



INTERNATIONAL BUDGET PARTNERSHIP
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Kenya National Assembly

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Nairobi, Kenya

21 May 2014

INTERNATIONAL BUDGET PARTNERSHIP KENYA

SUBMISSION TO BUDGET AND APPROPRIATIONS COMMITTEE ON 2014/2015 BUDGET ESTIMATES

This note reflects our observations on the 2014/15 budget estimates presented to Parliament on 30 April. We discuss issues related to budget transparency and presentation, as well as raising some issues about allocations.

Part I of the submission summarizes our key points. Part II provides further details for some of these key points. We have also attached some tables and charts to further elaborate key observations.

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Part I: Key Observations on the 2014/15 Budget Estimates

Observations on Allocations

Key Point #1: Parliament should scrutinize the development budget carefully and insist on more reasonable estimates than in previous years

The 2014/15 budget continues a trend noticeable since at least 2009/10 of allocating a level of funding for development expenditure that is not achievable. In the Public Accounts Committee report on the 2009/10 Auditor General report, Parliament repeatedly notes with concern that Ministries are underspending their development budgets. Various reasons for this are given, including overestimation, challenges in procurement, and slow or non-disbursement by development partners. Whatever the reason, the government has consistently presented budget estimates to Parliament with a higher share of development allocations than what can actually be spent.

In 2012/13, the approved budget allocated Ksh 453 billion for development expenditure, but (according to the Controller) only 44% of that (Ksh 199 billion) was actually spent. This pattern looks set to continue in 2013/14: in the first half of the year, only 16% of the development budget was spent.

Even allowing for higher spending in the second half of the year, it seems unlikely that more than 50% of the development budget will be spent in 2013/14. By comparison, in 2012/13, the national government had spent 20.3% of its development budget during the first half of the year, and reached a total expenditure of 44% for the full year. Performance in 2013/14 is actually worse than 2012/13 in this regard.

In 2012/13, the development budget was 453 billion; in 2013/14 it was 446 billion; in 2014/15 it is 476 billion. The development budget has consistently hovered around the 450 billion mark, but has also consistently not been spent. Parliament must look carefully at the proposed development expenditure for 2014/15 and question whether the targets will be met this year when they have not been met in recent years.

Unfortunately, the development budget is most underspent in areas of infrastructure and energy, leading to final budget outcomes that are skewed further toward recurrent and away from critical capital investments. In 2012/13, absorption in combined infrastructure and energy sector was about 37% for the year, below the average for all MDAs. In the first half of 2013/14, absorption in Ministry of Transport and Infrastructure was 17%; absorption in Energy and Petroleum was about 6%.

While the initial budget in 2012/13 was 59% recurrent, the actual expenditure was 74% recurrent. A similar picture is emerging for 2013/14. This indicates a failure at the beginning of the budget year to find a realistic way to contain recurrent spending as a share of the total budget.

Key Point #2: Parliament should demand adequate justification for specific allocations in the 2014/15 budget, such as “free maternity”

Health

For the second year, the budget introduces funds for the “free maternity” programme without a clear policy guideline or explanation of funding levels. The PBB allocates roughly Ksh 4 billion for the “Maternity” sub-programme of the Ministry of Health. The narrative also indicates that the total cost of free maternity and elimination of all user charges in health facilities is Ksh 4.5 billion. If that is correct, the cost of eliminating user fees is only Ksh 500 million. However, the Budget Summary states that Ksh 700 million is allocated for elimination of user fees. Note that there is no indication of where that 500 million (or Ksh 700 million) is located in the PBB (the total estimate for the Maternal and Child Health Programme, which contains the Maternity sub-programme, is only 4.3 billion, and contains funds for other purposes, such as immunization).

The figure for the Maternal and Child Health Programmes of Ksh 4.31 billion seems to roughly correspond to a figure in the MOH development budget in the traditional budget books (administrative classification) for “Family Planning Maternal and Child Health” of Ksh 4.36 billion. It is not clear what the source of the minor difference between the figures is, but there is a capital grant of exactly Ksh 4.04 billion in the breakdown which is equivalent to the PBB budget for “Maternity” of Ksh 4.04 billion.

If this is indeed the figure for “free maternity,” then it has not changed much from last year, when it was Ksh 4.063 billion. Even if the Ksh 4 billion was sufficient last year, it is unlikely to be sufficient this

year, given expected inflation of 5% (BPS 2014). It is hard to understand why the funding for this flagship programme is actually decreasing in real terms, rather than increasing.

