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The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

# Review of the Government of Kenya 2004/05 Budget

*Dickson Khainga*
*Shem Ouma*
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**Bishops Garden Towers, Bishops Road**
**PO Box 56445, Nairobi, Kenya**
**tel: +254 20 2719933/4**
**fax: +254 20 2719951**
**email: admin@kippra.or.ke**
**website: http://kippra.org**
**ISBN 9966 777 08 3**

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# EXECUTIVE SUMMARY

## Introduction

The budget for fiscal year 2004/05 is the second budget in the implementation of the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) 2003-2007 and fourth under the Medium Term Expenditure Framework (MTEF) budget process. This budget review examines the extent to which the budget addresses poverty and ERSWEC priorities; the (in) consistencies within the budgetary processes, especially the fiscal strategy and the annual budget; and the weak budget implementation as evidenced in divergences between budget and its actual execution; and makes policy recommendations on how the budget process can be strengthened to enhance budget outcomes.

This analysis focuses on three key areas: (i) the budget-making process in Kenya with emphasis on weaknesses that contribute to less than optimal results; (ii) macroeconomic analysis of the budget in relation with the observed divergences between the ERSWEC policy priorities, the Fiscal Strategy Paper (FSP) and the annual budget; and (iii) the poverty orientation of the budget.

## Budget-making process in Kenya

*Budget formulation and execution*

The Government adopted the Medium Term Expenditure Framework (MTEF) budget process in 2000 with the aim of providing a strong link between policy, planning and budgeting and, therefore, improve budget outcomes. The MTEF budget process is expected to enhance fiscal discipline and strategic allocation of resources and improve efficiency of use of public resources. Prior to the introduction of the MTEF budget process, the process was incremental, lacking a credible and sound macroeconomic resource framework; and lacking effective prioritisation. The existence of a medium term planning framework, the Forward Budget and Programme Review (FBPR) and a Public Investment Programme (PIP) did not address the proliferation of poorly designed and implemented projects, weak medium-term perspective in budgeting, and inconsistency between the budget and its implementation.

The MTEF budget process provides a sound framework for integrating the 'top down' and 'bottom up' budget processes. The 'top down' fiscal process involves identifying available aggregate resources and allocating them between sectors based on national priorities. The 'bottom up' expenditure planning process involves preparation of sector strategies and expenditure requirements for achieving sector targets/outputs. The 'bottom-up' needs are therefore matched with the overall expenditure limit determined by the macroeconomic fiscal framework or the Fiscal Strategy Paper (FSP).

The budget is executed through disbursement of funds to various implementing ministries and spending agencies. Budgetary resources are disbursed to line ministries and departments through Exchequer issues. The Permanent Secretaries are then allowed to grant Authority to Incur Expenditure (AIE) to AIE holders to implement the programmes. Cash is managed through the operation of the Exchequer Release Committee that meets and releases cash based on the available cash flow and requests from line ministries to finance commitments made under AIEs ahead of parliamentary approval.

The Budget Monitoring Department (BMD) manages monthly reporting on budget execution and is responsible for publishing accurate and timely data on revenue, expenditure, financing and debt in the Quarterly Budget Review (QBR). Ministries are required to submit to the BMD expenditure returns for the preceding month by 15th of each month. In addition, ministries are required to provide accounts and bank statement reconciliation to the Accountant General's Department (AGD) on a monthly basis. The other mechanism that closely evaluates the budget is the Public Expenditure Review (PER), though this is not effectively mainstreamed. The PER was initiated in 2003 to precede other budget preparation processes in order to inform the budget. Monitoring of expenditure through tracking surveys was initiated in March 2003 by the Kenya Institute for Public Policy Research and Analysis (KIPPRA).

Although the MTEF has focussed on the key challenges in the budget process (that is a sound fiscal framework and improved sector priority resource allocations) key weaknesses still exist that require immediate attention to strengthen the budget process as a key instrument in public expenditure management:

- The budget preparation is constrained by a tight budget timetable that does not allow for adequate analysis and review. In 2003/04, although the PER was expected to begin in September/October, actual work started in December/January;
- There is limited institutionalisation of the MTEF budget during budget execution. Re-allocation of funds outside the set priorities leads to deviations between the budget and its implementation;
- The objective of the process to improve inter- and intra-sectoral resource allocation based on careful costing of target priority outputs has been undermined by lack of reliable information on outputs and proper budget costing within the Government;

- The MTEF budget process does not have strong legal and political underpinnings and this has been worsened by constant mergers of some ministries;

- The development of the MTEF has been constrained by the classification system within which the budget is prepared. The budget estimates are presented in an administrative classification based on votes, sub-votes and heads, with additional presentations being made using an economic classification. There is no programme or functional classification that would allow sectors and ministries to present and monitor their budgets in terms of outputs from expenditure;

- The medium term planning elements of the annual MTEF budget are not embedded. Fiscal framework expenditure and revenue forecasts have in most cases been subject to significant revisions at the start of each new budget cycle. At the start of each budget cycle, ministries do not routinely refer to their forward estimates in preparing new budgets, rendering the two outer years of the MTEF budget redundant. Consequently, there is no adherence to a budget resource constraint at the beginning of the budget preparation process;

- Budget implementation is undermined by Exchequer cash releases that do not match budget allocations; and

- Budget tracking tools have not been effectively institutionalised.

**Recommendations on Budget Making Process**

There is need to continually deepen MTEF budget reforms in order to enhance the effectiveness of the budget in terms of fiscal discipline, effective prioritisation and efficient utilisation of resources. The following recommendations need to be considered at the outset:

i) Increasing political engagement early in the budget making process. This will require that a budget strategy paper be prepared at the beginning of the budget preparation process which, among other things, should include resource ceilings, key strategies and be discussed and approved by the Cabinet.

ii) The budget preparation process should begin early (September/October) and allow for early political buy-in. Early engagement with development partners is also desirable in order to establish external aid flows for budget formulation purposes.

iii) The Government should consider adopting Sector Wide Approaches (SWAPs) to strengthen the current MTEF sector budgeting.

iv) There is need to revitalize the Planning and Budget Steering Committee and establish a senior management inter-ministerial coordination committee between the ministries of Planning and National Development, and Finance to coordinate budget formulation and management.

v) There is need to review the operations of the Exchequer Releases Committee with a view to strengthening its operations.

vi) There is need to clearly link the MTEF and other public expenditure reforms such as the strategic planning that the Government is adopting.

*Macroeconomic analysis of the budget*

The Fiscal Strategy Paper (FSP) provides a realistic medium term fiscal framework, which should form the basis for expenditure, revenue and financing ceilings and should guide the annual budget. However, inconsistencies exist between the FSP and the annual budget for 2004/05 despite the fact that the Cabinet approved the FSP for 2004/05. The inconsistencies are noted in expenditures, revenue items and budget financing.

The ERSWEC had projected a reduction in domestic borrowing as a percentage of GDP from about 25.1 percent in 2002/03 to 17.7 percent by 2006/07. However, the current trends are not encouraging. In June 2004, domestic debt as a percentage of GDP had increased to about 27 percent.

Further, the ERSWEC specifies a deficit financing policy that should lead to a declining trend in domestic financing. However, this policy is not reflected in the budget. The 2004/05 annual budget has a domestic financing gap of Ksh 22 billion and a further Ksh 35 billion to be financed by development partners. In the event that donor financing does not materialize and revenue/expenditure adjustments are not effected, a domestic financing gap equivalent to Ksh 57 billion would ensue.

Provisional data on implementation of the 2003/04 budget indicate that revenue collection outperformed budget estimates. However, actual expenditures were below the budget estimates. A major under-expenditure was registered in the development budget due to difficulties in absorbing donor funds, which stood at about 57 percent of the budgeted donor funds. The under-absorption is attributed to lack of compliance with donor funds disbursement requirements and delays in procurement.

Domestic financing shows a big divergence. Although the budget had targeted domestic borrowing at Ksh 47.8 billion, only Ksh 8.9 billion was realized.

**Recommendations on Macroeconomic Framework**

- There is need to adhere to macroeconomic parameters outlined in the Fiscal Strategy Paper and approved by the Cabinet during preparation of the annual budget.
- Improve expenditure and revenue forecasting.
- Review the management of aid to enhance absorption of donor funds.

*Pro-the poor expenditures*

Pro-the poor expenditures have been identified in the budget since 2000 following adoption of the Poverty Reduction Strategy Paper (PRSP). The purpose of identifying these pro-the poor expenditures in the budget is to have them 'ring fenced' to enhance poverty orientation in the budget.

The criteria developed in 2000 for selecting the Core Poverty Programmes (CPPs) was revised in fiscal year 2003/04 to reflect the priorities of the ERSWEC. The key pro-the poor areas for the ERSWEC include: improving the status of the education of the poor, health and nutrition, HIV/AIDS, labour (employment), social security, food security, and security and focus on arid and semi-arid lands (ASALs). The revision of the criteria resulted in an increase in resources allocated to CPPs in the fiscal year 2003/04 and 2004/05 to Ksh 43.4 billion from Ksh 32.2 billion in the fiscal year 2002/03. As a percentage of GDP, these allocations increased from about 3.2 percent of GDP in 2002/03 to about 3.8 percent in 2003/04 and 2004/05 even though about 4.0 percent was envisaged for the fiscal year 2003/04.

The implementation of the CPPs is the responsibility of relevant ministries under which they fall, with reporting on their performance the prerogative of the Budget Monitoring Department (BMD). The BMD, therefore, manages reporting and produces reports on these programmes.

Major challenges need to be addressed with regard to implementation and monitoring of CPPs, and include:

- A number of pro-the poor expenditure areas identified in the ERSWEC have not been allocated resources. These include: revolving drug fund and supply of medical services, recruitment of essential staff for health services, establishment of a special healthcare endowment fund for vulnerable groups and the transformation of the National Hospital

Insurance Fund (NHIF) to a National Social Health Insurance Scheme (NSHIS). The implementation of such projects has been hampered by lack of a proper implementation strategy, including the resource implication, especially with regard to transformation to a National Social Health Insurance Scheme (NSHIS).

- The Government has been able to achieve full disbursement to CPPs. For instance, the disbursement rates were 92.1 percent and 44.0 percent of the budgeted recurrent non-wage and development expenditures, respectively, in 2002/03. In resource allocations, CPPs are not treated as priority areas to be allocated first.

- There are concerns about the timeliness and accuracy of reporting on CPPs by implementing agencies.

- Despite the focus on pro-the poor expenditures since 2000, available evidence indicates that the poverty situation has worsened.

**Recommendations on Pro-poor Expenditures**

On the basis of the review, the following recommendations are proposed for consideration:

- Core Poverty Programmes (CPPs) should be given priority during budgetary resource allocations, and fully budgeted resources should be disbursed to them.

- The criteria for determining CPPs should be clear to all ministries. It is imperative that they receive instructions to clearly indicate their CPPs when making requisition for Exchequer issues from Treasury.

- Focus must also be directed on outcomes of expenditures on CPPs rather than only on inputs into CPPs as is presently the case.

- CPPs should be monitored within the broad national monitoring and evaluation system. Reporting on CPPs should be enhanced and Public Expenditure Tracking Surveys (PETS) institutionalised for the purpose of evaluating these programmes and providing management with information to enhance their impact.

