MEMORUNDUM TO PARLIAMENT ON THE BUDGET POLICY STATEMENT (BPS) 2020

Introduction

This memorandum was prepared by 24 Civil Society Organizations that are working in different sectors at national and county levels. We submit a number of issues related to the Budget Policy Statement 2020 proposals. We have limited our focus to five areas namely, national and county government revenue; public debt; health; education; and environment protection, water and natural resources sectors. Below is a summary of the main points and the sections thereafter detail the issues and recommendations.

- **Public participation:** The preparation of the BPS is supposed to be inclusive of all stakeholders in line with the Constitution of Kenya, Public Finance Management (PFM) Act 2012 and other attendant laws of Kenya. Public participation is a key component of this process and one that should progressively improve the engagement between the state and its citizens. Unfortunately, the public sector hearings by the National Treasury are held in Nairobi only with Budget Policy Statement having no citizen interaction with Parliament. This is a huge gap in the preparation of these documents considering that the BPS gets to set the total size of the budget and ceilings for each sector. Towards this, we propose that parliament amends the law to require public engagement on the BPS.
- **Contracting fiscal space:** The Budget Policy Statement 2020 comes for approval to Parliament at a time that the fiscal space in the budget is contracting outside of public and debt and pension spending. The National Treasury indicates that all additional resources collected in 2020/21 will go to debt service and payment of pensions. The net result is that the MDA budget at the national level is contracting and the equitable share to counties is also not going to grow for that year. Therefore, the BPS 2020 is a key opportunity for Parliament to get clarity from the executive on the trade off that have to be made in such a constrained revenue space with many competing priorities from the Big Four to MTPIII among others.
- **National Government and County Revenues:** At both levels, revenue projections and collection remains unrealistic and uncertain. National ordinary revenue growth has been declining year on year and is expected to only have a 2 per cent growth in the 2020/21 financial year. The county equitable share growth has also been declining but at a faster rate than national ordinary revenue growth at 6 and 13 per cent respectively. Disbursements to counties have also been lower than those of the national government institutions. We propose that Parliament firms the commitments towards strengthening the performance of the economy especially on job creation that determines increase in tax. Further, there is need to ensure that the tax bracket is widened.
- **Public Debt:** Public debt levels have risen to unsustainable levels and are eating into critical spending on social services. While the national ordinary revenue has grown at an

average of 13 per cent over the last six years, debt financing has grown at an average of 30 per cent. We propose that Parliament must reduce the deficit approved in this BPS and hence tame the increment in debt in the medium term. Parliament must also tame within year increment of the deficit for the next financial year (2020/21). Over the long term, Parliament should through the debt strategy seeks ways to negotiate the composition of our current debt obligations.

- **Health Sector:** Kenya's national government has made a commitment on Universal Health Coverage. Noting that health is a largely devolved function, there is a need to ensure that national and county efforts are coordinated. In the past the national government has provided conditional grants to specific health functions at the county level. However, the criteria and conditions related to those grants remain unclear. We propose that there is need to strengthen the intergovernmental coordination in the health sector.
- **Environment, Water and Natural Resources:** Despite Kenya being a water scarce and highly vulnerable to climate change (ranking as the 32nd most vulnerable country globally[1]) the absorption of development expenditures in this sector is very low. Just to note from the sector report a significant number of projects are still incomplete. This has affected progress towards Kenya achievement of its Nationally Determined Contributions (NDCs) and service delivery to the citizens. Parliament need to provide its oversight role and ensure that MDAs are held accountable on the absorption rate of development expenditures to ensure completion of projects to the point of service delivery.
- **Education:** There is a notable increase in the share of the education sector budget to the total budget from 25 per cent in 2019/20 to 28 per cent in 2020/21. This is largely towards allocations to TSC. There is however limited focus on the governments focus on 100 per cent transition especially in expanding infrastructure to ease congestion in current facilities. We urge parliament to balance the allocations to ensure all round development of the sector.

Ordinary Revenue for National and County Governments

The BPS 2020 comes against a background of government recognizing that there are revenue shortfalls and rising expenditure pressures. Ordinary revenue is a key determinant of flexibility and consistency in a government's ability to meet its obligations. Revenue shortfalls increase the fiscal deficit which occasion non-delivery of services or increased borrowing that further constrains the fiscal space. The BPS 2020 indicates that current revenue shortfalls have been as a result of underperformance of all broad categories of ordinary revenue except non-tax revenue. Government plans to double its effort in domestic resource mobilization and rationalize expenditure as key to lowering the budget deficit. In the medium term no growth in the percentage

[1] ND-Gain Index. http://gain-new.crc.nd.edu/country/k*enya*

of revenue to GDP is envisioned. Expected to remain at 18.4 per cent in the medium term. This section raises three pertinent issues on national and county revenues, namely;

- Revenue projections for national ordinary revenue are unrealistic and the collections uncertain. Key sources especially in income tax and VAT are declining as a proportion of total revenue while non-tax income proportion is increasing.
- Allocation to equitable share for county is declining and the growth factor uncertain. The 2020/21 allocation is set to remain at the same level as in 2019/20 which in essence is a decrease if we are to factor in a 5.7 per cent year-on-year inflation. Counties own source revenues are also not showing growth and may need greater action if they are too.
- There are structural and governance challenges with the revenue systems that would require addressing if revenue growth is to be a reality at both levels of government.

To address these challenges, we are proposing that the 2020 BPS addresses the following;

- Provide for realistic revenue projections backed up by data. We need clarity on what exactly will contribute to the additional numbers. Most important is the measures to address the declining levels of income and value added tax as a proportion of the total tax revenue
- There is need to establish the growth factor for equitable revenue sharing for there to be certainty for counties allocation
- Address cash flow receipts and disbursements to counties that explains absorption and pending bills among other pending obligations
- Parliament to make a call on the growing expenditure pressure that seems to be determining revenue projections

Issues and recommendations

National ordinary revenue growth is declining year on year for the last 6 years. On average the growth of revenue has been at 13 per cent over the last 6 years. This is to be commended. That said, Table 1 shows that save for the projections of 2019/20 there has been a decline from 18 per cent in 2013/14 to 2 per cent in 2020/21 in the growth of revenue. There is need for a revamping of productive economy that creates gainful employment to enhance the growth in the ordinary revenue.

Table 1: National Tax and Non-Tax Revenues in Kes. Millions

Year	Import Duty	Excise Duty	Income Tax	VAT	Total Tax Revenue	Non-Tax Revenue	Total Revenue	% Total Revenue Growth

2012/13	61,484	91,810	370,600	216,000	**739,894**	82,773	**822,667**	
2013/14	67,555	102,029	449,590	232,630	**851,804**	117,358	**969,162**	18%
2014/15	74,048	115,872	508,581	259,685	**958,186**	123,007	**1,081,193**	12%
2015/16	79,188	139,540	564,475	289,213	**1,072,417**	149,598	**1,222,015**	13%
2016/17	89,943	165,474	625,050	339,034	**1,219,501**	181,077	**1,400,578**	15%
2017/18	93,691	167,881	642,290	356,729	**1,260,591**	278,815	**1,539,405**	10%
2018/19	107,702	194,289	685,390	413,186	**1,400,567**	298,300	**1,698,867**	10%
2019/20 (revised estimates)	128,200	261,600	804,500	464,500	**1,658,800**	425,400	**2,084,200**	23%
2020/21 (projections)	126,500	258,000	862,300	496,400	**1,743,200**	390,900	**2,134,100**	2%

Source: BPS 2020, BROP 2019

While tax revenue has shown a decline, non-tax revenue has filled the shortfall as table 2 and figure 1 shows. This is expected to change in 2020/21 where growth of all tax sources is expected to take a nose-dive. Key among them is import duty and exercise duty that will have a negative one per cent decline while non-tax revenue is expected to register a negative seven per cent decline. This explains an expected two per cent growth in total ordinary revenue in 2020/21. All sources have had booms and bursts (figure 1) which indicates unpredictability of revenues and that could explain the cash flow challenges experienced in the government.

