EXECUTIVE SUMMARY

INTRODUCTION AND BACKGROUND

This Public Expenditure Review (PER) is the first undertaken by the Government of Kenya since 1997. The focus is on benchmarking and identifying key issues in the structure of public expenditure and public expenditure management in Kenya after a period of six years since the last PER Report; on examining some of the reform processes underway; and on making recommendations for future analytical work against the background of the objectives of the Economic Recovery Strategy for Wealth and Employment Creation that the Government launched in June 2003.

The PER draws on Ministerial PERs (MPERs) carried out in eight ministries at the beginning of 2003. These ministries account for over two-thirds of ministerial expenditure. They are: the Ministry of Education, Science and Technology; the Ministry of Health; the Ministry of Agriculture and Livestock Development (prior to the separation of functions); the Ministry of Roads, Public Works and Housing; the Ministry of Local Government; the Ministry of Water Resources Management and Development; the Ministry of Environment, Natural Resources and Wildlife; and the Office of the President.

RECENT MACROECONOMIC TRENDS AND THE BROAD FISCAL FRAMEWORK

The Kenyan economy has stagnated since 1997 and poverty has grown. Growth in GDP has averaged about 1.3% per annum over the last six years and the percentage of the population living in poverty increased from 51% in 1997 to over 56% in 2002.

Investment and savings have been low and declining. Gross investment as a proportion of GDP fell from 18.5% in 1997 to 13.6% in 2002. Public sector investment fell from 6.7% of GDP in 1997 to 4.8% of GDP in 2002. At the same time, public consumption increased from 16.2% of GDP to 19% of GDP.

Inflation has been falling, as have Treasury Bill interest rates. Annual average inflation fell from 11.2 % in 1997 to 2% in 2002. Three month TB rates fell from 26.4% in 1997 to 8.4% in 2002.

Public expenditure as a share of GDP is high but falling. Total government expenditure as a share of GDP declined from 31.8% in 1997/98 to 24.5% in 2001/02. As a reflection of high levels of expenditure, Kenya mobilises a higher level of tax revenue to GDP than the average of Sub Saharan Africa. Revenues like expenditure have been declining as a percentage of GDP. External grants provide only a small proportion of total finance for public expenditure.

Recurrent spending dominates total expenditure and development expenditure is low. Recurrent expenditure averaged 23.6% of GDP between 1997/98 and 2002/03. Development expenditure averaged only 3.8% of GDP over the same period.

The fiscal deficit has been rising after being brought under control at the end of the 1990s. A budget surplus including grants of nearly 1% of GDP was recorded in 1999/00.

By 2001/02 this had become a deficit of 2.4% of GDP. Provisionally, on the basis of the data available at the time of this review, a deficit including grants of 1.8% is estimated for 2002/03. Increased levels of domestic debt have been associated with the growing fiscal deficit. External financing has not been available to financing the growing deficit. The stock of domestic debt has increased from 19.4% of GDP at the end of 2000/01 to an estimated 23% of GDP at the end of 2002.

THE STRUCTURE OF PUBLIC EXPENDITURE

Economic Classification of Expenditure

Public sector wages absorb a large share of total public expenditure and as a percentage of GDP, this share is growing. In 2002/03, it is estimated that the share of wages and salaries is 8.7% of GDP, having declined to 8.1% in 2000/01. This increase has occurred despite substantial falls in the number of civil servants from 228,000 at the end of 1998, to 195,000 at the end of 2002. Average real wages in the public service have been growing significantly in recent years.

Operations and Maintenance expenditure although low compared to wages and salaries has increased from 5.3% of GDP in 1997/98 to an estimated 6.7% of GDP in 2002/03. The current ratio of PE to O&M at 70:30 however remains significantly higher than the MTEF target of 50:50.

Transfers and subsidies to organisations outside the civil service are significant and have been on a rising trend. Total transfers rose from 4.3% of GDP in 1997/98 to 5.4% of GDP in 2000/01 although they are projected to decline to 4.1% of GDP in 2002/03.

Interest payments have decreased substantially since the end of the 1990s as a result of falling interest rates but they have recently started to rise again. Interest payments were 6.1% of GDP in 1997/98 and fell to 3.3% of GDP in 2001/02 and are projected to rise to 3.6% in 2002/03. Domestic interest payments accounts for 78% of total interest payments in 2002/03 compared to 71% in 1999/2000.

Development expenditure has been low and declining. Development expenditure fell from 5.5% of GDP in 1997/98, to 2.7% of GDP in 2001/02. There is a projected rise to 3.9% of GDP in 2002/03.

Expenditure by Ministry and Broad Function

Until the introduction of FPE in 2002/03, the social service expenditure share of total expenditure and share of GDP was in decline. Social services expenditure share of GDP declined from 10.1% of GDP to 7.8% in 2001/02 before increasing to an estimated 9.4% in 2002/03.

Public expenditure on education in Kenya is high whereas on health it is relatively low. Education expenditure is estimated to be 6.8% of GDP after the introduction of FPE while the share of expenditure to GDP in health is estimated to be less than 2%.

Expenditure on general public administration has been on a rising trend reaching an estimated 8% of GDP in 2002/3 compared to 6.1% of GDP in 1997/98. This figure includes a rise in the GDP share of expenditure on Public Order and Safety from 1.9% of GDP in 1997/98 to 2.2% of GDP in 2002/03. Expenditure on Defence which is categorised separately has risen from 1.6% of GDP in 1997/98 to an estimated 1.8% of GDP in 2002/03.

In aggregate, actual expenditure and revenue are generally lower than budgeted. The problem of underspending is particularly prominent in the development budget. All ministries generally underspend their development budget, although to a varying degree.

A small group of ministries and departments regularly overspend their recurrent budget. Over the three year period 1999/00 to 2001/02, the National Assembly overspent by an average of 17%, State House by an average of 15%, the Office of the President by an average of 9%, the Ministry of Health by an average of 7%, and Defence by an average of 6%. Prominent underspenders have been Public Works by an average of 19% and Local Government by an average of 25%.

The Government has defined a Core Poverty Expenditure Programme which it aims to defend from expenditure cuts. Since it was introduced in 2000/01 it has grown in size in particular as new expenditure lines have been added to it. The Government has not been fully successful in protecting expenditure allocations to these programmes though its record has been improving over time.

In summary, many of the problems in the structure of public expenditure observed in the 1997 PER still persist. These include for example: relatively high wages and salary expenditure and relatively low O & M expenditure; relatively low development expenditure; high transfers to organisations outside the main civil service; and weak budget implementation which results in a general underspending in the development budget and overspending on the recurrent budget in ministries engaged generally in administration rather than service delivery.

Improvements in the structure of public expenditure will follow from existing government commitments and improved information and analysis of existing expenditure patterns. Government's existing commitments include reducing the wage bill below 8.5% of GDP by 2005/06 and a shift of public expenditure from current to capital spending. They also include increase in public expenditure on health and welfare to 3.5% of GDP by 2005/06. Priorities for analysis include: generation of better information on functions and outputs; a review of O&M expenditure to develop clear proposals for provision and reallocation for example in relation to wage expenditure; and improved analysis of transfers and subsidies to assess their contribution to service delivery.

MINISTERIAL PUBLIC EXPENDITURE REVIEWS

The 2003 MPERs varied in their coverage and detail, although they all had the same Terms of Reference, which focused in particular on bringing out the linkage between polices and the allocation of resources. Variation in the quality of the reviews was caused for example by difference in information, technology and by the capacity made available by ministries in the face of competing demands at the time of MTEF preparation.

In the reviews which did focus in detail on the linkages between policy and resource allocation, a number of inconsistencies were identified. In education, the relatively high share of expenditure on tertiary education was noted as was the exceptionally high level of tertiary education unit costs compared to other sub sectors: primary and secondary education. In health, the relatively low levels of provision for preventive and primary health care were noted. It was also observed that actual expenditure in both of these subsectors was regularly less than budgeted. In comparison, expenditure on curative health has remained high including for Kenyatta National Hospital, despite reduced budgetary provision in successive years. In agriculture, high allocations of expenditure are made for transfers to parastatals whose activities are not clearly related to the core functions of the ministry.

The MPERs highlighted a general lack of information on unit costs of service provision. A prominent exception is the information now available on the costs of FPE following detailed analysis to provide the basis for implementing this policy.

The MPERs also highlighted a general absence of information on outputs and performance associated with expenditures, although this information does exist in some ministries such as education and to a lesser extent in health. This point is reinforced by the number of separate recommendations in the MPERs to strengthen monitoring and evaluation.

In most Ministries there appears to be a lack of disaggregated data on expenditure broken down by programmes and within programmes by economic categories. This highlights the problems of linking expenditure allocation to policies of measuring unit costs and of understanding efficiency in use of resources.

The timetable for carrying out the MPERs was squeezed. The timing overlapped with the commencement of MTEF budget planning which placed conflicting demands on those undertaking the MPERs and reduced the impact of the MPERs on the budget for 2003/04. Future MPERs must be firmly established in the budget timetable and as an integral part of the budget process for them to provide timely and effective inputs to budget planning. Sufficient time should be set aside for preparation, research, report writing, dissemination and discussion, and revision.

Much of the available time in the 2003 MPERs was used up in assembling basic tables on budgets and actual expenditures and insufficient time on analysis and producing conclusions. The process of assembling information should not wait until the start of the next PER. Each CPU should see it as its responsibility to establish and maintain an electronic database on relevant PER information particularly on expenditures (budgets and actual) using the current budget classification. This will allow the type of data manipulation that is essential for summary presentation and analysis. The CPU should also address the problem of improving information on expenditure on the development budget to analyse it by economic categories and by sources of finance. Analysing the use of transfers in a similar way would also be beneficial. PERs are not just about tracking inputs. They are primarily concerned about achievement and the policy environment for this achievement. The CPU should also see it as its responsibility to establish and maintain a database on output and outcome information related to its Ministry.

MPERs should be factored into the work programme of the Ministry. MPERs in 2003 were conducted by Central Planning Units and this is their natural home. But there needs also to be involvement of Finance, Accounts and individual Service Departments. Within Ministries a Steering Group should be established to oversee MPERs and this should be chaired at a high level to ensure that inputs are timely and appropriate.

PUBLIC EXPENDITURE MANAGEMENT IN KENYA

Budget Preparation

The introduction of MTEF budgeting in 2000/01 was a major reform in budget planning and formulation. Prior to 2000/01 the Kenyan budgeting system could be characterised as being incremental with a focus on allocation and control through line item expenditure. The MTEF budget provides a means to incorporate a medium term perspective in budgeting and to bring together the top down annual fiscal framework which allocates available resources to sectors based on sectoral priorities, with bottom up preparation of detailed output based sector budgets.

The MTEF in Kenya has focused attention on a number of key challenges in budget preparation. These include: allocating resources to priorities in a predictable manner, accurate fiscal projections and developing a clear understanding of sectoral outputs and their costs. However, the MTEF in Kenya still has a number of weaknesses. These include:

- The MTEF process does not have legal and political underpinning;
- The MTEF process does not comprehensively allocate and prioritise all available resources to Government.
- The development of the MTEF has been constrained by the classification system used for budget preparation,
- Line Ministries' budget planning and also commitment to the MTEF remains weak.
- The medium-term planning elements of the annual MTEF budget are not embedded. The MTEF has been constrained by a tight timetable and the absence of a PER to provide important analytical inputs.

Budget Execution

The Government's system of cash management has impeded effective budget execution. The 2003 MPERs highlighted that the poor match between Exchequer release of cash and quarterly authority to incur commitments, was regarded as one of the main impediments to effective budget implementation.

Commitment control in Line Ministries is also weak. Commitment recording within the vote book system is subject to a number of problems, including for example processing of approval of orders without checking on the availability of funds and suppression of invoices outside the system because of the lack of availability of budgeted funds.

Expenditure reallocations in the budget year are probably more significant than intended. In some cases reallocations are made through requests to the Budget Supply Department while in others, reallocations may not be formalised with ministries possibly over budgeting in some areas to create space for higher spending in others.

Procurement reforms have been implemented since 2000/01 but require strengthening. In particular new procurement regulations gazetted in 2001 together with the creation of the Directorate of Public Procurement in the preceding year have improved the environment for public procurement through the use of standard documents, improved accountability and the establishment of complaints and appeal processes. But concerns remain about weak adherence to the regulations in some areas and the institutionalisation of corrupt practices.

A large number of projects that are stalled continues as a problem created by a combination of weaknesses in budget preparation and budget execution. The large number of stalled projects is spread over all line Ministries, as reported in the MPERs but is particularly prominent amongst construction projects that are managed for line ministries by the Ministry of Roads Public Works and Housing. Stalled projects have been caused by poor project selection, poor cost estimation and under funding and in-year cuts in the development budget.

The stock of pending bills is large and probably still growing. The problem of pending bills has become systemic as a result of poor financial compliance, stalled projects and poor cost estimation of utility expenditure. Data on the stock of pending bills is not fully reliable, but at the end of October 2002, Ministries reported total outstanding claims from contractors amounted to Ksh 21 billion. In addition at the end of 2002 recurrent arrears were estimated by the Budget Monitoring Department to be Ksh 7.6 billion. The 2003 MPERs highlight the pending bill problem.

Budget reporting and auditing

Regular reporting on public expenditure is available but there are some concerns about its quality. Reports on expenditure are submitted by line Ministries monthly and reported on quarterly by the Budget Monitoring Department. Concerns about quality arise in part because delays in providing accounting information mean that monthly expenditure reporting cannot routinely reconciled against accounting reports. Expenditure tracking surveys to examine bottlenecks in resource flows and resource utilisation have only recently commenced. Results were not available for this PER.

Both Internal and External Audit have recently been strengthened, but also require further reform. Internal Audit has started to focus on system-based audits but in some Ministries the practice of using internal auditors for pre-audit work is only slowly dying out. The Controller and Auditor General has made significant strides in recent years in dealing with the backlog of unaudited accounts, but there has been little follow up on these reports to strengthen their impact.

THE GOVERNMENT'S PUBLIC EXPENDITURE MANAGEMENT REFORM PROGRAMME

The Government has embarked on a major program of public expenditure management reform to address the weaknesses in remaining systems. In particular this includes:

- **The establishment of a stronger legislative framework** through new government financial management, public audit and public procurement legislation.
- **Improving the MTEF budgeting process** through a review focused on addressing current weaknesses in the MTEF, and by implementing a new budget timetable that importantly allows more time and high level commitment in budget preparation.
- **Commitment to an annual PER process** to both review budget performance and to provide analytical support in budget preparation.
- **Timely Introduction of the Integrated Financial Management Information System (IFMIS)** to significantly improve commitment control and reporting. A

timetable has been identified that allows full rollout to Ministries by mid 2004 and to Districts by end 2004.

- **Short term measures to address weaknesses in budget execution and reporting** ahead of the introduction of IFMIS. These include the full verification of pending bills and the preparation of a plan for their clearance. They also include measures to strengthen Budget Monitoring Department's reporting and more systematic use of public expenditure tracking surveys.

The success of this reform programme will depend importantly on institutional arrangements and capacity established for its implementation. The priorities include:

- **Preparation of a detailed implementation plan building on the existing summary plan.** This needs importantly to be both prioritised and sufficiently ambitious to allow timely change. Accountability for delivery needs to be assigned.
- **Careful and early consideration of the role of external assistance.** Technical assistance is likely to be required in a number of technical areas, but it should importantly be used to build internal capacity.
- **Establishment of effective institutional arrangements for implementation and co-ordination.** Importantly these should allow for effective co-ordination between the now separated Ministry of Finance and Ministry of Planning and National Development.
- **Establishment of arrangements for monitoring and evaluation.** The PER process together with external evaluation might provide the focus for these.

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 **The Government of Kenya last carried out a Public Expenditure Review in 1997**. The exercise was wide ranging. It commended macro-economic management in the four years up to 1997, but noted critically that trends in public expenditure management were not consistent with the objective of achieving high and sustained growth of the economy and reducing levels of poverty. It highlighted in particular: the problem of the level of public expenditure crowding out the private sector; concerns about the composition of expenditure, including low levels and poor quality of investment and non wage operations and maintenance expenditure; and shortcomings in budget implementation that led to a poor match between budget estimates and actual expenditure and to the adoption of informal fiscal management systems including the accumulation of pending bills.

1.2 **A number of recommendations of the 1997 PER were adopted in subsequent years**. For example a Medium Term Expenditure Framework (MTEF) approach to budget preparation, as recommended has been applied in budget planning in each year commencing 2000/01. Elements of a public expenditure management reform programme got underway in 1999/2000 that included the introduction of an Integrated Financial Management Information System, and the establishment of a new Directorate of Public Procurement to oversee procurement reform.

1.3 **The 1997 PER report also recommended the establishment of institutional capacity to follow up on public expenditure issues,** including the implementation of the 1997 report's recommendations. It envisaged further PERs on a regular basis. In the event this recommendation was not at first acted upon in contrast to a number of other countries in Sub-Saharan Africa, where from the end of the 1990s an annual PER process became a permanent feature in public expenditure management and budget planning and preparation. In 2001 the Government of Kenya commissioned a PER task force to carry out further public expenditure analysis. But uneven commitment to this new institutional framework made it difficult for the task force to operate effectively.

1.4 **At the beginning of 2003 following the election of a new Government the Public Expenditure Review process was relaunched** in earnest with the transition of the task force into a PER technical working group chaired by the Permanent Secretary in the new Ministry of Planning and National Development and the creation of a Steering Committee to oversee its work. The technical working group immediately set in train Ministerial PERs in eight Ministries that accounted for about two-thirds of Government expenditure, which were intended to inform preparation of the 2003/04 MTEF budget. The technical working group was commissioned to prepare a PER report based on this Ministerial analysis and examination of recent developments in the structure of public expenditure and in public expenditure management.

1.5 **The 2003 PER report that is presented here is the first in the context of a new PER process that the NARC Government has committed to make a permanent feature of annual budgeting.** The focus is on benchmarking and identifying key issues in the structure of public expenditure and in public expenditure management in Kenya after a period of six years since the last PER report; on examining some of the reform processes that are underway; and on making recommendations, including for future analytical work, against the background of the objectives of the Economic Recovery Strategy for Wealth Creation and Employment that the Government launched in June 2003 including the commitments made to improve service delivery and reduce poverty.

The report is presented in four main chapters following this introduction. Chapter 2 presents the macro economic background since the last PER, discusses the fiscal framework in aggregate and highlights some of the main policies and external factors that have influenced the fiscal framework in recent years. Chapter 3 examines the structure of public expenditure since 1997 presenting analysis by economic classification, by Ministerial votes and by function. This chapter also reviews the broad elements of the core poverty programme of expenditures that was introduced in 2000/01. Chapter 4 presents the main findings and recommendations of the eight Ministerial PERs carried out at the beginning of 2003, focusing as far as possible, on the links between policies and expenditures. Finally Chapter 5 examines the systems of public expenditure management in Kenya, and discusses the public expenditure management reform programme which the Government has reinforced following analytical work at the beginning of 2003 supported by its development partners.

CHAPTER 2

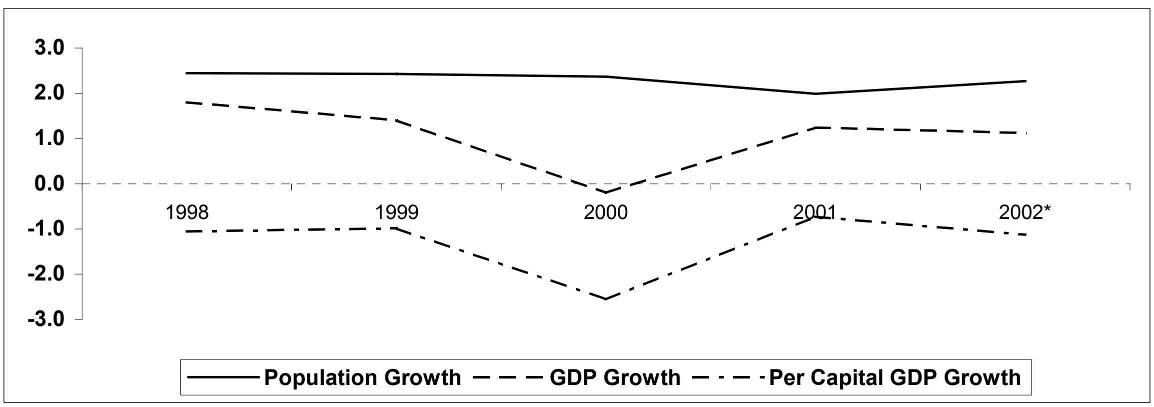
RECENT MACRO ECONOMIC TRENDS AND THE BROAD FISCAL FRAMEWORK

1.6 This chapter reviews recent macro economic trends and developments in Kenya's fiscal framework. It addresses the structure of the economy and growth, total public expenditure and its funding, and policy issues and developments that have affected the fiscal position.

ECONOMIC BACKGROUND

1.7 **The Kenyan economy has stagnated since 1997.** Growth in GDP has averaged about 1.3% per annum, well below other countries in the region and consistently below the rate of population increase. These stark statistics are graphically illustrated in figure 1 which shows that real per capita income growth has been consistently negative in recent years.

Figure 1: % Changes in Population and GDP



1.8 **Low growth has been associated with increasing levels of poverty.** Recent estimates indicate that the proportion of the population living in poverty has increased from 51 per cent on 1997 to over 56 per cent in 2002. Perhaps an additional three million people are living below the poverty line now compared to 1997.

1.9 **Table 1 provides a summary of the key macro economic indicators.** More comprehensive information is presented in the statistical annex.

Table 1: Summary of Key Macro-Economic Indicators

	1997	1998	1999	2000	2001	2002*
National Accounts						
GDP (Market Prices) (Ksh. Million)	623,235	694,029	743,479	796,343	882,725	969,354
GDP (Real) (Ksh. Million)	100,473	102,253	103,702	103,446	104,731	105,900
Real GDP growth rate (%)	2.4	1.8	1.4	-0.2	1.24	1.12
Income Per Capita (Ksh)	3,588	3,550	3,515	3,425	3,400	3,362
Gross Domestic Savings (Ksh. Million)	65,239	67,487	81,006	58,840	40,939	102,149
As % of GDP \5	10.47	9.72	10.9	7.39	4.64	10.54
Gross Domestic Investment (Ksh. Million)	109,870	113,879	112,961	116,369	123,079	127,141
As % of GDP\5	17.63	16.41	15.19	14.61	13.94	13.12
Population						
Size (Million)	28.0	28.8	29.5	30.2	30.8	31.5
Growth rate (%)	2.92	2.45	2.43	2.37	1.99	2.27
HIV Prevalence trend (%)	12.8	13.9	13.0	13.4	13.0	10.2
Prices (Rates)						
CPI (Inflation) (%)	11.2	6.6	5.8	10.0	5.8	2.0
T.Bills Real Interest (%)	15.2	4.5	14.7	3.5	5.0	6.4
Treasury Bills\2 (%)	26.4	11.1	20.5	13.5	10.8	8.4
Interbank (%)	18.7	9.4	13.0	9.8	10.4	8.7
Overdraft (%)	31.36	16.1	26.5	16.5	13.9	11.3
Money & Credit						
Money Supply (M3) (Ksh. Million)	294,052	303,750	312,116	314,686	322,923	350,733
Growth in Money Supply(M3) (%)	9.8	3.3	2.8	0.8	2.6	8.6
Total Domestic Credit (Ksh. Million)	327,412	350,630	371,367	381,325	380,210	410,231
Public Sector (Ksh. Million)	90,537	96,328	93,960	91,847	108,410	121,400
Private Sector (Ksh. Million)	236,875	254,302	277,407	289,478	271,800	288,831
Balance of Payments						
Imports (Ksh. Million)	190,674	197,789	206,401	247,804	290,107	257,710
Exports/6 (Ksh. Million)	120,445	121,181	122,559	134,527	147,590	169,283
Net Services (Ksh. Million)	5,197	20,113	25,604	20,925	27,855	38,634
Current Account (Ksh. Million)	-26,829	-28,688	6,303	-15,189	-43,795	4,727
As % of GDP\5 (%)	-4.3	-4.13	0.85	-1.91	-4.96	0.49
Overall Balance (Ksh. Million)	6,725	290,000	411	8,244	13,072	251
Exchange Rate						
Ksh/US$	58.8	60.4	70.3	76.2	78.6	77.1
% change	2.98	2.72	16.39	8.39	3.15	-1.91

Source: CBS, CBK & Ministry of Finance
1: Provisional
2: Treasury Bills in nominal rates
3: Government budget in fiscal year e.g. 1999 is FY1999/2000
4: Deficit including grants (Commitment basis)
5: At Market Prices
6: Exports includes Re-exports

1.10 **Poor economic growth rate has been attributed to various causes.** These have included: pervasive governance problems, poor management of public resources; poor infrastructure; the deterioration of public safety and security, the slow pace of economic reforms with the resulting decline of external aid; low private investor confidence and falling investment and savings rates. Severe droughts in 1997 and 2000, and the El Nino floods of 1998 also affected economic performance.

1.11 **Growth has been disappointing in all sectors. Private services have displayed the most encouraging growth.** The low growth rate in the industrial and agriculture sectors can be attributed to depressed commodity prices, bad management of marketing organisations, poor infrastructure, bad weather, high cost of farm inputs and reduced power supply. The share of agriculture to GDP declined marginally from 27.0 per cent in 1997 to 26.5 per cent in 2001. At the same time, the share of the private service sector rose from 40.5 per cent to 41.8 per cent. Much of the increase in the share of private services can be attributed to the expansion and growth in the telecommunications sector. (Annex 1).

1.12 **Investment and savings have been low and declining.** Overall gross investment as a proportion of GDP fell continuously from 18.5 per cent in 1997 to 13.6 per cent in 2002. This decline affected both private and public sectors. In line with the fall in gross investment, gross national savings have fallen from an average of 14 per cent of GDP in the first half of the decade to about 10 per cent of GDP in 2002. Public sector investment declined from 6.7 per cent of GDP in 1997 to 4.8 per cent of GDP in 2002, at the same time public consumption increased from 16.2 per cent to 19 per cent of GDP. (Annex 1).

1.13 **The ratio of foreign direct investment (FDI) to GDP has remained low.** Over the period 1997-2001, FDI was about 0.6 per cent of GDP which was below the Sub-Saharan African average of 1.9 per cent. Kenya's low performance in attracting FD1 reflects to a certain extent low foreign investor confidence. This has resulted from poor security, corruption, poor infrastructure, high utility costs and patchy service, high real interest rates, and limited legal recourse.

1.14 **Manufacturing exports have stagnated** with the exception in recent years of growth in garment exports due to the response to the US Africa Growth and Opportunity Act. Horticulture exports have dramatically increased their share of the value of merchandised exports, as has tea, though to a lesser extent.

1.15 **The balance of payments current account has been generally in deficit.** Between 1997 and 2001, the current account deficit averaged 2.9 per cent of GDP. A surplus of 0.5 per cent was recorded in 2002 as a result of a sharp reduction in imports associated with a stagnant economy.

1.16 **The Government has pursued a tight monetary policy which has succeeded in lowering the inflation rate.** Although the inflation rate has been volatile as a result of the impact of drought on basic foodstuffs (in 1997 and 2000), it has fallen dramatically. Annual average inflation has declined from 11.2 per cent in 1997 to 2 per cent in 2002 assisted by a real depreciation of the exchange rate. (Annex 1).

1.17 **Nominal Treasury Bill (TB) interest rates have fallen in line with the drop in inflation.** Three-month TB rates fell from 26.4 per cent in 1997 to 8.4 per cent in 2002. Falling TB rates may have also reflected excess liquidity in the domestic money market due to low private sector demand. Commercial lending rates have not fallen correspondingly and the gap between lending rates and deposit rates remains high.

THE FISCAL FRAMEWORK

1.18 **Public expenditure as share of GDP is high although in recent years it has been falling.** In 1997/98, total government expenditure as a ratio of GDP was 31.1 per cent. This figure fell to 24.5 per cent in 2001/02. An increase to 27 per cent is projected in 2002/03, in part as a result of the general election in December 2002 and the implementation of manifesto commitments including the introduction of free primary education (FPE). The ratio of government expenditure to GDP is high by international and regional standards. For example in Tanzania and Uganda in 2002/03 expenditure is estimated to be 21.2 per cent and 25.4 per cent of GDP respectively. (Table 3).

