



**Roll Over:**

# **Budget Credibility in Kenya's Counties**

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## INTRODUCTION

Changes in the process of budgeting in recent years in many countries, including Kenya, have meant that much more preparation and dialogue goes into the approval of a budget than was the case previously. Budget formulation begins earlier and involves multiple stages with a variety of stakeholders beyond the executive, including citizen groups and the legislature. As a result of this more extensive and time-consuming dialogue to arrive at priorities and agree on key programs and projects, the budget has taken on the characteristics of a promise between stakeholders. This is inevitable: when a large number of actors participate in an extended conversation over many months to define the budget, they will expect that the agreements made during this process will be respected.

We know that keeping to those promises, what we refer to as “budget credibility” – the degree to which countries implement their approved budgets, both on the revenue and expenditure side – is a challenge around the globe. Yet there have been relatively few systematic studies of the issue and we know less than we should about its extent, its nature, and its impact. Much of the information we have about credibility is anecdotal. There is more data on overall budget credibility than there is on “compositional credibility,” the extent to which governments implement their budgets as promised at the ministry level and below. And there is more on national budget credibility than on subnational, which is the focus of this paper.

In addition to weak overall transparency on budget execution, governments offer limited explanations for deviations from budget. This is inconsistent with the notion of the budget as a promise; breaking promises nearly always implies some effort to explain our actions. These explanations are part of how we determine whether failure to keep to the promise is justified: after all, sometimes there are good reasons, like unexpected economic shocks or evolving social needs, to fail to meet a budget target. In at least some of these cases, the public will likely agree that changing course is the right thing to do. But if governments fail to explain budget deviations, we will find it difficult to distinguish justified from arbitrary action.

Failing to explain government action not only undermines the notion of the budget as a genuine promise, but it also means that it is challenging to pinpoint the real causes of poor credibility, which in turn complicates the quest for solutions. Understanding the root causes of poor credibility begins with government attempts to explain their choices, and expands into a multi-stakeholder dialogue, much as we expect the discussion around priorities at the earlier stages of the budget process to unfold.

## A SUBNATIONAL FOCUS

While there is little systematic data on national budget credibility in low- and middle- income countries, there is even less on subnational credibility. Thus, our paper looks at budget credibility at the subnational level in all 47 counties of Kenya over four years and relies on official data from the Kenya Controller of Budget. This study is

unique, because, to our knowledge, it presents the first systematic assessment of credibility at the county level, using ministry-level data for all counties. Other global assessments discuss budget credibility at the subnational level (i.e., such as PEFA assessments, discussed below), but there are few systematic comparative subnational assessments of the type carried out here. We hope this work sheds light on questions of interest both globally and in Kenya.

## KEY QUESTIONS

To what extent do county governments in Kenya deliver on their budget promises? We ask this question mainly with respect to the composition of the budget, though we also look at overall revenue and expenditure. Which sectors of the budget tend to be spent as budgeted, and which tend to receive more or less than what was allocated? What patterns do we observe across different counties, and to what extent can we identify common factors that relate to credibility?

## SUMMARY OF FINDINGS

Overall, our analysis shows that budget credibility is a challenge in Kenya's counties. Credibility is low overall (80 percent), but this is driven by much worse credibility on development spending (below 60 percent, on average). Challenges are especially notable in sectors with high development spending like roads, water, and agriculture, though health budgets are also consistently underspent, achieving only an average of 86 percent budget execution over the four-year period we investigate. During budget execution, the share of the budget spent on executive and legislative administration tends to rise, while the share for agriculture and water tends to fall. Finally, while there has been relatively little improvement in credibility over time, roughly one in five counties did improve their budget performance over the period (using our quartile assessment, described below). These improving counties come from across Kenya and suggest that there is wide potential for addressing low credibility over time.

Cash flow is a fundamental aspect of the overall credibility challenge at the subnational level in Kenya, because counties rely heavily on national transfers, which they receive too late in the year to spend down before the books are closed. At least some anecdotal evidence suggests that in many cases these funds are committed and paid in the next year when cash is available. Nevertheless, counties also exhibit poor budget formulation and management practices. Kenya's counties over-budget for expenditure and are too optimistic about revenues, and these behaviors also contribute to poor credibility. Furthermore, counties exhibit inappropriate usage of supplementary budgets. Surprisingly, we find that supplementary budgets sometimes worsen budget credibility, rather than improving it.

County budget credibility does not follow simple patterns. For example, beyond timing issues, there are no clear factors that explain changes in compositional credibility: while the issue of delayed funding flows might explain the

overall tendency to underspend on capital, it cannot explain distributional changes during the year between ministries, nor does it clearly explain changes over time in execution rates. It is also not the case, for example, that the counties that are the poorest, or the largest, or that receive the most from national transfers, or the least from their own revenues, are the least credible. Specific county performance is also highly variable. Most counties do not follow a consistent pattern over the four years of data we have, although some do.

Evidence of justifications: We attempted to collect additional data and carry out interviews with county officials to understand better the reasons for low budget credibility, building on the information in subnational PEFA assessments. This proved challenging. As is the case with PEFA, and as we have also found in other settings, government officials struggle (or are unwilling) to provide reasons for low credibility that are specific and can explain variation, as opposed to general explanations.<sup>1</sup> For example, reasons related to government systems may well be valid, but they lack specificity that can explain why particular parts of the budget are implemented while others are not, or why there is variation from year to year in the same sector, when all of this activity passes through the same systems.

Nevertheless, we did capture some reasons that go beyond what has been documented in PEFA and other reports and that hints at some variations across counties in their policies and systems. These include: challenges with contractor capacity, at least partly related to the requirement to fill demographic quotas (for women, youth, local contractors, etc.); poorly designed public participation processes that yield infeasible projects due to lack of technical guidance to inform public views; lack of or delay in approving policies to guide the use of special public funds (such as bursary or business development funds) where such funds cannot be spent without local legislation; local industrial action that occurred in some counties but not others; and challenges in using the integrated financial management information system, even in counties that should have relatively good connectivity.

Data approach: Like any comparative quantitative analysis, ours is limited by the quality and extent of the data. In order to better assess data quality and the causes and consequences of credibility challenges, we also collected data directly from a subset of counties. These documents and interviews provided important caveats about how we interpret our wider data set and raise conceptual and practical questions that inform how we understand and address poor budget credibility. They also suggest that the core data we use is likely to be revealing about overall credibility challenges, but not entirely reliable in specific instances.

We incorporate but go beyond PEFA's findings on subnational credibility. While the PEFA assessment approach is very useful, for our purposes it does not sufficiently capture changes in credibility in low credibility environments; this is due to its methodology, which does not distinguish between execution rates of 0 to 84 percent (anything in this range receives the lowest "D" score in PEFA). We therefore complement the PEFA scoring approach with a

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<sup>1</sup> <https://www.internationalbudget.org/wp-content/uploads/Budget-Credibility-Across-Countries.pdf>

quartile approach based on the actual distribution of budget credibility rates, and this allows us to learn more about improvers and decliners.

## BACKGROUND

The issue of budget credibility at the county level has been on the agenda since the start of devolution in Kenya. The Controller of Budget regularly produces budget implementation reports which have highlighted underspending and under-collection of own source revenue in Kenya since 2014. These reports receive regular if somewhat superficial coverage in local media and are discussed by the public and social media when they are released <sup>2</sup>. However, neither the Controller nor any other agency has pulled together and analyzed all the budget implementation data together as we do here (at least publicly).

Other agencies have also released reports that relate to budget credibility at county level. In 2018, PEFA released subnational assessments in six counties based on data collected between 2015 and 2017 (coverage varies for each county). PEFA assessments look at various aspects of the public finance system and not only the issue of credibility. However, they do have specific indicators for overall and compositional budget credibility. Table 1 shows the scores for each of the six counties on the relevant PEFA indicators:

**TABLE 1: PEFA BUDGET CREDIBILITY SCORES 2018**

Indicator	Dimension	SCORES					
		Kajiado	Kakamega	Makueni	Baringo	Nakuru	W. Pokot
1. Aggregate expenditure outturn		D	D	D	D	B	B
2. Expenditure composition outturn		D+	D+	D+	D+	D+	B+
	2.1 Expenditure composition outturn by function	D	D	D	C	D*	A
	2.2 Expenditure composition outturn by economic type	D	D	D	D	D	B
	2.3 Expenditure from contingency reserves	A	A	A	A	A	A
3. Revenue outturn		D	D	D	D+	D	D
	3.1 Aggregate revenue outturn	D	D	D	C	D	D
	3.2 Revenue composition outturn	D*	D	D*	D	D	D

PEFA's global scoring system ranks countries and subnational units from A to D. A score of D on the assessment for aggregate outturns means that less than 85 percent of budget (or more than 115 percent) was realized, while a score of D on composition means that variations were greater than 15 percent across functions, ministries, or

<sup>2</sup> <https://www.businessdailyafrica.com/datahub/Siaya--Nakuru--Nyandarua-worst-in-development-spending/3815418-5196588-43sjcnz/index.html>

economic classification. A score of C means that aggregates were between 85 and 90 percent (or 110 and 115 percent) of budget; compositional variance was between 15 and 10 percent. A score of B means that between 90 and 95 percent (or 105 and 110 percent) of budget was realized for aggregates, and that compositional variance was between five and ten percent. Finally, an A score means that the budget was implemented within 5 percent of the approved figures. This scoring system, which is the same as that used by PEFA around the globe, informs our approach in this paper, but we also use other, empirically grounded approaches to measure credibility that allow us to classify counties in a way that is more aligned to the actual spread of absorption rates.

Table 1 clearly shows that budget credibility at the county level is low. There is some variation across counties and there are some counties that fail to make data available, which are those with an asterisk. Nakuru and West Pokot perform better on overall expenditure outturns, and no county seems to rely heavily on its contingency reserve beyond what is allowed by law. But beyond this, scores are quite low.

Why is credibility so low in counties? The PEFA reports do offer some limited explanations for performance. These explanations are captured in Table 2 below:

**TABLE 2: REASONS FOR DEVIATIONS AS REPORTED IN PEFA 2018 COUNTY REPORTS**

County	Expenditure	Revenue
Kajiado	In the implementation period, budgeted data should be available for utilization in the first half of the financial year but there are usually delays in disbursement of funds by the National Treasury. This creates a mismatch between the procurement plan and the implementation. The procurement process begins in the second half of the year after the disbursement of funds, which shortens implementation of development expenditures.	The reasons for under-performance of revenue in the county include pilferage of revenue and fraud; laxity in compliance among the taxpayers; inadequate capacity in terms of personnel, equipment, and funds; and structural inefficiencies in revenue administration.
Kakamega	The low absorption in FY 2013/14 was due to initial challenges of implementing the devolved system of government. Other reasons for expenditure deviations in the other years were (a) procurement delays related to capital projects and (b) low collection of own source revenue. In the overall, there were technical and human capacity challenges in the budgeting process.	This was mainly due to over projection of no specified revenues in the budget.

