INSTITUTE OF ECONOMIC AFFAIRS

Budget 2003/2004
A Guide for MPs

June 2003

On the 12th of June, 2003, Hon. David Mwiraria, the Minister for Finance, presented NARC's first budget to the National Assembly. Through it, he seeks to raise resources from Kenyans, amounting to ***Ksh. 240bn***, complement it with grants, loans and domestic debt to meet expenditures totaling ***Ksh. 393.6bn*** on various votes. The Consolidated Fund Services expenses amount to Ksh 130bn. Between now and the end of June, the House will debate the Minister's policy proposals outlined in the speech and his proposed Ways and Means of raising revenue. The House will then convene into the 'Committee of Supply' to debate the Ministerial appropriations and conclude debate by the end of October, 2003. This Guide, produced by the Institute of Economic Affairs, is intended to inform and guide the legislators during the forthcoming the budget debate.

Budget 2003/4: An Attempt to Incentivise Economic Recovery

While presenting the Budget 2003/4, the Minister's opening words referred openly and honestly to the burdensome legacy that this government inherited. The rest of the speech was full of promise and hope, reflecting the President's call for a working nation. The detailed numbers, however, reveal an unflattering fiscal picture, highlighting the scale of the challenge NARC faces in turning around the economy.

This guide takes a close look at the budget and surfaces several important issues for debate including:

- ***Is a wealth creating economic strategy consistent with poverty reduction?***

This year's Budget is closely informed by the Economic Recovery Strategy for Wealth and Employment Creation. The typical policy focus of wealth creation strategy is centered around enabling existing, established players to create wealth which is then supposed to "trickle down" through the economy. It is surprising that with 56% of Kenyans living below the poverty line, we have a strategy which explicitly states that it does not address the issue of inequality. What exactly has happened to the PRSP process?

- ***Why is the tax burden on the overall economy rising contrary to electoral promises?***

A core plank of the NARC administration's campaign platform was the promise to reduce the tax burden on the overall economy. Despite the popular reduction in VAT from 18% to 16% tax as a percentage of GDP will rise following the budget from 21% to 21.2%. More significantly, overall ordinary revenues including levies will rise from 22.4% to 23.7% of GDP. At what point will Kenya undertake a serious comprehensive review of its tax policy and the impact of such policy on overall economic performance?

- ***Why are the overall allocations inconsistent with a pro-poor, pro-growth policy?***

In his speech, the Minister made several references to resource allocations that are pro-poor and pro-growth. This is welcome. However, an overall assessment of total government expenditures shows that much remains to be done before this administration claims a pro-poor and pro-growth policy. Public debt and public administration,

BUDGET DOCUMENTS

- Budget Speech
- Economic Recovery Strategy for Wealth and Employment Creation.
- Financial Statement. Expected movements in the Exchequer Account for the current financial year, forecast for the coming year and a summary of the revenue proposals in the Finance Bill.
- Estimates of Revenue. Detailed breakdown of revenue collections.
- Finance Bill 2003 . Miscellaneous amendment bill to various tax laws The Finance Bill is in effect a Miscellaneous Amendment Bill.
- Provisional Collection of Taxes and Duties Act: Legislation to provide for the collection of taxes until Finance bill is passed
- Insurance Amendment Bill. Bill to amend the Insurance Act to strengthen the Commissioner and oversight of the sector. It also proposes to bring Health Management Organisations under the ambit of the Act by requiring them to register as Insurance Brokers.
- Estimates of Recurrent Expenditure. Proposed recurrent expenditure by Vote and Consolidated Fund Services.
- Estimates of Development Expenditure. Proposed development expenditure and detailed listing of external (donor) funding.
- Statistical Annex to Budget Speech. Key indicators on the economy, government budget, the national debt and international trade

law and order will consume 54% of total government resources. Half of the social sector's 26% allocation will be consumed by teacher's pay. Infrastructure and productive sectors will receive a mere 15% of total allocations. At what point shall we achieve a consistency between fine words and real money?

- ***On what terms have we secured external financing without Parliament's knowledge or approval?***

When the ambitious projected revenue is cost alongside planned expenditure, a total deficit of Kshs117 billion emerges. This is Kenya's highest deficit ever, yet the minister failed to mention this fact. A detailed scrutiny of the financial statement shows that Kshs. 55 billion will come from domestic debt rollovers. Of the remaining Kshs 62 million, Kshs 32 billion will be sourced from the domestic market, which may affect interest rates. Most interestingly however, Kshs 30 billion will come from external sources through budget support. Does this mean that yet again we are signing agreements with development partners without Parliament's knowledge or approval?

ECONOMIC BACKDROP

Contrary to the last budget's expectations, overall economic performance in 2002 was weak…

In his budget speech for 2002/2003, the previous Minister of Finance projected a GDP growth rate of 2% for 2002. This followed a slight recovery in 2001 to 1.2% from the previous year's unprecedented economic contraction by 0.1%. As we pointed out last year, however, this broad growth target was not backed by specific policy and sectoral targets, and was instead premised on rain (for agriculture) and sun (for tourism).

As the 2003 Economic Survey notes, actual GDP growth in 2002 was a disappointing 1.1%. The key reason offered for this lackluster economic performance was general uncertainty surrounding Kenya's year-end general election. This uncertainty depressed economic activity significantly, as observed by low demand for imports, low demand for credit and a "wait and see" stance adopted by Kenya's local and foreign investors and development partners.

…and continues a post-millenium trend that compares unfavourably with other parts of Africa

Table 1 shows that Kenya's economic performance over the past three years has now lagged behind other parts of Africa, and it is reasonable to suggest - from a comparative perspective – that smaller countries are catching up, while larger ones are leaving us behind.

Table 1: GDP Growth – Kenya compared to other Countries

	2000	2001	2002
Kenya	-0.2%	1.2%	1.1%
Uganda	5.0%	5.6%	5.7%
Tanzania	5.1%	5.6%	5.8%
South Africa	3.4%	2.2%	2.5%
Sub-Saharan Africa	3.1%	3.8%	3.3%
The Maghreb Region	2.4%	4.4%	3.2%
Africa – Overall	3.0%	3.5%	3.1%

Source: 2003 Economic Survey

In 2002, Kenya's large sectors performed poorly and only one major sector grew faster than the population…

The problems in agriculture are both external and internal

Agriculture performed poorly, with a growth rate of only 0.7%. Part of this can be explained by falling international commodity prices, high costs of inputs and variable weather conditions (which hurt tea and coffee, but helped livestock). However, much of the problem in agriculture is the result of legal and institutional constraints, inadequate public funding, especially of research and extension, poor access to farm credit and a hitherto narrow focus on high rainfall areas, which must now be urgently addressed.