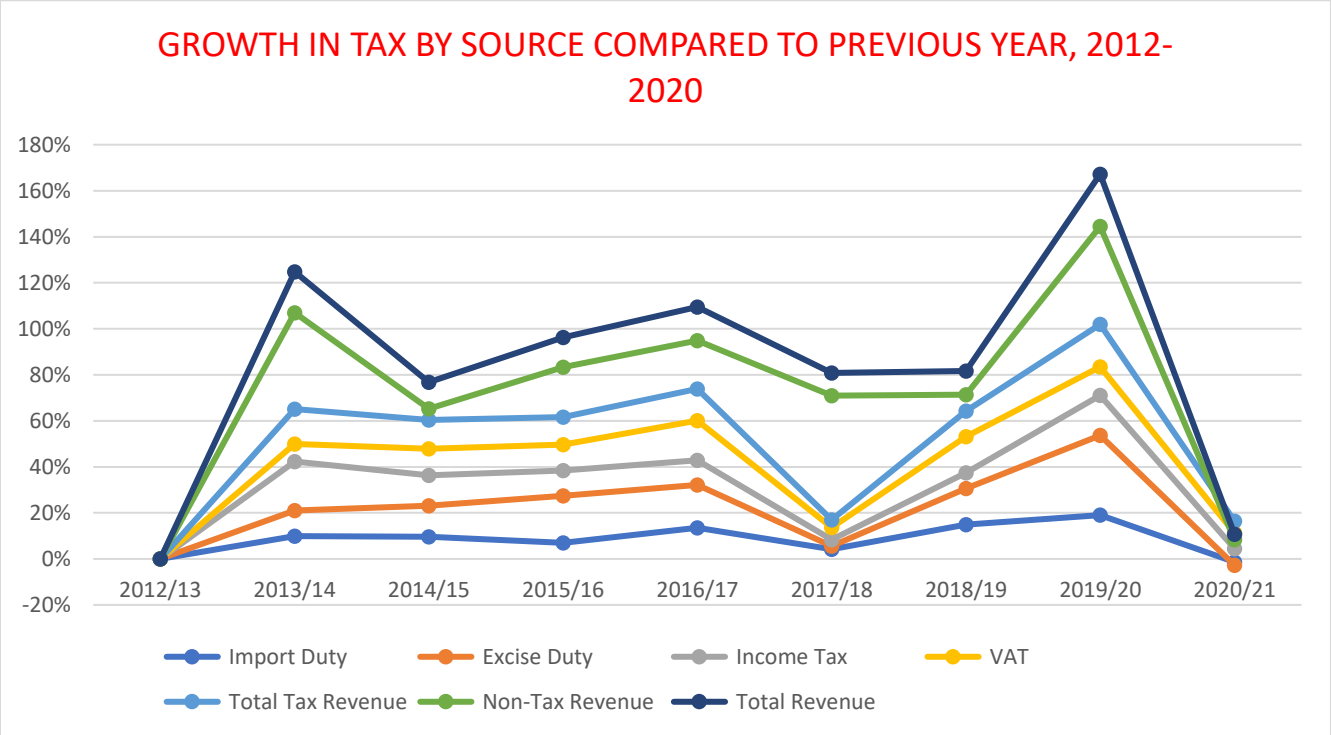
Table 2: Growth in tax sources compared to previous year

Year	Import Duty	Excise Duty	Income Tax	VAT	**Total Tax Revenue**	Non-Tax Revenue	**Total Revenue**
2012/13							
2013/14	10%	11%	21%	8%	15%	42%	18%
2014/15	10%	14%	13%	12%	12%	5%	12%
2015/16	7%	20%	11%	11%	12%	22%	13%
2016/17	14%	19%	11%	17%	14%	21%	15%
2017/18	4%	1%	3%	5%	3%	54%	10%
2018/19	15%	16%	7%	16%	11%	7%	10%
2019/20	19%	35%	17%	12%	18%	43%	23%

2020/21	-1%	-1%	7%	7%	5%	-8%	2%

Source: Organizations' Calculations based on various National Treasury and CBK sources

Figure 1: Growth in tax by source compared to previous year, 2012-2020



Income tax and VAT share of total revenue has been on a decline and yet these are key sources. They have declined from 71 per cent in 2012/13 and projected to be at 63 per cent in 2020/21. This is indicating a poor growth in productive economy and incomes. Non-tax revenue as a proportion of total tax revenue is expected to grow to 18 per cent of total revenue in 2020/21. The challenge with non-tax revenue is that it is based on onetime expenses like renewal of passports. Further it suggests that Kenyans are probably having to pay extra fees in services that are already covered by budget expenditures.

Table 3: Share of each tax to the total revenue

Year	Import Duty	Excise Duty	Income Tax	VAT	**Total Tax Revenue**	Non-Tax Revenue	**Total Revenue**
2012/13	7%	11%	45%	26%	**90%**	10%	**100%**
2013/14	7%	11%	46%	24%	**88%**	12%	**100%**
2014/15	7%	11%	47%	24%	**89%**	11%	**100%**
2015/16	6%	11%	46%	24%	**88%**	12%	**100%**
2016/17	6%	12%	45%	24%	**87%**	13%	**100%**
2017/18	6%	11%	42%	23%	**82%**	18%	**100%**

2018/19	6%	11%	40%	24%	**82%**	18%	**100%**
2019/20	6%	13%	39%	22%	**80%**	25%	**100%**
2020/21	6%	12%	40%	23%	**82%**	18%	**100%**

Source: Organizations' Calculations Based on CBK and National Treasury Publications

Revenue shortfalls have shown an unpredictable pattern. A review of the shortfalls shows that on average the country has missed 8 per cent of revenue targets. Specific years show booms and bursts as table 4 and figure 2 show. There is a connection between revenue shortfalls and revisions in budget deficit like was the case in 2019/20 where the deficit was revised from KES. 630 Billion in BPS 2019 to KES. 789 Billion in BROP 2019. This suggests not only poor forecasting but also poor governance of expenditures at a time when the government has a commitment on austerity and fiscal consolidation.

Table 4: National Revenue Performance 2013-2020

Year	Original Estimates	Actual/ Revised Estimates	Shortfall	Shortfall as a proportion of Original Estimates
2013/14	1027.2	919	108	11%
2014/15	1087.1	1031.8	55	5%
2015/16	1242.7	1153	90	7%
2016/17	1380.2	1306.6	74	5%
2017/18	1560.3	1365.1	195	12%
2018/19	1769.2	1496.9	272	15%
2019/20	1877.2	1766.9	110	6%
2020/21	1883.7	1856.7	27	1%

Source: BPS 2020

Although county governments are key in delivery of services, the equitable share allocations to them has been on a decline the last six years. Year on year growth has declined from 15 per cent in 2015/16 to an anticipated zero growth in 2020/21 (see table 5). If one was to factor inflation of 5.7 per cent (as of December 2019) then the allocations to the counties will be a negative. This compares poorly with a constant growth of ordinary revenue of about 13 per cent over the period. As a percentage the equitable share as total of the total national revenue has declined from 22 per cent to 17 per cent. This excludes conditional grants. To address this challenge, we propose that parliament sets a growth factor for equitable sharing that is linked with growth in the national revenue. The incomplete functional analysis that would provide indicative costs for both levels of government would go along way in informing division of revenue.

