**UNIT 8: PUBLIC REVENUE AND EXPENDITURE IN KENYA.**

The constitution of Kenya (2010), has introduced various changes in the aspects of public finance

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

**Principles that govern the use of public finance in Kenya.**

* 1. The principle of openness and accountability. There shall be public participation in financial matters.
	2. The public finance system should promote an equitable society, and in particular the burden of taxation should be shared fairly.
	3. Revenue raised nationally should be shared equitably among national and county governments.
	4. Expenditure of public finance should promote the equitable development of the country, including making special provision for marginalized groups and areas.
	5. The burdens and benefits of the use of resources and public borrowing should be shared equitably between present and future generations.
	6. Public money should be used in a prudent and responsible way.
	7. 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.***

1. Estimates of revenue and expenditure, differentiating between recurrent and development expenditure.
2. Proposals for financing any anticipated deficit for the period to which they apply.
3. 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.

**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.

***1. Direct taxes. (Income tax)***

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

 **Types of direct taxes**

 - Pay As You Earn (PAYE).

 - Income tax.

 - Airport tax.

 - Game park tax.

 - Property transfer.

***2. Indirect taxes.***

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

* 1. *Value-added tax;* an indirect sales tax paid on specific goods such as sugar, bread, petroleum products, clothes, electronic equipment and motor vehicles.
	2. *Customs duties:-* there are duties on imported goods such as motor vehicles, machinery, fertilizer, sugar, wheat, electronics, luxury goods, etc*.*
	3. *Excise tax;* this is charged on locally produced goods that are sold within the country.
	4. *Export Duty;* the duty charged on locally produced goods such as textiles, coffee, tea, soda ash and pyrethrum which are exported.
	5. *Trading Licenses;*
	6. *Sales Stamp Duty*; on entertainment services, betting, casino and premium bonds.
	7. *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.
	8. *Investment Revenue;* earned from parastatal and other profit making bodies that remit profits through the treasury.
	9. *Loan interest receipts.* Collection of taxes from parastatals like AFC, KTDA, KPC, NCPB and KCB.
	10. *Land Rates.*
	11. *House rates.*
	12. *Fees;* paid in terms of timber levies, CO2 levies and mining fees.
	13. *Court Fines*
	14. *Borrowing (under laid down law or procedure).*
	15. *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.***

1. The main source of funding for many counties is their ***equitable share from 15%*** *of the national budget.*
2. ***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

1. **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.
2. ***Borrowing,*** where the national government guarantees the loan or with the approval of the county assembly.
3. *Grants and donations*

***Factors that determine equitable sharing of public finance.***

* 1. The national interest.
	2. Any provision that must be made in respect of the public debt and other national obligations.
	3. The needs of the national government, determined by objective criteria.
	4. The need to ensure that county governments are able to perform the functions allocated to them.
	5. The fiscal capacity and efficiency of county governments.
	6. Developmental and other needs of counties.
	7. Economic disparities within and among counties and the need to remedy them.
	8. The need for affirmative action in respect of disadvantaged areas and groups.
	9. The need for economic optimization of each county and to provide incentives for each county to optimize its capacity to raise revenue.
	10. The desirability of stable and predictable allocations of revenue.
	11. The need for flexibility in responding to emergencies and other temporary needs.

***Regulations that govern imposition of taxes and charges in Kenya.***

1. Only the national government may impose Income tax, Value-added tax, Customs duties and other duties on import and export goods; and excise tax.
2. An Act of Parliament may authorize the national government to impose any other tax or duty.
3. A county may impose property rates, entertainment taxes, and any other tax that it is authorized to impose by an Act of Parliament.
4. The national and county governments may impose charges for services.
5. 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.
6. No tax or licensing fee may be imposed, waived or varied except as provided by legislation.
7. 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.
8. 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.