Manufacturers seek an enabling environment with more incentives and fewer disincentives

Manufacturing, the second largest sector at 13% of the economy, appears to be recovering from the effects of the drought in 2000, but is still constrained by a striking lack of new investment, and low domestic purchasing power. Given the importance of this sector to Kenya's eventual economic "take-off", a clear focus is needed to create an enabling environment, supported by real incentives and a properly working infrastructure. Further, it is imperative that policy becomes more friendly for the "missing middle" i.e. medium and small scale enterprises.

High tourism volumes are not translating sufficiently into real returns for Kenya

The key element of trade, restaurants and hotels – the third largest sector at 12% of GDP - is the tourism industry. Although Kenya received over 1 million visitors in 2002, total earnings in the sector fell due mainly to a proliferation of low-income package tourists. As a matter of strategy, it would be important for the House to generate constructive discussion on how Kenya can achieve a higher-value mix of tourists, as has been done successfully in other countries. In other words, it is probably time to start thinking less about volumes and more about the quality and diversity of our tourism product.

Because the financial sector is not growth-enabling, it is itself unable to grow

The finance, insurance, real estate and business services sector accounts for 10% of the Kenyan economy, and is dominated by the banking sub-sector. In terms of lending activity, this sub-sector remained somewhat depressed in 2002, with concerns remaining about the present non-performing loans portfolio (30% of total loans) and the status of the Central Bank Amendment Act 2000 (also known as the Donde Act). Despite falling Treasury Bill rates, the spread between lending and deposit rates is still generally felt to be unreasonably wide, and there has been widespread frustration about the lack of access to affordable credit in Kenya.

The key policy question in the high-performing transport and communications sector is how to invite more private sector participation bearing in mind Kenya's own strategic national interests.

The only large sector that grew faster than the rate of population growth was transport, storage and communications (6% of the economy), no doubt boosted by the fast-expanding mobile phone industry. Other factors that contributed to this growth were large increases in air transport activity, and significant output improvements at Kenya Ports Authority. Only Kenya Railways output fell in 2002. The core future challenges in this sector are centered on how to invite private sector participation in the operation, if not necessarily ownership, of the sector's major assets.

...but it is fair to say that significant improvement is needed in every sector if the economy is to grow

ECONOMIC POLICY OUTLOOK

Kenya's Economic Recovery Strategy for Wealth and Employment Creation

This year's Budget, presented by the Ministry of Finance, was closely informed by an economic recovery strategy for wealth and employment creation. The Economic Recovery Strategy is relevant to the forthcoming Parliamentary debate on the Budget in two respects. Firstly, as the Honourable Minister of Finance noted in his speech, it contains much of the detail on the specific measures that will be undertaken by government during this financial year, and so the Honourable Minister did not cover all of the measures in his speech. As such, the Budget Speech must be read TOGETHER with the Economic Recovery Strategy if one is to get a full and complete view of this year's economic policy proposals.

The second reason why this Economic Recovery Strategy is relevant to the forthcoming debate is that Parliamentarians will now be in a position to confirm that the two policy proposals – the strategy and the national budget – are, in fact, consistent. So, for example, it would be possible to confirm the status of plans to reintroduce the Guaranteed Minimum Return (GMR) for farmers, which is covered in the strategy, but was not mentioned by the Honourable Minister in his speech.

Budget Theme in Economic Context

Theme: The budget for the financial year 2003-2004 was titled, "Working Together to Regain High and Sustained Economic Growth". This is the first phase in the Governments Economic Recovery Strategy as outlined in the policy paper released a day before the Budget. The Government expects growth to average 4.7% per year up to 2006 in order to achieve its pledge to create half a million jobs annually for the entire life of this parliament. This growth target takes off from a growth rate of 1.1% in 2002 expected to increase to 2.3% this year.

Although the Economic Recovery Strategy (ERS) targets building and construction, manufacturing, tourism and ICT; the key sectors in which rapid growth is expected, the actual budget proposals appear to focus mainly on manufacturing, agriculture and ICT. Revival of the rural economy through greater access to credit also received widespread mention in the Minister's speech.

Policy Context: From PRSP to Economic Recovery Strategy!

The main prescriptions of this budget appear to be faithful to the proposals in the NARC manifesto in addition to other policy papers such as the recovery strategy document that was released on the preceding day. The ERS now appears superseded the Poverty Reduction Strategy Paper (PRSP) as the main policy instrument driving government objectives and expenditures. We note that the budget speech this year did not mention the PRSP even once.

The ERS seeks to foster growth by improved governance investment in physical infrastructure, investment in human development and macro economic stability. The anticipated recovery is to anchored on the productive sectors supported by extensive financial sector reforms and a clear social agenda.

ISSUES FOR PARLIAMENT

Strange Documents: The House will note that by the time the Minister presented his speech, the government had not tabled the Economic Recovery Strategy for Wealth and Employment Creation (2003-2007). It was not among the documents distributed to MPs on Budget day. From the Minister's speech, this document is a major driver of the expenditure and tax raising proposals that the minister has raised. However, in light of the fact that the document has not been formally presented to either the House or relevant committees, it remains an unrecognized and strange document to the house. Could the minister explain this procedural flaw or oversight to the House?

External Flows: Government projections are that growth will be created from increased private sector investment and improved external resources inflows. The main issue is the overly optimistic assumption on the quantity of external resources. The Minister's expectation is that external resource inflows will reach an unprecedented figure of US$ 2.2 billion within the next five years. This figure is certainly impressive but is questionable on three counts. First, the House should note that this figure represents the equivalent of 20% of the country's present Gross Domestic Product. Second, this figure appears too ambitious because the present level of external resource flows into the principal investment destinations is far less than this figure. The Minister is thus making the claim that the external resources inflow will grow over five years by a factor of 20 times. Third, the minister appears to be unaware of the potential danger that such massive and sudden inflows of external cash will have on the national economy and government prudence. It is quite likely that the increased inflows to the public sector from external resources could post pone needed reforms to promote efficiency especially, in the social sectors (education and health) in particular. In education for instance, Kenya's public spending is among the highest in low income countries, but outcomes are significantly below average.

Ambitious Legislative Agenda (Refer to Table 2) In this speech, the minister has made the commitment to introduce several laws within the present budget year. By taking account of both the other Bills that are to be introduced and the other parliamentary business, the house needs to set clear priorities on the bills that will be debated and promptly enacted. Given the legislature's record in the last session, this legislative inflation must be brought under control. The legislature may wish to know whether the minister has any proposals for ensuring that parliamentary and committee sessions will be extended to cope with the large legislative agenda that is pending. Unless arrangements are made to ensure that legislative processes are quickened or the sessions lengthened, it is possible that the minister has made undertakings to pass laws that he is aware will not be accomplished.

