Mokoro Ltd

Putting Aid On Budget

A Study for

the Collaborative Africa Budget Reform Initiative (CABRI)

and

the Strategic Partnership with Africa (SPA)

KENYA CASE STUDY – WORKING PAPER

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THE AID ON BUDGET STUDY

The Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) commissioned study of "putting aid on budget" has the following outputs:

An ***Inception Report***, which defines the issues and research methodology.

Ten ***country studies from sub-Saharan Africa***. Of the ten country studies, ***Ghana, Mali, Mozambique, Rwanda*** and ***Uganda*** were studied in depth, and separate country reports are available. The experiences of Burkina Faso, Ethiopia, Kenya, South Africa and Tanzania were also reviewed and summary information is included in the Synthesis Report annexes. Findings from all ten countries are included in the Synthesis Report.

A ***Literature Review***, which (a) documents existing good practice guidance that is relevant to the incorporation of aid in recipient country budgets; (b) reviews the policies and guidelines of the major multilateral and bilateral agencies as these affect the incorporation of their aid into government budgets; and (c) documents relevant experiences of efforts to capture aid in government budgets, including desk reviews of some additional countries, including countries from outside Africa.

A ***Synthesis Report*** which draws on all the other study components to develop overall findings and recommendations.

A ***Good Practice Note*** which distils the lessons of the study and is aimed at donors as well as partner governments.

The reports can be downloaded from the CABRI website at http://www.africa-sbo.org/

The **Kenya case study** is a background working paper to the Aid on Budget study (not a separate country report). (The Section B matrix is used in the Aid on Budget Synthesis Report Annexes.)

Disclaimer

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This working paper was prepared by independent consultants. Responsibility for the contents and presentation of findings and recommendations rests with the study team.

The views and opinions expressed in the working paper do not necessarily correspond to the views of CABRI or SPA.

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A. Country Context

A1. Key Information Sources

Author	Name	Date
Government of Kenya		
GJLOS	GJLOS Sector Reform Programme	2005
GJLOS	Financial Report and Narrative July to December 2006	2007
Government of Kenya	Economic and Recovery Strategy for Wealth and Employment Creation 2003-2007	2003
Government of Kenya	Investment Program for the Economic and Recovery Strategy for Wealth and Employment Creation 2004–2007	2003
Government of Kenya	Annual Progress Report: 2004/2005. Investment Program for the Economic and Recovery Strategy for Wealth and Employment Creation 2003-2007	2005
Government of Kenya	GJLOS Progress Report – Medium Term Strategy	2007
Government of Kenya	Public Financial Management Performance Report and Indicators	2006
Government of Kenya	PFM Reform Strategy	2006
Ministry of Education	Education Sector Support Programme	2005
Ministry of Finance	Budget Outlook Paper 2007/8 to 2009/10	January 2007
Ministry of Finance	Medium Term Budget Strategy Paper 2006/7-2008/9	May 2006
Ministry of Finance	Strategy for the Reform of Public Finance Management	2006
Ministry of Finance	Quarterly Budget Review	2006
Ministry of Finance	Development Estimates	2007/8
Ministry of Finance	Estimates of Recurrent Expenditure	2007/8
Ministry of Finance	Details of Projects with External Resources in Development Estimates	2005/6
Ministry of Finance	Kenya External Revenue Policy	2007
Ministry of Finance	External Resource Department on line reports on donor support	2007
Ministry of Finance	Education Sector Working Group Report	2007
Ministry of Finance	Health Sector Working Group Report	2007
Ministry of Finance	Agriculture Sector Working Group Report	2007
Ministry of Finance	Partnership Principles	2007

Author	Name	Date
Ministry of Planning and National Development	Strategic Plan 2004/5 to 2008/9	2006
Ministry of Health	Public Expenditure Review 2005	2005
Ministry of Health	National Health Strategic Plan	2005
Ministry of Health	Annual Operational Plan 2005/6	2005
Ministry of Health	Quarterly AOP Performance monitoring report	September 2006
Other		
Afrodad	A critical assessment of aid management and donor harmonization: the case of Kenya	2007
GJLOS Advisory Team	GJLOS Sector Third Programme Review	2006
OECD DAC	2006 Survey on Monitoring the Paris Declaration, Kenya Country Chapter	2007
OECD	Development Statistics Database	2007

A2. Country Institutions

What is the structure of general government?

1. Kenya is organised as a unitary state. The country is organised into 8 provinces for administrative purposes. Each province is then organised into districts: there are 69 districts. Each province has a governor, who is appointed by the President. At national level the President is elected separately from Parliament. The City of Nairobi counts as an administrative region on its own for national government services. Local government consists of appointed provincial and district commissioners, elected county, municipal, and town councils, and elected township or municipal authorities. The provincial commissioners are responsible for national government services such as education, transport, and health in their provinces, while the councils are concerned with services and public works funded by local taxes and grants from the central government.

2. At national level the executive branch of government is structured into ministries. Executive power vests in the hands of the president, the vice president and cabinet. The vice president is appointed by the president, as are the ministers. Ministries are headed by ministers, assisted by deputy ministers (also appointed by the President). Permanent secretaries head the ministry bureaucracies, but are also appointed by the president. Ministries are commonly organised with central management units, including a policy unit, a finance officer and financial staff, and then implementing divisions.

Policy documents and process

3. Kenya structures its policy documents hierarchically. At the centre are overarching plans such as the long term development plan and the medium term strategic plan. This document, which is important for both the budget allocation process and aid alignment, is a three year policy document. The current document, the Economic Recovery Strategy for Wealth and Employment Creation (ERS) together with its investment plan (the IP ERS) operated since 2003 and comes to an end this year. The next strategy is currently under preparation (led by the Ministry of Planning and Development). The ERS intent and structure is in line with poverty reduction strategy papers. It is built around 4 pillars, namely economic

growth and poverty reduction (fiscal policy and budget management); investing in human capital (service delivery in particularly education and health); good governance (transparency accountability and efficient PFM systems) and the rehabilitation and expansion of physical infrastructure (particularly roads). The document is important for aid management in two ways: firstly it sets out the key priority and programme areas for assistance and secondly it highlights key reforms required in government management systems that are required for effective aid management (Afrodad, 2007).

4. At sector and ministry level there is a number of strategic instruments, some of them also operating as budgeting instruments.

5. Three sectors have completed strategic framework documents, the Education Sector, the Health Sector and the Governance, Justice, Law, Order and Security Sector. These documents are comprehensive strategic documents and include joint forward planning for all resources, notwithstanding source. They are supported by annual operational plans, with more detailed resource plans, and monitored through a system of quarterly and annual reporting. In all three sectors SWAP documents are either in place or being prepared based on the framework strategic plans.

6. Most ministries have strategic documents. These are an integrated part of the performance management framework provided by the President's Office. The examples found of these documents however do not include planning for ODA. They are high level strategic documents that do not pay attention to issues of resource allocation.

7. The institutions of the annual budget cycle provide a further mechanism for policy coordination towards central policy priorities and at departmental level. The budget cycle is initiated with the processes for the Budget Outlook Paper, which includes identification of medium term budget priorities in line with the overall strategic documents, such as the ERS.

8. For the process, all ministries are required to prepare Ministerial Public Expenditure Reviews. These require the integration of recurrent and development budget funding and own resources and external resources against strategic objectives, programmes and activities. The documents are Ministries primary input into the budget process. They are absorbed into the Sector Working Group Reports (see below) through the processes of the Sector Working Groups, through which Ministries make submissions to the Ministry of Finance. However, it should be noted that these documents are not really integrated into Ministry planning processes. They are too often seen as yet another compliance document, farmed out to consultants or prepared by the financial division in the ministries without sufficient participation by implementing programmes.

9. Sector Working Group Reports are the outputs of the Sector Working Groups in the budget process. There is a link between these groups and the sectors set up under the ERS, in that they are aligned. The Sector Working Group Reports provide consolidated information on government and donor funding.

10. At the central level the Budget Strategy Paper is the narrative that goes with the budget documents. This expresses the outcome of government strategic budget policy decisions.

11. The Kenya policy/budgeting system is made complex by overlapping requirements from different central ministries. The MPERs are for example an instrument of the Ministry of Planning and Development (although it is managed jointly with the Ministry of Finance), the Sector Working Group Reports are a Ministry of Finance instrument, while the Strategic Plans are from the Office of the President. The SWAP strategic documents and annual operational plans are required under SWAP agreements with development partners. Ministries complain that they are overburdened by different instruments with overlapping purposes.

12. At the district and local level, authorities are responsible for preparing strategic plans. At district level the District Development Plans are required to link to District level medium term expenditure planning, which feeds by sector into Ministries' medium term planning. At the local level authorities prepare Service Delivery Action Plans.

13. The Paris Declaration Monitoring survey has found Kenya strong on medium term strategic planning and specific country actions, but weak on long term development planning.

14. The Millennium Development Goals (MDGs) play an important role in Kenya. The medium-term strategies are, according to the World Bank's Aid Effectiveness Review (AER), fully in line with the MDGs and are linked to an MDG-focused results matrix. Recent assessments of what is needed to meet the eight MDGs have led to increased resource allocation towards health, water supply and agriculture.

