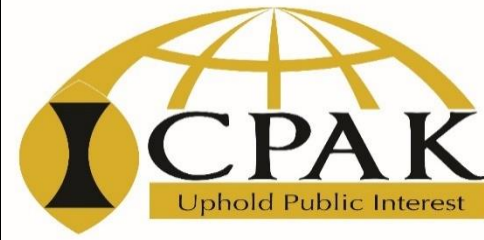


# **PFM Reforms and Budgeting – Evidence from Kenya Devolved Units**

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Leisure Lodge Beach & Golf Resort, Diani Beach (South Coast – Mombasa, Kenya)  
24<sup>th</sup> – 26<sup>th</sup> April, 2019

# In this session....



Introduction

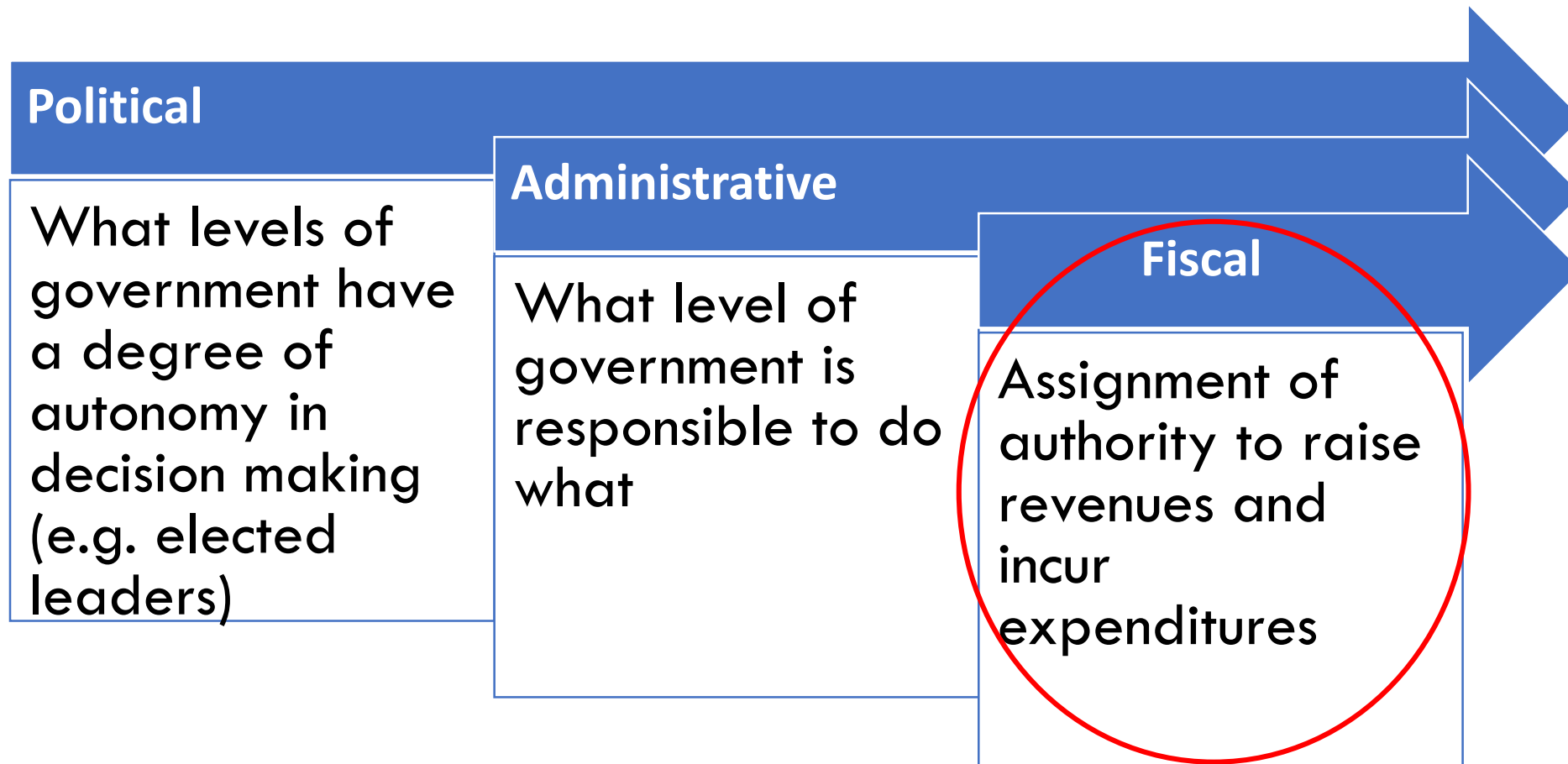
Budget Cycle

Review of  
Public  
Finance  
Management

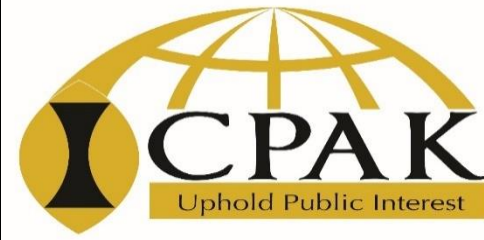
Lessons from  
devolved units

# Introduction

□ The Constitution of Kenya, 2010 introduced the devolved system of governance with decentralized fiscal management.

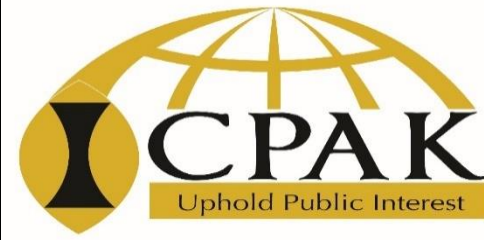


# Public Finance Management (PFM)



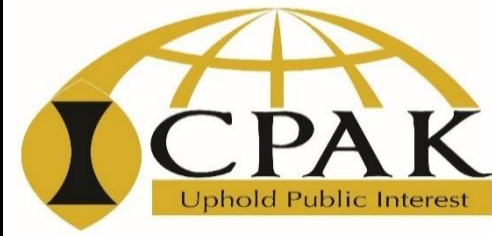
- ❑ PFM is the set of laws, rules, systems and processes used by sovereign nations (and sub-national governments), to mobilize revenue, allocate public funds, undertake public spending, account for funds and audit results.
- ❑ PFM encompasses a broader set of functions than financial management and is commonly conceived as a cycle of six phases, beginning with policy design and ending with external audit and evaluation.
- ❑ A large number of actors engage in this 'PFM cycle' to ensure it operates effectively and transparently, while preserving accountability for outputs/outcomes

# Public Finance Management (PFM)



- The objective of Public Financial Management Reforms (PFMR) is centered on, among other functions, enhancing transparency in governance, increasing prudential allocation of financial capital, accountability in financial management, separating policy and management functions.