- A careful analysis of the pro-the poor expenditures included in the ERSWEC should be carried out for the purpose of determining the budgetary implications and developing a viable implementation strategy.

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# 1. Introduction

The budget for fiscal year 2004/05 is the second budget that is implementing the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) 2003-2007 and fourth under the Medium Term Expenditure Framework (MTEF) process. The need for this post-budget review has arisen due to emerging concerns related particularly to the extent to which the budget addresses poverty and ERSWEC priorities; inconsistencies between the Fiscal Strategy Paper (FSP) 2004/05-2006/07 and the 2004/05 budget; and weak budget implementation as evidenced in large divergences between the budget and its actual execution.

This post-mortem analysis of the budget examines the nature, causes and extent of the above issues by:

(i) Reviewing the budget process in Kenya, especially budget formulation and execution, to provide an understanding of the possible sources of the observed inconsistencies between the Fiscal Strategy Paper (FSP) and the annual budget and its implementation; and

(ii) Carrying out a comparative overview of the 2003/04 and 2004/05 budgets, focusing on the issues of poverty, prioritisation, financing gap and budget execution.

# 2. The Budget Process

## 2.1 Introduction

Processes and institutional management practices in formulation and implementation of the budget have important influence on budgetary outcomes in terms of fiscal discipline, allocation of resources according to priorities and the efficient and effective utilisation of resources to implement the strategic priorities. It is in this recognition that the Government has been implementing reforms in public expenditure management in the areas of budget formulation, execution, control and monitoring and evaluation.

In the year 2000, the Government adopted the Medium Term Expenditure Framework (MTEF) approach to budgeting with the aim of providing a strong link between policy, planning and budgeting, therefore improving budget outcomes. Prior to the introduction of the MTEF budget process, the budget process could be characterised as incremental, lacking a credible and sound macroeconomic resource framework; and lacking effective prioritisation. The existence of a medium term planning framework and a Public Investment Programme (PIP) did not address the proliferation of poorly designed and implemented projects and the inconsistency between the budget and its implementation. The introduction of the MTEF together with other reforms in public expenditure management was expected to address these weaknesses.

The MTEF budget process is composed of two key processes: (i) a 'top down' fiscal process that involves identifying available aggregate resources and allocating them between sectors based on national priorities, and (ii) a 'bottom up' expenditure planning process involving preparation of sector strategies and expenditure requirements for achieving sector targets, which form the basis for resource bidding and allocations. The major goals of MTEF include: linking policy, planning and budget; achieving fiscal discipline through a medium term realistic and consistent macroeconomic framework; allocative efficiency or through resource allocations in line with strategic priorities; and operational efficiency, through delivery of quality services and/or outputs at the least cost.

## 2.2 Budget Planning and Formulation: Top-Down Process

Under the current institutional arrangements, the 'top down' component involves preparation of the Fiscal Strategy Paper (FSP), which provides forecasts of GDP growth and other key macroeconomic variables such as inflation rate, and money supply and exchange rate. The Macroeconomic Working Group (MWG) that prepares the FSP draws membership from various departments of the Ministry of Finance, Ministry of Planning and National Development, Central Bank of Kenya, Kenya Revenue Authority, Central Bureau of Statistics, and the Kenya Institute for Public Policy Research and

Analysis (KIPPRA). The FSP provides a macroeconomic framework for the overall resource envelope and the optimal levels of aggregate revenue, expenditure and a deficit financing strategy over a three-year horizon. In this regard, forecasts of revenue and expenditure limits, consistent with other macroeconomic parameters including balance of payments, GDP growth and inflation rates, and monetary aggregates are provided. The FSP, therefore, provides the pillars upon which the annual budget is based.

### 2.3 Bottom up: Resource Bidding and Sectoral Allocations

Within the current institutional set up, this process entails preparation of MTEF budget sector reports that synthesise ministerial expenditure requirements to implement policy goals. Ministries prepare their budgets following budget guidelines issued by the Treasury. In this case, the sector budget process provides a framework through policy priorities translated into expenditure decisions. Currently, there are eight sectors, namely: Agriculture and Rural Development (ARD); Physical Infrastructure (PI); Human Resource Development (HRD); Public Safety Law and Order (PSLO); Tourism, Trade and Industry (TTI); Public Administration; National Security, and; Information Communication Technology (ICT). All the eight sectors review their priorities and ensure they are in tandem with the national priorities as set out in various government documents. The ministries/spending agencies are expected to participate in both review and prioritisation of activities within the relevant sector. The sector reports give the cost of all activities, a prioritised list of activities, and a three-year expenditure framework. In the current policy environment, the sector resource allocations should be based on priorities as outlined in the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC), which should be prioritised and properly costed. The bottom-up needs are then matched with the overall expenditure limit determined by the macroeconomic framework.

The Kenya MTEF model also includes consultations with other stakeholders through public hearings, where sector reports are presented. Ministries get their respective share of resources from the respective sector resource envelope through 'resource bidding', which is a process of negotiations where trade-offs are made between different activities.

## Budget Execution

### 2.4 Enactments and Execution

Once the budget is tabled in Parliament the approval stage sets in. The Minister of Finance presents the Budget Speech to Parliament, usually accompanied by the Appropriations Bill, the Finance Bill, the Statistical Annex to the budget, and the Financial Statement. The Statistical Annex contains key statistics on the economy, including government's indebtedness to various lending institutions, both domestic and external. The Financial Statement gives a summary of proposed revenue and expenditure measures. The budget is presented as a motion to Parliament, debated and approved, sometimes with amendments. Upon approval of the budget and the passing of the Finance and Appropriations Bill, the Government is effectively authorised to raise revenue and to spend them in accordance with the approved budget estimates.

Budget execution, which involves implementation, supervision and audit follows Parliamentary approval. This entails the disbursement of funds to various implementing ministries and spending agencies. Budgetary resources are disbursed to line ministries and departments through Exchequer issues. The Permanent Secretaries are then allowed to grant Authority-to-Incur-Expenditure (AIE) to AIE holders to implement the Government programmes. Ahead of Parliamentary approval, ministries are authorized to spend up to 50 percent of the proposed expenditure through a vote on account, which the Minister of Finance secures from Parliament. A vote book is used as the basic tool of accounting and for commitment control in line ministries. Apart from providing a running total of the balance available from the release ceiling, it also provides the outstanding commitments at any point in time. Once Parliament approves the estimates, re-allocation is only allowed by the approval of the Ministry of Finance. A revised budget is presented towards the end of the year to capture and legalise, through parliamentary approval, the re-allocations and any other adjustments.

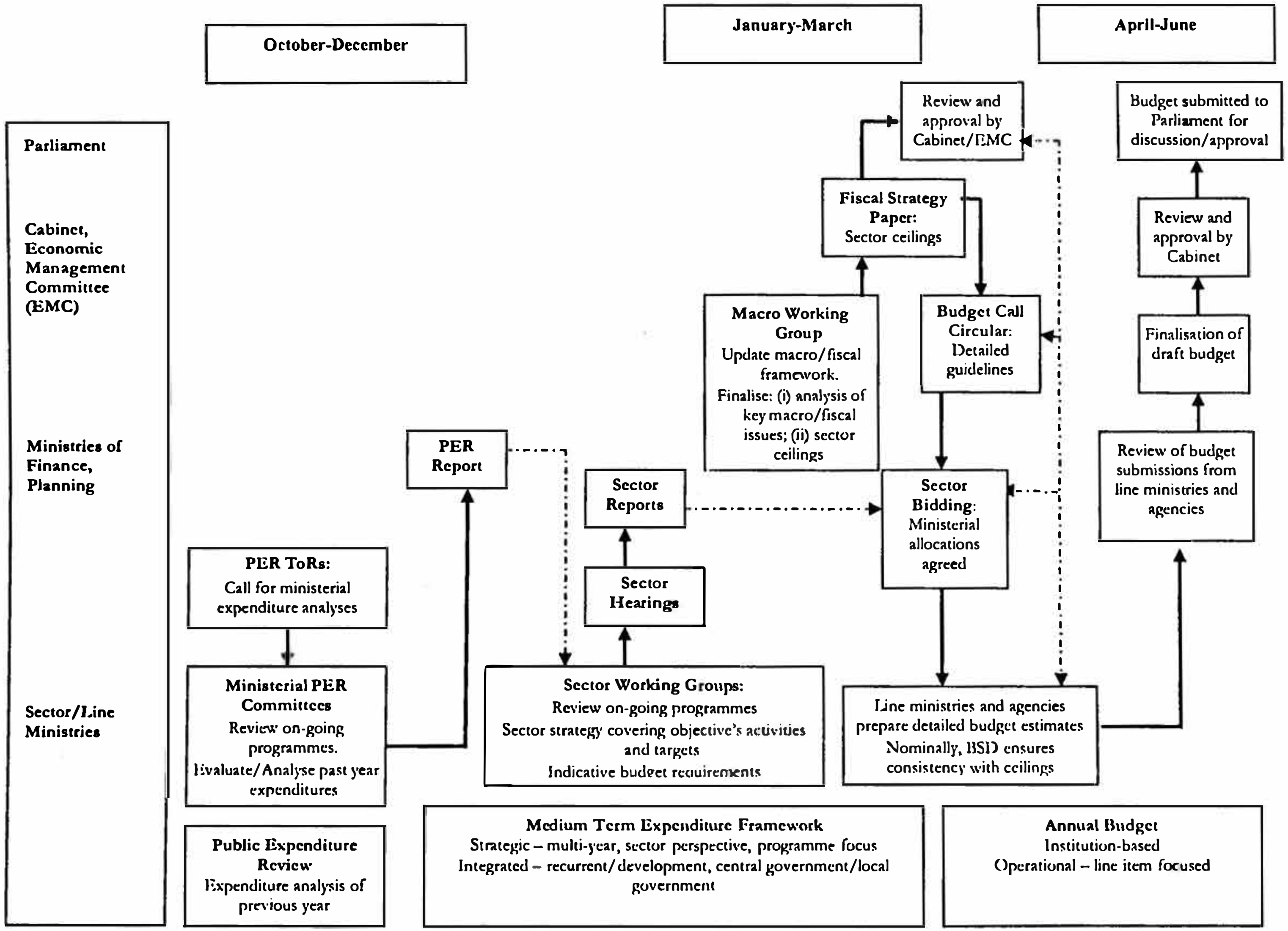
### 2.5 Audit, Monitoring and Evaluation

The Treasury is responsible for the control and management of finances. The power to undertake this function is conferred on the Minister of Finance by the Exchequer and Audit Act, chapter 412 Section 3, which became effective on 1st June 1955. Fiscal control and management tools are diverse and a network of fiscal institutions is in place for this purpose. The Controller and Auditor General (C&AG) conducts audits to establish the efficiency, effectiveness and economy with which public resources are appropriated. The Budget Monitoring Department (BMD) manages monthly reporting on budget execution and is responsible for publishing accurate and timely data on revenue, expenditure, financing and debt in the Quarterly Budget Review (QBR). Ministries are required to submit to the Budget Monitoring Department expenditure returns for the preceding month by 15th of each month. In addition, ministries are required to provide accounts and bank statement reconciliation to the Accountant General's Department (AGD) on a monthly basis. The other mechanism that closely evaluates the budget is the Public Expenditure Review (PER), though this is not effectively mainstreamed. The PER was initiated in 2003 to precede other budget preparation processes in order to inform the budget. Monitoring of expenditure through tracking surveys was initiated in

March 2003 by the Kenya Institute for Public Policy Research and Analysis (KIPPRA).

