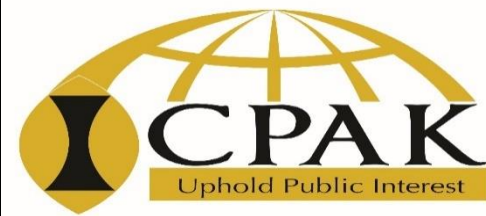


# **PUBLIC FINANCE MANAGEMENT CONFERENCE FOR AFRICA**

## **Public Financial Management and Accountability Reforms - The Kenyan Scenario**

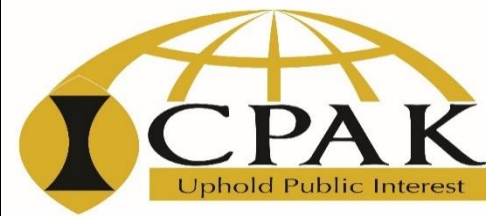
**PRIDE INN PARADISE HOTEL, MOMBASA, 19<sup>th</sup> -21<sup>st</sup> APRIL 2017**

# Session Outline



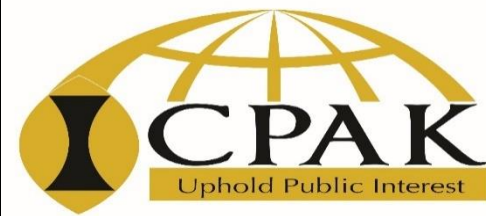
- Key features of decentralization in Kenya
  - Regulatory Developments and Framework
- Defining Kenya's PFM Reform Agenda
- Moving from National to County levels
- Some Outstanding Issues at National and County levels
- Challenges of Transition
- Conclusion

# Key Features of Decentralization



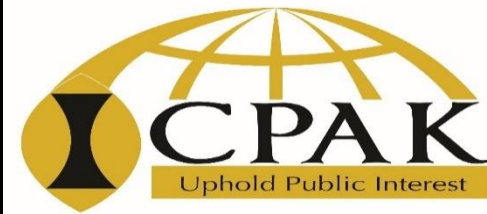
- Fundamental and simultaneous transitions – political, economic, fiscal, administrative. Far reaching impact.
- ‘Big Bang’ Fiscal Decentralization 2013: PFM Act 2012 and Regulations 2015, PPAD Act 2015
- Expenditure responsibilities for public service delivery decentralized to Counties
- Raises some very fundamental issues on administrative capacity, fiduciary management and accountability.