PFM system

15. A MTEF was introduced in 2000/1, followed by continuous improvement to the process. These reforms have begun to have an impact on public expenditure, with a greater share of resources being allocated to priority sectors. However, this is not always reflected in budget execution. There are significant differences between ministerial budgets and actual expenditure, in-year budget re-allocations are frequent, there is underspending on development budgets while the more rigid forms of recurrent spending such as wages remain problematic. To address these issues, a Public Expenditure Management Assessment and Action Plan is in place (supported by a SWAP in the PFM sector). The plan is based on a PEFA assessment and takes a platform-based approached to reforms.

16. Kenya's PFM system is decentralised for planning and financial management. Ministries plan for their expenditure within ceilings provided by the Ministry of Finance, manage the execution process and account for funds used.

17. The Ministry of Finance plays a pivotal role in the allocation of resources. It undertakes the technical work of setting the medium term fiscal and budget framework. At the same time it runs the national budget process.

18. The process occurs in three phases.

19. The first phase is focused on the link between macro-economic and fiscal policy, includes the preparation of macro-economic and fiscal forecasts and a review of fiscal policy and culminates in the publication of the Budget Outlook Paper. This Paper is approved by Cabinet and made available on the Ministry of Finance's website and to Parliament, but is not officially approved by Parliament. The paper sets the fiscal and budget frameworks and provides sector ceilings.

20. The second phase involves the strategic allocation phase. Kenya is using an innovative two stage process where sector working groups have real influence on budget allocations by proposing the allocation of the budget over the medium term to their component ministries. In the strategic phase of the process the Ministry of Finance does not deal with Ministries as individual entities, but work with sector views through the Sector Working Group Reports. These reports, drafted by Sector Working Groups and using the Ministerial MPERs as input papers, summarise sector objectives, issues and policies, past performance, available financing and the forward budget allocation proposals for the sector against the issued ceilings. Once the draft SWG reports are complete, sector hearings are held. These are public hearings, chaired by an independent chair. During the hearings members of interest groups or of the public can make submissions related to the proposals in the Sector Working Group Reports. After taking into account the hearings, the SWG Reports are finalised and submitted to the Ministry of Finance. The Budget Coordination Committee in the Ministry of Finance then reviews the submissions and finalises proposals for the allocation of resources between Ministries. The Budgetary Supplies Department of the Ministry of Finance then takes the lead in drafting the Budget Strategy Paper. This paper is again approved by Cabinet, but is also tabled and approved in Parliament. This signals the end of the strategic budget process and the start of the third phase, the preparation of detailed estimates.

21. The drafting of the detailed estimates is very much the concern of financial officers in line ministries and the budget examiners in the Ministry of Finance. Critiques of the Kenyan system have noted that much of the good strategic work done during the second phase of the overall process gets undone at this point, when Ministries use the opportunity to argue for additional funds and the Ministry of Finance staff revert to an input orientation in looking at allocations. Because the detailed annual budget is finally tabled in Parliament with very little supporting documentation, it is often difficult for observers to trace the links between the Budget Strategy Paper output and outcome commitments, and the detailed allocations of the Budget Estimates for both the Recurrent and the Development Budgets.

22. The budget is fairly well contested through the budget process, with the reservations noted above. The process now includes many more strategic elements compared to the pre-MTEF process. The process is fairly disciplined, insofar as calendars are set out before hand and implemented. Some deviation occurs from the pre-determined timetable. In the 2006 year the MPERs, the Budget Outlook Paper and the Budget Strategy Paper were completed late in the cycle, undermining their usefulness. Some Sector Working Group Reports were available before the MPERs, rendering them even more superfluous. The Budget Strategy Paper was also less effective in putting forward final departmental ceilings based on strategic issues, before the process to negotiate detailed estimates, as it was only completed shortly before the Detailed Estimates were presented to Parliament.

23. Final decisions regarding allocations are made by Cabinet, but most of the technical work is done by the Ministry of Finance together with other institutions such as the Ministry of Planning and Development, the Revenue Services, the Central Bank.

24. On the Budget Execution side, the Ministry of Finance runs a cash management system, which requires Ministries to produce cash flow projections for the year, updated monthly. The cash flow plans include spending on on-going commitments, such as the wage bill and utilities, as well as projections on once-off expenses. On the basis of this data, a committee in the Ministry of Finance releases funds for the once-off expenditure to zero balance accounts for Ministries. Ministries are then responsible for the expenditure execution processes, culminating in the recording of payments in the accounting system and monthly financial reports to the accountant general. The Ministry of Finance financial regulations regulates the process.

25. The Ministries submit monthly financial reports to the Accountant General's Department in the Ministry of Finance. These are compiled into quarterly reports. The Quarterly Reports comprise both financial reporting on budget execution and narratives on key budget issues. This includes a report on the implementation of the Fiscal Policy Framework (including external financing), reporting against priority programmes in terms of the ERS (for both domestic and external financing) and against each sector.

26. The role of Parliament in the budget process is currently controversial. This process lasts between June and October. Once the Finance Minister has presented the Budget as required by law, on or before 20 June, there follows a seven-day debate on the policy proposals spelt out in the budget. The official opposition has first priority to respond to the budget proposals and at the end of the debate, the Minister of Finance responds to the issues raised by the members. This is followed by the passing of the vote on account, which provides the executive with permission to spend 50% of the budget after the start of the financial year (1 July) before formal approval is voted a couple of months later. The budget then goes into sector committees for discussion and approval vote by vote. Parliament can make minor changes to the budget. The House Business Committee selects 10 votes for debate given that members of parliament cannot debate all votes because of time constraint. They are required by law to conclude the debate by end of October. All other votes not discussed are passed in the last House business day.

27. These are the formal rules. In practice, Parliament has used its power in the recent past to vote the vote on account to negotiate with the ministry of finance spending in the interest of parliamentarians or partisan issues.

28. The current government has also introduced through standing legislation a constituency fund which is set at a percentage of the budget. This is targeted at community development and is formally run by constituency committees. However, parliamentarians chair these committees.

29. Parliament has also drafted and approved a fiscal management bill which is aimed at enhancing its role in budget management. This is currently before the President for his signature. At the same time, the Ministry of Finance has drafted new global PFM legislation, which also includes provisions for Parliament. Its hope is that a compromise between these two pieces of legislation can be negotiated in the hiatus before the President signs the parliamentary bill into law.

30. A Budget Office has been established in Parliament. This is headed by the former head of the MTEF unit.

31. Government is in the process of reforming the procurement process, backed by new legislation. Payroll processes and information systems have also undergone reform.

32. Administrative oversight of the public sector is provided by the Kenya National Audit Office. Recently this office has been established independently from the Ministry of Finance and an effort is being made to clear audit backlogs for central government. There is also an Internal Auditor General Office which has developed a framework for internal auditing. Risk-based internal auditing is being implemented progressively.

33. The fiscal year runs from 1 July to 30 June.

A3. Aid Context

Overview of aid flows:

34. Grants and loans to the Government of Kenya comprised 7.3 % of total expenditure in 2004/5. In the subsequent year this increased to 7.8%. According to the 2007 Budget Outlook Paper it was estimated at 9.7 percent for 2006/7. For the projection years the fiscal framework 2007/8 to 2009/10 expected it to be over 13%.

Table 1: Overview of Aid Flows

2004/5	2005/6	2006/7	2007/8	2008/9	2009/10
Outcome	Outcome	Est	Proj	Proj	Proj
7.3%	7.8%	9.7%	13.2%	13.4%	13.7%

Source: Budget Outlook Paper 2007, Budget Strategy Paper 2006.

35. In 2005 donors expected to disburse USD 620 million to the government sector, and disbursed USD 456 million.[1] The OECD official ODA commitments to Kenya for 2005 were USD 768 million: this includes per definition loans to public financial and non-financial enterprises and commitments to funding of NGOs and concessional loans for development purposes to commercial financial institutions.

36. Most ODA to Kenya is in the form of grants and technical assistance support. According to the OECD Development Statistics, 75% in 2005 was in the form of grants. Most support is from bilateral donors (60%), with 40% coming from multilateral agencies. Over 50% of support is to the social sectors, with health being the single most supported sector (over 20%).

37. Most of donor support to central government is in the form of project support, specifically project grants, which makes up 60% of support. All grants are 69% (note that this is Government of Kenya figures, whereas figures in the second bullet after the table above are donor sourced, and includes support to the public financial and non-financial enterprises). All project support is 88% of total loans and grants. Most support (if not all) is to the central government level. The biggest donors are the US, the EC and the UK.

Table 2: Programme and Project Grants and Loans, Revised Budget 2005/6 (Kenya Shillings Million)

	Programme	Project	Total
Grants	4.75	30.8	35.55
Loans	1.572	14.17	15.742
Total	6.322	44.97	51.292

Source: Budget Strategy Paper 2006.

[1] 2006 Survey on Monitoring the Paris Declaration, SA Country Chapter, p29-7.

Table 3: Support to Kenya by biggest six donors, 2005 in USD Million

United States	137.82
EC	136.81
United Kingdom	86.60
SAF+ESAF+PRGF(IMF)	73.82
Japan	69.55
Germany	50.95

Source: OECD Development Statistics

A4. Aid Institutions

Government institutions

38. Aid is coordinated by the External Resources Department (ERD) in the Ministry of Finance. The core roles of the department include sourcing, negotiating, coordinating, disbursing and reporting of ODA resources. The ERD is the lead agency for developing systems and negotiating improvements in aid management in line with the Paris Declaration (e.g. alignment, harmonisation).

