

# THE PUBLIC FINANCE CONFERENCE

2024 | SETTING THE AGENDA

## SESSION PAPER NO. 5

### Budgets for Impact

Budget implementation is central to ensuring effective and meaningful public budgeting, requiring careful examination of the challenges to service delivery at both the national and county levels. Given Kenya's constrained fiscal space, it is essential that available resources are utilized efficiently to sustain service provision. A significant aspect of this is the role of public participation in overseeing budget execution, providing feedback, and influencing decision-making during the implementation phase to enhance accountability. This session will address the key question: How can we ensure that approved budgets achieve their intended impact on society?

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## Background

Kenya's government is organized into several Ministries, Departments and Agencies (MDAs) that are grouped to form ten sectors, at the national level. Analysis based on the Controller of Budget Implementation reports, between FY 2017/18 and FY 2023/24, the overall budget allocated to MDAs grew by about 46 percent. Even with this growth, there have been challenges in how these allocated resources are utilized by the government amid a dynamic and constrained fiscal budgeting space. In most cases, budget practitioners, and citizens have often been at the forefront in pushing for better allocations to their strategic sectors, especially social sectors, but where are the results, even as serious challenges on service delivery continue to persist?

Effective budgeting is crucial for ensuring that government services reach everyone, particularly the poor and vulnerable, who in most cases entirely depend on government services. When government agencies plan and execute budgets well, they can allocate resources efficiently and address community needs. Budgeting is as good as it is planned and well executed by the government agencies responsible for delivering services to all. The state of governments being able to execute their budgets as planned is what is referred to as Budget Credibility. More often, the social-related sectors often suffer when there are issues such as underspending. This means, there is a need to further interrogate and understand the root causes of poor budget credibility. This paper highlights some of the issues that arise as a result of poor budget credibility including constant budget revisions, pending bills, and non-adherence to the fiscal responsibility principle on wages.

Pending bills are expected to be a first charge, for both levels of government. Going by the reports, there is evidence to demonstrate notable progress that has been made by both levels of government towards addressing the increasing number of pending bills even though the number is still high. For example, the Budget Circular, which ideally guides the preparation of the budgets and sets guidelines has often required the government not to enter into new budgetary commitments before settling pending bills, but this is not always the case in practice.

Public Finance Management regulations require that the county government's expenditure on personnel emoluments should not exceed 35 percent of county revenue. Between FY 2018/19 and 2023/24, the overall country's wage bill has grown by 35 percent. Similarly, over the last few years, there has been comparatively faster growth in employment by counties this was because of the advent of the formal establishment of county governments (2012), total employment in defunct local governments (estimated at 37,000) constituted less than 6 per cent of total public sector employment. By 2018, however, total employment in county governments was estimated at more than 21 per cent of total public sector employment, similarly, to 23 percent in 2023.

## Objectives of the Session

- To understand challenges hindering the impact on budgets by exploring issues relating to budget credibility, pending bills, breach of fiscal rules and supplementary budgets.
- Share practices and experiences on budget credibility through these approaches from various countries and regions.
- Identify and discuss some of the specific steps that can be taken to address the issue relating to impact, especially targeting health and education..

## Key Challenges/opportunities

This session will look at four key areas of the budget including understanding how the government

has implemented its budget as committed to delivering the services, this is shown by the studies done on budget credibility, which in most cases, both levels of government have continued to struggle with underspending in their budgets which eventually hampering the effective delivery of services. Also, during the budget implementation stage, in Kenya, Supplementary budgets have become a common feature of budgeting processes at the national and county levels and come with shifts such as cuts which are sometimes high and even new priorities not previously in the original budget. More so, the process in which Supplementary Budgets are done in Kenya remains a challenge, right from limited to no involvement of the public, not leaving out less commitment from the legislatures to fully scrutinize the adjustments proposed in the Supplementary Budgets which at the end of the year, it just creates more and more budget deficits and eventually painting poor budget credibility. While in the long term, Supplementary Budgets will continue to be a common feature, there is a need for more emphasis on providing better procedures that guide the preparation of the Supplementary Budgets in addition to what the PFM Act already stipulates.

