PUBLIC REVENUE AND EXPENDITURE IN KENYA

SOURCES OF PUBLIC REVENUE

Public finance refers to revenue and expenditure of the national and county government.

Principles that govern the use of public finance in Kenya

a) The principle of openness and accountability. There shall be public participation in financial matters.
b) The public finance system should promote an equitable society, and in particular the burden of taxation should be shared fairly.
c) Revenue raised nationally should be shared equitably among national and county governments.
d) Expenditure of public finance should promote the equitable development of the country, including making special provision for marginalized groups and areas.
e) The burdens and benefits of the use of resources and public borrowing should be shared equitably between present and future generations.
f) Public money should be used in a prudent and responsible way.
g) There should be responsible financial management accompanied by clear fiscal reporting to ensure effective use of public funds.

NATIONAL BUDGET

The national budget is a comprehensive statement that gives an estimate of public revenue, expenditure and financial plans for a given financial year for a government.

Components of the national and county governments' budgets in Kenya

a) Estimates of revenue and expenditure, differentiating between recurrent and development expenditure.
b) Proposals for financing any anticipated deficit for the period to which they apply.
c) Proposals regarding borrowing and other forms of public liability that will increase public debt during the following year.

The process of Budget preparation and implementation in Kenya

Three months before the end of each financial year, the head of each department or State organ submits estimates of revenues and expenditures for the following year to the secretary for finance.

Two months before the end of each financial year, the Cabinet Secretary for finance submits to the National Assembly estimates of the revenue and expenditure of the national government for the following financial year.

He also submits a detailed national fiscal, monetary and development plan for a period of three years prepared by him in collaboration with the Secretary responsible for planning and national development.

The estimates include estimates for expenditure from the Equalization Fund. The National Assembly then considers the estimates submitted together with the estimates submitted by the Parliamentary Service Commission and the Chief Registrar of the Judiciary.

Before the National Assembly considers the estimates of revenue and expenditure, a committee of the Assembly will discuss and review the estimates and make recommendations to the Assembly.
Committee makes its recommendations to the National Assembly.

When the estimates have been approved by the National Assembly, there will be an **Appropriation Bill**, introduced into the National Assembly *to authorize the withdrawal from the Consolidated Fund of the money needed for the expenditure.*

The Appropriation Bill will not include expenditures that are charged on the Consolidated Fund.

The process of Budget preparation and implementation in a county government

Further reading about this is encouraged.

Sources of public revenue for national government in Kenya

Domestic Revenue Sources

These are the taxes levied on citizens, private and public organizations, foreign investors and business people.

There are two main groups of taxes;

1. Direct taxes.
2. Indirect taxes.

Direct taxes. (Income tax)

These are taxes derived from people's salaries in form of income tax.

Indirect taxes

These are taxes levied on goods and services but with parliamentary approval. They include;

a) *Value-added tax;* an indirect sales tax paid on specific goods such as sugar, bread, petroleum products, clothes, electronic equipment and motor vehicles.

b) *Customs duties:-* there are duties on imported goods such as motor vehicles, machinery, fertilizer, sugar, wheat, electronics, luxury goods, etc.

c) *Excise tax;* this is charged on locally produced goods that are sold within the country.

d) *Export Duty;* the duty charged on locally produced goods such as textiles, coffee, tea, soda ash and pyrethrum which are exported.

e) *Trading Licenses;*

f) *Sales Stamp Duty*; on entertainment services, betting, casino and premium bonds.

g) *Traffic Revenue tax;* levied on various categories of traffic services. E.g., the Road Maintenance Levy, the driver's licence, Airport tax by air passengers

h) *Investment Revenue;* earned from parastatal and other profit making bodies that remit profits through the treasury.

i) *Loan interest receipts.* Collection of taxes from parastatals like AFC, KTDA, KPC, NCPB and KCB.

j) *Land Rates.*

k) *House rates.*

l) *Fees;* paid in terms of timber levies, CO2 levies and mining fees.

m) *Court Fines*

n) *Borrowing (under laid down law or procedure).*

o) *Tourism fess*

External Revenue Sources

There are two main sources of external assistance;

1. *Bilateral Aid;* where two friendly nations assist each other. E.g. Kenya and Japan

2. *Multilateral Aid;* many countries form trading blocs or global institutions like World Bank, IMF, European Union and commonwealth for this purpose.