39. Part of the ERD's mandate is to be involved in all parts of the project/programme development cycle, from the identification of areas for support, through appraisal, formulation, implementation, monitoring and evaluation. The recently developed External Resources Policy Document re-affirms this role of the ERD. (See annex 2 for a detailed explanation of government roles across government.)

40. Within the budget process the ERD sits on the Macroeconomic Sector Working Group, which is responsible for developing the fiscal and budget framework. Its responsibility is to provide estimates of development partner inflows into the consolidated (ie recurrent and development budget) budget framework. It follows this up during the year with continuous forecasts of inflows in the context of the cash management system.

41. The ERD also provides input into sector planning processes in the budget process, by providing and collating information with sector agencies. In the budget execution process the ERD disburses all development partner funds that flow through the Treasury system to spending agencies. Ministries are responsible for reporting to the ERD on the use of the resources on a monthly basis. The ERD then provides inputs into the overall reporting and monitoring systems. The ERD participates or initiates periodic evaluation of projects and programmes. Overall, the ERD is the central agency for effective management of Government/Donor agreements, including protocols.

42. The unit falls under the economic secretary pillar of the department and is on an equal level to for example the budget office. It is staffed by a Director supported by desk officers and administrative staff. Currently it is organised by donor, but according to the recently completed Kenya External Resources Policy (KERP), the unit will be organised on a sector basis. The coordination and management of donor inflows have tightened significantly over recent years through development (staff and systems) of the ERD.

43. The ERD also maintains a database on development inflows. In accordance with the KERP this database will develop significantly in future to be the most authoritative and comprehensive source of information on development partner commitments and disbursements to government.

44. At Ministerial level, structures to coordinate government and donor financing and activities vary. In Education and Health, which are discrete Ministries with SWAps, dedicated units have been set up through which the implementation of strategies through the MTEF/budget process in coordination with development partners is managed. These units work between joint government donor steering committees, ministerial implementation departments and various inter-ministerial and public forums. In the Governance, Justice, Law, Order and Security sector SWAP structures are more complex because of the

involvement of many ministries. Appendix 1 sets out the institutions and their relationships: important to note is the roles of the Programme Coordinating Office in the lead ministry (Justice and Constitutional Development) and the Basket Fund Financial Agent. For the big support sectors therefore sector-specific structures have been negotiated, which include government ministry structures for coordination.

45. It is interesting to note that in accordance with the KERP roles (see Annex 2), ministries are not given an explicit function for strategic allocation of aid: their function is “project implementation, monitoring & evaluation, accounts and reports on ODA utilization”. The planning (or strategic placement of resources) function is not explicitly allocated, but sits somewhere between ERD, the Ministry of Planning and Development and the Budget Supplies Department. The KERP also brings a Kenya Joint Assistance Strategy (which is currently being developed by the Kenya Donor Harmonisation, Alignment and Coordination Group (see below)) into Government’s aid policy: within the context of the strategy aid will be programmed over the medium term. The counterpart for the development of the strategy is the ERD, but also line ministries.

46. In Ministries in which development funds play a smaller role, the management of donor funds is carried out by the administrative support departments (which include financial officers) and the implementation departments.

Government/donor institutions

47. Several forums of engagement have been put in place to facilitate dialogue at different levels between government and donors.

48. At the central level the Consultative Group meets once every two years. This is the forum where donors pledge their support to government programmes. The KCG is likely to be less important with the introduction of a Kenya Joint Assistance Strategy. The strategy establishes five year plans that determine where the funding and budgetary support will come from. It is likely though that – given donor limitations on forward commitments – there will still be a need for a more frequent assessment of forward inflows.

49. The Kenya Coordination Group is organised by the ERD and is a forum for government and development partners to meet. The meetings constitute a forum in which government’s progress concerning harmonisation is communicated. The meeting is chaired by the Minister of Finance. Recently it has been held less frequently (Afrodad report).

50. Within the budget process the sector working groups include development partners (and other stakeholders). In theory they are therefore forums at which donor and government funding can be integrated within the budget process.

51. In the significant donor receiving ministries steering committees and other similar structures operate to manage joint programmes. In other ministries steering committees are usually in place to manage projects.

Donor structures

52. The Kenya Donor Consultative Group is a forum of donors, particularly ambassadors and heads of agencies as relevant. It is aimed at harmonisation amongst donors. More recently the Harmonisation Alignment and Coordination Group was formed. This was in response to a request by the Government that donors should better harmonise, coordinate and align their activities. The group comprises 17 development partners and is supported by a World Bank based secretariat. The group is responsible for the preparation of the Kenya Joint Assistance Strategy (see Annex 3 for a note on the Strategy) and monitoring donor coordination, harmonisation and alignment. It also liaises with the ERD when joint liaison is required.

Aid procedures

53. In terms of the Constitution and subsequent legislation such as the External Loans and Credit Act no funds from any source can be spent by general government without the approval of parliament. In principle this means that legally all ODA to the government sector needs to be captured in the budget, setting the framework for aid procedures.

54. Within this framework the External Resources Department plays an important role in coordinating the information flows that ensure that aid is on budget.

Initiating new support

55. In principle new aid projects and programmes are coordinated by the ERD, which is tasked with sourcing aid support. Ministries submit their projects for financing to the ERD, who prioritises projects in line with government strategic priorities and source funding. However, in practice development partners often initiate processes with agencies of their choice. The ERD 'strives' to be involved in all stages of the aid cycle, but sometimes projects or programmes are agreed between line agencies and development partners before the ERD is involved.

Managing negotiated projects and programmes: budgeting

56. Government operates a dual budgeting system. The recurrent budget finances recurrent expenditure such as wages, goods and services such as medicines, school books and agricultural inputs, recurrent transfers such as subsidies and pensions and capital expenditure on small items such as photocopiers. It channels government recurrent expenditure. The development budget finances development and infrastructure projects. It channels government development spending for these purposes. It however also channels all donor funds, whether for recurrent purposes or capital purposes, including basket funding.

57. The development budget first sets out spending by ministry against a series of programmes or projects. At this aggregate level all expenditure is provided, after which appropriations in aid is netted out. The remainder is Government of Kenya funds approved from the development budget ceiling. A next set of pages then provides details of the projects, providing information against economic classification of spending and noting the source of funds for each line. This can either be a single source, such as IFAD or the Government of Kenya, or if it is funded by multiple sources the budget would just state various.

58. In the strategic phase of the budget allocation process (see section above) planning for the development and recurrent budgets is joined up against programmes. The ERD works in the process both at the aggregate fiscal framework level, and at the inter-ministry level. It works with the Budget Supplies Department to allocate Government of Kenya development funding, and provides information on the projections for and allocation of external resources. At the same time Ministries are expected to provide information on the allocation and use of external resources in their MPERs and through the sector working groups (which include donor representation) in the Sector Working Group Reports. Both the Budget Outlook Paper and the Budget Strategy Paper includes external resources, the latter at a more detailed level.

59. When the detailed estimates are being prepared, the development budget is separated from the recurrent budget. However, the Budget Supplies Department in the Ministry of Finance remains responsible for the preparation of both sets of detailed estimates.

60. The Ministry of Finance publishes a separate booklet that is derived from the Development Estimates. This booklet provides details on projects that involve donor funding. The booklet comprise a series of summary tables that in total provides information on two years prior to the budget, the current year and the budget year by donor, by vote and whether it is loans or grants. The next to final set of tables provides details of projects for the budget year by vote. For each project details of the implementing Ministry, planned disbursement for the year, commitment by the donor, amount reflected and the mode of disbursement are shown. The final set of tables provides similar details by donor. The booklet is however produced a few months after the tabling of the budget in parliament.

Managing projects and programmes: budget execution

61. According to the Paris Declaration Monitoring Survey, 47% of aid flows through government budget execution systems for budget execution, financial reporting and auditing and 45% of aid makes use of government procurement systems. These numbers are only very roughly in line with the 2007/8 development budget which provides for KShs49 billion external loans and grants managed outside of government systems (60%), compared to 33 billion managed as revenue (40%).

62. For aid that is managed through government systems, Ministries must include their drawings on the expected aid in their annual and rolling monthly cash plans. These are assessed by the Accountant General's department and combined into government wide cash plans.

63. At the central level the Exchequer Committee, supported by inputs from the ERD for the availability of external resources whether programme support or project support and other Ministry of Finance Departments such as the Budget Supplies Department and the External Resources Department, makes decisions on the allocation of cash, including disbursements against the development budget. Aid is then disbursed for specific purposes as appropriated by parliament to the agencies zero-balance drawing accounts.

64. At the Ministry level Budget Implementation Committees oversee the implementation of both the Recurrent and Development Budget, including forecasts of required cash and spending of aid. The Committees comprise heads of the financial unit, planning unit, two implementation departments, the head of personnel and the senior deputy secretary. In ministries where SWAps operate the relevant coordination structure within the ministry liaises with the Budget Implementation Committees.

65. For aid that is managed outside of the government system, financial management is undertaken by parallel structures, such as project implementation units or financial management agents in the case of basket fund arrangements.