Table 2: Kenya: Total Public Expenditure and Net Lending

KSh million	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*	Average
Recurrent	160,279	165,331	156,535	198,941	200,807	227,055	184,825
Development and net Lending	34,686	32,010	18,584	33,980	24,953	38,795	30,501
Total	194,965	197,341	175,119	232,921	225,760	265,850	215,326
% of GDP							
Recurrent	25.6	22.3	20.1	23.5	21.8	23.1	22.7
Development and net Lending	5.5	4.3	2.4	4.0	2.7	3.9	3.8
Total	31.1	26.6	22.5	27.5	24.5	27.0	26.5

*Estimated
Source: BMD MPND

Table 3: Total Expenditure and Net Lending (in % of GDP)

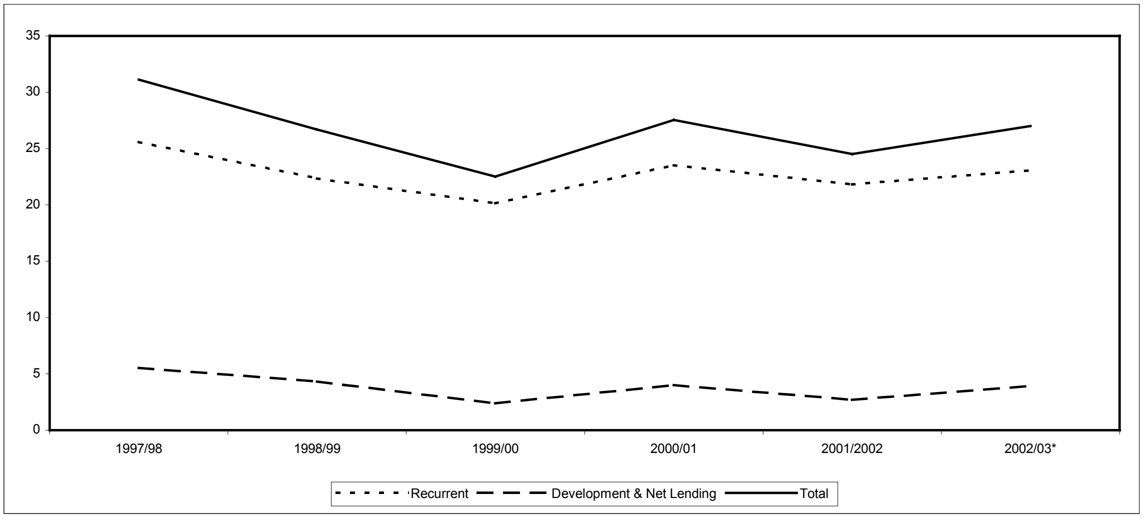
	1998	1999	2000	2001	2002	2003*
KENYA	29.5	27.6	23.0	27.4	25.0	27.7
TANZANIA	13.7	14.1	16.1	15.5	17.2	21.2
UGANDA	16.4	18.0	26.8	20.7	25.9	25.4
ETHIOPIA	25.3	30.8	33.1	29.6	34.9	34.1
SENEGAL	20.1	20.9	20.0	21.7	20.2	22.8
GHANA	28.6	26.2	27.7	32.8	27.2	35.0
SOUTH AFRICA	26.8	26.3	25.8	26.2	26.2	25.9
MADAGASCAR	19.9	17.8	18.1	18.1	14.6	17.8
THAILAND	18.7	19.0	18.4	18.0	19.5	17.7
PHILIPPINES	19.2	19.9	19.7	19.5	19.2	19.1

Source: World Bank Database, IMF-International Financial Statistics

estimated **Kenya Data may differ from that shown elsewhere in this report because sources differ

1.19 **Recurrent spending dominates total expenditure and development expenditure is low.** As shown in figure 2 recurrent expenditure has averaged well over 20% of GDP in recent years, peaking at 26 per cent in 1997/98, and falling to 20 per cent in 1999/00. Recurrent expenditure is projected to rise to 24 per cent of GDP in 2002/03. Development expenditure between 1997/98 to 2002/03 averaged only 3.8 per cent of GDP.

Figure 2: Total Expenditure as Percentage of GDP



1.20 **Kenya has traditionally mobilised a higher share of GDP in tax revenues than the Sub-Saharan Africa average.** Table 4 shows annual average tax to GDP ratios for a number of countries during the 1990s, using World Bank data. On average during this period, tax revenue in Kenya was 25.6% of GDP compared to 22.8% of GDP for Sub-Saharan Africa as a whole. Tax revenue in Uganda and Rwanda over this period was less than 15% of GDP.

Table 4: Tax Revenue as % GDP: Annual Average in the 1990s

Kenya	25.6
Tanzania	12.5
Malawi	17.9
Mozambique	12.3
Uganda	9.4
Zambia	19.1
Rwanda	9.3
Ghana	17.4
Sub-Saharan Africa	22.8

Source: World Bank African Development Indicators 2003

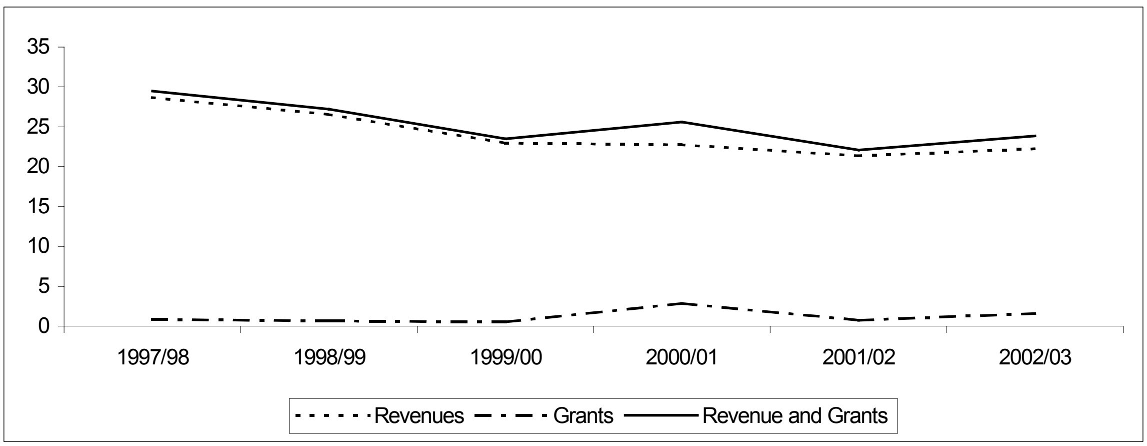
1.21 **Revenues have recently been declining** from 29 per cent of GDP in 1997/98 to 21 per cent in 2001/02. A small rise is estimated to 22.2 per cent of GDP in 2002/03. In part this reduction has reflected a specific policy of decreasing the burden of tax. It also reflects weak economic growth. The Controller and Auditor General has referred to the problem of tax avoidance in his annual reports.

1.22 **External grants provide only a small amount of budget financing.** Grants in recent years have amounted to less than 1 per cent of GDP. They peaked at 2.8 per cent of GDP in 2000/01 as a result of drought emergency assistance. Grants are projected to increase to 1.6 per cent of GDP for 2002/03 due to early support for the new government's programme and the introduction of Free Primary Education.

Table 5: Kenya: Total Public Revenue

Ksh. millions	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Domestic Revenue	179,594	196,257	178,443	192,313	196,613	218,928
Grants	5,272	4,920	4,247	24,080	6,823	15,866
Grants and Revenues	184,866	201,177	182,690	216,393	203,436	234,794
As % of GDP						
Domestic Revenue	28.7	26.5	22.9	22.7	21.4	22.2
Grants	0.8	0.7	0.5	2.8	0.7	1.6
Grants and Revenues	29.5	27.2	23.5	25.6	22.1	23.9

Figure 3: Revenue as % of GDP



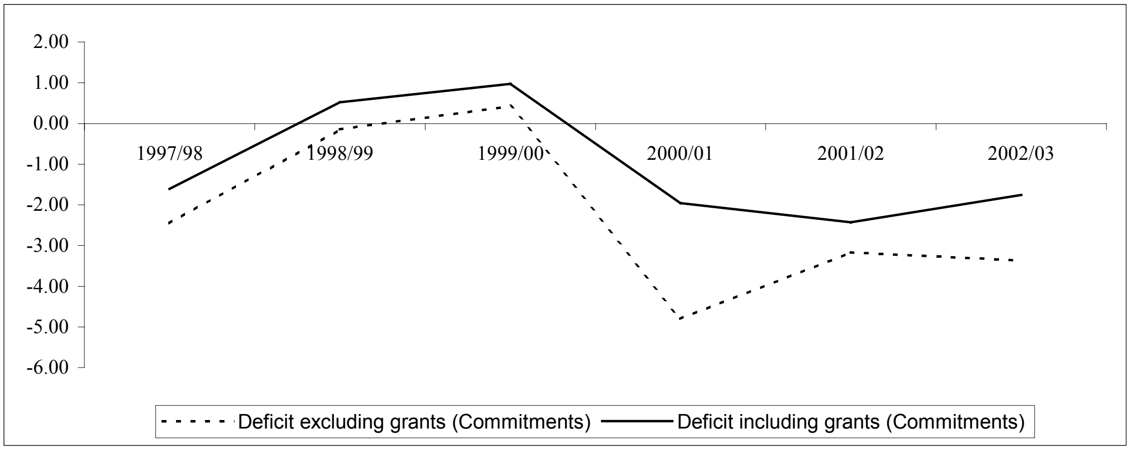
1.23 **The fiscal deficit was brought under control by the end of the 1990s but has since increased.** A deficit including grants of 1.6% of GDP in 1997/98 was turned into a surplus of 1% of GDP in 1999/2000 before returning to a deficit of 2% of GDP in 2000/01 and 2.4% of GDP in 2001/02. Provisionally, the data available for this report suggested a deficit including grants of 1.8% of GDP in 2002/03.

Table 6: Fiscal Deficit as % of GDP

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*
Deficit excluding grants (Commitments)	-2.45	-0.15	0.43	-4.80	-3.17	-3.36
Deficit including grants (Commitments)	-1.61	0.52	0.97	-1.95	-2.43	-1.75

* Estimated at May 2003

Figure 4: Fiscal Deficit as Percentage of GDP



1.24 **External financing has not been available to finance the growing deficit.** Project and programme loans have been in decline (setting aside the support provided in 2000/01 to alleviate the impact of the drought). Taking into account external payments, net foreign financing excluding grants has been consistently negative, even in 2000/01, when the Government secured Paris Club rescheduling.

Table 7: External Financing 1998/99 - 2002/03 (Ksh. Million)

	1998/99	1999/00	2000/01	2001/02	2002/03*
Disbursements:					
Project Cash loans	1,625	2,830	8,719	2,898	3,820
Programme loans	344	12	4,045	0	0
Project loans A-I-A	10,231	6,020	5,323	7,133	7,192
Sub total	12,200	8,862	18,087	10,031	11,012
(As % of GDP)	1.6	1.1	2.1	1.1	1.1
Grants	4,920	4,247	24,080	6,823	15,866
Sub total**	17,120	13,109	42,167	16,854	26,878
External Repayments:					
Bilateral	7,552	6,787	282	12,648	7,636
Multilateral	5,724	7,327	6,367	5,539	6,341
Commercial	7,343	10,556	490	951	6,747
Other 1/	392	3,517	5,390	4,205	600
Sub total	21,010	28,187	12,529	23,343	21,325
(As % of GDP)	2.8	3.6	1.5	2.5	2.2
Net Foreign Financing	-3,890	-15,078	29,638	-6,489	5,553
Net Foreign Financing excluding grants	-8,810	-19,325	5,558	-13,312	-10,313
(As % of GDP)	-2.2	-3.1	1.4	-1.8	-0.6
1/ Refers to payment of arrears					
* Provisional					
** Disbursements include grants					
Source: Quarterly Budget Review, various issues					

1.25 **An increased level of domestic debt has been the main consequence of the fiscal imbalance. The stock of gross domestic debt (in nominal terms) tripled during the 1990s**. Domestic debt rose from Ksh. 61 billion in 1990/01 to Ksh. 146 billion in 1997/78 and then to an estimated Ksh. 226 billion in 2002/03. The stock of domestic debt declined as a share of GDP when the budget was in surplus, but as the fiscal deficit has grown, so too has the stock of domestic debt as a share of GDP. The stock of domestic debt fell from 23.2 per cent of GDP at the end of 1997/98 to 19.4 per cent of GDP at the end of 2000/01. The data available for this report suggests that the stock of domestic debt had again risen to 23 per cent of GDP by December 2002. Domestic debt in this context excludes payment arrears caused by weaknesses in budget implementation (see discussion of pending bills in Chapter 5).

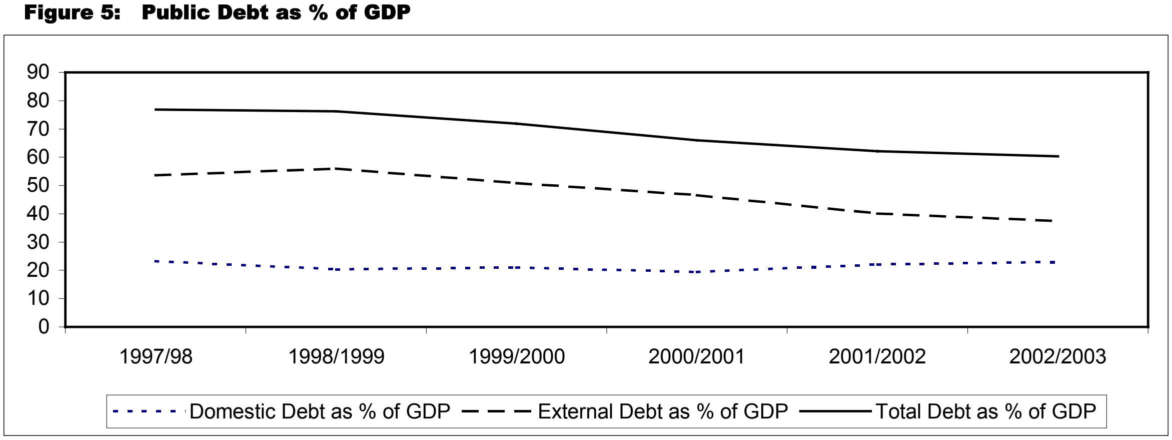
1.26 **The stock of external debt is higher than the stock of domestic debt but is falling**. External debt declined from 53.7% of GDP at the end of 1997/98 to an estimated 37.4 per cent of GDP in December 2002/03.

1.27 **The strong downward trend in external stock of debt has resulted in the total debt falling** from 76.9 per cent of GDP in 1997/98 to an estimated 60.4 per cent of GDP 2002/03.

Table 8: Public Debt

	End 1997/98	End 1998/1999	End 1999/2000	End 2000/2001	End 2001/2002	December 2002
Public Debt Ksh. Million	481,880	564,318	559,099	558,182	571,877	594,249
O/w Domestic Debt Ksh. Million	145,541	150,499	163,405	164,204	202,710	226,064
O/w External Debt Ksh. Million	336,339	413,819	395,694	393,978	369,167	368,185
Public Debt % GDP	76.9	76.3	71.9	66.0	62.1	60.4
Domestic Debt % GDP	23.2	20.3	21.0	19.4	22.0	23.0
External Debt % GDP	53.7	55.9	50.9	46.6	40.1	37.4

Figure 5: Public Debt as % of GDP



POLICIES AND EXTERNAL FACTORS THAT HAVE INFLUENCED THE FISCAL FRAMEWORK.

1.28 It is important to highlight certain policies and external factors that have influenced the fiscal framework in recent years.

1.29 **Some tax reform measures have served to reduce the tax to GDP ratio while others have been designed to enhance it.** Trade taxes have been reduced to enhance efficiency and to meet treaty obligations under COMESA and EAC. A comprehensive tariff reform strategy, which aims to improve Kenya's external competitive and facilitate duty collection through a simpler and more uniform tariff structure, was formulated in mid-2001. The tariff bands which numbered nine at end 2000 will be reduced to four by 2004 and the top rate will be reduced to 25 per cent from the 35 per cent that was introduced in the 2001/02 budget. Export levies on some products (macadamia nuts and raw hides and skins) were reduced in the 2003/04 budget to enhance their export potential.

1.30 **The tax base has been widened by the implementation of VAT.** VAT which was introduced in the early 1990s is the main indirect tax vehicle for mobilising revenue. Excise taxes are also used for revenue enhancement and the 2003/04 budget broadened the excise tax base by extending coverage to additional products. However at the same time, excise taxes were removed from some items to promote local production. The administration of excise goods as well as goods in transit was also modified to combat leakages.

1.31 **A 2002 Kenya Revenue Authority study on VAT compliance found that the compliance ratio was only 55 per cent.** Simplifying the tax system and improving tax administration by strengthening the KRA are part of the Government's strategy for revenue enhancement.

1.32 **Privatisation proceeds have not provided additional budgetary resources in certain years as expected.** Following privatisation proceeds of 0.7% of GDP in 1999/2000, the Government budgeted receipts of 0.9% of GDP in 2000/01 anticipating the sale of 49% of Kenya Telkom. In the event this sale was not concluded. In 2001/02, the Government cautiously included no expectation of privatisation proceeds in the budget, although there was a small return of 0.1% of GDP as a result of the sale to sugar farmers of some of the Government's holding in The Busia Sugar Company. In 2002/03, the Government included privatisation proceeds of 0.4% of GDP which again were not realised.

1.33 **External financing received a short-term boost in 2000 following the agreement of an IMF PRGF, together with the approval of a World Bank Economic and Public Sector Adjustment Credit.** In total the PRGF made available about $245 million. The WB credit made available a further $150 million. Budget support linked to these agreements was also made available from the AfDB, EC, and the UK DFID. In practice the Government was only able to draw on $45 million from the IMF, and $50 million from the World Bank before the reform programmes went off-track. This followed the Government's difficulties in fulfilling the terms of the agreements related to governance and certain aspects of economic policy. The long-term decline in external financing was quickly resumed as discussed above.

1.34 **Debt rescheduling provided a small amount of relief in external payments in 2000/01.** Paris Club debt rescheduling associated with the IMF programme covered principal and interest arrears on not previously rescheduled pre-cutoff-date as of June 30, 2000 ($24 million) and debt service maturities falling due from July 1, 2000 to June 30, 2001 ($276 million) on previously and not previously rescheduled pre-cutoff-date debt. The country has recently renegotiated similar terms for $45 million of debt relief from the London Club.

1.35 **Drought in 1997 and 2000 necessitated higher expenditure outlays.** In 2000, it has been estimated that the drought caused real GDP to contract by 0.3 per cent and additional expenditure was incurred that amounted to 2 per cent of GDP. The drought affected virtually all sectors with power supply, agriculture and manufacturing being hardest hit with knock on impacts in the social sectors (food, health and nutrition, and education), and infrastructure (water and sanitation). Significant external financing was provided for emergency food relief coordinated by the World Food Programme. In addition, emergency support was provided to maintain power supplies.

1.36 **Civil service reform reduced expenditure on wages and salaries in the short-term but it has not been sustained in the medium-term.** Civil service downsizing has seen the civil service decline from over 272,000 in 1991 to 195,000 at the end of 2002. In the very recent period retrenchment, in 2000/01 together with natural attrition has seen this number come down from 223,000 since 2000. The retrenchment programme in 2000/01 alone resulted in 23,488 staff leaving the civil service as a result of the abolition of their functions or the identification of overmanning. This followed the reduction in the number of Ministries from 27 to 15 at the end of 1999. In addition there has also been a small decline in the size of the teaching service from 241,000 in 1997 to 234,000 in 2002.

1.37 **The cost of the safety net package associated with the civil service retrenchment programme in 2000/01 was estimated as 0.8% of GDP.** At the time cost benefit analysis suggested that this cost would be recovered within a period of 4 years as result of savings in wage and salary payments. In practice, as will be discussed in more detail in chapter 3, wage and salary expenditure since the retrenchment programme has grown both in absolute terms and as a percentage of GDP. This has been a consequence of wage drift (of about 3-4% per annum) and significant pay increases in both 2001 and 2002 associated in particular with the monetisation and harmonisation of housing allowances. The real value of wages and salaries in the civil service, including the teaching service, has been increasing.

CHAPTER 3

THE STRUCTURE OF PUBLIC EXPENDITURE

INTRODUCTION

1.38 This chapter analyses the broad pattern of public expenditure since 1997/78 focusing on the aggregate and its breakdown into three classifications: by economic classification; by vote; and by function. It reviews spending on the programmes that have been defined as core poverty. The chapter also briefly examines budget implementation.

ECONOMIC CLASSIFICATION OF EXPENDITURE

1.39 **Economic classification of expenditure entails grouping of expenditure data by common inputs.** Such classification is conducive for macro economic analysis, accounting and transactions control in a line item budget structure as well as for relating inputs to the outputs from spending. Standard good practice is to group current inputs into salaries and wages, goods and services, interest payments, transfers and subsidies.

1.40 **The Kenyan budget is comprised of two components (recurrent and development) with overlapping inputs so that the analysis of economic classification is only approximate.** As is common in similar countries to Kenya, the development budget is not a capital budget and includes expenditures that should essentially be classified to the economic categories within the recurrent budget. One of the reasons for this is that the development budget is primarily a donor supported project/programme budget as opposed to the predominantly domestically funded recurrent budget. A consequence of this overlapping of economic classification categories between two budgets is that it is impossible to routinely obtain a clear picture of inputs of a current and capital nature and their components without resorting to a special exercise of tracking the inputs the development budget is spent on. With this caveat the economic structure of expenditure over the past 5 years is presented in table 9.

Table 9: Economic Classification of Government Expenditures

as % of GDP	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Recurrent Expenditure						
Salaries & Wages	9.9	8.6	8.5	8.1	8.4	8.7
Operation & Maintenance.	5.3	5.1	4.1	6.4	5.6	6.7
Subsidies & transfers	4.3	3.3	3.7	5.4	4.5	4.1
Interest Payments	6.1	5.4	3.8	3.7	3.3	3.6
of which domestic	4.8	4.3	2.7	2.8	2.6	2.9
of which foreign	1.2	1.1	1.1	0.9	0.7	0.7
Sub-Total	25.6	22.3	20.1	23.5	21.8	23.1
Development & Net Lending	5.5	4.3	2.4	4.0	2.7	3.9
Grand Total	31.1	26.7	22.5	27.5	24.5	27.0
As % of Total expenditure						
Recurrent Expenditure						
Salaries & Wages	31.9	32.1	37.6	29.2	34.4	32.2
Operation & Maintenance.	17.1	19.1	18.4	23.2	22.8	24.7
Subsidies & transfers	13.8	12.3	16.6	19.7	18.3	15.2
Interest Payments	19.5	20.3	16.8	13.3	13.5	13.3
of which domestic	15.6	16.1	11.9	10.0	10.5	10.6
of which foreign	4.0	4.2	4.9	3.3	3.0	2.7
Sub-Total	82.2	83.8	89.4	85.4	88.9	85.4
Development & Net Lending	17.8	16.2	10.6	14.6	11.1	14.6
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0

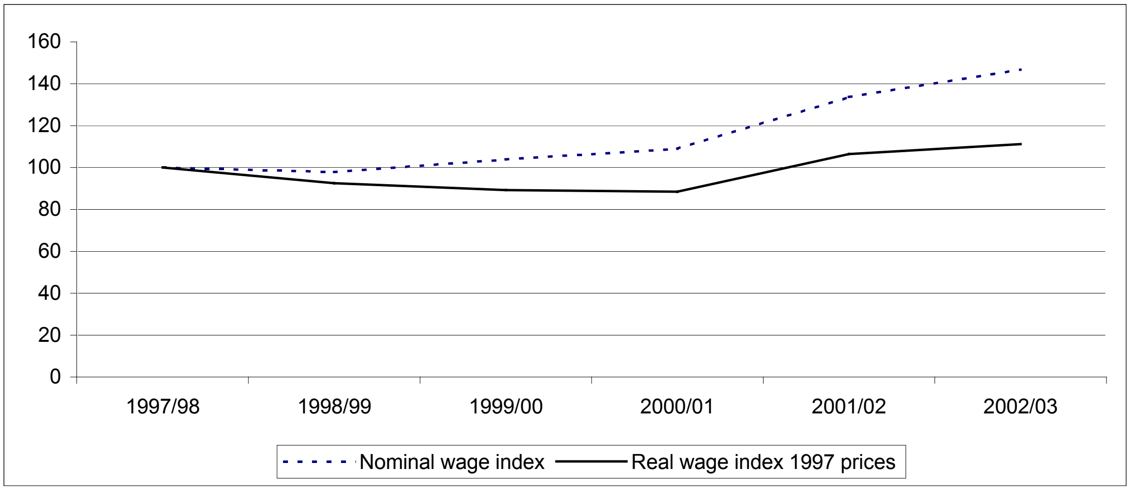
2002/03 Based on revised estimates
Source: BMD Quarterly Budget Reviews

Salaries and Wages

1.41 **Payments of salaries and wages absorb most of the discretionary budget**. As a percentage of the total Government expenditure, the wage bill rose from 31.9 per cent in 1997/98 to 37.6 per cent in 1999/00, dropped to 29.2 per cent in 2000/01, before rising to 34.4 per cent in 2001/02. As a share of GDP, the wage bill dropped from 9.9 per cent in 1997/98 to 8.1 per cent in 2000/01 as civil service numbers declined. However, it rose again to 8.4 per cent in 2001/02 and is estimated to reach 8.7 per cent of GDP in 2002/03.

1.42 **Average real wages and salaries in the public sector have grown in 2001/02 and 2002/03 following a decline in the period 1997/98 to 2000/01.** Figure 6 illustrates how nominal average wages (total wages and salaries divided by numbers employed) and real wages (nominal wages deflated by the CPI) have moved over the period 1997/98 to 2002/03.

Figure 6: Trends in Average Public Sector Wages and Salaries (1997/98 = 100)



1.43 **Kenya's public spending on wages and salaries is high compared to other countries.** A comparison with other countries is shown in table 10. Of the countries shown, only Ghana and South Africa have higher budget expenditure on wages and salaries expressed as a percentage of GDP.

Table 10: Government Wages and Salaries as % of GDP

	1998	1999	2000	2001	2002	2003*
KENYA**	9.5	8.8	8.6	8.1	8.5	9.2
TANZANIA	3.9	3.4	3.9	3.8	3.8	4.1
UGANDA	3.4	4.2	4.2	4.6	5.5	5.7
ETHIOPIA	5.9	6.1	6.8	6.9	8.1	7.8
SENEGAL	5.8	5.7	5.6	5.2	5.6	5.3
GHANA	5.5	5.6	5.2	6.1	8.8	10.0
SOUTH AFRICA	11.0	10.6	10.2	10.0	9.7	10.0
MADAGASCAR	4.1	4.3	4.0	4.4	5.0	5.1
THAILAND	6.2	6.4	6.3	6.2	6.4	6.3
PHILIPPINES	6.5	5.6	5.5	5.5	5.5	5.4

** estimated ** Kenya Data may differ from that shown elsewhere as sources differ*

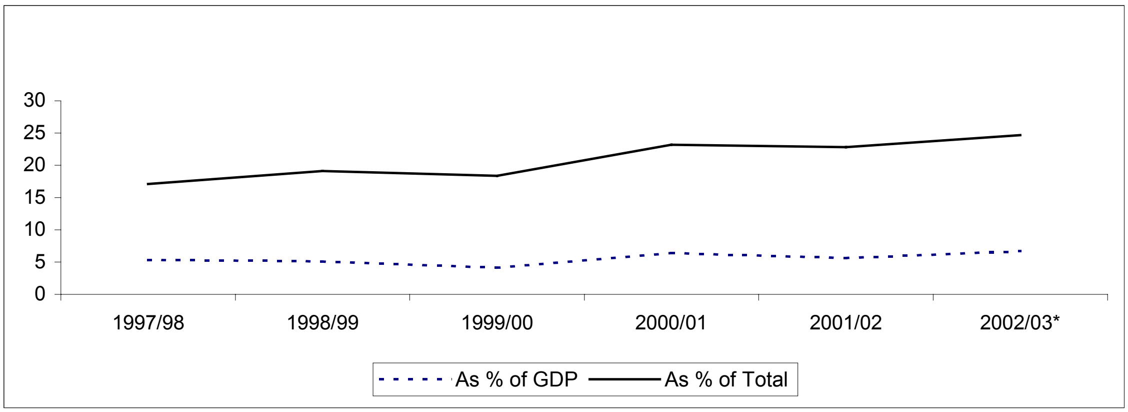
Source: World Bank database, IMF-International Financial Statistics

Operations & Maintenance

1.44 **Expenditure on Operations and Maintenance has been low compared to wages and salaries, although it has been increasing in recent years.** Operations & Maintenance represents resources that are allocated for activities which enhance delivery of services and maintain the asset base. When these are inadequately provided, existing assets depreciate, and service delivery is undermined. When employees do not have any materials to work with or do their job, their productivity is lowered. Overall, O&M expenditure as a share of GDP in the review period increased marginally from 5.3 per cent in the fiscal year 1997/98 to 5.6 per cent in 2001/2002. O&M Expenditure in 2002/03 is estimated to be 6.7 per cent of GDP. There was a corresponding increase in the share of O&M to total expenditure during the same period as shown in figure 7.

