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# BUSINESS DAILY

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## Parastatals first casualty of new spending rules

Treasury seeks to raise money for the new Constitution by bringing to an end the era of State corporations spending on projects of dubious value

BY ALLAN ODHIAMBO

Spending by state corporations has been put under a tight leash in new austerity measures meant to clean up books ahead of the new constitutional order that will see most parastatals fragmented into regional entities under the watch of county governments.

The measures will require all parastatal spending to be approved by Treasury, old debts cleared before new ones can be guaranteed and a sound investment policy put in place to ensure the corporations pay dividends and taxes to government and salaries to employees, including remitting pension and health insurance deductions, promptly.

Parastatals will also not be allowed to invest in brick and mortar - office and staff quarters - potentially bringing to an end competition for prime land for development in urban areas between state corporations and the private sector.

Treasury hopes stemming excesses in government corporations will generate part of the Sh8 billion needed to implement the new constitution.

"With the coming of the new constitution the pressure is now on the expansion of facilities to accommodate governments at the county level and we cannot afford to waste a single cent," said Economic Secretary Geoffrey Mwau.

Critics say this has the potential

PARASTATALS, Page 4»

### Guidelines to State corporations

- Ensure efficient repayment of loans and remittance of dividend payments, taxes and statutory obligations.
- Treasury will restrict authorisation of any new offices or residential accommodation project for any state corporations.
- State corporations to minimise their expenditure for the coming 2011/12 financial year.
- Commercial State corporations are required to maximise returns to Treasury and other stakeholders through appropriate dividend policies.

## Graft war offsets oil price impact on Shilling

BD CORRESPONDENT

Rising oil prices in the global economy could depress the shilling further against the dollar, giving exporters an opportunity for foreign exchange gains that have eluded them in the recent past.

Market analysts, however, said Kenya's rising credibility in international markets following the purge on graft that has seen three ministers hounded out of office in as many months could support the currency through direct investments and aid inflows. "Oil Imports make up about 25 per cent of the local dollar demand, and the rising oil prices could put pressure on the shilling," said Andrea Balongo, senior trader at Kenya Commercial Bank.

Yesterday, the Kenyan shilling weakened against the dollar in response to the greenback gaining against other currencies globally.

Commercial banks quoted the shilling at 81.00/81.10 per dollar, down from 80.90/81.00 on Tuesday.

Traders expect the shilling to trade in a range of 80.80-81.30 as the market returns to normal business.

Traders said that in the long run, the intensifying war against corruption would likely boost investor confidence after a third minister was forced to step down on Tuesday on abuse of office charges.

A day earlier, the Attorney General had allowed the Kenya Anti-Corruption Commission (Kacc) to prosecute Mr Henry Kosgey in a rare rapport hailed as a breakthrough in the fight against graft.

BRIEFING

### Kenya receives Sh40m to fight aflatoxin in maize

Kenya has received Sh40 million to fight aflatoxin in cereals setting stage for increased food security and reduction in losses incurred by maize farmers who have in the past lost all their bumper harvest. **Page 6»**



### Cement firms braced for slim earnings in price war

Cement prices have dropped nearly 10 per cent on increased competition threatening the profitability of local manufacturers as property developers face relief from construction costs. **Page 7»**

### New vehicle dealers miss out as sales hit new low

Dealers in new cars have missed out on the ongoing recovery of Kenya's economy as it emerged that sales in 2010 dropped to the lowest level in four years. **Page 8»**

### Automation to cut cheque clearance time by half

The number of days taken to process cheques is set to halve from May, when bankers are expected to roll out an automated system of clearing payments. **Page 19»**

### NEWS INDEPTH



**Economic crisis pushes world into uncharted waters**  
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## TOP NEWS

# Parastatals first casualty of new spending rules

»From Page 1 to slow provision of essential services and to reduce receipts to private sector players who rely on parastatals for contracts.

