IPF

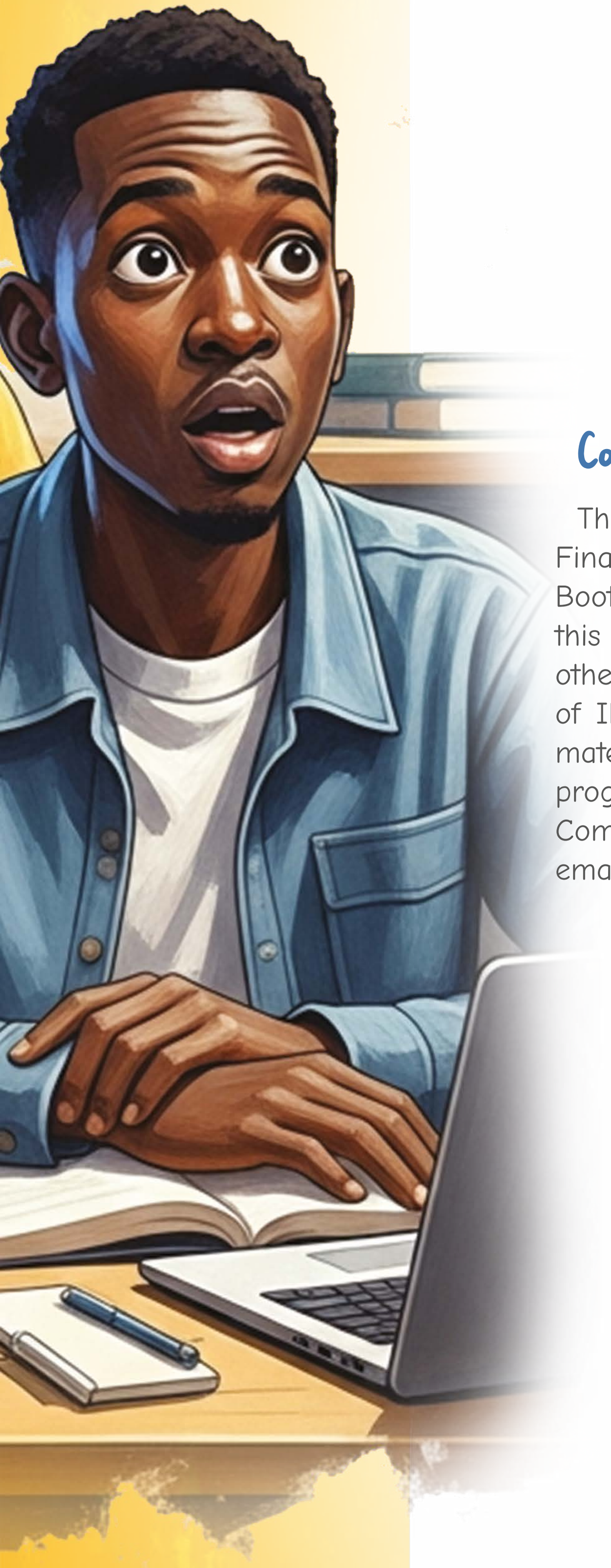
INSTITUTE OF PUBLIC FINANCE

UNIVERSITY

PUBLIC FINANCE MANAGEMENT (PFM) BOOT CAMP PROGRAM

TRAINING MANUAL

PFM MODULE



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Overview

This Training Manual has been developed to serve as a guide for Trainers of Trainers, in the IPF's University PFM Boot Camp Program. Specifically, it focuses on planning and budgeting processes at the national and sub national level, opportunities for public participation, analysis of budget documents as well as evidence informed advocacy skills including development of submissions like memorandum to government agencies. ToTs are encouraged to use participatory methods, techniques and tools for example group discussions, brainstorming, case studies, exercises, video shows, role plays to enhance the effectiveness of their sessions.

Purpose

This manual aims at equipping university students with relevant PFM knowledge and skills for effective participation in governance and public budget making processes.

Overall Objective

To provide a standard training tool that enhances the capacity of the trainees to be efficient and effective in participating in governance and public budget making processes at the national and sub national level.

Training Modules

The training sessions comprise of five modules which cover cross-cutting issues in public budgeting processes.

For questions or clarifications, please contact communications@ipfglobal.or.ke.

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Module 1. Introduction to Public Finance Management (PFM) and Governance Systems in Kenya

Session objectives

At the end of this session, the students will have understood:

- Kenya's participatory democracy journey, identifying historical weaknesses.
- Public Financial Management (PFM)
- Key reforms in participatory governance and Public Financial Management

Resources needed

To run this session, you will need:

- The constitution of Kenya, 2010
- Public Financial Management Reforms Strategy (Treasury website)
- Devolution and the New Politics of Development in Kenya
- Public Participation under Kenya's New Public Financial Management Law
- Evolution of Kenya's Political System and Challenges to Democracy

How to run the session

1. Prepare a PowerPoint Presentation (Recommended)

Create slides summarizing the key talking points to explain Kenya's democratic and participatory governance practices, both pre- and post-independence. This will help guide the discussion and serve as a visual aid for students.

2. Presentation and lecture

Deliver a presentation on the historical evolution of democracy and participatory governance in Kenya. Highlight the major political developments during the pre-independence era (colonial rule), post-independence period, and the changes brought by the 2010 Constitution.

3. Discussion

After the presentation, facilitate a discussion by asking students to engage with the following questions:

- What are the three distinct phases of Kenya's democratic and participatory governance evolution?
- What are the defining characteristics of Kenya's governance pre-2010 and post- 2010?
- What are the key changes that have taken place in participatory governance since the promulgation of the 2010 Constitution?

Module 1.1. Evolution of Participatory Governance and Public Financial Management in Kenya: Pre-2010 to Post-2010 Constitution

Before the promulgation of the 2010 Constitution, Kenya's participatory governance was characterized by limited citizen involvement in decision-making, a highly centralized government, and few avenues for public engagement. The political structure, inherited from the colonial administration, concentrated power in the executive, leaving minimal room for direct input from citizens or civil society. Governance was top-down, with decision-making primarily in the hands of the national government.

Kenya's participatory democracy evolved through three distinct stages. In the pre-1963 colonial era, governance was autocratic and exclusionary. Decision-making was centralized, with native Kenyans excluded from political participation. Legislative power was limited to colonial officials and settlers, with only symbolic representation for Africans introduced later. Native Kenyans were marginalized in key decisions concerning land, taxation, and labor, with little to no role in governance.

Following independence in 1963, Kenya adopted the Majimbo system (Swahili for "regions" or "federalism") to devolve power to regional governments. This system was intended to grant regions autonomy over their internal affairs, including control over resources and economic decisions, while balancing regional interests. However, the political leadership quickly favored centralization, and by 1964, through constitutional amendments, Kenya abandoned the Majimbo structure in favor of a centralized unitary state. Power was consolidated under the presidency, limiting the potential for regional governance.

Throughout the post-independence era, Kenya's political leadership entrenched an authoritarian system where participatory governance was symbolic. Political opposition was suppressed, and the civic space for meaningful public participation in decision-making processes remained minimal. National policies were implemented through provincial administrators, such as District Commissioners, whose role was to enforce central government decisions rather than engage communities in governance.

In the early 1990s, Kenya witnessed increased agitation for political reform, driven by civil society, religious leaders, and opposition politicians. The push for multiparty democracy gained momentum as citizens demanded greater accountability, transparency, and involvement in governance. While progress was made, citizen participation remained limited, as the executive continued to wield significant power, and formal avenues for public engagement were weak. However, these reforms set the stage for deeper discussions on governance, culminating in the call for a new constitution in the 2000s.

Driven by public dissatisfaction with centralized governance and a lack of accountability, Kenyans continued to push for reforms. The failed 2005 referendum on a proposed constitution highlighted the public's desire for more substantial changes. Civil society, religious leaders, and opposition politicians intensified their advocacy for a constitution that would devolve power, enhance transparency, and create formal structures for citizen participation in governance.

The 2007-2008 post-election violence underscored the dangers of an overly centralized system and the lack of public engagement in political and economic processes. Before the 2010 Constitution, participatory governance in Kenya was limited by a highly centralized government that stifled public input. While the reforms of the 1990s laid the groundwork, it was only after the 2010 Constitution that structured and formal avenues for citizen participation were established.

Regarding public fiscal management, before the 2010 Constitution, control of finances was centralized, with the Ministry of Finance holding exclusive authority. The 175 local authorities played a minimal role in managing and controlling public finances, and their influence weakened over time. In the first decade after independence, local authority expenditure accounted for an average of 25% of total government spending. This figure dropped significantly over the years, falling to around 8-10% between 1975 and 1990.

The 2010 Constitution marked a transformative shift in governance and participatory processes, particularly in **Public Financial Management (PFM).** It introduced several reforms aimed at enhancing transparency, accountability, and citizen participation, significantly improving the PFM landscape in the country.

Module 1.2. Introduction to Public Finance Management (PFM)

This module focuses on the definition of Public Finance Management, highlighting the objectives and elements of public finance management.

Definition of Public Finance Management (PFM)

Public Finance is a branch of economics focused on how governments generate revenue, allocate funds, and the impact of these activities on the economy and society. It examines how governments at all levels, national and subnational, provide essential services and secure the financial resources to fund them.

The World Bank defines Public Financial

Management (PFM) as the set of practices, systems, and rules governing budget formulation, planning, execution (including predictability and control), public sector accounting, institutional accountability, transparency, and external oversight of public finances. PFM also includes systems that promote the efficiency and integrity of public spending and investment.

A country's PFM system encompasses the processes, procedures, and rules for strategic planning and fiscal management. This includes frameworks like the medium-term expenditure or fiscal framework, annual budgeting, revenue collection, procurement, control, accounting, reporting, monitoring and evaluation, and audit and oversight mechanisms.

PFM covers the mobilization of government revenue, the allocation and spending of public resources, and the systems in place to account for and report on these revenues and expenditures.

Public Finance Management Objectives

There are three primary objectives for a public fiscal management system. We will learn about these objectives in another forum:

1. Fiscal discipline
2. Efficiency in the allocation of resources (allocation efficiency)
3. Efficiency in the delivery of public services (operational efficiency)

Elements of Public Finance

There are 3 elements of public finance: public expenditure, revenue and public debt.

a. Public Expenditure

Each year, national and county governments create a budget detailing the financing of key policies and programs during the upcoming year. The budget determines which public goods and services to produce e.g. health service, agriculture, roads etc., and how much assistance to provide to financially disadvantaged people through social programs such as welfare.

b. Revenue

To achieve spending objectives as described above, the Government must have funds to finance its activities. There are several sources of revenue available to the government including income taxes which are imposed on labor or activities that generate income such as wages or salaries. Other tax sources are sales and excise taxes, fees and levies. In Kenya tax administration has been devolved implying that national and county have specific mandates to collect and manage taxes.

c. Public debts

Public debt refers to borrowing by a government from within the country (internal/domestic) or from abroad (external/foreign), from individuals or association of individuals or from banking and Nonbanking Financial Institutions (NBFIs). The Kenyan Government, besides borrowing from the Central Bank of Kenya and commercial banks in the country, also raises money from foreign financial institutions such as World Bank and IMF as well as bilateral arrangements with foreign governments to meet their operational and development needs.

Sources of debt can be categorized into three or more types

- Internal / Domestic Debt: The government may finance a budget deficit by borrowing from citizens and financial institutions within the country. This is 'internal or domestic borrowing'. This borrowing can be in the form of bonds, saving schemes etc.
- External / Foreign Debt: To complement or as primary source of debt financing, the government may borrow from international money markets, foreign governments, and from international agencies.
- Debt can be categorized as Productive or Unproductive Debt: A debt that is

procured for public investments that is expected to create assets which will yield income sufficient to pay the principal amount and the interest on it, is known as 'productive debt' while debt raised for financing unproductive assets or heavy unproductive expenditures such a debt is a deadweight debt. For example, debt invested in an ailing state industry or loss-making state corporation.

Debt financing arises when there is variation between revenue and expenditure, particularly when the expenditure is higher than the revenue.

Module 1.3. Key reforms in participatory governance and Public Financial Management (PFM)

To address historical weakness in the management of power and public finances, Chapter 12 of the Constitution of Kenya 2010 provides for the principles of public finance among them requiring openness and accountability, including public participation in financial matters in article 201(a) and promotion of an equitable society in article 201(b). These principles are further enhanced or complemented and vice versa by Chapter 11 of the Constitution which provides the objects and principles of devolution of power and resources among which required the promotion of democratic and accountable exercise of power (174(a) and gave powers of self-governance to the people and enhance the participation of the people in the exercise of the powers of the State and in making decisions affecting them article 174 (c).

Devolution of power and resources

The most notable change brought by the 2010 Constitution was the devolution of political, administrative, and fiscal responsibilities to 47 newly created counties. Devolution decentralized power from the national government, giving counties the authority to manage their own resources and make decisions tailored to local needs. This fostered a more inclusive governance system where citizens could engage with county governments in decision-making processes, including budgeting and resource allocation.

Impact on PFM:

- Counties gained control over significant portions of the national budget through equitable revenue sharing, allowing citizens to directly engage with their local governments on how funds are used.
- Public participation forums, such as County Budget and Economic Forums (CBEFs), were established to ensure that citizens, interest groups, and civil society could contribute to the planning and budget-making process at the county level.
- Devolution also enhanced oversight at the local level, with the county assemblies tasked with scrutinizing budgets and holding the executive accountable for fiscal management.

Public Participation as a constitutional right

The 2010 Constitution explicitly enshrined public participation as a fundamental principle of governance, making it a mandatory requirement in the formulation of laws, policies, and budgets at both national and county levels. Article 10 of the Constitution outlines "participation of the people" as one of the national values and principles of governance, while Article 174 reinforces this in the context of devolution.

Impact on PFM:

- Citizens are now legally empowered to participate in the budget-making process through consultations, public hearings, and stakeholder engagements.
- PFM frameworks, such as the Public Finance Management Act (PFMA) of 2012, institutionalized public participation in budgeting, planning, and oversight processes. The PFMA also requires that

budget estimates and fiscal policies be made accessible to the public for input.
- Citizens can challenge budgetary decisions and hold governments accountable for financial mismanagement through legal frameworks.

Fiscal Responsibility and Accountability

The Constitution introduced stronger accountability mechanisms in public finance management. Chapter 12 of the Constitution lays out PFM principles, including openness, accountability, and equity in public resources use. It also mandates the creation of independent institutions to oversee fiscal management and prevent misuse of public funds.

Impact on PFM:

- The establishment of the Office of the Controller of Budget (CoB) and the Office of the Auditor-General (OAG) has enhanced oversight in the management of public funds. These offices provide checks and balances by ensuring that budget implementation is aligned with the approved allocations and by auditing government spending.
- The Commission on Revenue Allocation (CRA) ensures equitable distribution of resources between the national and county governments, based on clear criteria that citizens can scrutinize.
- The Constitution has made it mandatory for both levels of government to adhere to fiscal responsibility principles, such as prudent use of public resources, adherence to the budget, and transparency in financial reporting.

Legislative oversight and increased accountability

The 2010 Constitution expanded the role of the legislature in overseeing public finances. Both the National Assembly and County Assemblies were empowered to scrutinize budget proposals and hold the executive accountable for financial decisions.

Impact on PFM:

- Parliamentary and county assembly committees now play a critical role in reviewing the annual budget, public expenditure, and government borrowing, ensuring that all financial decisions align with the law and national priorities.
- Legislative bodies at both levels of government must provide public input during budget review processes, giving citizens more control over the use of public resources.
- Enhanced oversight of the executive has improved transparency, with public representatives scrutinizing financial documents and making them available for public review.

Transparency and Access to Information

The Constitution guarantees the right to access information held by the government (Article 35). This right is crucial for transparency and for citizens to make informed decisions and hold their leaders accountable.

Impact on PFM:

- The public is now able to access budget documents, financial reports, and audit findings, which were previously inaccessible. This access has strengthened the demand for accountability and empowered citizens to engage in informed discussions on public finance matters.
- Civil society organizations and citizen groups now have the information necessary to monitor government expenditure and report instances of financial mismanagement or corruption.
- The shift toward open data has encouraged the development of budget transparency tools, enabling the public to track government spending in real- time.

Challenges and ongoing reforms

While the 2010 Constitution significantly improved participatory governance and PFM, challenges persist in its full implementation:

- Capacity issues: Many counties and institutions face challenges in building the capacity to effectively manage public funds and facilitate meaningful public participation.
- Corruption and mismanagement: Despite the reforms, instances of corruption and misuse of public funds remain a concern. The enforcement of accountability measures and the strengthening of oversight institutions are ongoing processes.
- Limited public engagement: In some cases, public participation remains tokenistic, with citizens not fully empowered to influence decision-making processes. More needs to be done to build the capacity of citizens and civil society to engage meaningfully.

The 2010 Constitution brought significant changes to Kenya's participatory governance framework, particularly in Public Financial Management in line with global standards. By devolving power, enshrining public participation, enhancing transparency, and creating robust oversight mechanisms, the Constitution has empowered citizens to play an active role in the management of public resources. However, challenges related to capacity and corruption still need to be addressed to fully realize the benefits of these reforms. The ongoing process of strengthening institutions and ensuring meaningful engagement remains critical to sustaining the progress made in PFM and governance.

Key Takeaways

- Pre-independence (1895 - 1963): This period was marked by undemocratic colonial rule where native Kenyans were marginalized and excluded from decision-making, both politically and economically.
- Post-independence through 2010: Despite gaining independence, governance in Kenya remained highly centralized, with authoritarian regimes controlling power and limiting citizen participation.
- Post-2010 Constitutional Era: Building on the push for reforms in the early 2000s, the 2010 Constitution brought significant democratic advancements, including devolution and structured participatory governance, though challenges in implementation and adherence to constitutional provisions remain.

Further reading materials

Fifty things every Kenyan must know about the PFM in the form of question and answer. This material is provided in advance after which we will then have an interactive Question and Answer (Q&A) session to respond to clarifications you have from this reading and fill any gaps in your knowledge and understanding of the PFM.

Fifty things every Kenyan must know about the PFM

Module 2. National and County Government Planning Processes

Session Objectives

At the end of this session, the students will have understood:

- The planning process at the national and sub national level.
- Policy and legal framework for planning.
- Public Participation in planning processes.

Resources Needed

To run this session, you will need:

- The Constitution of Kenya 2010
- County Government Act 2012
- PFM Act, 2012
- The Medium-Term Plan IV
- County Integrated Development Plan (County of choice)
- County Annual Development Plan (County of choice)

How to run the session

1. Briefly describe the Medium-Term Plan IV, the County Integrated Development Plan, Annual Development Plan and how they inform development planning.
2. Ask students to check what development priorities are highlighted in the plans.
3. Come back to plenary to have a brief discussion on the answers from the students.

Module 2.1. Legal and Policy Framework for Development Planning

There are various policies and legislations that have been put in place to facilitate development planning as indicated below.

Constitution of Kenya, 2010

According to the fourth schedule of the Constitution, the national government supports planning through national economic policy and planning, while counties are mandated to support county planning and development.

County Government Act, 2012

The County Government Act, 2012, Section 107[i] specifies the types and purposes of county plans which should guide, harmonize, and facilitate development and should be the basis for all budgeting and spending in a county.

Public Finance Management Act, 2012

Section 125[ii] provides for stages in the county budget process. The key stages for county governments planning and budgeting process in any fiscal year shall consist of, among others: integrated development planning process which shall include both long term and medium-term planning and establishing financial and economic priorities for the county over the medium term; and making an overall estimation of the county government's revenues and expenditures.

Kenya Vision 2030

The Kenya Vision 2030 is the country's development blueprint that aims at creating "a globally competitive and prosperous nation with a high quality of life by 2030". It further aims to transform Kenya into "a newly industrializing, middle-income country providing a high quality of life to all its citizens in a clean and secure environment." It is anchored on three Pillars [iii], Economic, Social and Political, which are all supported by the Enablers/ Foundations. The Vision is implemented through successive five years Medium Term Plans at the national level and the CIDPs at the county level.

Urban Areas and Cities Act, 2011

Section 37 (1) of Urban Areas and Cities Act, 2011, states that a city or urban area's integrated development plan shall be aligned to the development plans and strategies of the county governments. In addition, Section 36(2) states that an integrated urban or city development plan shall bind, guide, and inform all planning development and decisions and ensure comprehensive inclusion of all functions.

Module 2.2. Types of plans that inform planning at the National and sub national level

Currently, national development planning in Kenya is guided by the Constitution of Kenya 2010; national development priorities; regional and international obligations and commitments; and sector master plans and strategies. National development plans inform the preparation of Sector Plans, County Integrated Development Plans (CIDPs), Strategic Plans and Annual Performance Contracts for Ministries, Departments, Agencies and Counties (MDACs).

Kenya's history of development planning has been characterized by five-year cycles since independence.

The Vision 2030

The Kenya Vision 2030 is the long-term development blueprint for the country adopted in 2008. It aims to transform Kenya into, "a newly-industrializing, middle-income country providing a high quality of life to all its citizens in a clean and secure environment" and is implemented through successive five-year Medium-Term Plans (MTPs).

Since its adoption in 2008, the Kenya Vision 2030 has been implemented through successive five-year Medium-Term Plans (MTPs).

Kenya is currently implementing the fourth Medium Term Plan 2023-2027. The Ministry of National Treasury and Economic Planning coordinates the preparation of the MTPs.

- **First MTP 2008-2012.**
- **Second MTP 2013-2017.**
- **Third MTP 2018-2022.**
- **Fourth MTP 2023-2027**

County Integrated Development Plan

Section 102 (h), 104 (1) and 108 of the County Government Act 2012 mandate all county governments to prepare a five-year plan. The plan should reflect its strategic priorities, specific goals, objectives, a costed implementation plan, provision for monitoring and evaluation as well as clear reporting mechanisms. The plan forms the basis for the appropriation of funds, and no fund can be appropriated outside the planning framework prepared by the County Executive and approved by the County Assembly.

The plan takes cognizance of national long term development plans and international commitments by the Country and contributes towards achievement of these plans and commitments. These include, Sustainable Development Goals (SDGs), Africa's Agenda 2063, East Africa Community Vision 2050, Paris Agreement on Climate Change, 2015, the Kenya Vision 2030 amongst others.

The plan should have clear goals and objectives; an implementation plan with clear outcomes; provisions for monitoring and evaluation and clear reporting mechanisms.

Annual Development Plan

Pursuant to Section 126 of the Public Finance Management Act (PFMA) 2012 and in accordance with Article 220 (2) of the Constitution, County Government are mandated to prepare an Annual Development Plan (ADP) as one of the statutory documents obligatory in the annual budget preparation process. The ADP provides a development framework with strategic interventions and programs that will guide the government in realizing its socio-economic transformation agenda.

The plan should have clear goals and objectives; an implementation plan with clear outcomes; provisions for monitoring and evaluation and clear reporting mechanisms.

Sectoral Plans

Section 109 of the County Government Act, 2012 states that a county department shall develop a ten-year county sectoral plan as component parts of the county integrated development plan. The County Sectoral Plans shall be programme based, the basis for budgeting and performance management and shall be reviewed every five years by the county executive and approved by the county assembly but updated annually.

Module 2.3. Citizen Participation in County Planning

According to the County Government Act, 2012, public participation in the county planning processes is mandatory and on-state actors are to be incorporated in the planning processes by all authorities (CGA, 2012 Section 104 (4)). This is to be facilitated by a county planning unit.

Citizen participation is a two-way process where the government provides opportunities for citizen involvement and the citizens choose whether to use these opportunities based on their interest among other things. Meaningful citizen participation is key to successful devolution and good governance at the county level. This is only attainable if the citizens have a basic understanding of devolution and a realistic idea of how duty bearers (elected/appointed leaders) should perform. Only then can the citizens hold their county government to account.

Citizen participation is mandatory in the planning process. The law provides that "county planning shall provide for citizen participation" and that participation shall be done in a process that "involves meaningful engagement of citizens."

Key Takeaways

- Kenya's history of development planning has been characterized by five-year cycles since independence.
- The Kenya Vision 2030 is the long-term development blueprint for the country adopted in 2008.
- It is implemented through successive five years Medium Term Plans at the national level and the CIDPs at the county level.
- Development plans form the basis for the appropriation of funds and no fund can be appropriated outside the planning framework prepared by the County Executive and approved by the County Assembly.
- Plans and budgets should be program based.
- Planning starts with identifying the critical areas of spending due to the limitedness of resources.

Further Reading Material

- Fundamentals of Development Planning at: *https://esami-africa.org/executive- education/fundamentals-of-development-planning/*
- The status of public participation in national and county governments.
- Other sources of development planning in Kenya.

Module 3. The National and County Budget Making Process

Session Objectives

At the end of the session, the students will have understood:

- Stages of the budget process.
- Decisions made in each stage and advocacy opportunities.
- Key statutory timelines and relevant actors.

Resources Needed

To run this session, you will need:

The Public Finance Management Act, 2012.

IBP budget cycle infographic.

Flip chart and marker pen.

How to run the session

Introduce the four stages of the budget cycle by asking the students to mention the four stages of the budget process, the actors involved in each stage and the roles of each actor.