The main question Parliament must ask is: what is the basis for these figures, and why are they not increasing over time? There is no evidence of which we are aware that justifies these figures. Given that maternal health is a county function, the requirement to abolish fees and the use of a conditional grant to replace those fees, requires an analysis of costs that avoids a situation where counties are forced to pick up the costs for a national programme. The constitution is clear that finance must follow function, and if the national government wants counties to pay for free maternity, it must provide adequate funds to cover the actual costs of that programme. Currently, this looks like it may be an “unfunded mandate” for counties, which is both bad public finance, and unconstitutional.

Energy

The budget also has a sub-programme called Rural Electrification Programme that is to receive Ksh 14.6 billion in 2014/15. The administrative classification of the budget has a budget for Rural Electrification Programme of Ksh 14.1 billion on development side, and the recurrent budget is Ksh 500 million. These figures do not, however, align with the Budget Summary, which states that there is Ksh 10.6 bln for the Rural Electrification Programme.

The administrative classification of the 2014/15 budget appears to contain 13.4 billion in development spending for Rural Electrification Authority, and 500 million on the recurrent side, for a total of 13.9 billion. In 2013/14, REA was allocated Ksh 4.71 billion in development funds and 630 million in recurrent expenditure, for a total of 5.34 billion total.

In approving the Division of Revenue 2014, Parliament indicated it was dividing the budget for REA evenly between national and county level, allocating approximately Ksh 3.65 billion to each level. This appeared to be based on the notion that the total budget for REA for this year would be roughly 7.3 billion, which would be a substantial increase already from 2013/14.

However, the 2014/15 estimates are showing a massive increase in the national budget for REA (more than 2.5 times), even as part of the money was supposed to have been devolved. Why should this be? Parliament should demand further explanation of these figures.

Observations on Budget Presentation

Key Point #3: While recognizing many improvements since last year, Parliament should continue to demand more information in the PBB, including information on wages, Appropriations in Aid, and state corporations

Improvements in Budget Presentation

We applaud Treasury for substantially increasing the amount of information in the Programme-Based Budget this year, and for posting the budget online.

The creation of new programmes and new sub-programmes within most programmes has substantially increased the transparency of the budget. The 2013/14 budget had no sub-programmes,

and the number of programmes was also inadequate. Moreover, the objectives of many of these programmes were unclear. The new budget format continues to suffer from unclear objectives in many cases, but the addition of sub-programme information helps to clarify what the programme is actually doing.

Similarly, the new PBB has clearer links between the programmes and sub-programmes and the indicators and targets. Indicators and targets are now at the level of the sub-programme, and most indicators now have targets not only for the current year, but projected for future years.

The new PBB is easier to use because it links programmes to delivery units, with those delivery units recognizable as administrative units in the old budget format. The codes used for “Delivery Units” in the PBB correspond directly to the codes used for administrative heads in the administrative classification.

The budget also has enhanced narrative in each ministry, with information that is more pertinent to what the ministry is doing than in 2013/14. In some ministries, such as the Ministry of Health, there is a clear description in the narrative of the priorities and some of these also have figures that further illuminate the tables below.

Challenges in Budget Presentation

The information in the PBB is still not comprehensive. While some of the missing information is available in the traditional budget books, and these are available online, there is a lot of missing information in the PBB that should be there. This includes: detailed information on wages by ministry, detailed information on the budgets of key institutions (such as the split between recurrent and development spending for major referral hospitals and other state corporations), information on Appropriations-in-Aid and other external funding by Ministry and Delivery Unit, and a further breakdown of economic classification, eliminating vague categories like “other recurrent” and “other capital.”

Not all delivery units are actually delivery units. For example, the key delivery unit in rural electrification is the Rural Electrification Programme. However, in an actual service delivery sense, most of the work is carried out not by the Programme, but by the Rural Electrification Authority. Like other state corporations, however, the PBB does not really recognize their roles and budgets. REA is not mentioned in the PBB even though it is actually the principal service delivery unit and the main recipient of allocations under REP.

If government is moving toward a programme-based budgeting format as the principal format, and if appropriations are to be done at programme-level, then the programme budget must continue to improve. Parliament should require further refinements to the PBB to restore information from the traditional line-item budget to the PBB.

Part II: Detailed Observations On Presentation

We applaud Treasury for substantially increasing the amount of information in the Programme-Based Budget this year, and for posting the budget online. Last year’s budget, which contained much less information, was 214 pages. This year, the PBB is over 600 pages, indicating an increase in programme and sub-programme level information, as well as enhanced indicators and targets.

