Memorandum on the Budget Estimates 2017/18

To: The Clerk to the National Assembly
Parliament of Kenya

March 15, 2017

RE: CIVIL SOCIETY VIEWS ON THE 2017/18 BUDGET ESTIMATES

During the week of Feb 21, 2017, civil society organizations and citizens convened to discuss the 2017/18 Budget Estimates and to prepare this memorandum for Parliament’s Budget and Appropriations Committee.

This Memorandum was prepared by:

1. Parliamentary Initiatives Network (PIN) members:
   a. International Budget Partnership (IBP) Kenya
   b. The Institute for Social Accountability
   c. Article 19
   d. Transparency International Kenya
   e. Africa Youth Trust
   f. African Institute for Health and Development
2. Institute for Public Finance Kenya
3. Development Initiatives
4. Economic and Social Rights Centre - Hakijamii

Key Highlights

- The cabinet approved a Ksh 100 billion increase in staff remuneration for the civil service in 2017/18. However, it is not possible to identify this increase in the publicly available budget documents, indicating continued lack of transparency in management of the wage bill.
- Kenya’s debt service obligations are rising by a significant margin going into 2017/18 and 2018/19. Parliament must begin to ask hard questions about whether the cost of debt is reducing fiscal space to fund ongoing services and county governments.
- Parliament should ensure that the distribution criteria for all national government funds are transparent and equitable, as many current funds are either opaque or focus on equality rather than equity.
- As IEBC prepares for elections, there is a need for closer scrutiny of its budget to close loopholes in procurement that have been identified by the Auditor General in the past.

Total Expenditure

The total budget for 2017/18 for all government Ministries, Departments and Agencies (including Parliament and the Judiciary) is Ksh 1.63 trillion; this is 3 percent lower than the total budget approved for the year 2016/17.
Spending on development will decline by 22 percent in 2017/18 compared to the original approved budget in 2016/17. This is mainly driven by a significant reduction in the development budget for the energy, infrastructure and ICT sector whose budget is reducing by Ksh 138.76 billion or 28 percent of its 2016/17 budget as captured in the Budget Policy Statement 2017. This overall decline in capital spending seems to contradict the government’s position that investments in infrastructure will be sustained and expanded. What impact will this have on on-going projects and priority development areas such as rural electrification and irrigation projects?

A Ksh 40 billion increase in wages in the National Treasury is the main reason for a significant increase in the allocation to the public administration and international relations sector. The sector, which also includes the Presidency and Parliament, will see its share of the total budget increase by 3 percentage points. However, none of the publicly available budget documents explains what the increased wages are for. The National Assembly should ensure that there is clarity in areas where there are spikes in wage allocation in terms of who is getting paid.

Interest on debt and pension payments is rising at a faster rate than revenues. The largest proportion of the allocation for these items will go toward interest payments (Ksh 280.72 billion) while pensions make up about 20 percent of the allocation (Ksh 71.90 billion). According to the budget, the interest payments and pensions will increase by 15 percent between 2016/17 and 2017/18 while the total revenue will only grow by 14 percent (ordinary revenue, mainly local taxes, is projected to grow by 13 percent). The growth is based on the approved budget for 2016/17.

The share of the budget going to interest payment and pensions is growing between 2016/17 and 2017/18. About 15.6 percent of the overall budget is committed to interest payment and pensions, compared to 13.7 percent in 2016/17.

Wage Bill

What is the national government’s wage bill? The budget summary and the Program Based Budget give varying figures of the wage bill. The information provided on staff pay in the two documents point to a transparency issue with respect to how much the national government is allocating to wages for 2017/18. In the budget summary, the total wages and salaries are given as Ksh 365 billion. The PBB does not have a summary that shows the total wages, but each MDA has a line on compensation for staff and the total for all MDAs is Ksh 390 billion. In addition, the PBB does not give wage details on state corporations. Their total allocations are included within block grants to government agencies. The Judiciary and Parliaments budgets are also not included in the PBB so we cannot tell the size of their wages. Transparency on wage details remain a challenge in 2017/18 and we cannot establish the total wage bill from available documents.