Ensure you fill the gaps or take over the discussion where the students are uncertain.

Draw a three-column table highlighting the four stages of the budget cycle in the first column then the actors in the second column and label the third column 'key budget documents.'

Pass out to individual students the seven (7) name cards of key Kenyan budget documents and another seven (7) description cards to another set of students. Give them 5 minutes to look for partners that have corresponding name cards to description cards to answer question two (2) and three (3) of the tasks.

Let students pin/ attach the documents name cards and description cards to the stage they think the documents correspond to, giving their reasons.

Have a discussion in plenary explaining the timeline in logical order and highlighting the fact that the process is parallel between the national and county governments. As you go, be sure to highlight:

The statutory deadlines/ timelines on the calendar as per the PFM Act.

The key documents and decisions at both the national and county level.

The role of the public.

Emphasize: There are multiple budget years happening at the same time, with one year in formulation, and another in implementation, and another in evaluation all at the same time. That is why it is shown as an overlapping spiral.

Background Information

The fiscal year in Kenya begins on July 1 and ends on June 30 every year. The National and County treasuries prepare their budget annually and there are four stages in the budget process which are led by different actors. In each stage there are key budget documents which must be produced.

Budget Stage	Responsible	National Government Key Budget Documents	County Government Key Budget Documents
Budget Formulation	Executive	-National Budget Circular -Budget Review and Outlook Paper (Outlook section) -Budget Policy Statement -National Budget Estimates -Finance Bill	-County Budget Circular -Annual Development Plan (ADP) -County Budget Review and Outlook Paper (Outlook section) -County Fiscal Strategy Paper -County Budget Estimates -Finance Bill
Budget Approval	**Assembly**	**-Appropriations Act**	**-Appropriations Act**
Budget Implementation	**Executive OCOB**	**-National Quarterly Budget Implementation Reports**	**-County Quarterly Budget Implementation Reports**
Budget . Audit and Evaluation	Auditor General	-Budget Review and Outlook Paper (Review section) -Audit Reports	-County Budget Review and Outlook Paper (Review section) -Audit Reports

Module 3.1. Identifying key decisions made in each stage and the impact it has on you as a student

Annual Development Plan

The Public Finance Management (PFM) Act 2012, section 126 requires that counties develop an Annual Development Plan (ADP) which is in turn based on a 5-Year County Integrated Development Plan (CIDP). The ADP should be tabled by the County Executive Member for Finance in the County Assembly by the **1st of September** each year. The Annual Development Plan is the single year extract from the CIDP allowing for updates responding to current emerging issues in the economy. This becomes the basis for the annual budget. The County Government Act, 2012 section 104 provides that no funds should be appropriated in the budget unless provided for in a plan which signifies the importance of making sure that priorities you care about most are captured and included in the ADP for that year. An annual development plan answers the question "what are we going to do this year to advance the overall goal of the 5-year county plan?".

On an annual basis, the county prioritizes its spending based on strategic priorities that its endeavors to achieve that year based on the CIDP. For example, a county could be focusing on affordable housing, improved access to healthcare, economic empowerment of youth, women, and persons with disabilities, improved access to clean water and so forth. The ADP extracts programs, projects and interventions that facilitate the county to achieve the strategic priority for that year from the County Integrated Development Plan (CIDP) while ensuring alignment to national government. At this point, you want to ensure that your sector of interest has identified interventions towards attainment of the strategic priority. For example, if the government's strategic priority is economic empowerment of youth, women, and persons with disability, it is in best interest to ensure that the relevant programs and projects that address the needs you have as a young student are included in the ADP. Otherwise, once the ADP formulation stage passes, it is almost impossible, based on section 104 of the PFM Act 2012 to introduce a new project past the ADP.

Budget Review and Outlook Paper

The Public Finance Management Act 2012, section 26, provides that the National Treasury should table the Budget Review and Outlook Paper (BROP) to the National Assembly and publicize it by **21st October** each year. The Budget Review and Outlook Paper is a backward-looking and forward-looking budget document that falls in two budget stages i.e. the budget audit stage and the budget formulation. The BROP provides three sets of key information:

- *It reviews the previous full year budget performance*
- *It reviews the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent Budget Policy Statement.*
- *Provides information on budget distribution across different sectors i.e. the proposed budget ceilings for each sector which are referred to as provisional ceilings.*

Budget performance refers to how well the government did in collecting revenues and spending it. What were the impacts of any under-performance? If the revenue targets are not met, it means there are programmes which will not be implemented. Were any programmes in your sector of interest left out during implementation? As you review the previous year's budget performance, you want to pay attention to the budget deficit and how that affected budget implementation. Reviewing the economic and financial forecasts as indicated in the most recent Budget Policy Statement, will inform both the revenue projections and expenditures. The BROP also proposes budget ceilings for each sector. At this stage, you want to ensure that the resources allocated to your sector of interest, say Education and Health, are enough for implementation of the programmes and projects that are being prioritized in the coming fiscal year. At this point there is a chance to bid for more resource allocation in your sectors of interest in case the provided provisional ceilings are not enough for your sectors. The public, through the sector working group hearings, can define why their sectors might require additional or less funding. It is then decided which sector receives more funding depending on citizen priorities. Therefore, if you miss advocating for enough budget allocation for your sectors at this point, your sector might end up being underfunded.

The equivalent document of BROP at the county level is the County **Budget Review and Outlook Paper (CBROP).** The CBROP has the same timelines and contents as the **CBROP.**

Budget Policy Statement

The Public Finance Management Act 2012, section 25, provides that the National Treasury shall prepare and submit to Parliament the Budget Policy Statement for approval by 15th February of each year. The Budget Policy Statement has five key elements which are summarized as three Ps, 1C and division of revenue. These elements are:

Performance- The BPS is produced in February, which is halfway through the current fiscal year. It therefore provides information on half-year performance i.e. from July to December for the current fiscal year. It reviews revenue and expenditure performance. This information allows the government to determine whether they will achieve their targets or there will be a need to review the set targets.

- **Projections-** The BPS provides revenue and expenditure projections for the coming fiscal year.
- **Priorities-** The BPS should provide

justification for prioritization of one sector over the other. The narrative justification for prioritization should be aligned with the budget allocation to the sectors. If the government is prioritizing economic empowerment of youth women and persons with disabilities, there should be a justification and that needs to reflect in the budget allocation.

- **Division of Revenue-** The BPS discusses how funds will be divided between the two levels of government (national and county). This provides background to inform the Division of Revenue Bill and the County Allocation of Revenue Bill that should be tabled in parliament by February 15. This section of the BPS must justify the amount for national and county governments overall, the amount that will go through the equitable share (unconditional grant to counties), and the amount that will be given as conditional grants.

Performance- The BPS is produced in February, which is halfway through the current fiscal year. It therefore provides information on half-year performance i.e. from July to December for the current fiscal year. It reviews revenue and expenditure performance. This information allows the government to determine whether they will achieve their targets or there will be a need to review the set targets.

Projections- The BPS provides revenue and expenditure projections for the coming fiscal year.

Priorities- The BPS should provide justification for prioritization of one sector over the other. The narrative justification for prioritization should be aligned with the budget allocation to the sectors. If the government is prioritizing economic empowerment of youth women and persons with disabilities, there should be a justification and that needs to reflect in the budget allocation.

Ceilings- This is the maximum amount of funds that will be allocated to each sector. It provides the final distribution of funds across sectors.

The sector working group reports inform the Budget Policy Statement. The priorities in the BPS should advance from the sector working group hearings. We are firming up the priorities we have been championing for in the coming financial year. At this point citizens want to ensure that the government priorities are in line with the citizens' needs. Is the government prioritizing the education sector while citizens are demanding improved health care services? Remember, budgeting is about meeting endless needs with limited resources. We therefore need to meet the most demanding needs first. As a student do you feel the government has prioritized your sector of interest? You want to ensure your priorities are captured in the Budget Policy Statement because once it is approved, there is no chance of reallocating funds across sectors.

The equivalent document of the BPS at the county level is the **County Fiscal Strategy Paper (CFSP).** Unlike the BPS, the CFSP is tabled in the county assembly for approval no later than **28th February** and should be made available to the public within 21 days of being tabled.

Another major difference between the two documents is that the CFSP **does not** contain information on division of revenue, but it should provide comprehensive information on all the Ps (Performance, Projections and Priorities) and the C (Ceilings).

National Budget Estimates

The Public Finance Management Act 2012, section 37, requires the National Treasury to prepare Budget estimates every year. The Cabinet Secretary shall submit the budget estimates to the national assembly for approval by **30th April** every year. The budget estimates are the final document in the budget process, setting the total spending at the level of sectors and programs. The budget estimates are also referred to as the programme-based budget (PBB) due to their nature of breaking down the budget at the programme and sub- programme level. Once the budget is approved by the national assembly, it is referred to as the Appropriation Act which now becomes the budget for the coming year. The budget estimates are required to be approved by **June 30,** for budget implementation to begin on **July 1.**

At this level, our concern should be on the programme and sub- programme level budgeting. All sectors'/ministries/ departments have programmes and sub-programmes. For example, under the State Department for Higher Education and Research, we have three programmes: University Education Programme, Research, Science, Technology and Innovation Programme and General Administration, Planning and Support Services Programme. The budget estimates allocate budgets to all programmes across all sectors/ministries/ departments. Further, below the programme level, the budget estimates allocate budgets for all the sub- programmes. At this point, we want to ensure that the programmes which we want prioritized in the coming year are allocated enough resources for implementation.

At the county level, we have the **County Budget Estimates** which are prepared by the county treasury and tabled to the county assembly by **30th April** for approval. The document should be approved by **30th June** same as the national government budget estimates. Both documents provide information on budget allocation below the sector level i.e. at the programme and sub-programme level.

National Finance Bill

This is a Bill that is usually tabled in the National Assembly **two months before the end of each fiscal year (April 30th)** by the Cabinet Secretary for National Treasury and Economic Planning. The Bill contains proposals relating to **revenue raising measures more so on the collection of taxes for the financing of the next financial year's budget.** Primarily, the Finance Bill amends the Income Tax Act, Value Added Tax Act, Excise Duty Act, Miscellaneous Fees and Levies Act as well as the Tax Procedures Act. The Bill further seeks to amend other incidental Acts that impose certain fees and levies or are in a certain way related to taxation. For example, the Finance Bill 2024 proposed to amend the Affordable Housing Act, Industrial Training Act and the Data Protection Act.

At the County Level, the Finance Bills are also passed within **90 days** after the approval of the county budgets. To avoid any conflicts in the imposition of taxes between the national and county governments, article 209 outlines various taxes which the respective governments may impose. The national government is empowered to levy income tax, value added tax, custom duties and other duties on import and exported goods, and excise taxes. Conversely, county governments are authorized to impose property taxes, entertainment taxes and any other taxes outlined by an Act of Parliament. **It is vital to note that while the national government can impose taxes beyond those listed, it cannot levy taxes exclusively authorized by the constitution for the County Government.**

As a student, understanding taxation is important since it is the main way in which government budgets are financed for the realization of the commitments highlighted by the budget documents. Taxation further enhances the social contract by requiring every person in Kenya to contribute their fair share of revenue, and in return the government accords certain services and benefits for the public's good. However, when tax policies are based on inequitable principles, taxpayers may be disinterested in paying tax leading to tax avoidance or evasion. This results in revenue shortfalls and a heightened reliance debt for the government to realize its commitments.

Therefore, it is important to assess these new measures of taxation being introduced, their effect on various businesses in terms of added burdens, and their overall impact on economic livelihoods. At this level, our concern should thus be to understand the taxation measures being adopted by the Finance Bills, their rationale, and the extent to which they aim to promote equitable and effective principles of taxation. Further, we should have such understanding to publicly engage with policy makers as well as fellow citizens in advocating for effective and equitable tax measures.

National Government Quarterly Budget Implementation Reports

The Public Finance Management Act 2012, section 83(5) requires the accounting officer for the national government to prepare quarterly reports for each fiscal year. Providing financial and non-financial information on the performance of the quarter. Additionally, the Controller of Budget is required to provide information on implementation for both the national and county governments. Within **45 days** after the end of each quarter **(November 15, February 15, May 15 and August 15)** the National Treasury is required to table a quarterly budget implementation report to the National Assembly with copies of the reports to Controller of Budget, Auditor General and the Commission on Revenue Allocation. These reports are also required to be made publicly available. Throughout the implementation of the budgets, the national assembly, and the public oversight the execution of the budgets. The implementation reports allow the National Assembly and the public to keep track of the executive as they implement the budget. They provide financial and non-financial information about performance of the budgets, both revenue and expenditure performance. For example, when we talk of revenue performance, how much revenue has the national government been able to raise in the quarter? What are the implications of revenue performance to citizens' priorities? Are there any solutions put in place to ensure challenges encountered are addressed?

While the law is silent on public engagement during this stage, we as students should take an initiative to interact with the reports and engage the county executive on some of the challenges encountered during implementation. Effective implementation of our budgets ensures citizens' needs are met.

At the county level, the county treasuries are required to publish **County Quarterly Budget Implementation Reports** within **30 days** after the end of each quarter (October 31, January 31, April 30, and July 31). The reports provide information on revenue and expenditure performance.

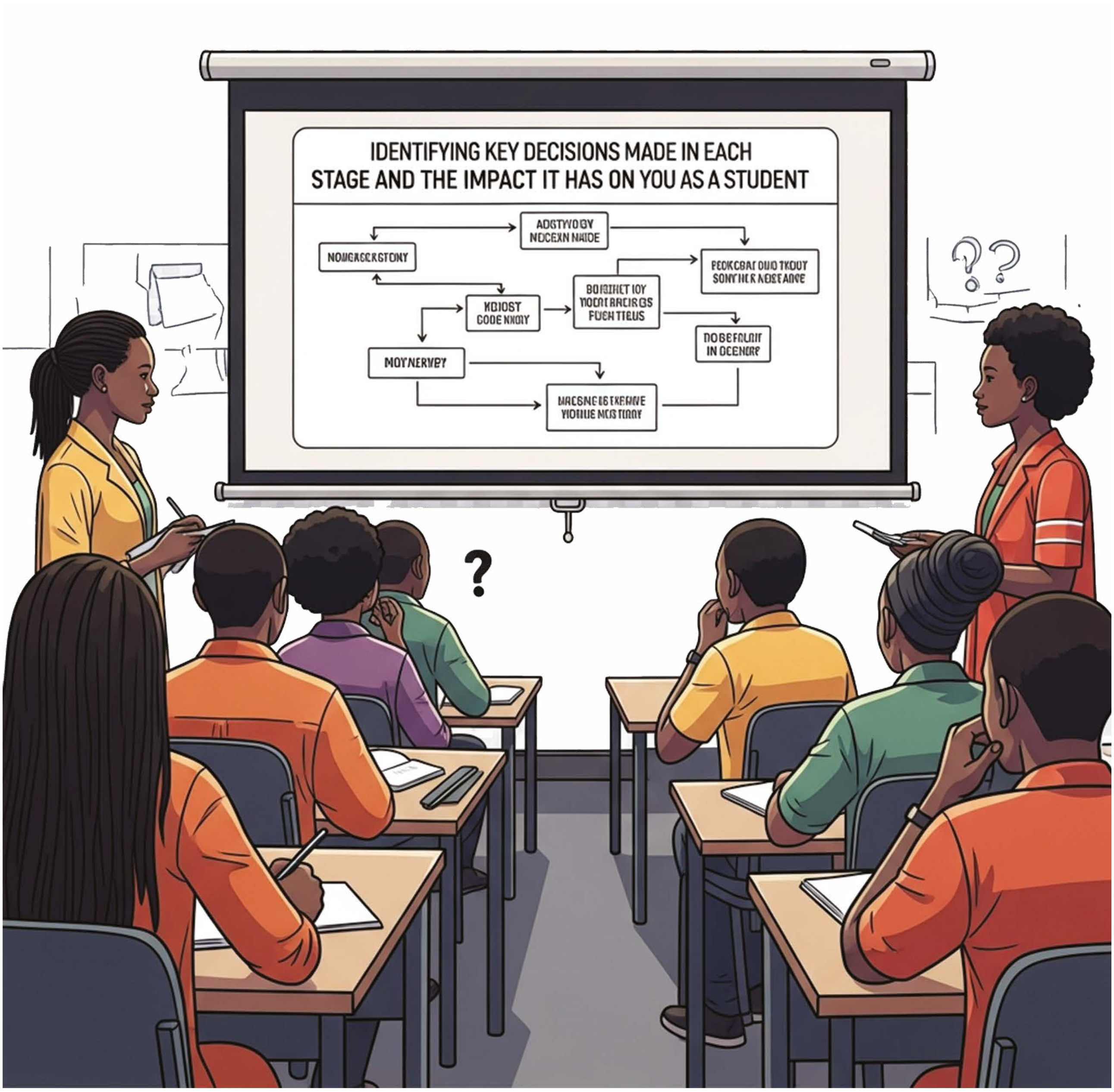
Audit Reports

Audit reports are the final key budget documents that are produced once the entire budget process is completed. They are independent evaluations, i.e. the Office of the Auditor General establishes whether each Ministry, Department and Agency (MDA) prudently utilized resources during the implementation stage. They all receive independent opinions.

Article 229 of the Constitution of Kenya 2010 requires the Auditor General is to produce the Audit Reports within six months after the end of each fiscal year. By **31st December,** the OAG is required to have submitted the reports to the national assembly and publish the reports within 14 days of submitting the reports to the national assembly. The Auditor general conducts several audits, but the primary audit conducted are the financial audits. The reports consider whether MDAs financial information is accurate (free from error) and presented in accordance with the applicable financial reporting and regulatory requirements. After evaluating revenue and expenditure disclosures in the MDA financial statements every year, the OAG gives an audit opinion:

- **Unqualified opinion- The OAG is convinced the funds were managed properly.**
- **Qualified opinion- The OAG identified problems in the management of funds which can easily be rectified.**
- **Adverse opinion- The OAG identified problems that require considerable changes to be rectified.**
- **Disclaimer opinion- The OAG was not provided with enough information to form an opinion.**

At the county level, each county executive and assembly receives an independent opinion from the OAG. The timeline for the **audit report** publication is **31st December** every year.



Module 3.2. Opportunities for engagement with key policymakers

Overview of the state of public participation in Kenya

As the national and county governments exercise their duty of managing public resources, the law mandates them to engage the public throughout the budget process stages. Ideally "Budgets work for the people" hence their input plays a key role in ensuring citizens' priorities are well captured in the budgets. The law allows the public to either engage the government directly or indirectly through their elected leaders. There are different forms in which the public can directly engage the government in the budget process: Through public participation forums organized by the responsible arm of the government and through written submissions.

The Public Finance Management Act 2012, section 137, mandates every county government to establish the County Budget and Economic Forum (CBEF). The forum is another platform through which the public can be engaged in the budget making process. The forum consists of members of the county executive committee(state)and an equal number of constituent representatives from the public(non-state). The non- state actors represent their constituents in the forum by championing for their priorities to be captured in the budgets.

In all budget stages, the public has an opportunity to engage the government and there are different arms of the government responsible.

Opportunities for Public Engagement

STAGE ONE: BUDGET FORMULATION			
TIMELINE	KEY BUDGET DOCUMENT		PUBLIC ENGAGEMENT
August 30	National . Budget Circular	County . Budget Circular	Although the document does not require public input, it provides details on how public participation will be conducted.
September 1		Annual Development Plan	The County Executive engages the public in identifying programs, projects and interventions that are in line with the strategic priorities for the fiscal year before 1st of September. The County Assembly also engages the public on the same before approving the document.

October 21	National Budget Review and Outlook Paper	County Budget Review and Outlook Paper (CBROP)	Public review on the revenue projections and provisional ceilings.
November-December	Sector Working Group Hearings at the national level	Sector Working Group Hearings at the county level	During this period, the public engages with the various sector working groups on priorities for the coming year and gives them a chance to bid for additional resources from the budget. This gives the public an opportunity of deciding which sector receives more funding and for what.
February 15	Budget Policy Statement	Counties align CFSP to BPS	Public input between Feb 15 to Feb 28 at national level.
February 28	Budget Policy Statement	County Fiscal Strategy Paper	The County Executive engages the public in their priorities before it is tabled to the County Assembly. The County Assembly conducts its own public participation before approving it.
April 30	National Budget estimates	County Budget Estimates	The public is engaged on budget allocation at the programme level.

STAGE TWO: BUDGET APPROVAL

TIMELINE	KEY BUDGET DOCUMENT		PUBLIC ENGAGEMENT
June 30	National Appropriation Act	County Appropriation Act	Parliament and County Assemblies have the period in May to engage the public on the estimates.

STAGE THREE: BUDGET IMPLEMENTATION

TIMELINE	KEY BUDGET DOCUMENT	PUBLIC ENGAGEMENT

October 31(County) November 15(National)	1st quarter budget implementation report.	1st quarter budget implementation report.	Keep track of the Executive and give feedback to the National or County Treasury.
January 31(County) February 15(National)	2nd quarter budget implementation report.	2nd quarter budget implementation report.	Keep track of the Executive and give feedback to the National or County Treasury.
April 30(County) May 15(National)	3rd quarter budget implementation report	3rd quarter budget implementation report.	Keep track of the Executive and give feedback to the National or County Treasury.
July 31(County) August 15(National)	4th quarter budget implementation report	4th quarter budget implementation report.	Keep track of the Executive and give feedback to the National or County Treasury.
STAGE FOUR: BUDGET AUDIT			
TIMELINE	**KEY BUDGET DOCUMENT**		**PUBLIC ENGAGEMENT**
October 21	National Budget Review and Outlook Paper	County Budget Review and Outlook Paper	The public reviews previous financial year's budget performance.
December 31	Audit Report	Audit Report	The public utilizes the OAG to hold the government accountable

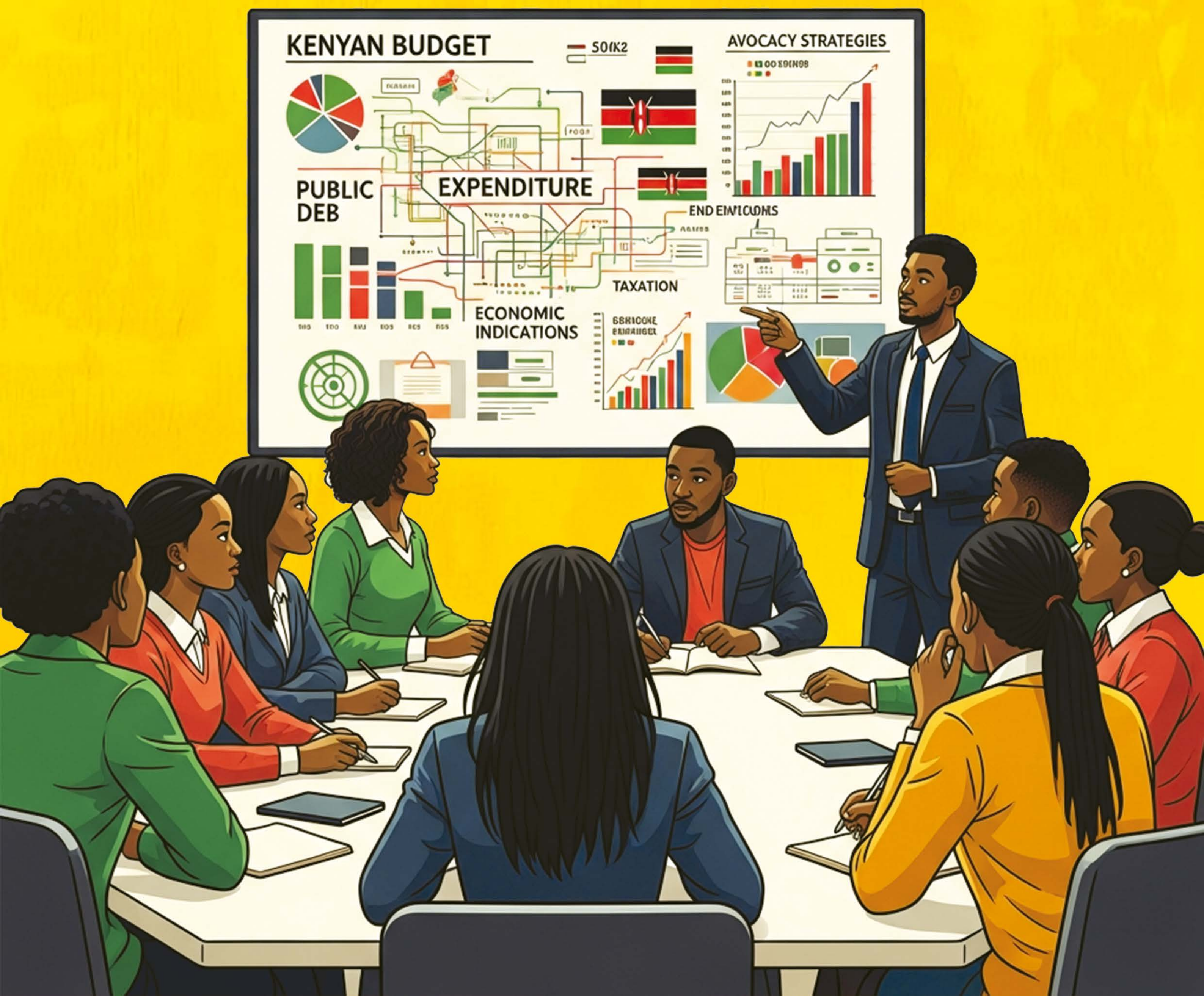
Key Takeaways

- CGA 2012, section 104 provides that no funds should be appropriated in the budget unless provided for in a proper planning framework.
- The Budget Review and Outlook Paper is a backward looking and forward- looking budget document that falls in two budget stages i.e. audit stage and formulation.
- The Budget Policy Statement has five key elements which are summarized as three Ps, 1C and division of revenue. These elements are Priorities, Performance, Projections, Ceilings and Division of Revenue.
- The budget should be program-based.
- In all budget stages, the public has an opportunity to engage the government and there are different arms of the government responsible.

