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Institute of Economic Affairs

Fact Sheet

Quarterly Budget 2019/2020 Performance

Budget implementation which runs from 1st of June to end of July every financial year entails raising of funds, authorization of release of funds to spending units (ministries, department and agencies-MDAs) for service delivery to citizen according to approved budget.

This fact sheet [1] presents some key facts in response to the following three questions:

i. Is the national government budget implemented as approved/enacted and if not what are the differences/gaps? What are the implications of this on service delivery and accountability to citizens?

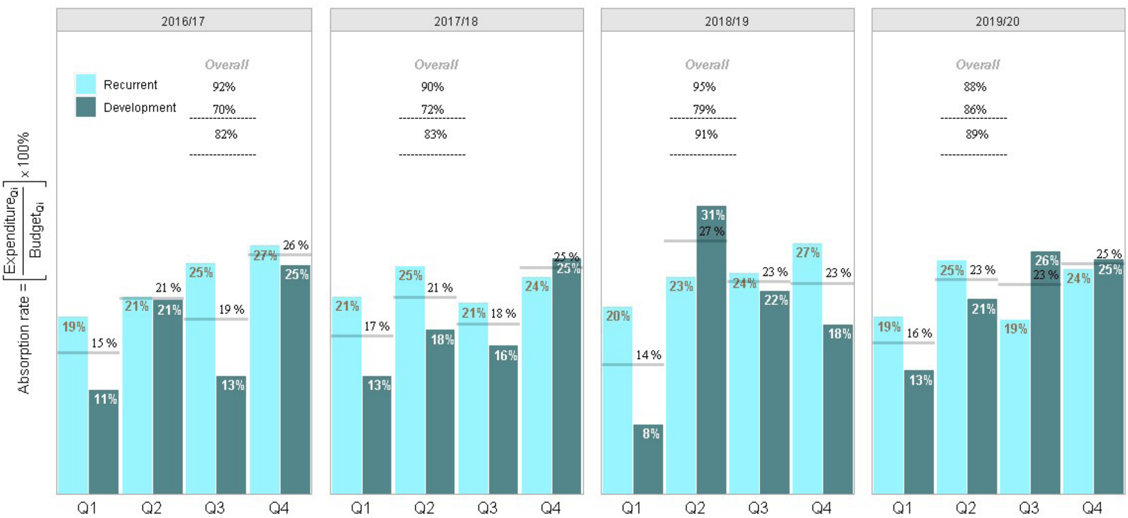
ii. What factors are the causes of the national government's inability to utilize their budgetary provisions?

iii. What are the corrective measures towards improving budget execution?

National government performance in spending

The national government performance in the financial year 2019/2020 in terms of its ability to utilize approved budget provisions fell slightly behind that for the financial year 2018/2019 by two percentage points.

Figure 1: Trends in Absorption Rates



Source: Controller of Budget | Budget Implementation and Review Reports (QEBR)

[1] It is a citizen friendly version of IEA-Kenya Budget Focus Fourth Quarter National Budget Performance 2019/20 via http://www.ieakenya.or.ke/publications/bulletins
It is based on an analysis of fourth quarter 2019/2020 Office of Controller of Budget Implementation and Review report and National Treasury Fourth Quarterly Economic and Budgetary Review 2019/2020 report.

