

What do Kenya's Budget Implementation Reports Tell Us about National Government Spending in 2015/16?

John Kinuthia | April 2017

INTRODUCTION

Every quarter, the government must produce a budget implementation report that details actual spending against the budget approved each year by parliament. This responsibility is also given to the Office of the Controller of Budget (OCOB), an independent agency whose main role is to monitor budget implementation and ensure that funds are released against the budget. OCOB reports are generally the most consistent and detailed reports produced on budget implementation, though they lack certain details that we may find in implementation reports produced by the National Treasury.

Other than a couple of newspaper stories each quarter, relatively little attention is paid to in-year budget implementation reports by citizens, parliament or the media. To remedy this, IBP Kenya will be conducting more regular assessments of available budget implementation reports throughout the year and attempting to stimulate more debate about their contents.

In this paper, we look at two recent implementation reports: The Budget Implementation Review Report (BIRR) for the full year of 2015/16 from the OCOB and the Fourth Quarterly Economic and Budget Review (QEBR) 2015/16 from the National Treasury. We discuss both revenue and expenditure data. Where relevant, we draw on other sources of implementation data, such as monthly gazette notices that the national government produces, or information from the Central Bank of Kenya.

One point to note here is that, in some cases, OCOB data is different from data in other official sources. This issue relates mainly to budgeted figures and targets more than actual expenditure, since we often lack other sources for actual expenditure. Unless we have reason to believe that the OCOB figures are unreliable, we use the figures in the OCOB report in the analysis below. Where the discrepancies appear to us to be significant, we note as much.

Our key findings from these reports are the following:

- Revenue collection in 2015/16 performed well, at 99 percent of target. Though they form a smaller part of total revenue, external funds remain below target.
- Domestic borrowing numbers (both budgeted figures and actual receipts) are unclear and inconsistent across several budget documents.
- Absorption of development funds improved significantly in 2015/16, though it remained below the 30 percent of total expenditure threshold set by law.
- Additional funding allocated to priority areas such as the Ethics and Anti-Corruption Commission and the Office of the Director of Public Prosecution in the supplementary budget for 2015/16 to fight corruption was not spent.

REVENUE PERFORMANCE

Revenue performance in 2015/16 was strong and basically on-target. The national government had initially set a revenue target of Ksh 1.81 trillion for 2015/16, but this was revised upwards by 3 percent to Ksh 1.86 trillion in the supplementary budget. The government was able to meet over 99 percent of that revised target (Ksh 1.85 trillion).

Tax income is the largest single source of revenue, and there was a slight improvement in the collection of tax income in 2015/16 from 95 to 97 percent. The QEBR shows that ordinary revenue collection improved from 96 to 97 percent between 2014/15 and 2015/16 driven by a growth of Ksh 123.60 billion between the two years.

Domestic borrowing was substantially over budget, capping several years of growth in annual borrowing levels, but the figures are inconsistent across sources. According to the OCOB, domestic borrowing increased from Ksh 293 billion in 2014/15 to Ksh 506 billion in 2015/16, a growth of 73 percent.¹ This was also 18 percent above the Ksh 428 billion target for the year. These figures are similar to the gazetted figures by the National Treasury for 2015/16. However, the QEBR shows that domestic borrowing in 2015/16 stood at Ksh 251.1 billion against a target of Ksh 172.9 billion. The revenue book for

¹ These figures are very high by comparison with the normal range for borrowing. It is possible that this is because they include not only fresh borrowing in 2015/16, but also domestic and external debt redemption (meaning debt which is rolled over). This is not normally included in domestic borrowing figures, but could explain the difference with other sources.

2016/17 gives the target for net domestic borrowing in 2015/16 as Ksh 191.1. Clearly, there are major differences between all these figures and it is not clear why. It is possible that there is a difference between net and gross domestic borrowing, but if this were true, we would normally expect the “net” numbers to be smaller than the gross figures, which is not the case here. Whichever figures are used, the national government borrowed from the domestic market beyond what was stated in the Budget Policy Statement (BPS). OCOB does not comment on the reasons for this extraordinary growth in domestic borrowing.

