

# **Policy Advocacy Training**

**NATIONAL BUDGET**

# NATIONAL BUDGET

- Defined as a financial plan outlining the major sources of revenue and how such revenues are to be expended.
- A statement that shows the receipts and outlays, and how these are to be financed in the interest of all citizens.
- Though sharing some functional similarities with household budgets, national budget is more complex
- The reading of the national budget is a constitutional requirement

# NATIONAL BUDGET

- Its formulation involves more parties, rules, laws and procedures
- Through the national budget the Minister for Finance requests parliament's authority to raise the estimated revenue and incur the approved expenditure for a given financial year.
- The government demonstrates its commitment in pursuing frequent policy pronouncements through the national budget
- It outlines both the spending and the revenue raising measures of the government

# Why understand the Budget?

- Its impact on the welfare of the citizen once new measures take effect
- The amount of money allocated for various projects reflect the order of government's policy commitments and priorities
- It determines whether or not one is able to enjoy the benefits of goods and services provided by the government
- It is too important to be left to individual politicians or government bureaucrats and a few narrow interest groups that have privileged access

## Why understand the Budget?

- Budgetary resources are normally limited thus the need to ensure proper and efficient utilization

# Functions of a National Budget

- Allocation function – to direct the development process in the country through resource allocation
- Distribution function – realizing balanced distribution of national resources and wealth through identification of priority sectors that need renewed focus and affirmative action
- Stabilization function – to attain and maintain a desired level of performance in the economy. Stabilization desired in certain variables like unemployment, inflation, growth, public borrowing etc

# Functions of a National Budget

- Ensuring fiscal transparency – especially in the manner in which public expenditure is managed. Budget information provides an explicit reflection of the government's expenditure priorities. It forms a basis through which citizens can challenge the government over its stated policies and public pronouncements

# Components of the Budget

- Revenue collection
- Expenditure measures



## Revenue sources

- Taxes (Direct and indirect)
- User Charges (Appropriations-in-Aid)
- Borrowing (domestic and external)
- Grants (foreign aid)-non-repayable, non-returnable
- Dividends from public corporations
- Printing of money\*\*

# Government Expenditure

- Comprises of:
- Recurrent and
- Development component

# Recurrent

- Salaries and other allowances paid to civil servants
- Operational costs such as traveling and accommodation, telephone, electricity and water bills
- Maintenance costs incurred on equipment, government buildings and installations
- Consolidated Fund Services, which include expenditures incurred in order to cover compulsory constitutional obligations such as interest on official debt and remunerations and other services in respect of constitutional offices and officers
- Other miscellaneous costs

# Development

- Relates to costs incurred in order to provide long-term public goods – roads, hospitals, schools, airports
- Such expenditures have tended to cover:
  - The construction of buildings both residential and for office purposes
  - Purchase of durable equipment such as power generators and telecommunication equipment
  - Establishment of water/sewerage treatment plants
  - National stadium or historical monuments
  - Installation of information technology equipment
  - Other long-term expenditures

## Budget process Reform

- The budget process reform in Kenya started in 2000 with the introduction of the Medium Term Expenditure Framework (MTEF) approach, which aims at linking policy objectives with resource planning and allocation.
- This was in response to a review of the public expenditure in 1997, which concluded that public expenditure trends in Kenya were not consistent with the objectives of achieving sustained economic growth and poverty reduction.

# Budget process Reform

- Consequently, and as a reform measure, the MTEF approach was adopted to achieve the following specific objectives:
  - Link policy making to planning and budgeting;
  - Maintain fiscal discipline by establishing hard budget constraints;
  - Facilitate expenditure prioritization across policies, programmes and projects;
  - Encourage better use of resources to achieve desired outcomes at lowest cost.

## Budget process

- In 2003-2004, three years into its implementation, the MTEF process was reviewed and was found not to be as effective as expected. Additional recommendations were made to enhance its effectiveness, one being the introduction of budget ceilings.

## Budget Outlook Papers (BOPA)

- The MTEF budget process starts in October with the preparation of the Budget Outlook Paper (BOPA).
- The main objective of the BOPA is to provide an overall medium–term fiscal framework for the MTEF budget.
- The medium term is based on a consistent and sustainable macro-economic framework.
- The framework is used to determine the overall resource envelope, comprising revenue, external resources (project/programme) and domestic borrowing.