The Kenya budget cycle is schematically presented in Figure 1 (*Source: MTEF Review*). Although the Government has been undertaking measures to strengthen the budget planning process and systems of expenditure management, weaknesses still exist that need to be addressed in order to enhance budgetary outcomes.

## Figure 1: The PER, MTEF and budget preparation cycle in Kenya



## 2.6 Issues on Implementation of the MTEF

According to a recent review of the MTEF budget (March 2004) and the findings of the PER 2003 and draft PER 2004, weaknesses still exist that undermine the effectiveness of the budget process in terms of coordination, prioritisation and adherence to the budget framework. These include the following:

***Effectiveness***: Although the overall resource envelop ceiling is adhered to, the objective of the process (to improve inter- and intra-sectoral resource allocation based on careful costing of target priority outputs) has been undermined by lack of reliable information on outputs and proper budget costing within the Government. Furthermore, there is limited adherence to agreed priorities after the FSP is finalised and even during the budget execution process.

***Institutional setup***: The MTEF budget process does not have strong legal and political underpinnings. The existing legal framework for budgeting does not cover MTEF budgeting. Furthermore, the frequent separations and mergers between ministries of finance and planning complicate the requisite coordination between technical departments for effective policy formulation.

***Timing***: Budget preparation is constrained by a tight budget timetable that does not allow for adequate analysis and review. There is disconnect between Public Expenditure Reviews (PERs) and Sector Working Groups (SWGs). In 2003/04 for instance, although the PER was expected to begin in September/October, actual working started in December/January. In some years, sector ceilings have been issued after sector proposals had been developed.

***Limited sectoral approach***: There is limited institutionalisation of the MTEF budget during budget execution. Indeed, the sectoral approach to budgeting is limited to sector ceilings and sector bidding. After the sector bidding, it is back to business as usual; ministerial ceilings are issued and the budget is cast by ministry and by traditional input-based line item. There is doubt that there is value addition in the process through the introduction of the sector ceilings in addition to ministerial ceilings. In this regard, adopting a *Sector Wide Approach* might provide the opportunity to strengthen MTEF sector budgeting.

***Classification***: The development of the MTEF has been constrained by the classification system within which the budget is prepared. The budget estimates are presented in an administrative classification based on votes, sub-votes and heads, with additional presentations being made using an economic classification. There is no programme or functional classification that would allow sectors and ministries to present and monitor their budgets in terms of outputs from expenditure. The budget document is an accounting document, which emphasizes legality and not effectiveness and efficiency.

*Lack of medium term focus*: The medium term planning elements of the annual MTEF budget are not embedded. Fiscal framework expenditure and revenue forecasts have often been subject to significant revisions at the start of each new budget cycle. At the start of each cycle, ministries do not routinely refer to their forward estimates in preparing new budgets, rendering the two outer years of the MTEF budget redundant. Consequently, there is no adherence to a budget resource constraint at the beginning of budget preparation.

*Capacity constraints*: Adequate capacity building did not follow the introduction of the MTEF budget.

*Inadequate linkage to other reforms*: Successful budget reforms hinge on other reforms that impact on public expenditure management. Civil service reform and privatisation are areas that jeopardize the success of budget reforms.

*Limited political engagement*: Currently, there is minimal dialogue between the political establishment and the executive. For the budgeting process to be successful there is need for early political buy-in in the budget process.

It is important that the findings of the MTEF review and PER in Kenya be reviewed with a view to implementing the recommendations to strengthen the budget making process. This is likely to enhance budgetary outcomes in terms of aggregate fiscal discipline, prioritisation and adherence to hard budget constraints and the efficient and effective utilisation of public resources. The following key recommendations need to be considered at the outset:

(i) Increasing political engagement early in the budget making process. This will require that a budget strategy paper be prepared at the beginning of the budget preparation process. It should include setting resource ceilings and discussion and approval of key strategies by the Cabinet. This budget preparation process should begin early (September/October) and allow for early political buy-in. Early engagement with development partners is also desirable in order to establish external aid flows for budget formulation purposes.

(ii) There is need to enhance inter-ministerial coordination between the Ministries of Planning and National Development, and Finance, in budget formulation and management.

(iii) There is need for increased policy dialogue with stakeholders to enhance transparency, ownership, accountability and understanding of government processes and policy choices.

(iv) There is need to clearly link the MTEF and other public expenditure reforms such as the strategic planning that the Government is adopting.

# 3. Macroeconomic Analysis of the Budget

## 3.1 Broad Macroeconomic Targets of the ERSWEC 2003-2007

The macroeconomic framework of the Economic Recovery Strategy for Wealth and Employment Creation 2003-2007 specifies the following broad objectives and targets:

- Raising and sustaining the level of economic growth, with real GDP growth rate of 4.5 percent by 2006/07.

- Sustainable fiscal framework, with a reduction in stock of domestic debt from 25.1 percent of GDP in 2002/03 to 17.7 percent by 2006/07; reduction in fiscal deficit to 3.3 percent of GDP; and increase in revenue to GDP to 23.4 percent over the same period.

- Aligning the structure of expenditures to be more pro-the poor and pro-growth by increasing core poverty spending from 3.4 percent of GDP in 2002/03 to 4 percent of GDP in 2003/04 and lowering the wage bill to below 8.5 percent of GDP by 2006.

- Enhancing policy, planning and budgeting and expenditure control by reducing the deviations between actual expenditure and printed estimates by 30 percent by 2006/07; reducing deviations between MTEF projected estimates and printed estimates by 30 percent over the same period. Other targets include clearing of pending bills and ensuring low supplementary budgets.

- Reducing public domestic borrowing by relying more on external concessional borrowing with the following targets: annual net domestic financing to decline to negative 0.4 percent in 2004/05; maturity profile of government debt lengthened from 45 percent long term Treasury bonds in 2002/03 to 70 percent in 2003/04; and concessional international borrowing and grants to rise from 0.8 percent of GDP to 5.9 percent in 2005/06.

- Higher private savings and investments to reach 15.0 and 24.6 percent of GDP by 2005/06, respectively.

- Low and stable interest and inflation rates, with an inflation target of below 5 percent annually.

- Money supply growth in line with nominal GDP (about 10% annually).

- Reduced government participation in the banking sector. The share of government equity/capital not to exceed 25 percent by 2006/07; increased availability of credit to private sector and reduction in stock of non-performing loans by 30 percent over 2003-2006.

### 3.2 Macroeconomic Policy Targets Contained in the FSPs

To implement the ERS, the macroeconomic framework for the Fiscal Strategy Papers for 2003/04 and 2004/05 echoes the same macroeconomic objectives as stipulated in the ERSWEC. These are: maintaining a sustainable macroeconomic and fiscal framework, and restructuring expenditures to promote pro-the poor growth.

Key features of the 2003/04 Fiscal Strategy Paper, include:

- Keeping the ratio of revenue to GDP above 22 percent.

- The ratio of expenditures to GDP is expected to remain high due to the need for increased investment and social expenditures (between 27-28% of GDP) but with substantial shift in composition; and development expenditure to exhibit fastest increases and is to be driven mainly by increased access to donor funds.

- General reduction in the level of the overall deficit with its financing targeted at the external concessional loans and therefore allowing a reduction in the levels of domestic borrowing.

Key features of the 2004/05 Fiscal Strategy Paper include[1]:

- Revenues are expected to decline from 21.6 percent of GDP in 2003/04 to 20 percent in 2006/07 (and not 21% as originally envisaged in ERSWEC) following the implementation of the Common External Tariff (ECT) of the East African Community.

- Overall expenditures are expected to decline from 27.4 percent of GDP in 2003/04 to 25.9 percent in 2006/07 as a result of the declining levels of interest payments and the reduction in the wage bill. Development expenditures to rise from 4.3 percent of GDP in 2003/04 to 5.9 percent in 2006/07 (from Ksh 47 billion to Ksh 80 billion), with the bulk of these resources going to infrastructure development.

- The deficit is expected to rise to 4.27 percent of GDP in 2004/05 and 4.29 percent in 2006/07 (up from ERSWEC target of 3 percent following

[1] Cabinet Memorandum on the FSP and sectoral ceilings for 2004/05-2005/07.

anticipated lower revenues and lower absorption of donor funds). The deficit will be financed mainly from external resources, therefore allowing for lower levels of domestic borrowing and the subsequent reduction in domestic debt stock.

- Non-inclusion of adjustments of civil servants wages in the wage expenditure, free primary education expenditures to be maintained at Ksh 9 billion while non-wage health expenditures are expected to rise in line with the objective of implementing the National Social Health Insurance Scheme.

### 3.3 Macroeconomic Policy Targets Contained in the 2004/05 Budget

The theme of the budget was "enhancing efficiency for accelerated economic growth" with the following objectives:

- Sustain macroeconomic stability;
- Stop and reduce the accumulation of the pending bills;
- Enhance efficiency in the use of public resources; and
- Sustain and expand the core poverty programmes.

Specific policies include:

- Attain real GDP growth of 3 percent in 2004;
- Allow money supply to grow by 8 percent, predicated on underlying inflation being no more than 3.5 percent per annum;
- Private sector credit to expand by around 13.5 percent per annum;
- Official foreign exchange reserves to be equivalent to 4.1 months import cover;
- Undertake bank restructuring measures aimed at improving the banking sector;
- Total revenue target of Ksh 271.03 billion for fiscal year 2004/05, composed of Ksh 233 billion of ordinary revenue (20.1% of GDP) and Ksh 38 billion in Appropriations-in-Aid (A-I-A);

- Gross recurrent expenditure for 2004/05 estimated at Ksh 353.9 billion, comprising Ksh 23.8 billion as A-I-A, Ksh 132.8 for Consolidated Fund Services (CFS) and Ksh 197.2 billion for discretionary expenditures;

- Development expenditure estimated at Ksh 86.7 billion, comprising Ksh 32 billion as A-I-A, Ksh 12.2 billion for direct project financing, Ksh 17.8 billion as grants and Ksh 2 billion as local A-I-A. Consequently, net development expenditures of Ksh 54.8 billion is expected to be financed from the Exchequer;

- Overall deficit of Ksh 57.9 billion for the current fiscal year of which Ksh 22 billion to be financed through domestic borrowing and the remaining Ksh 35.9 billion to be financed through external support by development partners, and the privatisation proceeds in the course of the financial year.

## 3.4 Macroeconomic Synthesis of the Budget

### 3.4.1 Economic outlook

The outcome of the overall economic performance in 2003 was lower than the targets laid out in the ERSWEC and the FSP (2003/04). Real GDP is estimated to have grown at an average of 1.8 percent, well below the 2.3 percent initially projected in both the ERSWEC and the FSP. For 2004, the budget forecasts an average real economic growth rate of 3 percent, which is lower than ERSWEC projection of 3.7 percent and higher than the FSP (2004/05) forecast of 2.5 percent, respectively. The budget forecast is therefore well below the ERSWEC forecast and obviously above the FSP (2004/05) targets. However, it is possible to have different growth targets in the FSP and ERSWEC since both are developed at different time periods and are therefore bound by different assumptions depending on the prevailing economic conditions.