Managing projects and programmes: financial reporting

66. According to the Paris Declaration Monitoring Survey government had record of 60% of aid disbursed by development partners in 2005. Assuming that it recorded all aid disbursed through government systems, it means that only 13% of aid disbursed outside of government systems was reported to central government.

67. The formal procedures require disbursed aid to be reported to the ERD by line ministries by the 15th of the subsequent month. Line ministries also provide financial statements including aid to the Accountant General. However, line ministries are dependent on information flowing from donors and third party agents to be able to report to the Ministry of Finance. This creates headaches for the Accountant General and the Ministry of Finance, which has to report back to Parliament on all appropriated funds. Since all development support is on the development budget in principle, it means that the executive does not account for significant proportions of appropriated aid.

Harmonisation, alignment and coordination

68. Some progress has been made by donors to harmonise activities. (KJAS, 2007)

69. Some coordination and sharing of analytical and advisory work, appraisals and reviews, fiduciary assessments, and accountability rules (for example, the GJLOS review and the reviews of the government's proposed public financial management program).

70. Increasingly coordinating sector support through SWAps, and aligning development partner-funded projects with sector strategies. Partners are providing assistance through SWAps or coordinated programs for public financial management reform, GJLOS reform, and education. In addition, partners have adopted joint financing arrangements for public financial management, for GJLOS reform, and to support government institutions, such as the National Environmental Management Authority and the Agriculture Sector Coordination Unit. Finally, partnership principles guiding the relationship between the donors and the government have been signed in the education, public financial management, GJLOS, water, health, and other sectors. More are under way.

71. Some development partners adopting silent partnerships (or delegated cooperation), in which one development partner formally represents another in policy and sector dialogue, a practice that has significantly reduced transactions costs for both development partners and the government.

72. Participating in a comparative advantage questionnaire through which agencies assess their own comparative advantage and name areas which they could lead, areas which they could foresee delegating

management, and areas from which they may disengage. This provides the basis for rationalizing KJAS partners' assistance to the government.

73. Agreeing on a road map and on an analytical framework for a Kenya joint assistance strategy and preparing the draft strategy.

A5. Legal and Practical Framework for Budgeting

74. Budgeting and financial management is governed by the following legislation

- The Constitution, which establishes the powers of Parliament and the Executive in the Management of Public Finances. The Constitution requires that all funding for government, notwithstanding source, must be approved by Parliament.
- The Public Financial Management Act of 2004 and the Financial Regulations of the Ministry of Finance. Both of these are under review with the drafting of an Organic Budget Law which will be supported by new regulations.
- The External Loans and Credit Act, which requires that the Minister for Finance is the only person who can enter credit agreements with external agents and that she/he must report to Parliament on relevant details of the transactions as soon as possible. A significant provision is that Parliament has to approve all uses of such funds. The legislation also provides for a cap on external credit.
- The Public Procurement and Disposal of Assets Act (2005) which establishes transparent procedures and a new institutional framework with a central oversight authority for procurement.
- The National Audit Act (2003), which establishes the Auditor General as an independent institution and sets out its mandate.

Main problems in budgeting and PFM

75. Kenya is acknowledged to have made significant progress in improving budget preparation systems. Some problems however still remain: important amongst these are:

- The weak linkage between the strategic and financial programming phases of the budget preparation cycle. The 2007/8 budget cycle attempted to amend this by having the Budget Strategy Paper approved by parliament, thereby firming up ministry and programme ceilings.
- Weak ministerial planning processes and overlap of documents: apart from the ministries in which SWAps operate (which have gone through a thorough strategic and operational plan preparation process) medium term planning is still weak at ministerial level. While the required budget documentation potentially provides good instruments for ministerial planning and budgeting processes, they are prepared largely as compliance documents.
- Relatively weak performance orientation: although the strategic budget phase has improved linkage between policy and budgets, performance information is not of consistent quality across sectors. Again, sectors which have formulated strategic framework plans and are working towards SWAp agreements are far advanced. The introduction of programme budgeting, with more considered performance targets, may assist in improving performance information across the board.

76. More significant problems are however evident in budget execution.

- Despite a narrowing of deviation between plan and expenditure, problems remain, both at the global level and in the distribution. Development funds are often underspent, reflecting poor capacity and bottlenecks in the procurement system. On the other hand recurrent spending pressures through the wage bill and pensions puts upward pressure on recurrent spending.

- Expenditure control systems are still weak, although the introduction of zero balance accounts and the focus in recent years on reducing arrears have mitigated some risk.
- The IFMIS system is not implemented consistently. Although on paper it has been rolled out to ministries, many ministries still operate their accounting and reporting system on parallel systems. Monthly expenditure reports to the Accountant General are not always on time.
- Overall, there is not yet sufficient trust in the transparency, accountability and efficiency achieved through Kenya's budget control, accounting and reporting systems, as reflected in the significant proportion of funding that is channelled through parallel systems.
- On the other hand there have been useful reforms in budget execution and financial management systems: the cash management system including zero balance accounts has had significant effect on commitment control and reduction of overspending; the establishment of a new chart of accounts compliant with international standards of economic and functional classification and applied consistently across the budget has brought greater transparency; progress has been made with the implementation of an internal audit function and with the reduction of the backlog in external audit reports; an IFMIS has been introduced (although with mixed success) together with an integrated payroll system, which has improved wage bill management; government has introduced the publication of quarterly budget implementation reports, which update the fiscal framework and report with narrative detail on key implementation issues.

Budget calendar

77. The 2007/8 Budget Calendar is shown in Figure 1.

Budget structure and classification

78. The recurrent and development budget is presented by ministry, by programme and then by budget heads and an economic classification in the detailed expenditure estimates. In the Development estimates specific projects and programmes are listed under expenditure heads. In the pre-budget statements the fiscal framework is for central government. No framework is presented that includes local authorities, which have own sources of revenue.

79. Budget and accounts classification is consistent, with the latter allowing lower levels of detail. The budget classification is by vote (usually consisting of one department or institution), by programme and sub-programme and a GFS 2001 compliant standard economic classification. The accounts classification also allows for classification which maps expenditure to administrative structures. It also allows for the revenue source to be identified.

Pending reforms

80. Government is in the process of implementing various reforms aimed at ensuring efficiency and deepening transparency and accountability (See Annex 5 for a brief discussion of the PFM Reform programme). These include:

- The introduction of programme budgeting in all ministries, including presenting the budget by programme. This will further strengthen the connection between policy and budgets.
- Enhancing the role of parliament through a more conducive legal framework and providing more information, in better formats and earlier in the process to parliament.
- The implementation of the Public Procurement and Disposal Act to enhance transparency by ensuring that the procurement process of all Government services including security related contracts is in accordance with the Act;

Figure 1: 2007/8 Budget Calendar

August 2006	Develop MTEF guidelines and TORs for SWGs including MPERs	Treasury/MPND
September 2006	Launch of The Sector Working Groups	Treasury
September 2006	Issue MTEF Guidelines	Treasury
Sept. - Oct. 2006	Develop a Budget Outlook Paper (BOPA)	Treasury/Macro Group
October 2006	Consultative talks on BOPA with relevant Parliamentary committees	Treasury
October 2006	Stakeholder's workshop to discuss the BOPA	Treasury
October 2006	Submit the Budget Outlook Paper to Cabinet for approval	Minister for Finance
November 2006	Submission of District inputs to Ministry Headquarters	Line Ministries
December 2006	Issue revised Estimates Budget Circular	Treasury
December 2006	Submission of MPERs by line Ministries	Line Ministries
January 2007	Finalization of Sector reports/priorities	Treasury/ MPND
January 2007	Submission of Revised estimates to Treasury	Line Ministries
January 2007	Sector Hearings	Treasury/MPND
Feb 2007	Develop Budget Strategy Paper	Treasury/Macro Working Group
March 2007	Discussion of the BSP with relevant parliamentary committees	Treasury
March 2007	Finalization of Revised Estimates	Treasury
March 2007	High level workshop for Accounting officers and MPS of relevant parliamentary committees	Treasury
March 2007	Consultative Group Meeting	Treasury
April 2007	Submit Budget Strategy Paper to Cabinet and Parliament for approval	Minister for finance
April 2007	Submission by Ministries to treasury of detailed annual and medium term estimates consistent with BSP	Treasury
April 2007	Finalization of Estimates	Treasury
May 2007	Submit Estimates to Cabinet for approval	Minister for finance
May 2007	Print the Draft Estimates Books	Treasury
Mid June 2007	Budget Day/Presentation of the annual budget to Parliament	Minister for Finance
Continuous	Capacity Building on budgeting and financial management	Treasury

(Pending reforms continued)

- Rolling out the Integrated Financial Management and Information System (IFMIS) to line ministries;
- Enforcing expenditure commitment control system and further development of the budget classification system. Enforcing clear guidelines for the exchequer issues to line ministries, including maintaining an up-to-date bank reconciliation
- Undertaking expenditure-tracking surveys to improve budget effectiveness;
- Strengthening decentralization systems for efficient use of Local Authority Transfer Fund and Constituency Development Fund;
- Initiating cost containment measures for example addressing the cost of utilities in particular telephone services by introducing pre-paid services in all ministries.

