



THE 4th CHAPTER SEMINAR – SOUTH AFRICA

Theme: *Harnessing Sustainable Economic Growth and Human Development in Africa*

Venue: **The Capital Empire, 177 Empire Place, Cnr. Rivonia Road, Sandhurst, Sandton, Johannesburg, 2031, South Africa.**

Date: 28th to 30th August 2019

Public Budgeting Processes: Kenyan Experiences



Onesmus Ayaya
Professor of Public Financial Management,
University of Limpopo

ICPAK SA Chapter Seminar
August 2019

Outline of presentation



- I. Legal framework**
 - a. Constitutional provisions on public finance
 - b. PFMA and associated regulations
 - c. Other legislations impacting on budget
- II. Milestones in the budget process**
 - a. NT budget call circular
 - b. Sector working groups
 - c. Sector working groups reports and budget policy statement
 - d. Preparation of budget estimates
 - e. Departmental Committees and Budget appropriation Committee
 - f. Appropriation law and presidential warrant
 - g. Approval of revenue raising measures
 - h. Supplementary budget and budget reallocation
- III. Budget oversight & documentation**
 - a. Public Accounts Committee
 - b. Parliamentary budget office
 - c. National Treasury & performance monitoring
 - d. Budget documents

Constitutional coverage



- a) Article 201- Principles of public finance.
- b) Article 202- Equitable sharing of national revenue.
- c) Article 203 - Equitable share and other financial laws.
- d) Article 204- Equalisation Fund.
- e) Article 205- Consultation on financial legislation affecting counties
- f) Article 220- Covers form, content and timing of budgets.
- g) Article 221- addresses budget estimates and annual Appropriation Bill.
- h) Articles 222- covers expenditure incurred before annual budget is passed.
- i) Article 223- covers supplementary appropriation.
- j) Article 208 - provides for contingencies Fund.

Legal Framework



a. Fiscal policy setting for the budgets

- Definition of fiscal principles and anchor for fiscal rules in regulations
- Government held accountable to declare medium-term fiscal objectives, with provision for temporary deviations (“escape” clause)- S25
- Provisions for pre-election fiscal policy as in S 27
- Programmes as main divisions of a budget vote during appropriation?