### 3.4.2 Expenditures

The Fiscal Strategy Papers targets' for total expenditure for the fiscal years 2003/04 and 2004/05 are given as 27.2 and 27.6 percent of GDP, respectively. In terms of the recurrent expenditure, the FSP targets are set at 23.2 and 22.2 percent of GDP over the same period. However, in 2003/04, the revised total expenditures as a ratio of GDP, which stood at 24.7 percent, fell short of the targeted figure. Similarly, the recurrent expenditures for 2003/04 at 21.2 percent of GDP is below the target. A similar scenario is depicted with respect to development expenditures, which averaged 3.5 percent in 2003/04 and is projected at 7.48 percent for 2004/05 budgets against the FSP targets of 4.0 and 5.4 percent, respectively. The absorption of donor funds factored in the budget remains poor, with the implementation rate of about 57 percent in 2003/04. This has been attributed to weak compliance with donor resource disbursement requirements. The divergence between the FSP and the annual budget reflects a situation where the budget is changed even after broad expenditure targets have been set in the FSP and approved by the Cabinet. This further reflects a weak link between planning and budgeting. The budget is not fully guided and supported by the targets set in the FSP. It is possible to address this problem by ensuring that all expenditure estimates are contained within their respective sector ceilings that have been arrived at by the overall resource envelope detailed in the FSP. No new expenditure item should be introduced into the budget after sector resource ceilings have been provided. Therefore, the implementation of the ERSWEC objective of enhancing policy, planning and budgeting, and expenditure control by reducing the deviations between actual expenditure and printed estimates is not reflected.

### 3.5 Revenues

In terms of revenue, the FSPs total revenue targets are set at 23.0 and 21.7 percent of GDP for 2003/04 and 2004/05, respectively, against those of the 2003/04 revised budget of 20.5 percent and the 2004/05 budget estimate of 22.2 percent over the same period. It is important to note that revenue estimates used in the budget are always lower than the FSP target. The revenue forecasts are more conservative than what is in the Fiscal Strategy Paper. Besides, the revenue figures adopted for the budget always have to remain within the set targets by the IMF (Under the PRGF Facility). These are above the ERS stated objective of retaining the ratio of total revenue to GDP at around 21.0 percent. However, the FSP for 2004/05 justifies the downward revision to 21.6 percent of GDP on the implementation of Common External Tariff (CET).

### 3.6 Deficit and Financing

The ERSWEC sets a target for the deficit as a ratio of GDP around 3.3 percent over the fiscal years 2003/04 and 2004/05. This is closer to the FSP targets of 3.2 percent and 3.7 percent in 2003/04 and 2004/05, respectively. It is also important to note that an overall deficit of 3.8 percent was recorded in 2003/04 budget and that the budget for the fiscal year 2004/05 provides a higher budget deficit (6.1%). The ERSWEC specifies a deficit financing policy that should lead to a declining trend in domestic financing. Consequently, the FSP targets lower domestic financing levels of Ksh 16.7 billion in 2004/05 fiscal year. On its part, the 2004/05 annual budget has a domestic financing gap of Ksh 22 billion and a further Ks 35 billion to be financed by development partners. In the event donor financing does not materialize, a domestic financing gap equivalent to Ksh 57 billion would be financed locally. This target is not consistent with the FSP targets and the ERSWEC target of reducing domestic debt.

The widening financing gap coupled with dwindling foreign finances is likely to increase pressure on domestic borrowing, therefore compromising the country's monetary policy framework. It is therefore important that the Government remains in truck with the donors and should be able to draw most of the resources that were at least pledged during the donor consultative meeting.

**Table 1: Macroeconomic variables**

| Variables | ERS targets | | FSP targets | | Budget provisions | | | Deviation budget from ERS | Deviation budget from FSP |
|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2003 | 2004 | 2003/04 forecast | 2003/04 revised | 2004/05 | 2003/04 | 2003/04 |
| Real GDP (%) | 2.3 | 3.7 | 2.3 | 2.5 | | 1.8 | 3 | -0.5 | -0.5 |
| Gross investments (% of GDP) | 15.0 | 16.6 | 21.0 | 20.4 | | 12.5 | | -2.5 | -8.5 |
| Exports% volume change | 3.2 | 4.9 | 3.2 | 6.4 | | 4.04 | | 0.84 | 0.84 |
| Imports % volume change | 5.1 | 4.2 | 5.1 | 29.9 | | 9.36 | | 4.26 | 4.26 |
| Inflation (%) | 3.8 | 3.5 | 3.8 | 3.5 | | 9.8 | | 6.0 | 6.0 |

*Source: ERSWEC (2003-2007), Fiscal Strategy Paper (2003 and 2004), and Budget (2003/04 and 2004/05)*

**Table 2: Expenditures**

| Variables | FSP targets | | Budget provisions | | | Deviation budget from FSP | | Percentage deviations | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003/04 | 2004/05 | 2003/04 forecast | 2003/04 revised | 2004/05 | 2003/04 | 2004/05 | 2003/04 | 2004/05 |
| | | | | Ksh million | | | | | |
| Recurrent expenditures | 238,099 | 262,247 | 334,100 | 245,687 | 353,900 | 7,588 | 91,653 | 3.19 | 34.95 |
| of which wages and salaries | 92,017 | 100,332 | | 96,340 | 105,000 | 4,323 | 4,668 | 4.70 | 4.65 |
| - Interest payments | 35,120 | 23,748 | | 29,684 | 33,400 | -5,436 | 9,652 | -15.48 | 40.64 |
| - Other recurrent expenditures | 110,962 | 138,167 | | 119,663 | | 8,701 | | 7.84 | |
| Development expenditures | 41,315 | 64,054 | 59,500 | 40,741 | 86,700 | -574 | 22,646 | -1.39 | 35.35 |
| Total expenditure | 279,414 | 326,301 | | 286,428 | 440,600 | 7,014 | 114,299 | 2.51 | 35.03 |
| **Percentages** | | | | | | | | | |
| Total expenditure/GDP | 27.2 | 27.6 | | 24.7 | 38 | -2.5 | 10.4 | -9.19 | 37.68 |
| Total recurrent/GDP | 23.2 | 22.2 | | 21.2 | 30.5 | -2.00 | 8.32 | -8.64 | 37.50 |
| of which wages and salaries/GDP | 9.0 | 8.5 | | 8.3 | 9.06 | -0.67 | 0.57 | -7.45 | 6.76 |
| Development expenditures/GDP | 4.0 | 5.4 | | 3.5 | 7.48 | -0.53 | 2.06 | -13.08 | 38.06 |

*Source: ERSWEC (2003 – 2007), Fiscal Strategy Paper (2003 and 2004), and Budget (2003/04 and 2004/05)*

## Table 3: Revenues and grants

| Variables | FSP targets (Ksh million) | | Budget provisions (Ksh million) | | | Deviation Budget from FSP (Ksh million) | | Percentage deviations | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003/04 | 2004/05 | 2003/04 forecast | 2003/04 revised | 2004/05 | 2003/04 | 2004/05 | 2003/04 | 2004/05 |
| Total revenue | 235,997 | 255,907 | 240,000 | 237,916 | 256,830 | 1,919 | 923 | 0.81 | 0.36 |
| Ordinary revenue | 229,545 | 246,806 | 215,100 | 217,079 | 232,996 | -12,466 | -13,810 | -5.43 | -5.60 |
| Direct taxes | 72,440 | 70,865 | | | | | | | |
| Indirect taxes | 118,371 | 137,555 | | | | | | | |
| Non-tax revenue | 38,734 | 38,386 | 2,000 | | | | | | |
| A-I-A | | | 22,900 | 20,837 | 23,834 | | | | |
| Revenue enhancement measures | 6,451 | 9,100 | | | | | | | |
| Grants | 10,614 | 27,028 | | | 25460 | | -1568 | | -5.80 |
| Total revenue and grants | 246,611 | 282,934 | | 244,743 | 282290 | -1868 | -644 | -0.76 | -0.23 |
| **Percentages** | | | | | | | | | |
| Total revenue/GDP | 23 | 21.66 | 22.3 | 20.5 | 22.2 | -2.50 | 0.50 | -10.87 | 2.29 |
| Ordinary revenue/GDP | 22.4 | 20.9 | | 18.7 | 20.1 | -3.67 | -0.78 | -16.41 | -3.72 |
| A-I-A/GDP | | | | 1.8 | 2.1 | | | | |

*Source: ERSWEC (2003 – 2007), Fiscal Strategy Paper (2003 and 2004), and Budget (2003/04 and 2004/05)*

## Table 4: Deficits and financing

| Variables | FSP targets (Ksh million) | | Budget provisions (Ksh million) | | | Deviation budget from FSP (Ksh million) | | Percentage deviations | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003/04 | 2004/05 | 2003/04 forecast | 2003/04 revised | 2004/05 | 2003/04 | 2004/05 | 2003/04 | 2004/05 |
| Deficit before grants (commitment basis) | -43,417 | -70,395 | | | -95,697 | | -25,302 | | 35.94 |
| Overall deficit (revenue + grants-Expenditure) | -32,803 | -43,367 | | -41,685 | -70,237 | -8,882 | -26,870 | 27.08 | 61.96 |
| Overall deficit (cash basis) | -34,803 | -44,367 | | | -5,7956 | | -13,589 | | 30.63 |
| Overall deficit as % of GDP | -3.2 | -3.67 | -6.5 | -3.82 | -6.1 | -0.62 | -2.43 | 19.38 | 66.21 |
| **Financing** | | | | | | | | | |
| Foreign financing | 45906 | 38207 | 35900 | | 35956 | | -2251 | | -5.89 |
| Domestic financing | 45274 | 16650 | 23700 | | 22000 | | --5350 | | -32.1 |

*Source: ERSWEC (2003 – 2007), Fiscal Strategy Paper (2003 and 2004), and Budget (2003/04 and 2004/05)*

## 3.7 Conclusion and Recommendations on Macroeconomic Framework

The Fiscal Strategy Paper provides a realistic medium term fiscal framework, which should form the basis for expenditure, revenue and financing ceilings. Efforts should therefore be made to strengthen the links between the FSP and the annual budget. However, the budget and the FSP preparation are characterised by different sets of problems that make it hard to link the two. Some of these problems include: Pressure to include additional expenditure items even after the FSP has been approved by the Cabinet and used to arrive at sector expenditure ceilings; and late and untimely provisions of both the Government debt positions, the amount of resources available from the external sources, information on the privatisation proceeds and additional revenue enhancement measures and/ or yields, among others.

Despite the narrow link between the FSP and the annual budget, fiscal strategies spelt in the FSP have been observed to some degree. The performance of revenue has improved remarkably. The targeted revenue collection as a ratio of GDP in 2003/04 budget was 20.8 percent against the actual realisation of 21.4 percent. The improved revenue collection is attributed to administrative reforms that the Kenya Revenue Authority has put in place. The level of expenditure as a percentage of GDP has been increasing despite policy pronouncements to contain expenditure. Total expenditure as a percentage of GDP is expected to increase from about 26.7 percent in 2003/04 to 28.9 percent in 2004/05. The broad composition of expenditure is consistent with the overall policy framework of increasing allocations to development budget. Development expenditure as a ratio of GDP is expected to increase from 4.8 percent in the revised budget for 2003/04 to about 6.3 percent in 2004/05. However, there is need to increase absorption of donor funds, which now stands at about 56 percent. The low disbursement of donor funds has been attributed to non-compliance with donor requirements and delays in procurement.