Sources of finance for county governments

a) The main source of funding for many counties is their ***equitable share from 15%****ofthe national budget.*

b) ***Conditional and unconditional grants***. *Unconditional Grants*are funds allocated by the national government without conditions regarding their use. *Conditional grants* are the funds allocated by the national government for funding of specific projects and programmes. They include;

- ~ *The Equalization Fund* for provision of basic services like water, health services, electricity and roads in marginalized areas.
- ~ *The Contingencies Fund* to carter for urgent and unforeseen circumstances

c) **Counties' own revenues.** Counties have the power to collect property rates, impose taxes on entertainment, and impose fees and charges for services they render to people and any other tax that Parliament permits them to impose.

d) ***Borrowing,*** where the national government guarantees the loan or with the approval of the county assembly.

e) *Grants and donations*

Factors that determine equitable sharing of public finance

a) The national interest.

b) Any provision that must be made in respect of the public debt and other national obligations.

c) The needs of the national government, determined by objective criteria.

d) The need to ensure that county governments are able to perform the functions allocated to them.

e) The fiscal capacity and efficiency of county governments.

f) Developmental and other needs of counties.

g) Economic disparities within and among counties and the need to remedy them.

h) The need for affirmative action in respect of disadvantaged areas and groups.

i) The need for economic optimization of each county and to provide incentives for each county to optimize its capacity to raise revenue.

j) The desirability of stable and predictable allocations of revenue.

k) The need for flexibility in responding to emergencies and other temporary needs.

Regulations that govern imposition of taxes and charges in Kenya

a) Only the national government may impose Income tax, Value-added tax, Customs duties and other duties on import and export goods; and excise tax.
b) An Act of Parliament may authorize the national government to impose any other tax or duty.
c) A county may impose property rates, entertainment taxes, and any other tax that it is authorized to impose by an Act of Parliament.
d) The national and county governments may impose charges for services.
e) The taxation and other revenue-raising powers of a county should not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour.
f) No tax or licensing fee may be imposed, waived or varied except as provided by legislation.
g) If permitted, a public record of each waiver shall be maintained together with the reason for the waiver; and each waiver, and the reason for it, should be reported to the Auditor-General.
h) No law may exclude or authorize the exclusion of a State officer from payment of tax.

The revenue collected by the government is deposited into the following funds;

1. *Equalization Fund;* This is a Fund specially established by the National government, to provide basic services including water, roads, health facilities and electricity to marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation.
2. *Consolidated Fund;* this is the fund into which all the money raised or received by the national government is paid. Money set aside by parliament for specific purpose and money set aside by state organs to take care of their expenses is however not deposited in this fund.
3. *Contingencies Fund;* this is a fund from which advances will be made if the secretary for finance is convinced that there is an urgent matter that needs funding and for which there is no other provisions.
4. *Revenue Funds;* this is a fund for each county into which all the money raised or received by the county government is paid.

Expenditure of Public Revenue

There are two ways in which the national government spends its revenue.

1. *Capital expenditure.* –The money set aside in the national budget for development projects.
2. *Recurrent expenditure*.–The money used by the government to sustain and maintain the existing facilities.

How the national government spends its money under recurrent expenditure.

a) The government remunerates its employees through regular payment of salaries and wages.
b) The expenditure is also used to maintain public property throughout the country by allocating necessary funds to roads, airports, colleges, school text book provision and bridge maintenance.

c) The money is also used to service debts from international donor agencies and local financial institutions.
d) The money is also used to contribute to regional and international organizations like COMESA, AU, UN and Commonwealth.
e) It is used to provide grants to counties and parastatals, and bursaries to schools and colleges.
f) The money is also used to maintain Kenyan embassies abroad.

County government expenditure

County governments spend their monies in the following ways;

a) Provision of basic social services like water, health facilities, electricity and cemeteries.
b) The money from its recurrent expenditure is used to pay wages and salaries to its employees.
c) The counties spend their money to some extend to control air and noise pollution, and also on refuse removal and solid waste disposal.
d) Money is used to finance development of roads, parking facilities, ferries and street lighting, develop entertainment, sporting, trading and cultural facilities.
e) In repair maintenance and improvement of public facilities like roads, health facilities, markets, libraries, housing etc.
f) Some money is set aside as emergency utility for fire fighting services and disaster management.
g) The counties use their money to service the borrowed funds plus the interest accrued.
h) They also use money to provide early childhood education through development of nursery schools. They also develop village polytechnics and home craft training centres.