The creation of new programmes and new sub-programmes within most programmes has substantially increased the transparency of the budget. The 2013/14 budget had no sub-programmes, and the number of programmes was also inadequate. Moreover, the objectives of many of these programmes were unclear. The new budget format continues to suffer from unclear objectives in many cases, but the addition of sub-programme information helps to clarify what the programme is actually doing. For example, the old budget for health had a programme called Preventive and Promotive Health Services in health. It was hard to know what this programme did based only on its objectives. The new objective is somewhat improved: “to reduce incidence of preventable diseases and ill health,” but still leaves a lot of questions about what the programme does. However, because we now have sub-programme data, we can see that the programme funds the major referral hospitals and mental health services, among others.

Similarly, the new PBB has clearer links between the programmes and sub-programmes and the indicators and targets. Indicators and targets are now at the level of the sub-programme, and most indicators now have targets not only for the current year, but projected for future years.

The new PBB does something that the 2013/14 PBB should have done, and that represents a hybrid phase as Kenya shifts from the old to the new budget format: it links programmes to delivery units, with those delivery units recognizable as administrative units in the old budget format. As we have indicated in the past, a transition from one budget format to another should be accompanied by a “crosswalk” that helps people link the information in the two budgets. That did not happen last year, but this year’s presentation makes this much easier to do. The codes used for “Delivery Units” in the PBB correspond directly to the codes used for administrative heads in the administrative classification.

The budget also has enhanced narrative in each ministry, with information that is more pertinent to what the ministry is doing than in 2013/14. In some ministries, such as the Ministry of Health, there is a clear description in the narrative of the priorities and some of these also have figures that further illuminate the tables below.

The Budget Summary also provides very specific information about allocations to key national institutions, information that was missing from last year’s budget. For example, we can now see allocations for the Rural Electrification Programme, Kenyatta National Hospital, the Standard Gauge Railways project, the school feeding programme, technical training institutes in education, and the maternal health programme. Most of this information was specifically demanded by civil society and we recognize the efforts of the Treasury to respond to those requests.

Treasury also released on its website the traditional administrative classification of the budget this year. The voluminous budget books have typically only been available at the Government Printers for a hefty fee, and copies are often in short supply. Release of this information online is a major step toward greater transparency.

Challenges

Although the information in the Summary is extremely helpful, it is not comprehensive or clearly linked to the information in the full budget estimates. For example, only a block figure is provided for the items mentioned above (e.g., Kenyatta National Hospital), but no breakdown of recurrent and

development expenditure. This would be okay if the breakdown was provided in the comprehensive PBB document, but that is not often the case. For example, in the health budget, we have hospital budgets for the two major referral hospitals in the Summary, but without a breakdown. These hospitals are now reflected in a new sub-programme in the full budget called “National Referral Services.” Although there is no explanation of what this sub-programme does, we can glean from the indicators matrix in the PBB (Ministry of Health) that this has two delivery units: Kenyatta and Moi. It would appear that the sub-programme total should therefore equal the total for the two hospitals. The total for these two hospitals in the Summary is Ksh 13.6 billion. The total for the sub-programme in the PBB is Ksh 14.3 billion. This sub-programme is not broken down further administratively, so we do not know what accounts for the Ksh 700 million difference. The individual hospital budgets can be verified in the administrative classification, and here it appears that the 700 million difference may be explained by the inclusion of the development budgets for both hospitals. However, this means that the figures in the Summary are only for recurrent expenditure, which is not clear from reading it. Another example is the Rural Electrification Programme, which appears to have an allocation of over Ksh 14 billion in the PBB, but the Summary states that it will receive Ksh 10.6 billion. It is not clear what explains the difference.

Although targets and indicators have improved, there is still no baseline for most of them and the figures do not always make sense. The majority of targets are simply set for 2014/15 and forward, but we do not know the current status of these indicators in 2013/14 to know what kind of change we are expecting during the first year. This is particularly problematic when the numbers mentioned do not align with other government figures. For example, in the case of “% births conducted by skilled attendant,” the target for 2014/15 is 44 percent. The figures that the administration has been using for in-facility births (all of which are presumably by a skilled attendant) are that, prior to the free maternal health programme, 44% of births were in a facility, while now the figure is 66%. If 66% of births are already in facilities, then the 2014/15 target is below the actual situation. Moreover, the target for 2015/16 is only 60% and for 2016/17, 65%. This means that the target for 2016/17 has already been achieved, which is not sensible. Similarly, there is an indicator for “% of facility based maternal deaths,” and the target is 100%. It is hard to understand what this means: is the goal to ensure that all mothers who die do so in a facility? This is a strange indicator, and an even stranger target.