<b>Makueni</b>	In 2013/14, the budget was approved in November 2013, giving the county 7 months to implement the budget, which caused the low absorption rate of 67 percent. This affected procurement and implementation of projects. In 2014/15, the County Assembly adjusted the budget submitted by the County Executive. The adjusted budget was approved by the assembly and an Appropriation Act enacted. The County Executive did not assent to the act because the CEC finance was not consulted in the adjusted process which is a requirement of the law. The budget that was agreed on was passed in March 2015, giving only 3 months for budget implementation.	According to the CBROP 2015, the shortfall in own-source revenue for FY2014/15 was due to the delay in passing of the Finance Bill for 2014/15
<b>Baringo</b>	Slow implementation by departments was due to the slow procurement process, especially that related to bill of quantities (BQs). The main reason is that the county did not have adequate human and technical capacity to design and supervise projects, for example, engineers, architects, and so on.	The reason for the lower-than-budgeted own source revenue is that revenue potentials had not been exploited by the county, such as land rates and plot rents as well as uncollected revenue from education establishments.
<b>Nakuru</b>	The deviation in FY 2013/14 was due to delay in disbursements of equitable share from the national government, which were provided only in June 2014	This could be attributed to various factors including unrealistic estimates, reduced compliance rates, and pilferages due to weak revenue collection systems.
<b>W. Pokot</b>	The low absorption was because it (2013/14) was the first year of implementation of the devolved system of government in Kenya.	This is due to various factors including unrealistic revenue estimates, reduced compliance rates, and pilferages due to weak revenue collection systems.

These explanations may be grouped into a few broad categories encompassing both political and technical factors: delays in approving budgets and finance bills, cash flow challenges leading to delayed implementation, poor projections of revenue, and weak systems or capacity, including procurement challenges. As is typical of such explanations globally, many are very general or fail to account for variation across agencies or over time. While a couple of these explanations might explain poor capital execution relative to recurrent (which we indeed see in Kenya, and globally), they cannot explain variation across ministries or sectors.

Some explanations, such as poor revenue compliance or leakage, are not explanations for poor credibility, but simply explanations for an inability to increase revenue collection from a particular level (though they cannot explain variation over time either). As we have argued elsewhere, procurement is, by itself, a weak explanation, especially if it is repeated from year to year.<sup>3</sup> If the system for implementing projects is one that only permits X number of projects per year, then any attempt to budget for more than X and subsequent failure to achieve more than X, cannot be blamed on the procurement system, but is really a symptom of poor planning. As we saw above,

<sup>3</sup> <https://www.internationalbudget.org/wp-content/uploads/how-governments-report-on-and-justify-budget-deviations-ibp-2019.pdf>, Page 27

moreover, there is a lot of variation from year to year in performance that institutional factors may not be able to explain.

**In summary**, while there is no question that weak capacity or delays in approving budgets or projects undermines budget implementation, there must be some additional explanations for the patterns of expenditure and revenue performance that we see across ministries and over time. The PEFA assessments therefore offer a starting point for understanding low credibility, but these types of explanation are not robust for understanding compositional credibility. This is in no way a criticism of PEFA; as we will see, it turns out to be extraordinarily difficult to explain compositional credibility.

## WHAT WE DID

Our core data is extracted from the Office Controller of Budget's quarterly budget implementation review reports (BIRRs). Data exists for all four quarters of each of the four years we analyzed. These reports are unfortunately in PDF format and require conversion before they can be analyzed. In addition, they contain several errors that were discovered upon conversion, where calculated figures in tables cannot be derived from the underlying data in the same table. For example, percent of budget spent in a table does not match the figure if one actually divides the expenditure figure in the same table by the budget in that table. We have no way to know which figures in such instances are incorrect. We followed a general rule of assuming the underlying figures to be correct, and we corrected the calculated figures to align with them.

Our main measure of credibility is the final executed budget against the original approved budget. However, we do not have the original approved budget for most counties. The BIRRs report the budget figures in each BIRR, but these figures change as the government approves supplementary figures throughout the year. Thus, the calculation in the fourth quarter BIRR of expenditure versus budget does not match our definition, since the budget figure is not the original approved budget, but the revised budget.

Since we do not have original budgets, we used the budget as reported in the Quarter 1 (Q1) BIRR as our proxy for the approved budget in each county. A spot check of the Q1 numbers against several Appropriations Acts across the four years confirmed that most were similar. Therefore, our proxy is likely to be correct in some counties, but in others, a first supplementary may already have occurred. If so, our approach would likely underestimate the credibility problem.<sup>4</sup> In 2014/15, there was no breakdown of the budget by departments in the Q1 BIRR, so we use the Q2 BIRR budget as a proxy for the approved budget. Some counties also lack data in some of the quarterly

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<sup>4</sup> If supplementary budgets are even less credible than approved budgets, however, the reverse would be true. We do show that this is the case in a number of counties, so it is also possible that we somewhat overestimate credibility.

reports, and we have to make additional small adjustments of this type. For example, Nairobi and Marsabit counties lack Q1 BIRR data in 2017, so we used the Q2 data in that case as well.

Another challenge in measuring credibility is that counties change their department structure from year to year, and even in some cases within a single year. This can involve, for example, the decision to move a certain department or a division between departments, a change in name, or the creation of an entirely new entity. In addition, even when counties do not make such changes, there are changes in the names of departments reported across quarters in the BIRR reports. We had to make some decisions about whether a given department in a BIRR Q4 report was the same as one in a BIRR Q1 report, and if not, whether it was possible to figure out how exactly it had changed. The data we used for the analysis are available, along with a list of the assumptions we used to make these adjustments. Fortunately, the total share of observations in our data that were affected by such inconsistencies was only 4 percent.

In order to test some hypotheses related to the drivers of poor credibility, we relied on additional data beyond that obtained from COB BIRR reports. This includes data available from the Kenya National Bureau of Statistics, the Commission on Revenue Allocation, National Treasury and approved legislation from the Senate and National Assembly.

## OVERALL EXPENDITURE PERFORMANCE

Counties were able to spend 80 percent of their approved budgets in the 4 years between 2014/15 to 2017/18. As shown in Table 4 the absorption rate has been just above or below 80 percent in the 4 years. However, there is a significant difference between recurrent and development spending. Over this period counties were able to spend, on average, 96 percent of the approved recurrent budget, but only 61 percent of the approved development budget. While development performance in the first three years was above 60 percent, in 2017/18 it fell to only 42 percent. Performance of expenditure against the approved recurrent budget has continuously improved, growing from 92 percent in 2014 to 99 percent in 2017.

How consistent is county budget credibility for a given county over time? Table 3 shows the correlation between performance in each year and the previous year, both overall and by recurrent and development. There is a modest overall relationship between the 2014/15 and 2015/16 budget at 0.412. However, the other two periods do not show any notable relationship in overall performance across the period. The capital budget shows a somewhat stronger relationship, particularly in the first two years, but these data suggest that there are at least some time-specific factors that affect credibility each year. These figures also raise doubts about the validity of general explanations for performance. For example, if low county “capacity” was the main driver of poor credibility and building such “capacity” takes years to achieve, then we might expect higher correlations from year to year in budget execution than we see in the data.

**TABLE 3: WHAT IS THE RELATIONSHIP BETWEEN BUDGET CREDIBILITY IN ONE YEAR AND THE NEXT?**

Years	Recurrent Expenditure	Development Expenditure	Total Expenditure
<b>2014/15 and 2015/16</b>	0.343	0.521	0.412
<b>2015/16 and 2016/17</b>	(0.152)	0.392	0.085
<b>2016/17 and 2017/18</b>	0.027	0.079	0.185

Source: Controller of the Budget Implementation Report, 2014-2018

We can understand a bit more about the underspending problem if we consider expenditure against exchequer issues. Expenditure against exchequer issues helps us to some degree to isolate the impact of ambitious budgeting versus capacity to spend. If the budget is too optimistic, then we will observe that the funds that are received by agencies (known as issues or releases) are significantly lower than budgeted, while agencies are able to spend most of what they receive. On the other hand, if the problem is mainly with agency capacity, then we would expect to see releases to agencies closer to the budget level, but expenditure far below releases. This is not a perfect measure because releases could also be below budget due to the low capacity to spend and request them. But it is also true that when releases are spent, agencies are less likely to be constrained by capacity.

A review of issues paints a different picture than expenditure against budget. First, spending against issues stood at 97 percent, so counties spent almost all the funds that were disbursed across the four years. The development budget figures are particularly noteworthy: counties spent 93 percent of development issues in this period compared to only 61 percent absorption of approved development budgets.

Of course, how we interpret this depends on the share of issues compared to the approved budget. A high absorption rate for issues is more meaningful if issues are relatively high compared to budget. Counties received exchequer issues equivalent to 81 percent of their approved budgets in the four years. There was gradual growth from 81 to 84 percent between 2014/15 to 2016/17, but a decline in 2017/18, which was also the year with the lowest receipts in the four years as shown in Table 4. Recurrent issues averaged 96 percent in the four years compared to 65 percent for development.

There is a very strong relationship between the funds issued and the actual expenditure, with an overall correlation of over 0.9 in each of the four years (slightly higher for recurrent than for development). As shown in Table 4, absorption rates (spending against budget) were also very close to exchequer issues as a share of budget in each year. This suggests that budget credibility in counties may be more closely related to revenue flows than to agency capacity, as agencies spend most of what is released to them and spend more when they receive more. The only exception is development expenditure in 2017/18, when absorption was only 50 percent, while counties received 58 percent of their funds, suggesting some capacity challenges.

