Kenya: National and County Government Implementation of the Budget in 2016/17

August 2018

KEY FINDINGS

- Total expenditure grew at a faster rate than revenue (by 19 percent), driven by a significant growth in development expenditure.

- There are still variations across MDAs in their level of absorption, but some MDAs have improved significantly. For example, the State Department of Transport improved their level of absorption by 50 percentage points between 2015/16 and 2016/17.

- Domestic and external borrowing is growing faster (47 percent) than total revenue and external grants (14 percent), pointing to more reliance on debt in 2016/17 than in 2015/16. Foreign and domestic financing grew from 27 percent to 33 percent as a proportion of total expenditure and net lending in the two years.

- We do not have implementation reports to see how state corporations are spending federally allocated money.

- The QEBR lacks information on program implementation at the national level. Baringo County exemplifies good practice in budget implementation reports, specifically on providing program level implementation information.

- The QEBRs fail to provide adequate reasons for performance in revenue and expenditure. In many cases, there are no explanations. Where explanations are provided, they fail to identify the root causes of poor performance and do not explain variations in performances. They also fail to acknowledge previous explanations or changes over time.

NATIONAL GOVERNMENT IMPLEMENTATION

This analysis is based primarily on the Quarterly Economic and Budgetary Review (QEBR) for the fourth quarter of 2016/17. The QBER gives information on implementation of the budget for the full year July 2016 to June 2017.

REVENUE PERFORMANCE

There was significant growth (14 percent) in total revenue from 2015/16 to 2016/17 (see Table 1). This is slightly higher than the average growth in revenue during the past five years. The revenue sources with the highest growth are investment revenue, Appropriation in Aid (AiA) and local value added tax (VAT). Revenue sources that have declined from 2015/16 include traffic revenue and others, and external grants (see Table 2). [1]

TABLE 1. GROWTH IN TOTAL REVENUE AND GRANTS FROM 2011/12 TO 2016/17

	% Growth between 2011/12 and 2012/13	**% Growth between 2012/13 and 2013/14**	**% Growth between 2013/14 and 2014/15**	**% Growth between 2014/15 and 2015/16**	***Average Growth 2011/12 to 2015/16***	**% Growth between 2015/16 and 2016/17**
Total Revenue and Grants	13%	19%	10%	10%	*13%*	14%
Ordinary Revenue	13%	18%	12%	12%	*14%*	13%
Appropriation in Aid	18%	21%	-7%	-13%	*5%*	43%
External Grants	37%	29%	4%	5%	*19%*	-11%

Source: Budget Review and Outlook Paper (BROP) 2013-2016 and Fourth Quarter Economic and Budget Review (4th Qtr., QEBR), 2017

Total Revenue (including external grants) collection has improved in performance against target compared to in 2015/16 (see Table 2). The total revenue performance was 94 percent of the target, a 3 percent improvement from FY 2015/16. Among the various revenue sources, investment income had the highest improvement in the performance against target, with an increase of 11 percent from performance in 2015/16. AiA has also improved in performance by 9 percent. Generally, performance of most sources of income has improved.

Four revenue sources performed worse against targets in 2016/17 than in 2015/16: excise duty, taxes on international trade & transactions (import declaration fee), and traffic revenue and others (see Table 2).

[1] Others includes rent of buildings, fines and forfeitures, other taxes, reimbursements and other fund contributions, and miscellaneous revenue.

External grants and Appropriation in Aid continue to record the lowest performance against target at 45 and 66 percent respectively. While there is no explanation for this in the QEBR, it does speak to fact that the national government continues to set unrealistic targets for these two revenue sources.

While AiA still performed poorly against target in 2016/17, it was still an improvement from last year. In fact, AiA collection grew significantly in 2016/17 when taking the growth in the past three years into account. The growth in AiA reached 43 percent from 2015/16 compared to the past two years where a decrease in AiA performance was reported.

TABLE 2. PERFORMANCE AND GROWTH OF REVENUE IN THE FY 2016/17

	2015/2016 Actual (4th Qtr QEBR, 2017) in Ksh. Billions	**2015/2016 Targets (BROP 2016) in Ksh. Billions**	**2016/17 Actual (4th Qtr QEBR, 2017) in Ksh. Billions**	**2016/17 Target (4th Qtr QEBR, 2017) in Ksh. Billions**	**Performance (2015/16 actual/ target)**	**Performance (2016/17 actual/ target)**	**% Growth between 2015/16 and 2016/17**
Total Revenue (a+b)	1,219	1,300	1,401	1,455	94%	96%	15%
(a) Ordinary Revenue	1,153	1,184	1,306	1,311	97%	100%	13%
Customs Duty (Import, Export and IDF Fee)	*244*	*247*	*278*	*284*	*99%*	*98%*	*14%*
Investment Revenue	*19*	*22*	*29*	*28*	*89%*	*101%*	*48%*
Other Income Tax	*280*	*269*	*320*	*306*	*104%*	*105%*	*14%*
Others and Traffic Revenue*	*40*	*38*	*35*	*37*	*105%*	*93%*	*-12%*
PAYE	*281*	*309*	*305*	*318*	*91%*	*96%*	*9%*
VAT (Imports and Local)	*289*	*300*	*339*	*338*	*96%*	*100%*	*17%*
(b)Appropriation in Aid**	66	116	95	144	57%	66%	43%
o/w Railway Development Levy	*17*	*18*	*19*	*19*	*96%*	*102%*	*9%*
(c) External Grants	30	66	26	59	45%	45%	-11%
Total Revenue and External Grants	***1,249***	***1,366***	***1,427***	***1,514***	***91%***	***94%***	***14%***

Note: *Others includes rent of buildings, fines and forfeitures, other taxes, reimbursements and other fund contributions, and miscellaneous revenue.