- In Kenya, the PFMRs seek to ensure fiscal efficiency and discipline in the use of public finances by enhancing public service efficiency and safeguarding available resources to be used in the best interest of the people.
- The main challenges include fund disbursement delays, budget execution delays, wrong prioritization, operational inefficiencies, misappropriation of resources, inadequate of capacity and corruption.

# Budget Management and Expenditure Controls



- ☐ The Public Finance Management framework requires effective management of budgets.
- ☐ IFMIS should be used to process and track effective resource utilization (Section 12 of the Public Financial Management Act, 2012).
- ☐ Effective planning and financial control will help in:
  - ☐ Ensuring efficient and effective use of resources
  - ☐ Making sound decisions
  - ☐ Demonstrating accountability
  - ☐ Taking remedial action where needed

# BASIC BUDGET MAKING CYCLE





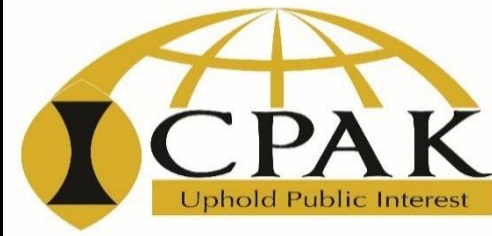
# Lessons from devolved units





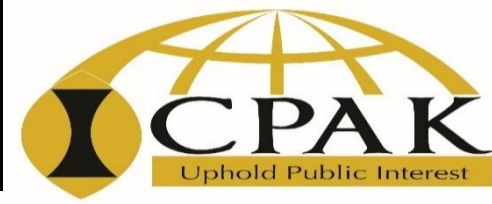
# Budget Management and Expenditure

## Evidence from devolved units



- ❑ Considerable effort towards establishing the foundations of a sound PFM system in many areas within the devolved system of government in Kenya. Among the notable achievements include:
  - ✓ establishment of various PFM structures, and
  - ✓ timely preparation of budget documents including County fiscal strategy papers, County budget review and outlook papers, and budget estimates as per the PFM Act 2012 guidelines and timelines.
- ❑ These measures, together with the implementation of the IFMIS, have facilitated timely and systematic budget preparation and execution by County governments.