TABLE 1. REVENUE PERFORMANCE IN 2014/15 AND 2015/16 (KSH BILLIONS)

	2014/15		2015/16		Actual receipts as % of target FY 2014/15	Actual receipts as % of target FY 2015/16	Contribution by category 2014/15	Contribution by category 2015/16
	Revised estimates	Actual receipts	Revised estimates	Actual receipts				
Total tax income	1,051	1,001	1,142	1,108	95%	97%	63%	60%
Total non-tax income	36	39	43	45	109%	105%	2%	2%
Net domestic borrowing	340	293	428	506	86%	118%	18%	27%
Other revenue sources*	94	260	251	194	276%	77%	16%	10%
Total	1,521	1,593	1,863	1,853	105%	99%	100%	100%

*This includes grants and loans from external sources, commercial loans, and balances carried forward from the previous year

Source: Budget Implementation Review Report 2015/16, OCOB

EXPENDITURE PERFORMANCE

Absorption of development budgets is improving. Total MDAs expenditure in the BIRR for 2015/16 was Ksh 1.16 trillion against a revised gross budget figure of Ksh 1.49 trillion. This was an absorption rate of 78 percent, which was an improvement from 73 percent in 2014/15. This was mainly driven by a 20 percentage point improvement in the absorption of the development budget from 46 percent to 66 percent. This was the best performance for development expenditure in the last 5 years. The QEBR shows higher development absorption of 69 percent due to both a higher actual expenditure figure (Ksh 19.3 billion higher) and a slightly lower target. This difference is mainly driven by higher development spending by the National Treasury and the Ministry of Lands, Housing and Urban Planning that account for more than half of the extra actual spending.²

² The development budget under the National Treasury supports a number of different items, including the Equalization Fund, the Global Fund, and investments in state corporations.

TABLE 2. DEVELOPMENT EXPENDITURE BETWEEN THE BIRR AND THE QEBR IN 2014/15 AND 2015/16 (KSH BILLIONS)

	2014/15			2015/16		
	<i>Revised gross estimate</i>	<i>Actual expenditure</i>	<i>Absorption rate (%)</i>	<i>Revised gross estimate</i>	<i>Actual expenditure</i>	<i>Absorption rate (%)</i>
BIRR (OCOB)	697	319	46%	682	452	66%
QEBR (National Treasury)	697	408	59%	681	471	69%
Difference	0	-89	-13%	1	-20	-3%

Source: Budget Implementation Review Report 2015/16 and the Quarterly Economic and Budget Review.

Nevertheless, actual development spending remained below the 30 percent minimum required by the Public Finance Management Act 2012, per OCOB data. The recurrent budget in the BIRR made up 66 percent of the national government's budget for 2015/16, but 72 percent of actual spending. In 2014/15 the recurrent share of the budget at the approval stage was 63 percent but took a larger share in the actual spending (77 percent). However, the share of development in total actual expenditure has risen from 23 to 28 percent between the two years.

TABLE 3. TOTAL GOVERNMENT EXPENDITURE (KSH BILLIONS)

Vote	FY 2014/15				FY 2015/16			
	<i>Revised gross estimate</i>	<i>Exchequer issues</i>	<i>Actual expenditure</i>	<i>Absorption rate (%)</i>	<i>Revised gross estimate</i>	<i>Exchequer issues</i>	<i>Actual expenditure</i>	<i>Absorption rate (%)</i>
Recurrent	1,174	1,095	1,055	90%	1,306	1,197	1,182	90%
MDAs	737	640	623	85%	812	720	707	87%
CFs	437	455	432	99%	495	476	476	96%
Development	697	270	319	46%	682	333	452	66%
Total expenditure	1,870	1,365	1,374	73%	1,988	1,530	1,634	82%
<i>Recurrent share of total expenditure</i>	63%		77%		66%		72%	
<i>Development share of total expenditure</i>	37%		23%		34%		28%	

Source: Budget Implementation Review Report 2015/16, OCOB

DEBT REPAYMENT

The share of local revenues used to service Kenya's debt has breached the International Monetary Fund's (IMF) upper bound for strong policy performers. In both 2014/15 and 2015/16, the amount of money used to repay the debt was equivalent to 38 and 36 percent of ordinary revenue respectively.