As a result, while the cabinet approved a significant increase of Ksh 100 billion for salaries and wages, it is hard to find this increase in the budget. The budget summary shows an increase of Ksh 4.2 billion in wages and salaries between 2016/17 (see below.) Even using the salaries in the PBB (Ksh 390 billion) the increase is just Ksh 30 billion, far short of the Ksh 100 billion we are looking for. However, as shown in Table 1 below there is an allocation of Ksh 19.95 billion for civil service pension that was not in the 2016/17 budget and this could be part of the Ksh 100 billion. The allocation for

---

salaries for constitutional offices and commissions that are allocated separately under the Consolidated Fund Services (CFS) also have an increase of Ksh 193 million. Taken together, these increases still do not add up to anything like Ksh 100 billion.

There is a 1,525 percent increase in salaries under the National Treasury and there is no explanation for that. The allocation for compensation for staff in the Ministry is increasing by Ksh 40.2 billion from an allocation of Ksh 2.6 billion in 2016/17. No information provided in the PBB or the budget summary give any details of which cadre of staff this covers.

Public Debt

Domestic debt continues to account for just over half of Kenya’s total debt. Kenya’s public debt has been growing at an average rate of 18 percent between FYs 2013/14 and 2015/16. The share of domestic debt has been declining in this period and the ratio of domestic to external debt is now nearly 50:50 in 2017/18.

Source: Calculated from Central Bank of Kenya’s monthly public debt publication
Going forward, the share of domestic debt may rise again, as the government plans to continue financing development expenditure more through domestic resources (59 percent) than externally (41 percent). This is an increase in projected domestic debt from the 2016/17 budget, where domestic financing of development expenditure accounts for 57 percent of the total.

There is a considerable increase in debt redemption in 2017/18. The IMF had earlier warned that commercial borrowing needed to be managed carefully to minimise the impact of repayment spikes. The 2017/18 budget proposes an increase in foreign debt redemption of 242 percent. This will rise by another 56 percent in 2018/19. There are two big drivers of the significant increase in external debt redemption. First, in October 2015, the country contracted a two-year syndicated loan of USD 75 million from a number of banks led by Standard Chartered which matures in 2017/18. However, the budget summary shows that there will still be a payment against this loan in 2018/19, which could be an indication that the government plans to roll over that debt. Secondly, the country will also fully repay a loan from African Export-Import (Afrexim) Bank of Ksh 21 billion, which was borrowed in 2016 to bail out Kenya Airways.

In terms of interest payment to external lenders, the country will pay the highest amount to international investors in its debut international sovereign bond (Ksh 19 billion); Exim Bank of China (Ksh 16 billion); and to Standard Chartered for the syndicated loan (Ksh 11 billion).

Public debt received an adverse audit opinion in 2014/15 and in 2013/14, raising questions about the ability of the government to manage the rise in debt in recent years. For example, the latest Auditor General’s report available (2014/15), shows that Treasury is not preparing statements on debt in line with International Public Sector Accounting Standards. Another example from the audit report reveals unexplained differences in bank balances for debt payments as shown in the table below.

---

3 http://www.the-star.co.ke/news/2015/10/30/kenya-gets-fresh-sh76bn-syndicated-loan-at-57_c1233514
Drought Emergency

Kenya is currently in the middle of a drought. On February 10, the government declared a national drought emergency, with 23 of 47 counties affected. The number of food insecure people has more than doubled – from 1.3 million to 2.7 million between October 2016 and February 2017.

Most of the government’s drought intervention programs are under the State Department for Special Programs. The largest portion of that MDA’s Ksh 6.5 billion budget (86 percent) in 2016/17 is allocated to drought management. Looking at the 2016/17 line-item budget (below), the Kenya Hunger Safety Net Program is the main budget item under the drought management program.