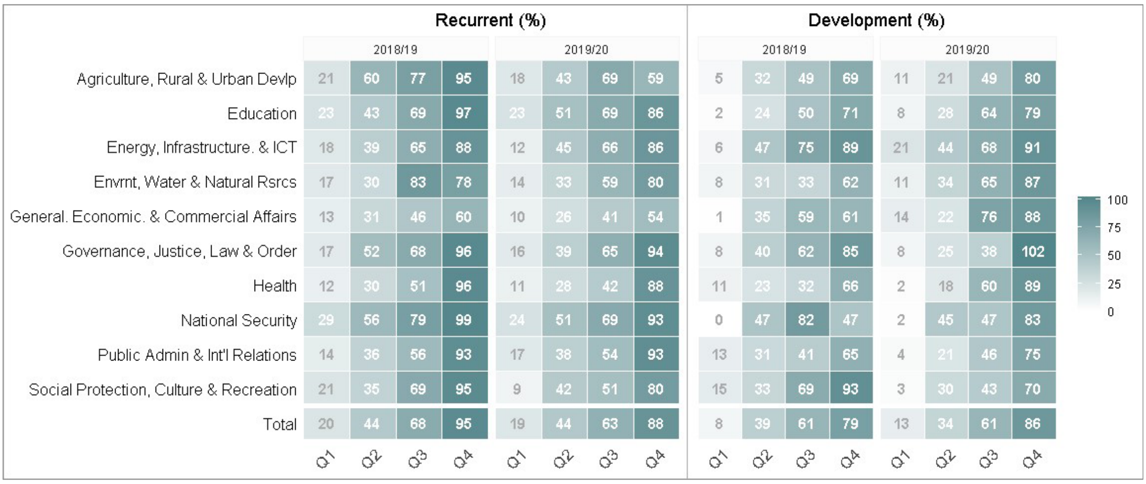
- The approved annual budget for all national government MDAs for the financial year 2019/2020 was Ksh 2,850 billion.
- The expected revenue from domestic sources (tax revenue and non-tax revenue) to finance this budget was Ksh 1,865 billion with the difference expected from grants by donors and loans borrowed domestically and externally from donors.
- However, and as seen in figure 1, on average, for every Ksh 1,000 released, the national government MDAs managed to spend Ksh 890 by end of June 2020. In the previous financial year, 2018/2019, MDAs spent Ksh 910.
- MDAs failed to spend Ksh 316.2 billion by the end of the year, that expenditure fell short of the budget. What this means is that this quantum of funds was not released to MDAs on one hand because of failure to raise portion of projected revenue from domestic sources. On the other hand, and more importantly, part of expected proceeds from external loans and grants by donors was not released.
- Absorption (uptake) of the development budget of overall MDAs budget is a bigger challenge and thus associated with more constraints compared to uptake of recurrent budget. This has been a pervasive challenge over the last four financial years, 2016/17/-2019/20 as shown in fig. 1` where the absorptions rates are lower of the two across the quarters and financial years.

Performance across sectors

Breakdown of overall national government spending in 2019/20 shows variations in performance by sectors/MDAs in terms of percentage of unspent funds against annual recurrent and development budget.

- The best performing sectors with the least unspent funds (highest absorption rates) less than 8% are the GJLOS, Energy, Infrastructure and ICT and National Security in that order.
- The poorest performers, with the highest percentage of unspent funds (lowest absorption rates), over 15%, are Agriculture, rural and urban development; Social Protection, Culture and Recreation and Education in that order.

Figure 2: Distribution of Cumulative absorption rates across sectors



Source: Controller of Budget | Budget Implementation and Review Reports (BIRR) various issues

- Further scrutiny and breakdown of sectors is critical in revealing the specific programmes and projects that are contributing to overall performance in spending by the sector and in turn appropriate corrective measures.
- The Energy, Infrastructure and Information and Communication Technology, for example, has for the last two financial years registered tremendous improvement in absorption rates (89%). However, the power generation programme (earmarked geo-thermal power generation project) had one of the lowest absorption rates, 54% in financial year 2019/2020.
- Other notable programmes that are struggling are as follow:
  - o Devolution services (48.2%) and Government Advisory Services (54%) both under the Public Administration and International Relations sector
  - o Crop development and management (50%) and Development and Coordination of Blue Economy (55%) both under the Agriculture, rural and urban development sectors.
  - o Sports programme, (largely in charge of development of sports facilities) of the State Department of Sports had the lowest absorption rate (42.4%) under the Social Protection, Culture and Recreation Sector.

By and large, low absorption rates imply the inability of the culpable sectors/MDAs to optimally execute some of their planned programmes/projects. As a result, this leads to these projects delaying or stalling altogether and thus poor service delivery results to citizens. To avert this, planning and budgeting by MDAs should maintain fiscal discipline, that is, the government should leave within its means by ensuring that our budgetary needs reflect what we are able to generate in revenue.

Other negative consequences, particularly financial risks arise whenever funds are not availed on time to pay suppliers or contractors resulting to penalties in form of project cost overruns (excess of budgeted amount).

