FOR IMMEDIATE RELEASE
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FORUM ON BUDGET POLICY STATEMENT 2016 AND DEBT MANAGEMENT STRATEGY

By February 15 each year, the National Treasury must table a Budget Policy Statement (BPS) in Parliament. The BPS is a critical moment in the annual budget process when a number of key decisions like estimating the overall size of the national budget and sector distribution of the budget (share of the budget for health, education, etc.)

IBP Kenya and Kenya Association of Manufacturers (KAM) held a forum today, February 25, 2016 to bring out some of the key issues that are in the BPS 2016 and the Debt Management Strategy Paper.

KEY ISSUES

1. While the national budget is not falling, as some have claimed, there is an attempt to restrain expenditure growth and begin to reduce the deficit. BPS 2016 proposes an 8 percent increase in expenditure, 14 percent increase in revenue and a 6 percent decrease in the deficit from the current year (2015/16).

2. There is a slight decline in the funding for ministries, departments and agencies from Ksh 1.505 trillion to 1.490 trillion. This reflects a decline in development spending at ministry level of roughly Ksh 64 billion, while recurrent expenditure is rising by 49 billion.

3. This reflects a declining share of the budget going to the energy/infrastructure sector and an increasing share for governance, environment and education. BPS 2016 proposes to decrease the share of the budget allocated for the energy/infrastructure sector from 27 to 25 percent of the total budget. There is an equally large increase in governance, justice, and law and order sectors from 10 to 12 percent. This is mainly driven by a significant increase (352 percent) in the allocation to the Independent Electoral and Boundaries Commission (IEBC). However, there is no clear justification for these changes in the narrative section.

4. Funding for counties has not been “cut” as has been suggested in the media, but it is growing more slowly than national funding. Our analysis shows that the national share of shareable revenue is to increase by 12.5%, while counties will only rise by 7.9%. This is much less than the 15% increase proposed by the Commission on Revenue Allocation. No justification is provided for funding counties less than CRA recommends or for national revenue growing faster than county revenue.

5. The National Treasury proposes maintaining all the conditional grants transferred to counties in 2015/16, with small increases for Level 5 hospitals and the road maintenance grant and a small decrease for maternal health. They also propose a small additional grant (Ksh 200 million) to improve emergency services in Tana River and Lamu Counties due to their proximity to Somalia and terror attacks in the region. It is not clear why maternal health is being cut or why other areas affected by insecurity are not included in this new emergency services grant.

6. The BPS 2016 does not give the criteria for distributing conditional grants. The distribution of funds across counties should respond to equity concerns and different needs across the country, and the BPS should contain an explanation of distributional criteria and a justification for the same.
7. **Public Participation.** We applaud the National Treasury for inviting the general public to comment on the draft BPS early February 2016. However, the final BPS 2016 does not show how public input led to revisions between the draft and final BPS. The annex contained in the BPS 2016 only provides responses to public concerns at sector level that appear **not** to have led to any changes in the BPS. The impression created is that public concerns have already been addressed elsewhere and that public input does not have an impact on budget decisions.

8. **The Debt Management Strategy Paper proposes to increase foreign borrowing and increase the share of treasury bonds in domestic borrowing.** This is intended to reduce “refinancing risk” by extending the maturity of debt and reducing the overall interest rate. However, it will introduce additional exchange rate risk as the share of external borrowing rises. Given the challenges with the Eurobond, it is essential, as Treasury recognizes, that government improve communication and transparency around external funding.

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