1.45 **In certain ministries the relationship between wages and salaries and O & M is particularly disproportionate.** For example, a closer analysis of expenditures reveals that about 94 per cent of recurrent budget for the Ministry of Education, Science & Technology went to fund wages and salaries in the fiscal year 2001/02. Such a high absorption of resources for wages and salaries meant the Ministry had little budget room for complementary goods and service to bring about either improvements in quality or increases in service coverage. Once transfers are discounted, both the Ministry of Health and the Ministry of Agriculture and Livestock Development (now divided into two parts), provide other prominent examples of disproportionate expenditure on wages and salaries compared to operations and maintenance.

Figure 7: Operations and Maintenance Expenditure

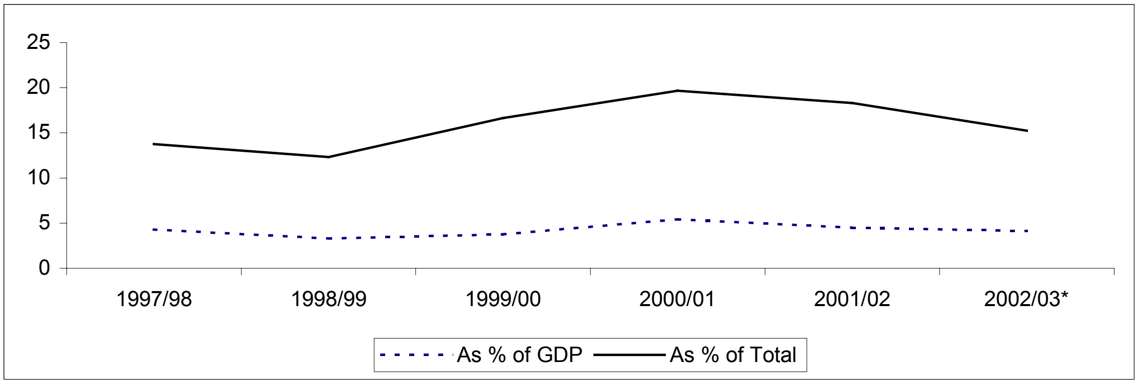


1.46 **The current balance between expenditures on wages and salaries and O&M is inconsistent with the stated targets of the MTEF budget** which aims at a ratio of 50:50. In the outturn for 2001/02, this ratio stands at approximately 70:30, although this varies from sector to sector.

Transfers and Subsidies

1.47 **Transfers and subsidies to organisations outside the main civil service, such as parastatals, are significant.** Total transfers and subsidies as a share of GDP increased from 4.3 per cent in 1997/98 to 5.4 per cent in the fiscal year 2000/2001 before falling back to 4.5 per cent in 2001/02. Transfers and subsidies are projected to be 4.1 per cent of GDP in 2002/03. As a share of total expenditure transfers and subsidies peaked at 19.7 per cent of GDP in 2000/01 before declining to 18.3 per cent in 2001/02 with a further fall projected in 2002/03.

Figure 8: Transfers and Subsidies



Interest Payments

1.48 **Interest payments have fallen in recent years as a result of declining interest rates, but are still high, particularly for domestic debt**. Total interest payments, in the period covered in the review, were at their highest as a share of GDP in 1997/98 (6.1%). During the fiscal year 1999/2000 they fell significantly, mainly due to declines in domestic interest rates, and have since remained around 3.5% of GDP. Servicing of domestic debt accounts for about 80% of interest payments although both domestic and foreign payments have been on a declining trend. Figure 9 illustrates the declining trends of external and domestic interest payments, driven by low domestic interest rates and stable exchange rates. The graph captures an upturn in interest payments in 2002/03 as the stock of domestic debt has increased and interest rates have again started to rise.

Figure 9: Interest Payments

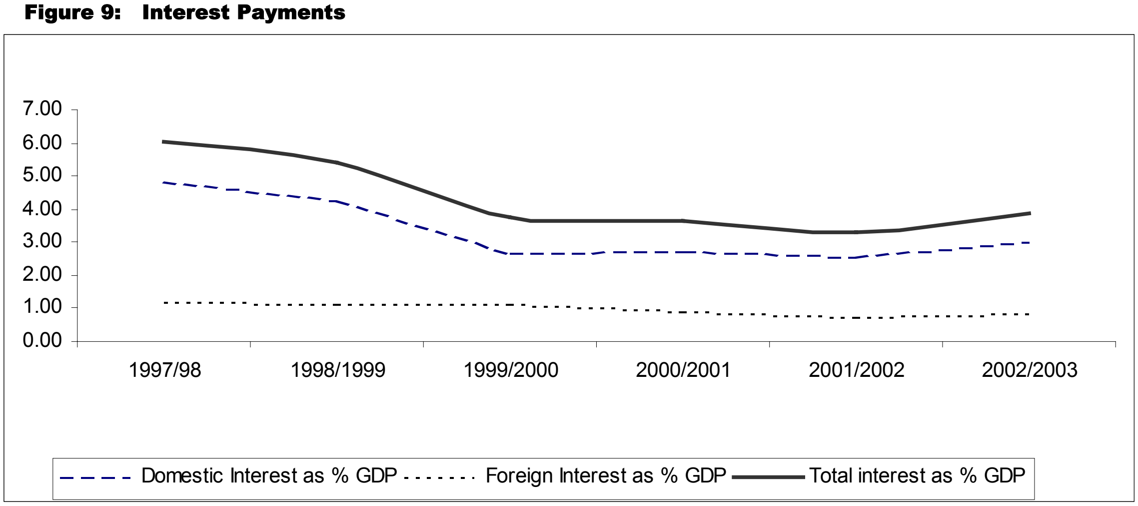
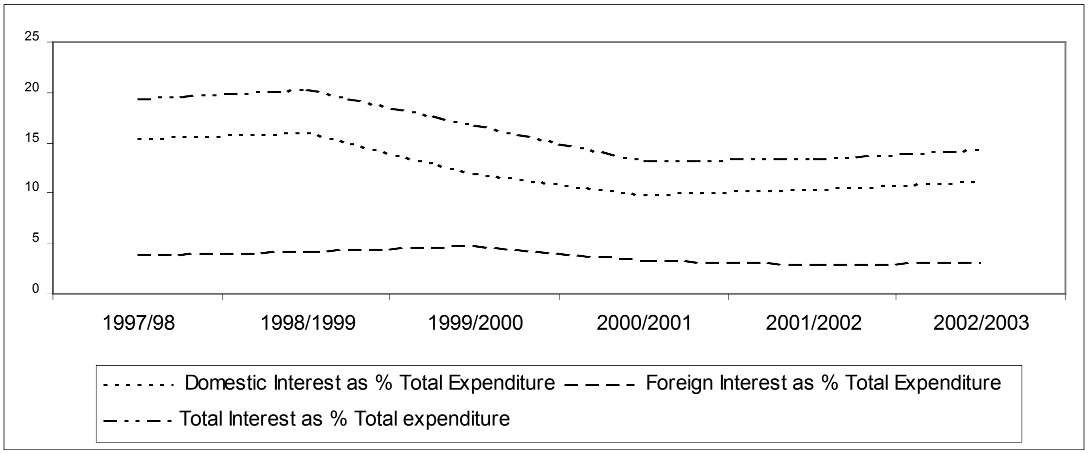


Figure 10: Interest as % of Total Expenditure

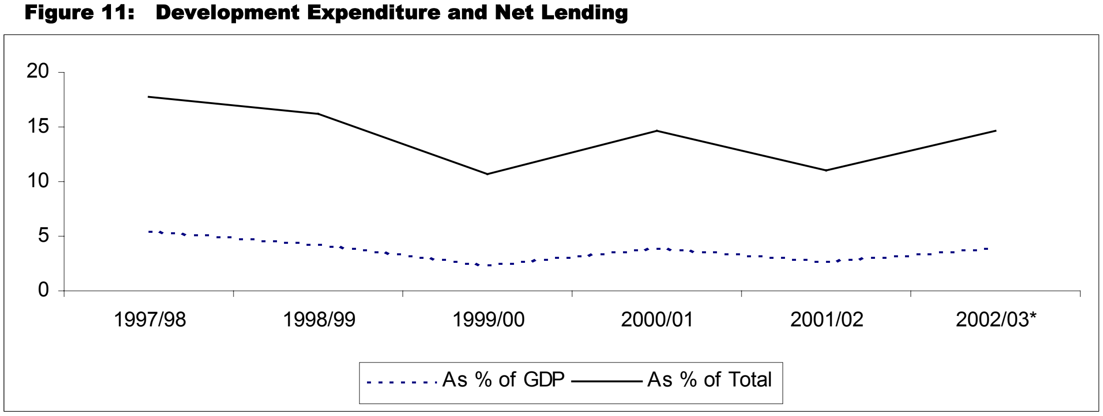


Development Expenditure and Net Lending

1.49 **Development expenditure and net lending (which is proxy for public investment) has been low and declining**. As a ratio of GDP, development expenditure and net lending declined from 5.5 per cent in 1997/98 to 2.7 per cent in 2001/02, before increasing to an estimated 3.9 per cent of GDP in 2002/03. Similarly, as a share of total government expenditure, development expenditure and net lending fell from 17.8 per cent of GDP in 1997/98 to 11.1 per cent of GDP in 2001/02, before increasing to an estimated 14.6 per cent of GDP in 2002/03.

1.50 **One of the reasons for this decline has been the reduction of support by development partners.** The development budget includes donor financing. The data show the long-term decline in the development budget being broken in 2000/01, as a result of a short-term increase in donor funding associated with the drought e.g. road construction works, emergency power supply activities and other drought related expenditures which were classified as development.

Figure 11: Development Expenditure and Net Lending



1.51 **Development expenditure in Kenya is considerably lower than in most other developing countries.** Table 11 presents comparative data .

Table 11: Development Expenditure and Net Lending as % of GDP

	1998	1999	2000	2001	2002	2003*
KENYA**	5.0	5.0	2.5	3.9	2.7	3.4
TANZANIA	3.5	3.9	5.0	3.5	3.2	5.9
UGANDA	6.7	7.3	14.2	7.5	10.4	10.1
ETHIOPIA	9.5	9.9	6.6	9.6	13.1	12.8
SENEGAL	8.5	8.5	6.4	6.3	7.8	8.4
GHANA	11.3	9.8	9.2	12.8	6.4	11.2
SOUTH AFRICA	1.9	1.6	1.4	1.8	2.1	2.1
MADAGASCAR	9.4	8.5	9.0	7.9	5.0	7.6
THAILAND	6.8	5.3	4.5	4.1	5.3	4.3
PHILIPPINES	3.3	4.0	3.4	3.2	3.3	3.3

** estimated **Kenya data may differ from that shown elsewhere as sources differ*

Source: World Bank Database, IMF-International Financial Statistics

EXPENDITURE BY MINISTRY AND BY BROAD FUNCTION

1.52 This section addresses spending using two related classifications. The first examines expenditure by ministry and vote using data supplied by the BMD. The second is from data in the Economic Survey, which aggregates ministries to common functions or sectors.

Allocation By Ministry

1.53 **Detailed figures on ministerial expenditures are included in Annex 2.** The following paragraphs highlight some of the key issues using data on expenditure shares. It should be noted that 1998/99 and 1999/00 figures are net of Appropriation in Aid (AiA) whereas the rest of the series includes AiA. The revised estimates are used for 2002/03 in the absence of actual expenditure data.

1.54 **The Ministry of Education Science and Technology takes up by far the largest share of total expenditure although in recent years this share has fallen.** In 2001/02, Education's share of actual expenditure was 32 per cent compared to 39 per cent in 1998/99. The Education Ministry's share of the recurrent budget is particularly high (about 34 per cent in fiscal years 2001/02 and 2002/03, falling from a high of 42 per cent in 1997/98).

1.55 **The Ministry of Health's share of total expenditure is relatively low.** In 2001/02, the Ministry of Health's share of total expenditure was 8.3 per cent. This percentage has remained relatively constant, but is much lower than the recommended 15 per cent of total budget in the Abuja Declaration.

1.56 **The share of the Ministries of Agriculture and Livestock Development is also low.** In 2001/02 when the ministries were unified their combined share was only 3.4 per cent at a time when rural development was accorded number one priority under the poverty reduction strategy paper in place at that time. This compares unfavourably with an estimated share of 6 per cent in 1998/99.

1.57 **The Ministry with the second highest share of total ministry expenditure after Education is the Office of the President (OP).** In 2001/02 actual expenditure in the Office of the President was 13 per cent of the total**.** The OP has had a particularly high share of the development budget in the past as a result of emergency programmes being contained in its portfolio.

1.58 **The Department of Defence's share of total expenditure is the third largest**. The Department of Defence's actual expenditure in 2001/02 was 9.6% of the total. Expenditure on security is boosted by a separate allocation to the intelligence services, which in 2001/2002 accounted for 1.7 per cent of the total. The budget of the Office of the President captures expenditure on the police.

Analysis of Public Expenditure by Broad Function

1.59 **The annual Economic Survey presents an analysis of the functional classification of expenditure.** This is calculated by aggregating ministerial expenditures. It should be noted that this is only illustrative of allocation to functions. Some ministries (particularly in public administration) carry out, as part of their overall mandate, some functions that should be classified to another category, but are included in public administration, as it is the main function of a ministry that determines its classification. Thus the whole of the Office of the President is allocated to public administration even though some health, education and rural development functions, particularly emergency related, are carried out by the OP. Public administration expenditure is therefore overstated and other functions understated. Comparison with the data on shares of ministerial expenditure discussed above should be handled cautiously as the functional information contains expenditure on the Consolidated Fund Services, which is not included in the ministerial expenditures. The Economic Survey functional classification of expenditure in recent years is summarised in Table 13.

1.60 **Until the introduction of Free Primary Education in 2002/03, the social service expenditure share of total expenditure and share of GDP was in decline.** Social services expenditure (education, health, housing, social welfare and community welfare) fell from 10.1 per cent of GDP in 1997/98 to 7.8 per cent of GDP in 2001/02. It is estimated to have increased to 9.4 per cent of GDP in 2002/03. Education takes the greatest share ranging between 5.9 per cent of GDP in 2000/01 to a projected 6.9 per cent in 2002/03. The share going to the health sector was fairly small and ranged between 1.2 per cent and 2 per cent of GDP during the period.

1.61 **Public expenditure on education is relatively high in Kenya while on health it is relatively low.** Some international comparisons of education health expenditure as a per cent of GDP which illustrate this point are shown in Table 12:

Table 12: Comparison of Education and Public Health Expenditure

	Education spending as % of GDP 1993-1998 Average	Health spending as % of GDP 1995-2000 Average
Kenya	6.6	1.8
Tanzania	2.1	2.7
Uganda	1.6	1.5
Ethiopia	4.3	1.8
South Africa	6.1	3.7
Sub Saharan Africa	not available	2.5

Source: The World Bank African Development Indicators 2003.

1.62 **Expenditure on general public administration has been rising** reaching a peak in 2000/01 during the drought at 7.4 per cent of GDP. Expenditure of 8.0% of GDP is estimated in this category in 2002/03. Within this category, expenditure on public order and safety has steadily increased from a share of 1.9 per cent of GDP in 1997/98 to 2.1 per cent in 2001/02.

1.63 **GDP share of expenditure on defence has been rising** from an estimated 1.4% of GDP in 1998/99 to 1.8% of GDP in 2001/02.

1.64 **The GDP share of expenditure on economic services has also been rising** from 14.2 per cent of GDP in 1997/98 to 18.3 per cent in 2000/01, before a projected drop to 16.1 per cent in 2002/03. Within this category expenditure on agriculture has been declining as a share of total expenditure and of GDP.

1.65 **The share of expenditure going to utilities has been falling,** declining from 0.5 per cent of GDP in 1997/98 to 0.3 per cent in 2002/03.

1.66 **The share of expenditure on roads has remained constant in recent years at about 1% of GDP.**

Figure 12: Expenditure By Function as % of GDP

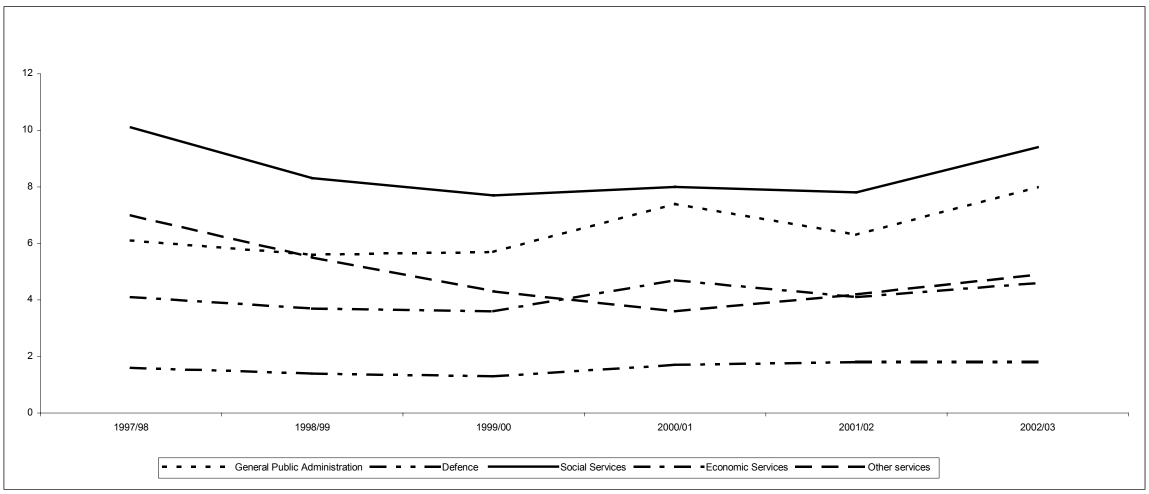


Table 13: Functional Analysis of Government Expenditure

	% Share of total Expenditure						% Share of GDP					
	1997/98	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**
GENERAL PUBLIC ADMINISTRATION												
General Administration	13.2	14.9	15.8	20.3	15.3	18.4	3.8	3.7	3.6	5.2	3.7	5.3
External Affairs	1.5	1.6	1.8	1.5	2.0	1.7	0.4	0.4	0.4	0.4	0.5	0.5
Public Order and Safety	6.5	6.4	7.4	7.4	8.6	7.8	1.9	1.6	1.7	1.9	2.1	2.2
SUB TOTAL	**21.2**	**22.8**	**25.0**	**29.3**	**25.9**	**27.8**	**6.1**	**5.6**	**5.7**	**7.4**	**6.3**	**8.0**
Defence	5.6	5.9	5.9	6.6	7.3	6.2	1.6	1.4	1.3	1.7	1.8	1.8
SOCIAL SERVICES												
Education	25.5	26.5	27.1	23.1	24.6	24.1	7.4	6.5	6.1	5.9	5.9	6.9
Health	7.1	5.5	5.2	7.3	6.4	6.8	2.1	1.4	1.2	1.8	1.6	2.0
Housing & Community Welfare	1.8	1.7	1.5	1.1	1.3	1.8	0.5	0.4	0.3	0.3	0.3	0.5
Social Welfare	0.3	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
SUB TOTAL	**34.7**	**33.8**	**33.9**	**31.5**	**32.4**	**32.7**	**10.1**	**8.3**	**7.7**	**8.0**	**7.8**	**9.4**
ECONOMIC SERVICES												
General Administration	1.7	1.9	2.9	6.6	5.7	3.8	0.5	0.5	0.7	1.7	1.4	1.1
Agriculture, Forestry and Fishing	4.3	5.2	4.6	3.9	3.5	4.2	1.2	1.3	1.0	1.0	0.9	1.2
Mining ,Manufacturing & Construction	1.2	1.4	1.3	1.4	1.3	1.0	0.4	0.3	0.3	0.4	0.3	0.3
Electricity, Gas, Steam and Water	1.7	1.2	0.8	1.2	1.1	1.0	0.5	0.3	0.2	0.3	0.3	0.3
Roads	4.2	4.4	5.0	4.4	4.0	4.8	1.2	1.1	1.1	1.1	1.0	1.4
Other Transport & Communications	0.4	0.5	0.6	0.4	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Other Economic Services	0.6	0.6	0.8	0.6	1.1	1.0	0.2	0.2	0.2	0.2	0.3	0.3
SIB TOTAL	**14.2**	**15.2**	**16.0**	**18.3**	**17.1**	**16.1**	**4.1**	**3.7**	**3.6**	**4.7**	**4.1**	**4.6**
OTHER SERVICES EXCLUDING DEBT REPAYMENT	24.3	22.3	19.2	14.2	17.3	17.1	7.0	5.5	4.3	3.6	4.2	4.9
TOTAL EXPENDITURE	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**29.0**	**24.5**	**22.7**	**25.4**	**24.2**	**28.8**

Source: Economic Survey Various

MTEF Allocations

1.67 **MTEF allocations provide further information on the distribution of public expenditure between the eight MTEF sectors.** These data are shown in Annex 2 covering each year from the introduction of the first MTEF budget in 2000/01, and for comparison 1999/2000

1.68 **MTEF sectors, however, up until 2002/03 were largely defined on the basis of inputs rather than outputs, making it difficult to present alongside the ministerial and functional expenditures presented above**. In particular allocations for wages and salaries are not disaggregated between sectors. In addition no information is available on actual expenditure by MTEF sector. In broad terms the allocation data show increases over time in the non wage allocations for the Human Resources and National Security sectors. The share of Physical Infrastructure (which in the period covered captures all building and construction regardless of output sector) has been declining. The share of Agriculture and Rural Development has remained constant.

BUDGET IMPLEMENTATION

1.69 **There have been significant variations between budgeted and actual expenditure.** Tables 14 and 15 present information on the printed budget and actual expenditures for the three years from 1999/00 to 2001/02**.** Table 14 shows aggregate expenditure and table 15 examines the Ministerial votes (which do not include interest and other statutory payments).

1.70 **In aggregate, budgeted expenditure and revenue are generally higher than actual.** This has been particularly the case for the Development Budget for example over the period shown in table 14, actual development expenditure was only 79 per cent of that budgeted. For the recurrent budget the actual was 99 per cent of the budget estimates though wide variations exist across ministries.

Table 14: Kenya Printed Estimates and Actual Expenditure (Ksh. Million.)

	1999/00	1999/00	2000/01	2000/01	2001/02	2001/02
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Revenue	187,520	178,443	193,079	192,313	218,624	196,613
Expenditure	187,921	175,119	240,214	232,921	232,880	225,760
Recurrent	*160,149*	*156,535*	*203,019*	*198,941*	*200,156*	*200,807*
Development	*27,772*	*18,584*	*37,195*	*33,980*	*32,724*	*24,953*
Deficit (excl grants)	-401	3,324	-47,135	-40,608	-14,256	-29,147

Source: BMD

1.71 **At ministerial level there is more variation in recurrent budget implementation with some consistently overspending their budget and others underspending.** Over the three-year period shown in table 15, the persistent overspenders included National Assembly (average 17%). State House (15%) OP (9%), Health (7%), and Defence (6%). Prominent underspenders were Public Works (19%) and Local Government (25%).

1.72 **All ministries generally underspend their development budget, although to a varying degree.** The data in table 15 suggest that in 2001/02, only the Ministry of Transport and Communication exceeded its development budget. Taking other examples, development expenditure in the Ministry of Health was estimated to be only 58% of budget, in the Ministry of

Education only 52% of budget, and in the Ministry of Roads, Public Works and Housing only 14% of budget. It should be noted, however that these Ministerial data reflect in part the problem of capturing donor financing of projects in expenditure reporting.

Table 15: Comparison of Actual and Budgeted Expenditure in Ministries and By Votes

	Recurrent			Development		
	1999/00	2000/01	2001/02	1999/00	2000/01	2001/02
Ministry/Vote	Actual as % of printed	Actual as % of printed	Actual as % of printed	Actual as % of printed	Actual as % of printed	Actual as % of printed
Office of the President	98	117	109	49	105	52
State House	113	115	114	100	100	24
DPM	50	77	61	84	69	62
Foreign Affairs	106	93	110	2	0	3
Home Affairs	88	94	108	22	14	28
Planning						
Finance	49	64	60	85	89	9
Defence	102	104	113	34	0	0
Agriculture	117	97	80	13	18	35
Health	99	110	114	37	24	58
Local Government	80	72	72	28	106	27
Public Works	93	81	78	45	24	14
Transport	46	84	81	82	99	341
Labour	229	77	90	44	44	43
Tourism	103	100	72	96	15	0
Environment & Natural Resource	95	88	100	42	56	49
Attorney General	26	42	107	42	68	39
Judiciary	54	85	103	6	18	55
Public Service	94	112	111			
Controller and Auditor General .	84	65	89			
National Assembly	140	118	92			
Energy	54	87	89	54	121	34
Education	97	99	108	49	40	52
Electoral Commission	80	66	76			
Rural Development						
Lands and Settlement	69	73	94	41	17	49
NSIS	106	98	100			

CORE POVERTY EXPENDITURES

1.73 **The Government has been monitoring a set of core poverty expenditures in the budget since 2000/01.** These expenditures have been identified within the existing budget classification system using criteria agreed with the World Bank in 2000. There is a policy of protecting expenditure allocations for items on this list in line with the printed budget estimates. The core poverty list excludes wage expenditure because of the difficulties of identifying the staff costs associated with specific activities. The core poverty list also seeks to exclude donor financing in the development budget where payments were made directly, although some financing of this type has been included in the list especially for 2002/03.

1.74 **Tables 16 and 17 present summary data on budgeted and actual expenditures by recurrent and development vote for the core poverty programme in 2000/01 and 2001/02.** The tables also include budgeted amounts for 2002/03. More detailed information on the core poverty programmes is contained in tables 49 and 50 in Annex 2.

Table 16: Central Government Core Poverty Expenditures by Vote: Recurrent Ksh.

Programmes/Projects	*Estimates 2000/2001*	Estimates as % of Actual	*Estimates 2001/2002)*	Estimates as % of Actual	*Estimates 2002/2003*
EDUCATION	1,477,678,097	109%	1,281,352,044	99%	1,343,212,308
HEALTH	2,627,673,107	100%	2,044,082,527	102%	2,058,120,000
OFFICE OF THE PRESIDENT	1,640,000,000	106%	940,000,000	81%	946,300,000
HOME AFFAIRS	214,619,969	175%	216,147,390	139%	255,770,000
ENVIRONMENT & NATURAL RESOURCES	45,066,760	1599%	102,320,000	90%	116,790,000
AGRICULTURE	470,800,000	329%	801,490,000	167%	650,450,000
LANDS & SETTLEMENT	50,836,608	100%	58,025,660	100%	653,000
LOCAL GOVERNMENT	N/A		3,087,000,000	121%	3,267,000,000
ROADS & PUBLIC WORKS	N/A		N/A		8,252,300,000
Grand Total	6,526,674,541	112%	8,530,417,621	109%	16,955,342,306

source BMD

Table 17: Central Government Core Poverty Expenditures by Vote: Development Ksh.

