit its recommendations thereon to the Assembly.

Examination of the Budget Policy Statement

Mr. Speaker sir, during the review of the Budget Policy Statement, the Budget committee held 6 sittings. Further, the committee received submissions from all Departmental Committees which it considered and included in this report.

In addition, Mr. Speaker, Sir, pursuant to Article 221(3) of the Constitution, the Committee also met with the Parliamentary Service Commission (PSC) and the Judicial Service Commission. I wish to sincerely thank all Members of the Budget Committee as well as those of the Departmental Committees for their dedicated enthusiasm and support during the review of the Budget Policy Statement (BPS)

Acknowledgements

The Committee is equally grateful to the Offices of the Speaker and the Clerk of National Assembly for the support they gave during its consideration of the Budget Policy Statement.

Mr. Speaker sir,

On behalf of the Budget Committee, I now have the honour and pleasure to present this report of the Budget Committee on the Budget Policy Statement for 2012/2013 and the Medium Term to this House for debate and adoption.

Signed--

Chairman

Hon. Elias P. Mbau, MP

Dated---------------25/04/2012---

I. INTRODUCTION

a. Purpose of the Budget Policy Statement (BPS)

1) The Budget Policy Statement is expected to state the broad strategic macroeconomic issues that will inform budgeting in the next financial year and the medium term. This includes an assessment of the economy in the current financial year, projected state of the economy in the medium term, the macroeconomic and fiscal policies for the period and the criteria for resource allocation among specific programmes including outputs expected from each programme.

b. Adherence of the Budget Policy Statement to Legislation

2) Section 7 of the Fiscal Management Act, 2009 as well as Standing Order 143 provide the legal basis for the submission of the Budget Policy Statement (BPS) and outline its structure and content which the Minister for the time being responsible for finance is expected to adhere to. While the BPS 2012 has broadly taken into account the provisions of the Fiscal Management Act and Standing Orders, it failed to adhere to some pertinent provisions.

3) Notably section 7(3) (d) and (e) of the FMA provides that the BPS should contain the total resources to be allocated to individual programmes within a sector or ministry for the current financial year and succeeding 3 years, indicating outputs expected from such programme during that period and the criteria used to apportion these resources among the ministries and the individual programmes. However, the BPS has continuously missed this provision. This makes division of resources a mystery and we hope that this will change in future.

c. The thrust of the Budget Policy Statement

4) The BPS 2012 outlines the various challenges facing the economy during this transition period, both internally and externally. These include high inflation in the country that has increased the cost of living and is an impediment to business planning; and a weak global economic performance on the external front.

5) In order to address these challenges, the BPS 2012 seeks to consolidate and sustain inclusive economic growth by restoring and maintaining macroeconomic stability and focusing on economic policies and structural reforms aimed at removing hurdles to

higher growth while facilitating private sector to expand its business, promote productivity and build resilience necessary for employment creation and poverty reduction.

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

6) The BPS provides a review of recent economic performance, asserting that over the years, there has been increased spending on social sectors such as education and health and this has supported inclusive growth. As such the government intends to continue spending on priority sectors such as agriculture and rural development, health and education to enhance socio-economic development.

7) The BPS draws attention to achieving the MDGs, pointing out that MDGs 1 – eradicate extreme poverty and hunger, 4 – reduce child mortality and 5 – improve maternal health, are unlikely to be achieved by 2015 though the supportive environment is improving. The Committee notes that the 2015 deadline for meeting MDGs is fast approaching. There is therefore need for the government to put in place proper strategies to expedite the achievement of MDGs, particularly those that have been identified as unlikely to be achieved by 2015.

8) The budget process is the key entry point in entrenching government efforts in the achievement of the MDGs and the Medium Term Plan goals of Vision 2030. An effective budget process that takes into account an all-inclusive participation and also the country's development agenda is a critical political statement of a government's commitment to the MDGs achievement. Sustained allocation of national resources to targeted components of the development programmes must take priority within the purview of a country's development plans.

9) Parliament should hold the executive accountable for its commitment and progress in achieving the Medium Term Plan goals of Vision 2030. Currently, Vision 2030 is not anchored in any law and there exists no macro framework for its operationalization. Furthermore, since the 2012/13 budget marks the end of the first MTP under Vision 2030, there is need for the government to report what has been achieved under the first MTP with regard to this Vision. The Committee notes that the BPS has given scanty information on this account.

10) Emerging fiscal challenges to the 2011/12 budget as outlined in the BPS include revenue underperformance, constrained domestic borrowing and overall under-expenditure due to poor procurement planning and low absorption of funds. On the other

hand, there are additional spending pressures mainly on salaries, implementation of the constitution and security operations in Somalia. To address this situation, the government is rationalizing expenditures and deferring projects that are unlikely to start this financial year. There has been a re-allocation of budget provisions, and utilization of existing contingencies and budget reserve to meet part of the expenditure requirements. The government has also sought a syndicated loan of up to Kshs. 52 billion (approximately US$ 600 million) to overcome the current low uptake of government securities by investors.

11) The Committee welcomes the move to rationalize expenditure. Indeed, rationalizing non-core expenditure is among the key austerity measures proposed by the Committee in its report on the budget estimates in the 2011/12 budget. For purposes of clarity, it is the opinion of the Committee that the government should clearly outline the broad areas where it has cut expenditure and by how. Furthermore, based on past experience, there is need to state the source of the syndicated loan as well as the terms and conditions. The government should also reform its procurement procedures to hasten project implementation by ministries.

12) The BPS projects that real GDP will grow by 5.2 percent in 2012 and is expected to pick up to about 6.0 percent in the medium term. This translates to 5.5 percent growth for financial year 2012/13, 5.9 percent in 2013/14 and 6.3 percent in 2014/15. This projected growth will be driven by continued expansion in agriculture (barring any adverse weather), tourism, construction, transport and communication and ICT.

13) The Committee notes that this economic growth projection of 5.2 percent in 2012 is overly optimistic as it is based on weak assumptions of robust growth in the agricultural sector and Tourism. However, 2012 is likely to be a tough year for the tourism industry on account of the election uncertainties, sporadic terror attacks, coupled with the global economic slowdown. These are likely to put downward pressure on tourist arrivals and revenue at least in the short term.

14) The exports market is likely to perform poorly due to underperforming manufacturing sector, likelihood of underperformance of the agricultural sector, and downgraded economic outlook forecasts of the SSA region.[1] This may affect Kenya negatively in terms of reduced market for its exports in the SSA, COMESA and EAC region. This leaves the service sector – transport and communication and ICT - to drive economic growth. The ICT sector growth has made an important contribution to economic growth

[1] World Economic Outlook Update, IMF, January 2012

in the recent past but given the envisaged underperformance of the other sectors, it cannot propel growth to the 5.2 percent level.

15) The BPS further points out that given the limited resources, the government will rely on the private sector to meet the economy's resource requirements. This calls for faster implementation of the public-private partnership (PPP) agenda, promote regulation of private sector activity and provide for greater private sector access to finance. However, the Committee feels that given the tight monetary stance currently being pursued by the Central Bank of Kenya which has decreased private sector access to finance, it is highly unlikely that the private sector will be able to boost the economy in meeting its resource requirements. Furthermore, if the CBK maintains its tight stance, it will continue to curtail private sector growth. It is not clear for how long the CBK intends to pursue this given that inflationary pressures in the future are still apparent. As such, it remains to be seen how the government will facilitate private sector to expand its business.

16) The Committee notes with concern the slow implementation of the PPP framework. It is critical for the government to speed up this process and chart a clear way forward with regard to the PPP framework. However, the Committee gives a caveat on the likelihood of the Public Private Partnerships turning into contingent liabilities should the private partner(s) fail to deliver on a project. It is important therefore for the government to put in place adequate measures to minimize such risk.

17) According to the BPS, the current supply side driven pressures on prices and the exchange rate will subside in line with the reduction in oil prices and ample supply of food with normal weather conditions. This is expected to reduce demand pressure on imports and the current account. The government also targets to bring inflation down to single digit level within a year's time and thereafter to sustain it around the 5 percent level over the medium term.

18) The Committee notes that supply side risks to the oil market have been increasing due to the geopolitical problems in Syria, South Sudan and Yemen which have led to prolonged supply disruptions from these countries[2]. Under such circumstances, the risk of rising oil prices is looming. Thus the import bill is likely to increase. Furthermore, a forecasted poor weather outlook for 2012 annuls the expectation of ample food supply. Given this uncertain outlook coupled with other risks such as fiscal pressures given the upcoming general elections which are considered the most expensive yet,

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[2] Oil Market Report, 14 March 2012, International Energy Agency

implementation of devolved government and security operations in Somalia, it is unlikely that inflation will reduce to single digit levels in 2012.

19) The BPS points out that the government will continue to pursue strategic interventions to accelerate growth, improve competitiveness and promote exports. These include:

i) Continuing investment in infrastructure (energy, roads rail, telecommunications, water). However, the Committee notes that despite the progress made by the Government in so far as promoting investment in infrastructure, the proposed standard gauge railway as well as mass transit light rail system to enhance connectivity between Nairobi and its suburbs is taking too long to complete. The government should move with speed to complete the refurbishment of the railway network as it is vital in easing traffic congestion. There is need for a report on the status of this infrastructure project given that resources have already been allocated.

ii) Positioning export as a key driver of growth and employment with priority given to investment of infrastructure to facilitate export services in the oil sector from the region, attracting petroleum related industries and establishment of transhipment. However, given that the commercial viability of the recently discovered oil in Turkana has not been ascertained, the Committee feels that it may be a bit too soon to give priority to the oil sector as a key driver of expert led growth.

The committee is of the opinion that in order to address Kenya's weakening export growth, the government should not only diversify export markets but also diversify Kenya's export portfolio. Overreliance on coffee, tea and horticultural produce as the country's main export commodities has not augured well for the economy as these commodities are vulnerable to price volatilities in the international market as well as weather conditions. Kenya's export earnings are tied to its agricultural productivity which has suffered greatly in the last two years on account of poor weather conditions. Growth in exports therefore, can be achieved through enhanced investment in other sectors such as the manufacturing industry which has consistently underperformed.

iii) Improving access to new markets; and

iv) Improving competition and removing regulatory burdens to small business, and deepening regional integration. The Committee reiterates the need for Government to move with speed to improve the country's business environment. Indeed, the situation appears to be worsening as Kenya dropped three positions from 2011 and currently ranks at 109 out of 183 economies in terms of ease of doing business. Removal of regulatory burdens to small business proposed in the BPS is therefore a welcome move as it will expand small business growth opportunities thereby enhancing economic growth.

III. FISCAL POLICY AND BUDGET FRAMEWORK

20) The BPS asserts commitment to fiscal consolidation which is a combination of high revenue and low expenditure measures. This is coupled with a projection that the overall budget deficit will ease from **4.8%** of GDP in 2011/12 to **3.6%** of GDP by 2014/15.

