COUNTY GOVERNMENT OF KITUI

THE COUNTY ASSEMBLY OF KITUI

SECOND ASSEMBLY - THIRD SESSION

COMMITTEE ON FINANCE AND PLANNING

REPORT ON A TRAINING WORKSHOP ON DEVELOPMENT FINANCE AND ABSORPTION OF FUNDS IN SINGAPORE

CLERK OF ASSEMBLY CHAMBER'S

P. O BOX 694

KITUI

JUNE, 2019

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ABBREVIATIONS

CIDP - County Integrated Development Plan,

FY - Financial Year

GDP - Gross Domestic Product

HDB - Housing Development Board

IFMIS - Integrated Financial Management Information System

IMF - International Monetary Fund

MP's - Members of Parliament

PFM - Public Finance Management

PM - Prime Minister

SDG's - Sustainable Development Goals

ANNEXURES

1. Signed members' list
2. Copies of delegation pass ports and boarding passes

1.0 PREFACE

Mr. Speaker Sir,

On behalf of the Members of the Committee on Finance and Planning and pursuant to the provisions of Standing Order Nos. 179(6) and 190(5), it's my pleasure to present to the House this report on a training workshop on development finance and absorption of funds in Singapore.

1.1 Mandate of the Committee

The Committee derives its mandates from Standing Order No. 190(5) and the Second Schedule of Kitui County Assembly Standing Orders which outlines the functions of the Committee as to *inter - alia*:

i. **To investigate, inquire into, and report on all matters relating to the mandate, management, activities, administration, operations and estimates of the assigned department;**
ii. **Study the programme and policy objectives of the department and the effectiveness of the implementation;**
iii. **Study, assess and analyse the relative success of the department as measured by the results obtained as compared with their stated objectives; and**
iv. **Make reports and recommendations to the County Assembly as often as possible, including recommendation of proposed legislation.**

1.2 Delegation composition

A delegation of members of the Committee took part in the Training Workshop as from 7th to 14th June, 2019 and comprised of:

1. Hon. David M. Munyau - V/Chairperson & leader of delegation
2. Hon. Anthony John - Member
3. Hon. Nicholas N. Mwalali - Member
4. Hon. Johnson Kanandu- Member
5. Hon. Stephen Ileve Katana - Member

The above delegation was accompanied by a clerk assigned to serve the Commitee:

1. Mr. Chris Mwangangi - Committee Clerk

Acknowledgment

The Committee is grateful to the Offices of the Speaker and the Clerk of Assembly for the support accorded to it in facilitating the training and Study visit to Singapore.

The Committee also appreciates the Ministry of Devolution for approving the foreign travel for the delegation to attend this important Workshop.

Special mention goes to Octavian Consultant Development in collaboration with HAM International INC for organizing the training and making the visit seamless and finally you, the Honourable Members of this House who wished the Committee well during its endeavours.

Mr. Speaker Sir,

It is now my pleasant duty to present this report to the House for adoption.

Date: 4/08/2020

Signed:

HON. DAVID M. MUNYAU

V/CHAIRPERSON, COMMITTEE ON FINANCE AND ECONOMIC PLANNING.

COUNTY ASSEMBLY OF KITUI.

2.0 BACKGROUND INFORMATION AND JUSTIFICATION OF THE TRAINING WORKSHOP

Mr. Speaker Sir,

Article 185 of the Constitution of Kenya, 2010 and Section 8 of the County Government Act, gives County Assemblies Legislative, Oversight and Representation roles and further, approval duty of plans and policies for management of the County resources.

Further, Section 116 &117 of the County Government Act inter-alia requires the County Government to observe the principles of equity, efficiency, accessibility, non-discrimination, transparency and accountability in the delivery of Public services. This should be administered in a manner that accords to prudent, economic, effective and sustainable use of available resources; continual improvement of standards, financial and environmental sustainability.

Mr. Speaker Sir,

Resources are rare in nature and hardly enough to satisfy the needs of those who hold them.

More often than not, the National and County Governments are finding themselves in an 'age of choice', whereby they are ambitious to implement respective leadership agendas and SDGs whilst facing the challenge of limited resources. Their achievement dictates financing that is not only massive in scale, but effective in delivering impacts at the National and County level.

Devolution audit reports have cited numerous instances of fraud, wastage and poor accountability. There have been cases of money budgeted for development projects being revoted to the National treasury at the end of the fiscal year. Also there is a growing concern that of the total development budget that is disbursed and spent does not reflect the level of development, poverty prevalence or access to essential services.

Kitui County government has had instances where public officers and leaders are not only unable to budget within established limits but also to prudently absorb the allocated sums. This nurtures the need to develop better means of allocating, controlling and ensuring proper absorption of the available resources.

The impending challenge of absorption and appropriation of funds has resulted to occurrences where the County budget is skewed towards recurrent expenses as compared to development. Further, huge chunks from the budget have been directed to unviable projects/programs which do not give the citizenry value for their money and not to forget the unstructured recruitments which have blown the wage above the legally required limit of 35%.