Although the ERS had projected a reduction in domestic borrowing as a percentage of GDP from about 25.1 percent in 2002/03 to 17.7 percent by 2006/07, the current trends are not encouraging. In June 2004, domestic debt as a percentage of GDP had increased to about 27 percent. Whereas the ERSWEC specifies a deficit financing policy that should lead to a declining trend in domestic financing, it appears that the policy is not being pursued explicitly.

# 4. Pro-the Poor Expenditures

## 4.1 Introduction

Although the original intent of Poverty Reduction Strategy Papers (PRSPs) all over the world was conditional on debt relief under the Heavily Indebted Poor Countries (HIPC) initiative, it also helped identify pro-the poor expenditure areas for Kenya with the publication of its first PRSP (2001-04) in the year 2000. PRSPs were intended to guide the investment of resources freed by debt relief into poverty reduction initiatives. PRSPs bring poverty at the centre stage in development planning, in conformity with the Millennium Development Goals (MDGs) to half poverty by the year 2015. The Government at the same time changed its budgeting system by adopting the MTEF approach. Pro-the-poor expenditures have been 'ring fenced' and designated as Core Poverty Programmes (CPPs) such that they are not subject to any budget cuts in the event of budgetary constraints. The list of CPPs is given in Appendix 1 and 2. The CPPs are selected based on a criteria and include activities and/or projects that would directly create employment; provide access to basic education; increase agricultural activity; ensure access to health services, especially curative health and family planning; reduce gender disparity; provide decent shelter, clean water and sanitation; rehabilitate criminals; programmes aimed at disasters and emergencies' management; and environmental protection.

The criteria was revised in 2003/04 to reflect the priorities of the ERSWEC. The revision of the selection criteria resulted in an increase in resources allocated to CPPs to about Ksh 43.5 billion in the fiscal year 2003/04 from Ksh 32.3 billion in 2002/03. The target was to increase expenditures on CPPs to 4 percent of GDP in the fiscal year 2003/04.

## 4.2 Implementation of Core Poverty Programmes (CPP)

*Ministry of Education, Science and Technology*

The key goals in the education sector include attainment of Universal Primary Education (UPE) by 2005 and Education for All (EFA) by 2015, goals that are in tandem with MDGs. In pursuit of these, the ERSWEC identified education as a major determinant of earnings and, therefore, providing an important exit route from poverty. Education improves people's ability to take advantage of the opportunities that can improve their livelihoods and enhance their participation in community ventures and markets. The broad objectives identified to help achieve this include 100 percent net primary school enrolment through compulsory free primary education, and the reduction in the disparity in access to quality education. To help meet the broad challenges too, the Government aimed to substantially revise the curricula to reduce the financial burden of education, seek to achieve optimal staffing of student/teacher ratio of 40:1, increase the availability of textbooks to achieve student/text book ratio of 3:1 in the early grades and 2:1 in the higher grades; conduct in-service training for teachers annually, and increase the bursary programme to cover at least 10 percent of enrolled students in secondary schools.

The Ministry has seven recurrent and four-development expenditure CPPs aimed at directing resources towards attaining UPE for all (See Appendices 1 and 2). Between 2003/04 and 2004/05, total recurrent expenditure allocations decreased by a meagre 0.6 percent whereas development expenditure allocations dropped markedly by about 54 percent. Among the recurrent expenditure allocations, allocations to early childhood programmes rose tremendously, increasing from Ksh 2.56 million in 2003/04 to Ksh 19.23 million in 2004/05. Whereas this increased, development expenditure allocations to this CPP dropped by almost 100 percent. The Government reduced its development expenditure allocations dramatically from Ksh 288.5 million in 2003/04 to Ksh 0.7 million in 2004/05 and no donor allocations were received except for UNICEF's Ksh 6.5 million (Budget Estimates Book). Curriculum Support Services also received significant cuts in development allocations by 78 percent, dropping from Ksh 1,511.7 million to Ksh 331.6 million between fiscal years 2003/04 and 2004/05 with the Government contributing to most of the cut by reducing its allocation from Ksh 1,161.8 million to only Ksh 20.0 million. Primary school education also received a big (58%) reduction on development expenditure allocations, dropping from Ksh 4,061.1 million to Ksh 2,035.4 million with both the Government's allocations failing from Ksh 3,813.3 million to Ksh 1,818.8 million, and Appropriations-in-Aid reducing from Ksh 247.8 million to Ksh 216.6 million. Only the School Feeding Programme received increased development expenditure allocations, increasing by about 10 percent but all of it being funded by the World Food Programme (WFP). Recurrent expenditure allocations to School Equipment Scheme (textbooks) dropped significantly by 44 percent between fiscal years 2003/04 and 2004/05, implying the burden of buying textbooks (and also feeding school children) is being shifted to the poor. Majority of the poor cannot afford this, implying that the budget fails to be pro-the-poor at the very onset of education, which does not help reduce disparity in access to quality education as envisaged by the ERSWEC, and jeopardizes the attainment of UPE by 2005 and EFA by the year 2015.

No recurrent and development expenditure allocations for staff recruitment and in-service training was made in the last budgetary allocations despite there being measures identified by the ERSWEC to prompt the attainment of UPE for all. The significant reduction in development expenditure for review of curriculum to reduce the burden of education on the poor worsens their case. The failure by the budget to allocate resources to these key pro-the poor expenditure areas in the education sector, while reducing allocations to some, although they are supposed to be "ring fenced," means that the budget is largely not pro-the poor.

*Ministry of Health*

The Ministry of Health aims to create an environment that enables the provision of sustainable quality healthcare that is acceptable, affordable and accessible to all Kenyans. In conformity, the ERSWEC strategizes to ensure that these fundamental goals are met, particularly for the poor. An outstanding challenge facing the poor, however, is affordability. Reform measures to be undertaken, especially targeting the poor, include initiating a National Social Health Insurance Scheme (NSHIS), converting NHIF into NSHIF to cover both in-patient and out-patient, and sharing costs among the Exchequer, employers and employees; setting up of a special healthcare endowment fund to target vulnerable groups; rehabilitation of existing health facilities; overhauling the system of procurement and distribution of drugs to public health facilities; and fresh recruitment of staff for essential health services.

The Ministry has 12 CPPs falling under both recurrent and development expenditure allocations. In the last budgetary allocations, total recurrent expenditures tended to remain constant at about Ksh 2.8 billion. Development expenditure allocations, however, increased significantly by nearly 73 percent. In the broadest sense, total allocations to the sector would be viewed as pro-the poor. On the contrary, however, non-wage recurrent expenditure allocations in the fiscal year 2004/05 to all CPPs (except to district hospitals and control of malaria) were reduced, with most of the reduction (nearly 62%) emanating from reduced expenditures on communicable and vector borne diseases by the Government from Ksh 281.9 million to Ksh 107.6 million, therefore portraying a not pro-the-poor budget. Allocations to family planning maternal and child healthcare, rural health training and demonstration centres, and national leprosy and tuberculosis control remained constant. However, the fiscal year 2004/05 saw significant increments in development expenditure allocations made to decentralization of district health (98%), district health services (476%), communicable and vector borne diseases (238%) with increments here coming from both the Government increasing from Ksh 661.4 million to Ksh 2,307.2 million and Appropriations-in-Aid rising from Ksh 358.4 million to Ksh 1,138.1 million (Budget Estimates Book). Environmental health services, in comparison, received a much lower 14 percent increment. In total, however, the increments are indicative of pro-the-poor budgeting. The 2003/04 budget, nevertheless, cut development expenditures for health development project (IDA) by 11 percent, purchase of equipment by 71 percent, rehabilitation of mortuaries by 23 percent and rehabilitation of district hospitals by 81 percent.

Pro-the poor resource allocative areas identified by the ERSWEC but for which neither recurrent nor development expenditures were allocated include the transformation of NHIF to NSHIS, fresh recruitment of essential health services staff, setting up of a special healthcare endowment fund to target vulnerable groups, revolving drug fund and supply of medical equipment. The budget again failed to be pro-the poor due to the omitted resource allocations and the reductions it made in the other areas of CPPs whereas allocations are supposed to be "ring fenced."

*Physical infrastructure sector*

The physical infrastructure sector encompasses roads; transport and communications; water and sanitation; energy; building and construction; other public works; and quality control and standards. Development and maintenance of physical infrastructure on a sustainable basis is a key prerequisite for rapid and sustainable economic growth and poverty reduction. Kenya has most of the critical transport and communications infrastructure necessary to support the development process in the country. Most of this infrastructure was developed in the first 15 years of independence when the Government made considerable investments in the sector to enhance the quality and quantity of physical infrastructure. However, after the mid 1980s the demand for additional and efficient physical infrastructure began to outstrip supply while financial and other resource constraints, inappropriate institutional framework, rapid technological changes and increasing demand for services and resources in other sectors of the economy limited the capacity of the Government to expand physical infrastructure and therefore further militate against their efficient operation. Currently, Kenya is characterized by a dilapidated road network, inadequate and dilapidated railway network, unreliable supply and costly electricity, weak telecommunications network, slow adoption of Information and Communications Technology (ICT), and inadequate quality and quantity of water supply and sanitation systems.

The sector's objectives, therefore, comprise an expanded and well-maintained road network, improved safety of urban transport, increased access to water resources, increased availability, reliability and affordability of energy, efficient telecommunications services and a vibrant information technology sector. To realize these, the Government aims to rehabilitate, construct, improve and effectively manage the existing physical infrastructure.

Physical infrastructure CPPs fall in a number of ministries. In the Ministry of Roads and Public Works there are three CPPs. For recurrent expenditure allocations there is only a single CPP, the Roads Maintenance Programme, for which allocations remained the same in the fiscal year 2004/05 as before at Ksh 3.377 billion. On the development expenditure vote there are two CPPs namely, the Minor Roads Programme and Slum Rehabilitation for which expenditure allocations rose in the last budgetary allocations by approximately 69 and 89 percent, respectively. Most of the increment to the former came from the

Government, increasing from Ksh 188 million to Ksh 432 million but also a significant increase realized from Appropriations-in-Aid, increasing from Ksh 380 million to Ksh 527 million (Budget Estimates Book). Total increment to slum rehabilitation came from Appropriations-in-Aid, increasing from Ksh 51 million to Ksh 101 million while Government allocation actually fell from Ksh 40.2 million to Ksh 33.7 million. Under the docket of roads and public works, therefore, the 2004/05 budgetary allocations were pro-the poor.

In the Ministry of Water and Natural Resources, there are a total of 10 CPPs covered under recurrent and/or development expenditure votes. For the fiscal year 2004/05, all CPPs received similar recurrent budgetary allocations to fiscal year 2003/04. On the other hand, among the CPPs that received funding under the development expenditure vote, only Construction of Water Supplies-Urban Special Programmes and Turkana Rehabilitation Project received increased allocations of 218 percent and 13 percent, respectively, with allocations to the Construction of Rural Water Supply remaining constant at about Ksh 82 million. All the increment to the construction of water supplies-urban special programmes came from Appropriations-in-Aid, which increased from Ksh 213 million to Ksh 2.3 billion (Budget Estimates Book). The Turkana Rehabilitation Project received significant development funding from both the Government, which increased its allocations from Ksh 24.5 million to Ksh 90 million, and donors (which increased from Ksh 25 million to Ksh 65 million). Allocations to the rest of CPPs falling under the development expenditure vote were reduced, with allocations to Water Resources CPP receiving the largest cut of about 45 percent where the Government cut allocations significantly from Ksh 140 million to Ksh 76 million. Decreased allocations on these CPPs paint the budget as being against measures to reduce poverty.