**Why does the government of Kenya prepare an annual budget**

1. To enable the government to prioritize its needs.
2. Help the government to identify sources to revenue.
3. Enables the parliament to approve government expenditure.
4. Enables parliament to approve government expenditure.
5. Enable the government to estimate the financial requirements for its needs.
6. Acts as reference for future in correcting.
7. Smooth running of the government to identify its departments and allocate duties appropriately thus enhancing accountability.
8. Give useful information to those organizations and individuals who may want to keep track of the government expenditure.
9. Enables the government to account for funds borrowed / donated for development.
10. Accomplish already started projects.

**Measures Kenyan government take to ensure the public funds are properly used.**

i) The government ensures that all intended expenditure is approved by parliament before any expenditure by government.

ii) All reports on expenditure by government ministers are presented to the public accounts committee to the public.

iii) The controller and auditor – general audit ministries and reports to parliament.

iv) The PS in every ministry is charged with the responsibility of ensuring that government funds are well spent.

v) The auditor – general of state corporations audits the expenditure of all government corporations.

vi) Government contracts area advertised publicly for tendering and awards are made on merit.

 vii) Establishment of Kenya Anti corruption authority. ( KACA)

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**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.**

1. The government remunerates its employees through regular payment of salaries and wages.
2. 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.
3. The money is also used to service debts from international donor agencies and local financial institutions.
4. The money is also used to contribute to regional and international organizations like COMESA, AU, UN and Commonwealth.
5. It is used to provide grants to counties and parastatals, and bursaries to schools and colleges.
6. The money is also used to maintain Kenyan embassies abroad.

**County government expenditure*.***

County governments spend their monies in the following ways;

1. Provision of basic social services like water, health facilities, electricity and cemeteries.
2. The money from its recurrent expenditure is used to pay wages and salaries to its employees.
3. The counties spend their money to some extend to control air and noise pollution, and also on refuse removal and solid waste disposal.
4. Money is used to finance development of roads, parking facilities, ferries and street lighting, develop entertainment, sporting, trading and cultural facilities.
5. In repair maintenance and improvement of public facilities like roads, health facilities, markets, libraries, housing etc.
6. Some money is set aside as emergency utility for fire fighting services and disaster management.
7. The counties use their money to service the borrowed funds plus the interest accrued.
8. 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.**

* 1. Any national governments expenditure by state departments or state organs must be approved by parliament which acts as the public watchdog.
	2. The **controller of budg**et oversees the implementation of the national budget by authorizing legal withdrawals from public funds such as the equalization fund, consolidated fund and contingencies fund
	3. The controller of budget submits to each house of parliament report on the implantation of the budget of the national government.
	4. 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.
	5. There is constant auditing of accounts and financial records of all government and other public bodies.
	6. Every public body has a n accounting officer who is accountable to the national assembly for the financial management of the public body.
	7. The auditor general audits all accounts of all government and state organs.
	8. 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)
	9. 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.
	10. Sanctions are to be imposed against those persons who fail to pay their taxes, or engage in corrupt practices.
	11. All government contracts are publicly advertised for awarding of tenders and awards.
	12. 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.**

* 1. 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.
	2. Money from this fund is only withdrawn following specific procedures authorized by parliament or by county laws.
	3. County governments must operate financial management systems that comply with all requirements of national legislation.
	4. The county assembly must vote on the budget and approve expenditure by various departments of the county.
	5. 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.
	6. The accounting officer of a county organ or public body is accountable to the county assembly for the financial management of the public body.
	7. Each county has a county accountant general who maintains financial records of all the funds withdrawn from the revenue fund, and expenditure incurred.
	8. 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 following financial officers play crucial roles in the management of public finance both at county and national level

1. **The controller of Budget**

Is nominated and appointed by the president with the approval of the National Assembly.

A person shall qualify as a controller of budget if he/she has extensive knowledge of public finance or at least ten years experience in auditing public finance management. The controller shall hold office for a period of eight years and shall not be reappointed upon expiry of his/her term.

