Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution

AN EMPIRICAL ANALYSIS

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IEA/ URBAN INSTITUTE

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Table of Contents

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

3

List of Figures & Tables

Figures:

Tables

Boxes

Acronyms

ADP	Annual Development Plan
BIRR	National Government Budgets Implementation and Review Reports
BPS	National Budget Policy Statement
BROP	Budget Review and Outlook Paper
CARA	County Allocation of Revenue Act
CARB	County Allocation of Revenue Bill
CBIRR	County Government Budgets Implementation and Review Reports
CBPS	County Budget Policy Statement
CBROP	County Budget Review and Outlook Paper
CECM- Finance	County Executive Committee Member for Finance
CF	Consolidated Fund
CFSP	County Fiscal Strategy Paper
CIDP	Country Integrated Development Plan
COA	County Operational Accounts
CRA	Commission of Revenue Allocation
CRF	County Revenue Fund
CoG	Council of Governors
DORB	Division of Revenue Bill
DoRA	Division of Revenue Act
FY	Fiscal Year
IB	Internet Banking
IBEC	Intergovernmental Budget and Economic Council
IFMIS	Integrated Financial Management and Information System
IPPD	Integrated Payroll and Personnel Database
LATF	Local Authority Transfer Fund
MDAs	Ministries, Departments and Agencies
MTP	Medium-Term Plan
OCoB	Office of the Controller of Budget
OSR	Own Source Revenue
PFMA	Public Finance Management Act
TISA	Institute of Social Accountability

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

7

Acknowledgement

Executive Summary

Intergovernmental relations approved and agreed upon by all parties and timely and adequate financial transfers are critical to the ability of sub-national governments to operate effectively and deliver public services, constitutionally assigned to them under a decentralized fiscal structure. The institutional design of intergovernmental transfers as shown in literature is central in the entire decentralized architecture. Such an intergovernmental system, if accompanied with sufficient capacity and proper accountability, can work well to support sub national government officials in the execution of budgets that serve the needs of their populations. Nevertheless, in many countries with a decentralized system of governance, inadequate or delayed disbursements have become a common challenge that often substantially reduces the effectiveness of public service delivery at the sub-national level. This is not any different for Kenya, with strong evidence of inadequate and delayed intergovernmental transfers to counties (sub-national government) posing perennial challenges.

The mandatory legislation for the division of revenue between national and county governments is known as the Division of Revenue Act (DORA) and County Allocation of Revenue Act (CARA). The DORA is an act of parliament that provides for equitable division of national revenue between the National and County governments (vertical sharing) while the CARA is an act of parliament that provides for equitable allocation of national revenue among the county governments (horizontal sharing) for a given financial year. With the exception of 2020/21, these acts have always been approved substantially past legally provided deadlines. Insufficient revenue collection at the national level has invariably compounded the intergovernmental transfer process. At the county government level, the onerous requisition process including documentation requirements to trigger exchequer issues is also a cause of considerable delay. These requirements vary throughout the financial year, most onerous at the onset of the financial year, during initial budget preparation, but also occurring when bureaucratic processes at the national level require local budgets to be revised.

This study seeks to establish why Kenya's intergovernmental fiscal system is not working as effectively as it should. Specifically, the study's objective has been to investigate and determine the sources and extent of delays and their impact on counties' budget execution in the aggregate as well as on individual counties.

Methodology

Methodologically, the report employs two different approaches. The first, at a macroeconomic level, is to develop and apply a sources and uses of funds framework that examines the annual financial position of both the national and aggregate county levels of government. On this basis, the budgetary inflow of funds from all sources and the outflow of funds for all purposes was considered for each level over the course of the financial year,

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

9

The purpose of this approach is to display the financial connections between the two levels of government, specifically the major source of funds at the county level is a use of funds at the national level and to consider the importance of each of these financial flows in the context of the annual budgets at each level. Based on data over the six financial years from 2014/15 to 2019/20, this analysis is presented in both absolute and relative terms as shares of total sources or uses and percentages of GDP.

The second methodological approach relies on quarterly budgetary data from both the national and the 47 county governments. The analysis of the database highlights the three critical stages of budget execution at the county level – budget preparation, the receipt of exchequer issues from the national government, which provides the authority to spend, and actual spending. This analysis looked at the two major components of the budget– the recurrent budget and the development budget. Consequently, the report is able to analyze the actual operation of the budget process at the county level over time through its various stages, not only for counties in the aggregate but also for each individual county, displaying the substantial differences among them.

Overview of findings

Chapter 1: Introduction

This is the introductory chapter to the report and lays out the context for the analysis, the proposed methodology, as well as a short literature review. In particular, it flags two challenges facing the Kenya devolved system including first, the systematic delays in intergovernmental fiscal transfers from the national government, which has been a consistent feature since the onset of devolution in 2013, identifying the initial cause of delays as the negotiation around DORA at the national level. The second challenge highlighted is the significant bureaucratic hurdles faced by county governments and the limited capacity of local government to process required operational procedures to ensure timely transfers. The global and Kenya specific literature review foreshadows issues flagged in this report as well, specifically how design and the administrative management of the intergovernmental fiscal system incentivizes behavior around recurrent and development spending.

Chapter 2: Kenya's Intergovernmental System for County Allocation of Funds

This chapter outlines the structure and organization of Kenya's intergovernmental system for county allocation of funds as exists in law and institutions in Kenya. It serves as a background to the subsequent chapters, laying out how the system is supposed to operate and foreshadowing some of the challenges in these operations, which are empirically examined in subsequent chapters. The chapter first examines the sources of revenue available to county governments including counties' own source of revenue. It also offers some evidence on trends on how aggregates on the county equitable share as percentage of the last audited national revenue as well as how counties have performed on own-source revenue. The subsequent section lays out the national planning and budgeting cycle, highlighting how tightly tied the county budget cycle is to the national budget cycle. We note that counties, with an exception of a few, rely heavily on national funds to implement their budgets. Therefore, any delays in the decisions around the DORA directly impacts the county budget cycle and their ability to execute on their approved budgets. The final section examines the bureaucratic requirement of the exchequer requisition processes to trigger release of funds. In particular, the chapter highlights a systematic problem that sets in, once the exchequer issue has been delayed in the first quarter, which sets into play a systematic cycle of delays, further hampering counties ability to execute their budgets throughout the whole year. This phenomenon is then empirically examined in later chapters.

Chapter 3: Intergovernmental Finance Through a Macroeconomic Approach

The analysis, using the sources and uses of funds framework, reveals that while the national government has maintained its own spending both as shares of its total budget and relative to GDP, the share of its total uses of funds transferred to counties (the equitable share), has declined according to both measures. In fact, the national government, despite increases in borrowing and associated cost of debt service, has been able to maintain its own spending in large part by reducing the share of its budget devoted to such transfers. In contrast, spending at the county level has declined as a share of GDP, particularly for development programs, as has total sources of funds to support such spending. The equitable share transferred to counties fell from about 4 percent of GDP to 2.8 percent over the period, while national government spending on its own programs has been maintained at about 17 to 18 percent of GDP.

Further contributing to overall declines in the financial position of the counties has been delays in the actual receipt of such funds from the national government, discussed in further detail in Chapter 4. At the macroeconomic level, as pointed out in Chapter 3, the national government has consistently overestimated expected tax and other revenue to be received in every financial over the six-year period under review, and appears to fund its own programs first while withholding transfers to the counties.

Chapter 4: Budget Formulation and Execution: Issues and Analysis

This chapter examines in detail the various stages of the budgetary process at the county level, from budget planning and formulation to the application for and receipt of funds from the national government to actual spending on recurrent and development programs. The data analysis suggests that the intergovernmental financial system at the county level is not functioning smoothly and is characterized by multiple revisions, delays, and failure to execute desired plans at every stage. This is verified through interviews of county officials conducted for this study

Even after county budgets have been prepared and submitted to the Office of Controller of Budget for approval, delays in the receipt of funds from the county accounts at the Central Bank of Kenya necessitate budget revisions throughout the year, leading to further delays in funding, and additional delays in spending the funds when they have been received. Particularly affected are the development budgets which, as documented in the chapter, have been revised an average of 53 times over the six years and across the 47 counties. Notably spending on these programs, are delayed and pushed forward to such a degree that, on average, counties are able to spend within the financial year only about 60 percent of the amounts planned in their initial budgets. The documentation of these operational issues throughout the chapter is extensive.

Chapter 5: Key Conclusions

This report highlights that the system is not working effectively, and overtime is getting worse. Upfront, the report flags issues in the institutional design of the intergovernmental system, which proves destabilizing for an orderly transfer of resources to the counties. The inability of the National Treasury and two bodies that represent the interests of counties, the Commission on Revenue Allocation (CRA) and the Council of Governors (CoG), to reach a consensus on the division of revenue, often delaying the passage of DORA and CARA and consequently causes delays in transfers at the onset of the fiscal year. If the national government is unable to meet its budget calendar, it squeezes the time county governments have to plan their budget and have them passed by their respective county assemblies, undermining the quality of the development planning process besides significant challenges in meeting the bureaucratic requirement for authorization of funds.

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

11

Recommendations

i. The Senate and the CRA should use evidence to improve and influence quality debate on the division of revenue with the National Treasury and the National Assembly.

ii. Parliament should enforce the "parity principle" to ensure that an equal spending proportionality is maintained for both the national and county even in periods of fiscal austerity.

iii. The National Assembly should question the National Treasury on the accuracy of the revenue forecast given this often results in revenue shortfalls which have consistently affected timely disbursement of funds to the counties.

iv. There is need for legislative clarity on explicit timelines for approval of DORB and CARB as soon as they have been tabled in Parliament in order to address delays in release of funds to counties.

v. The Senate and the National Assembly should ensure that The National Treasury matches the revenue disbursement schedule with the revenue forecasts.

vi. To improve future development outcomes County governments should equally look in-wards and address other multiple factors including administrative issues that disproportionately affect execution of development budget.

vii. The Office of the Controller of Budget (OCoB) in conjunction with the National Treasury and the Central Bank of Kenya (CBK) should initiate reforms towards digitalization and decentralization as well as minimizing requirements for the process of formal requisition of monthly exchequer issues.

Introduction

1.1 Introduction

The central paradox of devolution[1] in Kenya, is that while decentralization has shifted political, administrative and fiscal control to subnational governments to deliver better services, County Governments, except for a few exceptions, have limited capacity to raise revenue on their own to fund the delivery of these services. They face both significant challenges in tax administration as well as wide disparities in economic circumstances and potential revenue sources relative to their populations. As a result, intergovernmental transfers from the National Government become critical to the ability of subnational governments to deliver the public services which they have been assigned and thus to the very success of decentralization itself.

Kenya's devolved system came into being under the 2010 Constitution and was operationalized after the 2013 general elections. The reform in Kenya has been ambitious, and significant investments have been made since 2013 to develop the political, legal, fiscal, and institutional structures necessary to make devolution a reality. The evidence is that many formal institutions[2] are in place. Kenya went from a highly centralized system to a devolved structure where political, administrative, and fiscal powers were shifted to 47 County Governments in the Kenyan system. Politically, elections of county governors and county assembly members have been held and institutionalized through two rounds of elections (2013, 2018). Administrative functions of the devolved units have been transferred to counties as per the Fourth Schedule of the Constitution[3] (Government of Kenya 2010). Counties are also responsible for the financial decisions for these devolved functions, specifically county public health, county transport, agriculture, and Early Childhood Education, among others, and receive fiscal transfers from the national governments as authorized in the Constitution in addition to their own-source revenue to service these functions. Overall, the devolved governance structure is meant to deliver better public services to the people in Kenya's 47 devolved counties.

To understand some of the hurdles that counties in Kenya face in delivering services, this report examines the fiscal side of devolution, specifically how operationalized processes of transfers from the national to the County Governments affect the ability of the latter to plan, budget and execute recurrent and

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1 Devolution is a type of administrative decentralization where governments devolve functions and transfer authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status. Devolution usually transfers responsibilities for services to subnational units that elect their own executives, raise their own revenues, and have independent authority to make investment decisions. In a devolved system, subnational governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions. It is this type of administrative decentralization that underlies most political decentralization. See: http://www1.worldbank.org/publicsector/decentralization/admin.htm

2 Institutions are generally defined as the "rules of the game," or "humanly-devised constraints that shape human interaction" (North 1990); Institutions can be formal (constitution and regulatory laws, tariffs, and quotes) and informal (social norms and relationships)

3 These functions include agriculture, health services, transport, urban services, local infrastructure, county planning and development, management of village polytechnics, county public works and services, etc.

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

13

development programs in the service areas which they have been assigned. The financial relationship between Kenya's counties and the National Government is a complex one and involves multiple processes for the authorization and transfer of funds and the planning, budgeting and expenditure of those funds. The National Government in Kenya has the overriding power in this fiscal relationship because it has the power of the purse. It operates the national tax system which collects the vast majority of all revenue raised in the country and then shares a portion of those revenues with the counties. Counties, as noted, have limited ability to raise revenue on their own with the exception of a few with high levels of economic activity, notably Nairobi, Kiambu and Mombasa. The intergovernmental processes in place and the functioning of the system are critical determinants of how and when counties can plan, budget, and execute on their mandate for service delivery.

The report flags two key challenges for Kenya's devolved fiscal system and its ability to support counties in delivering on their development goals.

One is the systematic delays in intergovernmental fiscal transfers from the National Government to the counties in the aggregate which has been a consistent feature of the system since devolution and particularly impacts the ability of counties to plan and execute their budgets smoothly over the financial year. The delays begin with the annual negotiation on the sharing of nationally raised revenues between the national and County Governments as a whole and the inability to reach an early agreement, thereby getting the whole process off to a late start. Other instances of delay and their consequences for the county sector are detailed in the report.

Second, at the level of individual counties, local officials face significant bureaucratic hurdles and have limited capacity to process required operational procedures in order to access funds and execute their budgets. The resulting delays in receiving those funds, only complicates these matters. Thus, the operation of the system raises significant challenges to counties in their ability to plan and execute their budgets for both recurrent and development programs, but especially the latter, in a timely fashion.

Other challenges such as the differences in priority setting and budgeting between the county executives and the county assemblies that cause delays in approval of county budgets will be mentioned but not in details.

1.2 Methodology

The key empirical chapters of the report, Chapters 3 and 4 lay bare the analyses of the operation of Kenya's intergovernmental financial system but are based on two different methodological approaches. The methodology employed in Chapter 3 is based on the use of macroeconomic data on the financial position of the National Government and of all counties in the aggregate. This methodology is designed to provide a broad perspective for analyzing financial circumstances of the counties compared to those of the National Government. Separately for each level of the public sector, national and counties, this approach considers budgetary inflows of funds from all sources and outflows of funds for all purposes and employs a sources-and-uses framework to relate the financial position of the National Government to that of the counties. Based on data over the six financial years from 2014/15 to 2019/20, the framework is used to analyze the key financial transaction in Kenya's intergovernmental structure.

Accordingly, in Section 3.2 of this Chapter we have examined revenues and expenditures at both the

national level and for counties in the aggregate according to three measures: 1) in absolute monetary terms, 2) in specific categories relative to total revenues or expenditures for each level of government and 3) in specific categories for each level of government relative to Kenya's economy as a whole as measured by GDP. This last measure is often used by international organizations such as the World Bank and the International Monetary Fund in their analyses of country fiscal performance, both within countries over time, as we do here, and across countries.

Chapter 4 examines individual county performance in operationalizing budget execution. In this chapter the three key stages in the entire budget process at the county level, from planning in anticipation of preparing a formal county budget to the expenditure of funds for specific programs, are analyzed to determine how the interactions between counties and the National Government affect county processes and procedures at each stage. The three key stages examined are: 1) preparation of formal budgets based on prior plans and budgets; 2) the receipt of authority to spend, in Kenya's parlance an exchequer issue that places funds in the county's account at the Central Bank that can be drawn upon; 3) the expenditure of funds by the county. Each phase is discussed independently to determine the sources and extent of delays and the impacts on the counties in the aggregate as well as on individual counties. Further, because of different characteristics in the kinds of programs involved, the recurrent budget, largely for wages and emoluments and operation and maintenance of facilities, and the development budget, largely for longer-term infrastructure projects, are analyzed separately within the three stages noted above.

For the analyses in Chapter 4 the data for each stage in the process have been presented and analyzed on a quarterly basis so that the impacts of delays can be readily observed over the financial year (from July I through to June 30) for the year 2014/15-2019/20. Analysis for 2013/14 is excluded throughout this report as this was the first year of devolution and data alignment is often difficult as devolution was in process.

In Chapter 4 we use a standard of 25 percent of total spending by a county in each quarter of the financial year as a measure of "ideal" performance of the budget in the sense that services are then delivered uniformly to the public. This is not employed as a legal standard although the Senate in its approval of the equitable share legislation does include this standard, and seasonal and other variations are to be expected. The standard does, however, provide a useful measure for analyzing extreme variations in spending patterns and in determining the reasons behind them as we do in this report.

Figure 1.1: Conceptual Framework
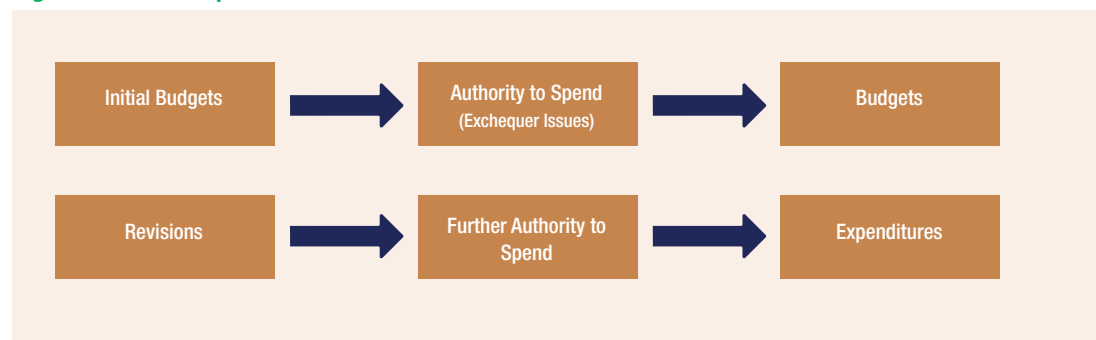
Source: Authors' construction based in the intergovernmental fiscal framework in Kenya

The primary source of data and information used in the tables and figures for Chapters 3 and 4 are the Quarterly County Government Budgets Implementation and Review Reports (CBIRR) and National Government Budgets Implementation and Review Reports (BIRR) both published by the Office of the Controller of Budget (OCoB). Chapter 3 used annual data for aggregate budgetary information and information from Kenya National Bureau of Statistics and the National Treasury reports on macro details such as GDP. Chapter 4 used quarterly data on the three stages of budgeting – budget preparation, receipt of funds (exchequer issues) and expenditures by type, recurrent and development. Further, all analytical relationships were derived from this basic set of data and analysed as needed through excel spreadsheets. Data points covered all the 47 counties over the six financial years (2014/15 – 2019/20).

To supplement the empirical analysis a series of interviews were conducted with a number of officials in eight counties to verify some of our empirical results. Interviews were conducted with officials who directly deal with county finance, budget and development planning, and specific line ministries. Counties where interviews were conducted included Nairobi, Nakuru, Kakamega, Siaya, Makueni, Marsabit, Elgeyo/Marakwet, and Tana River. Purposeful selection and sampling of these eight counties was informed by two criteria. First, geographical/regional spread across the former provinces in Kenya. These eight counties are spread across six of the total eight former provinces. We settled on a small number of counties given time constraints. Average composite score of four public finance management performance related indicators for data from 2015/16 to 2017/18 informed the second criteria. These indicators included: quantum of cash balances by county; expenditure exceeding exchequer issues (disbursed funds); counties that had managed to approve their budgets by the first quarter (Q1) and audit opinions. In scoring the indicators, the more the quantum of cash balances the lower the score; the more expenditure above exchequer issues the lower the score; a high score was awarded to counties that had their budgets approved before beginning of the year and finally a high score went to counties that had clean audit opinions. Out of the overall average score, the eight counties selected was a mix from the most progressive/best performing in public finance management, to the moderate and from the least performers.

1.3 Literature Review: Fiscal Transfers Under Decentralization

1.3.1. International Literature

Decentralization involves a transfer of both power and funds from the central government to the local level. Especially in developing countries, subnational governments have limited power to collect tax revenue from their localities and thus depend heavily on transfers from the national government (Shah 1994). These transfers of funds fill the gap between local fiscal revenue and expenditures to create a better balance between resources and responsibilities at the subnational level (Bird and Smart 2002). Transfers must also be systematically organized and executed to ensure an equitable sharing of revenue among the different subnational units, so they all have the capacity to deliver services and promote local development. A good design of transfers is fundamental for a good provision of services (Shah 1994). Bird and Smart (2002) argue that transferring funds as a fixed percentage of tax revenue is the best approach as it gives stability to subNational Governments as well as flexibility to the central one. Generally, an objective approach to transferring funds ensures a transparent and fair allocation of funds, as opposed to discretionary and negotiated transfers that leave room for subjectivity and disagreements. On the allocation among the subnational governments, a formula-based approach, based on the characteristics of subnational units such as population size, land area, per capita income and the like, can be used to determine the specific shares. (Bird and Smart 2002).

Once funds are disbursed to the local governments, it is also crucial to ensure that they are used efficiently to provide services. Local institutional capabilities should be strong enough to support a well-monitored and transparent processing and utilization of the funds (Shah 1994). As such, local governments should have clear authority and sufficient capacity to execute their budgets, but they must also be held accountable for the effective delivery of public services (Bird and Smart 2002). However, mostly in developing countries, dysfunctional fiscal transfers remain an issue in decentralization, a problem only exacerbated by a lack of accountability within governments. These countries would gain by restructuring their intergovernmental transfers systems and increasing accountability in government around transfers (Shah 1994).

Disbursement delays are known to reduce effectiveness of resource distribution and increase the indirect cost of public expenditure. The empirical analysis in existing literature seems to support the idea that fiscal transfers between national and subnational governments has proven to be challenging. A recent UNDP (2019) study entitled *Fiscal Transfers in Asia: Challenges and Opportunities for Financing Sustainable Development at the Local Level*, highlights how attaining the SDGs fundamentally depends on fiscal transfers as many countries have devolved the relevant functions to the local level. It states, "…the resourcing, design and administration of the various fiscal transfer instruments, the way they are allocated across SNGs (subnational governments), and the way they incentivize subnational governments all matter greatly for achieving the SDGs." The report flags two sets of incentive issues, one arising from the design of the intergovernmental transfer system and the other arising from the administration of the system. On the design side, the report emphasizes three points: 1) having a stable pool of resources to allocate resources from and not relying on mineral or oil revenues 2) ensuring that funds are transferred in a predictable manner to subnational governments and 3) allowing subnational governments discretion over spending and not over-managing how they spend the funds. On the administrative side, the report emphasizes the following: 1) the need for timely information on the fiscal transfers for each forthcoming financial year so local governments can plan their budgets appropriately 2) the importance of timely transfers of funds so that they arrive early in the financial year and 3) modifying the carryover rule so that governments can transfer unspent funds to the next year, especially as delays in spending relate to delays in receiving funds (Shotton and Gankhuyag 2019).

Many of the challenges highlighted in this report also are in Vidyattama et al. (2020) Indonesia case study on delays and its implications for budget execution. The case study focused on local politics and in-fighting in finalizing budgets in three different districts and its impact on the budget cycle for the year 2015. In Indonesia, three quarters of districts experience budget delays although the trend on delays has been improving. The case-study conducted in a period leading up to an election identified that bargaining over budgets at the local level was a huge challenge as was the lack of local capacity in government (Vidyattama, Sugiyarto and Sutiyono 2020).

1.3.2 Challenges in Intergovernmental Transfers in Kenya

The Kenya-specific literature on intergovernmental transfers foreshadows many of the issues highlighted in this report. A perennial challenge has been the delays in intergovernmental transfers to the counties and the unevenness of transfers. Indeed, transfers to local jurisdictions in the system that existed prior to devolution were characterized by significant delays in disbursements. (The World Bank 2012). The 2012 World Bank report on Kenya's devolution noted subnational governments had difficulty spending the funds

in a given year, and "may in part relate to the fact that local authorities like to enter the new financial year with a cash surplus in case their first quarter LATF[4] are delayed (which is often the case)" (The World Bank 2012).

Since devolution, the International Budget Partnership (IBP) has produced a number of reports around these issues. Kinuthia (2017) explores the cash shortages faced by the National Government in first quarter of 2015/16 and its implications for transfers to both national agencies and County Governments. The analysis examines trends in the cash inflows and outflows of the National Government and explores the possible effects of revenue collection on transfers to counties and the pattern of such transfers over time. On disbursement to counties, it notes that such transfers are slower in the first six months of the year, distinctly lower than the pattern followed for National Government agencies (16 percent vs. 19 percent). The report also notes that counties do not receive funds in accordance with the annual Senate monthly disbursement schedule. The report offers two explanations. One, is the timing of revenue collection and when the National Government can disburse collected revenue. Whenever revenue underperforms for whatever reasons, the schedule is not honored, causing further delays in disbursements to counties. A second reason to delays emanates from the late approval of budgets at the subnational level. Counties need to have their budgets approved by the county assemblies and consequently submitted to the OCoB at the national level before receiving funds from the National Government. This process can be delayed for a number of reasons, starting with local level politics within particular counties to delays because of the bureaucratic and manual process of submitting mandatory documents to OCoB that support each requisition of funds by counties. In some instances, where approved county budgets fail to comply with the provisions of the Public Finance Management Act, 2012 (PFMA), especially on fiscal responsibilities measures, the same are rejected by the OCoB and returned to counties causing more delays. The study concludes that the Senate approved monthly disbursement schedules, passed with the Division of Revenue Act (DoRA), should be aligned to when the National Government collects its revenue in the calendar year (Kinuthia 2017).

A political analysis of the division of revenue issue post devolution is offered in Cheeseman et al (2016), where the authors examine the division of revenue issue to exemplify how the Kenya political landscape has changed with devolved governments and governors gaining power vis-à-vis the central government. The battle over revenues is one area where this struggle between the national and County Government has been played out. As governors need to succeed in both local and national arenas, resources to deliver on their mandates in the local arena are significant for their re-election.

1.4. Conclusion

A number of the issues highlighted in the literature review are similar to the issues that are considered in this report in Kenya. Specifically, the issues of the design and administrative management of the intergovernmental fiscal system, and how the system incentivizes behavior, particularly recurrent and development spending.

The outline of the report is as follows: Chapter 2 is a description of Kenya's intergovernmental fiscal structure

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4 LATF are Local Authority Transfer Funds (LATF) which was established in 2000 accounting for 18-82 percent of revenues for local government, mostly used for development purpose but had a strong urban bias. (Smoke and Whimp, 2011)

as well as background on the county budgetary process. Chapter 3 focuses on the intergovernmental transfers from the national to the subnational governments through a macro-economic lens, specifically focusing on the sources and uses of funds for both the National Government and County Governments in the aggregate and the high level of financial dependency of the latter on the former. This perspective highlights how issues impacting the National Government, including national revenue collections and revenue forecasting challenges, has a magnified effect on the counties. Chapter 4 is a detailed empirical analysis of the three key processes in financial management at the county level: 1) planning and budgeting, 2) the receipt of authority to spend from the National Government (known as the exchequer issue process) and 3) county spending, with particularly attention to the factors that delay or derail the execution of county budgets throughout these processes. Chapter 5 concludes and offers some policy recommendations

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

19

Kenya's Intergovernmental System for County Allocation of Funds

2.1 Introduction

This chapter of the report provides an overview of the structure and organization of Kenya's intergovernmental system for county allocation of funds and serves as a background for the subsequent chapters on the operation of the system and their consequences for counties' budgeting, planning, and execution. The Fourth Schedule of the 2010 Constitution of Kenya assigns the County Governments the role of policy implementation and provision of services. The Constitution has further outlined policies and guidelines on how national revenue should be shared between the two levels of government and among counties, as well as other processes to finance County Governments deliver on their mandate (Government of Kenya 2010). For counties in Kenya, a major share of their funds comes from intergovernmental transfers from the nationally collected revenues. Ordinary revenue raised or received by or on behalf of the National Government is shared between the two levels of government also, known as the division of revenue.

Yet, since the inception of devolution, there have been significant challenges to ensuring that counties receive their funds on time and that the disbursement of funds from the National Government to the counties is smoothly provided over the financial year in line with the approved disbursement schedule. The sources of the bottlenecks can be attributed primarily to national level challenges—specifically, the inability of the National Assembly and the Senate to agree on the division of revenue between the two levels of governments in time, and inadequate tax collections, both of which impact how National Governments disburse funds to the counties. To some degree, delays can also be attributed to county-level procedures that affect the disbursement of approved funds to the counties, specifically the exchequer requisition process[5].

This chapter provides the background on how some of these processes are supposed to operate and identifies areas of challenge. Section 2.2 discusses the key sources of revenue counties can avail. Section 2.3 reviews the Kenyan budget cycle and the timeline for the division of revenue. Section 2.4 looks at processes and conditions counties must satisfy to receive the exchequer issues. Section 2.5 concludes.

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5   The **exchequer requisition process** refers to the transfer of requested legislated funds, or exchequer issue, approved by the Controller of Budgets (OCoB) to the operational accounts to the relevant government entity, whether a county or a government subsidiary office.

2.2 Sources of County Revenue

2.2.1 Designated Sources of Funds

County Governments have five sources of funds: (1) the county equitable share, (2) conditional grants from the National Government, (3) own-source revenue (OSR), (4) funds from the development partners channeled either directly to counties or through the National Treasury as conditional grants and (5) borrowing. Funds from sources 1, 2, 3, and occasionally 4 aggregate to become each county's revenue envelope. The county equitable share and conditional grants derive from the national revenue, either directly like the county equitable share, or indirectly through the re-distribution of the national equitable share, in the case of conditional grants. Own-source revenue is generated directly by the counties themselves from local taxes. Figure 1 lays out the different sources of funds for the counties in Kenya. The OCoB approves the disbursement of all funds into the County Revenue Fund (CRF). Borrowing is notably an important source of revenue as provided for in Article 212 of the Constitution of Kenya, 2010 but has not taken off. Nevertheless, policy debate on this issue has recently gained currency owing to growing budgetary pressure that counties are facing. This has culminated in approval of guidelines by the Intergovernmental Budget and Economic Council (IBEC) in agreement with the National Treasury on county borrowing. For example, Laikipia floated an infrastructure bond in 2021 becoming the first county to borrow in Kenya. The Equalization Fund is excluded from the figure as it is not a source of funds directly controlled by the counties.[6] Once funds are approved and placed in the CRF, in a holding account at the Central Bank of Kenya, counties can begin the process of availing them through the exchequer process.

Figure 2.1: Sources of Funds for County Governments
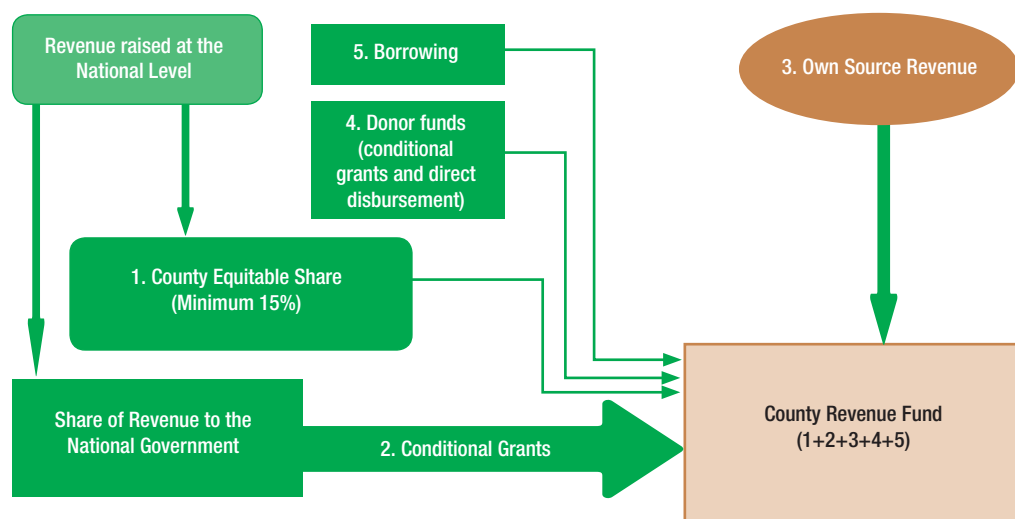
Source: (The World Bank 2012); with author's modification)

Note: The figure excludes the equalization funds as these are funds not directly managed by the County Governments.

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5 The **exchequer requisition process** refers to the transfer of requested legislated funds, or exchequer issue, approved by the Controller of Budgets (OCoB) to the operational accounts to the relevant government entity, whether a county or a government subsidiary office.