Finance Ministers have made a habit of promising legislation to deal with concerns the House has raised in the past without bringing the proposed legislation to the House. Parliament ought to monitor this and censure the Minister should he fail to fulfill this promise. Parliament should note that between 1998 and 2002 a total of 116 Bills were presented to parliament, with 46 out of these getting presidential assent and only 33 were published. In the year 2002, only four Bills received presidential assent, 3 of which were Money Bills.

Rural Electrification: The minister has proposed that parliament should approve a further allocation of Kshs. 500 million for the Rural Electrification Programme (REP). This means that this fund will receive a total of Kshs. 1.2 billion in this budget. This expenditure measure is consistent with the overall commitment to extend services to support the rural economy. However, while this fund has received consistent allocations for nearly twenty years, there is no demonstrable change in the level of rural electrification by facilitating access to electric power by Kenyans living in rural areas. The legislature must now insist that the fund must be subjected to a financial and efficacy audit before further allocations are approved. In view of the dismal performance of the strategy followed thus far of pursuing Rural Electrification via connections to the National grid, KPLC ought to explore other options such as localised off-Grid solutions.

Privatization: Both the Budget Speech and the Economic Recovery Strategy make confusing statements about privatization. While the Strategy provides an anticipated outline of privatization, the Minister suggests the government is still to make up its mind. Instead he promises a privatization Bill. In view of this confusion regarding privatization and state enterprise management, the House ought to demand from the Minister a government policy statement to precede the privatization law.

Arid and Semi Arid Lands: The President promised the nation that the government would pay more attention to ASAL areas. This has also been reflected in the ERS. However on closer examination of the Estimates, the House will note that the resources allocated to this important part of the country is from external sources. There is no significant allocation of national resources. The House ought to demand of, the Minister a sessional paper indicating governments intentions regarding ASAL regions of the country.

Non-Performing Loans: Granted that previous Ministers for Finance have proposed solutions for relieving the banking industry of the huge non-performing loans portfolio, this year's proposals add to the list. The minister has proposed two commendable measures i.e. the setting up of an agency to take up the loans together with a judicial tribunal. However, the minister is uncharacteristically optimistic that these institutions will facilitate early recovery of the amounts outstanding. The prevailing view is that the larger part of the non-performing loans portfolio is unlikely to be recovered owing to the fact that the defaults on the loans are deliberate. A difficult decision to cut losses may have to be made here. So what does the Minister propose to do about this?

Retirement Benefits Industry: Parliament should note that the minister has proposed removal of the requirement for defined contributory schemes to undertake actuarial valuations every five years. Parliament must appreciate the minister's concern in reducing the costs that these schemes absorb in compliance with this requirement. However, the minister appears to have waived the requirement for evaluation indefinitely and passed on the duty of assessing the soundness of investments to the Retirement Benefits Authority (RBA). Parliament should seek clarification from the minister whether the added administrative burden to the Retirement Benefits Authority (RBA) is justified by the need to save actuarial funds for defined contribution schemes. This measure has implicit risk as it decreases safeguards in the defined schemes. This move is not prudent and the House ought to seek a clarification from the Minister why he has exposed pension savings to greater risk in this manner.

Under the Consolidated Funds Services, the Minister has allocated 12.4 billion shillings for Pensions. This mandatory payment represents 3.2% of total government expenditures and is to cater for the existing and expected retirees up to June 2004. Aside from the commitments to the payment of public debt, the payment of pension is the largest liability under the Consolidated Funds Services. Considering that this year's allocation has grown by over 700 million and also considering the Minister's concern for controlling expenditures, it is important that the house should hear his proposals on the establishment of a funded civil servants pensions scheme. In spite of the Minister's elaborate proposals for new legislations and policies, he failed to mention this critical policy measure that would ease pressure off the Consolidated Fund Services particularly and the budget generally. The legislature should insist that the minister should make a comment on this matter as it is evident that this liability will continue to grow in future budgets.

Amendments to the Insurance Act: Health Management Organisations (HMOs) are intended to be brought under the Insurance Act by dint of the Insurance (Amendment) Bill 2003 (The Bill), already published. This bill requires HMOs to register as brokers, or alternatively as medical insurance providers. The House may wish to interrogate this decision by the Minister, which appears to fly against the consensus that HMOs ought to be regulated under their own act, basically because they offer health services and are not insurers of risk, and secondly because the Bill has not amended the Insurance Act to reflect specific features and peculiarities of medical insurance, health care and financing. The implication of this change is to make the Commissioner of Insurance the supervisor of the Health Service.

Secondly, the Bill proposes to amend the Insurance Act to delete a paragraph that specifically excludes pension schemes from the definition of insurance business. The House should require a clarification of rationale for this exclusion from the Minister, as it does not appear to serve any clarifying role, and in fact may lead to a situation where some pension schemes may seek to evade regulation under the Retirement Benefits Act claiming that they should be regulated under the Insurance Act.

SCHEDULE OF PROPOSED LEGISLATIVE REFORM

This table outlines the potential schedule of legislative reform, whether stated expressly in the budget speech or whether this may be implied from it. We have excluded those legislative reforms already captured in the Finance Bill,2003.