Further Reading Materials

- Other Sources of Budget-Related Information in Kenya
- Kenya's Budget Process under the PFM Act 2012

Module 4. Introduction to Budget Analysis and Advocacy



Session objectives

At the end of the session, the students will have understood:

- The role of the budget in the Kenyan social contract.
- How to develop your skills in budget analysis.
- How to apply budget analysis to policy evaluation.
- Advocacy and its key characteristics.
- The role of evidence in effective advocacy.
- The "what is" and "what should be" in relation to student needs and government policies.
- Practical strategy for advocating for change in specific areas.

Resources Needed

To run this session, you will need:

- Case study I
- Case study II

How to run the session

- In plenary, engage the students on budget analysis i.e., the importance of budget analysis, steps of budget analysis and use of valid documents in budget analysis.
- Engage the students on activity 1.
- In 30 minutes, ask the students to read the case studies I and II and answer the questions provided in activity 2.
- In plenary, engage the students on advocacy i.e., what, when and how of advocacy, the importance of advocacy and importance of evidence for informed advocacy.
- Engage the students on activity 3.

Background

As you have learned about budgets and the processes of developing a budget, in this session, we will situate the budget in the context of Social Contract and discuss how, students as part of the wider society - a party to the Social Contract, can play a role and responsibility of ensuring that budgets are designed and implemented to deliver the commitments of Social Contract through analysis.

"Without a budget, it is almost impossible to compare various competing needs in any fully objective way; nobody can prove that a wider highway is more important or useful to society than better paid teachers, or the other way around. The development, implementation and reporting of the budget all require technical understanding of the PFM process. In addition, as budget outcomes also may depend on political and economic factors, it is further important to understand the politics of the budget cycle thus the essence of learning about the social contract.

What is a Social Contract?

A social contract is a fundamental and evolving idea/concept in political philosophy that explores the legitimacy of a state's authority over its citizens. It proposes that this authority stems from an agreement, either explicit or implicit, between the people and their government. A social contract is characterized by the following:

1. **An agreement:** People (the governed) agree to surrender some of the power and freedoms and submit to the government in exchange for benefits, protection of remaining rights, maintenance of social order and access to public services and infrastructure.
2. **Pegged on existence of the state of nature:** The theory often imagines a hypothetical "state of nature" where individuals existed without government, potentially in a chaotic or dangerous condition.
3. **It creates law and order:** Social contract theory argues that law and political order are not natural but created by humans to ensure a better life.
4. **Its success depends on the benefits and obligations of parties:** The social contract

is a two-way street - on one street, citizens have obligations like obeying laws and paying taxes while on the other, the government has obligations to protect the rights and well-being of its citizens.

Budgets as a tool of social contract in the Kenyan context

Post-2010 period introduced significant changes in the nature of the public budget process in Kenya that made the government budget a tool for achieving several purposes as part of the social contract.

First, the Constitution of Kenya 2010, commits the government and its agencies to the progressive realization of various socio-economic rights (Chapter Four of CoK 2010) within the constraints of available resources. These rights include the right to education, healthcare, housing, social welfare and others. Analysis in this area looks at the effectiveness and accountability of public service delivery systems in executing the Social Contract, including planning and budgeting, expenditure management, performance monitoring systems, and oversight systems. The effectiveness of these systems can be established by monitoring their information outputs among other factors and indicators for an effective Social Contract.

Second, the budget is a balancing tool containing two parts that reflect the choices that the government must make to achieve its economic and development goals and deliver its bargain of the Social Contract. In the first part, the government sets out what it is going to spend (expenditure) and in the second part, the budget outlines the income it collects (revenue), which it needs to finance the expenditure ensuring balance between the planned expenditure and expected revenue. Analysis in this context reviews key elements such as overall growth of the budget, the government sectors and ministries receiving higher allocation shares and the basis for such allocation as well as within sectors or ministries priorities in the context of the social contract. Analysis also looks at revenue estimates, focusing on specific streams, their previous performances, exploring the concepts of equitable taxation, and generally whether the budget is balanced and where any deficits or variations between the

budget and revenue are to be financed. The taxation aspect represents the end of the bargain of citizens in the social contract. Another balance, which is of interest to budget analysis, is between and among competing priorities: more for health versus education or, social programs where needs of youth and other interest groups are catered for versus infrastructure, etc.

Third, the budget also contains a collection of the choices and actions that the government intends to implement to achieve its political, economic and development goals. Using the budget, the government translates its policy goals and political promises contained in manifestos to public goods and services. The more immediate goals of applied budget analysis are to assess whether government budget priorities are consistent with declared policy objectives, and that the financial resources allocated to priority areas are commensurate and subsequently, expended fully and properly.

Module 4.1. Introduction to budget analysis

The Importance of budget analysis

Budget analysis is a thorough and detailed review of the budget that involves the collection, study and interpretation of budget data, the correlation of budget data to other relevant information such as state policies and programmes, or prior performance, and the establishment of findings and results. Analysis aims to provide data and information that is credible, accessible, and makes a timely contribution to policy debates, with the purpose of affecting the way budget issues are decided, and decisions are made.

Budget analysis is undertaken through various perspectives. Some groups assess financial arrangements covering national and sub-national goals. Others scrutinize the effects of budget decisions on programmes that affect vulnerable sectors, while others study the relationship of spending for one function against another (for example, health service spending or debt service compared with economic development). Still, others analyse budget process issues, policies, and institutions for example whether the budget making process is participatory and accessible to the marginalized, or the effectiveness of oversight institutions such as the legislature. Other groups undertake budget analysis through a very technical lens; this includes classifying expenditures by major and minor headings (function or nature of expense), looking at budget figures in terms of economic classifications, studying new allocation items, and understanding the government's development plans as expressed by budgetary allocations. Other analysis combines one or more of these perspectives.

Getting started with analysis

It is essential to have a proper perspective on why events unfold as they do to provide the best possible analysis of budgets and budget recommendations. It is important to understand the governance structure and how the budget caters for the various levels of government, ministries, and departments as well as their respective missions, visions and the processes involved in allocating resources across the various units and their relationships. Finally, it is important to know how to effectively communicate

detailed information, which in many instances is perceived as negative feedback. Communicating findings is facilitated by the presentation of information verbally in summary form, using graphs and diagrams.

Good budget analysis work requires proper preparation involving several steps.

- Learn the process by which the budget is prepared. First, it is important to become familiar with the process by which the government budget is prepared and identify the key players in the budget process. This involves securing a copy of the Public Finance Management Act 2012 (PFMA), Treasury Regulations, and other guidelines on budget preparation. By carefully studying financial legislation and corresponding guidelines, one would gain the initial information and knowledge needed to begin analyzing the budget.
- Become familiar with terms used in the budget. It is important to become familiar with the various terms used in the budget. The commonly used terms and the terms you may interact with most are concepts like recurrent, development (capital), Personnel Emoluments/Compensation to Employees, Operating and Maintenance (O&M), conditional grants, Own-Source revenues. The PFM has several other terms you may want to learn about, and we have provided you with reading materials to cover this.
- Learn how to read the budget. It is also important to learn how to read the budget, as well as to know how the budget is classified and what each classification entails. It is essential to understand how to read the figures to determine their implications. Consulting experts and others already engaged in budget analysis would be of assistance. In addition, studying the budget guidelines prepared by the National Treasury would also be of use.
- Analyse the government's development plans. As the budget is - or should be - tied to the government's development plans, it is important to assess these plans. This involves securing copies of such development plans, such as CIDPs/MTEPs, ADPs, CFSP/BPS, and policy programmes such Access to Government Procurement Opportunities (AGPO) and

carefully analyzing them in order to determine their impact on the country and how the budget addresses itself to these plans.

Accessing and using valid budget documents for analysis

The integrity and credibility of your analysis is an important principle. Considering the possibility that budget analysis may unearth issues that the government may view as criticisms, safeguarding the accuracy of your data sources is paramount. Also note that, the success of a budget analysis is subject to access of the necessary data and documents which is a transparency and disclosure issue that your journey to budget analysis may encounter. Therefore, your safeguards begin with the validity of the documents your analysis is based on.

The annual national or county budget of a country is usually published in a printed version or in an online publication by the Ministry of Finance or department of Finance and Economic Planning for the case of counties. Sector, ministries and departments have their sector budgets consolidated in the overall budget.

Activity 1

In this short exercise, have students experience the ease or difficulty of accessing budget documents. In groups, ask students to access and download.

1. The approved budgets for the national government for the year 2023/24.
2. The estimates for 2024/25.
3. QBIR's for quarter two for Laikipia and Narok countries. If they do not find them from the website, guide them to alternative QBIRs from OCOB.

Then, identify a county with numerous versions of the budget online and ask students to discuss and identify the valid document, giving reasons for their choice.

In plenary, discuss.

1. How difficult or easy was it locating the documents?
2. Discuss which document was easy to find?
3. Discuss the pros and cons for using alternative sources of information such OCOB QBIR reports in place of county QBIRs, and how to safeguard against claims of inaccuracy of data and information obtained from other sources.

Developing and implementing a research and analysis plan

Successful budget analysis follows a step-by-step process. There are four or more stages of budget analysis containing the tools and techniques required for each stage. These stages are discussed below.

Step 1: Identify the problem and level of government to focus

The first step in analysis starts with identifying the problem or purpose of the analysis. What are we analyzing and why?

To begin your analysis, define and focus your budget information: Identify a specific and relevant problem/challenge, a gap at a specific level of government, ministry, or department.

For example, if you want to investigate and demonstrate the negative effects of budget cuts on education outcomes (challenge), you want to start by identifying the level of government in which your issue falls.

Education is a devolved function in Kenya, with primary and tertiary education allocated to the national government while Early Childhood Development (ECD) and Vocation Training are allocated to the county government. Once the issue is situated, it then follows understanding how funding flows between levels of government and institutions. To focus and select one or more levels of analysis, it is necessary to understand these flows and the responsibilities of officials at each level: which level of government is responsible? Which arm of government has what mandate on the

issue? Which program within the budget for the State Department of Education does the challenge fall?

Please note that financial transfers within a sector can be complex, interdependent and one must understand how to navigate the budget to properly conduct analysis. In this challenging example of budget cuts, your analysis may focus on the national government's State department of Education and Research because it has the sole mandate for the function. The State department is allocated funding, by the National Treasury, from tax collected nationally as well as grants from development partners, and is approved by Parliament. Within the Ministry, resources flow to the various programs and subprograms where the University Education function is based and is allocated performance measurements: Outputs, Key Performance Indicators and Targets from which the funding is allocated to achieve.

Step 2: Know the budget context

2.1 Know the political environment

A high-level analysis of the budget gives a hint on what the government cares most about. For example, if you look at the budget summary from highest allocated sectors to lowest, while also comparing sectors with highest change in the year compared to the previous, then you will start to realize the most important priority for the government. This is either in line with their political manifesto or national policy or a combination of both.

You may also want to assess the power dynamics within the governance framework - who has what kind of power over the budget and who needs what kind of persuasion? Such information is important as it will enable you to shape your analysis strategically to respond to the power dynamics during your advocacy (more on this is discussed below). Questions such as:

How does the issue affect the legislature in their role of oversight? Are they allies and how do we frame the analysis to complement their role in the budget process?

How do we frame the value proposition of the analysis to complement the government's overall political goals for education outcomes?

Who else is affected by the issue, in which ways and what power over the government do they have? Can we mobilize professionals, school heads and parents' associations on this issue? How does this issue affect them?

2.2. Study the legal framework governing the budget and the various functions

The Constitution 2010, PFM Act 2012, County Government Act 2012, and several regulations are the primary documents that govern the PFM and governance process in Kenya. You also want to review international conventions that the country has signed depending on the issue of interest. Overall, an analysis or study of the content of the relevant legislation gives an overview of the concrete obligations of the state that must be reflected in the budgets, the roles and responsibilities and the opportunities for engagement with the various stakeholders. It also helps you to identify the documents that are produced at the various stages of the budget and how to influence each relevant document at the right moment.

Key questions:

1. What is stated in the constitution?
    - democratic principles?
    - right to participate?
    - right to information?
2. Is there a national development plan?
3. What are the rules for public participation?

4. Are there complaint mechanisms?

5. What themes are given prominence in developments.

Step 3: Implementing your plan of analysis

"Don't tell me what you value, show me your budget, and I'll tell you what you value."
— Joe Biden

The nature of the challenge and stage at which the issue falls in the budget cycle determines the approach your analysis takes. There can be many ways to conduct budget analysis and therefore, it is important to select the right method of analysis. For this phase of the training and based on the identified challenges, we will delve into how the students can apply budget prioritization, distribution, and growth analysis to assess how the budget addresses itself to the challenges identified by the students and their constituents. In our next phases, we will cover other budget analysis methods such as budget tracking and budget monitoring; scorecards; and social audits, to enrich the knowledge and equip the students with a diverse set of tools and techniques.

Budget distributions and growth

The analysis budget of budget prioritization, distribution and growth aims at establishing what the government has emphasized in its budget overtime. Through this method, you will study the distribution of the total budget across various institutions/ministries and levels of government which signifies sector/subsector and ministerial level priorities.

Module 4.2. Introduction to budget advocacy

Activity 2

At the beginning of the session, students will review two case studies provided below and discuss the questions below.

1. In the two cases, what was the problem?
2. What actions were taken to achieve the results in the respective cases?
3. How would you describe Rolando Villamero Jr and Salathiel Ntakirutimana role in the two cases?
4. What is common about notable personalities?

The exercise is intended to prepare the students to start thinking about advocacy and learning that advocacy is possible as the premise for this session. They learn who an advocate is, how to identify problems and the actions the advocate takes to achieve change.

Case study 1

Salathiel Ntakirutimana, Global Youth Ambassador, noted that peace agreements in Burundi made it seem as if education was improving when schools began to open, and security was better. But school fees made education impossible for orphans, refugees and others affected by war. Salathiel said: "Like some of my friends, I had just lost both my parents during the civil war, and I could not afford to pay for school materials and fees. I was suspended from class, with the worry that failure to pay fees for the trimester would result in expulsion." He acted, helping to set up clubs for orphans across the country and going on radio to explain the problem. The education minister supported their cause, and orphans were soon allowed to go to school for free.

Case study 2

Getting the children's needs integrated into mainstream education had been identified as a priority – but teachers lacked resources and knowledge to help. It was decided that talking to and teaching student teachers to influence what they thought about special needs education was the way ahead – and the Caravan for Inclusion began a tour of the country. Rolando Villamero Jr said: "The push for inclusive education came from young people themselves. They were being denied their rights and we wanted to support them. We had no money, but we made use of everything we could." After three months more schools were teaching special needs children, more people believed it was possible and their support for inclusive education was much more widespread.

Notable personalities

Mahatma Gandhi challenged injustice and inspired the world to change through nonviolent action

Ida B Wells-Barnett campaigned for women's rights to vote and African American rights

Shirin Ebadi works towards achieving gender equality and children's rights in Iran

Martin Luther King spoke out for civil rights for black people in the United States

Nelson Mandela fought for the end of the apartheid in South Africa

Malala Yousufzai is a Pakistani activist for female education and the youngest Nobel Prize laureate

What is advocacy, when, how and for what do we use advocacy?

Advocacy is an action taken by a group of people or individuals with the intention of influencing decisions within political, economic, and social institutions. Advocacy includes activities and publications to (subjects) influence public policy, laws, and budgets by using (tools) facts, leveraging alliances and relationships, the media, and messaging to communicate to public officials and the public. Advocacy strategies may include many activities that an organization or group of people undertake such as media campaigns, public speaking, commissioning, and publishing research. While lobbying is a form of advocacy to influence a specific issue e.g. piece of legislation that affects organization's interest's public interest.[1]

Advocacy represents the series of actions taken and issues highlighted to change the "what is" into a "what should be", considering that this "what should be" is a more decent and a more just society, Cohen, de la Vega, and Watson (2001). Those actions, which vary with the political, economic, and social environment in which they are conducted, have several points in common. For instance, they:

- **Question the way policy is administered**
- **Participate in the agenda-setting as they raise significant issues**
- **Target political systems "because those systems are not responding to people's needs"**
- **Are inclusive and engaging**
- **Propose policy solutions**
- **Open space for public argumentation**

For this Boot Camp, we are focusing on budget advocacy in which we aim at ensuring proactive engagement of Students with the government budget and policy to make these public instruments more responsive to the needs of Students and their communities, and subsequently, make the government more accountable to the people and promote transparency.

What does advocacy mean for you as a student?

As students, like any other member of Kenyan society, we have experienced shortcomings in the amenities, facilities and services extensively used by Students. The fact you can pinpoint a challenge, hindrance and obstacle in service access, quality, the use of amenities and facilities means you have a desired state in which that service, amenity and facility should be. Caring about an issue that you believe needs to change is a starting point to being a good advocate.

Therefore, by becoming an advocate, you can help to address a problem that you feel strongly about. Change can mean different things - from improvements to an existing service, providing for a need that ought to have existed and improving processes, system functionality for efficiency, effectiveness, accessibility or to promote equality for you or others.

An advocate, with others, will identify the things that are most likely to lead to the desired change, gather the persuasive evidence necessary and consider the best way to find a solution. Advocates organize themselves to take steps to tackle a common issue by synergizing and taking advantage of collective voices to cause the necessary change.

Plenary exercise: Now that we understand what advocacy is and agree that advocacy is an action that leads to a desired change, let us discuss our "what is' ' and "what it should be".

Importance of evidence for informed advocacy

Advocacy can be done by a wide range of techniques including campaigning, social media campaigns, demonstrations, launching petitions and mobilizing others to act. Advocates work to find ways to organize evidence, attention, and action to create positive change.

Research – of the facts about the issue, the problems it causes and workable solutions – is important to be able to persuade people to your way of thinking. It is said that good advocacy speaks to "hearts, minds and hands" by making people care about the issue, understand the facts, and know what they can do to help.

Activity 3

In groups of five, students will engage in an advocacy exercise following the steps below.

- Step 1 - Assess the Situation/Identify the "what is"
- Step 2 - Establishing the Goal(s)/ Establish your "what it should be"
- Step3 - Developing Your Strategy and Messaging
- Step4 - Test Your Strategy
- Step 5 - Group Debrief

Group1: Effects of reduction in university funding on learning outcomes (quality included?) and access to services and important amenities and facilities.

Group2: Access to reproductive health by students and how friendly health facilities are to young people.

Group3: Effects of limited participation of students and, how misalignment of budgets and policy programs to needs, create inequalities and marginalization.

Group4: Effects of mounting public debts and inadequate revenue performance at both levels of governments on access and quality of reproductive health by students, limited friendliness of health facilities to young people, inadequate access and sanitation at school and home.

Group5: The case of the Kenyan economy failing to accommodate the number of graduates and effects on the vicious cycle of poverty in Kenya.

Key takeaways

- The social contract concept is a fundamental and evolving idea where people or citizens of a particular country donate their power and freedoms to the government in exchange of public benefits and protection.
- The budget is a key tool for achieving the objectives of a social contract. It outlines government's expenditure plans to deliver services and public benefits while also detailing how much the people will contribute towards such expenditure through revenue.
- Budget analysis entails a through and detailed review of the budget including the collection, study and interpretation of budget data, the correlation of budget data to other relevant information such as state policies and programmes or prior performance and the establishment

of findings and results.

- Proper budget analysis requires thorough preparation which entails understanding the budget process, budget terminology, reading the budget documents and analyzing the government's development plans. To maintain integrity and credibility of the analysis, it is crucial to rely on legitimate and certified documents by the government which are published and publicized through government websites.
- A successful budget analysis follows a step-by-step process which includes identifying the problem and level of government to focus on in your research; knowing the budget's political and legal context; and implementing the analysis which may involve examining budget priorities, distribution, and growth.
- Advocacy is a collective action aimed at influencing decisions within political, economic, and social institutions to create a more just and equitable society.
- It involves various tools and strategies, including facts, alliances, media, and messaging, to influence public policy, laws, and budgets.
- Evidence-based advocacy relies on research and data to persuade and create positive change.
- This boot camp focuses on budget advocacy, empowering students to engage with government budgets and policy to ensure they address student needs and promote accountability and transparency.

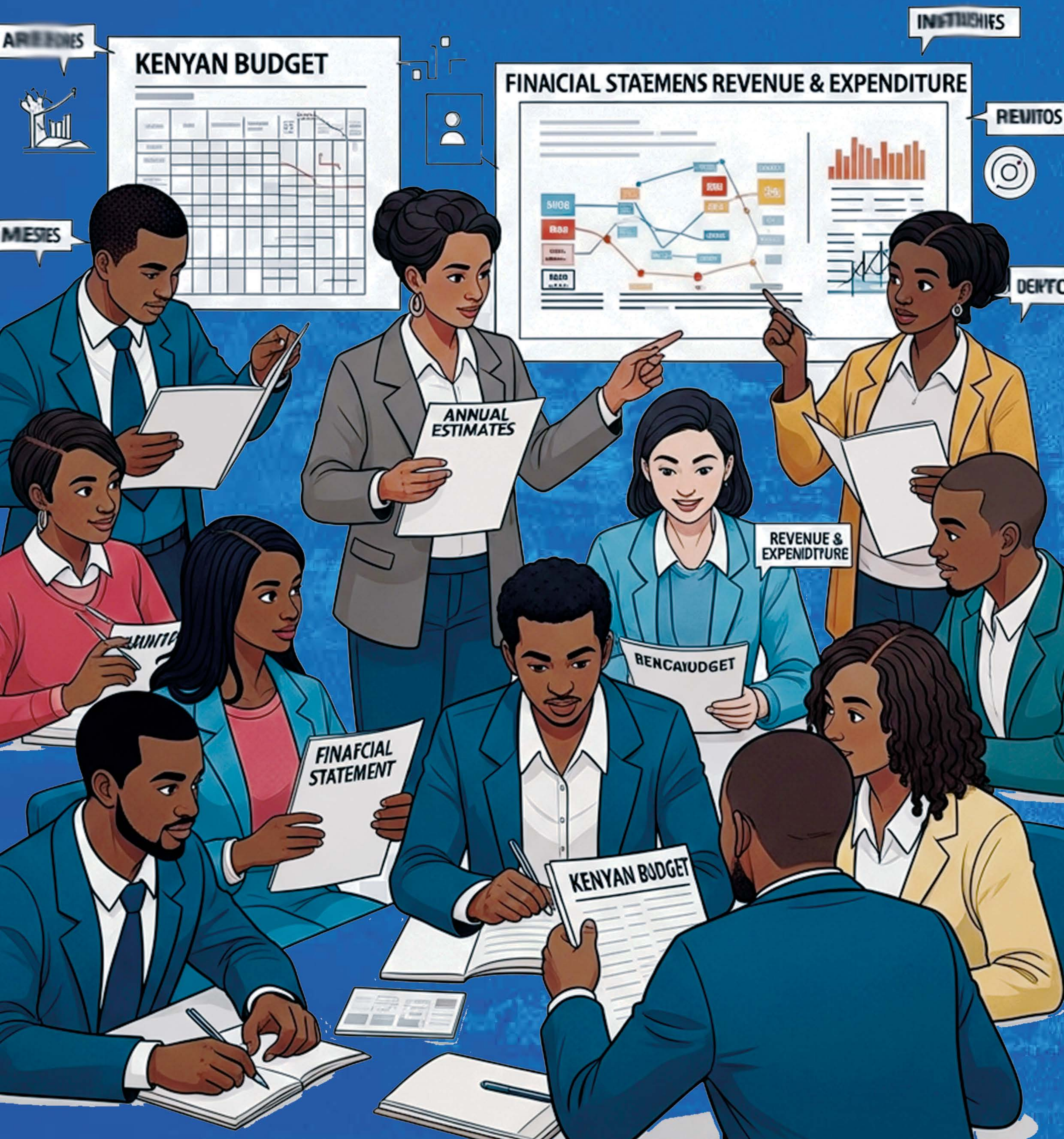
Further Reading Materials

IBIS Education for Development, "Toolbox for Budget Analysis Guide" https://oxfam.dk/documents/artikler/toolbox-for-budget-analysis-guide.pdf

https://www.path.org/who-we-are/programs/advocacy-and- policy/advocacy-resource-hub/

https://www.gndr.org/resource/advocacy/national-advocacy- toolkit/

Module 5. Reading and Understanding Key Budget Documents



Module 5.1. Annual Development Plan (ADP)

Session Objectives

At the end of the session, the students will have understood how:

- To read and fully understand the Annual Development Plan and its contents.
- To identify how the decisions made in the ADP impact student needs.