Table 5: Key indicators in Equitable sharing of revenue

	Proposed Growth		Basis for Proposed Revenue Growth				Equitable Share Approved in the DoR (2019/20 is proposed)	Growth in DOR approved Amounts	Sharable Revenue (KES Billion)	Equitable share as a % of Sharable Revenue
Year	CRA	National Treasury	CRA	National Treasury	Ordinary Revenue	*Growth in National Ordinary Revenue*	226.66	-	1,031.80	22%
2015/16	10.4%	10.4%	3-Year average growth in ordinary revenue	3-Year average growth in ordinary revenue	1,152.97	*13%*	259.77	15%	1,251.67	21%
2016/17	15.0%	7.8%	3-Year average growth in ordinary revenue	Not provided	1,306.57	*13%*	280.30	8%	1,380.20	20%
2017/18	15.0%	6.7%	3-Year average growth in ordinary revenue	3-Year average month on month inflation	1,365.06	*4%*	302.00	8%	1,549.41	19%
2018/19	8.5%	4.0%	3-Year average inflation	Not Clear	1,496.93	*10%*	314.00	4%	1,681.07	19%
2019/20	6.9%	2.0%	3-Year average inflation	Not Clear	1,843.81	*23%*	316.50	1%	1,877.18	17%
2020/21	5.7%	0.0%	The country's 3-year (2016-2018) average economic growth	Not Clear	1,856.71	*1%*	316.50	0%	1,857.00	17%

Source: BPS 2020 and Respective Division of Revenue Bills/Acts

Figure 2: Growth in National Ordinary Revenue and Division of Revenue approved for Counties

Source: CRA Recommendations, BPS 2020 and Respective Division of Revenue Bills/Acts

Counties own source revenue growth is uncertain and only covers a small proportion of their expenditures. All counties are dependent on the equitable share to fund their budgets. The last full year of data we have covered the period of 2018/19. In that year, counties raised Ksh 40 billion from their own sources. This was just 11 per cent of the Kshs. 376 billion expenditure across all the 47 counties for that year. Therefore, revenue collected by counties funded only one-tenth of the actual spending for the year. In 2013/14 this number stood at 16 per cent, it then dropped to 13 per cent in 2014/15 and it has kept on that downward trend since the start of devolution. Therefore, over time, counties are becoming more dependent on the national government and not vice versa. In fact, in 2018/19, own-source revenues funded less than 10 per cent of 34 of Kenya's 47 counties' budgets. This also explains why fights around revenue sharing send major panic across counties because they cannot run without intergovernmental transfers.

It is also important to highlight that one-quarter of all revenue raised by counties was collected in Nairobi alone in 2018/19. The top 5 counties collected 56 per cent of all county-level revenue. Therefore, 42 counties collect less than half of all the subnational revenue. The capacity of many counties to fund any significant proportion of their budgets is much lower than what some seem to think.

Secondly, the revenue sources that counties have access to are the same ones that the former local authorities had before devolution. Looking at revenue collection across all counties even in the period before devolution shows very erratic revenue growth patterns of sharp increases and this is reflected across all revenue sources and all counties or local authorities that today form our counties. Data going back as far as 2007/08 has these same patterns. For a curious eye, 10 years'

worth of data with such an uneven rise and drops in revenue growth could be an indication of systemic problems with the revenue sources devolved to counties. Some government officials have indicated that there might be some explanations to these patterns. One example is the random waivers given to clear property rates by county governors. However, that does not explain why the same trends in other revenue sources that fall outside this explanation. Therefore, there is need for the National Treasury and the Parliament to review these sources. Counties may have access to revenue sources that are impossible to predict due to these erratic trends and that has a direct impact on budgeting

The disbursements to county governments are lower than other national releases. The exchequer issues to the disadvantage of counties has been registered over several years in the past. For instance, as at 31 December 2019 (half year of 2019/2020 FY) Counties had received only 31 per cent of their estimated revenue as compared 57 per cent to Consolidated Fund Services (CFS) and 40 per cent to national government expenditures (see table 6). This could explain the low absorptions and increasing levels of pending bills as counties prioritize recurrent expenses. To address this challenge, parliament should focus and enforce that the cash disbursements schedules are followed.

Table 6: Exchequer Issues to CFS, National and County Governments as at 31 December 2019

CATEGORY	2019/20 REVISED ESTIMATES	ACTUAL RECEIPTS	RECEIPTS AS % OF ESTIMATES
CFS	805,779	461,887	57%
National Government	1,467,671	592,411	40%
County Governments	378,485	117,293	31%
TOTAL	2,651,935	1,171,591	44%

Source: Kenya Gazette No 16, National Treasury

There are broad structural and governance challenges on revenue collection at both levels of government. There is a concern about the revenue leakages that have persisted, and hence total collections are not accounted for. Use of multiple revenue accounts for multiple streams have affected reconciliation of revenue collected. A more compounding factor is the number of Kenyans who do not pay income tax. Efforts made to ensure that all in business, formal and informal, have a PIN does not seem to have translated in actual increase in revenues. The BPS indicates that 831000 jobs have been created every year since 2013. This would translate to over 4 million jobs yet the number of Tax Payers as per the revenue authority records does not reflect that. There is need to review the sources and modes of administration of the same. Forecasting by source is key to ensure certainty in the sharing.

Public Debt

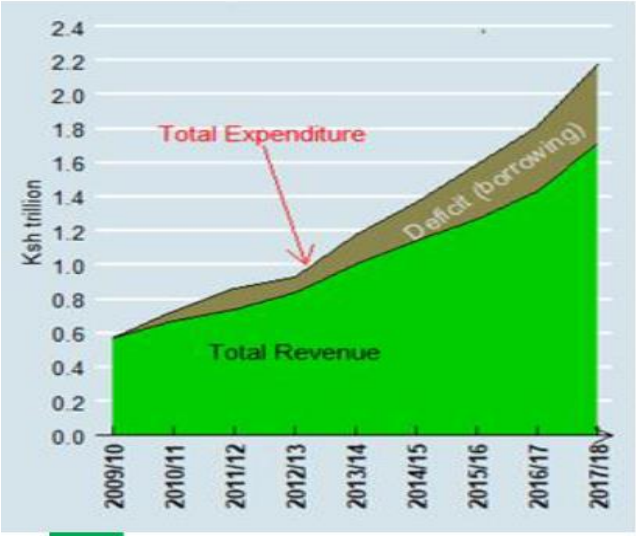
Transparency on actual debt obligations

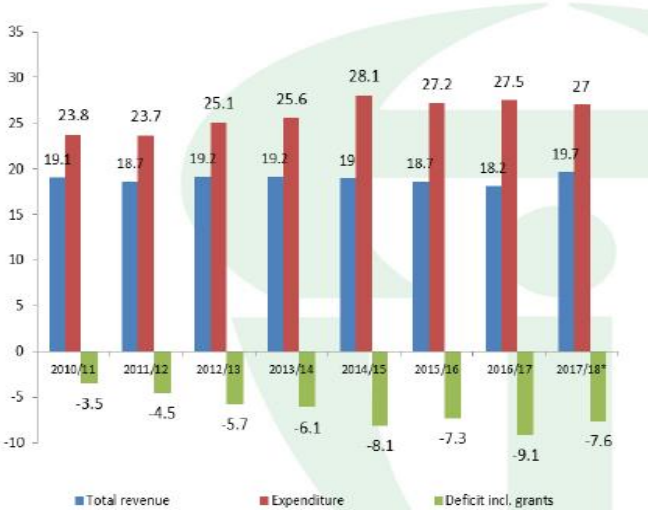
Article 214 defines public debt as all financial obligations attendant to loans raised or guaranteed and securities issues or guaranteed by the national government. This definition understates debt obligations with missing components of significant expenditures such as pension. In Addition, Article 203 provides that the criteria for determining the equitable shares between the national and county governments shall take into account public debt and other national obligations. We therefore implore upon parliament to demand for more transparency on Kenya's trues picture of debt obligation inclusive of pension and other contingent liabilities; pending bills, fines, and VAT refunds.

Credibility of Deficit Estimates

Analysis of this BPS also reveals dramatic deviations between the final approved deficit ceiling in the BPS 2019 and the revised supplementary estimates 2019/20 that incline towards widening the budget deficit. Revenue and expenditure estimates are not matching (as shown in figure 3 below).