Programmes/Projects	*Estimates 2000/2001*	*Estimates as % of Actual*	*Estimates 2001/2002*	*Estimates as % of Actual*	*Estimates 2002/2003*
Office of the President*	1,339,668,360	101%	2,433,407,412	191%	2,326,254,124
Ministry of Home Affairs	72,807,120	168%	211,567,500	451%	282,490,000
Ministry of Agric. & Rural Development**	556,687,239	199%	130,476,102	143%	906,470,000
Ministry of Health	610,399,994	196%	2,297,339,160	126%	3,780,470,000
Ministry of Roads & Public Works	604,644,200	166%	299,500,000	174%	196,800,000
Ministry of Environ & Natural Resources	705,611,342	49027%	520,886,245	158%	1,122,630,000
Ministry of Educ, Science & Technology	1,084,710,600	188%	1,404,099,967	102%	1,762,200,000
Ministry of Labour	N/A		370,262,967	88%	563,460,000
Ministry of Finance and Planning	N/A		280,000,000	102%	245,000,000
Grand total	4,974,528,855	171%	7,947,539,353	137%	11,185,774,124

source BMD

* Includes direct payment by the donor ** Revenue component of the project.

1.75 **The core poverty expenditures have been a significant share of Ministerial expenditure excluding wages and the size of the programme has been growing.** In total about Ksh. 11.5 billion was allocated to core poverty programmes in 2000/01. The recurrent core poverty programme was an estimated 7% of the non wage/non interest recurrent estimates and the development core poverty programme was about 14% of the total development budget. The allocation grew to a little over Ksh 16.5 billion in 2001/02. In that year the recurrent core poverty programme was approximately 9% of the non-wage/non-interest recurrent estimates. The development core poverty programme was about 25% of the development estimates. Finally the core poverty programme in 2002/03 was estimated as Ksh 28.1 billion. The recurrent core poverty programme was approximately 17% of the non-wage/non-interest recurrent estimates. The development core poverty programme was again about 25% of the development estimates

1.76 **The growth in the core poverty programme, has to a significant extent, reflected the addition of expenditure lines within the criteria established in 2000**. This has included in particular the addition of expenditure through the Local Authority Transfer Fund (LATF) in 2001/02 and the addition of expenditure from the Roads Maintenance Levy Fund in 2002/03. In both these cases initial intentions to only include a proportion of the amounts budgeted as core poverty expenditures (for example to proxy the amounts in the Roads Maintenance Levy Fund devoted to rural roads) have not been reflected in monitoring and reporting. As discussed above some of the growth in core poverty development expenditure is explained by the addition of direct donor funding for certain projects.

1.77 **The Government has not been successful in fully protecting core poverty expenditures, although the record in this respect has improved over time.** The information in table 16 suggests that in 2000/01 aggregate actual expenditure on the recurrent core poverty was only 89% of the estimates. In 2001/02 actual expenditure on the recurrent core poverty programme improved to 92% of the estimates. In the development budget core poverty expenditure in 2001/02 was only 58% of the estimates, reflecting the general weaknesses of development budget implementation. In 2001/02 this percentage improved to 73%.

1.78 **Weaknesses in reporting and monitoring systems may explain some of the observed shortfall in core poverty programme implementation.** Budget Monitoring Department has highlighted the problems of obtaining information from Line Ministries on core poverty programmes, which has been done outside the normal monthly reporting process. They have also noted the recurring problem of obtaining accurate information on donor funding, especially when payments are made directly.

1.79 **Budget Monitoring Department, however, has also identified a number of problems in expenditure management that have influenced the implementation of the core poverty programmes.** These have included in particular:

2. **Weak commitment to the programmes in line Ministries.** The core poverty programs have been identified centrally in the Ministries of Finance, and Planning and National Development. Line Ministries appear not to have fully grasped the importance of spending on these programmes in line with plans. In some instances Ministries have reallocated resources out of core poverty programs into other areas. There is some concern that in certain cases Ministries may have deliberately over-budgeted in core poverty areas to create space for reallocations.

3. Problems in obtaining access to funds in the context of Treasury cash management. Line Ministries have reported that at times implementation of the core poverty programmes has been affected by delays in receiving cash releases from Treasury following requests for funds (although the Exchequer Release Committee insists that core poverty programmes are given priority in access to funds). In the same context Line Ministries have highlighted that delays in receiving expenditure information from Districts, as required to request new funds has affected programme implementation.

CONCLUSIONS AND RECOMMENDATIONS

3.1 **The 1997 PER in discussing the structure of public expenditure highlighted low levels of O & M, high wage expenditures, low investment spending (allowing for O&M in the development budget), and the threat to fiscal sustainability posed by high levels of domestic debt interest.** At the time it was written, it noted recent increases in allocations to social sectors to nearly 40 per cent of the total budget.

3.2 **In some respects, the current situation represents an improvement from the last PER analysis.** O&M expenditure have been on an upward trend as a share of total expenditure and as a percentage of GDP. Interest payments, including for domestic debt have fallen, as a result in particular of declining domestic interest rates. The introduction of FPE has given social sector spending a recent boost.

3.3 **However, in many other respects, the structure of public expenditures still exhibits many of the old problems, in particular:**

- Wage expenditure remains high and although it declined after 1997, it has recently started to grow again.
- The ratio of O&M to wage expenditure is probably still too low for adequate levels of productivity for service delivery.
- Development expenditures have declined relatively since 1997 although a rise is estimated in 2002/03.
- Transfers and subsidies to organisations outside the main civil service have been on a relative upward trend, though some of this reflects desirable policies such as the Local Authority Transfer Fund.
- Notwithstanding high expenditures in education, allocations to the social sectors had been falling in terms of expenditure shares and GDP prior to the introduction of FPE, and for health are low, for example, if compared internationally.
- Budget implementation data highlights consistent overspending by Ministries largely engaged in administration rather than service provision, and a general underspend on the development budget.
- Finally, although the Government has defined a programme of Core Poverty Expenditure, that has been growing, it has not been fully successful in protecting the allocation of resources to these as planned.

3.4 **It is important for government to follow through on the commitments it has made to address these issues.** These commitments are contained in the Economic Recovery Strategy for Wealth and Employment Creation and in the Government's Letter of Development Policy signed by the Minister of Finance on 28, May 2003. They include a policiy of: reducing the wage bill below 8.5 per cent of GDP by 2005/06; increasing expenditure on health and welfare to 3.5 per cent of GDP over the same period; shifting public expenditure from recurrent to capital spending; and introducing measures to enhance the core poverty expenditure programme and its implementation.

3.5 **Additional reforms in the structure of public expenditure to better support the Economic Recovery Strategy for Wealth and Employment Creation will depend importantly on improved information and analysis of existing expenditure patterns.** Priorities include improved classification and reporting of expenditures to better understand key aspects of the way in which resources are currently used. These should include:

- Improved analysis of functions and outputs so that the role of different ministries in service delivery is better understood and elaborated.
- Improved analysis of O&M expenditure to develop clear proposals for provision and reallocation, for example in relation to wage expenditure to improve productivity.
- Improved analysis of transfers and subsidies to assess their contribution to service delivery.
- Improved analysis of the development budget to allow for reclassification of expenditures that are current and to better understand the true extent of capital spending through the budget.

CHAPTER 4

2003 MINISTERIAL PUBLIC EXPENDITURE REVIEWS

BACKGROUND

3.6 This chapter draws out some of the main findings of the eight Ministerial Public Expenditure Reviews (MPERs) undertaken in 2003. These reviews were undertaken in eight ministries which together account for two-thirds of total ministerial expenditure.

- Ministry of Education, Science and Technology;
- Ministry of Health;
- Ministry of Agriculture and Livestock Development;
- Ministry of Roads, Public Works and Housing.
- Ministry of Local Government;
- Ministry of Water Resources Management and Development;
- Ministry of Environment, Natural Resources and Wildlife; and
- Office of the President.

3.7 The discussion seeks to highlight in particular the comparison between ministerial policies and the way in which they allocate resources. The key recommendations that came out of each review are highlighted. In addition, the final section of the chapter draws together the general conclusions that are common across the reviews. These include conclusions on the process through which the reviews were carried out. In the later respect it is important to highlight here that the quality of the MPERs varies considerably, for example as a result of access to data, the experience and capacity of staff involved in the exercise, and the availability of external assistance. The data presented is taken from each of the MPERs with the exception that in each case an overview of expenditure is provided using Budget Monitoring Department data as shown in Annex 2.

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

Introduction

3.8 **The Ministry's mission is to provide, promote and coordinate life long education, training and research for Kenya's sustainable long-term development.** In this context, particular emphasis is paid to increasing enrolment especially at primary level, whilst raising completion and transition rates and ensuring quality. At the same time, the Ministry aims to promote science, research and technology as well as coordinating the provision of education and training between government, donors, NGOs and communities.

3.9 **The Ministry's core functions emphasise the promotion of access to education.** To achieve these results, the Ministry aims to ensure widespread availability of facilities that are affordable. The Ministry also aims to enhance resource mobilisation, both public and private while improving efficiency in the use of resources. In the education sector, the poverty reduction priority areas include improving access to basic education with special emphasis on ensuring the effective and efficient implementation of the Free Primary Education Programme.

3.10 **Free Primary Education (FPE) was introduced at the beginning of 2003.** The MPER was prepared ahead of the completion of the work on the costs and financing of FPE, and draws on budget data for 2002/03 that excludes provision for FPE. Table 18 below, however, does show expenditure provision in 2002/03 after the revised estimates had provided for the initial costs of FPE. The immediate cost of FPE includes the capitation payment to schools intended to cover the cost of operations and maintenance previously covered by fee income from parents. Capitation payments are estimated to require recurrent budget provision of Ksh 4.5 billion in a full year at current costs. This figure is based on an enrolment of 7 million. Additional resources are required for books and materials which it is expected will be financed by donors.

Expenditure Overview

3.11 **Sector expenditure is high compared to other comparable countries.** Education expenditure in 2002/03, following the implementation of FPE is expected to account for 6.8 per cent of GDP. The average for low-income countries was 3.3% of GDP in 1997. Education expenditure as a proportion of total expenditure is also high, although prior to the introduction of FPE it had been in decline, partly as a result of low development expenditures in education. In 2002/03, after the introduction of FPE, education expenditure is estimated to be 28.7 per cent of total ministerial expenditures.

Table 18: Ministry of Education Expenditure 1999/2000 - 2002/03

	1999/2000 (actuals)	2000/01 (actuals)	2001/02 (actuals)	2002/03 (revised estimates)
Total Expenditure Ksh. Million	46,192	48,636	53,587	66,673
Total Expenditure % of GOK total	37.1	29.1	31.7	28.7
Total Expenditure % of GDP	6.2	5.8	6.0	6.8
Recurrent % of total	99	99.	98	93
Development % of total	1	1	2	7

Source: BMD

3.12 **Wages and salaries consume an overwhelming share of the Ministry's recurrent budget.** In 2001/02, wages and salaries were 94 per cent of the Ministry's recurrent budget leaving limited resources for items such as books, in-service training, etc. In primary education wages and salaries were about 98 per cent of recurrent spending in 2001/02. As a result of the 1997/98 teachers' salary review, expenditure on primary and secondary education rose by 49.4 per cent from Ksh. 23.5 billion in 1996/97 to Ksh. 35.1 billion in 1997/98 and continued to rise gradually up to Ksh. 42.4 billion in 2001/02.

3.13 **Education sector expenditure trends have not reflected policy priorities.** The primary, secondary, and university share of total Ministry recurrent expenditure has averaged 55, 24, and 9 per cent respectively in the period since 1997/98. Prior to the introduction of FPE, the primary share had declined from 60% of recurrent expenditure in 1997/98 to 52% in 2001/02 despite a policy of prioritising primary education. The recurrent share of university expenditure increased from 7.4 per cent in 1997/98 to 11 per cent in 2001/02.

Table 19: Education Sub-Sector Spending as % of Total Education Recurrent Expenditure (Actual)

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03#	1997-2002 Av.
General Admin and Other	6.71	8.71	9.24	7.53	6.71	5.86	7.78
Primary	59.96	58.53	54.78	54.43	51.93	51.31	55.93
ECD	0.01	0.01	0.01	0.02	0.01	0.02	0.01
Secondary	24.27	24.65	23.25	23.78	28.22	27.78	24.83
Technical	1.62	1.63	1.62	3.13	2.09	3.56	2.02
University	7.44	6.48	11.1	11.12	11.04	11.48	9.44
Total	100	100	100	100	100	100	100.00
PE as proportion of sub-sector spending							
General Admin and Other	75.80	75.32	78.80	71.95	73.60	74.37	75.09
Primary	98.58	98.60	98.29	97.24	97.68	97.47	98.08
ECD	81.83	81.83	56.81	76.32	70.21	77.37	73.40
Secondary	96.88	97.05	99.05	94.83	95.66	95.53	96.69
Technical	68.16	67.75	70.70	80.94	72.39	84.00	71.99
University	66.05	72.76	85.32	85.86	87.13	88.12	79.42
Total	93.73	94.01	94.77	92.98	93.8	94.02	93.86

 # Printed Estimates, Source. MPER, 2003

3.14 **Development expenditures have remained consistently low.** Development expenditures have remained below 2 per cent of total spending in education in recent years, although again as the data in table 18 shows this trend will be changed as a result of donor support for FPE being reflected in the development budget as for example has past DFID support for the purchase of textbooks. Low levels of development expenditure have resulted in deteriorating infrastructure.

Table 20: Education Sub-Sector Development Expenditure as % of Total Education Development Expenditure

Sub-Sector	1998/99	1999/00	2000/01	2001/02	2002/03*
General Administration	7.85	4.12	42.21	38.66	43.15
Pre-Primary Education	4.80	40.66	24.87	10.71	14.12
Primary Education	7.42	43.14	21.57	5.78	16.54
Secondary Education	0.66	0.36	0.85	0.12	1.08
Teacher Education	9.61	0.42	3.02	23.41	1.55
Special Education	0.00	0.00	0.00	0.00	0.00
Technical & Tec-Voc	0.03	0.00	1.22	0.37	0.10
University	69.64	11.29	6.26	20.94	23.45
Total	100.00	100.00	100.00	100.00	100.00

*estimates
Source: Economic Survey 2003

3.15 **Operational and development costs are mainly met through cost sharing by communities and parents**. Recent studies indicate that the share of households in education financing ranges from 35 per cent in primary (prior to FPE) to 55 per cent in secondary. This is largely attributable to expenditure on physical infrastructure, uniforms, text books, examination fees, tuition, transport, stationary, repair and maintenance, purchase of chairs and desks among other direct costs. While the Government contributes substantially in the delivery of university education, the level of similar spending in tertiary institutions is insignificant.

3.16 **Gross enrolment rates, prior to FPE, had been in decline in the 1990s in both primary and secondary education and compared to other countries where public spending is over 5% of GDP Kenya's gross enrolment rates are relatively low**. The problem of declining enrolments has been compounded by relatively high wastage within the education system in the form of grade repetition, low completion rates and low transition rates.

3.17 **Pupil teacher ratios are low by international standards**. The pupil teacher ratio in primary following the introduction of FPE has increased from approximately 34:1 to a little over 40:1, but this average masks the fact that in certain areas and schools the ratio is far lower than this. The current pupil teacher ratio in secondary education is 16:1. Low pupil teacher ratios increase education costs.

3.18 **Public expenditure per student per year is significantly higher in the university sub sector than in the other sub sectors.** Public expenditure per student per year ranged between Ksh. 4,154 and Ksh. 4,358 for primary pupils and Ksh. 14,242 and Ksh. 21,772 for secondary pupils during the review period. Publicly funded university students cost about Ksh. 135,800 per capita annually (about 30 times that of a primary student). The unit cost for Technical and Vocational Education is Ksh. 110,000.

3.19 **The Ministry has a significant number of stalled projects and high pending bills.** The MPER reports 67 stalled/uncompleted development projects with estimated total costs to completion of about Ksh. 8.8 billion. Overall, pending bills of over Ksh. 1.6 billion were recorded at the time of the MPER, mainly for projects for public universities, primary teacher training colleges and KNEC. Pending bills at times absorb the full annual allocation for some projects.

Policy issues and recommendations

3.20 **Kenya already devotes a large share of its budget to education, highlighting the importance of cost and affordability in education policy decisions.** In the short-run expenditure will increase further as a result of the full year costs of FPE, although the primary school age population is not rising. Pressures for secondary school expansion, for example as more children complete primary education, and also for free pre-primary education, which if implemented will be very costly, need to be carefully managed in this budgetary context.

3.21 **Indicators of efficiency indicate that Kenya has a lot of potential to spend its limited resources more effectively than it does at present.** In particular teacher salaries are the main cost of education at all levels, but especially in primary and secondary education. This highlights the benefits of more effective utilisation of teachers, including through higher pupil teacher ratios. It also puts into focus the impact of pay increases for teachers without offsetting benefits through improved utilisation. TSC needs to review its staffing norms to take account of pupil teacher ratios, muti-grade working and efficient use of staff. There may be case for reviewing the central role of the TSC in favour of increased hiring of teachers at local level.

3.22 **Classrooms are another resource that probably need to be utilised more intensively.** Double shift use of classrooms in crowded schools can save substantial construction costs. School mapping is essential to determine facility gaps and rehabilitation requirements.

3.23 **Future Government policy on spending in support of University students will be an important factor in education sector budgeting.** The unit costs of University provision are currently very high reflecting large expenditure on small numbers.

3.24 **Improved planning and decision-making requires and improved monitoring and evaluation.** There is no centralised M&E function of the whole system of education. The concepts of M&E need to be developed within the Ministry (presumably under the Planning Department) and an appropriate budget provided. MoEST has two units with overlapping responsibilities, the Planning Unit and the Policy Unit. The planning and policy functions in MoEST might operate more effectively if the two units were harmonised.

3.25 **The Ministry needs to address the issue of expenditure control.** With the recent introduction of capitation payments to schools, school managers will have to handle substantial sums of public money. Arrangements should be put in place for management and control of these funds.

3.26 **Stalled projects require urgent attention.** The current list of stalled projects appears to include some that have been completed from other sources and others that are no longer high priority. Project by project analysis is required to decide on those that should be terminated or completed.

MINISTRY OF HEALTH

Introduction

3.27 **The mission of the Ministry of Health is to promote and provide quality curative, preventive, promotive and rehabilitative health care services to all Kenyans.** The current Economic Recovery Strategy recognises that, affordable and accessible health care, especially to the poor, is crucial.

3.28 **There has been a rapid decline in health indicators in the 1990s.** Compared to the levels attained in early 1960s and 1970s, there have been recent increases in overall mortality rate, child and maternal mortality, as well as increases in incidents of preventable diseases. There has been a reduction in life expectancy. The infant mortality rate (IMR) was recorded at 74 in 1998 compared to 62 per 1000 in 1985. Under-five mortality rose by 25 per cent over the same period and stood at 122 per 1000 in 2001. The maternal mortality rate in 2001 was estimated at 590 per 100,000. In the 1990s immunisation coverage declined to about 60% from 80% in 1998, although there is now evidence that this declining trend has been reversed.

3.29 **The Ministry has outlined key priorities under the MTEF in order to reverse these trends.** The first priority is rural health care followed by preventive and promotive health care, curative healthcare, and family planning services. The Ministry has programmed a shift of resources from curative to preventive health care.

Expenditure Overview

3.30 **Ministry of Health expenditure as a share of GDP, though low internationally, has been increasing from 1.3 per cent of GDP in 1999/2000 to an estimated 1.96 per cent in 2002/03.** Expenditure as a share of the total budget has been on a slight upward trend although it is at 9 per cent it is significantly below the Abuja Declaration target of 15 per cent. The Ministry of Health's share of total budget has partly been increasing as a result of donor funding in the Development budget.

Table 21: Ministry of Health Expenditure 1999/2000 - 2002/03

	1999/2000 (actuals)	2000/01 (actuals)	2001/02 (actuals)	2002/03 (revised estimates)
Total Expenditure Ksh Million	9,641	11,906	14,032	19,342
Total Expenditure % of GOK total	7.75	7.13	8.30	8.34
Total Expenditure % of GDP	1.30	1.41	1.52	1.96
Recurrent % of total	95.7	92.1	85.4	74.7
Development % of total	4.3	7.9	14.6	25.3

Source: BMD

3.31 **Expenditure within the Ministry has not been consistent with Government policy priorities.** Expenditures for curative health have remained at about one half of the total. In comparison expenditures for preventive and promotive health declined from 10.4 per cent in 2000/01 to 5.5 per cent in 2001/02. Expenditures on rural health services have increased only modesty from 9 per cent in 1999/2000 to 11.7 per cent on 2001/02. Expenditure on Kenyatta National Hospital and Moi Referral and Teaching Hospital together accounted for 14.5 per cent of the total in 2001/02.

3.32 **In addition budget plans to reallocate increased resources to policy priorities have not been fulfilled.** For example, the allocation to rural health services was budgeted to increase from 13.9 per cent of total expenditure to 35.9 per cent in 2001/02 compared to actual expenditure of 11.7 per cent of the total in 2001/02. The allocation for curative was budgeted to fall from 55.9 per cent of the total in the 1999/2000 to 32.8 per cent of the total in 2001/02. In practice actual expenditures in 2001/02 were 48.5 per cent of the total. The allocation for Kenyatta Teaching Hospital was 9.8 per cent of the total budgeted in 1999/00 and 9.4 per cent of the total budgeted in 2001/02. This compares to actual expenditure of 12.2 per cent of the total in 2001/02.

Table 22: Ministry of Health Expenditure by Sub Vote (%)

MoH Sub-Vote	1999/2000	1999/2000	1999/2000	2000/2001	2000/2001	2000/2001	2001/2002	2001/2002	2001/2002
	Printed	Approved	Actual	Printed	Approved	Actual	Printed	Approved	Actual
	Estimates	Estimates	Expenditure	Estimates	Estimates	Expenditure	Estimates	Estimates	Expenditure
General Admin. And Planning									
Total as % Total MoH	4.2%	4.7%	**7.1%**	3.7%	4.4%	**5.9%**	8.3%	10.3%	**11.7%**
Curative Health									
Total as % Total MoH	55.9%	55.3%	**54.2%**	34.1%	33.2%	**51.2%**	32.8%	30.2%	**48.5%**
Preventive and Promotive									
Total as % Total MoH	3.0%	3.0%	**7.2%**	13.1%	11.5%	**10.4%**	6.9%	4.9%	**5.2%**
Rural Health Services									
Total as % Total MoH	13.9%	13.5%	**9.0%**	31.2%	31.9%	**11.3%**	35.9%	33.4%	**11.7%**
Health Training and Research									
Total as % Total MoH	8.0%	8.1%	**7.7%**	7.8%	8.6%	**9.7%**	5.5%	7.4%	**8.0%**
Medical Supplies Coord Unit									
Total as % Total MoH	0.4%	0.5%	**0.3%**	0.3%	0.3%	**0.2%**	0.3%	0.4%	**0.3%**
Kenyatta National Hospital									
Total as % Total MoH	14.5%	14.9%	**14.5%**	9.8%	10.1%	**11.2%**	9.4%	11.3%	**12.2%**
Moi Teaching and Referral									
Total as % Total MoH	0.0%	0.0%	**0.0%**	0.0%	0.0%	**0.0%**	0.9%	2.1%	**2.3%**
Total MoH*	**100.0**	**100.0**	**100.0**	**100.00**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* 1999/2000 excludes development budget

3.33 **Salaries and wages have claimed the bulk of recurrent resources allocated to the Ministry.** Salaries and wages constituted over 52 per cent of the recurrent resources spent by the Ministry in 2001/02. This compares to 12 per cent for drugs in 2001/02, although donor funding of drugs is captured separately in the development budget. Allocations for transfers in the budget also highlight the importance of Kenyatta Hospital. In 2001/02, it accounted for 15 per cent of total recurrent expenditure.

Table 23: Ministry of Health Recurrent Expenditure by Economic Categories as % of Total Recurrent

	1999/2000	2000/2001	2001/2002
Salaries and Other Personnel	55	48	52
Transfers, Subsidies and Grants	8	8	8
Drugs and Medical Consumables	9	15	12
Other Operations & Maintenance	13	16	10
Purchase of Plant & Equipment	0	1	0
Receipts/AiA	1	1	1
Kenyatta National Hospital	14	12	15
Moi Referral Hospital	0	0	3
Total	100	100	100

3.34 **Procurement of drugs is supply driven**. Drugs and other medical supplies are procured centrally and thereafter distributed to health facilities on a predetermined quantity in a ratio of 4:2:1 to Provincial, District, and Sub-District hospitals respectively. The criteria for distribution are based on the status of the hospital and not the morbidity pattern and/ or workload at the facility.

3.35 **Information on drug expenditures is incomplete.** This makes it difficult to assess whether expenditures on drugs meet desired expectations. Better information is required on whether procured drugs match disease prevalence, offer value for money and whether distribution is incidence responsive.

3.36 **The Ministry had an estimated total of Ksh. 250.3 million of pending bills as at January 2003.** This was divided between Ksh. 200.6 million of recurrent pending bills and Ksh. 40.9 million of development pending bills. The Ministry has a total of 238 projects of which 96 are complete but awaiting the preparation of final accounts estimated at Ksh. 387.1 million.

3.37 **There are 95 stalled projects that will require Ksh. 1,569.3 million for completion.** The increasing numbers of stalled projects (construction) have impacted negatively on the capacity of the Ministry to finance health services delivery.

Recommendations

3.38 **In broad terms, the Ministry of Health's expenditures should be more closely aligned with its priorities and this implies a need for:**

- A reduction in grants to the tertiary sector;
- A programmed decline in the percentage share of recurrent expenditures spent on facilities within Curative Health, encompassing Provincial Hospitals in addition to District Hospitals;
- A reduction in the percentage share of recurrent expenditure spent on staff outwith the Rural Health service;
- An increase in the percentage share of recurrent expenditure spent on drugs and medical consumables;

- A more gradual programmed and implementable increase in the percentage share of recurrent expenditure spent on Rural health services;
- An increase in the percentage share of recurrent expenditure upon O&M in the Rural Health services.

3.39 **The Ministry should rationalise its investment portfolio**. There is a need in particular to evaluate stalled projects and to close those that are uneconomic even on a sunk cost basis.

3.40 **The Ministry should consider decentralising personnel functions.** The Ministry has a payroll of about 39,000 staff, which accounts for 52 per cent of the recurrent budget. These people serve across the country and it is difficult to manage them from a central point. Information about the location of staff is often unavailable.

3.41 **There is need to track development expenditures**. This is especially so for donor funds where necessary accounting documents are often lacking and is difficult to capture. Recurrent expenditure in the development expenditure needs to be better aligned to the recurrent budget itself.

3.42 **A review of cost sharing schemes is imperative**. Cost sharing schemes continue to deny the majority of the poor access to health care services. Systems for reporting and accounting for user charges need to be strengthened.

3.43 **There is a need to increase spending on drugs relative to other areas.** In addition the establishment of a demand driven procurement and distribution system would go a long way in reducing drug wastage.

3.44 **Kenyatta National Hospital continues to consume 15% of the recurrent budget.** There is a need to reduce this share to be consistent with policy commitments.

MINISTRY OF AGRICULTURE AND LIVESTOCK DEVELOPMENT[1]

Introduction

3.45 **The Ministry's mission is to facilitate private sector initiatives in the agricultural sector**. This is with emphasis on providing strengthened adaptive research, relevant extension services, regulation and quality control, facilitation of food and raw material production to ensure food security, and promotion of other essential services to farming and fishing communities of agro-based industry and exports in a sustainable environment. The Ministry's priorities are defined as crop development; livestock development; disease and pest control; fisheries development; policy and legal reforms; and promotion of research. Overall the Agriculture and Rural Development Sector has a high priority in the Government's Economic Recovery Strategy for Wealth and Employment Creation.

3.46 **The Ministry has attempted to undertake some privatisation and commercialisation of non-core activities**. However, particularly with respect to Artificial Insemination, Veterinary Clinical and Dipping services, there is concern that withdrawal may have created gaps which negatively effect the livestock sub-sector and the poor.