Also, the County has been overambitious with projections of own revenue. These unachievable targets means that the County has to service the arising deficits from other quarters which translates to usage of funds allocated for other purposes. As a result, Supplementary budgets are inevitable so as to cover for budget shortfalls in different spending entities.

Mr. Speaker Sir,

These prevailing conditions calls for an all-inclusive approach in building desired comprehensive professional capacity in development financing. To realize its CIDP, the County requires development finance and absorption of funds skills in mobilizing and channelling the available resources in an optimal manner and to critical sectors.

It is in this context that the County Assembly heeded to an invitation by Octavian Consultant Development in conjunction with HAM International Inc to a Training Workshop on Development Finance and Absorption of funds, in Singapore - Pan Pacific Hotel as from 7th to 14th June, 2019.

Bilateral relations between Kenya and Singapore

Kenya and Singapore enjoy a multifaceted and a robust relationship that has continued to grow over the last few years. In 2018, the Countries signed two agreements; Bilateral Investment Treaty (BIT) and an agreement for Avoidance of Double Taxation (DTA).

The agreements aims at promoting greater investment flows between Singapore and Kenya by protecting interests of Singaporean and Kenyan investors through protective measures like non-discriminatory treatment compared to other foreign investments, protection from illegal expropriation, the freedom to transfer capital and returns in and out of the Countries and minimising the double taxation of income arising from cross border business activities.

2.1 Objectives of the Study Visit

The Study visit was in furtherance of the Committee's mandate and in accordance with its annual work plan. It was tailored to achieve the following objectives:

i. Provide comprehensive understanding of the current perspectives, expectations and practices in development finance;
ii. Comprehend the dynamics of new development finance landscape and opportunities of scaling up the rate of structural fund absorption;
iii. Develop professionals, build and upscale core skills and competences in development banking and finance operations that will ensure greater success of projects and investments promoted; and
iv. Grow skills and improve the capacity of County chiefs in promoting efficacy in structural absorption of funds and development finance.

3.0 OVERVIEW OF SINGAPORE

Mr. Speaker Sir,

Singapore an island city-state in South East Asia. It was founded as a British trading colony in 1819 and was one of the 14 states of Malaysia as from 1963 to 1965.The Country relishes a tropical rainforest climate with no characteristic season and has a total land area of 721.5 square kilometres comprised of mainland and other islands.

Following distrust and ideological differences between Singapore and Malaysia leaders on matters relating to economy, finance and politics, Singapore was expelled from the Federation of Malaysia and attained independence in 1965. After the spilt, Singaporeans experienced harsh economic conditions characterized by high levels of unemployment, lack of sanitation, little supply of potable water and ethnic conflict.

Today, Singapore is best celebrated for its dramatic makeover from a colonial backwater to an economic powerhouse in just 50 years under the leadership of its founding father Lee Kuan Yew. The city-state has undergone an unparalleled process of radical change that has transformed it into a global technology, manufacturing and above all, a financial hub having overcame many challenges to become a trade giant in Asia alongside countries like South Korea, Hong Kong and Taiwan.

The difficulties Singapore faced in its beginnings are reminiscent to those Kenya has faced in the last decade like unstable political and economic conditions. Singapore's success story is as a result of effective governance and considerable discipline in management of the country's economic affairs and absorption of public funds.

3.1 Governance in Singapore

Mr. Speaker Sir,

The Government in Singapore has three (3) separate branches:-

i. The Legislature (comprises of the President and Parliament) and makes the laws of the land;
ii. The Executive (comprised of the Cabinet Ministers and office-holders, and is led by the Prime Minister) and administers the law; and

iii. The Judiciary; which is solely tasked with interpretation of the law through the Courts.

The Prime Minister is the Head of Government and the President is the Head of State.

The Parliament of Singapore is unicameral; meaning it only has one House. The MPs are voted in at regular General Elections held after Five (5) years. The leader of the political party that secures the majority of seats in Parliament becomes the Prime Minister (PM) and in turn selects his/her Ministers from the elected MPs to form the Cabinet.

3.2 Housing and Infrastructure

The city-state has an approximate population of 5.7 million. About 80% of the populace take up abodes in government housing established by the Housing Development Board (HDB); a testimony of one of the most successful housing programs in the world.

Singapore is land-scarce and creating enough living space for its citizenry has resulted to massive land reclamation which accounts for about 23% of the county's land space. This has also seen the government go underground to create space for some of its amenities by using meticulously designed layers of essential services like water and electrical tunnels, pedestrian and commercial spaces and transportation infrastructure like highways and subways.

The Country has ensured constant and safe supply of water through an intensive water catchment network by criss-crossing rivers and canals that channel every last drop of the precious rain into seventeen (17) storage reservoirs spread throughout the city-state.