In the Ministry of Energy, there were no recurrent expenditure allocations for CPPs. There were, however, two CPPs that received funding under the development expenditure vote. Wood Fuel Resources Development registered increased allocations from Ksh 5 million to Ksh 8 million from the 2003/04 to 2004/05 fiscal years. Rural electrification as a CCP under the Ministry received a cut of about 28 percent over the same period. Both Government allocations and donor funding decreased from Ksh 670 million to Ksh 400 million and Ksh 2.78 billion to Ksh 1.99 billion, respectively (Budget Estimates Book). For cutting expenditure on rural electrification, where the majority of the poor live and work, the budget is not being pro-the-poor. No allocations, recurrent or developmental, were made for rehabilitation of the railway network, ICT, construction of road bypasses and quality control and standards. The budget was anti-poor in these areas.

*Office of the President (OP)*

The Office of the President has a docket that handles special programmes. Under it falls, for example, the management of HIV/AIDS pandemic, disaster and emergency response coordination, relief and rehabilitation, food security, security operations, amongst others. HIV/AIDS is the single most serious health and development challenge facing the country since independence. It exerts tremendous pressure on the healthcare delivery system yet the prospects of finding a cure remain elusive.

The Office of the President handles 9 CCPs under its recurrent and development expenditure votes. Total allocations to development expenditures increased by 46.1 percent in the 2004/05 fiscal year and allocations to recurrent expenditures increased by 8.9 percent. Development expenditure allocations to National Aids Control Council increased significantly by 65.3 percent from Ksh 2,230.5 million to Ksh 3,686.2 million between the fiscal years 2003/04 and 2004/05 with all the increment coming from the Government, which increased its allocations from approximately Ksh 2.21 billion to Ksh 3.69 billion whereas Appropriations-in-Aid fell from Ksh 20.0 million to Ksh 17.5 million. Its recurrent expenditure allocations remained fairly constant at about Ksh 150 million over the same period (Budget Estimates Book). Affront on poverty through HIV/AIDS is therefore being addressed, given the increased development expenditure allocations by the Government. National food security saw no development expenditure allocations despite the raving famine. Its share of recurrent expenditure allocations, nevertheless, remained fairly constant at about Ksh 1 billion between the fiscal years 2003/04 and 2004/05. The implication is that no lasting solution is being sought for the raving famine given the absence of direct development expenditure allocations to this CPP, unless handled in other ministries, for example in the Ministry of Agriculture.

Relief and rehabilitation CPP received increased recurrent expenditure allocations by 96.2 percent, increasing from Ksh 514.9 million to Ksh 1,010.2 million with the entire increment coming from the Government. Poverty Eradication Unit, however, received no recurrent expenditure allocations and no development expenditure allocations. Nevertheless, recurrent expenditure allocations to National Disaster and Disaster Emergency and Response Coordination rose in the 2004/05 fiscal year by 96.2 percent and remained fairly constant, respectively (See Appendices 1 and 2). In general, for the recurrent and development expenditure allocations for CPPs under the Ministry, when a disaster such as famine hits a large proportion of the population, poverty worsens and it takes longer for the country to regain its former welfare status. Given that development expenditure allocations for relief rehabilitation fell, and the Poverty Eradication Unit received neither development nor expenditure allocations, the budget in this Ministry fails to be pro-the poor.

*Ministry of Agriculture*

Agriculture is still the kingpin of the Kenyan economy, providing livelihood to about 80 percent of the population, directly contributing 24.5 percent of GDP and a further 27 percent indirectly through linkages with manufacturing, distribution and other service-related sectors. The sector also contributes almost half (45%) of Government revenue and over 75 percent of industrial raw materials. Of more importance is its contribution to the achievement of national food security, foreign exchange earnings and a stimulus to create off-farm income generating economic activities.

The ERSWEC strategizes to make Kenya less dependent on agriculture while still recognizing agriculture's strategic position in fighting poverty. These strategies include *legal and institutional reforms,* including consolidating during the recovery period the over 60 statutes governing the sector into a single legislation; *research and extension services,* involving putting in place a new agricultural extension policy to enhance collaboration with other extension service providers; *access credit,* including raising productivity of farmers and ensuring access to affordable credit. The latter will also include development of Micro Finance Institutions (MFIs) and the revival of Agricultural Finance Corporation (AFC). In addition, the Government will *develop irrigation* by rehabilitating irrigation schemes to increase production of crops such as cotton and rice. For example, the Hola and Bura irrigation schemes will be rehabilitated to enhance the *value addition* of textile exports to African Growth and Opportunity Act (AGOA). It will also encourage *diversification of enterprises and crop use* through production and use of non-traditional crops such as cashew nuts, bixa, oil crops, sorghum, arrowroots, cassava and sweet potatoes. In addition, in the livestock sector, the intention is to promote animal health by reactivating and expanding dipping, breeding, and clinical services, including monitoring and control of animal diseases, and also support the development of milk handling facilities such as collection and cooling centres. In the fishing industry, the aim is to develop facilitative infrastructure, which include landing beaches, cooling plants and access roads to reduce wastage and to achieve the required sanitary and health standards, and also promote aquaculture to improve food security, nutritional status and incomes.

In total, the Ministry has 17 and 6 CPPs under recurrent and development expenditure votes, respectively (see Appendices 1 and 2). Total recurrent expenditure to the Ministry fell in the 2004/05 fiscal year by about 33 percent. Nevertheless, for the fiscal year 2004/05 all recurrent expenditure allocations to the CPPs, except for meager 4 and 3 percent, respectively Pesticides Board, which rose by 14 percent and District Livestock Education and Extension Services with similar allocations of Ksh 0.86 million as in the fiscal year 2003/04 were reduced. With the reduction of these expenditures to most of the CPPs, the budget is not pro-the-poor. Again, all CPPs receiving development expenditure allocations in the sector, except for Facilitation and Supply of Agriculture and Livestock Extension (increasing by 5.5%) received no allocations. However, for a budget drawn during a raving famine, reducing allocations to food security monitoring and management, and cutting or making no new allocations to activities that would enhance animal health as envisaged by the ERSWEC, and failing to allocate resources to irrigation, which would boost food production and security, reflects the budget as largely not taking care of the poor in society.

*Ministry of Labour and Human Resource Development*

The development of labour and human resource is particularly focused on the productive sectors of agriculture, tourism and trade and industry. Among themselves, they provide 628,000 formal and 3.7 million jobs in small and micro enterprises. The productive sector is at the core of the ERSWEC and planned interventions includes *creation of 500,000 new jobs annually*, mainly through building and construction, projected to grow by 16.7 percent annually on average and basically driven by public investment in infrastructure, growth in manufacturing sector by about 8.6 percent annually, agriculture by 3.0 percent, tourism by 5.4 percent, and ICT by 5.0 percent. Growth of employment creation will continue to be in SMEs sector during the recovery period.

The Ministry of Labour and Human Resource Development has three CPPs in the recurrent expenditures' vote, all of them receiving similar allocations as in the 2003/04 fiscal year. In the development expenditures' vote, the Ministry is implementing two core poverty projects, namely, the Jua Kali Development Division, which recorded a fall in expenditure allocations of about 33 percent and Post Literacy Programme, which recorded a fall of about 52 percent in the fiscal year 2004/05. For the sector that creates most jobs for society, especially for the poor, and the failure to improve their literacy status when education is recognized to have a positive correlation with earnings and providing the highway out of poverty, the budget cannot be judged as pro-the-poor.

*Ministry of Environment and Natural Resources*

Environment and natural resources form the basis for food production, industrial input and growth. Good environmental management contributes to sustained water catchments and impacts positively on climate. Wildlife, on the other hand, being the backbone of tourism development is of huge economic value. The mining sector, however, until the recent discovery of titanium sands along the Coast, has not featured prominently on the economic agenda although the combined output of various industrial minerals is significant. The contribution of forestry products (raw materials to wood-based industries, wood fuel, etc) and services (direct and indirect employment creation, water and soil conservation, biodiversity and climate moderation, habitat to different species of plants, insects and animals, etc) to the economy cannot be underrated.

The Ministry has 8 CPPs. Total recurrent expenditure allocations remained the same in the fiscal year 2004/05 as was in the fiscal year 2003/04. All CPPs under recurrent expenditure allocations also received similar allocations for the two fiscal years. On the development expenditure vote, total allocations increased by 13 percent. Arid and Semi-arid Lands Forestry Development received the highest increment of 109 percent (boosted by a single direct Appropriation-in-Aid from Japan to the tune of Ksh 37 million) followed by Forestry Development (Forestry) at 33 percent (again with total increment accounted for by increase in Appropriations-in-Aid from Ksh 73.8 million to Ksh 124.1 million). The rest of CPPs receiving development expenditure allocations got cuts, with Support to District Environment Programme followed by Soil Conservation and lastly by Environment Policy Analysis receiving the largest cuts of 5, 26 and 17 percent in that order. Like in the foregoing cases, when cuts are registered for CPPs, the budget cannot be pro-the-poor.

### 4.3 Conclusions and Recommendations on Core Poverty Programmes

Core Poverty Programmes are supposed to be 'ring fenced' in the budget in the sense that they are given priority. Resource allocations to CPPs cannot be cut arbitrarily even in the event of severe budgetary constraints. Some pro-the-poor expenditure areas identified in the ERSWEC and for which no resources were allocated include the transformation of NHIF to NSHIS, recruitment of essential staff for health services, establishment of a special healthcare endowment fund for vulnerable groups, staff recruitment and annual in-service training for teachers, revolving drug fund and supply of medical services, rehabilitation of the railway network, etc. The Government has also not achieved full disbursement rate for the CPPs. For instance, in fiscal year 2002/03, the disbursement rates were 92.1 percent and 44.0 percent of the budgeted recurrent non-wage and development expenditures, respectively. Despite the 'ring fencing' that began in the year 2000, poverty has actually increased in Kenya.

The criterion of selection of CPPs was revised in 2003/04 to reflect the priorities in the ERSWEC. With the revision, expenditure allocations to CPPs increased from about Ksh 32.2 billion in the fiscal year 2002/03 to about Ksh 43.4 billion in the fiscal year 2003/04 and 2004/05. As a percentage of GDP, these allocations increased from about 3.2 percent of GDP in 2002/03 to about 3.8 percent in 2003/04 and 2004/05. Four percent increase (4%) was envisaged in fiscal year 2003/04. The Budget Monitoring Department manages reporting on these programmes, but there are problems with the accuracy and timeliness of reporting.

The following recommendations are made to address challenges that exist with regard to CPPs.

- Priority should be given to CPPs during budget resource allocations. Fully budgeted resources should be disbursed to CPPs.

- The criteria for determining CPPs should be clear to all ministries. It is imperative that they receive instructions to clearly indicate their CPPs when making requisition for Exchequer issues from Treasury.

