www.pwc.com

Change: Joining the dots

Budget 2013

pwc

Contents

Country Senior Partner Comments

The Economic Analysis

Devolution & Change

Revenue Measures

Sector Reforms

East African Perspective

Talk to Us

Devolution

Page 1 of 2

Benson Okundi
Assurance Partner, PwC Kenya

Budget Allocation

With the signing of the Division of Revenue Act and the intrigues that came with it, we must consider:

1. Do we have adequate funding for the running of counties?
2. Which activities are covered by the National government and which are covered by the County?
3. Is there a chance of duplication of functions?

Transition Authority

The TA entered the scene with a lot of publicity that has quickly fizzled out. Is the TA still viable with a three year mandate in the Transitional to Devolved Government Act?

Constitution Implementation

The cancellation of the Constitution implementation proposed funding of Kshs 4 billion by the National Assembly begs the questions:

1. Are the executive and Legislative arms pulling in different directions?
2. What is the impact on devolution?

Are we reaping the benefits?

1. Will we achieve equity in resource distribution?
2. Will there be improved funds absorption capacity?
3. Will we improve revenue collection?
4. Will self governance deliver better results?

Devolution
Page 2 of 2

Emerging Challenges

1. Is there a problem with the legal framework?
2. Were budget deficits designed or are they real? How will they be financed?
3. What happens if counties charge for the resources considered National Assets?
4. Do we have a monitoring framework for the effectiveness of devolution?
5. What if counties become insolvent?

Possible Solutions

This will involve building connectivity and leveraging solutions like:

1. Shared Training Centres
2. IFMIS
3. ICT

www.pwc.com/ke

Contact us:

PricewaterhouseCoopers Limited
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963, 00100 Nairobi, Kenya

Tel: +254 (20) 285 5000
Fax: +254 (20) 285 5001

E-mail: pwc.kenya@ke.pwc.com
www.pwc.com/ke

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers Ltd, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2013 PricewaterhouseCoopers Ltd. All rights reserved.

www.pwc.com/ke

Devolution & Change

Year of Transition

pwc

Devolution—Where are we?

Budget Allocation

The Division of Revenue Act was signed by the President on 11 June 2013, and therefore became an Act of Parliament. The Act provides for Kshs 210 billion to be disbursed to the counties, of which Kshs 190 billion comprises the equitable share while Kshs 20 billion comprises the conditional allocations. It is still not clear when this amount will be disbursed – is it in one chunk or in several instalments? The amount was reduced from the Senate proposed budget of Kshs 248 billion.

This allocation raises certain questions about the quantification of the amount, including questions about how the amount was costed and which activities are catered for at the counties level.

The Act provides for Kshs 210 billion for the counties, of which Kshs 190 billion comprises the equitable share while Kshs 20 billion comprises the conditional allocations. This raises certain questions on the veracity of the amount, including questions on how the amount was costed and what activities are catered for at the counties level.

The role of the Transitional Authority

The Transitional Authority (TA) was fairly visible in the run up to the General Elections and the post-election period. It facilitated the setting up of county infrastructure including Governors' offices, transition staff for key functions including finance, ICT and county assemblies and training for the staff among other activities.

The role of the TA is however fizzling out despite its three year mandate due to governors taking over the management of the counties and the infighting amongst politicians. The TA has not been able to fulfil certain parts of its mandate including the audit of the assets and liabilities and transfer to county governments. It is important to understand the relevance of the TA going forward and whether it will be able to complete its mandate given its recent reduced visibility.

Constitution implementation

Whereas the National Treasury had proposed funds for constitutional implementation in the Budget Estimates released in April 2013, the Budget and Appropriations Committee declined the entire proposal as unnecessary. This contradicted the President's assertion that the government would prioritise implementation of the Constitution and commit the necessary resources. Without specific amounts being allocated in the budget for this task, it is reasonable to wonder what will happen now.

This may impact the ability to build capacity at the county level, which is a function of the national government and inter-linkages with the national government.

Are we reaping the benefits of devolution yet?

It might be too early to see real benefits arising from the devolution. However, there is real change evident in the way that government will be run going forward. Some of these immediate or envisaged benefits include:

Equity in resource distribution: This will be achieved through the Commission of Revenue Allocation (CRA) that sets up the equitable sharing of resources across the counties and that is adhered to when budgeting. Its input during this budget process was significant and we can now say that the citizenry, more than any other time in Kenya's history, are responsible for their destiny!

Improved absorption capacity: The level of bureaucracy that was characteristic of the centralised system will reduce and may result in better absorption and consequently more implementation of budgeted activities.

Improved revenue collection: The revenue that may have not been adequately accounted for previously at lower levels of government, like among local authorities, will now be monitored at a closer level.

Self governance: The counties will be able to make decisions that will address their immediate needs which may result in better application of revenue raised or allocated.

Emerging Challenges facing devolution

Legal framework: The legal framework for devolution has been a long protracted process and to date there are emerging supremacy wars such as between the National Assembly and the Senate or the Governors and County Commissioners. This may negatively impact on the devolution process, leading to an unstable political environment.

Budget deficits: Most of the counties have released budgets that were not fully funded. It is not clear whether this was a strategy to get more allocations from the National government or whether it was a strategy of genuine underfunding. The deficits coupled with the restrictions on borrowing means that the county executive will have to be innovative in bridging the gap.

Sharing National/County Assets: There is a move by counties to control their perceived assets which could impact the entire country at large. These could include Mombasa County charging for use of the port, Murang'a County charging for the water supply to Nairobi or Turkana County charging for oil. This may have a negative effect on the country as a whole in the long term.

Monitoring effectiveness: It is not clear whether there is a process for measuring the impact of devolution on the country.

Possible solutions

The counties can leverage on the following shared services:

- **Training facilities** – develop training centres that can serve a cluster of counties within regions;
- **Reporting** – leverage IFMIS to ensure harmonised reporting for all counties that will aid in consolidation at the national level. Liaise with the IFMIS secretariat to ensure county specific reports are generated; and
- **ICT** – develop ICT solutions for a cluster of counties to save on set up costs. This will lower the costs and enable leveraging of expertise and benchmarking.

© 2013 PwC. All rights reserved. In this document, "PwC" refers to PwC Kenya, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity