

BUDGET FOCUS

November 2023

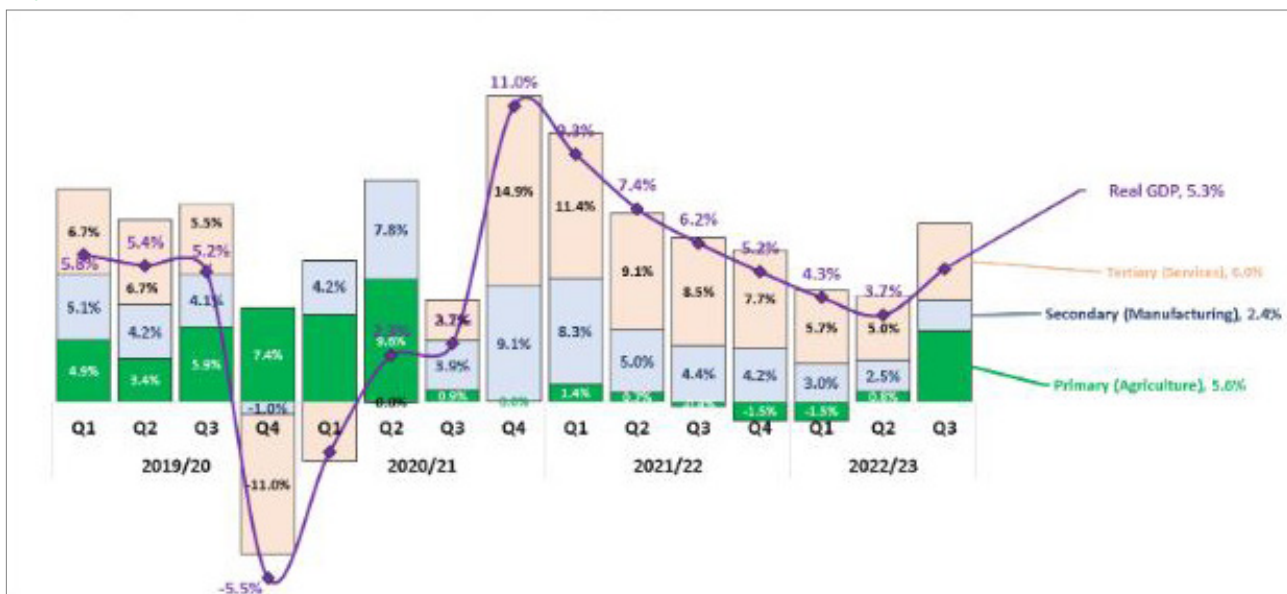
Analysis of National Government Budget Implementation Report for FY 2022/23

1.0 Introduction

Implementation of the National government budget for FY 2022/23 was marked by a political transition. The previous administration of Jubilee government oversaw the formulation of this budget which was consequently approved by the National Assembly of the 12th parliament of Kenya. Nevertheless, the biggest part (three quarters) of implementation of this budget was undertaken by the current, Kenya Kwanza administration that came into power on the 13th of September 2022 after the general elections of August 2022.

The implementation of this national budget was on the back of a slowdown in economic activity particularly in quarter one (Q1) and quarter 2 (Q2) of FY 2022/23, with a significant rebound in quarter three (Q3). As shown in fig 1(a) the economy expanded by 5.3 percent in Q3 of 2022/23 compared to 6.2 percent in a similar quarter in FY 2021/22. Indications from Kenyan National Bureau of Statistics (KNBS) is that the economic rebound is attributed to the agriculture sector and continued resilience of the tertiary (services) sector.

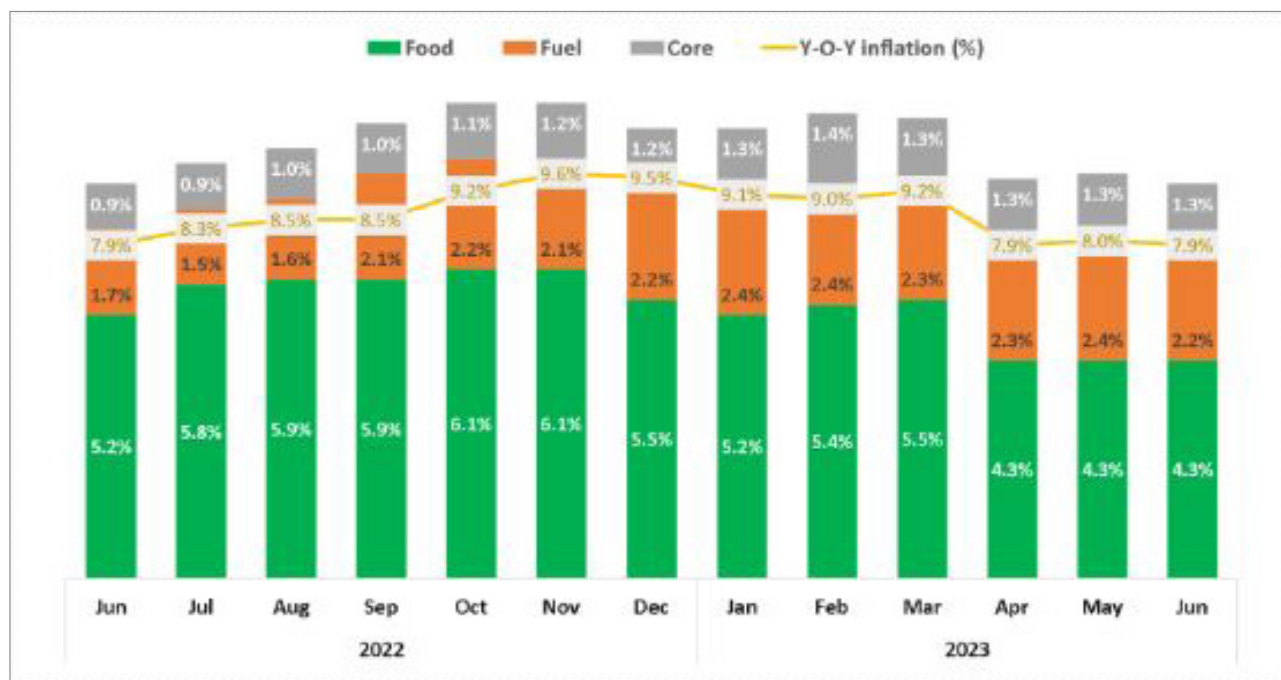
Figure 1(a): Real Economic Growth Rates



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

The economy continued to experience persistent inflationary pressures during the FY 2022/23 driven by elevated food and fuel prices. This is despite overall year-on-year inflation declining from 5.2 percentage points in June 2022 to 4.3 percentage points in June 2023 (see fig 1b). Fuel inflation increased to contribute 2.2 percentage points to year-on-year overall inflation in June 2023 from a contribution of 1.7 percentage points in June 2022. This was mainly driven by the increase in electricity prices due to higher tariffs and increase in prices of kerosene/paraffin, diesel and petrol on account of relatively higher international oil prices. The contribution of core (non-food and non-fuel) inflation to year-on-year overall inflation has been low and stable, consistent with the muted demand pressures in the economy, supported by prudent monetary policy.