**AiA includes receipts from Road Maintenance Levy Fund and A-I-A from Universities

Source: 4th Qtr., QEBR 2016 and 4th Qtr., QEBR 2017, National Treasury

EXPENDITURE

The national government's total expenditure grew by 19 percent (see Table 3). This is slightly higher than the average growth in the past four years of 16 percent. The growth is driven by significant growth in development expenditure and expenditure by the Parliamentary Service Commission in 2016/17.

TABLE 3. GROWTH IN EXPENDITURE FROM 2012/13 TO 2016/17

	% Growth between 2012/13 and 2013/14	**% Growth between 2013/14 and 2014/15**	**% Growth between 2014/15 and 2015/16**	**Average Growth between 2012/13 and 2015/16**	**% Growth between 2015/16 and 2016/17**
Recurrent	*-3%*	*14%*	*10%*	*7%*	*16%*
Development	*4%*	*60%*	*-5%*	*20%*	*33%*
County Governments	-	19%	15%	-	8%
Parliamentary Service Commission	-	-	-	-	20%
Judicial Service	-	-	-	-	0%
Equalization Fund	-	-	-	-	0%
CF	-	-	0%	0%	-100%
TOTAL EXPENDITURE	***15%***	***26%***	***8%***	***16%***	***19%***

Source: BROP, 2016 and 4th Qtr. QEBR, 2017

Development expenditure grew faster, more than double that of recurrent expenditure. Both recurrent and development expenditure in AiA increase significantly in the year 2016/17 (84 and 65 percent respectively), but it is unclear from the QEBR what caused such growth in expenditure. Other expenditures that grew significantly include recurrent expenditure in foreign interest and development expenditure by the Parliamentary Service Commission.

The national government's total expenditure (including funds disbursed to counties) in 2016/17 improved compared to the performance against target in the full year 2015/16. The expenditure performance in 2016/17 was 91 percent of target, an increase of 4 percent from 2015/16. The total development expenditure performance against target improved significantly compared to the performance in 2015/16. This was driven by a slight improvement in development spending and significant improvement in AiA expenditure. The recurrent expenditure also improved slightly from 94 to 95 percent.

The national government paid more than the target amount to servicing of debts. There was an underestimation on how much would be spent in domestic interest and payment to guaranteed loans**.** The QEBR reports that the government spent 17 percent more than the budgeted domestic interest expenditure. While both foreign and domestic interest expenditure continue to grow, domestic interest expenditure is reported to have grown much faster than expenditure on foreign interest. It is unclear from the QEBR what is causing the sharp growth in domestic interest expenditure. The government has underestimated the cost of payments on guaranteed loans in the past two years as well. We also observed that the expenditure on payment of guarantee loans grew by 13 percent from 2015/16.[2]

Disbursement to counties is growing slower that the recurrent and development expenditure by the national government. While the country's total expenditure grew by 19 percent, that of counties grew by only 8 percent. It is unclear why the disbursement to the counties is slower at the beginning of the year. Delayed disbursement may mean that counties are unable to spend as planned throughout the year.

Below is a table providing for the performance and growth of expenditure in the FY 2016/17.

TABLE 4. PERFORMANCE AND GROWTH IN EXPENDITURE IN 2016/17

	2015/2016 Actual (4th QTR QEBR 2017) in Ksh. Billions	**2015/2016 Targets (4th QTR QEBR 2016) in Ksh. Billions**	**2016/17 Actual (4th QTR QEBR 2017) in Ksh. Billions**	**2016/17 Target (4th QTR QEBR 2017) in Ksh. Billions**	**Absorption (2015/16 actual/ target)**	**Absorption (2016/17 actual/ target)**	**change in performance**	**Growth between 2015/16 and 2016/17**
Recurrent	*983*	*1,046*	*1,142*	*1,198*	*94%*	*95%*	*1%*	*16%*
o/W Interest (Domestic and Foreign)	215	216	271	244	100%	111%	11%	26%
Development	*485*	*689*	*646*	*804*	*70%*	*80%*	*10%*	*33%*
County Governments	264	264	285	285	100%	100%	0%	8%
Parliamentary Service	20	25	24	27	80%	88%	9%	22%
Judicial Service	12	14	12	13	81%	88%	8%	2%
Equalization Fund	6	6.4	6	6	94%	100%		0%
CF	5	5	-	-	100%			
TOTAL EXPENDITURE	***1,768***	***2,044***	***2,109***	***2,327***	***87%***	***91%***	***4%***	***19%***

[2] From Table 6 (page 15) in the QEBR we see that the payments were towards loans borrowed by three parastatals: East Africa Portland Cement, Tana Athi River Development Authority and Kenya Broadcasting Corporation. The cumulative amount (March 2017) on Table 6 is 1.4 billion which is a big margin from the figure on Table 4 which is 2.4 billion (page 12). It is also indicated in that the total payments as at June 2017 was 1.4 billion in the highlights provided from page v & vi (para.9) page 7. It is unclear which payments are linked to the 1 billion difference or whether this was the payment in the last quarter.

Source: BROP, 2014-2016 and 4th Qtr, QEBR, 2017

Note: Revenue and expenditure figures as provided in the QEBR are preliminary and this may be revised in subsequent budget documents. For example, the 4th Qtr. QEBR 2016 indicated that the actual total revenue excluding external grants for the financial year 2015/16 was 1,219.1 billion and in the Budget Policy Statement, 2017 this went up to 1,237.9 billion, a 1.5 % increase. Implying that the revenue at the time performed better than what was in the 4th Qtr. QEBR 2016.

EXPENDITURE PERFORMANCE AT THE MDA LEVEL

70 percent of the total national government expenditure was spent through various MDAs in 2016/17. Of the total MDAs expenditure, the Teachers Service Commission, the Department for Transport, and the Department for Infrastructure spent the largest shares.

While some MDAs spent all their budget, others had a poor absorption rate. The Ministry of Foreign Affairs had the lowest absorption rate (53 percent). The State Departments of Petroleum, Natural Resources and Livestock also spent less than 60 percent of their approved budgets. It is unclear from the QEBR why these MDAs performed poorly.