**TABLE 4: EXCHEQUER ISSUES AS A PROPORTION OF THE APPROVED BUDGET AND AGAINST ABSORPTION RATES**

Budget Year	Recurrent Exchequer Issues	Development Exchequer Issues	Total Exchequer Issues	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	90%	68%	<b>81%</b>	91%	64%	<b>79%</b>
2015/16	98%	66%	<b>83%</b>	95%	63%	<b>81%</b>
2016/17	97%	67%	<b>84%</b>	95%	64%	<b>82%</b>
2017/18	97%	58%	<b>84%</b>	94%	50%	<b>78%</b>
<b>Total</b>	<b>96%</b>	<b>65%</b>	<b>83%</b>	<b>94%</b>	<b>61%</b>	<b>80%</b>

Source: Controller of the Budget Implementation Report, 2014-2018

## EFFECTS OF CHANGES IN COUNTY BUDGET ALLOCATIONS TO BUDGET CREDIBILITY

Another measure of credibility is how much the budget changes through formal revisions or supplementary budgets within the year, and by what magnitude. A credible budget should not require too many changes, or even a single change of substantial magnitude. Kenya’s public finance law sets a ceiling on the size of the budget that can be changed through supplementary budgets. A county cannot change more than 10 percent of its total approved budget within the year.

Across the four years, approved budget allocations do change substantially within the year. As shown in Table 5, all counties changed their approved budget in each of the four years we consider. In addition, in all four years a substantial number of counties made changes in excess of the 10 percent limit. For example, in 2014/15, 16 counties made changes to their approved allocations that were above 10 percent. That dropped to seven counties in 2015/16 but rose to nine and 12 counties in 2016/17 and 2017/18 respectively. This could be an indication of challenges in planning and budgeting.

A key assumption in public discourse in Kenya is that ambitious local revenue projections are used to exaggerate the development budget, and when changes are made during implementation to make budgets more realistic, cuts are concentrated on the development side of the budget. However, our analysis shows that, on average, almost half of county development budgets are actually revised *upwards* within the year through supplementary budgets. For example, in 2014/15, 20 out of 47 counties increased the size of their development budgets between quarter 1 and quarter 4. This rose to 25 out of 47 counties in 2016/17. In addition, in two out of the four years, the overall development budget of the 47 counties taken together grew between quarter 1 and quarter 4.

**TABLE 5: QUARTERLY CHANGES TO APPROVED COUNTY BUDGETS - # OF COUNTIES**

Budget Year	Change Between Q1 and Q2	Change Between Q2 and Q3	Change Between Q3 and Q4	Change Between Q1 and Q4
2014/15				46*
2015/16	10	14	28	47
2016/17	18	47	47	47
2017/18	12	31	31	47

Source: Controller of Budget Implementation Report, 2014-2018<sup>5</sup>

Do in-year budget revisions improve budget performance at the subnational level? Table 6 shows that the overall performance against the approved and revised budget was 78 percent in both cases. Therefore, on average, the use of a budget revision did not improve (nor worsen) performance. However, in specific years, such as 2015/16 and 2016/17, performance against the revised budget was even *lower* than against the approved budget. While overall spending against development budget does not change, the recurrent budget shows that performance gets worse after revisions are done. In three of the four years, the performance against the revised recurrent budget was lower than against the approved budget at the beginning of the year. Even for the development budget, performance is slightly worse in 2014/15 and 2017/18. The differences are not substantial, but that is in fact the point: overall, revising the budget should be a mechanism for substantially improving absorption performance, yet it is not, and in some cases worsens it. Again, this is an indication of weak planning and budgeting capacity.

**TABLE 6: BUDGET PERFORMANCE AGAINST APPROVED AND REVISED BUDGETS**

Budget Year	Recurrent Budget Absorption Against Approved Budget	Development Budget Absorption Against Approved Budget	Total Budget Absorption Against Approved Budget	Recurrent Budget Absorption Against Revised Budget	Development Budget Absorption Against Revised Budget	Total Budget Absorption Against Revised Budget
2014/15	91%	64%	<b>79%</b>	93%	63%	<b>79%</b>
2015/16	95%	63%	<b>81%</b>	91%	65%	<b>80%</b>
2016/17	95%	64%	<b>82%</b>	90%	66%	<b>80%</b>
2017/18	94%	50%	<b>71%</b>	88%	49%	<b>74%</b>
<b>Total</b>	<b>94%</b>	<b>61%</b>	<b>78%</b>	<b>90%</b>	<b>61%</b>	<b>78%</b>

Source: Controller of Budget Implementation Report, 2014-2018

<sup>5</sup> \*Taita Taveta county was not evaluated due to challenges with its Q2 data and no department level data was available for Q1 across all the 47 counties.

## INDIVIDUAL COUNTY PERFORMANCE

Performance at the individual county level varies significantly at the total level as well as the recurrent and development expenditure level. We analyze the performance in this case using two approaches:

1. PEFA's scoring approach (described above)
2. Grouping counties into quartiles based on the actual spread of performance.

*PEFA grading shows poor budget credibility among Kenyan counties.*

Over half of Kenyan counties score a grade "D" for expenditure based on the PEFA scoring scale, which measures any performance deviating by 15% or more in either direction of the budget as indicative of poor budget credibility. Scores of A on the other hand (within 5 percent of budget in either direction) are the smallest category among Kenyan counties. In fact, that number has been dropping in the four years of analysis, from just six in 2014 to only three in 2017. Therefore, over the four years only 9 percent of Kenya's 47 counties would score an A on the PEFA scale in any year, while 59 percent of all county-years in the four-year period would receive a D.

**TABLE 7: PEFA CLASSIFICATION OF COUNTY EXPENDITURE CREDIBILITY BETWEEN 2014 AND 2017, # OF COUNTRIES**

Grade	Score	2014	2015	2016	2017	Proportion of Each Grade Across the 4 Years
A	Between 95% and 105%	6	3	4	3	9%
B	Between 90% and 110%	5	10	11	2	15%
C	Between 85% and 115%	9	7	6	11	18%
D	Performance beyond Grade C	27	27	26	31	59%
<b>Total</b>		<b>47</b>	<b>47</b>	<b>47</b>	<b>47</b>	<b>100%</b>

Source: Controller of Budget Implementation Report, 2014-2018

No county scored an A in all four years that we analyzed, nor even in three of the four years. This is an indication of how low budget credibility is at the subnational level. Only Samburu, West Pokot and Kirinyaga scored an A in at least two of the four years, while another 10 counties scored an A in one of the four years.

**TABLE 8: COUNTRIES THAT SCORED AT LEAST ONE A OVER THE FOUR-YEAR PERIOD**

	County	2014/15	2015/16	2016/17	2017/18	A
1	Kirinyaga	D	D	A	A	2
2	Samburu	A	B	A	D	2
3	West Pokot	A	B	A	C	2
4	Nyamira	A	D	D	D	1
5	Elgeyo marakwet	C	D	D	A	1
6	Laikipia	A	D	D	C	1
7	Lamu	C	A	D	D	1
8	Meru	A	D	C	D	1
9	Wajir	B	D	A	D	1
10	Bomet	C	A	B	D	1
11	Isiolo	A	C	B	D	1
12	Kericho	B	A	B	D	1
13	Kiambu	D	C	C	A	1

Source: Controller of Budget Implementation Report, 2014-2017

At the lower end of the PEFA performance scale, 11 counties scored a D in all four years and another 8 scored a D in three of the four years (Table 9). There is therefore more consistency among the poorest performers than among better performers. Only three counties had at least two A scores in the four years, while 35 had at least two D scores in the same period.

**TABLE 9: COUNTIES THAT SCORED AT LEAST 3 D'S OVER THE FOUR-YEAR PERIOD**

	County	2014/15	2015/16	2016/17	2017/18	D
1	Baringo	D	D	D	D	4
2	Kakamega	D	D	D	D	4
3	Kilifi	D	D	D	D	4
4	Kwale	D	D	D	D	4
5	Machakos	D	D	D	D	4
6	Nairobi	D	D	D	D	4
7	Nakuru	D	D	D	D	4
8	Narok	D	D	D	D	4
9	Siaya	D	D	D	D	4
10	Turkana	D	D	D	D	4
11	Vihiga	D	D	D	D	4
12	Kajiado	D	D	D	C	3
13	Kisumu	D	D	D	C	3
14	Uasin Gishu	D	D	D	C	3
15	Nyamira	A	D	D	D	3
16	Mandera	D	D	B	D	3
17	Migori	D	B	D	D	3
18	Tana River	D	B	D	D	3
19	Tharaka Nithi	D	D	D	C	3

Source: Controller of Budget Implementation Report, 2014-2017

Another way to evaluate the trend in performance is to look at counties that improved their score over the period of four years. We define improvement as jumping at least two grades within the evaluation period. This would include those counties that jumped between grade D to an A or B, or from a C to an A. Three counties made the jump from D to A or B, while one improved from a grade C to an A. By this standard, then, there were only 4 improvers, as can be seen in Table 10: Kirinyaga, Kiambu, Makueni and Elgeyo Marakwet. However, there are differences in the performance among the four counties. Elgeyo Marakwet first declined in performance and then improved dramatically in 2017/18. Kirinyaga made a steep jump after two years of poor performance, while the other two counties improved more gradually.

It is remarkable that so few counties meet our standard for improvement, but it is also in part an artifact of the PEFA methodology, since any improvement between 0 and 84 percent is not measured. We will redress this limitation below by using quartiles to examine the distribution of county credibility.

**TABLE 10: COUNTIES THAT IMPROVED THEIR SCORE BY AT LEAST 2 GRADES IN FOUR-YEAR PERIOD**

County	2014/15	2015/16	2016/17	2017/18
Kirinyaga	D	D	A	A
Kiambu	D	C	C	A
Makueni	D	D	C	B
Elgeyo Marakwet	C	D	D	A

Source: Controller of Budget Implementation Report, 2014-2017

Staying with the PEFA approach for now, we turn to decliners. These are counties that saw deterioration of at least two letter grades over the period. There are ten such counties, as can be seen in Table 11. Some counties, such as Nyamira and Meru, performed well in the first year and then plummeted, from an A in 2014/15 to a D in the very next year, remaining at the level of a C or D through 2017/18.

On the other hand, counties such as Samburu and West Pokot performed well in the first three years, but then performance dropped in the final year of our sample. There is no clear pattern of performance changes across these counties.