Ways through which proper management of public finances by national government is ensured in Kenya

a) Any national governments expenditure by state departments or state organs must be approved by parliament which acts as the public watchdog.
b) The controller of budget oversees the implementation of the national budget by authorizing legal withdrawals from public funds such as the equalization fund, consolidated fund and contingencies fund
c) The controller of budget submits to each house of parliament report on the implantation of the budget of the national government.

d) Where a state organ or any other public body fails to adhere to the laid down procedures of expenditure, the cabinet secretary for finance, with the approval of parliament, may stop the transfer of funds to the body.
e) There is constant auditing of accounts and financial records of all government and other public bodies.
f) Every public body has a n accounting officer who is accountable to the national assembly for the financial management of the public body.
g) The auditor general audits all accounts of all government and state organs.
h) The government has put up policies related to procurement which is supposed to be fair, transparent, competitive and cost effective. to regulate public procurement, various bodies have been set up. e.g the public procurement oversight authority (PPOA), the public procurement administrative review board (PPARB)
i) The government has also imposed sanctions against contractors who fail to fulfil their contractual agreements either by failing to complete jobs or by doing shoddy work.
j) Sanctions are to be imposed against those persons who fail to pay their taxes, or engage in corrupt practices.
k) All government contracts are publicly advertised for awarding of tenders and awards.
l) The government established the Kenya Anti-Corruption Commission (KACC) in 2004 which has the function of investigating corrupt cases in a non-partisan manner.

Management and expenditure of public finances in county governments

a) In every county, there is established a revenue fund where all funds, (including the county's own revenues, transfers from national revenues, grants and borrowed funds) are consolidated.
b) Money from this fund is only withdrawn following specific procedures authorized by parliament or by county laws.
c) County governments must operate financial management systems that comply with all requirements of national legislation.
d) The county assembly must vote on the budget and approve expenditure by various departments of the county.
e) The county treasury must seek quarterly approvals from the controller of budget for withdrawal from the revenue fund based on the needs of the county.
f) The accounting officer of a county organ or public body is accountable to the county assembly for the financial management of the public body.
g) Each county has a county accountant general who maintains financial records of all the funds withdrawn from the revenue fund, and expenditure incurred.
h) Apart from the internal audits in every county, the auditor general audits the accounts of the county governments and submits reports to the relevant county assembly.

The controller of Budget

Role of the controller of budget

a) He or she oversees the implementation of the budgets of the national and county governments.
b) He or she authorizes withdrawals from the public funds such as the Equalization, Consolidated and Revenue Funds.

c) he or she submits to each house of parliament, every four months, a report on the implementation of the budgets of both national and county government

Auditor General.

Read on this

The Commission on Revenue Allocation

The Commission consists of;

a) A chairperson.
b) One nominee of each regional assembly.
c) Two persons to represent county governments.
d) Two persons nominated by the National Assembly.
e) The Principal Secretary in the Ministry responsible for finance.
f) The Controller of Budget.

Functions of the commission of Revenue Allocation

a) He is responsible for determining the basis for the equitable sharing of revenue from national resources between the national government and the various levels of devolved government.
b) It makes recommendations on matters concerning the financing, and financial management by county governments
c) It determines and regularly reviews a policy that set out the criteria by which to identify the marginalized areas.
d) It defines and enhances the revenue sources of the national and county governments.
e) It submits its recommendations to the senate, national assembly, the national executive, county assemblies and county executives.
f) It mediates in and determines disputes relating to financial arrangements between the national government and devolved governments.

Functions of Central Bank

a) Promote and maintain the stability of the value of the currency of the Republic.
b) Issue notes and coins.
c) Act as banker and financial adviser of the Government.
d) Conduct the monetary policy of the Government in a manner consistent with the relevant provisions of the law in the interest of the balanced and sustainable economic growth of the Republic.
e) Encourage and promote economic development and the efficient utilization of the resources of the Republic, through effective and efficient operation of a banking and credit system.