3.3 Economic and Finance Sector

At the inception, the small state had nothing to offer other than its hardworking citizenry. The leadership had to work for its financial stability in order to win international partners and thus emphasised on the importance of social responsibility and self-reliance which birthed an effective tax system based on transparency and integrity.

Today the city-state is a global hub for finance, innovation, technology, manufacturing, transport, human capital and education. According to Monetary Authority of Singapore, 12% of the Country's GDP comes from the finance sector, which calls for the government to ensure its vibrancy and competitiveness.

Singapore is a key financial pivot for many countries across the globe and employs the slogan **"innovate or die"** being a Country short on natural resources. It thrives in supporting start-ups and competitive ideas so that they excel.

A documentary by Al Jazeera English describes Singapore as one of the World's richest city. Billionaires and big multinationals have been attracted to the Country by low taxes, stable regime and protected banking. Its steadfastness and resilience to global shocks makes it an attractive base for conglomerates and start-ups.

Based on an **International Monetary Fund report**, With GDP pegged to the purchasing power parity (PPP) per capita, the IMF declared Singapore as the 3rd richest country in the world. PPP compares economic productivity and standards of living between countries.

Underlining Singapore's success as an economic powerhouse is its robust government which steers the economy with a touch of relaxed regulations and strong enforcement of contracts. As a result, it becomes a lure to international investors simultaneously attracting the world's talented workforce making it a nest for visionaries and innovators.

3.4 Technology Sector

Technology is a key driver for almost every sector. Technological innovations have enhanced Singapore's competitiveness in business processes in industries like finance, transport, health, public services and manufacturing.

Because of its swiftness to adopt to the ever changing technological and business environment, Singapore is now a regional base - in South East Asia for top technology firms like Microsoft, Oracle, Google and Amazon.

3.5 Observations and lessons from Singapore's success story

Mr. Speaker Sir,

All the novelties in the above sectors gives a glimpse of how a forward-thinking city might decipher some of the challenges it faces. When a government trusts its citizen's capabilities, the people prove that they can work hard and attain their goals.

The lessons learned from Singapore can be best summed as follows:

i. Good governance

Servant leadership and getting the right people into government is the basis of prosperity for Singapore. The City-state has an unmatched reputation for lack of corruption and transparency.

Economic development is not a 'miracle', rather it is as a result of the government making deliberate efforts to deliver political and economic stability by implementing correct economic policies, articulation of a clear vision and seeing to its implementation.

ii. Meritocracy system

The founding leaders emphasized on the need of an efficient and honest civil service. They noted that officers must be recruited and promoted base on merit and should be adequately paid to resist the temptation of digging into public coffers for personal gain.

An impartial public service commission should award opportunities to deserving and qualified candidates.

iii. Visionary tomorrow, excellent today

Leaders of Singapore were focussed on winning the confidence of the people first through small projects that did not require a lot of funding but addressed the immediate needs of the people.

Development cannot be achieved through big reforms alone. Small steps that have a huge impact on the everyday lives of the people are necessary to ensure that progress happens in a meaningful way. As small as sinking a borehole in an area where water is scarce can get people to trust and support the government in the implementation of its projects.

iv. The role of education

Singapore realised after independence that in order to sustain investors in the Country, its populace would have to be trained on vocational and technical works to fan the flames of manufacturing.

In 1969, the government directed two years of compulsory technical education to high school students so as to mould a skilled labour force. Incentives of this kind can help combat the current scenario in Kenya where most graduates are under or unemployed because of studying disciplines which the economy cannot absorb.

v. Policy diffusion

One of the competitive advantages of the Singapore government at its early days was its willingness to learn from the experiences of other countries by not repeating the mistakes they made in solving their problems. Leaders would consider what had been done in other countries with the intention of identifying suitable solutions for resolving policy problems in Singapore.

vi. Strategic planning

Long term planning which takes into consideration the welfare of the future generations is a trait Singapore has continuously upheld.

In 1961, the city-state signed a 100-year contract with Malaysia to supply its citizens with water. Singapore leaders saw the risk of relying on its neighbour for such a critical resource, without which the citizens would suffer. The Country resolved to invest in reservoirs and water reclamation facilities so as to have its own independent source.

4.0 DEVELOPMENT FINANCE AND ABSORPTION OF FUNDS

Mr. Speaker Sir,

The delegation was exposed to thorough training with intervals of open discussions and assessments.

Some of the topics tackled were:-

- Introduction to Development Finance.
- A changing landscape in Development Finance.
- Absorption, its features and issues and why it matters.
- Benefits of capital management for the County Government.
- Determinants of high Absorption; High Absorption vs. Efficient Absorption.
- Putting *'Dollars'* to work in the County.
- Best practises and case studies
- Fostering a systematic approach to development and implementing the Community Vision amongst other topics.

