THE GOVERNMENT EXPENDITURE AND DEVOLUTION SCORE CARD CONFERENCE 2019, ICPAK, 21112019

Government Expenditure for Sustainable Development - Key Priorities for Devolution
Speaker: Dr. Abraham Rugo – Country Manager, International Budget Partnership-Kenya

Why did we devolve?

In using Tyler Perry's popular movie, why did I get married? And why did I get married too? Our reflection this morning must start with a reminder of why we devolved our public governance in Kenya.

We devolved power between a national government and 47 county governments with checks and balances provided by Parliament, County Assemblies, Judiciary and Independent Offices & Commissions.

The constitution in Chapter 11, Article 174 provides us with the why including:

(a) to promote democratic and accountable exercise of power;

(b) to foster national unity by recognising diversity;

(c) to give powers of self-governance to the people and enhance the participation of the people in the exercise of the powers of the State and in making decisions affecting them;

(d) to recognise the right of communities to manage their own affairs and to further their development;

(e) to protect and promote the interests and rights of minorities and marginalised communities;

(f) to promote social and economic development and the provision of proximate, easily accessible services throughout Kenya;

(g) to ensure equitable sharing of national and local resources throughout Kenya;

(h) to facilitate the decentralisation of State organs, their functions and services, from the capital of Kenya; and

(i) to enhance checks and balances and the separation of powers.

As such we must consistently assess devolution through at least 4 parameters

- **Inclusion:** The extent to which the diversity of the county is reflected in the programmes that are implemented in the county. To what extent are the young and old, able and differently abled persons taken care of and what efforts are in place to include the marginalized?
- **Allocative and Spending Efficiency:** The extent to which what is implemented reflects the preferences of the public as expressed in the approved plans and budgets.

In actually implementing a budget, there may be changes as the environment changes. For example, revenues may fall short necessitating cuts to the budget. Unit costs should also be in line with market rates to ensure efficiency in spending (value for money).

- **Equity:** The extent to which implementation reflects varying needs of the county public socially, economically and geographically. Are different areas and social groups addressed according to need or are there places being favoured against others?
- **Accountability and control of corruption:** The extent to which public officials are accountable for their action as they apply public resources. This is especially in projects where tendering takes place. Control of corruption is assessed by the measures taken to ensure that public resources are applied only the purposes they are intended.

Key priority areas: A focus on the "Big Four "Agenda

- There has been no clarity of what is guiding economic development in Kenya as currently, the focus seems to be the Big Four Agenda (UHC, Housing, Manufacturing and Food & Nutrition Security) while there is also the Third Medium Term Plan of Vision 2030.
- Its driven by the national government with a salient expectation of private sector involvement

Sectoral performance: Focus on health and agriculture

National Government absorption of health and agriculture budgets for the period 2014-2018 indicates that an average of 19 per cent of the health budget is not absorbed and only 4 per cent of agriculture is not. Agriculture had huge budget bursts in 2016/17 and 2017/18 thus the huge absorption.

Health

Year	Recurrent	Development	Total
2014/15	95%	64%	81%
2015/16	88%	56%	71%
2016/17	103%	87%	95%
2017/18	91%	64%	77%
Average			**81%**

Agriculture

Year	Recurrent	Development	Total
2014/15	94%	87%	89%
2015/16	68%	48%	53%
2016/17	134%	74%	99%
2017/18	246%	82%	143%