**TABLE 11: COUNTIES THAT DROPPED THEIR SCORE BY AT LEAST 2 GRADES IN THE FOUR-YEAR PERIOD**

	County	2014/15	2015/16	2016/17	2017/18
1	Nyamira	A	D	D	D
2	Meru	A	D	C	D
3	Samburu	A	B	A	D
4	Isiolo	A	C	B	D
5	Laikipia	A	D	D	C
6	West Pokot	A	B	A	C
7	Wajir	B	D	A	D
8	Kericho	B	A	B	D
9	Homabay	B	B	C	D
10	Nyandarua	B	C	B	D

#### *Quartile performance per year*

Another way to evaluate performance against approved budgets is to classify performance in quartiles, and then analyze counties based on the actual range of performance, rather than by the somewhat artificial range imposed by PEFA. This may allow us to see more variation over time than we do in the PEFA approach. Table 12 summarizes our quartiles by average absorption rates over the four years.

The first thing to note is the median, which is the Q2 figure. There is almost no change in the median over time, with a very slight dip in 2017. The worst performing quartile improved average performance between 2014 and 2016 but

fell back in 2017. A similar but less dramatic pattern exists for the third quartile. Thus, overall it seems that performance was either slightly improving or stagnant in the first three years but dropped in 2017. These figures also show us that 75 percent of our observations in two of the four years were a C or D on the PEFA scoring framework, but there was quite a large degree of variation among these counties that is not captured by PEFA's approach. For example, in 2014/15, both the worst performing county and the median would have scored a D on PEFA, but there is a 33-percentage point difference between them in absorption rates.

**TABLE 12: BUDGET ABSORPTION QUANTILES BETWEEN 2014 AND 2017**

Budget Year	Min	Q1	Q2	Q3	Max
2014/15	48%	75%	81%	89%	106%
2015/16	58%	77%	81%	90%	114%
2016/17	69%	76%	81%	91%	101%
2017/18	49%	70%	78%	86%	113%

Looking at quartiles allows us to capture changes in performance even when the performance against budget is below 85 percent. Nine counties jumped at least two quartiles between 2014/15 and 2017/18, while four of these moved from the bottom to the top quartile between 2014/15 and 2017/18: Embu, Kirinyaga, Tharaka Nithi and Kisumu.

We can now compare Table 10 and Table 13. The first thing to note is that the PEFA approach captures three of the same counties that the quartile approach finds as strong improvers: Kirinyaga, Kiambu and Makueni. However, PEFA misses Embu, Tharaka Nithi and Kisumu, which are the strongest improvers using the quartile approach. The reason for this is of course that these three counties have relatively low final credibility rates, even though they increased over the period. Embu's execution rate in 2017/18 was 89 percent, while Tharaka Nithi was at 113 percent and Kisumu at 111 percent. All of these are "C" scores according to PEFA, which means that the maximum improvement such counties could show using the PEFA approach would be a single grade, from a D to a C. But the changes in these counties were more dramatic: Embu improved from 75 to 89 percent; Tharaka Nithi improved from a 73 percent to 113 percent; and Kisumu from 48 to 111 percent. The quartile approach allows us to identify these changes. It also reveals a shift from under- to overspending in Tharaka Nithi and Kisumu that is less obvious using PEFA scores.

The quartile approach also reveals nuances in the improvement patterns of counties. For example, Embu improved from quartile 1 to 3 in two years before getting into quartile 4 in 2016/17 and 2017/18. However, Tharaka Nithi was in quartile 1 for the first three years before rising to quartile 4 in the fourth year. Kiambu improved consistently, while Kajiado declined between year two and three before moving into the top quartile in the last year. For those counties that overlap between Table 10 and 13, there are similarities between the patterns identified by PEFA and the quartile approach. But again, the quartile approach captures more nuance: for example, Makueni shows a D-D-

C-B pattern in PEFA, but the quartile approach shows that Makueni did not stagnate in the second year, but rather worsened (from 78 to 58 percent execution).

**TABLE 13: COUNTIES THAT IMPROVED THEIR QUARTILE RANKING BY AT LEAST 2 GRADES IN FOUR-YEAR PERIOD**

	County	2014/15	2015/16	2016/17	2017/18
1	Embu	1	3	4	4
2	Kirinyaga	1	2	4	4
3	Tharaka Nithi	1	1	1	4
4	Kisumu	1	1	2	4
5	Kiambu	2	3	3	4
6	Uasin Gishu	2	3	1	4
7	Makueni	2	1	3	4
8	Marsabit	2	4	4	4
9	Kajiado	2	2	1	4

Source: Controller of Budget Implementation Report, 2014-2018

When we turn to the worst decliners in performance, there are small but important differences between the PEFA and quartile approaches. PEFA finds four counties that declined from an A to a D, while the quartile approach identifies two counties falling from the top to the bottom. PEFA finds 10 counties that declined by at least two scores, while the quartile approach identified seven that fell at least two quartiles. Five of the counties overlap, but PEFA misses Lamu and Nandi. Both of these counties started with a “C” in PEFA and could therefore only fall one grade. But their declines were far more dramatic than this one grade drop would suggest: from 88 to 68, and from 87 to 49 percent, respectively.

**TABLE 14: COUNTIES THAT REGRESSED IN THEIR QUARTILE RANKING BY AT LEAST 2 QUARTILES**

	County	2014/15	2015/16	2016/17	2017/18
1	Meru	4	1	3	1
2	Wajir	4	1	4	1
3	Homabay	4	4	3	2
4	Isiolo	4	3	4	2
5	Nyamira	4	2	1	2
6	Lamu	3	4	1	1
7	Nandi	3	4	2	1

This section shows that using PEFA scores alone misses important changes in performance that fall out of the PEFA range. The quartile approach is not perfect; as constructed here, we consider overspending to be “better” performance than underspending, since we form the quartiles based on the raw execution rate. This might be worth revisiting in the future. But, as it stands, the quartile approach does reveal more about dramatic changes in performance among counties than PEFA’s scoring approach and using the two approaches together tells us more than either can alone.

## SECTOR PERFORMANCE

To get a better understanding of the dynamics and drivers of budget credibility challenges, we also analyzed sector performance across the four years. We selected four sectors that offer a mix of recurrent-heavy and development-heavy sector performance and represent a large subset of county functions and budgets: health, water, roads/infrastructure, and agriculture, livestock and fisheries sectors. The four sectors account for about half (49 percent) of county budgets in the four years with health alone taking up about one quarter (23 percent). The relative share of recurrent and development in these budgets overall for the four years for all counties is shown below. Clearly health is very recurrent heavy, agriculture is more balanced, and water and roads are more capital heavy. In addition, all the sectors experience an increase in their shares of recurrent expenditure compared to the recurrent share in the original approved budget.

**TABLE 15: SECTOR SHARE OF RECURRENT AND DEVELOPMENT BUDGET VERSUS ABSORPTION**

Sector	Approved Budget		Actual Expenditure	
	Recurrent Share	Development Share	Recurrent Absorption	Development Absorption
Health	75%	25%	83%	17%
Agriculture	48%	52%	57%	43%
Water	30%	70%	35%	65%
Roads	17%	83%	18%	82%

Source: Controller of Budget Implementation Report, 2014/15-2017/18

When we consider the composition of the budget, one of the implications of low credibility is that the sectors that were prioritized during budget formulation and approval are ultimately not the same as the sectors that are privileged during budget execution. If this is the case, then we should see a difference between the share of the budget going to priority sectors in the approved budget versus the final expenditure figures. In this analysis, we looked at our four sectors, and added county “administration” budgets: the budgets of the County Executive and the County Assembly. While the assembly budgets are easy to identify, we pulled together various departments such as governor’s offices, county executive services and in some cases county administration departments to create the

county executive budget. The six departments we measure account for about two thirds of the total county budgets across the four years.

Consistent with other work, changes in sector share between expenditure and budget are generally small but can represent major reprioritizations in monetary terms.<sup>6</sup> For example, the share of the agriculture sector declined from 5.9 percent to 5.3 percent in terms of what was approved and spent over the four years. This sounds small, but if agriculture had retained its original share of 5.9 percent of expenditure, it would have received Ksh 7.9 billion more. In thinking about changing sector shares, we must keep in mind that a decline in recurrent share amounts to a larger decline in total share than a similar decline in development because so much more of the budget goes to recurrent than development. This also explains why a jump in the share of the development budget may not lead to an increase in share of the overall budget, even when the increase in development share is bigger than the decrease in recurrent share.

The most notable finding in Table 16 is that the administrative units take 19.6% of total expenditure compared to 17.9% of the approved budget. What this means is that during the year the County executive and County assembly are taking an additional 1.7% of the total budget for themselves away from other priorities. To put this in monetary terms, if the executive and legislature had retained a 17.9% percent share of final spending, they would have received Ksh 20 billion less than they did.

On the other hand, road expenditure on the development side *increases* by six percentage points between the budget and final spending. More than half of this increase comes from other sectors of the budget than those we look at here, which must therefore be receiving a lower share of capital spending than budgeted (sectors that are not included in Table 16 include Early Childhood Education, Environment, Youth Affairs, Land and Housing).

The health sector increases its share of the total budget, from 23 percent to 25 percent of expenditure, while water and agriculture both see their shares of total budget fall. Although roads and water both gain in share of development spending, they lose as a share of total spend due to a drop in recurrent budget share. Agriculture is the only sector that loses share across the board, with a drop in its share of total budget, and both recurrent and development. What this data suggest is that smaller agencies and sectors such as water and agriculture are losing out during budget implementation, while major spenders like health gain overall, and roads gains heavily on the development side compared to other sectors.

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<sup>6</sup> We used this methodology in a related global paper. Changes in relative shares are small but can still represent significant reprioritization in monetary terms. See <https://www.internationalbudget.org/publications/budget-credibility-across-countries/>

**TABLE 16: SECTOR SHARES OF THE TOTAL BUDGET**

	Sector	Sector Share of Total Recurrent Budget	Sector Share of Total Development Budget	Total Sector Share of Total Budget	Sector Share of Total Recurrent Expenditure	Sector Share of Total Development Expenditure	Total Sector Share of Total Expenditure
1	Health	30.1%	14.0%	23.5%	30.2%	13.7%	25.1%
2	Water	3.8%	12.6%	7.4%	3.4%	13.7%	6.6%
3	Agriculture	4.9%	7.5%	5.9%	4.4%	7.2%	5.3%
4	Roads	3.7%	25.1%	12.5%	3.1%	31.4%	11.9%
5	County Assembly	13.6%	3.9%	9.6%	12.9%	2.5%	9.7%
6	County Executive	11.4%	3.9%	8.3%	12.8%	3.6%	9.9%
	<b>Sector Total</b>	<b>67.4%</b>	<b>66.9%</b>	<b>67.2%</b>	<b>66.7%</b>	<b>72.2%</b>	<b>68.4%</b>
	Total Budget	867,936	604,571	1,472,506	814,503.18	366,181.39	1,180,684.57
	Share of Recurrent and Development Expenditure	59%	41%	100%	69%	31%	100%

Source: Controller of Budget Implementation Report, 2014-2018

Overall, the absorption rates against approved budgets for these sectors ranged from 71 to 86 percent. The health sector is the best performer with the equivalent of a score of C, while the other sectors all score a D according to the PEFA criteria.