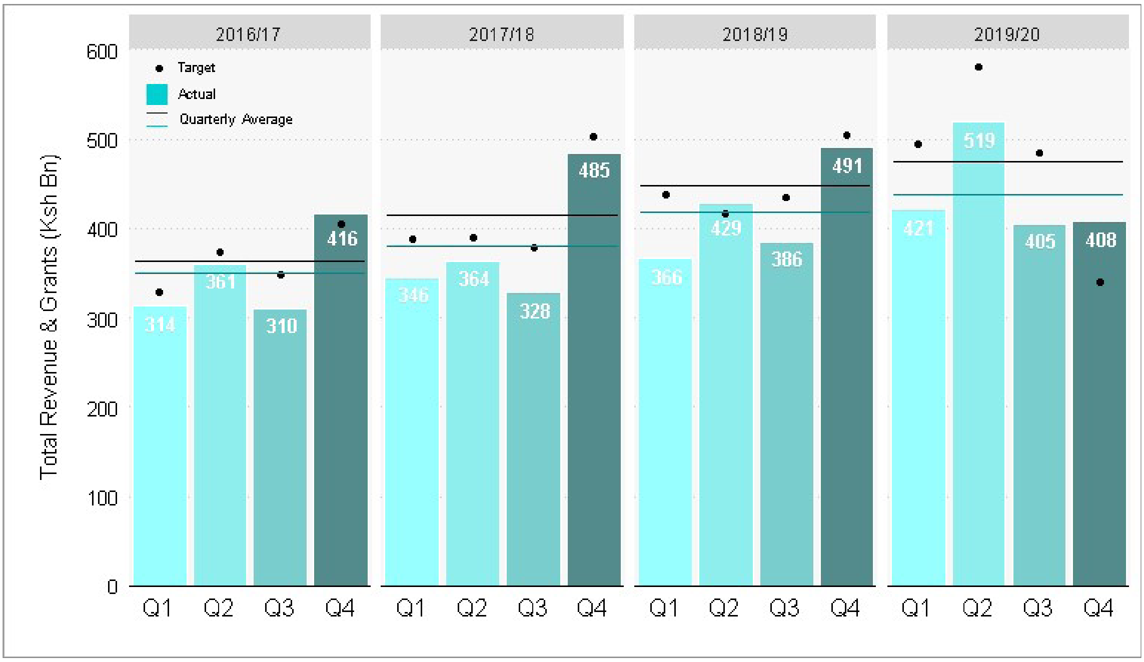
Causes of low budget execution

a. Unpredictability of public funds

The issue of unpredictability or insufficient funds is related, on one hand to funds not being adequate to meet budgetary needs or contractual obligations for spending units and on the other to revenue short fall due to optimistic revenue projections used in formulation of budget ceiling.

- o This scenario is explained by weaknesses in the overall framework/model used in revenue forecasting (estimation).
- o It manifests in underperformance of revenue and specifically widening gap between actual revenue realized against revenue projections (see fig. 3).
- o The situation noted above invariably leads to discrepancies between approved budget and actual releases.

Figure 3: Trends of Quarterly Total Revenues and Grants

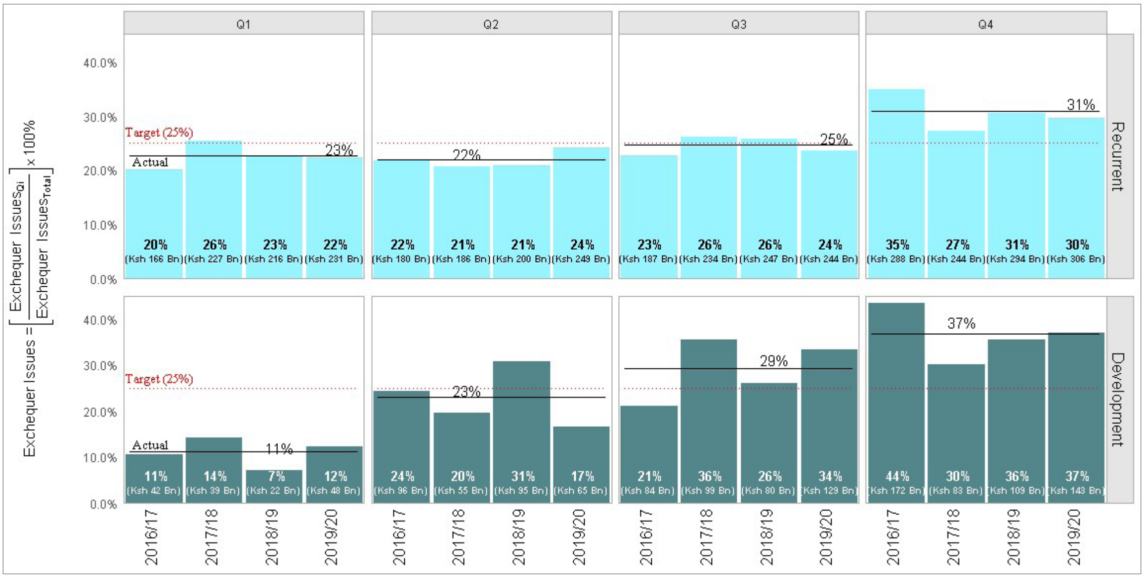


Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

b. Delays in release of funds

- Late releases of funds disrupt budget execution and in particular affects implementation of on-going projects.
- For both recurrent and development budget, most disbursements are received in quarter three (Q3) and quarter four (Q4) as shown in fig 4 is associated with periods of rise in revenue mobilization (fig 1).
- MDAs invariably struggle to absorb these funds given the limited time they have to the end of the financial year.