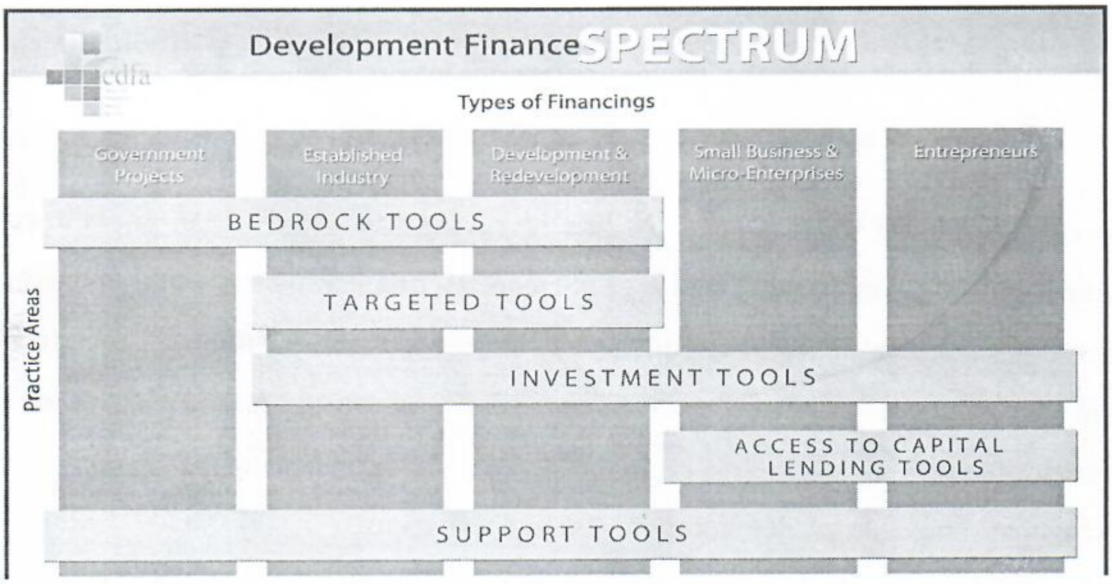
Dr. Hajaj Foujo taking Members of the Delegation through a presentation during the Training Workshop

4.1 Development Finance

Development finance can be termed as the efforts of communities to support, encourage and catalyse growth through public and private input in development, redevelopment and in the business environment.

Ultimately, it revolves around the public aiming to build sustainable society with improved welfare among themselves through establishing proactive methods that leverage public resources to solve the needs of community.

The development finance spectrum is the simplest way of understanding depth and breadth of development finance by showing the instruments and the role they play in the market place.



Source: Council of Development Finance Agencies, 2009

Development Finance focuses on impactful quarters like:

- Government projects- roads, bridges, sewers, water facilities, schools and utilities.
- Established industry - Represents industrial, office and retail sectors such as industrial parks, manufacturing, research hubs and commercial retail centres.

- Development and Redevelopment - consists of the projects that require major public resource commitments to catalyse new private sector development. This can be through urban revitalization, rural rejuvenation, adaptive re-use, brownfield development and other transformative projects that require significant public capital.
- Small scale businesses and micro-enterprises.

Bedrock tools include bonds and they make up the basis of all public financing. They are issued to support economic development whereas targeted tools are geographic areas through the use of tax increment, assessment districts and tax abatements.

Investment tools encourage private sector investment in projects and businesses through tools such as tax credits and investor programs.

Access to capital lending schemes like revolving loan funds, loan guarantees and empowerment funds, seed and venture capital financing programs represent the resources for supporting small businesses access to capital. Support tools represent the government funding geared towards supporting nationwide economic development.

Amongst other things, development finance strives to:

i. Mobilize domestic resources e.g. as tax revenues;
ii. Mobilize International financial resources e.g. Official Development Assistance (ODA), IMF and World bank
iii. Harness the role of the private sector in financing development;
iv. Maximise the use of innovative financing sources and mechanisms; and
v. Increase trade capacity and investment to create jobs and drive economic growth and promoting debt sustainability.

Development finance must mirror a more integrated approach to development by fostering participation, national ownership and prioritizing accountability and sustainability. It should address structural and demand issues, as well as short-term funding for emergencies, be fit for purpose and maximise the use of available resources.

The flow of development finance to Kenya has significantly increased over the past decade. It increased from $750 million in 2004 to nearly $6 billion in 2014 which was majorly directed to building the first Phase of the Standard Gauge Railway (SGR) line from Mombasa to Nairobi.

According to data from the National Treasury, Kenya contracted Kshs.70.55 billion fresh loans from China towards the end of 2018 making China the single-largest creditor. Cumulatively, the stock of debt from China hit Kshs.620.60 billion) as at end of 2018, consolidating the East Asian country's influence on Kenya's infrastructure projects.

Kenya's 2018/19 financial year budget of Kshs. 3 trillion was the highest spending plan in Kenya's financial history out of which Kshs.372 billion was for County government's equitable share. The budgeted sum was raised through taxes and government fees from domestic and external borrowing from donor countries and institutions.