- Focus must also be on outcomes of expenditures on CPPs rather than only on inputs into CPPs as is presently the case.

- Implementation of CPPs' should be closely monitored within the broad monitoring and evaluation system.

- Prompt, regular and accurate reports are needed from ministries on the implementation of their CPPs to the Budget Monitoring Department, which should also promptly and accurately report on the overall performance of CPPs and their impact on poverty. The Department should undertake Public Expenditure Tracking Surveys (PETS) on selected CPPs. PETs are also useful in generating recommendations for removing bottlenecks that constrain the predictable and timely transmission of resources and the use of these resources for the intended purposes.

Appendix 1: Kenya Core Poverty Programmes: Recurrent Expenditures in Ksh million (monitored under the programme for 2004/05)

| | | 2001/2002 | 2002/2003 | 2003/2004 | 2004/2005 | % Change |
|---|---|---|---|---|---|---|
| | | Revised | Revised | Revised | Printed | |
| Sub-vote & sub-head | Total core poverty expenditure (Recurrent Vote) | 9,577.08 | 12,802.10 | 19,426.75 | 19,454.99 | 0.1 |
| | **EDUCATION (Non-wage)** | 694.77 | 3542.2 | 8497.29 | 8448.23 | -0.6 |
| 310-730 | Development planning (FPE)) | | | 45 | 41.65 | -7.4 |
| 310-834 | Hquarter administrative (FPE) | | | 75 | 57.5 | -23.3 |
| 319-835 | Hquarter professional services | | | 45.8 | 42.21 | -7.8 |
| 310-836 | Curriculum support services | | | 136.28 | 75.34 | -44.7 |
| 310-837 | Provincial administration | | | 65 | 44 | -32.3 |
| 310-862 | District administrative services (FPE) | | | 957.64 | 424 | -55.7 |
| 310-863 | Kenya Institute of Education (FPE) | | | 123 | 67.9 | -44.8 |
| 316-800 | Board of governor maintained schools | | | 940.06 | 959.94 | 2.1 |
| 315-816 | Early childhood programme | 2.17 | 2.46 | 2.56 | 19.23 | 651.2 |
| 311-844 | Expenses of primary schools | 80.47 | 2,797.10 | 5,592.00 | 6,243.53 | 11.7 |
| 311-845 | School equipment scheme (textbooks) | 428.24 | 528.2 | 157.8 | 88.28 | -44.1 |
| 311-846 | School feeding programme | 147.39 | 175.1 | 181.58 | 182.58 | 0.6 |
| 312-847 | Primary teachers training (FPE) | | | 36 | 36 | 0.0 |
| 313-810 | Post-primary handicapped | | | 34.07 | 47.07 | 38.2 |
| 313-811 | Special secondary schools | | | 34 | 35 | 2.9 |
| 313-848 | Primary schools for handicapped | 36.5 | 39.34 | 60 | 70 | 16.7 |
| 313-852 | Kenya Institute of Special Education (FPE) | | | 11.5 | 14 | 21.7 |
| | | | | | | |
| | **HEALTH (Non-wage)** | 2,042.63 | 2,148.34 | 2,826.11 | 2,816.16 | -0.4 |
| 110-454 | National Aids Control Programme | 5.78 | 4.78 | 4.78 | 4.25 | -11.1 |
| 112-293 | Sexually-transmitted infections | 5.95 | 5.31 | 5.31 | 4.93 | -7.2 |
| 111-317 | District hospitals | 790.26 | 903.11 | 899.75 | 958.98 | 6.6 |
| 111-318 | Mental health services | 70.92 | 69.05 | 69.05 | 67.85 | -1.7 |
| 111-320 | Spinal injury hospitals | 13.65 | 13.56 | 13.56 | 13.43 | -1.0 |
| 111-351 | Dental health services | 14.1 | 14.1 | 14.1 | 13.33 | -5.5 |
| 112-323 | Environmental health services | 1.47 | 1.41 | 6.56 | 6.23 | -5.0 |
| 112-325 | Communicable and vector-borne diseases | 92.62 | 140.38 | 281.94 | 107.57 | -61.8 |
| 112-327 | Nutrition programme | 4.72 | 4.73 | 4.72 | 4.66 | -1.3 |
| 112-328 | Family planning maternal and child healthcare | 71.93 | 42.88 | 42.88 | 42.88 | 0.0 |
| 113-335 | Rural health centres and dispensaries | 927.96 | 905.35 | 1,292.75 | 1,392.74 | 7.7 |
| 113-336 | Rural health training and demonstration centres | 43.27 | 43.68 | 43.68 | 43.67 | 0.0 |
| 112-322 | Division of mental health | | | 1.41 | 1.19 | -15.6 |
| 112-509 | Control of malaria | | | 6.37 | 15.37 | 141.3 |
| 112-510 | Kenya Expanded Immunization Programme | | | 32.56 | 32.5 | -0.2 |
| 112-622 | National leprosy and tuberculosis control | | | 100.59 | 100.58 | 0.0 |

Appendix 1: Kenya Core Poverty Programmes: Recurrent Expenditures in Ksh million (monitored under the programme for 2004/05)

| | | 2001/2002 | 2002/2003 | 2003/2004 | 2004/2005 | % Change |
|---|---|---|---|---|---|---|
| | | Revised | Revised | Revised | Printed | |
| 112-720 | Vector borne disease control | | | 5.51 | 5.48 | -0.5 |
| 112-721 | Non-communicable disease control | | | 0.59 | 0.52 | -11.9 |
| | | | | | | |
| | **OFFICE OF THE PRESIDENT** | 2,907.60 | 1,789.30 | 2,190.22 | 2,385.70 | 8.9 |
| 010-603 | National Aids Council (Office of the President) | 140 | 146.27 | 149.68 | 150 | 0.2 |
| 010-275 | Relief and rehabilitation | 1,514.25 | 514.55 | 514.89 | 1010.2 | 96.2 |
| 010-249 | Poverty Eradication Unit | 27.42 | 29.54 | 30.22 | 0 | -100.0 |
| 010-564 | National food security | 999.75 | 803.9 | 1003.99 | 1002.58 | -0.1 |
| 010-566 | Disaster emergency response co-ordination | 14.4 | 10.35 | 5.99 | 11.59 | 93.5 |
| 010-578 | National disaster | 6.8 | 7.09 | 7.26 | 4.22 | -41.9 |
| 010-753 | Anti-Corruption Police Unit | 204.98 | 203.63 | 208.37 | 0 | -100.0 |
| 017-747 | Anti-terrorism operations | 0 | 0 | 110.85 | 72.55 | -34.6 |
| 017-101 | Anti-Stock Theft Unit | 0 | 73.97 | 158.97 | 134.56 | -15.4 |
| | | | | | | |
| | **STATE HOUSE** | | | | | |
| 020-020-191 | Support to governance and ethics | 0 | 0 | 50 | 50 | 0.0 |
| | | | | | | |
| | **HOME AFFAIRS** | 0 | 112.8 | 114.75 | 79.67 | -30.6 |
| 054-122 | Children services headquarters | | | 15.17 | 8.86 | -41.6 |
| 054-123 | Rehabilitation schools | | | 59.46 | 49.63 | -16.5 |
| 054-124 | Children's remand homes | | | 36.89 | 32.73 | -11.3 |
| 054-125 | Provincial children's services | | 5.53 | 5.53 | 3.75 | -32.2 |
| 054-148 | District children's services | | 25.66 | 25.66 | 17.86 | -30.4 |
| 054-226 | National Council for Children Services | | | 0 | 5.32 | |
| 055-187 | Community service order | | 29.67 | 27.23 | 3.22 | -88.2 |
| 055-127 | Probation services | | 14.24 | 13.77 | 16.45 | 19.5 |
| 055-128 | Probation hostels | | 9.8 | 9.83 | 8.68 | -11.7 |
| 055-129 | Provincial probation services | | 4.6 | 4.6 | 2.91 | -36.7 |
| 055-149 | District probation services | | 19.44 | 24.42 | 13.63 | -44.2 |
| 055-196 | Aftercare services | | 3.86 | 3.71 | 2.51 | -32.3 |
| 055-626 | Community Service Order Secretariat | | | 0 | 5.34 | |
| | | | | | | |
| | **AGRICULTURE AND LIVESTOCK DEVELOPMENT** | 0 | 368.08 | 417.03 | 280.88 | -32.6 |
| 104-198 | Project development monitoring and evaluation | | 1.92 | 1.21 | 0.68 | -43.8 |
| 103-202 | Agricultural department hquarters | | 16.92 | 21.14 | 20.59 | -2.6 |
| 103-235 | Hquarters crop production services | | 9.07 | 3.3 | 0.89 | -73.0 |
| 103-238 | Hquarters horticultural crop production services | | 117.07 | 116.93 | 86.13 | -26.3 |
| 103-255 | Hquarters agricultural extension services | | 3.34 | 4.95 | 1.62 | -67.3 |
| 103-260 | Farmers training centres | | 17.25 | 21.47 | 18.29 | -14.8 |

| Appendix 1: Kenya Core Poverty Programmes: Recurrent Expenditures in Ksh million (monitored under the programme for 2004/05) | | | | | | |
|---|---|---|---|---|---|---|
| | | 2001/2002 | 2002/2003 | 2003/2004 | 2004/2005 | % Change |
| | | Revised | Revised | Revised | Printed | |
| 103-477 | District livestock education and extension services | | 0.86 | 0.86 | 0.86 | 0.0 |
| 105-502 | Food supplies and management services | | 1.14 | 1.14 | 0.43 | -62.3 |
| 103-638 | Provincial agricultural extension services | | 13.49 | 22.58 | 13.27 | -41.2 |
| 103-639 | District agricultural extension services | | 171.86 | 158.12 | 94.18 | -40.4 |
| 103-661 | District horticultural crop production services | | 2.31 | 2.25 | 1.37 | -39.1 |
| 103-699 | Research extension liaison | | 1.95 | 1.71 | 1.16 | -32.2 |
| 106-230 | Pesticides board | | | 2.15 | 2.45 | 14.0 |
| 106-233 | Crop protection | | | 43.06 | 38.96 | -9.5 |
| | | | | | | |
| | **LIVESTOCK DEVELOPMENT** | | 5.45 | 8.08 | 8.08 | 0.0 |
| | | | | | | |
| 102-462 | Livestock training support services | | 0.83 | 3.33 | 3.33 | 0.0 |
| 102-463 | Pastoral areas training centres – Narok | | 1.58 | 1.54 | 1.54 | 0.0 |
| 102-465 | Griftu pastoral training centre | | 1.78 | 1.68 | 1.68 | 0.0 |
| 102-466 | Mobile pastoral training units - Isiolo | | 1.26 | 1.53 | 1.53 | 0.0 |
| | | | | | | |
| | **MINISTRY OF LABOUR** | | 6.94 | 15.32 | 15.32 | 0.0 |
| 154-632 | Jua Kali Development Division | | 6.94 | 7.21 | 7.21 | 0.0 |
| 154-818 | Provincial enterprises development offices | | 0 | 3.45 | 3.45 | 0.0 |
| 154-821 | District enterprises development office | | 0 | 4.66 | 4.66 | 0.0 |
| | | | | | | |
| | **JUSTICE AND CONSTITUTIONAL AFFAIRS** | | | | | |
| 170-557 | General administration hquarters | | 67.62 | 128.91 | 128.91 | 0.0 |
| | | | | | | |
| | **GENDER AND SPORTS** | 18.46 | 13.05 | 67.94 | 67.94 | 0.0 |
| 180-794 | Gender and development | | 0 | 50 | 50 | 0.0 |
| 186-903 | Community based nutrition (Home Affairs) | 1.89 | 1.6 | 3.16 | 3.16 | 0.0 |
| 186-904 | Social welfare | 2.53 | 2.15 | 3.87 | 3.87 | 0.0 |
| 186-906 | Community mobilization | 8.73 | 0.32 | 0.86 | 0.86 | 0.0 |
| 186-909 | District administrative services | | 5.59 | 9.08 | 9.08 | 0.0 |
| 186-911 | Women bureau | 5.31 | 3.39 | 0.97 | 0.97 | 0.0 |
| | | | | | | |
| | **LOCAL GOVERNMENT** | | | | | |
| 120-30-500 | Grants to local authorities (LATF at 20% - Local Government) | 617.4 | 654.12 | 751.2 | 814.2 | 8.4 |
| | **ROADS AND PUBLIC WORKS** | | | | | |
| 136-288 | Road maintenance programme (Roads & Public Works) | 3,216.88 | 3,244.00 | 3,377.00 | 3,377.00 | 0.0 |
| | **WATER AND NATURAL** | 34.87 | 440.10 | 582.92 | 582.92 | 0.0 |