# Kenya's Story so far.....

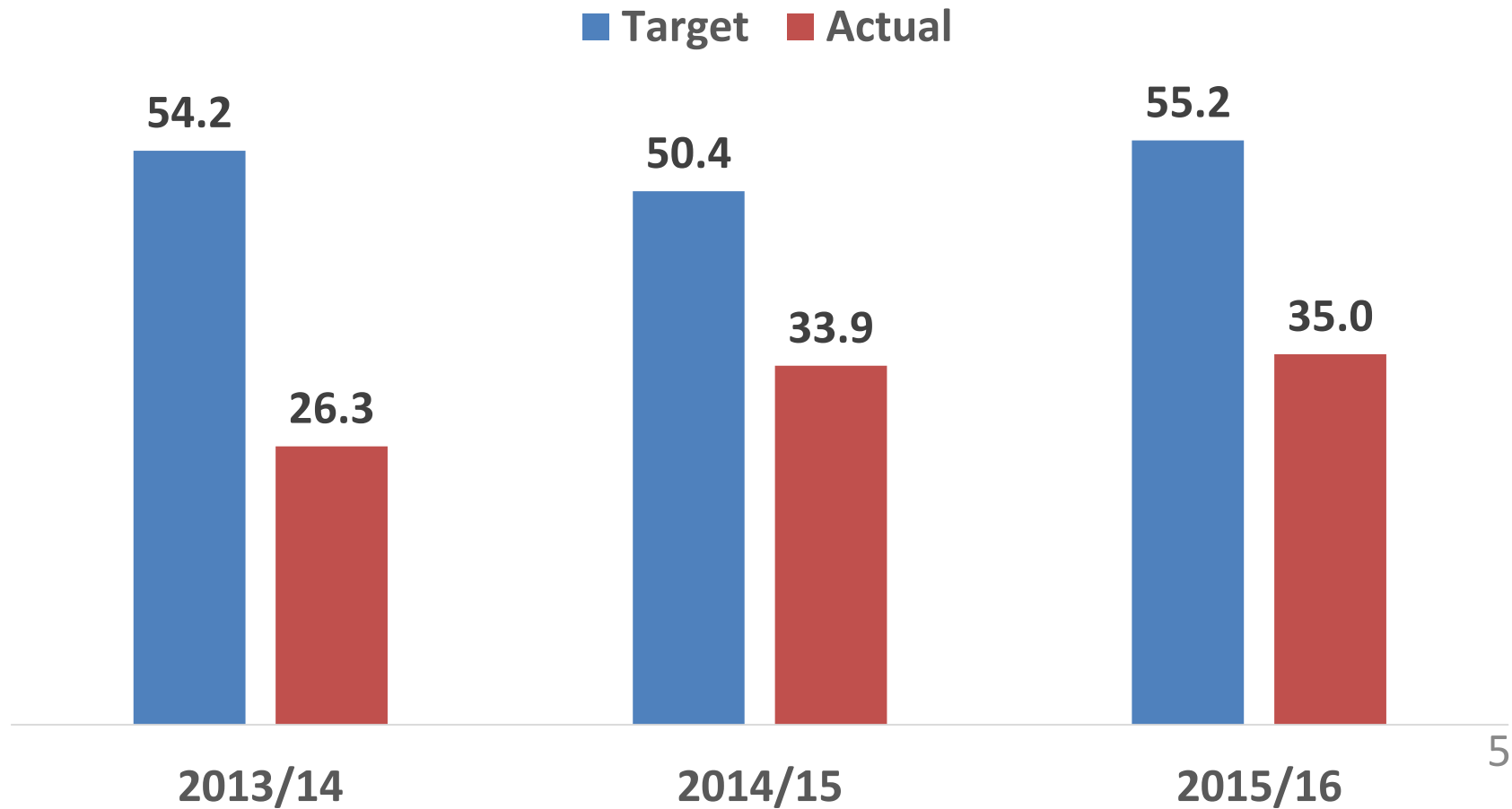


- The aggregate budget estimates for the 47 County governments in FY 2016/17 amounted to Kshs.390.32 billion and comprised of Kshs.225.25 billion (57 per cent) allocation for recurrent expenditure and Kshs.168.07 billion (43 per cent) for development expenditure.
- Development budgets remain scattered between the National and County governments – Conflicts likely.
- Counties remain highly dependent on fiscal transfers from National Government. Intergovernmental system of fiscal transfers is based on equalization fund, shareable revenues and taxes and Conditional grant.
- Borrowing is limited, needs approval by NT, thresholds
- Own source revenues limited but have increased over the past 4 years
- Data show trend of budgetary increases in the country

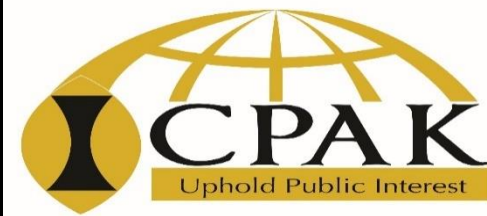
# Kenya's Story so far.....