According to the IMF, a strong policy performer's debt burden is sustainable if no more than 35 percent of

local revenue is used for debt repayment in a given year.³ Debt repayment as a share of total expenditure was 22 percent in 2015/16 which is a reduction from 24 percent in 2014/15.

TABLE 4. DEBT AND DEBT SERVICE MEASURES IN 2014/15 AND 2015/16 (KSH BILLIONS)

Debt Parameters	2014/15	2015/16	% Growth between 2014/15 and 2015/16
Revised gross debt estimates (BIRR)	399	437	9%
Actual debt repayment	393	421	7%
Expenditure as a % of gross estimates	98%	96%	
Ordinary revenue (BPS 2017)	1,032	1,158	12%
Total actual expenditure (BIRR)	1,632	1,929	18%
Debt repayment a % of revenue	38%	36%	
Debt repayment as a % of actual expenditure	24%	22%	

Source: Budget Implementation Review Reports 2014/15 and 2015/16, OCOB and Budget Policy Statement 2017

WAGE BILL

The national wage bill is still growing, though more slowly than total expenditure. The national government wage bill in the 2015/16 OCOB budget implementation report rose by 10 percent, increasing to Ksh 311.8 billion from Ksh 282.7 billion in 2014/15. Nevertheless, the proportion of MDA expenditure spent on wages reduced from 30 percent in 2014/15 to 27 percent in 2015/16. This is because the overall expenditure on MDAs between the two years increased faster (23 percent) than wages.

However, the expenditure on wages in the main implementation reports does not include state corporation wages and thus does not give a complete picture of the wage bill. The QEBR's figures are slightly different (Ksh 293.1 billion in 2014/15 and Ksh 307.4 billion in 2015/16) from those in the OCOB report and it is not clear why. As a result of this difference, the proportion of expenditure on wages in the QEBR for 2015/16 is slightly lower at 25.5 percent compared to the 27 percent in the OCOB report.

³ <https://www.imf.org/external/pubs/ft/dsa/lic.htm>. The threshold set for strong performers is the highest, medium and low performers' thresholds are lower at 30 and 25 percent respectively.

TABLE 5. WAGE EXPENDITURE IN 2014/15 AND 2015/16, OCOB (KSH BILLIONS)

	2014/15	2015/16
Actual spending on personnel emoluments (P.E.)	283	312
Total MDA actual expenditure	942	1,158
P.E. as a % of the total MDA budget	30%	27%
% increase in P.E. expenditure between 2014/15 and 2015/16	-	10%
% increase in actual MDA expenditure between 2014/15 and 2015/16	-	23%

Source: Budget Implementation Review Report 2015/16, OCOB

MDAS EXPENDITURE

At the individual MDA level, the Ministry of Defense and the National Intelligence Service had the highest absorption together with the Teachers Service Commission. These top three performers also performed well in 2014/15. One similarity among the three MDAs is that their budgets are mainly recurrent in nature.

Development heavy MDAs continued to struggle to absorb their budget. While overall performance on development has improved, the State Department for Transport was only able to absorb 42 percent of its budget. Notably, there was a large decline in overall spending by the State Department for Environment and Natural Resources, from 73 percent in 2014/15 to 47 percent in 2015/16. The OCOB does not analyze MDA performance, so there is no explanation for these changes.