Resources needed

To run this session, you will need:

- Kwale County Annual Development Plan FY 2022/2023.
- Home County ADP.

How to run the session

1. Introduce the Annual Development Plan. Highlight the timeline, key actors, key decision made and its linkage to the County Integrated Development Plan.
2. Provide the trainees with copies of ADPs that you shall be analyzing.
3. In plenary, with the trainees, answer Q1-Q3.
4. In groups, use the same set of questions to analyze your home county ADP.
5. Come back to plenary for group presentation and discussions.

Questions and Answers

1. Does the ADP identify priorities[iv] within the sectors?

Prioritization means deciding that some things are more important than others. Yet, it is not always clear what is considered more important and what is considered less important. It is important to set clear priorities as resources are scarce amid many competing needs. The ADP informs programme-based budgets in the counties which are prepared in a medium term (3-5 year) structure and the plans should therefore have overall medium-term priorities that the county aims to achieve in the period. Because the ADP is a one-year plan that is drawn from the five-year CIDP, the medium-term priorities in the ADP should draw on the CIDP. In general, we need to see a logical flow from broad strategies and priorities in the CIDP, to more detailed approaches to meeting those strategies and priorities in the ADP and then the budget.

On Page 22, the Kwale County ADP highlights five-point strategic priorities that shall inform the county government budget allocation to sectors, programmes, and sub- programmes[v] during the financial year. The strategic priorities were informed by the CIDP, Kenya Vision 2030 and Sustainable Development Goals. The second strategic priority speaks to the county's focus on the health sector as shown below.

"Guaranteeing access to universal healthcare through the continued expansion, equipping and adequate staffing of health facilities."

To achieve this, the Kwale County ADP highlighted several strategic priorities within the sector and interventions through which the priorities will be achieved as shown below (Page 191).

Figure 1: A Snippet of Kwale County ADP FY 2022/2023 (Page 191)

Strategic Priorities	Strategic Interventions
To enhance agricultural productivity for food and nutrition security.	• Provision agricultural mechanization services • Develop agricultural mechanization bill • Provision of certified seeds, fertilizers and other farm inputs • Establish agricultural revolving fund • In cooperate national policies and strategies
Micro irrigation and promotion of drought tolerant crops	• Provision of drought tolerant certified seedlings, seeds and cuttings • Seed bulking • Provision of shed nets, micro irrigation kits • Rehabilitation of existing irrigation projects

Source: Kwale County Annual Development Plan FY 2022/2023

County budgeting should then be guided by the interventions highlighted in the ADP towards attaining the overall strategic priority.

2. Does the ADP identify programmes within the sector?

The ADP should show priorities organized under programmes in the same format as the county's programme-based budget. The document should capture which priority programmes (both recurrent and development) will be funded by the county during the financial year. Programmes point to the objectives that the county wants to achieve and the activities that are needed to meet these objectives. Additionally, it makes it easy to track programmes between the ADP and the PBB.

Kwale County ADP has provided three programmes under the Health Sector: Administration, Planning and Support Services, Preventive and Promotive Healthcare Services and Curative and Rehabilitative Health care services. For each, the ADP has provided for the sub-programmes, outputs, indicators, targets, and resource requirement as shown below (Page 195).

Figure 2: A snippet of Kwale County Annual Development Plan FY 2022/2023 (Page 195)

Programme Name: Preventive and promotive healthcare services					
Objective: To reduce disease burden associated with unhealthy Lifestyles					
Outcome: Reduced Health risk factors, diseases and environmental health risk factors					
Sub Programme	**Key Outputs**	**Key performance Indicators**	**Baseline (Current Status)**	**Planned Targets**	**Resource Requirement (KSHS)**
Maternal and Child health	Maternity facilities established	Number of new or rehabilitated maternity facilities	2	4	40M

Source: Kwale County Annual Development Plan FY 2022/2023

The programmes are aligned to the sector strategic priorities highlighted. For example, one of the county interventions towards strengthening emergency services was to procure additional health personnel. In line with this, the county intended to recruit more staff to the sector (Page 195).

3. **Does the ADP identify a timeframe for implementation of projects or programmes together with cost implications and any other relevant information?**

An ADP should give details of capital projects that will be undertaken in the coming financial year. This includes details of individual projects, location of the projects, status (ongoing, new, etc.), completion timelines, source of funding and the proposed costs for the projects. Kwale County ADP provided this information under the health sector as shown below (Page 200).

Figure 3: A snippet of Kwale County ADP FY 2022/2023 (Page 200)

3.4.7.2 Capital /Development Projects

The department seeks to implement the following development projects during the plan period FY2022 – 2023.

Table 57: Development Projects for the FY2022-2023

Project Name and Location	Estimated Cost	Source of Funds	Time frame	Target	Status	Implementing agency
Programme Name: Preventive and Promotive Health Care Services						
Construction of an incinerator at Diani Health Centre in Bongwe Gombato ward	1,500,000	Consolidated fund	July 2022 - June 2023	1	New	Dept of Medical and Public Health Services

Source: Kwale County Annual Development Plan FY 2022/2023

This information is important to the public as they track implementation of capital projects and hold the county government accountable on prudent use of public funds.

4. **Does the ADP indicate where the projects were derived from?**

Sources of projects for an ADP include public participation proposals, projects identified in the CIDP, and projects derived from sector plans. This should be supported by reliable and accurate data as well as research and feasibility studies.

Kwale County ADP borrowed its strategic priorities from the CIDP, Kenya Vision 2030 and Sustainable Development Goals. However, there is no mention of where specific projects were derived from. A good practice would be to indicate where each project was derived from or what informed the inclusion of the project in the ADP. This ensures alignment between the ADP and the medium- and long-term plans at both the county and national government.

5. **Does the ADP provide performance targets for programmes or projects and/ or indicators of success or impact?**

An ADP should show priorities organized under sectors and programmes. The programmes should include a select set of performance indicators and targets (not more than a few for any programme) that can be used for tracking transition in the budget estimates but also implementation if they are approved in the budget. One other component that should be apparent are the baselines that the county is working from to measure change.

Kwale County ADP has provided information on indicators, baseline and targets for each sub- programme. For example, for the maternal and child healthcare sub- programme, the county has already rehabilitated **two** (Baseline) maternity facilities and intends to rehabilitate **four more** (Target) in the coming financial year. The cost of rehabilitating the four facilities is **Ksh 40M** (Page 195).

6. **Does the ADP provide information that can be used to inform the County Fiscal Strategy Paper, the County Budget Review and Outlook Paper and the annual budget? What information?**

The subsequent documents after publication of the ADP are the CBROP and CFSP. The ADP should therefore provide information that will feed into these two documents. The CBROP provides information on past years performance and provisional projections for both revenue and expenditure for the coming financial year while the CFSP provides information on how big the county budget is i.e., resource envelope and allocation across sectors which is referred to as "sector ceilings".

Kwale County ADP has provided information on the review of the past year's performance, challenges encountered and recommendations for each sector (Page 26- 167). Additionally, the ADP has provided information on the **resource envelope** and sector ceilings (Page 7-9). These details will inform both the **"CBROP and CFSP".**

7. **What additional information do you need to inform the next stages in the budget cycle that are not provided in the ADP?**

Since the ADP is a planning document, it should inform the rest of the formulation stage of the budget. The subsequent budget documents that must be prepared are the County Budget Review and Outlook Paper (October), the County Fiscal Strategy Paper (February & March), and the annual budget estimates (May & June). To make the connections between the documents clear, you would need details on prioritization of programmes broken down to the sub-programme level with clear objectives. These should have targets and outcomes that relate to the objectives. It would be helpful for an annual plan if projects were given with specific locations (wards/sub-county) so that the readers know where development funds are planned to go and whether the planned distribution is equitable. One other important piece of information is the comparison of the ADP for the current year to that of the previous year ADP and budget estimates. This helps to establish whether there are any continued linkages in achieving the county priorities over the medium term. Such historical information becomes useful in identifying areas of duplications of projects and areas of funding for multiyear projects. In addition, the ADP should provide a summary of the total costs of the programmes which will tell the potential size of the sector allocations going into the CBROP and CFSP. Another key contribution of the ADP to the budget process is the provision of data or baselines on the different goods and services that are provided by the county government.

Kwale County ADP has provided information on how much the county intends to collect from own sources revenue as shown below (Page 7). However, a good practice would be to provide a breakdown of how much the county intends to collect from each revenue stream, for example market fee, parking fee and land rates. This information will inform all the subsequent documents i.e., CBROP, CFSP and the annual budget estimates.

Figure 4: A snippet of Kwale County Annual Development Plan FY 2022/2023 (Page 7)

Table 1: Resources envelope for MTEF period 2021/2022-2023/2024

Source	FY 2021-2022 (Kshs Million)	FY 2022-2023 (Kshs Million)	FY 2023-2024 (Kshs Million)
Own Source Revenue	**275,000,000.00**	**315,000,000.00**	**288,750,000.00**
Equitable Share of Revenue from National Government	**8,265,585,516.00**	**8,265,585,516.00**	**8,678,864,791.80**
Compensation for User Fees Forgone	14,814,598.00	14,814,598.00	**15,555,327.90**
Leasing of Medical Equipment	153,297,872.00	153,297,872.00	**160,962,765.60**
Road Maintenance Levy Fund	228,285,028.00	228,285,028.00	**239,699,279.40**
Development of Youth Polytechnics	54,837,777.00	54,837,777.00	**57,579,665.85**
Total Conditional Grants	**451,235,275.00**	**451,235,275.00**	**473,797,038.75**

Source: Kwale County Annual Development Plan FY 2022/2023

Module 5.2. Budget Review and Outlook Paper (BROP) and County Budget Review and Outlook Paper (CBROP)

Session Objectives

At the end of the session, the students will have understood how:

- To read and fully understand BROP and CBROP.
- To identify how the decisions made in the two budget documents impact student needs.

Resources needed

To run this session, you will need:

- Budget Review and Outlook Paper 2022[vi]
- Kakamega County Budget Review and Outlook Paper 2022[vii]
- Home County CBROP

How to run the session

Introduce BROP and CBROP. Highlight the timeline, key actors, key decision made and differences between the two budget documents.

Provide the trainees with copies of documents that you shall be analyzing. This will be determined by the discussion you are having. If the discussion is at the national level, utilize the BROP.

In plenary, with the trainees, answer Q1-Q3 using BROP 2022.

In groups, use the same set of questions to analyze Kakamega CBROP 2022 and your home county CBROP.

Come back to plenary for group presentation and discussions.

Questions and Answers

Does the BROP provide information on performance[viii] of the last financial year?

How can we assess budget performance? At the most basic level, we want to know how well the government did in collecting revenue and spending it and what impact this has had on the deficit. The best way to start is to look at the tables in the BROP and then identify any supporting narrative that helps explain them.

Revenue Performance

On Page 12, the document has provided a summary table highlighting revenue performance of the last financial year i.e., FY 2021/22 for three sources of revenue as shown below.

- **Ordinary Revenue- funds that are generated from taxes.**
- **Appropriation in Aid- funds collected directly by ministries or agencies either from user fees or from donors.**
- **Grants- donor funds channeled through the National Treasury.**

Figure 5: A snippet of the Budget Review and Outlook Paper 2022 (Page 12)

Table 1: Government Revenue and External Grants, FY 2021/22 (Ksh Million)

	2020/2021 Actual	2021/2022		Deviation KSh.	% Growth
		Actual*	Target		
Total Revenue (a+b)	**1,803,536**	**2,199,808**	**2,191,953**	**7,855**	**22.0**
(a) Ordinary Revenue	**1,562,015**	**1,917,911**	**1,851,510**	**66,401**	**22.8**
Import Duty	108,375	118,280	115,869	2,411	9.1
Excise Duty	216,325	252,094	255,890	(3,796)	16.5
PAYE	363,343	462,357	455,129	7,228	27.3
Other Income Tax	330,709	414,350	381,562	32,788	25.3
VAT Local	197,072	244,926	249,021	(4,095)	24.3
VAT Imports	213,687	278,171	265,086	13,085	30.2
Investment Revenue	47,884	43,660	37,709	5,951	(8.8)
Traffic Revenue	4,600	4,425	5,106	(681)	(3.8)
Taxes on Intl. Trade & Trans.(IDF Fee)	39,743	50,337	42,615	7,723	26.7
Others [1]	40,277	49,309	43,522	5,786	22.4
(b) Appropriation In Aid [2]	**241,521**	**281,897**	**340,443**	**(58,546)**	**16.7**
(c) Grants	**31,334**	**31,031**	**62,918**	**(31,887)**	**(1.0)**
Total Revenue and Grants	**1,834,870**	**2,230,839**	**2,254,871**	**(24,032)**	**21.6**
Total Revenue and Grants as a percentange of GDP	**16.1**	**17.5**	**17.8**		

Source: Budget Review and Outlook Paper 2022

The total cumulative revenue collected including Appropriation in Aid recorded a growth of 22 percent compared to FY 2020/21 and surpassed the annual targets by Ksh 7.9 billion. The total revenue and grants fell short of the annual target by Ksh 24.0 billion.

For the specific revenue sources: ordinary revenue surpassed its target by Ksh 66.4 billion, Appropriation in Aid fell short by Ksh 58.5 billion, and Grants fell short by Ksh 31.8 billion. While the document tries to provide justification on the revenue performance (Page 12-13), the narrative explanations do not seem sufficient. For example, the over performance of ordinary revenue was attributed to the **recovery of the economy from the adverse impact of COVID-19 pandemic.** On the ministerial A-i-A performance, the document has only highlighted the Ministries, Departments and Agencies that attributed to the shortfall. A better narrative would provide information on the causes of shortfall even at the ministry level.

Expenditure Performance

On Page 13, the document has provided information on expenditure and net lending performance, broken down into four main categories: Recurrent Expenditure, Development Expenditure, County Transfer and Contingency Fund (emergency fund) as shown below. Net lending refers to loans within government between the Treasury and state corporations. If the Treasury will be lending state corporations more than it is receiving back from them in payments on existing loans, there will be positive net lending for the coming year (and therefore increased expenditure). It is generally a small part of overall expenditure.

Figure 6: A snippet of Budget Review and Outlook Paper 2022 (Page 13)

Table 3: Expenditure and Net Lending, FY 2021/22 (Ksh Million)

	FY 2020/2021	FY 2021/2022			
	Actual	Actual	Revised Estimates	Deviation	% Growth
1. Recurrent Expenditure	**1,813.3**	**2,135.3**	**2,227.3**	**(92.0)**	**17.8**
Domestic Interest	388.8	456.8	479.2	(22.4)	17.5
Foreign Interest due	106.3	121.1	126.1	(4.9)	13.9
Pensions & Other CFS	112.9	122.4	125.3	(2.9)	8.5
Operations & Maintenance	561.9	717.3	738.9	(21.5)	27.7
Wages & Salaries	493.0	520.0	525.1	(5.1)	5.5
Ministerial Recurrent AIA	150.3	197.5	232.7	(35.2)	31.4
2. Development	**557.0**	**540.1**	**657.5**	**(117.4)**	**-3.0**
Domestically Financed (Gross)	390.0	378.2	411.3	(33.1)	-3.0
Foreign Financed	167.0	161.9	239.4	(77.5)	-3.1
Net Lending	-	-	-	0.0	0.0
Equalization Fund	-	-	6.8	(6.8)	0.0
3. County Transfer	**399.0**	**352.4**	**401.2**	**(48.8)**	**-11.7**
o/w Equitable Share	346.2	340.4	370.0	(29.6)	-1.7
Conditional Allocation	52.8	12.0	31.2	(19.2)	-77.2
4. Contingency Fund	-	-	-	0.0	0.0
TOTAL EXPENDITURE	**2,769.3**	**3,027.8**	**3,286.1**	**(258.2)**	**9.3**

Source: Budget Review and Outlook Paper 2022

Total expenditure and net lending in the FY 2021/22 amounted to Ksh 3,027.8 billion against a revised target of Ksh 3,286.1 billion, representing an under spending of Ksh 258.2 billion (7.9 percent deviation from the revised budget).

- *The National Government's recurrent expenditure was Ksh 2,135.3 billion (including Ksh 48.8 billion spending by Judiciary and Parliament) against a target of Ksh 2,227.3 billion, representing an under-spending of Ksh 92.0 billion.*
- *Development expenditure amounted to Ksh 540.1 billion against a revised target of Ksh 657.5 billion, translating to a shortfall of Ksh 117.4 billion.*
- *County Transfers (Equitable share+ Conditional Allocation) amounted to Ksh*
- *352.4 billion against a revised target of Ksh 401.2 billion, translating to a shortfall of Ksh 48.8 billion.*

BROP should provide a narrative explanation for the expenditure performance as it does the revenue performance. The document attributes the expenditure under spending to low A-i-A related spending on account of reduced collections, lower than targeted spending on interest payments and low absorption of both externally and domestically funded development projects. The underspending of Ksh 258.2 billion was also partly attributed to below target transfers to County Governments and lower disbursement of Governments contribution to civil servant superannuation pension scheme.

Ministerial Expenditure

Beyond the Overall Expenditure, you would also want to check performance at the ministry level especially if your advocacy is focused on a specific sector. The BROP should provide information on expenditure performance at the ministry level as well as the programme level.

As students, with interest in the education sector, below are some of the State Department we would want to focus on. Of the State Departments highlighted below, State Department for Vocational and Technical Training recorded the lowest absorption rate of 93 percent while the State Department for Implementation of Curriculum Reforms recorded a 100 percent absorption rate. The BROP should provide narrative justification explaining performance at the ministry and programme level.

Table 1: Ministerial Expenditures for the Period Ending 30th June 2022 (Ksh Millions)

Ministry/ Department	Actual	Target	Variance	%of Total Exp to Target
State Department for Vocational and Technical Training	21,447	23,053	-1,606	93.0
State Department for University Education	99,456	105,717	-6,261	94.1
State Department for Early Learning & Basic Education	101,021	107,359	-6,338	94.1
State Department for Post Training and Skills Development	225	232	-7	96.9
State Department for Implementation of Curriculum Reforms	88	88	0	100.0
Teacher Service Commission	289,766	290,834	-1,069	99.6

Source: Budget Review and Outlook Paper 2022

However, it is noted that the document has not provided information on expenditure at the program level and sufficient justifications for the performance.

Analyzing revenue and expenditure performance of the last financial year is key as we budget for the coming financial year. These numbers will inform the decision on revenue and expenditure targets for the coming financial year. For example, the State Department for Labor recorded an absorption rate of 60.7 percent. Was the set spending target over ambitious? As the budget for the coming financial year is being prepared, these are some of the questions we would want to ask as allocation is being done across ministries.

Deficit

It is also important to understand the implication of revenue and expenditure performance on fiscal deficit. The BROP provides this information on page 16, table 5.

2. Does the BROP provide an update of the Fiscal Position?

The BROP's second function is to provide an update of economic expectations for the current financial year. The 2022 BROP, which was released in November 2022, provides this for FY 2022/23. As projections for FY 2022/23 were made in the Budget Policy Statement released in February 2022, we can check this to see how accurate they have turned out to be. Table 7 on page 42 compares projections from the Budget

Policy Statement 2022 with key macro-economic indicators from the BROP 2022. Table 7 shows changes between projections for total revenue, total spending, and total deficit as shown below. Projections for revenue and expenditure for the year depend heavily on the state of the economy in that year. One of the things we should ask is whether the projections for economic growth have changed and whether these are factored into the new projections for revenue and expenditure.

Figure 7: A snippet of Budget Review and Outlook Paper 2022 (Page 42)

Table 17: Macroeconomic Indicators

	2020/21	2021/22		2022/23		2023/24		2024/25		2025/26		2026/27
	Prel. Act	Approved Revised II	Prel. Act	Budget	Proj.	BPS'22	BROP'22	BPS'22	BROP'22	BPS'22	BROP'22	BROP'22
	annual percentage change, unless otherwise indicated											
National Account and Prices												
Real GDP	3.6	6.8	6.5	5.8	5.8	5.9	6.1	6.0	6.2	6.1	6.1	6.2
GDP deflator	5.0	4.8	6.2	6.1	6.9	5.3	5.8	5.2	4.8	6.0	5.9	6.0
CPI Index (eop)	6.3	5.2	6.9	5.5	6.4	5.0	5.4	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	5.7	5.4	6.8	6.0	7.0	5.0	5.8	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-3.6	1.1	1.1	-0.4	1.1	0.2	-0.6	0.3	-1.8	0.4	-0.7	0.6
	in percentage of GDP, unless otherwise indicated											
Investment and Saving												
Investment	20.1	23.9	18.8	19.3	17.9	20.7	18.9	21.1	18.9	21.2	18.6	18.6
Central Government	4.9	4.7	4.2	4.7	3.9	4.9	4.7	5.0	4.8	5.0	5.2	4.9
Other	15.2	19.1	14.6	14.6	14.1	15.7	14.2	16.1	14.1	16.2	13.4	13.6
Gross National Saving	14.1	19.1	12.9	14.2	13.1	15.4	13.6	15.4	13.5	15.4	13.3	13.2
Central Government	-2.2	-5.3	-1.5	-0.7	-1.1	-2.2	1.1	-1.6	1.6	-1.1	2.1	1.7
Other	16.3	24.4	14.5	14.9	14.2	17.6	12.5	17.0	11.9	16.5	11.2	11.5
Central Government Budget												
Total revenue	15.9	17.1	17.3	17.6	17.3	18.1	17.8	18.1	17.8	18.1	18.0	18.3
Total expenditure and net lending	24.4	25.6	23.8	24.0	23.3	22.8	22.4	22.2	21.8	21.5	21.7	22.3
Overall Fiscal balance excl. grants	-8.5	-8.5	-6.5	-6.4	-6.0	-4.7	-4.6	-4.1	-4.1	-3.5	-3.7	-3.9
Overall Fiscal balance, incl. grants, cash basis	-8.2	-8.0	-6.2	-6.2	-5.8	-4.4	-4.3	-3.9	-3.8	-3.2	-3.5	-3.6
Primary budget balance	-3.8	-3.3	-1.6	-1.2	-1.1	0.2	0.3	0.5	0.7	0.9	0.8	0.7
External Sector												
Current external balance, including official transfers	-6.0	-4.8	-5.9	-5.0	-4.8	-5.3	-5.2	-5.7	-5.4	-5.9	-5.3	-5.4
Gross reserves in months of this yr's imports	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.9	5.9	5.9	5.9	6.0
Memorandum Items:												
Nominal GDP (in Ksh Billion)	11,370	12,646	12,736	14,002	14,522	15,605	16,290	17,402	18,180	19,577	20,437	22,872

Source: National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway

Source: Budget Review and Outlook Paper 2022

3. Does the BROP provide information on proposed distribution of spending across major sectors for the coming budget year?

The last major section of the BROP we consider here is the proposed distribution of spending across major sectors for the coming budget year. The most important question we want to ask in this section is whether priorities are changing at sector level from the current year to the next budget year. The share of the budget going to key sectors in each year is useful to assess this.

Looking at the 2022 BROP, the proposed sector distribution is contained in Table 8 on page 45. In general, the way to read this table is to focus on the "% shares of total budget" columns to the right. Because the total budget tends to increase over time, looking at absolute allocations is not informative about relative changes in priority.

However, this can vary from year to year. We consider both the absolute figures and the percentage figures in this guide.

The total size of the 2023/24 budget for the sectors is not much larger than the 2022/2023 budget: an increase from Ksh 2,119.2 billion Ksh 2,252.8 billion. As the table shows, some sector allocations are increasing, and some are decreasing in absolute size.

Table 2: Sector Increases and Decreases in Absolute Values

Sector	Change in Amount (Ksh Million)
Agriculture, Rural & Urban Development	-1,288.3
Energy, Infrastructure, and ICT	-9,507.4
General Economic and Commercial Affairs	7,862.8
Health	25,774.0
Education	36,048.5
Governance, Justice, Law, and Order	338.0
Public Administration and International Relations	14,539.3
National Security	42,937.7
Social Protection, Culture and Recreation	1,144.7
Environmental Protection, Water and Natural Resources	15,699.6
Grand Total	**133,548.9**

Source: Budget Review and Outlook Paper 2022

Given a rising budget, it is fair to conclude that sectors with decreased funding are not priority areas. However, to understand relative priorities we must still look at relative shares of the budget for sectors whose funding is increasing and decreasing. The table below shows sector share of the budget.

While we would want to say that Education sector was prioritized due to the increase in its absolute allocation, the sector share of the total budget would communicate something different. Sector allocation increased by Ksh 36,048.5 million while the sector share of the total budget between FY 2022/23 to FY 2023/24 increased by 0.1 percent only. This means that there were no major changes in terms of shares of the total budget allocation.

Another example is the Social Protection, Culture and Recreation Sector whose sector allocation increased by Ksh 1,144.7 million but share of total budget allocation decreased by 0.2 percent.

As we check for prioritization across sectors by the government, it is important to check for both aspects (absolute figures and share of total allocation).