B. Evidence and Assessment of Aid Capture

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B1	**on plan**	There is significant evidence that efforts are being made to include aid in spending plans. 1) The IP-ERS provides a comprehensive own and development partner resource framework; 2) at ministerial level aid is supposed to be included in MPERs, although in practice the quality of information differs; in ministries that are significant recipients of aid and which are working towards a SWAp, there are integrated strategic plans supported by annual operational plans that provide a framework for capturing aid on plan. Aid is also included in the sector working group reports. 3) Aid is included in District Development Plans, by project and by donor. 4) Midway between the planning process and the budget are the Budget Outlook Paper and the Budget Strategy Paper. Aid is captured in these documents in the following ways: 1) It forms part of the fiscal framework and sector ceilings presented in the Budget Outlook Paper. At the fiscal framework level external grants and loans is a separate line. 2) It is even more explicitly captured in the Budget Strategy paper, at framework level and at the level of individual spending ceilings.	The quality and completeness of the information that is included in instruments such as the MPERs differ across ministries. Even if information is captured in these instruments, it is not always sure that there are substantive planning processes behind the documentation, which will ensure increased aid effectiveness. High recipients of aid who have already or are in the process of putting SWAps and basket fund arrangements in place capture aid particularly well on plan. The narrative on aid flows in the Budget Strategy Paper can be more complete, particularly at ministry level.	Kenya has responded well to findings in the last few years that government does not provide sufficient leadership in integrating aid in planning processes and instruments, and that there is a harmful separation between development and recurrent spending planning. The integration between recurrent and development spending, donor and government funding is the result of the desire by Government to integrate planning instruments and put an effective budget preparation process in place. In high aid recipient ministries particularly conducive environments, supported by significant technical assistance, have been created for integrated planning for GOK and development partner funding and the two budgets. In other ministries where aid information is weaker and the integration between sources of funding and the development and recurrent budgets is not effective, budgeting still occurs in isolation from planning and in line with more historical approaches. New requirements by the MoF, such as the MPERs and participation in the SWGs, are more a matter of compliance rather than drivers of reform at ministry level. One contributing factor is the separation of the Ministry of Finance and Ministry of Planning and Development of central level, which resulted in overlapping requirements, overburdening ministries.

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B2	**On budget**	Aid is captured well on budget. According to the Paris Declaration Monitoring Survey 91% of aid disbursed to government was captured on budget. This is reflected by the AFRODAD report which states that recently the coverage of aid in the budget is much more complete. The Government's own booklet on aid on the development budget for 2005/6 states that 87% of expected donor disbursements are reflected on the development budget. The ERD and Budget Supplies Department is confident that all aid is captured on budget, particularly because it is legally required. Aid is captured on budget in the following ways: 1) In the recurrent budget expected budget support flows are shown in an alternative funding scenario. Kenya as a rule do not include expected budget support in its main fiscal framework and budget. The recurrent estimates include an alternative scenario table, which shows how budget support would be used by sector, should it materialise. 2) Significant detail on aid flows is presented in the Development Budget Estimates. In the summary tables aid is shown by ministry and according to whether it is loans or grants, disbursed through government or appropriated as appropriations in aid. It is also shown by development partner, by sector and by project or programme, by loan or grant and by appropriations in aid or flowing through the government system. Further detail is then provided for each ministry, where development budget expenditures are set out by budget head, by project or programme, and by economic classification against the source of funding.	The capture is quite comprehensive and detailed. The lack of narrative with budget documentation affects development partner funds as much as own revenue. The lack of integration of the recurrent budget and development budget detracts from parliament's ability to view aid support in the context of overall spending.	The separate capture of budget support in the recurrent budget is on account of the unpredictability of these resources. When budget support was affected most recently in 2004, Government made a budget rule not to include budget support in the first fiscal framework scenario, but to plan for it through a second scenario which is reflected in the budget estimates, but not explicitly voted. If it does materialise it is voted subsequently through an adjustment budget. The framework for capturing aid through the development budget has long been in place. In recent years the quality of the information has improved. The Paris Declaration Monitoring Survey offers several explanations for why aid disbursement is higher than aid planned on budget: in summary these have more to do with donors adjusting plans during the year (partly on account of incompatible fiscal years) than with deliberately leaving aid off budget. "A range of factors explain the shortfall of aid recorded on budget in relation to aid disbursed to the government sector. On the government side, for many sectors clear and fully costed plans with which donors can align their assistance have not been developed. On the donor side, some donors are in the habit of spending funds directly without informing the government, and of failing to consult the budget estimates and as a result sometimes providing excessive aid to particular projects. Both practices are bound to reduce the proportion of aid to government which is reported in the budget. In addition, reporting procedures are not strictly followed, and there are inconsistencies between government and donor approaches, and mismatched fiscal years. As a result, both government and donors fail to account adequately for aid resources." (Monitoring Survey Kenya Report, 200, p 16-4) These views are reflected in the KERP. The separation of the recurrent and development budget is on account of long-standing practice. In recent years the development budget is coordinated from the same department in the Ministry of Finance as the recurrent budget: the introduction of MPERs and SWGs, where spending on the two budgets is treated more coherently has improved practice.

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B3	**On parliament**	Aid to the government sector is appropriated by Parliament by law (the Constitution and the External Loans and Credit Act) whether it flows through government systems or not. When it flows through government systems it is appropriated as revenue. When it flows through separate systems it is appropriated as Appropriations in Aid (AID).	Even though aggregated and disaggregated information on the allocation of external resources is provided, there is little evidence of strong engagement by parliament on alignment with national priorities and the likelihood that the funds will be used efficiently, transparently and economically for the purposes for which they are allocated.	Lack of parliamentary scrutiny of proposals regarding the use of external funding has less to do with transparency on the proposed use than with weak and even inappropriate engagement of parliament in the budget process and weak capacity. Prior to 2005/6 when the classification reforms were introduced, strategic engagement on aid allocation against national priorities would have been difficult given the opaqueness of allocations. While there is room for improvement – especially the programmatic presentation of expenditure – parliament now has much better information to work with, including information on aid disbursement and use in the past. The Human Rights Commission in Kenya has noted that a key weakness in the budget system is that a significant part of spending escapes proper scrutiny.
B4	**On treasury**	Aid in Kenya flows through two channels: either it is disbursed through government systems (channel 1) or it is disbursed through parallel structures such as project implementation units and sector financial management agents or donors themselves (channel 3). There is no evidence of aid being disbursed through channel 2: ie through accounts that are within the control of government but not under treasury control or direct scrutiny. Budget Support is provided through Channel 1, Programme Support, in the form of loans, grants and TA, is provided through channels 1 and 3. Project support, in the form of loans, grants and TA, is provided through both Channel 1 and 3.	The KERP document notes that Kenya's reported utilisation of aid has been low (30 to 40% on average). This is related to low predictability on disbursement from donor side. The PEFA score (2006 assessment) in this regard is a D.	Poor predictability is related to pre-disbursement and disbursement constraints. Government's inability to meet agreed conditions, inadequate counterpart funds, and changes in development partner conditionality mid-stream have all added to low predictability. Low levels of development partner trust in government financial management and procurement systems have contributed to the establishment of parallel structures to manage aid, including financial management systems and procurement systems (see Annex 3 for the KJAS alternative scenarios which provide a flavour of donor decision-making in this regard).

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B5	**On account**	Aid that is appropriated as revenue and flows through the treasury system, is accounted for by government systems at ministry level or district level and reported to the Accountant General, where it is consolidated into the government accounts (Channel 1). Aid that is appropriated as Appropriations in Aid is not accounted for through government systems at the level of ministries (Channel 3). However, since government needs to report to the parliament on all appropriations, AIA aid is captured at the central level by the Accountant General (through the ERD and the Budget Supplies Department in the Ministry of Finance) and consolidated in government accounts against approved expenditure.	There are significant problems with both channels. For aid that is disbursed under Channel 1 (treasury system), weak and incomplete use of the new IFMIS system and weaknesses in the various systems established by departments to record commitments, receipts and payments affect aid as much as it does government's own spending (see Annex 5 for a discussion of the PEFA assessment and the PFM reform programme). Reports are also very often late, leading to regulations to not disburse ministries allocations unless reports are received on time. For aid that is disbursed as Channel 3 (parallel systems) weaknesses in line ministry information systems and district level information systems contribute to poor reporting by parallel structures on aid disbursement and use. This causes significant problems for the Ministry of Finance in compiling government accounts against approved expenditure.	Weak professional capacity for financial management in the public sector contributes to weak implementation of financial management reforms such as the IFMIS. However, even where capacity is stronger, such as in the Ministry of Finance, the old custom-developed system for recording payments and accounting for expenditures in order to produce reports to the Accountant General, is still preferred over the IFMIS. This points to weaknesses in IFMIS development and/or implementation programmes. Weak financial management discipline in turn contributes to the timeliness of reports. Weak reporting on AIA aid expenditure is related to parallel implementation units and/or donors not adhering to government deadlines for reporting on expenditure, and weak capacity in ministries (both human resource and information systems) to ensure reports are provided on time for inclusion in ministries' reports to the Accountant General.