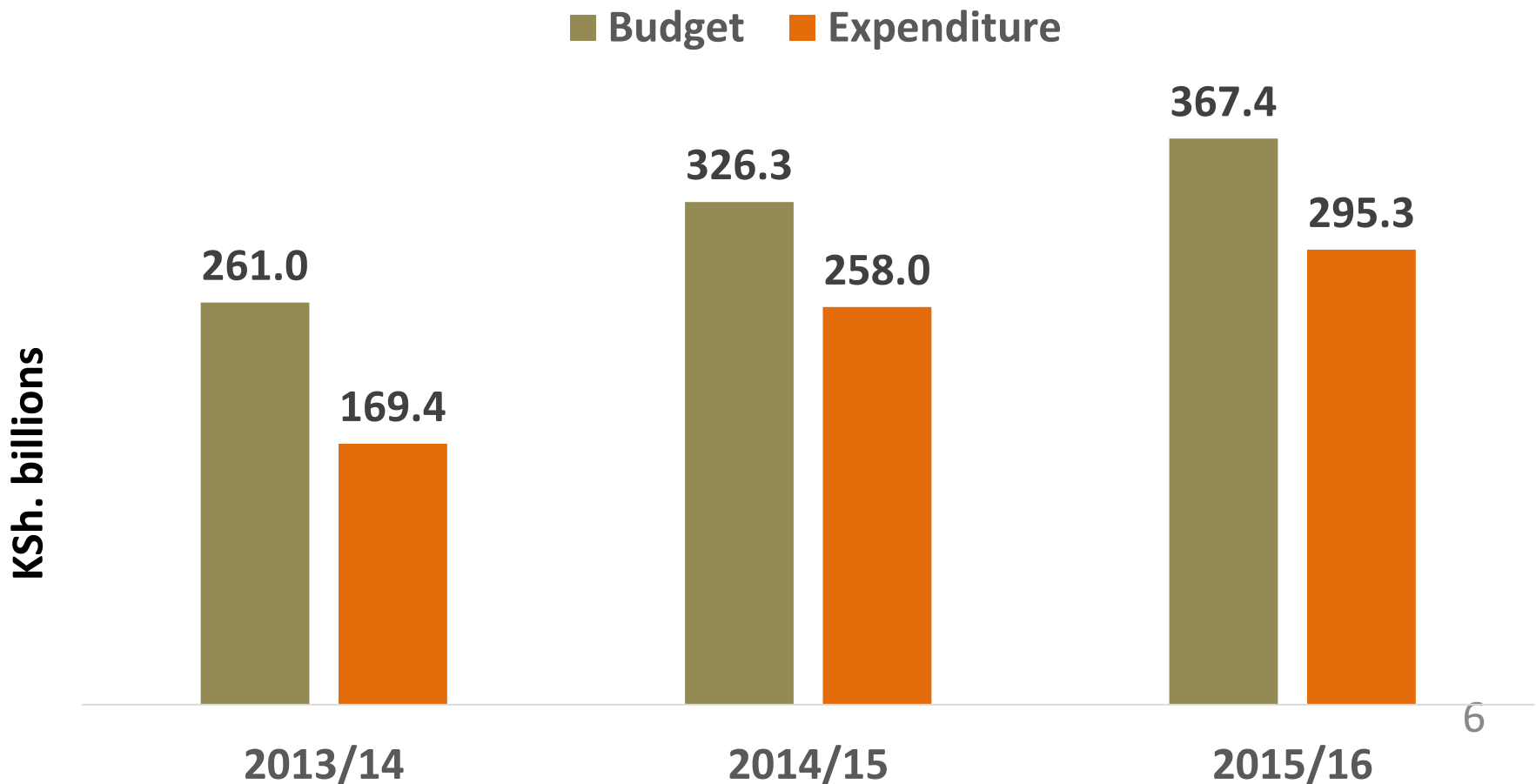
The growth in counties' own-source revenue has slowed significantly