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

21

The county equitable share is the County Government's largest source of revenue. It is an unconditional transfer with the objective that counties have the autonomy to implement their budgets as they see appropriate to deliver on their mandate. The Constitution of Kenya, Article 203(2) states that for every financial year, the county equitable share of the revenue shall not be less than 15% of all nationally collected revenue based on the most recent audited accounts of revenue as approved by the National Assembly. This is the minimum bar, but counties have consistently been allocated more than this annually since the advent of devolution.

The Auditor-General is mandated to table audited reports of national financial accounts in the National Assembly for approval six months after the closure of the financial year, but this rarely happens., albeit an improvement from a one-year lag in 2016/17 to 6 months lag for the 2019/20. This notwithstanding the situation is made worse by the fact that the National Assembly delays even more in approval of the audited accounts. Table 2.1, however, highlights the differential in the county equitable share as a percentage of the last audited and approved account (generally two or more years old) as compared to the ideal scenario county equitable share as a percentage of the previous year's audited accounts (last column)[7]. Although both calculations indicate that the county equitable share is more than the minimum of 15%, the percentage is much less when calculated against the ideal scenario, as a share of the previous year audited and approved revenue, one year lag, as opposed to what is indicated in column (C) based lags of 2-4 financial years as shown in column (B). However, as we will see in Chapter 3, when the equitable share is calculated as a percentage share of GDP, counties have fared poorly compared to national equitable share allocation since devolution.

Table 2.1 : County Equitable Share as a Share of Audited Revenue Account

Financial Year	County Equitable Share (Ksh Billion)	Audited and approved revenue used (Ksh Billion)	(A / B) * 100% (C)	County Equitable Share / Audited and approved revenue (for the previous year) X 100% (Ideal scenario)
	(A)	(B)	(C)	
2020/21	316.50	2016/17- Ksh 1,358	23.3%	-
2019/20	316.50	2014/15- Ksh 1,038	30.5%	-
2018/19	314.00	2013/14- Ksh 936	33.6%	-
2017/18	302.00	2013/14- Ksh 936	32.3%	22.2% (2016/17)
2016/17	280.30	2013/14- Ksh 936	30.0%	24.2% (2015/16)
2015/16	259.80	2012/13- Ksh 717	36.2%	25.0% (2014/15)
2014/15	226.66	2012/13- Ks 717	31.6%	24.2% (2013/14)

*Audited and approved revenue for 2015/16- Ksh 1,160 Billion
Source: (Government of Kenya 2021); different publications

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7   Figures in the second column are publicly available figures calculated as a percentage of the last available audited accounts, given in the bracket, usually a few years old.   In the last column, the lack of audited accounts for the years 2018/19 to 2020/21 means that for years 2017/18-2020/21 there are no figures.

Article 202(2) of the Constitution states that counties may receive additional allocations from the National Governments' revenue in the form of either conditional or unconditional grants, usually sourced from the national equitable share. Conditional grants to counties are meant to ensure the provision of certain policy objectives which are of priority to the National Government (Government of Kenya 2010). Unlike the county equitable share, conditional grants are tied to implement specific national policies and cannot be diverted to other budget purposes. In the financial year of 2019/20, out of the six conditional grants to County Governments from the National Government, three targeted the health sector, which aligns with the National Government's priorities in Kenya's Vision 2030[8].

As earlier noted, Counties also receive development partner funds, which are either conditional or unconditional and are usually negotiated by the National Government as either loans or grants. Depending on the specific design of the project, some funds can directly support county budgets.

Own-source revenue is generated from local taxes levied within the counties. County Governments have the power to tax and can collect property taxes, entertainment taxes and can charge for services they provide, such as vehicle parking lots, entry into county parks, business licenses and permits, etc. Figure 2 shows each county's share of OSR as a percentage of total county revenue for selected years.

Figure 2.2: Actual Own Source Revenue as a Percentage of Total County Revenue
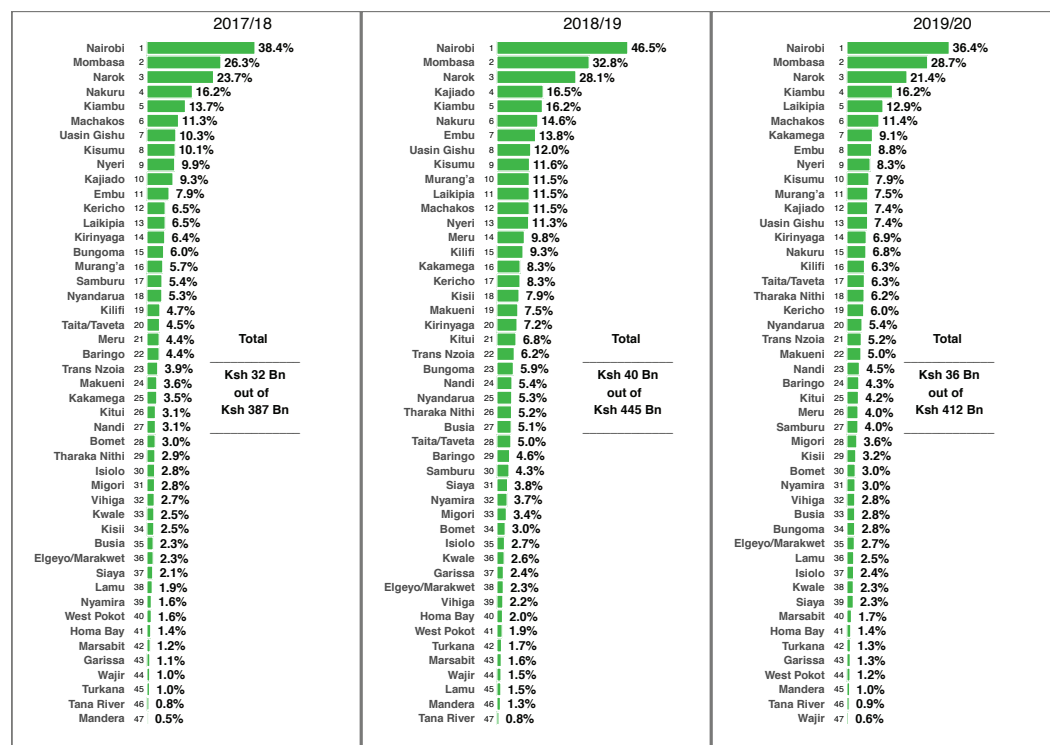
Source: (Office of the Controller of Budget 2018, Office of the Controller of Budget 2019); different publications

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7   Kenya Vision 2030 is the long-term development blueprint for the country to create "a globally competitive and prosperous country with a high quality of life by 2030". The vision has four pillars: social, economic, political and enablers, and macro. The economic pillar assesses the existing opportunities and challenges facing Kenya's economic growth. The social pillar aims to improve the quality of life for all Kenyans by targeting a cross-section of human and social welfare projects and programs. The social pillar targets improving the health care system to position the country as a destination for specialized health and medical services in the region Political pillar envisions a country with a democratic system reflecting the aspirations and expectations of its people.

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

23

Different counties have different capacities to generate OSR due to variations in economic activity. Counties in urban areas like Nairobi and Mombasa and surrounding counties such as Kiambu, Kajiado, and Machakos generate more OSR compared to other counties because of a higher level of economic activity. Counties that generate more funds are at an advantage if there are delays in the disbursement of funds, as they have the flexibility to request the use of their OSR to cover a shortfall in funds.

In fact, the importance of OSR is demonstrated by the National Treasury studies and reports by OCoB and CRA which have established that most counties raise less than 40% of their estimated revenue potential. The graph in Appendix 1 shows a comparison between actual OSR by county and their revenue potential. To this end, there are efforts and interventions both state-driven as well as through partnerships of counties with Non-State Actors on reforms to enhance and maximize their OSR.

2.2.2 County Government Borrowing and Spending

County Governments can also borrow funds as outlined in Article 212 of the Constitution. A County Government may borrow funds only if the National Government[9] guarantees the loan and the County Government's assembly approves the loan. The borrowing should not exceed twenty percent of the last audited revenues of the county and should be repaid within a year from the date the funds were borrowed[10]. The Public Finance Management Act (PFM Act) further states that the County Assembly may authorize short-term borrowing by County Government entities for cash management purposes only (Government of Kenya 2010). This becomes a useful tool for counties, as they face frequent delays in the approval of disbursement of funds to County Governments. Hence, short-term domestic borrowing is mostly used by counties to manage their cash flow challenges.

2.3 The Kenya Budget Cycle

2.3.1 The National and Subnational Planning and Budgeting Process

The National and County Budget cycles are intrinsically linked, as most designated county funds are based on revenue collected at the national level (all except OSR), and the division of revenue is determined at the national level. Counties need the division of revenue to be finalized and individual county share determined before they can finalize their budgets. This division between the national and county shares is finalized in the Division of Revenue Act (DORA), and the subsequent division into the 47 individual counties' shares is finalized in the County Allocation of Revenue Act (CARA). The determination of both are key activities in the Kenyan budget cycle.

Once each County has its revenue envelope, after the passage of CARA, each County can finalize its budget plan. The timely conclusion of an agreement on the division of revenue is critical for the subsequent timeline of the disbursement of funds. The division of revenue is determined with input from intergovernmental bodies such as the Commission on Revenue Allocation (CRA) and the Council of Governors (CoG), but CRA is constitutionally mandated to lead this discussion.

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9 Before approving any loan guarantee, the National Treasury is supposed to consult with the Intergovernmental Budget and Economic Council (IBEC), which is a body that is convened by the Deputy president and consists of all the county executive committee members for finance (CECM- Finance), , the cabinet secretary of finance, a representative of the Parliamentary Service Commission, a representative of the Judicial Service Commission, the Chairperson of the Commission on Revenue Allocation, the Chairperson of the Council of County Governors, and the Cabinet Secretary responsible for intergovernmental relations.

10 The National Treasury in March 2021 issued Guidelines on borrowing by County Governments

This budget process builds on an extensive planning process. Kenya's long term development plan is guided by Vision 2030, Figure 3.3 lays out the planning process and shows the links with the country budgeting and implementation cycle which leads to the development of critical documents such as the medium-term plan (MTP), county integrated development plan (CIDP), and annual development plan (ADP), which are key inputs into the county budget. The ADP directly feeds into the budget. The National Government goes through a similar planning process. These documents that are prepared during the planning stage have to be submitted by each County Government to the OCoB when they formally put in a requisition for an exchequer issue as discussed in Section 2.4.

Figure 2.3: The County Planning Cycle
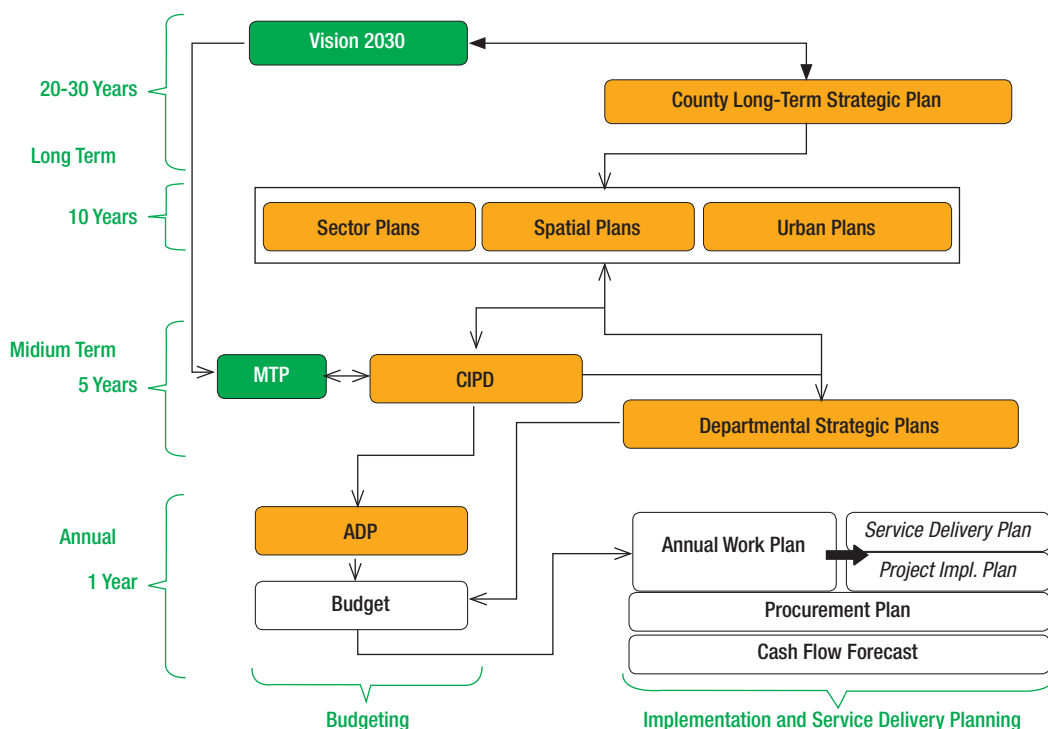
MTP   Medium Term Plan
CIDP   County Integrated Development Plan
ADP   Annual Development Plan

Source: (AHADI County Governance Toolkit 2020)

2.3.2 The National and County Budget Calendar

The budget calendar at both the national and county level begins at the onset of the previous financial year to the year it pertains to. For example, budget preparation for FY 2021/2022 begins at the start of the financial year 2020/2021. At both the national and county level the budget process happens in parallel and can be divided into four stages (formulation, approval, implementation, and audit/evaluation) and is negotiated in a sequential process.

Figure 2.4: The National and County Budget Calendar

APRIL 30
National budget proposal submitted to Parliament; County budget proposal submitted to County Assembly

JUNE 30
End of financial year, national Appropriation Bill passed by Parliament; approval of County Appropriation Bill. The Finance Bill will normally be tabled at National and County level in June, before approval of the budget. It must be approved within 90 days of Appropriation Act

APRIL 30
Counties publish 3rd quarter implementation reports

MAY 15
National government publishes 3rd quarter implementation report

MARCH 14
County Fiscal Strategy Paper approved by County Assembly

FEBRUARY 28
Budget Policy Statement approved by Parliament; County Fiscal Strategy Paper tabled in County Assembly; Debt Management Strategy Paper tabled at county level

FEBRUARY 15
National government publishes 2nd quarter implementation report

DECEMBER 31
Audit report released by the Office of the Auditor General

JULY 31
Counties publish 4th quarter implementation reports

AUGUST 15
National government publishes 4th quarter implementation report

FEBRUARY 15
Budget Policy Statement submitted to Parliament; Division of Revenue and County Allocation of Revenue Bills go to Parliament; Debt Management Strategy Paper tabled at national level

JANUARY 31
Counties publish 2nd quarter implementation reports

Circular released by National Treasury; Circular released by County Treasury
AUGUST 30

SEPTEMBER 1
County Annual Development Plans tabled in County Assembly

JANUARY 1
CRA submits recommendations on Division of Revenue

NOVEMBER 15
National government publishes 1st quarter implementation report

OCTOBER 31
Counties publish 1st quarter implementation reports

OCTOBER 21
National Budget Review & Outlook Paper tabled in Parliament; County Budget Review & Outlook Paper tabled in the County Assembly

- **FORMULATION**
- **APPROVAL**
- **IMPLEMENTATION**
- **AUDIT/EVALUATION**

Source: International Budget Partnership (IBP)

Before counties can determine their budget and plan their yearly activities, they need an estimate of their revenue envelope for the next year. Counties have to wait for the CRA, Council of Governors, The National Treasury, The National Assembly and The Senate to agree on the national and county shares of the equitable share which is finalized and legislated through the passage of DORA and CARA. The only funds that County Governments can estimate are the OSR, which they can forecast based on anticipated trends on the growth of different sub-sectors in a county's economy and old and new levies imposed by the County Governments.

Deliberations around the next financial year's vertical share begin at the onset of the previous financial year (see Figure 4). A key date is September 30th when the National Treasury produces the initial draft of the Budget Review and Outlook Paper (BROP) tabled at the National Assembly. This document reviews the past financial year and forecasts first estimations of the national revenue for the upcoming financial

year. Similarly, County Governments produce their county BROP or CBROP with their estimates for county revenue. This estimation of revenue in the BROP becomes the working revenue envelope for national and County Governments to plan their initial budgets. The National Treasury's division of revenue estimate in the BROP depends on GDP growth, revenue forecast, as well as national spending, national spending priorities servicing the public debt, and other national obligations and emergencies.

The next important date is December 31st, when CRA submits its recommendation on the division of revenue. The principal mandate of CRA is to make recommendations concerning the equitable sharing of revenue between the National and County Governments. The CRA's recommendations for this is based on the provisions of Article 203 and is in line with the principle: "finance should follow function." Ideally, functions assigned to each level of government should be costed based on standard norms and a framework developed to guide the sharing of revenues among the different levels of government.

However, this has been difficult to do[11] and consequently, CRA at the onset of devolution, guided by the provisions of Article 187, recommended for transfer of attendant resources to each level of government based on the functions assigned on account of the National Government approved budget for financial year 2012/13. Subsequently, CRA used different approaches to compute the county equitable share, often by growing and adjusting the previous year's county share as a baseline and multiplying it by different revenue growth factors. CRA works with the first estimates of the national and county equitable share outlined in the draft BROP by the National Treasury submitted in October. The CRA also has an important role in the CARA. The county equitable share is sub-divided between the 47 counties. Based on the pre-determined criteria[12], the basis is revised every five years and is one of the principal functions of CRA.

On February 15th, the National Treasury submits four crucial documents to the National Assembly. These are the National Budget Policy Statement (BPS), the Medium-Term Debt Management Strategy paper, the Division of Revenue Bill (DORB), which ultimately becomes DORA when approved by National Assembly, and the County Allocation of Revenue Bill (CARB) which become CARA when passed by National Assembly. The National Treasury introduces the DORB which contains both CRA recommendations for the equitable share and the National Treasury's proposals on the equitable share, equalization fund, and conditional grants. The DORB becomes subject to parliamentary debate and negotiations by all the key stakeholders.

A parallel process also happens at the county level. As mandated by the constitution, DORA has to be passed by March 16th of a given year. It is important to note, as per the official calendar, only when DORB is passed by the Parliament (the National Assembly and the Senate) and becomes an Act (DORA), do County Governments submit their budget documents to the County Assemblies for approval. There is usually a time lag between these two events, allowing County Governments an opportunity to update and finalize their budget documents once the county equitable share and individual counties share has been finalized through the passage of DORA and CARA. By April 30th the budget proposals are finalized and tabled at the National Assembly and County Assemblies. The documents are finalized in the appropriation bills at both levels of government and have to be passed before the end of the financial year (June 30th) and the onset of the new financial year to which it applies. Once approved, counties can access the funds through the exchequer process discussed below in Section 2.4.

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9   No complete costing exercises for all the devolved services have been done in Kenya.

12 CRA recommends a revenue-sharing basis. The first basis (2013/14 - 2016/17) included the following parameters: population (45%), basic equal share (25%), poverty (20%), land area (8%), and fiscal responsibility (2%). The second basis (-2017/18 – 2019/20) and included five parameters: population (45%), basic equal share (26%), poverty (18%), land area (8%), fiscal responsibility (2%), and development factor (1%). The third basis (2020/21-2024/25) has eight parameters: Basic Share 20%, population 18%, Health 17%, Poverty 14%, agriculture 10%, land area 8%, Roads 8% urban 5%

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

27

Box 2.1: Division of Revenue Act (DORA) and County Allocation of Revenue Act (CARA)

At least two months before the end of each financial year, the Constitution of Kenya 2010 mandates that the division of revenue bill and county allocation of revenue bill should be introduced in parliament for discussion and approval by the 16th of March. Parliament discusses the bills and approves them before forwarding them to the President for assent. Upon assent by the president, the bill becomes an Act and unlocks funds to allow for the financing of functions and operations under the county and national government.

County Allocation of Revenue Act (CARA) is an Act of Parliament that provides for equitable allocation of national revenue among the County Governments for a given financial year. Each year, by the 31st day of December, the CRA submits recommendations on the basis for equitable sharing of revenue (footnote 8 shows revenue sharing basis) among County Governments to the Senate, National Assembly, national executive, County Assemblies and County Executives. The National Treasury prepares the DORB to Parliament and if there are any significant deviation from CRA's recommendation should be accompanied by an explanation as required by the constitution.

CARA states the amount of county equitable share each County Government is allocated, conditional allocations from national equitable share to each County Government, and loans and grants from development partners to county governments.

Division of Revenue Act (DORA) is an act of parliament that provides for equitable division of national revenue between the National and County Governments. DORA states the total national revenue for the financial year, the national equitable share, county equitable share, donor funds, and equalization fund.

The budgeting process, at the county level, relies on documents produced in the planning process highlighted in Figure 2. The budget circular, once issued, establishes the guidelines to be followed by all counties and on its issuance, County Governments table their ADPs produced through the integrated development planning process to the County Assemblies for approval. Counties essentially align what they have proposed in the CIDP and ADP to the working revenue envelope determined in the draft BROP outlook paper published in October to calculate their initial budgets which subsequently get finalized when the final BROP comes out in February.

Counties prepare the County Budget Review Outlook Papers (CBROP) reviewing the previous expenditure and budgets and forecasting county revenue, including OSR, to prepare county budgets. Deliberations are held at the county level through the pre-budget public consultative forums to determine priorities and budget estimates for different sectors and actors. This is formalized in the county fiscal strategy paper (CFSP) and aligns with the County Budget Policy Statement (CBPS). These documents are tabled in the county assemblies as per the calendar after DORA is approved. Once this happens, counties can finalize their budgets in light of the final allocation figures that have been legislated under CARA and DORA. Delays in finalizing DORA and CARA can derail the timeline of the county budgets process. County budgets are subsequently finalized and tabled at County Assemblies, where County Assemblies consult with citizens

and finalize and amend these budgets. By June, county appropriation bills are finalized and tabled in the county assemblies and need to be voted by the end of the financial year.

2.3.3 Causes for Delays in Intergovernmental Transfers Located at the National Level

There are two main causes for why Intergovernmental Transfers are delayed at the National Level:
1. Delays in the passage of DORA and CARA
2. Insufficient revenue collection by the National Government

2.3.3.1 Delays in the Passage of DORA and CARA

Both DORA and CARA should be approved by the Parliament (National Assembly and the Senate) by 16th March of each financial year for the timely disbursement of the division of revenue. The bills are first introduced to the National Assembly then forwarded to the Senate. Unfortunately, there are instances where the two bills are not approved on time due to differences between the National Assembly and the Senate.[13] Table 2.2 gives the key dates in the passage of DORA and CARA since 2015/16.

Table 2.2: Key Dates in the Passage of DORA and CARA 2015/16-2020/21

National Budget Cycle Events	Constitution Mandated Dates	FY-2020/21	FY-2019/20	FY-2018/19	FY-2017/18	FY-2016/17	FY-2015/16
DORA Cycle							
Revenue allocation recommendations submitted by CRA	01-Jan	18-Dec	18-Dec	18-Dec	18-Dec	17-Dec	17-Dec
Budget Policy Statement Approved by Parliament	28- Feb	04-Mar	08-Mar	01-Mar	30-Mar	03-Mar	17-Mar
Division of Revenue Bill Passed by the National Assembly	16-Mar	17-Mar	17-Sep	10-Apr	21-Jun	06-May	05-Jul
Appropriation Bill Following Year Passed by National Assembly	30-Jun	30-Jun	28-Jun	29-Jun	29-Jun	12-Apr	30-Jun
CARA Cycle							
County Allocation of Revenue Bill Approved by Parliament	16-Mar	06-Oct	17-Sep	29-Jun	06-Jul	22-Jul	09-Jul

Source: Compiled by Authors

The table highlights delays vis-à-vis the mandated timeline as laid out in the Constitution in passing this legislation. Of particular note is that in four of the six years reported, CARA is passed after the new financial year has begun, July 1st. As per the law, CARA needs to be finalized by March of the previous financial year, giving counties about six weeks (March 16th to April 30th) to finalize their activities and for budgets to be tabled at the County Assemblies for passage and for appropriation acts to be passed by June 30th. The inability to finalize DORA and CARA by mid-March, or even before the new financial year has deep consequences for the whole budget process, setting in delays that translate into further delays in the disbursement of the first quarter transfers in the new financial year. This is notwithstanding the fact that counties are allowed to prepare budgets based on the previous years' figures and consequently revise

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13   Article 110(4) states that when any bill concerning county government has been passed by one house of the parliament, the Speaker of that House shall refer it to the Speaker of the other house. If both the National Assembly and the Senate pass the bill in the same form, the speaker of the house in which the bill originated shall within seven days refer the bill to the president for assent (Government of Kenya 2010).

them through supplementary budgets upon finalization of DORA and CARA. This is further discussed in some detail in Chapter 4.

Importantly, the delays in the passage of CARA and DORA are getting worse over time. For the 2019/20 budget cycle, CARA was not passed until September 2019, well into the first quarter of the financial year for which the funds should have been available. Similarly, in 2020/21, CARA's passage did not occur until October, which is the beginning of the second quarter of the financial year. This delay was occasioned by the late approval by parliament of the third revenue sharing basis. In 2019/20, the President went ahead and signed the Appropriation Act on June 29, 2019, even though DORA had not been passed which some have argued was illegal.[14]

These delays are essentially stalemated around the size of the division of revenue between the National and County Governments. County Governments represented through intergovernmental bodies such as CRA, CoG, and separately the Senate argue for more funds year on year for counties while the National Government, represented by the National Treasury, usually pushes back. Over the period of devolution, these negotiations have become more fraught.[15] As we will see in the next chapter, the stalemates around the DORA process did not produce significant gains in the equitable share for the counties.

2.3.3.2 Delays and insufficient revenue collection by the National Government

Another cause of possible delays relates to national tax revenue—specifically first, when revenues are collected and are made available for distribution, and second, shortfalls in revenue collection itself. Both these factors can lead to the National Government prioritizing their own expenditures first, delaying transfers to counties in the agreed amounts and promptly. The shortfall in revenue is also partly a function of the optimistic revenue forecast which the National Treasury has been accused of producing. Once revenues do not materialize as projected, and there are revenue shortfalls, the National Government delays disbursement to counties to prioritize national spending goals. The foregoing notwithstanding, revenue shortfalls at the National Government are only borne by the National Government, as equitable share for County Government has to be transferred in full as provided in the DORA and CARA. This is discussed further in the next chapter.

2.4 Challenges in the exchequer issue requisition process

2.4.1 The exchequer issue release process

Upon approval of DORA and CARA, the OCoB approves disbursement of funds from the Consolidated Fund (CF) to the County Revenue Fund (CRF) (See Text Box 3-1 for a diagram of the flow of funds). The Consolidated Fund is where all the revenue raised or received on behalf of the National Government is deposited. The CRF is where all revenue received or raised on behalf of the County Governments is deposited and is administered by the County Treasury at each County. With the passage of CARA (and DORA), the equitable allocation of funds for the County Governments is unlocked which allows counties to access those funds. However, there are several steps a country treasurer has to complete to access

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14 As the DORA is a foundational piece of legislation in the budgetary process, the Government was taken to court by the Institute of Social Accountability (TISA) who argued that the passage and the assent of the Appropriation Bill 2019 was illegal as it and DORA could have been conducted within the same time. See https://citizentv.co.ke/news/government-sued-passing-appropriation-bill-2019-263976/

15 For the political economy around the DORA and CARA process, a separate publication is under process under this project. See IEA (2021) forthcoming.

and operationalize those funds. The County Treasury cannot withdraw funds without the approval of the OCoB. When Counties, through the county treasury, put in a request for the funds, the OCoB scrutinizes the documents they have requested to ensure all the expenditures outlined in the budget are lawful before approval.

Once the county budgets are approved by their respective county assemblies, they are uploaded into the integrated financial management and information system (IFMIS). The approved budget together with the related Appropriation Act is also submitted to the OCoB with copies sent to the National Treasury, CRA, and IBEC. This marks the County Government's readiness for budget execution. Therefore, counties can request funds as guided by the approved disbursement schedule which is approved by the Senate and is annexed in the CARA. Counties' total revenue envelope is distributed across four quarters and counties receive 25% of the total budget in each quarter but the funds are released monthly.

Table 2.3: Documents That Accompany the Exchequer Requisition Process

Documents Required at the Beginning of the Financial Year

1. The County Integrated Development Plan (CIDP)
2. The Annual Development Plan (ADP)
3. County Fiscal Strategy Paper (CFSP)
4. County Budget Review and Outlook Paper (CBROP)
5. County Debt Management Strategy Paper
6. List of development activities to be implemented
7. Appropriation Act as published in the Kenya Gazette
8. Approved Budget
9. General Warrant duly signed by the governor
10. Evidence of budget uploaded into the Integrated Financial Management Information System (IFMIS)
11. Refund statement for cash balances for the previous financial year
12. List of authorized signatories to the Central Bank of Kenya (CBK) accounts
13. Evidence of public participation in the preparation of the CIDP, ADP, CFSP, and the budget
14. Audited schedule of the development and recurrent pending bills

Documents Required for Quarterly Disbursements

1. Itemized requisition schedule/ work plan showing how funds will be applied
2. The itemized requisition schedule/ work plan aligned to the approved budget estimates
3. In case of development expenditure requisitions, a county should attach a schedule of the development activities to be implemented. Activities should be derived from the schedule of development activities approved by   the County Assembly
4. A schedule of development and recurrent pending bills approved by the County Assembly, where the county is requesting funds to settle pending bills
5. Latest county revenue fund (CRF) statement indicating the availability of funds
6. Updated exchequer tracking report at voter level in line with the Appropriation Act
7. Certified copies of the latest internet banking (IB) reports at approver 1 level
8. Certified copies of Integrated Payroll and Personnel Database (IPPD) reports and other certified salary reports for employees not in IPPD
9. Where a county is requisitioning funds for a county-established fund such as car loan and mortgage scheme fund, the county should provide gazette act/regulations establishing the fund as per Section 116 PFM Act 2012. The county should also submit financial reports on the utilization of the previously issued funds.

Document Required on Supplementary Budgets
1. Program-based budget for the financial year approved by the County Assembly together with the itemized supplementary budget estimates. The supplementary budget documents should be forwarded jointly by the Chief Executive Committee Member Finance CECM-Finance and the speaker of the County Assembly
2. Supplementary Appropriation Act published in the Kenya Gazette
3. Supplementary General Warrant duly signed by the governor
4. Approved supplementary budget estimates
5. Evidence of budget uploaded in IFMIS
6. List of development activities to be implemented presented for approval by the County Assembly

Source: (Government of Kenya 2021)

The documentation requirements for exchequer issues are quite demanding and vary at different points of the year. Table 3-3 lists documents required for requisition at the onset of the year, the quarterly requirements, as well as what counties need to submit if they are undertaking a supplementary budget, which is a revision of the original budget submitted with the Appropriation Act if required. Supplementary budgets are frequently required when there are budget delays and counties cannot keep to their initial proposed budgets and need to modify these budgets in light of delays or other factors. The documents required are most onerous at the beginning of the financial year. The documents are physically submitted to the OCoB in Nairobi, accompanied by 2-3 signatories. Physical submission of documents to OCoB in Nairobi is tedious, costly, and time-consuming for all countries, especially those located far away.

After the OCoB reviews the documents and determines all is in order, they approve the transfer of funds from the CRF to the respective County Operational Accounts (COA) by writing a letter to the National Treasury to authorize disbursement of the exchequer issue. Once funds are deposited into the respective countries' COA, county treasuries have the opportunity to use these funds as needed. During the year, at the beginning of Quarters 2, 3, and 4, counties request funds again for each quarter. The documents that accompany the quarterly requests are fewer compared to the ones submitted at the beginning of the financial year as shown in Table 3-3. The disbursement of donor conditional grants is dependent on the donor specifications and is often disbursed quarterly or half-yearly.

Box 2.2: Flow of Funds
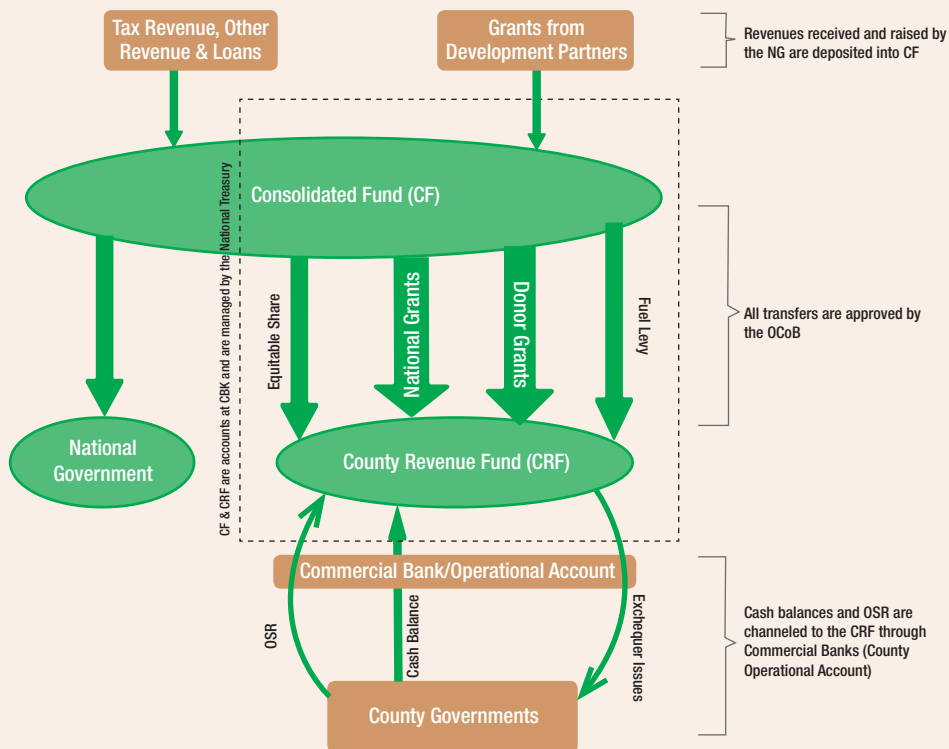
Source: Authors' construction based on information gathered from respondents

- All revenue collected and received on behalf of the National Government is deposited into the Consolidated Fund account
- Upon approval of DORA and CARA, funds allocated towards counties is deposited into County Revenue Fund (CRF) account
- Counties request for funds in the CRF through the exchequer requisition process
- Controller of Budget (COB) approves all withdrawal of funds
- Once COB approves withdrawal of funds from CRF to County Operational Accounts (COA), counties use the funds to execute their budgets
- At the end of the financial year, cash balances are deposited into the CRF through COA.