Table 3: Changes in Sector Allocations Between the Approved Budget 2022/23 and 2023/24 BROP Projections

Sector	Sector share of the total approved budget FY 2022/23	Sector share of the total budget FY 2023/24(2022 BROP)	Change in sector share of total budget 2022/23 and 2023/24
Agriculture, Rural & Urban Development	3.3	3	-0.3
Energy, Infrastructure, and ICT	19.2	17.7	-1.5
General Economic and Commercial Affairs	1.2	1.5	0.3
Health	5.8	6.6	0.8
Education	25.6	25.7	0.1
Governance, Justice, Law, and Order	11.1	10.4	-0.7
Public Administration and International Relations	16.8	16.5	-0.3
National Security	8.4	9.8	1.4
Social Protection, Culture and Recreation	3.5	3.3	-0.2
Environmental Protection, Water and Natural Resources	5.1	5.5	0.4
Grand Total	**100**	**100**	

Source: Budget Review and Outlook Paper 2022

The BROP has provided information on the criteria that was used to guide resource allocation on page 44. Do you think the narrative provides sufficient information on justification for the allocation?

Module 5.3. Budget Policy Statement (BPS) and County Fiscal Strategy Paper (CFSP)

Session Objectives

At the end of the session, the students will have understood how:

To read and fully understand the BPS and CFSP.

To identify how the decisions made in the two budget documents impact student needs.

Resources needed

To run this session, you will need:

- Budget Policy Statement 2023[ix]
- Nakuru County Fiscal Strategy Paper 2022[x]
- Home County CFSP

How to run the session

1. Introduce BPS and CFSP. Highlight the timeline, key actors, key decision made and differences between the two

budget documents.

2. Provide the trainees with copies of documents that you shall be analyzing. This will be determined by the discussion you are having. If the discussion is at the national level, utilize the BPS.
3. In plenary, with the trainees, answer Q1-Q5 using BPS 2023.
4. In groups, use the same set of questions (Q1-Q4) to analyze the Nakuru CFSP 2022 and your home county CFSP.
5. Come back to plenary for group presentation and discussions.

Questions and Answers

1. Does the BPS provide information on performance for the first half of the current financial year(xi) and the previous financial year?

The BPS is produced in February; it should provide good data on revenue and expenditure performance from June to December of the current financial year. Performance data is important for making decisions about what is realistic going forward.

The BPS 2023 should provide information on performance for the first half of FY 2022/2023. On page 47, the document highlights that budget execution in the first half of FY 2022/23 progressed well. Table 2.4a provides a summary for both revenue and expenditure performance as of 31st December 2022.

Revenue Performance

Cumulative revenue inclusive of ministerial A-i-A collected was Ksh 1,147,.0 billion against a target of Ksh 1,158.2 billion. The performance was Ksh 11.2 billion below

the set target as shown in the table below. Did the government provide sufficient justifications on the revenue performance? On page 50, the BPS has provided information on administrative and tax policy reforms that the government will adopt going forward to remedy the revenue collection challenges encountered. Revenue performance of the current financial year will inform the revenue targets for the coming financial year 2023/2024.

Table 4: Revenue Performance as of 31st December 2022

Revenue	Dec Target	Dec Actual	Deviation
Import Duty	68.6	67.1	(1.5)
Excise Duty	139	130.3	(8.7)
Income Tax	481.7	451.8	(29.9)
VAT	277	264.2	(12.8)
Other Revenue	61.8	71.6	9.8
Total ordinary Revenue	**1,028.1**	**985.0**	**(43.1)**
Ministerial Appropriation in Aid	130.1	162.1	32.0
Total ordinary revenue+ A-i-A	**1,158.2**	**1,147.1**	**11.2**

Source: Budget Policy Statement 2023

Another way to look at revenue performance is by checking actual revenue collected as of 31st December 2022 vs actual revenue collected as of 31st December 2021. Revenue performance is seasonal; therefore, you would want to compare revenue performance of similar periods against each other. This information is provided on table 2.4a. Based on the information provided revenues continued to record growth albeit below target performance. The question you would then ask is, Are the target revenues over ambitious?

Expenditure Performance

Table 2.4a provides information on expenditure performance as of 31st December 2022, comparing it to the targets and performance as of 31st December 2021. Total expenditure and net lending for the period ending December 2022 was Ksh 1,468.8 billion, which was above the projected amount of Ksh 1,448.9 billion by Ksh 19.9 billion. Recurrent spending amounted to Ksh 1,121.4 billion; development expenditure was Ksh 206.3 billion while transfer to County Governments was Ksh 141.1 billion. The BPS has provided justification for the overspending which was attributed to the recurrent expenditure spending. The recurrent spending was above the projected target on account of above target expenditure on operations and maintenance and contribution to civil servants' superannuation scheme. Development expenditure was below target due to below target disbursement to both domestic and foreign financed programmes.

The expenditure performance will inform the expenditure targets for the coming financial year.

2. Does the BPS provide information on revenue and expenditure projections for the coming financial year?

Next, we look at how much the government expects to collect in revenue, how much it expects to spend on programs, and the resulting deficit in FY 2023/2024. The BPS has provided this information on page 55.

Revenue Projections: In the FY 2023/24, revenue collection including Appropriation-in-Aid is projected to increase to Ksh 2,894.9 billion (17.8 percent of GDP) up from the projected Ksh 2,528.8 billion (17.4 percent of GDP) in the FY 2022/23. The principal question here is how realistic these projections are, based on factors such as previous performance. Growth in revenue collection from FY 2021/2022 to FY 2022/2023 suggests that the revenue targets for the FY 2023/2024 are realistic. Additionally, the government has laid out administrative and tax policy reforms that will enhance revenue collection.

Expenditure Projections: The overall nominal expenditure and net lending is projected at Ksh 3,663.1 billion from the projected Ksh 3,394.1 billion (23.4 percent of GDP) in the FY 2022/23 budget. The expenditures comprise of recurrent of Ksh 2,459.3 billion (15.1 percent of GDP) and development of Ksh 769.3 billion (4.7 percent of GDP). Government expenditure as a share of GDP for FY 2023/24 is projected to decline to 22.5 percent which is in line with the government's fiscal consolidation plan.

Deficit Financing: Reflecting the projected expenditures and revenues, the fiscal deficit (including grants), is projected at Ksh 720.1 billion (4.4 percent of GDP) in FY 2023/24 against the estimated overall fiscal balance of Ksh 833.9 billion (5.7 percent of GDP) in FY 2022/23.

3. Does the BPS provide information on priorities for the coming financial year?

The next major section of the BPS we consider here is the proposed distribution of spending across major sectors for the coming budget year. The most important question to ask in this section is whether priorities are changing at sector level from the current year to the coming financial year. We look at two parts of the BPS to answer this question. The first is the narrative explaining these changes in priority. The second, which we consider in the next section, is the actual allocations to each sector and how they are changing over time.

The BPS 2023 was the first to be prepared under the Kenya Kwanza Government. The priority programmes are categorized into two: co-pillars and enablers (Page 10-11). The co- pillars are the sectors which the government seeks to invest in with the aim of having a significant impact on the economy as well as the household welfare. This is in line with the government's manifesto.

"The Government will implement policies and structural reforms and promote investment in five core thematic areas that are expected to have the highest impact at the bottom of the economy. These are: Agricultural Transformation; Micro, Small and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; and Digital Superhighway and Creative Economy."

This means that the government is prioritizing the five sectors, and this should reflect in the budget allocations. Further illustration on sector prioritization is provided on page 56.

Is the **Education sector** a priority to the Kenya Kwanza Government? While the sector is an enabler, the government has highlighted several programmes that will be prioritized as shown below. As we move to the next budget document, the programme-based budget, you would want to check budget allocation to the highlighted programs. Is the budget allocated to the programmes sufficient to meet the targets set?

Figure 8: A snippet of the Budget Policy Statement 2023 (Page 56)

220. Under Universities, the sector targets to enroll 1,936,895 students in universities; award loans to 1,329,311 students in Universities and TVET through HELB and support 431 Research projects. The Teachers Service Commission plans to recruit 30,000 teachers for Primary and Secondary Schools and recruit 60,000 intern teachers.

Source: Budget Policy Statement 2023

4. Does the BPS provide information on sector ceilings?

In this section, we look at the relative shares of the budget going to each sector and how this is changing over time. A sector whose share of the budget is increasing is generally an increasing priority, while a sector whose share is decreasing is generally a decreasing priority.

The BPS 2023 provides information on sector allocation in table 3.2, page 58. The table provides information on absolute figures and percentage share of each sector allocation. The total sector budget allocation increased from Ksh 2,119.2 billion in FY 2022/2023 to Ksh 2,252.1 billion in FY 2023/2024. Therefore, looking at the increase or decrease in absolute figures will not provide a clear picture of what sectors have been prioritized by the government. Based on the information provided, three sectors have the largest share of allocations: Education (26.5 percent), Energy, Infrastructure, and Information Communications Technology (18.7%), and Public Administration and International Relations (13.7%).

In the table below, we are comparing allocation across sectors in the approved budget FY 2022/23, the first supplementary budget FY 2022/23 and the BPS ceilings FY 2023/24. Five sectors experienced a **decrease** in share of allocation, Agriculture Rural & Urban Development (0.9%), Education (0.8%), Governance, Justice, Law and Order (1.6%), Public Administration and International Relations Administration (1.6%), and Social Protection, Culture and Recreation

(0.4%).

The observation made in the **ARUD sector** leads to the question: Why is the share of allocation to the sector decreasing despite the government's commitment (BPS 2023 page 11) to intervene through fertilizer subsidies as a long-term food security solution? The aim of doing this analysis is to check whether the government is allocating enough resources to the commitments it made to citizens.

Table 5: Allocations by Sector FY 2022/23 – FY 2023/24 (Ksh. million)

Sector	Approved Budget	Supp. Budget 1	% Share	BPS Ceiling	%Share	%Change
	FY 22/23	FY 22/23	FY 22/23	FY 23/24	FY 23/24	
Agriculture, Rural & Urban Development	68,959.5	85,711.3	4.3	75,603.0	3.4	-0.9
Energy, Infrastructure, and ICT	407,760.1	347,346.3	17.2	422,004.0	18.7	1.5
General Economic and Commercial Affairs	26,032.0	45,590.5	2.3	51,725.2	2.3	0.0
Health	122,519.3	113,482.8	5.6	154,013.0	6.8	1.2
Education	544,519.5	550,385.4	27.3	597,186.0	26.5	-0.8
Governance, Justice, Law, and Order	234,408.1	238,824.0	11.9	229,812.9	10.2	-1.6
Public Administration and International Relations	356,857.6	307,916.0	15.3	308,914.0	13.7	-1.6
National Security	177,811.0	174,273.7	8.6	219,244.0	9.7	1.1
Social Protection, Culture and Recreation	73,213.5	69,277.0	3.4	69,007.2	3.1	-0.4
Environmental Protection, Water and Natural Resources	107,178.2	82,500.8	4.1	124,568.0	5.5	1.4
Grand Total	**2,119,258.8**	**2,015,307.8**	**100.0**	**2,252,077.3**	**100.0**	

Source: Supplementary Budget FY 2022/2023 and BPS 2023

As a university student, your focus would be on the share of allocation for Education sector. The share of allocation decreased by 0.8 percent between the first supplementary budget FY 2022/23 and the BPS ceiling FY 2023/24. Will the allocated funds be sufficient for the government to achieve its commitments in the sector?

Another way to look at it is comparing the 2022 BROP ceilings and the 2023 BPS ceilings. Between November 2022 and January 2023, each sector conducted sector working group hearings which gives the public and other stakeholders an opportunity to bargain for enough resource allocation to their sectors of interest. The hearings lead up to the BPS ceilings which are considered as the "final" ceilings.

5. Does the BPS provide information on division of revenue allocation?

The BPS provides information on revenue sharing between the national and county government (vertical revenue sharing) and across the counties (horizontal revenue sharing). As the Cabinet Secretary of Treasury and Economic Planning tables the BPS to the National Assembly on February 15th every year, they accompany the document with Division of Revenue Bill (DORB) and the County Allocation of Revenue Bill (CARB) for approval.

The Division of Revenue Bill- provides for the equitable division of the revenue raised nationally between the national and county governments. This is commonly referred to as vertical revenue sharing.

The County Allocation of Revenue Bill-determines how much is allocated to each county from the county's' share of revenue as determined by the Division of Revenue Bill. Therefore, CARB tells us how much money each county will get and how that was determined. It also outlines the conditional grants both from the national shareable revenue and donors.

The BPS provides information on both the vertical and horizontal revenue sharing for the coming financial year. Table 4.3 on page 80 provides a summary of revenue sharing between the national and county governments (vertical revenue sharing).

Figure 9: A snippet of Budget Policy Statement 2023 (Page 80)

Table 4.3: Division of Revenue Raised Nationally for FYs 2020/21 – 2023/24 (Ksh Million)

Type/Level of allocation	2020/21	2021/22	2022/23	2023/24
National Government	1,533,700	1,398,799	1,764,516	2,177,867
Of Which				
Leasing of Medical Equipment	6,205	7,205	5,200	5,862
Supplement for construction of County Headquarters	300	332	163	454
Aggregated Industrial Parks Programme				4,700
Equalization Fund	6,500	6,825	7,068	7,867
County Equitable share	316,500	370,000	370,000	385,425
Total Shareable revenue	**1,856,700**	**1,775,587**	**2,141,585**	**2,571,159**

Source: Budget Policy Statement 2023

The question we should ask is what is happening over time to the county and national share of total revenue. Are the relative shares remaining the same? How are changes overtime justified?

On page 78, the BPS provides an explanation for the equitable share being allocated to county governments. On page 81, the BPS provides information on how much each county will receive as equitable share from the national government.

NOTE: The County Fiscal Strategy Paper (CFSP), which is a county document equivalent to the BPS, does not contain information on division of revenue but should provide comprehensive information on Performance, Projections, Priorities and Ceilings.

Module 5.4. National and County Budget Estimates (Programme Based Budget)

Session Objectives

At the end of the session, the students will have understood how:

- To read and fully understand the National and County Budget Estimates.
- To identify how the decisions made in the two budget documents impact student needs.

Resources needed

To run this session, you will need:

National Budget Estimates FY 2023/24(xii)

West Pokot County Approved Budget Estimates FY 2022/2023(xiii)

Home County Budget Estimates

How to run the session

1. Introduce the National and County Budget Estimates. Highlight the timeline, key actors, key decision made and differences between the two budget documents.
2. Provide the trainees with copies of documents that you shall be analyzing. This will be determined by the discussion you are having. If the discussion is at the national level, utilize the National Budget Estimates FY 2023/24.
3. In plenary, with the trainees, answer Q1-Q4 using the National Budget Estimates FY 2023/24.
4. In groups, use the set of questions in Annex 3 to analyze West Pokot County Approved Budget Estimates FY 2022/23 and your home county budget estimates.
5. Come back to plenary for group

presentation and discussions.

Questions and Answers

1. **Does the overall budget, and do the budgets for ministries, departments, and agencies (MDAs) in the Budget Estimates match the ceilings set in the Budget Policy Statement?**

The Budget Policy Statement (BPS) sets budget ceilings at sector and ministry levels which should be binding on the National Treasury when preparing the Budget Estimates. However, in past years, the Budget Estimates have not respected the ceiling set by the BPS, in violation of the spirit of the Public Finance Management Act 2012. While it is possible that such amendments are due to changes in the economic context between the time the two documents were published, Treasury should provide justifications for any changes made to the ceilings.

The table below provides information on sector changes between the 2023 BPS and the budget estimates FY 2023/24.

Table 6: Changes between the 2023 BPS Sector Ceilings and approved estimates allocation FY 2023/24 (Ksh. million)

Sector	2023 BPS Ceiling	Approved Estimates FY 2023/24	Deviation
Agriculture, Rural & Urban Development	75,603.0	87,941.5	12,338.5
Energy, Infrastructure and ICT	422,004.0	532,363.7	110,359.7
General Economic and Commercial Affairs	51,725.2	61,419.8	9,694.6
Health	154,013.0	141,186.5	-12,826.5
Education	597,186.0	628,580.2	31,394.2
Governance, Justice, Law and Order	229,812.9	230,401.2	588.30
Public Administration and International Relations	308,914.0	310,191.1	1,277.1
National Security	219,244.0	189,244.2	-29,999.8
Social Protection, Culture and Recreation	69,007.2	70,642.9	1,635.7
Environmental Protection, Water and Natural Resources	124,568.0	120,559.7	-4,008.3
Grand Total	**2,252,077.3**	**2,372,530.8**	**120,453.5**

Source: Approved BPS 2023 and Approved PBB FY 2023/2024

From the information provided above, it is evident that the National Treasury did not adhere to the budget ceilings provided in the BPS 2023. The question we want to ask here is, why do we have the BPS as a guiding document if the government will not utilize the ceilings as they do the allocations at the budget estimates level.

Note: The PBB is not organized by sector, making direct comparison with the BPS difficult. The PBB FY 2023/24 provides a summary of expenditure by vote and category from page 7-11. To make a comparison between the two documents, utilize the information on page 7-11 of the programme-based budget FY 2023/24 and the information provided in the annexes of the 2023 BPS as shown below.

Table 7: Changes in allocation across state departments in Education between 2023 BPS and FY 2023/24 (Ksh millions)

Vote	2023 BPS Ceiling	2023/24 Budget Estimates
State Department for Technical Vocational Education and Training	27,425.0	28,323.8
State Department for Higher Education & Research	116,992.0	128,603.9
State Department for Basic Education	130,036.0	147,824.9
State Department for Post Training and Skills Development	-	-
State Department for Implementation of Curriculum Reforms	-	-
Teacher Service Commission	322,733.0	323,827.6
Total	**597,186.0**	**628,580.2**

Source: Approved BPS 2023 and Approved PBB FY 2023/2024

The Education sector received an extra allocation of Ksh 31,394.2 million. All the state departments received an extra allocation with the State Department for Basic Education receiving the highest additional allocation of Ksh 17,788.9 million.

The PBB does not provide sufficient justifications for the changes made between the BPS and the approved budget estimates.

2. **Which programs and subprograms are receiving priority in the coming year and why?**

While the sector and ministry level budgets are set in the BPS, the Budget Estimates should set priorities at the program and subprogram levels. Some indications of program and subprogram expenditures will be contained in the BPS, but there are likely to be more changes at this level in the Budget Estimates.

Programs and subprograms are the level at which government defines its main activities and objectives for the year, and this is where readers should be looking when evaluating the Budget Estimates.

In our case, we shall use the **State Department for Higher Education and Research as our example.**

On page 260 of the approved programme-based budget FY 2023/24, there is information on budget allocation across programmes under the state department as shown in the table below.

Table 8: Budget allocation across programmes under the State Department of Higher Education and Research (Ksh millions)

Programme	Approved Budget FY 2022/23	%share	Approved Budget FY 2023/24	%share
University Education	107,051.1	7.0	127,494.6	10.0
Research, Science, Technology and Innovation	1,067,397.4	70.9	794,206.2	61.9
General Administration, Planning and Support Services	331,878.2	22.1	360,022.6	28.1
Total	**1,506,326.7**	**100**	**1,281,723.4**	**100**

Source: Approved PBB FY 2022/2023 & 2023/2024

While it is evident that Research, science, Technology, and Innovation take up the biggest share of the budget, the government is also prioritizing the University Education and General Administration, Planning and Support Services Programmes whose share of allocation went up by 3 percent and 6 percent, respectively.

On page 246, the PBB identifies challenges encountered and some of the governments' priorities for the coming financial year. The narrative tries to explain the changes in allocation. For example, the government intends to increase the number of students awarded scholarships. This partially explains why the share of University Education Programme increased between the FY 2022/23 and 2023/24.

Figure 10: A snippet of Programme Based Budget FY 2023/2024 (Page 246)

Policy Development were rolled out; and 18,748 research licenses were issued.

Key challenges experienced by the State Department include; inadequate financial resources; non alignment of students increased enrollment in public universities to the budgetary provision for tuition, student loans, bursaries, research grants, infrastructural facilities, and personnel emolument; Collective Bargaining Agreement (CBA) demands, unrest and under-funding of the same that often leads to closure of universities; under-funding of capital projects with huge demands leading to default of payments hence penalties, stoppage, slowed completion rate and stalling of projects; inadequate funding of TVET students placed by KUCCPS in universities; and slow alignment process of CBC in universities and colleges curriculum.

The expected outputs in the MTEF period 2023/24- 2025/26 include; increase graduation of undergraduate students; improve infrastructure in all public universities; increase number of students awarded scholarships; increase policies developed and reviewed; increase collaboration initiated; increase number of academic staff trained on Competency Based Education (CBE); increase number of programmes aligned to CBE; increase number of student awarded loans; increase number of research projects funded; resolve all GMO appeals submitted; increase number of research institution registered, accredited and inspected; and establish the Open University of Kenya.

Source: Approved PBB FY 2023/2024

Figure 11: A snippet of Approved Programme Based Budget FY 2023/2024 (Page 260)

Programme	Baseline	Estimates	Projected Estimates	
	2022/2023	2023/2024	2024/2025	2025/2026
	KShs.	KShs.	KShs.	KShs.
0504010 University Education	89,568,228,167	79,528,573,392	98,024,327,166	97,688,327,166
0504020 Quality Assurance and Standards	378,050,487	464,050,487	464,050,487	464,050,487
0504030 Higher Education Support Services	17,104,777,009	47,502,017,238	19,052,396,731	19,055,809,651
0504000 University Education	**107,051,055,663**	**127,494,641,117**	**117,540,774,384**	**117,208,187,304**

Source: Approved Programme Based Budget FY 2023/2024

The University Education sub- programme allocation decreased from Ksh 89,568.2 million in FY 2022/2023 to Ksh 79,528.6 million in FY 2023/24. This is despite the government committing to ensuring an increase in number of graduations of undergraduate students (page 246). Most of the indicators under the sub- programme involve number of graduates from universities. How does the government intend to meet the increased targets with a lower budget?

The Higher Education support services sub- programme allocation increased from Ksh 17,104.7 million in FY 2022/23 to Ksh 47,502.0 million in FY 2023/24. This is in line with the government's intention to increase the number of students awarded with scholarships which is indicated in the narrative.

3. **What are the program targets for the year and how realistic and reasonable are these considering past performance?**

One of the main advantages of the program-based budget (PBB) approach adopted by Treasury in 2013/14 is that it requires the government to set objectives and use indicators and targets to measure how well it is doing in achieving these objectives. This helps link spending to specific outcomes. Evaluating these indicators and targets is a key aspect of reading and using the Budget Estimates.

To answer this question, one needs some baseline data to understand where the target is coming from. One ideally also needs some information about trends over time to know what is realistic. Unfortunately, the PBB FY 2023/24 does not provide this information. The PBB FY 2023/2024 only provides information on the targets for the coming financial year and two outer years for the State Department for Higher Education and Research on page 247- 259.

4. **Do the Budget Estimates contain narrative information about how past challenges in implementation are being addressed through the coming year's budget?**

The budget should recognize challenges in past years and the current year (up to March) and propose solutions. The aim should be to avoid giving money to failing programs or departments that are unable to spend. The narrative in the Budget Estimates should have something to say about these challenges and how the proposed allocations reflect a consideration of the capacity to spend of different agencies.

For the state department of Higher Education and Research, the information is provided as shown below. However, the challenges provided are generic and it is not clear how the government intends to address them in the coming financial year.

Figure 12: A snippet of Approved Programme Based Budget FY 2023/2024 (Page 246)

Key challenges experienced by the State Department include; inadequate financial resources; non alignment of students increased enrollment in public universities to the budgetary provision for tuition, student loans, bursaries, research grants, infrastructural facilities, and personnel emolument; Collective Bargaining Agreement (CBA) demands, unrest and under-funding of the same that often leads to closure of universities; under-funding of capital projects with huge demands leading to default of payments hence penalties, stoppage, slowed completion rate and stalling of projects; inadequate funding of TVET students placed by KUCCPS in universities; and slow alignment process of CBC in universities and colleges curriculum.

Source: Approved Programme Based Budget FY 2023/2024

Module 5.5. The National and County Finance Bill

Session objectives

At the end of the session, the students will have:

- Understood taxation and its significance in the budgeting process.
- Learnt how to examine the central role of the Finance Bill in Kenya's public finance, the amendments it proposes and their implications.
- Developed skills in identifying tax changes introduced by the Finance Bill and assessing their impact for effective public participation.

Resources needed

To run this session, you will need:

The Constitution of Kenya 2010
Finance Act 2023[xiv]
Finance Bill 2024[xv]

How to run the session

1. Introduce the concept of taxation to the trainees as well as its significance to the budget process.
2. Provide the trainees with copies of documents that you shall be analyzing. This will be determined by the discussion you are having.
3. In a plenary session, have a detailed discussion with the trainees of Q1 to Q8.
4. In groups, use the set of questions in Q7.1 and Q7.2 to analyze proposed changes by the withdrawn Finance Bill 2023.
5. Come back to plenary for group presentation and discussions.

Questions and Answers

1. **What is taxation and why is it important in the budget process?**

Taxes are the mandatory financial contributions that are imposed on people or businesses by their respective governments to fund government expenditures. Taxation refers to the act of levying or imposing taxes by an authorized tax authority. For instance, in Kenya, taxes are imposed by the government and collected by the Kenya Revenue Authority (KRA), the designated tax authority.