***Role of the controller of budget***

1. He or she oversees the implementation of the budgets of the national and county governments.
2. He or she authorizes withdrawals from the public funds such as the Equalization, Consolidated and Revenue Funds.
3. 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
4. **Auditor General.**

The auditor general, like the controller of budget, is nominated and appointed by the president with the approval of the National Assembly. To qualify to be Auditor – General, one should have extensive knowledge of public finance or at least ten years experience in auditing or public finance management. The Auditor –General will hold office for a term of eight years and will no be eligible for re-appointment

The auditor is supposed to audit and report on the following within six months after the end of each financial year.

* The national and county government accounts
* The accounts of all funds and authorities of the national and county governments \
* The accounts of all courts
* The accounts of every commission and independent office established by the constitution
* The accounts of the National Assembly ,the Sanate and county Assemblies
* The accounts of the political parties funded by public funds
* The public debt
* The accounts of any other entity that legislation requires Auditor-General to audit
* The accounts of any entity funded by public funds

 The audit report is used to confirm whether or not public money has been applied lawfully and in an effective manner

**The Commission on Revenue Allocation.**

The Commission on Revenue Allocation (CRA) is established by Article 215 of the constitution of Kenya. This body is composed of nine members whose appointment is based on their extensive professional experience in financial and economic matters. They include:

The Commission consists of;

* 1. A chairperson, appointed by the president and approved by the National Assembly
	2. Two persons nominated by the political parties represented in the National Assembly according to their proportion of members in the assembly
	3. Five persons nominated by the political parties represented in the Senate according to their proportion of members in the senate
	4. The Principal Secretary in the Ministry responsible for finance.

***Functions of the commission of Revenue Allocation.***

1. 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.
2. It makes recommendations on matters concerning the financing, and financial management by county governments
3. It determines and regularly reviews a policy that set out the criteria by which to identify the marginalized areas.
4. It defines and enhances the revenue sources of the national and county governments.
5. It submits its recommendations to the senate, national assembly, the national executive, county assemblies and county executives.
6. It mediates in and determines disputes relating to financial arrangements between the national government and devolved governments.

**K.C.S.E YEAR 2010 PAPER 1**

SECTION A (25 marks)

*Answer all the questions in this section in the answer booklet provided.*

1 Give the meaning of history. (1 mark)

2 Identify **one** age-grade for elders among the Akamba. (1 mark)

3 State the first settlement area of the Luo during their migration from Sudan. (1 mark)

4 Name **one** early Christian missionary who worked in Kenya. (1 mark)

5 State **two** characteristics of independent churches in Kenya during the colonial period. (2 marks)

6 Identify the constitutional change that increased the number of African members to the legislative council in Kenya in 1957. (1 mark)

7 Identify **one** Asian who took part in the struggle for independence in Kenya. (1 mark)

8 Name **one** African political party whose leaders attended the 2nd Lancaster House Conference in 1962. (1 mark)

9 Identify two Educational Commissions appointed by the government of independent Kenya to review the education system. (2 marks)

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

11 State two ways in which the government has promoted the culture of the people of Kenya since independence. (2 marks)

**12** Identify **two** conditions that one must fulfil in order to register as a voter in Kenya. (2 marks)

**13** Give **two** special courts in Kenya. (2 marks)

14 State **two** duties of the leader of Government Business in parliament in Kenya. (2 marks)

**15** Identify **two** symbols of national unity in Kenya. (2 marks)

**16** Give **two** reasons' that can make a registered person to lose citizenship in Kenya, (2 marks)

17 Give **one** type of human rights. (1 mar

**SECTION B** (45 marks)

*Answer any* ***three*** *questions from this section in the answer booklet provided.*

**18** (a) Give **five** reasons which influenced the migration of the Plains Nilotes to Kenya during the pre-colonial period. (5 marks)

 (b) Explain **five** results of the migration and settlement of the Maasai in Kenyaduring the pre-colonial period. (10 marks)

**19** (a) Give **three** reasons why the early visitors came to the Kenyan-coast before 1500 A.D. (3 marks)

 (b) Explain **six** factors that contributed to the development of trade between the Kenyan coast and the outside world by 1900. (12 marks)