2.4.2. Causes for delays in Intergovernmental Transfers Located at the Sub-National Level.

Beyond the sources of delay in intergovernmental transfers located at the national level discussed in the previous section, delays for the exchequer issues can also be caused at the County level.

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

33

Table 2.4 : Cases of County Budget Approvals Delays From 2014/15-2019/20 and How Counties Managed

County	Year	Exchequer Issues (Ksh Mn)	Expenditure (Ksh Mn)
1 Garissa	2016/17	958	956
2 Kisumu	2019/20	0	0
3 Kitui	2019/20	1,705	1,840
4 Laikipia	2019/20	817	692
5 Mandera	2019/20	0	0
6 Marsabit	2017/18	0	0
7 Nairobi	2017/18	4,329	4,559
8 Nyeri	2016/17	1,202	646
9 Taita/Taveta	2019/20	298	351
10 Tana River	2018/19	0	0
11 Wajir	2017/18	0	0

Source: Source: Various Office of Controller of Budget reports

The county budget process is characterized by various actors and stages. At each stage of the budget process, different actors perform specific functions. Failure by any of the actors translates to delays in the budget process. By 30th June every year, counties should have their budgets approved by the County Assembly and uploaded into IFMIS.

Often County Governments fail to approve their budget on time. There are several reasons why this can happen. First, this can be due to political wrangling between the county executive and the County Assembly, which is a common phenomenon in most democratic systems of governments with different but equal arms of government. Often delays are caused by negotiations by County Assembly members around the allocation of funds to their respective wards. County Assembly members can hold up approval of the budget as a means of strengthening their hand in such a negotiation. Alternatively, County Executives might fail to present the budget on time for the County Assemblies to approve. As it is, County Assemblies have a very short timeline to approve the budgets as highlighted earlier. For example, County Assemblies have a short time to review the CFSP which is tabled in the County Assemblies on February 28th each year and is expected to be review and by County Assemblies by the 15th of March. Despite these challenges, the evidence seems to be that counties have performed well since devolution in finalizing their budgets and there are only eleven specific cases since devolution and in varied financial years (almost half of the cases reported in 2019/20) where counties have failed to approve the annual budget before the onset of the new financial year (see Table 2.4).

Furthermore, in terms of how counties managed, the table shows there are some counties (Garissa, Kitui, Laikipia, Nairobi, Taita Taveta and Nyeri) that received funds disbursed to them (exchequer issues). On the same breadth, these counties spending (expenditure), implies that these counties invoked the vote on account (VoA) provision, which through the County Assembly authorizes counties whose budgets are yet to be approved before beginning of the financial year to withdraw funds to meet their expenditure. Of the four out of the six, spending was above the amount of funds disbursed, explained by the fact these

counties' utilized part of the OSR that was not remitted to the CRF (often referred by OCoB to as spending at source). In addition, this could also be explained by availability of cash balances not factored in the budget by the counties.

For the remaining counties where no funds (zero) were disbursed and neither was there any expenditure means that they did not quickly resort to invoking the VoA and perhaps waited for the budget to be approved in the first quarter.

2.4.3 Implications of delays in exchequer issues

With a delay in disbursement of funds for one quarter, counties are compensated in the next quarters with larger disbursements so that by the end of the year the county receives the entire CARA approved budget amount. This means that counties will receive more funds than what was in the initial budget for the subsequent quarters. An initial delay, in the first quarter, is not uncommon given the challenges of finalizing the DORB by the national stakeholders, invariably means that there are delays in first-quarter exchequer issues which sets in pattern subsequent delays, which counties have to catch up to.

The underlying assumption that dictates this situation is that 25% of the total budget will be issued and spent each quarter. However, for example, if only 15% is released in the first quarter and 35% released in the second quarter, counties have to revise their budget, through the supplementary budget process (see Text box 2.2), and the appropriation act to reflect the changes in release in funds. The revised appropriation act and budget have to be approved by the County Assembly again through the same process as the initial annual budget. This is time-consuming and can cause delays in the actual implementation of the budget. Delays in the latter quarters also have consequences as this requires upwards revisions in future budgets for that financial year. Counties move spending forward to the future requiring a supplementary budget.

If the authority to spend is delayed in the last quarter, counties face a situation where they have to begin the end of financial year closing procedures before IFMIS is formerly closed as there is significant expenditure to still undertake. County Governments deal with this by spending haphazardly or pushing expenditure to the next financial year. It is important to note that in practice there are situations when funds are released after the closure of the financial year in June. In such instances, the National Treasury allows the IFMIS to continue running for a few days to allow any urgent expenditure and payments to be made. The notice of the extension is given in writing by the Accountant General. Equally, the OCoB accordingly approves withdrawals during the said period.

The consequent unspent funds in the COA are referred to as cash balances and are transferred to the CRF account at the end of the year. Cash balances are mostly a result of delays in the release of funds, limiting the time counties have to absorb the funds allocated. Some projects are rolled over to the next financial year alongside the funds allocated. Cash balances are also used by counties when there are delays in disbursement of funds in the first quarter of the financial year. The net result is that every time counties experience a delay in exchequer issues, the budget must be revised upward to accommodate a higher level of spending in the subsequent quarter.

2.5 Conclusion

This chapter has provided a background to Kenya's intergovernmental fiscal system and highlighted rules and processes related to budgeting, exchequer issues requisition, and spending. Upfront we have flagged several bottlenecks which can lead to delay in disbursements of exchequer issues. At the national level, delays can be caused by the inability of the National Government and the County Government representatives to agree on the division of revenue. This delay can produce a significant delay in the initial budget disbursements at the onset of the year, affecting budgeting and spending throughout the financial year. Another set of issues arise from the optimistic revenue forecasting by the National Treasury, and the subsequent revenue shortfall that arises when project revenues fail to materialize, leading to delayed disbursement to County Governments. At the subnational level, other issues can lead to disbursement delays, specifically the inability of county executives and assemblies to complete and pass budgets on time. The next chapter takes a macro-economic lens and examines the sources and uses of county funds and how they have changed over time.

Macroeconomic View of the Division of Revenue

3.1 Introduction

Under Kenya's devolved structure, the national budget and county budgets are inextricably linked, and events and decisions that affect the former will inevitably impact the latter. This linkage fundamentally arises from the National Government's ability to raise revenue from broad-based taxes and to avail itself of relatively sophisticated collection mechanisms that far exceed those of most, if not all, counties. The National Government, as a consequence, has a dual fiscal responsibility. As a representative of the interests of the entire country, it should assure that the inter-governmental financial system as a whole is working effectively, while at the same time, it strives to implement its own programs, also directed to serve the national interests.

Accordingly, the National Government's revenue-raising capacity necessarily should be directed in significant part to the counties in support of their budgetary objectives, as recognized in the 2010 Constitution. County Governments, in turn, should use the resources made available to them as efficiently as possible to serve the needs of their respective populations. The key to fitting the pieces together is the practice of sound and effective budgeting at both the National and County levels and the timely transfer of funds from the former to the latter.

Budgeting, encompassing both planning and budget execution, is a fraught exercise in itself and involves the interplay of political and economic considerations regarding the directing of scarce resources to a broad range of competing claims for support. The demands for financial resources by both the National and County Governments create an inherent tension, and its resolution requires the establishment of clear priorities at both levels. At the same time, the innate advantages of the National Government, relative to the counties, in its ability to collect revenue, gives it significant power as to how resources generated at the national level are deployed. This chapter employs a 'sources and uses of funds' framework to examine the structure of intergovernmental finances in Kenya, highlighting the tensions and priority given to national programs. The framework summarizes the financial position in each period of both the National Government and counties in the aggregate and shows the financial relationships between the two levels of government. Through this approach, the division of revenue in Kenya is clearly displayed, with particular reference to how countries have fared in the competition for adequate resources to finance their budgets.

Section 3.2 first details the sources and uses of funds framework used for this analysis of financial relationships between the National Government and the counties, then applies the framework to determine the extent to which revenue has been made available to both levels, and more specifically how counties have fared in this process. Section 3.3 delves further into revenue collection and revenue forecasting

processes at the national level to examine how these processes may also affect the timeliness and/or the amount of revenue transferred to the counties. These issues of the timeliness and volume of transfers to the counties have direct consequences for County Governments' ability to plan and execute their budgets, which is the subject of the next chapter.

3.2 Intergovernmental Finance Through a Source and Uses Framework

3.2.1 Sources and Uses of Funds

In order to understand the financial linkages between the two levels of government, an analytical framework is needed to explicitly show the key relationships between the budgets (encompassing both revenues and expenditures) at the national level and the consolidated county level over the period 2014/15 to 2019/20, essentially since the implementation of devolution.[16] As elaborated below, the framework applied here is based on a sources and uses of funds construct for both levels of government and is presented in Table 3.1. Table 3.1, which has four separate panels (A, B, C, and D), presents a macroeconomic picture of the inter-governmental financial relationships that lie behind the more detailed analysis of county budgets and their execution, which follow in subsequent chapters of this report. The table is presented in the format of sources (where funds come from) and uses of funds (where funds are used). This format (for both the National Government and counties in the aggregate) accomplishes three objectives. First, the table brings together all the ways that funds become available at each level of government in a given financial year, including borrowing and opening balances, as well as the more recognized sources such as tax revenue and external grants.

Second, the table accomplishes the same thing on the uses side, including spending for various purposes, lending, and closing balances to indicate how available funds were actually deployed in the financial year. In this format, all sources of funds at each level of government must equal all uses of funds within the financial year when both opening and closing balances are considered as sources and uses, respectively (see Box 3-1 for details). Third, and most important, the table shows how uses of funds by the National Government becomes sources of funds at the county level. This is a critical financial relationship between the National Government and the counties that defines, from an operational perspective, whether the devolved structure of governance has been able to meet its service delivery mandate for the counties' citizens.

In Table 3.1, panels A and B show, respectively, sources and uses of funds at the national level for the six financial years noted above, and Panels C and D show this same kind of information for the 47 counties in the aggregate. Further, the sources of funds and uses of funds, are presented in the three sections of each panel as 1) billions of Kenyan shillings, 2) shares of either total sources or uses, and 3) percentages of GDP over the six-year period.[17] Table 3-1 tells a compelling story about the structure of intergovernmental finance in Kenya under devolution. The data in these sources and uses panels provide the broad financial context for discussing the role of the National Government in transferring funds from its budget to the budgets of the counties. As noted, these transfers constitute the critical mechanism for making the devolved structure of governance work in Kenya. If provided in sufficient magnitude, a scale sufficient

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16   For our empirical analysis, we omit the first year of implementation of the devolved system and focus on the six subsequent financial years, 2014/15 through 2019/20.

17   However, in assembling the data for Table 1 from publicly available information, especially from the Office the Controller of Budgets reports, the authors were not able to exactly match sources and uses within each level of government for each financial year. It is for this reason that we therefore added rows to each panel as may be needed labelled "unidentified sources" or "unidentified uses" See Text Box 3.1 below.

to maintain county spending as a share of GDP, with a high degree of certainty, and in a timely manner, counties will have the financial resources to be able to provide their citizens with a reasonable level of public services given the broad constraints underlying any budgeting exercise. In the absence of these conditions, the exercise in dual governance under decentralization will be severely compromised.

3.2.2 National Trends

Trends in the Sources and Uses of funds reveal with a high degree of specificity the financial circumstances of the National Government, the Counties, the relationship between them, and how this relationship has changed over the period of devolution. The transfer of resources from the National Government to the counties in the form of the equitable share of revenue, and to a much lesser degree, conditional grants, constitutes the essence of the mechanism for assuring that both levels of government have adequate means to carry out their assigned responsibilities under the new constitution.

These transfers are highlighted in Panel B of Table 3.1 as uses of National Government funds and in Panel C as sources of funds for the counties. At the national level, these transfers have declined from around 14 percent of total spending to around 10 percent (middle section of Panel B) with corresponding declines as a share of GDP from 4 percent to around 3 percent or less (right-most section of Panel B). As discussed below, these transfers are much larger in the budgets of the counties than in that of the National Government.

As noted in Chapter 2, despite the declining share of transfers to counties in the national budget, the National Government is still adhering to the constitutional requirement that the equitable share must be at least 15 percent of national ordinary revenues as shown in most recent year's audit of the national budget. (see Table 2.1 in Chapter 2).

Several other trends stand out for the National Government regarding both the sources and uses data as follows. First, with respect to national sources of funds (Panel A), tax revenue has declined both as a share of total funds and as a percentage of GDP over the period from a high of 62.5 percent as share and 17.5 percent of GDP in 2014/15 to 49.4 and 14.3 percent respectively in 2019/20. Even accounting for the likely fall off in the last financial year due to the economic effects of the Covid-19 pandemic, the decline is still substantial. In 2018/19 before the pandemic tax revenue amounted to 48.8% as share of total sources and 15.5% of GDP, still well below the figure for earlier years, suggesting longer term decline.

Second, a related result is the high share of domestic borrowing as a national source of funds (Panel A), amounting to around 18 to 19% of the total (although not as high as in 2015/16) and increasing relative to GDP over the last three years to 5.5%. This high use of debt is also reflected in the large share of debt service expenditures in total uses of funds at the national level, peaking at 27.8% of total spending in 2018/19 (Panel B) but remaining higher than in any other previous year in 2019/20 at a 24.6% share of total uses and 7% of GDP. Third, national-level direct spending (that is, not including transfers or debt service costs) remains stable at around 18% of GDP.

It may not be unreasonable to assume that to maintain spending on its own programs, the National Government, faced with declining tax revenue and increases in borrowing and debt service costs, has determined to provide relatively fewer resources to the counties in the form of the equitable share of revenue.

3.2.3 County Trends

These trends at the national level have had significant impacts on County Governments. As discussed in Section 2, counties have access to four main sources of revenue (the equitable share, conditional grants, OSR and donor funds). Of these, the equitable share is by far the most important source of resources for the counties. This is evident in Panels C and D of Table 3.1.

Total resources available to counties as a group have declined substantially as a share of GDP from 5.3% percent in 2014/15 to a low of 4.1% in 2019/20, a decline in the share of over 20 percent (Panel C; right-most section). Here, a number of trends is clearly visible. First, by far, the largest share of the decline in resources available to the counties is attributable to the decline in the equitable share as noted above. While the equitable share constitutes around 10 to 14 percent of National Government uses of funds, they are the dominant source of funds for the counties, ranging from around 70 to 78 percent of total sources over the six-year period (Panel C). Perhaps more significant from the perspective of longer-term stability for the counties, the equitable share has also been declining as a share of GDP every year from 4.0% to 2.8% (or a decline to 3.4% using FY 2018/19 as the end year given the economic effect of the pandemic on national tax revenue in FY 2019/20). Therefore, despite the fact that the National Government has continually observed the legal requirement of providing an equitable share of at least 15 percent of the most recently audited measure of its revenue, County Governments have seen an ongoing decline in the resources available to them as a share of both available funds and GDP.

Second, to a limited degree, OSR has modestly contributed to this decline even though it has remained fairly constant in monetary terms (Panel C). Its contribution, however, has never been much over 10 percent. Except for a few counties, notably Nairobi, its contribution to aggregate county resources is likely to remain small.

Third, as a result of more limited sources, total county spending has also declined relative to GDP from 4.5 percent to 3.8 percent (Panel D), with most of this decline reflected in relative reductions in development spending, as shares of both county budgets (Panel D, central section) and of GDP (right-most section). Such declines in these future-oriented development programs imply adverse longer-term consequences for service delivery at the county level.

Fourth, a particularly revealing calculation from Table 3.1 based on Panels B and D is to compare direct spending on goods and services by counties to direct spending by the National Government (shown as "other expenditures," essentially direct spending other than for debt service). This calculation shows that the ratio of county direct spending to national direct spending has declined every year except for 2018/19 from a high of 26.3% in 2014/15 to 21.1 % in 2019/20 (although it was higher at 22.4% in 2018/19). Relative to GDP, such direct spending at the national level has remained fairly constant at 17-18 percent of GDP, but direct spending at the county level, as noted, has declined significantly from 4.5 percent to a range of 3.8-4.0 percent. Even aside from the pandemic year of 2019/20, county spending has not been able to keep pace with either national spending or the growth of the economy.

These macro-level comparisons of budgeting at the national and county levels are indicative of serious problems in the inter-governmental financial arrangements underlying devolution in Kenya. County Governments have been given major responsibilities for service delivery under the 2010 Constitution but do not appear to be receiving sufficient resources to maintain, let alone improve, these services.

To summarize the results from the macro-economic perspective, a combination of factors at the national level, best measured relative to GDP, appears to have adversely affected the budget position of County Governments in the aggregate. These factors include a decline in the National Government's ability to generate revenue and its increasing resort to debt financing in order to maintain its own levels of direct spending. These circumstances leave less financial space for other purposes. The consequences for the counties have been a significant decline in the equitable share and in their collective spending as shares of GDP.

Box 3.1: Data Issues in the Sources and Uses of Funds Table

For both the national government and County Governments, it has not been possible to match sources and uses of funds exactly and consequently Table 3.1 has included additional rows labeled "unidentified sources" or "unidentified uses" to make the tables balance. For the national government, unidentified sources have been calculated as 10 to 12 percent of total sources for financial years after 2105/16. This percentage is close to that of external loans and grants as sources of funds. It is possible that the mismatch of sources and uses arises from the overstatement of uses rather than the understatement of sources, but the report team felt more confident about the data on uses so added the difference to Panel A on sources rather than adjusting downward Panel B on the uses side of the equation.

The addition of an unidentified source of funds does not change at all the larger picture that ordinary tax revenue in recent years has not generated any more than half of total sources of funds at the national level and that, as a result, domestic borrowing has become a significant source of funds. Further, on the uses side, debt service has absorbed about one quarter of available funds, and the equitable share to counties has been declining significantly as a percentage of uses over the period of devolution. Accordingly, the addition of an unknown 10 percent to sources of funds does not change the fundamental picture regarding National Government finances.

At the county level, the mismatch of sources and uses appears to be on the uses side with total sources of funds generally exceeding uses with the exception of FY 2019/20 when the two sides are almost completely in balance. For the counties, the percentage adjustment for unidentified uses is smaller than the adjustment on the sources side for the national government, in most years less than half the national adjustment. It is certainly possible to speculate that there may have been some off-budget spending by the counties that is not reflected in the official data, as could occur if counties used their own source revenue without going through the required exchequer process. Again, however, the larger picture of a relative decline in the equitable share and, to a lesser degree, own source revenue as sources of funds for the counties is not affected by the adjustment with the further implication that county spending in the aggregate has been declining as a share of GDP.

3.3. National Tax Revenue Collections and Revenue Forecasts: Implications for the Counties

3.3.1 National Revenue Collection

A further contributing factor to the National Government's declining contributions to the counties (relative to GDP) has been the consistent tendency of the National Treasury to overestimate in its annual budget documents the revenue it forecasts it will collect in the forthcoming financial year. Table 3.1 displays actual revenues collected and other financial results for each financial year, but as the revenue that has been forecasted fails to materialize, budget adjustments need to be made. Restrictions in transfers to the counties, along with increased debt finance, appear to be among the means employed by the National Government to maintain its own level of spending. Tax revenue, the major source of revenue for the National Government, is not collected evenly throughout the financial year. As shown in Figure 3.1, the largest share of revenue collections normally comes in the fourth quarter, April to June, of the financial year, generally amounting to about 30 percent of the annual total with lesser amounts of about 22 to 24 percent being received in the earlier three quarters. It should be noted that financial year 2019/20 did not follow this historical collection pattern due to the adverse effects of Covid-19 on the country's economy beginning in the spring of 2020 and associated declines in revenue inflows in the fourth quarter. Aside from this special situation, the general delayed timing of tax revenue collection is clear.

Figure 3.1: Quarterly Pattern of National Tax Revenue Collection
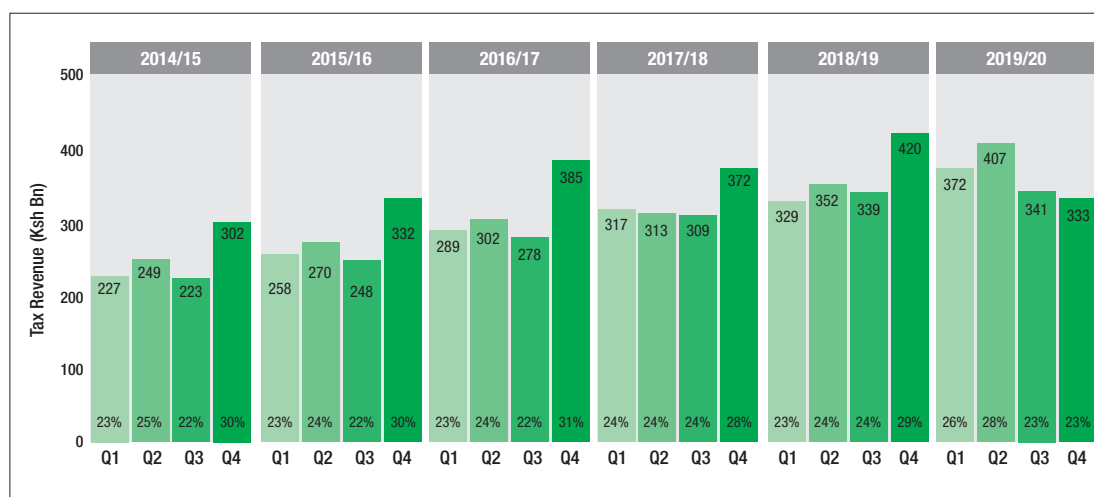
It would be expected that a backloaded pattern of the major source of funds for the National Government would require some budgetary adjustments, involving a combination of short-term borrowing in anticipation of future revenue inflows and perhaps delays in spending to avoid excessive borrowing. Of interest here is the pattern of spending over the six financial years under review on national programs compared to spending on the equitable share to counties. This comparison is shown in Figure 3.2 with the top panel displaying spending for national programs and the bottom panel displaying national spending in the form of transfers of the equitable share to counties.

It is clear from this comparison that the National Government has a much more even pattern of quarterly spending for its own programs over the financial year than for spending in the form of transfers of the equitable share to counties. While both kinds of spending are delayed compared to a uniform distribution of 25 percent of the annual total in each quarter, spending on national programs is much more evenly distributed than spending on the counties in the form of the equitable share.

Figure 3.2: Comparison of Quarterly Spending on National Programs and on the Equitable Share to Counties.
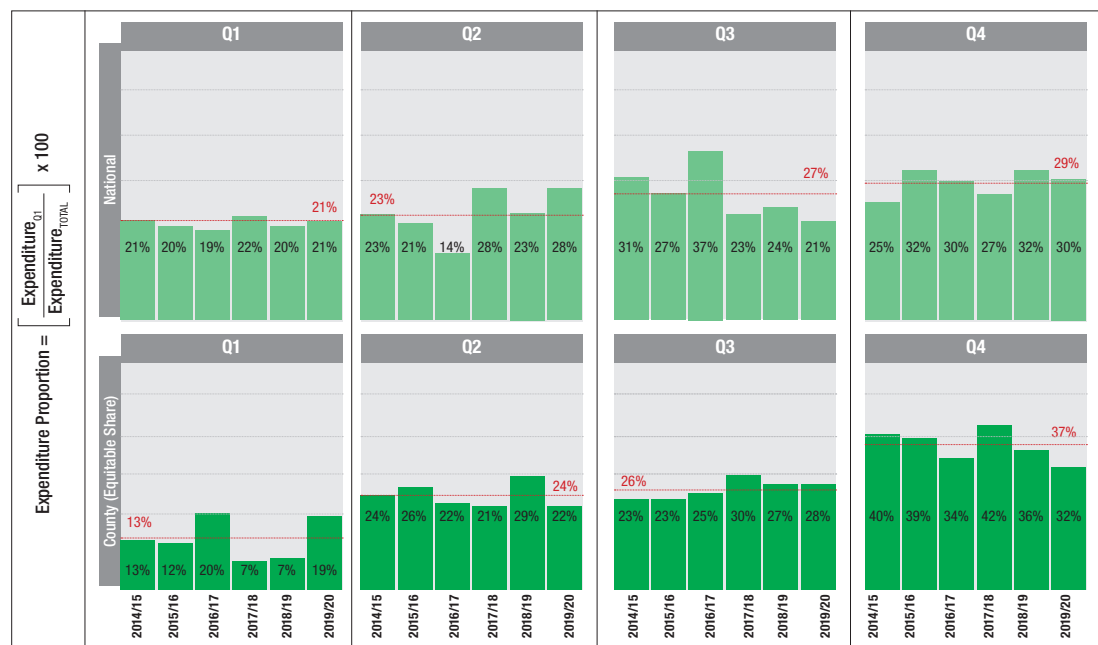
Note: The National Government Proportion in the new chart only refers to exchequer issues to Ministries, Departments and Agencies (MDAs)

National spending on its own programs is somewhat backloaded over the financial year with average spending in the fourth quarter of the financial year equal to 29 percent of the annual total compared to 21 percent in the first quarter, for a ratio of the two percentages of 1.4. However, national spending on the equitable share in the fourth quarter is, on average 37 percent of the total while such spending in the first quarter is 13 percent of the total for a ratio of 2.8, or according to this admittedly crude measure, twice as backloaded as is the case for national programs. As shown above, the fourth quarter, the backloading of the equitable share is even greater than backloading of revenue collection (37 percent to 30 percent). Quite aside from the scale of funding for counties compared to national programs, this difference in simply getting the money out to counties would seem to reflect, at least in part, the relative priorities assigned by the National Government to the counties in the aggregate vis-à-vis its own preferred programs.

3.3.2 Revenue Forecasting

These same relative priorities may also lie behind another set of budgetary issues, specifically the tendency for the National Government to consistently overestimate tax revenues when formulating its annual budgets. It has been noted by other observers, including the IMF[18], that Kenya's forecasts of tax revenue used in preparing its annual National budgets have been unduly optimistic, particularly in more recent financial years.

The history of the National Treasury in overestimating the amount of revenue to be collected each year is shown in Figure 3.3. Revenue forecasts for each financial year are made on two separate occasions. The first forecast is made in October about nine months in advance of the financial year in question as part of an annual budget review process and is submitted in what is known as the BROP document. The second and finalized forecast is made in February, closer to but still in advance of the financial year and is submitted as part of the final budget (see Section 2.3.2 for details of this process). These forecasts are the basis of county budget planning for the forthcoming year. Figure 3.3 displays the percentage errors in both sets of forecasts of national revenue (BROP and the final budget) over the six-year period from financial year 2014/15 through 2019/20.

Figure 3.3: Percentage Forecasting Errors in Estimating National Tax Revenue
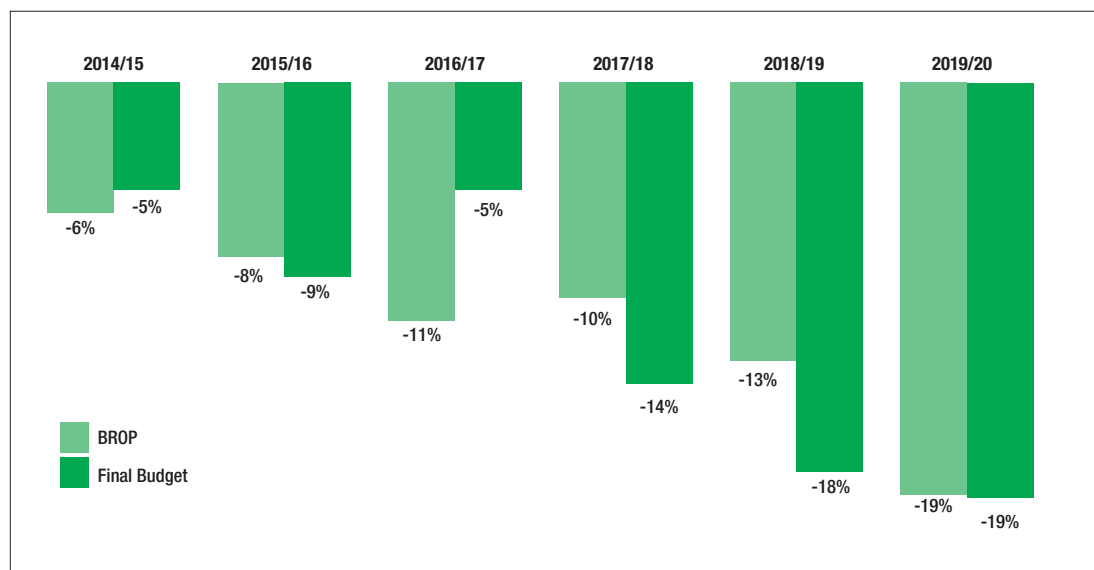
Source: Various issues of National Treasury Budget Review and Outlook Papers and Budget Policy Statements 2014/15-2019/20

In recent years, somewhat surprisingly, the BROP revenue forecasts made in October of the preceding financial year, nine months in advance, seem to involve a smaller error than the finalized revenue forecast submitted in February and used in the final budget. The errors are substantial, ranging from 5 to 18

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18 IMF (2018) 2018 Article Iv Consultation and Establishment of Performance Criteria For The Second Review Under The Stand–By Arrangement—Press Release; Staff Report; And Statement By The Executive Director For Kenya IMF Country Report No. 18/295

percent of the forecasted amount. Moreover, in the more recent years, the magnitude of these errors has become larger. A comparison of errors in forecasting GDP, as shown in Figure 3.4, with errors in revenue forecasting in Figure 3.3 demonstrates that overestimates of revenues have occurred even for years when economic activity and GDP have turned out to be more robust than expected as in financial years 2018/19 and 2019/20. One would expect smaller errors of overestimation or even the underestimation of revenue when the economy performs better than expected. Note that even with the COVID-19 pandemic adversely affecting the Kenyan economy in the fourth quarter of 2019/20, the Treasury's GDP forecast still underestimated how the economy would perform for the year as a whole.

Figure 3.4: Percentage Errors in GDP Forecasts
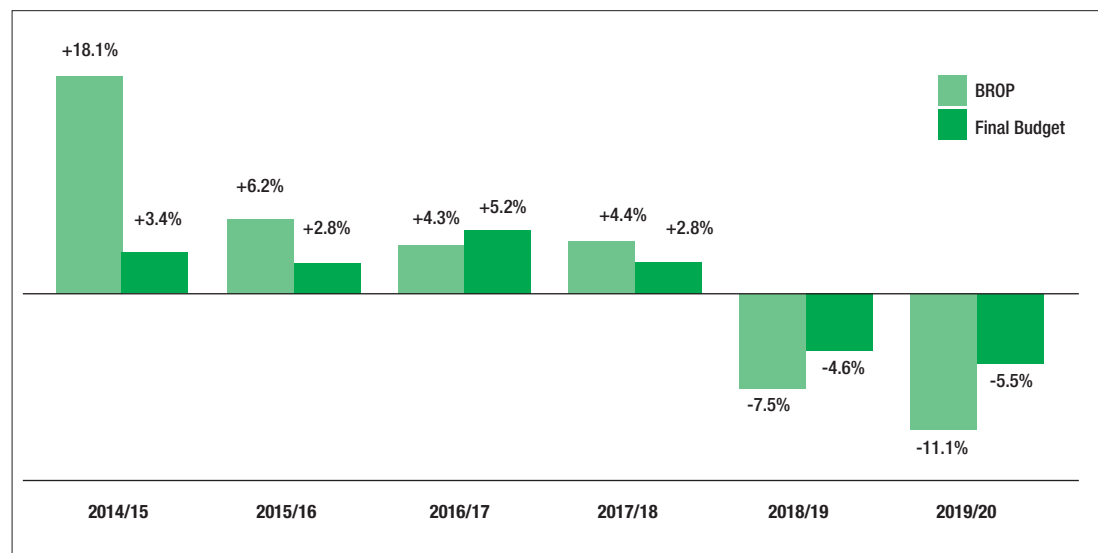
Source: Various issues of National Treasury Budget Review and Outlook Papers and Budget Policy Statements 2014/15-2019/20

This situation may offer evidence, although again of the indirect variety, of the relative priorities of the National Government in supporting its own programs compared to those of the counties. The logic of this evidence would be as follows. The persistence of overestimating revenues, even when economic conditions have turned out to be more favorable than anticipated, would suggest that the overestimation is not due to normal forecasting errors in which case errors in both directions -- positive and negative -- would tend to occur. In fact, as noted above and shown in Figure 3.3, the forecasting of tax revenue has not only been continuously overly optimistic, but the overestimation has even been increasing in recent years.