The collection of taxes is thus important in the public budgeting process as it is the primary way through which governments generate public revenue to finance investments in human capital, infrastructure, and the provision of services. This revenue enables the government to realize its priorities and promises as outlined in the approved budget documents and estimates.

2. **What is the constitutional underpinning of taxation in Kenya?**

The Constitution of Kenya 2010 establishes various essential elements that are crucial towards the imposition of taxes in Kenya.

- **Equity in Taxation:** Through article 201(b)(i) the government is bound to ensure that taxation promotes equity by ensuring that t**he burden of taxation is shared fairly.** The principle can be understood through two main concepts: horizontal and vertical equity. Horizontal equity implies that taxpayers in similar circumstances should bear a similar tax burden. For instance, persons earning the same income should pay the same amount of tax. Vertical equity, on the other hand, suggests that taxpayers with higher incomes should pay a greater proportion of their incomes in taxes. However, in practice what governments seek to do is to ensure that they reduce the variation in terms of income earned while ensuring that earners still meet their burden of taxation while still retaining enough income to fund their needs.
- **Authority to Levy Taxes at the National and County Levels:** To avoid any conflicts in the imposition of taxes between the national and county governments, article 209 outlines various taxes which the respective governments may impose. The national government is empowered to levy income tax, value added tax, custom duties and other duties on import and exported goods, and excise taxes. Conversely, county governments are authorized to impose property taxes, entertainment taxes and any other taxes outlined by an Act of Parliament. **It is vital to note that while the national government can impose taxes beyond those listed, it cannot levy taxes exclusively authorized by the constitution for the County Government.**
- **Taxation Based on a Legal Framework** – Article 210 of the Constitution emphasizes that all taxes must be grounded in clear legal framework, ensuring that the power to tax is not imposed arbitrarily or abused. It also provides that waivers and exemptions to those taxes must be based on sound legal framework. This principle safeguards the integrity of the taxation system, allowing Parliament, both at the national and county level, to oversee and regulate taxation. It also enables citizens to participate in the legislative process through public engagement when tax laws are being formulated.

3. **Which other principles guide taxation in Kenya?**

Historically and globally, taxation has always brought conflicts between governments and their citizens, mainly because taxation involves the taking away of what rightfully belongs to citizens for the funding of public expenditure. To ensure that taxes acquire acceptance by the people, and foster compliance with taxes imposed, governments in the world seek to base their tax measures on various principles. The Kenyan constitution 2010 has recognized some of these principles such as equity and the need for taxation to be grounded on sound legal framework. In addition to these, other taxation principles that guide the government[(xvi)] include:

- **Certainty and simplicity** – Tax rules should be clear and simple to understand, so that taxpayers know where they stand. A simple tax system makes it easier for individuals and business to understand their obligations making it more likely for business to make informed decisions and respond to policy choices. Conversely, complex taxation measures present difficulties in compliance and may lead to losses in the collection of revenue.
- **Efficiency** – The cost of compliance costs to business and administration costs for government should be as minimal as possible. For instance, the government should not use a higher proportion of its revenue generated to collect taxes.
- **Effectiveness** – Taxation measures should produce enough revenue to meet fiscal targets. This can be achieved by reducing the potential of tax avoidance (legal methods of minimizing tax liability) and tax evasion (illegal actions to avoid paying taxes).
- **Flexibility** – Tax systems should be flexible and responsive enough to ensure that they keep pace with technological and commercial developments. For instance, the Finance Act 2023 introduced withholding taxes on income generated from digital content creators – which is a new commercial income generating stream. Moreover, it introduced e-TIMS, a technologically advanced system of ensuring accurate and efficient VAT returns filing.
- **Human Rights Compliance** – Taxation should not lead to the violation of human rights. Tax policies should ensure that they adopt a human rights-based approach in the imposition of tax measures by adhering to the principles of.
    1. **Transparency** – taxpayers must have information regarding the design and implementation of taxes.
    2. **Accountability** – the State must manage the tax system responsibly and ensure that affected parties can raise their concerns and seek redress.
    3. **Participation** – there must be proactive participation of the public before, during and after the designing and implementation of taxation.

4. What is the meaning of certain terminologies in taxation?

- **Progressive tax system**: This is a system of taxing where the burden of tax increases with the increase in income. This means that low-income earners pay a lower percentage of tax while higher earners pay more. Therefore, people with lower incomes can spend a larger proportion of their income in improving their livelihoods.
- **Regressive tax system:** This is where a tax is applied across uniformly on all income classes. A good example of this are sales taxes such as the VAT in some scenarios and service charges. This means that low-income households pay a bigger proportion of their income compared to high income households. For example, if Person A pays Ksh 100 for bread Person B pays the same for bread they both pay Ksh 16 in VAT. However, if Person A earns Ksh 500 per day and Person B earns Ksh 3,000 then Person A paid 3.2 percent of his

income while Person B paid 0.5 percent of their income in VAT.

- **Proportional tax system:** This is where the same proportion of tax is applied across the board no matter what the level of income.
- **Tax base:** This represents income or goods and services (assets) that are taxable. This is one way for government to know how much money it can collect within its jurisdiction.
- **Tax Burden:** The impact of a tax that is the total amount of tax paid by a particular group of people, business, industry etc.
- **Tax incidence:** This is a measure of who pays the tax to the tax collector.
- **Direct tax:** Direct taxes are those taxes where the person or business paying the tax also carries the responsibility for the tax itself. For instance, in corporate taxes the company not only pays the tax but also makes sure that the tax reaches the government.
- **Indirect tax:** These are taxes where the person paying for a product or service carries the cost of the tax but the responsibility for sending the tax to the government falls on someone else. For example, in Value Added Tax (VAT) the buyer of a good, for instance bread always has the burden of taxation by paying VAT through the price at the point of purchase. However, the tax incidence is usually upon the seller/ supplier, who must ensure that the VAT is sent to the government.
- **Entertainment tax:** This is a tax imposed to certain forms of entertainment such as shows, film exhibitions etc.
- **Property tax:** This is a tax levied by county government on land or land improvements such as buildings. The rate depends on the location and value of the property.
- **Charges, Fees, levies and Cess:** These are revenue collecting mechanisms that are usually related to regulations and use of services by the government. The definition of these terms varies between the national government and the counties and sometimes adopting contradictory meanings. Ideally, these revenue sources should be imposed and described in their revenue laws establishing/ imposing or regulating the revenue source. The frequent practice in the counties that Finance Acts impose these. Below is an attempt to define this.
    1. **Charges** – these are related to provision of services by the government. For example, on visitation to facility, or for documents supplied.
    2. **Levy** – this takes definition given in various laws at the national and county legislation e.g. Standards Levy Order, 1990 imposing on manufacturers to Kenya Bureau of Standards (KEBS), Road Maintenance Levy Fund Act, 1993 imposing on petroleum fuels.
    3. **Cess** – These are collected based on volume of output for provision of services.
    4. **Fees** – This are attached to specific/ prescribed activities examples include single business permits.
- **Tax incentive:** This can be defined as a break from paying any taxes to encourage the beneficiaries to engage in certain economic activities seen to be beneficial to the country.

5. What is the Finance Bill?

This is a Bill that is usually tabled in the National Assembly **two months before the end of each financial year (April 30th)** by the Cabinet Secretary for National

Treasury and Economic Planning. The Bill contains proposals relating to **revenue raising measures, more so on the collection of taxes for the financing of the next financial year's**

budget. Primarily, the Finance Bill amends the

a. **Income Tax Act** – This imposes a tax on all incomes[xvii] generated in Kenya. For example, the Finance Act 2023 amended the Income Tax Act by introducing the Digital Asset Tax which targets income from digital assets such as cryptocurrencies.

b. **Value Added Tax Act** – This is a tax imposed on goods and services based on the input of value added. Important concepts in understanding VAT include:
   - **Zero Rated Goods** – This refers to goods and services that are charged zero percent tax. This means that the retailers or producers do not pass a tax cost to the consumer in form of higher prices of goods and services. In addition, the producers could claim tax refunds for any costs incurred if the inputs used are taxable. For instance, if bread is zero-rated, it means that its VAT rate is at 0% and the producer can claim from KRA a tax refund on all the tax paid in the input of the manufacture of the bread.
   - **Exempt goods** – These are goods and services which are exempt from the standard rate of VAT. An important distinction with zero- rated goods is that for exempt goods, the manufacturer or supplier cannot claim a tax refund on tax paid on the input on the final product. Thus, if a good like bread is moved from zero rated to exempt, its cost will increase since the transferred cost of the taxes paid in the input will be borne by the consumer.
   - **Vatable goods** – These are goods that are subjected to the normal VAT rate for instance in Kenya that rate is at 16%.

c. **Excise Duty Act** – Often labelled as "sin" or "luxury" tax, the Excise Duty Act imposes taxation on imported products as well as products that are considered to be morally wrong such as alcohol and cigarettes. For instance, the Finance Act 2023 charged the rate of excise duty on imported glass bottles from 25% to 35%.

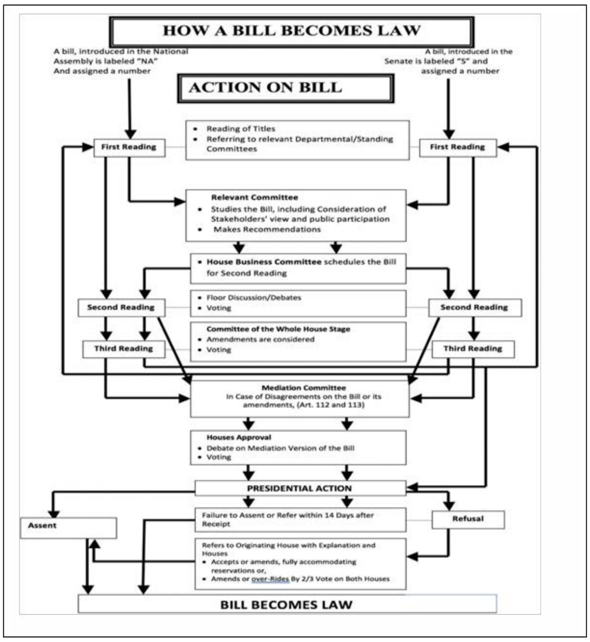
d. **Tax Procedures Act** – This Act provides for the procedural rule for the administration of tax laws in Kenya. It further sets out the timelines by which one should file complaints of tax assessment to the authority. For example, the Finance Act 2023 amended the period for settlement of disputes out of court or in the tax tribunal by increasing it from 90 days to 120 days.

e. **Miscellaneous Fees and Levies Act** – This imposes duties, fees and levies on imported or exported goods mainly to encourage local production e.g. the Finance Act 2023 reduced the Import Declaration Fee from 3% to 2.5% while the withdrawn Finance Bill 2024 sought to increase it back to 3%.

The Finance Bill further amends other pieces of law that impose certain fees and levies or in a certain way related to taxation. For example, the Finance Bill 2024 proposed to amend the Affordable Housing Act, Industrial Training Act and the Data Protection Act.

6. How does the Finance Bill move from being a Bill into an Act or when does it become binding law?

Figure 13: Flow Chart of the Law- Making Process in Kenya



Source: Kenya Parliament Website

After tabling of the Finance Bill to the National Assembly, the Bill then goes through the legislative making process(xviii) as detailed below for it to become effective law.

First Reading – This is where the Bill is introduced and read for the first time to the National Assembly. After being read for the first time, the Bill is then taken to the relevant Departmental Committee for consideration. On matters Finance Bill, the Finance and National Physical Planning Committee is charged with this responsibility. The Committee is expected to undertake public participation on the Bill at this stage. Furthermore, the Committee takes into consideration the views and recommendations of relevant stakeholders and prepares a report which contains specific proposed amendments which are later to be considered at the Committee of the Whole House Stage.

Second Reading – This is the debate stage where the House discusses the merits and demerits of the Bill. Furthermore, the report of the Committee on public participation conducted is also debated and considered. At the end of the debate, the Speaker allows the proposer to respond to any issues, the proposer in this case being the chair of the Finance and National Physical Planning Committee. The Speaker afterwards puts the question on whether the Bill should be read for the second time. If majority vote in favor, the Bill is read for a second time and proceeds to the committee of the whole house stage.

Committee of the Whole House – A committee of the Whole House in this case refers to the entire membership of the House in form of a committee that considers a Bill clause by clause. Any proposed amendments to the Bill are considered and a vote taken on each. At the conclusion, the Committee through the chairperson immediately submits a report to the House seeking its approval.

Report Stage – Upon resumption of the House, the report of the Committee of the whole House is considered and a procedural motion vote is passed on it. At this stage, any member with reasons may move the House to resolve itself into a committee again to reconsider any specific clauses of the Bill. This is famously known as re-committal.

Third Reading – This is the final stage of the passage of a Bill through the House – where it is read for a third time. Through this stage no further amendments are taken up. Further, there is little debate during the third reading and a final vote is taken.

Presidential Assent – After the third Reading the Finance Bill is then taken to the president for assent. Since the Bill is not a bill involving counties – it is not tabled before the Senate. The president can either choose not to take any action on the bill, assent the bill or refer it back to the House with a memorandum outlining reservations.

- Whereby the President chooses not to take any action – the Finance Bill becomes law after 14 days.
- Where the bill is assented to by the

President – the Bill becomes law effective on the 1st **of July** or any other designated date.

- Where the President sends the Bill back to parliament with reservations.
- The national assembly can either pass the bill adopting fully the recommendations of the President or
- The house may pass the bill a second time without the president's recommendations. This must have the support of two-thirds majority of the members.

If the Bill is passed it is then taken again back to the President for assents. If he fails to assent the Bill the second time, the Bill becomes law after 7 days.

7. **How do we analyze the finance bill to identify some of the changes that have been made in the Act?**

To better understand the proposed changes introduced by a Finance Bill, it is important for one to examine both the principal act (that is the Act that is being amended) as well as the Bill itself. Bills are usually mainly organized into different clauses that propose amendments to various Acts.

For instance, for us to identify some of the changes that were made by the Finance Act 2023 (which was previously the Finance Bill 2023), let's have a look at clause 21. This clause proposes the amendment of section 35(1) of the Income Tax Act by adding paragraph (q) on digital content monetization.

Figure 14: A snippet of the Finance Bill 2023 (Clause 21)

21. Section 35 of the Income Tax Act is amended— | Amendment of section 35 of Cap. 470.

(a) in subsection (1) by inserting the following new paragraph immediately after paragraph (p)-

(q) digital content monetisation;

(b) in subsection (3), by inserting the following paragraphs immediately after paragraph (j)—

Source: Finance Bill 2023

To fully understand the change being made, one must refer to section 35(1) of the Income Tax Act(xix) which provides certain payments (or incomes) that may be taxed from both resident persons and non-resident persons.

Figure 15: A snippet of the Income Tax Act (Section 35)

B - Deduction of Tax

Deduction of tax from certain income
2 of 1975, s.5, 13of1975, s.2, 7 of 1976, s.2, 8 of 1978, s.9, 13of1979, s.5, 18of 1979, s.2 10of1987, s34 15of2003 s.35 6 of 2005 s.27 10of2006 s.26 8 of 2008 s.33 8 of 2009 s.25

35. (1) A person shall, upon payment of an amount to a non-resident person not having a permanent establishment in Kenya in respect of -

(a) a management or professional fee or training fee except-

(i) a commission paid to a non-resident agent in respect of flowers, fruits or vegetables exported from Kenya and auctioned in any market outside Kenya and audit fees for analysis of maximum residue limits paid to a non-resident laboratory or auditor; or

(ii) a commission paid by a resident air transport operator to a non-resident agent in order to secure tickets for international travel.

16 of 2014 s. 11
15 of 2003 s.35

(b) a royalty or natural resource income;

10 of 2010 s.25
4 of 2012 s.16

(c) a rent, premium or similar consideration for the use or occupation of property, except aircraft, aircraft engines, locomotives or rolling stock;

(d) a dividend;

6 of 1994 s.42
4 of 2012 s.16

(e) interest and deemed interest, including interest and deemed interest arising from a discount upon final redemption of a bond, loan, claim, obligation or other evidence of indebtedness measured as the original issue discount;

Provided that -

(i) where the bond, loan, claim, obligation or other evidence of indebtedness is acquired by a person exempt under the First Schedule or a financial institution specified in the Fourth Schedule from a non-resident person, such an exempt person or financial institution shall deduct tax from the difference between the acquisition price and the original issue price; and

(ii) where a non-resident person disposes of a bond, loan, claim, obligation

Source: Income Tax Act

The previous sections being inserted by the Finance Act 2023 were not there in the principal Act. This means that they are new additions to the Act and thus the Finance Act 2023 is aiming to tax income earned from digital content monetisation both for resident and non-resident persons.

QUESTION 7.1.

Now, using the Finance Bill 2024, assess some of the proposed amendments to the Value Added Tax Act specifically by Clause 30 and Clause 35 (b)? What do they seek to achieve?

Identifying the changes being made by the Finance Bill alone is not enough for engaging in meaningful public participation, especially with the main stakeholders. It is needful that one identifies what is the impact of the changes being made by the Finance Bill to various businesses, industries, and persons. Furthermore, it is important to analyze whether the proposed changes by the Bill align with the principles of taxation especially the ones outlined in the Constitution of equity and adherence to a sound legal framework. One should also propose alternatives to any tax measures being challenged and highlight any positive measures that address existing tax issues. Have a look at the IPF excerpt shown below of the public participation memorandum on the Finance Bill for the Finance Bill 2024.

Figure 16: A snippet of the IPF Submission on the Finance Bill 2024

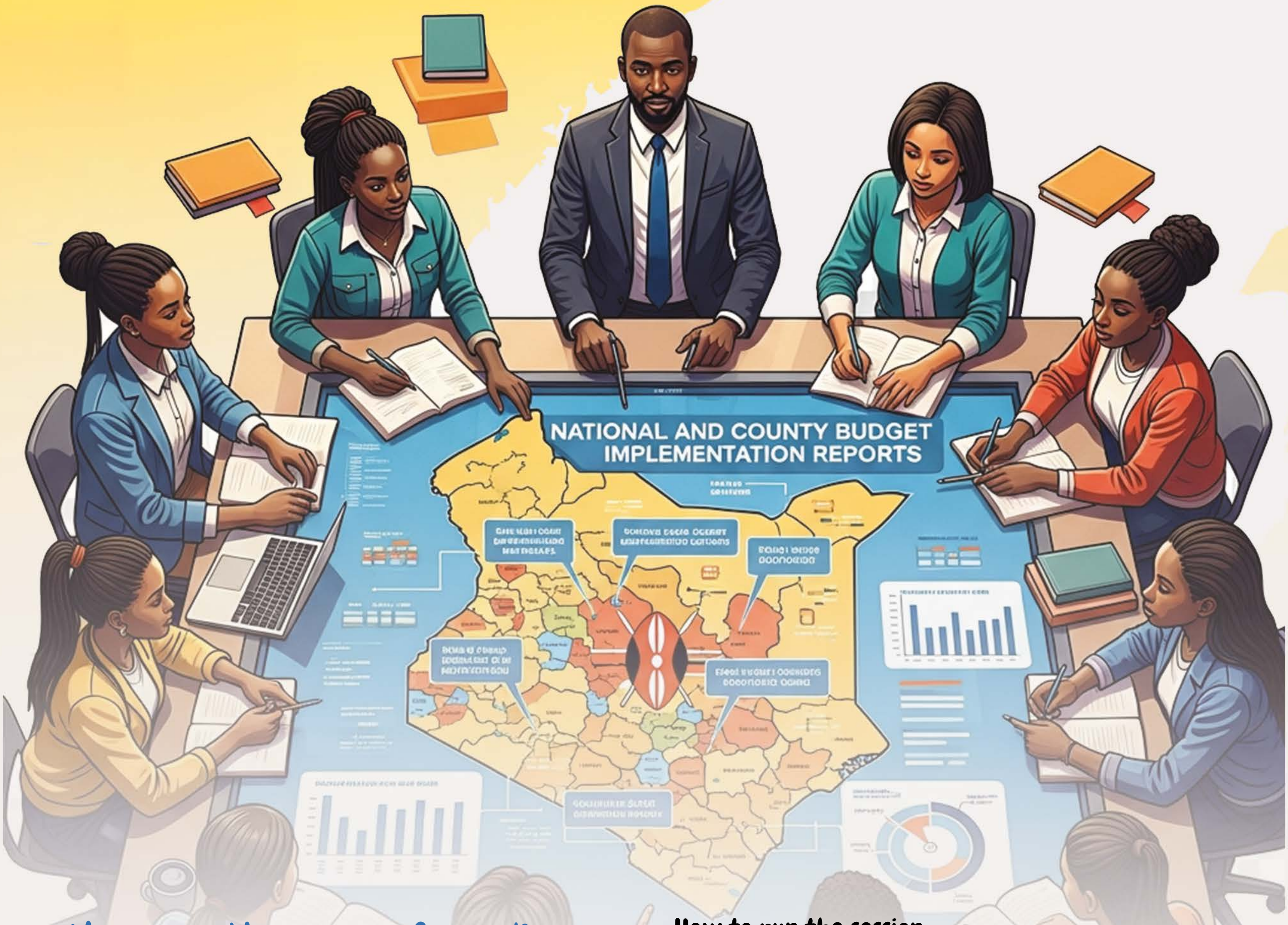
Item/Clause	Previous Provision	Proposed Provision and Effective Date	Impact/Implication of the proposed change	IPF's Observation and Recommendation
Income Tax Act				
Clause 2: Definition of Royalty	The Income Tax Act defines the term royalty to mean payment made as a consideration for the use or right to use copyrights, cinematograph films, patents, trademarks, designs or models, plans, formulas, or processes, and industrial, commercial or scientific equipment, or for information concerning such equipment or experience.	The Bill proposes to amend the definition of royalty to also include payments made for use of any software, whether proprietary or off-the-shelf, license, development, training, maintenance, or support fees including the distribution of the software. *Effective date: 1st July 2024*	While the intention of the proposed amendment is to provide clarity on the nature of the amount payable on acquisition of software for distribution, it contradicts the current jurisprudence established by Kenyan Courts and international best practice, guided by the Organization for Economic Cooperation and Development Model Tax Convention on Income and Capital which provide that the distribution of software is not equivalent to exploitation of the software and therefore would not be a royalty payment.	Amend the definition to exclude taxation on the distribution of software. This ensures consistency in legislating taxation frameworks with the jurisprudence established by Kenyan Courts and international best practice from the OECD Model Tax Convention.
Clause 44(B): A percentage of the IDF will be used for revenue enforcement initiatives	Previously, 10 percent of the Fund was only used for payment of Kenya's contribution to the African Union and any other international organisation to which Kenya has financial obligation.	The bill proposes to have 10 percent of the Fund used for payment of Kenya's contribution to the African Union and any other international organisation to which Kenya has financial obligation, while 20 percent will be used for revenue enforcement initiatives or programmes. **Proposed effective date: 1 July 2024**	This is an effort by the government to better resource KRA partly because KRA's budget has mostly been below 2 percent of the revenue it collects. Nonetheless, it would be easier for the government to ensure KRA gets its 2 percent agency fee and if need be, raise the agency fee to a higher rate.	We recommend adoption of this proposition.

Source: IPF analysis on the Finance Bill 2024

Question 7.2

To further enhance understanding, use the following questions to analyse the effect the proposed changes in the withdrawn Finance Bill 2024 would have to respective tax laws, particularly Clause 9(12)(H) and Clause 35(b).

a. What was the previous provision being amended?
b. What is the impact of the proposed change or amendment?
c. What is your observation or specific recommendation?



Module 5.6. National and County Budget Implementation Reports

Session Objectives

At the end of the session, the students will have understood how:

- To read and fully understand the National and County Budget Implementation Reports.
- To identify how the decisions made in the two budget documents impact student needs.

Resources needed

To run this session, you will need:

- National Government Budget Implementation Review Report FY 2023/2024[xx]
- Bungoma County Budget Implementation Reports FY 2022/2023
- Home County Budget Implementation Reports

How to run the session

- Introduce the National and County Budget Implementation Reports. Highlight the timeline, key actors, key decision made and differences between the two budget documents.
- Provide the trainees with copies of documents that you shall be analyzing. This will be determined by the discussion you are having. If the discussion is at the national level, utilize the full year National Government Budget Implementation Review Report FY 2023/24.
- In plenary, with the trainees, answer Q1- Q4 using the full year National Government Budget Implementation Review Report FY 2023/24.
- In groups, use the set of questions provided for in Annex 4 to analyze the Bungoma County Budget Implementation Reports FY 2022/2023 and your home county budget implementation reports.
- Come back to plenary for group presentation and discussions.