Expenditure Overview

3.47 **Expenditure as a share of the total budget has been on a declining trend.** The Ministry of Agriculture share of total expenditure has declined from 6 per cent of total ministerial expenditure in 1998/99 ministerial expenditure in 1999/00 to 3.4 per cent in 2001/02 (tables 24 and 48). This can be partially attributed to changes in portfolio, and liberalisation in the early 1990s that reduced the role of the state.

3.48 **Expenditure as share of GDP has been less than one per cent on average in recent years.** In 2001/02 Ministry of Agriculture and Livestock expenditure was 0.6 per cent of GDP.

Table 24: Ministry of Agriculture and Livestock Development Expenditure 1999/2000 - 2002/03

	1999/2000 (actuals)	2000/01 (actuals)	2001/02 (actuals)	2002/03 (revised estimates)
Total Expenditure Ksh. Million	5,186	6,651	5,753	8,954
Total Expenditure % of GOK total	4.2	4.0	3.4	3.9
Total Expenditure % of GDP	0.7	0.86	0.63	0.91
Recurrent % of total	94	90	83	68
Development % of total	6	10	17	32

Source: BMD

3.49 **The share of salaries and wages in the recurrent budget is high but has been falling.** The share of wages and salaries in the recurrent budget has dropped from 73 to per

[1] In June 2003, the Ministry of Agriculture and Livestock Development was split into two separate ministries: Agriculture, and Livestock Development.

cent in 1998/99 to 54 per cent in fiscal year 2002/03. However, these savings have not been shifted to operations and maintenance to improve efficiency but instead have been absorbed by transfers to parastatals, which increased from 11.4 per cent of total recurrent expenditure in 1998/99 to 26.8 per cent in 2001/02. This conclusion is based on budget estimates as shown in Table 25.

Table 25: Ministry of Agriculture and Livestock Development Recurrent Estimates 1998/99 - 2002/03: Budget Shares

	1998/9	1999/2000	2000/01	2001/02	2002/03
GRAND TOTAL	100	100	100	100	100
Salaries & Wages	73.12	60.73	54.57	53.84	54.41
Operations & Maintenance	14.87	13.52	22.54	19.60	21.73
Plant & Equipment	0.63	0.45	0.45	0.42	0.41
Transfers & Subsidies	11.38	25.31	22.44	26.14	23.44
A-I-A	2.87	1.96	6.27	5.88	5.59

Source: Ministry of Agriculture and Livestock Development PER, 2003-06-23

3.50 **Transfers to parastatals accounted for 26.1% of the recurrent estimates in 2001/02, although this figure fell to 23.4% in the 2002/03 budget.** Substantial additional transfers are made to parastatals from the Development Budget (see below). At the start of the 2002/03 financial year the Ministry was responsible for 40 parastatals. In January 2003, 8 of these, including the regional development authorities, were transferred to the Office of the Vice President. In future this will reduce the burden of transfers in the Ministries budget (perhaps by 25%) although in practice the resources saved are likely to be transferred to the Office of the Vice President. 10 of the remaining 32 are fully dependent on significant subventions. In general many parastatals do not contribute significantly to the Ministry's core functions. A number have serious financial difficulties with periods when they struggle to pay salaries and default in the payment of statutory deductions, for example to the national Social Security Fund (NSSF)

3.51 **The Ministry has succeeded in enhancing allocations to O&M in key areas, although there is still substantial scope for further improvement**. For example the O&M share of recurrent spending on extension services increased from a low of 6.6 per cent in 1998/99 to 20.1 per cent in 2002/03 with the share of salaries and wages falling from 93.2 to 77.9 per cent over the same period. Similarly for disease and pest control the O&M share of recurrent funding increased from 23.4 per cent in 1999/00 to 28.4 per cent in 2002/03, with the share of salaries and wages falling from 74.9 and 68.9 per cent. For fisheries, the share of O&M increased from 18 per cent in 1999/00 to 25 per cent in 2002/03 while the share of salaries and wages dropped from 78 per cent to 67 per cent. Nevertheless the allocations for O&M still remain low.

3.52 **The Ministry's development budget has been relatively large in relation to other Ministries, although data in Annex 2 show high levels of underspend.** The total development budget (estimates) increased from Ksh. 2.4 billion in 1999/00 to Ksh. 4.8 billion in 2000/01 before falling back again to Ksh. 3.5 billion in 2002/03. State Corporations have received a large share of this allocation.

3.53 **Expenditure allocations to the Ministry's core functions have been become opaque as a result of a proliferation of sub votes and budget heads.** In part this reflects the effects of regular changes over time in the Ministry's functions. It is often difficult to understand the role of Departments and their outputs. There are 92 budget heads leading to a very thin spread of resources across heads and probably in many cases little impact.

3.54 **The variance between the actual and budgeted expenditure remains significant.** Data in Annex 2 of this report suggest that whereas in 1999/2000 the recurrent budget was 17% overspent by 2001/02 this had turned into an underspend of 20%. The development budget in 2001/02 was underspent by 65%.

3.55 **The Ministry continues to accumulate pending bills.** By January 2003, reported pending bills for the Ministry amounted to Ksh. 1.77 billion of which Ksh. 1.067 billion was reported by the parastatals.

Recommendations

3.56 **Strengthened allocation of resources to key priorities will require a review of transfers and subsidies to parastatals.** The high level of resources consumed by parastatals reduces the Ministry's ability to carry out core functions, such as extension services and disease and pest control.

3.57 **The existing sub-votes need to be redefined to reflect the core functions of the Ministry.** The large number of the budget heads should be collapsed into a few key ones and misplaced heads placed in relevant sub-votes to facilitate meaningful prioritisation of sub-votes.

3.58 **Stalled projects should be reviewed.** The Ministry should carry out a complete status and viability analysis of stalled projects.

3.59 **Expenditure on training institutes should be reviewed.** The ministry has a number of training institutes which are considered non-core and irrelevant to the Ministry's policy mandate.

3.60 The Ministerial Monitoring and Evaluation Unit should be strengthened. The M&E department has low capacity to carry out effective Monitoring and Evaluation. Until it is strengthened and given responsibility to assess all ministerial activities, then it is unlikely that the Ministry will record demonstrable outputs. At present, the Department of Agriculture has strengthened adherence to workplans and provided performance indicators. This example is a good basis to proceed towards a comprehensive M&E system.

3.61 Output based budgeting should be adopted to ensure effective resource allocation and usage

MINISTRY OF ROADS, PUBLIC WORKS AND HOUSING

Introduction

3.62 **The mission of the Ministry is to facilitate the provision and maintenance of infrastructure.** The main focus of the ministry is on road, building, and housing infrastructure. It also has responsibility for other minor public works. The Ministry ensures that the legal and institutional framework provides an enabling environment for the private sector's participation in the construction, maintenance and management of roads including concession arrangements where viable.

3.63 **In addition to overseeing the development of infrastructure, the Ministry has responsibility for housing policy, especially shelter and slum rehabilitation.** The Department of Mechanical and Transport Services advises the Government on mechanical engineering and motor vehicle services.

3.64 **The road sector is ranked as the Ministry's highest priority.** The Kenya Roads Board (KRB), using the Road Maintenance Levy Fund, finances the maintenance of all major roads, and is responsible for the rehabilitation and upgrading of international trunk roads and the construction of bypasses. District Roads Committees (DRCs) are responsible for the maintenance, upgrading and construction of rural access roads, footpaths and bridges. The Roads Department of the Ministry is responsible for the maintenance and construction of class A, B and C roads, including the preparation of an annual work programme for financing by the Road Maintenance Levy Fund.

3.65 The Road Maintenance Levy Fund generates about Ksh. 8 billion annually. Fifty-seven per cent of the RMLF is used by the Ministry's Roads Department, 24 per cent is distributed to districts, and 16 per cent is disbursed equally to all Parliamentary constituencies while 3 per cent is used by the KRB for its administrative operations.

Expenditure Overview

3.66 **Ministerial expenditure as a share of the total Ministerial has been rising in recent years**. This share is estimated to be 6.8 per cent in 2002/03. Ministerial expenditure as a share of GDP has averaged more than one per cent in recent years and is projected to be 1.6 per cent of GDP in 2002/03. The share of total expenditures allocated to the development budget has been erratic ranging from 32 per cent to 6 per cent of the total over the last four years.

Table 26: Ministry of Roads, Public Works and Housing Expenditure 1999/2000 - 2002/03

	1999/00 (actuals)	2000/01 (actuals)	2001/02 (actuals)	2002/03 (revised estimates)
Total Expenditure Ksh. Million	8,978	9,546	10,082	15,853
Total Expenditure % of GOK total	7.2	5.7	6.0	6.8
Total Expenditure % of GDP	1.21	1.23	1.10	1.61
Recurrent % of total	94	82	92	68
Development % of total	6	18	8	32

Source: BMD

3.67 Resources are allocated according to the priority given to the road sector. Expenditure allocations to roads have averaged over 70 per cent of the Ministry's total recurrent allocation and over 80 per cent of the development allocation. The grant (transfer) to KRB for road maintenance and rehabilitation amounts to 95 per cent of the recurrent allocation to roads and 80 per cent of the entire Ministry gross recurrent allocation. Spending in the development budget is dominated by the roads sector.

3.68 **The share of the recurrent budget allocated to roads, although high, has been declining.** The roads share of recurrent expenditure declined from 77.2 per cent in 1998/99 to 70 per cent in 2001/02. The share of building and works has increased from 2.2 per cent to 7.5 per cent over the same period caused by an increase in maintenance expenditure on Government property.

Table 27: Ministry of Roads, Public Works and Housing Shares of Recurrent Expenditure 1998/99 - 2002/03

	1998/99	1999/00	2000/01	2001/02
130 General Administration and Planning	8.41	7.36	6.40	5.89
132 Buildings and Works	2.15	1.93	2.06	7.50
133 Other Services	11.55	14.03	15.11	15.75
134 Housing Development	0.68	0.77	0.77	0.84
136 Roads	77.21	75.92	75.66	70.03

Source: Ministry of Roads, Public Works and Housing MPER 2003

Maintenance expenditure has increased as a share of recurrent expenditure while the share of wages and salaries has declined. Over the four years 1998/99 to 2001/02 expenditure on maintenance has increased across all categories. In 2001/02 maintenance accounted almost 80 per cent of total recurrent expenditure. Maintenance expenditure is dominated by the Road Maintenance Levy Fund which has increased from Ksh. 5.5 billion in 1998/99 to Ksh. 7.3 billion in 2001/02. There has also been an increase in expenditure on housing maintenance in recent years.

Table 28: Ministry of Roads, Public Works and Housing Shares of Recurrent Expenditure

	1998/99	1999/00	2000/01	2001/02
Personnel	19.12	16.01	12.45	12.12
Operations	8.74	11.81	13.20	6.42
Purchase	0.35	0.31	1.13	1.81
Maintenance	71.00	71.39	72.71	79.22
Transfers	0.79	0.47	0.52	0.43
Total	100.00	100.00	100.00	100.00

Source: Ministry of Roads, Public Works and Housing MPER 2003

3.69 **The share of roads in the development budget, although high, declined in 2001/02.** Roads accounted for 86% of development expenditure in 1998/99 but this declined to 80% in 2001/02.

Table 29: Ministry of Roads, Public Works and Housing Shares of Development Expenditure

	1998/99	1999/00	2000/01	2001/02
132 Buildings and Works	11.50	10.29	8.02	17.60
133 Other services	2.10	4.75	5.03	2.69
136 Roads	86.36	84.96	86.92	79.71

Source: Ministry of Roads, Public Works and Housing MPER 2003

3.70 **Analysis of actual expenditure is hampered by data availability.** Data on actual expenditure has not been kept as a matter of routine and has to be extracted from records of expenditure returns sent by the Ministry to the Treasury. There are no electronic records of expenditure or budget data in the Ministry. As a result the data available on actual expenditure is limited to aggregate statistics, at sub-vote level.

Other Key Issues

3.71 **The Ministry does not monitor outputs in a consistent manner.** The length of road maintained is monitored, but this is done largely against contract, rather than on any systematic basis. The average unit cost of maintenance for unpaved roads is about Ksh. 25 million/Km, and this has remained fairly constant over the period. Road conditions surveys have not been carried out. Development of indicators has been a major problem in some departments including the Building Departments.

3.72 **Road contracts account for over 90% of the pending bills within the Ministry**. The stock of pending bills reported in the MPER stands at Ksh. 8 billion. These have risen due to interest on delayed payments, court awards and variations in the scope of contracted works. These variations in some cases are as high as 200 per cent.

Policy Issues and Recommendations

3.73 **There is a need to be focused and shift resources to core functions.** The Government prioritises infrastructure development and rehabilitation. Departments within the Ministry like Mechanical and Transport can be commercialised to free resources for priority areas.

3.74 **There is a need to strengthen output monitoring and performance analysis.** The KRB Act provides the means to ensure growth and poverty reduction objectives are important factors in the allocation of resources for road maintenance. The Roads 2000 philosophy of local involvement in maintenance should also ensure that development projects would be pro-poor. However output monitoring and performance analysis are required to ensure that resources are efficiently utilised in this policy context. Consideration should be given to the establishment of a Monitoring and Evaluation Unit.

3.75 **Consideration should be given to de-linking the Roads Department from the Ministry** to become an independent body fully financed by KRB. The resources saved can be then used to enhance O&M in other core areas.

3.76 **A programme to strengthen financial management in the Ministry** will help to ensure facilitation of public expenditure analysis, including regular reporting on actual expenditure compared with budget.

THE MINISTRY OF LOCAL GOVERNMENT

Introduction

3.77 **The Ministry of Local Government's mission is to facilitate good governance and sustainable service delivery in Local Authorities**. This involves supporting the constitution of local authorities; management of local government sector policies; and the provision of training, legal and technical support. There are currently 175 local authorities in the country.

3.78 **Local Authorities (LAs) are important vehicles for service delivery.** However, many of them face severe financial and capacity constraints in responding to service delivery needs. This partly reflects the creation of a significant number of small local authorities with inadequate revenue bases and constrained financial resources that cannot adequately service administrative costs; weak financial management capacity and discipline; low capacity in planning and management; and ineffective monitoring and supervisory capacity.

3.79 **The Local Authority Transfer Fund (LATF) is designed to enhance LAs' service delivery capacity.** LATF provides for the transfer of 5% of the national income tax from the central government to the local authorities. These funds are distributed to the local authorities using a predictable and transparent formula, including the submission of annual budget estimates explaining how the LATF funds will be used alongside own source revenues.

Expenditure Overview

3.80 **Ministry of Local Government expenditure is only a very small part of total government expenditure.** It has increased as a result of the introduction of LATF, but in this respect the Ministry is only transferring funds. Post LATF, expenditure as a share of GDP has averaged just under 0.5 per cent of GDP and the Ministry accounts for just over 2% of total Ministerial expenditure. Recurrent expenditure dominates the total. Development expenditure has been erratic, ranging from 25 per cent to 4 per cent of the total.

Table 30: Ministry of Local Government Expenditure 1999/2000 - 2002/03

	1999/00 (actuals)	2000/01 (actuals)	2001/02 (actuals)	2002/03 (revised estimates)
Total Expenditure Ksh. Million	2,823	4,500	4,152	5,071
Total Expenditure % of GOK total	2.27	2.69	2.46	2.19
Total Expenditure % of GDP	0.38	0.58	0.45	0.52
Recurrent % of total	96	80	89	75
Development % of total	4	20	11	25

Source: BMD

Table 31: Ministry of Local Government Shares of Recurrent Expenditure

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03*
Personnel	26.96	36.39	14.65	1.39	1.95	2.13
O and M	25.63	19.95	8.52	3.49	2.27	1.82
Transfers	47.41	43.66	76.83	95.12	95.79	96.05
	100.00	100.00	100.00	100.00	100.00	100.00

*Estimates
Source: Ministry of Local Government MPER 2003

3.81 **Actual expenditure recorded under the Ministry's budget increased three-fold with the introduction of LATF.** LATF has increased from KSh. 1 billion in 1999/2000 to a provisional Ksh. 3.75 billion in 2003/04. The share of the Ministry's recurrent budget going to transfers has increased from 44 per cent in 1998/99 to an estimated 96 per cent in 2002/03. The LATF transfers are only indirectly controlled by the ministry, through the administration of the allocation formula, conditional disbursements and penalties.

3.82 **Development expenditure in the Ministry of Local Government has been affected by the introduction of LATF.** In the past development expenditure has been used for infrastructure projects in selected local authorities. Major outcomes of these have been improvement of the road transport infrastructure in 26 urban centres, improvement and commercialisation of the water and sewerage systems in four local authorities and capacity building and creation of environmental action groups in 30 towns. Changes in development expenditure have also been associated with ministerial portfolio changes. For example, the enactment of the Kenya Roads Board Act denied the Ministry access to 20% of the Road Maintenance Fuel Levy Fund

3.83 **The budget of the Ministry does not capture overall public expenditure in the local government sector.** In 2001/02, local authorities mobilised approximately KSh. 5.8 billion from local revenue sources. These sources include property taxes, licensing fees, agricultural cess, natural reserves and parking fees and water and sewerage charges.

3.84 **LATF transfers have improved the capacity of local authorities to undertake capital investments and improve service delivery.** Prior to the introduction of LATF, local authorities spent most of their revenue on wages and salaries and debt servicing. Only about 20 local authorities were not in serious financial distress. Currently, local authorities are required to allocate at least 50 per cent of LATF funds to capital investments. In 2000/01 total expenditure of local authorities was KSh. 9 billion of which KSh. 816 million (9 per cent) was spent on capital investments. In 2001/02 total expenditure was 10.1 billion of which 1.16 billion (11 per cent) was spent on capital investments.

Recommendations

3.85 **A comprehensive local authority monitoring system needs to be established** The overall performance of the Ministry is dependent on the performance of the local authorities. Through the LATF performance conditions, there is a steady flow of budget information that allows some basic monitoring and evaluation.

3.86 **Improved budgeting and financial management practices in the local authorities are required.** Local authorities need to promote a link between policy priorities, planning and budgeting. Financial compliance, particularly with regard to procurement and contracting should also be improved.

The structure of local authorities and the legal framework within which they operate requires urgent review. Many of the local authorities have a weak revenue base, are not viable and therefore unable to offer the services for which they are created. Ongoing local government sector reforms should be deepened.

THE MINISTRY OF WATER RESOURCES MANAGEMENT

Introduction

3.87 The Ministry's mission is the sustainable management, conservation and protection of water resources. Kenya is now classified as a water scarce country due to its limited natural endowment and increasing population. This is further compounded by a serious degradation of existing water resources and increasing vulnerability to rainfall variability, endemic drought and floods. Against this background, the challenge to this newly created Ministry is to enhance access to clean water (both for domestic and agro-industrial use), thereby contributing to improved living standards.

3.88 **The Ministry's core functions were taken over from other Ministries in January 2003.** Before January 2003, all matters pertaining to the protection, conservation and management of water resources fell under the Water Department of the Ministry of Environment and Natural Resources. A number of autonomous/semi autonomous organisations/institutions, have also been placed under the new Ministry, such as the National Irrigation Board, which was previously overseen by the Ministry of Agriculture.

3.89 **Against this background, the new Ministry is focusing on three priority programmes:**

- enhancing water catchment, conservation, protection and construction of dams;
- construction and rehabilitation of urban and rural water supplies;
- construction and rehabilitation of irrigation and drainage infrastructure for agriculture.

Over the period 2003-2008, the Ministry has estimated that the total requirement for development expenditure on these three core programmes is Ksh. 11.7 billion.

3.90 **As a result of the newness of the ministry it has been difficult to access comprehensive expenditure data, as historical records are held elsewhere**. This is particularly true for actual expenditures.

Expenditure Overview

3.91 **Actual budget allocations for recurrent expenditures have remained stable.** Recurrent allocations have remained at around Ksh. 2.2 billion over the period 1997/98 to 2001/02 Salaries and allowances comprised an average of about 46 per cent of total recurrent expenditures. For operations and maintenance the average is about 54 per cent of the total expenditures. The relative shares of salaries and O&M in the total budget allocations have also remained relatively stable. Appropriations in Aid (AiA) have not been considered during the period under review, as data was not available.

Table 32: Ministry of Water Resources Management Estimated Recurrent Allocations 1997/98 - 2001/02

Description	1997/98	1998/99	1999/00	2000/01	2001/02
Salaries and Allownaces	1,006.61	1,041.11	973.97	974.38	1,169.28
Operation & Maintenance	1,361.00	1,109.59	1,173.31	1,199.02	1,194.43
Total	2,367.61	2,150.70	2,147.28	2,173.40	2,363.71
As % of Total Recurrent					
Salaries and Allowancess	42.52	48.41	45.36	44.83	49.47
Operation & Maintenance	57.48	51.59	54.64	55.17	50.53
Total	100.00	100.00	100.00	100.00	100.00

Source: Ministry of Water Resources Management MPER 2003

3.92 **There have been substantial variations between the printed estimates and actual development expenditures.** For the period 1997/1998 to 2001/2002, total actual development expenditures were Ksh. 4.7 billion. The Water Development Department and NWCPC together accounted for almost 87 per cent. Total actual expenditures were on average only about 50 per cent of the printed estimates. These variations were a result of several budget cuts, and the freezing of certain development expenditures. For the five-year period, average development expenditure was about Ksh. 940 million a year with a high of Ksh. 1,541 million in 1997/98 and a low of Ksh. 418 million in 1999/00.

Table 33: Ministry of Water Resources Management Estimated Development Expenditures 1997/98 - 2001/02

Description	1997/98	1998/99	1999/00	2000/01	2001/02
Budget Requests	4,316.26	3,782.41	4,965.95	7,804.49	2,971.83
Printed Estimates	2,804.84	1,089.50	1,067.23	2,918.89	1,585.41
Total Actual	1,540.94	1,256.60	418.29	955.74	528.35
Actual as % of Request	35.70	33.22	8.42	12.25	17.78
Actual as % of Printed	54.94	115.34	39.19	32.74	33.33

Source: Ministry of Water Resources Management MPER 2003

3.93 **Stalled projects have not generally been as serious a problem as in other Ministries.** The Ministry, including the National Irrigation Board currently has a total of 33 projects of which 6 are stalled. Of the 27 ongoing projects, about half are considered to have performed satisfactorily. There are 7 projects judged to be at risk of termination due to lack of funding.

3.94 **There is no systematic monitoring of programme outputs.** This role is not well defined in the Ministry's organisational structure and has not been effectively carried out. The only information available about the efficiency and effectiveness of expenditure comes from the implementing units. Monitoring and evaluation is under-funded which makes it difficult to monitor project expenditures and to ascertain project outputs.

Recommendations

3.95 **Monitoring and Evaluation and data retrieval systems should be improved.** The Ministry's expenditure database is mostly obsolete, making data retrieval difficult and its use sometimes unreliable for analysis. The lack of systematic monitoring makes it difficult to properly assess project objectives and outputs in terms of both quality and quantity.

3.96 **The Ministry's budget should be streamlined.** Budget requests should increasingly be based on the priority areas of the Ministry, with some associated certainty that they will be protected from cuts during budget implementation. This will require a rigorous and decisive review of stalled projects.

MINISTRY OF ENVIRONMENT, NATURAL RESOURCES AND WILDLIFE

Introduction

3.97 **The Ministry's mission is to develop, conserve, protect and sustainably manage environment, forestry, mineral and wildlife resources for national development.** Environment management also contributes to sustained water catchments, and impacts on climate. A clean and pollution free environment contributes to improved health of the population.

3.98 **The Ministry's has three main departments: Forests, Mines and Geology; Resource Surveys; and Remote Sensing.** Other Autonomous/Semi- Autonomous organisations/ institutions in the Ministry include: National Environment Management Authority (NEMA); Kenya Forestry Research Institute (KEFRI): and Kenya Wildlife Service (KWS).

3.99 **The Ministry has identified three areas of priority expenditure.** The first priority involves the protection, conservation and rehabilitation of water catchments and natural forestry areas. The second priority is accelerating the development of the mining industry while the third is the operationalisation of the environmental and natural resources programme

Expenditure overview

3.100 **The Ministry is new** and it is difficult to access data on budgets and expenditure for the functions it has taken over

3.101 **The Ministry accounts for a relatively small proportion of Government expenditure.** In the revised estimates for 2002/03 the Ministry's recurrent expenditure is estimated as 1.2% of the total for all Ministries and its development expenditure is estimated as 1.3% of the total for all Ministries.

3.102 **Recurrent expenditure dominates the Ministry's budget.** In 2001/02 recurrent expenditure on the functions covered by the new Ministry was 98% of the total. There was increased provision for development expenditure in the 2002/03 budget.

3.103 **Personal Emoluments dominate recurrent expenditure.** In 2001/02 personal emoluments accounted for 82% of recurrent expenditure in the functions covered by the Ministry.

3.104 **Stalled projects are a problem.** Of 26 ongoing projects by the Ministry, 16 projects are classed as stalled. None of the 3 State Corporations under the Ministry currently report stalled projects.

Table 34: Ministry of Environment, Natural Resources and Wildlife Estimated Actual Recurrent and Development Expenditure (excluding transfers to State Corporations)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03#
Recurrent Expenditures Ksh. M	882	826	982	957	1,126	2,254
Development Expenditure Ksh. M	429	266	105	119	26	668
Total:	**1,311**	**1,096**	**1,087**	**1,076**	**1,151**	**2,922**
Recurrent expenditures % of total	67	76	90	89	98	77
Development expenditure % of total	33	24	10	11	2	23

Allocation, Source: Ministry of Environment, Natural Resources and Wildlife

Table 35: Ministry of Environment, Natural Resources and Wildlife Estimated Shares or Recurrent Expenditure

	1997/98	1998/99	1999/00	2000/01	2001/02
Personal Emoluments	82	84	77	82	82
Operation and Maintenance	17	15	20	18	17
Appropriation in Aid	1	1	1	<1	1
Total	100	100	100	100	100

Source: Ministry of Environment, Natural Resources and Wildlife

3.105 **Monitoring and evaluation systems are inadequate.** Project evaluation is limited to financial implementation focused on expenditure.

3.106 **The Ministry had pending bills totaling Ksh. 412.6 million at the end of 2002.** The breakdown of the pending bills was as follows:; Forests Department Ksh, 338.59 million; contractors/suppliers, Ksh. 1.73 million; inter-governmental Ksh. 2.10 million, international organisations Ksh. 0.16 million; and utilities Ksh. 69.95 million

Recommendations

3.107 **A Monitoring and Evaluation Unit should be created** to provide a means for output monitoring to improve the quality and extent of performance analysis.

3.108 **The Ministry's budget should be refocused.** Budget requests should increasingly be based on the priority areas of the Ministry. This will require a rigorous and decisive review of stalled projects. It is necessary to provide adequate funding for the operationalisation of the various environmental governance institutions established under the Environmental Management and Co-ordination Act.

3.109 **Expenditure requires significant restructuring.** The ratio of O&M to wages and salaries to be improved

OFFICE OF THE PRESIDENT

Introduction

3.110 **The mission of the Office of the President is to provide leadership, policy direction, a secure environment and to set the agenda for achieving social, economic and political development.** Core functions include organisation and coordination of Government business; promotion and protection of national sovereignty; creation of a conducive social and political environment for achieving national development; sensitisation of the public on Government policies; enhancement of efficiency in the management of public resources and effective and timely delivery of services; and the promotion of peace and tranquillity through maintenance of public safety, law and order.

3.111 **The services provided by the Office of the President are varied.** In 2001/02 the Police accounted for 37.5% of the total, General Administration and Planning for 29.5%, Administration Police Services for 12.1%, Field Administrative Services for 10.5%, the General Service Unit for 9.5% and the Government Printer for 1%

3.112 **Channelling expenditure on emergencies and disasters through the Office of the President means that predictability in budgeting is difficult.** General Administration and Planning is a channel for disaster emergencies which accounts for fluctuations in its expenditure over the review period. In 2000/01 it accounted for 34% of expenditure in response to the drought. It hosts the National AIDS Control Council.