21) Treasury also expects that the public debt to GDP ratio will ease to **42%** of GDP by 2014/15 below the set bench mark of **45%** of the GDP in the context of sustainable public financing. In this regard, the government hopes to simplify the tax code, expand income tax base, rationalize existing tax incentives and remove tax exemptions to increase the revenue base.

22) In this regard, the Committee notes with concern the recurrent case of overestimation of revenues based on high GDP growth rates and "administrative measures" to improve revenue. There has been no attempt to bring the informal sector under the tax umbrella in spite of the high resource requirements facing our country in the medium term.

23) The Committee observes that overall borrowing in 2011/12 has been suppressed due to low uptake of domestic debt and poorly performing donor economies. In light of this and also of the recurrent underperformance of revenue and increasing fiscal pressures, debt is likely to increase rather than decrease.

24) The Committee therefore observes that the easing of public debt to GDP ratio from **45.8%** in FY 2011/12 to **42%** over the medium term is pegged on the unrealistic GDP growth number of 5.2% considering the macroeconomic environment is still unstable.

25) To put this into perspective, international investors are likely to be averse to lending as a result of uncertainty over the future brought about by the impending elections as well as the poorly performing and constrained domestic economy. Therefore the mix of foreign to international debt seems unrealistic. In effect the larger part of deficit is likely to be met by domestic debt and therefore the expectation that concessional borrowing will constitute the larger share of this is unfeasible.

26) The Budget framework in the BPS assumes a GDP growth rate of **5.5%** in 2012/13 and single digit inflation. The Committee, however, notes that poor rains which will mainly affect the agricultural sector will suppress the growth of the economy. To such end there is also a drought mitigation allocation of **Kshs. 2 billon** in the BPS which may indicate that the Treasury also expects poor rainfall but this, however, does not appear inculcated in the economic growth projections.

27) The Committee also notes that the assumption of a reduction in recurrent expenditure on account of moderately lower wage bill is unrealistic because the wages are actually on an upward trend.

28) The Government adopts fiscal rules governing the budget. This should include structural balance, cyclically adjusted balance (CAB), and underlying current account balance, among others. In addition, the Government should publish in advance the rules. More specifically the publication should detail: (i) how the rules will be met, (ii) what happens if the rules are not met, and (iii) the time frame for when the targets will be reached.

IV. CONSTITUENCY DEVELOPMENT FUND

29) The BPS proposes that the CDF will still be sustained in the budget over the medium term. It projects the CDF allocation to be **Kshs. 24.4 Billion** in Financial Year 2013/14 and **Kshs.27.6 Billion** in 2014/15.The fund will be maintained at 2.4% of the total ordinary revenue.

30) The BPS further suggests that the CDF shall be incorporated in the County revenue to the County governments. Therefore Treasury suggests that the management structure of CDF will have to be changed in line with the new constitution.

31) The Committee notes that the CDF has been allocated 2.4% of the revenue which is lower than the stipulated 2.5% of total ordinary revenue. This translates to a short fall of **Kshs. 500 million**

32) The Committee also notes that the BPS is unclear on how the management of the fund (CDF) will be undertaken and whether the funds will be conditional or unconditional grants. In addition to this, the issue of the structure of CDF and its management in the future needs to be agreed upon and legislated as required.

33) There is need to take stock of all the on-going projects in local authorities and provide the necessary funds to complete them. In addition, given the importance of the Transition Authority it is imperative that it is properly funded in order for it to undertake its mandate adequately.

V. STRUCTURE OF THE BUDGET

34) There are inconsistencies between the Fiscal Framework (Annex 2 &3) and the details in ministerial expenditure (Annex 4 &5). The total development expenditure of **Kshs. 381.1 billion** that appears in the Ministerial expenditure is more than **Kshs.370.2 billion** that is reflected in the fiscal framework. It is in the Committee's opinion that the Treasury provides a clear and understandable format which should be accompanied with explanatory notes. In addition, during the scrutiny of the estimates of revenue and expenditure, the Treasury is required to submit the tables on Central Government Operations, ministerial ceilings (development and Recurrent), balance of payments, external financing requirements, and the Fiscal framework underpinning the vision 2030

35) The Structure of 2012/2013 fiscal year national budget being a transitional budget to devolved system of government should reflect the separation of spending programmes between National and County Governments in line with the constitution.

36) The programme based budgeting approach that the Government is embracing should provide clear outputs and outcomes of the various expenditure programmes with emphasis on redistributive and poverty reduction programmes.

37) The documentation of the annual budget should include a fiscal framework / outturn that is consistent with the Estimates of expenditure and Revenue

VI. EXPENDITURE PRIORITIES

a) Overall expenditure priorities

38) With regard to the resource envelop for Financial Year 2012/13, the BPS indicates that ordinary revenue will cover funding required for recurrent expenditure, leaving the entire development budget to be financed mainly through external project loans and grants, as well as domestic borrowing. More specifically, the recurrent costs of government operations for 2012/13 are expected to be met by ordinary revenue leaving only 5.2% of ordinary revenue for development expenditure. Further, the Government asserts that this financing framework bodes well with sustainability of public finances.

39) The Committee notes with concern that this mode of financing will not lead the country to sustainable path. To meet the Vision 2030 objectives, it is imperative to devote more domestic resources (revenue) towards financing development projects. This ensures predictability of the Budget in times of external economic shocks that affect external inflows.

40) A quick comparison between the resource requirement in the various sectors and what has been allocated as per the BPS indicates a major disconnect. There are deviations in the planned activities by the sectors and the sector ceilings. In some instances, the key priorities appearing in the BPS vary with what the various sectors agreed upon during sector consultations and resource contestation. Thus there are concerns on whether the Treasury respects the consultations they hold with ministries and in particular, whether the public hearings they hold inform the budget. Indeed, Departmental Committees have reported that during consultations, there are ministries which reported that they had never seen the Budget Policy Statement. This raises concerns on whether the BPS actually forms the basis of the annual and the medium term budget.

41) The BPS attempts to detail the criteria for resource allocation, however, it falls short of detailing the amount of resources going towards on-going projects as well as resource allocation to new programs. Overall, the criteria provided does not provide a yard stick for prioritization and targeting of programmes for enhanced service delivery. This is the black box of the budget process, who will decode it for Kenyans? The Committee emphasises the need for allocation of resources to be based on the cost of delivery of the required goods and services as per the mandates of specific institutions. For example the allocation for health should be based on the cost of the delivery of health services to Kenyans rather than an incremental basis which has been the tradition.

42) The Committee is also concerned that the executive through Budget Policy Statement has not appreciated the risk inherent in the recurrent budget due to pressure that will be exerted next year when the following key expenditures will be required:

i. **Operationalisation of the Devolved Governments:** Putting in place new structures set by the Constitution is expected to push up the government budget, especially the recurrent vote. Estimates from the Parliamentary Budget office indicate that doubling in the size of Parliament is expected to see an increment of recurrent cost from **Kshs.6.6 billion** to **Kshs.11 billion**[3] in FY 2012/13 and **Kshs.14.3 billion** in

[3] Assuming the current remuneration and logistical support remain at the same level, that is, no policy change.

subsequent Financial Year. The cost of the 47 new county legislatures is estimated at **Kshs.22 billion** or in excess of that should the members of county assemblies demand similar terms as those of the National Legislature.

ii. **General Elections:** The forthcoming general elections which are expected to cost the country about **Kshs.15 billion** - a 300% increase from what was spent in 2007 general elections and during the 2010 constitution referendum.

iii. **Public Sector Wage bill:** With the establishment of new institutions in the country, wage bill is expected to go up. This will be further driven up by the current ongoing demands by public officers for better wages as well as staff rationalization, if any.

43) In this regard, the government needs to ensure that available resources are efficiently utilized. Government should also ensure that unnecessary expenditures are avoided. More importantly, the Committee notes that it is desirable for the Treasury to set fiscal rules[4] so as to instil fiscal discipline.

b) Thematic Issues for Consideration in the 2012/13 Budget

✓ **Poverty reduction**

44) The committee is concerned that almost half of the Kenyan population is below the poverty line. The high economic growth was initially touted as beneficial to everyone in the country since wealth created would ordinarily trickle-down to even the poorest in the society. This has not happened.

45) In this regard, the committee notes the need for a delicate balance between achieving sustainable economic growth while ensuring distribution of wealth by reducing poverty and creating employment opportunities. This is critical in meeting the principles of equity and fiscal responsibility that will ensure that the country continues on the path towards becoming a fully cohesive and inclusive society.

46) To address the aforementioned issues the Committee calls for urgent intervention in the following areas:

i. Directing a proportionately higher portion of government expenditure to acquisition of capital (investment) as opposed to present consumption. This would create employment while setting the tone for even higher economic growth for the country.

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[4] Fiscal rules are defined as permanent constraints on fiscal policy through simple numerical limits on budgetary aggregates

ii. Setting the tone for the decentralization of government expenditures by providing for ministerial budgets at the county level in the 2012/13 budget.

✓ Current Basis of Allocation to Poverty Alleviation Programmes

47) The recent direct poverty alleviation measure of providing free funds to the poor has not worked and is not financially sustainable in the long term. This is because Kenya has not reached the economic levels of the developed world where social protection is comprehensive with unemployment benefits provided universally. Instead, efforts should be geared towards providing employment opportunities in order that poverty alleviation may be sustainable while reducing the direct cost implication on the government.

✓ Addressing Unemployment

48) The Committee notes with concern that one of the key issues facing the country is youth unemployment. To this end, the committee calls for the need to come up with ways and means of training the youth especially on entrepreneurial skills. This will go a long way in creating the critical mass for innovation and ultimately job creation. There is therefore need to provide aid and fiscal incentives to major companies that offer student industrial internships.

c) Overall expenditure priorities

i. Setting the tone for the decentralization of government expenditures by providing for ministerial budgets at the county level in the 2012/13 budget. Decentralization of expenditure is expected to entrench distribution of services across the country.

ii. Provide direct credit facilities through established government owned development finance institutions as opposed to private sector institutions. This is the most effective way to provide cheap, accessible and hassle free credit to the needy end-users.

iii. Expedite completion of flagship projects which may benefit the youth such as the Info city at Konza, and the planned resort cities.

iv. In order to retain the budget within the balance, the government should focus on rationalizing public entities. A review of all SAGAs should be undertaken with a view of abolishing those whose mandates are not relevant as well as merging institutions with overlapping mandates.

v. Government should continue reducing wastages in public service by leveraging on ICT whose cost has been on a downward trend. Furthermore, it is high time the government considered outsourcing non-priority goods and services.

vi. Need to establish guidelines on allowances and terms and conditions of service equivalent to those of the Canadian Treasury Board. This will streamline the privileges of key office holders across Government and consequently create some savings. Given the ballooning budget requirements occasioned by the cost of devolution, such savings can be allocated to key priority areas.

d) Sector priorities and allocations

✓ Agriculture ,Rural Development, and Lands

49) A total of **Kshs 117,876 Million** was requested by the sector while **Kshs.52,013 Million** was allocated therefore a **short fall of Kshs.65,863 Million.** The Sector has been allocated 56% of its total budget (44% of its resource requirement). This means that more than half of the activities that were initially planned are unlikely to be implemented. It's noted that the amounts allocated to the sector is less than the amount allocated in the 2011/12 FY at **Kshs.52,955 Million.** Thus the sector will have to scale down its activities.