In these circumstances, one could reasonably assume that overly optimistic revenue forecasts have been designed to achieve other policy objectives, such as maintaining, if not increasing, support for preferred programs. In other words, a budget based on an unrealistically high level of estimated revenue could then support an unrealistically high level of spending, and the question then becomes, as in the case of delayed collections noted above, what programs are being supported and what adjustments are made when the forecasted tax revenues fail to materialize.

The data presented above on the *quarterly* pattern of spending by the National Government on its programs compared to the pattern of transfers of the equitable share to the counties is one piece of evidence indicative of the relative priorities of the National Government. Additional evidence of these same priorities can be seen in the *annual* data in Table 3.1 discussed earlier in this chapter.

With absolute clarity, Table 3.1 demonstrates in Panels A and B that at the national level, when tax revenues fall both as a share of total sources of funds and relative to GDP, some categories of national spending are maintained while others are not. As shown in the table, spending by the National Government on its programs, "other expenditure" in Panel B, is maintained both as a share of overall uses of funds and relative to GDP. In contrast, spending on the equitable share to counties has fallen by both measures to the lowest share of both national total uses of funds and of GDP that it has been over the six-year period.

While motives cannot be determined by this analysis, the policy priorities at the national level seem to be clear.

3.4 Conclusions

At the overall macro-level, the broad structural and financial arrangements of decentralization, as they have played out over time, have placed counties in the difficult position of having to assume substantial responsibilities for the delivery of public services with relatively fewer financial resources. As a summary indicator, the National Government has clearly not maintained the funding of County Governments at stable levels relative to GDP, and the uses of funds at the national level appear to have crowded out financial support for the counties. At the macro-level, four general conclusions emerge:

Based on aggregate data, the National Government is not maintaining its ability to fund County Governments at stable levels relative to GDP.

As debt servicing is a first charge in the national budget, and combined with the non-performance of revenue collection, this leaves less resources for providing transfers to County Governments

Total spending at the county level is declining as a share of GDP, and while recurrent spending has largely been maintained, development programs have been adversely affected, diminishing future economic prospects of the counties.

The maintenance of spending at the national level compared to transfers of the equitable share to the counties offer further evidence of the higher priority attached to national programs than to support of the counties. This is both within the financial year as tax revenues flow slowly into the national treasury and over time as tax revenues fail to materialize as forecasted in the budget.

These macro-level trends pose significant operational challenges for the counties as they plan, formulate, and execute their budgets. These operational aspects of the inter-governmental financial system are discussed below in Chapter 4 of this report.

Table 3.1: Sources and Uses of Funds at National and Local Level

Panel A: Sources of Funds at the National Level

Description	Revenue Sources (Ksh Bn)						As a share of Total Revenue						As a share of GDP					
	14/15	15/16	16/17	17/18	18/19	19/20	14/15	15/16	16/17	17/18	18/19	19/20	14/15	15/16	16/17	17/18	18/19	19/20
Opening Balance	140.7	0.2	59.8	30.9	102.8	98.9	8.80%	0.00%	2.60%	1.30%	3.50%	3.40%	2.50%	0.00%	0.80%	0.40%	1.10%	1.00%
Tax Revenue	1,001	1,108	1,253	1,312	1,440	1,453	62.50%	56.40%	54.60%	54.60%	48.80%	49.90%	17.50%	17.00%	16.30%	15.50%	15.50%	14.30%
Non Tax Revenue (inc. A.I.A)	39.3	44.7	52.8	53.4	58.2	121.7	2.50%	2.30%	2.30%	2.20%	2.00%	4.20%	0.70%	0.70%	0.70%	0.60%	0.60%	1.20%
Domestic Borrowing	292.7	506.2	415	421	486.8	558.9	18.30%	25.80%	18.10%	17.50%	16.50%	19.20%	5.10%	7.80%	5.40%	4.90%	5.20%	5.50%
External Loans and Grants	119.5	191.5	238.3	298.1	362.6	299.7	7.50%	9.70%	10.40%	12.40%	12.30%	10.30%	2.10%	2.90%	3.10%	3.50%	3.90%	2.90%
Other Domestic Financing	1	2.8	8.6	54.1	149.8	45.3	0.10%	0.10%	0.40%	2.30%	5.10%	1.60%	0.00%	0.00%	0.10%	0.60%	1.60%	0.40%
Total Actual Revenue	1,595	1,854	2,028	2,169	2,600	2,578	99.50%	94.30%	88.40%	90.30%	88.10%	88.50%	27.90%	28.50%	26.30%	25.40%	27.90%	25.30%
Unidentified Revenue Sources	8.5	112.1	267.2	232.7	350.8	335	0.50%	5.70%	11.60%	9.70%	11.90%	11.50%	0.10%	1.70%	3.50%	2.70%	3.80%	3.30%
Total	1,603	1,966	2,295	2,402	2,951	2,913	100%	100%	100%	100%	100%	100%	28.00%	30.20%	29.80%	28.20%	31.70%	28.60%

Panel B: Uses of Funds at the National Level

Description	Total Expenditure (Ksh Bn)						As a share of Total Expenditure						As a share of Total Expenditure & Closing Cash Balance						As a share of GDP					
	14/15	15/16	16/17	17/18	18/19	19/20	14/15	15/16	16/17	17/18	18/19	19/20							14/15	15/16	16/17	17/18	18/19	19/20
Public Debt Service	393	421	436	516	821	718	24.50%	21.40%	19.00%	21.50%	27.80%	24.60%							6.90%	6.50%	5.70%	6.10%	8.80%	7.00%
Other Expenditure	981	1,213	1,523	1,454	1,681	1,815	61.20%	61.70%	66.40%	60.50%	57.00%	62.30%							17.10%	18.60%	19.80%	17.10%	18.10%	17.80%
Total Expenditure (National Programmes)	1,374	1,634	1,960	1,970	2,502	2,532	85.70%	83.10%	85.40%	82.00%	84.80%	86.90%							24.00%	25.10%	25.50%	23.10%	26.90%	24.80%
Total County Transfers to the Counties																								
Equitable Share	226.7	259.8	280.3	302	314	286.8	14.10%	13.20%	12.20%	12.60%	10.60%	9.80%							4.00%	4.00%	3.60%	3.50%	3.40%	2.80%
Conditional Grants	2.6	12.3	24.3	26.9	36	45.9	0.20%	0.60%	1.10%	1.10%	1.20%	1.60%							0.00%	0.20%	0.30%	0.30%	0.40%	0.50%
Total County Transfers	229.3	272.1	304.6	328.9	350	332.7	14.30%	13.80%	13.30%	13.70%	11.90%	11.40%							4.00%	4.20%	4.00%	3.90%	3.80%	3.30%
Closing Cash Balance	0.2	59.8	30.9	102.8	98.9	48	0.00%	3.00%	1.30%	4.30%	3.40%	1.60%							0.00%	0.90%	0.40%	1.20%	1.10%	0.50%
Total Expenditure + Closing Cash Bal.	1,603	1,966	2,295	2,402	2,951	2,913	100%	100%	100%	100%	100%	100%							28.00%	30.20%	29.80%	28.20%	31.70%	28.60%

Panel C: Sources of Funds at the County Level

Description	Total Sources of County Funds (Ksh Bn)						As a share of Total Available Funds						As a share of National GDP					
	14/15	15/16	16/17	17/18	18/19	19/20	14/15	15/16	16/17	17/18	18/19	19/20	14/15	15/16	16/17	17/18	18/19	19/20
Opening Balance	41.7	36.1	37.2	25.8	55.1	51.2	13.70%	10.50%	9.90%	6.70%	12.40%	12.20%	0.73%	0.55%	0.48%	0.30%	0.59%	0.50%
Own Source Revenue	33.9	35	32.5	32.5	40.3	35.8	11.10%	10.20%	8.70%	8.40%	9.00%	8.50%	0.59%	0.54%	0.42%	0.38%	0.43%	0.35%
Equitable Share	226.7	259.8	280.3	302	314	286.8	74.40%	75.70%	74.90%	78.00%	70.50%	68.00%	3.96%	3.99%	3.64%	3.54%	3.37%	2.81%
Conditional Grants (NG)[1]	0	7.8	14	7.1	6.2	36.6	0.00%	2.30%	3.70%	1.80%	1.40%	8.70%	0.00%	0.12%	0.18%	0.08%	0.07%	0.36%
Conditional Grants (Donors)	2.6	1.2	6	9.5	22.4	0.4	0.90%	0.30%	1.60%	2.50%	5.00%	0.10%	0.05%	0.02%	0.08%	0.11%	0.24%	0.00%
Road Maintenance Fuel Levy Fund	0	3.3	4.3	10.3	7.4	9	0.00%	1.00%	1.20%	2.70%	1.70%	2.10%	0.00%	0.05%	0.06%	0.12%	0.08%	0.09%
Unidentified Revenue	0	0	0	0	0	1.9	0.00%	0.00%	0.00%	0.00%	0.00%	0.40%	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%
Total	305	343	374	387	445	422	100%	100%	100%	100%	100%	100%	5.33%	5.27%	4.86%	4.54%	4.79%	4.14%

Panel D: Uses of Funds at the County Level

Description	Total Expenditure (Ksh Bn)						Expenditure as a share of Total Expenditure + Cash Balance						Expenditure as share of National GDP					
	14/15	15/16	16/17	17/18	18/19	19/20	14/15	15/16	16/17	17/18	18/19	19/20	14/15	15/16	16/17	17/18	18/19	19/20
Recurrent	167.6	191.9	215.7	236.9	269	279.3	55.00%	55.90%	57.60%	61.20%	60.40%	66.20%	2.90%	2.90%	2.80%	2.80%	2.90%	2.70%
Development	90.4	103.5	103.3	66.9	107.4	104.5	29.70%	30.10%	27.60%	17.30%	24.10%	24.80%	1.60%	1.60%	1.30%	0.80%	1.20%	1.00%
Total Expenditure	258	295.3	319.1	303.8	376.4	383.8	84.70%	86.00%	85.20%	78.50%	84.50%	91.00%	4.50%	4.50%	4.10%	3.60%	4.00%	3.80%
Closing Balance	36.1	37.2	25.8	55.1	51.2	37.8	11.80%	10.80%	6.90%	14.20%	11.50%	9.00%	0.60%	0.60%	0.30%	0.60%	0.60%	0.40%
Total Expenditure + Closing Balance	294.1	332.5	344.8	358.9	427.7	421.6	96.50%	96.90%	92.10%	92.70%	96.00%	100.00%	5.10%	5.10%	4.50%	4.20%	4.60%	4.10%
Unidentified Expenses	10.7	10.7	29.5	28.2	17.7	0	3.50%	3.10%	7.90%	7.30%	4.00%	0.00%	0.20%	0.20%	0.40%	0.30%	0.20%	0.00%
Total	304.8	343.2	374.3	387.1	445.4	421.6	100%	100%	100%	100%	100%	100%	5.30%	5.30%	4.90%	4.80%	4.80%	4.10%

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

47

Budget Formulation and Execution: Issues and Analysis

4.1 Introduction

Previous chapters of this report discussed the broad structure of the intergovernmental financial system in Kenya and the macroeconomic aspects of the relationship between the National Government and the counties. In this chapter, we consider the operational aspects of the system. It focuses on the detailed workings of the intergovernmental financial system and its impacts across Kenya's 47 counties.

The overall design of the intergovernmental financial system presented in Chapter 2 offers the possibility that County Governments can be adequately supported logistically and financially under the 2010 Constitution. The macroeconomic relationships presented in Chapter 3, however, cast doubts on whether, in fact, counties are receiving sufficient resources to accomplish their assigned roles in delivering public services to their citizens. In this chapter, we bring further concrete evidence to bear on whether, strictly from an operational perspective, the new intergovernmental system is functioning effectively.

As presented here, there are ample grounds to conclude that the system is not working nearly as well as it may appear on paper, and, indeed, there are indications that operationally the situation may be getting worse. The basis for the conclusions in this chapter is a detailed analysis of the three primary processes in the intergovernmental financial system – 1) county planning and budget formulation, 2) the receipt of funds by counties from the National Treasury or what is known as exchequer issues, and 3) actual county spending. Although these processes have already been discussed in Chapter 2, a more data-intensive analysis is warranted to examine the critical relationships among them based on publicly available information primarily from the OCoB.[19] As the data presented below demonstrate, the three processes interact with each other in subtle yet complex ways that serve to make the intergovernmental financial system more operationally cumbersome and likely less effective than it could be in serving the needs of the counties or the public at large.

Two further points on the data used in this chapter should be noted here. First, with respect to county budgeting, this report discusses not only the total annual budgets of the counties but also the two components of the annual budget – the recurrent account and the development account. The nature of planning and implementation are considerably different for each. Further, each account has its own particular characteristics throughout the entire budget execution process over the financial year. The recurrent budget consists primarily of personal emoluments such as wages and benefits as well as operation and maintenance costs of physical facilities.

The development budget, in contrast, consists of specifically designated projects such as the construction of roads, bridges, government buildings and other infrastructure to the areas of county responsibility such as health and early childhood education where such programs support economic growth and contribute to the future capacity of the county to deliver public services. Such projects generally have long-term planning and execution horizons involving design and construction phases and the authorization and oversight of contracts with third parties under which payments are made following approved completion schedules.

Second, the standard that we have adopted in this report for evaluating a well-functioning budget process is that 25 percent of total spending for the financial year should be spent in each quarter of the year. This is not a legal requirement, but we use it as a reasonable standard to measure budget performance. Moreover, the Senate in its approval of the CARA disbursement schedule requires that the transfer of funds from the National Government to the counties be accomplished in a uniform manner over the financial year which would support spending by the counties at a rate of 25 percent per quarter. While deviations from this standard are to be expected in the real world, when they are severe, as shown in our analysis, they indicate the lack of a smoothly operating process for providing public services.

Box 4-1 Data Availability and Limitations

It is worth highlighting here the availability and limitations of the data used throughout this chapter. All data have been obtained from publicly available reports from the OCoB. The budgets that the counties submit to OCoB, which in turn assures that all requirements of the Public Financial Management Act, 2012 are adhered to, are in the public record, as is information on exchequer issues, that is, the amounts of funds sent to the counties from the National Government, and the actual spending of these funds by the counties. Thus, data are quite complete on the monetary amounts of county budgets and associated financial flows throughout the budget execution process.

The precise timing of when these transactions occur is not directly reported by the OCoB. Rather, the available data show transactions that have occurred by the end of each quarter of the financial year and not the exact date of a transaction within each quarter. Thus, a county budget approved on July 1, at the very start of the financial year, and one approved on August 31, at the very end of the first quarter of the year, will both be classified in our data as having been approved in quarter one. In reality, the two dates have different implications. In the first case, the county, if funds are available, can begin executing its budget in Q1 whereas, in the second case, that is not possible. Similarly, if changes are made in county budgets within a quarter, the data available for this report will not reflect such a change has been made since, again, the data indicate only changes made from the end of one quarter to the end of the next and not within-quarter changes.

We note these limitations to be precise in what the data show, and to be clear in the interpretation of the results. By and large, they do not affect the broad picture presented in this report of a system characterized by frequent changes, delays, and inefficient processes. If anything, these limitations have the effect of understating the volatility of the various processes since changes within each quarter are not shown.

4.2 County Budgeting

4.2.1 Frequency and Scale of Budget Revisions

The county budgeting process begins a year in advance of the financial year to which it applies and is also based on longer-term plans and associated documents that extend even further back in time as discussed in Chapter 2. Despite this lengthy and document-intensive process, county officials have been generally performing well in delivering to OCoB on a timely basis budgets that have satisfied all local and national requirements for budget approval. As noted in Chapter 2, despite these complexities there have been only 11 instances out of a total of 282 possibilities[21], or 4 percent of the time, where a county has not had an approved budget in place at least by the end of the first quarter of the financial year. As noted above, late budget submissions during the first quarter can still give rise to significant budget execution issues However, given the variety of circumstances where delays could possibly occur, having operating budgets in effect by the end of Q1 is a tribute to the work of county officials.[22] Unfortunately, as subsequent analysis will demonstrate, despite the existence of approved budgets at the start of the financial year, their actual execution and implementation over the course of the financial year have not proceeded as smoothly or as efficiently as one might expect, largely for reasons beyond the control of the counties themselves.

A sound and stable budget process would require a budget to be approved through formal legislative procedures, executed smoothly over the financial year consistent with its objectives and the application of standard processes for hiring contractors and compensating employees, and revised only under extraordinary or unforeseen circumstances. In contrast to the ideal, there are, three sources of instability in budget formulation, that give rise to subsequent problems in executing the budget and achieving its objectives. They are the frequency of budget revisions, the scale or size of such revisions, and their timing over the course of the financial year. With regard to frequency of change, even relatively small changes in monetary terms can still be disruptive since each change generally requires some reallocation of resources, up or down, within the overall budget. Of course, the larger the size of the change, the more disruptive it will be in terms of achieving initial budgetary objectives. Further, the timing of changes is important. Budget revisions made earlier in the year allow county policy-makers time to adjust their programs over the remainder of the year. The later in the financial year these revisions occur, the more difficult it is to adjust to the new budget reality.

It is surely not a revelation to point out that a critical issue in budgeting and budget execution is the availability of funds to pay the government personnel who deliver public services as well as contractors who undertake longer-term development projects. As noted in Chapter 3, Kenya's counties depend overwhelmingly on resources transferred to them from the National Government. When these resources fail to become available on a timely basis, the entire county budget process is subject to substantial revision involving not only the timing of spending but also the prioritization among categories of spending as well.

For various reasons, such as a late start on the part of the county in spending available funds or fewer funds being made available than anticipated (as discussed below), it is often the case that less than 25 percent of the budget will be spent in the first quarter (or any other quarter) than initially budgeted. As a consequence, a higher share of the annual budget must be spent in later quarters of the year to implement the full budget as planned. However, such an increase in spending in any quarter compared to the initial approved budget necessitates re-arrangement of the work plan.

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22 Even in those eleven cases of counties without an approved budget in the first quarter, it is still possible for them to proceed with their budget programs by invoking Section 134 of the Public Financial Management Act of 2012, a provision that allows spending of up to 50% of the prior year's budget without an approved budget.

As noted earlier, an initial cause of delay at the national level is the passage of DORA and CARA. As the legislative process is often contentious, the timing of enactment can be delayed, and even the promised funds may not materialize as expected all of which complicates substantially county budget and spending processes. Indeed, the failure of the National Government to provide timely funding in the first instance is often the reason why counties have been unable to implement their budgets on the schedule initially planned.

Often, due to delay in disbursements of funds, counties receive a substantial amount in the last quarter with a few days to the end of the financial year. As a result, they are unable to absorb and spend the entire amount of funds disbursed. In order to spend this amount in the following financial year they have to revise their budget, which is the same as coming up with a new budget. This revised budget follows the same process of approval by the County Assembly and once approved, the County Treasury submits it to the OCoB and attendant documents as basis for them to authorize withdrawal of these funds for appropriation. Collectively leading to further delays.

Table 4.1 summarizes the total number of revisions[23] made to county budgets over the six-year period from FY 2014/15 through FY 2019/20 for the total budget and its two components, the recurrent and development budgets.

Table 4.1: Revisions in the Budget Across Counties (2014/15 - 2019/20)

	Maximum Possible Revisions	Total Revisions	Distribution of Revisions			% Change (Monetary)
			-ve	0	+ve	Absolute (mean)
Recurrent	835 (100%)	252 (30.2%)	**23** **(2.8%)**	**583** **(69.8%)**	**229** **(27.4%)**	*4.3%*
Development	835 (100%)	319 (38.2%)	**138** **(16.5%)**	**516** **(61.8%)**	**181** **(21.7%)**	*8.8%*
Total	835 (100%)	220 (26.3%)	**31** **(3.7%)**	**615** **(73.7%)**	**189** **(22.6%)**	*5.0%*

Source: Office of the Controller of Budget

The figures in Table 4.1 are compelling. Sometimes the budgets are revised downward (shown in the "-ve" column), but much more frequently they are revised upward (the "+ve" column). Most often, there are no changes from one quarter to the next. In the aggregate, however, total revisions, either up or down, occur 252 times or 30 percent of the time for the recurrent budget, and 319 times or 38 percent of the time for the development budget. Perhaps surprisingly, Table 4. 1 shows that the total budget over time has fewer revisions than its two main components – the recurrent and development budgets. The reason for this result is that offsetting changes can be made within the total budget whereby revisions up or down in one component may be accompanied by equal and opposite revisions in the other. The revisions in each of the two component budgets are more indicative of the degree of budget instability in budget formulation than does the total itself. Accordingly, to a large extent, the subsequent analysis of budget stability, or lack thereof, focuses separately on the two components, and the differences between them in the degree of instability, rather than on the total budget.

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23   A budget revision is calculated as occurring any time a recurrent or development budget at the end of any quarter differs in monetary terms from that of the previous quarter within the financial year. Accordingly, there are a total of three revisions possible for each year, six years of data, and 47 counties for a maximum possible number of revisions of 846 (= 3x6x47). However, as noted earlier, there were 11 instances where counties did not have an approved Q1 budget, giving a total 835 possible revisions, up or down.

On an average annual basis, recurrent budgets for the 47 counties are changed 42 times and development budgets are changed 53 times. The scale of change, that is, the monetary value of the change in Kenya shillings is much greater for development budgets. Those changes have a mean absolute value of 8.8% (that is, positive and negative changes both counting as positive) for the development budget, or twice the size of the average change in recurrent budgets (4.3%). It should be emphasized that these figures represent the means of the percentage changes across counties and years in each budget category. In some cases, the percentage changes are considerably larger. At just this summary level of Table 4.1, it is clear that stability in county budgeting does not characterize the operation of the intergovernmental financial system in Kenya. As noted above, the larger the size of the change, the more disruptive it is for achieving initial budgetary objectives. On this basis, instability is more characteristic of the development budget than the recurrent one.

The next 2 tables – Tables 4.2 and 4.3, display details for the recurrent and development budgets, for Kenya's 47 counties, behind the summary data in Table 4.1. Tables 4.2 and 4.3 highlight the counts or the number of budgetary revisions for recurrent and development budget respectively; highlight the monetary values of these revisions.[24] Counties are arrayed from highest to lowest in terms of the mean values of the quarterly monetary changes in their budgets as displayed in the far-right columns of the two tables.

Specifically, for Tables 4.2 and 4.3, counties are far from uniform in the extent to which they have revised their recurrent or development budgets as well as in the scale of these changes. The recurrent budget data across the six financial years for the 47 counties display considerable variation across counties regarding the number of revisions. Twenty-four counties have revised their recurrent budgets five or fewer times over the six-year period while one has revised its budgets ten times or more. Vis-à-vis monetary values, in only a few cases -- Kirinyaga Kiambu, Meru and Nyandarua – the average values of the quarterly budget changes from the previous quarter's budget more than seven percent. In over three-quarters of the counties, 37 out of 47, the average change is less than 5 percent of the prior quarter's budget. Thus, instability in recurrent budgets derives from the frequency of change, and to a lesser degree from the scale of change, on average.

For revisions in the development budget shown in Table 4.3, both size of the monetary value and frequency contribute significantly to instability in budgeting. Twelve counties from Nyandarua at the top through Vihiga have experienced average budget revisions, up or down, of 12 percent or more of their budgets in the prior quarter, and another 8 have experienced average changes of at least 10 percent. Even among those 27 counties where the average size of change has been less than 10 percent, 15 had at least 6 revisions over the 6-year period, or an average of at least one revision per year. However, even the large percentage changes need to be interpreted with caution. For example, in the case of Wajir with a large percentage change figure of almost 14%, the absolute number of revisions of the budget has been small, only 4 changes of a maximum possible number of 17[26]. In contrast, of the top ten counties with the largest average percentage monetary change, averaged 8 revisions in this period out of 17. Significant instability occurs when both frequency and size of change are substantial.

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24 The methodology for calculating the percentages of the quarterly monetary revisions for each county is as follows.

The first three columns show for each county, as averages for Q2, Q3, and Q4 over the six-year period, the absolute values of the budget changes from the previous quarter as a percentage of the total value of all quarterly changes across all years. Accordingly, by necessity the quarterly percentages sum to 100 percent for each county across the six financial years (as they do for each year individually). This captures the share of each quarter's change in the total change for a county. The fifth column shows average percentage quarterly change for a county from the prior quarter's budget across all quarters

25 17 rather than 18 since Wajir had no approved budget for the first quarter of 2017/18.

Table 4.2: Revisions in the Recurrent Budget Across Counties (2014/15 - 2019/20)

	Maximum Possible Revisions	Total Revisions	Distribution of Revisions			% Change (Monetary)
			-ve	0	+ve	Absolute (mean)
1 Kirinyaga	18	8	0	10	8	14.5%
2 Kiambu	18	6	0	12	6	11.9%
3 Meru	18	9	0	9	9	7.2%
4 Nyandarua	18	10	1	8	9	7.1%
5 Uasin Gishu	18	5	1	13	4	6.7%
6 Bungoma	18	9	0	9	9	6.1%
7 Mombasa	18	7	2	11	5	5.6%
8 Bomet	18	6	1	12	5	5.2%
9 Kwale	18	6	0	12	6	5.2%
10 Samburu	18	7	0	11	7	5.2%
11 Turkana	18	8	3	10	5	4.9%
12 Nyamira	18	7	2	11	5	4.9%
13 Marsabit	17	5	1	12	4	4.8%
14 Kitui	17	2	0	15	2	4.8%
15 Murang'a	18	8	2	10	6	4.6%
16 Mandera	17	6	1	11	5	4.6%
17 Nyeri	17	6	0	11	6	4.5%
18 Wajir	17	3	0	14	3	4.4%
19 Embu	18	5	0	13	5	4.4%
20 Migori	18	6	0	12	6	4.3%
21 Narok	18	6	0	12	6	3.8%
22 Elgeyo/Marakwet	18	5	0	13	5	3.8%
23 Tharaka Nithi	18	6	0	12	6	3.7%
24 Kisii	18	6	0	12	6	3.7%
25 Lamu	18	6	0	12	6	3.6%
26 Kilifi	18	5	0	13	5	3.6%
27 Taita/Taveta	17	5	0	12	5	3.6%
28 Kisumu	17	5	2	12	3	3.5%
29 Vihiga	18	7	0	11	7	3.5%
30 Trans Nzoia	18	6	0	12	6	3.5%
31 Machakos	18	4	1	14	3	3.4%
32 Makueni	18	4	0	14	4	3.3%
33 Garissa	17	4	0	13	4	3.2%
34 Kajiado	18	5	2	13	3	3.2%
35 Nairobi	17	3	0	14	3	3.2%
36 Busia	18	4	0	14	4	3.2%
37 Isiolo	18	5	0	13	5	3.2%
38 Laikipia	17	6	0	11	6	3.1%
39 Nandi	18	3	0	15	3	2.8%
40 Kakamega	18	5	1	13	4	2.5%
41 Baringo	18	4	0	14	4	2.1%
42 Homa Bay	18	3	1	15	2	1.9%
43 Siaya	18	4	2	14	2	1.9%
44 Tana River	17	3	0	14	3	1.8%
45 Kericho	18	3	0	15	3	1.6%
46 West Pokot	18	6	0	12	6	1.2%
47 Nakuru	18	0	0	18	0	0.9%
Max	18	10	3	18	9	14.5%
Mean	18	5	0	12	5	4.3%
Min	17	0	0	8	0	0.9%
Total	835	252	23	583	229	4.3%

Source: Office of the Controller of Budget

Note:

1) The number of revisions is cumulated over six years beginning 2014/15, thus giving rise to 18 (=3x6) as the maximum possible revisions in this framework. In situations where the county failed to approve the budget by the end of the first quarter, as is the case for Kitui and Nyeri, this reduces the number to 17. 2)**Assumption:** Budgets are measured at the end of each quarter; hence if there were more than one budget revision made within the quarter such revisions are not accounted for.

Table 4.3: Revisions in the Development Budget Across Counties (2014/15 - 2019/20)

	Maximum Possible Revisions	Total Revisions	Distribution of Revisions			% Change (Monetary)
			-ve	0	+ve	Absolute (mean)
1 Nyandarua	18	11	1	7	10	23.7%
2 Lamu	18	9	0	9	9	19.2%
3 Kisumu	17	7	4	10	3	17.7%
4 Busia	18	9	2	9	7	16.7%
5 Siaya	18	9	2	9	7	16.6%
6 Kirinyaga	18	10	7	8	3	16.6%
7 Wajir	17	4	2	13	2	13.9%
8 Kitui	17	8	2	9	6	13.8%
9 Laikipia	17	6	3	11	3	12.9%
10 Elgeyo/Marakwet	18	10	3	8	7	12.8%
11 Makueni	18	8	3	10	5	12.6%
12 Vihiga	18	8	2	10	6	12.3%
13 Nyeri	17	9	3	8	6	10.8%
14 Samburu	18	9	4	9	5	10.6%
15 Nyamira	18	10	4	8	6	10.3%
16 Kwale	18	7	5	11	2	10.2%
17 Bungoma	18	8	2	10	6	10.1%
18 Narok	18	9	8	9	1	10.0%
19 Kiambu	18	9	6	9	3	10.0%
20 Mombasa	18	9	7	9	2	10.0%
21 Meru	18	9	5	9	4	9.8%
22 Kajiado	18	5	1	13	4	9.5%
23 Embu	18	8	2	10	6	9.2%
24 Isiolo	18	6	2	12	4	9.0%
25 Marsabit	17	6	0	11	6	8.2%
26 Kericho	18	6	0	12	6	8.0%
27 Nairobi	17	5	5	12	0	7.8%
28 Tana River	17	7	4	10	3	7.5%
29 Migori	18	8	2	10	6	6.7%
30 West Pokot	18	7	1	11	6	6.0%
31 Tharaka Nithi	18	4	1	14	3	5.7%
32 Murang'a	18	8	6	10	2	5.0%
33 Uasin Gishu	18	8	4	10	4	4.6%
34 Taita/Taveta	17	6	3	11	3	4.5%
35 Kilifi	18	5	1	13	4	4.4%
36 Bomet	18	5	2	13	3	4.3%
37 Turkana	18	6	3	12	3	4.3%
38 Homa Bay	18	6	1	12	5	4.2%
39 Kisii	18	6	4	12	2	4.1%
40 Machakos	18	6	2	12	4	3.6%
41 Kakamega	18	4	3	14	1	3.1%
42 Trans Nzoia	18	5	5	13	0	3.0%
43 Mandera	17	5	4	12	1	2.9%
44 Baringo	18	3	2	15	1	2.9%
45 Garissa	17	4	4	13	0	2.1%
46 Nandi	18	1	1	17	0	2.0%
47 Nakuru	18	1	0	17	1	1.0%
Max	18	11	8	17	10	23.7%
Mean	18	7	3	11	4	8.8%
Min	17	1	0	7	0	1.0%
Total	835	319	138	516	181	8.8%

Note:

1) The number of revisions is cumulated over six years beginning 2014/15, thus giving rise to 18 (=3x6) as the maximum possible revisions in this framework. In situations where the county failed to approve the budget by the end of the first quarter, as is the case for Kitui and Nyeri, this reduces the number to 17. 2)**Assumption:** Budgets are measured at the end of each quarter; hence if there were more than one budget revision made within the quarter such revisions are not accounted for.

4.2.2. Timing of Budget Revisions

As noted, another important issue regarding budget instability relates not just to the monetary size and frequency of change, but also the timing of budget revisions over the course of the financial year matters to effective budget implementation. If budget revisions, particularly increases in approved budgets to compensate for prior reductions, are made relatively early in the financial year, counties will likely have sufficient time in the year for implementing the revised budgets. However, if revisions were required to be made later in the financial year, counties will be hard-pressed to achieve their budgetary objectives within a given financial year. The measure here assesses "timing of revisions" by looking at the budget changes from the previous quarter as a percentage of total change in the year, as it gives us a quarter-to-quarter timeline of how budget funds are re-allocated over the financial year.

Tables 4.4 and Table 4.5 present, respectively, data on the timing of budgetary revisions by quarter for the recurrent and development budgets across all six years. In these two tables, counties are arrayed in terms of the size of the average monetary change across all quarter in the far-right column. These tables highlight a number of points. First, for both recurrent and development programs, the patterns are fairly consistent with the larger revisions happening in the last quarter. Second, the now familiar result is shown that the mean percentage change in the monetary value of revisions for the development budget is double the amount for the recurrent budget (4.3 percent for recurrent budgets compared to 8.8 percent for development budgets.