Proposed legislative reform	Objectives/commentary.
Reforms to wage policy and legislation	It is noteworthy that this reform is intended to make labour costs “competitive in a liberalised market”. This implies a policy aimed at reducing overall wage levels. The policy question is therefore whether this is consistent with stated pro-poor goals and whether it addresses the gross income disparities that characterise the Kenyan economy.
Establishment of the Office of the Ombudsman	Intended to improve governance and ensure the rule of law.
Public Enterprises Privatisation Bill	Intended to set clear privatisation procedures through a consultative process.
Finalization of the review of the Irrigation Act	Intended to facilitate greater participation of farmers in irrigation schemes.
General review of Agriculture legislation	Intended to harmonise the plethora of laws that currently govern the agricultural sector. This measure is long overdue especially given that legislative reform has not kept pace with liberalisation of the agricultural sector. Infact there might be a strong case for harmonizing and consolidating laws relating to agricultural sector.
Review of the Coffee Act	Intended to improve quality of produce and encourage agro processing. Other than the fact that it is unclear to what extent legislative reform will advance these objectives, the coffee industry is plagued by substantial problems that lend themselves more easily to solution by legislation, primarily the mismanagement and neglect of coffee factories largely owned by co-operative societies. In view of the evident problems bedevilling the co-operative sector in this country, it is curious that the speech did not address problems of governance in this sector, and instead proposes to wrote off non - performing loans advanced to the co-operative sector by the Co-operative Bank.
Micro Finance Bill	A pro-poor credit delivery system, to increase access to credit by agricultural and other small and medium enterprises. Additionally, this bill will provide regulations for non-financial institutions that hold money from clients either as security or otherwise.
Central Bank of Kenya Amendment Act 2000 (Popularly referred to as the Donde Act)	Introduces new requirements which include, a ceiling on the accumulation of interest, publication of banks’ interest rates and also establishes a Monetary Policy Advisory Committee. Currently the extent of unconstitutionality of this act following the High Court ruling is the subject of debate and speculation.
Amendments to the Internal Loans Act (Cap. 420)	Intended to promote efficiency in the financial markets.
Money Laundering Bill	A draft of this has been prepared by a national task force and awaits tabling before parliament.
Amendment of the Retirement Benefits Act 1997	Intended to reduce the vesting period for employer contributions from 5 to 3 years, enable small schemes to invest all their funds in government securities, and remove the requirement for actuarial valuation as regards defined contribution schemes, giving an oversight role to the RBA. This last provision is puzzling. One would imagine that pension funds should be subject to the highest levels of safeguards. This exemption is open ended, and that actuarial valuations are a necessary measure to ensure that the funds are in a position to guarantee the capital invested in them. Moreover, the budget proposes to amend this act so that the Retirement Benefits Authority monitors returns on investments. These services may not be best offered by the government.
A bill to incorporate the National Payments, Clearing and Settlements system (NPS) into law	This appears to have been done by dint of section 49(a) of the Finance Bill 2003 rather than by a separate statute.
Electronic Funds Transfer Bill	Both Bills (15 & 16) intended to facilitate nation-wide clearance of cheques.
Amendment of the Central Bank of Kenya Act	Intended to give the CBK oversight powers over the national payments system described above, and secondly to give the CBK powers to issue and revoke licences to banks.
Government Financial Management Bill 2003 Public Audit Bill 2003 Procurement Bill 2003	These bills are intended to replace the Exchequer and Audit Act, and Procurement and Disposal of Assets Bill 2003 to enhance transparency and accountability in public resource management.

BUDGET 2003/4 EXPENDITURE PROPOSALS
THIS IS WHERE THE MONEY WILL GO

The Minister proposes to spend Ksh. 334.7 billion on recurrent expenses. The ***Ministry of Education, Science and Technology*** tops the list with the highest budgetary allocation at Ksh. 80.3 billion with over 80% of the allocation going towards payment of the wage bill. The free primary education programme will received Ksh. 9 billion.

The transfer of some expenditure subheads such as the Immigration Department, Kenya Wildlife Service etc. notwithstanding, ***Office of the President*** has the second highest with an allocation of Ksh. 26.4 billion or 6.72% of total public spending. The allocation to the Office of the President (OP) is escalated by 3.06%. This is a clear indication that this expenditure vote needs to be tamed. Allocation to contingency funds continue to receive substantial allocations e.g. purchase of maize for drought and relief – Ksh 600 million, disaster and famine relief fund – Ksh. 400 million and Ksh. 1.5 billion for strategic grain reserves. The allocation to OP also includes a Ksh. 1.5 billion for anti-HIV/AIDS campaign and an additional Ksh. 300 million to better the equip the police department.

Ministry of Finance ranks third with an allocation of Ksh. 23 billion, largely due to allocations aimed at reforming ailing state enterprises such as Kenya National Assurance Company (Ksh. 180 million), Agricultural Finance Corporation (Ksh. 260 million), Kenya Meat Corporation (Ksh. 200 million), National Bank of Kenya (Ksh. 4.5 billion), among others. An additional allocation of Ksh. 5 billion for civil servant salary adjustment was also included in the Treasury vote.

The ***Ministry of Health*** came in fourth after the Treasury. The total allocation to the health vote was Ksh. 21.1 billion, which included Ksh. 5 billion each for curative health and rural health services and Ksh. 2 billion for Kenyatta National Hospital.

In line with the NARC Government promise to improve the status of the road network, the Minister boosted the allocation to the ***Ministry of Roads and Public Works*** by over 23% with the bulk of the additional allocation going to the roads infrastructure. The total allocation for the Ministry stood at Ksh. 19.5 billion with 87% being earmarked for road network development, maintenance and rehabilitation.

Other notable spending proposals include:

- Ksh. 755 million for Arid Lands Resource Management project.
- Ksh. 179 million for School feeding programme.
- Ksh. 770 million towards bursaries for secondary school education
- Ksh. 817 million for Higher Education Loans Board, reflecting a 34% increase.
- The budget for provision of safe water was enhanced by approximately 100% to Ksh. 4.5 billion in 2003/4.
- A fund of Ksh. 359 million to Support to small and micro enterprises.
- Ksh. 800 million for Constitution Review
- Ksh. 20 million for the establishment of Khadhis courts.

The Minister proposes to convert Ksh. 4.5 billion non-performing loan portfolio held by National Bank of Kenya to equity. Apparently the Minister felt that this expenditure item was not material to warrant disclosure to parliament in his budget speech, though it constitutes 20% of the budgetary allocation to the Ministry of Finance.

Reflecting on the Budget Outturn

The Minister proposes to increase ordinary revenues by 13.9% during the fiscal year 2003/4. This growth in revenues is based on the assumption that the economy will expand at 2.3% while inflation rate will be contained at 5%. Though the Minister makes specific proposals on how he intends to close a gap of Ksh. 8 billion in revenues, he does not explain where the transfers of Ksh. 2 billion will come from?

Notably, domestic financing requirement shrunk by 2% to Ksh. 86.4 billion, made up of debt rollover of Ksh 55.2 billion and additional domestic borrowing requirement of Ksh. 31.1 billion to plug the budget deficit for the fiscal year 2003/4. The drop in domestic borrowing requirement was as a result of an injection of Ksh. 30 billion external budgetary support. At Ksh. 116.4 billion, the financing gap comprises 50% of total recurrent revenues. It is therefore evident that the Kenya Government continues on its spendthrift drift. Though we appreciate that some debt is necessary for growth stimulation, we are concern that recurrent expenditure exceeds recurrent revenue by 41%. We wonder therefore, whether this deficit level and expenditure trend is sustainable in the long run.

SYNOPSIS OF UNSEEN EXPENDITURE: The Minister proposed to revert the ownership and management of Kenya Cooperative Creameries to farmers. However, this proposal is not backed by any budgetary allocation in the Printed Estimates 2003/4.