Overview of Expenditure

3.113 **Expenditure has averaged 2.5 % of GDP in recent years.** Total Expenditure as a share of total Ministerial expenditure shows a declining trend from 13.9% of the total in 2000/01 to an estimated 11.1% in 2002/03, reflecting some transfer of functions following the general election at the end of 2002. The share of total Office of the President expenditure allocated to the development budget is projected to rise substantially in 2002/03 to 28% after averaging some 14% in preceding years.

Table 36: Office of the President Expenditure 1999/2000 - 2002/03

	1999/2000 (actuals)	2000/01 (actuals)	2001/02 (actuals)	2002/03 (revised estimates)
Total Expenditure Ksh. Million	15,579	23,152	22,132	25,651
Total Expenditure % of GOK total	12.5	13.9	13.1	11.1
Total Expenditure % of GDP	2.1	3.0	2.4	2.6
Recurrent % of total	87	83	87	72
Development % of total	13	17	13	28

Source: BMD

3.114 **The share of personnel related costs claims half of the recurrent budget on average, but this varies considerably from year to year, reflecting the OP's emergency portfolio**. The share of salaries and other labour costs in total recurrent expenditure was 60.2 per cent in 1999/00, 39.5 per cent in 2000/01 and 52 per cent in 2001/02. The respective share of operation and maintenance in total recurrent expenditure was 38.8 per cent in 1999/00, 58.9 per cent in 2000/01 and 42.2 per cent in 2001/02. The fluctuation in the share of O&M against salaries and other labour costs was importantly caused by expenditures in response to the drought emergency in 2000.

Table 37: Office of the President Shares of Recurrent Expenditure

	As % of Actual Total Expenditure		
	1999/00	2000/01	2001/02
Salaries/PE	60.18	39.96	51.95
O & M	38.85	59.64	44.17
Transfers	0.21	0.27	0.19
A in A	0.76	0.13	3.68
Total	100.00	100.00	100.00

Source: Office of the President, Public Expenditure Review Report, 2003

3.115 **Security services take the largest share of the recurrent budget.** In 1999/00 the Security services (Administration Police Services, Police and GSU) accounted for 72.1 per cent of actual expenditure, declining to 55.3 per cent in 2000/01 but increasing again in 2001/02 to 76.2 per cent. The significant increase of the share of General Administration and Planning from 21.6 per cent in 1999/00 to 40.4 per cent in 2000/01 can be attributed to drought related expenditure.

Table 38: Office of the President Share Recurrent Expenditure by Sub Vote

	As % of Actual Expenditure		
	1999/00	2000/01	2001/02
012: Admin. Police Services	16.81	12.01	16.07
017 : Police	44.35	34.56	48.31
019 : GSU	10.93	8.74	11.87
Sub total	72.1	55.32	76.24
010 : Gen. Admin. & Planning	21.64	40.36	25.5
011 : Field Admin. Services	19.05	11.37	13.41
013 : Govt. Printer	2.32	3.51	1.23
Total	100	100	100

Source: Office of the President, Public Expenditure Review Report, 2003

3.116 **General Administration and Planning dominates the development vote,** accounting for an average of 85.5 per cent of actual expenditure between 1999/00 and 2001/02. General Administration and Planning facilitates implementation of interventions in response to emergencies such as drought and for HIV/AIDS.

3.117 **There are 21 stalled projects with completion rates ranging between 15 and 95 per cent.** The total funds required to complete stalled projects are estimated to be Ksh. 4 billion which represents 72 per cent of the total initial contract value. In addition there a further 4 stalled projects not included in the estimates accumulating pending bills. These have additional estimated cost to completion of about Ksh.0.7 billion.

3.118 **The Office of the President reported Ksh. 7.79 billion in pending bills at the end of 2002**. Pending bills on recurrent and development expenditures were Ksh.2.07 billion and Ksh. 5.72 billion respectively. Out of the total of Ksh. 2.07 billion recurrent pending bills, Ksh. 1.27 billion was for unpaid postage and telegrams, telephones, electricity and water expenses. The balance of the unpaid bills worth Ksh. 0.8 billion was for personal claims (Ksh. 0.35 billion), contracted supplies and services (Ksh. 0.34 billion) and inter-ministerial claims (Ksh.0.11 billion). .

Policy Issues and Recommendations

3.119 **Actual Expenditure for Security Services, especially for O&M regularly exceeds budget,** with consequences within a constrained fiscal framework for expenditures in other areas. This point raises issues about the quality of budget preparation and budget transparency. These require careful attention.

3.120 **Kenya's police to population ratio does not meet international standards.** The UN recommended police to population ratio is 1: 450 compared to 1:900 in Kenya. Recruitment of additional security personnel and movement towards the UN standard, however, must take account of overall issues of affordability.

3.121 **Stalled projects should be reviewed,** with a view to deciding which should be terminated and which completed based on a careful assessment of costs and benefits.

OVERALL MPER CONCLUSIONS AND RECOMMENDATIONS

The Content of the MPERs

3.122 **The 2003 MPERs varied in their coverage and detail, although they all had the same Terms of Reference which focused in particular on bringing out the linkage between polices and the allocation of resource.**

3.123 **In the reviews which did focus in detail on the linkages between policy and resource allocation, a number of inconsistencies were identified.** These included in particular:

- **Higher share of expenditure on tertiary education** which has exceptionally high unit costs compared to other sub sectors such as primary education

- **The relatively low levels of expenditure to preventive and primary health care** which have also been regularly less than budgeted.

- **High allocations of expenditure in agriculture for transfers to parastatals** whose activities are not clearly related to the core functions of the ministry.

3.124 Other important issues that emerged from the MPERs were:

- **A general lack of information on unit costs of service provision** with one or two exceptions such as the understanding of the costs of FPE which has been built up in recent months.

- **A general absence of information on outputs and performance associated with expenditures,** although this information does exist in some ministries such as education and to a lesser extent in health. This point is reinforced by the number of separate recommendations in the MPERs to strengthen monitoring and evaluation.

- **In most cases, a lack of disaggregated data on expenditure broken down by programmes and within programmes by economic categories.** This highlights the problem of linking expenditure allocations to policy and measuring unit costs and understanding efficiency in the use of resources.

- **The universal problem of Pending Bills and Stalled Projects** which highlight the weaknesses of budgeting and expenditure control and poor performance of the development budget (see chapter 5).

- **Where information is presented which compares actual expenditure with budget, the problems of adherence to budget plans** e.g. Health and Office of the President.

MPER Process

3.125 **The timetable for carrying out the PERs was squeezed.** The timing overlapped with the commencement of MTEF budget planning which placed conflicting demands on those undertaking the MPERs and reduced the impact of the MPERs on the budget for 2003/04. Future MPERs must be firmly established in the budget timetable and as an integral part of the budget process for them to provide timely inputs to budget planning. Sufficient time should be set aside for preparation, research, report writing, dissemination and discussion, and revision. (See proposed timetable in Chapter 5.)

3.126 **MPERs should be factored into the work programme of the Ministry.** MPERs in 2003 were conducted in Central Planning Units and this is their natural home. But there needs also to be involvement of Finance, Accounts and individual Service Departments. Within ministries a Steering Group should be established to oversee the MPER and this should be chaired at a high level to ensure that the inputs are timely and appropriate.

3.127 **Arrangements need to be established for good coordination with the central PER Technical Working Grouping** which for example allow access to data held centrally and the Accountant General Department, Budget Supplies and Budget Monitoring Departments.

3.128 **Much of the available time in the 2003 MPERs was used up in assembling basic tables on budgets and actual expenditures and insufficient time on analysis and producing conclusions.** The process of assembling information should not wait until the start of the next PER. Each CPU should see it as its responsibility to establish and maintain an electronic database on relevant PER information particularly on expenditures (budgets and actual) using the current budget classification. This will allow the type of data manipulation that is essential for summary presentation and analysis. The CPU should also address the problem of improving information on expenditure on the development budget to analyse it by economic categories and by sources of finance. Analysing the use of transfers in a similar way would also be beneficial. PERs are not just about tracking inputs. They are primarily concerned about achievement and the policy environment for this achievement. The CPU should also see it as its responsibility to establish and maintain a database on output and outcome information related to its Ministry.

Experience during the MPERs in 2003 suggested that computing skills and facilities were not well established in some ministries. These issues need to be addressed urgently to improve public finance accountability.

Chapter 5:

Public Expenditure Management In Kenya

INTRODUCTION

3.129 This chapter assesses Kenya's public expenditure management and financial accountability systems; describes the programme of expenditure management reform on which the Government has embarked and makes recommendations focused in particular on the challenges of: improving the link between policy planning and budgeting; strengthening transparency and accountability in financial management and improving fiscal discipline.

3.130 The chapter draws in particular on the 2001 Country Financial Accountability Assessment (CFAA) that was updated in early 2003; on the Public Expenditure Management Assessment and Action Plan (PEMAAP) that was completed by the World Bank and IMF in May 2003 in collaboration with the Kenyan Authorities, the European Commission and DFID; and the two reports on public expenditure management prepared by the Fiscal Affairs Department of the IMF in July 2000 and May 2001 respectively. In common with the other sections of the PER it also draws on the 1997 PER and the outcome of the 2003 Ministerial Public Expenditure Reviews.

3.131 The Government recognises that systems of managing public expenditure determine the effectiveness of public resources in achieving service delivery objectives. Since the last PER in 1997 there have been important reforms that have focused on some of the problems identified in the management of public expenditure at that. These have included:

- The introduction of a Medium Term Budget Framework (MTBF) or Medium Term Expenditure Framework (MTEF) in 2000/01 aimed at improving the linkage between policy making, planning and budgeting.
- The commencement in 2000 of a project to introduce an Integrated Financial Management Information System (IFMIS) aimed at integrating budget preparation, execution, control and financial accounting and reporting in one system.
- The establishment of a Budget Monitoring Department (BMD) in 2000 to significantly strengthen budget monitoring and reporting.
- The introduction in 2000 of the cadre of Finance Officers to oversee and control budget management in line Ministries.
- The introduction of new arrangements to improve the flow of funds to line Ministries in the Districts.
- The introduction of new arrangements to improve the flow of funds to externally financed projects.

- The establishment in 2000 of the Directorate of Public Procurement to oversee best practice in public procurement, and linked to this the introduction of new procurement regulations in 2001 focused on improving the transparency and efficiency of procurement decisions, and including the establishment of an appeals procedure.

3.132 Despite these reforms, major weaknesses still exist in public expenditure management as manifested in problems such as: significant divergences between ex-ante and ex-post budgetary allocations; the unpredictable flow of resources; the persistence of large payment arrears and stalled projects; inadequate funding of operations and maintenance; significant levels of resources in extra-budgetary funds; and major inadequacies in reporting and audit information data inadequacies. These issues and the government's approach to them are a key focus for this chapter.

CURRENT PUBLIC EXPENDITURE MANAGEMENT SYSTEMS

Budget Planning and Formulation

3.133 **Prior to 2000/01 the Kenyan budgeting system could be characterised as incremental with a focus on allocation to and control of line item expenditure.** Although important tools for improved budget planning had been institutionalised, such as the adoption of a three year forward framework, programme reviews and a prioritised public investment programme (PIP), in practice these had made only a small impact on resource allocation. The forward budget preparation process did not differ significantly from the annual budget preparation; the program review component was neglected; and the PIP had not addressed the proliferation of badly designed and poorly implemented projects.

3.134 **The 1997 PER recommended the adoption of an MTEF budget process** incorporating (i) a three year time horizon (ii) a " top down" annual fiscal framework exercise that identifies the availability of resources that are then allocated between sectors according to an assessment of national priorities and (iii) a "bottom up" preparation of detailed sector strategies and targets and preparation of the costs of achieving these as the basis for both bidding for and allocating resources.

3.135 **The first MTEF budget was introduced in 2000/01.** An explicit commitment to the MTEF was made in the budget speech for 1999/2000 and for the preparation of the first MTEF budget in 2000/01 the Ministry of Finance established an MTEF Secretariat, the Macro Working Group (MWG) and six Sectoral Working Groups (SWGs): Human Resources Development; Physical Infrastructure; Tourism, Trade and Industry; Public Administration; Agriculture and Rural Development; and Public Safety Law, and Order. In the budget for 2001/02, two additional sectors were introduced: National Security, and Information and Communication Technology (ICT). The MWG is made up of representatives from KRA, MPND, CBS, KIPPRA and MOF. SWGs are largely made up of representatives from line ministries within any particular sector. The MWG prepares the Fiscal Strategy Paper (FSP) that identifies macro economic objectives, fiscal objectives related to this, implications for revenue and expenditure, and a financing strategy. SWGs produce sector strategies to provide the basis for allocating resources to sectors, and manage the allocation of resources between relevant line Ministries. The MTEF model in Kenya has included annual consultations with donors and civil society leading into the resource bidding and allocation processes

3.136 **The MTEF in Kenya has probably been associated with more realistic macro-economic planning,** although as already discussed it has not been able to prevent the continuing emergence of large fiscal deficits.

3.137 It is more difficult to demonstrate that it has been a focus for improved inter- and intra-sectoral resource allocation based on the careful costing of target priority outputs. Information on outputs is particularly weak within the Kenyan Government.

3.138 **Reforms have been introduced in the design of the MTEF since its introduction to improve effectiveness**. Initially a major difficulty was created by taking an input rather than output approach to the definition of sectors, and in particular by allocating all construction expenditure to the physical infrastructure sector and all wage expenditure to the public administration sector. This significantly complicated the process of resource bidding and allocation with Ministries being required to bid for resources from at least three sectors. In the MTEF budget for 2003/04 sectors have been re-specified to ensure that Ministries are only required to bid for resources from one sector allowing resource allocation to be more easily aligned with functions and outputs.

3.139 **The Government, however, recognises that remaining problems and issues stand in the way of the MTEF fully securing its objectives.** These include:

- **The MTEF process does not have strong legal and political underpinnings**. The existing constitutional and legal framework for budgeting in Kenya does not cover MTEF budgeting in Kenya. It has also not been the practice for the fiscal framework or sector allocations to be endorsed by Cabinet ahead of budget preparation. Both these points weaken understanding of the process and commitment to its results.

- **The MTEF process does not comprehensively prioritise and allocate all the resources available to central government**. There are a number of problems in this context. Perhaps the most important is that allocations for wages and salaries are determined in advance preventing sectors and Ministries treating these as a variable in their decision making. Another problem here is that the coverage of donor financing is incomplete. The External Resources Department of the Ministry of Finance maintains a database of donor supported programmes based on government to government agreements but this is not comprehensive. For example, it excludes aid programmes not covered by a government agreement, typically the case with Non Government Organisations; donors often bypass the Ministry of Finance and deal directly with line Ministries (for example in Health) and the timing of support sometimes prevents inclusion in the budget, for example in the case of emergency and relief operations. The MTEF's role in resource allocation is also weakened by the significant use of Appropriations in Aid (AIA) as a financing mechanism in the budget, and by the existence of extra-budgetary funds. In a number of areas revenue is retained as AIA for expenditure by the collecting agent. In other cases earmarked taxes are transferred as AIA to funds that are extra-budgetary in the sense that their detailed expenditures are not reported in the budget (for example the road maintenance levy fund). In a few instances these extra-budgetary funds collect and retain revenue that is fully outside the budget. Budget transparency and the process of allocating resources on the basis of priorities are significantly impaired by these financing devices. AiA, as revenue retained by budget users or as earmarked taxes for extra-budgetary funds is about 10% of the total budget.

- **The development of the MTEF has been constrained by the classification system within which the budget is prepared.** The budget estimates are presented primarily in an administrative classification based on votes, sub votes and heads. Additional presentations are also made using an economic classification. Importantly there is currently not a comprehensive functional or programme classification that would allow sectors and Ministries to present and monitor their budgets in terms of the outputs from expenditure. The separation of the budget estimates into recurrent and development components also makes it difficult to effectively budget expenditures in the context of specific outputs. The development budget, which is significantly donor financed, in any case, contains significant amounts of non-capital expenditure.

- **Within line Ministries budget planning and commitment to the MTEF remains weak.** Partly because of capacity constraints but also because of the shortage of good information (for example from monitoring and evaluation) sectors and ministries have not generally engaged in the detailed specification of outputs and costs required for the MTEF to work well in allocating resources on the basis of priorities. However, there have been exceptions as in the case of the introduction in 2003 of free primary education. The failure to analyse programme resource requirements in this way has meant that old practices of incremental budgeting have been difficult to displace. As an indication of the lack of commitment to the MTEF process within line Ministries, there are frequent applications to reallocate resources during the financial year.

- **The medium term planning elements of the annual MTEF budget are not embedded.** Experience so far has been that fiscal framework expenditure and revenue forecasts have been subject to significant revisions at the start of each new budget cycle. In any case while the first year forecasts of the three-year fiscal framework are the basis for preparing that year's revenue and expenditure estimates, the expenditure estimates for the two outer years of the MTEF do not adhere to the ceilings provided by the fiscal framework. At the start of each budget cycle Ministries do not routinely refer to their forward estimates in preparing a new budget.

- **The MTEF has been constrained by a tight timetable and by the absence of a PER to provide important analytical inputs.** The MTEF process has typically commenced in earnest only in the second half of the financial year, allowing insufficient time for completing and bringing together the "top down" and "bottom up" analytical processes. Whereas in other countries the MTEF process has been supported by an annual PER that has provided an evaluation of the previous year's budget and been a focus for analytical work for example in estimating input and output cost this has not been the case in Kenya until 2003. However, the 2003 PER commenced late in the budget cycle and overlapped with rather than led into the MTEF, severely constraining its impact on the 2003/04 MTEF budget.

- **The recent reorganisation of the central Ministries responsible for economic policy presents a new challenge for the MTEF**. The Ministerial re-organisation that followed the 2002 election resulted in the former Ministry of Finance and Planning being divided in two separate Ministries covering Finance, and Planning and National Development. The separation of the two Ministries is in particular an expression of the new Government's commitment to give renewed importance to planning and the articulation of Kenya's economic recovery strategy. At the same time maintaining the improved integration between planning and budgeting that was established under the unified structure will require that particular attention is paid to the coordination of the tasks now performed by the MTEF Secretariat (i.e., managing the MTEF process) in the Ministry of Planning and National Development and the Budget Supply Department (detailed budget preparation) in the Ministry of Finance.

Budget Execution

Releases, commitments and re-allocations

3.140 **The budget is principally executed through a system of quarterly release ceilings.** These provide the framework within which Accounting Officers, usually Permanent Secretaries provide Authorities to Incur Expenditure (AIEs) to officers within headquarters and in Districts. Ahead of parliamentary approval of the expenditure estimates quarterly release ceilings are provided in the context of an authority that the Minister of Finance secures from parliament to spend up to one half of the amount in the printed estimates during the period allowed for the budget debate and approval.

3.141 **Cash is managed through the operation of the Exchequer Release Committee** that is chaired by the Permanent Secretary in the Ministry of Finance. This Committee meets and releases cash on a weekly basis based on the available cash flow and requests from line Ministries to finance commitments made under AIEs.

3.142 **This system has been associated with some problems for budget execution,** which arise as a result of the amount and timeliness of cash releases not being well synchronised with the payment schedules associated with commitments made under AIEs. The Ministerial expenditure reviews carried out in 2003 highlighted that in line Ministries the discontinuity between cash releases and quarterly release ceilings was regarded as one of the main impediments to effective budget execution.

3.143 **A "vote book" is used as the basic tool of accounting and for commitment control in line Ministries.** The vote book is intended to record commitment at the time that the Accounting Officer provides certification that funds are available within quarterly release ceilings. Aside from providing a running total of the balance available from the release ceiling, it also provides the outstanding commitments at any point in time. Monthly expenditure returns are prepared from the data in the vote book.

3.144 **However, the recording and subsequent reporting of commitment in the vote book has a number of weaknesses.** In general the quality of commitment recording is not uniform throughout Ministries and it is not infrequent for orders to be processed and approved without proper checking for the availability of funds. Invoices may be suppressed outside the system because of the lack of availability of budgeted funds. In the case of major projects involving an extensive tender process commitments are often effectively made ahead of formal contract signing when they are recorded. Commitments related to technical and sometimes complex engineering projects may be made fully clear to accounts offices ahead of invoices. Commitments caused by the application of penalty interest rates for late payment may not be progressively recorded.

3.145 Re-allocations of budgets and expenditure once the estimates have been agreed should be minimised. Once parliament approves the estimates re-allocation is only allowed by the approval of the Ministry of Finance. A revised budget is presented towards the end of the financial year to capture these and other in-year financial adjustments, for example as a result of the revenue outturn being different than estimated.

3.146 **In practice, however, expenditure re-allocations are probably more significant than intended**. In some cases these re-allocations may not be formalised with Ministries and Departments possibly over-budgeting in some areas. For example, in areas, which they feel may escape detailed scrutiny during budget preparation, or to create space for higher funding in other areas, where the priority is lower and scrutiny more rigorous. In other cases re-allocations are provided through requests to the Budget Supply Department in the Ministry of Finance perhaps in the form initially of supplementaries. The revised budget in particular is a focus for adjusting allocations including by making compensatory changes in provision to create space for previously approved supplementary allocations.

Procurement

3.147 **Public procurement is currently carried out under framework of new public procurement regulations that were gazetted in March 2001.** These were specifically designed to address the problems of corruption in public procurement systems identified in successive reports of the Controller and Auditor General. These problems have included: awarding contracts in many cases without serious competitive bidding; overvaluation or overpricing of land, building and other materials sold to the government; and payment for items that are never delivered or constructed.

3.148 **These regulations are focused in particular on the establishment of clear procurement rules, the enforcement of greater accountability, and the creation of new institutions for regulation and supervision.** They have include provision for standard tender documents; collective or corporate decision making in awarding contracts, as opposed to decisions by individuals; creation of tender committees placing full responsibility for procurement on public officials responsible for the using public funds; and the establishment of an appeals tribunal and process.

3.149 **The Government has tabled new procurement and disposal of assets legislation in parliament to address outstanding inadequacies in the regulations and to strengthen their impact.** In particular this legislation will change the existing Directorate of Public Procurement into a high level independent public procurement oversight authority responsible for formulating procurement policy, building capacity, and overseeing the enforcement of regulations. Continuing concern about institutionalised corruption amongst supplies staff in line Ministries frustrating the effective implementation of new procurement regulations led to a mass suspension of supplies staff in May 2003 and careful vetting prior to re-instatement.

Stalled projects and pending bills

3.150 **A large number of projects that are stalled and the accumulation of pending bills are major problems** created by a combination of weaknesses in budget preparation and budget execution.

3.151 **Stalled projects are spread across all line Ministries.** They have arisen because of poor project selection; poor cost estimation (and possibly in some cases deliberate under-estimation to ensure that projects are included in the development budget); the medium term under-funding of the development budget; and in-year adjustments to development expenditure to accommodate revenue shortfalls.

3.152 **As an indication of the scale of the problem a total of 238 stalled construction projects** were reported across line Ministries by the Ministry of Roads, Public Works and Housing, in its 2003 MPER. The total value of these projects was estimated at nearly Ksh. 20 Billion, of which almost half represented the costs required to completion. The largest number of stalled projects was in the Ministry of Health (96) and the Office of the President (35). In total the Ministry of Roads, Public Works and Housing's information suggested that the provision made in the 2002/03 budget for all construction projects in these Ministries was only about 15% of the amount required to complete the stalled projects.

3.153 **Pending bills, like stalled projects are a longstanding systemic problem in public expenditure management in Kenya.** The problem has a number of aspects:

- Poor financial compliance and accountability fundamentally has meant that commitments have accrued without adequate budgetary backing, for example because of the discontinuity between release ceilings and cash allocations or the weaknesses in the vote book system;

- Stalled projects, arising out of weaknesses in the design and implementation of the development budget have resulted in the accumulation of contractual surcharges and payments of interest on unpaid bills;

- In the recurrent budget there appears to have been systemic underestimation of utility expenditure which has perhaps been compounded by an unwillingness on the part of utility companies to withdraw services from government departments that fall into arrears. In some Ministries awareness that utility arrears would not lead to the disconnection of services may have encouraged the use of utility provision for other purposes.

3.154 **Data on pending bills is to some extent unreliable, but it is clear that the stock is large and probably still growing**. At the end of October 2002, Ministries reported that total outstanding claims from contractors amounted to Ksh. 21 billion. In addition in the recurrent budget Ministries estimated at the end of December 2002 that recurrent arrears amounted to Ksh. 7.6 billion. This total of 28.6 billion compares with an estimate made by a special task force in August 1998 that pending bills at that time were Ksh. 22 billion. These figures need to be treated with caution. On the one hand they are likely to contain substantial "irregular bills" which are not a legitimate claim on the government. On the other hand the coverage may not be complete for example because it does not fully capture pending bills in the Districts. The Government established an investigative committee in 2002 to establish more precisely the stock of pending bills and to make recommendations on their verification and payment and on future control. This committee is working with teams that have been appointed in key line Ministries to investigate the problem, most notably in the Ministry of Roads, Construction and Public Works.

Budget Reporting and Audit

Reporting

3.155 **The Budget Monitoring Department manages monthly reporting on budget execution.** Each Ministry is required to submit to the Budget Monitoring Department an expenditure return by the 15th of each month that covers the period up to the end of the preceding month. These reports are based on the ministerial vote books. The timeliness of reporting is generally good as a consequence of a threat that new cash releases will be withheld. There are, however, some concerns about the quality of reporting, for example because of delays in receiving information from Districts, although the Budget Monitoring Department does attempt to check for errors and omissions using the information available on quarterly release ceilings and releases of cash.

3.156 **Accounting information is compiled by the Accountant General's Department but only with significant delays that affect the quality of fiscal reporting.** Line Ministries are required to provide accounts and bank statement reconciliations on a monthly basis but in both cases long delays are routine except for Districts who depend on providing this information promptly to secure their next cash release. Some Ministries have delays of up to 5 months in providing monthly accounts and of up to 18 months in providing bank reconciliations. These delays in the provision of accounting information mean that the Budget Monitoring Departments fiscal reporting cannot be routinely reconciled against accounting reports. Closure of the accounts is more timely. Ministries generally meet the statutory requirement of providing final accounts to the Controller and Auditor General within four months of the end of the financial year.

3.157 **The monitoring of public expenditure through public expenditure tracking surveys commenced in April 2003.** This work has been undertaken by KIPPRA supported by GTZ with a particular focus on education, health and agriculture. The results will be available later in the year. These surveys are essentially pilot activities on which the Government will hope to build. They are intended to examine the flow of funds to service delivery units, providing a check on the quality of internal control systems. They are also examining the way in which resources are utilised, focusing on personnel and institutional issues that influence service delivery and educational, health and agricultural outcomes.

Audit

3.158 **Significant reforms have been introduced in recent years in the functioning of internal audit.** With support from the IMF, the Internal Audit Department of the Ministry of Finance has been restructured and specialised units established, an annual work plan process has been introduced and a deliberate policy has been adopted of phasing out pre-audit activities and focusing on system based audits. The annual work plan allocates resources depending on the risk assigned to a particular system within a specific Ministry. High risk systems such as payroll and procurement have been audited on a government wide basis as a means of training internal auditors in systems audit and identifying material discrepancies and system weaknesses

3.159 **It is acknowledged by the Internal Auditor General that significant challenges remain.** There is resistance to the phasing out of pre-audit activities from a wide variety stakeholders including accounting officers, external auditors, accounting staff and internal auditors themselves. Internal auditors are only just starting to move from pre-audit activities. There is a recognised need to improve accounting officer's understanding of financial management and to enforce their accountability for the use of the funds within their remit. Simultaneously there is a need for internal auditors to demonstrate their value in assisting accounting officers fulfil their managerial responsibilities.

3.160 **The Controller and Auditor General (C&AG) has made significant strides in the last two years in dealing with the backlog of unaudited accounts.** Delays in the issue of audit reports for central government became particularly bad towards the end of the 90s as a result in particular of shortages of qualified audit staff. The C&AG recognises that late audit reports lose a significant amount of impact by reducing accountability and removing any deterrent effect that auditing should bring to poor record keeping and inadequate reporting. The C&AG has employed a number of retired auditors to deal with the backlog with the intention that reports will be up to date by September 2003. It is hoped that the audit of the accounts for 2001/02 will be completed as the accounts for 2002/03 are being presented.

