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Improving public policy making for economic growth and poverty reduction

Strengthening Budget Reforms in Kenya: Issues and Challenges

The Government has been undertaking budget reforms with a view to improving fiscal policy, planning and budget management functions. Following a 1997 assessment of public expenditure composition and management, the Government initiated reforms which included adoption, in 2000/01, of the Medium Term Expenditure Framework (MTEF) approach to budgeting; the establishment of a Budget Monitoring Unit; and the introduction of the Integrated Financial Management Information System (IFMIS). The adoption of the MTEF approach was intended to achieve four key goals, namely: linking policy-making to planning and budgeting; maintaining fiscal discipline; facilitating prioritization of expenditure across policies, programmes and projects; and encouraging efficient use of resources to improve budget outcomes. These reforms have begun bearing fruits in terms of improved expenditure prioritization. However, there still remains some challenges in the budget reform process that, if addressed, will result in improved budget outcomes.

Lack of a strong legal framework

The existing legal framework for budgeting does not adequately cover the MTEF budgeting process in terms of schedule, procedures, and roles and responsibilities of the different players in budget formulation and preparation, approval, execution and accounting. In addition, though the MTEF process provides for a sectoral approach to resource allocation and prioritization, ultimately, the budget is voted by ministry since there is no legal or institutional foundation for a sectoral approach to budget allocations and prioritization. The Fiscal Management Bill 2006, which is currently before Parliament, is expected to enhance Parliamentary oversight over the national budget process.

Inadequate grassroot participation

Although the current MTEF framework is a participatory budget process by design, some of the participating institutions suffer inertia in performing their roles, thus undermining the effectiveness of the entire budget process. For instance, institutions like the district MTEFs are not functional, yet they are the ones expected

to initiate and guide people participation from the grassroots. Inadequate participation is also worsened by lack of community awareness and sensitization as to their roles in the budgetary process. The district MTEF institutions lack adequate information on output and costing at the districts, which undermines the process of inter- and intra-sectoral resource allocations based on a careful evaluation of priorities at the sub-national level.

Lack of reliable medium term focus

Ministries fail to regularly refer to their forward estimates in developing new budgets at the beginning of each new budget cycle. This, in effect, renders the two outer years of the MTEF budgetary process irrelevant, and therefore efforts to provide forecasts for the outer years become fruitless. The MTEF budget has a medium term forecast for three years where the

This policy brief is based on various annual budget reviews conducted by KIPPR. The reviews aim to enhance the budget process and contribute to the reform initiatives being undertaken by the Government.

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outer years refer to the last two years in the forecast. These two years need to be taken into account when preparing a new cycle of the budget.

Weak link between MTEF policy documents and the annual budget

The MTEF has been enhanced through the introduction of the Budget Outlook Paper and the Budget Strategy Paper, which provide overall macroeconomic and fiscal framework for the budget. However, an analysis of the link between the Budget Strategy Paper and the annual budget that is presented to Parliament reveals major divergencies between the budget ceilings in the Budget Strategy Paper and the annual budget. The deviations range from 10-60 percent. This implies that the MTEF policy papers rarely provide a binding constraint for the annual budget.

Weak linkage between national and community priorities

The linkage between national and community priorities is fairly weak. This is largely because of weak or lack of sub-national institutions to coordinate budget inputs. Consequently, the current national and District Development Plans and the district Poverty Reduction Strategy Papers do not fully inform the budgetary process.

Lack of adherence to the MTEF timelines

Some actions such as the issuance of the budget circular guidelines are sometimes delayed, thereby undermining the schedule of MTEF activities and the utilisation of the same at the sub-national levels. Delays in accomplishment of some tasks within schedule are therefore common.

Parliamentary oversight on public finance

Several committees of Parliament are meant to work on and review budgetary issues, including the reform process, but these committees need

to be strengthened or revitalized. Parliament exercises its authority on government budget through various parliamentary committees, including: the Committee of Ways and Means; the Committee of Supply; the Estimates Committee; the Public Investments Committee; and the Public Accounts Committee.

Progress in implementation of the Integrated Financial Management Information System (IFMIS), which was to be rolled out to line ministries, has been slow. There is lack of momentum on Public Expenditure Tracking System (PETS), which was to improve utilization of public resources and help address weaknesses in budget execution.