# Policy Formulation & Priority setting

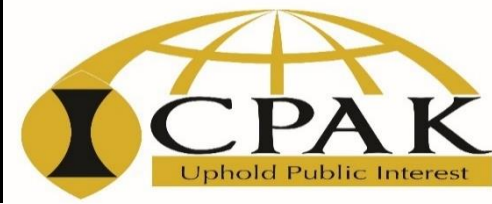


- ❑ This sets the foundation framework for spending public resources.
- ❑ Critical decisions with extremely significant implications to the welfare of society are done at this stage.
- ❑ Public participation

## Evidence from devolved units:

- ✓ Medium and long term plans – CIDP, Sectoral plans, spartial plans, urban plans
- ✓ Annual development plan –Annual priorities
- ✓ Policy Documents – Budget & Review outlook papers (CBROP), County Fiscal Strategy Paper (CFSP) – (performance evaluation, resource sharing and expenditure priorities)
- ✓ Debt Management Strategy
- ✓ Annual Capacity & Performance Assessment Report (ACPA) 2017/18 – KRA

# Budget Formulation

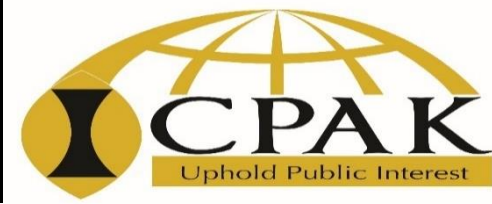


- ❑ Medium Term Expenditure Framework
- ❑ Programme based budgets
- ❑ Balanced budgets

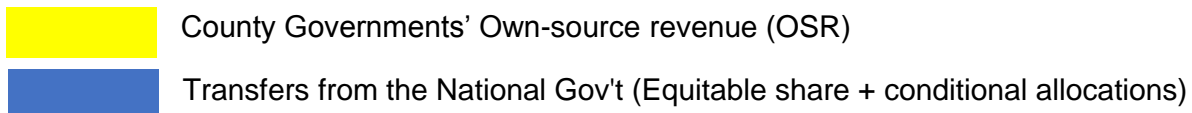
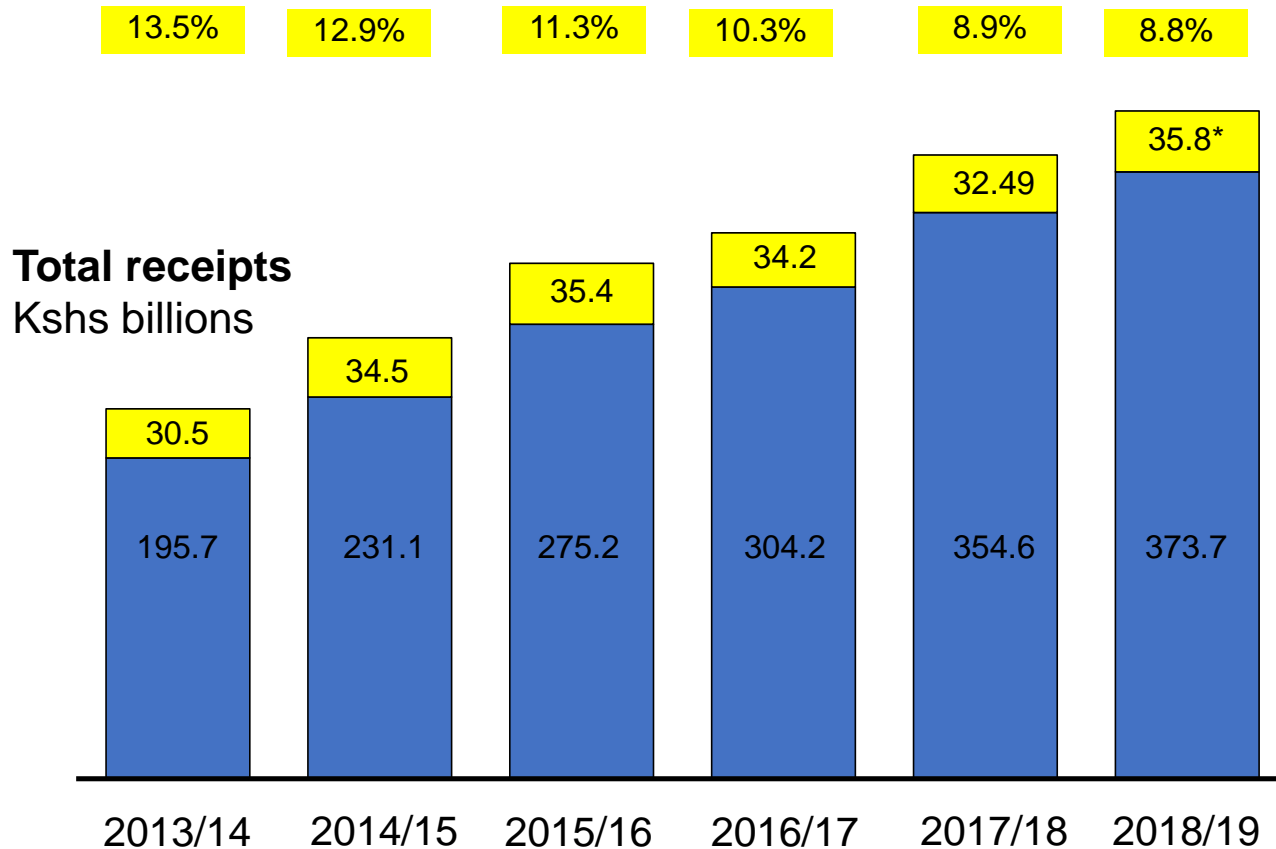
## Evidence from devolved units