Figure 4: Quarterly Exchequer Issues to the Counties



Source: Controller of Budget | Budget Implementation and Review Reports (BIRR)

c. Funds not released (under release) according to approved budget

Evidently MDAs have no challenge in utilizing (spending) funds that are already available to them. In fact, for a majority of MDAs actual spending exceeded funds that were released to them.

The challenge however for majority of MDAs in budget execution is related to non-release (under release) of a portion of their approved budget, whether on the recurrent or development side as show in table 1,

Table 1: % of approved budget not released

Item	Q4 of 2019/20		Q4 of 2018/20	
	Net Budget	Gross Budget	Net Budget	Gross Budget
Recurrent	6.1	14.4	3.6	10.1
Development	**12.3**	**45.9**	**11.5**	**55.1**
Total	7.2	22.3	4.8	21.3

Source: National Treasury QEBR and OCoB Implementation Review Reports

By end of financial year 2019/20, about 6.1% of recurrent net budget (financed from domestic resources/ revenue) was not released to MDAs. This is explained by the fact that MDAs under reported the amount of funds that they raised from services offered (Appropriation in Aid). On this point, nearly half of projected Appropriation in Aid (AiA) was not realized. This could open loopholes for loss or mismanagement of taxpayer's funds something that requires oversight by civil society and the legislature. This non-disclosure of AiA is the explanation behind majority of MDAs' expenditure that is above funds released (exchequer releases) to them. Furthermore, non-disclosure of AiA affects accuracy of expenditure reports.

Equally, a relatively bigger portion, 12.3% of development net budget (financed from domestic resources/ revenue) was not released to MDAs.

d. Dependence on volatile and unpredictable donor funds to finance development budget

- About 38% (Ksh 270.8 billion) of total development budget of Ksh 712.6 billion in FY 2019/20 was donor financed.
- Related to the point above, about 34% of Ksh 270.8 billion was not released to spending units.
- Delays in release of donor funds are attributed in part to administrative challenges including lengthy and complex procurement procedures, stringent reporting and accounting requirements
- Of note is that a portion of donor funds are off-budget (channeled directly to projects without passing through the government budget system) which raises transparency questions.
- Overall implications of under release of donor funds is that it undermines implementations of MDAs work plans and expected results in service delivery in development projects.

Recommendations

The following recommendations are critical towards improving budget execution by MDAs and indeed better service delivery benefits for citizens but also useful in addressing certain PFM issues including rise in pending bills.

Issues	Recommendations
Unpredictability and insufficiency of funds	• The National Treasury should strengthen revenue forecasting capacity in order to improve predictability of public funds for improved budgeting and execution. This is will reduce need and frequency of budget revisions. • Civil society organisations and other non-state actors including the media should interrogate and analysis how realistic revenue projections towards influencing realistic budget ceilings for MDAs. • The Legislature should oversight and rein on optimistic revenue projections that are used to "understate" the magnitude of budget deficit and as a way of curbing borrowing appetite by the government
Overall delays in releases shown by varying Treasury release by quarters	• There is need for harmonization and synchronization of MDAs work plans and cash request working with the National Treasury to releases
Transparency in declaration of AiAs by MDAs	• The Legislature and civil society should rein on the National Treasury to strengthen and enforce reporting of appropriations in aid (AiA) as provided in the Public Finance Management Act (PFMA), 2012.
Under release of donor funds, direct donor funding to project (off-budget) and lack of transparency	• The National Government should scale donor funds projections to avoid huge gaps when commitments by donors do not materialize • NG should agree with donors on a simple, harmonized and synchronized donor disbursement procedure. • Civil society should demand for accountability and reporting of direct donor funding in line with PFMA, 2012 and External Resources Policy to improve overall transparency of flow of donor funds.

NOTES

Contributors

1. John Mutua
2. Noah Wamalwa
3. Darmi Jattani

Institute of
Economic Affairs

Institute of Economic Affairs
5th Floor, ACK Garden House, 1st Ngong Avenue
P.O. Box 53989 - 00200, Nairobi, Kenya.
Tel: +254 - 20 - 2721262, +254 - 20 - 2717402
Fax: +254 - 20 - 2716231
Email: admin@ieakenya.or.ke
Website: www.ieakenya.or.ke

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