Why the Economic and Social Council established in Kenya.

a) To advise the national government and Parliament on matters of economic and social concern to the people of the Republic.
b) To advise the national government on the formulation, implementation, monitoring and evaluation of strategic economic and social policies.
c) To consider and report to Parliament on the economic and social implications of all Bills and budgetary proposals introduced in Parliament.
d) To monitor progress in the improvement of the living standards of the people of Kenya, particularly those of the poor and the disadvantaged.

Revision questions

1. **1991 Q27a**
   Discuss the functions of the Central Bank of Kenya
2. **1996 Q12**
   Name two parastatals organizations in Kenya that fall under the ministry of Transport and Communication. (2marks)
3. **1996 Q14**
   Identify one type of direct tax through which the Kenya government raises its revenue. (1mark)
4. **1997 Q11**
   State two ways thought which the government controls parastatals. (2marks)

5. **1998 Q23**
   (a) Explain why the Kenya government prepares an annual budget. (10 marks)
   (b) What measures does the Kenya government take to ensure that public funds are properly used? (5 marks)
6. **1999 Q15**
   Name two major types of government expenditure (2 marks)
7. **2000 Q17**
   Identify one main issue that is addressed in the national budget in Kenya. (1mark)
8. **2002 Q10**
   Give two sources of revenue for the District Development Committees in Kenya (2marks)
9. **2002 Q14**
   What is contained in the government budget? (1 mark)
10. **2003 Q14**
    Give two reasons why the district focus for Rural Development was adopted as a development strategy in Kenya. (2 marks)
11. **2005 Q 12, 17**
    12. Identify two sources of government revenue in Kenya. (2 marks)
    13. State two contributions of parastatals to the economic development of Kenya. (2 marks)
12. **2006 Q17**
    Give one example of indirect taxes in Kenya (1 mark)
13. **2007 Q16**
    State one type of government expenditure in Kenya (1mark)
14. **2008 Q17**
    Give one reason why the government of Kenya prepares a national budget (1mark)

15. 2010 Q 10, 24

10. Give the **main** reason why the government of Kenya introduced the Constituency Development Fund (CDF). (1 mark)

24. (a) Identify **five** stages in the preparation of the national budget. (5 marks)

(b)Explain why it is important for the Government to prepare the national budget annually . (10 marks)

16. 2011 Q17

Give two external sources of Government revenue in Kenya (2marks)

17. 2012 Q15, 16, 17 P1

15. Give the **main** reason why the government of Kenya introduced Free Primary Education in 2003. (1mark)
16. State **two** ways in which the government of Kenya ensures effective utilization of funds. (2marks)
17. Give **two** disadvantages of Kenya's reliance on foreign aid as a source of revenue. (2marks)

Answers

1991 Q27a

- The Central Bank regulates the issue of currency It ensures that there is adequate stock of notes and coins for circulation. It also withdraws worn-out notes from the public and replaces them with new ones.
- It is charged with the responsibility of determining the denominations in which the currency should be issued.
- The central Bank is a banker to the government. It keeps government revenue and pays for the government expenditure.
- It acts as the national centre for collection of data and general information in the filed of money and banking.
- The central bank is given powers to inspect books for account of commercial bank and other financial institutions arid recommend the filed in which they may lend money. It also gives informal and formal advice to commercial banks.
- Foreign exchange operations - The central Bank in liaison with the relevant government ministries administer the country's foreign reserves. The exchange control act and generally handles the financial relationship between Kenya and foreign financial institutions.
- It participates in negotiation for foreign borrowing and in handling of aid and grant funds from foreign Government and international organizations like the World Bank and international monetary fund. The repayment of capital and interest of all loans are also channeled through the bank.
- Acts as a banker to all commercial banks in the country. These banks are required to maintain current account with the central banks, to use for settling claims with one another through the banking clearing house
- The bank assists in the development and maintenance of a sound monetary credit and banking system conducive to orderly and balanced economic development of the country.
- It regulated credit growth within the economy. The bank is able to stimulate or induce contraction of credit depending on the policy objectives the government is pursing at any given period.
- Then bank promotes exports while ensuring that satisfaction of domestic needs. It ensures that all proceeds of the country's exports are received without undue delay
- The bank has also initiated studies intended to identify ways and means of maximizing foreign exchange such as coffee and tourism
- It approves the establishment of new financial institutions.