50) The Committee notes that:

i. Substantial allocation of funds to water and irrigation projects and initiatives' through National Irrigation Board (NIB) in the efforts to mitigate against the country's vulnerability to repeated droughts is well documented. In the 2012 BPS, it has been allocated an amount of Kshs.11.6 billion for the 2012/13 year.

ii. The irrigation component has the potential to accelerate economic growth through increased food production. However this can only be achieved upon restructuring and improved capacity of the NIB to absorb the huge funds being appropriated through the Ministry of Water and Irrigation.

iii. The government has failed to plan for marketing and post harvest mechanisms in addition to farm inputs supply scheme. This was observed in a recent study tour to Hola and Bura by the Departmental Committee of Agriculture when it found an estimated 6,000 bags of maize under the ESP programme implemented in 2009/10 still held by farmers and prone to pest infestation due to poor storage.

iv. Canals were poorly maintained while thousands of bags of fertilizers for ESP supplied in the 2009/10 season were still held up in stores belonging to the National Youth Service with no indication when they would be used.

v. The current trend of implementation of irrigation projects may not achieve its desired outcome owing to poor coordination among the Ministries in the irrigation sector.

51) In order to increase agriculture productivity, the following interventions should be considered:

i. Improve access to farm inputs, increased utilization of research and innovation and provision of agriculture information

ii. Promotion of strong and viable farmer's cooperative societies through training to improve on marketing and investments on viable projects as well as improve public trust on the same by improving management and accountability.

iii. Need for harmonization of activities carried out in agriculture sector by various stakeholders so that there is value for money and more investment in research and hence increased resources for livestock extension services.

iv. Funding required for establishment of disease free zones in ASAL regions as one of the sector's flagship projects. To improve health and quality of livestock products for export.

v. Investing in agro-industries and value-addition on produce to be able to improve both the quality and quantity of the final products.

vi. Given that disease prevalence stands in the way of Kenya's ability to export its livestock products, and the meagre allocation to a key flagship program, the Committee recommends that key flagship projects likely to ensure the achievement of Vision 2030 in addition to programs projected to increase revenue for the country be considered for more funding in the 2012/13 FY and in the Medium Term.

vii. The Committee recognizes the contributions of Value – addition of products to the growth of agri-business with the expected increase in job opportunities in addition to ensuring sustained food availability amidst climate change challenges. Given the emphasis on increased food production, value –addition is critical in ensuring the excess production finds market internationally, and therefore adequate budgets be provided towards this programme.

viii. Consider allocating enough resources towards: (i) construction of mini-fish farming processing plants in 47 counties intended to add-value to the fish products, (ii) expanding fish farming programme to the rest of the 50 Constituencies, (iii) Cage culture development in the offshore areas of the Indian Oceans, inland lakes, dams and rivers, purchase of offshore patrol vessel for marine and coastal services, (iv) implementation of the Cabinet Memo in the Nile Perch through the implementation and the operationalization and the deployment of the Coast Guard unit project geared towards protecting national and trans-boundary shared water.

52) **Digitization of land records:** Due to lack of digitization of lands records or making it possible for the above to take place, has and will lead to a number of issues:-

i. Lack of developments constraint by unavailability of proper land records;
ii. Continued court disputes and conflicts; and
iii. Poor land use.

✓ **Energy, Infrastructure & ICT**

53) A total of Kshs.398, 202 Million was requested by the sector but Kshs.230,783 Million was allocated and therefore a short fall of Kshs.167,419 Million. Though the sector has been allocated 23% of the total budget (58% of its resource requirement), quite a number of the activities that were initially planned are likely to be shelved.

54) Despite major achievements over the recent past, there are still challenges, including: delayed uptake of donor funds, inadequate power supply capacity; over-reliance on hydroelectric power generation; low investment in power generation by private sector; inadequate capacity for research in ICT and film industry.

55) The following interventions should be considered:

i. Increasing available energy to meet increased demand at favourable prices; promotion of geothermal, solar and wind power which are clean energy and can be harnessed in different parts of the country depending on the comparative advantage.
ii. Improve electricity transmission and minimize losses through vandalism.
iii. Improve the collaboration between the government and the private sector and promotion of training on ICT to increase human capacity through PPP framework.
iv. The development of light rail system in the Nairobi Metropolitan area to minimize on fuel use and man hours lost in traffic jams.
v. Increase funding for the rural electrification programme to enhance electricity access in the rural areas.
vi. The Government should allocate more funds to the Ministry of Roads to enable the Ministry complete ongoing road projects, especially the transnational road projects linking Kenya with her neighbours.
vii. The Government should allocate funds for the Lamu Port Project. This is a major development project which needs adequate funding to enable the Ministry of Transport complete this project that will definitely be a big boost to the Country's economy.

✓ **General economic, Commercial and Labour Affairs**

56) A total of **Kshs.84,874 Million** was requested by the sector while **Kshs.22,957** Million was allocated and therefore a short fall of **Kshs.61,917 Million**. The sector has been allocated 2% of the total budget (27% of its resource requirement). As a result, most of the activities that were initially planned to be implemented will not be implemented. This will have adverse effects in that;

i. The increase in GDP by at least 10% per annum from manufacturing sector may not be attained.
ii. The country's domestic tourism which would have contributed to revenue will remain untapped.
iii. Investing in human capital to implement the labour laws, arbitration of trade dispute, mainstreaming of occupational safety and health issues at workplaces.
iv. Coordination on trade activities to avoid functional overlaps and duplications.
v. Contribution of manufacturing sector to GDP was envisaged to increase to at least 10% per year in the MTP targets but this has not been achieved. There is need therefore to increase resource allocation to promoting local industries through skilled manpower and marketing the same.

57) **Institutionalization of Youth Enterprise Development Fund: -** Youth Enterprise Development Fund (YEDF) was established to reduce unemployment among the youth who account for over 61% of the unemployed in the country. This objective has not been met despite the annual increase in allocation to the fund which is projected to reach **Kshs.1 billion** mark in 2012/13 estimates. The fund has been operating on a presidential legal notice since its establishment in 2006 which makes it an easy target for political manipulation and patronage. Thus, the concerned Ministry should bring to the House a legislation to institutionalize the fund so as to make it more accountable and professionally run to achieve its mandate.

✓ **Health**

58) A total of **Kshs.143,428 Million** was requested by the sector however, **Kshs.77,002 Million** was allocated and therefore a short fall of **Kshs.66,426 Million.** This raises concerns because:

i. The Health sector is projected to be allocated Kshs.77 Billion, representing only 54% of the funds required to optimally sustain the sector;
ii. the sector is projected to receive only about 8% of the total budget, which is below the 15% commitment made by the government under the Abuja Declaration;

iii. the BPS fails, yet again, to address the request to capitalize the Kenya Medical Supplies Agency (KEMSA), so as to enhance efficiency, improve procurement and supply of medical suppliers;
iv. the BPS fails to reflect the government's commitment to employ and retain more healthcare personnel;
v. The Curative programmes under the Ministry of Medical Services are likely to continue to be grossly underfunded on both Development and Recurrent Votes, respectively, in the year 2012/2013 Estimates;

✓ **Administration and National Security**

59) The Committee is deeply concerned by plans by the Government to award a vehicle procurement tender to a Chinese company, bearing in mind that a similar contract in the yester years resulted in sub–standard vehicles being bought for the Police. The Committee recommends that the proposed contract be suspended.

60) The Committee also recommends that the Criminal investigation forensic laboratory be completely overhauled and money be allocated to set up a new facility. The Department should be turned into a fully-fledged Directorate.

61) The Ministry of State for Immigration and Registration of Persons has been under funded in the forthcoming budget. The Ministry is expected to receive Kshs.8.553 billion against a request of Kshs.13.906 billion. The Ministry had planned to undertake very critical projects such as issuance of 3rd generation identity cards, and other population data related projects which is key for a smooth electoral process. The Committee requests Treasury to consider increasing funding to this Ministry.

62) The allocation for the Office of the Vice President and Ministry of Home Affairs; and the Cabinet Office which received more than requested, should be reduced and such reductions transferred to the Ministry of State for Provincial Administration and Internal Security; and the Ministry of State for Immigration and Registration of Persons, respectively. The Ministries will boost their kitty in funding security related projects.

✓ **Defence and External Affairs**

63) **Foreign Exchange Fluctuations:** The budget of the Ministry has continued over the years to reflect estimates and provisions without regard foreign exchange fluctuations which affect the budget. To deal with this matter, the committee recommends that a contingency fund be set to deal with foreign exchange fluctuations.

64) **Evaluation and Rationalization of foreign missions abroad:** The committee noted that there is need for evaluation and rationalization of existing foreign missions, with a view to providing allocations based on economic viability and reinforcing those with national importance. Those missions that have no economic viability should be closed down. A good example is the mission of Ireland, where the committee recommends for its closure owing to the fact it does not serve any purpose.

65) **Acquisition of property:** the committee noted the need for Government to finance properties of missions abroad using the mortgage principle (paying in instalments for acquisition of the property) as opposed to paying for rent in perpetuity.

66) **Collection of AIA in foreign missions:** The committee noted that collection, use and remittances of AIA in the Ministry is wanting. There is need for the Ministry to formulate proper guidelines that address this matter.

67) The Ministry of Defence should delineate their budget to clearly show modernization of projects, re-equipping projects, and refurbishment projects. Indeed, it has been noted that lack of clear identification of such projects has led to misuse and abuse of funds.

68) **The** item on the purchase of Kenya Navy Oceanographic vessel, *MV jasiri* has not been factored in the 2012/13 Budget. This issue has been pending for a long time and therefore the Treasury should provide resources to conclude the payment without further delay.

- ✓ **Finance, Planning and Trade**

69) The allocations for all the line ministries should be up-scaled to be at least 40% of the resources they requested as per the sector reports. The Committee noted with concern that almost all Ministries have been allocated less than 40% of their requested amounts. These additional resources should be re-allocated from the Ministry of Finance Headquarters administrative programme which seems to have been allocated more than required.

70) Equalization fund is not a devolved fund and should therefore not be included therein. The Equalization Fund and Constituencies Development Fund should be ring fenced and disbursed for specific purposes.

71) In determining the amount of ordinary revenue, all incomes from government investments and even dividend income from Central Bank of Kenya should be treated as part of ordinary revenue. The whole amount should consequently be considered as such even for Constituencies Development Fund.

72) In order to improve on absorption of funds by line Ministries and departments, Treasury should not delay disbursement of earmarked funds. Further, Line ministries and Departments should improve their planning in lieu of the lengthy public tendering procedures.