Overall MDA development expenditure absorption rate improved (from 69 percent in 2015/16 to 78 percent in 2016/17). The Ministry of Foreign Affairs and Teachers Service Commission performed poorest in development expenditure, reported to have absorbed only 6 percent of their development allocation. These MDAs however are heavy in recurrent expenditures. For the top ten development heavy MDAs, the absorption rate was an average of 80 percent of their development allocation. [3] The State Department of Petroleum had the lowest absorption rate (51 percent) while the State Department Planning and Statistics absorbed its entire development budget. Both departments have small development budgets.

The biggest MDA spender in development expenditure, the State Department of Transport, improved its absorption significantly from 2015/16. [4] The next two big spenders were the Ministry of Energy (and Petroleum), and State Department of Infrastructure. [5] These two departments had a drop in their absorption rates. Notably, the three departments also had a significant growth in their actual expenditure from the previous year (on average

---

[3] In 2016/17 the MDAs with top ten development heavy (higher proportion of their actual budget development compared to recurrent expenditure) The top ten development heavy. State Department for Transport, State Department of Energy, State Department for Information Communication and Technology, State Department for Irrigation, State Department for Water Services, State Department of Petroleum, State Department for Housing & Urban Development, State Department for Planning and Statistics, State Department for Gender and State Department for Infrastructure.

[4] In 2016/1717 the top ten MDAs with the highest development expenditure were State Department for Transport, State, Department for Infrastructure, State Department of Energy, State Department for Water Services, State Department for Planning and Statistics, Ministry of Health, State Department for Information Communication and Technology &, State Department for Interior, The National Treasury, State Department of Public Service and Youth Affairs

[5] We combined the State Department of Energy with the Petroleum for comparability. The two departments were separated in FY 2016/17. The Department of Transport was together with the State Department of Infrastructure (2013/14)

113 percent growth). Table 5 shows the change in performance of the top three spenders of development expenditure in 2016/17, all of which are under the same sector: Energy, Infrastructure & ICT.

TABLE 5. ABSORPTION RATE OF TOP THREE MDAS WITH THE HIGHEST DEVELOPMENT EXPENDITURE

MDAs (Three highest spending MDAs in Development expenditure)	**Actual Development Expenditure 2015/16 in Ksh. Billions (BROP 2016)***	**Target Development Expenditure 2015/16 in Ksh. Billions (BROP 2016)**	**Absorption Rate 2015/16**	**Actual Development Expenditure 2016/17 in Ksh. Billions (4th QEBR 2016/17)***	**Target Development Expenditure 2016/17 in Ksh. Billions (4th QEBR 2016/17)**	**Absorption Rate 2016/17**	**Change in Absorption Rate between 2015/16 and 2016/17**
State Department of Transport	67	165	41%	149	163	91%	50%
Ministry of Energy and Petroleum	68	95	72%	187	278	67%	-5%
State Department of Infrastructure	76	85	89%	108	168	64%	-25%

Note: The figures here are provisional.[6]

Source: BROP, 2016 and 4th Qtr, QEBR, 2017

MDAs recurrent expenditure absorption rate improved overall. In 2016/17 most MDAs had absorption rates of over 70 percent against their recurrent expenditure targets. The Department of Transport's low absorption of 26 percent is not explained. Other MDAs with low absorption in recurrent expenditure included the State Departments for Water Services (49 percent), Natural Resources (51 percent) and Irrigation (59 percent). For the ten MDAs with the highest recurrent expenditure their absorption averaged 91 percent. [7] . It is unclear from the QEBR why the State Department of Housing and Urban Development (though having a small amount to recurrent budget), surpassed the estimated target by 76 percent. Spending should not exceed the approved budgets estimates.

While we are able to tell the absorption rates for MDAs, information on non-financial performance, for example whether objectives of programmes and sub -programmes were met is not provided in the QEBR.

DEBT AND DEFICIT

There was an increase in deficit from 7.3 percent to 9.0 percent between the FY 2015/16 and 2016/17. This deficit was met by both foreign and domestic financing. The national government relied on more foreign financing

[6] The National Treasury fails to update these provisional figures on MDA Expenditure in succeeding implementation/ performance reports. For example, when the Budget Review and Outlook papers come out these figures are still indicated as provisional. There is some updated in formation in the Program Based Budgets but this is not for all MDAs.

[7] In 2016/17 the top ten MDAs with the highest recurrent expenditure were Teachers Service Commission, Ministry of Defence, State Department for Interior, State Department for Basic Education State, Department for University Education, State Department for Infrastructure, The National Treasury, Ministry of Health, National Intelligence Service, Independent Electoral and Boundaries Commission,

than domestic financing (5 to 4 percent of GDP, respectively). Both domestic and foreign financing grew significantly from 2015/16 with the net domestic financing growing faster than foreign financing. The financing to Standard Gauge Railway grew by 113 percent.

TABLE 6. GROWTH IN BORROWING BETWEEN 2015/16 AND 2016/17

	2015/2016 Actual (Ksh. Billion)	**In % of GDP**	**2016/2017 Actual* (Ksh. Billion)**	**In % of GDP**	**2016/2017 Targets (Ksh. Billion)**	**% Growth 2015/16 and 2016/17**
DEFICIT INCL.GRANTS (Cash basis)	(475)	(7.29)	-697	(9.04)	-813	47%
FINANCING	475	7.29	697	9.04	813	47%
Foreign financing	270	4.15	386	5.00	464	43%
Disbursements	305		422		507	38%
of which Project Loans Standard Gauge Railway -AIA	52		111		125	113%
Debt repayment - Principal	(35)		(36)		(44)	2%
Other Domestic Financing	2	0.04	2	0.02	2	-27%
NET DOMESTIC FINANCING	202	3.11	310	4.02	347	53%

*provisional

Source: 4th Qtr. QEBR 2017

The net public debt grew by 24 percent between 2015/16 and 2016/17 (see Table 7). The net public debt stood at Ksh. 3.97 trillion, an increase of 24 percent from the net public debt in 2015/16. The total gross debt stood at Ksh. 4.41 trillion (including external debt at 2.29 trillion and the domestic debt at 2.11 trillion).