Average	96%

County Picture

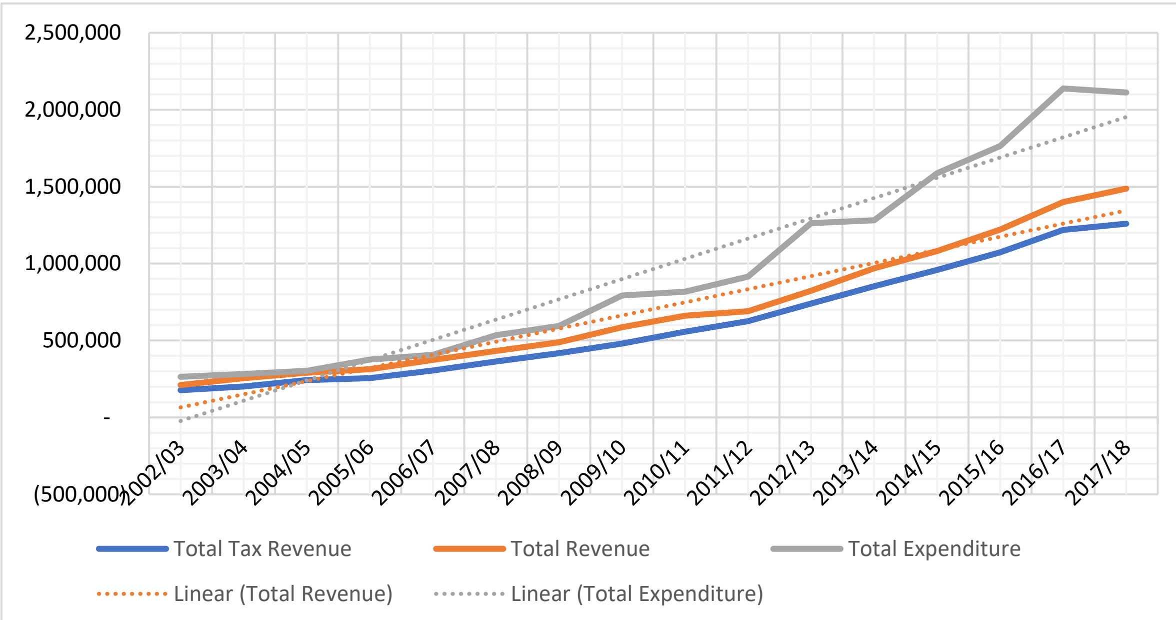
Health			
Budget Year	**Recurrent Budget Absorption**	**Development Budget Absorption**	**Total Budget Absorption**
2014/15	93%	63%	**85%**
2015/16	104%	59%	**91%**
2016/17	92%	63%	**85%**
2017/18	92%	53%	**84%**
Total	**95%**	**59%**	**86%**
Water			
Budget Year	**Recurrent Budget Absorption**	**Development Budget Absorption**	**Total Budget Absorption**
2014/15	86%	78%	**80%**
2015/16	75%	71%	**72%**
2016/17	89%	67%	**73%**
2017/18	84%	51%	**62%**
Total	**83%**	**66%**	**71%**
Agriculture			
Budget Year	**Recurrent Budget Absorption**	**Development Budget Absorption**	**Total Budget Absorption**
2014/15	81%	56%	**68%**
2015/16	87%	59%	73%
2016/17	83%	63%	72%
2017/18	85%	57%	72%
Total	**84%**	**59%**	**71%**
Roads			
Budget Year	**Recurrent Budget Absorption**	**Development Budget Absorption**	**Total Budget Absorption**
2014/15	82%	81%	81%
2015/16	69%	86%	82%
2016/17	89%	79%	80%
2017/18	81%	57%	61%
Total	**80%**	**76%**	**76%**

Nexus between the National Development Agenda (big 4) and county level development

- Distribution of functions between National and County Government
- Health, Housing & Agriculture are county functions
- Manufacturing also relies heavily on agriculture but is there coordination?

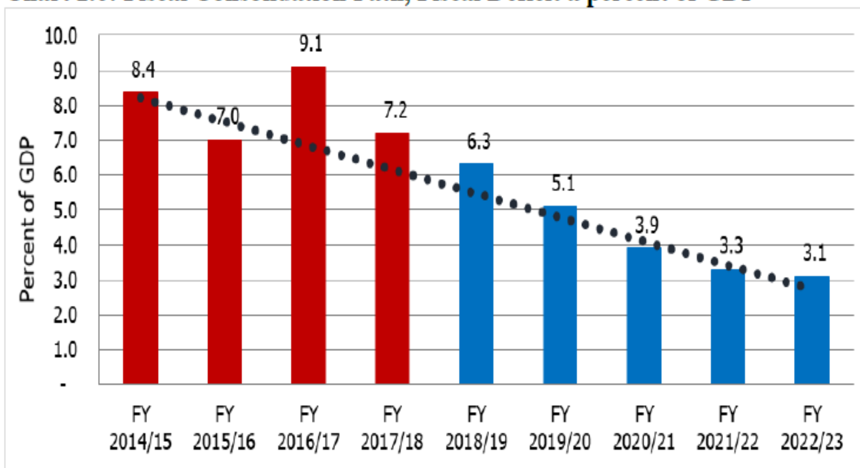
Key challenges – such as revenue shortfall, public debt and how they affect devolution.