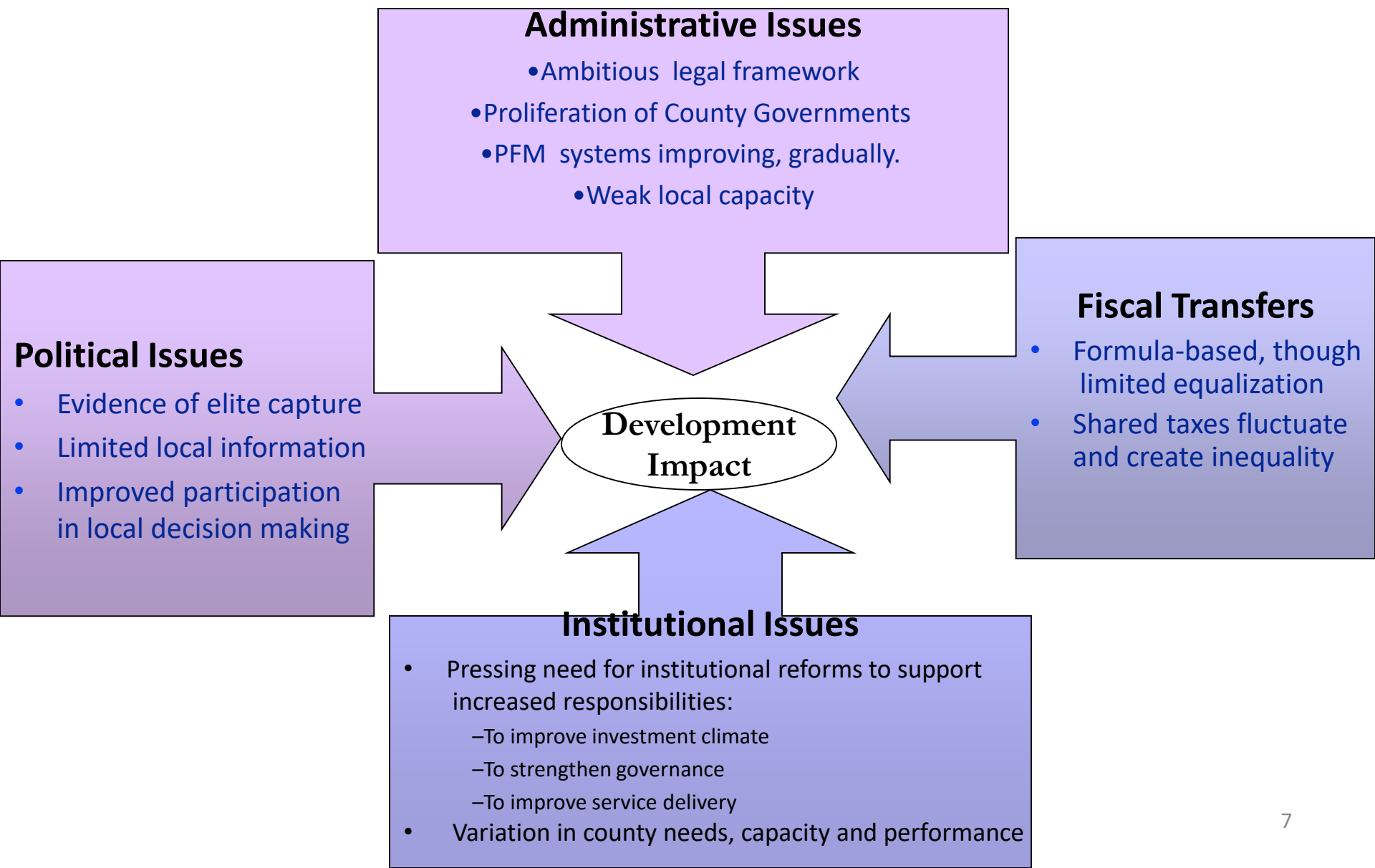
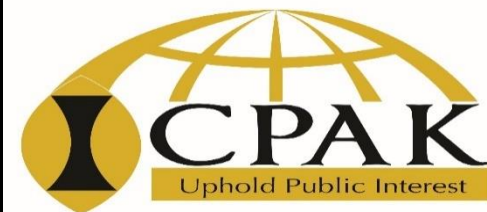
# Kenya's Story so far.....