Figure 3: National Revenue, Expenditure and Deficit



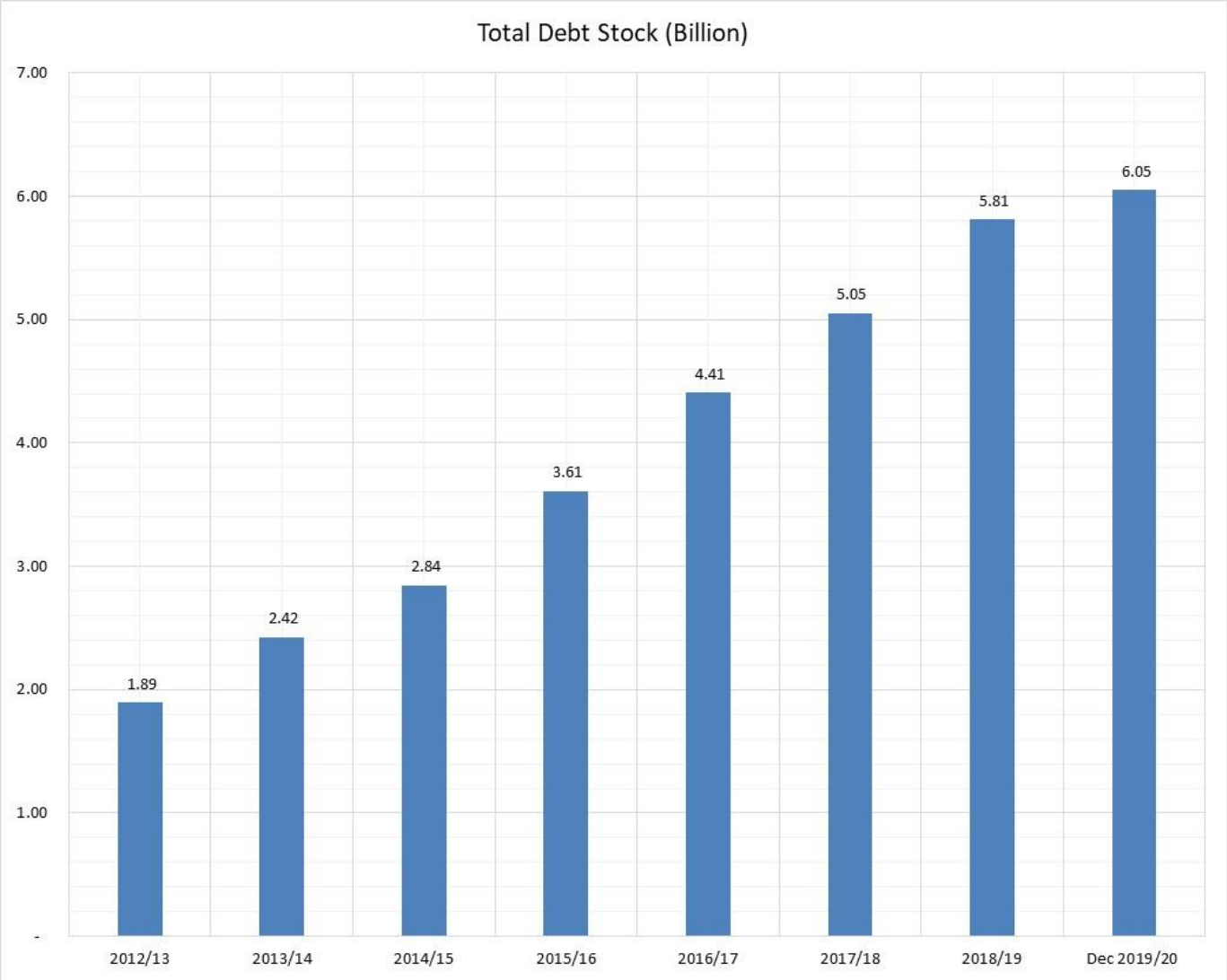


Source: National Treasury Sources

Trends in public debt

Debt Stock

Kenya's debt stock has steadily risen over the years and now stands over Ksh 6 trillion as of December 2019. This puts more impedance on a more robust debt management policy as well as oversight from Parlaiment. This will be key as Kenya weights the risks and opportunities of its current debt mix and repayment.



Source: Annual Debt Report 2018/19 and the 2nd Quarter QEBR 2019/20

Domestic debt can have severe implications for the economy if not well utilized because its servicing absorbs a major part of government revenues thereby creating a persistent deficit implying that government has fewer resources to spend on development projects (Ayres and Warr, 2010). Therefore, internal debt servicing is more harmful for the economic growth than the stock of internal debt.