Figure 1(b): Trends in Inflation Rates



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

Following from the economic and political developments, the national budget FY 2022/23 was revised twice, during quarter three (Q3-February 2023) and towards the end of quarter four (Q4-June 2023). This consequently led to the introduction and approval supplementary budgets I and II respectively. Part of the reasons for revision of the budget was to meet this current administration's promise of instituting budget cuts¹, align to re-organization of the government ²and the administration' manifesto.

Although in-year budget revisions are allowed to respond to emerging issues, the legitimacy of the foregoing reasons is questionable because these are not necessarily unforeseen circumstances. Besides, this frequency and abuse of budget revisions for FY 2022/23 and for past FYs is not only a threat to national government's fiscal consolidation agenda but also points to poor planning and budgeting. This process may also be used to regularize illegal expenditure over approved budget and hence why oversight is key.

That said, the objective of this analysis is to assess the status of national government budget implementation for FY 2022/23. Secondly, this analysis seeks to establish any gaps/deviations from implementation of approved national budget that may raise credibility issues and implications on service delivery. Specific focus of the analysis is provided for priority sectors of education and health based on civil society engagement interest in the accountability space and of course their direct impact on citizen wellbeing. The final part of the analysis

¹Media reports indicate that President Ruto had promised to initiate budget cuts amounting to Ksh 300 billion

²Number of MDAs increased from ***to**

draws key messages and recommendations with the aim of contributing to enhanced citizen engagement, public discourse, and increased parliamentary oversight. Overall, this analysis and engagement is expected to spotlight transparency and accountability gaps in the implementation of national government budget.

The basis of this work is on a review and synthesis of national government budget oversight reports³ by the IEA-Kenya in partnership with the National Democratic Institute (NDI) and The Institute of Social Accountability (TISA) as part of a joint project titled ‘Financial Transparency and Accountability’.

2.0 Overall Budget Performance

Table 1 presents a summary of overall national government budget performance, both actual revenue collected and expenditure by the end of Q4 of FY 2022/23 against their respective annual targets. This performance is compared, for the same period with that for the previous financial year.

At the aggregate, table 1 helps to answer the question of whether the national government budget was executed as was approved or not, based on receipts (revenue that was realized and other in-flows) and how these funds, released to spending units (ministries, departments, and agencies-MDAs) were executed. The degree of implementing the approved budget (revenue and expenditure) is often referred to as budget credibility, and the higher the better.

Overall expenditure execution in FY 2022/23 was better than in FY 2021/22 despite comparatively poorer revenue performance. Given that the revenue projections were not sufficient to finance the national executive budget, the gap/deficit was bridged through borrowing (see table 1). Performance in deficit financing was however better in FY 2022/23 than in the FY 2021/22. Therefore, better performance of overall combination of both revenue and deficit financing in FY 2022/23 is perhaps the reason behind comparatively better expenditure performance.

Table 1: Budget Outturn (Ksh Million)

	2021/22			2022/23			% Growth
	Rev Est II. (Target)	Actual	Performance (%)	Rev Est II. (Target)	Actual	Performance (%)	
Total Revenue and Grants	2,254,871	2,230,839	98.9	2,520,338	2,383,593	94.6	6.8
Revenue	2,191,953	2,199,808	100.4	2,478,621	2,360,510	95.2	7.3
Ordinary Revenue	1,851,510	1,917,911	103.6	2,145,399	2,041,119	95.1	6.4
AiA	340,443	281,897	82.8	333,222	319,391	95.8	13.3
Grants	62,918	31,031	49.3	41,717	23,083	55.3	(25.6)
Expenditure	3,286,077	3,023,182	92.0	3,366,561	3,218,187	95.6	6.5
Recurrent	2,227,325	2,134,986	95.9	2,367,671	2,308,750	97.5	8.1
Development	657,515	535,782	81.5	560,545	493,663	88.1	(7.9)
County Govt	401,237	352,414	87.8	436,345	415,774	95.3	18.0
Contingency Fund	-	-		2,000	-	0.0	
Financing	1,031,206	780,476	75.7	846,223	797,563	94.2	2.2
Discrepancy		32,651			27,256		(16.5)
Net foreign financing	343,085	142,524	41.5	362,665	310,759	85.7	118.0
Net Domestic financing	688,121	605,301	88.0	483,558	459,548	95.0	(24.1)

Source: National Treasury issues of Quarterly Economic and Budget Review

³The reports analysed analyzed are namely: National Government Budget Implementation and Review Reports for FY 2022/23 and FY 2021/22 by the Office of the Controller of Budget (OCOB) and Quarterly Economic and Budgetary Review reports by the National Treasury for the same periods.

Overall underspending is a pointer of failure by the national government to deliver on planned services. From table 1, this challenge is more pronounced in the execution of development budget (88.1%). Worse still, is the fact that actual spending on development projects reduced by 8% in FY 2022/23, compared with the previous financial year, despite an overall bigger budget and actual spending. Reduced development spending may be explained by supplementary II where funds were not disbursed for projects with low absorption.

Subsequent sections of this brief provide more insights of revenue and expenditure performance to help in better understanding of the reasons behind the deviations as aforementioned.

2.1 Revenue Performance

Table 2 presents a breakdown of actual revenue collected against annual target for the FY 2022/23 compared to the same period in FY 2021/22.

Revenue performance is reflective of slowdown in the economic activity and the prevailing economic situation characterized by high cost of living pressures and a slowing global economy. By the end of Q4 of FY 2022/23, the national government had realized total revenue and grants of Ksh 2.4 trillion, falling short of its annual target by 5.4% (see table 2). Despite revenue collection having grown by 6.8% in absolute terms, this overall performance as earlier noted, was poorer than in FY 2021/22 (see table 1). The main driver for reduced overall revenue performance was a significant dip in external grants, off the target by 44%, as well as in ordinary revenue (tax revenue), off the target, albeit marginally, by about 5%.