- ✓ 3 year rolling revenue and expenditure budget plans - **conformity with law**
- ✓ Programme Based Budgets done – **still more focused on line item**
- ✓ County Sectorial Meetings - **defined sectors**
- ✓ Formation County Budget and Economic Forum - **effectiveness**
- ✓ Own Source Revenue – **unrealistic and unachievable estimates**
- ✓ Fiscal responsibility principles – **Recurrent vs Development**

# Performance of Counties' OSR - A major trigger of the need for Policy interventions

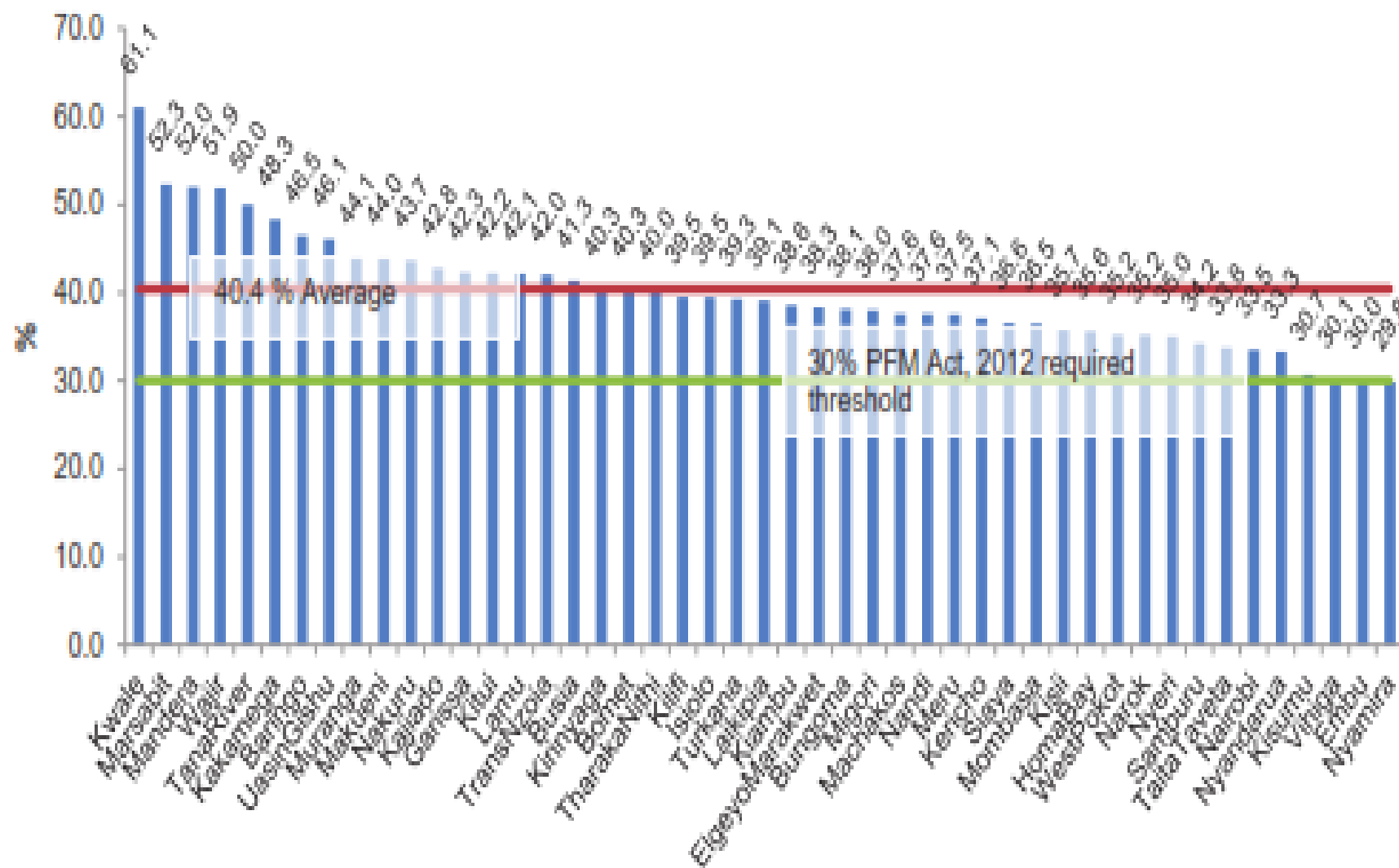


## OSR as a % of total receipts



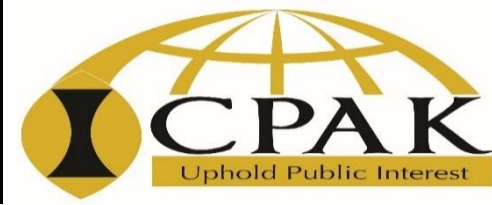
- OSR contributes less than 15% of County Governments' total receipts
- Counties rely heavily on transfers from the National Government to finance their budget, which undermines their fiscal autonomy
- Only about 10 revenue streams generate 70% of OSR collections

# FY 2017/18 County Governments' Development Budget Allocation as a Percentage of Total Budget



Source: COB - County Governments  