Figure 4: Share of Domestic and External Debt, 2002-2021

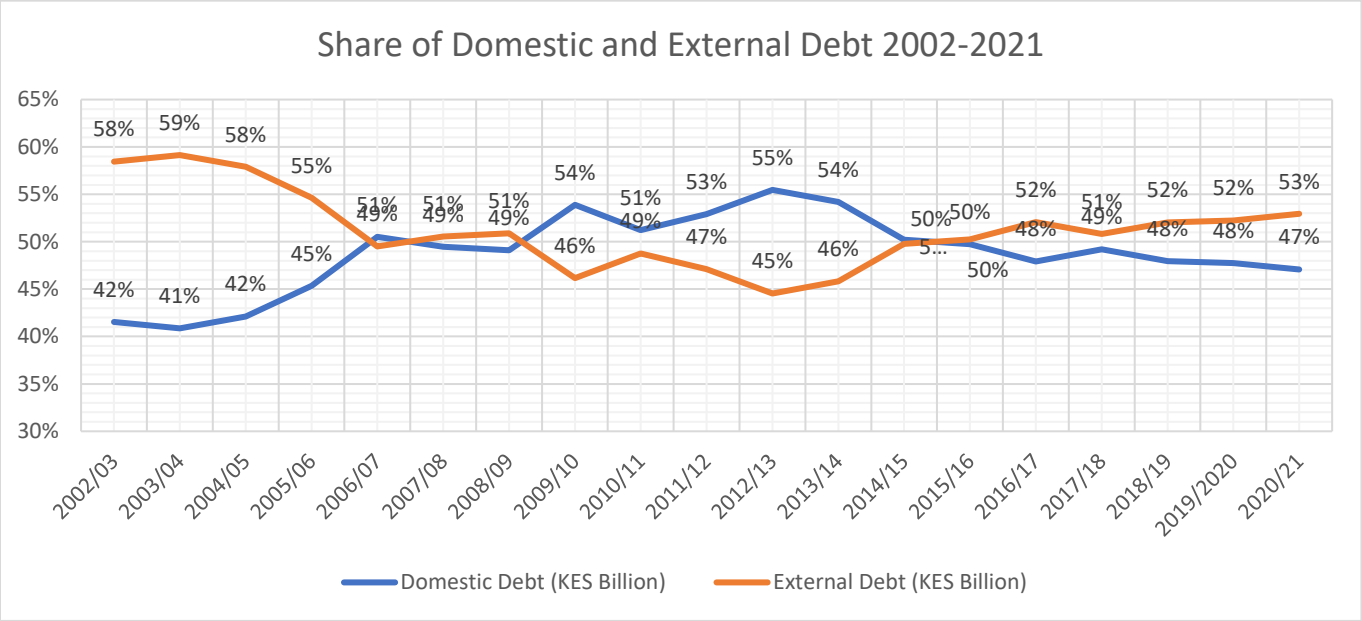


Table 7: External Debt Composition

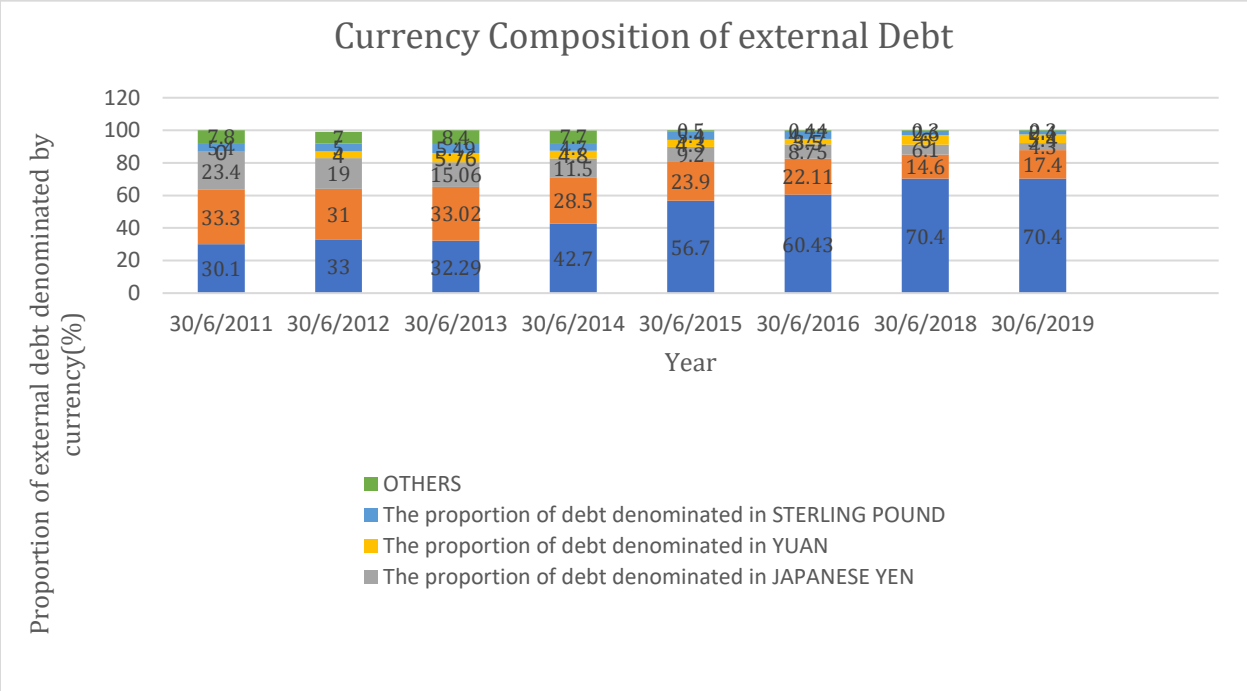
FINANCIAL YEAR	MULTILATERAL	BILATERAL	COMMERCIAL	GUARANTEED DEBT
2011	32%	16%	49%	3%
2012	32%	14%	51%	3%
2013	32%	14%	51%	3%
2014	30%	13%	55%	2%
2015	27%	16%	55%	2%
2016	26%	16%	56%	2%
2018	32%	30%	33%	5%
2019	30%	30%	34%	5%

% Composition of the stock of external public and publicly guaranteed debt by creditor {MoF, Monthly Debt Bulletins (June)}

Currency Mix of our Public Debt

Kenya external debt is in form of foreign currency and that presents some foreign exchange risks that could have serious implications on our debt repayment bill each year. The government has to put in place a forex cover for 4 months to reduce susceptibility of the external shocks which affect the importation. Consequently, the Central bank is involved in open market operations to maintain foreign currency in the economy. Diversifying the currency mix in which debt is denominated to reduce exposure to foreign exchange risks.

Figure 5: Currency composition of external debt



Debt Sustainability

Based on the IMF threshold (Table 8), two of the debt sustainability indicators (debt service to revenue ratio and debt service to export ratio) are beyond the provided threshold in Kenya. That has consequently pushed the overall risk level from low risk to moderate risk. Implying that public debt level in Kenya is less sustainable as compared to previous periods. Breach on these thresholds shows that the fiscal rules are weak and non-binding therefore parliament should ensure that fiscal rules including debt management thresholds and targets are explicitly indicated in the debt policy and management framework, medium term debt management strategy and these priorities espoused in accompanying budget policy statement.

Table 8: Debt Sustainability indicators

Indicator	Threshold (%)	2016 Act.	2017 Est	2018 Proj	2019 Proj
PV of Public Debt to GDP	70	50.6	55.4	60.6	59.9
PV of Public Debt to revenue ratio	300	275.9	285.0	299.6	292.9

Debt Service (Total) to revenue ratio	30	36.3	42.7	44.8	49.4
Debt service (External Debt) to export ratio	21	9.0	16.5	19.9	26.2
Overall Risk Level	Low	Low	Moderate	Moderate	Moderate

Source: *World Bank's Africa Pulse Biannual report, 201*

Debt Servicing

The proportion of ordinary revenue to debt repayment has been increasing progressively from 16.6% in 2011-2012 to 42.8% by December 2019. Increased spending on debt repayment has an implication on sharable revenue between national and county governments' and a direct impact on service delivery. As Figure 6a and Table 8a show, debt servicing is growing faster than ordinary revenue and allocation to counties. The later is set to remain the same in 2020/21. Figure 6b indicates comparison between allocation to social services sectors (Agriculture, Education and Health). Of concern is that the BPS 2020 makes a proposal that any additional revenue shall be directed towards repayment of debt and pension. This will have an implication on service provision.

Figure 6a: Growth in Ordinary Revenue vs. Public Debt Service

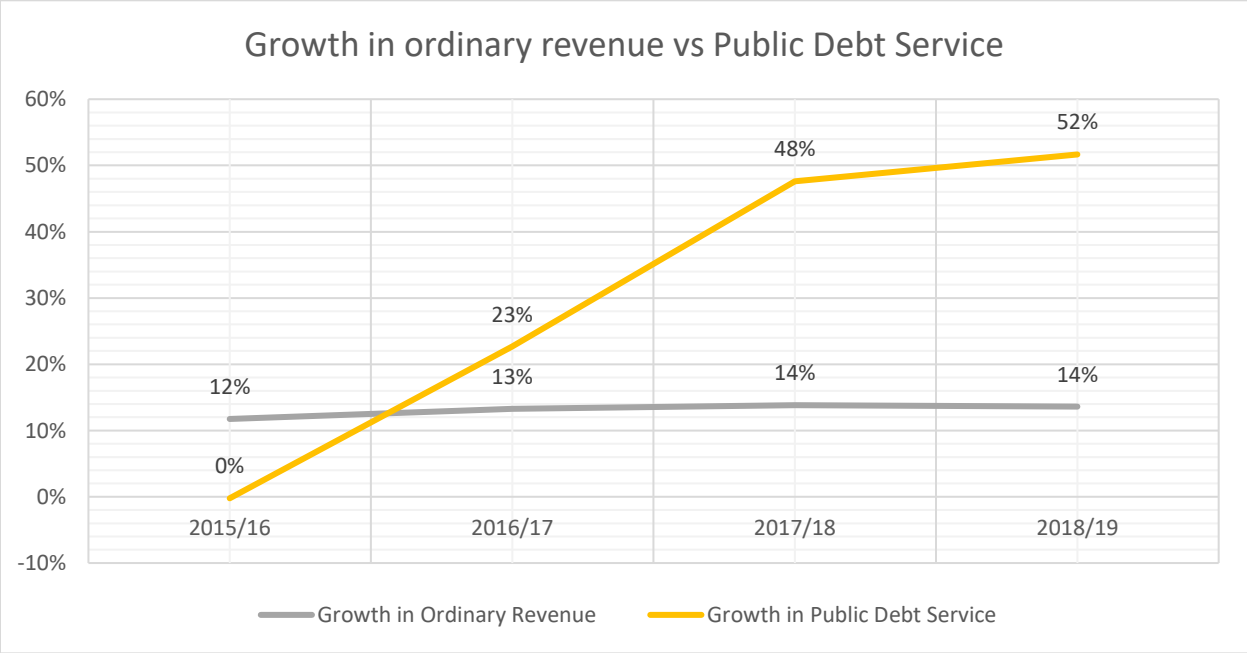
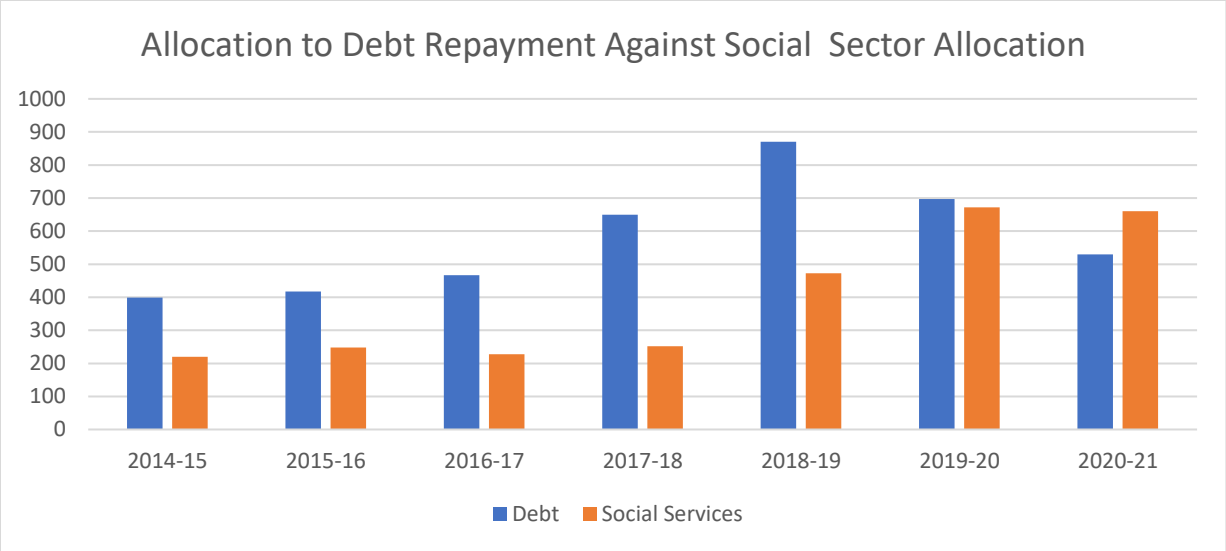