Table 2: Government Revenue and External Grants

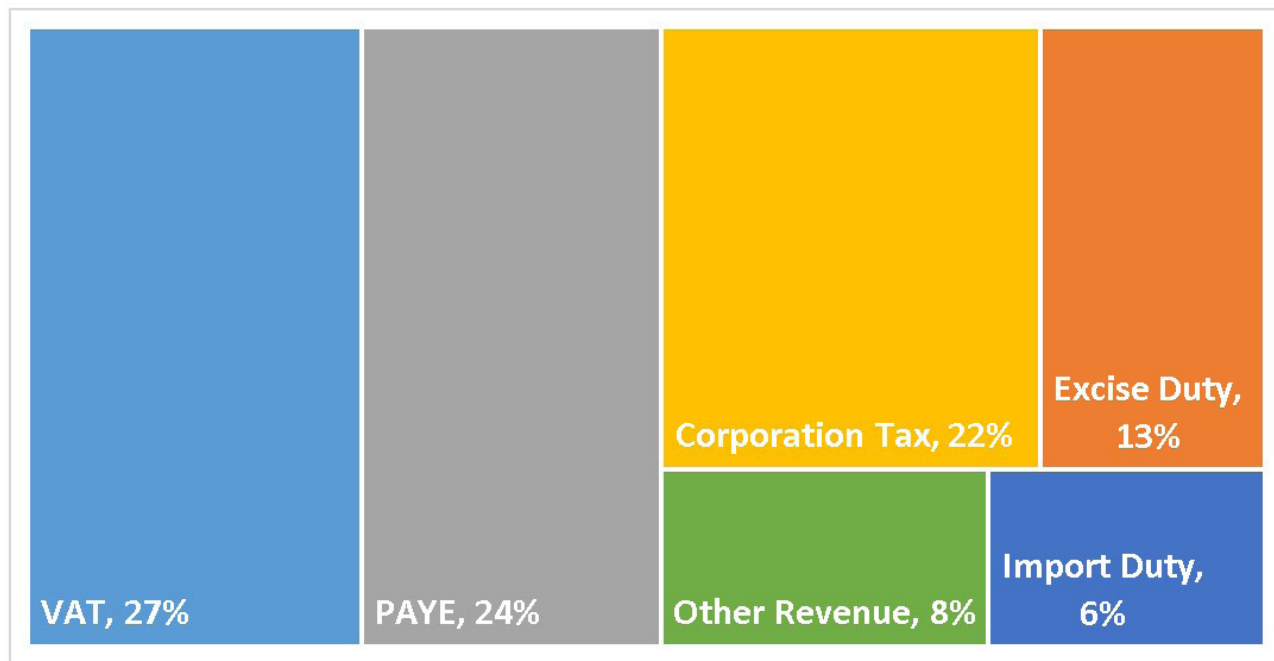
	2021/22		2022/23		% Shortfall from Target	% Growth
	Actual	Actual	Target			
	Ksh Bn	Ksh Bn	Ksh Bn			
	(A)	(B)	(C)	$\frac{[B - C]}{B} * 100\%$	$\frac{[B - A]}{B} * 100\%$	
Total Revenue (a+b)	2200	2361	2479	-4.8%	7.3%	
a) Ordinary Revenue	1918	2041	2145	-4.9%	6.4%	
Import Duty	118	130	143	-8.8%	10.0%	
Excise Duty	252	265	294	-10.0%	4.9%	
PAYE	462	495	511	-3.2%	7.0%	
Corporation Tax	414	447	471	-5.2%	7.8%	
VAT	523	550	581	-5.2%	5.2%	
Other Revenue	148	154	146	5.8%	4.6%	
(b) Appropriation In Aid 2	282	319	333	-4.2%	13.3%	
o/w Railway Development Levy	36	40	37	8.3%	9.7%	
(c) External Grants	31	23	41	-44.2%	-25.6%	
Total Revenue and External Grants (a + b + c)	2231	2384	2520	-5.4%	6.8%	
as % of GDP	17.64%	16.41%	17.35%			

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

Specifically for ordinary revenue, the main culprits were excise duty (10%) and import duty (8.8%). Kenya Revenue Authority (KRA) notes that import duty was affected by growth in exemptions and remissions on commodities such as rice, maize, sugar and cooking oil. These reforms were part of government's strategies to mitigate against adverse effects of drought and to reduce the cost of living. Although various tax policy and administration measures in the Finance Act 2022 increased excise duty on some products such as beers, cigarettes, soft drinks, among others, thus generating comparatively more collection, this was however still short of the target.

Generally, all the key sources of ordinary revenue in FY 2022/23 registered increased collection in absolute terms relative to the previous financial year partly on the back of various tax policy and administration initiatives by KRA including the rapid revenue initiative (RRI) during Q4. Nevertheless, this growth in ordinary revenue of 6.4% was below the annual inflation rate of 8.8%, implying that the real growth is negative.

Fig 2: Distribution of Ordinary Revenue for the end of FY 2022/23



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

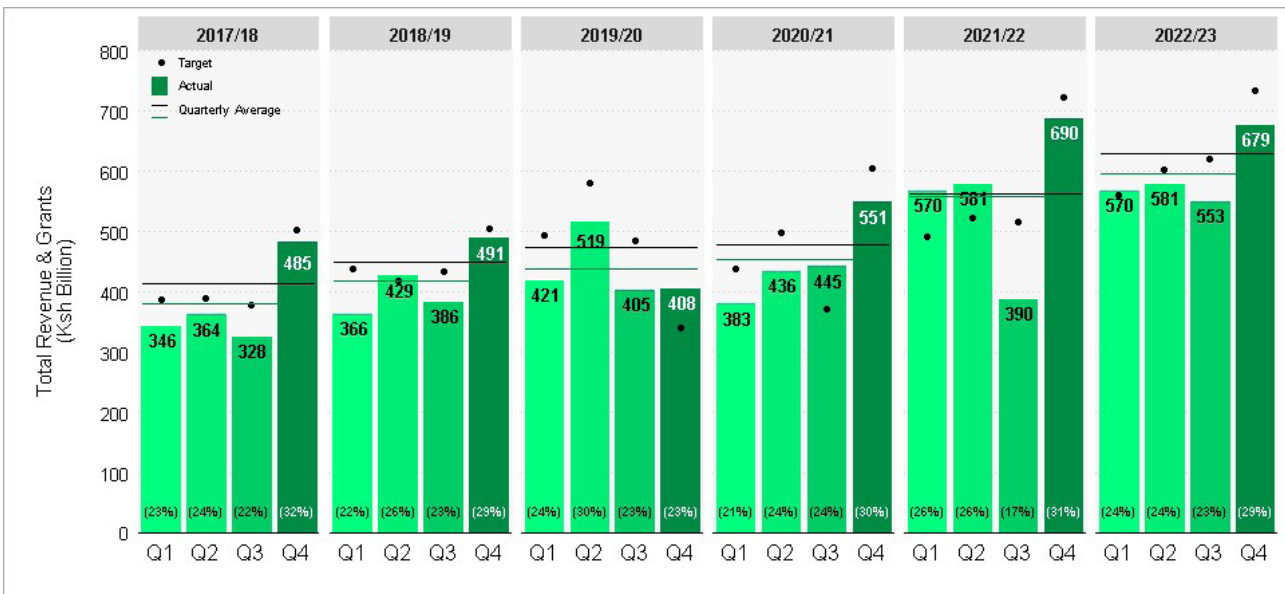
Figure 2 shows the contribution of these key tax heads in FY 2022/23. Value Added Tax (VAT), Pay As You Earn (PAYE) and corporation taxes make up two thirds of total ordinary revenue. The big tax components are mostly from the formal sector. Expansion of the tax base, with 940, 483 additional active taxpayers, 95,732 registered taxpayers on boarded in the eTIMs, debt collection from non-compliant taxpayers raising Ksh 99.3 billion and dispute resolution netting Ksh 71.8 billion are some of the key drivers of revenue growth as noted by KRA.

2.1.1 Revenue Performance by Quarter

Figure 3 presents further trends of total revenue and grants collection by quarter against quarterly targets for the period 2017/18-2022/23. These trends shed light on the peculiarities in quarterly performance that are not discernible from aggregate revenue performance.