The mean quarterly pattern of revisions across all counties shows the percentage of the monetary value of quarterly revisions, in Q2 to be 17.7 percent in Table 4.4 for recurrent budgets and 24.4 percent in Table 4.5 for development budgets with correspondingly larger percentages in Q3 and Q4 for both recurrent and development budgets. The mean value of Q4 changes amounts to about half of the value of the total annual change for both the recurrent and the development budgets, 56 percent and 49.4 percent respectively. From a stability perspective this scale of revision in the fourth quarter imposes a substantial burden on the ability of county officials to administer their programs effectively. The last column in each table also tells an important story on the instability of budgets. These two columns from Tables 4.4 and 4.5 display the mean values of the size of each county's budget revision, up or down, as a percentage of the prior quarter's budget. For the recurrent budget, Table 4.4 shows that only ten counties, through Samburu had a mean value of budgetary revisions exceeding five percent of the prior quarter's budget, and only two – Kirinyaga and Kiambu -- had an average percentage change of greater than 10 percent. In contrast, for the development budget, fully 20 counties, from Nyandarua through Mombasa, experienced quarterly revisions averaging 10 percent or more of the previous quarter's budget. On the other side of the ledger, 27 counties experienced quarterly average changes of 4 percent or less in the recurrent budget while only 6 counties had similarly small percentage changes in the development budget. Thus, from a stability perspective, the development budget fares considerably worse than the recurrent budget with subsequent negative effects on actual spending as discussed below.

To summarize these findings, there is substantial instability over the financial year in the budgets under which counties are delivering the public services they are assigned under devolution. Although by the end of Q4, almost all counties have experienced significant revisions, by far the largest changes occur in their development budgets.

Discussed next is the primary reasons for the continuous revisions in county budgets, specifically the role of exchequer issues in the county budgeting process.

Table 4.4: Timing of Recurrent Budget Revisions as Measured by Quarterly Changes in Budgets

County	Proportions of Budget Revisions (absolute revisions)				Mean Absolute Quarterly % Changes
	Q2	Q3	Q4	Total	
1 Kirinyaga	2.2%	46.6%	51.2%	100.0%	14.5%
2 Kiambu	64.6%	16.2%	19.2%	100.0%	11.9%
3 Meru	13.7%	48.7%	37.6%	100.0%	7.2%
4 Nyandarua	15.9%	33.9%	50.2%	100.0%	7.1%
5 Turkana	0.0%	20.3%	79.7%	100.0%	6.7%
6 Bungoma	8.3%	34.6%	57.0%	100.0%	6.1%
7 Mombasa	14.8%	36.2%	49.0%	100.0%	5.6%
8 Bomet	6.3%	25.2%	68.5%	100.0%	5.2%
9 Kwale	3.9%	10.3%	85.9%	100.0%	5.2%
10 Samburu	30.6%	21.6%	47.7%	100.0%	5.2%
11 Trans Nzoia	0.0%	46.8%	53.2%	100.0%	4.9%
12 Nyamira	20.7%	31.1%	48.2%	100.0%	4.9%
13 Murang'a	19.1%	39.9%	41.1%	100.0%	4.6%
14 Nyeri	49.3%	21.1%	29.6%	100.0%	4.5%
15 Vihiga	21.9%	34.0%	44.1%	100.0%	4.4%
16 Embu	7.3%	31.5%	61.2%	100.0%	4.4%
17 Kitui	62.6%	6.8%	30.6%	100.0%	4.3%
18 Marsabit	45.3%	14.7%	40.0%	100.0%	4.3%
19 Migori	5.6%	44.5%	49.8%	100.0%	4.3%
20 Mandera	42.1%	12.9%	45.0%	100.0%	4.1%
21 Narok	0.0%	30.8%	69.2%	100.0%	3.8%
22 Taita/Taveta	13.0%	16.7%	70.3%	100.0%	3.8%
23 Elgeyo/Marakwet	21.7%	33.3%	45.0%	100.0%	3.8%
24 Kisumu	4.1%	32.8%	63.1%	100.0%	3.8%
25 West Pokot	26.9%	28.2%	44.8%	100.0%	3.7%
26 Tharaka Nithi	19.5%	30.4%	50.1%	100.0%	3.7%
27 Kisii	3.2%	43.2%	53.6%	100.0%	3.7%
28 Lamu	54.1%	14.9%	31.0%	100.0%	3.6%
29 Kilifi	40.5%	11.5%	48.0%	100.0%	3.6%
30 Uasin Gishu	26.2%	24.2%	49.6%	100.0%	3.5%
31 Machakos	14.0%	5.3%	80.7%	100.0%	3.4%
32 Garissa	6.3%	10.1%	83.6%	100.0%	3.4%
33 Makueni	33.7%	24.1%	42.2%	100.0%	3.3%
34 Kajiado	0.0%	39.7%	60.3%	100.0%	3.2%
35 Busia	43.6%	4.6%	51.8%	100.0%	3.2%
36 Isiolo	33.8%	3.5%	62.7%	100.0%	3.2%
37 Laikipia	0.0%	37.6%	62.4%	100.0%	3.0%
38 Nairobi	0.0%	8.3%	91.7%	100.0%	2.9%
39 Nandi	3.7%	23.3%	73.0%	100.0%	2.8%
40 Kakamega	13.7%	35.5%	50.7%	100.0%	2.5%
41 Wajir	16.2%	38.0%	45.7%	100.0%	2.4%
42 Baringo	4.3%	24.0%	71.7%	100.0%	2.1%
43 Homa Bay	0.0%	2.2%	97.8%	100.0%	1.9%
44 Siaya	20.9%	30.2%	48.9%	100.0%	1.9%
45 Kericho	0.0%	34.5%	65.5%	100.0%	1.6%
46 Tana River	0.4%	62.7%	36.9%	100.0%	1.6%
47 Nakuru	0.0%	8.8%	91.2%	100.0%	0.9%
Max	64.6%	62.7%	97.8%	–	14.5%
Mean	17.7%	26.3%	56.0%	100.0%	4.3%
Min	0.0%	2.2%	19.2%	–	0.9%

Note:

As discussed above, the first three columns show for each county, as averages for Q2, Q3, and Q4 over the six-year period, the absolute values of the budget changes from the previous quarter as a percentage of the total value of all quarterly changes across all years. Accordingly, by necessity the quarterly percentages sum to 100 percent for each county across the six financial years (as they do for each year individually). The fifth column shows, over the period, the average percentage change from the prior quarter's budget across all quarters.

Table 4.5: Timing of Development Revisions as Measured by Quarterly Changes in Budget (2014/15 - 2019/20)

County	Proportions of Budget Revisions (absolute revisions)				Mean Absolute Quarterly % Changes
	Q2	Q3	Q4	Total	
1 Nyandarua	10.3%	36.9%	52.8%	**100.0%**	23.7%
2 Lamu	52.1%	13.5%	34.4%	**100.0%**	19.2%
3 Kisumu	9.4%	42.1%	48.5%	**100.0%**	17.7%
4 Busia	40.2%	28.8%	30.9%	**100.0%**	16.7%
5 Siaya	25.4%	34.4%	40.3%	**100.0%**	16.6%
6 Kirinyaga	13.2%	39.0%	47.9%	**100.0%**	16.6%
7 Vihiga	56.1%	19.8%	24.2%	**100.0%**	13.9%
8 Kitui	17.8%	42.0%	40.2%	**100.0%**	13.8%
9 Laikipia	2.8%	41.3%	55.8%	**100.0%**	12.9%
10 Elgeyo/Marakwet	7.9%	43.7%	48.4%	**100.0%**	12.8%
11 Makueni	53.3%	7.0%	39.7%	**100.0%**	12.6%
12 Uasin Gishu	54.1%	20.8%	25.1%	**100.0%**	12.3%
13 Nyeri	73.1%	17.7%	9.2%	**100.0%**	10.8%
14 Samburu	37.1%	14.2%	48.7%	**100.0%**	10.6%
15 Nyamira	46.2%	21.1%	32.7%	**100.0%**	10.3%
16 Kwale	46.9%	2.9%	50.2%	**100.0%**	10.2%
17 Bungoma	20.3%	35.6%	44.1%	**100.0%**	10.1%
18 Narok	2.2%	26.8%	70.9%	**100.0%**	10.0%
19 Kiambu	31.5%	27.3%	41.2%	**100.0%**	10.0%
20 Mombasa	17.4%	38.1%	44.5%	**100.0%**	10.0%
21 Meru	35.0%	15.9%	49.1%	**100.0%**	9.8%
22 Kajiado	0.7%	46.6%	52.7%	**100.0%**	9.5%
23 Embu	5.2%	34.5%	60.3%	**100.0%**	9.2%
24 Isiolo	25.4%	18.1%	56.5%	**100.0%**	9.0%
25 Marsabit	73.5%	6.1%	20.4%	**100.0%**	8.2%
26 West Pokot	56.1%	18.4%	25.5%	**100.0%**	8.1%
27 Kericho	0.0%	38.5%	61.5%	**100.0%**	8.0%
28 Nairobi	0.0%	0.6%	99.4%	**100.0%**	7.8%
29 Tana River	0.6%	42.6%	56.8%	**100.0%**	7.5%
30 Migori	22.3%	28.2%	49.5%	**100.0%**	6.7%
31 Wajir	2.4%	53.7%	43.9%	**100.0%**	6.0%
32 Tharaka Nithi	65.3%	11.3%	23.4%	**100.0%**	5.7%
33 Murang'a	14.8%	39.7%	45.5%	**100.0%**	5.0%
34 Turkana	5.7%	25.2%	69.1%	**100.0%**	4.6%
35 Taita/Taveta	17.7%	19.4%	62.9%	**100.0%**	4.5%
36 Kilifi	24.8%	17.3%	57.9%	**100.0%**	4.4%
37 Bomet	7.9%	42.0%	50.0%	**100.0%**	4.3%
38 Trans Nzoia	0.0%	40.4%	59.6%	**100.0%**	4.3%
39 Homa Bay	0.0%	0.2%	99.8%	**100.0%**	4.2%
40 Kisii	32.1%	26.9%	41.1%	**100.0%**	4.1%
41 Machakos	33.6%	12.9%	53.5%	**100.0%**	3.6%
42 Kakamega	13.0%	35.1%	51.9%	**100.0%**	3.1%
43 Mandera	24.6%	22.5%	52.9%	**100.0%**	2.9%
44 Baringo	3.8%	17.3%	78.8%	**100.0%**	2.9%
45 Garissa	22.3%	30.8%	46.9%	**100.0%**	2.1%
46 Nandi	41.4%	15.1%	43.5%	**100.0%**	2.0%
47 Nakuru	0.0%	20.2%	79.8%	**100.0%**	1.0%
Max	73.5%	53.7%	99.8%	–	23.7%
Mean	24.4%	26.2%	49.4%	**100.0%**	8.8%
Min	0.0%	0.2%	9.2%	–	1.0%

Note:

As discussed above, the first three columns show for each county, as averages for Q2, Q3, and Q4 over the six-year period, the absolute values of the budget changes from the previous quarter as a percentage of the total value of all quarterly changes across all years. Accordingly, by necessity the quarterly percentages sum to 100 percent for each county across the six financial years (as they do for each year individually). The fifth column shows, over the period, the average percentage change from the prior quarter's budget across all quarters.

4.3 Exchequer Issues versus Expenditure

Figure 4.1 captures a summary of average proportions in annual county budgets split by recurrent and development components and how this compares to exchequer issues and eventually to actual expenditure..

Figure 4.1: Proportions in the Annual Budget, Exchequer and Expenditure Across Counties
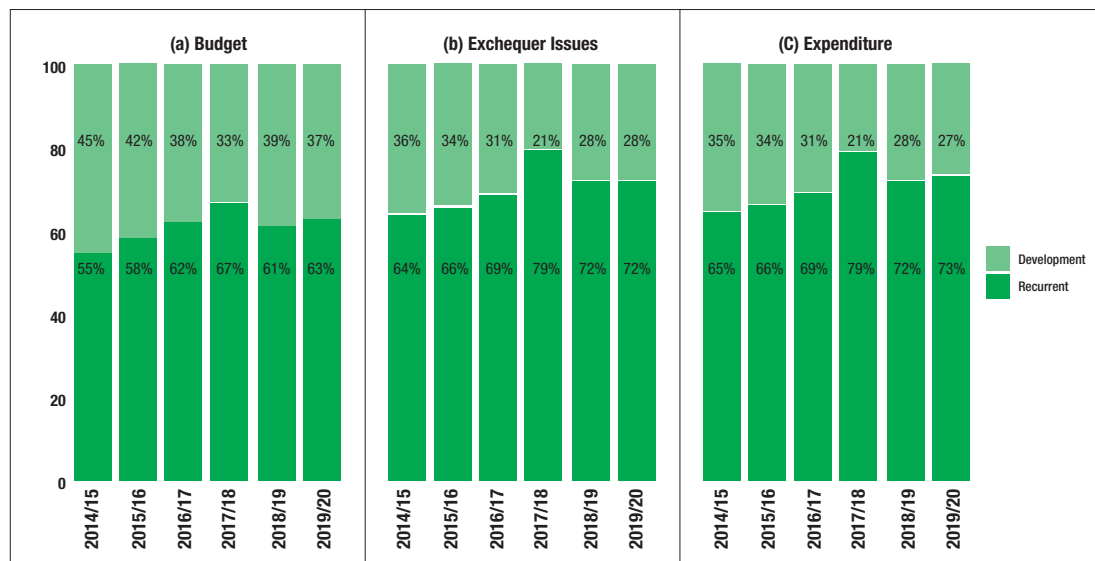
Source: Office of the Controller of Budget

It is evident from panel (a) that at this point when counties present their budgets, they have met the fiscal rule requirement of ensuring that at least 30% is set aside for development programs and projects. The development component of the budget has however been on downward trend, from 45% in 2014/15 to 37% in 2019/20. When compared with exchequer issues in panel (b) and with actual expenditure in panel (c) proportion of development expenditure reduces across the six financial years. This implies that while the budgets are generally planned in adherence to the PFM rules, performance deteriorates especially during implementation, first starting with the disbursement of funds and then actual spending. Notably county budget performance has been deteriorating across the years. Detailed information and analysis is provided in the following sections.

4.3.1 Exchequer Issues

Beyond the preparation of formal approved budgets for both recurrent and development programs at the county level, the next stage in executing these programs is receiving the authority from the National Government to spend funds for their implementation. Under Kenya's budgetary system, an intermediate process, between budget approval and budget expenditure is the National Government providing the authority to spend which takes the form of activating and funding accounts for each county at the CBK, a process called an exchequer issue (see Section 2.4). Without an exchequer issue, a county cannot implement its own budget. All resources available to the county whether from its allocated share of national revenue under and DORA and CARA or from its OSR should, under the law, first be authorized to be spent by being activated and deposited in the county's revenue account at the CBK.

Figure 4.2: Quarterly Exchequer Issues to County Government, Total, Recurrent, and Development Budgets (2014/15 - 2019/20)
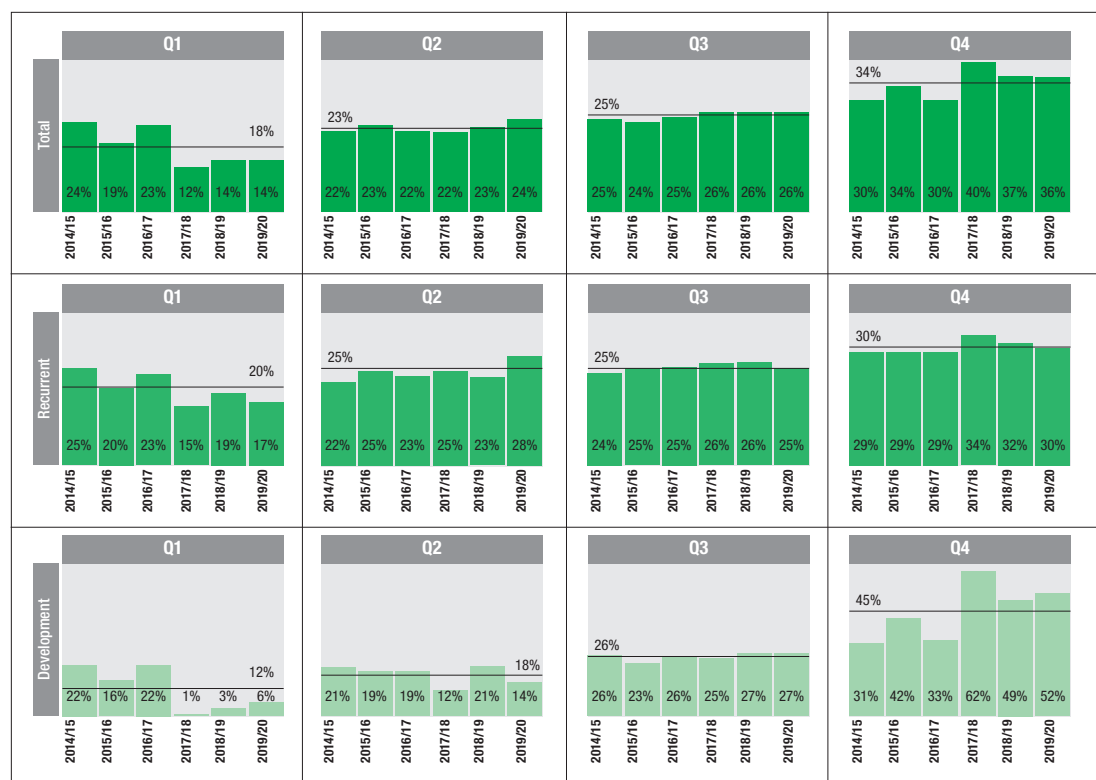
Source: Office of the Controller of Budget

1) The figure above shows the share per each quarter out of the total approved issues

Figure 4.2 displays, the quarterly pattern of exchequer issues to the 47 counties in the aggregate in three panels – the value of total issues by quarter, issues for the recurrent budget, and issues for the development budget. Note that, based on the standard discussed earlier, exchequer issues should be made uniformly throughout the year, or 25 percent each quarter, to permit uniform spending. Total exchequer issues clearly deviate from this pattern with 34 percent of the total value of issues occurring, on average, in the fourth quarter of the year. But this pattern is largely due to the extreme skewing of exchequer issues for development programs to the fourth quarter when, on average, almost one-half of the total volume of issues for the year (45 percent) are made. Some years, such as in 2017/18 and 2019/20, 62 and 52 percent, respectively, of the development budget were received in the last quarter. This pattern has a number of consequences. Construction and development projects cannot proceed effectively if activities must be slowed down in the first half of each financial year and then resumed in the second half, and especially in the last three months. This is quite aside from the difficulties in paying staff at all levels under the recurrent budget when funds are not uniformly available,

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

59

Table 4.6: Summary Table on Delays in the Exchequer Issues Across all Counties (2014/15 - 2019/20)

County	Frequency of delays (max = 282)				Average quarterly disbursement			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Recurrent	224(39%)	168(29%)	132(23%)	53(9%)	19.9%	24.5%	25.3%	30.3%
Development	199(36%)	210(38%)	123(22%)	28(5%)	11.7%	17.7%	25.7%	44.9%

Source: Office of the Controller of Budget

Note:

This table is a summary of the delays in the exchequer issues for all 47 counties for the six years beginning 2014/15 for a possible 282 opportunities (47X 6) for each quarter

•1) Percentage for frequency is calculated out of 282

•2) The average quarterly disbursement is each quarter's share of total annual disbursements, shown as a percentage, for the 47counties across all six financial years.

Table 4.6 further illustrates these findings. In this table, delays in exchequer issues are calculated as any quarter in which issues are less than 25 percent of total issues for that quarter in a given year based on the less-than-25 percent criterion. The maximum number of delays that can occur in any quarter of the financial year over the period six year period is 282 for each budget category, recurrent or development. The left side of the table is a simple count of the number of delays so calculated and the associated percentage of the maximum number of 282 for each quarter. The right side is the average value of quarterly issue across all counties and years as a percentage of the total exchequer issues for all years for the two budget categories.

Note that in the first half of the year, delays in exchequer issues are the norm rather than the deviation from it. Logically, the number of quarters when issues are delayed has to decline in the second half of the financial year and especially in Q4 as ultimately 100 percent of issues within a year are accounted for. Table 4.7 and Table 4.8 provide the details behind the Table 4.6 for the recurrent and development exchequer issues respectively.

The right side of the table displays the average percentage of the year's disbursement in each quarter of the year across the six years, again for recurrent and development purposes. In each case, the percentages sum to 100. Given that issues in the first two quarters of the financial year account for less than 50 percent of the year's total, the value of issues in Q3 and especially Q4 must be higher shares of the total. Indeed, for development, almost 45 percent of the year's exchequer issues, on average, are made in the fourth quarter, again indicating the delays that counties encounter in attempting to implement their development budgets. Counties are arrayed according to their average percentage of issues in Q4.

Table 4.7: Delays in the Exchequer Issue Across Counties, Recurrent (2014/15 - 2019/20)

County	Frequency of delays (max = 6)				Average quarterly disbursement			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1 Kajiado	6	3	4	0	17.9%	22.9%	23.1%	36.1%
2 Mombasa	6	5	6	0	19.4%	21.9%	23.0%	35.7%
3 Isiolo	6	4	5	0	17.6%	24.6%	22.4%	35.4%
4 Tana River	3	4	2	1	12.7%	27.3%	26.0%	34.0%
5 Wajir	4	4	2	0	16.2%	24.3%	25.6%	33.9%
6 Samburu	5	5	3	0	20.6%	21.5%	24.0%	33.8%
7 Migori	6	2	2	0	18.5%	24.4%	24.0%	33.2%
8 Nyandarua	4	5	4	1	19.8%	23.3%	24.0%	33.0%
9 Kilifi	5	4	2	0	17.2%	22.8%	27.3%	32.7%
10 Nakuru	6	3	4	1	19.3%	26.2%	22.1%	32.5%
11 Turkana	5	5	3	3	22.0%	20.7%	25.5%	31.8%
12 Kericho	5	2	4	1	19.5%	26.3%	22.6%	31.5%
13 Kirinyaga	5	4	4	0	21.8%	23.1%	23.8%	31.4%
14 Garissa	6	2	4	1	15.5%	28.3%	25.1%	31.1%
15 Nairobi	5	2	4	0	19.7%	25.7%	23.9%	30.8%
16 Siaya	5	3	3	2	18.5%	23.9%	26.8%	30.8%
17 Kisumu	4	5	2	1	17.6%	24.3%	27.4%	30.7%
18 Meru	3	4	4	2	22.0%	23.7%	23.8%	30.5%
19 Nyeri	5	4	2	1	17.7%	25.5%	26.3%	30.5%
20 Trans Nzoia	5	3	1	1	20.2%	22.1%	27.4%	30.3%
21 Taita/Taveta	5	4	1	1	18.1%	24.7%	26.9%	30.3%
22 West Pokot	6	4	0	0	16.0%	23.1%	30.6%	30.2%
23 Bomet	4	2	4	2	21.2%	26.2%	22.3%	30.2%
24 Kitui	4	5	3	1	21.6%	22.6%	25.6%	30.2%
25 Marsabit	5	3	4	1	18.5%	28.0%	23.4%	30.1%
26 Nyamira	6	3	3	1	19.5%	24.9%	25.7%	29.9%
27 Vihiga	5	3	5	1	22.4%	25.6%	22.4%	29.6%
28 Kwale	3	2	5	3	24.2%	25.3%	21.2%	29.4%
29 Lamu	4	6	1	1	22.7%	20.1%	27.8%	29.3%
30 Kisii	4	2	3	2	21.9%	25.4%	23.4%	29.3%
31 Tharaka Nithi	4	5	2	1	21.7%	23.1%	26.0%	29.3%
32 Baringo	5	2	4	0	20.2%	26.2%	24.4%	29.2%
33 Bungoma	6	4	3	1	19.0%	25.3%	26.5%	29.2%
34 Nandi	4	5	4	1	23.6%	22.4%	24.9%	29.2%
35 Machakos	4	4	3	1	23.2%	22.3%	25.7%	28.7%
36 Embu	5	6	2	1	20.7%	22.0%	28.8%	28.4%
37 Narok	5	2	5	1	21.2%	29.5%	21.0%	28.3%
38 Murang'a	5	3	2	1	20.8%	26.3%	24.8%	28.1%
39 Mandera	3	4	3	2	20.2%	25.2%	26.7%	27.9%
40 Uasin Gishu	5	3	1	0	19.4%	25.0%	27.7%	27.9%
41 Busia	5	4	2	2	19.8%	25.1%	27.2%	27.8%
42 Kiambu	5	2	1	1	20.9%	25.3%	26.1%	27.6%
43 Makueni	4	4	1	2	22.0%	23.1%	27.6%	27.3%
44 Kakamega	4	4	1	2	21.6%	24.4%	27.0%	27.0%
45 Laikipia	5	4	2	2	21.0%	21.6%	30.3%	27.0%
46 Homa Bay	5	3	1	3	18.5%	27.0%	27.7%	26.8%
47 Elgeyo/Marakwet	5	2	1	4	21.3%	24.8%	31.1%	22.8%
Total	**224**	**168**	**132**	**53**	**19.9%**	**24.5%**	**25.3%**	**30.3%**

Source: Office of the Controller of Budget

Table 4.8: Delays in the Exchequer Issue Across Counties, Development (2014/15 - 2019/20)

County	Frequency of delays (max = 6)				Average quarterly disbursement			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1 Nyandarua	5	5	4	0	5.2%	11.8%	12.0%	71.0%
2 Isiolo	6	5	3	0	2.9%	14.1%	22.2%	60.9%
3 Wajir	4	4	2	0	8.3%	9.1%	24.7%	57.9%
4 Lamu	3	6	5	0	20.2%	8.7%	15.9%	57.8%
5 Meru	4	5	1	0	8.0%	8.5%	26.4%	57.1%
6 Siaya	4	5	4	0	4.8%	20.9%	17.5%	56.9%
7 Embu	4	5	2	0	5.7%	13.6%	25.0%	55.7%
8 Kisumu	3	5	3	0	14.2%	9.3%	22.0%	54.6%
9 Samburu	4	4	4	0	7.4%	22.4%	19.8%	53.7%
10 Nairobi	2	3	1	0	2.9%	9.6%	34.2%	53.3%
11 Nyeri	4	5	1	1	3.1%	14.0%	30.4%	52.5%
12 Uasin Gishu	4	6	2	0	10.3%	12.8%	26.3%	50.6%
13 Kirinyaga	2	5	1	0	10.8%	16.7%	23.0%	49.5%
14 Kiambu	6	6	4	0	9.1%	18.5%	23.0%	49.3%
15 Garissa	3	4	0	1	9.6%	11.1%	30.5%	48.8%
16 Baringo	6	4	3	0	8.0%	21.4%	21.7%	48.8%
17 West Pokot	5	5	2	0	9.5%	13.9%	28.3%	48.2%
18 Taita/Taveta	5	4	2	1	8.2%	17.4%	26.2%	48.2%
19 Elgeyo/Marakwet	5	4	4	1	9.6%	18.8%	23.6%	47.9%
20 Marsabit	4	6	4	0	12.9%	16.5%	23.5%	47.1%
21 Nakuru	3	3	4	0	14.0%	21.0%	17.9%	47.1%
22 Homa Bay	5	4	2	0	8.0%	17.5%	27.6%	46.9%
23 Kilifi	5	4	3	0	10.6%	17.7%	26.0%	45.7%
24 Laikipia	5	5	2	0	8.0%	21.4%	25.0%	45.6%
25 Kitui	6	4	4	0	11.3%	18.7%	24.7%	45.4%
26 Migori	6	4	5	0	10.8%	24.5%	19.8%	44.9%
27 Vihiga	4	4	2	2	8.1%	13.4%	34.0%	44.5%
28 Tharaka Nithi	4	3	1	0	4.9%	20.4%	30.2%	44.5%
29 Machakos	4	4	2	0	10.4%	13.2%	32.0%	44.4%
30 Mombasa	5	6	2	0	7.6%	15.3%	33.0%	44.1%
31 Nyamira	4	4	2	1	12.3%	16.6%	27.6%	43.5%
32 Bomet	5	4	3	1	11.3%	20.2%	25.2%	43.3%
33 Kajiado	4	5	4	0	7.2%	26.7%	23.0%	43.1%
34 Kericho	6	5	2	1	11.4%	18.4%	27.3%	42.9%
35 Trans Nzoia	4	6	3	1	8.0%	22.2%	27.2%	42.6%
36 Kakamega	5	3	3	1	12.1%	25.4%	22.3%	40.2%
37 Bungoma	6	5	2	1	10.6%	18.5%	30.9%	40.0%
38 Kisii	4	4	3	1	11.0%	22.7%	26.7%	39.6%
39 Busia	6	6	1	1	9.5%	16.8%	34.6%	39.1%
40 Tana River	3	6	1	1	13.0%	17.8%	30.3%	38.9%
41 Mandera	2	6	4	2	11.8%	21.2%	28.4%	38.5%
42 Nandi	3	2	1	2	12.5%	22.4%	27.7%	37.4%
43 Narok	4	2	5	2	18.4%	26.6%	18.1%	36.8%
44 Makueni	3	6	3	2	22.7%	14.7%	25.9%	36.7%
45 Kwale	3	2	4	1	15.6%	28.2%	20.1%	36.1%
46 Turkana	2	4	1	3	13.3%	17.4%	41.9%	35.1%
47 Murang'a	5	3	2	1	18.1%	24.9%	27.6%	29.3%
Total	**199**	**210**	**123**	**28**	**11.7%**	**17.7%**	**25.7%**	**44.9%**

Source: Office of the Controller of Budget

Table 4.7 shows the county-by-county details behind the summary values in Table 4.6 for the recurrent budget over the six financial years 2014/15 through 2019/20 and Table 4.8 displays the same information for the development budget. As mentioned, the counties' development budgets are most affected by delays in exchequer issues. The counties in both tables are arrayed according to the largest share of exchequer issues in the fourth quarter.

The left side of each table shows the frequency of delays in exchequer issues for each county, that is, the number of times issues in each quarter amount to less than 25 percent of the annual total. The maximum number of such delays for each quarter is six for the six financial years considered. The percentage figures on the right side of the table show the average share of annual issues in each quarter. The numbers and percentages in the total row at the bottom of each table match those in Table 4.6 for each of the recurrent and development categories.

In view of the substantially greater impact of delays on development programs, the discussion here focuses on Table 4.8. Note that more than one-half of the counties, from #1 Nyandarua to #25 Kitui receive at least 45 percent of their total annual exchequer issues for the development budget in the fourth quarter, and another 12 counties through #37 Bungoma receive at least 40 percent on average. Only 11 of the 47 counties benefited from a pattern of quarterly exchequer issues that was not rising, on average, throughout the six financial years. Thus, for over three-quarters of the counties, spending on development programs has been pushed continuously toward the end of the financial year. This is indeed a stark indicator of how constrained counties are in implementing their development budgets in light of the delays in receiving exchequer issues.

4.4 Expenditure Patterns

4.4.1. Recurrent and Development Expenditure

The final stage in the budgeting process is the execution of the budget in the form of the actual expenditure of funds for approved budgetary purposes for both recurrent and development programs. Table 4.9 displays the quarterly pattern of spending for each of the six financial years under review for recurrent and development purposes.

Table 4.9 : Proportion of Expenditure Across Quarters (2014/15 - 2019/20)

Year Ended	Recurrent				Development			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
2019/20	18.1	24.5	27.0	30.5	10.2	11.3	26.4	52.1
2018/19	18.4	23.1	27.2	31.3	12.1	11.2	19.5	57.2
2017/18	16.5	22.5	27.3	33.6	12.5	6.7	16.9	61.6
2016/17	20.0	22.9	24.5	32.6	11.9	21.9	26.6	39.6
2015/16	17.1	24.2	25.7	33.0	11.4	18.8	22.1	47.8
2014/15	18.9	24.6	25.7	30.8	14.4	18.6	24.5	42.5

Source: Office of the Controller of Budget

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

63

Two points stand out. First, each account displays a high degree of consistency in its quarterly pattern of spending over time. But second, as noted above, the two quarterly patterns for recurrent and development budgets differ markedly. For recurrent spending, 16 to 20 percent of the total year's spending occurs in Q1, 22 to 24 percent in Q2, 25-27 percent in Q3, and 30-33 percent in Q4 – a generally even pattern over the year with a slight backloading.

For development spending, the pattern is significantly different. Spending in Q1 is 10 to 14 percent of the annual total, rising somewhat in Q2, and even more in Q3, but still requiring 40 to 50 percent or more of annual spending to be made in Q4. Of course, new development projects are likely to take time to get started, so this pattern may have some logic to it, but many, perhaps most, development projects are longer-term construction efforts that extend over more than one year in which case slow-downs and speed-ups in spending can give rise to considerable inefficiencies in completing the work.