Legal framework

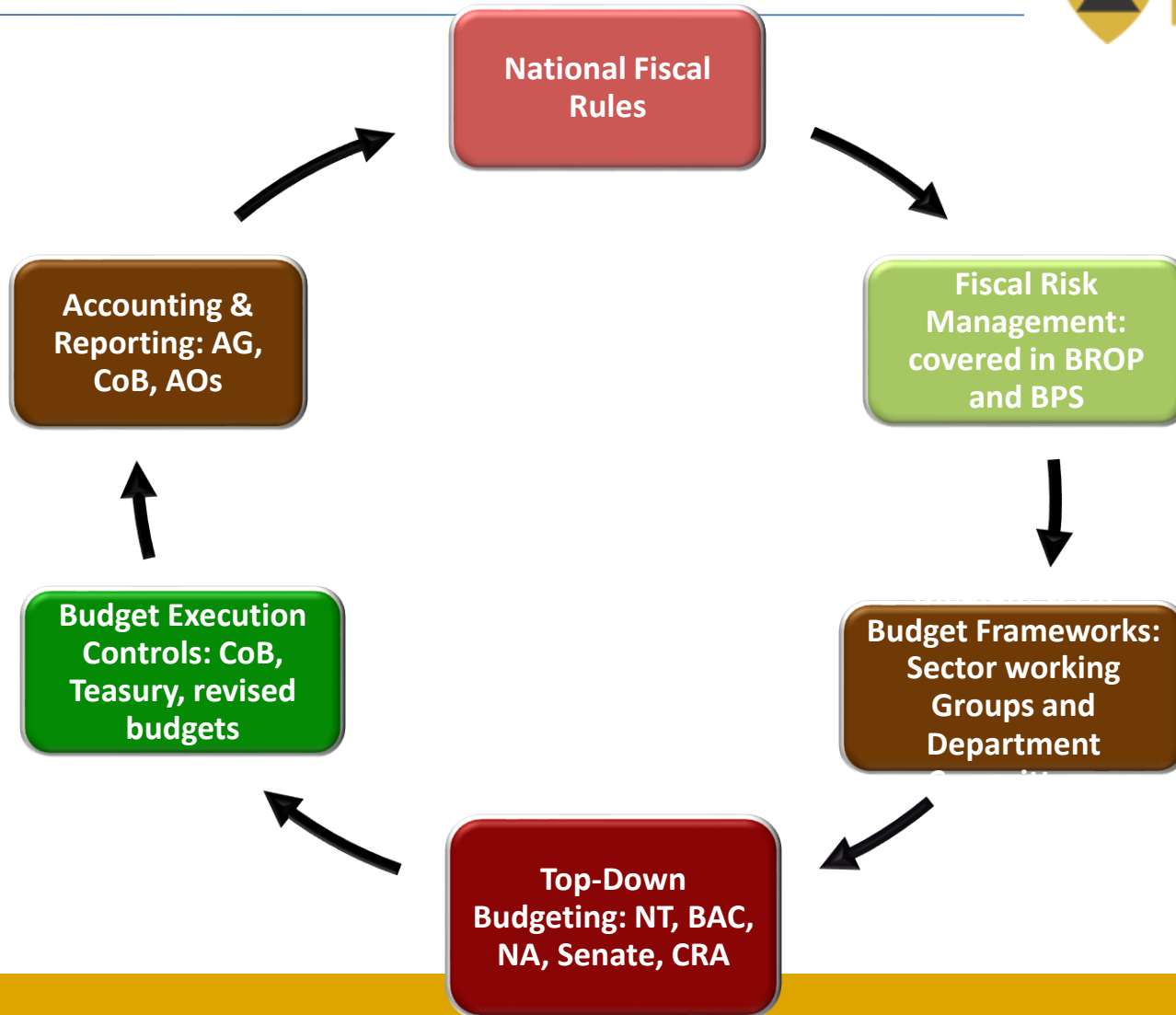
b. Budget framework



- Medium-term context for budget
- Macro working group (Sept) generates a budget review and outlook paper- BROP
- Submission of budget policy statement 4 months prior to start of fiscal year
- Budget submitted to Parliament 2 months prior to start of fiscal year.
- Budget classifications according to GFSM 2014 standard
- Budget includes annexes on extra-budgetary funds and executive and regulatory agencies.
- Budget documents includes alternative macroeconomic scenarios and analysis of fiscal risks

II. PFMA and Constitutional coverages

a. Implications for National Budget Management



I. Milestones in the budgeting process:



- ❖ **Macroeconomic target setting and resource envelope**
 - Results into BROP
- ❖ **Review of sector priorities – Results into BPS**
- ❖ **Approval of division of revenue between County and National spheres**
- ❖ **Preparation of budget estimates- estimates of national expenditure**
- ❖ **Budget approval**
 - Votes as basis of appropriation
 - Vote on account
 - Approval of finance bill
- ❖ **Revised budget estimates and supplementary budget**
- ❖ **Budget implementation:**
 - CoB Role
 - AG role
 - National treasury role
 - Spending ministries

I. Enforcing good practices

c. Content of legal and regulatory frameworks



Public Financial Management

- 1. Annual appropriation laws**
- 2. Public accounting & statistics**
- 3. Budget classification and forecasts**
- 4. Chart of accounts**
- 5. Summary fiscal tables**
- 6. Fiscal transparency through oversight documentation and public participations**

II. **Fiscal risk management**



Alternative forecast scenarios

- **Different economic Assumptions**
- **Alternative macro-fiscal Forecast Scenarios**

Fiscal Risk Statements

- **Qualitative Discussion of Key Fiscal Risks**
- **Quantitative Statement of Material Fiscal Risks**