Unsurprisingly, absorption of recurrent budgets is much higher than that of development budgets in all the four sectors. The range for recurrent is from 80 to 95 percent, while development ranges from 59 to 76 percent. If we compare these averages to our overall averages in the data, we can see that these sectors tend to perform below our sample average for recurrent (94 percent) and above our sample average for development (61 percent). The data also suggest that recurrent/development absorption is associated with the share of the budget allocated to recurrent versus development. As can be seen in Table 16 above, as the share of recurrent falls, so too does the recurrent absorption. On the other hand, as the share of development rises, so too does development absorption. One interpretation is that agencies are best able to spend the type of expenditure that constitutes the main type of spending that they do, and that they struggle more with other types of spending.

Another potential factor related to absorption may be the degree to which the original budget is on target. To calculate this, we looked at the difference between allocations at quarter 1 and quarter 4. As shown in Table 17, the biggest changes were in the recurrent budget for health, which went up by Ksh 18.8 billion, and the development budget for roads, which grew by a similar amount of Ksh 18.9 billion. The fact that the two sectors have the highest absorption rates for recurrent and development respectively suggests that higher absorption is related to less ambitious initial budget projections. However, absorption for these sectors was lower against their revised budget than against the original budget, in line with the inappropriate use of supplementary budgets discussed above.

**TABLE 17: CUMULATIVE CHANGES IN SECTOR ALLOCATIONS BETWEEN 2014/14 AND 2017/18 – (KSH BILLIONS)**

	Department	Change Between Approved and Revised Recurrent Budgets	Change Between Approved and Revised Development Budgets	Change Between Approved and Revised Total Budgets
1	Health	19.25	(0.44)	<b>18.81</b>
2	Water	(1.43)	5.21	<b>3.78</b>
3	Agriculture	(1.37)	(0.58)	<b>(1.95)</b>
4	Roads	(1.60)	20.52	<b>18.91</b>

Source: Controller of Budget Implementation Report, 2014-2018

- a) **Health:** Overall absorption of the recurrent health budget is reasonably high, although it is below 95% in 3 of the 4 years and its average only reaches 95% due to over expenditure in 2015. Using PEFA standards, this amounts to only a B score, and given the high ratio of wages (and difficulty of underspending on wages) in total recurrent, it does raise questions about what exactly counties are underspending on the recurrent side. The data also do not show any improvement over the 4 years in recurrent budget absorption. The development side of the budget absorption in health does not show a clear pattern, but if anything, performance has deteriorated. In general, as we have seen, development budgets in Kenya are implemented at a level which is so low that it always constitutes a D on the PEFA scale, and that is the case here. The health sector performs above the sample average for our data of 94 percent for recurrent but below 61 percent for development.

**TABLE 18: OVERALL SECTOR PERFORMANCE AGAINST APPROVED BUDGETS**

Health			
Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	93%	63%	85%
2015/16	104%	59%	91%
2016/17	92%	63%	85%
2017/18	92%	53%	84%
<b>Total</b>	<b>95%</b>	<b>59%</b>	<b>86%</b>
Water			
Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	86%	78%	80%
2015/16	75%	71%	72%
2016/17	89%	67%	73%
2017/18	84%	51%	62%
<b>Total</b>	<b>83%</b>	<b>66%</b>	<b>71%</b>
Agriculture			
Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	81%	56%	68%
2015/16	87%	59%	73%
2016/17	83%	63%	72%
2017/18	85%	57%	72%
<b>Total</b>	<b>84%</b>	<b>59%</b>	<b>71%</b>
Roads			
Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	82%	81%	81%
2015/16	69%	86%	82%
2016/17	89%	79%	80%
2017/18	81%	57%	61%
<b>Total</b>	<b>80%</b>	<b>76%</b>	<b>76%</b>

Source: Controller of Budget Implementation Report, 2014-2018

- b) **Water:** Budget absorption in the water sector is quite low at 71 percent on average across the four years, and it has declined with time. This is mainly driven by a significant drop in the absorption rate of the development budget, which has fallen from 78 to 51% over the period with the average at just 66%. Recurrent expenditure absorption on the other hand has been stagnant, if somewhat higher at 83%. The overall picture is of a sector that consistently ranks a D, although in a couple of years recurrent absorption would merit a C on the PEFA scale. Recurrent absorption in agriculture was far below our sample average (94 percent), while development absorption was above it (sample average: 61 percent).

- c) **Agriculture, livestock and fisheries:** The agriculture sector is only able to spend on average 71 percent of the approved budget over the period. While there was a slight improvement between 2014 and 2015, performance has since been stagnant in the low 70 percent range. Recurrent budget absorption has been more or less stagnant in the low 80% range, while development absorption has stagnated around the high 50% range. There is no clear pattern of improvement or deterioration in either. While on average recurrent absorption is stronger, both areas would merit a D on the PEFA scale. Recurrent absorption in agriculture of 84 percent was far below our sample average (96 percent), while development absorption was very close to our sample average (61 percent).
- d) **Roads and infrastructure:** This sector experiences the lowest spending of recurrent expenditure against the approved budget among the four sectors. The performance has been quite erratic in the four years with no consistent growth or drops, and lower than the national average of 96 percent in all the four years. The development expenditure is the best among the four sectors with an average performance of 76 percent across the four years. However, the performance has been on a downward trend especially in the last three years with a drop from 79 to 57 percent. For both recurrent and development expenditure, sector performance based on the PEFA scale was a D in all but one year.

An important result of this sector review is that while performance is generally poor, there is considerable variation across sectors and years. This variation cannot be explained by general causes like “procurement” problems. How do capital procurement challenges, in general, explain road absorption of 79 percent of budget in one year, and 57 percent in the next year? And why is average capital spending on roads 76 percent while it is only 59 percent in agriculture or health over the same period, using the same procurement systems? While the patterns that we observe are somewhat erratic, there is also a disappointing lack of progress, and several cases of deterioration that are notable (roads and water development expenditure). These are the sectors whose budgets are most heavily concentrated on development spending. We previously noted that the sectors with the highest share of development had the best development performance overall, but this finding is in tension with the fact that these are declining in performance over time.

## COUNTY REVENUE PERFORMANCE AND CASH FLOW

Revenue forecasting in a particular year and over the medium term is a key contributor to credible budgets, whether at national or subnational levels. Accurate projections of how much revenue the government can raise means that budget expenditure lines can be implemented with a high degree of predictability. However, sometimes the targets may vary from the approved amounts due to factors that are beyond poor forecasting. Unforeseen global economic shocks, or natural disasters that hamper revenue collection are good examples. At the same time, revenue projections may be faulty due to poor forecasting, or deliberate attempts to inflate or deflate revenue expectations.

In evaluating revenue performance, we look at local revenue as well as intergovernmental revenue transfers, which are the main revenue sources for Kenyan counties. Section 109 (2) of the Public Finance Management Act 2012 requires that counties remit all the revenue they raise, as well as all transfers received, to the County Revenue Fund (CRF).<sup>7</sup> Therefore, we looked at the funds that were available in the CRF as an indication of the revenue that was available for spending by the close of the year. In addition, Kenyan counties are still required to prepare balanced budgets, therefore we assume that the approved budget in each year is equal to the revenue approved in each year (no deficit).

As shown in Table 19, counties were able to realize 95 percent of their revenue targets on average over the four years. The performance is quite similar across the years. Among the two main revenue sources for funding county budgets, the equitable share is shown to have been received in full according to the Controller of Budget reports, as well as monthly gazette notices that are released by the National Treasury. On the other hand, county own source revenue performance was much lower, with an average execution of 64 percent of budget over the four years. Performance ranged from 56 percent in 2016 to 69 percent in 2015. This range is far below a D on the PEFA scale. As shown in column I, the uncollected own source revenue accounts for the vast majority of uncollected revenue.

However, there are some surprises in this data. For example, uncollected local revenue is higher than the total uncollected revenue in 2016 and 2017, accounting for 123 percent in 2016 and 161 percent in 2017 (column G). How is this possible? Counties might be receiving funds from other sources, such as donors or borrowing, or perhaps balances carried forward from previous years are not budgeted for but then show up as revenue for the current year, reducing the uncollected revenue totals.

**TABLE 19: OVERALL COUNTY REVENUE PERFORMANCE BETWEEN 2014 – 2017 – (KSH BILLIONS)**

	A	B	B	C	D	E	F	G
Budget Year	Approved Annual Budget	Annual Revenue Issues	Total Funds Available	Uncollected Revenue	Annual Local Revenue Performance	Uncollected Local Revenue	Proportion of Uncollected Local Revenue to the Total Revenue Not Received	Available Funds as a Proportion of Total Revenue Projection
2014/15	323.37	261.24	304.78	(18.59)	67%	(16.53)	89%	94%
2015/16	361.73	301.43	343.18	(18.55)	69%	(15.52)	84%	95%
2016/17	389.91	328.60	369.45	(20.46)	56%	(25.14)	123%	95%
2017/18	397.49	332.12	387.09	(10.40)	66%	(16.73)	161%	97%
<b>Total</b>	<b>1,472.51</b>	<b>1,223.39</b>	<b>1,404.50</b>	<b>(68.01)</b>	<b>64%</b>	<b>(73.92)</b>	<b>109%</b>	<b>95%</b>

Source: Controller of Budget Implementation Report, 2014-2018

<sup>7</sup> The Public Finance Management Act allows for revenue raised to be spent at source by the collecting agency only with express approval through policy by the PFM Act or a county legislation.

We analyze two other aspects that characterize sub-national revenue in Kenya:

- a) Revenue disbursement, and
- b) Balances carried forward into future years

The point during the year at which revenues are received is related to counties' ability to spend the budget. For example, if funds are mostly available at the very tail end of the year, that could force some expenditure to be delayed until the next year, and this will be reflected as underspending in budget implementation reports, even though revenue collection will show no credibility problem.