While the narrative in the budget has improved over last year, it is still not as closely linked to the budget figures as it could be. The narrative could do more to illuminate expenditure trends, and tradeoffs in each sector. In some cases, quantitative information about absorption and donor funds are provided in the narrative, which is an improvement. However, the link between the general discussion in the narrative and the budget tables is often weak. For example, the Department of Water and Regional Authorities discusses challenges in absorption, but it is not clear what implication this has for the budget proposal. If an agency cannot spend its budget, either the budget should be reduced or the problems inhibiting expenditure should be dealt with. Neither is apparent from this case. Other ministries do not have detailed information about absorption, and the general challenges mentioned are also not linked to the allocations. Such is the case of the Ministry of Energy and Petroleum, which describes problems of “long lead times in the development of power infrastructure projects” and “vandalism,” but does not explain how these will be addressed by the budget proposal. Even in the Ministry of Health, which has a good narrative linked to the budget tables, there are things which are not clear: upgrading of facilities at Ksh 3 billion is mentioned in the narrative, but it is not clear under which sub-programme this falls. The narrative also does not fully illuminate changes in the budget. For

example, the administrative classification shows that Mathari Hospital has been upgraded to a teaching and referral facility. This is not mentioned in the PBB narrative (though we can see that Mathari is part of the Mental Health sub-programme).

The budget does not provide comprehensive information on staff, wages or benefits. In the past (2012/13), Treasury provided extensive details about the wages and benefits of all of the staff in each ministry. In 2013/14, this information was eliminated, and the only information on wage costs was a single line for “compensation to employees” at programme level. This year, by introducing sub-programmes and providing “compensation to employees” at that level, the budget has somewhat more information than in 2013/14. However, there is still no breakdown to allow us to know how many or what type of employees are in each ministry, or how much they are paid either individually or by job group. This information is also no longer available in the administrative classification.

The PBB no longer contains critical information related to Appropriations-in-Aid (AiA). AiA is a revenue source, and it consists primarily of two things: donor funds that go directly to various agencies, and user charges/fees collected by agencies that are normally retained by those agencies for their operating costs. In the past (2012/13), extensive information was provided about AiA within each ministry, down to the administrative unit and the source (donor funds or internally generated funds). In 2013/14, information about AiA was provided in a more aggregate form. Each programme in the budget had a figure for AiA, but we were not able to know whether these were donor funds or user charges, or what exactly the AiA were being used for. In 2014/15, unfortunately, AiA information has been eliminated. Aggregate information is provided in the Budget Summary, but there is no information by ministry, programme or sub-programme in the PBB. However, this information is available in the administrative classification. It would be preferable that it be restored to the PBB as well.

The budget has been reorganized in ways that are sensible and link to the old administrative units, but there also new combinations that are hard to link to previous years. For example, the State Department for Water and Regional Authorities brings together two entities that were entirely distinct in the past: Water Service Boards and Regional Development Authorities. While this has a certain logic, because RDAs invest heavily in water/irrigation projects, it makes it hard to know how to compare the Department’s budget in 2014/15 to previous years. When the narrative provides absorption rates for the Department since 2010/11, it presumably combines the absorption of two ministries and a set of administrative units that had no connection in the past. It is therefore difficult to compare vote allocations for the same services over time.

While the administrative classification and the PBB together provide considerable information about government spending, the release of the administrative classification makes clear how much information is still missing from the PBB. Assuming that Treasury is still moving toward a day when they will only present the PBB and not both the PBB and administrative classification, the PBB continues to suffer from a number of deficits (see next section for sector-specific examples). More can be done to ensure that the budgets for key “delivery units” are easy to find in the PBB and that there is a clear alignment between the two presentations. Key delivery units should also represent actual units, meaning that state corporations should be given more prominence in the PBB. For example, while the Rural Electrification Authority is actually the key delivery unit in the Rural Electrification Programme, it is not mentioned in the PBB as a delivery unit.

Related to the previous point, programmes from last year's PBB have changed this year, raising concerns about the instability of budget presentation over time. There are inevitably going to be changes to the PBB as it is implemented and improved over time. Nevertheless, the introduction and disappearance of programmes from year to year can make it difficult to understand and monitor spending over time. For example, the Ministry of Health had a Disaster Management Programme in 2013/14; this has disappeared in 2014/15. What happened to what was being financed under that programme? How do we track what has happened to it over time?