Budget Implementation Report  
2018/19

# Budget Approvals

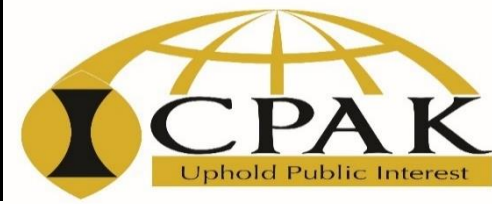


- ☐ A legislative function
- ☐ Budget Hearings –BAC
- ☐ Public participation

## Evidence from devolved units:

- ✓ CARA – Resources disbursed
- ✓ Limited capacity in a number of counties
- ✓ Budgets discussed in plenary – not committed to each Sectoral Committee
- ✓ Alignment to CFSP

# Budget Implementation & Reporting

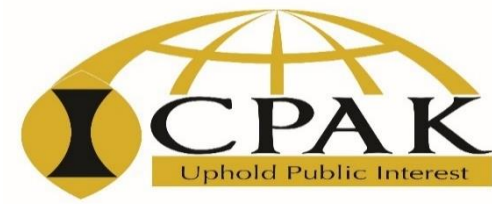


- ☐ COB reports –compliance
- ☐ Quarterly returns
- ☐ Annual returns
- ☐ M & E Systems

## Evidence from devolved units:

- ✓ Absorption Rates – (FY 17/18 – recurrent = 87.3%; Dev = 48.1%; overall 74.0%)  
Linkage between budgets, procurement plans and cash flow projections?
- ✓ Funds flow challenges – large percentage of development funds transferred in the last 3 months of the FY
- ✓ Supplementary budgets
- ✓ Pending bills - the amounts are increasing thus affecting following year budgets.