We lack complete data on the extent of the timing challenge in the flow of transfers to counties, but we have some information that allows us to form a picture of the extent of this problem. Table 20 shows that counties receive less than half of their intergovernmental transfers by the middle of the year, and 65 percent or less by the end of the third quarter. This pattern was particularly severe in 2017. Given that intergovernmental transfers account for about 84 percent of the approved budget across the 47 counties, receiving 35 percent of this revenue (roughly 29 percent of total revenue) in the last quarter is likely to undermine counties' ability to spend.<sup>8</sup>

**TABLE 20: QUARTERLY REVENUE RECEIPTS 2014-2017 – (KSH BILLIONS)**

Budget Year/Quarter	Q1	Q2	Q3	Q4	Total Approved Revenue
2014/15	84.00	136.96	203.70	304.78	323.37
2015/16	72.42	150.10	227.57	343.18	361.73
2016/17	99.38	167.37	251.53	369.45	389.91
2017/18	55.36	127.03	232.80	387.09	412.74
<b>Total</b>	<b>311.16</b>	<b>581.46</b>	<b>915.60</b>	<b>1,404.50</b>	<b>1,487.75</b>
2014/15	26%	42%	63%	94%	
2015/16	20%	41%	63%	95%	
2016/17	25%	43%	65%	95%	
2017/18	13%	31%	56%	94%	
<b>Total</b>	<b>21%</b>	<b>39%</b>	<b>62%</b>	<b>94%</b>	

Source: Monthly Statement of Actual Revenue and Exchequer Issues 2014- 2018, National Treasury

However, even this data may underestimate the extent of the problem, as funds become available within the quarter at different times as well, and it is far harder to spend funds received in June than in April. According to Kenya's PFM law, available funds in the County Revenue Fund cannot be spent immediately. Counties must still requisition these funds from the Office of the Controller of Budget, and this process can take some time, meaning that funds received in June are very unlikely to be spent before the close of the year.

<sup>8</sup> The intergovernmental transfers included conditional grants to the national government and donors that are captured in the Division of Revenue Act.

It is thus very striking that, as Table 21 shows, even the National Treasury reports that counties received between 14 and 29 percent of their revenue in the final month of the financial year, which would have to be spent almost immediately to be reported as executed during the year in which it was allocated. While we do not know on which day these funds are received in June, interviews suggest that they are sometimes received at the end of the month and even in some cases in the next financial year. For example, according to documents shared by the Finance, Planning and Economic Affairs Committee of the Council of Governors, in 2018/19 some disbursements that were meant for the month of May were not received until early July. The same source shows that counties had not received 32 percent of their revenue two weeks to the end of the year in June.<sup>9</sup> Clearly, then, even if overall revenue credibility is reasonably high, the timing of disbursements means that revenues are still a critical factor undermining spending credibility.

**TABLE 21: RECEIPTS OF EQUITABLE SHARE IN QUARTER 4**

Budget Year	April	May	June	Proportion of Revenue to Spend in Q4
2014/15	72%	80%	100%	28%
2015/16	74%	86%	100%	26%
2016/17	76%	86%	100%	24%
2017/18	57%	71%	100%	43%

Source: Monthly Statement of Actual Revenue and Exchequer Issues 2014- 2018, National Treasury

One proxy for the impact of late disbursement is the extent of balances carried forward each year, although this may have other causes as well. On average (Table 22), 10 percent of the revenue targets approved in each of the four years were spent in the following year. Therefore, underspending in one year could be ameliorated if some of that spending actually happens early in the next year from funds carried forward. However, no publicly available data disaggregates expenditure by source, so we cannot distinguish between new funds and the balances brought forward from previous years.

**TABLE 22: BALANCE CARRIED OVER AS A PROPORTION OF APPROVED REVENUE TARGET – (KSH BILLIONS)**

Budget Year	Approved Annual Budget	Actual Annual Expenditure	Balances Carried Forward to the Next Year	Proportion of Balance to the Approved Revenue
2014/15	323.37	256.98	36.07	11%
2015/16	361.73	292.72	37.19	10%
2016/17	389.91	319.77	25.75	7%
2017/18	412.74	311.22	54.17	13%
<b>Total</b>	<b>1,487.75</b>	<b>905.11</b>	<b>153.18</b>	<b>10%</b>

Source: Controller of Budget Implementation Report, 2014-2018

<sup>9</sup> <https://www.standardmedia.co.ke/article/2001330339/counties-lament-treasury-s-delayed-funding>

In sum, revenue performance at the county level is a tale of two separate trends. On the one hand, counties mobilize 95 percent of the revenue they approve each year. On the other hand, the timing of when the revenue is ultimately received and spent appears to have a big impact on absorption rates across counties and may affect compositional credibility as well.

## EXPENDITURE PERFORMANCE IN RELATION TO LOCAL REVENUE PERFORMANCE

One possible driver of low budget absorption could be low revenue collection from local sources. While local revenue is a small share of overall revenue, it is generally available in a more-timely fashion than national transfers and could be critical for facilitating expenditure when those transfers delay. Nevertheless, the evidence in support of this hypothesis is weak. The correlation between own source revenue performance and budget performance is below 0.25 at the total budget level, as well as for recurrent and development budget performance. Table 23 shows the low correlation between performance in expenditure and the performance of local revenue. This means that their low performance in local revenue does not necessarily mean such counties have low overall performance in expenditure and vice versa. Except in Nairobi county, this could also be explained by the low share of budgets funded by own source revenue.

**TABLE 23: CORRELATION BETWEEN COUNTY EXPENDITURE AND OWN SOURCE REVENUE**

Year	Recurrent Expenditure	Development Expenditure	Total
2014/15	0.1959	0.1287	0.1808
2015/16	0.2239	0.0269	0.1354
2016/17	0.0588	0.0602	(0.0308)
2017/18	(0.1933)	0.0298	(0.1506)

Source: Controller of Budget Implementation Report, 2014-2018

## COUNTY CASE STUDIES

In order to further our understanding of issues of budget credibility at the sub-national level, we looked at performance in a sample of eight counties. The counties were selected purposively to ensure there was regional representation and to focus in areas where IBP has budget partners.

The study made use of several budget documents published by different sources as shown in Table 24. This table uncovers a stark reality: of the eight counties, only one (Baringo) produced and published their quarterly budget implementation report consistently. This document should be the main source of public information about budget implementation at the county level. A second important county document, the annual CBROP, was more likely to

be found, but still three of out of the eight counties in our sample did not produce it consistently. On the other hand, the national documents, those produced by the OCoB and the Auditor General, were available across all four years. However, even for documents that cover the same reporting period, there are discrepancies across documents, including both national and county reports. For example, in Nyeri county the performance information in the national OCoB reports is different from that in the county produced CBROPs. None of the reports explain such differences, but this obviously affects our level of confidence in credibility measures. Moreover, partial document availability and inconsistency among documents is a sign of the limited extent to which county governments’ budget deviations are explained or justified.

**TABLE 24: AVAILABILITY OF SOURCES OF COUNTY BUDGET IMPLEMENTATION INFORMATION**

	Documents	Budget Implementation Reports (Q1-Q4)	County Budget Review and Outlook Papers	Quarterly County Budget Implementation Reports	Annual County Audit Reports	Interviews with County Officials
	Responsible Government Agencies	Office of the Controller of Budget	County Governments	County Governments	Office of the Auditor General	County Governments
1	Nyeri	X	X		X	X
2	Busia	X			X	X
3	Kakamega	X			X	X
4	Taita Taveta	X	X		X	X
5	Baringo	X	X	X	X	X
6	Kajiado	X			X	
7	Kwale	X	X		X	X
8	Nairobi	X	X		X	

As shown in Table 25, the average overall budget absorption performance of the 8 counties was 4 percentage points below the national average. The spread in performance is nevertheless relatively “average,” ranging between 70 and 84 percent and avoiding the extremes. Spending against approved recurrent budget is very close to the all-county average at 94 percent (versus 96 percent for all counties). However, the performance of development spending is below the all-county average. Nevertheless, there is considerable variation on the development side, with absorption ranging from 28 to 69 percent. On the PEFA scale, all the eight counties score a grade of D overall, with Nyeri just one percentage point from a C. Nyeri, Taita Taveta, Baringo, Nairobi and Kwale score a grade A in their performance on the recurrent budget. However, all the counties score a D on the development budget side.

**TABLE 25: PERFORMANCE OF SELECTED COUNTY CASES**

	County	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
1	Nyeri	97%	56%	84%
2	Busia	92%	68%	82%
3	Kakamega	89%	69%	79%
4	Taita Taveta	99%	37%	79%
5	Baringo	100%	49%	79%
6	Kajiado	92%	55%	79%
7	Nairobi	95%	28%	73%
8	Kwale	95%	51%	70%
	<i>Average Performance Across the Case Studies</i>	<b>94%</b>	<b>48%</b>	<b>76%</b>
	<i>Average Performance Across 47 Counties</i>	<b>94%</b>	<b>61%</b>	<b>80%</b>

Source: Controller of Budget Implementation Report, 2014-2017

## HOW THE BUDGET DEVIATIONS WE FOUND ARE EXPLAINED PUBLICLY

In our analysis we also looked at the reasons given for budget deviations in various budget implementation reports at the county and national level. We reviewed cross-cutting explanations that were provided for low budget credibility with a focus on areas that were not covered by the PEFA assessments discussed above. The following explanations emerged from budget documents and interviews with officials, though as mentioned earlier, we lack a complete set of required county documents. While there are some reasons that are unique to certain counties, most of the reasons we found came up across most the case study counties. We thus start with a review of these common types of explanations.

### *Explanations provided in multiple counties*

- a) **Low capacity among contractors.** Counties experience challenges with the capacity of contractors to complete projects as per the awarded contract. It is not clear if there is a standard procedure by which contractors are evaluated, but there seem to be challenges related to the systems used to evaluate contractors, as well as legal requirements to favor local contractors and certain demographic groups. For example, in Baringo county officials indicated that online tendering processes have extended the process of evaluating the capacity of contractors. This is because considerable work must be completed online, but physical verifications still have to be carried out in addition to this. In Nyeri, quotas that are reserved for certain demographic groups mean that the county has to issue at least certain tenders by law, regardless of merit. In Busia, the requirement to procure medicines from “local suppliers,” in an effort to promote local businesses, has meant that essential medicines are not delivered in a timely manner.