This session will also focus on how the government has adhered to the fiscal rules. To ensure prudent fiscal discipline on the spending of public funds, sections 15 and 107 of the PFM Act mandate the national and county treasuries, respectively, to enforce principles of fiscal responsibility. These specific conditions were introduced to control the level of resources that can be spent on recurrent costs.

## Key Themes to be Discussed.

This section highlights budget credibility and related issues, these include issues from planning and formulation of budgets to understand why the government has not been able to implement its budget as planned. Also, how revenue contributes to the budget credibility challenges considering the ambitious revenue targets that the government sets. Systems and processes under procurement and reporting by MDAs and counties, budget changes, pending bills and fiscal responsibilities also contribute to the challenges to budget credibility.

### THEME ONE: Budget Credibility

The ability of Kenya's government to meet the expenditure and revenue targets set out in their budgets accurately and consistently has often been pin-pointed through budget credibility studies as an issue, extending to the sub-national levels too, for example, in FY 2018/19, 2019/20, and 2020/21, 17 of Kenya's 47 counties spent less than 85 percent of their health budgets, on average, while only 13 counties spent within five percent of their approved budgets. This shows poor budget credibility. Various studies have been done to identify the issues in budget credibility, these provide platforms to both government and CSOs to address the challenges. The issue of budget credibility is tied to many challenges such as delays in inter-governmental transfers to the spending ministries and the county level, over the years Governments have been pushed to ensure there are timely cash releases to line ministries, subnational governments, and other spending units. In addition, counties also face challenges of not meeting their revenue targets on time which also contributes to the issues of budget credibility, although, there have been recent reforms done by counties to collect more revenue. Will this help in addressing the issue of budget credibility?

The procurement challenges have often been highlighted as another issue contributing to poor budget credibility, which is particularly part of improving PFM systems and enhancing fiscal transparency practices, such as adopting measures to report whether budgets have been executed as planned, or whether there have been deviations along with clear explanations for the reasons for deviations. In addition, to emergencies, lack of data on time has also been highlighted as an issue contributing to poor reporting contributing to budget credibility challenges.

## Questions:

1. Budget Credibility is about implementing budgets as planned. Why are we not able to do that?
2. Procurement and requisition processes are sometimes very complex and long, how should government deal with the issues of procurement?
3. Untimely reporting by MDAs and counties, which is often contributed by the lack of data on time leads to challenges to budget credibility. How should the government improve data and justification of the budget deviations relating to budget credibility?
4. How do these budget credibility issues affect service delivery and citizen engagement?

**THEME TWO: Supplementary Budgets**

The Budget Implementation Review Reports as published by the Controller of Budget show Supplementary Budgets are not entirely bad for budgeting as they allow the government to address unforeseen expenses or changes in priorities beyond what was initially allocated, allowing for adjustments and reallocation of funds to meet evolving needs. However, the government has in the last few years at least had more than two Supplementary Budgets, which could have been seen as a misuse even towards the end of the year, which is an issue especially considering the time to ensure that the budget is well executed. In addition, some instances have seen shifts, changes and even the introduction of new projects, and budget lines within the financial year. At some point, the Parliamentary Budget Office recommended limiting the number of Supplementary budgets that the government should give. It is also notable that at the county level, the same challenge exists, and some counties term the first supplementary budget as the original approved budget. Precisely, between FY 2019/20 and FY 2022/23 ten supplementary budgets were approved by the parliament, from this, seven were approved in the fourth quarter of the financial year and four were approved in June which is the last month of implementation in the financial year and Ministries, Departments and Agencies may not have enough time to implement.

## Questions:

1. Emergencies may not be avoidable, and this often leads to the need for supplementary budgets. Where are the gaps in handling emergencies and other contextual issues through supplementary budgets?
2. How should the government deal with the issues of Supplementary Budgets?
3. What options or opportunities are available for the public to unpack the space for the supplementary and provide input?