VII. RECOMMENDATIONS

The Committee recommends the following:

1) Fiscal Policy and Budget Framework

73) On the budget framework;

i. Given the weak fundamentals driving the economic growth over the period 2012/13, the growth target should be revised **to 5.2 percent.**
ii. The Equalization fund according to Article 221(2) a, be increased to **Kshs.6.7 Billion** as per the requirements of the Constitution. In addition, not later than 31st May, 2012, the CRA should publish the criteria for identification of marginalised areas to enable operationalization of the fund at the start of 2012/13. In addition the requisite law should be enacted and the minister gazettes the rules and regulations governing the fund. The Committee takes exception that in 2011/12, it was recommended that the equalization fund be operationalized but that was not realized
iii. According to the Contingency Fund Act, the contingency fund be increased to the statutory level of **Kshs.10 billion**; the committee therefore recommends for full provision of this amounts in the annual estimates for 2012/13.
iv. To enhance manufacturing, the Government should provide 10 year tax holiday for large textile industries that:
    a. Use 100 percent local raw materials and labour to produce products for local market and export;
    b. New or revitalized paper milling companies that sustainably use 100 percent of local raw materials;
    c. Fully fledged vehicle manufacturing industry with strong domestic supply linkages; and
    d. Vehicle manufacturing companies that enter into franchise arrangements with either Numerical Machining Complex or local vehicle assembly industries to fully manufacture vehicles in Kenya.

2) Constituency Development Fund (CDF)

74) Treasury should provide for previous shortfalls of **Kshs.3.4 billion** and an additional **Kshs.500 million** arising out of under-funding to the Fund.

75) This House to speed up the amendment of the CDF Act to conform to the provisions of the new Constitution.

76) The Treasury should release, within the first quarter of 2012/13, 50% of the CDF allocation for 2012/13 to ensure that the projects under CDF are completed on time.

3) Preparedness for devolution

✓ **County Structures**

77) Provisional Estimate of Expenditure be made for setting up the necessary infrastructure in the Counties.

78) **Transitional Authority:** The Treasury provide adequate resources to set up the Transition Authority.

79) **Ongoing Projects:** Additional resources of **Kshs.4.8 billion** should be allocated towards completing the ongoing ESP market projects.

4) Division of resources among the Three Arms of Government

✓ **Ceiling for the Parliamentary Service Commission**

80) Based on the cost per Member of Parliament, the Committee recommends that the ceiling for Parliament for 2012/13 be set at **Kshs.14 billion** for recurrent **and Kshs.4.15 billion** for development.

✓ **Ceiling for the Judiciary**

81) Based on the Treasury Circular No. 2/2012, for 2012/13, the Judiciary had been allocated **Kshs.9.775 billion.** However, the total request was **Kshs.18 billion.** The Committee recommends a ceiling of **Kshs.12.6 billion** for recurrent expenditure and **Kshs.3.0 billion** for development expenditure. Overall, the total ceiling of judiciary should be set at **Kshs.16.4 billion.**

✓ **Ceiling for the Executive**

82) For 2012/13, the committee proposes that Ministerial ceiling for the executive be limited to **Kshs.936.75 billion**. To be within this ceiling, it is necessary for the Government to initiate expenditure cuts in non priority areas. In addition, within this ceiling, the following sector-specific priorities should be taken into consideration;

✓ **Specific Sectoral Priorities**

i. The Government should move with speed to complete the refurbishment of the railway network as it is vital in easing transportation. The development of the light rail system in the Nairobi Metropolitan area would reduce the man hours and fuel cost in traffic jams.

ii. There is need to increase Rural Electrification funding in order to expand outreach. In the report of the Budget Committee on the estimates of expenditure for 2011/12, the Committee recommended for additional resources to REA. However, this did not happen. The committee reiterates its position and that this consideration be factored in the 2012/13 budget.

iii. More resources should be allocated to develop science and industrial polytechnics. At least **Kshs.10 million** should be allocated to each of the 520 -registered youth polytechnics in Kenya to purchase equipments and infrastructure.

iv. Increase tuition support for students enrolled in youth polytechnics to **Kshs.2 billion** (**Kshs.890 million** was allocated in 2010/11).

v. Increase the allocation to the Veterinary Services Development Fund to **Kshs.1.2 Billion** to facilitate infrastructure development. The BPS has however indentified the program as one the fiscal risks – pending expenditures and hence no allocation was made in the 2012/13 FY.

vi. Increase the allocation to the **Kenya Animal Genetic Resource Centre (KAGRC)** by **Kshs.234 Million** to the already allocated **Kshs.60 Million** for the Parastatal, Kenya Animal Genetic Resource Centre for infrastructure development.

vii. Increase the allocation for **Livestock Extension services** from **Kshs. 200,000** per district to **Kshs.2million** per County.

viii. The irrigation component be reverted to the Ministry of Agriculture since it is well endowed with the technical capacity to exploit the irrigation potential for food security.

ix. **Kshs.1.3 billion** be allocated towards Post harvest crop management (driers and stores).

x. Extension Services and Capacity Building programme be allocated **Kshs.3.36 billion.**

xi. Operationalization of Kenya Farmers Agricultural Cooperative Union for fertilizer and input supply, at **Kshs. 100 million**;
xii. Value addition and market access for products and services at **Kshs. 270 million**;
xiii. Capacity building for new transport SACCOs at **Kshs. 20 million**;
xiv. Establishment of Cooperative Development Fund at **Kshs. 100 million**;
xv. Market information and establishment of information centers at **Kshs. 30 million**, and
xvi. Transport for county offices for cooperative marketing at **Kshs. 275 million**
xvii. Increase the allocation to Drought Monitoring through operationalization of the National Drought Management Authority (NDMA), by an additional **Kshs.412 million** and establishment of the National Drought and Disaster Fund be allocated **Kshs.2 billion.**
xviii. The allocation to NSIS should be reduced since the entity has demonstrated resistance to accountability to Parliament
xix. An additional **Kshs.5.3 billion** be allocated for capitation and employment of at least one ECD teacher per centre.
xx. Allocation of Kshs. 5 million per constituency for establishment of at least five (5) ICT Centres in each constituency.
xxi. Treasury provides Kshs.13.6 Billion for the employment of 40,000 teachers.
xxii. The government allocates Kshs.2.1 Billion for promotion of teachers and Kshs.200 Million for automation of TSC records.
xxiii. An additional of Kshs.5.8 Billion be provided for the improvement and infrastructural development in the university colleges.
xxiv. Consider allocating Kshs.3.9 Billion for accelerated admission and loans to students.
xxv. The Ministry of Finance should also allocate Kshs.3.0 Billion for Research, Innovation and Technology.
xxvi. Increase the funds for Recruitment of 750 Medical Staff, made up of doctors, clinical officer and nurses;
xxvii. Increase the funds for enhanced remuneration and training expenses to existing health Personnel;
xxviii. Increase the funding for procurement of drugs, non-pharmaceuticals and capitalization of KEMSA;
xxix. Increase the Funding for purchase of ARVSs and purchase of cancer screening machines;
xxx. Provide necessary funding for procurement and maintenance of 290 ambulances, for each constituency;
xxxi. Provide sufficient funding to all referral hospitals with focus on Kenyatta National Hospital;

xxxii. Provide sufficient funding for restructuring and staffing of the pharmaceutical regulations sector, including hiring of inspectors to curb proliferation of counterfeit pharmaceuticals; and

xxxiii. Provide requisite Funding for Construction and Rehabilitation of Heath Facilities and procurement of equipments.

- ✓ **Legal Framework: The need for Integrated Public Finance Management Law**

83) Parliament should fast track the legislation process of the Public Finance Management Bill 2012 to create an enabling environment for functioning of both levels of Government. Indeed, in the absence of the PFM law, all the enacted laws that seek to operationalise the county Governments will not yield desired results. Financial flow is of utmost importance. The PFM law will also reduce the conflict of interest amount institutions of public finance enumerated in Chapter 12 of the Constitution

84) Finally, the House should adopt the report of the Budget Committee, the Minister take note of the above recommendations and the respective ministries be ready to make the proposed changes during the review of the Estimates by the various Departmental Committees.

MINUTES OF THE 109TH SITTING OF THE BUDGET COMMITTEE HELD ON 25th APRIL, 2012 IN THE COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING AT 10.00 A.M

PRESENT

1) Hon. Elias Mbau, M.P
2) Hon. Alfred Sambu, M.P
3) Hon. Danson Mungatana, M.P
4) Hon. Abdul Bahari, M.P
5) Hon. Nelson Gaichuhie, M.P
6) Hon. Emilio Kathuri, M.P
7) Hon. Jackson Kiptanui, M.P
8) Hon. John Mbadi, M.P
9) Hon. Mithika Linturi, M.P – Chairman, PIC
10) Hon. Hussein Abdikadir, M.P – Chairman, CIOC
11) Hon. Adan Keynan, M.P – Chairman, Defense & Foreign Relations
12) Hon. Ekwe Ethuro, M.P – Chairman, CFC
13) Hon. Njoroge Baiya, M.P – Acting Chairman, Justice & Legal Affairs
14) Hon. David Koech, M.P – Chairman, Education, Research & Technology
15) Hon. Shakeel Shabbir, M.P – Finance, Planning & Trade Committee

IN ATTENDANCE	PARLIAMENTARY BUDGET OFFICE
Phyllis Makau	Director, Parliamentary Budget Office
Fredrick Muthengi	Fiscal Analyst
Martin Masinde	Fiscal Analyst
Gilbert Kipkirui	Fiscal Analyst
Mwaniki Gichohi	Fiscal Analyst
Millicent Ojiambo	Fiscal Analyst
Erick Kanyi	Junior Fellow
Lewis Mungai	Junior Fellow

AGENDA

1. Preliminaries/ Confirmation of Agenda
2. Confirmation of Previous meeting minutes
3. Matters Arising
4. **Review and Adoption of the Committee's Report on the BPS**
5. Any Other Business

MIN. 56/2012: Preliminaries

The chairman called the meeting to order at 10.30 a.m. The meeting was opened with a word of prayer from the secretariat. He appreciated Departmental Committees for meeting within the short notice and forwarding their reports to the Committee. In view of time constraints, members agreed to amend the agenda, by deferring the confirmation of minutes to give more time to deal with the substantive agenda.

MIN. 57/2012: Review and adoption of the Committee's report on the BPS

The Chairman noted that the Budget Committee had prepared its report on the Budget Policy Statement for 2012/13 and was ready to be tabled in the House later in the day. Members were informed that the recommendations contained in the Departmental Committee reports had been incorporated into the Committee report.

The Committee was taken through the Draft report and agreed in principle on the contents of the report. The Committee made some amendments which were then incorporated before the report was adopted.