"Though the demands for enhanced accountability are likely to curb wanton expenditure and wastage, there is the danger of slowed services or bureaucracy as everyone attempts to be flawless," said Joseph Kieyah, an analyst with the Kenya Institute for Public Policy Research and Analysis (Kippra).

Treasury Permanent Secretary Joseph Kinyua said executives of all state corporations should minimise spending for 2011/12 financial year while those with commercial leanings should live within their means, effectively weaning them off Treasury allocations.

The executives further have to ensure efficient repayment of loans and remittance of dividend payments, taxes and statutory obligations or risk being denied recommendation to Parliament for approval of State guarantees on new or local borrowings.

"Treasury will discourage proposals for purchase of new plants and equipment unless they are absolutely essential and the institution can demonstrate that the acquisition will lead to increased profitability and improved service delivery," Mr Kinyua said in a

circular dated December 15, 2010.

"Treasury will not under normal circumstances authorise any new offices or residential accommodation project for any state corporations."

The measures also include the preparation of detailed project proposals in consultation with line ministries and Treasury besides handing in quarterly updates of financial outcomes to Parliament in line with the Fiscal Management Act 2009.

The country has a large number of State corporations and funds whose core functions revolved around correction of markets, exploitation of social and political objectives, promotion and provision of education and health services and redistribution of income or develop marginal areas.

Most of them have disappointed in public finance management, leading to arrears in repayment of loans to the Treasury and defaulting on local and foreign loans guaranteed by the government.

Henceforth, Mr Kinyua said state corporations must take debt service and statutory obligations as a first charge on their revenues and other incomes. Prof. Kieyah, however, said a review was needed on whether parastatals offered the best option for delivery of some services.

**State corporations must take debt service and statutory obligations as a first charge on their revenues**



Finance Ministry PS, Joseph Kinyua

PICTURE: ANTHONY KAMALI

"It is probably time that some of the tasks handled by some of the State corporations were handed back to the private sector that has capacity and efficient systems," he said. This could be more urgent now as decisions on procurement and tendering are expected to be back and forth exchanges between parastatals, line ministries and Treasury.

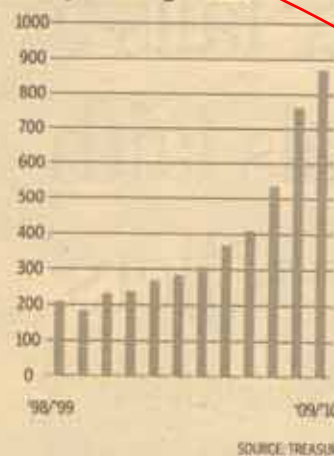
A recent study on State corporations found out that the introduction of cost controls under the medium term expenditure framework (MTEF) had negatively affected the implementation of the sector's programmes and projects.

"Since the introduction of MTEF budgetary process, the sector's budgetary allocations have been below the resource requirements," concluded Ms Esther Njiru of the Kenya Institute Administration (KIA) in the study.

Mr Mwau, however, said that the measures largely target non-core businesses that parastatals engage in, blowing up budgets and straining government resources.

Treasury will from the new financial year be required to set aside billions

## Kenya's Budget size



of shillings from the national budget to supply water and electricity, build roads, and health facilities in Kenya's under-developed under the new constitutional order.

It will have to allocate 0.5 per cent of total national revenues to marginalised areas every year and cede at least 15 per cent of the total national revenues to the 47 counties every year.

"The cost of setting up the county governance structures is huge while a general election is also coming up in 2012... so getting finances is a real headache that forces Treasury to move and clear all inefficiencies that lead to wastage of resources," Prof Kieyah said.

Though the State is yet to put a finger on the estimated cost of establishing structures for the new county governments, Finance ministry Uhuru Kenyatta in November last year warned that the government would have to borrow heavily to finance the devolved system.

"There is a big challenge of raising the required resources without destabilising our hard won macroeconomic stability," he told a donor meeting in Nairobi.

Mr Kinyua last month revealed that the country had increased its domestic borrowing target for the current fiscal

year by 14 per cent to 120 billion shillings to fund the implementation of a new constitution.