Conclusion

The current budgetary process provides great opportunities for strengthening public-private partnerships (PPPs) in budget formulation and implementation. The Government has been inviting the private sector and other stakeholders to participate in the budgetary process. This helps focus on the needs of all the stakeholders, including the community, by enhancing their participation. It has huge potential in shaping future identification and prioritization of community's needs, and in service delivery to the community.

In addition, the Public Expenditure Review and Public Expenditures Tracking Systems (PETS) provide an opportunity for improving budget outcomes through effective allocation and utilization of resources.

A performance-orientated and results focused MTEF process can be a major boost to good governance. It has potential to shift attention from what the government does to what the people want the government to do, based on people's needs. It provides a framework for proper checks and balances on how the resources are invested in community-sanctioned projects, which inspires good governance.

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The process has created avenues for wider participation, as embodied in the MTEF budgetary process through public sector hearings. This has been effective at the national level through public access and discussion of the Budget Strategy Paper and sector reports. The key challenge is to roll out these gains to the district level.

The Sector Working Groups (SWGs) also provide an excellent opportunity for the budget process to focus on the social sectors and give them a particular emphasis.

The main shortcoming with the current budgetary process is the weak institutional framework that is manifested in poor governance, lack of capacity at the district level, and conflicting interests in sustaining the old and new systems.

However, the budget reform process is continuing to strengthen the link between policy, planning and budgeting, which allows expenditures to be driven by policy priorities and guided by budget realities, and therefore improving efficiency in resource allocation and reducing unnecessary wastage.

The reform process has enabled and hastened the implementation of the Investment Programme for Economic Recovery Strategy for Wealth and Employment Creation, which translates the priorities of the nationwide Poverty Reduction Strategy Papers and the mandate of the Government.

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Policy Recommendations

Strengthen the legal framework

The existing legal framework for budgeting

does not cover the MTEF budgetary process. This contributes to the common violation of activity timelines, for example when the Treasury circular to initiate the budget process is released late. A strong legal framework should be put in place to clearly spell out the roles and responsibilities of the various players in the budget process as well as the schedule and procedures for the MTEF budget process. This will enhance timeliness and participation and make the process all inclusive for efficient resource allocation and utilization.

Capitalize on MTEF strengths

The MTEF budget process is structured well up to the district level, but its district-based institutions have not worked as envisaged. These institutions comprise the 'bottom up' component of the budget process. They are expected to solicit views from the people on the ground on their prioritized needs through a participatory process and for which budgetary allocations should be made. This, however, has remained theoretical partly because of lack of adherence to the process and partly because of lack of a strong legal and institutional framework.

Strengthen existing institutional framework

To effectively operationalise the MTEF, there is need to strengthen the existing institutional framework and allow for partnership between the public, private, civil and community in the prioritization of needs and allocation of resources. There is also need to strengthen the capacity at the districts and provide adequate resources, improve on the systems of accountability and transparency, provide the necessary commitment for fiscal decentralization, and ensure that the MTEF process is well grounded in the reform process and has a firm legal framework.

The district MTEF institutions lack adequate information on output and costing at the districts, which undermines the process of inter- and intra-sectoral resource allocations based on a careful evaluation of priorities at the sub-national level.

Improve and utilize the medium term focus

As the MTEF budget provides a budget forecast for three years, it would be of utmost importance to utilize the two outer years adequately when preparing the next cycle of the budget so as to enhance predictability and certainty. The outer years provide a good baseline scenario, which is important in budget preparation.

Parliamentary committees

The parliamentary oversight committees on public finance should enhance their operations and also increase their efficiency when carrying

out their functions. Parliament should also speed up the discussion on the establishment of a parliamentary budget office or Office of Fiscal Analysis.

Operationalise IFMIS and PETS

The Government should speed up the process of rolling out the IFMIS to the line ministries and ensure their efficient and smooth operation. IFMIS is the key to improved budget execution and eventually to expenditure control and reporting. Likewise, the government should utilize the opportunity provided by the PETS so as to reap their benefits, which are geared towards better utilization of public resources.

About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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