MIN. 58/2012: Adjournment

The Committee adopted the Report with amendments and the meeting was adjourned at 12:50 pm

CHAIRMAN: ______________________

SIGNATURE

DATE: 25/04/2012

MINUTES OF THE 108th SITTING OF THE BUDGET COMMITTEE HELD ON TUESDAY, 24TH APRIL 2012, IN THE SMALL DINNING HALL, MAIN PARLIAMENT BUILDINGS AT 11.00 AM

PRESENT

1. Hon. Elias Mbau, M.P-Chairperson
2. Hon. Moses Lessonet, M.P
3. Hon. Nelson Gaichuhie, M.P
4. Hon. Danson Mungatana, M.P
5. Hon. Jackson K. Kiptanui, M.P
6. Hon. David Ngugi, M.P-Chairman, Local Authorities Committee
7. Hon. Aden Keynan,M.P-Chairman, Defense &Foreign Relations Committee
8. Hon. Chris Okemo, M.P-Chairman, Finance, Trade and Planning Committee
9. Hon. David Koech, M.P-Chairman, Education, Research and Technology
10. Hon. Sophia Noor, M.P-Chairperson, Labor and Social Welfare Committee
11. Hon. John Mututho, M.P-Chairman Agriculture, Livestock and Cooperatives Committee
12. Hon. Njoroge Baiya, M.P-Acting Chairman, Justice and Legal Affairs Committee

IN ATTENDANCE

13. Hon. Amina Abdalla, M.P

KENYA NATIONAL ASSEMBLY STAFF

1. Mr. Fredrick Muthengi-Fiscal Analyst, Parliamentary Budget Office.
2. Mr. Lewis Mungai-Junior Fellow, Parliamentary Budget Office.
3. Mr. Eric Kanyi-Junior Fellow, Parliamentary Budget Office.

AGENDA

1. Preliminaries/confirmation of Agenda
2. Confirmation of previous meeting minutes
3. Matters arising
4. **Continuation of the Consideration of The Budget Policy Statement**
5. A.O.B

MIN.49 /2012: PRELIMINARIES/CONFIRMATION OF AGENDA

The Chair called the meeting to order at 11.50 am. He then welcomed and thanked members for finding time to attend the meeting. The chairman also took member through the agenda and emphasized on strictly dealing with the set agenda.

The chair informed the members present that the Judiciary will have a sitting with the Budget Committee on Wednesday 25th April 2012 to make a presentation of their proposed estimates of expenditure for the financial year 12/13.

MIN. 50 /2012: CONFIRMATION OF PREVIOUS MEETING MINUTES

In view of time constraint, members agreed to defer confirmation of the previous meeting minutes to a later date and deal with more substantive matters.- the **Continuation of the Consideration of The Budget Policy Statement**

MIN. 51 /2012: STATUS OF SUBMISSION OF REPORTS BY DEPARTMENTAL COMMITTEES

The chair invited the Mr. Fredrick Muthengi to give a list of Departmental Committees that have submitted their reports on the Budget Policy Statement.

He went ahead and informed members that nine committees had already submitted their reports and only three committees are yet to submit their reports on the same as at the time of the committee meeting.

The committees that had submitted their reports were;

1. Labor and Social Welfare Committee
2. Administration and National security Committee
3. Education, Research and Technology Committee
4. Local Authorities Committee
5. Transport, Public Works and Housing Committee
6. Energy, Communication and Information Committee
7. Justice and Legal Affairs Committee
8. Lands and Natural Resources
9. Defense and Foreign Relations Committee

The committees that had not yet submitted their reports on Budget Policy Statement were;

1. Agriculture, Livestock and Cooperatives
2. Health Committee
3. Finance ,Trade and Planning Committee

The Chairman Agriculture, Livestock and Cooperatives Committee informed the Committee that his committee was meeting at the Time and therefore would submit their report on the afternoon of 24th April 2012.

Also the same case applied for the Finance, Trade and Planning committee as they were also meeting then and would submit their report on the BPS in the afternoon of 24th April 2012.

The chair on behalf of Budget Committee members appreciated the different committees for their efforts and job well done considering the limited time they had at their disposal. Chair, pointed out that even some committees meeting over the weekend in order to beat the tight timeframes.

MIN. 52 /2012: PRESENTATION OF REPORTS ON BUDGET POLICY STATEMENT.

The Chairman invited the Chairpersons of different Committees to submit their reports on BPS

A. **Hon. Aden Keynan, MP-Chairman, Defense and Foreign Relations Committee**
The chairman informed the Committee that his committee had come up with very realistic proposals which were unanimously agreed by Members of Defense and Foreign Relations Committee.
He informed the Committee that one of the major recommendations of his Committee is the reduction of the National Security Intelligence Security (NSIS) budget estimates.
He also informed the Committee that the budget estimates of NSIS have never been scrutinized.
He informed that the NSIS was summoned by his committee and failed to honor the invite arguing that that they were not under the watch of Parliament.
He added that his committee has made international visits to familiarize themselves on how security matters are handled in other countries and confirmed they are completely in line with what his committee was doing on behalf of parliament.
Members present lamented that the output from NSIS is very wanting and urged the Defense Committee to summon and grill NSIS

B. **Hon David Koech ,MP-Chairman, Education, Research and Technology Committee**
He informed the Committee that his committee had sittings on Friday 20th April 2012 and Saturday 21st April 2012 to prepare the BPS report.

He also informed the Chair that they engaged the Ministry of Higher Education, Ministry of Education and Teachers Service Commission

a. **Ministry of Higher Education**

He informed the Chair that his Committee engaged the Minister of Higher Education and other senior officials. He informed the Chair that of key concern to his committee was;

- ✓ Enough Funds have not been allocated for the elevation of nine colleges to universities yet it was a presidential pronouncement and it will be an embarrassment if these projects do not take off.
- ✓ Funds have not been allocated for accelerated admissions in public universities.
- ✓ Additional funds have not been availed to Higher Education Loans Board yet more students are being admitted to Universities.
- ✓ Pan African University has not been provided with any funds yet Kenya is the host for this regional institution.

b. **Ministry of Education**

The main concern of his Committee was that the Early Childhood Development and Education (ECDE) has not been mainstreamed and has been put under General Administration and Planning sector contrary to Minister of Finance commitment to mainstream it. Due to this, his committee noted that it is difficult to ascertain the exact money given to ECDE.

c. **Teachers Service Commission**

The major concern to his committee was that funds have not been provided for recruitment of teachers and yet there was a commitment to employ 40,000 teachers.

MIN. 53/2012: MATTERS ARISING

Members were concerned that treasury may not incorporate the proposals from the Budget Committee on the Budget Policy Statement and wanted to know if treasury can be made to delay tabling of the FY 12/13 budget estimates.

The chair informed members that the constitution does not allow for delay unless an amendment is introduced.

Members also inquired the possibility of the Budget Committee report being tabled on Wednesday 25th of April 2012 and debated on that same day.

Members insisted that treasury should not table printed estimates before Budget Committee recommendations are taken on board.

The Chair informed the members that he will undertake to seek guidance from the Speaker of National Assembly on the matters raised by members.

MIN.54/2012: A.O.B

The chair reminded members that there will be another meeting on 25th April 2012 at 10am between the Budget Committee and the Judiciary where the later will present proposals on their 12/13 budget estimates.

MIN.55/2012: ADJOURNMENT

There being no other business, the meeting was adjourned at 1.30pm.The next meeting will be held on Wednesday, 25th April at 10am with the Judiciary Service Commission to discuss their Estimates of Expenditure for 2012/13.

CHAIRMAN...

SIGNATURE

DATE....25/04/2012..

MINUTES OF THE 106TH SITTING OF THE BUDGET COMMITTEE HELD ON MONDAY APRIL 23rd, 2012 IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING, AT 2:15 PM

PRESENT

Hon. Elias Mbau, M.P- Chairperson
Hon. Alfred Sambu, M.P
Hon. Danson Mungatana, M.P
Hon. Abdul Bahari, M.P
Hon. Nelson Gaichuchie, M.P
Hon. Emilio Kathuri, M.P
Hon. David Were M.P- Chair, Transport, Public Works & Housing Committee
Hon. David Ngugi M.P-Chairman, Local Authorities Committee
Hon. Mithika Linturi M.P -Chairman, Public Accounts Committee
Hon. Mutava Musyimi M.P-Chairman- Lands & Natural Resources Committee
Hon .Sophia Noor, M.P – Chair, Labour and Welfare Committee
Hon. Ekwe Ethuro, M.P- Chairman, CFC / CDF Committee
Hon. Njoroge Baiya, M.P- Acting Chairman, Justice and Legal Affairs
Hon. Hussein Abdikadir- Chairman, Constitution Implementation Oversight Committee
Hon. Aden Keynan, M.P. - Chairman, Defense & Foreign Relation Committee

ABSENT WITH APOLOGIES

1) Hon. Jackson Kiptanui, M.P
2) Hon .Martin Ogindo, M.P

IN ATTENDANCE

1) Mr. F. Muthengi - Fiscal Analyst, Parliamentary Budget Office
2) Mr. M. Masinde- Fiscal Analyst, Parliamentary Budget Office
3) Mrs. L. Makara – Fiscal Analyst, Parliamentary Budget Office
4) Ms. M. Ojiambo - Fiscal Analyst, Parliamentary Budget Office
5) Mr. E. Kanyi - Junior Fellow, Parliamentary Budget Office
6) Mr. L. Wandaka - Junior Fellow, Parliamentary Budget Office

AGENDA

1. Preliminaries / confirmation of Agenda
2. Confirmation of previous meeting minutes
3. Matters arising
4. **Continuation of consideration of Budget Policy Statement**

5. Any other business

Min 39/2012: Preliminaries

The meeting was called to order at 3:10 pm with a word of prayer from a member of staff. The Chairman welcomed members to the meeting. The Chair also reminded members of the joint Budget Committee and Finance, Planning and Trade Committee Breakfast Briefing hosted by the Commission on Revenue Allocation at the Serene Hotel beginning at 7.30am on Tuesday 24th April 2012.

Min 40/2012: Confirmation of Previous Meeting Minutes

The minutes of the previous Committee meeting held on the 20th April 2012 were read and confirmed as true reflection of the Committee's deliberations. The Hon. Njoroge Baiya proposed the minutes and Hon. Alfred Sambu seconded the minutes.

Min 41/2012: Matters Arising

Under Min 36/2012: Brief on the Budget Policy Statement

A) Presentations by other stakeholders on revenue allocation

Members sought the Parliamentary Budget Office to give its own proposal of the revenue sharing criteria. In addition, they requested the PBO to identify other relevant stakeholders to give their own views on a revenue sharing formula. This should be done as soon as possible. Members suggested organizations such as KIPPRA, IPAR, the Ministry of Planning, and Commission on Poverty Eradication. In addition, the Committee also suggested inclusion of Dr. David Ndii and Dr. Wnjuku Kabira among the institutions to brief the Committee accordingly.

In addition, Members expressed their concern with the identification of marginalized areas by the CRA. The Committee souls seek an explanation from CRA on this particularly during the Breakfast meeting the following day.

B) Contingency Fund

Members noted that provision for the contingency fund was pegged at Kshs 5.0 billion as opposed to stipulated capping at Kshs 10 billion as per per recently enacted Civil Contingencies Fund Act. Thus The Committee Observed that Provision should be raised to Kshs 10 billion as per the civil Contingencies Fund Legislation.

C) Departmental committee reports on the Budget Policy Statement

The Chairman informed the Committee that some Departmental Committees had begun submitting their reports on the Budget Policy Statement for discussion and adaptation by the budget committee in their report on the budget policy statement. Attention was drawn to the summary of specific fiscal risks – pending expenditures, annexed in the BPS. It was agreed that as the committee reviews the Departmental Committee presentations, the fiscal risks would be considered.