- Growing Deficit year on year



- While the national budget continues to increase a huge share, 30 per cent for it has been funded through public borrowing leading to a tripling of the national public debt (excluding guarantees) from 1.8 trillion in 2013/14 to 5.8 Trillion in June 2019. The National Treasury has been in constant talk of austerity measures to free up more cash for the Big Four. However, a look at the current 2019/2020 Budget Review and Outlook Paper (BROP) that within 2019/20 the deficit has already been revised upwards between the approved budget and the BROP from 6.3% to 7%. This negates the very fiscal consolidation proposed in BPS 2019. Therefore, in the medium term and with the kind of trends we have, it's hard to see the government using internal resources to fund the Big Four agenda items.

Chart 2.6: Fiscal Consolidation Path, Fiscal Deficit a percent of GDP



Source: BPS 2019

- Debt repayment and pensions are, however, taking a big chunk of this ordinary revenue as we saw in or DOR analysis this year. This has a very direct impact on the revenue that can go to counties which is the delivery level of key services social services (excluding education) but also just means there is not as much to fund sector services. Table below ill

Table 2: Growth in Public Debt Service vs Ordinary revenue

Year	Ordinary Revenue (excluding AIA)	Public Debt Service	Growth in Ordinary Revenue	Growth in Public Debt Service
2014/15	1,031.82	250.97		
2015/16	1,152.97	250.39	12%	0%
2016/17	1,305.79	307.16	13%	23%
2017/18	1,486.29	453.36	14%	48%
2018/19	1,688.49	687.57	14%	52%

- There is no certainty in equitable share growth even though there has been certainty in growth of national revenue

Table 1: Growth of equitable share

		Proposed Growth		Basis for Proposed Revenue Growth				Equitable Share Approved in the DoR (2019/20 is proposed)	Growth in DOR approved Amounts
	Year	CRA	National Treasury	CRA	National Treasury	Ordinary Revenue	*Growth in National Ordinary Revenue*		-
1	2015/16	10.4%	10.4%	3-Year average growth in ordinary revenue	3-Year average growth in ordinary revenue	1,152.97	*13%*	259.77	15%
2	2016/17	15.0%	7.8%	3-Year average growth in ordinary revenue	Not provided	1,306.57	*13%*	280.30	8%
3	2017/18	15.0%	6.7%	3-Year average growth in ordinary revenue	3-Year average month on month inflation	1,365.06	*4%*	302.00	8%
4	2018/19	8.5%	4.0%	3-Year average inflation	Not Clear	1,651.52	*21%*	304.96	1%
	2018/19 Proposed Revision					-		314.00	3%
	2019/20	6.9%	2.0%	3-Year average inflation	Not Clear	1,877.18	*14%*	310.00	2%