TABLE 6. THE TOP 10 MOST IMPROVED MDAS IN DEVELOPMENT SPENDING BETWEEN 2014/15 AND 2015/16 (KSH MILLIONS)

<i>Ministry Department Agencies</i>	2014/15 Development expenditure			2015/16 Development expenditure			<i>% point difference in absorption between 2014/15-2015-16</i>
	<i>Revised gross estimates</i>	<i>Expenditure</i>	<i>% of expenditure to revised gross estimates</i>	<i>Revised gross estimates</i>	<i>Expenditure</i>	<i>% of expenditure to revised gross estimates</i>	
Auditor General	405	-	0%	135	108	80%	80%
Directorate of Public Prosecutions	67	6	9%	73	64	87%	79%
Parliamentary Service Commission	4,075	1,276	31%	2,100	1,971	94%	63%
Office of the Attorney General and Department of Justice	505	147	29%	453	406	90%	60%
Independent Electoral and Boundaries Commission	178	74	42%	27	27	100%	58%
Ministry of Energy and Petroleum	88,757	21,580	24%	94,709	70,686	75%	50%
Ministry of Information & Communication and Technology	7,688	4,145	54%	14,694	13,524	92%	38%
State Department for Infrastructure	111,719	62,233	56%	84,709	76,031	90%	34%
State Department for Interior	8,702	3,725	43%	15,492	11,373	73%	31%
State Department for Transport	181,870	33,999	19%	159,972	67,353	42%	23%
Total MDAs expenditure	696,492	318,747	46%	681,949	451,411	66%	20%

Source: Budget Implementation Review Report 2015/16, OCOB

MDAs that have historically struggled to absorb their funds are among the top 10 most improved spenders in 2015/16. Improved performance by the Ministry of Energy and Petroleum was driven by higher absolute expenditure. The State Departments for Transport and Infrastructure saw their combined approved budget drop by a total of Ksh 48.9 billion. However, their combined expenditure at the end of the year had increased by Ksh 47.2 billion compared to 2014/15. Therefore, their higher performance was driven by both an increase in actual expenditure and a decrease in the initial targets.

Taken together, Energy and Petroleum, Infrastructure and Transport made up 47 percent of the total development expenditure in 2015/16. Thus, an improvement in their absorption rates had a large effect on the overall absorption of development expenditure.

Some ministries are under-reporting Appropriation in Aid (AiA), which could explain partly the low absorption against approved budget. OCOB suggests that there is under-reporting of AiA in the Integrated Financial Management Information System (IFMIS). This is the same reason given by the National Treasury in the Budget Review and Outlook Paper 2016 for poor performance in AiA collection. However, neither agency explains how much AiA was under-reported. Without further information, it is difficult to understand how this issue should be addressed or how much of the low absorption in development is actually due to under-reporting rather than under-spending.

PROGRAM EXPENDITURE

At program level, the OCOB reports are still missing some key data that undermine their usability. For example, the report on national government spending does not have full program budget estimates or absorption data for programs in four MDAs: the State Department for Agriculture, the Ministry of Foreign Affairs and International Trade, the State Department for Higher Education, Science and Technology and the National Treasury. This affects 16 out of the total 126 programs across the government MDAs in this report.

However, the sector totals for the affected MDAs seem to include figures for these programs even though they do not appear in the table. For example, see the section below from the agriculture, urban and rural development sector. The total development estimate reported is Ksh 55.7 billion, but the figures in the table add up to only Ksh 35.5 billion. These types of errors create challenges for users in reading and understanding the implementation reports. OCOB still performs better than the National Treasury, which has never provided program level information in the QEBR at all, though we are in the fourth year of program budgeting.

TABLE 7. AGRICULTURE SECTOR'S PROGRAMME PERFORMANCE FY 2015/16 (KSH BILLIONS)