To examine in detail differences across counties in spending patterns, Table 4.9, 4.10, and 4.11, display, the average percentage of spending of each of the 47 counties by quarter for total spending, recurrent spending, and development spending, respectively, across the six financial years arrayed by counties with the highest average spending in Q4. The following patterns emerge.

Table 4.10: Percentage Distribution of Total Expenditure by Quarter, 2014/15 - 2019/20

County	Q1	Q2	Q3	Q4	Total
1 Nyandarua	12.09	18.41	21.66	47.85	100
2 Kilifi	11.56	21.41	24.06	42.96	100
3 Kwale	13.05	20.50	25.17	41.28	100
4 Siaya	13.38	20.94	24.46	41.22	100
5 Isiolo	10.26	17.67	31.13	40.94	100
6 Wajir	10.78	20.34	27.97	40.92	100
7 Kitui	14.54	20.96	23.95	40.56	100
8 Marsabit	10.28	19.66	29.58	40.48	100
9 Kirinyaga	15.93	21.37	22.46	40.24	100
10 Turkana	12.72	24.33	23.04	39.91	100
11 Samburu	16.29	20.20	23.91	39.61	100
12 Uasin Gishu	11.07	20.17	29.23	39.53	100
13 Busia	14.01	22.58	24.28	39.12	100
14 Kiambu	16.60	22.94	21.52	38.94	100
15 Mandera	11.92	25.24	24.04	38.81	100
16 West Pokot	13.46	21.34	26.58	38.62	100
17 Mombasa	11.43	24.88	25.07	38.62	100
18 Nyeri	12.40	21.68	27.39	38.53	100
19 Lamu	11.53	18.86	31.63	37.98	100
20 Kericho	13.86	25.22	22.99	37.93	100
21 Nakuru	16.24	24.72	21.31	37.73	100
22 Tharaka Nithi	14.45	23.76	24.32	37.47	100
23 Bomet	17.77	23.74	21.05	37.44	100
24 Garissa	13.17	24.48	24.93	37.42	100
25 Kajiado	9.87	26.43	26.37	37.33	100
26 Meru	15.56	20.18	27.11	37.15	100
27 Baringo	13.61	26.59	22.87	36.93	100
28 Elgeyo/Marakwet	14.63	23.61	25.22	36.55	100
29 Laikipia	14.29	23.45	25.78	36.48	100
30 Embu	15.04	17.63	31.10	36.23	100
31 Migori	14.32	26.50	23.14	36.04	100
32 Kisii	14.77	27.87	21.34	36.03	100
33 Trans Nzoia	14.31	22.54	27.12	36.03	100
34 Nyamira	15.06	21.51	27.50	35.93	100
35 Makueni	14.52	25.04	24.55	35.88	100
36 Bungoma	13.91	24.86	25.93	35.30	100
37 Machakos	18.70	23.68	22.38	35.24	100
38 Kakamega	16.14	24.54	24.50	34.82	100
39 Taita/Taveta	14.68	23.48	27.62	34.22	100
40 Narok	17.98	28.35	20.34	33.33	100
41 Kisumu	11.92	21.88	33.05	33.15	100
42 Nandi	18.00	23.44	25.75	32.80	100
43 Nairobi	17.85	24.90	24.81	32.43	100
44 Homa Bay	17.61	27.41	24.69	30.28	100
45 Tana River	14.49	24.60	30.94	29.97	100
46 Vihiga	12.42	22.07	35.92	29.60	100
47 Murang'a	19.55	25.41	27.08	27.96	100
Total	**14.52**	**23.30**	**25.16**	**37.02**	**100**

Source: Office of the Controller of Budget

Table 4.11: Percentage Distribution of Recurrent Expenditure by Quarter, 2014/15 - 2019/20

County	Q1	Q2	Q3	Q4	Total
1 Kirinyaga	12.86	23.78	18.78	44.59	100
2 Garissa	8.04	26.56	20.98	44.42	100
3 Kwale	13.81	19.90	27.13	39.16	100
4 Kisumu	8.15	25.07	28.29	38.50	100
5 Kilifi	13.09	23.64	25.16	38.11	100
6 Kiambu	18.91	23.40	22.00	35.69	100
7 Nyandarua	8.74	24.75	31.13	35.38	100
8 Kitui	17.26	22.58	24.86	35.30	100
9 Turkana	9.74	32.21	22.93	35.12	100
10 Samburu	8.55	23.97	32.38	35.10	100
11 Isiolo	5.58	24.08	35.55	34.78	100
12 Wajir	8.05	23.52	33.77	34.66	100
13 Mombasa	10.38	30.53	24.52	34.57	100
14 Kericho	10.89	31.43	23.13	34.55	100
15 Siaya	6.29	28.34	30.83	34.54	100
16 Nakuru	16.61	19.96	28.98	34.44	100
17 Nyamira	14.97	24.60	26.29	34.15	100
18 Bomet	14.07	31.30	20.58	34.05	100
19 Uasin Gishu	8.15	27.45	30.46	33.93	100
20 Taita/Taveta	10.51	25.67	29.91	33.91	100
21 Kajiado	4.33	34.10	28.47	33.11	100
22 Busia	12.99	30.36	24.15	32.51	100
23 West Pokot	11.73	20.58	35.23	32.46	100
24 Kisii	12.42	33.38	21.76	32.44	100
25 Baringo	8.93	35.40	23.39	32.28	100
26 Bungoma	15.02	27.97	24.95	32.05	100
27 Mandera	10.08	33.76	24.14	32.02	100
28 Nyeri	6.18	28.50	33.60	31.71	100
29 Laikipia	15.45	26.09	27.29	31.18	100
30 Lamu	6.68	23.91	38.66	30.75	100
31 Makueni	12.67	31.24	25.35	30.74	100
32 Meru	9.31	26.27	34.09	30.33	100
33 Marsabit	11.24	25.34	33.10	30.32	100
34 Nairobi	19.37	25.12	25.21	30.30	100
35 Narok	18.08	29.51	22.13	30.29	100
36 Elgeyo/Marakwet	16.20	26.22	27.60	29.98	100
37 Migori	11.72	32.28	26.09	29.91	100
38 Machakos	18.16	29.89	22.75	29.21	100
39 Tharaka Nithi	10.14	26.28	34.38	29.20	100
40 Tana River	13.64	33.42	23.93	29.01	100
41 Kakamega	19.44	28.04	24.01	28.50	100
42 Embu	13.22	18.44	39.99	28.35	100
43 Vihiga	13.43	17.15	41.54	27.88	100
44 Trans Nzoia	7.11	36.48	28.64	27.76	100
45 Nandi	15.54	23.26	33.45	27.75	100
46 Murang'a	20.90	26.14	25.81	27.14	100
47 Homa Bay	11.66	38.95	25.28	24.10	100
Total	**17.51**	**24.66**	**25.77**	**32.06**	**100**

Source: Office of the Controller of Budget

Table 4.12 : Percentage Distribution of Development Expenditure by Quarter, 2014/15 - 2019/20

County	Q1	Q2	Q3	Q4	Total
1 Nyandarua	2.18	5.95	13.18	78.70	100
2 Meru	5.40	9.82	21.37	63.41	100
3 Kirinyaga	4.48	13.50	19.64	62.37	100
4 Nyeri	0.02	10.16	28.62	61.21	100
5 Embu	1.37	13.33	24.19	61.11	100
6 Lamu	4.22	9.48	27.59	58.71	100
7 Siaya	3.79	13.66	24.57	57.98	100
8 Tharaka Nithi	1.03	24.86	17.75	56.36	100
9 West Pokot	7.14	17.92	19.33	55.61	100
10 Kisumu	5.25	12.73	27.09	54.93	100
11 Elgeyo/Marakwet	1.78	25.08	18.73	54.40	100
12 Isiolo	0.21	14.44	31.18	54.17	100
13 Busia	5.64	16.22	24.40	53.74	100
14 Marsabit	5.25	16.10	24.92	53.74	100
15 Wajir	7.20	13.38	25.87	53.55	100
16 Garissa	6.71	16.98	22.83	53.49	100
17 Trans Nzoia	7.23	15.75	23.98	53.05	100
18 Machakos	9.53	15.77	21.73	52.97	100
19 Uasin Gishu	0.61	22.13	24.37	52.89	100
20 Baringo	4.98	21.84	21.82	51.35	100
21 Nakuru	8.14	24.42	16.58	50.86	100
22 Samburu	6.37	24.63	18.41	50.59	100
23 Kilifi	5.61	21.98	22.12	50.29	100
24 Bomet	11.15	18.12	20.50	50.23	100
25 Laikipia	4.76	22.86	22.15	50.22	100
26 Kitui	9.51	17.84	22.77	49.88	100
27 Kajiado	0.45	29.30	20.73	49.52	100
28 Migori	8.23	25.48	16.93	49.35	100
29 Kericho	8.08	20.85	21.84	49.23	100
30 Mombasa	4.65	19.78	26.71	48.86	100
31 Makueni	6.01	23.74	21.57	48.67	100
32 Turkana	9.77	17.11	25.20	47.92	100
33 Homa Bay	8.21	22.87	22.08	46.84	100
34 Nairobi	7.09	22.86	23.26	46.79	100
35 Mandera	9.03	20.39	24.06	46.52	100
36 Kiambu	10.78	22.89	20.06	46.27	100
37 Nandi	8.22	21.07	24.80	45.91	100
38 Kisii	6.34	27.18	20.58	45.90	100
39 Nyamira	4.85	17.91	32.31	44.92	100
40 Bungoma	4.58	21.56	28.97	44.89	100
41 Kwale	7.60	25.67	21.99	44.74	100
42 Kakamega	7.01	24.17	24.89	43.93	100
43 Narok	16.98	25.06	16.25	41.71	100
44 Vihiga	4.45	20.72	33.88	40.95	100
45 Taita/Taveta	4.26	14.97	40.74	40.03	100
46 Tana River	13.30	16.12	38.70	31.89	100
47 Murang'a	17.34	24.22	29.50	28.94	100
Total	**7.16**	**19.75**	**23.54**	**49.56**	**100**

Source: Office of the Controller of Budget

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

67

First, for total spending shown in Table 4.10, there is the now familiar pattern of relatively low spending in the early quarters and rising as the year goes on. There is no county that has a rate as low as 25 percent in the fourth quarter or as high as 20 percent in the first quarter. Murang'a at the very bottom of the table has the most even distribution of spending over the year, ranging from 19.55 in Q1 to 27.96 in Q4. Nyandarua at the very top has the most delayed expenditure pattern with almost one-half of total spending occurring in the fourth quarter. To anticipate the results of Table 4.11, in the case of Nyandarua, this result is attributable to the concentration of development spending in Q4. Again, the contrast between recurrent spending (Table 4.11) and development spending (Table 4.12) is stark. In Table 4.11, as the averages for each quarter show, even for recurrent spending, the fourth quarter average share is 1.8 times the first quarter share. For certain counties, this calculation shows considerably higher multiples. For Garissa and Kirinyaga, the ratios are 5.5 and 3.5, respectively. It is difficult to manage personnel and operating programs with such delays in spending patterns. In practice, however county treasuries engage in re-prioritization (shifting) of funds to cater for most urgent budget needs, often related to recurrent expenditure at the expense of development expenditure.

Table 4.12 shows that development spending, as noted, is even more delayed with attendant interruptions in construction and infrastructure projects. The average ratio of spending in Q4 to that of Q1 is almost 7. For 25 of the 47 counties, 50 percent or more of total annual development spending occurred in the fourth quarter on average in this period. The counties range from Nyandarua as indicated above, with a high of 78.70 percent of annual spending in Q4 to a low of 28.94 percent for Murang'a, but even for that county development spending was 1.7 times that of Q1.

The patterns of budgeting, exchequer issues and spending are by now very familiar. The county budgeting process is characterized by continual budget revisions, delays in exchequer issues, and disruptive, uneven spending throughout the financial year, not a set of outcomes that contributes to sound budgeting practices and effective and efficient service delivery.

4.4.2 Absorption and Utilization Rates

Two critical measures in further analyzing county expenditure patterns are spending relative to initial county budgets known as absorption rates and spending relative to exchequer issues, known as utilization rates. Absorption rates indicate how much of the initially approved county budget was actually spent in each quarter. A high absorption rate implies a high degree of achievement of original budgetary objectives, at least as far as those objectives require, at a minimum, the application of sufficient financial resources. Utilization rates indicate how much of the funds in the form of exchequer issues allocated to the county in each quarter were spent, or utilized, in that quarter.

Tables 4.13 and 4.14 display information on absorption and utilization rates, respectively. To be clear, the data in these two tables represent two different concepts and also are not directly comparable in their presentation. The absorption rates compare quarterly spending to initial approved budgets at the start of the financial year across all six years for each county. Since budgets have been continually changed upwards over the year to accommodate delayed exchequer issues as noted earlier, absorption rates as a percentage of initial budgets will appear high relative to final approved budgets. In this format for Table 4.13, the overall percentages shown in the far-right columns for each spending category are the *sum* of the spending percentages in each quarter.

In contrast, Table 4.14 on utilization rates displays spending in each quarter relative to exchequer issues received in that same quarter, that is the extent to which funds received in the quarter were actually utilized in the quarter. In this format, the overall percentages for each county are the averages of the spending in each quarter. Both tables display data separately for recurrent and development purposes.

In Table 4.13 on absorption rates, the mean values at the end of the table are high for recurrent programs (90.6%), indicating the wages and salary component of initial budgets is largely realized on average by the counties. In contrast, mean spending by the end of the financial year for development programs as a share of the original budgets is only 60.6 percent. This is consistent with the earlier findings on development expenditure that initial budgets are far from realized in actual spending. The detail across counties, discussed below, modifies this overall conclusion to a degree, but, as a general rule, with respect to development programs, counties spend far less than they had originally planned, approved, and have had accepted by the OCoB.

Further, consistent with earlier analysis, the mean values at the foot of Table 4.13 for recurrent programs show the usual pattern of significantly less than 25 percent of budgeted expenditures being made in the Q1 across all counties and financial years, then rising, fairly smoothly, on average, throughout the financial year for a year-end mean value of slightly over 90 percent of the original budget as noted. For some counties, however, both first-quarter recurrent spending and year-end spending relative to initial budgets are low. The results are considerably different for absorption rates for development programs. Spending relative to the budget has been extremely low in Q1, with a mean value of only 4.2 percent across the 47 counties and six financial years. Further, the percentages do rise but to only 30.5 percent by Q4 and, as noted above, 60.6 percent for the financial year as a whole, on average. The highest average annual value by year's end is for Marang'a and is only 76.3 percent of the initial budgeted amounts.

Table 4.13 : Absorption Rates Across Counties (2014/15 - 2019/20)

	Recurrent						Development				
County	Q1	Q2	Q3	Q4	Overall	County	Q1	Q2	Q3	Q4	Overall
1 Garissa	13.8%	31.1%	25.9%	28.4%	99.3%	1 Murang'a	12.2%	19.0%	22.1%	23.0%	76.3%
2 Elgeyo/Marakwet	20.3%	22.6%	26.4%	28.6%	98.0%	2 Marsabit	1.4%	12.4%	18.8%	42.6%	75.1%
3 Taita/Taveta	19.6%	25.2%	26.2%	26.7%	97.8%	3 Bomet	9.7%	14.1%	10.7%	39.7%	74.2%
4 Wajir	12.8%	24.7%	26.3%	33.6%	97.3%	4 Narok	9.8%	14.8%	11.1%	38.4%	74.1%
5 Baringo	16.9%	27.8%	22.9%	29.6%	97.1%	5 Isiolo	0.0%	8.0%	25.6%	39.4%	73.0%
6 Turkana	13.3%	26.4%	22.2%	34.1%	95.9%	6 Mombasa	0.8%	12.9%	20.4%	38.5%	72.6%
7 West Pokot	16.1%	22.2%	28.2%	29.3%	95.8%	7 West Pokot	5.7%	14.7%	14.7%	37.3%	72.4%
8 Narok	18.3%	29.8%	19.9%	26.3%	94.2%	8 Kiambu	3.2%	15.9%	14.2%	39.0%	72.3%
9 Kericho	16.1%	26.2%	21.6%	30.0%	94.0%	9 Mandera	0.0%	15.0%	17.4%	39.7%	72.1%
10 Kirinyaga	21.5%	23.7%	17.1%	31.3%	93.6%	10 Kakamega	5.4%	16.5%	18.8%	30.5%	71.2%
11 Kisii	16.0%	28.1%	18.2%	30.9%	93.1%	11 Wajir	5.6%	10.0%	17.6%	33.8%	67.0%
12 Laikipia	16.7%	24.2%	25.2%	26.4%	92.5%	12 Kisii	4.8%	17.0%	13.8%	31.3%	67.0%
13 Murang'a	20.3%	24.2%	22.7%	25.0%	92.2%	13 Kitui	6.0%	13.1%	13.5%	32.1%	64.6%
14 Nyamira	17.5%	22.0%	24.3%	28.3%	92.1%	14 Garissa	0.0%	11.6%	15.0%	35.7%	62.3%
15 Marsabit	15.9%	21.8%	26.0%	27.7%	91.4%	15 Kilifi	2.0%	11.7%	14.5%	32.4%	60.6%
16 Isiolo	14.6%	17.8%	33.9%	24.9%	91.2%	16 Homa Bay	3.3%	14.1%	17.9%	24.5%	59.8%
17 Machakos	21.6%	26.6%	22.4%	20.3%	90.9%	17 Kericho	3.8%	15.1%	16.1%	23.9%	58.8%
18 Bomet	18.7%	26.2%	18.3%	27.6%	90.8%	18 Meru	0.3%	7.9%	15.6%	34.2%	58.0%
19 Kajiado	13.0%	23.0%	23.7%	30.9%	90.7%	19 Laikipia	1.8%	14.8%	8.8%	32.0%	57.3%
20 Makueni	18.4%	23.9%	23.3%	24.8%	90.4%	20 Nyandarua	0.6%	5.9%	3.1%	47.7%	57.3%
21 Kitui	14.6%	21.6%	22.4%	31.8%	90.4%	21 Tharaka Nithi	0.0%	13.5%	10.5%	33.2%	57.2%
22 Embu	19.4%	21.3%	26.3%	23.2%	90.2%	22 Kirinyaga	1.7%	8.0%	10.0%	37.4%	57.1%
23 Tharaka Nithi	18.9%	23.2%	23.0%	25.0%	90.2%	23 Migori	3.9%	14.5%	10.6%	27.5%	56.5%
24 Meru	19.8%	21.7%	23.7%	24.9%	90.1%	24 Trans Nzoia	0.0%	9.0%	12.7%	34.7%	56.4%
25 Lamu	13.3%	19.0%	26.0%	31.5%	89.9%	25 Busia	3.2%	9.7%	11.8%	31.1%	55.9%
26 Nandi	21.3%	21.8%	23.4%	23.0%	89.5%	26 Nandi	5.4%	13.6%	13.0%	22.4%	54.5%
27 Homa Bay	16.9%	26.8%	25.3%	20.5%	89.4%	27 Elgeyo/Marakwet	0.2%	15.8%	7.3%	30.4%	53.8%
28 Nairobi	18.2%	23.9%	23.7%	23.2%	88.9%	28 Embu	0.3%	7.3%	10.8%	35.1%	53.5%
29 Uasin Gishu	15.7%	18.0%	24.0%	31.0%	88.6%	29 Nyamira	1.6%	8.6%	14.7%	28.4%	53.3%
30 Busia	17.0%	23.4%	22.2%	25.7%	88.3%	30 Makueni	1.1%	14.7%	9.5%	27.9%	53.1%
31 Nyandarua	15.7%	22.1%	18.5%	31.3%	87.6%	31 Samburu	0.6%	13.2%	8.5%	30.4%	52.7%
32 Nakuru	15.8%	22.9%	19.7%	28.9%	87.4%	32 Nyeri	0.0%	4.6%	13.3%	34.6%	52.5%
33 Kakamega	19.0%	22.1%	20.6%	25.7%	87.4%	33 Kwale	3.4%	11.7%	10.7%	26.7%	52.5%
34 Migori	15.6%	24.1%	21.7%	25.9%	87.3%	34 Kisumu	1.1%	5.1%	20.9%	24.9%	51.9%
35 Samburu	18.5%	16.8%	23.2%	28.3%	86.8%	35 Vihiga	1.9%	16.4%	17.7%	15.6%	51.6%
36 Nyeri	13.3%	22.4%	23.7%	26.9%	86.4%	36 Uasin Gishu	0.0%	10.8%	12.8%	27.3%	50.8%
37 Kwale	15.9%	16.3%	25.1%	28.6%	85.9%	37 Turkana	5.6%	6.0%	13.1%	25.2%	49.9%
38 Bungoma	17.1%	25.0%	18.6%	24.9%	85.6%	38 Kajiado	0.0%	15.2%	9.2%	24.5%	49.0%
39 Siaya	14.2%	19.9%	22.3%	29.0%	85.5%	39 Tana River	3.8%	5.5%	23.9%	15.6%	48.9%
40 Kiambu	19.1%	19.0%	17.1%	29.4%	84.6%	40 Siaya	0.0%	7.7%	9.9%	30.6%	48.2%
41 Trans Nzoia	16.1%	25.0%	21.4%	21.9%	84.4%	41 Bungoma	2.4%	9.6%	11.3%	24.1%	47.4%
42 Mandera	12.2%	23.4%	22.6%	24.4%	82.6%	42 Machakos	3.8%	7.6%	11.0%	22.3%	44.8%
43 Vihiga	16.8%	17.1%	27.2%	20.6%	81.8%	43 Baringo	0.3%	9.8%	8.9%	25.1%	44.1%
44 Mombasa	11.7%	20.5%	20.3%	28.9%	81.4%	44 Taita/Taveta	0.1%	4.6%	17.4%	20.0%	42.1%
45 Tana River	14.3%	25.7%	19.6%	20.7%	80.3%	45 Lamu	2.5%	4.4%	12.4%	22.6%	41.8%
46 Kisumu	10.5%	20.8%	25.5%	22.6%	79.5%	46 Nakuru	2.3%	9.7%	5.1%	17.9%	35.0%
47 Kilifi	12.6%	16.6%	20.0%	29.1%	78.3%	47 Nairobi	2.1%	5.6%	5.8%	19.6%	33.0%
Max	**21.6%**	**31.1%**	**33.9%**	**34.1%**	**99.3%**	**Max**	**12.2%**	**19.0%**	**25.6%**	**47.7%**	**76.3%**
Mean	**17.2%**	**22.5%**	**23.1%**	**27.8%**	**90.6%**	**Mean**	**4.2%**	**12.2%**	**13.7%**	**30.5%**	**60.6%**
Min	**10.5%**	**16.3%**	**17.1%**	**20.3%**	**78.3%**	**Min**	**0.0%**	**4.4%**	**3.1%**	**15.6%**	**33.0%**

Source: Office of the Controller of Budget

Table 4.14: Utilization Rates Across Counties (2014/15 - 2019/20)

	Recurrent						Development				
County	Q1	Q2	Q3	Q4	Overall	County	Q1	Q2	Q3	Q4	Overall
1 Nairobi	113.3%	107.2%	115.8%	113.8%	121.0%	1 Nairobi	0.0%	0.0%	45.7%	214.2%	320.9%
2 Murang'a	97.3%	105.1%	101.8%	100.1%	100.7%	2 Mombasa	13.7%	63.5%	101.5%	118.2%	109.0%
3 Mombasa	69.7%	124.1%	107.1%	104.6%	100.3%	3 Nyamira	12.3%	42.4%	103.2%	118.0%	105.5%
4 Wajir	91.0%	99.7%	104.4%	102.0%	100.0%	4 Kajiado	0.0%	0.0%	98.3%	115.7%	102.4%
5 Garissa	99.8%	98.4%	102.1%	100.0%	100.0%	5 West Pokot	73.6%	106.0%	65.8%	117.8%	101.3%
6 Mandera	68.7%	86.8%	94.0%	104.9%	100.0%	6 Kitui	76.0%	94.1%	93.6%	111.2%	100.5%
7 Taita/Taveta	104.6%	105.9%	106.5%	109.8%	99.9%	7 Kisii	46.7%	108.5%	77.6%	113.3%	100.1%
8 Kisii	85.7%	107.4%	101.2%	105.2%	99.8%	8 Garissa	0.0%	0.0%	92.1%	104.2%	100.0%
9 Kericho	78.9%	95.6%	96.5%	104.2%	99.8%	9 Mandera	0.2%	32.4%	101.5%	107.4%	100.0%
10 Laikipia	83.2%	103.5%	92.3%	120.0%	99.7%	10 Narok	98.4%	99.0%	100.4%	104.8%	99.9%
11 Trans Nzoia	88.1%	115.4%	98.4%	93.7%	99.5%	11 Tharaka Nithi	0.0%	46.8%	29.1%	104.1%	99.7%
12 Narok	85.7%	99.8%	100.4%	103.8%	99.4%	12 Wajir	37.5%	50.9%	106.3%	89.8%	99.1%
13 Baringo	82.4%	102.4%	97.1%	108.3%	99.3%	13 Nandi	53.0%	59.6%	71.9%	97.4%	99.0%
14 Nakuru	99.6%	95.4%	101.5%	105.7%	98.9%	14 Bomet	85.5%	80.4%	89.4%	104.5%	98.6%
15 Bungoma	93.1%	107.5%	92.6%	103.1%	98.7%	15 Samburu	8.1%	30.7%	47.8%	94.4%	98.3%
16 Elgeyo/Marakwet	96.6%	93.1%	96.1%	113.7%	98.5%	16 Kirinyaga	31.9%	81.9%	68.8%	111.2%	98.2%
17 West Pokot	95.0%	91.3%	95.4%	101.7%	98.5%	17 Kiambu	96.2%	102.9%	86.9%	96.2%	98.1%
18 Nandi	96.7%	102.1%	102.5%	98.4%	98.4%	18 Machakos	60.0%	84.0%	71.3%	103.2%	98.1%
19 Makueni	94.2%	111.5%	90.8%	100.7%	98.2%	19 Isiolo	0.0%	0.0%	120.0%	85.1%	97.9%
20 Machakos	93.4%	111.2%	94.6%	101.7%	97.8%	20 Murang'a	87.5%	93.6%	98.4%	90.9%	97.5%
21 Turkana	73.0%	117.9%	81.3%	109.1%	97.7%	21 Kilifi	62.9%	120.0%	84.3%	121.4%	96.8%
22 Nyandarua	86.7%	97.3%	102.1%	99.6%	97.3%	22 Embu	0.0%	0.0%	78.8%	101.5%	95.8%
23 Uasin Gishu	92.4%	78.8%	99.9%	121.1%	96.1%	23 Laikipia	28.1%	99.5%	85.8%	105.6%	95.2%
24 Kirinyaga	86.3%	100.4%	95.6%	99.6%	96.1%	24 Kakamega	54.0%	86.9%	100.1%	108.5%	95.2%
25 Bomet	91.7%	95.1%	81.3%	117.4%	96.0%	25 Bungoma	25.9%	99.5%	93.2%	125.2%	95.1%
26 Nyamira	92.4%	88.2%	99.0%	107.7%	95.6%	26 Kwale	38.9%	82.7%	111.3%	120.8%	94.8%
27 Meru	82.1%	90.9%	115.0%	97.8%	95.4%	27 Baringo	4.2%	42.3%	109.1%	111.9%	94.7%
28 Marsabit	71.8%	74.9%	106.8%	105.1%	95.4%	28 Marsabit	11.2%	68.8%	95.6%	104.0%	93.7%
29 Kwale	59.2%	57.0%	134.3%	134.2%	95.3%	29 Nyandarua	9.1%	7.1%	77.7%	106.4%	93.6%
30 Busia	86.8%	104.8%	86.2%	108.3%	95.0%	30 Makueni	4.6%	51.0%	69.3%	122.8%	92.8%
31 Kiambu	92.1%	88.4%	84.1%	120.1%	94.8%	31 Kisumu	12.6%	31.0%	111.7%	102.2%	92.7%
32 Embu	91.0%	90.2%	101.9%	98.0%	94.6%	32 Elgeyo/Marakwet	8.6%	110.5%	77.1%	100.3%	91.3%
33 Samburu	90.2%	70.1%	103.2%	91.9%	94.3%	33 Uasin Gishu	0.0%	88.5%	70.0%	88.3%	89.9%
34 Isiolo	83.2%	71.6%	132.5%	88.8%	94.3%	34 Kericho	27.0%	92.8%	83.3%	101.1%	89.5%
35 Nyeri	106.0%	83.2%	98.0%	95.7%	94.1%	35 Nyeri	0.0%	0.0%	52.2%	112.5%	88.8%
36 Kakamega	100.3%	89.8%	89.0%	97.1%	93.1%	36 Meru	25.4%	6.0%	73.4%	89.1%	88.4%
37 Migori	85.9%	94.1%	97.6%	80.7%	93.1%	37 Trans Nzoia	0.0%	0.0%	91.5%	100.2%	88.1%
38 Kitui	78.4%	102.3%	89.1%	106.5%	93.1%	38 Nakuru	58.5%	88.3%	58.1%	92.5%	86.8%
39 Kilifi	91.3%	79.6%	85.6%	105.5%	92.1%	39 Taita/Taveta	8.5%	17.3%	86.2%	79.2%	85.9%
40 Lamu	56.7%	99.7%	95.9%	116.9%	91.9%	40 Busia	27.5%	48.0%	69.9%	124.0%	85.7%
41 Kajiado	71.2%	103.5%	103.6%	89.7%	91.8%	41 Siaya	0.0%	0.0%	70.4%	90.2%	85.3%
42 Siaya	81.3%	97.5%	86.6%	106.1%	91.6%	42 Lamu	6.2%	29.3%	64.0%	90.1%	84.9%
43 Homa Bay	94.5%	99.4%	84.4%	84.4%	91.0%	43 Tana River	21.0%	1.2%	78.3%	46.7%	84.6%
44 Tharaka Nithi	84.6%	99.1%	100.1%	97.9%	90.5%	44 Homa Bay	39.3%	28.0%	78.2%	74.5%	83.6%
45 Vihiga	74.9%	67.1%	129.1%	80.5%	88.5%	45 Turkana	13.8%	14.7%	51.8%	111.0%	83.4%
46 Kisumu	69.6%	74.3%	108.7%	82.6%	85.4%	46 Vihiga	20.6%	106.5%	83.1%	75.9%	79.5%
47 Tana River	95.7%	71.1%	77.3%	61.5%	78.0%	47 Migori	39.1%	39.5%	58.9%	79.1%	77.7%
Max	**113.3%**	**124.1%**	**134.3%**	**134.2%**	**121.0%**	**Max**	**98.4%**	**120.0%**	**120.0%**	**214.2%**	**320.9%**
Mean	**88.2%**	**96.9%**	**97.4%**	**104.2%**	**98.1%**	**Mean**	**59.7%**	**106.0%**	**90.6%**	**105.8%**	**95.0%**
Min	**56.7%**	**57.0%**	**77.3%**	**61.5%**	**78.0%**	**Min**	**0.0%**	**0.0%**	**29.1%**	**46.7%**	**77.7%**

Source: Office of the Controller of Budget

Whereas spending vis-à-vis initial budgets is better for recurrent vs development programs, as assessed by absorption rates, spending compared to exchequer issue is consistently high for both recurrent and development budgets. Essentially, in each quarter and the year as a whole, counties spend what they get. The mean values of Table 4.14 on utilization rates, across all counties and years, indicate that virtually all the funds received over the year are spent in the year – 98.1 percent for recurrent programs and 95.0 percent for development. Further, the mean values show the same is true for each quarter for both recurrent and development purposes– at or around 100 percent for every quarter with the exception of the first quarter for development programs (59.7%) and to a much lesser degree the first quarter for recurrent programs (88.2%).

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

71

There are counties which are exceptions where the mean values of utilizations rates are over 100 percent. Two counties, Nairobi, and Mombasa had overall utilization rates in excess of 100 percent meaning they spent more than they received in exchequer issues. These relate to the counties who are in position to act more independently and are discussed separately in Box 4.2. Aside from these cases, the usual rule for utilization rates in Table 4.14 is that virtually all counties spent what they received in exchequer issues. Only three counties had spent by year-end less than 90 percent of the funds received for recurrent programs, Vihiga, Kisumu and Tana River, and only six spent less than 85 percent of the funds received for development.

Overall, the OCoB has repeatedly flagged counties utilization of OSR at source contrary to Article 207 of the CoK and section 109 of the PFMA, 2012 which stipulate that all funds raised or collected on behalf of the County Government should be deposited in the CRF account. Equally, the auditor's reports have flagged this as a recurring issue. There is failure by other oversight institutions, particularly parliament to take sanctions by petitioning the CS National Treasury to invoke Article 225 of stopping transfer of funds to counties that persistently breach PFM laws.