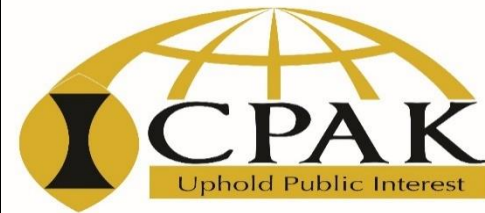
**Counties' budget execution has improved (from 64.9% in FY 2013/14; 79.1% in FY 2014/15; and 80.4% in FY 2015/16)**



# Moving Reforms to the Counties

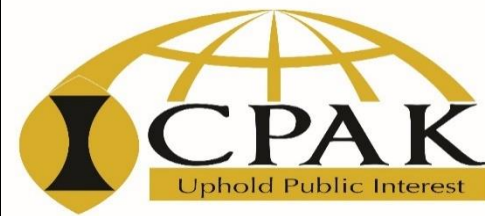


# PFM and Accountability Beehive - Some Outstanding Issues





# Some Outstanding Issues - Regulatory Framework



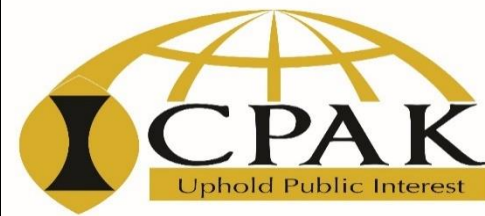
## Legal architecture and Inter Government fiscal relations

- Key National Laws on PFM passed
- Some Counties not always able to carry out legislative authority – appropriate and comprehensive legislation or institutional arrangements for FM
- Although modernized Procurement Law issued (2015), there is no procurement regulations.
- Law enforcement continues to be a major concern.
- Limited public consultation on draft laws or budget process-though required by law

A large, dark red hexagon with a slight 3D effect, containing the text 'Regulatory Framework' in white.

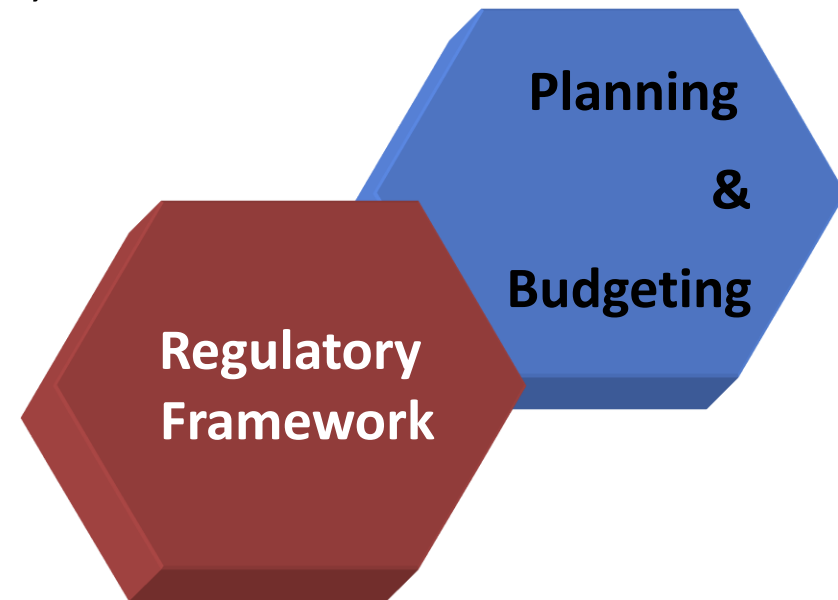
**Regulatory  
Framework**

# Some Outstanding Issues – Planning and Budgeting



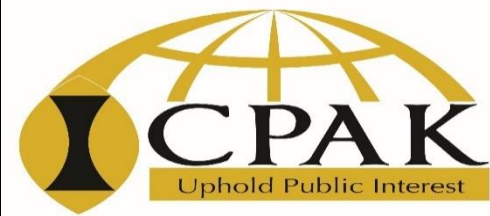
## Comprehensiveness, Classification, Projection

- Plans in place but questionable targets, priorities or alignment
- Many bank accounts not all revenue reported
- Though communities participate in planning activities—disconnect between plans and budgets
- Budget realization is low, revenues below targets
- Some expenditure classifications not consistent with GFS classification - difficult to account for costs.