# Oversight & Governance roles



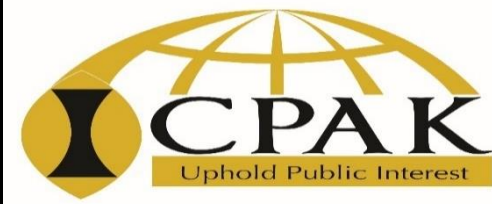
- ❑ Office of the Auditor General - Audit reports
- ❑ PAC & PIC Committees – professional inputs/advisory
- ❑ Audit Committees

## Evidence from devolved units:

- ✓ Celebrating a milestone – Unqualified opinion 2017/18 (Nyandarua and Makueni)
- ✓ PAC & PIC Committees – professional inputs/advisory
- ✓ Progress on previous audit opinion
- ✓ Challenges in forming audit committees – SRC review of allowances



# Challenges Impeding Effective Budget Management and Expenditure Controls...1/4



## 1. Planning and Budgeting

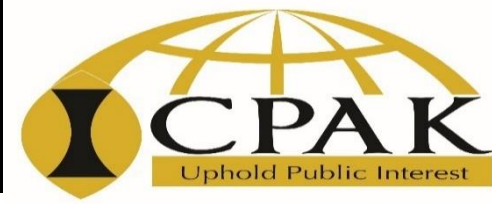
Weak linkages between planning and budgeting.

- ✓ Overestimation of local revenue targets resulting in hidden deficits in budgets;  
- leading to scaling down on planned activities and increase in pending bills
- ✓ Slow implementation of development projects and programmes – as a result of delays in procurement.
- ✓ Lack of Project Management Committees and Units,
- ✓ Corruption, Mismanagement and Conflict of interest

## 2. Institutional Conflicts

Persistent institutional conflicts between the County Assembly and County Executive undermine smooth budget implementation

# Challenges Impeding Effective Budget Management and Expenditure Controls...2/4



## 3. Use of locally generated revenue at source

Counties have continued to use local revenue at source contrary to Article 207(1) of CoK, 2010; This is an accountability concern.

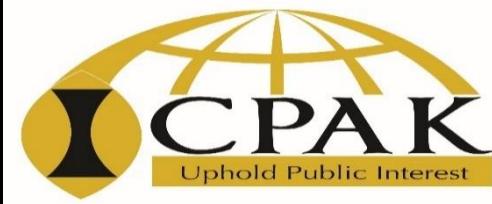
## 4. Mismanagement of public resources

There has been widespread mismanagement of public resources. Article 201(d) of CoK, 2010 stipulates that public money shall be used in a prudent and responsible way.

## 5. Huge Pending Bills:

Counties have been accumulating huge pending bills. This affects businesses and disrupts the implementation of planned activities in the subsequent year.

# Challenges Impeding Effective Budget Management and Expenditure Controls ....3/4



## 6. Capacity challenges of some County staff

Counties have had inadequate capacity in preparation of budgets, financial reports, etc. leading to challenges in budget execution.

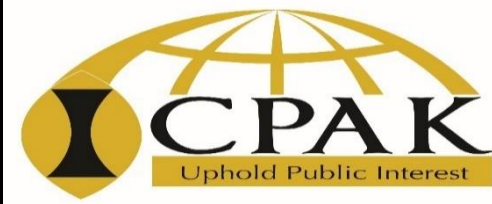
## 7. Effective Internal Audit Departments and Committees:

A number of counties did not establish effective Internal Audit Departments and Committees to strengthen internal control mechanisms as envisioned under [Section 155 of PFM Act, 2012](#).

## 8. Public Participation:

Article 201(a) of the constitution requires that there shall be openness and accountability including public participation in financial matters as guiding principle of public finance. A number of counties do not effectively involve the public in budget management.