To this end, financing of the Country's budget shows the extent to which the government goes in order to support the livelihoods of its citizenry; even through trusting County governments with huge allocations to ensure that development is felt up to the smallest units of devolved governance.

The Trainer, Dr. Hajaj Foujo overseeing an Assessment session during the Training Workshop

4.1.1 Sources of Development Finance in Kitui County

Kitui County draws and gets its development Finance from:

i. Equitable share of revenue raised nationally;
ii. Own source revenue; and
iii. Conditional allocations (grants and loans). In the previous financial years i.e. 2017/18 and 2018/19, the County Government of Kitui received allocations from different institutions. To name a few; DANIDA grant, World Bank Loan for Transforming Health system for Universal Care, World Bank Loan for National Agricultural and Rural inclusive project, World Bank loan to supplement financing of health facilities and Kenya Devolution Support Programme (KDSP).

4.1.2 Lessons learned on effective implementation of development finance

Mr. Speaker Sir,

As the County Government pursues the development agenda and strives to gather more resources to supplement the same, there are a number of mechanisms it should observe to make the process more efficient and inclusive:

i. The development budget should promote equity and the progressive realization of the rights of the most disadvantaged and marginalized in the County;
ii. Stress on the importance of domestic resource mobilization. Reliance on internal resources will increase the county's sense of ownership of policies, ties accountability to citizens and improves reliability, predictability and stability of the budget cycle;
iii. Embrace private financing of development. Foundations and non-governmental organizations are continually bringing new opportunities to counties through partnerships to support much needed causes like water catchment, health and provision of innovative solutions to complex problems;
iv. Be complemented with good policy and implementation capacity. No amount of financing is sufficient to achieve ambitious development goals without supporting policy framework, credible internal processes and a commitment capacity to improve livelihoods; and
v. Focus on intermediate as well as final results, be geared to building the necessary systems and institutions and address proximate and underlying determinants that will deliver sustainable and long-term results

4.1.3 Lesson on resource mobilization beyond established Public finance funding in Kitui County

Mr. Speaker Sir,

Our Counties should be engines of prosperity and opportunity; places where people thrive, innovative ideas flourish and existence of robust infrastructure to lead to economic and social benefits for the citizenry, yet this promise of shared opportunity remains unrealized.

Counties across the nation are under financial pressure. They lack enough public funds to create more opportunity by investing in economic development, human capital and physical infrastructure.

As a result, Private capital could go a long way towards meeting these investment needs. Too often, available private capital cannot be put to work in our counties because the mechanisms to attract and deploy capital are not in place. It's as though private capital is an airplane, circling overhead, without the landing strip or the air traffic control needed to touch down safely.

The County government can promote Community Investment and input through:

i. **Assess the capacity of the County to absorb capital**

The ability of a place to attract and deploy capital depends upon many factors:

- The existence of clear priorities;
- The involvement of community stakeholders;
- A policy and regulatory environment that is supportive of community investment;
- The availability of good data;
- Careful targeting of public resources;
- The presence of organizations that can spot opportunities, assemble capital and structure deals; and
- Strong, cooperative relationships among private, public and non-profit sector leaders that can accelerate decisions and overcome obstacles.

ii. **Engage a wide range of civic leaders**

Community investment is not an exclusive specialty of any one type of institution, be it Community Development Corporations or banks. Rather, attracting and deploying private capital successfully requires collaboration among community groups, financial institutions, developers, the local business community and the public sector.

iii. **Make data transparent and accessible**

Attracting capital to places where market forces have failed to spark investment is a critical part of revitalizing regions and creating opportunity. Overcoming these market failures can be catalyzed by providing accurate information, reliable and actionable data about investment opportunities in places that may otherwise be overlooked.

iv. **Enable and support a clear vision**

Community investment flows most readily when a broad coalition unite around a shared understanding of priorities. The County government can play a critical role in aligning stakeholders around a common vision through helping to crystallize a shared vision and translating that vision into a small number of core goals.

v. **Simplify and streamline government procedures**

Developing community investment strategies and projects often requires engaging with multiple agencies and blending a variety of local, state and federal funding sources.

vi. **Develop a supportive policy environment**

The County government can orient its public procurement policies to favor small, local, youth, women and minority-owned businesses.

This can also be achieved through fast-track permitting for projects that meet specified goals or are targeted to underserved areas.

vii. **Be strategic with public funding**

Strategic use of precious public funds means leverage, target and alignment.

viii. **Consider the potential of transformative initiatives**

Creating a vision and positive policy environment for community investment and engaging multiple stakeholders are important steps in mobilizing community investment.

ix. **Reach beyond city limits**

Joining forces with regional and national partners that have community investment experience and capacity can complement the strengths of local partners.

4.2 Absorption of Funds

Mr. Speaker Sir,

Absorption capacity represents the extent to which a State/Country is capable of effectively and efficiently spending its structural funds allocation and is expressed in percentage of the total allocation.

In the devolution context, it is the ability of the County government to utilize budgetary provisions/funds to achieve planned outputs on time.