One of the notable findings across the period noted in figure 3 is that revenue receipts are highest in Q2 and Q4. It is not a coincidence as revenue performance during these quarters correlate with increased economic activities. For example, the country often registers growth in the hospitality sector from increased domestic and foreign tourist arrivals in Q2 of every financial year. Similarly, these two quarters also coincide with peak in the filing of returns by taxpayers which happens towards the end of Q2 and Q4 by individuals and corporates.

Figure 3: Trends of Quarterly Total Revenues and Grants (2017/18 – 2022/23)

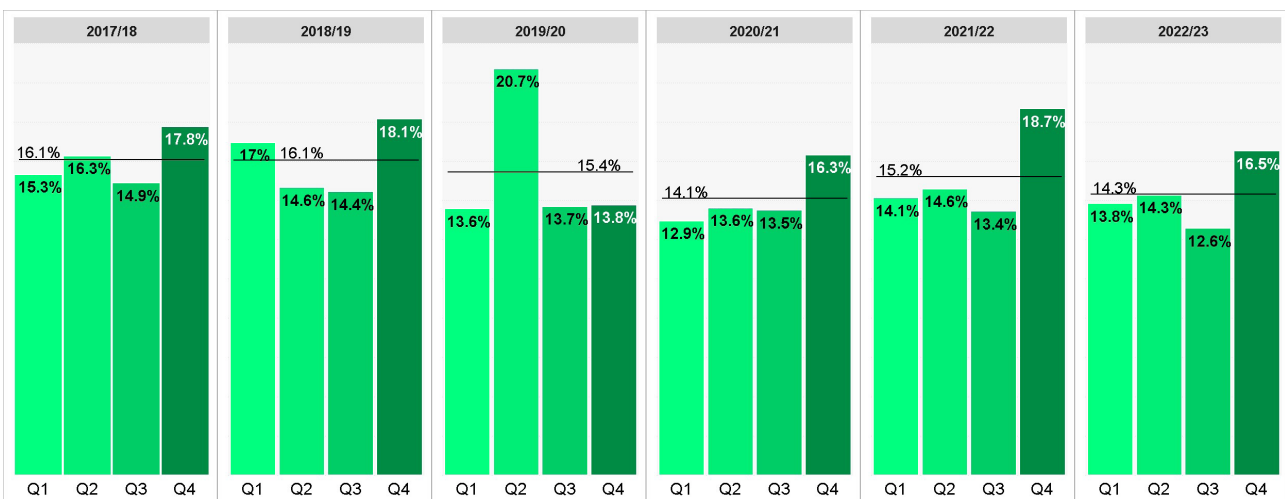


Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

The other notable finding is that except for Q1 of FY 2022/23, the gap between the actual revenue collection against the target is widening. This is in part attributed to optimistic revenue forecasting. Importantly optimistic revenue projections are often driven by the need to “understate” the budget deficit arising from government’s accommodation of expansionary fiscal policy (pressure to meet budgetary needs).

Tax revenue to GDP is another important indicator of revenue performance. It is useful in establishing the rate at which the tax revenue of a government is increasing to that of the increase in national income or GDP. As demonstrated in figure 4, annual tax revenue to GDP has been on a downward trend from 16.1% in FY 2017/18 to 14.3% in FY 2022/23. In fact, this is substantially below the government target of 18%, implying that the rate of growth in tax revenue collection is not keeping pace with the rate of increase in GDP.

Figure 4: % Tax Revenue (Ordinary Revenue) to GDP



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

The general decline in the tax-to-GDP ratio is a phenomenon that was witnessed even before the pandemic and therefore suggests a structural challenge in the economy. Additionally, reports show that high indebtedness which has led to increased borrowing from the domestic market to have negatively reduced capital for the private sector. This also explains the downward trend in tax revenue to GDP.

2.1.2 Emerging Issues on Revenue Performance

- Declining tax revenue to GDP implies that modest economic growth is not translating to improved revenue yield. This is attributed to the structure of the economy (80% informal sectors) and large reliance of agriculture (contributes >25% to GDP-declining/stagnant manufacturing sector). Other factors including political transition are at play as well.
- Revenue forecasting has commendably moderated but is still evident from the widening gap between quarterly revenue collection against target.
- Untimely revenue inflows are a potential for liquidity risks which translates to delays and uneven disbursement to MDAs. Therefore, cash flow management is critical to ensure smooth budget implementation and in turn improved service delivery.

2.2 Expenditure Performance

Overall expenditure performance, as well as the breakdown by recurrent and development was better in FY 2022/23 than in the prior financial year as shown in table 1. This section provides further disaggregation of recurrent and development expenditure to better explain overall expenditure performance.

Evidently, the biggest budget credibility challenge is with execution of development budget which is a recurring challenge when compared with expenditure performance for the past decade. About 19% of its approved development budget was not spent by the end of Q4 of FY 2022/23 compared to 7.2% for recurrent expenditure (see table 3).

Again table 3 reveals notable variations in absorption rates (actual expenditure over the approved budget/target) from one sector to another for both recurrent and development budgets. The other way to interpret absorption rates is the portion of funds that remain unspent against the budget/target. This table also captures utilization rates (proportion of releases spent), which is a ratio of actual expenditure to exchequer issues (funds disbursed to spending units). This indicator is important in assessing whether challenges in calling upon budget provisions are capacity related or influenced by other factors. Utilization rates (proportion of releases spent) is actually like a first order effect assessment of expenditure performance while the absorption rate is akin to a second order effect assessment.

Table 3: Absorption Rates for Recurrent and Development Expenditure by Sectors in FY 2022/23

	Recurrent				Development			
	Exchequer Issues (Ksh Bn)	Actual Expend. (Ksh Bn)	Proportion of releases spent (%)	% of funds not spent against annual target	Exchequer Issues (Ksh Bn)	Actual Expend. (Ksh Bn)	Proportion of releases spent (%)	% of funds not spent against annual target
Agriculture, Rural and Urban Development	21.3	26.5	124.1	4.0	47.0	51.0	108.4	23.5
Energy, Infrastructure and Information, Communication Technology	59.3	157.5	265.7	7.5	71.1	152.1	214.0	12.5
General Economic and Commercial Affairs	10.0	18.1	180.2	15.3	4.9	5.5	112.0	28.4
Health	48.9	69.8	142.9	3.2	27.3	40.2	147.3	9.2
Education	476.2	477.8	100.3	10.6	24.9	21.8	87.5	35.9
Governance, Justice, Law and Order	224.1	230.7	102.9	1.5	5.5	5.9	109.1	12.8
Public Administration and International Relations	154.9	173.7	112.2	12.5	85.7	116.1	135.4	20.8
National Security	163.4	171.5	104.9	1.0	1.8	3.4	191.7	0.3
Social Protection, Culture and Recreation	45.6	48.7	106.8	3.6	13.2	25.6	193.8	22.5

Environmental Protection, Water and Natural Resources	18.0	26.3	146.5	4.7	26.7	52.0	195.0	23.6
Total	1,221.6	1,400.6	114.7	7.2	308.0	473.5	153.7	19.0

Source: OCOB Budget Implementation and Review Reports (BIRR) various issues

For both recurrent and development expenditure, the capacity of MDAs to spend funds already at their disposal is not a challenge as the utilization rate is over 100% across all sectors. It is only the development expenditure on the education sector whose utilization rate was substantially below 100%. This suggests some inherent capacity gaps in the delivery of education services amidst other planning and budgeting challenges.