Table 8b: Public Debt Service, Ordinary Revenue and County Allocation

Year	Public Debt Service	Ordinary Revenue	Counties' allocation	Growth in Public Debt Service	Growth in Sharable Revenue	Growth in County Allocation
2014/15	250.97	1,031.82	229.93			
2015/16	250.39	1,152.97	273.07	0%	12%	19%
2016/17	307.16	1,305.79	294.02	23%	13%	8%
2017/18	453.36	1,486.29	314.21	48%	14%	7%
2018/19	687.57	1,688.49	331.23	52%	14%	5%
Average				30%	13%	10%

Figure 6b: Allocation to Debt Repayment Against Social Sector, 2014-2021



Source: BPS 2020

To address the increasing debt we propose that parliament considers the following,

a) Implementing balanced budgets with very well-defined budget deficit limits if necessary, in order avoid large deficit budgets.
b) Accumulate public debt based on national priorities with clear impact analysis based on the Country's economic challenges. This will reduce populist projects that do not address key economic priorities by taking into consideration socioeconomic impacts of debt financed projects.

c) To Shift debt composition towards external debt relative to domestic debt, to reverse the current trends.
d) Rely more on concessional loans and grants rather than on expensive bilateral loans that are non-concessional, thus reduce high interest rates payments, averting possibility of debt overhang and
e) Implement government-to-government partnerships and other Public Private Partnerships (PPP) models based on independent cost-benefit, Cost-Effectiveness and value-for-money studies, to prevent expensive low priority bilateral, donor-led investments funded by debt.

Health Sector

Funding for the Roll Out of the Universal Health Coverage

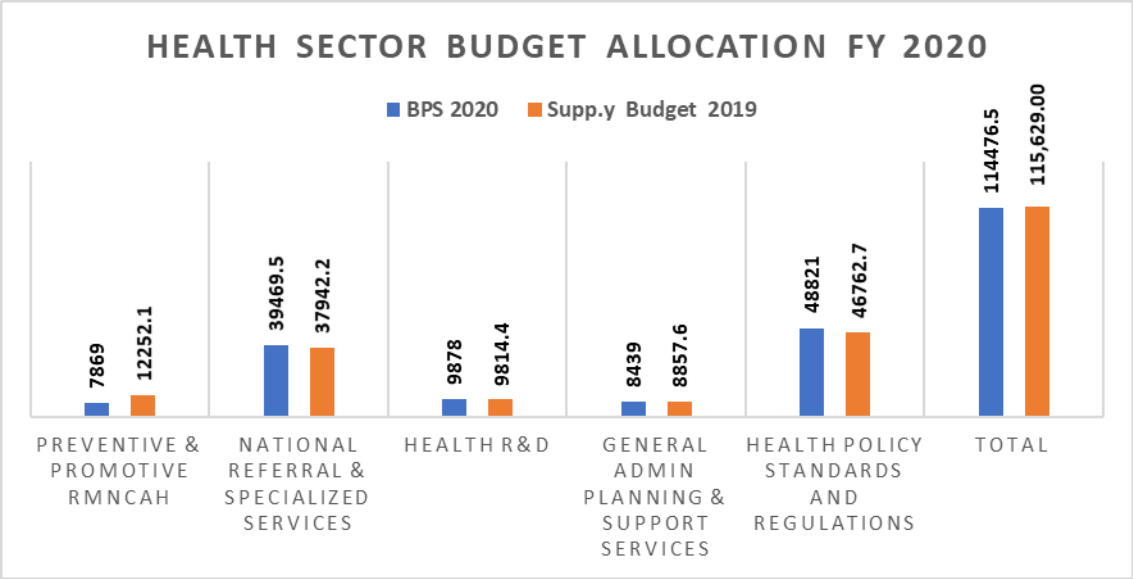
The health sector's budgetary allocation for the Financial Year (FY) 2020/21 warrants urgent attention due to its key role in determining the country's capacity to fulfil its UHC ambition and by extension the Big Four agenda's health component. The 2020 Budget Policy Statement (BPS) indicates the commitment by the State Department of Health to promote UHC as demonstrated in the snippet below:

> 80. Moving forward, the Government will focus on primary healthcare, progressively address human resources needs, provide basic equipment in primary health care facilities and ensure availability of pharmaceutical and non-pharmaceutical commodities in all health facilities. In a bid to achieve this, the Government will accord preference to locally manufactured medicine as incentives to local pharmaceutical manufacturers to produce essential medicines at affordable rates, to minimize overreliance on imported products. The Government will also forge multi-sectoral collaboration to make UHC a success in the rest of the 43 counties upon full roll out slotted for 2020 (**Figure 2.3**).

While the above narration clearly demonstrates commitment, there is a notable reduction in allocation of funds to the health sector from the supplementary 2019/20 budget as well as the ceiling for FY 2020/21 as demonstrated in the Figure 7. Whereas the allocated budget in 2019/20 was raised to Kshs. 115 billion in the supplementary budget 1 (2019/20), the Country was implementing UHC pilot project in only 4 counties at a cost of Kshs. 4 billion. The budget statement presented to Parliament for 2019/20 indicated that the government allocated Ksh 48 billion for the rollout of UHC. In 2020, the country anticipates rolling out the UHC project in the remaining 43 counties with 23 counties already having committed to the project. A key question is what percentage of the the projected state department of Health funding of the Kshs. 114 billion will be committed for the country wide roll-out of the UHC. In addition, how will the funding be rolled out to counties? Is the national government going the conditional grants way or will the

funds be channeled through NHIF similar to the linda Mama arrangement? Parliament needs to get clarity on this approach to anticipate the challenges that have been observed in both options.

Figure 7: Health Sector Allocations



We propose that the BPS ceiling for the FY 2020/21 is revised to address the funding needs with reference to the current 5.8% inflation rates. At the bare minimum, the government should endeavor to cover the costs codified within the supplementary budget No. 1 of FY 2019/20. Currently, the BPS ceiling of 2020 is Kshs. 1 billion less than the total supplementary budget 1 of 2019/20 which is 115.6 billion, and this undermines the strides realized under UHC implementation. Ensure all resources earmarked for health for the FY 2020/21 meet all the programming needs underscored in the BPS 2020/21 and increase the average total of the expenditure to have emergency funds that in totality are cushioned from 5.8% inflation rate.

No growth and poor Disbursement of Conditional Grants to Primary Health Care

The devolution of majority of health functions has created multiple streams of funding from the county and the national government dedicated to the provision of primary health care. The streams are both for conditional and unconditional funds that come from government and donors. The disbursement of these funds to the facilities is not well documented in publicly available documents thus making it difficult to track them. Key grants for use fees forgone and level 5 hospitals have not grown overtime and this does not reflect reality on the ground. Further, there is very little information on the conditions or restrictions attached to their use. Lastly, there have been significant delays in disbursement of the funds to health facilities, some coming as late as the end of the financial year. The result is that the monies are underutilized for the services earmarked. For example, data from the National Treasury shows that in 2017/18 only 50 percent of the user forgone grants to dispensaries and health centres had been disbursed just one month to the end of the financial year.