D) Constitutional reform

Members queried what the Kshs. 13.0 billion allocated for Constitutional Reform and noted that it altogether different from allocation to the IEBC. The Parliamentary Budget Office informed members that treasury had set aside these funds for the full transition to the new constitutional dispensation. However, members noted that there was need for further clarification on the issue of constitution reform; to identify the key factors under consideration.

E) Unallocated fund

Members raised concern over the Kshs 3.5 billion unallocated funds. They suggested that these funds should be allocated to other priority areas since there was a contingency fund to cater for unexpected events.

F) Refunds by the Ministries to Treasury

Members expressed their dismay by the poor/low absorption of funds by the various government ministries and agencies especially development funds. They wanted an explanation from treasury on what happens to funds once they are returned.

G) Public procurement law

Members noted that the Public Procurement law was being cited as a hindrance to the utilization of funds by the various government ministries and agencies. Members wanted to know the exact provisions in the law that were hindrance and requested for a meeting be organized with accounting officers for key ministries and agencies to seek an explanation on why and which provisions of the procurement law was hindrance to absorption funds. Members noted the Ministry of Public works was the major cause of the the problem.

H) Equalization fund

Members were concerned that the Equalization Fund was being earmarked in the budget policy statement for activities that weren't provided for in the constitution. They noted that constitution under article 204(2) was very clear on what it should be used for. In addition they noted that the amount should be Kshs 6.7 billion, the cumulative amount for two years. The Committee strongly indicated that the issue of the Equalization Fund should feature prominently in its report.

I) Adherence of the BPS to the Fiscal Management Act Provisions

Members noted with concern that the lack of adherence to section 7(3) (d) the FMA whereby the BPS failed to mention the sectoral allocations for the current financial year and also the outputs expected from such sectors raised issues of lack of accountability.

Min42/2012: Continuation of Consideration of Budget Policy Statement

The Chairperson of the departmental Committee on Labour and Social Welfare submitted their report on the Budget Policy Statement. In its Recommendations, the Labour and social welfare Committee noted that there was gross underfunding to the e Ministry of Special Programmes and the allocations does not factor transport element of the relief services to the beneficiaries. They only deliver food stuff to district headquarters without factoring subsequent transportation to various centres within affected districts.

Further the Committee noted that also the Ministry of Youth Affairs and Sports is underfunded. Consequently the Committee recommended that the ministry of Youth Affairs and Sports budget should also be given increased funding. The chairman, budget committee informed the chairs of the departmental to submit their reports which will be discussed in the next meeting

Min 43/:2012 ANY OTHER BUSINESS

i.) Members were informed of a Joint Budget Committee and Finance, Planning and Trade Committee Breakfast meeting hosted by the Commission on Revenue Allocation at the Serena hotel at 7:30 am on the 24th April, 2012. The discussion would be on the CRA's Creteria for revenue allocation.

ii.) Members were also informed that they were meeting the Judiciary on Wednesday 25th April 2012, to discuss their budget proposals

Min 44/:2012 Adjournment

There being no other business, the meeting was adjourned at 4:50 pm to pave way for the second meeting with the Parliamentary Service Commission to discuss their Estimates of Expenditure for 2012/13

CHAIRMAN: ....

SIGNATURE

DATE: ....25/04/2012..........

MINUTES OF THE 107TH SITTING OF THE BUDGET COMMITTEE HELD ON MONDAY 23rd APRIL, 2012 IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING, AT 5:00 PM

PRESENT

A. Hon. Elias Mbau, M.P- Chairperson
B. Hon. Alfred Sambu, M.P
C. Hon. Abdul Bahari, M.P
D. Hon. Nelson Gaichuchie , M.P
E. Hon. Emilio Kathuri, M.P
F. Hon. David Were M.P- Chairman, Transport, Public works and Housing committee
G. Hon. David Ngugi M.P-Chairman, Local Authorities committee
H. Hon. Ekwe Ethuro, M.P- Chairman,Constituency Fund Committee
I. Hon. Njoroge Baiya, M.P- Acting chairman, Justice and Legal affairs committee
J. Hon. Aden Keynan, M.P.- Chairman, Defense & Foreign Relation committee

IN ATTENDANCE

1) Hon. Aden Keynan, M.P - Vice Chairman, Parliamentary Service Commission
2) Mr.P.Gichohi- Clerk, Kenya National Assembly
3) Mr. J.Bundi- Deputy Clerk in Charge of Projects
4) Mr. C. Nyandiere – Director, Information and Research services
5) Mrs. P.Makau- Director, Parliamentary Budget Office
6) Mr. S.R. Obundo- Principal Accounts Controller
7) Mr. J. Irungu – Senior Finance Officer
8) Mr.D.Ng'ang'a- Senior Principal Personnel Officer
9) Mrs. L. Makara – Fiscal Analyst, Parliamentary Budget Office
10) Ms. M. Ojiambo- Fiscal Analyst, Parliamentary Budget Office
11) Mr. F. Muthengi- Fiscal Analyst, Parliamentary Budget Office
12) Mr. E. Kanyi- Junior Fellow, Parliamentary Budget Office
13) Mr. L. Wandaka- Junior Fellow, Parliamentary Budget Office

ABSENT WITH APOLOGIES

1) Hon. Jackson Kiptanui, M.P
2) Hon .Martin Ogindo, M.P

AGENDA

1) Preliminaries
2) Matters Arising
3) **Agenda**
    a) Presentation of PSC budget estimates for 2012/2013
4) Any other business

Min 45/2012: Preliminaries

The meeting started at 5:00 pm with the chairman welcoming the Parliamentary Service Commission to the Budget Committee meeting.

Min 46/2012: Presentation of Parliamentary Service Commission Budget Proposals Estimates for 2012/2013 FY

The Parliamentary Service Commission led by its Vice-chairman, Hon. Aden Keynan, M.P presented to the members of the Budget Committee their budget estimates proposals for 2012/2013 FY. The key highlights of the presentation were as follows

A) The proposed budget estimate for 2012/2013 FY is a total of Kshs 18.05 billion, where Kshs 13.9 billion is the proposed recurrent expenditure and Kshs 4.15 billion is the proposed development expenditure.

B) The budget estimates proposal had been prepared with the assumption that the election date will be on 4th March, 2013. However, the commission informed members that it was also ready for a December, 2012 election if that becomes the case.

C) The Public Service commission informed members that for the financial year 2011/2012, it had utilized 65% and 26% of its recurrent and development expenditure respectively. The Commission further stated, it was possible to use the remaining 35% of the recurrent expenditure funds by the end of the financial year. Members were further informed that it was unlikely to use all its development expenditure funds since some of the development projects planned for implementation in the current FY may not take off. The commission informed members that it is likely to use 50% of development funds by the end of the financial year

D) The Commission also informed the members that it had factored in its budget estimates proposals for the Senate and the expanded National Assembly including the support services such as offices and staff requirement to carry out their mandate. An assumption was made by the commission that the members of the Senate and expanded National Assembly will receive the same salary and allowances as the current members of Parliament.

E) The commission informed Members that it had also factored in its budget estimates an amount to cater for expected members taxes with regard to their Parliamentary Salaries and allowances up to January 14th , 2013 when the mandate of 10th Parliament comes to an end.

The Commission highlighted the key projects to be undertaken in 2012/ 2013 financial year as follows;

I. The commencement of construction of a new ultra modern office block which will cost Kshs.500 million.

II. Kshs 1.2 billion for Acquisition of the protection house from Ministry of Housing.

III. Purchase of residential house for the Speaker of the Senate

IV. Purchase and refurbishment of Harambee Plaza at a cost of Kshs 700 million

V. Refurbishment of the Senate chambers and offices at a cost of Kshs 700 million

VI. Construction of a new kitchen and cafeteria for the expanded Parliament

VII. Recruitment of new staff to serve the expanded Parliament

VIII. Expansion of the Centre for Parliamentary Studies and Training to cater for needs of both the expanded parliament and the various county assemblies.

Members raised some concerns with regard to expenditure for 2011/2012 FY budget and 2012/2013 FY budget estimate proposals as follows;

I. The low utilization of development funds and the delays in commencing of development projects. Members requested an explanation on the same. The commission explained that the lengthy procurement process as per the Public Procurement and disposal Act, 2005 and delays caused by the Ministry of public works.

II. The interest rate charged to Mortgage given to members of Parliament. The Commission informed the members that the interest rate charge was capped at 3%.

III. The slow process in recruiting staff in readiness for the expanded parliament. The commission informed members that it had finished preparing the organizational structure for the new expanded Parliament and will begin advertising for the new posts soon.

IV. Members further wanted to know whether in the planning for acquisition of Protection house from the Ministry of Housing the commission had also considered Embassy Building. The PSC informed the members that it had not considered Embassy House since it wanted to create a Parliamentary Square and Embassy house wasn't part of it

V. The Level at which the Parliamentary Service Commission had placed the Senate in terms of its relationship with the National assembly and salaries and allowances. The PSC informed members that the salaries for Senate would be considered by Salaries and Remuneration Commission. However, it made the assumption that salaries and allowances will be the same until otherwise informed by the Salaries and Remuneration Commission. It further pointed out to members, that it had scheduled a meeting with representatives of the National Assembly and Senate on the Salaries and Remuneration Commission to further discuss the matter.

VI. Members further wanted to know when the new chambers will be ready for use. The commission informed members that the tentative date for members to start using the new chambers was 12th June, 2012 which will be marked by an opening ceremony. Members were informed that the delay in opening the new chambers for members was as a result of Prison Services delaying in providing the seats for the chamber . However, the commission informed the members that it had talked to the prison services who had promised to fast-track the supply of the seats.

VII. On the delay in implementing the Akiwumi recommendation on pensions for former members of parliament. The PSC informed members that Akiwumi report hadn't been implemented because it required an amendment to both pensions and parliamentary pension acts and PSC as a body couldn't introduce legislation to parliament. The PSC informed members that it was the duty of the Minister of Finance to introduce those amendments. In addition, PSC informed members that they had drafted and submitted to the Ministry of Finance the bills necessary for the implementation of Akiwumi recommendation on parliamentary pensions for members, for introduction in parliament.

Members were also informed by the commission that there was an official from the Kenya Revenue Authority stationed at parliament to offer tax advice services to members and members should take advantage of the same.

Min 47/:2012 ANY OTHER BUSINESS

The following were discussed under A.O.B

i) Members were informed of an invitation by the CRA to attend a presentation on the revenue allocation formula at the intercontinental hotel at 7:30 am on 24th April, 2012

ii) Members wanted that the clerk's office to furnish them with returns for expenses incurred for the various committees. In addition, they wanted an internal memo sent to members informing them that a KRA official had been posted to parliament to serve members with regard to tax matters.

iii) Members also wanted to know from the clerk office, why the Media and PR department wasn't doing much on presenting the correct position with regard to matters affecting parliament. They noted that in the office of Prime Minister and State House, the PR and Media departments were at the forefront of defending those institutions and presenting the correct view to the public. Members wanted the same to be done for parliament.

iv) Members were also informed that they would be a meeting for the Judiciary on Wednesday 24th April 2012, to discuss their budget proposals

Min 48/:2012 Adjournment

There being no other business, the meeting was adjourned at 7:00 pm

CHAIRMAN: ....