Source: DORB 2019 and DORA 2014-2018

Table 2: Distribution of ordinary revenue among national and county governments

Evaluation of the Bill against Article 203 (1) of the Constitution.						Growth over years.				
ITEM DESCRIPTION (KSh. Millions)	FY 2015/16	FY 2016/17	FY 2017/18	FY2018/19	FY2019/20	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	Growth Between 2019/20 and 2015/16
ORDINARY REVENUE (EXCLUDING AIA)	**1,152,972**	**1,306,568**	**1,365,063**	**1,651,517**	**1,877,176**	**13.3%**	**4.5%**	**21.0%**	**13.7%**	**63%**
National Interest [Article 203 (I)(a)]	**79,189**	**79,685**	**82,696**	**84,186**	**94,168**	**0.6%**	**3.8%**	**1.8%**	**11.9%**	**19%**
Enhancement of security operations (police vehicles, helicopters, defence etc.)	17,700	18,900	20,556	27,800	27,974	6.8%	8.8%	35.2%	0.6%	58%
National irrigation and fertilizer clearance	12,500	8,700	8,880	11,775	11,103	-30.4%	2.1%	32.6%	-5.7%	-11%
Youth empowerment	17,055	18,544	18,544	7,442	16,226	8.7%	0.0%	-59.9%	118.0%	-5%
National social safety net - (for older persons, OVC, child welfare, presidential bursary, severe disability)	14,354	16,924	17,305	26,812	26,362	17.9%	2.3%	54.9%	-1.7%	84%
Primary school digital literacy program	17,580	13,408	13,408	6,333	8,400	-23.7%	0.0%	-52.8%	32.6%	-52%
School examination fees (KSCE and KCPE)	-	3,209	4,003	4,024	4,103	#DIV/0!	24.7%	0.5%	2.0%	
Public Debt (Art. 203 [1][b])	**250,390**	**307,155**	**462,243**	**637,396**	**585,703**	**22.7%**	**50.5%**	**37.9%**	**-8.1%**	**134%**
Other National Obligations (Art 203 [1][b])	**324,583**	**371,743**	**398,589**	**427,239**	**491,269**	**14.5%**	**7.2%**	**7.2%**	**15.0%**	**51%**
Pensions, Constitutional Salaries and Other	owth	60,169	68,702	90,573	109,526	#VALUE!	14.2%	31.8%	20.9%	
Constitutional Commissions (Art. 248(2)) i.e. CRA, SRC, NI-C, NM, IEBC, TSC	189,066	208,763	224,623	233,619	261,387	10.4%	7.6%	4.0%	11.9%	38%
Independent Offices(Art. 248(3)) - i.e. AG and CoB	4,720	4,723	5,177	6,412	6,336	0.1%	9.6%	23.9%	-1.2%	34%
Parliament	27,277	31,480	30,915	34,490	39,501	15.4%	-1.8%	11.6%	14.5%	45%
Other Constitutional Institutions-State Law Office and DPP	6,863	6,359	6,498	7,602	8,765	-7.3%	2.2%	17.0%	15.3%	28%
Other statutory bodies (e.g. EACC, RPP, WPA, CAJ, IPOA, NGEC)	4,697	4,855	5,484	5,724	5,937	3.4%	13.0%	4.4%	3.7%	26%
Judiciary	-	17,759	17,678	13,458	18,937	#DIV/0!	-0.5%	-23.9%	40.7%	
Other Statutory Allocations|Earmarked Funds	37,343	37,635	39,512	35,361	40,880	0.8%	5.0%	-10.5%	15.6%	9%
Emergencies [Art. 203 (1)(k)]	7,245	7,245	9,294	6,419	6,418	0.0%	28.3%	-30.9%	0.0%	-11%
Contingencies	5,000	5,000	5,000	5,000	5,000	0.0%	0.0%	0.0%	0.0%	0%
Strategic Grain Reserve	2,245	2,245	4,294	1,419	1,418	0.0%	91.3%	-67.0%	-0.1%	-37%
Equalization Fund [Art. 203 (1) (g) and (h)]	6,000	6,000	7,727	4,700	5,765	0.0%	28.8%	-39.2%	22.7%	-4%
BALANCE TO BE SHARED BY THE 2 LEVELS OF GOVERNMENT	**485,565**	**534,740**	**404,414**	**491,576**	**693,854**	**10.1%**	**-24.4%**	**21.6%**	**41.1%**	**43%**
COUNTY GOVERNMENT ALLOCATION FROM REVENUE RAISED NATIONALLY, of which;-	273,073	295,020	314,205	322,193	323,911	8.0%	6.5%	2.5%	0.5%	19%
a)Equitable Share of Revenue	259,775	280,300	302,000	304,962	310,000	7.9%	7.7%	1.0%	1.7%	19%
b)Additional conditional allocations financed from revenues raised nationally	13,298	14,720	12,205	17,231	13,911	10.7%	-17.1%	41.2%	-19.3%	5%
BALANCE LEFT FOR THE NATIONAL GOVERNMENT	212,493	239,720	90,309	169,383	369,943	12.8%	-62.3%	87.6%	118.4%	74%