Figure 8: Conditional Grants

Table 4.4: Division of Revenue Raised Nationally FY 2016/17 – 2020/21 (Ksh Million)

Type/level of allocation	2016/17	2017/18	2018/19	2019/20	2020/21
National Government	1,099,899	1,247,412	1,367,069	1,554,916.5	1,533,668
Of which:					
Free maternal healthcare	4,121				
Rehabilitation of Village polytechnics		2,000	2,000	2,000	2,000
Leasing of Medical Equipment	4,500	4,500	9,400	6,205	6,205
Compensation for user fees forgone	900	900	900	900	900
Level 5 hospitals	4,000	4,200	4,326	4,326	4,326.0
Special Purpose Grant (Emergency Med. Serv.)	200				
Supplement for construction of county headquarters		605	605	300	300
Equalization Fund	6,000	7,727	4,700	5,760	6,532
County equitable share	280,300	302,000	314,000	316,500	316,500
Total shareable revenue	**1,380,199**	**1,549,412**	**1,681,069**	**1,877,176**	**1,856,700**

Source: BPS 2020

We propose that as parliament evaluates the BPS, its vital that there is clarity about the conditions of all the grants in health care and also the specifications of what they can be spent on. In addition, challenges around disbursements and the decision makers who have a role in their efficient flow to health services at both levels of government should be solved with clear direction and oversight from Parliament.

Environment, Natural, Resources and Water

This section while on the broader sector takes a particular focus on water. This is in appreciation that Kenya is a water scarce country and prone to climate change induced hazards, the Government of Kenya has set out to adopt and implement climate sensitive policies, laws and budgets as stipulated in its medium term plan III.

Low absorption rate in development budget leading to poor service delivery

There is need to improve absorption of development expenditure especially in development heavy sectors e.g. environment which houses Ministry of water and sanitation, for the citizens to access quality and timely services. Just to note from the sector report a significant number of projects are

still incomplete. Table 9: above indicates low absorption in the environment protection, water and natural resources from FY 2016/17 up to 2018/19. In the sector report, this low absorption rate has been linked to late disbursement of funds by the exchequer.

Figure 9: Absorption of development budger for the sector

2.3: Development Expenditure Analysis

Vote and Vote Details	Economic Classification	Approved Budget (Kshs. Millions)			Actual Expenditure (Kshs. Millions)		
		2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
Summary of Sector Development Expenditure	**Gross**	**62,024**	**53,302**	**48,373**	**48,572**	**43,428**	**40,144**
	GOK	26,300	17,960	22,972	22,824	16,813	21,308
	Loans	32,933	31,278	22,888	24,167	23,654	17,653
	Grants	2,792	4,064	2,512	1,577	2,961	1,171
Total Development For the Sector		**62,025**	**53,302**	**48,372**	**48,568**	**43,428**	**40,132**

Source: BPS 2020

Lack of justifications for MDAs and **Development budget allocation reductions**

We note that despite the increase of the total budget the the BPS proposes to reduced allocations to the sector. The ministry of water and sanitation allocations have been reduced from KES 67B to KES 61B (excluding irrigation) despite the Ministry having requested KES 107B. The current KES 70B allocations are from the shift of the irrigation and land reclamation and water harvesting and storage.

Figure 9: Proposed MDA expenditure reduction in 2020/21

SECTOR/ VOTE/PROGRAMME DETAILS	2019/20 SUPPLEMENTARY ESTIMATES NO. 1			2020/21 CEILING		
	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**23,862.8**	**70,919.1**	**94,781.9**	**25,194.5**	**71,534.0**	**96,728.5**
1107 Ministry of Water & Sanitation and Irrigation	**5,480.3**	**61,723.9**	**67,204.2**	**6,292.0**	**64,655.0**	**70,947.0**
1001000 P.2 General Administration, Planning and Support Services	730.4	84.0	814.4	891.0		891.0
1004000 P.3 Water Resources Management	1,649.2	9,130.4	10,779.5	1,122.0	8,984.0	10,106.0
1017000 P4. Water and Sewerage Infrastructure Development	3,100.8	41,961.5	45,062.3	3,530.0	37,505.0	41,035.0
1015000 P.1 Water Storage and Flood Control	-	10,548.0	10,548.0		8,340.0	8,340.0
Programme 5: Irrigation and Land Reclamation				724.0	8,128.0	8,852.0
Programme 6: Water Harvesting and Storage for Irrigation				25.0	1,698.0	1,723.0
1108 Ministry of Environment and Forestry	**10,094.4**	**7,279.4**	**17,373.9**	**10,153.8**	**5,643.0**	**15,796.8**
1012000 P.3 Meteorological Services	1,666.0	2,391.4	4,057.5	1,078.8	592.0	1,670.8
1002000 P.2 Environment Management and Protection	1,056.1	1,030.0	2,086.1	1,661.0	1,487.0	3,148.0
1010000 P.1 General Administration, Planning and Support Services	277.3	-	277.3	301.0		301.0
1018000 Forests and Water Towers Conservation	7,095.0	3,858.0	10,953.0	7,113.0	3,564.0	10,677.0
1192 State Department for Mining	**551.5**	**447.8**	**999.3**	**660.8**	**312.0**	**972.8**
1007000 P.1 General Administration Planning and Support Services	288.8	55.8	344.6	284.8		284.8
1021000 Geological Survey and Geoformation Management	59.1	102.8	161.9	84.0	112.0	196.0
1009000 Mineral Resources Management	203.5	289.2	492.7	292.0	200.0	492.0
1203 State Department for Wildlife	**7,736.5**	**1,468.0**	**9,204.5**	**8,088.0**	**924.0**	**9,012.0**
Programme 1: Wildlife Conservation and Management	7,736.5	1,468.0	9,204.5	8,088.0	924.0	9,012.0
Total	**1,224,277.4**	**782,686.7**	**2,006,964.1**	**1,216,075.1**	**616,330.7**	**1,832,405.8**

Source: BPS 2020/21

From the Environment sector report we note that the Sector development expenditure FY 2018/19 Ksh 17,653 million is financed from loans and in the same report there is proposed allocation of Ksh 35,348 million which is equally to be financed by loans. Between 2016/2017 to 2018/2019 the sector (environment) spent KES 24.2B, KES 23.7B and KES 17.7B towards development expenditure.

Figure 10: Sector Development Requirements

Table 3.2.3: Sector Development Requirements/ Allocations (Kshs. Million)

Sector	Economic Classification	Baseline	Requirements			Allocations		
		2019/20	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Environment Protection, Water and Natural Resources	Gross	**74,614**	**122,578**	**151,504**	**171,413**	**71,851**	**77,107**	**78,999**
	GoK	32,935	58,462	69,350	89,339	29,478	34,734	36,626
	Loans	35,348	56,642	73,455	73,455	35,348	35,348	35,348
	Grants	6,331	7,474	8,699	8,619	7,025	7,025	7,025
	Local AIA	-	-	-	-	-	-	-

Source: Environment sector Report

We propose that parliament considers the following in approving the BPS 2020;

1. **Value for Money.** There is need for parliament to provide oversight role to ensure that the loans taken are utilized efficiently for realization of value for money. It is evident that most

infrastructure development projects are 50% incomplete and yet more is being borrowed to fund infrastructure development.

2. **Equitable allocations.** Parliament to ensure that spending for critical sectors are allocated based on the need of the community especially on essential services like water and sanitation.
3. **Justification for MDAs budget reductions**. The government needs to give justification on the reductions MDAs and Development budget allocation reductions being made. Water and sanitation for instance is a main enabler for the Big Four agenda (Universal health, Manufacturing, Affordable housing and Food security) and a basic human right as stipulated in the 2010 Constitution of Kenya.
4. **Timely disbursements of funds to MDAs.** Parliament need to strengthen oversight to ensure that funds are released in a timely manner to different Ministries. This will be through Parliament understanding the root cause of delays and acting in accordance to the constitution.
5. **Coordination of shared functions.** National Government is implementing programmes in counties especially on shared responsibilities e.g. water and sanitation and climate change. It is incumbent that the National and County Governments jointly prioritize and implement such programs to ensure that they reach the underserved, avoid duplication and foster sustainability.