KHSNP is a program that is only run in four poor ASAL counties Turkana, Mandera, Wajir and Marsabit. In addition, the target number of household in the 2016/17 budget is about 100,000 households, while the current number of people affected by the drought is 2.7 million people. The target in 2017/18 remains 100,000 households. Therefore, the amount allocated in the 2016/17 approved budget does not seem be sufficient for all these counties. If the drought control measures extend into 2017/18, then the current allocation in the tabled budget does not seem adequate either. However, based on media reports the government has submitted a supplementary budget to the National Assembly which allocates more resources to drought relief measures in the affected counties.

The Contingency Fund is also available to deal with disasters such as droughts. The fund was allocated Ksh 5 billion in 2016/17, as it has been each year in recent years. The half year Quarterly Economic and

---

5 http://www.president.go.ke/2017/02/10/government-declares-drought-a-national-disaster/
6 http://reliefweb.int/disaster/dr-2014-000131-ken
Budget Review for 2016/17 seems to indicate that no cash was disbursed to the Contingency Fund in the first half of the year against a target of Ksh 2.5 billion. In general, there is a profound lack of transparency around public funds, for which financial reports should be published each year to explain how previous allocations were used or if they remain as a balance in the fund.

**Equity, Poverty Reduction and Social Protection for Vulnerable Groups**

The budget summary has a list of 12 funds that are part of the government’s program to promote equity and fight poverty.

The distribution criteria used in the disbursement of some of these equity funds is not given. For example, neither the budget guiding policies for National Fund for the Disabled of Kenya (NFDK) nor the National Development Fund for Persons with Disabilities do not provide information on how the beneficiaries will be identified. It is not clear under what policy the NFDK which is under the Presidency was formed. Parliament should ensure that reports on the formation and distribution of funds are also made public.

Highly equal distribution of those funds for which we do have criteria suggest they do very little to address inequality. Funds such as National Government Constituency Development Fund (NGCDF) and the Affirmative Action are distributed using formulas that give very equal shares to each of the 290 constituencies. For example, 75 percent of NGCDF is shared equally among the constituencies, and the rest is shared based on each constituency’s share of the total poor people in the country. In fact, looking at allocations for 2016/17, the distribution is equal among all the 290 constituencies. The National Assembly should evaluate the distribution models of all allocations and ensure they are addressing inequality and not exacerbating it.

To illustrate this, let us use Kinango and Embakasi West constituencies as an example. The poverty rate in Kinango stands at 84 percent and there are almost 175,000 people living below the poverty line. Compare this to just over 16,000 poor people living in Embakasi West. It is unfair that these two constituencies receive an equal allocation from a fund that is meant to fight poverty.

**Elections**

The Independent Electoral and Boundaries Commission’s budget is vague and does not connect the allocations to actual targets and indicators provided. The economic classification of spending in the budget is not connected in any way to the performance side. This vague presentation of the budget is not limited to IEBC and makes it difficult to follow up on implementation of all MDA budgets. For example, from the 2016/17 and 2017/18 budgets, it is not possible to know if there is an allocation for a possible presidential election run-off. Is the funding for that part of the allocation to the program for voter registration and electoral operations? The same can be asked of any back up system that IEBC needs to have in place after the amendment to the Elections Act. Parliament should ensure that further details about the IEBC budget are made available.

There are a range of audit queries in relation to procurement at IEBC that have not been solved from the last election cycle in 2012/13. The audit report from the Auditor General raises issues around procurement of election support devices and the logistical services used in distribution of electoral materials. In the first case, the invoice presented after the procurement of 4,600 Electronic Voter

---

Identification Devices (EVIDs) was queried because the amount presented in the invoice was later rejected by IEBC’s management. In the second issue, irregular payments for transportation of election materials came up in the 2014/15 reports.

The National Assembly should do proper scrutiny of budget lines for IEBC to ensure that issues raised by the Auditor General do not come up again in 2017 before approving the budget. These are issues mainly under procurement of election materials and logistics for the election period.