TABLE 7. GROWTH OF PUBLIC DEBT IN 2016/17

	June 2016* in Ksh. Billions	**June 2017* in Ksh. Billions**	**Increase in Ksh. Billions**	**% growth**
External Debt	1,796	2,295	499	28%
o/W Commercial Banks	432	712	280	65%
Domestic Debt	1,815	2,112	297	16%
0/W Central Bank	100	55	(45)	-45%
Commercial Banks	927	1,142	215	23%
Grand Total Gross	3,611	4,407	796	22%
Less On-Lending and Government Deposits	(401)	(434)	(34)	8%
Grand Total Net	3,211	3,973	762	24%

Source: 4th Qtr. QEBR 2017

The effect of domestic borrowing from commercial banks. Debt from commercial banks makes up the largest component of domestic borrowing by the government and a significant portion of the increase in external debt. Domestic debt from commercial banks stood at 29 percent of the net public debt in 2016/17. External debt from commercial banks grew by 65 percent. The QEBR doesn’t describe the implication of this, nor does it detail reasoning behind the decision to borrow more from commercial banks.[8] Many have questioned whether this has had an effect of a slowdown in money supply and crowding out private sector as the government seems to be a preferable debtor of commercial lenders and banks.[9]

QUARTERLY TRENDS (REVENUE AND EXPENDITURE)

Revenue is collected evenly throughout the year 2016/17. The least amount of revenue was collected in the first quarter, followed by the third quarter. When comparing the four quarters, most revenue was collected in the fourth quarter. This trend holds consistent from FY 2015/16. Revenue from taxes is collected evenly throughout the year with marginally higher collections in the fourth quarter. In the case of" other income tax," 39 percent of the revenue source is collected in the fourth quarter [10,11] Other notable trends include the external grant being received mostly in third quarter of 2016/17 while in the fourth quarter of 2015/16. The highest amounts of investment income and AiA, which recorded the highest growth in collection in 2016/17, were collected in the second quarter.

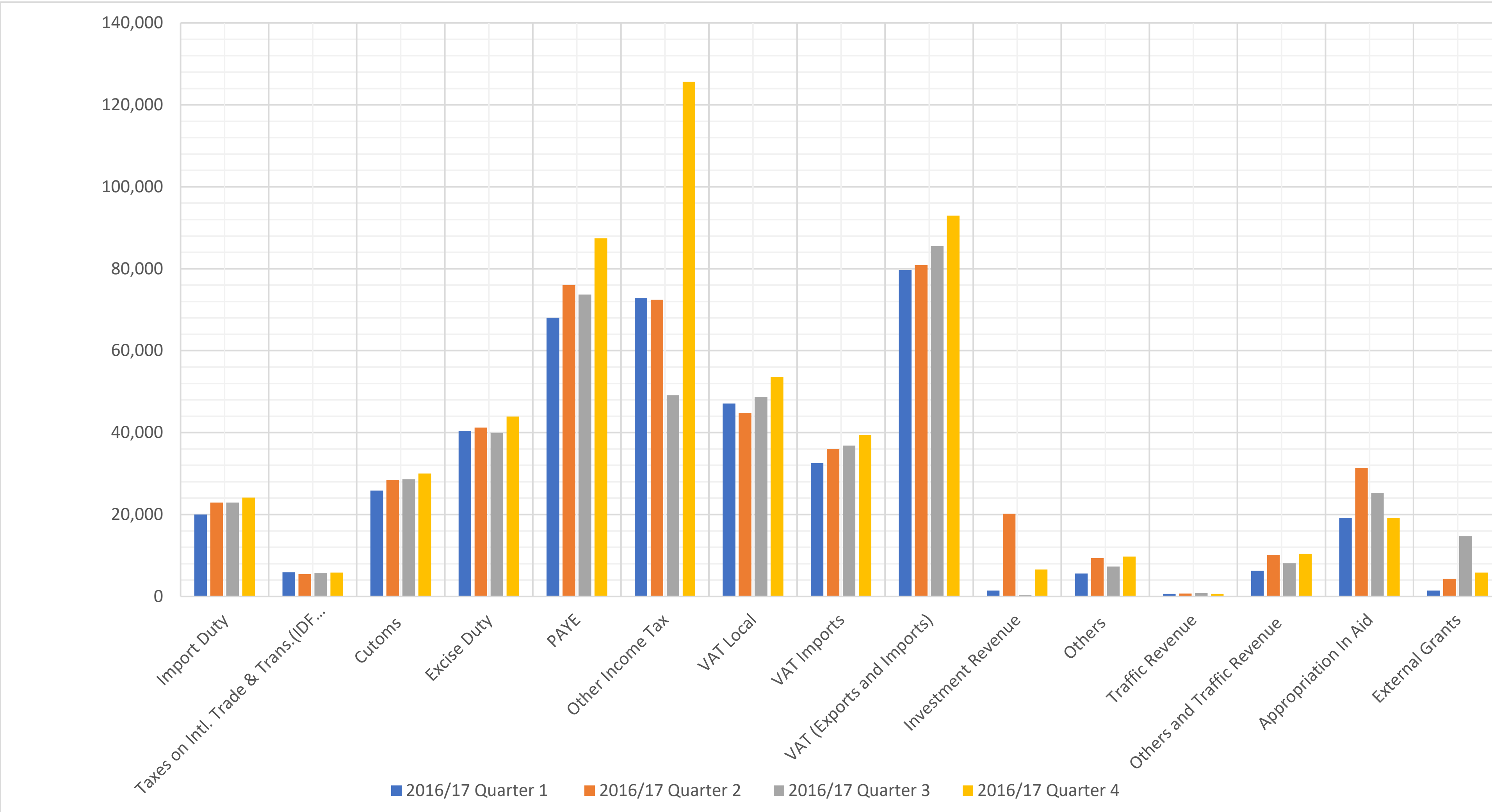
[8] It could be that the National Treasury underestimated the debt interest to be paid in 2016/17 or that there was a sharp increase in debt interests rates. These are just possibilities. There is increase in debt from commercial banks. This needs to be explained.