BUDGET OUTTURN

Table 3: Budget Outturn (Nominal Terms)

Item	Revised Budget 2002/3	Printed Estimates 2003/4	% age Change
TOTAL REVENUE	219,771	240,048	9.23%
ORDINARY REVENUE	190,626	217,122	13.90%
Income Tax	64,527	70,436	9.16%
Custom & Excise	59,074	63,623	7.70%
VAT	55,828	60,405	8.20%
Inter Government Transfer	0	2,000	New
Other Revenue	11,197	20,658	84.00%
LATF	3,267	3,750	14.78%
Fuel Levy	8,256	8,367	1.34%
Other Recurrent AIA	10,333	5,251	-49.00%
Local AIA	7,289	3,558	-51.19%
EXPENDITURE	342,452	393,583	14.93%
CFS	***110,467***	***130,212***	17.87%
Domestic Debt Redemption	36,897	55,241	49.72%
Domestic Interest	29,882	28,323	-5.22%
External Debt Redemption	20,725	24,794	19.63%
External Interest	8,459	6,419	-24.12%
Pensions	11,653	12,489	7.17%
Constitutional Review	700	800	14.29%
Other	2,151	2,146	-0.23%
Recurrent	***182,249***	***203,861***	11.86%
Development	***49,736***	***59,510***	19.65%
DEFICIT EXCLUDING GRANTS (Commitment basis)	(122,681)	(153,535)	25.15%
Project & Programme Grants	20,541	21,102	2.73%
DEFICIT INCLUDING GRANTS (Commitment basis)	(102,140)	(132,433)	29.66%
FINANCING	102,140	132,433	29.66%
Project & Programme Loans	***13,935***	***14,753***	5.87%
Change in Closing Balances	***404***	***1,304***	222.7%
External Budgetary Support	***0***	***30,000***	New
Domestic Financing Requirement	***87,801***	***86,376***	-2.00%
Domestic Debt Rollover	36,897	55,241	49.72%
Additional Domestic Debt	50,904	31,135	-39.00%

Source: Financial Statement 2003/4

TAXATION PROPOSALS

The government had expected to raise Kshs.234.5 billion in revenue but macroeconomic reality prompted adjustments that resulted in a revenue gap of Kshs.8 billion. To close part of the revenue gap, the Minister expects to raise kshs.6 billion from three sources, namely, PAYE from salary increments to teachers and civil servants, Licensing of 3rd mobile phone operator, Loan repayments and other remittances from state enterprises (see Table 4). The remaining kshs.2 billion will be closed by taxation measures.

Table 4: Bridging the Revenue Gap

	Kshs. Ms
PAYE from additional salaries to teachers and civil servants.	1,700
Licensing of 3rd Mobile Operator*	3,700
Public Enterprises	640
Custom & Excise	1,407
VAT	300
Miscellaneous	200

Source: Budget Speech 2003/4
**** It is not clear whether this item has been lumped together with the miscellaneous revenues or it has been omitted from the Estimates of Revenue altogether. It would be important for the Minister to clarify.***

Detailed Tax Measures	Rationale
Customs & Excise Measures with no Revenue Impact	
Imposition of a 10% surcharge on goods falling in any of these categories if they are converted to domestic market. Amendment of law requiring any goods which are subject to request for conversion to domestic market to be deposited with customs first.	Curb abuse of transit goods facility to enhance government revenue and local production
Tightening regulations governing transit sheds and provide for specific conditions and qualifications for transit sheds and their operations. Similar qualifications for bonded warehouses and duty free shops.	Protect local producers, safeguard government revenue
Amendment of section 34 Customs and Excise Act to provide that any goods certified as prohibited be destroyed or re-exported within 30 days of being determined as prohibited.	Curbing importation of prohibited goods to protect local producers
Regardless of destination, limiting the period of declaration for customs to 21 days from commencement of discharge from the importing vessel.	Curb diversion of transit goods, harmonize period of declaration of goods to customs
Amendment of section 91 to make it possible for manufacturers to manufacture more than one class of excisable goods.	Enable manufacturers to realize economies of scale in production
Exporters of petroleum products required to deposit cash equal to duty payable, which they can claim on confirmation of exportation.	Discourage diversion of export petroleum products
Imposition of a late penalty fee of 10% where those required to submit returns fail to do so.	Discourage default in submission of returns on excisable goods
Amendment of law requiring denaturing of spirits, whether imported of from a distiller, before such spirits are released from customs.	Curb growth of illicit drinks
Amendment of section 138 to allow the Minister to waive duties when such waivers are in public interest.	Make it easier for Ministries to access donations
Restriction of duty free facility only to vehicles, which are registered in the name of the officer in the country of service.	Reduce abuse of duty free privilege by civil servants returning from overseas

Detailed Tax Measures	Rationale
Income Tax Measures	
67% increase in investment allowance, from 60% to 100%.	Encourage investments
98.6% reduction in capital expenditure qualifying for import duty set off, from $5 million to $70,000.	Support investments in medium size industries for job creation
Removal of 20% withholding tax on aircraft leasing.	Revitalize local and regional air travel, make Kenya a prime pilot training center
100% and 33% increase in tax free lump sum payments for provident funds and pension schemes, respectively, from kshs.240,000 for provident funds and kshs.360,000 for pension schemes, to kshs.480,000. Lower tax rate for those who hold funds in schemes longer.	Give retirees favorable tax treatment
100% increase in minimum taxable aggregate value of employee meal benefits granted by employers to employees, from kshs.12,000 to kshs.24,000.	Ease tax burden on employees' meal benefits
50% and 40% reduction in withholding fees for consultancy and agency fees, and contractual fees, respectively; from 10% to 5% on consultancy and agency fees, and from 5% to 3% on contractual fees.	Reduce cash flow problems associated with high withholding tax on contractual, consultancy and agency fees
Removal of 20% withholding tax on commissions paid to non-resident agents in overseas auctions.	Make Kenyan flowers more competitive
Cooperatives: All payments to members of producer cooperatives, both primary and corporate, will be made free of tax. Similar treatment will be given to individual members by primary societies while societies will only be taxed on the surplus they retain after allowing their operating expenses. Members reaching the tax threshold will be taxed as an individual. Cooperative societies that engage in general business will be treated like other businesses in similar lines.	Make cooperatives more effective in poverty alleviation
Including SACCOS: - Rental income from investment in real property will be treated in the same manner as that of any landlord. - Dividend and interest income will be treated like that of any other investor and will be subject to withholding tax.	
Excise Duty Measures	
Removal of excise duty on locally assembled motor vehicles.	Encourage local assembly of motor vehicles, make local motor vehicle industry more competitive
Introduction of specific excise duty regime on cigarette products for export, based on four bands equivalent to effective rate of 110%, to replace the current ad valorem rate.	Reducing tax evasion and avoidance, improve effective tax rate, encourage investments in quality cigarette products for export
Introduction of specific excise duty regime on beers at three bands on malt beer, stout beers and non-malt beers, and removal of the current ad valorem rate.	Simplify tax collection, promote investment of quality and affordable alcoholic beverages
Reduction of excise duty on fuel oils by 50%	Reduce high cost of electricity to industries and households
100% increase in excise duty on mobile phone airtime, from 5% to 10%.	Harmonize taxation of mobile phone airtime with EAC countries
Introduction of 10% excise duty on casinos and gambling services, and introduction of excise duty on jewelry.	To widen tax base
Removal of excise duty on avgas for use in light aircraft engines.	Encourage growth of local pilot training and air operators
33% reduction in excise duty on soft drinks, from 15% to 10%.	Encourage consumption of soft drinks. It is important for MPs to note that carbonated soft drinks were excluded from this proposal. Why?