Budgeting is the baseline for absorption as the County cannot spend what it has not planned for. The budget shows the government's forecasted revenue and planned expenditure usually produced on an annual basis.

A successful budget preparation process combines top-down direction and bottom-up planning. The overall budget envelope and sector/ministry spending ceilings are usually set by the Ministry of Finance and Planning in accordance with policy objectives. They are then communicated to the line ministries, which are responsible for preparing their respective sector budgets. Through an iterative process of review, debate and bargaining, a consolidated budget is hammered out.

A budget proposal is then presented to the County Assembly where it is debated and eventually passed into law. It is only after this that the County government can start to absorb/appropriate the funds.

4.2.1 Factors affecting absorption capacity

Mr. Speaker Sir,

The following were observed to be the forces behind inefficient absorption of funds:

i. **Administrative capacity**

This is the capacity of an institution to prepare projects/programs plans in due time, to select the best, to organize efficient framework, to finance and supervise the implementation process by avoiding irregularities.

Inadequate staff numbers, low skills and morale, poor monitoring and tracking systems and inadequate project supervision result to weak reporting and accountability hence undermining absorption capacity.

ii. Budgeting and planning processes

a) Budget allocation and credibility

Some spending agencies are allocated funds in excess of their capacity to absorb, yet others may have budget ceilings that are not commensurate with the mandates they are supposed to deliver. If a work plan involves a large and lumpy projects and less than the required funds are approved and released, the project cannot begin and nothing can be spent.

Effective public service delivery requires approximate mix of inputs. Insufficient budget undermines the implementation of development projects.

b) Delayed releases and reluctance to commit expenditures

Releases are triggered by submission of satisfactory work plans and performance reports by the spending agencies. This majorly affects ongoing programs which require a continuous and predictable cash flow.

The desire to build up a financial buffer over the course of the financial year due to lack of trust in future releases affects the absorption rate. This is marked by reluctance to proceed with the procurement process until the necessary funds are available.

c) Inappropriate and stringent donor conditionality attached to government funding

The nature of government funding mechanisms may create additional delays. Inflexibility to reallocate conditional grants across involving sectors experiencing insufficient funds is an often reason for failure to utilize available funds.

iii. Cumbersome procurement and court processes

Sometimes the complex and cumbersome procurement process and appeals process by aggrieved parties, delay the start of projects such that by the time the process is finally settled, project managers have little time for implementation.

The procurement process also attracts a lot of court litigations arising from award of tenders from the losing bidders and endless appeals. This slows down the implementation of projects.

iv. Private sector capacity

There are instances where the contractors only commit to purchase or lease heavy equipment after receiving the advance payment from the government.

Underdeveloped financial sector- banking and insurance can have direct implications for government spending agencies. A weak financial system has an impact through its effect on private contractors in cases where they do not provide cash guarantees to contractors.

4.2.2 Overview of absorption of funds in Kitui County

Mr. Speaker Sir,

According to Controller of Budget review, In the 2017/18 FY, Kitui County had an approved budget of Kshs. 11.24 billion comprising of Kshs. 6.69 billion recurrent and Kshs. 4.46 billion development allocation.

The County received Kshs.8.65 billion as equitable share, Kshs.584.16 million as conditional grants out of the targeted Kshs.744.55 million, raised Kshs. 335.12 million as own source revenue out of the set Kshs. 579.16 million and had a cash balance of Kshs. 1.32 billion from FY 2016/17 making the total available funds stand at Kshs.10.89billion.

Out of the available funds, the County managed to absorb Kshs.5.98billion (89.4%) in recurrent expenditure and Kshs. 3.34billion in development expenditure (73.4%). This was an increase from 80.4% and 70.7% in FY 2016/17 respectively.

As at 30th June, 2018, there was accumulated pending bills of Kshs.936.16 million in development expenditure and Kshs. 230.93 million in recurrent expenditure and the wage bill had increased by 28.6% from Kshs. 2.82 Billion in FY 2016/17 to Kshs.3.62 billion during the year.

During the first half of FY 2018/19, the wage bill had increased by 19.6% as compared to the first half of FY 2017/18.

From the overview, it can be noted that the County has had the perennial challenge of absorption of funds, overestimation of own source revenue and a ballooning wage bill.

4.2.3 Factors affecting absorption capacity in Kitui County

Mr. Speaker Sir,

The following are the influences reached at as hindrances to efficient absorption of funds in the County.

1. **Redundancy of projects**

   At the onset of the County, there are projects which were initiated by the defunct Local Authorities and had funds allocated to them. Some of these projects have been neglected and remain undone due to lack of a policy framework.

2. **High expenditure on personal emoluments costs**

   There has been a constant increase in the wage bill over the last few years. This is unsustainable and will crowd spending on development activities.

3. **Under-performance in own source revenue**

   This affects budget implementation to the extent that expenditures have to be reduced either in development or recurrent budget hence affecting service delivery.