[9] See Steve Makambi, Reuben Muhindi and Gillian Nduku, Influence of Bank Lending to the Government on Private Sector Credit in Kenya: A Fiscal Deficit Specification working paper published by Kenya Bankers Association, http://www.kba.co.ke/downloads/WPS%2018.pdf

[10] Although not defined in the QEBR other income tax includes income taxes except PAYE such as corporate taxes, and withholding taxes. there was a significant increase in collection (56 percent growth from the third quarter) in the fourth quarter collection from the third quarter collection.

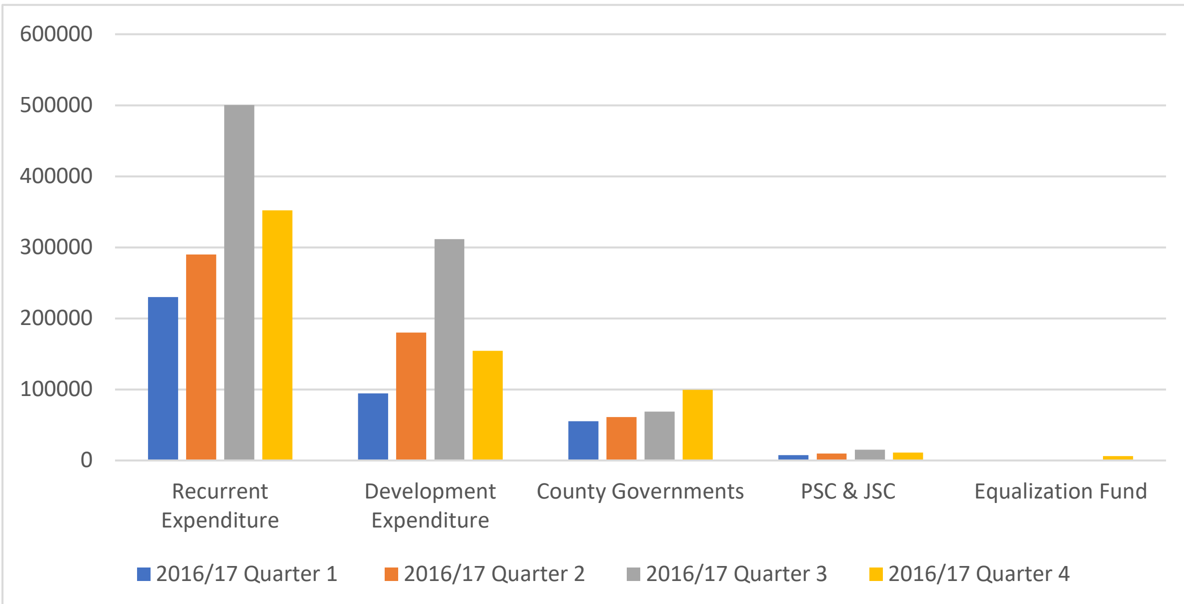
[11] Although not defined in the QEBR other income tax includes income taxes except PAYE such as corporate taxes, and withholding taxes.

FIGURE 1. QUARTERLY REVENUE COLLECTION IN 2016/17 IN KSH. MILLIONS



The national government spent the most (45 percent of the total expenditure) in the third quarter of the year. This is true for both recurrent and development expenditure. The national government spent the least in the first quarter of the year.

FIGURE 2. QUARTERLY EXPENDITURE IN 2016/17 IN KSH. MILLION



Source: 4th Qtr. QEBR 2017

County governments received most of their funding in the second half of 2016/17. This is an improvement in distribution of funding disbursed to counties in each quarter compared to the average of 64 percent from 2013/14 to 2015/16. Could this be a challenge for counties' spending? It is also unclear whether the transfer in the last quarter contributes to the huge bank balances that counties have at the end of each year.[12] The Equalization Fund is meant to be spent to provide services in health, roads, water and electricity in marginalized areas across the country. In 2016/17 money allocated to the fund was only disbursed in the last quarter of the year. This means that these funds were unlikely to have been spent in the year 2016/17. Table 8 shows the quarterly disbursements to counties over the years as reported in the past QEBRs.

---

[12] The COB reported that the cash balances at the beginning of the financial year were as follows: Kshs.3.2 billion in 2013/14, Kshs.27.42 billion in 2014/15, Kshs.34.1 billion in 2015/16, and Kshs.39.96 billion in 2016/17

TABLE 8. QUARTERLY DISBURSEMENTS TO COUNTIES 2013-2017

	2013/14 (QEBRs 2014/15)	2014/15 (QEBRs 2014/15)	2015/16 (QEBRs 2016/17)	Average 2013-2016	2016/17 (QEBRs 2016/17)
Quarter 1	17%	12%	12%	14%	19%
Quarter 2	17%	24%	26%	22%	21%
First Half year	34%	36%	38%	36%	41%
Quarter 3	23%	24%	24%	23%	24%
Quarter 4	43%	40%	39%	41%	35%
Last half year	66%	64%	62%	64%	59%
	100%	100%	100%	100%	100%

Source: 4th Qtr. QEBR 2017

STATE CORPORATIONS' PERFORMANCE

We do not have implementation reports on how state corporations are spending their allocations. While we know the law mandates state corporations submit quarterly reports to their respective cabinet secretaries and subsequently to the National Treasury, these reports are not published, and it is impossible to pick out information on performance of the corporations from Quarterly Economic and Budgetary Review Reports.

It is important to get information on state corporation spending, especially for those with the highest spending in certain MDAs. The Programme Based Budget (PBB) does not specific the budget given to state corporations. There is the classification captured as "Transfers to Gov't agencies," which we can assume goes to various state corporations in an MDA, but little detail is given. For some MDAs, this is a significant portion of the entire budget. For example, in Figure 3 under the State Department for University Education, the transfer to government agencies takes up 82 percent of the total department budget in 2017/18.