On the recurrent expenditure side, the top three most struggling sectors in executing their budgets are General Economic and Commercial Affairs (15.3%); Public Administration and International Relations (12.5%) and Education (10.6%) in that order. The unspent recurrent expenditure portion is largely for non-wages, that is, for operations and maintenance component.

Similarly, Education (35.9%) and General Economic and Commercial Affairs (28.4%) and Environmental Protection, Water and Natural Resources (23.6%) as the odd one out, are the top three most struggling sectors on the development expenditure side. Emergence of stalled/incomplete projects in these foregoing service delivery areas are a manifestation of challenges in the absorption of their respective development budgets.

Comparing Spending by Sectors Across Quarters and Financial Years

Breakdown of sectors' (MDAs) absorption rates by quarters presents some interesting findings as shown in table 4. One of those findings is that spending picks up during Q4 for majority of the sectors (darker shades of green) often aligned to timeliness of disbursements.

Table 4: Distribution of Cumulative Absorption Rates (%) Across Sectors

Sectors	Recurrent								Development							
	2021/22				2022/23				2021/22				2022/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture, Rural and Urban Development	16	35	54	83	30	55	65	96	11	28	32	75	5	31	51	77
Energy, Infrastructure and ICT	10	20	67	94	29	56	72	92	25	39	56	78	19	35	45	88
General Economic & Commercial Affairs	13	27	41	85	11	23	31	85	21	25	41	84	11	12	27	72
Health	15	34	48	98	14	31	49	97	9	35	35	76	2	25	54	91
Education	23	45	66	98	24	44	67	89	14	27	40	58	19	24	35	64
Governance, Justice, Law & Order	21	44	66	95	25	47	72	99	27	53	58	91	44	58	74	87
Public Administration & International Relations	18	42	62	92	22	41	65	88	11	33	49	89	15	29	35	79
National Security	23	54	67	100	26	49	65	99	46	75	76	99	42	52	52	100
Social Protection, Culture and Recreation	6	38	44	97	7	36	61	96	13	16	21	78	7	24	48	77
Environ. Protection, Water & Natural Resources	21	37	58	92	16	37	42	95	9	22	30	81	9	20	51	76
Total	19	41	64	96	24	45	66	93	16	34	46	80	14	29	44	81

Source: OCOB Budget Implementation and Review Reports (BIRR) various issues

Coincidentally, only two sectors had reached the ideal 50% mark in absorption rates for both recurrent and development expenditure sides. The Agriculture, Rural and Urban Development and Energy, Infrastructure and ICT for the former and the GJLOS and national security on the development expenditure. Apparently,

these quarterly trends are important pointers of the corrective measures needed during implementation of the budget towards improving national government budget credibility before the end of the financial year. Hence the reason for legislative oversight and vigilance by civil society groups during budget implementation phase as this is likely to reduce the frequency of recurring audit issues flagged in the national government audit reports.

Other notable findings from table 4, is that whereas overall expenditure spending in FY 2022/23 was better than in FY 2021/22, there are some sectors that performed better in this latter year. These sectors are, namely: PAIR, Education, EI & ICT on the recurrent expenditure side and GECA, GJLOS, PAIR, EPW & NR on the development expenditure side.

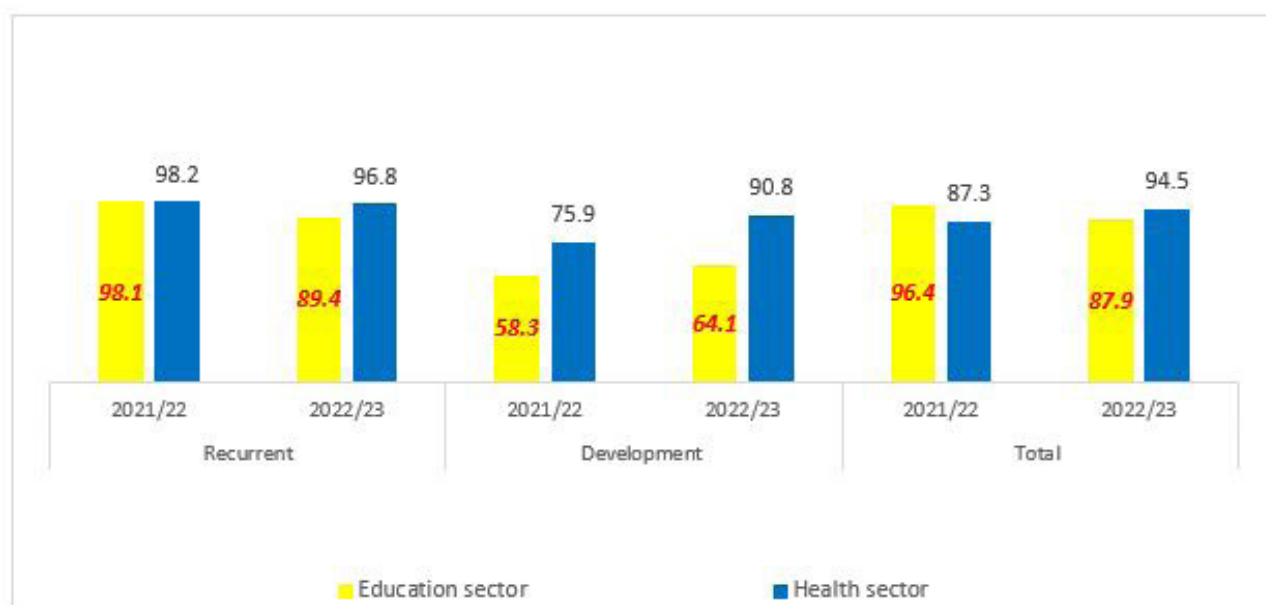
2.3 Case of Education and Health Sectors' Expenditure Performance

The education sector takes the lion share (26%) of the national government budget, thus a top priority sector. Combined with the health sector, which is largely a devolved function, their share of the national government budget was 32% in the FY 2022/23. These two social sectors are critical for human capital development and ultimately for Kenya's economic development. Because of their direct impact on citizen wellbeing, civil society vigilance and legislative oversight is critical in monitoring implementation of their budgets and whether on course in realization of policy objectives. This is important too in safeguarding social spending that is prone to budget cuts.

2.3.1 Education Sector Budget Performance

As far as education sector goes, its approved budget of Ksh 544.5 billion was revised upward twice, with the final budget going up to Ksh 568.2 billion. These adjustments were driven by the need for additional funding towards free primary education (FPE) under the State Department for Early Learning and Basic Education and for technical trainers and instructor services under the State Department for Vocation and Technical Training. By the end of Q4, the sector's absorption rate worsened by about nine percentage points (from 96.6% in FY 2021/22 to 87.9% in FY 2022/23) as shown in figure 5. Upward revisions of its budget are partly attributed to this deterioration in absorption rate.