Box 4.2: Higher Utilization Rates for Nairobi and Mombasa

Utilization rates (ratio of expenditure to exchequer issue) is consistently over 100 percent for Nairobi for every quarter of the financial year. How is it possible for counties to spend more then what is disbursed from the National Treasury? The data are particularly dramatic in the case of development programs for Nairobi where the county spent more than three times the amount of exchequer issues (at the top of Table 4.15 for development with an overall value of 320.9%). Perhaps more surprisingly, Nairobi ranked at the very bottom of the development panel in Table 4.12, spending only 33 percent of their budgeted amount for development purposes. Taken together these results show that Nairobi fell far short of realizing their development budgetary plans despite spending more than three times the funding they received from exchequer issues.

The only way this could occur is if these counties, including Nairobi and Mombasa, had sources of funds other than those provided through the exchequer requisition process. Although this is possible through the use of OSR, particularly if certain counties have the capacity to generate more of this revenue, and through borrowing from commercial bank outside of the required channels even though such arrangements are not formally part of the intergovernmental structure. This suggests that certain counties, with greater ability to generate OSR, are able to operate more independently than other counties, although a deeper analysis of this possibility is beyond the scope of this current analysis.

Table 4.15: Proportion of the Personnel Emoluments to Total Expenditure

County	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Mean
1 Nairobi	67.0%	56.2%	54.0%	60.5%	46.7%	56.7%	**56.9%**
2 Embu	58.5%	59.0%	44.2%	55.6%	52.7%	58.6%	**54.8%**
3 Elgeyo/Marakwet	45.3%	61.3%	51.7%	59.2%	53.9%	56.1%	**54.6%**
4 Taita/Taveta	60.3%	50.8%	58.9%	64.4%	44.3%	47.0%	**54.3%**
5 Machakos	47.6%	46.0%	45.1%	65.3%	50.2%	59.2%	**52.2%**
6 Kirinyaga	54.9%	49.4%	51.1%	57.0%	51.3%	49.6%	**52.2%**
7 Kisumu	56.0%	51.0%	49.8%	56.1%	44.2%	49.8%	**51.2%**
8 Kisii	49.0%	44.9%	51.9%	55.4%	52.0%	52.0%	**50.9%**
9 Tharaka Nithi	42.5%	53.7%	60.1%	56.4%	44.8%	47.1%	**50.8%**
10 Nyamira	43.5%	42.9%	49.3%	62.0%	56.0%	51.0%	**50.8%**
11 Nyeri	53.6%	52.6%	51.1%	49.1%	45.0%	51.2%	**50.4%**
12 Meru	41.1%	51.9%	44.8%	63.9%	47.4%	52.3%	**50.2%**
13 Nakuru	54.2%	46.2%	48.4%	53.5%	58.4%	40.6%	**50.2%**
14 Homa Bay	52.5%	44.7%	50.2%	51.4%	54.5%	46.9%	**50.0%**
15 Laikipia	56.9%	51.2%	42.5%	53.7%	45.8%	49.5%	**49.9%**
16 Baringo	37.5%	48.0%	45.7%	57.9%	57.5%	51.3%	**49.6%**
17 Kiambu	50.5%	45.5%	49.1%	56.1%	47.6%	48.0%	**49.5%**
18 Vihiga	38.5%	48.3%	49.4%	59.9%	42.8%	46.8%	**47.6%**
19 Mombasa	52.4%	46.8%	41.4%	44.3%	41.4%	45.7%	**45.3%**
20 Murang'a	39.7%	40.0%	43.1%	51.7%	48.1%	48.0%	**45.1%**
21 Uasin Gishu	38.5%	38.8%	49.2%	46.8%	48.6%	42.9%	**44.1%**
22 Siaya	40.1%	34.1%	41.0%	58.3%	48.2%	40.0%	**43.6%**
23 Garissa	33.2%	34.7%	38.7%	49.3%	49.6%	54.1%	**43.3%**
24 Bungoma	36.4%	35.0%	42.8%	53.7%	46.1%	45.4%	**43.2%**
25 Kericho	44.3%	41.5%	38.4%	48.8%	43.9%	41.9%	**43.1%**
26 Kajiado	58.9%	34.9%	34.6%	49.8%	37.4%	42.2%	**43.0%**
27 Busia	41.6%	38.4%	41.2%	46.8%	41.6%	46.2%	**42.6%**
28 Migori	35.1%	36.6%	45.3%	46.5%	45.8%	46.1%	**42.6%**
29 Nandi	32.2%	35.1%	35.0%	48.8%	44.8%	59.1%	**42.5%**
30 Bomet	36.7%	40.3%	46.6%	49.1%	38.1%	42.4%	**42.2%**
31 Lamu	38.6%	32.8%	36.2%	52.9%	43.3%	43.9%	**41.3%**
32 Makueni	44.4%	39.7%	30.4%	45.8%	41.7%	43.2%	**40.9%**
33 Kakamega	39.3%	38.0%	36.4%	46.2%	42.0%	41.0%	**40.5%**
34 West Pokot	31.3%	34.2%	34.6%	45.8%	42.3%	49.9%	**39.7%**
35 Trans Nzoia	38.8%	34.6%	36.0%	50.6%	35.3%	42.5%	**39.6%**
36 Kitui	32.3%	32.5%	33.9%	39.6%	41.5%	46.5%	**37.7%**
37 Nyandarua	34.4%	34.6%	38.7%	47.2%	37.4%	32.2%	**37.4%**
38 Isiolo	27.3%	42.3%	39.5%	43.5%	37.2%	34.4%	**37.4%**
39 Samburu	26.3%	34.4%	26.9%	44.1%	47.4%	42.0%	**36.9%**
40 Wajir	26.5%	28.1%	35.6%	53.0%	37.2%	40.7%	**36.8%**
41 Narok	36.6%	36.1%	39.7%	39.2%	36.4%	32.1%	**36.7%**
42 Tana River	35.6%	22.4%	35.0%	43.6%	34.0%	28.6%	**33.2%**
43 Kwale	27.5%	26.8%	34.2%	36.8%	37.0%	33.5%	**32.6%**
44 Turkana	15.3%	22.4%	24.0%	45.9%	29.2%	37.5%	**29.0%**
45 Kilifi	23.5%	29.3%	27.8%	33.8%	21.1%	36.5%	**28.7%**
46 Marsabit	21.9%	23.1%	22.8%	28.7%	32.7%	35.4%	**27.4%**
47 Mandera	13.2%	17.9%	16.1%	24.9%	24.2%	26.1%	**20.4%**
Max	**67.0%**	**61.3%**	**60.1%**	**65.3%**	**58.4%**	**59.2%**	**56.9%**
Median	**39.3%**	**39.7%**	**41.4%**	**49.8%**	**44.3%**	**46.1%**	**43.2%**
Mean	**40.7%**	**40.2%**	**41.3%**	**50.1%**	**43.6%**	**45.0%**	**43.5%**
Min	**13.2%**	**17.9%**	**16.1%**	**24.9%**	**21.1%**	**26.1%**	**20.4%**

Note:

Section 25(1)(b) of the Public Finance Management (County Government) Regulations, 2015 stipulates that in the management of public finance the County Government's expenditure on wages and benefits shall not exceed 35% of the County Government's total revenue

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

73

Table 4.16: Proportion of Development Budget to Total Expenditure

County	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Mean
1 Mandera	54.5%	57.1%	57.2%	40.8%	47.8%	43.4%	**50.1%**
2 Marsabit	43.7%	42.4%	45.5%	38.7%	48.3%	44.1%	**43.8%**
3 Kakamega	41.5%	43.1%	48.0%	36.8%	40.9%	39.3%	**41.6%**
4 Wajir	59.3%	48.9%	44.7%	13.1%	43.5%	36.3%	**41.0%**
5 Turkana	64.1%	63.0%	55.0%	23.9%	16.2%	20.3%	**40.4%**
6 Kwale	45.3%	56.2%	35.1%	32.5%	33.9%	39.4%	**40.4%**
7 Kitui	43.0%	47.9%	44.4%	35.9%	33.5%	29.2%	**39.0%**
8 Tana River	45.0%	58.2%	50.2%	28.9%	33.2%	18.4%	**39.0%**
9 Kilifi	39.7%	44.0%	43.9%	32.8%	37.0%	32.4%	**38.3%**
10 Murang'a	43.3%	45.0%	31.7%	33.5%	34.9%	37.8%	**37.7%**
11 Isiolo	38.2%	34.5%	36.5%	33.6%	23.3%	38.1%	**34.0%**
12 Bomet	46.5%	45.4%	31.0%	17.7%	30.0%	27.5%	**33.0%**
13 Migori	40.0%	36.7%	32.1%	31.2%	28.5%	25.2%	**32.3%**
14 Trans Nzoia	29.7%	33.6%	28.5%	25.6%	37.5%	34.7%	**31.6%**
15 Busia	40.5%	42.4%	33.4%	18.6%	29.2%	25.0%	**31.5%**
16 Uasin Gishu	44.0%	35.7%	26.1%	25.2%	24.2%	33.0%	**31.4%**
17 Makueni	28.5%	27.3%	45.2%	22.3%	31.5%	30.8%	**30.9%**
18 Nandi	48.8%	39.5%	34.0%	14.9%	25.8%	21.5%	**30.8%**
19 Garissa	44.3%	39.7%	34.3%	15.5%	26.4%	24.0%	**30.7%**
20 West Pokot	41.5%	36.7%	32.6%	22.3%	29.3%	20.6%	**30.5%**
21 Siaya	35.2%	37.2%	35.2%	18.9%	20.6%	30.9%	**29.7%**
22 Nyandarua	32.8%	34.5%	33.1%	19.7%	28.9%	28.8%	**29.6%**
23 Narok	35.7%	29.1%	28.8%	23.4%	30.2%	27.5%	**29.1%**
24 Mombasa	27.1%	32.5%	30.0%	28.2%	24.8%	29.2%	**28.6%**
25 Kericho	29.1%	34.8%	36.1%	19.2%	23.1%	27.3%	**28.3%**
26 Tharaka Nithi	33.5%	29.3%	19.7%	29.6%	30.3%	26.5%	**28.2%**
27 Laikipia	28.9%	33.0%	32.8%	21.1%	31.3%	19.0%	**27.7%**
28 Kisii	34.9%	32.0%	25.2%	22.2%	23.9%	26.9%	**27.5%**
29 Elgeyo/Marakwet	33.1%	22.3%	29.5%	24.5%	30.1%	25.5%	**27.5%**
30 Samburu	49.3%	31.6%	30.3%	15.3%	17.8%	18.7%	**27.2%**
31 Lamu	33.5%	36.6%	23.4%	17.5%	23.9%	27.6%	**27.1%**
32 Homa Bay	35.3%	32.9%	24.7%	21.0%	17.6%	30.5%	**27.0%**
33 Bungoma	35.8%	36.5%	23.1%	17.5%	24.5%	24.5%	**27.0%**
34 Kajiado	22.6%	30.0%	24.7%	23.1%	30.9%	25.7%	**26.2%**
35 Machakos	28.7%	30.5%	36.5%	13.8%	26.6%	20.7%	**26.1%**
36 Vihiga	36.3%	32.3%	21.3%	11.0%	27.5%	26.8%	**25.9%**
37 Meru	36.3%	26.7%	26.8%	12.0%	27.0%	22.9%	**25.3%**
38 Baringo	29.2%	27.2%	28.1%	19.0%	20.9%	27.4%	**25.3%**
39 Kisumu	23.4%	28.4%	29.0%	10.4%	31.9%	26.1%	**24.9%**
40 Kiambu	26.1%	21.7%	23.2%	17.0%	31.5%	29.5%	**24.8%**
41 Embu	16.5%	23.6%	36.4%	21.5%	23.0%	21.0%	**23.7%**
42 Kirinyaga	28.3%	25.7%	25.5%	15.7%	22.0%	24.1%	**23.6%**
43 Nyamira	35.1%	29.7%	21.8%	12.5%	20.0%	20.8%	**23.3%**
44 Nyeri	22.3%	23.4%	21.5%	20.2%	26.7%	22.3%	**22.7%**
45 Taita/Taveta	27.0%	14.8%	12.0%	31.4%	25.7%	18.1%	**21.5%**
46 Nakuru	19.5%	21.5%	19.2%	16.5%	14.6%	29.2%	**20.1%**
47 Nairobi	10.9%	17.4%	15.2%	8.9%	20.1%	8.5%	**13.5%**
Max	**64.1%**	**63.0%**	**57.2%**	**40.8%**	**48.3%**	**44.1%**	**50.1%**
Median	**35.3%**	**33.6%**	**31.0%**	**21.1%**	**27.5%**	**26.9%**	**28.6%**
Mean	**35.9%**	**35.2%**	**32.0%**	**22.4%**	**28.3%**	**27.4%**	**30.2%**
Min	**10.9%**	**14.8%**	**12.0%**	**8.9%**	**14.6%**	**8.5%**	**13.5%**

Note: Section 107 (2(b)) of the PFM Act, 2012, requires that at least 30 per cent of budget must be allocated for development programs

4.4.3. Adherence to Fiscal Rules

The Public Financial Management Act of 2012 and associated regulations require County Governments to adhere to two specific rules in their budgeting and spending. Section 25(1)(b) of the Public Financial Management (County Government) Regulations specifies that in the management of public finance, a County Government's expenditure on wages and benefits shall not exceed 35 percent of the county's total revenue. Further, Section 107 (2(b)) of the PFM Act requires that at least 30 per cent of the budget must be allocated for development programs.

We present below data on each of these requirements in Tables 4.15 and 4.16. However, since not all counties have remitted data on total revenues to the national authorities as required by the Act, Table 4.15 displays spending by county on wages and benefits as a percentage of total expenditure as a proxy for the required information relative to revenue. Since it is highly unlikely that revenues of a county in any year will exceed its expenditures -- indeed the reverse is more likely to be true -- counties exceeding the 35 percent rule for expenditures will surely exceed it for revenues.

The purpose of the requirement restricting wages to 35 percent of revenue is to ensure that counties develop appropriate staffing structures and devise strategies to contain personnel costs. Other goals would be to allow sufficient space in the budget for development programs, consistent with the second requirement, as well as to provide adequate resources for operation and maintenance of facilities. The latter is a category of spending that, when neglected, leads to a more rapid than would be expected decline in the useful life of roads, bridges, buildings, and other infrastructure offsetting the benefits of the initial construction programs. Table 4.15 displays for each county for every financial year expenditures on wages and benefits as a percentage of total spending. They range from Nairobi with an average percentage of 56.9 to Mandera with an average of 20.4 percent. Over this period, the number of counties violating even this less restrictive rule based on expenditures rather than revenue increased from 16 in 2014/15 to 34 in 2019/20. Financial year 2017/18 had the most counties in violation, 44, and only three in compliance.

The purpose of the requirement that development spending by a county be at least 30 percent of total spending is to assure that development programs are adequately funded. Table 4.16 examines compliance with this requirement.

Similar to Table 4.15, Table 4.16 shows that the number of counties in violation of this requirement more than doubled from 16 in 2014/15 to 34 in 2019/20 with a peak of 38 in non-compliance, again in 2017/18. On average, 27 counties, or more than half, were non-compliant over the six-year period with nine counties, from #39 Kisumu to #47 Nairobi spending less than 25 percent of their budgets on development programs. From this discussion of fiscal rules and obligations, there appears to be significant deterioration on the part of the counties in complying with the requirements of the new decentralized fiscal regime. The reasons for this are not clear. It may be that given the difficulties of executing their budgets under the conditions discussed earlier of uncertain revenue flows from the National Government and the continual need to revise budgets as circumstances demand, counties simply met the needs of their own citizens as best they could regardless of PFMA requirements. Actions taken by counties such as Nairobi and Mombasa that have more resources under their direct control and, therefore, can and do act more independently give some weight to this interpretation. The fiscal rules, in themselves, have some merit. There are suggestions too that cash balances (unspent funds at the end of the financial year) are brought forward in the subsequent allocated to recurrent expenditure. The lack of compliance appears to be yet another example of the

system on paper and the system in operation not being well synchronized as well as counties overstating their budgets to adhere to these rules only to be exposed when actual spending plays out.

4.5 Conclusion

This chapter has offered an overview of the operational functions of the intergovernmental systems, particularly, as it relates to transfers from the National Government to the counties and the implications for budget execution. Without even considering the question of adequacy of funds, which arose in the analysis in Chapter 2, this chapter has highlighted that over time, even the funds that counties are supposed to receive are subject to significant delays, which impacts how countries can implement their budgets. Further, this situation has been worsening over time.

This chapter looked at budget stability through a close examination of budget revisions, timing and shifting of unexecuted funds, and spending patterns and finds that countries face high levels of budget instability, particularly for the development budget. As seen here, this is fundamentally driven by the fact that exchequer issues for development budgets are significantly delayed with counties on average across the six years, receiving 45 percent of their funds in the fourth quarter. For some countries, this is more skewed. Inevitably, this makes it harder for County Governments to implement their development budgets, which directly affects, the quality of services provided to the public.

A detailed examination of expenditures highlights again how spending on development is skewed to Q4 which is not unexpected given when counties receive their funds. On average, the ratio of spending in Q4 is almost seven times that of Q1, and half the counties spend 50 percent or more of their development budgets in the last quarter. Inevitably, these conditions make it hard for counties to comply with fiscal rules mandated in the PFM Act. Counties such as Nairobi and Mombasa are able to draw upon their own resources and are less reliant on the National Government for timely resource flows so are able to pursue their own budgetary objectives. The implication here is that the less well-endowed counties will increasingly fall behind in their ability to serve their citizens even if the formulas for sharing revenue is designed to particularly benefit them.

Key Conclusions

Richard Bird, writing in 1993 in reference to devolved government financial systems, argued, "In this, as in so many other areas of public economics, what we seem to need at the moment is less more imaginative sketches of what may (or should) exist and more careful reporting and analysis of what does exist and how it works" (Bird 1993). This report has attempted to offer this type of analysis for Kenya's intergovernmental fiscal system and its operations since devolution in 2013 and its implications for local government planning, budgeting, and execution. Kenya's counties now have greater responsibilities; both successful devolution and public trust in local governments depend on their having access to the resources they need for effective local public service delivery. Since the counties have limited own-source revenue and varying capacity to raise such revenue, it is incumbent upon the national government to collect sufficient revenues for both national and county public purposes and these revenues must be distributed to the counties in sufficient quantity and on time.

This report highlights that the system is not working effectively, and overtime is getting worse. Chapter 2 offers an analysis of the institutionalized systems and processes in place to ensure that fiscal transfers occur in an adequate and timely manner. Upfront, the report flags issues in the institutional design of the intergovernmental system which could prove destabilizing for an orderly transfer of resources to the counties. First and foremost, the National Treasury and the CRA, fail to reach a consensus on the division of revenue, often delaying the passage of DORA and CARA. The Treasury's position, supported by the authority of the national government, invariably prevails. The National Assembly (NA) and the Senate equally participate in the consideration, debating and approval of the DoRB. Their interests and incentives in the division of revenue allocation however pull in opposite direction further delaying the passing of the two bills. Even the mediation process where the IBEC offers negotiation often is politically -driven further contributing to this impasse.

Second, there are significant challenges in national and county budget cycles, and counties have very little time, once national budget deadlines are met, to in turn meet their timeline for submission of key budget documents. This can prove challenging for giving adequate thought, planning, and consultation to budgetary priorities. This becomes further complicated when the National Assembly and the Senate fail to agree on the DoRB[25], squeezing the time County Governments have to plan their budget and have them passed in their local assemblies notwithstanding provision for requesting release of up to 50% of their budget. Third, several challenges exist in ensuring that OCoB approves exchequer issues promptly. There is a heavy documentary requirement for each quarterly exchequer issue, which counties have to complete in person by traveling to Nairobi. This process can be further complicated if supplementary budgets have to be produced due to the inability to meet the spending targets in the initially approved annual budget.

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25   The law (PFMA, 2012) has no timeline when an impasse between the National Assembly and the Senate on approval of the DoRB should be resolved.

Chapters 3 and 4 are the main empirical chapters of the report. Chapter 3 takes a macro lens, and through an examination of aggregate sources and use of funds, highlights that, counties have been faring poorly vis-à-vis the division of revenue. Overall, total resources available to counties as a group have declined substantially as a share of GDP from 5.3% percent in 2014/15 to a low of 4.1% in 2019/20, a decline in the share of over 20 percent. Perhaps most significantly, the counties' equitable share of revenue, which has accounted for 70-78% of counties' total revenue annually over the six years, has also been declining as a share of GDP from 4.0% to 2.8%. As a consequence, although the national government has continually observed the legal requirement of providing an equitable share of at least 15 percent of the most recently audited measure of its revenue, County Governments have seen an ongoing decline in the resources available to them as a share of both available funds and GDP. Counties have been squeezed because of the national government's inability to generate revenue and it's resorting to debt financing to maintain its level of direct spending. The consequences for the counties have been a significant decline in the equitable share and their collective spending as shares of GDP.

Chapter 4 is a more micro examination of operations of the intergovernmental system, specifically the following three processes and the critical relationships among them: 1.) county planning and budget formulation; 2.) the receipt of funds from the National Treasury or what is known as exchequer issues; and 3.) actual spending. It highlights how budget instability is a constant part of the county budgeting process over a fiscal year, both in terms of frequency and scale of revisions, as well as the timing of when revisions are made. This budget instability has significant consequences for the ability of counties to realize their initial budget plans, a result that is more detrimental for development spending than recurrent spending. Another challenge for counties executing their budgets is the bureaucratic hurdles around exchequer issues. Delays in exchequer issues are the norm in the first two quarters of the financial year, with the consequence that most funds to the counties arrive in the second half of the financial year. Development budgets again are most affected, making it difficult for counties to undertake the appropriate investments for long-term economic growth and better service delivery for the public.

5.2. Recommendations

There is an inherent tension between allocating funds toward the objectives of the national government to execute its budgetary programs and toward the objectives of sub-national governments to accomplish this same end on behalf of their citizens. The national government has the advantage that revenue collected aggregates at the national level and then distributes down to the subnational units. This advantage of control over resources is critical to the operation of the system.

A successful reconciliation of the tension in these dual objectives requires the national government to understand and to commit to a basic principle and two operational corollaries. The basic principle is that the national interest, that is the welfare of the county as a whole, encompasses the financial and economic viability and integrity of County Governments as well as that of the national government itself. The first corollary is to proceed from the recognition that the national government has substantially greater authority and flexibility in the ability to make resources available to the counties than the counties can do on their own. The second is to proceed from the recognition that only the national government can make these resources available to the counties in a stable, predictable, and timely manner despite uncertainties arising from uneven inflows of revenue or temporary economic fluctuations. To that end, below are some key recommendations:

Recommendation 1: The Senate and the CRA should use evidence to improve and influence quality debate on the division of revenue with the National Treasury and the National Assembly.

This report provides a link between delays in the disbursement of funds to counties and its impact on budget execution. This compelling evidence is useful in improving quality of debate on the division of revenue process and hence enabling consensus building amongst actors, thus alleviating delays and the process of mediation in the approval of the DORA and CARA.

Recommendation 2: Parliament should enforce the "parity principle" to ensure that an equal spending proportionality is maintained for both the national and county even in periods of fiscal austerity.

Fiscal outflows to County Governments is declining faster as a share of GDP whereas National Government spending as a share of GDP was maintained, an indicator of mismatch in prioritization. Given that county functions have fairly remained the same, lack of proportionality in outflows to County Governments will ultimately affect execution of their budgets. County development budget and implementation of planned programmes are affected disproportionately by declining total county spending emanating from reducing allocation (transfers) to counties. Therefore, parliament should consider enforcing a parity principle, national government expenditure is not prioritized at the expense of allocation to county government (national government expenditure on county governments). Even during periods of fiscal austerity (reduction of budget deficit) equal proportionality in spending for the two levels should be observed.

Recommendation 3: The National Assembly should question the National Treasury on the accuracy of the revenue forecast given this often results in revenue shortfalls which have consistently affected timely disbursement of funds to the counties

Evidence reveals persistent overestimation of revenue forecasts by the National Treasury, over the same period when delays in the disbursement of funds to the counties have occurred. As noted in this report, errors of the revenue forecasts range from 5-18 percent above actual collections and have increased over the years. Further, these errors continue to be large even in years when economic activity has been more robust than expected. The shortfalls in revenue ensuing from the overestimation has been the main factor that has led to delays in the disbursement of funds to the counties and has significantly contributed to the disruptions in budget execution. A much more rigorous evaluation of the assumptions used by the National Treasury and the methodologies employed need to be undertaken by the National Assembly and the Senate. Unrealistic forecasts go into the October BROP and become the basis of assumptions for the subsequent recommendations made by CRA creating a spiral of errors.

Recommendation 4: There is need for legislative clarity on explicit timelines for approval of DORB and CARB as soon as they have been tabled in Parliament in order to address delays in release of funds to counties

Section 42 of the PFMA, 2012 notes that Parliament shall consider the Division of Revenue Bill (DoRB) and County Allocation of Revenue Bill (CARB) not later than thirty days after these legislations have been introduced with a view to approving them, with or without amendments. As a result, the expectations is that the Bills will be enacted by mid-March in every financial year. On the other hand, court ruling noted that the National Government Appropriation Bill should not be passed before approval of the DORB. These two provisions, section 42 of the PFMA, 2012 and court ruling present interesting ambiguity on firm and

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

79

clear timelines to guide approval of DoRB and CARB. Clear timelines of when the DORB and CARB should be enacted is critical in according counties sufficient time to budget based on the actual funds due to them. Otherwise, whenever these Bills are delayed, counties often base preparation of their budget on the previous year's figure which are later corrected through revision of the budget to reflect the approved figure. Enactment of DoRB and CARB as per legally provided timelines will as a result curb disruptions and minimize cases of budget instability.

Recommendation 5: The Senate and the National Assembly should ensure that The National Treasury matches the revenue disbursement schedule with the revenue forecasts

There is a wide gap between the proposed monthly revenue disbursement ratios to the counties vis-à-vis the actual revenue collection. The first quarter is the worst affected. As a result, and given the importance of revenue disbursement schedule in guiding release of funds, how realistic the schedule enhances predictability of funds. Besides it is an important accountability tool that the Senate can use to track whether the National Treasury is adhering to approved disbursement schedule.

Recommendation 6: To improve future development outcomes County governments should equally look in-wards and address other multiple factors including administrative issues that disproportionately affect execution of development budget

Late disbursement of funds to counties from their share of intergovernmental transfers is not the sole reason that explains low county budget execution, particularly for development budget. Other multiple in-county challenges are attributed to relatively low absorption rates for development expenditure across all the counties. Respondents from county governments interviewed noted that ambitious own source revenue target, albeit OSR contributing a small portion (less than 15% of total revenue for majority of counties, resulted to underfunding of portions of their budgets. Centralized procurement systems and overall delays in the procurement process are additional reasons for slowing down pace in the implementation of capital projects.

Recommendation 7: The Office of the Controller of Budget (OCoB) in conjunction with the National Treasury and the Central Bank of Kenya (CBK) should initiate reforms towards digitalization and decentralization as well as minimizing requirements for the process of formal requisition of monthly exchequer issues.

The effectiveness of the intergovernmental cash management system is a critical determinant of promptness in the release of funds to counties and in turn improved budget execution. So far, this process is quite challenging and highly demanding for two reasons. First, there are heavy documentary requirements for every requisition at the beginning of the financial year, and although it is somewhat less burdensome in the course of the financial year, it remains bureaucratically cumbersome whenever counties have to revise their budgets. Second, the fact that the physical presence of county staff members is required for the necessary signatures at both the OCoB and at the CBK in Nairobi, the capital city, for approval of exchequer issues every month is not only costly, especially for the far-flung counties, but often leads to delays in the entire process. Automation of the process to allow for e-signature in place of physical presence and reduction of documentary requirements are long overdue and much needed reforms.

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AN EMPIRICAL ANALYSIS

81

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Appendix

Appendix 1: Estimated County Own Source Revenue Potential (Ksh Billion)
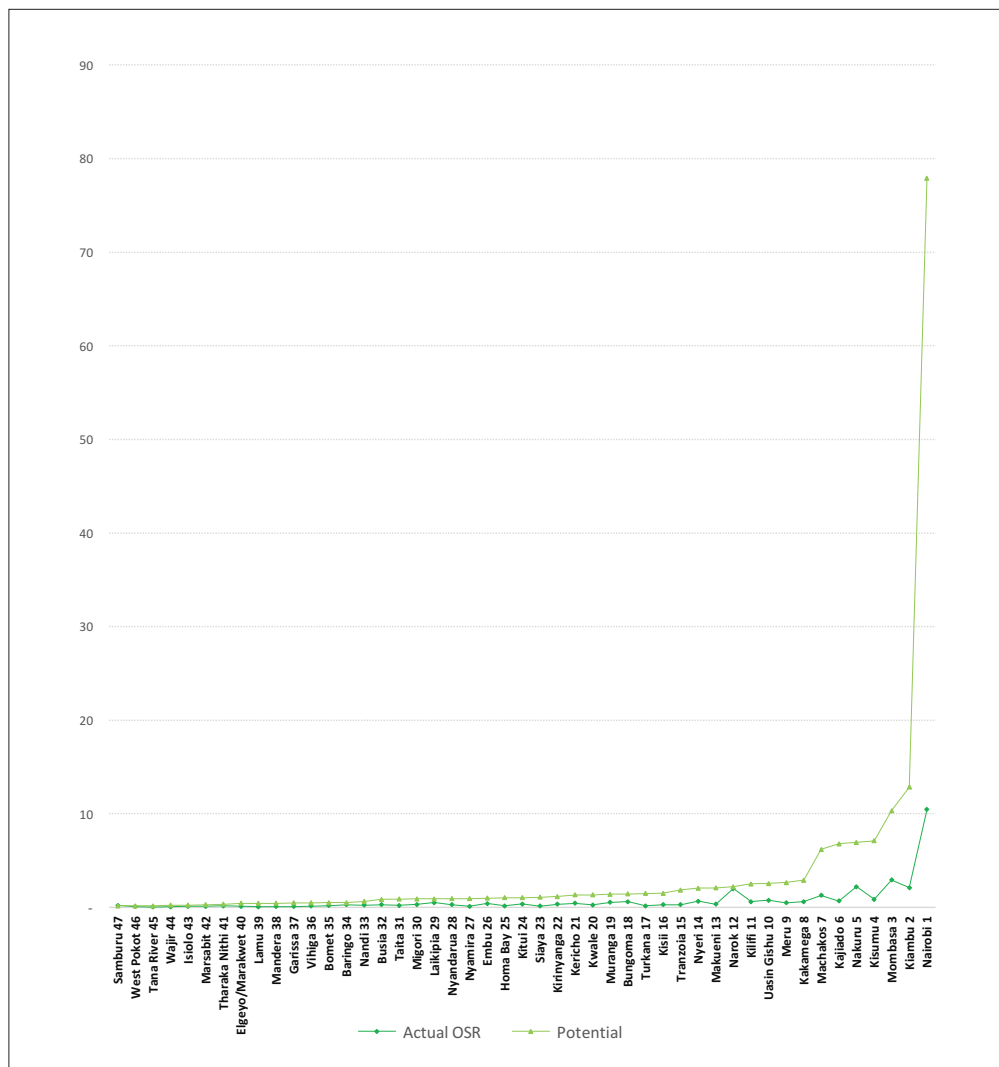
Source: National Treasury (2018) The Revenue Potential: How Kenya's County Governments Could Close their Financing Gaps. The World Banks and Adam Smith International.