FIGURE 3. SNIPPET SHOWING CURRENT AND CAPITAL TRANSFERS TO GOVERNMENT AGENCIES UNDER THE DEPARTMENT OF UNIVERSITY EDUCATION.

1065 State Department for University Education

PART G: Summary of Expenditure by Vote and Economic Classification, 2017/2018 - 2019/2020

Economic Classification	Baseline Estimates	Estimates	Projected Estimates	
	2016/2017	2017/2018	2018/2019	2019/2020
	KShs.	KShs.	KShs.	KShs.
Current Expenditure	**60,652,433,681**	**85,721,517,529**	**87,451,129,270**	**89,359,080,784**
2100000 Compensation to Employees	415,847,585	255,440,649	263,100,568	271,000,000
2200000 Use of Goods and Services	381,325,522	423,303,387	480,594,744	510,201,776
2500000 Subsidies	16,000,000	56,000,000	40,000,000	40,000,000
2600000 Current Transfers to Govt. Agencies	51,136,744,249	75,271,778,172	76,433,016,961	77,631,290,784
2700000 Social Benefits	2,500,000	2,500,000	2,625,000	2,756,250
3100000 Non Financial Assets	22,190,000	13,361,500	17,194,382	19,971,256
4100000 Financial Assets	8,677,826,325	9,699,133,821	10,214,597,615	10,883,860,718
Capital Expenditure	**11,479,095,026**	**12,298,100,000**	**13,329,300,000**	**13,545,700,000**
2200000 Use of Goods and Services	1,150,500,000	1,415,918,012	1,198,000,000	1,028,000,000
2600000 Capital Transfers to Govt. Agencies	8,378,095,026	8,938,681,988	10,198,300,000	10,584,700,000
3100000 Non Financial Assets	1,950,500,000	1,943,500,000	1,933,000,000	1,933,000,000
Total Expenditure	**72,131,528,707**	**98,019,617,529**	**100,780,429,270**	**102,904,780,784**

Source: National Government Programme Based Budget 2017/18

LACK OF ADEQUATE PUBLIC REASONS

Performance of revenue. The QEBR fails to provide adequate reasons for poor performance in revenue collection. While the shortfall in collection of excise duty and AIA is cited as justification for the Ksh. 54 billion deficits in total revenue (excluding external grants), the cause of these revenue streams' underperformance is unclear. In addition, there is no explanation why the "other" component (which encompasses many sources of revenues) performed poorly, though it's evident it performed poorer than excise duty. A general statement that the deficit was caused by under collection of the two revenue streams does not address the root cause of the poor performance. One reason that appears as an explanation of poor performance repeatedly in budget documents is that AiA underperformance reflects the problem of under reporting by the ministries' expenditure return for the period under review. This fails to explain which ministries are affected, not to mention which ministries are improving due to the significant growth in AiA collection.

Performance of expenditure. The QEBR fails to give adequate reasons for low absorption in expenditure. While it indicates the reason for failing to attain the target in expenditure in 2016/17 was low absorption levels in operations, maintenance, wages, and salaries, the root cause of poor absorption was unclear. For any meaningful deliberations on the challenges the national government is facing and to determine subsequent plausible solutions we must understand the root cause of underperformance.

There was an improvement in the level of absorption of budgeted expenditure from the previous year, though the reason for this improvement is not given.

Non-financial information that speaks to the financial data presented. It is unclear why the QEBR singles out wages and salaries as having performed poorly, as Table 4 (of the QEBR) clearly indicates 99 percent absorption for wages and salaries.[13] Absorption rates for other items such as pensions (97 percent) and foreign interest (94 percent) performed poorer than wages and salaries yet were not cited as problem areas.

Acknowledgement of previous explanations and progress. As in the past, the QEBR states that the reason behind failure to meet targets was "non-capture of the sub-national expenditures and hence under reporting by ministries." This does not explain why some MDAs were affected by this challenge more than others. If underreporting is only part of the story, the full explanation as to what else caused MDAs under-absorption is needed. Notably, some MDAs improved their absorption rates significantly (See above).

There was a significant improvement in the development expenditure absorption, but no explanation as to what is causing the improvement. Are sub-national expenditures better reported? Are some MDAs addressing the challenge effectively? The explanation on sub national under-reporting doesn't account for challenges in the Ministry of Foreign Affairs, which is reported to have the lowest absorption rates in 2016/17.

COUNTIES IMPLEMENTATION: A CASE OF BARINGO COUNTY

The Public Finance Management (PFM) Act requires that counties prepare and publish implementation reports every quarter. However, many counties have not been publishing these reports on their websites.[14] IBP Kenya conducted a survey in September 2017 to establish whether counties had posted their third quarter implementation reports, and only one county, Baringo, had an implementation report that was publicly available on their website. It is unclear whether these implementation reports are submitted to the county assemblies as they should be, or if there is any pressure from county assemblies to ensure they are submitted**.**

Baringo county posted its fourth quarter implementation report online by September 2017. In this analysis, we look at Baringo's report to learn what is happening in Baringo as an indication of what could be happening and counties but also as an example of what county reports should look like. In addition, the Baringo County analysis

[13] The QEBR gauges performance by looking at the absolute figures when comparing across different revenue source. This fails to appreciate that some expenditures tend to be of a higher value (more expensive). It is reasonable to compare the absorption rates. This non-financial information doesn't support the financial data they present.

[14] Section 166

provides some highlights of good practices that even the national government can draw from to improve its reports.

BARINGO PERFORMANCE

Local revenues performance. While Baringo local revenues grew in 2016/17, the growth slowed down compared to past years. The fourth quarter implementation report states that local revenue in Baringo grew by 3 percent as compared to the collection in 2015/16.