Questions and Answers

1. Does the report provide information on revenue performance?

As budgeting is always uncertain and imperfect, small variances between actual and budgeted revenue collections should be expected. However, larger variances may be indicative of more fundamental problems with budgeting. If actual and budgeted revenue collections vary by more than 10 percent, then an explanation for the difference should be provided. Both citizens and legislators should interrogate these potential problems further by asking questions to the executive. The report should provide this information to allow the citizens and legislators to hold the executive accountable. As we assess the performance of revenue, it is important to look at similar periods of time each year. The full year NGBIRR FY 2023/24 provides information on revenue performance on page 24. To finance the budget for the FY 2023/24, the government through the National Treasury targeted to raise funds totaling Ksh 4.2 trillion from various sources. The total receipts into the Consolidated Fund were Ksh 3.8 trillion, representing a performance of 89 percent. This means that the government was able to receive 89 percent of the revised annual target (target set in **supplementary budget II FY 2023/24**). This was a slight decrease in performance compared to the previous FY 2022/23 when the government received Ksh 3.3 trillion which represented 90 percent of the revenue annual target. The figure below shows a statement of receipts into the Consolidated Fund (Page 25).

Figure 17: A snippet of the National Government Budget Implementation Review Report FY 2023/2024 (Page 25)

Table 2.1: Statement of Receipts into the Consolidated Fund

Receipts Category	Original Estimates FY 2023/24 (Kshs.)	Revised Estimates FY 2023/24 (Kshs.)	Receipts as of 30th June 2024 (Kshs.)	Performance Against Annual Target (%)	Contribution by Category (%)	Receipts as of 30th June 2023 (Kshs.)	Change over Receipts as of June 2024
Opening Balance 01.07.2023	-	-	2,617,485,484*	-	0.1	616,548,952	-
Tax Revenue	2,495,825,165,005	2,251,879,776,705	2,161,080,036,283	96	57	1,961,974,892,387	10
Non-Tax Revenue	75,333,897,602	209,140,542,077	129,269,752,420	62	3	81,998,439,277	58
Domestic Borrowing	688,213,698,151	1,052,088,687,184	795,026,175,981	76	21	696,402,157,519	14
External Loans and Grants	870,178,136,084	747,571,954,622	705,704,926,155	94	19	488,311,124,134	45
Other Domestic Financing	3,190,000,000	3,267,485,405	3,543,591,359	108	0.1	16,104,714,395	(78)
Total	**4,132,740,896,842**	**4,263,948,445,993**	**3,797,241,967,682***	89	100	**3,245,407,876,662***	17

Source: *National Treasury*

Source: NGBIRR FY 2023/2024

The receipts comprised of opening balances from the previous finance year (Ksh 2.6 billion), Tax revenue (Ksh 2.1 trillion), non-tax revenue (Ksh 129.2 billion), Domestic borrowing (795.0 billion), external loans and grants (Ksh 705. 7 billion) and other domestic financing (Ksh 3.5 billion). The highest performing sources of revenue were other domestic financing (108 percent of the annual revenue target) and tax revenue (96 percent of the annual revenue target).

The tax revenue performance for FY 2023/24 was an improvement compared to the previous FY 2022/23 when the performance was 94 percent (a target of Ksh 2.1 trillion). The tax revenue category contributed the highest proportion to total receipts at 57 percent (page 25).

The report also provides information on previous year's revenue performance as shown below (Page 26).

Figure 18: A snippet of the NGBIRR FY 2023/2024 (Page 26)

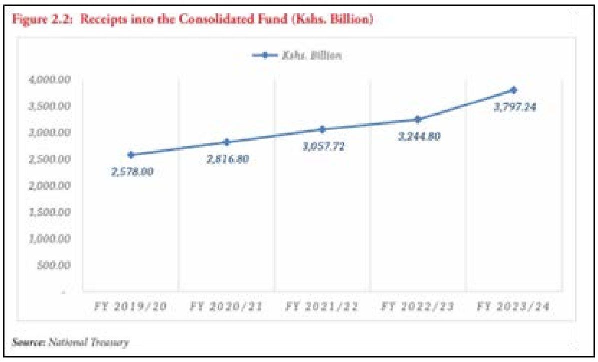


Figure 2.2: Receipts into the Consolidated Fund (Kshs. Billion)

Source: National Treasury

Source: NGBIRR FY 2023/2024

The trend analysis indicates a 17 percent increase in receipts in FY 2023/24 compared to FY 2022/23. External loans and grants recorded the highest growth by Ksh 217.4 billion in absolute figures. Additionally, non-tax revenue grew by 58 per cent in the current reporting period compared to Kshs.82 billion reported in FY 2022/23. Domestic borrowing also increased by 14 per cent during the review period, recording Kshs.795.03 billion. Tax revenue recorded a 10 per cent growth in FY 2023/24 compared to the Kshs.1.96 trillion received in FY 2022/23.

As a student, you want to be keen on how the government performed on revenue collections. The availability of these resources determines whether the government will have the ability to meet the citizens' needs. Checking performance also helps to determine whether the targets set for the coming financial years are realistic.

2. **Does the report provide information on overall expenditure performance?**

As we analyze revenue performance, it is also important to check the spending side of the budget, expenditure performance, which translates to effective service delivery. The gross expenditure for the National Government was Ksh
3.89 trillion, recording an absorption rate of 88 percent compared to Ksh 3.18 trillion (87 percent recorded in FY 2022/2023 as shown below (Page 39).

Figure 19: A snippet of the NGBIRR FY 2023/2024 (Page 39)

Table 3.1: Overall Budget Performance

	FY 2023/24 (Kshs. Bn)						FY 2022/23 (Kshs. Bn)					
VOTE	Revised Gross Estimates	Revised Net estimates	Cumulative Exchequer	Cumulative Expenditure	% of Exchequer to Revised Net Estimates	Absorption Rate (%)	Revised Gross estimates	Revised Net Estimates	Exchequer Issues	Cumulative Expenditure	% Exchequer to Revised Net Estimates	Absorption rate (%)
Recurrent	3,722.91	3,426.43	3,126.42	3,372.66	91	91	3,087.27	2,846.55	2,535.16	2,705.76	89	88
: MDAs	1,731.43	1,434.96	1,360.06	1,615.64	95	93	1,509.50	1,268.81	1,221.57	1,400.61	96	93
: CFS	1,991.48	1,991.48	1,766.36	1,757.02	89	88	1,577.74	1,577.74	1,313.59	1,305.14	83	83
Development	708.85	452.09	315.06	516.86	70	73	584.29	374.00	308.03	473.55	82	81
Total	4,431.75	3,878.52	3,441.49	3,889.52	89	88	3,671.56	3,220.55	2,843.19	3,179.30	88	87

Source: National Treasury, OCOB & MDAs

Source: NGBIRR FY 2023/2024

The expenditure comprised of ministerial development at Ksh 516.43 billion (absorption rate of 73 percent), ministerial recurrent expenditure at Ksh 1.62 trillion (absorption rate of 93 percent) and Consolidated Fund Service at Ksh
1.76 billion (absorption rate of 88 percent).
The table below provides information on expenditure across the sectors.

Table 9: Sector Gross Estimates vs Actual Expenditure

Sector	Gross Estimates (Ksh Billion)	Actual Exp (Ksh Billion)	Absorption Rate (%)
Agriculture, Rural & Urban Development	96.1	89.0	93
Energy, Infrastructure, and ICT	463.5	336.7	73
General Economic and Commercial Affairs	78.7	52.5	67
Health	134.8	103.8	77
Education	689.4	666.1	97
Governance, Justice, Law and Order	252.5	241.1	95
Public Administration and International Relations	328.9	272.4	83
National Security	211.6	209.5	99
Social Protection, Culture and Recreation	72.9	66.5	91
Environmental Protection, Water and Natural Resources	111.9	94.5	84
Total	**2,440.3**	**2,132.1**	**88**

Source: NGBIRR FY 2023/2024

National Security had the highest absorption rate of 99 percent while Energy, Infrastructure and ICT had the lowest absorption rate of 73 percent. Education sector had an absorption rate of 97 percent which is an improvement compared to the previous FY 2022/2023 when the absorption rate was at 88 percent.

Does the report provide information on budget performance below the sector level?

National Government Quarterly Budget Implementation Review Reports should provide information on budget implementation below the sector level. This information helps us keep track of how the budget was implemented in our sectors of interest. For our case, we shall look at the Education sector.

On page 74, the report provides information on budget performance in the Education sector. The revised budget allocation in Supplementary budget II for education sector amounted to Ksh 689.4 billion which was increase compared to the FY 2022/2023 budget allocation which amounted to Ksh 568.2 billion. The allocation represented 16 percent of the revised gross national budget of Ksh 4.4 trillion and 28 percent of the ministerial revised budget of Ksh 2.4 trillion.

The Ksh 689.4 billion comprised of Ksh 32.6 billion (5 percent) for development activities and Ksh 656.8 billion (95 percent) for recurrent expenditure.

The table below provides information on budget allocation and actual expenditure in the education sector.

Teacher Service Commission had the highest allocation of Ksh 340.8 billion which was attributed to its vital role in Teacher Management for primary and secondary schools under the Teacher Resource Management Programme and General Administration, Planning and Support Services Programme.

Table 10: Budget Allocation vs Actual Expenditure in the Education Sector

Vote	Revised Gross Estimates	Actual Expenditure	Absorption rate
State Department for Vocational and Technical Training	33.6	31.4	93.5
State Department for Higher Education and Research	159.7	151.5	94.9
State Department for Basic Education	155.3	140.2	90.3
Teachers Service Commission	340.8	343.07	100.7
Total	**689.4**	**666.2**	**96.6**

Source: NGBIRR FY 2023/2024

Of the Ksh 689.4 billion which was allocated to the sector, Ksh 666.2 billion was spent which represents an absorption rate of 96.6 percent. Ksh 640. 9 billion was spent on recurrent expenditure and Ksh 25.1 billion was spent on development expenditure. All the state departments attained an absorption rate of above 90 percent. However, Teacher Service Commission spent Ksh 343.1 billion which was higher than the allocated budget of Ksh 340.8 billion representing an absorption rate of 100.7 percent.

The Ksh 662.2 billion comprised of Ksh 25.12 billion for the development budget representing an absorption rate of 77 percent and Ksh 640.9 billion for the recurrent expenditure representing an absorption rate of 98 percent. **Spending in the State Department for Higher Education and Research amounted to Ksh 151.5 billion against an allocation of Ksh 159.7 billion representing an absorption rate of 94.9 percent.**

Development Expenditure in the Education sector The State Department for Vocational and Technical Training recorded the highest per cent of the revised development budget at 89 per absorption. The Teachers Service Commission recorded the lowest at 56 per cent. This is attributed to the increased AIA for affiliated institutions and personal emoluments to cater to a Competency-Based Curriculum's needs. The Teachers Service Commission recorded the highest recurrent expenditure to the revised gross budget at 101 per cent. In comparison, the State Department for Basic Education recorded the lowest at 92 per cent, attributed to reduced allocation under the Free Primary Education programme for recurrent expenditure and reduced donor commitment for capital projects.

The snippet below provides information on development and recurrent budget performance for all state departments and TSC (page 76).

Figure 20: A snippet of the NGBIRR FY 2023/2024 (Page 76)

Table 4.5: Education Sector-Analysis of Exchequer Issues and Expenditure

VOTE	Development (Kshs. Bn)						Recurrent (Kshs. Bn)					
	Revised Gross Budget	Revised Net Budget	Exchequer Issues	Expenditure	% of Exchequer to Revised Net Budget	% of Expenditure to Revised Gross Budget	Revised Gross Budget	Revised Net Budget	Exchequer Issues	Expenditure	% of Exchequer to Revised Net Budget	% of Expenditure to Revised Gross Budget
State Department for Vocational and Technical Training	7.01	4.77	2.32	6.24	49	89	26.60	20.92	17.11	25.14	82	95
State Department for Higher Education and Research	3.74	3.72	1.81	2.65	49	71	155.94	91.19	82.90	148.82	91	95
State Department for Basic Education	20.63	20.20	16.42	15.56	81	75	134.73	132.61	127.33	124.62	96	92
Teachers Service Commission	1.20	1.16	0.69	0.67	59	56	339.55	338.54	333.98	342.38	99	101
Total	**32.58**	**29.84**	**21.24**	**25.12**	**71**	**77**	**656.82**	**583.26**	**561.33**	**640.96**	**96**	**98**

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Source: NGBIRR FY 2023/2024

Spending on personnel emoluments

The Public Finance Management Act section 15 and Regulations 26 states - national government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35 percent of the national government's equitable share of the revenue raised nationally plus other revenues generated by the national government pursuant to Article 209 (4) of the Constitution.

Table 4.6 provides information on personnel emoluments spending as a percentage of revenue as shown below (page 77). The total revenue available for use in the sector amounted to Ksh 647.9 billion. Ksh 352.9 billion was spent on personnel emoluments which represented 54 percent of the total revenue. The sector did not adhere to the 35 percent threshold. The high spending was associated with the spending in Teachers Service Commission whose cost on PE went up to 101 percent of available revenues. The State Department for Higher Education and Research spent 0.2 percent of available revenues on salaries and wages.

Figure 21: A snippet of the NGBIRR FY 2023/2024 (Page 77)

Table 4.6: PE Costs as a Percentage of Revenue

MDAs	Revenue (in Kshs. million)	PE costs (in Kshs million)	PE to Revenue as a percentage
State Department for Vocational and Technical Training	26,021.57	8,217.89	32
State Department for Higher Education and Research	142,401.29	251.07	0.2
State Department for Basic Education	143,754.39	4,309.47	3
Teachers Service Commission	335,721.77	340,070.75	101
Total	**647,899.02**	**352,849.18**	**54**

Source: *MDAs*

Source: NGBIRR FY 2023/2024

Spending below the State Department for Higher Education and Research Table 4.7 on page 78 provides information on performance for all programmes and sub- programmes under the State Department for Higher Education and Research: University Education, Research, Science, Technology and Innovation and General Administration, Planning and Support Services. As a university student you would be interested in finding out how resources were utilized in the University Education Programme. Under the University Education Programme, we have University Education, Quality Assurance and Higher Education Support Services sub-programmes which recorded absorption rates of 41, 40 and 91 percent respectively.

Figure 22: A snippet of the NGBIRR FY 2023/2024 (Page 78)

Table 4.7: Education Sector's Programme Performance

Programmes	Sub-Programmes	Revised Approved Budget II (Kshs. Million)			Expenditure (Kshs. Million)			Absorption Rate (%)
		Recurrent	Development	Total	Recurrent	Development	Total	
State Department for Higher Education and Research								
University Education	University Education	96,501.53	3,657.00	**100,158.53**	38,506.82	2,651.90	**41,158.72**	41
	Quality Assurance	583.05	-	**583.05**	235.05	-	**235.05**	40
	Higher Education Support Services	57,859.09	-	**57,859.09**	52,416.33	-	**52,416.33**	91
Research Science, Technology and Innovation	Research Management and	414.68	86.00	**500.68**	421.55	**66.80**	**488.35**	98
	Science	260.42	-	**260.42**	170.41	-	**170.41**	65
General Administration, Planning and Support Services	General Administration, Planning and Support	365.55	-	**365.55**	359.33	-	**359.33**	98
	Sub-Total	**155,984.33**	**3,743.00**	**159,727.33**	**92,109.49**	**2,718.70**	**94,828.19**	59

Source: NGBIRR FY 2023/2024

4. Does the report provide non-financial information- outcomes, key performance indicators and targets achieved for each sector?

In addition to the financial information data, we expect to see information on the targets achieved which are related to the financial information. What did the sector spending achieve in terms of the revised targets in the supplementary II budget. Though not comprehensive enough, this information is available on page 80 of the report as shown below.

Figure 23: A snippet of the NGBIRR FY 2023/2024 (Page 80)

4.3.4 Critical Achievements by MDAs in the Education Sector

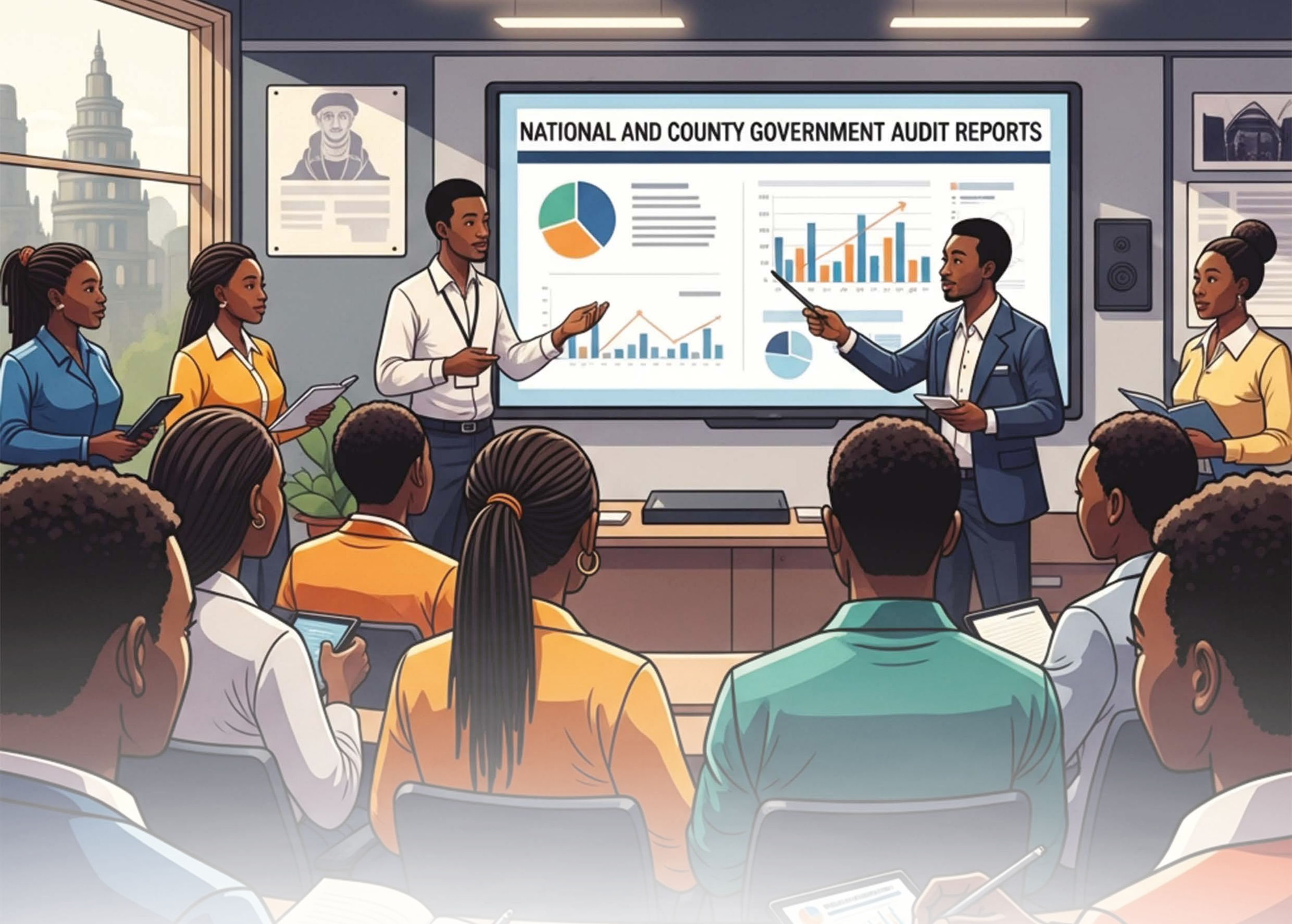
During the period under review, the State Department for Higher Education and Research, under the Kenya Universities and College Central Placement Services delivery unit within the university education sub-programme, placed 295,955 students in universities against the annual target of 144,000 surpassing the target due to placement of two-cycle in the same financial year. The department placed 318,068 students in Technical, Vocational Education and Training, exceeding an annual target of 149,971 in the same delivery unit. The State Department also audited 11 universities against the annual target of 9 under the quality and assurance standard sub-programme within the University Education Programme. The State Department further awarded 835,396 student loans under the Higher Education Loan Board delivery unit, exceeding its annual target of 611,282 students by 224,114.

Source: NGBIRR FY 2023/2024

5. Does the report provide recommendations for the identified challenges?

One of the identified challenges was delayed implementation of projects in the education sector, resulting in some falling behind their intended completion date.

OCOB recommendation- "**The National Treasury should ensure adequate funding for ongoing development projects to ensure timely completion. For multi-year projects whose completion is lagging the desired timelines, the cause for the delay must be identified, and adequate measures should be taken to fast-track their implementation in the subsequent financial years.**"



Module 5.7. National and County Government Audit Reports

Session Objectives

At the end of the session, the students will have understood how:

- To read and fully understand the National and County Government Audit Reports.
- To identify how the decisions made in the two budget documents impact student needs.

Resources needed

To run this session, you will need:

- Auditor-General's Summary Report on National Government 2022/2023[xxi]
- Auditor General's Report on National Government 2022/2023[xxii]
- Auditor General's Report on the County Governments County Executives 2022/2023[xxiii]

How to run the session

1. Introduce the National and County Government Audit Reports. Highlight the timeline, key actors, key decision made and differences between the two budget documents.
2. Provide the trainees with copies of documents that you shall be analyzing. This will be determined by the discussion you are having. If the discussion is at the national level, utilize the Auditor General's Report on National Government FY 2022/2023.
3. In plenary, with the trainees, answer Q1- Q5 using the Summary of Auditor General's Report on National Government MDAs and the Auditor General's Report on National Government MDAs FY 2022/2023.
4. In groups, use the set of questions provided for in Annex 5 to analyze the Auditor General's Report on County Executive FY 2022/2023.
5. Come back to plenary for group presentation and discussions.

Questions and Answers

1. **What opinion did the OAG give looking at the financial statement of MDAs at the national government level?**

For the FY 2022/2023, the auditor general examined and audited a total of three hundred and forty (340) National Government financial statements (excluding National Funds) in respect of MDAs, Revenue Statements, Donor Funded Projects and other clients such as Public Debt, National Exchequer Account, Public Trustee, Business Registration Service, Staff Mortgages and Car Loan Schemes among others. Each was issued an audit opinion as shown in the snippet below (Page 45 of the summary audit report).

Figure 24: A snippet of the Summary OAG Report on NG FY 2022/2023 (Page 45)

Table 30: Audit Opinions on National Government Entities Excluding National Funds

No.	Client Type	Type of Opinion Issued				
		Unmodified	Qualified	Adverse	Disclaimer	Total
1.	MDAs - Voted Entities	50	30	-	-	80
2.	Revenue Statements	6	7	-	-	13
3.	Donor Funded Projects	153	66	1	-	220
4.	Others	19	6	1	1	27
	Total	**228**	**109**	**2**	**1**	**340**

Source: Summary OAG Report on NG FY 2022/2023

A total of 80 MDAs were audited. Of the 80, 50 were issued with the Unmodified opinion while 30 were issued with the qualified opinion.

Of the 340 entities, 220 financial statements audited were donor funded projects as shown below (page 46 of the summary audit report).

Figure 25: A snippet of the Summary OAG Report on NG FY 2022/2023 (Page 46)

Table 32: Audit Opinions on Financial Statements in the Last Five Years

Audit Opinion	2018/2019		2019/2020		2020/2021		2021/2022		2022/2023	
	No. of FS	%	No. of FS	%	No. of FS	%	No. of FS	%	No. of FS	%
Unmodified	31	32.60%	42	44.20%	42	46.70%	57	52.30%	75	62.50%
Qualified	54	56.80%	47	49.50%	45	50.00%	50	45.90%	43	35.80%
Adverse	7	7.40%	4	4.20%	2	2.20%	1	0.90%	1	0.80%
Disclaimer	3	3.20%	2	2.10%	1	1.10%	1	0.90%	1	0.80%
Total	95	100%	95	100%	90	100%	109	100%	120	100%

Source: Summary OAG Report on NG FY 2022/2023

The percentage of financial statements with unmodified opinions has progressively been increasing from FY 2018/19 to 2022/2023. The percentage increased from 52.3 percent in FY 2021/2022 to 62.5 percent in FY 2022/2023. The number of financial statements with qualified, adverse and disclaimer opinions have decreased from the previous financial year.

The Auditor General noted there has been an improvement in the presentation of financial statements. She attributed this to:

- Guidance by The National Treasury through circulars and issuance of reporting templates by the Public Sector Accounting Standards Board (PSASB).
- Audit reviews leading to revisions and amendments of the financial statements to correct errors during the audit process, have also contributed to improvements in disclosure and presentation of the financial statements.

The summary audit report includes several appendices that categorize the opinions on various MDAs as follows:

- **Appendix A: MDAs with unmodified opinion**
- **Appendix B: MDAs with qualified opinion**
- **Appendix C: MDAs with adverse opinion**
- **Appendix D: MDAs with disclaimer of opinion**

2. Is there a summary on audit queries that explain why the audit opinion was given?

The Audit Report provides an audit opinion for all entities audited. For each opinion, the report provides audit queries which led the OAG to the conclusion. Audit queries are questions asked by the auditor during his investigations that do not receive an adequate response from responsible agencies or accounting officers, in this case the accounting officers in the various government ministries, departments and agencies. By "adequate responses", we mean that where financial procedures appear not to have been followed, the management is able to produce documentation showing that the procedures were followed or qualified for an exception.

An example of an audit query is - Irregular Payment for Consultancy Services. The OAG noted that the state department for Higher Education and Research did not follow the right procedures as required by Clause 12.1 of the Request for Proposal Document, Section 135(3) of the Public Procurement and Asset Disposal Act, 2015 in provision of consultancy services. (Page 143 of the OAG's report on National Government FY 2022/2023).