**THEME THREE: Fiscal Discipline- Development and Wage Bill**

Just like the surging Kenya's public debt, the public service wage bill has been on an upward trend in absolute amount rising from Ksh 785 billion in FY 2017/2018 to Ksh 1.035 trillion in FY 2021/2022. It is projected to grow further to Ksh 1.17 trillion in FY 2023/2024. This absolute growth in public wage bill is attributed to the increase in the workforce through employment in education, health and security sectors, which are essential services. It is also a result of upward reviews of remuneration and benefits in response to Cost-of-Living Adjustments and the need to attract and retain requisite skills<sup>2</sup>. In addition, the PFM Act and regulations limit the county government's expenditure on wages and benefits to 35 per cent of the county's total revenue. Over the years, counties have often breached this ceiling for example, in FY 2023/24 personnel emoluments accounted for 47 per cent of the total expenditure with only 3 counties within the limits. Breaching this principle, not only has an impact on personnel but also challenges the development budget, in which in FY 2023/24, 38 counties spent below the minimum 30 percent. Evidence from communities demonstrates these challenges extending to stalling projects which

have had a lot of investments and not offering the desired services to the public. Even with not meeting these set ceilings, sometimes, counties still do not utilize all the resources allocated.

Question:

1. To address the issues of the high wage bill, what are the alternatives that the government should continue to pursue?

#### **THEME FOUR: Pending bills**

In the last few years, the government has shown efforts to address the issue of pending bills. For example, a technical steering committee was set up to scrutinize and analyze the existing National Government's pending bills that have accumulated dating back about 20 years. According to the latest Controller of Budget Implementation Report, the total National government pending bills at the end of FY 2023/2024 was Kshs.516.27 billion, compared to Kshs.622.82 billion reported as at the end of FY 2022/23. This shows that there have been efforts by the national government to settle pending bills. However, it remains high considering that state corporations comprise about 74 percent of the existing pending bills. Similarly, during the same period, counties reported outstanding pending bills of Kshs.181.98 billion. Notably, several counties set up committees to address the issue of pending bills. The Controller of Budget advises county governments to settle the eligible pending bills as a first charge on the budget in line with the law and prepare credible budgets with realistic revenue targets. While these issues cannot entirely be blamed on the counties, the National Treasury has had challenges in ensuring the equitable revenue share is transferred to county governments as per the Approved Disbursement Schedules.

Question:

1. Pending bills also remain challenging, especially negatively affecting service delivery, although, governments have pro-actively tried to address the issues at both levels of government. What strategies do you think can effectively ensure that pending bills, especially those impacting service delivery, are prioritized and managed sustainably across both levels of government?

#### **THEME FIVE: Non-financial Information and Justifications**

Governments make budgets to help plan for revenues that will be collected and to prioritize spending during the year, but sometimes these plans may need to change or may not be achieved for various valid reasons, meaning not all deviations are bad, but there is a need for better justifications. Understanding the underlying budget issues which affect service delivery, especially in social sectors is not possible without budget transparency. For example, we have seen, communities using budget information for their regular budget engagements but most information at the budget implementation stage is still not provided. In these cases, governments should be accountable for the shifts they made during budget implementation by publishing budget reports that explain the scale and impact of budget deviations and providing explanations and justifications for these changes.

## **Expected Outcomes of the Session**

While a lot has been done towards addressing issues of budget credibility, pending bills, and conversations feeding to streamlining processes of supplementary budgets, there is a need to continue building more voices from the community particularly the beneficiaries of the services.

There are still challenges relating to the disclosure of budget information relating to pending bills and justifications towards budget credibility. The government should continue to provide more of such information to continue deepening the understanding of credibility challenges. Consensus on the status of implementation of the basic education financing recommendations in the report of the Presidential Working Party on Education Reform.



## Relevance to Kenya and Regional/Global Context

Service delivery has been challenged by budget credibility and its related issues, especially for the social service sectors at both levels of government. This means there is a need to address the issues of budget absorption and underspending at both levels of government. Some of the specific issues that have been identified include delayed disbursements and partial disbursements (towards the end of the financial year) of allocated funds to the ministries and the counties, this leaves little time to utilize these funds. These challenges are further compounded by budget revisions (supplementary budgets), despite their usefulness in addressing unforeseen circumstances or changes in priorities, allowing for adjustments and reallocation of funds. In the recent past, the government, national and counties, has passed at least two supplementary budgets, a process that is rarely subjected to public participation. Budget credibility is a factor of fiscal discipline, something which is necessary especially in the current Kenyan context; the fiscal space is constrained amid public debt obligations and the need to still fund critical service delivery areas.