- Challenge of poor implementation. Credibility of budgets as discussed above.
- Inequitable distribution of resources especially capital budgets,
- Poor quality of the now many public engagement platforms,
- Misconceptions of just how much counties can dependent on own-source revenue. Out of say about 5 counties, every other county is wholly dependent on national transfers and we need to accept that is the status quo for the foreseeable future.

County Revenues for Financial Year 2017/18 (Kshs. Millions)

No.	County	Equitable Allocation 2017/18	OSR 2017/18	Total Revenue	OSR/Total Revenue

1	NAIROBI CITY	15,390	10,109	25,500	40%
2	MOMBASA	8,162	3,159	11,321	28%
3	NAROK	6,519	2,188	8,707	25%
4	NAKURU	9,259	2,279	11,538	20%
5	KIAMBU	9,654	1,694	11,348	15%
6	NYERI	4,948	760	5,708	13%
7	UASIN-GISHU	5,697	819	6,516	13%
8	MACHAKOS	7,398	1,064	8,462	13%
9	KISUMU	6,548	875	7,423	12%
10	KAJIADO	5,761	682	6,443	11%
11	EMBU	4,100	416	4,516	9%
12	LAIKIPIA	4,501	413	4,915	8%
13	KERICHO	5,218	414	5,632	7%
14	KIRINYAGA	4,414	344	4,758	7%
15	BUNGOMA	8,766	657	9,423	7%
16	MURANG'A	6,181	454	6,635	7%
17	SAMBURU	3,791	257	4,048	6%
18	NYANDARUA	4,776	319	5,094	6%
19	BARINGO	4,975	301	5,277	6%
20	MERU	7,705	442	8,147	5%
21	KILIFI	9,962	523	10,485	5%
22	TAITA-TAVETA	3,898	194	4,091	5%
23	MAKUENI	6,826	319	7,146	4%
24	KAKAMEGA	9,940	441	10,381	4%

25	TRANS-NZOIA	5,650	246	5,897	4%
26	NANDI	5,115	198	5,313	4%
27	KITUI	8,664	335	8,999	4%
28	KWALE	7,260	276	7,537	4%
29	BOMET	5,247	181	5,429	3%
30	KISII	7,440	256	7,696	3%
31	MIGORI	6,456	222	6,678	3%
32	THARAKA-NITHI	3,685	127	3,812	3%
33	VIHIGA	4,399	144	4,542	3%
34	BUSIA	5,816	176	5,992	3%
35	ISIOLO	3,782	115	3,897	3%
36	ELGEYO-MARAKWET	3,630	105	3,736	3%
37	SIAYA	5,541	139	5,681	2%
38	LAMU	2,466	55	2,522	2%
39	NYAMIRA	4,609	97	4,706	2%
40	WEST POKOT	4,739	88	4,827	2%
41	HOMA-BAY	6,516	107	6,623	2%
42	TURKANA	10,092	144	10,236	1%
43	GARISSA	6,686	87	6,773	1%
44	MARSABIT	6,588	83	6,672	1%
45	TANA-RIVER	5,340	57	5,396	1%
46	WAJIR	8,140	68	8,208	1%
47	MANDERA	9,749	62	9,811	1%
	Total	302,000	32,492	334,492	10%

Source: Commission on Revenue Allocation

- Pending bills are a substantial part of the national government and county obligations. We still cannot establish the actual reason for the same but the numbers are rather worrying especially if related to county annual revenues