# Challenges Impeding Effective Budget Management and Expenditure Controls ....4/4



## 9. Delays in Submission of Financial Reports and mandatory documents to the Controller of Budget:

The Office of the Controller of Budget has noted that, some Counties do not submit quarterly financial reports within 15 days following end of each quarter contrary to [Section 166 \(4\) and 168 \(3\) of the PFM Act, 2012](#).

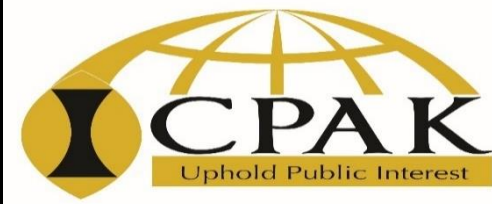
In addition, some of the submitted reports and documents are incomplete and have had to be returned for correction.

This resulted in delayed approvals of the exchequer requests.

# Recommendations and Way forward



# Recommendations and way forward



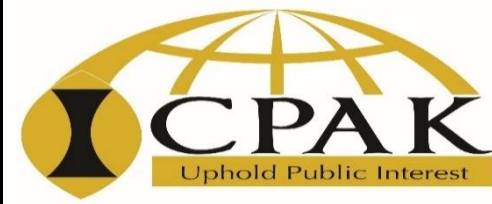
## 1. Public Participation

- ✓ Partnerships between civil society and county governments to design and roll-out participatory processes and ensure representation at the grassroots level, including marginalized groups.
- ✓ Counties should allocate adequate resources for public participation in the planning and budget management.
- ✓ Develop feedback mechanisms and build capacity of government officials to facilitate public consultations and disseminate user-friendly information

## 2. Capacity building

There is need to continue improving the capacity of staff by providing continuous training programs on PFM (budgeting, accounting, reporting, procurement, auditing, etc.), planning, M&E.

# Recommendations and way forward



## 3. Internal Control Mechanisms

Counties should establish effective Internal Audit Departments and Committees to strengthen internal control mechanisms as provided for under [Section 155 of PFM Act, 2012](#).

## 4. Huge Pending Bills

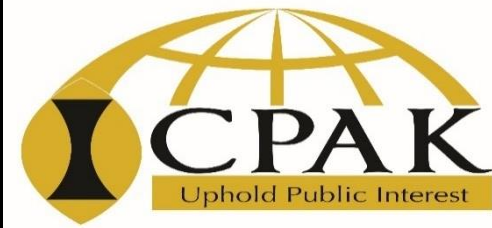
To address the escalating pending bills counties should develop a debt management strategy in line with Section 123 of the PFM Act, 2012. Counties should undertake a verification exercise to ascertain their authenticity before settling them and make arrangements to pay (OAG Report on pending bills)

## 5. Underperformance of Local Revenue

- ✓ The County Treasuries should formulate and implement strategies to enhance local revenue collection such as innovative revenue collection approaches including relevant technology, incentives and training of the revenue officers especially on soft skills.
- ✓ Re-evaluation of fragmented revenue sources/systems
- ✓ There is need to seal loopholes leading to revenue leakages.

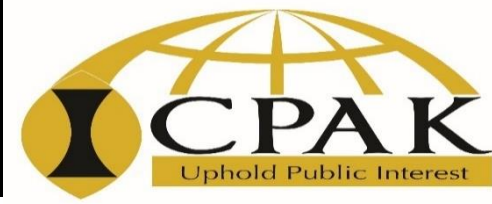


# Conclusion



- ❑ Prudent fiscal planning at both the National and County level is critical in fostering macroeconomic stability of the country
- ❑ Importance of meaningful sectoral strategies (e.g. for health, education, and agriculture sectors) which can feed into budget prioritization
- ❑ The issue of the scarcity of resources and the need to prioritize is key because we will not be able to fund all the things in the “wish list”.

# Conclusion



- ❑ Containing expenditures (especially recurrent – wages in particular) while at the same time re-allocating towards the key capital expenditure (social/economic) is very critical.
- ❑ **Finally**, we want to emphasize that fiscal discipline and macroeconomic stability is critical to provide the enabling environment for private sector to power growth, generate employment, and reduce poverty.

# We have a responsibility – Thank you