III. Budget Oversight

a. Structures and documentations



- **Structures**

- Cabinet-policy direction
- National treasury
- Budget Controller
- Commission on Revenue allocation
- Auditor general
- Parliament- Department committees, BAC, NA, Senate

- **Documentation**

- BROP – submitted to NA before 10 October
 - Budget policy statement PS tabled before NA before end of Feb
 - Estimates of national expenditure from MDAs submitted before 30 April
 - Appropriation law and finance bill- revenue generating measures
 - Auditor General reports

c. Medium-term Budget Frameworks



- **BROP**
 - Review of previous spending
 - Key success and challenges
 - Projection of medium term outcome
- **Budget policy statement**
 - Contains firmed macroeconomic framework showing resource envelope and spending ceilings.
- **Vision 2030 and medium term strategic plans**
 - Guides changes to MTEF baseline budget estimates.

Budget execution matters



- ❖ -President warrant and NT warrant
- ❖ - Unspent budget rollovers not a feature
- ❖ -Contingency fund used to manage budget credibility
- ❖ -Supplementary appropriations used to revised original budget estimates but imply additional fund.
- ❖ -Mid year budget execution report not used to reallocate the budget among different votes
- ❖ -Controller of budget reports
- ❖ -Department committee oversight hearings

III. Conclusions:

Implications of current practices for Budget Management



1. Public budgeting requires more than just sound legal framework
2. PFM legal framework be supported by credible national budgetary procedures and consequence management
3. Strengthening budget management in Kenya will entail introduction of some new concepts:
 - a. Commitment to numerical fiscal rules
 - b. Development of fiscal risk statements
4. But will also involve reorienting and enhancing some established budgetary reforms:
 - a. More binding medium-term budget frameworks
 - b. Earlier legislative engagement in top-down budgeting
5. Strong public budgeting and execution practices will also require the government to address chronic weaknesses in their PFM systems:
 - a. Curtailing large supplementary budgets
 - b. Developing and more credible sanctions for overspending

Characteristics of good public budgeting and execution practices



Characteristic	Reasons for its use		
Medium-term horizon	<ul style="list-style-type: none"> • Separate fiscal policy and budget decisions in time • Allow flexibility to deal with volatility or shocks 		
Precise & transparent	<ul style="list-style-type: none"> • Provide clear guide for policy-making • Facilitate evaluation of compliance 		
Binding on outturn	<ul style="list-style-type: none"> • Reduced optimism bias in forecasts • Ensure deviations are made up in future given MTEF allocations 		
Stable over time	<ul style="list-style-type: none"> • Builds public support • Raise reputational cost or risk of breaking the rule 		
Comprehensive in scope	<ul style="list-style-type: none"> • Limits scope for burden shifting or creative accounting- Documentation speak to priorities 		

Additional thoughts: Comparisons



Legal Provisions	South Africa	Kenya			
MT Fiscal Objectives	Yes	Yes			
MT Forecasts	Yes	Yes			
Independent Scrutiny of forecasts	No	Yes			
Fiscal Risks	No	No			
Escape Clause	No	Yes			
Fiscal principles	Yes	Yes			

Additional thought: comparison



Legal Deadlines	South Africa	Kenya			
Fiscal Strategy/ Budget Policy(BPS)	Yes, in October	Yes, 28Feb			
Draft Budget	Yes, January	Yes, 30 April			
Approved Budget	30June	30June			
Supp. Budget	October	31Jan			

Additional thoughts: comparison



Legal Provisions	South Africa	Kenya			
Commitment Controls	Yes	In regulations			
TSA	Yes, for NRF/PMG	Yes, for CF			
Sanctions for exceeding appropriation	Unauthorized spending	Loose provision			
Contingency Fund	Percentage set aside	Yes KES10b			
Carryovers (limit)	Yes	No			
Contracts with multi-year implications	Yes	Yes			