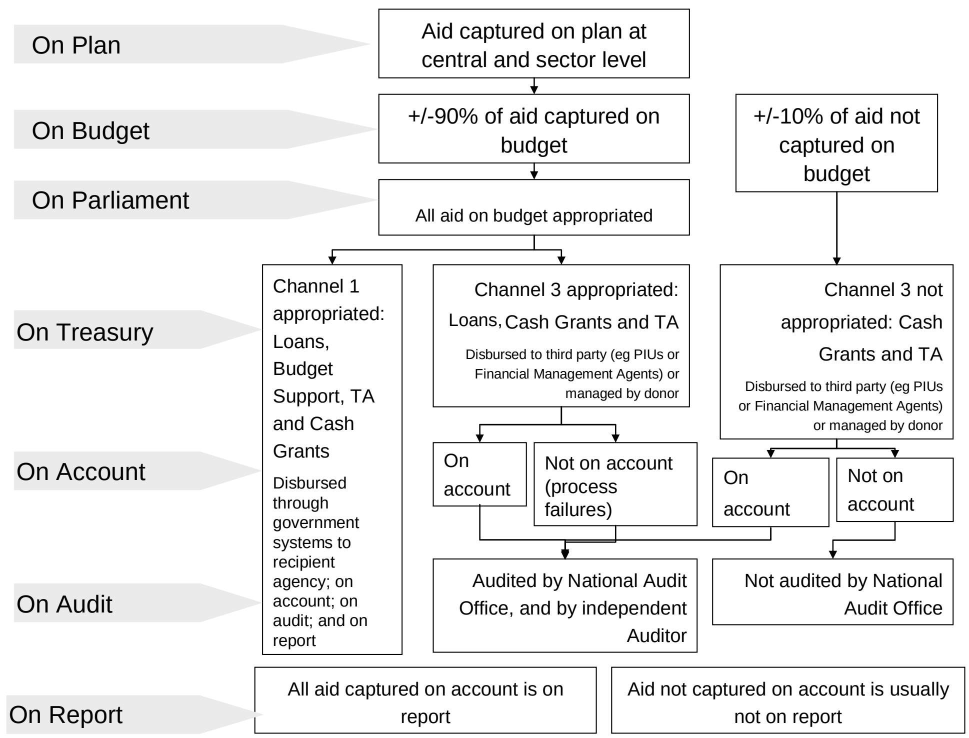
	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B6	**On audit**	The OECD DAC report shows that generally funds that are disbursed through government systems are audited by the Auditor General. An exception is the GAVI alliance whose support is not disbursed through government systems, but reported to be audited by the Auditor General. The mandate of the Auditor General requires that all donor fund expenditure should be audited by the Auditor General. Funds that are disbursed through Channel 3 are audited independently.	Audits of donor expenditure undertaken by the Kenya Audit Office, similar to audits of domestic revenue expenditure, are on average 13 months late (PEFA 2006). The audits are also limited to transaction auditing and do not in all respects comply with international good practice. In addition, follow up on audits through parliamentary processes is weak.	Capacity in the National Audit Office is not sufficient for the mandate that is given to the Auditor General. Bottlenecks occur that hamper efforts to reduce the backlog. Statutorily audit reports must be filed 6 to 7 months after the end of the financial year, which is insufficient time to complete audits, given capacity.
B7	**On report**	Aid is captured in Government Financial Statements insofar as it was captured on account. Aid is reported on for the year prior to the current year and the current year (ie two years before the budget year) in budget documentation. Aid inflows and progress against development projects are reported (with varying coverage) in the MPERs and the SWGs. For sectors that have SWAPs in place, quarterly reports against the operational plans include reporting on aid. In the government Quarterly Budget Reviews aid revenues are reported on aggregate across government, disaggregated by aid modality. There is also a table that specifies spending under the development budget by ministry for the year to date. In addition, aid and progress against development budget spending is also reported by ministries to the Ministry of Planning and Development within the Monitoring and Evaluation System.	While aid disbursements and spending is reported on through various means, there is nowhere currently that a comprehensive picture is given, for all aid modalities, by donor, by ministry and for all channels of disbursement, as is relevant. There is also a lack of non-financial information in reporting on the disbursement and utilisation of aid. Apart from the MPERs, SWG reports and SWAp sector reports there is very little explanatory notes accompanying reporting on aid. However the former two instruments are both weak in this regard. The implementation of the KJAS, with annual reports, and the KERP, with consolidated reporting, will assist in this regard.	The fragmentation of responsibilities for planning between the Ministry of Planning and Development and the Ministry of Finance has contributed to fragmented (and duplicating) reporting. Weak PFM and aid information systems at ministry and central level also contribute to incomplete reporting on aid. Different reporting instruments have so far focused on different reasons for aid information, of which none was explicitly to manage aid better and more transparently: it is only now with the KJAS and the KERP that progress is being made in this regard. Analytical capacity constraints affect the usefulness of reporting on aid (and government domestic spending).

C. Reflections

81. Identifiable patterns in part B findings:

Commonalities

82. There are commonalities in the Kenyan aid management environment. The diagram below sets these out. Note that the diagram reflects the current circumstances, rather than the ideal (or in accordance with the formal rules) situation.



83. Aid is reflected increasingly well on plan, more so for Ministries with or moving towards a SWAP.

84. Aid is equally reflected well on budget. However, donors do disburse funds that are not captured on budget, often because of changes in plan during the spending year, or because of incomplete information at the time of submitting plans into the planning and budgeting process.

85. Aid that is appropriated and disbursed through the Treasury system is captured fairly well in the accounting, auditing and reporting system. Capture on the accounting system is still not as effective as it could be, due to weak financial management capacity. The auditing of aid by the National Audit Office is affected by weak capacity and limited audit requirements. Audit reports are usually late.

86. Aid that is appropriated but disbursed through a third party arrangement or by donors themselves, is captured less well on account and on report, since expenditure is not always well (completeness and timeliness of reports) reported to ministries. It is audited under the mandate of the National Audit Office,

even if audited by an independent auditor too in terms of donor requirements. The exception here is SWAps, where comprehensive reporting systems are in place.

87. Aid that is not appropriated and disbursed through a third party arrangement may be on account when it is included in reports submitted to the ministry. In that case it is audited by the National Audit Office (and by independent auditors depending on the aid agreement). Aid that is not appropriated and disbursed not through government systems, is however usually not on account, not on audit and not on report.

Other identifiable patterns and common issues:

88. Planning, analytical and public finance management capacity constraints across the system hamper the effective integration of aid with domestic revenue. This constraint makes the integration of aid on plan and budget less effective than what it could be, accounting for aid incomplete and auditing and reporting on aid equally less complete. It also makes auditing of aid through government systems late and follow up on audit reports weak. These weaknesses also affect the effective management of domestic resources for spending effectiveness and accountability.

89. The legal requirement that parliament should appropriate all funds spent by government units and should approve all loans and credits, contributes significantly to the capture of aid on budget, and therefore on account and on audit.

90. Weaknesses in public financial management and procurement are cited by donors as reason for not making use of government systems. It would be interesting to see whether more aid is put through government systems with the improvement in PEFA scores from the first assessment to the second.

91. Donors have so far not behaved in ways that support the integration of aid in the budget cycle: donors have not provided reliable information on forward commitments or on actual spending. Disbursements have also not been predictable and insufficient forward warning has been given on the suspension of support.

92. It is arguable however, that this study is occurring at an important juncture for the management of aid in line with the Paris Declaration. The very recent publication of the Kenya Joint Assistance Strategy and the Kenya External Revenue Policy could signal a significant consolidation in the formal requirements for aid management. The increased effectiveness of integrated aid and domestic resources management in the JLOS, Education and Health Sectors (alongside the development of comprehensive medium term strategic plans, SWAp agreements, annual operational plans and frequent reports) signals however that improved formal arrangements do lead to better management.

Good practice

93. Particular examples of good practice:

- The legal requirement that aid should be approved by parliament.
- The more integrated planning, budgeting, implementation and reporting for domestic and aid resources occurring in the sectors moving towards a SWAP. This eases integration of aid information into the budget process. Note however that specific capacity was created in these ministries to undertake these functions.
- Guidance from the Government regarding SWAP sectors that coordinate with sectors in the budget process.

Bad practice

94. Particular examples of bad practices or reforms that don’t work

- The separation between recurrent and development budget planning undermines the integration of aid support with domestic spending in the planning and budgeting phases.