The performance against target of local revenue in 2016/17 dropped. In the year 2015/16, the Controller of Budget (COB) reported that counties did not meet their targets in local revenue collection. Our analysis observed that local revenues from counties remain erratic. The Annual County Governments Budget Implementation Review Report 2016/17 by the COB indicates that on average counties collected 56 percent of their local revenue target in 2016/17. In Baringo, local revenue collection was 87 percent of the target, a drop from 93 percent in 2015/16.

Local revenue forms a very small percentage (5 percent) of the total revenue spent by the county government of Baringo, and a significant proportion of it is from Hospital Revenue (26 percent). In 2016/17 local revenue was slightly lower than the average proportion of 6 percent that local revenue had been to the total revenue of the county since 2013. In addition, a large proportion of the county local revenue is composed of service charges attached to the provision of certain services as shown in the Table 9.

Expenditure performance. **There was a growth in expenditure in Baringo County by 13 percent.** Development expenditure grew faster than recurrent expenditure. Recurrent expenditure remains the largest portion of the expenditure in 2016/17, but this is a slight fall from the proportion of total expenditure in 2015/16.[15] The health department received the most of the county's expenditure at 38 percent of total expenditure in 2016/17. Environment and Natural Resources has the highest increase in expenditure among the departments. The Department of Youth, Gender, Labour, Sports, Culture, Social Security and Transport, Infrastructure and Energy recorded the lowest absorption rates as compared to other departments

Non-financial performance information to the department level and implementation information on programs and projects. The Public Finance Management Act, 2012 provides that implementation reports should contain both non-financial and financial information on performance. [16] The Baringo implementation reports include both financial and non-financial information. They provide information similar to what one would find in their

[15] From 73 percent to 71 percent in 2015/16 and 2016/17 respectively.
[16] Section 83 for the national government and Section 166 for county governments.

Programme Based Budgets. There is implementation information on the department level of spending and challenges and achievements of each department. In addition, performance information on each program included: major achievements, steps taken to accomplish each objective, and challenges in implementing various activities. For example, under the Department of Environment and Natural Resources the first program is titled "Environment Conservation and Management." The objective from the budget is to "ensure a clean, health and protected environment for sustainable future of the people of Baringo County." The implementation report reports the projects implemented by the department: their location, status and outcomes.

It is not easy to relate spending to non-financial targets for all departments. For example, from the snippet below we see that 10 *barazas* were held to increase environmental awareness. However, we do not have information in how much these *barazas* cost. The snippet shows how the department implemented its budget under one program in 2016/17.

FIGURE 4. SNIPPET SHOWING NON-FINANCIAL INFORMATION ON PROGRAM IMPLEMENTATION OF THE BUDGET 2016/17, BARINGO COUNTY

Milestones are as show in the the table below:

Program	Projects	Location of the Project	Quarter Targets	Achieved Outputs (Physical progress based on outputs)	Percentage of cumulative achievement	Outcomes (outcomes and impacts since project commencement)	Action Plan
Environment conservation and management	**Solid waste management**						
	Development of Kabarnet Dumpsite	Kabarnet/Sironoi	Erection of a perimeter stone wall and construction of an incinerator	Change of designs	**Phase 1** FY2015/16_100% **Phase 2** Fy2016/17_15%	5-acre land fenced with chain link and metal angle lines	-Construction of the access road to the dump site is ongoing.
	Development of Eldama Ravine Dumpsite	Ravine	Fencing	Contract awarded	100% achieved	Income earning for local labour Improve solid waste management	Fencing completed
	Development of transfer stations	(4 NO towns Kabarnet, E/Ravine, Marigat & Mogotio	Construction of solid waste transfer stations	Procurement stage	40% achieved	Improved solid waste management and public hygiene and health when project is operational	Construction of transfer stations in Kabarnet town ongoing (2 transfer stations). 1 No completed
	Development of Eco – toilet (2 NO)	Kabartonjo Town	Construction of eco toilet block plus biogas plant	Procurement stage	15% achieved	Improved public health	Contract awarded. Construction work to commence soon
		Chemolingot public park	Construction of public toilet block	Procurement stage	15% achieved	Improved public health	Contract awarded. Construction to start soon
	Community Environmental Education and Awareness	Countywide	15 NO. community environmental education and awareness creation	10 NO. barazas held	67% achieved	Increased environmental awareness and public participation	Baringo Central-**3No** (Kabarnet, Kapropita & Ewalel Chapchap) Baringo South-**5No** Baringo north-**1No** Mogotio-**1No**

Source: Baringo Fourth Quarter 2016/17 Budget Implementation Status Report

The QEBR fails to report on the implementation of programs and projects undertaken by the national government.

Reporting on county funds created in line with the PFM Act: we observe that for both counties and the national government, it is unclear how funds created by law are spent and what impact these funds have had. While some information is provided through the annex to the Programme Based Budgets, it is impossible for citizens to evaluate the use of these funds effectively. Without details as to whether the objectives are met and what value these funds have to the citizen, the public cannot engage in decisions around their use. Below is a snippet on the information provided in the annex to the PBBs.

FIGURE 5. SNIPPET ON INFORMATION AVAILABLE FROM THE NATIONAL GOVERNMENT ON FUNDS (WOMEN ENTERPRISE FUND 2017/18)

Women Enterprise Fund				
Details		Actual	Forecast	Budget
		2015/2016	2016/2017	2017/2018
	Kshs.	'000'	'000'	'000'
Annual Recurrent Budget:				
Annual Recurrent Revenue:				
1	Internally Generated Income	193,531	150,000	160,000
2	Government Grant - Recurrent	15,112	115,000	
3	Development Partners' Grants - Recur.	-	-	-
4	Other Income - Recurrent	-	-	-
5	**Total Annual Recurrent Revenue**	**208,643**	**265,000**	**160,000**
6	Cost of Sales	-	-	-
7	**Gross Surplus/(Deficit)**	**208,643**	**265,000**	**160,000**
Annual Operating Expenses:				
8	Personnel Emoluments	67,026	67,026	67,026
9	All Other Operating/Administrative Expenses	234,136	199,300	199,300
10	**Total Annual Operating Expenses**	**301,162**	**266,326**	**266,326**
11	**Operating Surplus /(Deficit)**	**(92,519)**	**(1,326)**	**(106,326)**
12	Finance Charges	-	-	-
13	Corporation Tax	-	-	-
14	**Net Surplus/ (Deficit)**	**(92,519)**	**(1,326)**	**(106,326)**
Annual Development/Capital Budget				
1	**Total Annual Development/Capital Budget**			**2,850,000**
Total Sources of Funding				
2	Retained Earnings; Previous Years & Current Year			2,050,000
3	Government Grants - Development			800,000
4	Development Partners' Grants - Development.			-
5	Borrowing; Current and previous years			-
6	Others Incomes - Development			-
7	**Total Funds to Finance Capital Budget**			**2,850,000**