If these proposals are adopted and implemented there will be;

- Improved service delivery in the MDAs
- Equitable allocation and utilization of resources within the country
- Improved Value for money for development funds
- Strengthened communities that are resilient to climate change

Education

The funding for education sector is increasing from 25% in FY 2019/20 to 28% in FY 2020/21. However, this is primarily driven by TSC allocation and post training and skills development as indicated in the table 9 below.

Table 9: 2019/20 Supplementary Budget VS 2020 BPS Ceilings

Programmes	**2019/20 Supplementary Budget (KES. Million)**	**Sector Ceilings FY2020/21 (KES. Million)**	**Variance**	**%**
Teachers Service Commission	253,531.7	265004.8	11473.1	4.5%
University Education and Research	117958.3	113431	-4527.3	-3.8%

Early Education and Basic Education	98228.3	95620.7	-2607.6	-2.7%
Vocational Technical and Training	26888	23614	-3274	-12.2%
Post training and skills development	125.9	128	2.1	1.7%
Total for Education Sector	**496732.2**	**497798.5**	**1066.3**	**0.2%**

Source: BPS 2020

Table 10: Resources Requirement VS Allocation (in Kshs. Millions)

Programmes	**Sector ceilings FY2020/21**	**Sector Requirement FY2020/21**	**Variation**	**%**
Teachers Service Commission	265004.8	319380	-54375.2	-21%
University Education and Research	113431	159305	-45874	-40%
Early Education and Basic Education	95620.7	122674	-27053.3	-28%
Vocational Technical and Training	23614	49323	-25709	-109%
Post training and skills development	128	2995	-2867	-2240%
Total for Education Sector	**497798.5**	**653677**	**-155879**	**-31%**

Source: Sector Working Group Report 2020

Enrolment in public Technical and Vocational Colleges increased from 101,108 in 2016/17 to 175,278 in FY 2018/19 while that of Youth Polytechnics grew from 77,465 to 89,598 and University enrolment increased from 539,749 to 559,210. This enrolment is driven by large number of TVET institutions which increased from 874 in 2016/17 – 1707 in 2018/2019. The reduction in the budget puts in question the sustainability of these newly established institutions According to BPS 2020, Recurrent expenditure in FY 2019/20 was Ksh 17,100.9 million which is

proposed to reduce to Ksh 16,836 million in FY 2020/21 ceilings. Development expenditure on the other hand is expected to decline d by Ksh 264.9 million,

Technical and vocational education and training (TVET) are critical components of development and if well attended could play a strategic role to deliver the Vision 2030 and contributes to the realization 2030 Sustainable Development Goals. Failure to address the concerns arising ot of the TVET structuring will lead to compromised quality of education and training in the TVETS and inability to achieve the big 4. Lost gains

To safeguard the gains made through the TVETS, government needs to retain the previous budget of 2019/20 by reducing the resources directed towards servicing public debt. The National government should consider promotion of TVETs as one of the functions for onward transfer to county governments over the medium term and subsequent support via conditional grants.

Annex 1: Participant List- Organizations that participated in the preparation of this memorandum

	Organisation	Participants	Email
1	Afdev	David Owiro	david.owiro@afdev.org
2	CESPAD	Jacob Baraza	jacobbaraza@yahoo.com
3	CGA	Jacob Kumenda	kumenda@cgakenya.co.ke
4	DI	Eastone Owino	Eastone.Owino@devinit.org
5	Diakonia	Lucy Githaiga	lucy.githaiga@diakonia.se
6	DSW	Ngusale Imali	ngusaleimali@gmail.com
7	ELF	Mungai Michael	economicliberationfront.global@gmail.com
8	Follow the Money	Milton Ojiambo	ojiambomilton4@gmail.com
9	HERAF	Christine Asulu	achristine@heraf.or.ke
10	IBPK	Abraham Rugo	arugo@internationalbudget.org
11	IBPK	Mokeira Nyagaka	mnyagaka@internationalbudget.org
12	IBPK	Jostine Wambui	jwambui@internationalbudget.org
13	IBPK	Kipkorir Biegon	kipkorirbiegon@gmail.com
14	IBPK	John Kinuthia	jkinuthia@internationalbudget.org
15	IBPK	John Ngoka	jngoka@internationalbudget.org
16	IBPK	FaithAnn Mumbi	kinyanjuifaithann@gmail.com
17	IPFK	James Muraguri	jmuraguri@ipfkenya.or.ke
18	IPFK	Daniel Ndirangu	dndirangu@ipfkenya.or.ke
19	IPFK	Reena Atuma	ratuma@ipfkenya.or.ke
20	IPFK	Annaline Jepkiyeny	ajepkiyeny@ipfkenya.or.ke
21	IPFK	Brenda Nunda	bnunda@ipfkenya.or.ke
22	IPFK	John Nyangi	jnyangi@ipfkenya.or.ke
23	IPFK	Baraka	sbaraka@ipfkenya.or.ke
24	KANCO	David Kwizera Ngethe	dngethe@kanco.org
25	KHRC	Paul Annan	pannan@khrc.or.ke
26	KNCCI	Nemaisa Kiereni	nemaisa@kenyachamber.or.ke
27	NTA	Jeremy Mosoti	jeremymosoti@gmail.com
28	Open Institute	Muarage Munene	murage@openinstitute.com
29	Oxfam	Robert Maganga	rmaganga@oxfam.org.uk
30	Oxfam	Joab Okanda	joab.okanda@oxfam.org.uk
31	Oxygene	Rosemary Kimwatu	magdalene.kariuki@gmail.com
32	Pawa 254	Sharon Tardu	tarus@pawa254.org
33	Pawa 254	Vincent Odhiambo	vincent@pawa254.org
34	Pawa 254	Patricia Ngene	patricia@pawa254.org
35	TI Kenya	Polycarp Otieno	potieno@tikenya.org
36	TISA	Christine Akinyi	christine.akinyi@tisa.or.ke
37	TISA	Derrick Ngaira	derick.ngaira@tisa.or.ke
38	TISA - KU	Felix Okari	okarimatoke@gmail.com

39	TISA- Daystar	John Mutiso Mutungu	Mutyxo@gmail.com
40	TISA- KU	Georgina Kavoo	georgiekavooh@gmail.com
41	TISA- UON	Thueba Hussein	themacrobert@gmail.com
42	TISA- UON	MacLean Robert	themacrobert@gmail.com
43	TISA-UON	Patrick Macharia	mashapatrick23@gmail.com
44	TROCAIRE	Denis Kioko	Denis.Kioko@trocaire.org
45	TROCAIRE	Veronika Kimani	ronykimani@trocaire.org
46	VSOK	Sylvia Ingote	synga2006@yahoo.com
47	WSUP	Lorine Arodi.	larodi@wsup.com

Annex 2: LOGOS

1. International Budget Partnership Kenya (IBPK)	2. The Institute of Public Finance Kenya (IPFK)
3. AFDEV	4. CESPAD
5. Consumer Grassroots Organization (CGA)	6. Development Initiatives (DI)
7. Diakonia	8. Deutsche Stiftung Weltbevölkerung (**DSW**)

9. Economic Liberation Front (ELF)	10. Follow the Money
11. Health Rights Advocacy Forum (HERAF)	12. Kenya Aids NGOs Consortium (KANCO)
13. Kenya Human Rights Commission (KHRC)	14. Kenya National Chamber of Commerce & Industry (KNCCI)
15. National Taxpayers Association (NTA)	16. Open Institute (OI)
17. Oxfam	18. Oxygene

19. Pawa 254	20. Transparency International (TI)
21. TISA	22. Kenyatta University
23. University of Nairobi	24. Daystar University
25. Trocaire	26. VSO Kenya
27. Water for Sanitation for the Urban Poor	28. Centre for Enhancing Democracy and Good Governance (CEDGG)
29. Community Empowerment and Development Centre (CEDC)	