Detailed Tax Measures	Rationale
Kenya Roads Board: - Amending the Third Schedule of Kenya Roads Board Act to include municipalities with technical capacity as agents and, - Provide legal authority to amend the schedule and include other agents as and when need arises	Enable KRB to designate local authorities as agents
Import Duty Measures	
Duty waiver on capital goods, plant and equipment for investments. This will also include equipment for generation and distribution of electricity.	Encourage investment and support economic recovery efforts.
Removal of export duty on macadamia nuts and cashew nuts.	Encourage farming of macadamia and cashew nuts. It is not clear why the Minister gave preferential treatment to macadamia and cashew nuts and any other sub-sector.
25% reduction of export development levy on exports of raw hides and skins, from 20% to 15%. This was harmonized with EAC countries.	Encourage value addition on hides and skins
Removal of import duty on fertile hatching eggs imported by specified hatcheries	Promote domestic poultry farming and production of poultry products.
Reduction of IDF fees on goods imported under Tax Remission for Export Office (TREO) from 2.75% to kshs. 5,000.	Reduce cost of production for exports, promote investment and make goods internationally competitive
Exemption to sports goods donated to sporting groups through Ministry in charge of sports or purchased by Ministry in charge of sports.	Encourage and promote sports development
Removal of import duty on computers, computer accessories and a variety of other raw materials.	Encourage development of information technology
Miscellaneous Measures	
Adjustment of miscellaneous charges and fees under the Bankruptcy Act, Companies Act, Trade Union Act, Societies Act and Transport Licensing Board.	Make charges reflective of current costs
Amendment of Broadcasting Act to remove KBC's power to impose licenses on both consumers and operators in information and broadcasting services.	Increasing equity in broadcasting services
- Amendment of section 31 to provide for regulations relating to credit reference bureaus. - Amendment of section 35 to enable Deposit Protection Fund Board to liquidate failed institutions	Enhance regulation of credit reference bureaus Increase discretionary powers of DPF Board
Banking Act changes: - Amendment of section 35A to free the Board from requirements to deposit money when litigants files suits against it in the High Court. - Amending the Central Bank of Kenya Act to allow the Central Bank to lend to the DPF.	Reduce tying up of money in courts, enhance capacity of DPF Board to carry out its mandate Enable CBK to lend to the DPF
Amending the Hotel and Restaurants Act to give Trustees authority to destrain defaulters and also raise the penalty paid on default from 3% to 5%.	Enable Catering Levy Trustees to collect levies from operators
300% increase in fines on unscrupulous traders by amending section 15 of the Trade Descriptions Act, from kshs.500,000 to kshs.2,000,000.	Protect producers and government revenue from unscrupulous traders

Source: 2003/04 Budget Speech

VAT Measures	
11% reduction in VAT, from 18% to 16%	Promote investment
Zero rating bulk electricity imported from Uganda and connected to the national grid for distribution by KPLC. Proposal to remit tax on capital goods, plants and equipment purchased or imported for power generation and distribution	Reduce cost of electricity to consumers and producers. But why not zero rate VAT on domestic consumption too? After all there is no value addition at this level.
Granting of VAT remission on capital goods, including plants and machinery and equipment for new investment, expansion of investment and replacement.	Promote investment
Proposal to allow remission of VAT under TREO system.	Improve exporters cash flow, enhance competitiveness of local goods
Zero rating raw coffee	Investment incentive to coffee farmers
Zero rating aviation spirits purchased by light aircraft owners and operators	Cushion operators against the recent adverse effects in the tourism industry
Zero rating water drilling services together with water treatment chemicals.	Increase access to safe drinking water

Summary of Tax Proposals Revenue Impact

Import Duty – Ksh. 217 M; Excise – Ksh. 1,190M; VAT – Ksh. 300 M & Miscellaneous – Ksh. 280 M.

Summary

The prevailing theme in this year's tax measures is based on the goals of the Economic Recovery Strategy and Narc Manifesto. The revenue measures are aimed at increasing investment, production and employment creation towards raising economic growth. The sectors that received the largest boost include manufacturing, energy, agriculture and information technology. There is more emphasis on enhancing investment and capital formation by providing various incentives to encourage investors to create more jobs and increase production.

The realization of revenue targets depends on the pace of economic recovery and attaining the growth rate of 2.3%. Overall, there is reason to expect better economic performance based on the various incentives as long as the government places more emphasis on efficient implementation of budget proposals. The incremental revenue of kshs.2 billion from proposed tax measures amounts to only 0.9% of total expected revenue and presents no immediate danger to the government's overall revenue targets. However, emphasis should be placed on ensuring that the economy grows fast enough to enable the government meet its key revenue target of kshs.224.5 billion. One of the key issues for the success of the revenue measures is the need for monetary policy to complement fiscal policy targets. Incentives given to investors may not translate into more production and employment creation unless the cost and availability of credit is addressed (A balance between monetary and fiscal policy). There is therefore need to ensure that measures proposed by the Minister touching on banks and the cost of credit are effected to ensure credit availability to finance investment needs of businesses. Although the tax proposals present a good foundation for more future tax incentives, there is still a lot of room for reductions and rationalization in future budgets.

VAT

- The 11% reduction in VAT is welcome but should be reduced further to stimulate more production and employment.
- It would also be appropriate for the Minister to address the issue of VAT on consumption of electricity by households. There is no value addition at this level, which provides no rationale for levying the tax.