Fig 5: Absorption Rates (%) for Education & Health Sectors by Q4 of FY 2022/23



Source: OCOB Budget Implementation and Review Reports (BIRR) various issues

Uptake of development budget (64.1%) for the education sector is substantially lower than that for recurrent budget (89.4%). Thus, this is the focus for further breakdown and analysis. The State Department for Early Learning and Basic Education posted the highest absorption rate of 70.6%. By contrast, the State Department for University Education and Research recorded the lowest rate at 40.7%. In between, Teacher Service Commission, the biggest agency, absorbed 61% of its development budget while the State Department for Vocational & Technical Training only managed slightly more than half of its own budget.

Table 6 highlights sub-programmes with absorption rates that are below the government target of 80%. This is a clear indication that expected outputs and results as was targeted through the delivery of education sector programmes in these areas were not realized. Some of the highlights are noted below.

Table 6: Lowest Education Sector’s Budget Performance by Programmes & Sub-Programmes

Programmes	Sub-Programmes	Absorption Rate (%)
State Department for Early Learning and Basic Education		
Primary Education	Free Primary Education	68.2
	Primary Teachers Training and In-Servicing	51.3
Quality Assurance and Standards	Examination and Certification	17.0
State Department for Vocational & Technical Training		
Technical Vocational Education and Training	Technical Trainers and Instructor Services	67.3
	Infrastructure Development and Expansion	28.9
State Department for University Education		
University Education	University Education	57.1
	Quality Assurance and Standards	42.5
	Higher Education Support Services	67.3
Research, Science, Technology and Innovation	Knowledge and Innovation Development and Promotion	47.3
	Science and Technology Development and Promotion	77.0
Teacher Service Commission		
Governance and Teaching Standards	Teacher professional development	36.5
	Teacher capacity development	0.3

Source: OCOB Budget Implementation and Review Reports (BIRR) various issues

By the end 2022, the State Department for Early Learning and Basic Education should have delivered primary schools infrastructure improvement. However, the project completion rate is significantly low-21.1%, with an equally low absorption rate of 8.4% (expenditure of Ksh 224.3 million against project cost of Ksh 3,790 billion). Similarly, the utilization rate of 26.4% is quite low. In addition, ICT integration in secondary schools project, with one year to go seems to be lagging behind given that its current completion rate is 57.2%.

The same Department was expected to deliver construction of 10,000 CBC classrooms. This project, anticipated to end in 2024 is 80% complete, an indication that it is on course. However, the Department has spent nearly a half of Ksh 8 billion, the estimated value of the project. This implies that the project cost may have been inflated as a conduit for financial malfeasance.

The other notable service delivery questions are regarding the upgrading of TVET facilities and promotion of youth employment and vocational that fall within the State Department for Technical, Vocational Education and Training. For example, Kenya phase 1 project which is expected to end in 2024 has a completion rate of 29% which is substantially low.

2.3.2 Health Sector Budget Performance

As provided for in the Constitution of Kenya, the national level health sector is responsible for providing and coordinating health policy formulation, ensuring quality service delivery and regulating health care. The sector's approved budget of Ksh 122.5 billion was cut by 5.3% through downwards revisions to Ksh 119.4 billion in Supplementary Budget I and again further down to Ksh 116.4 billion in Supplementary Budget II.

By the end of FY 2022/24, the health sector's budget performance was 94.5%, substantially better than in FY 2021/22 whose absorption rate was 87.9%. This improved budget performance was driven by significance uptake in the sector's development budget (see fig 5). Besides the effect of downward revision of the budget is likely to have improved the sector's budget performance.

Table 7: Lowest Health Sector's Budget Performance by Programmes

Programmes	Sub-Programmes	Absorption Rate (%)
Ministry of Health		
Preventive and Promotive Health Services	Communicable Disease Control	71.5
	Government Chemist	67.0
	Disease Surveillance and Response	68.0
Curative Health Services	Health Products and Technologies	13.9
State Department for Public Health and Professional Standards		
Preventive, Promotive Health Services	Non communicable Disease Prevention and Control	29.3
	Radiation Safety and Nuclear Security	56.9
Health Research, and Development	Capacity Building & Training (Pre-Service and In-Service)	27.4
General Administration, Planning & Support Services	Health Standards, Quality Assurance & Standards	37.4
	Human Resource Management and Development	43.0
	Health Administration	64.9
Health Policy, Standards and Regulations	Health Standards and Regulations	58.8

Source: OCOB Budget Implementation and Review Reports (BIRR) various issues

Individually, the Ministry of Health (MoH) which accounts for 96% of the sector's budget outperformed its counterpart, the State Department for Public Health and Professional Standards. Nevertheless, the uptake of the latter's development budget, albeit smaller, was 100% while that of the MoH was 90.2%. On the contrary, the MoH uptake of recurrent budget nearly was significantly better than that for the State Department for Public Health and Professional Standards.

Table 7 presents a selection of programmes/sub-programme in the two agencies of the health sector whose absorption rates were below 80%. Again, like that for the education sector, this table provides an indication of service delivery areas whose expected outputs and outcomes were not met.

Under the Preventive and Promotive Health Services programme of the MoH, it is reported that immunization coverage improved to 88% in FY 2021/22 from 84% in FY 2020/21 due to procurement and installation of specialized vaccine storage equipment in over 3,500 health facilities and 290 sub-county vaccine depots. As of June 2023, the completion rate for the establishment of vaccines and immunization facilities and storage equipment was 11%. However, without OCoB reports providing information on the expected completion date, one is not able to tell whether the progress in delivery of this project is on or off track.

The sub-programme on non-communicable disease prevention and control is not among those struggling to absorb their budget. There are however two projects whose completion rates is quite low, namely: establishing of Regional Cancer Centres and Cancer and Chronic Disease Management Center -MTRH at 12 %and 69% respectively. These are symptoms of less-than-optimal uptake of the sub-programme's development budget.

Another cause for concern is with the ability of Health Research and Development programme to deliver on its mandate of building capacity and training of health professionals (pre-service and in-service). Given that the Programme absorbed 27.4% of its budget by the end of the FY 2022/23, certification of the target health professionals including Community Health Assistant (CHAS) and Community Health Extension Workers (CHEWs) as well as training of students was not fully achieved. Furthermore, the planned construction and expansion of Kenya Medical Training Center tuition blocks, labs and classrooms are not likely to have been completed as planned.

Absorption rate for Health products and technologies sub-Programme under the Curative health service is quite low, 13.9% particularly for the development budget component. Part of this sub programme's objective is to complete the establishment of National Commodities Warehousing (KEMSA) whose completion rate is 77% as well as establishment of the East African Centre's of Excellence for skills and tertiary education whose completion rate is 75%.