3.161 **In addition to timely reports, the effectiveness of the oversight function carried out by the C&AG also depends on the extent to which its recommendations are implemented.** In the past audit reports tabled in the National Assembly and reviewed by the PAC have contained a large number of exceptions a number of which recur. There is no real track record of taking action on these issues.

3.162 **New legislation is planned to improve the independence and effectiveness of the audit institution in Kenya.** A Public Audit Bill has been published which will create an independent Audit Services Commission to supervise the operations of the C&AG. The constitutional review that is now underway is likely to also allow direct reporting to the National Assembly, the removal of the Controller function and autonomy in recruitment and setting conditions of service.

THE GOVERNMENT'S PUBLIC EXPENDITURE MANAGEMENT REFORM PROGRAMME

3.163 **The Government has embarked on a major programme of public expenditure management reform** in recognition of the weaknesses in existing systems and as an important part of strategy for improving accountability and reducing corruption in the public sector. This programme includes legislative change to improve the legal framework for public expenditure management. In addition a major programme of institutional and systems reforms was launched by the Minister of Finance at the end of June 2003. Annex 3 presents a summary of this programme. A detailed implementation plan is now in preparation. The programme reflects in particular the (updated) recommendations of the Country Accountability Assessment carried out by the World Bank in 2001 and the Public Expenditure Management Assessment and

Action Plan prepared by the World Bank and IMF in collaboration with the Government and DFID and the EC in 2003.

The legislative framework for public expenditure management

3.164 **New legislation has been published for passage in parliament in three key areas of public expenditure management** following a Review of the Exchequer and Audit Act, which was initially carried out in 2000/01. These comprise:

- **The Government Financial Management Bill 2003** which aims to enhance accountability by emphasising and clarifying the role of accounting officers and by providing for effective application of sanctions for the breach of financial regulations and proper financial management practices. This legislation also provides formally for the creation of the Office of the Internal Auditor General.
- **The Public Audit Bill, 2003** which as discussed above aims to strengthen the independence and operational capacity of the C&AG through the establishment of new institutional arrangements that include the creation of an Audit Services Commission to oversee the C&AG's operations. The constitutional review process will consider strengthening the impact of this legislation by removing the controller function, and by making the C&AG a constitutional body able to report directly to the National Assembly (rather than through the Minister of Finance), and able to recruit and set terms and conditions of employment independently from the Public Service Commission.
- **Public Procurement and Disposal of Assets Bill 2003** which will transform the Directorate of Public Procurement into a independent procurement oversight authority responsible for formulating procurement policy, building capacity and overseeing the enforcement of the (adapted) 2001 procurement regulations. This Bill also provides legislative authority for the provisions of the regulations including the creation and responsibilities of Ministerial Tender Committees and the operation and authority of the Procurement Appeals Tribunal.

Improving the MTEF budgeting process

3.165 Within its programme of institutional and systems reforms the Government is focused on strengthening the Medium Term Expenditure Framework as the key tool of budget preparation. An external review of the MTEF process as it currently operates is planned for the immediate future. This review will focus on developing an action plan for strengthening the MTEF in the budget cycle for 2004/05 and beyond. It will assess amongst others: the development of more effective methods of budget preparation, including the setting of programme priorities, targets and costing; the requirement for institutional and, perhaps, legal, reforms to strengthen the medium term dimension of budget preparation; the development of a more authoritative fiscal framework, including early endorsement by cabinet of forward macro expenditure ceilings; and similar endorsement by Cabinet of forward sector expenditure ceilings based on policy and expenditure priorities.

3.166 Already the Government has made a commitment to support the MTEF through an annual PER and through an improved PER and budget timetable. The MTEF will be supported through an annual PER process that will evaluate budget strategy and performance and undertake key analytical work required to further test and strengthen public expenditure management systems and to operationalise the expenditure priorities of the Government's Economic Strategy for Wealth Creation and Employment. A draft timetable for the PER and MTEF in the context of the 2004/05 budget is shown in Box 1. This provides for much earlier commencement of PER analytical work than was possible this year and for decisions on the MTEF budget that can have clear political endorsement and which can be thoroughly discussed ahead of the budget in June.

3.167 **Budget preparation will also be improved by other initiatives that will support the strengthening of the MTEF process.** These includes plans to significantly reduce the use of AiA allowing all revenue sources to be explicitly part of the budget allocation process; plans to update procedures for identification, monitoring and capture of donor funds; and importantly plans to improve the system of budget classification so that it more effectively captures the way in which resources are used and the functions to which they are allocated.

The IFMIS and improvements in budget execution and reporting

3.168 **In the medium term the introduction of the IFMIS will be the key to improved budget execution and expenditure control.** In particular:

- The system will prevent transactions being entered as commitments where there are no budgeted funds available.
- IFMIS will allow for the reduction of inconsistencies between quarterly budget ceilings and cash issues.

- As a fully integrated system IFMIS will prevent procurement commencing without the commitment being recorded. Funds will be earmarked as soon as a tender commences.
- The visibility of transactions and will highlight where the system is being abused. For example rejections by the system for inadequacy of budgeted funds will be recorded by the system, allowing investigation. Delays in bringing forward invoices will similarly be recorded by the system when eventually they are brought to account for payment.

3.169 **The IFMIS on current plans will be fully rolled out to line Ministries by mid-2004 and to Districts by end-2004.** Adherence to this timetable, however, will require careful implementation and prompt attention to any problems that arise. There are risks, including for example in the capacity of the government information technology service to adequately support implementation that need to be firmly addressed. In rolling out the system the Government is committed to give priority to key spending Ministries, for example those implementing programmes that are central to growth and poverty reduction.

Box 1: Kenya – Annual PER /METF Budget Process Time Table for FY 2003/04

Month(s)	PER Process	MTEFF Budget Process
July/August		Start work on Budget Framework and Guidelines for the next FY
August/September[2]	Agreement on Work Programme of the PER Working Group Commissioning of Sector PERs studies (e.g., studies evaluating specific govt. programmes)	Produce budget circular to start the budget preparation process. This should include TORs for PER as well as preliminary resource envelopes (Macro and sectoral) and Guidelines
End-October / November	Start work on Public Expenditure Evaluation Report (PEER) covering: 1. review of fiscal performance and expenditure patterns in previous years; 2. systemic issues relating to budget management; 3. analytical issues relating to budget management; 4. integration of donor-finance in the budget. Bank PEER main mission.	Sector Reviews carried out in the context of annual PERs
December	PER Working Group consulted on/provides inputs to Budget Framework and Guidelines. Sector PERs/ studies completed	
January/Feb.		Conduct Sector Hearings. MOF issues revised Budget Framework and Treasury Circular with Cabinet approved ceilings
February/March	PEER completed incorporating relevant Sector PER findings. PER consultative workshop – discusses findings of sector PERs, PEER Feedback from stakeholders on Budget Framework and Guidelines	Cabinet approval results in revised resource envelopes
April-May		Detailed item Budget/MTEF preparation within the ceilings and Government priorities
June		Presentation of budget in parliament

[2] For subsequent years, the PER process will start in July.

3.170 **Alongside the implementation of IFMIS the Government plans to urgently address the problems created by existing weaknesses in budget execution and commitment control.** The Government is committed to complete the current process of verifying the stock of pending bills for both recurrent and development expenditure and to finalise a strategy for clearing them by September 2003. This strategy will need to embrace a programme for handling the problem of stalled projects that has been central in the continued accumulation of pending bills for development expenditure. At the same time the plan for improving public expenditure management in the short term includes initiatives to immediately strengthen commitment control procedures and to urgently improve monthly reporting and analysis of outstanding commitments and arrears, to providing early warning of continuing problems.

3.171 **IFMIS will also significantly improve budget monitoring and fiscal analysis.** Once IFMIS is operational, reports on exchequer issues, commitments, expenditure etc. will be generated with little effort both according to pre-arranged schedules and on request. Existing concerns about the timeliness and accuracy of reporting will recede.

3.172 **The Government's plans also include measures to improve reporting in the short term**. The Budget Monitoring Department's monthly reporting system will be reviewed to make it more comprehensive, timely and accurate. In order to have up-to-date accounting information which will provide an important means for verifying monthly fiscal reporting the Government plans to link exchequer issues to line Ministries to submission of monthly accounts and bank reconciliations.

3.173 **Public expenditure tracking surveys will be used to monitor resource flows and resource utilisation.** As discussed above these will build on the pilot expenditure tracking that has been undertaken by KIPPRA. It will be important to focus on areas where information is particularly important for decision making as in the case of core poverty expenditure. Survey work can be expensive and ensuring cost effectiveness will be important.

RECOMMENDATIONS

3.174 **The Government's public expenditure management reform programme is comprehensive.** The recommendations in this chapter focus on process issues that will influence its impact.

3.175 **A detailed implementation plan should be prepared for the public expenditure management reform programme as a matter of high priority.** At present the action plan as presented in Annex 3 is largely in summary form, with very broad timescales. A more detailed plan is required as the basis for implementation.

3.176 **This plan needs to be prioritised. It also needs to be ambitious.** Prioritisation is necessary to ensure that attention is adequately focused on issues of critical importance. At the same time, timetabling needs to reflect the urgency of improvements in public finance accountability. The key actions are probably those associated with the steps required to make the MTEF more effective to ensure adherence to the current timetable for roll out of the IFMIS, and to improve budget execution and commitment control in the short-term. Careful attention needs to be paid to sequencing. Accountability for delivery should be clearly assigned.

3.177 **Institutional capacity issues may constrain implementation, but they can be eased through access to external technical assistance.** In practice the technical nature of many of the proposed reforms will also create a demand for external support. While the Government should not hesitate to build this assistance into the implementation plan the style in which it is provide will influence its effectiveness. Importantly external support should embrace a significant element of capacity building in its delivery. Harmonised arrangements for the identification and financing of technical assistance will minimise transaction costs and improve responsiveness and flexibility.

3.178 **Institutional arrangements for implementation and co-ordination also need to be urgently put in place.** Importantly these should bring together each of the key departments in the Ministry of Finance and the Ministry of Planning and National Development. They should also include nominated development partners supporting the reform process. With this participation a technical working group might be assigned the day to day tasks of coordinating the programme including approval of work plans, terms of reference, reports etc. It may be appropriate to appoint a programme coordinator, perhaps using external assistance, to work with this group.

3.179 Arrangements for monitoring and evaluating the programme will also need to be put in place. It may be appropriate to handle the overall supervision of the programme in the context of the PER with the PER steering committee that has been established monitoring progress. An annual evaluation of progress might be part of the annual PER. External assessments will be encouraged including future updates of the PEMAAP and the CFAA.

3.180 As reforms are implemented and systems improved, there is need to ensure Government financial regulations and procedures are updated. This has not been the case in recent years with the result that the existing record of the rules and best practice is out of date.

ANNEX 1: STATISTICAL ANNEX TO CHAPTER 2

Table 39: Average Annual Growth Rate of Real GDP (At Constant Prices = 1982, %)

Sectors	Projected Growth Rate 1997 – 2001, %	Actual Growth Rate 1997-2001, %	Sector Share 1997	Sector Share 2001
Agriculture	4.4	0.7	27.0	26.5
Industry	7.86	0.7	17.7	17.2
Private Services	6.0	2.2	40.5	41.8
Public Services	6.2	0.8	14.8	14.6
GDP	5.9	1.3	100	100

Source: Projected - National Development Plan (1997-2001), Actual Calculated from Economic Survey Various Issues

Table 40: Saving and Investment (% of Nominal GDP)

Year	1997	1998	1999	2000	2001	2002
Private Consumption	72.7	74.0	72.7	76.6	77.7	71.5
Public Consumption	16.2	16.4	16.9	17.5	19.1	19.0
Total Consumption	88.9	90.3	89.6	94.1	96.8	90.5
Private Investment	10.9	10.4	9.7	9.1	8.8	8.4
Public Investment	6.7	6.0	5.5	5.5	5.1	4.8
Total Investment *	18.5	17.3	16.2	15.4	14.5	13.6
External Financing	8.0	7.6	5.3	8.0	9.9	3.0
Domestic Savings	10.5	9.7	10.9	7.4	4.6	10.5

* Includes changes in inventories so total does not tally

Source: Economic Survey, Various Issues.

Table 41: Money Supply, Interest Rates, Exchange Rate and Inflation

	1997	1998	1999	2000	2001	2002
M3X (Ksh. Millions)	317,314	328,321	345,037	359,647	368,132	404,784
Growth in M3X	11.9	3.5	5.1	4.2	2.4	9.95
M3X/GDP (%)	59.2	55.3	54.0	45.2	41.7	41.8
TB (Nominal Interest) rates (%)	26.4	11.1	20.5	13.5	10.9	8.38
Real Interest Rates (%)	15.2	4.5	17.0	7.3	10.1	6.4
Average Comm. Bank deposit rate (%)	9.7	8.0	6.2	4.5	5.0	5.06
Max. Com. Bank loans & advances rate (%)	30.4	27.1	25.2	19.6	19.5	18.3
Exchange Rate (Ksh./US Dollar)	58.8	60.4	70.3	76.2	78.6	77.1
Ksh./Dollar (% change)	2.98	2.72	16.39	8.39	3.15	
Inflation rate	11.2	6.6	3.5	6.2	5.8	2.0

Source: CBK, Monthly Economic Review (Various Issues) and Economic Survey 2002

Table 42: Revenue and Grants

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	Average 97/98-01/02
Total Revenue	179,594	196,257	178,443	192,313	196,613	218,928	188,644
Direct Taxes	56,040	55,235	54,402	53,429	55,862	64,153	54,994
Indirect Taxes	88,492	96,382	98,042	107,342	104,532	119,873	98,958
Other Revenue and A.I.A	35,062	44,640	25,999	31,542	36,219	34,902	34,692
Grants	5,272	4,920	4,247	24,080	6,823	15,866	9,068
Grants and Revenues	184,866	201,177	182,690	216,393	203,436	234,794	197,712
Revenues/GDP	28.7	26.5	22.9	22.7	21.4	22.2	24.4
Grants/GDP	0.8	0.7	0.5	2.8	0.7	1.6	1.1
Revenue and Grants/GDP	29.5	27.2	23.5	25.6	22.1	23.9	25.6

Sources: Quarterly Budget Review

ANNEX 2: STATISTICAL ANNEX TO CHAPTER 3

Table 43: Ministerial and Departmental Recurrent Expenditures KSh Million

RECURRENT EXPENDITURES Ksh. MILLION										
	1998/99*		1999/00		2000/01		2001/02		2002/03	
Ministry/Vote	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Revised
Office of the President	12,480	13,898	13,848	13,606	16,412	19,163	17,595	19,166	20,333	18,476
State House	342	534	375	423	440	505	534	611	564	770
DPM	1,771	1,069	1,346	670	8,410	6,493	3,501	2,152	2,190	1,930
Foreign Affairs	2,059	2,012	2,593	2,758	3,005	2,800	3,570	3,928	3,827	4,335
Home Affairs	3,337	3,224	3,625	3,199	3,780	3,571	3,928	4,255	4,473	5,447
Planning	365	372								
Finance	3,024	3,251	9,375	4,602	10,165	6,533	11,503	6,864	7,576	8,544
Defence	10,893	10,145	10,548	10,707	13,943	14,439	14,441	16,258	14,338	17,630
East African & Regional Cooperation	147	182								
OVP & National Reconstruction										612
Agriculture	3,279	3,553	4,188	4,886	5,992	5,795	5,936	4,762	6,976	6,088
Health	8,382	8,005	9,298	9,226	9,929	10,966	10,527	11,985	13,652	14,448
Local Government	108	103	3,372	2,707	4,996	3,619	5,149	3,697	3,804	3,804
Public Works	2,064	1,711	9,023	8,419	9,693	7,842	11,885	9,260	10,597	10,711
Transport	561	345	1,937	882	2,018	1,686	2,049	1,657	1,719	1,866
Labour	211	193	371	849	1,416	1,097	1,405	1,271	1,356	1,465
Tourism	353	354	1,278	1,314	1,804	1,800	2,555	1,839		
Environment Conservation	290	53								
Justice & Constitutional Affairs										76
Culture and Sports										761
Information	375	253								
Water	1,152	1,048								1,677
Environment & Natural Resource	948	1,101	2,312	2,202	2,411	2,115	2,793	2,791	3,516	2,254
Co-opertives	310	286								544
Commerce	476									
Trade	435	458							2,299	2,204
Attorney General	316	184	738	194	702	297	452	484	475	463
Judiciary	215	311	673	365	1,199	1,013	1,103	1,141	1,195	1,267
Public Service	36	33	46	43	63	70	106	117	118	118
Controller and Auditor Gen.	113	104	147	123	192	124	297	264	279	381
National Assembly	531	530	936	1,306	1,624	1,922	3,582	3,296	3,359	4,020
Energy	47	66	81	44	105	92	130	116	175	188
Education	44,157	41,217	47,241	45,800	48,494	48,103	48,672	52,589	54,709	61,927
Industry	137	119								
Electoral Commission	280	285	429	343	719	475	1,712	1,306	4,661	4,664
Rural Development	400	376								

Research	2,754	2,783								
Lands and Settlement	640	676	1,043	722	1,214	892	1,217	1,149	1,282	1,277
NSIS			1,800	1,915	2,668	2,607	2,800	2,790	3,000	3,500
Information and Tourism							0	655	776	800
Grand Total	102,987	98,833	126,624	117,305	151,392	144,019	157,441	154,403	167,249	182,247

Table 44: Ministerial and Departmental Development Expenditure Ksh. Million

DEVELOPMENT EXPENDITURES Ksh. MILLIONS										
	1998/99*		1999/00*		2000/01		2001/02		2002/03	2002/03
Ministry/Vote	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Revised
Office of the President	2,538	1,907	4,032	1,973	3,805	3,989	5,721	2,966	9,644	7,175
State House	18	2	19	19	35	35	151	36	123	223
DPM	157	71	221	186	175	121	329	203	497	397
Foreign Affairs	51	54	101	2	45	0	115	4	73	116
Home Affairs	179	81	187	42	859	116	713	202	672	1,126
Planning	294	114								
Finance	845	667	1,507	1,279	5,919	5,247	6,103	537	4,779	9,022
Defence	201	53	241	81	0	0	0	0		
E. African Cooperation		0								
OVP & National Reconstruction										269
Agriculture	1,221	2,899	2,362	300	4,775	856	2,844	991	3,506	2,866
Health	1,086	318	1,124	415	3,933	940	3,540	2,047	4,662	4,894
Local Government	181	210	415	116	832	881	1,660	455	2,552	1,267
Public Works	1,403	1,105	1,241	559	7,145	1,704	5,980	822	5,235	5,142
Transport	187	355	356	292	443	438	156	532	450	300
Labour	1	2	280	123	426	186	493	211	574	390
Tourism	8	12	116	112	452	68	143			
Environment Conservation	37	30								
Justice & Constitutional affairs										22
Culture and Social services										270
Information & Broadcasting	7	3								
Water Resources	639	392								2,355
Environment and Natural resources	643	328	999	416	2,899	1,610	3,089	1,526	3,592	668
Coop Dev.	46	34								56
Commerce & Industry										
Trade	21	12						117	324	235
Attorney General	58	20	10	4	25	17	18	7	24	16
Judiciary	19	8	16	1	57	10	24	13	85	64
Public Services		0		0		0				
Controller & Auditor General		0		0		0				
National Assembly		0		0		0				
Energy	63	17	1,428	773	5,141	6,225	8,526	2,869	4,992	6,709
Education	813	362	794	392	1,327	533	1,908	998	3,218	4,746

Industrial Dev.	35	35								
Electoral Commission		0		0						
Rural Dev.	225	54								
Research & Tech	311	161								
Lands and Settlement	27	16	24	10	128	22	124	61	558	518
NSIS										
Tourism and Information								71	909	889
Grand Total	11,314	9,322	15,474	7,095	38,421	22,998	41,637	14,668	46,469	49,735

* net of Appropriation in Aid

Table 45: Total Ministerial and Departmental Expenditure Ksh. Million

Ministry/Vote	1998/99		1999/00		2000/01		2001/02		2002/03	2002/03
	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Revised
Office of the President	15,018	15,805	16,809	15,579	16,979	23,152	20,020	22,132	29,977	25,651
State House	360	536	394	442	475	540	684	647	687	993
DPM	1,928	1,140	1,538	856	8,490	6,614	3,745	2,355	2,687	2,327
Foreign Affairs	2,110	2,065	2,031	2,760	2,882	2,800	3,197	3,932	3,900	4,451
Home Affairs	3,517	3,305	3,459	3,241	4,117	3,687	4,120	4,457	5,145	6,573
Planning	658	486	0	0	0	0	0	0	0	0
Finance	3,868	3,918	8,785	5,881	13,293	11,780	9,696	7,401	12,355	17,566
Defence	11,094	10,198	10,731	10,788	13,903	14,439	14,385	16,258	14,338	17,630
East African & Regional Cooperation	147	182	0	0	0	0	0	0	0	0
OVP & National Reconstruction										881
Agriculture	4,500	6,453	7,712	5,186	7,190	6,651	6,799	5,753	10,482	8,954
Health	9,467	8,323	10,717	9,641	10,921	11,906	11,610	14,032	18,314	19,342
Local Government	289	314	3,344	2,823	4,647	4,500	3,905	4,152	6,356	5,071
Public Works	3,468	2,816	10,051	8,978	11,202	9,546	13,655	10,082	15,832	15,853
Transport	748	701	1,384	1,174	2,282	2,124	1,835	2,189	2,169	2,166
Labour	213	195	1,411	972	1,529	1,283	1,593	1,482	1,930	1,855
Tourism	360	366	1,499	1,426	1,486	1,868	1,794	0	0	0
Environment Conservation	327	83	0	0	0	0	0	0	0	0
Justice & Constitutional afffairs										98
Culture and Sports	0	0	0	0	0	0	0	0	0	1,031
Information	382	257	0	0	0	0	0	0	0	0
Water	1,791	1,439	0	0	0	0	0	0	0	4,032
Environment & Natural Resource	1,591	1,429	3,283	2,618	3,512	3,725	3,692	4,317	7,108	2,922
Co-opertives	356	320	0	0	0	0	0	0	0	600
Commerce	476	0	0	0	0	0	0	1,839	0	0
Trade	456	470	0	0	0	0	0	117	2,623	2,439
Attorney General	374	204	659	198	624	314	371	491	499	479

Judiciary	234	319	379	366	919	1,023	816	1,154	1,280	1,331
Public Service	36	33	43	43	60	70	905	117	118	118
Controller and Auditor Gen.	113	104	145	123	190	124	296	264	279	381
National Assembly	531	530	936	1,306	1,624	1,922	3,581	3,296	3,359	4,020
Energy	109	49	1,478	817	343	6,317	710	2,985	5,167	6,897
Education	44,970	41,579	45,906	46,192	49,031	48,636	49,616	53,587	57,927	66,673
Industry	172	154	0	0	0	0	0	0	0	0
Electoral Commission	280	285	429	343	719	475	1,712	1,306	4,661	4,664
Rural Development	625	430	0	0	0	0	0	0	0	0
Research	3,065	2,944	0	0	0	0	0	0	0	0
Lands and Settlement	667	692	892	732	1,102	914	1,143	1,210	1,840	1,795
NSIS	0	0	1,800	1,915	2,668	2,607	2,800	2,790	3,000	3,500
Information and Tourism	0	0	0	0	0	0	617	726	1,685	1,689
Grand Total	114,301	108,121	135,817	124,400	160,187	167,017	163,294	169,071	213,718	231,982

Table 46: Ministerial and Departmental Shares of Recurrent Expenditure

Recurrent Expenditure	**Share of total expenditure**									
	1998/99		**1999/00**		**2000/01**		**2001/02**		**2002/03**	
Ministry/Vote	**Printed**	**Actual**	**Printed**	**Actual**	**Printed**	**Actual**	**Printed**	**Actual**	**Printed**	**Revised**
Office of the President	12.12	14.06	10.94	11.60	10.84	13.31	11.18	12.41	12.16	10.14
State House	0.33	0.54	0.30	0.36	0.29	0.35	0.34	0.40	0.34	0.42
DPM	1.72	1.08	1.06	0.57	5.55	4.51	2.22	1.39	1.31	1.06
Foreign Affairs	2.00	2.04	2.05	2.35	1.99	1.94	2.27	2.54	2.29	2.38
Home Affairs	3.24	3.26	2.86	2.73	2.50	2.48	2.50	2.76	2.67	2.99
Planning	0.35	0.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance	2.94	3.29	7.40	3.92	6.71	4.54	7.31	4.45	4.53	4.69
Defence	10.58	10.27	8.33	9.13	9.21	10.03	9.17	10.53	8.57	9.67
East African & Regional Cooperation	0.14	0.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
OVP & National Reconstruction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.34
Agriculture	3.18	3.60	3.31	4.17	3.96	4.02	3.77	3.08	4.17	3.34
Health	8.14	8.10	7.34	7.86	6.56	7.61	6.69	7.76	8.16	7.93
Local Government	0.11	0.10	2.66	2.31	3.30	2.51	3.27	2.39	2.27	2.09
Public Works	2.00	1.73	7.13	7.18	6.40	5.45	7.55	6.00	6.34	5.88
Transport	0.54	0.35	1.53	0.75	1.33	1.17	1.30	1.07	1.03	1.02
Labour	0.21	0.20	0.29	0.72	0.94	0.76	0.89	0.82	0.81	0.80
Tourism	0.34	0.36	1.01	1.12	1.19	1.25	1.62	1.19	0.00	0.00
Environment Conservation	0.28	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Justice & Constitutional affairs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04
Culture and Sports	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.42

Information	0.36	0.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Water	1.12	1.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.92
Environment & Natural Resource	0.92	1.11	1.83	1.88	1.59	1.47	1.77	1.81	2.10	1.24
Co-opertives	0.30	0.29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30
Commerce	0.46	0.00	0.00	0.00	0.00	0.00	0.00	1.19	0.00	0.00
Trade	0.42	0.46	0.00	0.00	0.00	0.00	0.00	0.00	1.37	1.21
Attorney General	0.31	0.19	0.58	0.17	0.46	0.21	0.29	0.31	0.28	0.25
Judiciary	0.21	0.31	0.53	0.31	0.79	0.70	0.70	0.74	0.71	0.70
Public Service	0.03	0.03	0.04	0.04	0.04	0.05	0.07	0.08	0.07	0.06
Controller and Auditor Gen.	0.11	0.10	0.12	0.10	0.13	0.09	0.19	0.17	0.17	0.21
National Assembly	0.52	0.54	0.74	1.11	1.07	1.33	2.27	2.13	2.01	2.21
Energy	0.05	0.07	0.06	0.04	0.07	0.06	0.08	0.08	0.10	0.10
Education	42.88	41.70	37.31	39.04	32.03	33.40	30.91	34.06	32.71	33.98
Industry	0.13	0.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electoral Commission	0.27	0.29	0.34	0.29	0.48	0.33	1.09	0.85	2.79	2.56
Rural Development	0.39	0.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Research	2.67	2.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lands and Settlement	0.62	0.68	0.82	0.62	0.80	0.62	0.77	0.74	0.77	0.70
NSIS	0.00	0.00	1.42	1.63	1.76	1.81	1.78	1.81	1.79	1.92
Information and Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.42	0.46	0.44
Grand Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 47: Ministerial and Departmental Shares of Total Development Expenditure