Income Tax

- Although the Minister did not address personal income tax, there is need to lower the minimum taxable income from the current level of kshs.9,680 to address the issue of poverty reduction and ease the tax burden on low income households.
- The top tax rate of 30% should also be lowered to increase worker's purchasing power.
- There is also need to reduce withholding tax on interest income from the current rate of 15% to encourage saving. The low national savings rate can be attributed to the high withholding tax on interest income as much as low savings rates by banks.

TAMING THE FINANCIAL SECTOR

PROPOSED MEASURE	RATIONAL & GAPS
Central Bank of Kenya (CBK)	
Introduction of a Neutral GOK Instrument	To influence commercial banks lending rates. Interest rate will be pegged to the inter-bank overnight lending rate. This inter-bank rate is a better measure of the credit risk as opposed to TB whose pricing is based on demand for credit. It is however not clear how this instrument will operate given the cartel like operation of the banking sector that does not enhance competition. London Inter-Bank Offer Rate (LIBOR) operates on this premise in a more competitive market
The Minister proposes to reintroduce some clauses in the CBK Amendment Act 2000: 1. Limit of interest recoverable on outstanding NPLs. 2. Financial Institutions to maintain positive interest rates. 3. Establishment of an independent Monetary Policy Advisory Committee.	To protect businesses that, are experiencing financial difficulties. To compensate depositors for the time value of money. But could have serious financial implication (losses) on the financial institutions and probably result to closure. It appears that the Minister's proposal was lopsided since it did not review the withholding tax on interest income, which eats into the savings returns. In fact, interest income attracts withholding tax at 15% while dividends attract withholding tax at 5%. Why not reduce the differential to encourage savings? To advice CBK on appropriate monetary policy and thus facilitate consultation and increase objectivity in the formulation of monetary policy. ***Gap*** The limit to interest recoverable on non-performing outstanding loans might result in a moral hazard where borrowers default on loans hoping to get protection under this provision.
Transfer of powers to revoke and issue licenses to financial institutions to CBK.	To harmonise Kenya's banking laws with those of other east African Countries and to make CBK more autonomous.
Banks and Non-Bank Financial Institutions.	
Cash Ratio reduction to between 6% and 8% and subject foreign currency deposit to the cash ratio requirement. Bank Charges adjustments to be approved by the Minister as required by Section 44 of the Banking Act. Banks required to report regularly on savings and lending rates to CBK for publication in the local press. Central Bank to consider setting up a Non Performing Loans Agency to oversee the cleaning up of the banks' loan portfolio. Minimum Capital Requirement reduced from Ksh. 500 million and Ksh. 375 million to Ksh. 250 million and Ksh. 200 million for Banks and NBFIs respectively.	To release more funds to banks for onward lending and thus bring down lending rates. This will check cartel like operation by the big banks that results to unilateral adjustment of tariffs. This will go a long way in reducing the interest rates spreads that are largely in favour of the banks. This will help reduce the cost of credit. This will encourage entry of more players in the financial sector and enhance competition within the sector. Gap This incentive might encourage entry of weak institutions which faced with stiff competition from the big financial institution might collapse, leading to a banking crisis like the one witnessed in the early 90's. The risk is even higher if the CBK does not perform its supervisory role effectively.
Financial Markets	
Proposes amendment to Internal Loans Act	To enhance trading in government securities in the secondary stocks mart.
National Payment System	
Proposed to introduce a Bill in Parliament to improve the National Payment System.	To enhance the efficiency of the national Payment System with a view to increasing the speed of the payment processing to reach real time settlement speeds.
Micro Finance	
Draft bill to be introduce in parliament	To protect micro-finance credit providers, especially those taking credits

PROPOSED MEASURE	RATIONAL & GAPS
Retirement Benefits Authority	
Amend section 311 of Companies Act to raise the priority unpaid retirement benefit contributions to that accorded to wages and salaries.	To protect employees' retirement benefits.
Raised the maximum allowable employee contribution from Ksh. 4000 to Ksh. 20,000	To encourage savings.
Reduced the period within which employees can benefit from the employer's contribution from 5 to 3 years from the commencement of the pension scheme.	To protect earned benefits.
Waived the requirement for pension/provident funds to undertake actuarial services every 5 years.	To reduce costs of pension/provident funds management and encourage savings. ***Gap*** The oversight role has been passed over to the RBA. It is not clear whether RBA has the capacity to effectively carry out this function.
Allowed small schemes (with funds valued at less than Ksh. 5 million) to invest up to 100% in Government securities.	To encourage growth of small schemes that, have fewer alternative investment opportunities.

Did you Know that effective this fiscal year the Minister is Generating revenue (approximately Ksh. 500 million) from sale of Electricity generated at Turkwell Hydro Electric Power Station? Parliament may want to probe further this sale. Is the Government exporting power to e.g. Sudan despite the shortfall in domestic power supply?

External Budgetary Support

The IEA Budget Team also notes that the Minister plans to finance part of his budget deficit by way of external budgetary support amounting to Ksh. 30 billion. Again this item was not mentioned in the Minister's budget speech.

Kenya Re-Insurance Privatisation Cost

Members may also want to probe the why the Minister's proposal to spend Ksh. 120 million to prepare Kenya Reinsurance for privatization.