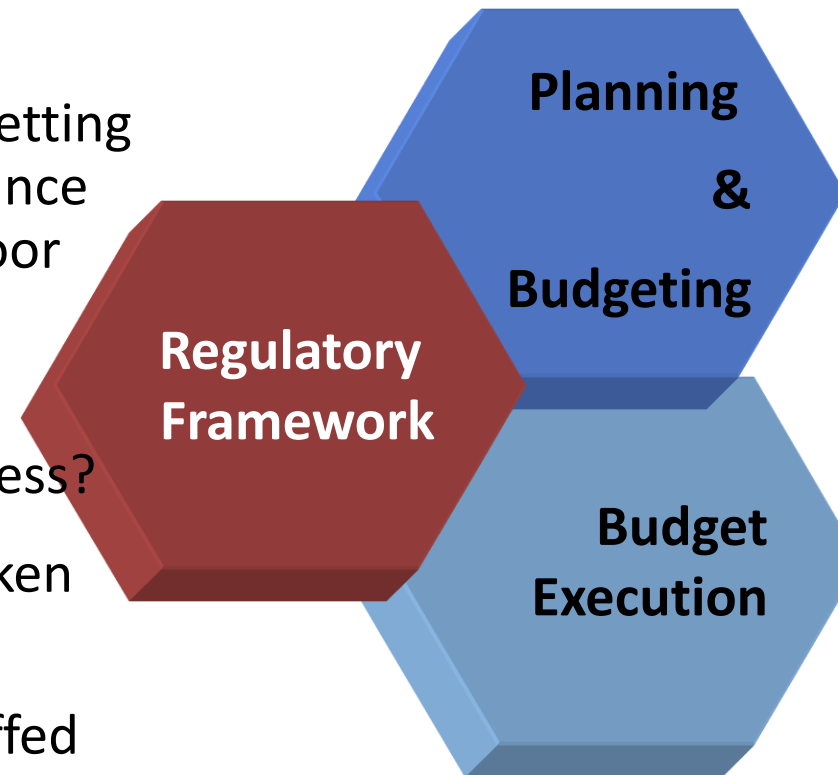
- Comprehensive adoption of PBB

# Some Outstanding Issues – Budget Execution

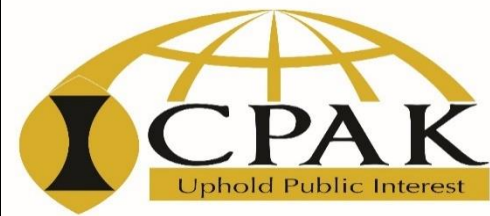


## Procurement, Treasury Management and Internal Controls

- Weak cash management – poor cash forecasting; low absorption rates
- Revenues collection – arbitrary basis for setting levies, fees, resulting in random and nuisance taxes; no analysis of revenue potential; poor revenue forecasting.
- Procurement – weak capacity; collusive practices endemic. Efficiency & effectiveness?
- Structural administrative procedures weaken internal controls.
- Internal audit in counties still not well staffed
- Multiple bank accounts, frequently not reconciled to accounting records.



# Some Outstanding Issues – Accounting, Reporting

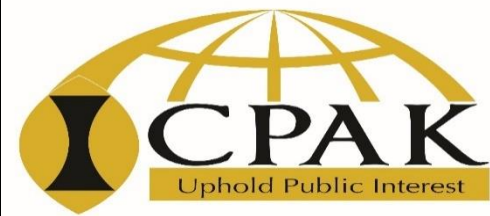


## Standards, Timeliness, Reliability

- Adoption of Accounting Standards in 2014
- Cash basis still in place.
- Strengthen capacity that to move to improved accounting practices and accrual accounting
- Reporting restricted to Budget realization reports.
- Timeliness of reporting improving, now legally required in year and end year. But reliability?