Information flows

95. Where should information flows be improved (for aid effectiveness and budget effectiveness)

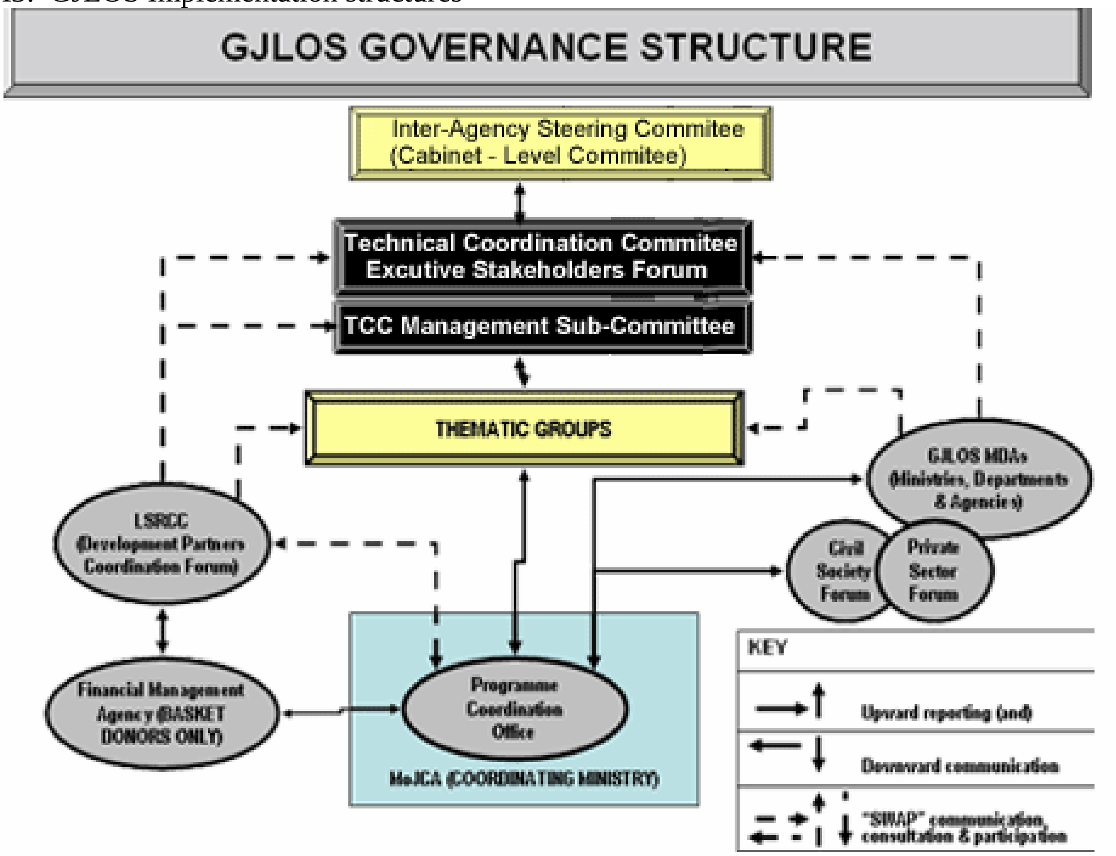
- Better forward information on commitments by donors and more predictability of actual disbursements.
- Reporting by third party agents and donors on actual spending of Channel 3 funds.
- Non-financial information on aid spending – particularly project support – against government priorities.
- Comprehensive reporting on aid and its contribution to country priorities.

Annexes

Annex 1 Elaboration and evidence

Section A: Country Context

A3: GJLOS Implementation structures



The GJLOS governance structure is as shown in the diagram above.
There are seven main organs in the GJLOS governance structure. These are :-

Inter-Agency Steering Committee - The IASC is chaired by Vice President and Minister for Home Affairs. It is established to oversee sector reform policies, and provide political, policy and overall strategic leadership.

Technical Coordination Committee - The TCC is chaired by a Justice of the Court of Appeal. The committee's mandate and roles include:

- Providing technical guidance in the implementation of the programme
- Overseeing effective co-ordination of Programme implementation across sector institutions
- Ensuring that the Programme Coordination Office performs its coordination role effectively
- Ensuring that implementation is consistent with GoK policy objectives; and
- Regularly and closely liaising with Development Partners.

Ministry of Justice and Constitutional Affairs - The Ministry of Justice and Constitutional Affairs (MoJCA) has a twin role on the programme. First, it is, like other GJLOS institutions, an implementing institution with a GJLOS reform role and mandate, as described in (iv) below. Second, it is the coordinating ministry for the overall GJLOS Reform Programme. This means that, in this second role, MoJCA is responsible for technical leadership of the programme, implementation of the programme through the use of the SWAP and the monitoring of and reporting on the overall GJLOS-RP progress for the Government of Kenya, particularly as part of the Joint-Donor Review Process.

Individual GJLOS sector institutions - Policy responsibility will remain with individual sector institutions, as will direct implementation responsibility. Accordingly, each institution will be responsible and held accountable for the activities and outputs planned and elaborated in annual work plans and budgets for the programme within their respective institutions.

Thematic groups – These are multi-sectoral, cross-departmental Thematic Groups which provide a forum for implementation tracking, experience sharing and early problem resolution. These thematic groups have the role of spearheading and coordinating the implementation of the GJLOS-RP activities, and achievement of target outputs and outcomes in their respective Key Thematic Areas (KTAs) consistent with the programme's broader Strategic Results. They are, however, not implementing institutions, but rather knowledge and information sharing forums capable of recommending changes in implementation process and content to the Technical Coordination Committee.

Programme Coordination Office - The role of the PCO is to support the Technical Coordination Committee in the coordination of GJLOS reform programme implementation. Specifically, the PCO acts a secretariat to the TCC Management Committee. To this end, the Office's mission may be conceived as ensuring the timely, effective and sustainable implementation of the GJLOS programme, including quality assurance, technical advice and operational support to implementation by sector institutions. ***The PCO mandate spans basket fund, direct donor and Government financial contributions and programme interventions.***

The functions of the PCO include harmonising GJLOS institutional strategic plans with the MTS, ensuring that such plans have budgets that reflect both Government and development partner commitments, supporting the monitoring and evaluation framework, tools and processes necessary to track the MTS at sector and institutional level and ensuring that the programme is effectively communicated to stakeholders and the general public. In addition, the PCO serves as a coordinating link between all GJLOS institutions in the context of this reform programme. Further, the PCO provides secretariat support to the TCC Management Committee.

It is staffed by external experts who report to the Secretary of the GJLOS Technical Coordination Committee. They are:-

- Chief Technical Coordinator
- Programme Officer
- Strategy, Planning and Budgeting Specialist
- Monitoring and Evaluation Specialist
- Advocacy and Outreach Specialist

Financial Management Agent - The Financial Management Agent (FMA) acts for the Basket Fund Development Partners in matters of financial management, procurement and reporting. It is an important communication and information link for the PCO on basket fund operations. In addition to financial management and procurement, the FMA is also expected to identify capacity gaps for effective implementation in financial management and provide capacity building in financial management within the government.

Source: GJLOS Website http://www.gjlos.go.ke

Annex 2: Government roles in managing aid

Institution	Organ/ Department	Role and Relevant Functions
Office of the President	President	Overall political and strategic leadership
Office of the Vice President	NGO Co-ordination Board	NGOs registration, co-ordination and facilitation
Parliament	Finance Committee (Aid and Debt issues) Public Accounts Committee	Public oversight on overall ODA management
Ministry of Finance	Minister for Finance	Overall ODA Policy, coordination and management Soliciting for ODA funding, and Signing ODA Contracts
	External Resources Department	Overall ODA coordination Receives and records Disbursements Managing development partner interactions e.g. Development Forum ODA Negotiations Technical Assistance management Monitoring of ODA Inflows Facilitating Implementing Agencies in External Resources Monitoring & Evaluation
	Central Bank of Kenya	Opens and manages offshore project accounts Receiving and Payment of ODA (Revenue) Monitoring External Receipts & Payments for Balance of Payment (BOP) & Monetary Policy
	Budgetary Supply Department (BSD) Sector Working Groups (SWGs)	Oversees the integration of ODA funds with the domestic resources via the national budgetary process Ensuring sector policy consistency
	Economic Affairs Department	Fiscal and Monetary Policies Preparation of the Budget Outlook Paper and Budget Strategy Paper Approval of duty and tax waivers
	Debt Management Department	Evaluation of appropriateness of ODA Credit Rating Analysis Management of Public Debt
	Accountant General	Releases ODA Funds to Implementing Agencies
	Directorate of Public Procurement	Scrutinises the appropriateness of ODA terms & conditions of procurement Approval of major procurements by the implementing agencies
	Department of Investment & Public Enterprises (DGIPE)	Management of Parastatal Loans and subsidiary agreements
	Kenya Revenue Authority	Approval of duty and tax waivers
Ministry of Planning and	National Monitoring and Evaluation Unit	Monitoring and Evaluation

National Development	Central Planning Directorate	Co-ordination, Planning and analysis of development partner projects at the line Ministries.
Attorney General	Treaties and Agreements	Provides legal advice during negotiations Provides the legal opinion on all ODA contracts Binds the Government on ODA contracts
Kenya National Audit Office	Controller and Auditor General	Audits ODA Resources
Implementing Agencies	Various Ministries and other Government institutions	Project implementation Monitoring & Evaluation Accounts and Reports on ODA utilization
Ministry of Foreign Affairs	Legal Department	Approves host country agreements
Ministry of Immigration	Immigration Department	Issues work permits to TAs Facilitates the movement of technical assistance
Development Partners	HAC Group /Others Development partners	Foreign Assistance including TA Review Missions

Source: Kenya External Resources Policy (KERP), 2007

Annex 2: The Kenya Joint Assistance Strategy

The Kenya Joint Assistance Strategy (KJAS), launched on 10 September 2007, presents a core strategy of 17 development partners for 2007–11. The objective of the KJAS is to support the government's efforts to achieve the Millennium Development Goals (MDGs) and the targets that the government has set for itself in its national and sector development strategies, drawing on each partner's comparative advantage in providing expertise and assistance.

