



Tax and PFM Seminar –Northern Branch

Budget Implementation and Absorption of Funds in the Public Sector

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Credibility .

Professionalism

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AccountAbility

Presentation Outline



- ☐ Overview of the 2018/19 Budget
- ☐ What does the law envision in terms of implementation?
- ☐ The budget vs the Realities on the ground?
- ☐ Devolved funds thus far –statistics/data
- ☐ Future scenario

Budget 2018 –Overarching Objective



**Creating Jobs, Transforming Lives and
Sharing Prosperity**

Overall Budget & Financing



- Government expenditure and net lending for the Financial Year 2018/19 -Ksh 2,556.6bn
- Total projected revenues – Ksh 1,949.2bn
- Grants –Ksh 48.5bn
- Deficit – Ksh 558.9bn

Expenditure clusters Vs GDP



- **Total expenditure -2,556.6bn (26.3% of the GDP)**
 - Recurrent expenditure -**1,550.0bn** (15.9% of GDP), includes
 - Development expenditure -**625.1bn** (6.4% of GDP)
 - Transfers to County Governments -**376.4bn** (3.9% of GDP)

Detailed cluster of expenditures



- Ministerial recurrent expenditure -**1,073.0bn**, includes
 - ✓ Judiciary -**15.2bn**
 - ✓ Parliament – **36.8bn**
- Development expenditure -**671.6bn**
- Consolidated fund services excluding domestic debt redemptions -**490.5bn**
- Sharable transfer to counties -**314.0bn**
- Contingency fund -**5.0bn**
- Net lending -**2.5bn**

Note: Any some disparities? What could explain be the reasons?

Financing the deficit



- Project Loans **Ksh 235.8bn**
- Commercial Financing **Ksh 298.9bn**
- Program Support **Ksh 2.5bn**
- Foreign Payments **Ksh 250.3bn**
- Net Domestic Financing **Ksh 271.9bn**

Budget Financing -Revenues including A-I-A



- Income tax -43.0%
- VAT -23.9%
- Excise duty -11.3%
- Import duty -6.1%
- A-I-A -9.3%
- Other taxes -6.4%

The Law: Expectation in Budget Implementation



- The presumption of the constitution and all the PFM laws is that public budgets shall be applied for the benefit of and in service delivery to the Kenyan people
- The executive is mandated to prepare and implement the budgets
- The legislature approves and oversees implementation
- The CoB approves release of funds from the exchequer and monitors budget implementation
- The Auditor General (AG) evaluates budget implementation and assures value for money
- The “people” holds the budget implementers to account

NB: Law envisions 100% absorption of budgets –recurrent and development

Budget Vs. Realities of the grounds



- While the budget proposals are noble, walking the budget has often been a mirage
- Often, there is a complete disconnect with what is prioritized in the budget and what's get done eventually
- Often, the budget is there....but the is no cash??? **Things get paid with real cash in the real world...not budgets!!!**
- High absorption rates for re-current but extremely very low absorption rates for development
- Serious questions on value for money –based on OAG evaluation reports!!
- Its increasingly becoming clear that corruption is institutionalized at the budgeting stage???? Otherwise, what shall explain the obscene budget allocations to projects???



Devolved Funds

**Budget Implementation:
Opportunities and Challenges**

Constitution: Objects of Devolution



- ❑ Chapter 11 of the constitution: Article 174
 - Promote democracy and accountable exercise of power
 - Foster national unit -embrace diversity
 - Appropriate powers of self-governance and participation of the people
 - Rights of communities to manage their own affairs and development
 - Protect and promote interests and rights of minorities
 - Promote social and economic development
 - Ensure equitable sharing of national & local resources
 - Facilitate decentralization of services from Nairobi
 - Enhance checks and balances –separation of powers

Constitution: Principles of Devolution



- ❑ Chapter 11 of the constitution: Article 175
 - Democracy and separation of powers
 - Reliable sources of revenues
 - Gender parity –no more than 2/3 in representation of same gender

The BIG Question???



**Are we living on or by the promise of
devolution 6 years on? What are your
experiences?**

Some Achievements



The Good



- Despite the teething challenges.....i honestly think devolution still has a fair chance to succeed
- At least the electorate have learned who not to elect in some critical offices – a **CASE IN POINT IS MAKUENI COUNTY!!**
- “.....Even though common sense is not common to everyone.....if meaningful progress has to be made.....COMMON SENSE MUST PREVAIL for devolution to succeed!!! **A good CASE IS EMBU COUNTY!!**

But there have been some challenges!!!



Challenges cont...



- How not to benchmark!!!!
- The ignorance on the doctrine of separation of powers**
- The pitfalls of politics to us as professionals
- Absence of decorum in public office (violation of chapter 6 of the constitution)
- Abuse of power & privileges entrusted on the legislature
- Gross violation of the principle of separation of powers between **the 2 arms of government** at the county level **



County Revenues



**Just how much money has gone to counties
over the past 5 years of devolution?**

Budget Analysis: 2013/14 -2017/18



Budget & Expenditure Analysis -2013/14 -2017/18					
Budgets	2013/14	2014/15	2015/16	2016/17	2017/18
Aggregate budget	261.1	326.29	367.44	399.24	410.1
Recurrent Budget	160.5	181.38	208.2	240.89	271.32
Development Budget	100.4	144.91	158.62	158.36	139.18
Revenues					
Equitable share & conditional grants	193.4	229.264	269.412	299.751	328.85
Local Revenues	26.3	33.85	35.02	32.52	32.49
Balance b/f	4.3	41.67	36.07	37.19	25.75
Total revenues	224	304.784	340.502	369.461	387.09
Expenditure					
Overall absorption	169.4	258	303.47	319.06	303.83
Recurrent Exp.	132.8	167.56	195.72	215.71	236.94
Development Exp.	36.6	90.44	103.45	103.34	66.89
Absorption rates					
Overall absorption	64.90%	79.10%	80.40%	79.90%	78.50%
Recurrent Exp.	82.70%	92.40%	91.90%	89.60%	87.30%
Development Exp.	36.40%	62.40%	65.20%	65.30%	48.10%

Summary of Totals



❑ Total revenues = **Ksh. 1625.837 billion** (1.625837 trillion)

❑ Total absorption = **1353.76 billion** (1.35376 trillion)

❑ Recurrent Absorbed = **948.73 million**

❑ Development Absorbed = **400.72 million**

❑ Absorption Rate

▪ **Recurrent Exp. = 70.08%**

▪ **Development Exp. = 29.6%**

Issues from the analysis



- ❑ From the budget analysis there are key notable observations
 - Low absorption of development expenditure
 - Insignificant growth on local revenues
 - Huge absorption of recurrent expenditure
 - Mainly recurrent expenditure is on personal emoluments and operations and maintenance*** (not shown since data not complete for all the years)
 - Equitable share from national government often disbursed in full & a large percentage of conditional grants*** (but there could have been delays in disbursements)

Options going into the future



- County must re-focus on county economies to grown own source revenues
- Statistics suggest absence of investments in the county economies –otherwise there would be observable growth on own source revenues
- On data not presented –most of the recurrent expenditure is on personal emoluments, local and international travels and operations and maintenance (largely personnel welfare). This not sustainable and ultimately shall undermine growth into the future
- Probably we shall need a radical re-design of county government structures and refocus of investments as opposed to consumption

And Finally.....