The report provides queries for all the ministries, departments and agencies audited. The snippet below shows (379.1 and 379.2) queries raised by OAG under the state department for Higher Education and Research (page 137 of the OAG's report on National Government FY 2022/2023).

Figure 26: Snippet of OAG Report on NG FY 2022/23 (Pg 137)

379. Irregularities in Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other Government units of Kshs.82,550,137,837 as disclosed in Note 7 to the financial statements. However, the following variances were noted:

379.1 Unconfirmed Transfers to Other Government Units

Included in the amount are transfers to Bomet University College and East African Centre for Excellence (ACE II) Project - IDA of Kshs.372,600,707 and Kshs.11,682,020 respectively, both totalling Kshs.384,282,727. However, records at the University College and Donor Project reflect receipts of Kshs.313,170,059 and Kshs.11,645,220 resulting in an unreconciled and unexplained variances of Kshs.59,430,648 and Kshs.36,800 respectively, both totalling Kshs.59,467,448.

Further, records maintained by the State Department indicates that an amount of Kshs.284,526,438 was transferred to Tharaka University College. However, the University acknowledged receipt of Kshs.338,152,120, resulting in an unrecorded transfers of Kshs.53,625,682. Similarly, a total amount of Kshs.3,374,601,855 is indicated as having been transferred to Kenyatta University in the financial statements which differs with confirmed receipts by the University of Kshs.3,454,601,855, resulting in an understatement of the transfers by Kshs.80,000,000.

379.2 Discrepancies between Expected and Actual Capitation Funding

Source: OAG Report on NG FY 2022/2023

3. What audit queries were raised under the State Department for Higher Education and Research?

Below are some of the highlighted queries under the State Department for Higher Education and Research.

Query	Details
Unconfirmed Transfers to Other Government Units	Included in the amount are transfers to Bomet University College and East African Centre for Excellence (ACE II) Project - IDA of Kshs.372,600,707 and Kshs.11,682,020 respectively, both totalling Kshs.384,282,727. However, records at the University College and Donor Project reflect receipts of Kshs.313,170,059 and Kshs.11,645,220 resulting in an unreconciled and unexplained variance of Kshs.59,430,648 and Kshs.36,800 respectively, both totalling Kshs.59,467,448(Pg 137).
Discrepancies between Expected and Actual Capitation Funding	Included in the transfers to other Government units of Kshs.82,550,137,837 is a total of Kshs.44,283,954,992 transferred to thirty-nine (39) public universities with total enrolment of four hundred and fifty thousand nine hundred and twenty-six (450,926) students comprising ninety-four thousand seven and thirty-eight (94,738) first year students and three hundred thousand and fifty-six, one hundred and eighty- eight (356,188) continuing students. However, the total expected capitation for the students was Kshs.44,023,955,000, thus resulting to net over disbursement of Kshs.259,999,992 (Pg 137).
Unconfirmed Fuel Expenditure	The statement of receipts and payments reflects use of goods and services expenditure of Kshs.184,595,214 which, as disclosed in Note 6 to the financial statements, includes an expenditure of Kshs.12,504,579 incurred on fuel, oil and lubricants. However, the fuel supply statement does not indicate the registration numbers of the motor vehicles that drew the fuel. It was therefore difficult to track the fuel drawdowns to the individual copies of motor vehicle work tickets. Further, Management did not maintain the department's fuel register to assist in reconciliation with the suppliers' statements before making any payment. In the circumstances, the regularity of fuel, oil and

	lubricants expenditure of Kshs.12,504,579 could not be confirmed (Pg 138).
Irregularities in Compensation of Employee Costs	The statement of receipts and payments reflects compensation of employees' costs of Kshs.237,548,747 as disclosed in Note 5 to the financial statements. However, included in the compensation of employees' amount is an expenditure of Kshs.351,500, being responsibility allowance paid to seven (7) officers whose basis for payments was not provided for audit. Further, included in the compensation amount is Kshs.1,130,000, being extraneous allowance paid to three (3) officers and whose basis for payment was not provided for audit. In the circumstances, the regularity of responsibility allowance amounting to Kshs.351,500 and extraneous allowances totalling Kshs.1,130,000 could not be confirmed (Pg 139).
Unbalanced Budget	The statement of comparison of budget and actual amounts - recurrent and development combined reflects final budgeted expenditure of Kshs.108,450,331,267 which exceeded the budgeted final receipts of Kshs.108,283,480,612 by an amount of Kshs.166,850,655. This is contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states inter alia, that the budget shall be balanced. In the circumstances, Management was in breach of the circular (Page 139).

4. What trends in audit opinions emerge in the audit reports over the years?

In the summary audit report as shown below (page 73), the Auditor General highlights that there are several issues which she raised in the previous financial years, and they remain unresolved. No evidence was provided to support how the queries raised in the previous years were resolved.

Figure 27: A Snippet of OAG Report on NG FY 2022/23 (Page 73)

3.9.1 Unresolved Prior Year Audit Issues

3.9.1.1 The audit revealed numerous instances where prior year audit observations had not been resolved. Instances were noted where the unresolved prior year issues were not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board (PSASB). There were also instances where no supporting evidence was provided to support how issues were resolved.

3.9.1.2 Further, Section 68(2)(l) of the Public Finance Management Act, 2012 requires an Accounting Officer for a national government entity to take appropriate measures to resolve any issues arising from audit which may remain outstanding. In addition, Section 74(4) the Public Finance Management Act, 2012 states that an Accounting Officer engages in improper conduct in relation to a national government entity if the officer contravenes or fails to comply with the Act, including their accounting responsibilities.

Source: OAG Report on NG FY 2022/2023

Under the state department for Higher Education and Research, the Auditor General highlights there are several issues which remain unresolved. For example, in FY 2021/2022, the OAG raised an issue with the accuracy, completeness and regularity of compensation of employees' expenditure of Kshs.258,008,361 which could not could not be confirmed. The issue remains unresolved in FY 2022/2023 when the OAG could not confirm compensation of employees' expenditure worth Ksh 1,481,500 (Page 138).

5. **What are the recommendations given by the auditor general to solve the queries raised in the reports?**

The OAG gives recommendations on areas that the National Assembly should take action in order to close any loopholes, recover public resources or assets or improve financial processes. These recommendations provide a good starting point for the public to follow up on the actions taken by the National Assembly in relation to queries raised by the OAG. An example of a recommendation by OAG is shown in the snippet below (Page 51 of the summary audit report).

Figure 28: A Snippet of OAG Report on NG FY 2022/23 (Page 51)

leading to improvements. The presentation of the financial statements is, however, still below expectations when viewed holistically. There is need to hasten migration from cash to accrual accounting for both National and County Government entities which is envisaged as critical for enhancing accountability, transparency and disclosures in the use of public resources.

Source: OAG Report on NG FY 2022/2023

Annex

Annex 1: Frequently Asked Questions in Public Finance Management (PFM)

What is Public Finance Management (PFM)?

PFM encompasses the mobilization of government revenue, allocation and spending of resources by public entities and the mechanisms for the accounting and reporting of public resources (revenue and expenditure).

What are the key laws and regulations governing PFM in Kenya?

The Constitution of Kenya 2010 - Article 220 provides the forms, contents, and timing of budgets.

The Public Finance Management Act 2012 - Section 104 (b) mandates County treasuries to prepare annual revenue estimates and coordinate the preparation of the annual budgets.

The Public Finance Management Regulations 2015 - Provides budget preparation guidelines

for national and county governments

What are the key components of PFM in Kenya?

A PFM system has three key components which are interconnected.

Expenditure – through a budget detailing the financing of key policy and programs during the upcoming year.

Revenue - funds to finance its activities.

Public debt- borrowing by a government internally or externally to finance its deficits.

4. What is the budget calendar and the key dates in the budget making process?

Budget Stage	Key Budget Dates
Budget Formulation	30th August - 30th April
Budget Approval	30th April- 30th June
Budget Implementation	1st July of the current financial year to 30th June of the next financial year
Budget Audit	October 21st to December 31st

5. How does Kenya's legal framework safeguard and promote prudent use of public resources in Kenya?

Under Article 201 of the Constitution and section three of the PFM, Kenya's legal framework provides for the principles of public finance.

- There shall be **openness and accountability**, including public participation in financial matters.
- The public finance system shall promote an **equitable society** in taxation, revenue, and expenditure.
- The burdens and benefits of the use of resources and public borrowing shall be shared **equitably between** present and future generations.
- Public money shall be used **prudently and responsibly.**
- Financial management shall be responsible, and **fiscal reporting** shall be clear.

6. How does the Kenyan government ensure control of public money, promote transparency and accountability in Kenya?

Under part 6 of the Constitution - Article to 225 - 2027, the Constitution provides for the financial control mechanisms. These include the establishment of National [and county treasuries], accounting and auditing of public entities and process of procuring public goods and services. To strengthen and support the control function, the constitution and the PFM Act creates institutions and processes aimed at safeguarding against misuse and misappropriation.

7. What role does the National Treasury play in PFM?

- To prepare the National Budget, execute/implement and control approved budgetary resources to MDAs and other Government agencies/ entities.
- Formulate, implement, a n d monitormacroeconomic policies involving expenditure and revenue.
- Manage the level and composition of national public debt
- Formulate, evaluate, and promote

economic and financial policies

- Mobilize domestic and external resources for financing national and county government budgetary requirements.
- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.
- Ensure that uniform accounting standards are applied by the national government and its entities.
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill.
- Strengthen financial and fiscal relations between the national government and county governments.
- Assist county governments in developing their capacity for efficient, effective, and transparent financial management.

8. What are the main challenges facing PFM in Kenya?

- Corruption and mishandling of public funds
- Poor budget execution and oversight.
- Shortfalls in revenue and reliance on borrowing.
- Capacity limitations and insufficient skills in government agencies and county governments.
- Complex and fragmented public financial management systems.
- Political interference.
- Weak accountability and audit Systems.
- Challenges in public participation.
- Delayed disbursements to counties.
- Inadequate utilization of technology and data management.

9. What is the role of the Parliament in PFM?

- Budget approval and appropriation.
- Legislation
- Oversight
- Approval of borrowing and debt management.
- Approval of supplementary budgets and reallocation of funds.
- Public participation and representation.

10. What happens if the budget is not approved by Parliament on time?

Section 134 of the PFM Act provides for the authorization of the withdrawal of money from the County Revenue Fund in case of a delay in approving the Budget Estimates/ Appropriation Bill. Delay in approval of the budget means that government spending is strictly limited to necessary functions. No new projects or expenditures outside what is considered essential can be initiated until the full budget is approved.

It is important to note that delay in budget approval can lead to the postponement of development projects, negatively impacting service delivery, especially at the county level, where funding is highly dependent on timely disbursement from the national government.

11. What is the role of the Auditor General in PFM?

The Office is charged with the primary oversight role of ensuring accountability within the three arms of government (the Legislature, the Judiciary, and the Executive) as well as the Constitutional Commissions and Independent Office.

Within 6 months after the end of each financial year, The Auditor-General is mandated to audit and report concerning each financial year on the accounts of the National and County Governments.

12. How does the government of Kenya manage its public debt?

Diversification of its Debt Portfolio by borrowing from multiple sources

Debt Management Strategy that outlines the objectives, risk tolerance, and preferred debt instruments.

Debt Restructuring and Refinancing through lengthening maturities, reducing interest rates, or swapping debt instruments to manage repayments.

Issuance of Government Securities such as treasury bills, bonds, and notes which are sold to investors in domestic or international markets to raise funds

13. How does the Integrated Financial Management Information System (IFMIS) work?

The Integrated Financial Management Information System (IFMIS) is an automated system that integrates key financial management functions to streamline the management of public resources.

- It integrates all financial management functions, ensuring that data flows seamlessly between departments such as treasury, procurement, and accounting.
- Transactions are processed in real time, providing up-to-date information on the status of budgets, expenditures, and revenues.
- It employs access controls and security measures to ensure that only authorized personnel can access and manage financial information.
- IFMIS maintains detailed audit trails of all transactions, enhancing accountability by allowing tracking of any financial decision or action.

14. What are the key reforms in PFM in recent years?

- The Integrated Financial Management Information System (IFMIS) aims to automate and integrate government financial transactions to enhance accountability and reduce fraud.
- Performance-Based Budgeting (PBB) which focuses on linking resources to performance to enhance efficiency in the use of public funds.
- The Medium-Term Expenditure Framework (MTEF) which provides a multi-year budgeting framework that links policy, planning, and budgeting.
- The Public Procurement and Asset Disposal Act (2015) which aims to improve procurement processes and promote transparency and accountability
- The strengthening of the Office of the Auditor General including increased focus on timely audits and the adoption of performance and forensic audits.
- Public Debt Management Reforms aim to manage public debt sustainably and ensure fiscal discipline.
- Fiscal Responsibility Principles and Fiscal Risk Management which aim to ensure prudent management of public funds by adhering to set fiscal principles.
- Transparency and Citizen Participation in Budgeting aiming to enhance public participation in the budget process.
-

15. How can citizens participate in the PFM process?

- Participating in public budget hearings
- Submitting proposals during the budget-making process
- Monitoring and evaluating government projects
- Public participation in the supplementary budget process
- Engaging in public expenditure reviews and social audits
- Involvement in sector working groups
- Participating in the County Integrated Development Planning (CIDP) process
- Accessing and analysing budget information
- Engaging through digital platforms
- Participation in the public procurement process
- Engaging with Civil Society Organizations (CSOs) and Community-Based Organizations (CBOs)
- Participating in public finance oversight committees
- Providing feedback through complaints and grievance mechanisms

16. **What are the consequences of poor PFM practices?**
- Misallocation of public resources
- Increased corruption and fraud
- Inefficient service delivery
- Fiscal deficits and increased public debt
- Loss of public trust and confidence
- Poor economic performance
- Reduced investment in key sectors
- Weak fiscal discipline and financial control
- Inaccurate and delayed financial reporting
- Poor accountability and oversight
- Inflation and economic instability
- Inequitable distribution of resources
- Compromised fiscal sustainability
- Inhibited donor support and international relations
- Increased poverty and social inequities
- Erosion of rule of law
- Regulatory and compliance risks

17. **How does public participation influence the budget process in Kenya?**
- It ensures that budget priorities reflect the actual needs of communities.
- By involving citizens in the budget process, governments become more transparent about their financial plans and spending.
- Public participation allows marginalized groups, including women, youth, and persons with disabilities, to have a voice in the budget process.
- Citizen involvement acts as a watchdog mechanism, reducing the risk of misappropriation and corruption by monitoring budget implementation.
- When citizens are involved in the planning stages, it creates a sense of ownership and encourages active participation in monitoring the implementation of government projects.
- During the supplementary budget process, public participation allows citizens to influence how additional funds are allocated or how reallocations are made during the financial year.
- Public participation provides a platform for citizens to give feedback on government performance in relation to budget execution.
- Public input during the MTEF process helps shape the three-year rolling budget that guides resource allocation.
- Public participation enhances the oversight role of the legislature, as citizens can provide input during parliamentary or county assembly budget discussions, influencing how legislators vote on budget matters.
- The participatory process empowers citizens by educating them on budget matters, enhancing their understanding of fiscal policies, and enabling them to make informed contributions.

18. **What are the main sources of revenue for Kenya's budget?**
- Tax Revenue: The largest source of revenue for the Kenyan government, collected by the Kenya Revenue Authority (KRA). This includes Income Tax, Value Added Tax, Excise Duty, Customs Duty
- Non-Tax Revenue: This includes income from government services, fines, fees, licenses, dividends from state-owned enterprises, and rent from government properties.
- Grants and Foreign Aid: Financial assistance from international donors, multilateral organizations (such as the World Bank and IMF), and foreign governments to support specific projects, sectors, or programs.
- Borrowing (Domestic and External Debt): The government borrows domestically through Treasury bills and bonds and externally from international lenders to bridge budget deficits.
- Appropriations-in-Aid (AIA): Revenue generated by government ministries and agencies through their services,

which they can retain and use directly.

- County governments have three main sources of revenue: Equitable share from the National Government, Conditional Grants and Own Source Revenue.

19. What role do development partners play in the Kenyan budget?

They complement the efforts of the Kenyan government by bridging financial gaps, providing expertise, and fostering sustainable development through collaborative partnerships i.e. financial support, technical assistance and capacity strengthening, advisory services and policy dialogue, project funding and implementation assistance, monitoring and accountability and humanitarian aid.

Annex 2: The Fourth Schedule of the Constitution of Kenya 2010

5. Language policy and the promotion of official and local languages.
6. National defence and the use of the national defence services.
7. Police services, including—
   (*a*) the setting of standards of recruitment, training of police and use of police services;
   (*b*) criminal law; and
   (*c*) correctional services.
8. Courts.
9. National economic policy and planning.
10. Monetary policy, currency, banking (including central banking), the incorporation and regulation of banking, insurance and financial corporations.
11. National statistics and data on population, the economy and society generally.
12. Intellectual property rights.
13. Labour standards.
14. Consumer protection, including standards for social security and professional pension plans.
15. Education policy, standards, curricula, examinations and the granting of university charters.
16. Universities, tertiary educational institutions and other institutions of research and higher learning and primary schools , special education, secondary schools and special education institutions.
17. Promotion of sports and sports education.
18. Transport and communications, including, in particular—
   (*a*) road traffic;

(*j*) telecommunications; and
(*k*) radio and television broadcasting.

19. National public works.
20. Housing policy.
21. General principles of land planning and the co-ordination of planning by the counties.
22. Protection of the environment and natural resources with a view to establishing a durable and sustainable system of development, including, in particular—
   (*a*) fishing, hunting and gathering;
   (*b*) protection of animals and wildlife;
   (*c*) water protection, securing sufficient residual water, hydraulic engineering and the safety of dams; and
   (*d*) energy policy.
23. National referral health facilities.
24. Disaster management.
25. Ancient and historical monuments of national importance.
26. National elections.
28. Health policy.
29. Agricultural policy.
30. Veterinary policy.
31. Energy policy including electricity and gas reticulation and energy regulation.
32. Capacity building and technical assistance to the counties.
33. Public investment.
34. National betting, casinos and other forms of gambling.
35. Tourism policy and development.

Constitution of Kenya, 2010

PART 2—COUNTY GOVERNMENTS

The functions and powers of the county are—

1. Agriculture, including—
   (*a*) crop and animal husbandry;
   (*b*) livestock sale yards;
   (*c*) county abattoirs;
   (*d*) plant and animal disease control; and
   (*e*) fisheries.
2. County health services, including, in particular—
   (*a*) county health facilities and pharmacies;
   (*b*) ambulance services;
   (*c*) promotion of primary health care;
   (*d*) licensing and control of undertakings that sell food to the public;
   (*e*) veterinary services (excluding regulation of the profession);
   (*f*) cemeteries, funeral parlours and crematoria; and
   (*g*) refuse removal, refuse dumps and solid waste disposal.
3. Control of air pollution, noise pollution, other public nuisances and outdoor advertising.
4. Cultural activities, public entertainment and public amenities, including—
   (*a*) betting, casinos and other forms of gambling;
   (*b*) racing;
   (*c*) liquor licensing;
   (*d*) cinemas;
   (*e*) video shows and hiring;
   (*f*) libraries;
   (*g*) museums;
   (*h*) sports and cultural activities and facilities; and
   (*i*) county parks, beaches and recreation facilities.
5. County transport, including—
   (*a*) county roads;
   (*b*) street lighting;
   (*c*) traffic and parking;
   (*d*) public road transport; and
   (*e*) ferries and harbours, excluding the regulation of

Constitution of Kenya, 2010

international and national shipping and matters related thereto.

6. Animal control and welfare, including—
   (*a*) licensing of dogs; and
   (*b*) facilities for the accommodation, care and burial of animals.
7. Trade development and regulation, including—
   (*a*) markets;
   (*b*) trade licences (excluding regulation of professions);
   (*c*) fair trading practices;
   (*d*) local tourism; and
   (*e*) cooperative societies.
8. County planning and development, including—
   (*a*) statistics;
   (*b*) land survey and mapping;
   (*c*) boundaries and fencing;
   (*d*) housing; and
   (*e*) electricity and gas reticulation and energy regulation.
9. Pre-primary education, village polytechnics, homecraft centres and childcare facilities.
10. Implementation of specific national government policies on natural resources and environmental conservation, including—
    (*a*) soil and water conservation; and
    (*b*) forestry.
11. County public works and services, including—
    (*a*) storm water management systems in built-up areas; and
    (*b*) water and sanitation services.
12. Fire fighting services and disaster management.
13. Control of drugs and pornography.
14. Ensuring and coordinating the participation of communities and locations in governance at the local level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local level.

Annex 3: Set of questions for analysis of the County Budget Estimates (PBB)

1. Are there reasons given for priorities proposed or approved in the budget?
2. Does the budget contain a summary table allowing easy comparison of the proposed total spending for all ministries/ departments?
3. What are the priority areas/sectors in my budget?
4. Does the budget have programmes, sub-programmes and further disaggregation of government spending below the sub-programme level?
5. Are there indicators and targets for all the programmes and sub-programmes?
6. Does the budget contain detailed information about staff costs, including the salaries and benefits of workers by ministry, and ideally, by job class, group, or individual positions?
7. Does the budget have the same priorities as my county's development plans?
8. Is there enough money in my budget to maintain or improve the current level of basic services like health?
9. Does my budget tell me where (that is, in which ward or constituency) development projects will be located?
10. Does the budget contain any funds for civic education, or to facilitate public participation in county decision-making?
11. Does my budget have a deficit and how will it be paid for?
12. How much money does my county say it will raise from its own taxes and fees and is that reasonable?
13. Did my county table a cash flow projection with the budget showing how much it expects to take in by month, and how much it expects to spend by month?
14. How much money does my county expect to get from national government?
15. Does my budget spend money on things that counties are responsible for rather than things the national government is

responsible for, and are there any areas that counties are responsible for that are missing from the budget?

16. Does my budget have an emergency fund in case of any disaster?
17. Does the budget properly distinguish between recurrent and development expenditure?
18. Does the budget contain unit costs for various purchases (such as vehicles, generators and other assets) and are these consistent across departments?
19. Are the budget lines sufficiently clear to know what each of them refers to, and are they consistent across departments?
20. Does the budget contain estimates for the coming three years or only for this year?

Annex 4: Set of questions for analysis of the County Quarterly Budget Implementation Reports

1. Does the implementation report contain data for the quarter against the same quarter from the previous year?
2. Do the targets for revenue and expenditure appear to be realistic?
3. Is it possible to identify specific sources of revenue that are performing well or poorly and why?
4. Is it possible to identify specific ministries/ departments and programs that are performing well or poorly and why?
5. Does the report provide information on non-financial targets and performance by ministry/department?
6. Does . .the report provide proposals for how to rectify challenges in implementation of either revenue or expenditure?
7. Does the report provide a disbursement and a cash flow schedule to show when funds were received and is that broken down by departments?

Annex 5: Set of questions for analysis of the Auditor General's Report on County Executive FY 2022/2023

1. What opinion did the OAG give looking at the financial statement of the county government?
2. Is there a summary on audit queries that explain why the audit opinion was given?
3. What audit queries are raised regarding local revenues raised by the counties? How much money is related to these queries?
4. What audit queries are related to expenditure by the county executive and county assembly?
5. What challenges are raised by the auditor in the county's recurrent expenditure?
6. What audit queries arise from county's total development expenditure?
7. What audit queries relate to specific departments?
8. What trends in audit opinions emerge in the audit reports over the years?
9. What are the recommendations given by the auditor general to solve the queries raised in the reports?
10. Does the audit report relate to other county government budget documents on evaluation?

End Notes

Endnotes

i . . . County Governments Act, No.17 of 2012. Link

ii . . . Public Finance Management Act CAP. 412A. Link

iii . . . The Kenya Vision 2030. Link

iv . . . County Budget Transparency Survey (CBTS) 2022 Questionnaire. Link

v . . . Kwale County Annual Development Plan 2022-2023. Link

vi . . . 2022 Budget Review and Outlook Paper. Link

vii . . . Kakamega County Budget Review and Outlook Paper 2022. Link

viii . . How to Read and Use Kenya's Budget Review and Outlook Paper. Link

ix . . . 2023 Budget Policy Statement. Link

x . . . Nakuru County Fiscal Strategy Paper 2022. Link

xi . . . Kenya: How to Read and Use a Budget Policy Statement and a County Fiscal Strategy Paper. Link

xii . . . National Budget Estimates FY 2023/2024. Link

xiii . . West Pokot Approved Programme Based Budget FY 2022/2023. Link

xiv . . The Finance Act, 2023. Link

xv . . . The Finance Bill, 2024. Link

xvi . . National Tax Policy Sessional Paper No. 02 of 2023. Link

xvii . . Types of Taxes. Link

xviii . . How Law is Made. Fact Sheet No. 2. Link

xix . . Income Tax Act CAP. 470. Link

xx. . . National Government Budget Implementation Review Report FY 2023/2024. Link

xxi . . Auditor-General's Summary Report on National Government 2022/2023. Link

xxii . . Auditor General's Report on National Government 2022/2023. Link

xxiii . . Auditor General's Report on the County Governments County Executives 2022/2023. Link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