ESIMATES OF RECURRENT & DEVELOPMENT EXPENDITURE 2003/2004, Ksh. Million (Nominal Terms)							
	Recurrent	Development	TOTALS				
	Gross Estimates 2003/04	Gross Estimates 2003/04	Total Approved expenditure 2002/03	Total Estimates 2003/04	Actual Change between 2002/03 and 2003/04	Percentage Change between 2002/03 and 2003/04	Total Percentage Share
Details of Vote	KShs. M	KShs. M		KShs. M			
Sector							
Productive Sector	13,978	6,604	18,399.90	20,582	2,182	11.86%	5.23%
Agriculture and Rural Development	6,163	3,882	8,955.17	10,044.38	1,089	12.16%	2.55%
Environment, Natural Resources & Wildlife	2,440	980	2,921.90	3,420.56	499	17.07%	0.87%
Co-operative Developmemnt	747	65	600.32	812.34	212	35.32%	0.21%
Lands and Settlement	1,499	161	1,795.21	1,660.17	(135)	-7.52%	0.42%
Trade and Industry	2,196	771	2,437.92	2,967.54	530	21.72%	0.75%
Tourism, and Information	932	744	1,689.38	1,676.74	(13)	-0.75%	0.43%
Social Sector	90,438	14,355	88,901.59	104,793	15,891	17.87%	26.63%
Education, Science and Technology	71,943	8,434	66,673.01	80,377.26	13,704	20.55%	20.42%
Health	16,005	5,116	19,342.16	21,120.25	1,778	9.19%	5.37%
Labour and Human Resource Development	1,483	297	1,854.00	1,780.52	(73)	-3.96%	0.45%
Gender, Sports, Culture & Social Services	1,007	508	1,032.41	1,514.62	482	46.71%	0.38%
Public Administration, Law & Order Sector	80,054	17,126	90,664.62	97,180	6,516	7.19%	24.69%
Office of the President	20,536	5,900	25,651.05	26,435.96	785	3.06%	6.72%
State House	836	273	992.95	1,109.25	116	11.71%	0.28%
Directorate of Personnel Management	1,195	573	2,327.27	1,768.34	(559)	-24.02%	0.45%
Foreign Affairs and International Co-op.	4,405	110	4,450.82	4,514.96	64	1.44%	1.15%
Home Affairs,	5,992	442	6,574.30	6,434.73	(140)	-2.12%	1.63%
Planning & National Development	764	881	1,097.18	1,645.05	548	49.93%	0.42%
Finance	15,319	7,837	16,468.59	23,156.88	6,688	40.61%	5.88%
Department of Defence	17,855	-	17,630.31	17,855.43	225	1.28%	4.54%
OVP Min. of National Reconstruction	751	810	880.98	1,560.67	680	77.15%	0.40%
Public Service Commission	211	-	118.26	211.01	93	78.43%	0.05%
Office of the Controller and Auditor - General	447	-	380.99	446.87	66	17.29%	0.11%
National Assembly	4,672	-	4,020.10	4,672.46	652	16.23%	1.19%
Electoral Commission	1,213	-	4,663.91	1,212.80	(3,451)	-74.00%	0.31%
Justice & Constitution Affairs	165	116	98.43	280.85	182	185.33%	0.07%
Office of the Attorney- General	476	20	478.31	495.82	18	3.66%	0.13%
Judicial Department	1,316	164	1,331.18	1,479.31	148	11.13%	0.38%
National Security Intelligence Service	3,900	-	3,500.00	3,900.00	400	11.43%	0.99%
Physical Infrastracure	19,391	21,425	34,018.13	40,816	6,798	19.98%	10.37%
Local Government	4,467	1,080	5,070.72	5,547.70	477	9.41%	1.41%
Roads and Public Works	10,865	8,663	15,852.53	19,528.66	3,676	23.19%	4.96%
Water Resources Management & Development	2,117	4,525	4,031.44	6,642.22	2,611	64.76%	1.69%
Transport and Communications	1,662	579	2,166.06	2,241.53	75	3.48%	0.57%
Energy	279	6,578	6,897.39	6,856.18	(41)	-0.60%	1.74%
TOTAL Discretionary Expenditure	203,861	59,510	231,984.24	263,371	31,387	13.53%	66.92%
Add Consolidated Fund Services:							
(1) Public Debt	114,777		97,545.62	114,777.50	17,232	17.67%	29.16%
(2) Pensions and Gratuities	12,489		11,652.53	12,489.46	837	7.18%	3.17%
(3) Salaries, Allowances	1,363		1,135.84	1,362.88	227	19.99%	0.35%
(4) Subscriptions to International Organizations	133		132.61	133.02	0	0.31%	0.03%
(5) Miscellaneous	1,450		-	1,449.56	1,450		0.37%
TOTAL CONSOLIDATED FUND SERVICES	130,212		110,466.61	130,212	19,746	17.87%	33.08%
TOTAL EXPENDITURE OUTLAYS	334,073		292,715.23	393,584	100,868	34.46%	100.00%

CONCLUSION

Despite the financial constrains the Minister reduced taxes in a bid to encourage production and at the same time proposed to increase budgetary allocation to the free primary education programme and for road network development, maintenance and rehabilitation. In the overall, this was a good balancing act especially given that the Minister took over stewardship of the Treasury at a time when external financing was at rock bottom, fiscal deficit had grown to unprecedented levels of over 30% of total public spending and the economy was still in recession.

The Minister also made a good effort at tailoring his fiscal proposals to rhyme with the Economic Recovery Strategy for Wealth and Employment Creation which are centred around four broad pillars which entail pursuit of macroeconomic framework that does not compromise economic recovery, strengthening institutions of governance, rehabilitation and expansion of physical infrastructure and increased investment in human capital with a special focus on the poor. Honourable Members have to ensure that the executive adheres to the proposed fiscal measures.

Whereas there was reference to earmarked reforms in public expenditure management, the proposals were lacking in time frame and succinct plans as to how the reforms were to be realised. For instance, the Minster underscores the importance of prioritization of expenditures towards achieving economic recovery. The IEA Budget Team concurs with the Minister but wishes to caution that the Medium Term Expenditure Framework (MTEF) budgeting system failed miserably to achieve that goal in the past and since it is apparent that the Minister shall operate within the same framework then he needs to move fast to fix the gaps in the system. Members of Parliament may wish to assert their oversight role by demanding the empowerment of the office of the Controller and Auditor General, which is established by the Constitution as the Auditor of the National Assembly.

It is also very clear that parliament may soon be bombarded with numerous Bills necessary for better public finance management. There is a likelihood that parliament may not dispose of all the Bills unless they amend parliamentary procedures to increase House sitting time.

Finally, honourable Members should satisfy themselves that the 2003/2004 budget truly captures the many commitments made in the Economic Recovery Strategy for Wealth and Employment Creation

BUDGET CALENDAR

1. Policy Debate (up to 7 days from Tue 17th June)

Policy Debate. House will debate the Government's economic policy and strategies as outlined in the budget speech. Do they adequately address the challenges and imperatives facing the country? Official opposition will be given first opportunity to articulate its alternative to the Government's proposals. The Finance Minister will respond at the end of the debate. (***Key Documents: Budget Speech, Economic Recovery Strategy)***

2. Vote on Account (1 day: probably 26th June)

Policy debate will be interrupted for the Minister to seek approval for up to 50% of the expenditure to spend up to December 31 on a vote by vote basis. (***Key documents: Estimates of Recurrent & Development Expenditures.***

3. Committee of Ways and Means (3 days)

Finance Minister will move Motion to constitute House as Committee of Ways and Means. House will debate taxation proposals. Members will have opportunity to amend the proposals during the debate on the Finance Bill. (***Key documents: Budget Speech, Finance Bill, Estimates of Revenue)***

4. Committee of Supply (July 1 – October 31)

House will debate and approve expenditures on a Ministry-by-Ministry basis. Members will have opportunity to propose nominal reductions on specific items (sub-votes) as a sanction for non-performance (***Key documents: Estimates of Recurrent & Development Expenditures, Economic Recovery Strategy)***

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