## Budget Outlook Papers (BOPA)

- On the basis of this resource envelope, the BOPA provides medium-term sectoral ceilings, in line with the strategic objectives from the ERS.
- These ceilings are then used by Sector Working Groups (SWGs) in allocating resources within the sector in the medium term.
- The BOPA is prepared by the Macro-economic Working Group (MWG), comprising the Central Bank (CBK), the Ministry of Finance (MoF), the Ministry of Planning and National Development (MPND), The Kenya Revenue Authority (KRA) and the Kenya Institute for Public Policy Research and Analysis (KIPPRA). The BOPA is approved by the Cabinet.

# Ministerial Public Expenditure Report (MPER)

- Each ministry is required to start the MTEF process by preparing the Ministerial Public Expenditure Report (MPER) by December.
- The MPER is basically an evaluation of the performance of the previous year's budget and provides a regular analysis of ministerial expenditures, commenting on the composition, efficiency and effectiveness of spending in meeting service delivery targets and other performance indicators.
- The MPER also shows the costing and resource requirements of the ministry, based on the programmes and priority activities during the medium term.

# Ministerial Public Expenditure Report (MPER)

- The key idea is that expenditure analysis will enable policy makers to ask the right questions, while making decisions on public spending, and at the same time providing the ministries' input to the preparation of the medium term Budget Strategy Paper (BSP).
- The MPER is also expected to promote broader participation in the policy-making process as it opens up the budget system to public scrutiny by publishing information on budget, budget execution and public accounts.

## District inputs

- District departments are expected to submit their input to the budget process to their respective headquarters in December.
- The treasury circular issued by the Permanent Secretary to guide ministries/departments on the MTEF budget process requires that accounting officers ensure that the district department heads are involved at every stage of the budget process.

## District inputs

- This is to be achieved by:
  1. The formation of District Budget Committees.
  2. A thorough review of district level activities and their performance in terms of allocations, status of project and disbursement of funds.
  3. The prioritization of activities and linkages to the district plans and other policy documents.
  4. The costing of district level activities for the medium term.

# Budget Strategy Paper (BSP)

- The BSP provides an update of the available resources and sets firm ministerial ceilings.
- Based on the decision reached by the Sector Working Groups (SWGs) using the sector ceilings provided in the Budget Outlook Paper (BOPA), the BSP elaborates a strategy for restructuring the government spending pattern over the medium term with a view to achieving the government's medium-term strategy objectives, as spelled out in the Economic Recovery Strategy (ERS).
- The BSP therefore provides specific and detailed guidance for ministries on aligning public spending patterns within the stated national priorities, which should improve the efficiency of public spending in the forthcoming budget and over the following two years.

## Public/sector hearings

- Held soon after the preparation of the BSP.
- The purpose of the public/sector hearings is to provide a forum where all stakeholders engage in a debate of the BSP and propose amendments they deem necessary before the BSP is presented to the cabinet for approval.
- The BSP is disseminated to stakeholders and civil society in February through public sector hearings organized by the Ministry of Finance.
- The public hearings are advertised in the daily newspapers 10 days to 2 weeks in advance, so that all stakeholders can attend.

## Public/sector hearings

- During the public hearings, the present their budgets and comments are invited from the participants.
- The suggestions may be used to improve the budget. Theoretically, this can result in an adjustment of sector ceilings or allocations (if warranted).
- After the public hearings, views are consolidated, and the BSP is printed and submitted to the Cabinet for discussion and approval.
- Based on the approved BSP, The Permanent Secretary, Ministry of Finance issues the Treasury Circular to Ministries/Departments to prepare detailed and itemized budgets, based on the ceilings set in the BSP.



## Ministerial budgets

- The process for preparing ministerial budgets is iterative.
- It starts in October-December, when ministries are engaged in the preparation of the MPER.
- Between December and February, Ministries/ Departments are involved in consultations with the SWGs.
- The Treasury and other stakeholders are involved in negotiations that lead to a level of resource requirements that satisfy the BSP ceilings.