Development	Share of total expenditure									
	1998/99		1999/00		2000/01		2001/02		2002/03	
Ministry/Vote	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Revised
Office of the President	22.43	20.45	26.06	27.81	9.90	17.34	13.74	20.22	20.75	14.43
State House	0.16	0.02	0.12	0.27	0.09	0.15	0.36	0.25	0.26	0.45
DPM	1.39	0.76	1.43	2.62	0.46	0.53	0.79	1.38	1.07	0.80
Foreign Affairs	0.45	0.58	0.65	0.03	0.12	0.00	0.28	0.03	0.16	0.23
Home Affairs	1.58	0.87	1.21	0.59	2.24	0.50	1.71	1.38	1.45	2.26
Planning	2.60	1.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance	7.47	7.16	9.74	18.03	15.41	22.82	14.66	3.66	10.28	18.14
Defence	1.78	0.57	1.56	1.14	0.00	0.00	0.00	0.00	0.00	0.00
E. African Cooperation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
OVP & National Reconstruction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.54
Agriculture	10.79	31.10	15.26	4.23	12.43	3.72	6.83	6.76	7.54	5.76
Health	9.60	3.41	7.27	5.85	10.24	4.09	8.50	13.96	10.03	9.84
Local Government	1.60	2.26	2.68	1.63	2.17	3.83	3.99	3.10	5.49	2.55
Public Works	12.40	11.85	8.02	7.88	18.60	7.41	14.36	5.60	11.27	10.34
Transport	1.65	3.81	2.30	4.12	1.15	1.90	0.37	3.63	0.97	0.60
Labour	0.01	0.02	1.81	1.73	1.11	0.81	1.18	1.44	1.24	0.78
Tourism	0.07	0.13	0.75	1.58	1.18	0.30	0.34	0.00	0.00	0.00

Environment Conservation	0.33	0.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Justice & Constitutional affairs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04
Culture and Social services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.54
Information & Broadcasting	0.06	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Water Resources	5.65	4.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.74
Environment and Natural resources	5.69	3.52	6.45	5.86	7.55	7.00	7.42	10.40	7.73	1.34
Coop Dev.	0.41	0.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11
Commerce & Industry	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trade	0.19	0.13	0.00	0.00	0.00	0.00	0.00	0.80	0.70	0.47
Attorney General	0.51	0.21	0.06	0.06	0.07	0.07	0.04	0.05	0.05	0.03
Judiciary	0.17	0.09	0.11	0.01	0.15	0.04	0.06	0.09	0.18	0.13
Public Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Controller & Auditor General	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
National Assembly	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Energy	0.55	0.18	9.23	10.89	13.38	27.07	20.48	19.56	10.74	13.49
Education	7.19	3.88	5.13	5.53	3.45	2.32	4.58	6.80	6.93	9.54
Industrial Dev.	0.31	0.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electoral Commission	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Rural Dev.	1.99	0.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Research & Tech	2.75	1.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lands and Settlement	0.24	0.17	0.16	0.14	0.33	0.10	0.30	0.42	1.20	1.04
NSIS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tourism and Information	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.48	1.96	1.79
Grand Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 48: Ministerial and Departmental Shares of Total Expenditure

Total Expenditure	Share of total expenditure									
	1998/99		1999/00		2000/01		2001/02		2002/03	2002/03
Ministry/Vote	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Actual	Printed	Revised
Office of the President	13.14	14.62	12.38	12.52	10.60	13.86	12.26	13.09	14.03	11.06
State House	0.31	0.50	0.29	0.36	0.30	0.32	0.42	0.38	0.32	0.43
DPM	1.69	1.05	1.13	0.69	5.30	3.96	2.29	1.39	1.26	1.00
Foreign Affairs	1.85	1.91	1.50	2.22	1.80	1.68	1.96	2.33	1.82	1.92
Home Affairs	3.08	3.06	2.55	2.61	2.57	2.21	2.52	2.64	2.41	2.83
Planning	0.58	0.45	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance	3.38	3.62	6.47	4.73	8.30	7.05	5.94	4.38	5.78	7.57
Defence	9.71	9.43	7.90	8.67	8.68	8.65	8.81	9.62	6.71	7.60
East African & Regional Cooperation	0.13	0.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
OVP & National Reconstruction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.38
Agriculture	3.94	5.97	5.68	4.17	4.49	3.98	4.16	3.40	4.90	3.86
Health	8.28	7.70	7.89	7.75	6.82	7.13	7.11	8.30	8.57	8.34
Local Government	0.25	0.29	2.46	2.27	2.90	2.69	2.39	2.46	2.97	2.19

Public Works	3.03	2.60	7.40	7.22	6.99	5.72	8.36	5.96	7.41	6.83
Transport	0.65	0.65	1.02	0.94	1.42	1.27	1.12	1.29	1.01	0.93
Labour	0.19	0.18	1.04	0.78	0.95	0.77	0.98	0.88	0.90	0.80
Tourism	0.32	0.34	1.10	1.15	0.93	1.12	1.10	0.00	0.00	0.00
Environment Conservation	0.29	0.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Justice & Constitutional affairs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04
Culture and Sports	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.44
Information	0.33	0.24	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Water	1.57	1.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.74
Environment & Natural Resource	1.39	1.32	2.42	2.10	2.19	2.23	2.26	2.55	3.33	1.26
Co-opertives	0.31	0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.26
Commerce	0.42	0.00	0.00	0.00	0.00	0.00	0.00	1.09	0.00	0.00
Trade	0.40	0.43	0.00	0.00	0.00	0.00	0.00	0.07	1.23	1.05
Attorney General	0.33	0.19	0.49	0.16	0.39	0.19	0.23	0.29	0.23	0.21
Judiciary	0.21	0.29	0.28	0.29	0.57	0.61	0.50	0.68	0.60	0.57
Public Service	0.03	0.03	0.03	0.03	0.04	0.04	0.55	0.07	0.06	0.05
Controller and Auditor Gen.	0.10	0.10	0.11	0.10	0.12	0.07	0.18	0.16	0.13	0.16
National Assembly	0.46	0.49	0.69	1.05	1.01	1.15	2.19	1.95	1.57	1.73
Energy	0.10	0.05	1.09	0.66	0.21	3.78	0.43	1.77	2.42	2.97
Education	39.34	38.46	33.80	37.13	30.61	29.12	30.38	31.69	27.10	28.74
Industry	0.15	0.14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electoral Commission	0.24	0.26	0.32	0.28	0.45	0.28	1.05	0.77	2.18	2.01
Rural Development	0.55	0.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Research	2.68	2.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lands and Settlement	0.58	0.64	0.66	0.59	0.69	0.55	0.70	0.72	0.86	0.77
NSIS	0.00	0.00	1.33	1.54	1.67	1.56	1.71	1.65	1.40	1.51
Information and Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.38	0.43	0.79	0.73
Grand Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 49: Central Government Recurrent Core Poverty Expenditures by Vote Ksh.

Sub-vote & Head	Programmes/Projects	*Estimates 2000/2001*	Estimates as % of Actual	*Estimates 2001/2002)*	Estimates as % of Actual	*Estimates 2002/2003*
	EDUCATION					
	Primary Education					
315-816	Early Childhood Programme	3,000,000	156%	2,670,876	106%	2,460,000
311-844	Expenses of Primary Schools	129,108,000	116%	79,004,000	100%	81,550,000
311-845	School Equipment Scheme	346,068,200	104%	415,244,241	102%	425,198,852
311-846	School Feeding Programme	294,155,750	94%	122,386,280	86%	144,000,000
313-848	Primary Schools for Handicapped	35,000,000	100%	35,500,000	100%	39,340,000
	Sub-total	**807,331,950**	102%	**654,805,397**	98%	**692,548,852**
	Secondary Education					
313-811	Schools for the Handicapped	19,000,000	100%	19,500,500	100%	21,912,000
316-800	Bursary	536,046,147	100%	536,046,147	100%	548,751,456
	Others	115,300,000	0%	71,000,000	100%	80,000,000
	Sub-total	**670,346,147**	121%	**626,546,647**	100%	**650,663,456**
	Total	**1,477,678,097**	109%	**1,281,352,044**	99%	**1,343,212,308**

	HEALTH					
110-454	National Aids Control Programme	6,083,052	105%	5,782,025	103%	4,780,000
110-455	Sexually Transmitted Infections	6,135,856	103%	5,961,122	102%	5,310,000
111-317	District Hospitals	1,491,582,921	100%	786,260,000	104%	871,960,000
111-318	Mental Health Services	75,393,223	100%	70,920,000	101%	71,050,000
111-320	Spinal Injury Hospitals	14,036,897	125%	13,650,000	115%	13,560,000
111-351	Dental Health Services	14,361,816	121%	14,096,548	102%	14,100,000
112-323	Environmental Health Services	6,839,810	102%	6,917,394	107%	6,540,000
112-325	Communicable and Vectorborne Diseases	146,712,486	100%	92,620,656	109%	86,900,000
112-327	Nutrition Programme	5,244,409	102%	4,720,000	102%	4,720,000
112-328	Family Planning Maternal and Child Health Care	73,534,730	101%	71,927,456	101%	42,880,000
113-335	Rural Health Centres and Dispensaries	743,597,565	100%	927,959,079	100%	892,700,000
113-336	Rural Health Training & Demon. Centre	44,150,342	100%	43,268,247	122%	43,620,000
	Total	**2,627,673,107**	100%	**2,044,082,527**	102%	**2,058,120,000**
	OFFICE OF THE PRESIDENT					
10-275-0-151	Purchase of Maize for drought and relief	1,500,000,000	107%	800,000,000	80%	800,000,000
315-603	National Aids Control Programme	140,000,000	100%	140,000,000	88%	146,300,000
	Total	**1,640,000,000**	106%	**940,000,000**	81%	**946,300,000**
	HOME AFFAIRS					
055**	Probation & After Care Services	157,157,217	238%	122,288,422	103%	80,550,000
053-499	Prisons Depart.- Borstal Institutions	15,056,832	100%	17,088,704	116%	15,890,000
053-120	Prisons Staff Training College	42,405,920	101%	76,770,264	339%	
056-904	Social Welfare	N/A		N/A		2,150,000
056-906	Vocational rehabilitation	N/A		N/A		8,130,000
056-911	Women's Bureau	N/A		N/A		3,400,000
056-903	Community based nutrition programme	N/A		N/A		1,560,000
054-122	Children's Department (HQ)	N/A		N/A		17,170,000
054-123	Approved Schools	N/A		N/A		58,880,000
054-124	Juvenile Remand Homes	N/A		N/A		36,850,000
054-126	Provincial Children's Services	N/A		N/A		5,530,000
054-146	District Children's Services	N/A		N/A		25,660,000
	Total	**214,619,969**	175%	**216,147,390**	139%	255,770,000
	ENVIRONMENT & NATURAL RESOURCES					
211-676	Forestry and Plantation Development	20,875,800		29,540,000	87%	62,770,000
211-678	Local Afforestation Schemes	2,267,340		13,630,000	64%	26,770,000
217-889	Water Resources Pollution Control	2,300,460	204%	15,000,000	86%	13,170,000
215-722	District Environment Support	13,823,620	905%	24,850,000	93%	0
217-898	Applied Water Research	5,799,540	3594%	19,300,000	120%	14,080,000
	Total	**45,066,760**	1599%	**102,320,000**	90%	**116,790,000**
	AGRICULTURE					
106**	Crop & Livestock Disease & Pest Control	213,100,000	0%	442,950,000	151%	362,650,000
103**	Extension Services	257,700,000	180%	358,540,000	192%	287,800,000
	Total	**470,800,000**	329%	**801,490,000**	167%	**650,450,000**
	LANDS & SETTLEMENT					
362-030-391	Purchase of Farms	50,836,608	100%	58,025,660	100%	653,000
	Total	**50,836,608**	100%	**58,025,660**	100%	653,000
	LOCAL GOVERNMENT					
120-30-500	Grants to Local Authorities (LATF at 20%)	N/A		3,087,000,000	121%	3,267,000,000
	Total	**N/A**		**3,087,000,000**	121%	**3,267,000,000**
	ROADS & PUBLIC WORKS					
136-288	Road maintenance grants to KRB	N/A		N/A		8,252,300,000
	Total	**N/A**		**N/A**		**8,252,300,000**
	Grand Total	**6,526,674,541**	112%	**8,530,417,621**	109%	**16,955,342,306**

** Total Sub-Vote
Source BMD

Table 50: Central Government Core Poverty Development Expenditures Ksh.

Sub-vote & Head	Programmes/Projects	*Estimates 2000/2001*	*Estimates as % of Actual*	*Estimates 2001/2002*	*Estimates as % of Actual*	*Estimates 2002/2003*
	Office of the President					
010-249.	Poverty Eradication Unit	18,920,360	166%	57,129,317	100%	67,000,000
010-579.	El-Nino Emergency Project	1,043,600,000	100%	601,200,000	131%	262,000,000
010-283.	Relief, Rehabilitation & Disaster Programme*	1,529,500	100%	7,000,000	0%	234,000,000
010-298.	Arid Lands Resource Management Project	275,618,500	104%	485,078,095	131%	379,707,624
010-603	National Aids Control Council	N/A		1,283,000,000	329%	1,383,546,500
	Total	**1,339,668,360**	101%	**2,433,407,412**	191%	**2,326,254,124**
	Ministry of Home Affairs					
052-495.	Community Conservation Dev. Turkana	N/A		21,000,000	2100%	8,500,000
050-080.	Food & Rations - Refugees	N/A		100,000,000	0%	109,620,000
056-902	Community Development Project	27,403,850	3090%	10,567,500	144%	9,500,000
056-911.	Grants to Community Dev. Projects/Groups	4,303,270	287%	9,000,000	100%	79,200,000
056-911.	Grants to Women Development	6,000,000	0%	N/A	N/A	19,990,000
056-911.	Gender Equity in Decision Making	4,400,000	0%	N/A	N/A	780,000
056-911.	HIV/AIDS Awareness Programme	2,700,000	175%	N/A	N/A	
056-911.	Gender Mainstream & Emp'rment of Women	28,000,000	71%	71,000,000	240%	54,900,000
	Total	**72,807,120**	168%	**211,567,500**	451%	**282,490,000**
	Ministry of Agric. & Rural Development					
101-490.	Veterinary Farms Development	9,810,000	113%	7,450,000	142%	7,200,000
102-533/4/7	Fisheries Development	59,750,000	455%	28,800,000	201%	58,300,000
103-192.	Western District Based Agric. Dev. Project	23,602,890	0%	N/A		
103-225	Central Dry Area & small holders Com. Projs	N/A		N/A		51,150,000
103-193.	Development Planning Services	3,451,129	0%	N/A		180,770,000
103-241.	Intergrated Agric. Dev. Programme	19,821,780	0%	N/A		1,500,000
103-260.	Farmers Training Centres	473,436	0%	N/A		6,970,000
103-271.	National Extension Project	10,550,000	0%	N/A		16,330,000
103-408.	Rural Dairy Services	8,807,336	0%	N/A		121,900,000
103-424.	National Dairy Dev. Project	4,616,668	0%	N/A		62,716,000
103-246	Soil & Water Conservation (NALEP)	N/A		N/A		171,000,000
103-513.	District Pig Production Services	N/A		N/A		
	Sub-total 103 Extension Services**	**71,323,239**	5997%	**64,488,078**	112%	**513,190,000**
106-447.	Crop & Livestock Diseases & Pest Control	5,680,000	0%			6,120,000
106-448.	Disease & Pest Control Services	5424000	0%			125,700,000
	Sub-total 106 Disease & Pest control**	**11,104,000**	410%	**13,470,000**	203%	**131,820,000**
105-508	Grain Storage & Handling	404,700,000	159%			
105-491.	Monitoring & Management of Food Security.			16,268,024	219%	95,960,000
	sub total 105	404,700,000	159%	16,268,024	219%	95,960,000
	Total	**556,687,239**	199%	**130,476,102**	143%	**906,470,000**
	Ministry of Health					
110-310-401.	Health Dev. Project - IDA (DARE Project)	38,000,000	1900%	1,195,516,229	105%	815,000,000
110-310-501.	Revolving Drug Fund	N/A		51,000,000	172%	51,000,000
111-316.	Supply of Medical Equipment	233,059,600	129478%	362,000,000	862%	350,000,000
111-317-264.	Decentralization of District Health	N/A		18,624,000	0%	9,750,000
111-317-401	Health Sector Reform	N/A				
112-323.	Environmental Health Services	79,658,000	100%	2,100,000	100%	29,230,000
113-335.	Rural Health Centres & Dispensaries	230,845,950	117%	377,641,921	98%	1,779,470,000
111-317-29	Rehabilitation of District Hospitals	24,636,444	86%	127,837,010	105%	22,700,000

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111-317-261	Rehabilitation of Mortuaries	4,200,000	100%	16,120,000	152%	3,020,000
112-325	Communicable & Vector borne diseases	N/A		146,500,000	153%	720,300,000
	Total	**610,399,994**	196%	**2,297,339,160**	126%	**3,780,470,000**
	Ministry of Roads & Public Works					
136-489.	Minor Roads	604,644,200	166%	299,500,000	174%	196,800,000
	Total	**604,644,200**	166%	**299,500,000**	174%	**196,800,000**
	Ministry of Environ & Natural Resources					
211-672.	Headquarter Forestry Development	84,711,240	21401%	37,614,000	117%	31,730,000
217-560.	Construction of Urban Water Supplies	17,000,000	0%	91,400,000	99%	564,500,000
217-524.	Constr of Water Supplies -Special Progs	424,500,000	0%	264,400,000	199%	297,800,000
217-896.	Water Conservation & Dam Construction	119,400,102	11443%	77,890,949	188%	137,800,000
217-897.	Water Rights	60,000,000		49,581,296	161%	90,800,000
	Total	**705,611,342**	49027%	**520,886,245**	158%	**1,122,630,000**
	Ministry of Educ, Science & Technology					
315-816.	Early Childhood Education	486,580,000	406%	589,899,967	106%	763,200,000
310-836.	Curriculum Support Services	254,102,500	88%	478,000,000	100%	510,500,000
311-846	School Feeding Programme	344,028,100	202%	336,200,000	100%	488,500,000
	Total	**1,084,710,600**	188%	**1,404,099,967**	102%	**1,762,200,000**
	Ministry of Labour					
154-598	Jua Kali Programme	N/A		370,262,967	88%	563,460,000
	Ministry of Finance and Planning					
207-312	Community Development Trust Fund	N/A		280,000,000	102%	245,000,000
	Grand total	**4,974,528,855**	171%	**7,947,539,353**	137%	**11,185,774,124**

Includes direct payment by the donor ** Revenue component of the project.
Source BMD

Table 51: MTEF Sectoral Allocations

	1999/00	2000/01	2001/02	2002/03	1999/00	2000/01	2001/02	2002/03
RECURRENT	**Ksh. Million**				**As a percentage of allocations**			
Public Admin.	7,854	6,677	8,741	9,319	6.4	4.9	6.0	6.1
Pub. Safety Law & Order	3,799	4,179	5,467	5,829	3.1	3	3.8	3.8
Human Res Development	13,094	15,317	14,360	15,309	10.6	11.1	9.8	10.1
Tourism, Trade & Ind.	1,045	1,128	1,888	2,013	0.9	0.8	1.3	1.3
Agr. & Rural Devt	2,547	3,047	3,597	3,834	2.1	2.2	2.5	2.5
Physical Infrastructure	8,964	9,283	9,813	10,461	7.3	6.7	6.7	6.9
Information Technology								
National Security	12,390	13,417	17,227	18,366	10.1	9.7	11.8	12.1
Sub-Total	**49,691**	**53,047**	**61,303**	**65,354**	**40.3**	**38.5**	**42.0**	**43.0**
Other Recurrent Expenditures	73,489	84,656	84,586	86,725	59.7	61.5	58.0	57.0
Total Recurrent	**123,181**	**137,703**	**145,888**	**152,079**	**100**	**100**	**100**	**100**
DEVELOPMENT								
Public Administration	1,470	619	1,263	1,346	4.5	1.5	3.7	3.7
Pub. Safety Law & Order	503	687	636	678	1.6	1.7	1.9	1.9
Human Res Development	3,123	6,042	7,651	8,157	9.6	14.5	22.3	22.3
Tourism, Trade & Ind.	565	920	1,178	1,256	1.8	2.2	3.4	3.4
Agr. & Rural Devt	6,019	8,449	6,243	6,655	18.6	20.3	18.2	18.2
Physical Infrastructure	20,459	24,942	17,280	18,423	63.2	59.9	50.5	50.5
Information Technology	0	0	0	0	0	0	0	0

National Security	240	0	0	0	0.7	0	0	0
Total Development	**32,378**	**41,658**	**34,250**	**36,514**	**100**	**100**	**100**	**100**
Total								
Public Admin.	9,324	7,296	10,004	10,665	6.0	4.1	5.6	5.7
Pub. Safety Law & Order	4,302	4,866	6,103	6,507	2.8	2.7	3.4	3.5
Human Res Development	16,217	21,359	22,011	23,466	10.4	11.9	12.2	12.4
Tourism, Trade & Ind.	1,610	2,048	3,066	3,269	1.0	1.1	1.7	1.7
Agr. & Rural Devt	8,566	11,496	9,840	10,489	5.5	6.4	5.5	5.6
Physical Infrastructure	29,423	34,225	27,093	28,884	18.9	19.1	15.0	15.3
Information Technology	0	0	0	0	0.0	0.0	0.0	0.0
National Security	12,630	13,417	17,227	18,366	8.1	7.5	9.6	9.7
Other Recurrent Expenditures	73,489	84,656	84,586	86,725	47.2	47.2	47.0	46.0
Total	**155,559**	**179,361**	**180,138**	**188,593**	100.0	100.0	100.0	100.0

Source Annual Budget Circulars

ANNEX 3: ACTION PLAN FOR ENHANCED FINANCIAL MANAGEMENT IN GOVERNMENT OF KENYA

Short term measures 2003/4	***Medium term measures 2004-2010***	***Responsibility***	**Status**
BUDGET FORMULATION			
GOVERNMENT POLICIES, PLANS AND RESOURCE FORECASTS			
Develop and implement mechanisms to ensure that government policies are accurately and consistently reflected and costed in long, medium and short term plans at both the national and sector level and are linked to resource availability.		Macro/MTEF/BSD	
Improve resource forecasting at the macroeconomic level (Continuous improvement to the KIPPRA-Treasury Model)		Macro/F&MAD/ERD	
Create Capacity in MOF for Development of tax policy and tax analysis		F&MAD	
COMPREHENSIVENESS			
	Prepare an annual consolidated general government fiscal table, which includes budget and actuals for central and local government, EBFs and Statutory Institutions	BMD/BSD	
	Include detailed statements on all central government EBFs in annual budget document for information purposes	BSD	
	Update procedures for identification, monitoring and capture of donor (development partner) funds.	ERD	
	Include donor funding in local authority budgets	ERD/F&MAD/BSD	
	Develop and implement plan to significantly reduce use of AIA (recurrent) and change to revenue.	BSD/AGD	
CLASSIFICATION			
Review economic classification for consistent and comprehensive use across central government.		BSD/MTEF/AGD	
	Extend economic classification in general government	BSD/MTEF/AGD/CBS	
	Adopt COFOG functional classification and map to existing budget items.	BSD/MTEF/AGD/CBS	
	Adopt programme budget approach based on policy objectives and outputs and implement pilot basis.	MFEF/BSD	
Complete reassessment and identification of core poverty programmes and include in annual budget statement		MTEF/BSD/BMD	
	Once COFOG adopted use for mapping of core poverty programmes.	MTEF/BSD/BMD	
	Expand definition of core poverty programmes to include general government expenditure.	**MTEF/BSD/BMD**	

Short term measures 2003/4	*Medium term measures 2004-2010*	*Responsibility*	**Status**
PROJECTIONS			
Complete MTEF review and prepare and implement action plan focused on key issues including MTEF institutional framework, Parliamentary approval of MTEF envelopes and on costing and budget preparation in ministries		MTEF/BSD	
	Adapt MTEF process on adoption of programme budget approach.	MTEF/BSD	
	Improve budget costing particularly of utilities and development projects.	MTEF/BSD	
BUDGET EXECUTION			
FINANCIAL MANAGEMENT PROCEDURES			
Standards and regulations			
	Adopt revised legislation and develop and implement revised financial regulations, procedures manual.	AGD	Started
Introduce new accounting standards		AGD	
Ensure that fiscal issues are adequately considered in the implementation of the government's policy of decentralization		F&MAD	
Agree in conjunction with MLG and CAG appropriate accounting standards for Las		AGD/C&AG/MLG	
Reconciliations			
Link weekly Exchequer releases to line ministries and agencies to submission of timely delivery & verification of monthly accounts and associated bank reconciliation.		AGD/Exchequer Committee	
Establish routine reconciliations between expenditure reports and accounting reports		AGD/BMD	
Establish a system for monthly reconciliation by AGD/MoF of KRA payment to Central Bank		AGD/F&MAD	
Commitment Control			
Strengthen commitment control procedures and urgently improve monthly reporting and analysis of outstanding commitments and arrears by Ministry		BMD/BSD/AGD	
Complete verification of stock of pending bill for both recurrent and development budget and finalize strategy and timing for clearing bills.		BSD	

Short term measures 2003/4	*Medium term measures 2004-2010*	*Responsibility*	status
	Strengthen and broaden commitment control through IFMIS Including consideration of implementation of commitment limits.	AGD	
Debt Management			
Improve and implement improved debt management system.		DMD	
Procurement			
Develop and implement improved procurement systems and procedures		DPP	
Cash Planning and Management			
Improve cash/treasury management systems and procedures		ADG/BSD/F&MAD	
Project Management			
Improve the management and accounting for projects		AOs/BMD	
Payroll Management			
Review the procedures for accounting for payroll and pensions and ensuring the integrity of information related to salaries/wages and pensions.		DPM	
Asset Management			
Update list of fixed assets maintained at ministries and implement procedures for the maintenance of up to date information		AGD	
MONITORING AND EVALUATION			
Internal Audit			
Improve awareness and understanding of the role of internal audit throughout government and continue to strengthen capacity of the internal audit service to undertake system audits.		IAG	
	Gradually devolve internal audit responsibility to line ministries and review, rationalize and regulate all in year audit and internal control functions.	IAG/AOs	
Monitoring			
Complete tracking surveys in health and education and then consider local authorities.			
	Undertake tracking surveys in other key poverty reducing programmes.	BMD	
Reporting			
Improve BMD reporting system to make it more frequent, comprehensive, timely and accurate and implement better information sharing.		BMD	

Short term measures 2003/4	*Medium term measures 2004-2010*	*Responsibility*	status
	Prepare semi annual reports on general government budget execution.	AGD	
Prepare and issue a detailed implementation plan and associated timetable for IFMIS roll out.		GD/IFMIS Team	
Given phased introduction of IFMIS identify and implement cost effective interim system solutions to maintain and improve reporting capability.		AGD/GITS	
Assess the implications of changes in systems and classifications on the collation of reports		AGD/IAG/GITS	
Develop and implement a plan for improved dissemination of information on public finance matters to the public.		HQ/PRO	
INSTITUTIONAL AND HUMAN RESOURCES			
Clarify respective roles and responsibilities of central and line ministries, departments and agencies in the management of financial resources.		PS/FS	
Develop and implement formal arrangements for ensuring timely exchange of information between stakeholders in the planning and budget preparation process.		FS	
Institute mechanisms for improved exchange of information within MoF and between accounting and finance officer in line ministries and MoF.		BSD/AGD	
Undertake a review of available and required financial management skills and other associated resources and develop and implement a plan at both the central and line ministry level (accountants and finance officers) to ensure that relevant mandates are achieved with respect to financial management.		BSD/AGD	
Improve the quality of boards and knowledge of financial management of Chief Executives.		DGIPE	
STATE CORPORATIONS			
Review overall policy on government investments		DGIPE	
Develop and implement privatization policy		DGIPE	
Implement Parastatal rationalization restructuring		DGIPE	
Review and implement parastatal financing policy		DGIPE	
Review procedures for accounting and monitoring of remaining state corporations		DGIPE	
Improve dissemination of information on state corporations.		DGIPE	

Key:

AGD - Accountant & General Department
AO - Accounting Officers
BMD - Budget Management Department
BSD - Budget Supply Department
CBS - Central Bureau of Statistics
DGIPE - Director of Government Investment & Public Enterprises
DMI - Debt Management Department
DPP - Director of Public Procurement
ERD - External Resources Department
F&MAD - Fiscal & Monetary Affairs Department
GITC - Government Information Technical Services
IAG - Internal Auditor General
IFMIS - Integrated Financial Management Information Systems
MACRO - Macro Economic Policy Department
MLG - Ministry of Local Government
MTEF - Medium Term Expenditure Framework Secre

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