



## Executive Summary

# What We Want to Know from Reading the 2014/15 Budget

April 2014

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Kenya's performance on budget transparency has remained constant since 2010, even with the passing of the Public Finance Management Act 2012. According to the International Budget Partnership's (IBP) [Open Budget Survey](#) 2012, Kenya stands at a mere 49 percent in its openness, falling below other countries in the region, including Uganda.<sup>2</sup> Kenya's score in the Survey indicates that the government provides the public with only some information on the national government's budget and financial activities during the course of the budget year.

The government of Kenya should expand public engagement in budgeting and overall budget transparency by introducing a number of short-term and medium-term measures, some of which can be achieved at almost no cost. As a first step, Treasury should make the budget proposal, to be tabled in parliament by 30 April, more transparent by providing more detailed and relevant information.

## Positive Step from Line Item to Program-Based Budgeting

In the 2013/14 financial year, the government of Kenya changed the way that it presents the annual budget to parliament. Previously, the budget estimates were presented based on line item budgeting, with a focus on allocations for inputs, no link to expected outputs, and no narrative. In 2013/14, the budget estimates tabled in parliament followed a Program-Based Budgeting (PBB) format. PBB emphasizes the objectives and outputs of government spending, and presents information in ways that make it easier to relate allocations to the goals of spending, such as improved service delivery. Thus PBB can be a key tool for achieving greater fiscal transparency — meaning ready access to reliable, comprehensive, timely, understandable, and comparable information on government fiscal decisions, activities, and intentions.

We applaud Kenya's shift to PBB, which is in line with international best practice. However, we also note that the implementation of PBB in FY 2013/14 led to a decline in budget transparency, as the figures presented were too highly aggregated. Moreover, while the inclusion of budget narrative, as well as indicators and targets, is welcome, there is considerable room for improvement in the coherence of the narrative and the logic of the indicators and targets.

Traditional line item budgets focus on providing substantial detail about what governments spend money on, which leads to voluminous data on inputs. For example, the budget will provide information on spending on stationery, fuel, hospitality, training, travel, and so on. From this kind of presentation one can only speculate about how such inputs are used, or more importantly, how they are converted into service delivery outputs, such as sexual and reproductive health services for Kenyans.

<sup>1</sup> This executive summary is based on a longer paper authored by Jason Lakin and Vivian Magero and was written with the help of Eve Odete.

<sup>2</sup> The Open Budget Survey assesses whether the central government makes eight key budget documents available to the public, as well as whether the data contained in these documents is comprehensive, timely, and useful. The Survey uses internationally accepted criteria to assess each country's budget transparency.

PBB does not eliminate information about inputs but it shifts the focus of budget presentation to outputs. Oversight should target accountability for achievement of objectives (did you deliver HIV services effectively?) rather than simply budget execution (did you spend the money we gave you for stationery or not?).

In order to achieve this shift in focus, PBB requires the budget to be organized around a set of programs, and usually subprograms, with clear policy objectives. Each program has a set of indicators (things that we will measure to know if we are achieving our objectives) and targets (levels of the indicator that we commit ourselves to achieving in a set period of time, such as a year). For example, we may have a program focused on managing treatment for persons with HIV and our indicator may be the share of the population living with HIV that is consistently receiving antiretroviral (ARV) treatment. Our target for this indicator may be 70 percent and our baseline may be 50 percent. For our target to be meaningful we must be trying to achieve it over a fixed period of time, such as three years.

In addition, proper PBB requires that the budget be based on an economic classification that clearly identifies the different categories of expenditure. It is also important that the financial information should include information about key personnel and their costs.

## Taking a Wrong Turn?

### Comparing Kenya's 2012/13 and 2013/14 Health Budgets

In order to understand the shift that occurred in Kenya's budget between 2012/13 and 2013/14, we looked specifically at the presentation of information for the health budget. We examined five areas across the health budgets from the two years. The table below gives an overview of the areas we looked at as well as the shifts we found.

<b>Table 1: Difference in Information Available in Kenya's 2012/13 Line Item Budget and 2013/14 Program-Based Budget (using Ministry of Health example)</b>		
<b>Area</b>	<b>Shift</b>	
	<b>2012/13</b>	<b>2013/14</b>
1. Narrative information	None	Some narrative available on the mandate of the health ministry, the programs, and the objectives.
2. Indicators/targets and set period of time	None	Information available on the targets/indicators. For instance, planning to reduce malaria case fatality rate in hospitals from 21 percent to below 10 percent. No information is provided on the set time period for achieving the target.
3. Ability to identify major spending priorities	No narrative, but financial allocations to different administrative heads could be compared.	Narrative identifies spending priorities for the financial year and describes measures that will be taken. For instance, in the 2013/14 budget, the priority was to enhance the equitability of access to medical services,

		reduce health inequalities, and reverse the downward trend in health-related outcomes and impact indicators. Links between priorities and programs are not clear.
4. Information on key personnel and costs	Detailed information on personal emoluments and other allowances with figures under each administrative unit broken down by head and job group.	No information beyond single figure for “compensation” at program level.
5. Programs, subprograms, and further disaggregation	None  The budget is categorized under administrative units, which are further broken down by head and subhead. All the other items are administrative units and services broken down to input level.	Information is available on the programs and the objectives for each program. There were three programs, but no subprograms. Two of the three programs were actually at the level of the former 2012/13 ministries (Medical Services=Curative; Public Health=Preventive), so no information below the ministry level except for Disaster Management Program, which is a new program.