## Ministerial budgets

- In March, the Treasury Circular, together with the BSP and ceilings, are issued to all ministries, which are in turn expected to prepare detailed annual and medium term estimates consistent with the BSP and submit the itemized budgets to the Treasury by mid-April.
- The responsibility for preparing the ministerial budget lies with the Ministerial MTEF Budget Committee.
- The ministry receives the budget circular from the Treasury, which sets the budget ceiling for each sector and ministry, and the calendar for preparing the budget.

## Ministerial budgets

- The Ministry of Health is categorized in the health sector.
- Based on the ceilings, the ministerial budgets are prepared by departments and consolidated by the Ministerial Budget Committee, approved by the PS and submitted to the Treasury.

## Final estimates

- The Treasury receives detailed ministerial budgets, consolidates them in April and submits the national budget to the Cabinet for approval in May.
- The annual estimates are then printed and presented to Parliament for debate in mid-June.
- Once the Minister of Finance has presented the budget to Parliament, it becomes Parliament business.
- The debate starts one week later and continues for the next six weeks.

## Final estimates

- During this period, ministers table their respective ministries' budgets before the house for debate.
- Members of Parliament may question any issue they want clarified.
- If Parliament passes, the budget the ministry can proceed and implement it.
- There are no reported cases where Parliament has made significant amendments to budgets presented to it.

## Supplementary estimates

- Government financial regulations and procedures on the budgetary process provide for presentation of supplementary estimates by ministries to Parliament for approval at a date to be notified to all accounting officers.
- Supplementary estimates allow ministries to obtain additional funds, for a new service, to cover under-provisions or to apply any realized savings on other services within the mandate of the ministry.
- In practice, the supplementary estimates have been tabled in Parliament in the month of May and Parliament has routinely approved them.
- The Ministry of Health has used this avenue annually to obtain more funding.

## Sector ceilings

- The Macro-economic Working Group (MWG), which is responsible for composing the macro-economic policy framework that underpins the MTEF budget process, sets the ceilings for each of these sectors.
- The BOPA (which is the output of the MWG) allocates the revenue to priorities areas of expenditure with indicative sector ceilings that are approved by the cabinet.

# Sector ceilings

- Government ministries/departments are organized into 9 sectors:
  - Agriculture and rural development;
  - Physical infrastructure;
  - General economic service;
  - Public safety law and order;
  - Public administration;
  - Health;
  - Education;
  - National security
  - Information, comm. & Technology.



# Sector ceilings

		In millions of KSh				In percent of total recurrent expenditure			
		2006/07	2007/08	2008/09	2009/10	2006/07	2007/08	2008/09	2009/10
AGRICULTURE AND RURAL DEVELOPMENT	Gross	15,180	16,085	17,307	20,639	5.6%	5.4%	5.5%	5.8%
PUBLIC SAFETY LAW AND ORDER	Gross	39,860	40,969	41,324	48,563	14.6%	13.7%	13.1%	13.6%
HEALTH	Gross	21,127	22,920	25,209	30,124	7.7%	7.7%	8.0%	8.5%
EDUCATION	Gross	96,434	106,155	114,646	124,884	35.4%	35.6%	36.4%	35.1%
PHYSICAL INFRASTRUCTURE	Gross	27,700	30,834	34,683	38,401	10.2%	10.3%	11.0%	10.8%
GENERAL ECONOMIC SERVICES	Gross	7,815	8,206	8,616	10,473	2.9%	2.7%	2.7%	2.9%
PUBLIC ADMINISTRATION	Gross	30,164	33,603	29,637	35,039	11.1%	11.3%	9.4%	9.8%
NATIONAL SECURITY	Gross	32,877	38,046	41,786	45,849	12.1%	12.7%	13.3%	12.9%
INFORMATION COMM. AND TECH.	Gross	1,556	1,604	1,722	2,208	0.6%	0.5%	0.5%	0.6%
<b>GRAND TOTAL</b>	<b>Gross</b>	<b>272,714</b>	<b>298,423</b>	<b>314,930</b>	<b>356,180</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