Vote	Programme	Dev. estimate	Rec. estimate	Total gross estimate	Dev. expenditure	Rec. expenditure	Total expenditure	Programme absorption rate (%)
<i>Ministry of Land Housing and Urban Development</i>	Land policy and planning	5.3	2.1	7.4	4.2	2.1	6.2	84.0
	Housing development and human settlement	6.9	0.55	7.3	5.1	0.4	5.5	74.7
	Government buildings	0.7	0.3	1.1	0.7	0.3	1.0	95.3
	Coastline infrastructure and pedestrian access	0.3	0.1	0.3	0.3	0.1	0.3	95.5
	Urban and metropolitan development	14.1	0.3	14.5	7.6	0.3	7.9	54.5
	General administration planning and support services	0.2	0.6	0.8	0.2	0.5	0.7	82.8
<i>State Department for Agriculture</i>	General administration planning and support services				0.2	1.0	1.2	
	Crop development and management				2.0	4.4	6.4	
	Agribusiness and information management				5.4	0.1	5.6	
	Irrigation and drainage infrastructure				4.9	0.2	5.1	
<i>State Department for Livestock</i>	Livestock resources management and development	4.6	2.1	6.7	2.4	1.7	4.1	60.9
<i>State Department for Fisheries</i>	Fisheries development and management	3.3	1.3	4.7	2.3	1.3	3.5	75.5
<i>National Land Commission</i>	Land administration and management	0.3	1.2	1.5	0.3	1.1	1.4	94.0
Total		55.7	15.1	70.8	35.5	13.3	48.8	69.0

Source: MDAs and National Treasury and Budget Implementation Review Report 2015/16, OCOB

The government is struggling to spend money allocated for irrigation programs in the country, although this is supposedly a government priority. The government's allocation to the Irrigation and Drainage program in 2015/16 was Ksh 14.6 billion in the supplementary budget.⁴ However, the OCOB

⁴ <http://www.internationalbudget.org/wp-content/uploads/ibp-kenya-brief-supplementary-budget-2015-16-april-2016.pdf>

report shows that only Ksh 5.1 billion was actually spent on irrigation and drainage, just 35 percent of what was allocated.

The BPS 2017 shows that sustainable food security remains a priority for the government. Irrigation has always been a key part of that goal. However, the low absorption rates should be addressed as the Irrigation and Land Reclamation program is transformed into a full state department (State Department for Irrigation). This new state department has an allocation of Ksh 13.2 billion in the 2017/18 budget. Will this new entity be able to spend nearly three times what the sector has been able to absorb in 2015/16?

Absorption in the National Youth Service improved in 2015/16 compared to 2014/15. The NYS allocation in the Gender and Youth Empowerment program made up about 89 percent of the program's allocation in the 2015/16 budget. In 2014/15, the program spent 77 percent of its allocations and that has risen to 90 percent in 2015/16. However, this higher absorption occurred after the NYS budget was cut by Ksh 7.7 billion in 2015/16.

Counties did not receive about one quarter of the funds allocated to the free maternity program, and no explanation is provided for this. The Maternal and Child Health Program provides funding to free maternity, family planning and immunization. The program had a budget of Ksh 7.68 billion in 2015/16. The Maternity sub-program made up Ksh 4.28 billion of the program's allocation. The absorption rate for the total program was quite low at 62 percent, with nearly Ksh 3 billion unspent. The supplementary budget shows that free maternity was allocated Ksh 4.35 billion, which is slightly higher than the figure in the Division of Revenue Act 2015. However, the Budget Review and Outlook Paper 2016 shows that only Ksh 3.32 billion was transferred to the counties in 2015/16. None of the documents explains why what was disbursed to the counties is almost a billion lower than what was approved. The remaining underspending of Ksh 2 billion for immunization and family planning is also unexplained.

Additional resources allocated to fight corruption, another priority area, are not being spent. In 2015/16 the Office of Director of Public Prosecution and the Ethics and Anti-Corruption Commission cumulatively received over Ksh 1.2 billion extra in the supplementary budget to improve their capacity to fight corruption. However, taken together, they were not able to spend their total allocation of Ksh 5.5 billion.⁵

⁵ The OCOB report has two different figures on total spending due to differences in the ODPP absorption. In the ministry section of the report its expenditure is Ksh 2.1 (page 37) billion but in the program section, the figure is lower at Ksh 1.7 billion (page 55). In both cases, the total spending by both agencies is lower than the allocated amount.