SIGNATURE

25/04/2012

MINUTES OF THE 105TH SITTING OF THE BUDGET COMMITTEE HELD ON FRIDAY 20TH APRIL 2012 IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING, AT 10.00 A.M

PRESENT

1) Hon. Elias Mbau, M.P – Chairperson
2) Hon. Alfred Sambu, M.P
3) Hon. Martin Ogindo, M.P
4) Hon. John Mbadi, M.P
5) Hon. Danson Mungatana, M.P
6) Hon. Abdul Bahari, M.P
7) Hon. John Mututho, M.P – Chairman, Agriculture, Livestock and Cooperatives
8) Hon. James Rege, M.P – Chairman, Energy, Information and Communication
9) Hon. Sophia Noor, M.P – Chairperson, Labour and Social Welfare
10) Hon. Aden Keynan, M.P – Chairman, Defence and Foreign Relations
11) Hon. Thomas Mwadeghu, M.P – Chairman, Local Authorities and Fund Accounts
12) Hon. Ekwe Ethuro, M.P – Chairman, CDF Committee
13) Hon. Njoroge Baiya, M.P – Acting Chairman, Justice and Legal Affairs

IN ATTENDANCE

1) Hon Shakeel Shabbir, M.P – Finance, Planning and Trade Committee

ABSENT WITH APOLOGIES

1) Hon. Jackson Kiptanui, M.P
2) Hon. Nelson Gaichuhie, M.P

AGENDA

1. Preliminaries/ Confirmation of Agenda
2. Confirmation of Previous Meeting Minutes
3. Matters Arising
4. **Brief on the Budget Policy Statement**
5. Any Other Business

MIN.34/2012: Preliminaries

The meeting started at 10.50 a.m with a word of prayer from a member of staff. The chairman welcomed members to the meeting and reminded them that this was a very important meeting.

MIN. 35/2012: Confirmation of Previous Meeting Minutes

The minutes of the previous meeting held on 18th April 2012 were read through and confirmed. They were proposed by Hon. Danson Mungatana and seconded by Hon. Thomas Mwadeghu as a true reflection of the committee's deliberations.

MIN. 36/2012: Matters Arising

MIN. 31/2012:

a) Review of the PFM Bill:

Members were reminded of the communication from the chair that to proceed with debate on the PFM, there is need for extension of timeline by resolution of the House. They were informed that the leader of government business would give notice of motion to seek extension for the Bill to be debatable in the House.

b) Meeting with CRA on the proposed revenue sharing criteria

Members were informed that the venue of the breakfast meeting with CRA on Tuesday 24th April 2012 at 7.30 a.m had been changed from Hotel Intercontinental to Serena Hotel. Members felt that there was need to move fast on the revenue sharing formula given that the budget would be laid in the House soon enough. Members felt that the role of the CRA was to make recommendations concerning the basis for equitable sharing of revenue but not necessarily to decide on the revenue allocation formula. The constitutional provision on this matter is very general. Thus parliament could very well have its own experts to come up with a formula. It was agreed therefore that the CRA proposed revenue criteria would be subjected to the Parliamentary Budget Office as well as other relevant agencies for review and improvement, if need be.

MIN. 32/2012:

a) Processing of the BPS

Concern was expressed over item 9.19 in the summary of fiscal risks to the – pending expenditures in the BPS: purchase of 5.7 million bags of maize. It was felt that this sends the wrong signal that the country cannot be able to provide for itself. Members agreed that since discussion on the BPS was the substantive agenda of the meeting, any issues arising from the BPS would be discussed therein.

b) Brief on the Supplementary Estimates

Members expressed disappointment over the apparent apathy by some Members of Parliament on matters related to the budget when these are brought to the floor of the

House. It was agreed that going forward, there was need to build consensus within the committee on action to be taken on crucial budgetary matters.

Members were urged to reject the additional component of 1.6 billion for purchase of fertilizer and 1.7 billion for fertilizer subsidy in the supplementary estimates as it was already off-season for fertilizer.

A clarification was sought on whether the Budget Committee could reduce and/or re-allocate expenditure and this was confirmed as possible.

Members sought clarification on why Net Domestic Borrowing amounted to119.5 billion in the 2011/12 Budget but decreased to 62.1 billion in the revised budget yet interest payment increased from 76.6 billion in the 77.7 billion in the same period. This was attributed to decreased uptake of Treasury Bills whereas the interest payment was increasing due to payment of mature loans.

Clarification on the various stages of the budget process was requested. It was agreed that this would be addressed later to give time for discussion on the substantive agenda.

MIN.36/2012: Brief on the Budget Policy Statement

The PBO gave members a brief on the Budget Policy Statement. The key highlights of the presentation were as follows:

The BPS 2012 has not fully adhered to the provisions of the Fiscal Management Act 2009 which forms a legal basis for the submission of the Budget Policy Statement. Section 7(2) of the FMA provides that the BPS shall be laid in the National Assembly not later than 21st March of every year. However, the Minister of Finance failed to adhere to this stipulation. Furthermore, the BPS 2012 has failed to mention the sectoral allocations for the current financial year and also the outputs expected from such sectors as required by section 7(3)(d) of the FMA.

The total envisaged Budget for the 2012/13 is Kshs. 1.15 trillion. Of which:

- CFS Recurrent (Excluding Redemption): 137.3 Billion
- Recurrent Ministry: Kshs.608.6 Billion
- Ministry Development: 381.1 Billion
- Contingency: 5.0 billion
- Constitutional Reform: 13.0 billion
- Equalization Fund : 3.6 Billion
- Unallocated : 3.5 Billion

There is lack of consistency between the Fiscal Framework and the ministerial ceilings.

The comparison between the 2011/12 Budget and the 2012 BPS is as follows:

	2011/12 (Revised)	**2012/13**
Total Revenue	790.0	936.5
Expenditure	998.4	1152.1
O/w Recurrent (Non Inrst)	589.9	663.1
O/w Interest Payments	86.6	97.2
Deficit (Excluding Grants)	208.3	215.7
Deficit (Including Grants)	160.2	167.4
Financing:		
Net Foreign	98.1	60.7
Net Domestic Borrowing	62.1	106.7

The BPS projects a deficit (including grants) of 4.3 percent of GDP in 2012/13, easing to 3.5 percent by 2014/15. Furthermore, BPS asserts that in the 2011/12 budget, public expenditure expanded to reach 33.5 percent of GDP due to continued infrastructure spending, implementation of the new constitution, drought mitigation measures and food security, security intervention in Somalia and Salary awards. It is pointed out that public expenditure as a share of GDP will need to moderate to prevent accumulation of debt.

Given the continued underperformance of revenue and the rising fiscal pressures, the government may have to borrow more to sustain its expenditure. This is worsened by uncertainty of flow of donor loans and grants since donors may adopt a wait and see attitude. Thus debt may increase rather than decrease in the coming financial year.

Government expenditure as a share of GDP is at an all time high. In this regard, PBO suggest that 2012/13 government expenditure should be no more than 29% of GDP in 2012/13. For this to happen, there is need for the government to identify key non priority areas for expenditure cuts.

BPS forecasts total revenue to reach Ksh. 790 billion (24% of GDP) this financial year (decline from the budgeted Ksh. 792.1 billion) and Ksh. 936.5 billion (24.2% of GDP) in 2012/13 - an increase of Ksh. 146.5 billion from the estimated 2011/12 BPS projection.

Foreign grants are projected to rise to Ksh. 48.1 billion by end June 2012 relative to Ksh. 41.1 billion originally estimated in the approved budget. The amount of grants only rise marginally to Ksh. 48.3 billion in coming 2012/13 financial year, and then reaches Ksh. 48.4 billion in 2013/14 and 56.4 billion in 2014/15. As a percent of GDP, grants will decline from 1.4% of GDP to about 1.1% of GDP in 2014/15.

Expenditure and net lending expected to rise from Ksh.998.4 billion in 2011/12 to ksh.1152.1 billion (29.8% of GDP) in 2012/13. This includes interest payments amounting to Ksh. 86.6

billion by June 2012, which will rise to Ksh. 97.2 billion by June 2012/13. The biggest component of interest payments is domestic interest payments (Ksh. 85.5 billion in 2012/13) of the Ksh. 97.2 billion.

Wages and benefits of civil servants, expected to rise from Ksh. 229.4 billion in the current financial year to Ksh. 262.9 billion in 2012/13, Ksh. 295.7 billion in 2013/14, and peak at Ksh. 329.9 billion in 2014/15.

Recurrent expenditure is projected to decline from 20.5% of GDP to 18.9% of GDP by 2014/15, **development spending to rise** from 9.4 % in 2011/12 to 10 percent in 2014/15.

Contingencies amount will be Ksh. 5 billion for 2012/13 and 2013/14, and Ksh. 10 billion in 2014/15

Constitution reform will take Ksh. 13 billion in 2012/13, 7 billion the next year, and 5 billion in 2014/15.

Equalization Fund to receive Ksh. 3.6 billion in the coming financial year, which will rise to Ksh. 4.3 billion in the next, and Ksh. 5 billion in 2014/15.

Of particular concern to the members was the issue of revenue where it was felt that revenue forecasts had been based on overambitious rates of growth of the economy. Revenue projections need to be based on realistic variables. Revenue has been increasing at a decreasing rate which implies decreasing compliance. This is a pertinent issue that needs to be addressed.

As a way forward on the BPS, members were informed that all Departmental Committees had been informed of the Monday deadline to submit their reports on the BPS. The Budget Committee will pick key recommendations from the reports of the various Departmental Committees and incorporate them into the final report to be tabled in the House.

MIN. 37/2012: Any Other Business

Members were informed of an invitation of Budget Committee members by the Regional Centre for Small Arms and light weapons to attend a meeting on the small arms and light weapons scheduled to take place in Mombasa from 25th – 27th April 2012

Members were informed that the Parliamentary Service Commission would meet with them on Monday 23rd April 2012 at 4.00 p.m. to discuss their budget (2012/13 budget estimates).

MIN. 38/2012: Adjournment

There being no other business, the meeting was adjourned at 12.50 p.m.