		In millions of KSh				In percent of total development expenditure			
		2006/07	2007/08	2008/09	2009/10	2006/07	2007/08	2008/09	2009/10
AGRICULTURE AND RURAL DEVELOPMENT	Gross	9,108	13,503	16,203	20,165	7.5%	9.9%	10.7%	11.2%
PUBLIC SAFETY LAW AND ORDER	Gross	14,108	16,125	16,589	17,325	11.7%	11.8%	11.0%	9.6%
HEALTH	Gross	13,920	16,009	17,930	22,960	11.5%	11.8%	11.9%	12.7%
EDUCATION	Gross	11,395	13,104	14,677	18,740	9.4%	9.6%	9.7%	10.4%
PHYSICAL INFRASTRUCTURE	Gross	53,455	57,262	64,533	79,440	44.2%	42.1%	42.7%	44.0%
GENERAL ECONOMIC SERVICES	Gross	3,275	3,439	3,611	3,756	2.7%	2.5%	2.4%	2.1%
PUBLIC ADMINISTRATION	Gross	15,167	15,997	16,788	17,459	12.5%	11.8%	11.1%	9.7%
INFORMATION COMM. AND TECH.	Gross	560	650	720	805	0.5%	0.5%	0.5%	0.4%
<b>GRAND TOTAL</b>	<b>Gross</b>	<b>120,989</b>	<b>136,088</b>	<b>151,050</b>	<b>180,639</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: BOPA 2007/8

# Sector ceilings

		In millions of KSh				In percent of total expenditure			
		2006/07	2007/08	2008/09	2009/10	2006/07	2007/08	2008/09	2009/10
AGRICULTURE AND RURAL DEVELOPMENT	Gross	24,288	29,588	33,510	40,804	6.2%	6.8%	7.2%	7.6%
PUBLIC SAFETY LAW AND ORDER	Gross	53,969	57,094	57,913	65,888	13.7%	13.1%	12.4%	12.3%
HEALTH	Gross	35,048	38,929	43,138	53,074	8.9%	9.0%	9.3%	9.9%
EDUCATION	Gross	107,829	119,260	129,322	143,624	27.4%	27.4%	27.8%	26.8%
PHYSICAL INFRASTRUCTURE	Gross	81,155	88,096	99,216	117,841	20.6%	20.3%	21.3%	22.0%
GENERAL ECONOMIC SERVICES	Gross	11,090	11,645	12,227	14,228	2.8%	2.7%	2.6%	2.7%
PUBLIC ADMINISTRATION	Gross	45,331	49,600	46,425	52,498	11.5%	11.4%	10.0%	9.8%
NATIONAL SECURITY	Gross	32,877	38,046	41,786	45,849	8.4%	8.8%	9.0%	8.5%
INFORMATION COMM. AND TECH.	Gross	2,116	2,254	2,442	3,013	0.5%	0.5%	0.5%	0.6%
<b>GRAND TOTAL</b>	<b>Gross</b>	<b>393,703</b>	<b>434,511</b>	<b>465,979</b>	<b>536,819</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: BOPA 2007/8

## Ministerial ceilings

- Ministerial ceilings are set by the Sector Working Groups (SWGs).
- Based on the BOPA, detailed ministerial ceilings are determined in the BSP.
- When the MWG issues the indicative sector ceilings, the SWGs convene and determine the ministerial ceilings, taking into account available resources and the strategies for achieving the government's medium-term strategic objectives, as spelled out in the ERS.

## Ministerial ceilings

- In addition, ministries/departments would have prepared and presented their MPER to the SWGs that would indicate their priority programmes.
- The MPER is informed by the districts' priority programmes. The public and other stakeholders discuss the BSP during public hearings/sectoral meetings.
- Any amendments arising from the public/sector hearings are expected to be incorporated in the BSP before presenting it to the cabinet for approval.

# Ministerial ceilings

- The SWGs comprise stakeholders of the respective sectors and the membership of each sector would include:
  1. One chairperson -one PS to be chosen by consensus
  2. One sector convener
  3. Secretariat for the sector
  4. Budgetary Supply Department Representatives, MoF
  5. External Resource Department Representatives, MPND
  6. Relevant Ministry representatives
  7. Development partners representatives
  8. Private sector representatives
  9. Civil Society representatives