- b) **Late disbursement of intergovernmental transfers.** This issue was discussed previously, and we have national evidence for it. Unfortunately, late disbursement does not help us to understand why some departments spend more than others against budget. For example, in 2017/18 in Baringo County, the Agriculture, Livestock and Fisheries department spent 86 percent compared to the Water and Irrigation department which spent only 39 percent of its approved budget. It may also be that the problem is not only about late disbursement from national level, but internal decisions by counties about how to allocate scarce cash resources. County treasuries must determine which departments get resources first once cash becomes available. But line ministries may not be aware of these choices and may understand them as related to late disbursement from the national government. Also, counties may fail to requisition properly for their funds, or they may delay in filing paperwork.
- c) **Ambitious targets for own source revenue.** If targets are unrealistic, this means there are funding gaps and certain budget lines might not be implemented. In many counties, own source revenue forms only a small part of the county budget. For example, in Kakamega only 6 percent of its 2017/18 budget was funded by local revenue, yet its underspending was over 20 percent. The proportion of county budgets funded by own revenues are even lower in many other counties. However, Nairobi is an outlier, with over 50 percent of its approved budget funded by OSR.
- d) **Late approval of county policies.** Certain county funds cannot be spent without prior approval of county legislation. The PFM Act requires that any public funds designated by the county be created through policies that have to be approved by the County Assembly. This could indicate that some of the challenges affecting budget implementation are caused by gaps in budget formulation and legislation. For example, in Kwale the lack of a bursary policy has affected the disbursement of welfare funds in the education sector under its bursary and scholarships program. Similarly, Busia and Nyeri counties experienced underspending related to special public funds, especially those for business seed grants and loans.
- e) **Challenges with participatory approaches to budgeting.** In a number of counties, citizens are given influence over capital project selection, and what they select cannot be changed, including the amounts they allocate to each project. However, in counties like Baringo and Marsabit, members of the public lack sufficient information or technical support to ensure that their proposals are feasible, and to allocate adequate funds. According to county officials, it is challenging for such projects to take off or get completed when they are acutely underfunded. This particularly affects capital projects. There is clearly a need to improve the technical guidance provided as part of these participation approaches, in line with international good practice for participation.
- f) **Poor performance of the Integrated Financial Management System (IFMIS).** IFMIS downtimes affect procurement and payment for services and projects that are already delivered. All county budgets have to

be processed through the IFMIS system and its disruption affects both budgeting and implementation. It is not clear whether this is an issue mainly of internet connectivity or other software failures, but it also affects highly urban counties such as Nairobi.

- g) **Capacity challenges in the first years of devolution.** Counties were created from scratch in 2013/14 and have faced various institutional capacity challenges that affected implementation of the budget, particularly in the first two years of setting up systems. While obviously true, this explanation lacks specificity that could explain variation in budget credibility.
- h) **Centralized procurement systems within counties.** Centralized procurement systems were blamed for delays in implementation of capital projects. For example, the Baringo water department had over 270 projects in 2018/19, all of which had to be processed through one procurement department in competition with projects from all the other departments. Recurrent budget lines such as medicines are also processed through the same department. According to some officials, there are procurement officers in each department, but they are not fully utilized, as the process is centralized under the Chief Officer Finance. This is in part a reflection of the fact that the Chief Officer is ultimately accountable for expenditure.

*County-specific reasons for poor budget implementation:*

- a) **Busia:** There are instances where budget documents are approved late and consequently delay the process of requisitions for funding that needs to be approved by the Office of the Controller of Budget. Secondly, county-level industrial action by government workers, especially in the health sector, also affected implementation of certain budget lines in 2016 and 2017, leading to underspending. Health facilities in the county were shut down in both instances and that affected service provision and some projects that were to be implemented in this period, reducing budget credibility.
- b) **Kakamega:** Line departments do not follow rules or guidance on how to make commitments and execute spending due to challenges of coordination between the County Treasury and other ministries. For example, the Department of Health has seen health facilities spend their money only on curative health and completely ignore preventative health budget lines. There is a lack of guidance and sanctions related to spending against approved budget lines, weakening incentives to spend against what has been prioritized in the budget. This could also be caused by lack of proper coordination between treasury and line ministries and can result in underspending of some items.
- c) **Kwale:** In Kwale, cash management appears to slow implementation. In order to manage cash availability, the county caps spending on capital projects at different points to ensure adequate funds for recurrent expenditure are available, thus slowing capital expenditure.

## CONCLUSION

This paper is the first systematic assessment of county budget credibility in Kenya using data on all counties over a four-year period. As such, it provides a wealth of descriptive data, much of which requires further discussion and should provide the basis for hypothesizing about the causes of variation in credibility across the country. We find that budget execution is low and fairly stagnant overall, but also volatile, with important variation across sectors, time and counties.

The low rate of overall budget execution is almost certainly driven in part by delayed release of funds to counties from their share of intergovernmental transfers. We demonstrate that counties receive a substantial share of the funds very late in the fiscal year, making it nearly impossible to fully spend them down. Unsurprisingly, this hurts capital budgets the most. This is a large part of why we see overall credibility at just 80 percent on average for the four-year period we looked at: recurrent absorption is very high at 96 percent, while development budgets are only implemented at 58 percent of budget.

Nevertheless, while delays in the release of transfers are an important part of the credibility story in Kenya, they cannot be the whole story. There are still major variations over time and across counties and sectors that are not explained by revenue alone. Over the period, our data show nine counties that improved their performance dramatically, while seven regressed substantially. More research is needed to understand the differences between these counties and what might explain variations in performance. Some candidate explanations do not seem plausible: for example, focusing on own source revenue performance rather than national transfers does not explain much of the variation among counties. In general, there is also a fairly high degree of volatility within counties over time, meaning that fixed characteristics of counties, such as their size or level of development, are not likely to help much in understanding variation.

Are there factors which might vary from year to year and which could have more explanatory value? Our investigation suggests some possible hypotheses for further exploration. One possibility is that there are variations in legislative amendments over time and across sectors, and that sectors where legislators amend the budget to add more projects tend to have lower credibility. This would be consistent with research from other contexts, such as Nigeria or Philippines.<sup>10</sup> A related hypothesis is that poorly constructed participatory processes could be the culprit. As we saw in some counties, where the public is not properly guided with technical support, they may insert unrealistic projects into the budget that then cannot be implemented. The proposals from the public might also

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<sup>10</sup> Samuel Atiku and Jason Lakin “That’s Incredible! The Contours of Budget Credibility in Nigeria” (September 2019, International Budget Partnership). *Forthcoming*: Dr. Toby Melissa C. Monsod, “Budget Credibility in the Health Sector in the Philippines: Regional Comparisons and Case Studies” (January 2020, International Budget Partnership).

vary from year to year. Testing these hypotheses would require more detailed information about legislative amendments and participatory practices across counties.

Our data also hint at the fact that executives and legislatures tend to claw back some budgetary funds for their administrative budgets, or at least budgets controlled by them directly, and understanding what exactly happens to these funds and how and why they are moved around is also an area for further investigation.

It should also be said that there are major data consistency challenges related to budget credibility data in Kenya, and this is also likely a factor in the volatility we see. While we believe available data provides a reasonably accurate picture of overall patterns across counties, in any given year in any given county and in any given ministry, there may be errors. Improving data on budget credibility means that counties should produce all of the legally mandated budget reporting information in a timely way, which would then allow for further triangulation of data sources to confirm spending patterns. As in other areas of public finance, it is difficult to fix that about which you have very limited information. Transparency remains one of the cornerstones of sound public financial management, and greater transparency is core to any reforms aimed at improving budget credibility.

## ANNEX 1: FISCAL PERFORMANCE IN CASE STUDIES

### Baringo

Budget absorption against approved budgets in Baringo was quite stagnant in the period covering the four years. There was a slight improvement between 2014 and 2015 and then performance dropped from there going into 2017. However, the performance has been below 85 percent in all four years, which would be a D using the PEFA ranking though this performance is just one percent below the national average.

When analyzed by type of expenditure, there is a stark difference between recurrent and development expenditure against approved budgets. Recurrent budget performance has shown good performance with a score of A in all four years as shown in Table 26. Performance is above all-county average performance at 96 percent in three of the four years. While there was a growth in spending against the development budget, it dropped in 2017. This is consistent with an overall drop in performance in 2017, which can be seen across counties and sector, especially in development spending. However, Baringo's development execution has consistently fallen below the national average (49 versus 61 percent).

**TABLE 26: BUDGET PERFORMANCE IN BARINGO COUNTY**

Budget Year	Recurrent Budget Absorption	Budget Absorption	Total Budget Absorption
2014/15	99.8%	50.9%	77.9%
2015/16	99.6%	52.7%	80.2%
2016/17	95.6%	56.4%	80.0%
2017/18	105.8%	37.1%	78.3%
<b>Total</b>	<b>100.3%</b>	<b>49.1%</b>	<b>79.1%</b>

Source: Controller of Budget Implementation Report, 2014-2018

## Explanations for budget deviations

Baringo is the only county that has consistently published quarterly budget implementation reports. Review of these, as well as reports from the Controller of Budget and other agencies, and interviews with county officials, brought out some of the reasons for the performance trends described above. Baringo is also one of the counties with a very widespread in performance. The Water and Irrigation department had the lowest performance in 2017/18 at 39 percent. Therefore, the analysis of challenges in the county paid close attention to the water sector.

### Kwale

Kwale county has generally spent less than three quarters of the approved budget. Therefore, it scores a D in all the four years in the PEFA ranking. However, this performance has not followed any particular pattern over time, with a fair degree of volatility both overall and in terms of both recurrent and development expenditure performance. The recurrent budget jumped between 2014 to 2016, and then dropped in 2017. The jump in 2016/17, however, actually resulted in significant overspending and would score a D according to the PEFA ranking. The development expenditure performance was lower in the last two years than in the first two.

**TABLE 27: BUDGET PERFORMANCE IN KWALE COUNTY**

<b>Budget Year</b>	<b>Recurrent Budget Absorption</b>	<b>Development Budget Absorption</b>	<b>Total Budget Absorption</b>
2014/15	76.8%	53.1%	63.7%
2015/16	90.4%	67.9%	76.2%
2016/17	125.5%	40.3%	72.0%
2017/18	90.3%	44.8%	67.8%
<b>Total</b>	<b>95.1%</b>	<b>51.2%</b>	<b>70.0%</b>

Source: Controller of Budget Implementation Report, 2014-2018

## Busia County

Budget performance in Busia has been erratic in the four years as shown in Table 28 rising and falling across the period. The overall performance gets a grade D in the PEFA ranking. The same pattern is seen in the recurrent budget with performance rising and falling across the years. Meanwhile, performance in development budget has declined significantly between the first two years and the last two years. Generally, recurrent expenditure scored a grade B while development spending scored a grade D and this was above the national average performance. However, the development budget's performance dropped to the range of lower 50s compared to the 80's range in the first two years.