CHAIRMAN: --

SIGNATURE

DATE: 25/04/2012

MINUTES OF THE 104TH SITTING OF THE BUDGET COMMITTEE HELD ON WEDNESDAY 18TH APRIL 2012 IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDING, AT 11.00 A.M

PRESENT

1) Hon. Elias Mbau, M.P – Chairperson
2) Hon. Alfred Sambu, M.P
3) Hon. Jackson Kiptanui, M.P
4) Hon. Danson Mungatana, M.P
5) Hon. John Mbadi, M.P
6) Hon. Emilio Kathuri, M.P
7) Hon. Abdul Bahari, M.P
8) Hon. Omar Zonga, M.P
9) Hon. Nelson Gaichuhie, M.P
10) Hon. Moses Lessonet, M.P
11) Hon. Thomas Mwadeghu- Chairman, Local Authorities and Fund Accounts Committee
12) Hon. Ekwe Ethuro, M.P – Chairman, CDF Committee
13) Hon. Njoroge Baiya, M.P – Acting Chairman, Justice and Legal Affairs Committee
14) Hon. John Mututho, M.P – Chairman, Agriculture, Livestock and Cooperatives
15) Hon. James Rege, M.P – Chairman, Energy, Communication and Information
16) Hon. David Koech, M.P – Chairman, Education, Research and Technology

IN ATTENDANCE

1) Hon. Shakeel Shabbir, M.P – Finance, Planning and Trade Committee

IN ATTENDANCE – PARLIAMENTARY BUDGET OFFICE

1) Phyllis Makau – Director, Parliamentary Budget Office
2) Nicodemus Odongo – Senior Fiscal Analyst
3) Martin Masinde – Fiscal Analyst
4) Fredrick Muthengi – Fiscal Analyst
5) Gilbert Kipkirui – Fiscal Analsyt
6) Millicent Ojiambo – Fiscal Analyst

AGENDA

1. Preliminaries/ Confirmation of Agenda
2. Confirmation of Previous Meeting Minutes
3. Matters arising
4. **Processing of the BPS and Brief on the Supplementary Estimates**
5. Any Other Business

MIN.29/2012: Preliminaries

The meeting was started with a word of prayer at 11.30 a.m. The chairman welcomed members to the meeting and informed them that the Budget Policy Statement had finally been laid at the floor of the House on 17th April 2012. Members were reminded of the Speaker's direction to the Budget Committee to review the BPS and write a report which should be laid in the House within seven days.

MIN. 30/2012: Confirmation of Previous Meeting Minutes

The minutes were read through and confirmed by Hon. Danson Mungatana who was seconded by Hon. Jackson Kiptanui.

MIN.31/2012: Matters Arising

MIN.26/2012: a) Discussion on the views of the Budget Committee on the PFM Bill

Members were informed that the PFM Bill had been retrieved due to lapsing of the timeline. This was necessary in order to ensure that the debate on the bill is constitutional. The House is therefore awaiting communication from the Speaker before deliberations on the bill can continue.

MIN. 26/2012: b) Discussion on the proposed revenue sharing criteria by the CRA

Members were reminded of the breakfast meeting to be held at 7.30 a.m at Hotel Intercontinental on 24th April 2012 and were urged to attend. The Parliamentary Budget Office was requested to ensure that the CRA makes enough copies of the presentations to be made so that members can be able to follow the presentations. PBO was also requested to give Budget Committee enough information, for it to be able to respond adequately to the CRA proposals.

MIN. 32/2012: Processing of the BPS and Brief of the Supplementary Estimates

a) Processing of the BPS

Members were informed that they would be required to review the BPS, in consultation with the various Departmental Committees within seven days which includes writing the report and laying it in the House. a detailed draft timetable of schedule of meetings to process the BPS was outlined as follows:

DATE	PROPOSED STEP
Friday at 11.00 a.m	Unpacking of the Budget Policy Statement by the Budget Office
Monday afternoon	Consideration of comments from other departmental committees
Tuesday at 11.00 a.m	Consideration of the draft Budget Committee Report on the BPS

Wednesday at 11.00 a.m	Adoption of the report
Wednesday at 2.30 p.m	Laying of the report and notice of motion
Thursday afternoon	Debate on the report and resolutions made

Members felt that the challenges facing the country today in form of strikes by Teachers, Doctors was as a result of the Treasury not taking all their recommendations into the budget. It was felt that the Budget Committee recommendations on the budget 2011/12 reflected the wishes of the people more since they had been compiled after consultations with the public. It was agreed that this time, Budget Committee would not allow for corrigenda but after making their report, the estimates will have to be changed entirely.

Members deliberated on the venue for writing the BPS report, with Naivasha being proposed as a tentative venue. However, some members were of the opinion that a venue in Nairobi would be more convenient and it would be easier to raise quorum.

b) Brief on the Supplementary Estimates

The PBO took members through the Supplementary Estimates. The key issues highlighted were as follows:

- The proposals by the Minister seek to increase the budget laid in June by Kshs. 21 billion.
- There has been expenditure shortfall due to lower absorption recorded in both recurrent and development expenditure. the shortfall in recurrent expenditure amounts to Kshs. 304.4 billion mainly in operations and maintenance, pensions and salaries &wages. On the other hand, development expenditures were below target by Kshs 80.4 billion. This shortfall was attributed to non capture of the district expenditures and gaps in reporting by the development partners on direct funding of projects
- A few ministries have adhered to austerity measures proposed by Parliament on non-priority items such as communication, domestic and foreign travel, printing, hospitality, office and general supplies, furniture and purchase of vehicles. However, some spending agencies are seeking additional funds for these items.
- Major enhancements across all the spending units under recurrent expenditure are to cater for commuter allowance increments.
- Ministry of Defense has received the biggest allocation of Ksh12.5 billion for KDF which increases its annual budget from Ksh 52 billion to Ksh 64.5 billion.
- Teachers Service Commission has been allocated additional Ksh 6.1 billion mainly to cater for employment of new teachers and conversation of those in contract to permanent and pensionable.

- Ministry of Gender, Children and Social Development has received additional Ksh 400 million under development vote to cater for increased transfers to Orphans and Vulnerable Children.
- The Judiciary has introduced a new item of purchase of motor vehicles with Ksh. 500 million.
- Ministry of Public Service request for Ksh 2.162 billion for a new item, contribution to compulsory health insurance scheme.

Notable increments in the development vote include:

- Ministry of Finance requested for Ksh 2.5 billion for equity participation in the Kenya Airways rights issue.
- Ministry of Agriculture requested for Ksh 1.9 billion for purchase of fertilizer and Kshs.1.723 billion for fertilizer subsidy (with A-i-A of Ksh 1.7 billion)

Major Reductions

- Training Funds in all agencies have been cut.
- IEBC has been cut Ksh 4 billion which were mainly from voter registration.
- Other operating Expenses for Ministry of Finance have been cut by Kshs. 627.3 million.

Development votes have been slashed largely.

- The Ministry of Energy has had donor reduction of its development budget by Ksh 8.6 billion.
- Ministry of Water and Irrigation has faced a major cut in its development vote by Ksh. 1.4 billion which were mainly for water conservation and dam construction.
- Ministry of Livestock has been cut by Ksh 636 million.
- Judiciary has been cut Ksh 1.1 billion
- National Assembly has been cut by Ksh. 201 million
- Ministry of energy by Ksh 829.5 million

Consistency with Ministerial Statement

- The Minister in his statement to Parliament, sought for funds for water harvesting and storage for sustainable agricultural development. A total of Ksh. 1.1 billion was earmarked for construction of water pans. A further cut of funds to National Irrigation Board worsens the situation. The huge reduction of funds for Ministry of Water will dampen the efforts geared towards improving acreage under irrigation as well as access to water.

- Major cuts in funds to construct slaughter houses in ASAL areas under Ministry of Livestock Development by Ksh. 636 million reneges the commitment by the Minister to scale up the projects initiated in the 2010/11 budget.

- With the surge in recurrent expenditure and cuts in development budget fails to keep the Minister's commitment to direct more funds to priority development. It is observed that the increase in recurrent has been occasioned to a greater extent in the increment in allowances paid to employees. This will further aggravate the wage bill burden which the Minister had pledged to keep below 7% of GDP.

A. Financing of Supplementary Estimates

The Budget Committee was concerned on the financing of the budget given the overly optimistic revenues projected by the Minister.

Even though borrowing has been low up to February 2012, the Government has heavily borrowed in March, a trend expected to continue to the end of the financial year due to underperformance of tax revenue. This is not a surprise because PBO had cautioned in its Budget Options for 2012/13. This seems to be the only avenue that the Government is going to utilize to raise additional resources to fund the additional expenditures arising from the supplementary budget. Indeed, the government has increased budget for interest payment by Ksh 2.5 billion. Domestic borrowing by government will have repercussions on the economy including crowding out private sector investments due to ensuing rise in interest rates.

B. Other Emerging Issues

1. **Use of A-in-A at the Source:-** Members may recall that Parliament had directed most Appropriations-in-Aid be converted to revenues to avoid leakages. The Quarterly Economic and Budgetary Review (QEBR) for the second quarter of the year indicated that Ministry of Immigration had spent Ksh 3,452 million though had been issued with exchequer totaling Ksh 273 million. This is an indication that there is a probability that the recommended change of the appropriations in aid that was being collected by this Ministry into revenue may not have been effected. The Supplementary Estimates has not regularized this as well. Thus there need for clarifications to be sought on these issues.
2. **Withdrawals in CFS:** A review of Statement of Actual Net Exchequer Releases as at 31st March, 2012 indicates that Salaries under CFS have exceeded annual budget by Ksh 11.4 billion (exchequer issues totaled Ksh 14,519,060,000 as at 30th March, 2012). In the revised estimates, the Minister has enhanced the CFS-Salaries by Ksh. 289.7 million only.
3. **Low Absorption of Development Funds:** As Members noted earlier, agencies exhibit low absorption of development funds as compared to recurrent votes. It is important to note that low absorption of development funds results to non-implementation of projects and programs and is also costly in terms of holding funds that the government has borrowed and already paying interest for.

Members raised concern over whether the variations in expenditure are within 10% as required in article 223(5). There was a debate on whether the 10% applies to overall expenditure or expenditure per head. It was felt that the spirit of the article was to enforce fiscal discipline and 10% is a yardstick which members should stick to. PBO informed members that in terms of overall variance, recurrent expenditure was to increase by about 5% whereas development expenditure was to reduce by about 6% therefore overall variations were within 10%. PBO was directed to flag those variations per head that are in excess of 10%. Members agreed that there was need to get legal interpretation on the article.

Members expressed concern over re-allocation of funds from development expenditure to recurrent expenditure.

Members felt there was need for further clarity on the additional funds going to the Ministry of Funds in terms of what it was actually going to fund.

Members also felt that some additional funds required did not really constitute unforeseeable expenditure. A case in point is the request by the Ministry of Agriculture for additional funds; 1.9 billion for purchase of fertilizer and 1.7 billion for fertilizer subsidy.

PBO was requested to establish the pattern of supplementary estimates over the past financial years.

Members expressed concern over the commitment of government to poverty reduction and employment creation given that there were reductions in the estimates particularly on irrigation and energy.

As a way forward on processing the BPS, the PBO was directed to write a letter to the Director of Committee Services giving the timetable for unpacking the BPS. Members were urged to come for the briefing on the BPS on Friday, 20th April 2012.

MIN. 33/2012: Adjournment

There being no other business, the meeting was adjourned at 1.45 pm. Next meeting will be held on Friday, April 20, 2012.

CHAIRMAN: --

SIGNATURE

DATE: 25/04/2012