4. **Delay in disbursement of funds by National Treasury**

   The Commission of Revenue Allocation (CRA) formulae is for funds to be released on quarterly basis but the National Treasury releases the funds on monthly basis or delayed due to lack of financial resources. This hinders execution of the budget since the implementation of the projects is a rigorous process involving tendering, selection of projects among other processes.

5. **Pending bills**

   This is as a result of the county failing to align its procurement plans to cash flow projections and also failure of the National government to distribute funds early enough for planning purposes which results to growing stock of expenditure arrears owed to suppliers and contractors.

6. **Lack of public participation**

   After the enactment of the constitution of Kenya, 2010 and legislation of the Public Finance Management Act, 2012, it is now required that the budget process undergoes public participation. The County should have the capability of collecting information on preferences of the electorate, without which it is difficult to allocate resources efficiently.

7. **Weaknesses in the budget classification system**

   When recurrent expenditure is misrepresented and budgeted as development or salaries presented as other items results to poor cash management, inconsistent accounting practises and weak internal controls.

8. **Frequent IFMIS downtime which has in many instances slowed down approval of procurement requests and payments to suppliers.**

9. Lack of credible work plans, procurement plans and cash plans by the County government ministries causes the delay in the implementation of projects/programs, whereby those charged with project implementation do not have clear cut execution road map of the projects/programs.

4.3 Places Visited

Mr. Speaker Sir,

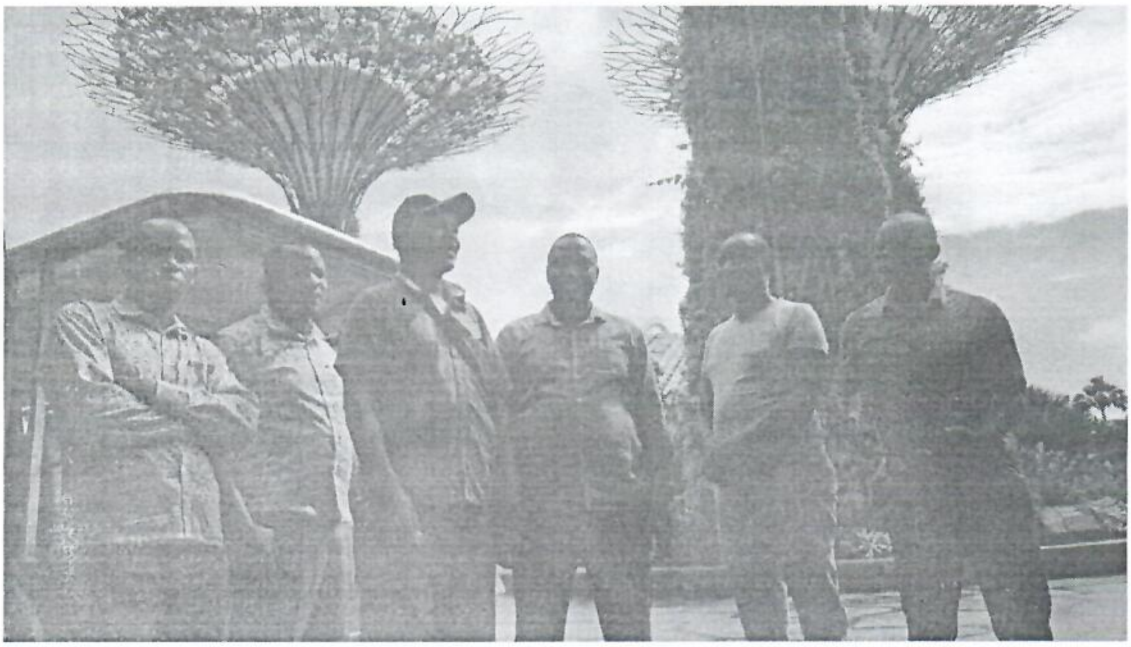
Despite being on a tight and demanding schedule, the team managed to carry out Outdoor activities which included Complimentary city tour and team-cohesion activities.

The delegation visited:

i. Gardens by the bay

This a one of a kind nature park with a floral fantasy, serene garden flower dome and art sculptures in the heart of Singapore. Its flower dome is the largest glass house in the world.

At 7.45 pm and 8.45 pm, a garden rhapsody light and sound show starts and the trees come to 'life' as visitors watch in awe at the sight of the impeccable scenery.



The delegation visiting Gardens by the Bay

ii. Merlion Park

The Merlion is a landmark in Singapore and a major tourist attraction. It is a mythical sculpture with a lion's head and the body of a fish and spouts water from its mouth.

The fishy bottom symbolises Singapore's humble beginnings as a fishing village whereas the head represents Singapore's original name, Singapura or lion city, its bravery and strength.

The Merlion

iii. Federation of Malaysia

As earlier cited in this report, Singapore was part of Malaysia before splitting due to ideological differences. The delegation was eager to experience the origin of Singapore and thus organised a visit to the Federation of Malaysia; whose border is just a stone's throw away from the venue of the Training Workshop.