The economic classification used still requires further breakdown, and categories such as "other recurrent" and "other capital" should be replaced with more detailed information. We have discussed this issue in our presentation on the South African PBB, which can be seen here:

http://prezi.com/pfjtrvclqsf/?utm_campaign=share&utm_medium=copy&rc=exoshare

Sector-Specific Advances and Challenges

Energy

The energy sector has sub-programmes for the National Grid and Rural Electrification, allowing us to separate these two, unlike the 2013/14 budget presentation.

However, there is some confusion created by the fact that the National Grid System has its own sub-programme, but the National Grid is also a key delivery unit in other sub-programmes, such as the Geothermal generation sub-programme. While in theory the National Grid sub-programme is primarily about transmission and distribution (and not generation), both sub-programmes have indicators related to Mega Watts of power generated. Without further breakdown of these sub-programmes, we do not know what part of the Geothermal generation programme is actually going to National Grid, and how this aligns with the National Grid sub-programme.

The Budget Summary suggests that Ksh 10 billion is going for Geothermal Development. However, there is nothing called Geothermal Development in the full PBB, and the figure of 10 billion also does not align with anything in the Geothermal generation sub-programme. From the administrative classification, it appears that this figure corresponds to the budget for the Geothermal Development Company. This is another example of how state corporations, delivery units and budgets are not clearly aligned across the PBB and other budget documents.

Not all of the indicators and targets in Ministry of Energy and Petroleum are sensible. For example, there is an indicator "mega watts of power generated" by National Grid shows a target of 210 MW in 2014/15, but this drops to 70 MW in 2015/16, and then rises again to 350 MW in 2016/17. It is not clear why the figure should be dropping in 2015/16. For wind energy, it appears that there is expected to be an increase in MW generated in 2014/15 and 2015/16, but then there is no target for 2016/17, or else we are meant to believe there will be no MW generated in 2016/17.

Agriculture

In the PBB, there is no mention of state corporations in the Department, even though these continue to be key agencies in tea, coffee, sugar, coconuts, and so on. The Department still has a state

corporations monitoring unit, but there is no mention of the state corporations to be monitored. The individual state corporations continue to be shown in the administrative classification.

Water

The PBB still does not provide detailed information on how much money is going to Water Service Boards, which are at the core of the sector. These Boards are mentioned several times in different programmes within the Department of Water and Regional Authorities. There are also indicators tied to these programmes and sub-programmes. Because the WSBs are split across various programmes and sub-programmes and are not the only units in any of those sub-programmes, it is not possible to determine how much is being allocated to the Boards. However, the administrative classification does clearly delineate the budgets for the WSBs.

The narrative in the water sector still does not explain how national and county governments will coordinate with each other in this sector, even though water is a devolved function. If most funding in this sector is channeled through WSBs, there is a question that must be answered about how to coordinate this function with counties.

Health

The health sector PBB has a number of new programmes and sub-programmes, and, combined with the Budget Summary, it is now possible to identify the budgets of important institutions in the sector. We can now find budget figures for the national referral hospitals (Kenyatta and Moi), the Kenya Medical Supplies Agency, and spending for the National Aids Council.

Not all of the figures in the Summary are easy to align with the full PBB. For example, as we pointed out above, the total for the two national referral hospitals in the Summary is Ksh 13.6 billion. The total for the National Referral Services sub-programme in the PBB is Ksh 14.3 billion. This sub-programme is not broken down further administratively, so we do not know, though our guess is that the summary is only the recurrent figure. The Kenya Medical Training Centre has a budget of Ksh 3.243 billion in the administrative classification (recurrent plus development). In the PBB, KMTC appears to be the only delivery unit in the sub-programme for Capacity Building. However, the budget for this sub-programme is 3.04 billion. It is not clear what explains this difference.

Lands/Housing

A major improvement is that we can now find the budget for the National Land Commission, which is categorized on its own and no longer under the Ministry of Lands and Housing.

The Housing Development and Human Settlement Program mixes slum upgrading and housing development in a single sub-programme (Housing Development), making it impossible to identify separately funds for slum upgrading. From an equity standpoint, we would want to see budgets for slum upgrading and civil servant housing separated rather than collapsed. This is possible to see in the administrative classification.

Education

The education sector programmes and sub-programmes are clearer than in the previous budget and it is easier to find funding for each level of education.

While the narrative is improved, and provides historical trend data, it does not discuss the current budget year (2013/14), which is a critical input into the 2014/15 budget.

University education is now considered a separate sub-programme in the State Department for Science and Technology with all major universities mentioned. In the PBB, there is no way to find the budget for the individual universities, and we cannot see how much they are raising through their own fees due to the lack of Appropriations-in-Aid information. This information is made available in the administrative classification, however.