Appendix 2: Revisions in the Development Budget (2019/20)

The chart represents percentage changes of the budget in Q2, Q3 and Q4, each quarter relative to Q1 budget

| County | Proportions of Budget Revisions (absolute revisions) | | | | Mean Absolute Quarterly % Changes |
	Q2	Q3	Q4	Total	
1 Kirinyaga	0.0%	50.0%	50.0%	**100.0%**	36.8%
2 Kwale	87.9%	5.4%	6.7%	**100.0%**	32.7%
3 Busia	93.2%	0.0%	6.8%	**100.0%**	29.3%
4 Wajir	0.0%	50.0%	50.0%	**100.0%**	28.5%
5 Nyandarua	0.0%	55.5%	44.5%	**100.0%**	27.4%
6 Vihiga	95.5%	0.0%	4.5%	**100.0%**	25.0%
7 Lamu	100.0%	0.0%	0.0%	**100.0%**	23.4%
8 Samburu	65.1%	8.2%	26.7%	**100.0%**	20.5%
9 Makueni	81.0%	10.7%	8.3%	**100.0%**	17.0%
10 West Pokot	71.5%	0.0%	28.5%	**100.0%**	16.6%
11 Bungoma	0.0%	49.6%	50.4%	**100.0%**	15.2%
12 Isiolo	89.4%	0.0%	10.6%	**100.0%**	11.4%
13 Tana River	0.0%	50.0%	50.0%	**100.0%**	10.8%
14 Kiambu	0.0%	56.3%	43.7%	**100.0%**	9.7%
15 Migori	95.3%	0.0%	4.7%	**100.0%**	9.4%
16 Nairobi	0.0%	0.0%	100.0%	**100.0%**	9.4%
17 Kilifi	67.6%	0.0%	32.4%	**100.0%**	9.2%
18 Turkana	17.5%	39.1%	43.4%	**100.0%**	8.9%
19 Taita/Taveta	0.0%	0.0%	100.0%	**100.0%**	8.4%
20 Marsabit	79.9%	0.0%	20.1%	**100.0%**	8.2%
21 Nyeri	98.4%	0.0%	1.6%	**100.0%**	7.4%
22 Mombasa	0.0%	35.9%	64.1%	**100.0%**	6.9%
23 Homa Bay	0.0%	0.0%	100.0%	**100.0%**	6.8%
24 Narok	0.0%	44.8%	55.2%	**100.0%**	6.6%
25 Baringo	0.0%	0.0%	100.0%	**100.0%**	6.2%
26 Tharaka Nithi	87.5%	5.1%	7.4%	**100.0%**	5.7%
27 Meru	30.2%	34.9%	34.9%	**100.0%**	5.2%
28 Machakos	0.0%	59.9%	40.1%	**100.0%**	4.6%
29 Trans Nzoia	0.0%	47.2%	52.8%	**100.0%**	4.5%
30 Elgeyo/Marakwet	0.0%	47.2%	52.8%	**100.0%**	3.5%
31 Kisumu	0.0%	3.5%	96.5%	**100.0%**	3.2%
32 Siaya	0.0%	0.0%	100.0%	**100.0%**	2.8%
33 Laikipia	0.0%	0.0%	100.0%	**100.0%**	2.6%
34 Garissa	0.0%	0.0%	100.0%	**100.0%**	2.5%
35 Nakuru	0.0%	47.6%	52.4%	**100.0%**	2.5%
36 Uasin Gishu	0.0%	0.0%	100.0%	**100.0%**	2.4%
37 Nyamira	0.0%	13.6%	86.4%	**100.0%**	2.3%
38 Murang'a	0.0%	0.0%	100.0%	**100.0%**	1.9%
39 Nandi	0.0%	35.2%	64.8%	**100.0%**	1.8%
40 Kitui	0.0%	52.8%	47.2%	**100.0%**	1.8%
41 Kakamega	0.0%	99.2%	0.8%	**100.0%**	1.4%
42 Kericho	0.0%	0.0%	100.0%	**100.0%**	1.2%
43 Kisii	0.0%	36.6%	63.4%	**100.0%**	1.2%
44 Mandera	0.0%	0.0%	100.0%	**100.0%**	0.9%
45 Kajiado	54.8%	0.0%	45.2%	**100.0%**	0.8%
46 Embu	0.0%	0.0%	100.0%	**100.0%**	0.1%
47 Bomet	0.0%	0.0%	100.0%	**100.0%**	0.1%
Max	100.0%	99.2%	100.0%	**100.0%**	36.8%
Mean	25.8%	20.0%	54.2%	**100.0%**	9.5%
Min	0.0%	0.0%	0.0%	**100.0%**	0.1%

Source: Office of the Controller of Budget

Appendix 3: Revisions in the Development Budget (2018/19)

County	Proportions of Budget Revisions (absolute revisions)				Mean Absolute Quarterly % Changes
	Q2	Q3	Q4	Total	
1 Kisumu	0.0%	48.7%	51.3%	100.0%	41.2%
2 Nyandarua	0.0%	50.6%	49.4%	100.0%	34.1%
3 Siaya	0.0%	50.3%	49.7%	100.0%	30.5%
4 Kericho	0.0%	52.6%	47.4%	100.0%	25.8%
5 Tana River	0.0%	52.9%	47.1%	100.0%	25.3%
6 Vihiga	0.0%	51.7%	48.3%	100.0%	19.5%
7 Elgeyo/Marakwet	0.0%	50.0%	50.0%	100.0%	18.8%
8 Meru	99.9%	0.0%	0.1%	100.0%	17.4%
9 Tharaka Nithi	85.9%	0.0%	14.1%	100.0%	16.6%
10 Uasin Gishu	88.9%	5.6%	5.6%	100.0%	16.0%
11 Makueni	86.1%	0.0%	13.9%	100.0%	15.5%
12 Busia	92.9%	0.0%	7.1%	100.0%	14.1%
13 Lamu	0.0%	50.1%	49.9%	100.0%	13.6%
14 Nairobi	0.0%	2.8%	97.2%	100.0%	10.9%
15 Mombasa	0.0%	57.2%	42.8%	100.0%	9.7%
16 Nyeri	66.5%	16.8%	16.7%	100.0%	9.2%
17 Kirinyaga	0.0%	0.0%	100.0%	100.0%	8.9%
18 West Pokot	97.1%	0.0%	2.9%	100.0%	8.6%
19 Migori	0.0%	50.0%	50.0%	100.0%	8.5%
20 Marsabit	88.0%	0.0%	12.0%	100.0%	7.7%
21 Nyamira	0.0%	58.7%	41.3%	100.0%	7.6%
22 Embu	0.0%	41.0%	59.0%	100.0%	6.8%
23 Isiolo	48.2%	0.0%	51.8%	100.0%	6.7%
24 Narok	20.9%	39.5%	39.5%	100.0%	6.4%
25 Kwale	0.0%	0.0%	100.0%	100.0%	6.0%
26 Machakos	0.0%	0.0%	100.0%	100.0%	5.8%
27 Bungoma	0.0%	0.0%	100.0%	100.0%	5.1%
28 Murang'a	0.0%	50.0%	50.0%	100.0%	5.1%
29 Kisii	0.0%	50.0%	50.0%	100.0%	4.5%
30 Homa Bay	0.0%	0.0%	100.0%	100.0%	4.3%
31 Laikipia	36.5%	0.0%	63.5%	100.0%	4.3%
32 Kiambu	0.0%	89.5%	10.5%	100.0%	3.3%
33 Garissa	46.7%	46.7%	6.7%	100.0%	3.0%
34 Nandi	0.0%	43.5%	56.5%	100.0%	2.7%
35 Turkana	0.0%	0.0%	100.0%	100.0%	2.7%
36 Kakamega	0.0%	61.0%	39.0%	100.0%	2.5%
37 Kajiado	0.0%	0.0%	100.0%	100.0%	2.5%
38 Kitui	0.0%	0.0%	100.0%	100.0%	2.3%
39 Baringo	0.0%	43.2%	56.8%	100.0%	2.1%
40 Taita/Taveta	0.0%	50.0%	50.0%	100.0%	1.9%
41 Samburu	100.0%	0.0%	0.0%	100.0%	1.3%
42 Mandera	0.0%	50.0%	50.0%	100.0%	1.2%
43 Bomet	0.0%	74.1%	25.9%	100.0%	1.0%
44 Trans Nzoia	0.0%	50.0%	50.0%	100.0%	0.8%
45 Kilifi	40.2%	0.0%	59.8%	100.0%	0.7%
46 Wajir	0.0%	0.0%	100.0%	100.0%	0.4%
47 Nakuru	0.0%	50.0%	50.0%	100.0%	0.1%
Max	100.0%	89.5%	100.0%	100.0%	41.2%
Mean	21.2%	28.4%	50.3%	100.0%	9.4%
Min	0.0%	0.0%	0.0%	100.0%	0.1%

Source: Office of the Controller of Budget

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

85

Appendix 4: Revisions in the Development Budget (2017/18)

| County | Proportions of Budget Revisions (absolute revisions) | | | | Mean Absolute Quarterly % Changes |
	Q2	Q3	Q4	Total	
1 Kajiado	0.0%	50.0%	50.0%	100.0%	46.8%
2 Elgeyo/Marakwet	0.0%	50.0%	50.0%	100.0%	28.2%
3 Kitui	0.0%	63.6%	36.4%	100.0%	23.6%
4 Narok	0.0%	50.0%	50.0%	100.0%	21.3%
5 Siaya	0.0%	50.0%	50.0%	100.0%	19.1%
6 Uasin Gishu	0.0%	50.0%	50.0%	100.0%	18.4%
7 Makueni	77.0%	10.7%	12.3%	100.0%	17.0%
8 Lamu	0.0%	50.0%	50.0%	100.0%	15.5%
9 Kiambu	0.0%	25.5%	74.5%	100.0%	13.7%
10 Busia	0.0%	50.0%	50.0%	100.0%	13.5%
11 Kirinyaga	0.0%	50.0%	50.0%	100.0%	13.0%
12 Vihiga	0.0%	50.0%	50.0%	100.0%	11.8%
13 Nairobi	0.0%	0.0%	100.0%	100.0%	9.7%
14 Wajir	0.0%	50.0%	50.0%	100.0%	8.2%
15 Kakamega	0.0%	50.0%	50.0%	100.0%	7.4%
16 Kericho	0.0%	47.4%	52.6%	100.0%	7.4%
17 Kilifi	0.0%	55.2%	44.8%	100.0%	6.6%
18 Nyandarua	0.0%	50.1%	49.9%	100.0%	6.5%
19 Meru	0.0%	45.3%	54.7%	100.0%	6.2%
20 Laikipia	0.0%	50.0%	50.0%	100.0%	6.1%
21 Taita/Taveta	0.0%	1.9%	98.1%	100.0%	5.6%
22 Trans Nzoia	0.0%	0.0%	100.0%	100.0%	5.5%
23 Turkana	0.0%	68.7%	31.3%	100.0%	5.1%
24 Nandi	100.0%	0.0%	0.0%	100.0%	5.0%
25 West Pokot	0.0%	66.7%	33.3%	100.0%	4.9%
26 Kwale	0.0%	0.0%	100.0%	100.0%	4.7%
27 Homa Bay	0.0%	0.0%	100.0%	100.0%	4.7%
28 Murang'a	0.0%	51.7%	48.3%	100.0%	4.3%
29 Migori	0.0%	50.0%	50.0%	100.0%	4.2%
30 Nyeri	86.9%	0.0%	13.1%	100.0%	4.0%
31 Tharaka Nithi	77.1%	11.4%	11.4%	100.0%	3.9%
32 Mandera	35.2%	6.4%	58.4%	100.0%	3.8%
33 Kisii	0.0%	88.0%	12.0%	100.0%	3.7%
34 Bomet	0.0%	73.1%	26.9%	100.0%	3.5%
35 Nyamira	0.0%	0.0%	100.0%	100.0%	3.3%
36 Baringo	0.0%	75.1%	24.9%	100.0%	2.7%
37 Kisumu	0.0%	0.0%	100.0%	100.0%	2.2%
38 Embu	0.0%	53.3%	46.7%	100.0%	1.8%
39 Tana River	1.5%	49.2%	49.3%	100.0%	1.5%
40 Nakuru	0.0%	0.0%	100.0%	100.0%	1.4%
41 Garissa	97.6%	0.0%	2.3%	100.0%	1.3%
42 Mombasa	0.0%	0.0%	100.0%	100.0%	1.1%
43 Marsabit	0.0%	0.0%	100.0%	100.0%	1.1%
44 Bungoma	0.0%	39.3%	60.7%	100.0%	1.0%
45 Machakos	0.0%	0.1%	99.9%	100.0%	0.9%
46 Isiolo	85.2%	0.1%	14.8%	100.0%	0.3%
47 Samburu	0.0%	0.4%	99.6%	100.0%	0.2%
Max	100.0%	88.0%	100.0%	100.0%	46.8%
Mean	11.9%	32.6%	55.5%	100.0%	8.1%
Min	0.0%	0.0%	0.0%	100.0%	0.2%

Source: Office of the Controller of Budget

Appendix 5: Revisions in the Development Budget (2016/17)

County	Proportions of Budget Revisions (absolute revisions)				Mean Absolute Quarterly % Changes
	Q2	Q3	Q4	Total	
1 Lamu	90.3%	4.8%	4.8%	**100.0%**	20.8%
2 Kiambu	92.4%	0.0%	7.6%	**100.0%**	19.8%
3 Nyeri	0.0%	50.0%	50.0%	**100.0%**	17.6%
4 Samburu	20.9%	30.4%	48.7%	**100.0%**	16.2%
5 Murang'a	0.0%	50.0%	50.0%	**100.0%**	14.2%
6 Kirinyaga	94.2%	2.9%	2.9%	**100.0%**	13.9%
7 Trans Nzoia	0.0%	50.0%	50.0%	**100.0%**	11.8%
8 Mombasa	95.4%	0.0%	4.6%	**100.0%**	10.9%
9 Kwale	0.0%	0.0%	100.0%	**100.0%**	9.7%
10 Uasin Gishu	0.0%	50.0%	50.0%	**100.0%**	8.8%
11 Kisumu	88.8%	0.0%	11.2%	**100.0%**	8.2%
12 Meru	0.0%	50.3%	49.7%	**100.0%**	7.5%
13 Embu	40.0%	31.1%	28.9%	**100.0%**	7.2%
14 Narok	0.0%	0.0%	100.0%	**100.0%**	6.8%
15 Busia	0.0%	0.0%	100.0%	**100.0%**	6.6%
16 Nyamira	0.0%	50.0%	50.0%	**100.0%**	6.6%
17 Garissa	0.0%	50.0%	50.0%	**100.0%**	6.0%
18 Turkana	0.0%	0.0%	100.0%	**100.0%**	6.0%
19 Kitui	0.0%	54.8%	45.2%	**100.0%**	5.3%
20 Bungoma	89.5%	0.0%	10.5%	**100.0%**	5.0%
21 Taita/Taveta	29.7%	0.0%	70.3%	**100.0%**	4.7%
22 Nyandarua	78.0%	0.0%	22.0%	**100.0%**	3.8%
23 Homa Bay	0.0%	0.0%	100.0%	**100.0%**	3.6%
24 Marsabit	0.0%	50.0%	50.0%	**100.0%**	3.3%
25 Migori	0.0%	50.0%	50.0%	**100.0%**	3.3%
26 Siaya	0.0%	0.0%	100.0%	**100.0%**	3.2%
27 Tharaka Nithi	0.0%	50.0%	50.0%	**100.0%**	3.2%
28 West Pokot	0.0%	50.0%	50.0%	**100.0%**	3.0%
29 Kakamega	83.1%	0.0%	16.9%	**100.0%**	2.9%
30 Kericho	0.0%	66.7%	33.3%	**100.0%**	2.2%
31 Kisii	0.0%	0.0%	100.0%	**100.0%**	2.0%
32 Mandera	0.0%	0.0%	100.0%	**100.0%**	2.0%
33 Kilifi	0.0%	61.1%	38.9%	**100.0%**	1.5%
34 Isiolo	0.0%	0.0%	100.0%	**100.0%**	1.2%
35 Vihiga	0.0%	50.0%	50.0%	**100.0%**	1.1%
36 Laikipia	0.0%	0.0%	100.0%	**100.0%**	0.9%
37 Wajir	100.0%	0.0%	0.0%	**100.0%**	0.7%
38 Makueni	0.0%	0.0%	100.0%	**100.0%**	0.6%
39 Machakos	0.0%	0.0%	100.0%	**100.0%**	0.4%
40 Nakuru	0.0%	0.0%	100.0%	**100.0%**	0.3%
41 Bomet	0.0%	0.0%	100.0%	**100.0%**	0.2%
42 Nairobi	0.0%	0.0%	100.0%	**100.0%**	0.2%
43 Baringo	0.0%	0.0%	100.0%	**100.0%**	0.1%
44 Elgeyo/Marakwet	0.0%	0.0%	0.0%	**100.0%**	0.0%
45 Kajiado	0.0%	0.0%	0.0%	**100.0%**	0.0%
46 Nandi	0.0%	0.0%	0.0%	**100.0%**	0.0%
47 Tana River	0.0%	0.0%	0.0%	**100.0%**	0.0%
Max	100.0%	66.7%	100.0%	**100.0%**	20.8%
Mean	19.2%	18.1%	54.2%	**100.0%**	5.4%
Min	0.0%	0.0%	0.0%	**100.0%**	0.0%

Source: Office of the Controller of Budget

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

87

Appendix 6: Revisions in the Development Budget (2015/16)

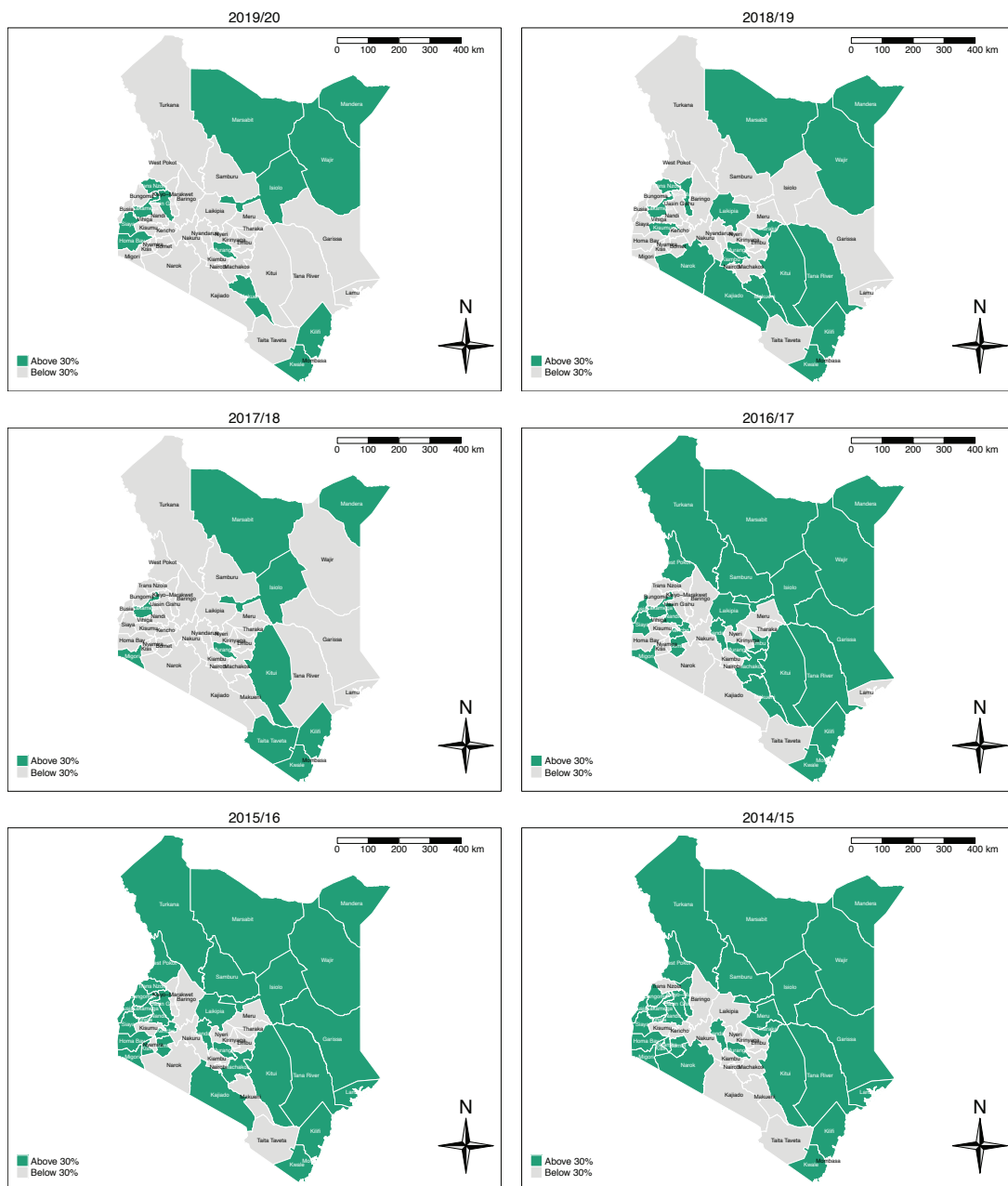| County	Proportions of Budget Revisions (absolute revisions)				Mean Absolute Quarterly % Changes
	Q2	Q3	Q4	Total	
1 Nyandarua	0.0%	52.1%	47.9%	**100.0%**	32.3%
2 Kirinyaga	0.0%	50.0%	50.0%	**100.0%**	22.0%
3 Lamu	81.5%	0.0%	18.5%	**100.0%**	20.4%
4 Siaya	0.0%	50.0%	50.0%	**100.0%**	18.9%
5 Elgeyo/Marakwet	0.0%	50.0%	50.0%	**100.0%**	16.7%
6 Embu	0.0%	0.0%	100.0%	**100.0%**	15.9%
7 Mombasa	0.0%	44.3%	55.7%	**100.0%**	14.5%
8 Bomet	15.5%	57.4%	27.1%	**100.0%**	13.3%
9 Narok	0.0%	0.0%	100.0%	**100.0%**	10.3%
10 Bungoma	78.4%	0.0%	21.6%	**100.0%**	9.9%
11 Nairobi	0.0%	0.0%	100.0%	**100.0%**	9.5%
12 West Pokot	0.0%	50.0%	50.0%	**100.0%**	8.5%
13 Busia	0.0%	0.0%	100.0%	**100.0%**	7.3%
14 Meru	23.1%	0.0%	76.9%	**100.0%**	6.8%
15 Tana River	0.0%	47.3%	52.7%	**100.0%**	6.8%
16 Migori	0.0%	50.0%	50.0%	**100.0%**	6.8%
17 Taita/Taveta	0.0%	74.9%	25.1%	**100.0%**	6.8%
18 Kiambu	0.0%	0.0%	100.0%	**100.0%**	6.6%
19 Samburu	89.1%	0.0%	10.9%	**100.0%**	6.3%
20 Kericho	0.0%	0.0%	100.0%	**100.0%**	6.1%
21 Vihiga	39.3%	0.0%	60.7%	**100.0%**	5.3%
22 Uasin Gishu	99.2%	0.0%	0.8%	**100.0%**	4.9%
23 Nyeri	0.0%	50.0%	50.0%	**100.0%**	4.7%
24 Isiolo	0.0%	0.0%	100.0%	**100.0%**	4.5%
25 Nyamira	0.0%	0.0%	100.0%	**100.0%**	3.6%
26 Marsabit	0.0%	0.0%	100.0%	**100.0%**	3.2%
27 Tharaka Nithi	0.0%	50.0%	50.0%	**100.0%**	3.1%
28 Homa Bay	0.0%	0.0%	100.0%	**100.0%**	2.9%
29 Machakos	98.7%	0.0%	1.3%	**100.0%**	2.9%
30 Mandera	100.0%	0.0%	0.0%	**100.0%**	1.9%
31 Turkana	0.0%	0.0%	100.0%	**100.0%**	1.6%
32 Laikipia	2.7%	2.7%	94.5%	**100.0%**	1.6%
33 Makueni	0.0%	0.0%	100.0%	**100.0%**	1.5%
34 Nandi	0.0%	0.0%	100.0%	**100.0%**	1.5%
35 Garissa	0.0%	0.0%	100.0%	**100.0%**	1.4%
36 Kisii	0.0%	50.0%	50.0%	**100.0%**	1.1%
37 Kakamega	0.0%	0.0%	100.0%	**100.0%**	1.0%
38 Kisumu	0.0%	0.0%	100.0%	**100.0%**	0.9%
39 Baringo	0.0%	0.0%	100.0%	**100.0%**	0.7%
40 Kajiado	0.0%	0.0%	100.0%	**100.0%**	0.7%
41 Murang'a	100.0%	0.0%	0.0%	**100.0%**	0.5%
42 Trans Nzoia	0.0%	50.0%	50.0%	**100.0%**	0.5%
43 Wajir	0.0%	0.0%	100.0%	**100.0%**	0.4%
44 Kilifi	0.0%	0.0%	100.0%	**100.0%**	0.1%
45 Kwale	0.0%	0.0%	100.0%	**100.0%**	0.1%
46 Kitui	0.0%	0.0%	100.0%	**100.0%**	0.1%
47 Nakuru	0.0%	0.0%	100.0%	**100.0%**	0.0%
Max	100.0%	74.9%	100.0%	**100.0%**	32.3%
Mean	15.5%	15.5%	69.0%	**100.0%**	6.3%
Min	0.0%	0.0%	0.0%	**100.0%**	0.0%

Source: Office of the Controller of Budget

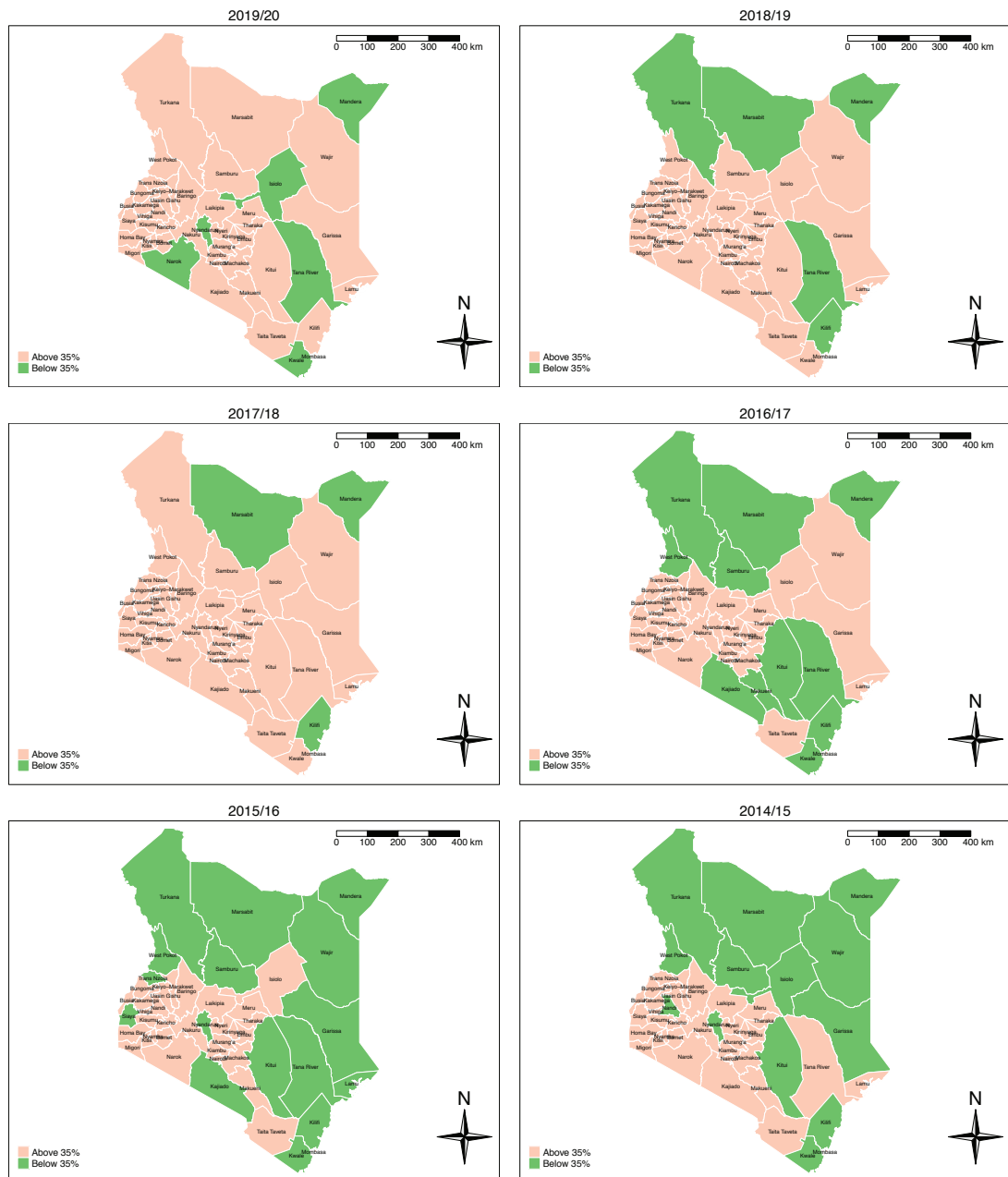# Appendix 7: Revisions in the Development Budget (2014/15)

County	Proportions of Budget Revisions (absolute revisions)				Mean Absolute Quarterly % Changes
	Q2	Q3	Q4	Total	
1 Laikipia	0.0%	48.0%	52.0%	**100.0%**	51.9%
2 Nyamira	74.1%	13.0%	13.0%	**100.0%**	38.6%
3 Nyandarua	30.7%	0.0%	69.3%	**100.0%**	38.3%
4 Kitui	29.1%	32.4%	38.5%	**100.0%**	37.6%
5 Kisumu	0.0%	52.9%	47.1%	**100.0%**	35.9%
6 Isiolo	0.0%	32.7%	67.3%	**100.0%**	29.7%
7 Busia	0.0%	74.8%	25.2%	**100.0%**	29.7%
8 Nyeri	92.6%	0.0%	7.4%	**100.0%**	28.9%
9 Siaya	100.0%	0.0%	0.0%	**100.0%**	25.3%
10 Bungoma	0.0%	56.1%	43.9%	**100.0%**	24.3%
11 Makueni	0.0%	6.9%	93.1%	**100.0%**	23.9%
12 Embu	0.0%	55.5%	44.5%	**100.0%**	23.6%
13 Uasin Gishu	89.6%	3.7%	6.7%	**100.0%**	23.4%
14 Lamu	5.3%	0.0%	94.7%	**100.0%**	21.4%
15 Vihiga	100.0%	0.0%	0.0%	**100.0%**	20.8%
16 Samburu	0.0%	12.7%	87.3%	**100.0%**	19.3%
17 Tana River	1.3%	0.0%	98.7%	**100.0%**	18.5%
18 Marsabit	86.6%	6.7%	6.7%	**100.0%**	18.5%
19 Mombasa	0.0%	50.0%	50.0%	**100.0%**	16.5%
20 Meru	0.0%	5.9%	94.1%	**100.0%**	15.5%
21 Kisii	66.4%	0.0%	33.6%	**100.0%**	11.8%
22 Elgeyo/Marakwet	63.8%	0.0%	36.2%	**100.0%**	9.5%
23 Nairobi	0.0%	0.0%	100.0%	**100.0%**	9.1%
24 Narok	0.0%	0.0%	100.0%	**100.0%**	8.7%
25 Kilifi	0.0%	0.0%	100.0%	**100.0%**	8.2%
26 Migori	0.0%	0.0%	100.0%	**100.0%**	8.2%
27 Kwale	0.0%	0.0%	100.0%	**100.0%**	8.1%
28 Bomet	0.0%	0.0%	100.0%	**100.0%**	7.9%
29 West Pokot	98.8%	0.0%	1.2%	**100.0%**	7.2%
30 Machakos	62.8%	0.0%	37.2%	**100.0%**	7.1%
31 Kiambu	8.6%	65.5%	25.9%	**100.0%**	6.8%
32 Kajiado	0.0%	50.0%	50.0%	**100.0%**	6.5%
33 Mandera	0.3%	49.8%	49.8%	**100.0%**	5.6%
34 Kericho	0.0%	0.0%	100.0%	**100.0%**	5.5%
35 Baringo	12.5%	0.0%	87.5%	**100.0%**	5.3%
36 Kirinyaga	0.0%	50.0%	50.0%	**100.0%**	5.2%
37 Murang'a	93.1%	3.5%	3.5%	**100.0%**	4.3%
38 Kakamega	0.0%	0.0%	100.0%	**100.0%**	3.5%
39 Taita/Taveta	100.0%	0.0%	0.0%	**100.0%**	3.2%
40 Turkana	0.0%	0.0%	100.0%	**100.0%**	3.2%
41 Homa Bay	0.0%	1.9%	98.1%	**100.0%**	3.0%
42 Garissa	0.0%	0.0%	100.0%	**100.0%**	2.6%
43 Trans Nzoia	0.0%	68.2%	31.8%	**100.0%**	2.4%
44 Nakuru	0.0%	0.0%	100.0%	**100.0%**	1.7%
45 Tharaka Nithi	0.0%	0.0%	100.0%	**100.0%**	1.7%
46 Nandi	0.1%	0.0%	99.9%	**100.0%**	1.0%
47 Wajir	16.9%	41.6%	41.6%	**100.0%**	0.0%
Max	100.0%	74.8%	100.0%	**100.0%**	51.9%
Mean	24.1%	16.6%	59.3%	**100.0%**	14.7%
Min	0.0%	0.0%	0.0%	**100.0%**	0.0%

Source: Office of the Controller of Budget

Appendix 8: Counties That Meet the Fiscal Requirement on Development Expenditure of at Least 30%

2019/20

2018/19

2017/18

2016/17

2015/16

2014/15

Appendix 9: Counties That Meet the Fiscal Threshhold of at Most 35% on Personnel Emoluments

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

Appendix 9: List of Key Informants Interviewed

County Executive Committee Member (CECM) Finance and Economic Planning in 7 counties

i) Tana River
ii) Elgeyo Marakwet
iii) Marsabit
iv) Siaya
v) Nakuru
vi) Makueni
vii) Kakamega

Chief Officers- Finance and Economic Planning in 2 counties

i) Tana River
ii) Elgeyo Marakwet

Members of County Assembly in

i) Siaya
ii) Nairobi

Representative from Civil Society Organizations

i) Transparency International
ii) Elgeyo Marakwet CSOs Network

Intergovernmental Fiscal Relations in Kenya, 2014/15-2019/20: Implications for County Budget Execution
AN EMPIRICAL ANALYSIS

93