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MEMORANDUM TO THE BUDGET AND APPROPRIATIONS COMMITTEE OF THE NATIONAL ASSEMBLY

This memorandum summarizes our views on the budget priorities for the 2015/16 as well as how to improve budget transparency in the 2015/16 national Program-Based Budget. These are the two sections of the memorandum. We also attach herein, handouts that clearly explain our suggestions for improvement, with an example of the Ministry of Health Budget. For further information, please contact Dr. Jason Lakin at 0729937158 or jason.lakin@gmail.com

A. SUGGESTED IMPROVEMENTS TO PROGRAM-BASED BUDGET FOR 2015/16

- 1. We recognize and applaud the efforts of the National Treasury to greatly improve the transparency and accessibility of the Program-Based Budget (PBB) since 2013/14.** The 2014/15 PBB was a major advance over the 2013/14 version, and demonstrated serious commitment by Treasury to enhance the transparency and usefulness of national budget documents.
- 2. The 2015/16 budget introduces two major improvements we wish to highlight:** information about prior year spending down to the program level throughout the document, and an enhanced budget summary with more information about loan guarantees, state corporations and contingent liabilities. This summary also includes a table showing changes in sector ceilings since the Budget Policy Statement with explanations of these changes. While the budget summary is not part of the PBB, it continues the trend of Treasury providing extra documents to help clarify what is in the PBB.
- 3. While recognizing these achievements, we believe the 2015/16 budget could have gone farther to improve transparency. We make some very specific suggestions for further improvements.**
- 4. Our suggestions relate to the following areas, which we explain below:** Narrative links to budget data; indicators and targets; AIA/external funding; and breakdown of economic classification, including wage data.

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Narrative links to budget data

The 2015/16 narrative still fails to explain choices about allocations at program or subprogram level, which is the main purpose of a budget narrative. For example, the biggest change in the health sector this year is the increase in funding for the Health Policy subprogram, but this is not mentioned in the budget narrative at all, while items mentioned in the narrative, such as the Health Insurance Subsidy Program, cannot be found in the budget allocations.

Indicators and targets

Indicators and targets continue to be less useful than they should be. In 2015/16, they still lack baselines making it impossible to know how realistic the targets are. In addition, there is introduction of new indicators and targets over the years, with some being dropped and some replaced without any explanation. For example, in the health promotion subprogram, under the delivery unit – environmental health services, the indicator used in 2014/15 was % of households with latrines, and the target was 70% by the year 2015/16. However, that has been dropped and the same unit now has a new indicator – National Aflatoxin Management with no target for the year 2015/16. Why? Many of the targets in the budget are inconsistent with other government sources. Some of these sources, including sector working group reports, show the budget targets were already met last year!

External funding

In the 2015/16 PBB, there is still no information provided on Appropriations in Aid, meaning there is no information on external funding of the budget. Given an increase in external funding apparent from the line-item budget this year of 87% (over Ksh 160 billion increase), this is a major omission from the PBB. Information on external funding is important for several reasons, including the fact that sectors with heavy external funding tend to have more trouble actually spending their budgets.

Breakdown of economic classification including wage data

Both 2014/15 and 2015/16 PBBs lack adequate breakdown of economic classification, including information about staff compensation. The budget provides only a gross figure for staff compensation at the sub-program level, and no information on the number, type of employees or job group is provided.

The continued use of vague categories, such as “other development” and “other recurrent,” for major allocations undermines transparency. These are intended as residual categories but sometimes take the largest share at subprogram level.

B. UNDERSTANDING BUDGET PRIORITIES, 2013/14-2015/16

- 1. The split of recurrent and development budget has remained consistent for the past two years but the 2015/16 budget tries to shift toward more development spending.** In 2013/14 and 2014/15 the split of recurrent and development budget for ministries, departments and agencies (MDAs) in the National Government budget was 58% and 42% respectively. However the 2015/16 budget has seen a shift and the proposed recurrent expenditure would make up 52% of the budget, while development would increase to 48%.

2. **Absorption for recurrent costs has long exceeded development absorption, but there could be some improvement in 2014/15.** In 2013/14, share of recurrent budget in the actual expenditure was much higher than budgeted at 78% of total, while development expenditure was only 22%. Our projections for 2014/15, based on actual expenditure for the first half of 2014/15, suggest that there could be some improvement in development expenditure this year.
3. **Projected shares of actual spending for recurrent and development are 63% and 37% respectively in 2014/15, compared to 78% and 22% in 2013/14.**
4. **Education, Infrastructure and Energy and Security have consistently received the top three allocations in the national budget.** The three sectors have been taking an average of about 65% of the total MDAs budget in the last several years. **The share of the budget going to infrastructure and energy sector has risen significantly in the last two years.** The sectors share of the budget has risen from 20% in 2013/14 to 27% in 2015/16. Education's share has decreased in this same period, as well as security.
5. **Development expenditure absorption has improved for the first half of 2014/15 compared to a similar period in 2013/14.** The national government has improved its development spending to 26% in the first half of 2014/15 compared to 16% in the first half of 2013/14.
6. **Our projections show that the overall absorption rate for the budget in 2014/15 will be 83% which is an improvement from an average of 72% in the last three years.**
7. **MDAs which rely on external funds to fund part of their budget tend to have lower absorption compared to those with more domestic financing.** An analysis of expenditure trends show a strong relationship between low absorption and high dependence on foreign funding.
8. **This mainly affects the development heavy ministries such as Transport, energy and water and regional development.** These include the ministries that are seeing important increases in funding this year, raising questions about whether this money will actually be spent.
9. **At programme level, rail transport, cabinet affairs, tourism development and international trade are receiving a significant increase in resources in the 2015/16 budget as a percentage of what they received in 2014/15.** In absolute terms, security programmes under defense and police are also receiving a sizeable increase in the coming year.

CC: ALL COMMITTEES OF PARLIAMENT