The KJAS was developed collaboratively with the government. Nonstate actors have also contributed to its formulation. The draft KJAS was discussed with sector ministries and agencies of the government on various occasions. The KJAS will be updated following the 2007 elections to ensure its alignment with the new government's development priorities and strategy.

The KJAS is organized around three pillars in support of the government's strategy. These are (1) encouraging economic growth, (2) investing in people and reducing poverty and vulnerability, and (3) strengthening institutions and improving governance—the pillars of the Vision 2030 document.

The narrative of the document sets out by pillar and sub-components (organized by sectors) donor commitments for 2007-11. A matrix is provided in the document that elaborates on these commitments, with expected activities, achievements and current and new financing specified.

The KJAS partners have developed three financing scenarios which would guide their choice of instruments or the level of financial support, or both. These are the base case, high case, and low case scenarios. Although KJAS partners will strive to be more predictable and will consult widely prior to shifting between cases, each KJAS partner will continue to decide individually on the level and composition of its assistance program.

The base case scenario assumes that Kenya's current development path continues. Under the base case scenario KJAS partners will provide funds to address the full range of Kenya's development priorities. These include infrastructure investment, human development, and reduction of poverty among vulnerable groups. Support for capacity building will be available to strengthen public financial management, to enhance the effectiveness of subnational governments, and to strengthen nonstate actors to effectively act as institutions of accountability, strengthening the checks and balances in society. SWAps will be adopted in an increasing number of sectors and existing joint sector programs will be deepened. Although, many partners will continue to take a ring-fenced approach to project management and use dedicated project management units to implement projects, the proportion of total development assistance that is channeled through country systems will increase gradually as public financial management improves. A few partners will provide general or sector budget support. KJAS partners will continue to channel funds through non-state actors. Analytical work will continue, and nearly all will be carried out carried out jointly with the government and nongovernmental entities.

The high case scenario will be characterized by improving government performance. The high scenario will be marked by significant improvements in public financial management;

willingness to improve the investment climate; clear commitment to significantly improve access to basic services and to address disparities based on gender, region, and other forms of vulnerability; and strong and measurable progress in governance (including transparency, democracy and human rights).

Under the high case, higher and more flexible support may become available. A larger proportion of funds could be available for investment in infrastructure than in the base case scenario. More KJAS partners will join SWAps in most sectors and these programs will be deepened as a higher proportion of development assistance will make use of government systems for procurement, financial reporting, and auditing, and most project implementation units will be phased out. Several donors have indicated that they would be likely to consider general or sector budget support. Development partners will continue to channel funds through non-state actors. Analytical work and policy advice will continue, with all being carried out jointly with the government. KJAS partners are likely to increase the amount of finance to Kenya.

A low case scenario will be characterized by the reversal of recent gains in economic and social outcomes. KJAS partners may lower assistance if government performance in key areas deteriorates. Under the low case, KJAS partners will reconsider support for direct budget support or sector budget support. A larger proportion of project finance will go for human development, reduction of poverty among vulnerable groups, and capacity building, using channels that offer the required fiduciary assurance and have a demonstrated track record. Funds will be available for basic infrastructure—such as water supply, health facilities, schools, and rural roads—some of which will be delivered through community driven development approaches that also help to develop capacity and accountability of local government. A significant proportion of development assistance will be delivered through project implementation units to ensure that donor funds are used as intended. Policy advice and capacity building support will focus on strengthening public financial management and other aspects of governance. A larger proportion of funds will be channeled through non-state actors. Analytical work will focus on public financial management, poverty and social impact analyses, and other topics aimed at creating the foundation for a future scale up of assistance, once commitment to good governance improves. The overall level of funds available to the country will likely be lower than in the base case scenario.

Annex 3: OECD/DAC baseline survey results

Areas of Harmonization	2005 Baseline[1]	Targets 2012
1. Ownership–Operational poverty reduction strategy	D	B or A
2.a. Quality of public financial systems	3.5	4.0
2.b. Quality Procurement systems	Not available	Not applicable
3. Aid reported on budget.	91%	95%
4. Coordinated capacity development	60%	50%
5.a.i. Use of country PFM systems (aid flows)	47%	65%
5.a.ii. Use of country PFM systems (donors)	72% of donors	90% of donors
5.b.i. Use of country procurement systems (aid flows)	47%	Not applicable
5.b.ii. Use of country procurement systems (donors)	72% of donors	Not applicable
6. Parallel project implementation units	17	6
7. In-year predictability	44%	72%
8. Untied aid	77%	More than 77%
9. Use of program-based approaches	45%	66%
10.a. Coordinated missions	9%	40%
10.b. Coordinated country analytic work	32%	60%
11. Sound performance assessment framework	C	B or A
12. Reviews of mutual accountability		
For reference: alternative measures for indicators3 and 7 (based on gap rather than ratio)		
3. Aid reported on budget	63%	32%
7. In-year predictability	59%	30%

1. Baseline data are provisional and will be updated by the end of 2007 when more accurate information is expected to be available.

Source: OECD/DAC Kenya Baseline Report, 2007.

Annex 4: PEFA assessment and the PFM Reform Programme

A consolidated scoring table for the 2006 PEFA is provided below:

Table 1: Summary of PFM Performance Scores[1]

PFM Performance Indicator	Score
A. Credibility of the Budget	
1. Aggregate expenditure out-turn compared to original approved budget	C
2. Composition of expenditure out-turn compared to original approved budget	A
3. Aggregate revenue out-turn compared to original approved budget	C
4. Stock and monitoring of expenditure payment arrears	B
B. Comprehensiveness and Transparency	
5. Classification of the budget	C
6. Comprehensiveness of information included in budget documentation	B
7. Extent of unreported government operations	C
8. Transparency of Inter-Governmental Fiscal Relations	B
9. Oversight of aggregate fiscal risk from other public sector entities.	C+
10. Public Access to key fiscal information	B
C(i) Policy-Based Budgeting	
11. Orderliness and participation in the annual budget process	B
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C
C (ii) Predictability and Control in Budget Execution	
13. Transparency of taxpayer obligations and liabilities	B
14. Effectiveness of measures for taxpayer registration and tax assessment	C+
15. Effectiveness in collection of tax payments	D+
16. Predictability in the availability of funds for commitment of expenditures	B+
17. Recording and management of cash balances, debt and guarantees	B
18. Effectiveness of payroll controls	D+
19. Competition, value for money and controls in procurement	B
20. Effectiveness of internal controls for non-salary expenditure	C
21. Effectiveness of internal audit	C
C (iii) Accounting, Recording and Reporting	
22. Timeliness and regularity of accounts reconciliation	C
23. Availability of information on resources received by service delivery units	B
24. Quality and timeliness of in-year budget reports	C+
25. Quality and timeliness of annual financial statements	D+
C (iv) External Scrutiny and Audit	
26. Scope, nature and follow-up of external audit	D+
27. Legislative scrutiny of the annual budget law	D+
28. Legislative scrutiny of external audit reports	D+
D. Donor Practices	
D-1 Predictability of Direct Budget Support	D
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	D
D-3 Proportion of aid that is managed by use of national procedures	D

Source: Government of Kenya 2006, PFM Performance Report and Indicators

The PFM reform strategy is aimed to improve government's capability and systems to utilize the public financial resources towards development targets (Government of Kenya, 2006). The Strategy draws on the PEFA report and is intended as a comprehensive effort. Reforms to different subsystems are aimed at supporting each other rather than operating in isolation. The achievement of these objectives needs efforts in 15 component areas of the PFM system that have been grouped in 6 reform pillars for the purpose of the strategy. In many cases several components will need to combine efforts to reach their targets.

Financial Sustainability and Budgeting	**Resource Mobili-zation**	**Budget Execution**	**Procu-rement**	**Oversight and Evaluation**
1.Macro-fiscal framework 2.Budget formulation and preparation 3. External resources 4. Debt and guarantee	5. Taxes, Customs and Excise	6. Budget execution 7. Accounting and reporting 8. Payroll and pensions	9. Procure-ment	10. Parliamentary oversight 11 External audit 12. Internal audit

Cross-cutting issues:
13. Electronic service delivery and IFMIS
14. PFM legal framework
15. Capacity building and service conditions

The PFM reform programme has been designed to accommodate a logical sequencing of enabling activities and with the aim not to overburden the components that also have to carry out the normal day to day duties. The sequencing of reform outcomes can be presented as a series of enabling platforms, each with its own quantifiable objectives. The whole reform and all the platforms are expected to be an undertaking of not less than 5 years. The main objectives and scope for each platform is reflected below:

Platform 4. Substantial improvements in service delivery, increases in allocations in accordance with political priorities. Improved effectiveness and efficiency in the public service.

Platform 3. Accountability and result-based management introduced. Improved control of payroll, fixed assets and pensions. Improved accuracy of forecast and projections. Reduced tax evasion and increases in revenue. Reduced costs of debt financing

Platform 2 Improved quality of financial records and budget execution for remaining entities at central, regional and local levels. Improved budget preparation and allocations

Platform 1. Improved quality of financial records and credibility in budget execution for central ministries. A first improvement of service delivery. Competitive and open procurement. Improved payroll management, reliability and control. Improved collection of revenue. Improved effectiveness of the internal and external audit.

Short Term Perspective | Medium Term | Long term