From the two case studies, it is clear that the level of transparency and comprehensiveness of OCoB reports has improved significantly. Nevertheless, in order for these reports to facilitate social accountability by civil society groups, there is need to enhance narrative (non-financial) information to accompany the financial information provided. For example, information on health sector select projects, information on expected completion date is not provided. Therefore, these service delivery gaps make it difficult for civil society groups to undertake social audit or complete analysis, unless they seek this additional information from relevant public officials.

2.4 Consolidated Fund Services (CFS)

Constituting nearly 40% of the entire government budget in FY 2022/23, the CFS (mandatory expenditure) and largely driven by public debt servicing cost has continued to exert pressure on the implementation of budget. The other components of CFS are shown in table 8.

CFS Category	2022/23				2021/22			
	Original Est.	Revised Est.	Expenditure	% Expend. to Revised Est.	Original Est.	Revised Est.	Expenditure	% Expend. to Revised Est.
Public debt	1,388.7	1,385.1	1,153.1	83.3	1,169.2	1,151.3	847	73.6
Pensions & Gratuities	171.8	172.6	136.4	79.0	153.6	153.6	145.6	94.8
Salaries, Allowances & Misc incl guaranteed debt	6.9	20.0	15.7	78.5	4.4	4.6	3.2	69.6
Subscriptions to int'l Org.	0.0				0.0	0.0		
Total	1,567.4	1,577.7	1,305.2	82.7	1,309.2	1,309.5	996.0	76.1

Source: OCOB Budget Implementation and Review Reports (BIRR) various issues

The total CFS was revised slightly upwards in the course of FY 2022/23 from Ksh 1.57 trillion to Ksh 1.58 trillion, a growth of less than one percent. This was necessitated by the need to provide for additional resources allocated towards external loan interest payments and payment of guaranteed debt of Ksh 12.3 billion (Ksh 106 billion as principal and Ksh 1.7 billion as interest) to bailout Kenya Airways. Expenditure at the end of the financial year of Ksh 1.3 trillion was however short of this revised allocation by about 17%. From table 8, it is clear the significant increase in expenditure was on public debt service (36%) and on salaries, allowances and miscellaneous (incl. guaranteed debt) - 391% in 2022/23 relative to the previous financial year. There is need

for further investigation and audit of the rationale for the latter CFS component from Ksh 6.9 billion, revised to Ksh 20 billion and consequently actual spending of Ksh 15.7 billion. This is a pointer of some mischief and indeed a red flag.

On the basis of deficit financing (domestic and external borrowings for FY 2022/23), the stock of public debt rose to Ksh 10.3 trillion (71% of GDP) by the end of June 2023 from Ksh 8.6 trillion over the same period in 2022. This represents a growth of 18.8%, attributed to external loan disbursements (Ksh 548.2 billion up from Ksh 327.1 billion), exchange rate fluctuations and the uptake of domestic and external debt during the 2022/23 according to the National Treasury. High public debt payments imply reduced resources for provision of priority services and often a factor for revisions of budgets.

On paper, government efforts to contain accumulation of public debt seem to be clear given the slight reduction in fiscal deficit from 6.2% of GDP in FY 2021/22 to 5.7% of GDP in FY 2022/23. However, in practice, increase in expenditure through revisions of the budget to accommodate initiatives such as fertilizer subsidies and other factors including the rising pending bills⁴ continue to negate government’s fiscal consolidation plan. Again this is a call for strict oversight from parliament on the fiscal implication of such government expenditure initiatives.

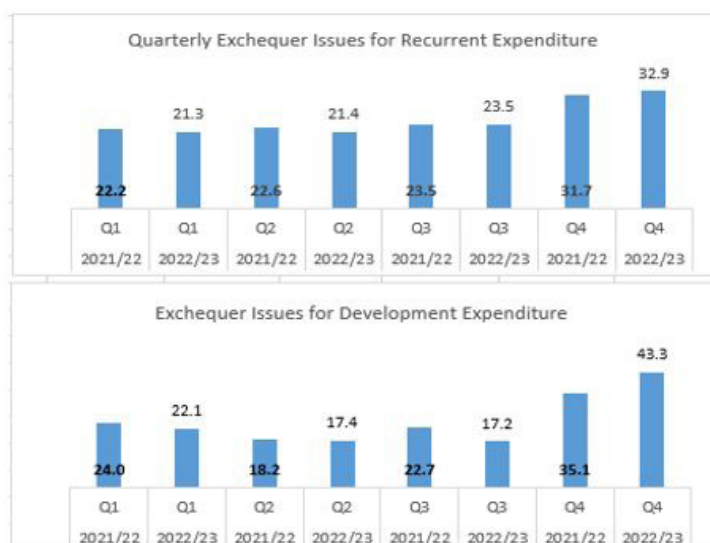
Already this level of public debt stock was in breach of statutory debt ceiling of Ksh 10 trillion. This is what triggered the National Executive tabling of the Public Finance Management (Amendment) Bill 2023) with a proposal to revise the debt ceiling from this nominal amount to 55% of GDP in present value. Consequently, parliament approved the conversion of the debt ceiling threshold from nominal amount to a debt anchor as a percentage of GDP just before the end of June 2023.

2.5 Emerging Issues in the Execution of the National Government Budget

This section highlights some of the salient issues attributed to challenges in budget execution based on findings from the preceding sections:

i. Predictability and availability of public funds

Figure 6: Quarterly Exchequer Issues to the National Government



Predictability and availability of funds in a timely manner is critical for effective budget execution. Overall expenditure underperformance is attributed to the recurring challenge of **delays in release of funds to spending units/MDAs**. Ideally for each quarter, 25% of budgeted funds are expected to be disbursed, implying that cumulative disbursement by the end of Q2 should be 50% and eventually 100% be the end of Q4.

⁴Further details on pending bill are provided in section 2.5 of this analysis.

Figure 6 clearly shows that most of the funds are released in Q3 and Q4 of the financial year for both recurrent and development budget. Comparatively, execution of development budget is affected the most, where just over 40% of the funds were released in Q4. Due to limited time, national government MDAs are often unable to absorb these funds. This is what invariably leads to **stalled/incomplete projects** which come with attendant cost overruns and consequently leads to **pile up in pending bills** (see box 1). As flagged in both the OCoB and the Audit Reports, this typically points to avenues for resource wastage and ultimately raises value for money questions regarding service delivery objectives.

Box 1: Pending Bills Summary

Table 9 shows the breakdown of government of Kenya pending bills from the national government, state owned enterprises (SoEs) and county governments for the end of Q4 of FY 2022/23 compared with the same period in FY 2021/22. Of the three entities, the largest share of pending bills, 61% is from the SoEs and the smallest, 17% is from the MDAs. Therefore, the outstanding national government pending bills was Ksh 567.5 billion up from Ksh 532.6 billion, representing a growth of 6.6%.