Source: 2017-18 Annex of State Corporations Revenue and Expenditure

There is an attempt in Baringo's implementation reports and the County Budget Review and Outlook Paper (CBROP), 2017 to show the performance of funds and the challenges that are associated with these funds. In the 2016/17 fourth quarter implementation report there is a mention on how funds were used. Here is a snippet on two funds.

FIGURE 6. INFORMATION ON IMPLEMENTATION OF FUNDS BY BARINGO COUNTY (PERSONS WITH DISABILITY AND OLDER PERSONS FUND)

Milestones

143. Under Persons with Disability & Older Persons Fund the department had Kshs had a balance of Kshs 8,878,308 at the start of the quarter,In the period under review the department managed to disburse Kshs 1,262,000.

144. During the quarter, the balance brought forward from youth and women fund was Kshs 8,570,937.44 with a total repayment of Kshs 938,883. In the period under reiew Kshs 2,800,000 was dibursed.

Source: Baringo Fourth Quarter 2016/17 Budget Implementation Status Report

Here is a snippet from the Baringo CBROP, 2017 on funds run by the county.

FIGURE 7. INFORMATION ON IMPLEMENTATION OF FUNDS BY BARINGO COUNTY (ALL COUNTY FUNDS)

Annex 6: Funds Accounts Annual Report FY 2016-2017 (Grants and Subsidies)

Descriptions	Emergency Fund	Lake Bogoria Community Grant	Co-operative Fund	SME Fund	Community Wildlife Conservancy Fund	Bursary Fund	Executive Mortgage Scheme	Executive Car Loan Scheme	PWDs	Youth & Women Fund
Opening Bal	23,817,900	2,272,183	5,698,245	3,214,685	693,896	28,232,407	5,650,000	748,428	9,353,778	10,604,964
Receipts From Baringo	17,000,000	4,387,480	3,000,000	3,000,000	3,860,800	20,000,000	17,000,000	13,481,080	3,000,000	-
Loan Recovery	-	-	1,690,350	6,412,350	-	-	901,389	4,166,976	-	4,020,629
Interest Earned	141,118	49,156	-	-	-	-	-	-	33,781	8,306
Total Receipts	40,959,018	6,708,819	10,388,595	12,627,035	4,554,696	48,232,407	23,551,389	18,396,484	12,387,559	14,633,899
Less : Disbursements	40,462,053	4,253,551	8,000,000	8,028,150	3,188,000	44,935,175	23,150,000	3,430,000	4,486,600	7,700,000
Operations Costs	23,658	978,774	528,174	1,466,405	1,361,320	585,130	660	660	256,047	367,293
Total Expenses	40,485,711	5,232,325	8,528,174	9,494,555	4,549,320	45,520,305	23,150,660	3,430,660	4,742,647	8,067,293
Closing Bal As 30th June 2017	473,306	1,476,494	1,860,421	3,132,480	5,376	2,712,102	400,729	14,965,824	7,644,912	6,566,606

Source: Baringo County Budget Review and Outlook Paper (CBROP), 2017

The national government implementation reports omit this information.

Public reasons/ explanations of performance. There is a good attempt to explain the performance of Baringo county in the year 2016/17. For example, the fourth quarter implementation report of Baringo reports challenges causing underperformance of local revenue, touching on specific revenue sources and getting to the root cause. Reasons given include the insecurity in the county caused by cattle rustling and closure of livestock markets leading to under collection in livestock fees and cess. Other challenges highlighted on the issue of under collection of include the long doctors and nurses' strikes reducing revenue generated from hospitals (see para. 63 of Baringo's fourth quarter implementation report).

The Baringo report also gives recommendations to deal with specific challenges faced by different departments. These proposals are encouraged as they could inform budget decisions in the coming year(s). Below is an example of implementation challenges and recommend solutions for the Department of Industrialization, Commerce, Tourism and Enterprise Development.

FIGURE 8. SNIPPET SHOWING EXPLANATION GIVEN TO IMPLEMENTATION CHALLENGES, BARINGO DEPARTMENT OF INDUSTRIALIZATION, COMMERCE, TOURISM AND ENTERPRISE DEVELOPMENT

Implementation challenges and recommended way forward

a) Lack of adequate technical supervisory staff at works department - to employ more staff

b) Lack transport for field work - County government to budget for more vehicles

c) Uncooperative contractors - Need for advanced evaluation on contract awards

Source: Baringo Fourth Quarter 2016/17 Budget Implementation Status Report

CONCLUSION

National and county government are required to produce implementation reports that provide information on performance on revenue and expenditure. This information can be used to inform decision making for future budgets to improve the revenue collection and impact of government expenditure. These reports should be backed by adequate reasons on performance to promote public deliberation around the budget. This analysis shows that certain key sets of information is missing from documents that are publicly available. The implementations reports do not provide any non-financial information and required by the PFM Act and neither do they provide reasons on performance that could help improve budgets in future periods. This raises further questions on the role of legislature at both levels of government as they monitor and debate budget performance. First, the level of information provided in current reports becomes a challenge for any institution or individual tracking budget implementation including parliament. Secondly, its parliaments role to also push the executive to provide better information that will enable it to make better decisions when approving budget documents that must be tabled in the assemblies.