In Malaysia, the delegation visited:

a. Batu Caves

This is a limestone hill with a series of caves located in Kuala Lumpur. There are 272 steps leading to the top where the entrance to the caves is.

It is one of the preferred destination site for Hindus all over the world as it also serves as a shrine dedicated to *Lord Murugan* with an iconic 42.7metre high statue placed at the front.

b. Istana Negara- The Kings Palace

Istana Negara serves as the official residence of the supreme King of Malaysia.

The complex has an area of 97.65 hectares with 22 domes split into three portions; the formal Component, Royal Component, and Administration Component that incorporates Islamic and Malay architectural elements.

Visitors are not allowed to enter the palace although it is possible to catch the scenic view from outside the main gate.

5.0 COMMITTEE RECOMMENDATIONS

Mr. Speaker Sir,

The Committee makes the following recommendations:

1. The County Treasury should ensure that the requirements for requisition and procurement are met as required by the Controller of Budget so as to avoid wastage of time in approving and releasing County funds. This will aid in implementing County project and programmes in a timely manner.

   Further, all payments should be made through IFMIS to avert spillage of funds. The County treasury should also liaise with the IFMIS directorate to address the frequent IFMIS downtime.
2. The County Treasury should ensure that the expenditure on personal emoluments is in compliance with regulation 25(1) (b) of the PFM (County Governments Regulations), 2015; which requires that it should not exceed 35% of the county government's total revenue.

   Further, the County Public Service Board should establish an optimal staffing structure so as to maintain a sustainable wage bill and each job opportunity created by the board should have a well-structured job description.
3. The County Assembly should push for implementation of revenue automation to the latter and should enact legal frameworks and guidelines to budgetary processes and allocation of budgets within the relevant laws to curb over expenditure, unauthorised allocations and reallocation of budgets. This will aid in aligning procurement plans to budgets, cash flows and fund disbursements.
4. The County Treasury should develop and implement strategies to enhance own source revenue collection and seal all loopholes that result to revenue

evasion. Additionally, it should set logical and achievable targets to avoid budget deficits.

5. Civic education and Community Participation.

   The Constitution of Kenya states public participation as a national value and principle of governance and when properly done it reflects the degree of consensus and ownership of the budget process. Community Participation in decision-making creates a balance between governing *for* the people and governing *by* the people.

   Civic education, aims to teach citizens about their rights and responsibilities as part of a democratic society and for them to have a more accountable government.

   The County government should promote civic education and ensure public participation in all the processes resulting to public spending. The County Assembly can play its part by

6. The County Treasury should improve the present level of compliance to due processes on budget formulation, implementation and execution by guaranteeing strict adherence to the relevant laws guiding the budgeting process.
7. Continuous capacity building programs for Members of the County Assembly and county staff (assembly and executive) is necessary to:
   - Strengthen their monitoring and evaluation skills to adequately comprehend and compile reports on budget execution and management
   - Avoid instances of inaccurate reporting and delayed preparation of budget documents and reports.
   - Attain skills and adopt best practises on management of development finance and absorption of funds
8. County Treasury should structure better internal control systems, warrant proper planning and establish County budget economic forums to put check and balances to those vested with power of execution and implementation of budgets.

9. Private sector engagement

   The County government should convene potential partners around specific topics or opportunities and develop ongoing relationships that build capacity for community investment.

   The County should also encourage Public-private partnerships. This can help finance, build and operate projects, such as parks and convention centres. Financing a project through a public-private partnership can allow a project to be completed sooner or make it a possibility in the first place.

10. The County Treasury should constitute a pending bills committee to verify the authenticity of all outstanding payments and formulate strategies on how to eliminate them

6.0 CONCLUSION

Mr. Speaker Sir,

In conclusion, a notable degree of transparency, impartial and servant leadership, and community involvement in policies and decision making will always lead to an institution's success. In building the County, it is prudent to adopt mechanisms that effectively appropriate the available County resources and the delivered impacts should mirror the magnitude of the resources allocated to them.

Importantly, emulation and borrowing of best practises through benchmarking with advanced economies remain an asset for any system of governance as long as long as there is intelligent selection of relevant practises established elsewhere to suit to the local context.

In this regard, the delegation has come up with this report and tables it in the House for Adoption.

REFERENCES

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ANNEX 1

OWNERSHIP OF THE REPORT

We, Honorable Members of the delegation of the Committee on Finance and Planning have adopted this report on the Training Workshop in Singapore on Development Finance and Absorption of funds and do hereby affix our signatures to this report to affirm its accuracy, validity and authenticity;-

		Signature
1. Hon. David M. Munyau -	Chairperson	
2. Hon. Anthony John -	Member	
3. Hon. Nicholas N. Mwalali -	Member	
4. Hon. Johnson Kanandu -	Member	
5. Hon. Stephen Ileve Katana -	Member	