**20** (a) State **three** socio-economic reasons why Britain colonized Kenya in the 19th Century. (3 marks)

(b) Explain **six** factors that contributed to the formation of political associations in Kenya before 1939. (12 marks)

**21** (a) State **three** ways in which the government of Kenya facilitated the acquisition of land for Africans after 1963. (3 marks)

(b) Explain **six** challenges facing the agricultural sector in Kenya. (12 marks)

**SECTION C** (30 marks)

*Answer any two questions from this section in the answer booklet provided.*

**22** (a) Give the structure of the provincial administration in Kenya. (5 marks)
 (b) Describe **five** functions of the president of the Republic of Kenya. (10 marks)

**23** (a) Give **three** reasons why the constitution is important in Kenya. , (3 marks)

 (b) Explain **six** factors that may undermine the administration of justice in Kenya. (12 marks)

**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)

**K.C.S.E YEAR 2010 PAPER 2**

SECTION A (25 marks)

*Answer all the questions in this section in the answer booklet provided.*

* + - 1. State the scientific theory that explains the origin of human beings. (1 mark)
			2. State two uses of stone tools by early people during the Old Stone Age period. (2 marks)
			3. Identify the method used to plant cereal crops when early agriculture began. (1 mark)
			4. Name two metals that were used as currency in pre-colonial Africa. (1 mark)
			5. State **one** advantage of using the pipeline over vehicles in transporting oil. (1 mark)
			6. Give the **two** main items of the Trans-Saharan trade. (2 marks)
			7. Identify **two** social functions of the ancient city of Athens in Greece. (2 marks)
			8. Name the chartered company that was used to administer Tanganyika during the process of colonization.(1 m
			9. Which was the main factor tht unified the communities of the Shone Kingdom during the pre-colonial period?
			10. State **two** fgunctions of the Lukiko in Bunganda Kingdom during the 19th Century. (2 marks)
			11. Give **one** economic reason which made European Countries to scramble for colonies in Africa.(1 mark)
			12. State **one** way in which the Ndebele benefited after the British-Ndebele War of 1893 to 1896 (1 mark)
			13. Identify **two** economic results of the First World War. (2 marks)
			14. Give **two** principal organs of the United Naions (2 marks)
			15. Identify **two** ways in which Mwalimu Julius Nyerere promoted the development of Education in Tanzania after Independence. (2 marks)
			16. State **one** condition that a country should fulfil in order to become a member of the Non-Aligned Movement.
			17. Identify **one** parliamentary duty of the Monarch in Britain (1 mark)

**SECTION B (**45 Marks)

* + - 1. a) State **five** reasons why early people domesticate crops and animals (5 marks

b) Explain **five** causes of food shortages to Africa today. (10 marks)

* + - 1. a) Give **three** problems faced by factory workers in Europe during the Industrial revolution. (3 marks)

b) Expalin **six** factors that have promoted industrialization in South Africa (12 marks)

* + - 1. a) Give **three** methods used by European power to establish colonial rule in Africa. (3 marks)

b) Expalin **six** results of the collaboration between the Buganda and the British during the process of colonization.

* + - 1. a) State **three** ways used by nationalists in Ghana to fight for independence (3 marks)

b) Explain **six** factors that led to the development of African Nationalism in Ghana. (12 marks)

**SECTION C (**30 Marks)

* + - 1. a) Give **three** conditions which one had to fulfil in order to become a French Citizen in Senegal.(3 marks)

b) Explain **six** differences between the use of British indirect rule and the French assimilation policy. (12 m

* + - 1. a) State the role plsyed by United State of America in ending the Second World War. (3 marks)

b) Explain **six** causes of the Cold War after 1945. (12 marks)

* + - 1. a) Identify **three** duties performed by the Secretary General of the new East Arrican Community eastablished in 2001 (3 marks)

b) Explain **six** benefits of the new East African Community established in 2001 to its members.(12 marks)