Table 6: Government Pending Bills Summary (Ksh Million)				
Category	30th June 2022	30th June 2023	Change	Change (%)
a). MDAs				
Recurrent	62,782.8	87,835.2	25,052.3	39.9
Development	21,195.3	36,070.3	14,875.0	70.2
Sub-Total	83,978.1	123,905.4	39,927.3	47.5
b). State Corporations/SOEs/SAGAs				
Recurrent	292,990.9	188,135.3	(104,855.7)	-35.8
Development	155,629.3	255,460.7	99,831.4	64.1
Sub-Total	448,620.3	443,596.0	(5,024.3)	-1.1
c). County Governments				
Recurrent	22,173.4	28,921.8	6,748.4	30.4
Development	130,843.3	131,315.2	471.8	0.4
Sub-Total	153,016.8	160,237.0	7,220.2	4.7
Grand Total	685,615.2	727,738.4	42,123.2	6.1

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

As earlier noted, underutilization of budgetary provisions is not due to MDAs inability to spent available funds. Utilization rates for both recurrent and development budget for most of the sectors is above 100%, meaning that their expenditure has exceeded the funds that were made available/released to the MDAs.

Lack of release of funds as per the approved budget, for whatever reasons is one of the causes of low budget execution. Table 10 summarizes portion of funds, recurrent and development budget that were not released. On one hand, net budget is the component of budget financed from domestic revenue-exchequer and on the other hand gross budget includes AiA for recurrent expenditure and external/donor finances (loans and grants) for development expenditure. Understandably, underutilization of gross budget is bigger than that of net budget.

Table 10: %age of approved budget not released

Item	2022/23		2021/22	
	Net Budget	Gross Budget	Net Budget	Gross Budget
Recurrent	10.9	17.9	5.7	13.6
MDAs	3.7	19.1	2.1	17.6
CFS	16.7	16.7	9.0	9.0
Development (MDAs)	17.6	47.3	19.6	50.5
Total	11.7	22.6	7.7	20.9

Source: OCOB Budget Implementation and Review Reports (BIRR) various issues

For the net budget, which is the portion financed from domestic revenue, that is, exchequer issues, percentage of approved budget that is not released for recurrent expenditure went up from 5.7% in FY 2021/22 to 10.9% in FY 2022/23. Equally, that for development expenditure increased from 7.7% to 11.7% over the same period. As for gross budget, the portion of recurrent budget not released to MDAs was 13.6% in FY 2021/22 and went up to 17.9% on account of AiA. Although performance of AiAs from MDAs has improved questions still linger about its transparency and reporting (driven by the fact that it is used to safeguard delays in release of funds).

Table 10 shows that about 30% of the total external/donor funding for development budget was not released to MDAs by the end of FY 2022/23. This is substantial given that external funding constituted 40.6% of development budget in FY 2022/23. Reasons for delays in release of donor funds are both technical and administrative. For example, lengthy and complex procurement procedures and administration for the former and stringent disbursement procedures and tough reporting requirements for the latter.

Effects of Changes in National Government Allocations to Budget Credibility

Originally approved budgets for FY 2022/23 and FY 2021/22 were each revised twice. While budget revisions are permissible under Article 223 of the Constitution of Kenya, 2010 and section 44 of the Public Finance Management (PFM) Act, 2012, habitual revision of the budget reflects weaknesses in planning and budgeting.

Fig 7: Trends in Budget Revisions (Revenue and Expenditure)



Source: OCOB Budget Implementation and Review Reports (BIRR) various issues

For the two financial years as shown in fig 7, the direction of revisions/adjustments for both revenue and expenditure are positive/upwards. The magnitude of the revisions for both revenue and expenditure in the two financial years is below the Constitutional threshold of 10% of approved budget. The upward adjustments for both revenue and expenditure in FY 2022/23 are each less than one percent, quite modest relative to those in FY 2021/22, 7.4% and 8.5% respectively. It is important to note that as much the supplementary budget are within the legal bounds, their frequency, is a cause for concern. Does this suggest that there are loopholes?

4.0 Pending Bills

No.	Gaps	Recommendations
1	Liquidity constraints and cash flow management	<ul style="list-style-type: none"> The National Treasury should ensure for better management of cash flow that MDA work plans and exchequer requests are aligned to quarterly revenue collection patterns and trends as a way of mitigating delays in disbursement and ultimately reducing accumulation of arrears. The National Assembly should oversight and rein on the National Treasury to guide the national government in adhering to fiscal consolidation plans through commitment to contain spending pressures (austerity measures and cut wastages) and institute tax reforms and administration measures to minimize evasion and increase compliance. This is expected to ultimately enhance domestic resource mobilization
2	Tax revenue collection not responding to growth in economic activity (GDP). Besides, growth in tax revenue is below inflation rate	<ul style="list-style-type: none"> The National Government needs to engage in reforms that will stimulate revenue collection that responds to increase in economic activities (GDP) not just in the hike of tax rates. Other factors such as improved governance, political stability and predictable tax regime are important in influencing improved revenue collection. Civic society groups should engage with the National Assembly on the National Tax Policy and on the Medium Term Revenue Strategy (MTRS) which is key in providing the building blocks for creating a fair and predictable tax regime.
3	Revenue forecasting has moderated but still needs to be tempered	<ul style="list-style-type: none"> Unrealistic revenue projections are often politically driven and corrected through supplementary budgets. Therefore, the National Assembly should not approve the budget without evidence based justification of the projections by the National Treasury.
4	Dependence on unpredictable donor funds to finance development budget.	<ul style="list-style-type: none"> The national government should scale down donor fund expectations and strengthen reporting and integration of off-budget donor funds into government budget system. <p>Modest donor funds projection especially for sectors that perennially have had low uptake of their development budget and where disbursements have been less than was committed. This is important for a more accurate budget planning for projects and will go a long to deter delays in budget execution and attendant's risks.</p>
5	Budget revisions worsen budget performance	<ul style="list-style-type: none"> The National Assembly in their scrutiny and approval of the national government budget estimates should focus on ensuring that it is aligned to the approved Budget Policy Statement. In addition, budget implementation and audit findings should be used to inform budget approval as a sanction for perennial underspending MDAs. The National Treasury should strength its PFM systems, particularly planning and budgeting process to deter frivolous need for the budget to be adjusted. Civil society should engage and add their voice in the legislative scrutiny of supplementary budget estimates by sharing their views and comments with the National Assembly before approval.
6	High debt servicing payments	<ul style="list-style-type: none"> Interest payments are now more than 33% of tax revenue of which domestic interest payment account for about 75%. Therefore, the national government needs to contain spending pressures – focus should be in completion of existing projects

No.	Gaps	Recommendations
7	Stock of national government pending bills remains elevated	<ul style="list-style-type: none"> • The National Assembly should oversight the national government and SOEs in the prioritization of clearance of pending bills as a first charge on the Consolidated Fund akin to public debt payment adheres to PFM rules. After all clearance of pending bills has a knock-on effect of reviving businesses whose payments had been delayed. • The national government should enhance oversight of SOEs and improve cash management to avoid late payments at the end of the FY.
8	Social (education and health) spending a culprit for budget cuts	<ul style="list-style-type: none"> • The National Assembly should safeguard social sectors from unwarranted budget cuts to accommodate availability of funds for something that is not legitimately unforeseen or as a conduit for embezzlement of funds. • Civil society vigilance in their participation in supplementary budget estimates process is important to pressurize the National Assembly approvals that will affect social sector spending



COUNTY BUDGET FOCUS

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