**TABLE 28: BUDGET PERFORMANCE IN BUSIA COUNTY**

Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	89%	84%	87%
2015/16	102%	84%	94%
2016/17	85%	51%	69%
2017/18	95%	54%	83%
<b>Total</b>	<b>92%</b>	<b>68%</b>	<b>82%</b>

Source: Controller of Budget Implementation Report, 2014-2018

## Kakamega

Over the four years budget performance in Kakamega has stagnated in the lower 80 percent mark after an initial improvement from 73 percent in 2014/15. Therefore, Kakamega scored a D using the PEFA ranking across the four years. Like the other counties recurrent expenditure absorption is much higher than development expenditure. However, recurrent spending is quite erratic rising and falling across the years as shown in Table 29. Development expenditure improved in the first three years rising from 67 percent to 78 percent before dropping to a level that is even lower than the mark in 2014/15. However, this is still higher than the national average performance.

**TABLE 29: BUDGET PERFORMANCE IN KAKAMEGA COUNTY**

Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	78%	67%	73%
2015/16	91%	70%	81%
2016/17	87%	78%	82%
2017/18	97%	61%	80%
<b>Total</b>	<b>89%</b>	<b>69%</b>	<b>79%</b>

Source: Controller of Budget Implementation Report, 2014-2018

## Kajiado

Kajiado county budget performance ranked in grade D in the PEFA scale with an average performance of 79 percent. This is just one percentage point below the national average across all the 47 counties. Like in the previous counties and the national level, there is a significant difference in performance between recurrent and development expenditure. Only 55 percent of the development budget was spent which was also below the national average of 61 percent. Recurrent expenditure with a grade B was much better but even that was below the national average at 96 percent. However, annual performance of both types of budget was quite erratic.

**TABLE 30: BUDGET PERFORMANCE IN KAJIADO COUNTY**

Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	89%	55%	78%
2015/16	92%	58%	78%
2016/17	88%	47%	72%
2017/18	99%	63%	88%
<b>Total</b>	<b>92%</b>	<b>55%</b>	<b>79%</b>

Source: Controller of Budget Implementation Report, 2014-2018

## Nyeri

Nyeri county is another example of the erratic nature of budget performance at the sub-national level in Kenya. The county performance averaged 84 percent across the four years which is higher than the national performance at 80 percent. However, this would still get the lowest score in the PEFA ranking. Development spending is just above the halfway point with 56 percent. Annual performance is also very erratic. However, the performance numbers in the OCoB numbers differ with numbers from the county's County Budget Review and Outlook Papers. For example, in 2015/16 the CBROP showed an absorption rate of 63 percent for development budget compared to 58 percent in the OCoB report for the same period.

**TABLE 31: BUDGET PERFORMANCE IN NYERI COUNTY**

Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	98%	66%	88%
2015/16	89%	58%	79%
2016/17	102%	68%	92%
2017/18	98%	38%	78%
<b>Total</b>	<b>97%</b>	<b>56%</b>	<b>84%</b>

Source: Controller of Budget Implementation Report, 2014-2018

## Taita Taveta

Taita Taveta county scored a D on its average performance across the four years at 79 percent. This is just one percentage point under the national average. However, there are large disparities between performance in recurrent and development spending. The county scores an A in all year but one on the recurrent budget. However, development spending average 37 percent in this period way below the national average of 61 percent. Also, the county's development spending against the approved budget has been declining since 2014/15 dropping by a factor of four.

**TABLE 32: BUDGET PERFORMANCE IN TAITA TAVETA COUNTY**

Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	96%	63%	85%
2015/16	109%	43%	89%
2016/17	95%	27%	73%
2017/18	97%	15%	72%
Total	99%	37%	79%

Source: Controller of Budget Implementation Report, 2014-2018

## Nairobi

Nairobi is Kenya's largest county by budget size with a budget of Ksh 33.65 billion in 2017/18. Nairobi is also the only county in Kenya that approved a budget with own source revenue funding more than half of its budget (51 percent). The county's average overall expenditure performance is below the national average at 73 against 80 percent. This is a score of D on the PEFA ranking system. Nairobi scored an A on across the four years on its recurrent budget. However, the performance was a downward trend in the three most recent years. The county has one of the worst performances on development spending by not being able to spend almost three quarters of its budget. Again, the performance in development spending was on the decline over the three most recent years.

**TABLE 33: BUDGET PERFORMANCE IN NAIROBI COUNTY**

Budget Year	Recurrent Budget Absorption	Development Budget Absorption	Total Budget Absorption
2014/15	97%	24%	73%
2015/16	100%	38%	78%
2016/17	91%	33%	72%
2017/18	88%	26%	68%
Total	95%	28%	73%

Source: Controller of Budget Implementation Report, 2014-2018

## ANNEX 2: INDIVIDUAL COUNTY PERFORMANCE BASED ON PEFA GRADING

Grading	2014		2015		2016		2017					
	County	Budget Absorption	County	Budget Absorption	County	Budget Absorption	County	Budget Absorption				
A	1	Isiolo	103%	1	Lamu	102%	1	Wajir	101%	1	Kirinyaga	97%
	2	Laikipia	101%	2	Bomet	97%	2	Samburu	97%	2	Elgeyo Marakwe	97%
	3	Meru	101%	3	Kericho	95%	3	Kirinyaga	96%	3	Kiambu	96%
	4	Nyamira	99%				4	West Pokot	95%			
	5	Samburu	95%									
	6	West Pokot	95%									
B	1	Nyandarua	106%	1	HomaBay	94%	1	Bomet	94%	1	Kitui	92%
	2	Kericho	94%	2	Busia	94%	2	Mandera	94%	2	Makueni	91%
	3	Homabay	93%	3	West Pokot	92%	3	Marsabit	94%			
	4	Wajir	93%	4	Nandi	92%	4	Isiolo	93%			
	5	Kitui	90%	5	Murang'a	91%	5	Mombasa	92%			
				6	Bungoma	91%	6	Nyeri	92%			
				7	Marsabit	90%	7	Garissa	92%			
				8	Migori	90%	8	Embu	92%			
				9	Samburu	90%	9	Bungoma	91%			
				10	Tana River	90%	10	Nyandarua	90%			
							11	Kericho	90%			
C	1	Bomet	89%	1	Nyandarua	114%	1	Muranga	88%	1	Tharaka Nithi	113%
	2	Elgeyo marakwet	89%	2	Taita Taveta	89%	2	Trans Nzoia	87%	2	Kisumu	111%
	3	Nyeri	88%	3	Garissa	89%	3	Meru	87%	3	Embu	89%
	4	Lamu	88%	4	Kisii	89%	4	Homa Bay	86%	4	Uasin Gishu	88%
	5	Bungoma	87%	5	Kiambu	87%	5	Kiambu	85%	5	Kajiado	88%
	6	Garissa	87%	6	Isiolo	85%	6	Makueni	85%	6	Marsabit	88%
	7	Busia	87%	7	Trans Nzoia	85%				7	Laikipia	87%
	8	Nandi	87%							8	West Pokot	86%
	9	Taita Taveta	85%							9	Bungoma	86%
										10	Kisii	86%
										11	Mombasa	85%
D	1	Kilifi	84%	1	Mandera	84%	1	Machakos	84%	1	Bomet	84%
	2	Kisii	84%	2	Uasin Gishu	83%	2	Elgeyo Marakwet	84%	2	Busia	83%
	3	Migori	84%	3	Embu	81%	3	Kakamega	82%	3	Garissa	83%
	4	Murang'a	83%	4	Kakamega	81%	4	Kisumu	81%	4	Kericho	82%
	5	Trans Nzoia	81%	5	Narok	80%	5	Kitui	81%	5	Kakamega	80%
	6	Kiambu	81%	6	Baringo	80%	6	Baringo	80%	6	Nyandarua	80%
	7	Uasin Gishu	80%	7	Elgeyo Marakwet	80%	7	Migori	80%	7	Samburu	79%
	8	Machakos	80%	8	Nyeri	79%	8	Kisii	79%	8	Kilifi	79%
	9	Makueni	78%	9	Siaya	79%	9	Laikipia	79%	9	Baringo	78%
	10	Marsabit	78%	10	Mombasa	78%	10	Vihiga	79%	10	Nyeri	78%
	11	Mandera	78%	11	Kajiado	78%	11	Nandi	78%	11	Migori	76%
	12	Kajiado	78%	12	Nyamira	78%	12	Kilifi	78%	12	Murang'a	76%
	13	Baringo	78%	13	Laikipia	78%	13	Tana River	77%	13	Isiolo	76%
	14	Narok	78%	14	Kirinyaga	78%	14	Siaya	77%	14	Mandera	76%
	15	Nakuru	77%	15	Nairobi	78%	15	Narok	76%	15	Narok	75%
	16	Embu	75%	16	Kitui	77%	16	Nyamira	76%	16	Turkana	75%
	17	Kirinyaga	75%	17	Kwale	76%	17	Turkana	74%	17	Machakos	74%
	18	Vihiga	74%	18	Turkana	76%	18	Tharaka Nithi	74%	18	Nyamira	72%
	19	Nairobi	73%	19	Machakos	76%	19	Taita Taveta	73%	19	Taita Taveta	72%
	20	Tharaka Nithi	73%	20	Tharaka Nithi	76%	20	Uasin Gishu	73%	20	Homabay	72%
	21	Kakamega	73%	21	Nakuru	76%	21	Nakuru	72%	21	Meru	70%
	22	Tana River	71%	22	Kilifi	74%	22	Kajiado	72%	22	Wajir	69%
	23	Siaya	71%	23	Meru	73%	23	Kwale	72%	23	Nairobi	68%
	24	Turkana	68%	24	Vihiga	67%	24	Nairobi	72%	24	Lamu	68%
	25	Kwale	64%	25	Kisumu	67%	25	Busia	69%	25	Kwale	68%
	26	Mombasa	59%	26	Makueni	58%	26	Lamu	69%	26	Siaya	62%
	27	Kisumu	48%	27	Wajir	58%				27	Trans Nzoia	62%
										28	Nakuru	61%
										29	Vihiga	56%
										30	Tana River	55%
										31	Nandi	49%