"We will borrow Sh120 billion as opposed to Sh 105 billion, which we had expected to borrow," he told Reuters. "The reason for the additional increase is associated largely with the requirements for the implementation of the new constitution."

Mr Mwau said new powers handed to Parliament as well as the public to scrutinise public budgets had also informed the resolution to act tough on parastatals.

"The shift is now towards accountability and everyone must keep every bit of expenditure proposals clear and justifiable. We are not ready to present unclear proposals that would be rejected out rightly. This means everyone must improve on financial and expenditure management," he said.

Article 221 of the new constitution provides that the cabinet secretary responsible for finance shall submit to the National Assembly estimates of the revenue and expenditure for the following financial year, at least two months before the end of each financial year.

The budget will be presented not later than April 30 every year to allow the National Assembly adequate time to scrutinise and approve the budget, and allow the funds to be disbursed in good time.

In addition, the article now provides for receiving of representations and recommendations from the public by a committee of the National Assembly. This means that the public have a defined avenue for airing their views on government spending.

Mr Mwalimu Mati, the executive director of a lobby-Mars Group lobby group, however said the measures spelled out by Treasury against the parastatals were unlikely to yield fruit owing to deep rooted mismanagement and graft.

# Shadow of failure accompanies belt-tightening plans

BY MWAURA KIMANI

Conventional wisdom is that economic reforms take a long time to work.

This is a lesson Finance minister Uhuru Kenyatta and others before him, including Amos Kimunya and Simeon Nyachae might have found hard to learn. The three have one thing in common: they introduced a series of far-reaching austerity measures meant to usher in belt-tightening in the civil service to manage growing public expenditure.

But it is the political humbling that such announcements have caused the trio that has stoked fresh questions over the official commitment to the measures and their implementation. In yet another go

that may test this commitment and effectiveness, Treasury has rolled out a slew of tough cost control measures for State corporations. It now wants the parastatals to clear their loans, remit dividend taxes and statutory obligations or risk losing State guarantees on borrowing.

"The idea with all these austerity measures is to free resources for implementation of the new Constitution and other emerging public expenditure needs," said Financial Secretary Mutua Kilaka.

In 2009, Mr Kenyatta banned all Cabinet ministers, permanent secretaries and other senior public officials from using more than one official car and put the engine capacity ceiling at 1800cc. Several ministers initially refused to surrender their fuel-guzz-

## Success formula

■ There is so much wastage in government and the [authorities] must be strict on austerity measures meant to tame leakages in its circles.

zlers, putting to question the success of the policy shifts.

When the minister issued the directive, critics immediately said it would flop, reflecting on the past: Mr Nyachae in 1998 and Mr Kimunya in 2008. The steps did not bear fruits.

"There is so much wastage in Government and the government must be strict on austerity measures meant to tame leakages in its circles," said Dr Charles Otieno, a policy analyst with

Polity and Policy, a local think-tank. "As it stands, most might not work yet they would save this economy a great deal of the finances it needs." But even as Kenya fumbles on the implementation of such a policy, others are reaping.

Botswana announced last year it had slashed buying of new State vehicles by 85 per cent, saving its economy Sh2 billion.

But mandarins at Treasury still wield a defensive tag even as analysts poked holes in the plans. "The measures have so far been effective. They have saved the economy quite a huge chunk of financial resources," said Mr Kilaka without giving figures.

Mr Kenyatta had also announced massive cuts in advertising, telephone services and travel for ministries and

departments. Allocation of purchase of office furniture and general equipment was to suffer the highest budget cut, that would be scaled down by 80 per cent.

## Foreign trips

Government advertising was cut by 60 per cent in the last fiscal year. Government offices were also expected to slash telephone expenses by 40 per cent. There would be fewer foreign travels, subsistence and transportation costs as the Government sought to cut the expenditure in that item also by 10 per cent. "Kenya is still known to send large delegations on foreign trips and this should be stopped," said Mr Samuel Ochieng, the CEO of Consumer Information Network, earlier.