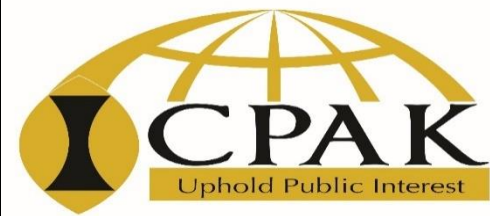
# Some Outstanding Issues – External Audit



- OAG is able to cover only a % of sub-national governments within stipulated time.
- Audit Reports approved delayed – yet a pre requisite for some processes.
- Audit mandate primarily to certify Budget Realization Reports of governments. Need to focus more on Performance audits



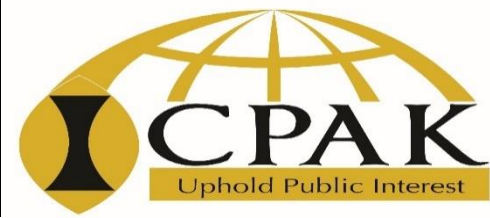
# Some Outstanding Issues – Oversight



- Limited capacity of especially county Legislatures to review budgets or review performance
- Public disclosure of financial and procurement virtually non-existent. In some instances, Budget documents difficult to read and accessible.
- Public and Civil Society slow and slowly flexing their power



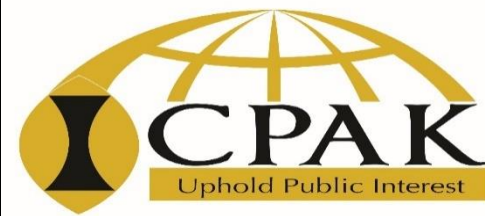
# Some Outstanding Issues – Public Debt and Asset Management



- No consolidated information on public assets status – carrying amounts, depreciation, impairment;
- Public debt requires NT approval;
- Some borrowings not as per the law



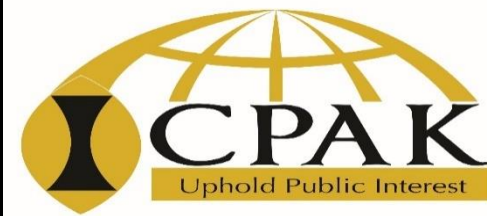
# PFM Kenya - Critical Success Factors



1. Commitment to reform; Supply side vs Demand side - Stimulating the demand for reforms. Role of civil society, media and donors. Change champions.
2. Identification of functional PFM priorities; thinking small. Synchronizing national and County operations
3. Adequacy of the roll-out plan and the sequencing of reforms; clearly defining benchmarks and milestones; modular approach.
4. Adequacy of technical solution; use of technology, aligned with institutional reforms. But change in business processes bigger challenge.
5. Adequacy of capacity building activities; capacity to absorb and then sustain reforms.
6. Realism of short, medium, and long-term cost estimates.



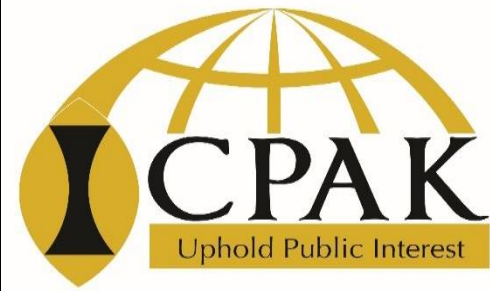
# Public Expenditure and Financial Accountability (PEFA)



- PEFA identifies seven pillars of performance in an open and orderly PFM system that are essential to achieving these objectives.
- The pillars define the key elements of a PFM system. They also reflect what is desirable and feasible to measure.



# Conclusion



- Discussion
- Questions?