1996 Q12

- Kenya ports authority/KPA
- Kenya Railways
- Kenya posts and Telecommunications
- Kenya airways. Any 2 point, 1 mark each (2 marks)

1996 Q14

- Export tax
- Import tax / custom duty
- Excise duty

- Sales tax/ Income tax
- Value Added Tax (VAT)

1998 Q23

- To enable the government to prioritize its needs.
- Help the government to identify sources of revenue.
- Enables parliament to approve government expenditure.
- Enable the government to explain the tax structure to the public.
- Enable the government to estimate the financial requirements for its needs.
- Acts as reference for future – in correcting mistakes.
- Smooth running of government, various government departments.
- Help the government to identify its departments and allocate duties appropriately thus enhancing accountability.
- Give useful information to those organizations and individuals who may want to keep track of the governments expenditure.
- Enable the government to account for funds borrowed/donated for development.
- Accomplish already started projects. Any 5 points, 2 marks.

- The government ensures that all intended expenditures is approved by parliament before any expenditure is taken.
- All reports on expenditure by government ministries are presented to the Public Accounts Committee to the public.
- The Controller and Audit General Audits ministries and reports to parliament.
- The PS in every Ministry is charged with the responsibility of ensuring that government funds are well spent.
- The Auditor General of State Corporations audits the expenditure of all government corporations.
- Government contacts are advertised publicly for tendering and awards are made on merit.
- Establishing of Kenya Anti-corruption Authority.

1999 Q15

- Recurrent expenditure
- Capital expenditure/ development expenditure
- Serving expenditure (Any 2 points) (2 marks)

2007 Q17

- The amount of revenue the government requires and plans to raise
- Sources from which the government intends to raise the revenue
- How the government intends to spends the revenue (1 mark)

2002 Q10

- Government grants
- Donations fro NGOs and religious organizations
- Aid from foreigners
- Harambee funds
- Donations from individuals. Any 2 points, 1mark each =2marks.

2002 Q14

- The amount of revenue expected
- Sources of revenue

- Areas of expenditure Any 1 point, 1mark = 1mark

2003 Q14

- To help in co-coordinating development efforts in district.
- To mobilize resources in each district for development.
- To facilitate prioritization of individual district needs.
- To hasten development of under developed district
- Facilitate even distribution of natural wealth resources.
- To minimize delays caused by Central Government. (2 marks)

2006 Q17

- Sale taxes/ exercise duty/ customs duty
- Value added tax
- Cess/ fines/ fees/Land rates/ Domestic borrowing

2008 Q17

- It helps the government to determine the sources for revenue.
- To ensure transparency in the use of public funds.
- It helps in appropriate allocation of resources to different ministries.
- To enable Kenyans and other foreign organizations to know the economic planning and expenditure of the government. (1 mark)

2010 Q 10

- To speed up development/uplift peoples living standards in the constituencies. (1 x 1 = 1 mark)

2010 Q24

- Each government ministry prepares its estimates.
- The Ministries are forwarded to the ministry of finance.
- The Ministry of Finance compiles the estimates into a single budget/the proposed budget.
- The proposed/compiled budget is discussed by the cabinet.
- The government announces the budget day.
- The Minister of Finance presents/reads the budget before parliament.
- Parliament discusses/debates/approves the budget. Any 5 x 1 = 5 marks

2011 Q17

- Loans/Grants/Donations. Any 2x1 = 2 marks

2012 Q15,16,17 P1

15. **Give** the **main reason why the** Government **of Kenya introduced Free** Primary **Education** in**2003.** **(**1 mark)

(i) **To** enable **more** people access education.

(1x1 = 1 mark)

16.

- **It** budgets for the funds /finance.
- It undertakes regular auditing of funds. .
- It investigates /prosecutes corrupt officers through EAAC
- It procures goods/services through open tendering system.
- Parliament approves/monitors public funds

Any 2x1=2 marks

17.

- It is given with conditions.
- It attracts high interest rates.
- It creates donor dependency syndrome/debt crisis
- It limits the choice of trading partners.
- It delays the implementation of projects. Any 2x1=2 marks