TOTAL PENDING BILLS BOTH RECURRENT AND DEVELOPMENT AS AT JUNE 2018 (IN MILLION)					
COUNTY	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**
Baringo	-	173.40	132.03	91.48	63.60
Bomet	-	200.00	161.39	269.09	1,155.47
Bungoma	76.30	2,537.14	46.66	888.74	326.39
Busia	-	-	388.83	826.09	993.60
Elgeyo/Marakwet	-	201.42	814.35	785.05	136.75
Embu	-	596.60	798.24	860.46	1,278.74
Garissa	-	460.00	310.50	446.83	980.06
Homa Bay	-	441.61	1,710.71	532.18	746.48
Isiolo	-	563.44	306.16	219.45	101.33
Kajiado	-	984.80	1,129.68	394.05	769.81
Kakamega	13.50	728.48	451.98	556.95	634.74
Kericho	16.55	859.57	559.71	396.77	1,255.28
Kiambu	419.03	608.99	388.36	920.26	785.76
Kilifi	-	269.26	1,546.37	819.83	1,224.71
Kirinyaga	-	201.04	98.28	219.51	250.09
Kisii	15.74	1,081.02	836.88	909.78	865.08
Kisumu	54.73	2,498.99	3,256.53	1,792.85	2,047.60
Kitui	-	405.94	-	-	1,167.09
Kwale	-	1,874.26	1,447.54	989.89	1,830.12
Laikipia	20.00	484.00	1,126.81	854.57	760.61
Lamu	-	49.29	188.39	1.63	179.49
Machakos	18.54	943.74	-	-	975.46
Makueni	-	184.97	135.25	183.49	33.57

Mandera	**19.00**	**1,570.41**	**140.00**	**-**	**107.58**
Marsabit	**15.96**	**625.64**	**861.90**	**799.15**	**799.15**
Meru	**-**	**1,609.95**	**1,327.02**	**832.09**	**2,000.93**
Migori	**-**	**508.65**	**947.94**	**865.45**	**290.94**
Mombasa	**-**	**1,466.24**	**875.44**	**3,945.94**	**3,705.50**
Murang'a	**-**	**1,094.32**	**962.68**	**1,347.65**	**469.49**
Nairobi City	**2,673.16**	**1,228.39**	**5,040.09**	**-**	**64,802.99**
Nakuru	**45.02**	**2,464.50**	**3,675.09**	**2,795.80**	**2,379.82**
Nandi	**-**	**209.17**	**719.86**	**813.51**	**1,394.23**
Narok	**47.22**	**578.71**	**502.27**	**1,653.25**	**1,725.44**
Nyamira	**-**	**403.34**	**122.40**	**327.67**	**1,349.59**
Nyandarua	**-**	**407.80**	**622.32**	**731.07**	**906.92**
Nyeri	**36.88**	**542.74**	**108.12**	**712.92**	**1,411.37**
Samburu	**-**	**374.02**	**956.71**	**704.83**	**792.66**
Siaya	**-**	**800.34**	**336.95**	**277.60**	**614.51**
Taita/Taveta	**-**	**295.48**	**709.29**	**281.38**	**239.65**
Tana River	**-**	**-**	**684.77**	**946.03**	**946.03**
Tharaka –Nithi	**-**	**815.58**	**750.28**	**275.14**	**260.78**
Trans Nzoia	**189.43**	**589.33**	**615.75**	**702.13**	**781.57**
Turkana	**-**	**2,400.00**	**-**	**2,900.00**	**633.66**
Uasin Gishu	**50.00**	**1,121.91**	**125.76**	**263.93**	**319.35**
Vihiga	**-**	**2,020.31**	**1,176.41**	**1,184.81**	**1,184.81**
Wajir	**-**	**112.07**	**-**	**409.37**	**2,619.58**
West Pokot	**-**	**235.91**	**267.65**	**113.05**	**113.05**
Total	**3,711.04**	**37,822.74**	**37,363.35**	**35,841.72**	**108,411.43**

Source: Controller of Budget Reports

Recommendations for devolution

- Tough calls must be made to stop ex
- Revisit the division of functions and allocate requisite resources
- Strengthen budget credibility
- Institutionalize public deliberation of budgets so that public participation becomes meaningful