The table makes clear that the shift to PBB introduced improvements in budget presentation, such as the inclusion of narrative guidance, indicators/targets, and further information about spending priorities.

Nevertheless, while the policy imperative for the shift to PBB was sound, there was an overall decline in budget transparency. The presentation led to a reduction in information in some areas. For example, the old presentation provided extensive details about employment and wages, which is no longer available in the PBB format. Further, while the new PBB structure introduced a set of programs, these were highly aggregated. Recall that the Ministry of Health was formed in 2013 by collapsing the former Ministry of Medical Services and Ministry of Public Health and Sanitation. The PBB effectively made these former ministries into “programs” of the larger Ministry of Health. In doing so, and in providing no further subprogram breakdown, it substantially reduced the information available about what is happening within each of these programs (formerly ministries).

The health budget provides no information on the major national referral hospitals (Kenyatta and Moi), even though this is now the primary function of the national government in health care. Additionally, information related to the supply of drugs, such as the budget for Kenya Medical Supplies Agency is also no longer visible in the 2013/14 budget. It is also not clear where the spending for HIV services is located now that all three programs within the Ministry of Health have indicators related to HIV.

Other sectors were also affected, not only health. For example, in education, there is no longer any information in the budget about teacher training. The 2012/13 budget contained information about a number of training institutions, such as Primary Teachers Training Colleges. Information about the School Feeding Program has also disappeared. This program received over Ksh 2 billion (recurrent and development) in 2012/13.

In agriculture, a number of core institutions such as the Kenya Agricultural Research Institute are now invisible, yet the institution received over Ksh 3 billion in 2012/13. Similarly, there is no information about transfers to state corporations, such as those involved in horticulture, tea, coffee, sugar, coconuts, or cotton, even though support for these corporations is a major aspect of what the government does in the agriculture sector.

In the energy sector, the Rural Electrification Authority (REA) is not mentioned in the budget. Presumably, REA is included in the National Electrification Program, along with the National Grid. However, it is no longer possible to see how much is going specifically to expand rural access to electricity. It is also no longer possible to know how much is being transferred to major state corporations, such as Kenya Power, Geothermal Development Corporation, or the Kenya Electricity Transmission Company. This is where most of the money in the sector is allocated, so this is a major decrease in transparency.

## Options for Improving the Budget Proposal

International best practice offers a range of options for improving the budget proposal. A comparison between Kenya's 2013/14 PBB with best practice countries like South Africa (using the health sector as a case study) reveals a number of areas for improvement in the Kenyan budget:

### **More and Better Narrative Information**

Narratives help us understand what budget numbers and tables refer to. The inclusion of a narrative in Kenya's PBB was a major step forward over the 2012/13 budget. However, the narrative does not relate clearly to the accompanying budget tables nor illuminate decision making in the sector. The budget narrative contains no information on expenditure trends at all, nor does it clarify the main spending within the programs. South Africa provides more extensive and more coherent narrative detail. The narrative explains the tables and provides information on the focus areas.

### **Measured Targets and Indicators**

The Kenyan budget has a number of indicators and targets but, unlike South Africa, not all indicators have targets, nor is there a clear logic linking the program objectives to the indicators.

### **Defined Spending Priorities**

While the Kenya budget provides information on priorities, it is difficult to link the priorities mentioned to specific budget numbers. South Africa's budget has clear links between programs, priorities, and budgets, which Kenya could emulate.

### **Information on Key Personnel and Costs**

The budget should provide detailed information about spending on wages, beyond what is described as general "compensation to employees" at program level. There should be further detail on the breakdown of this compensation, or the kind of staff at different levels of compensation. This information was available in Kenya's 2012/13 budget, and is available in South Africa.

### **Programs, Subprograms, and Further Disaggregation**

The number of programs and subprograms in a budget really determines the level of detail that a reader has about how the government is using money and for what purpose. A good PBB needs a number of distinct programs and subprograms to communicate this information.

In the 2013/2014 health budget, information about programs (Curative Health, etc.) and the objectives/purpose of each is made available in the health budget. However, the budget does not have any subprograms or further breakdown beyond program level. South Africa's budget has six programs with each broken down further into subprograms with clear objectives.

## Recommendations

The process of shifting to PBB is not easy. All countries learn as they go and can find ways to improve. Implementing PBB should not only focus on meeting the formal requirements of the new budget format, but on the needs of users of budget information.

As Treasury prepares the **2014/15 budget estimates** for parliament, we make the following recommendations:

- Most (if not all) major programs should be broken down into subprograms, with sufficient detail provided about programs and subprograms to understand their distinct objectives.
- Narrative details should be improved, particularly to ensure clear alignment between the narrative and programs, spending, indicators, and targets.
- All indicators should be clearly linked to a specific program and to specific program objectives, and every indicator should have a clear target, including a baseline and a time period for meeting the target.
- Information on the distribution of compensation to employees should be restored to the budget, including at least overall spending on wages and allowances by job group, if not detailed individual salaries and allowances by worker, as per the 2012/13 budget.
- The economic classification in general could be further broken down for all categories, with particular attention given to information on the target of transfers and replacement of the categories “other recurrent” and “other capital” spending with further details.
- The budget should restore information about revenues, including greater detail on Appropriations in Aid and donor funding for specific programs within each ministry.
- Data on past years’ spending down to the subprogram level, including audited and provisional figures, should be provided to facilitate an understanding of trends in expenditure.