| Appendix 1: Kenya Core Poverty Programmes: Recurrent Expenditures in Ksh million (monitored under the programme for 2004/05) | | | | | | |
|---|---|---|---|---|---|---|
| | | 2001/2002 | 2002/2003 | 2003/2004 | 2004/2005 | % Change |
| | | Revised | Revised | Revised | Printed | |
| | **RESOURCES** | | | | | |
| 207-581 | Provincial water services | | 6.32 | 6.8 | 6.8 | 0.0 |
| 207-887 | District water services | | 324.11 | 381.79 | 381.79 | 0.0 |
| 207-889 | Water resource pollution control | 15 | 13.72 | 23.47 | 23.47 | 0.0 |
| 207-890 | Water resources - surface water | | 6.69 | 14.81 | 14.81 | 0.0 |
| 207-893 | Water resources | | 5.92 | 34.64 | 34.64 | 0.0 |
| 207-894 | Other municipalities water supplies | | 34.74 | 36.63 | 36.63 | 0.0 |
| 207-895 | Sewerage maintenance | | 4.32 | 8.48 | 8.48 | 0.0 |
| 207-896 | Water conservation and dam construction | | 16.96 | 27.65 | 27.65 | 0.0 |
| 207-897 | Water rights | | 13.24 | 34.5 | 34.5 | 0.0 |
| 207-898 | Applied water research | 19.87 | 14.08 | 14.15 | 14.15 | 0.0 |
| | | | | | | |
| | **ENVIRONMENT AND NATURAL RESOURCES** | 44.47 | 235.17 | 212.51 | 212.51 | 0.0 |
| 211-672 | Hquarters forestry development | | 52.72 | 21.88 | 21.88 | 0.0 |
| 211-676 | Forestry and plantation development | 30.64 | 94.47 | 86.58 | 86.58 | 0.0 |
| 211-678 | Catchment and natural forests | 13.83 | 32.49 | 48.23 | 48.23 | 0.0 |
| 211-679 | Rural afforestration | | 49.68 | 52.01 | 52.01 | 0.0 |
| 215-702 | Environment policy | | 5.81 | 3.81 | 3.81 | 0.0 |
| | | | | | | |
| | **CONTROLLER AND AUDITOR GENERAL** | | 116.02 | 126.69 | 126.69 | 0.0 |
| 280-875 | Central government audits | | 107.02 | 114.69 | 114.69 | 0.0 |
| 280-876 | Local government | | 9 | 12 | 12 | 0.0 |
| | | | | | | |
| | **ATTORNEY GENERAL** | | 64.36 | 68.86 | 68.86 | 0.0 |
| 251-268 | Public prosecutions department | | 24.73 | 29.56 | 29.56 | 0.0 |
| 251-269 | Civil litigation | | 12.91 | 12.65 | 12.65 | 0.0 |
| 251-851 | Kenya law reform | | 26.72 | 26.65 | 26.65 | 0.0 |

*Source: MTEF Secretariat*

Appendix 2: Kenya Core Poverty Programmes: Development Expenditures in Ksh million (Gross) monitored under the programme for 2004/2005

| | | 2001/2002 | 2002/2003 | 2003/2004 | 2004/05 | Change |
|---|---|---|---|---|---|---|
| | | *Revised* | *Revised* | *Revised* | *Printed* | *%* |
| Sub vote-head-Item | TOTAL CORE POVERTYPROGRAMME EXPENDITURES | *12,699.20* | *19,487.86* | *24,047.16* | *24,532.80* | *2.0* |
| | (DEVELOPMENT VOTE GROSS)/**1 | | | | | |
| | | | | | | |
| | **EDUCATION, SCIENCE AND TECHNOLOGY** | 1,514.14 | 3,500.48 | 8,069.08 | 3,740.58 | -53.6 |
| 311-846 | School feeding programme | 336.24 | 488.49 | 1,056.00 | 1,161.46 | *10.0* |
| 311-844 | Primary school education | | 307.60 | 4,861.05 | 2,035.4 | *-58.1* |
| 315-816 | Early childhood programme | 589.90 | 763.20 | 488.48 | 6.55 | *-98.7* |
| 310-836 | Curriculum support services | 588.00 | 1,941.20 | 1,511.65 | 331.64 | *-78.1* |
| 316-800 | Board of Governors supported schools | | | 151.90 | 205.53 | *35.3* |
| | | | | | | |
| | **HEALTH** | 3,536.34 | 4,434.85 | 3,529.10 | 6,110.52 | *73.1* |
| 110-310 | Health development project IDA | 1,195.52 | 950.00 | 600.00 | 536.00 | *-10.7* |
| 110-310 | Revolving drug fund | 51.00 | 51.00 | 6.35 | | |
| 110-316 | Supply of medical equipment | 330.00 | 328.00 | 2.63 | | |
| 111-317 | Decentralization of district health | 18.62 | 9.75 | 42.41 | 84.00 | *98.1* |
| 111-317 | Purchase of equipment | 0.00 | 0.00 | 33.70 | 9.80 | *-70.9* |
| 111-317 | District health services | 0.00 | 50.00 | 50.00 | 288.00 | *476.0* |
| 112-323 | Environmental health services | 4.40 | 37.10 | 17.40 | 19.92 | *14.5* |
| 113-335 | Rural health centres & dispensaries | 1,462.25 | 2,040.80 | 1,611.74 | 1,650.57 | *2.4* |
| 111-317 | Rehabilitation of mortuaries | 127.84 | 25.70 | 85.12 | 65.20 | *-23.4* |
| 111-317 | Rehabilitation of district hospitals | 67.73 | 50.50 | 60.00 | 11.70 | *-80.5* |
| 111-325 | Communicable and vector borne diseases | 278.99 | 892.00 | 1,019.75 | 3,445.33 | *237.9* |
| | | | | | | |
| | **OTHER CORE POVERTY PROGRAMMES** | 7,648.72 | 11,552.53 | 12,448.98 | 14,681.70 | *17.9* |
| | **OFFICE OF THE PRESIDENT** | | | 3,677.17 | 5,369.69 | 46.1 |
| 010-603 | National Aids Control Council | 1,161.00 | 1,327.90 | 2,230.54 | 3,686.22 | **65.3** |
| 010-249 | Poverty Eradication Unit | 57.13 | 52.00 | 52.00 | | |
| 010-579 | El-Nino Emergency Project | 2,642.53 | 2,362.00 | 484.24 | 230.00 | **-52.5** |
| 010-283 | Relief rehabilitation & disaster programme | 594.22 | 1,726.80 | 250.64 | 171.47 | **-31.6** |
| 010-298 | Arid lands resource management project | 544.85 | 349.70 | 659.75 | 1,282.00 | **94.3** |
| | | | | | | |
| | **HOME AFFAIRS** | | | | | |
| 050-080 | Refugee water programme (Home Affairs) | | 9.60 | 15.99 | | |
| 053-308 | Large and maximum prisons | | 109.50 | 139.49 | 96.39 | **-30.9** |
| 054-122 | Children services | | 105.20 | 59.07 | 78.20 | **32.4** |
| 050-495 | Community conservation development Turkana (Home Affairs) | 21.00 | 8.50 | 0.00 | | |
| 052-080 | Food and rations - Refugees (Home Affairs) | 109.62 | 109.62 | 0.00 | | |

Appendix 2: Kenya Core Poverty Programmes: Development Expenditures in Ksh million (Gross) monitored under the programme for 2004/2005

| | | 2001/2002 | 2002/2003 | 2003/2004 | 2004/05 | Change |
|---|---|---|---|---|---|---|
| | | Revised | Revised | Revised | Printed | % |
| | **GENDER AND SPORTS** | | | | | |
| 186-902 | Community development project | 10.57 | 9.52 | 14.93 | | |
| 186-900-340 | Grants to community centres | | | 40.00 | 45.93 | *14.8* |
| 186-900-446 | Integrated promotion of street children and youth at risk | | | 4.20 | 2.2 | *-47.6* |
| 186-903-340 | Community based nutritional programme | 52.00 | 79.20 | 96.00 | 162.00 | *68.8* |
| 186-903-349 | Community nutrition and care | 0.00 | 0.00 | 224.30 | | |
| 186-911-340 | Grants to women development projects | 9.00 | 19.99 | 3.46 | | |
| 180-794-342 | Gender mainstreaming & empowerment of women | 71.00 | 54.90 | 28.38 | 5.04 | *-82.2* |
| 180-794-343 | Gender policy development and monitoring | | | 5.85 | 3.85 | *-34.2* |
| | **ROADS AND PUBLIC WORKS** | | | | | |
| 136-489 | Minor roads programme (Public Works) | 429.64 | 431.10 | 568.00 | 959.00 | *68.8* |
| 133-404 | Slum rehabilitation | | 46.30 | 64.20 | 121.00 | *88.5* |
| | **LABOUR** | | | | | |
| 154-598 | Jua Kali Programme | 424.26 | 378.20 | 178.50 | 119.73 | *-32.9* |
| 156-922 | Post Literacy Programme | | 11.00 | 26.00 | 12.50 | *-51.9* |
| | **TRADE AND INDUSTRY** | | | | | |
| 166-745-321 | Trade development (micro & loans) | | 9.00 | 11.00 | 356.8 | *3143.6* |
| 167-795 | Loans to Kenya Industrial Estates | | 18.40 | 18.40 | 40 | *117.4* |
| | **JUSTICE AND CONSTITUTIONAL AFFAIRS** | | | | | |
| 170-557-533 | Democratic and Good Governance | | 0.00 | 354.46 | 166 | -53.2 |
| | **WATER AND NATURAL RESOURCES** | | | | | |
| 207-524 | Construction of water supplies - Special water programmes | 218.16 | 258.01 | 534.92 | 373.90 | *-30.1* |
| 207-896 | Water conservation structures - Rural programmes | 49.58 | 137.80 | 243.67 | 193.40 | *-20.6* |
| 207-560 | Construction of water supplies - Urban special programmes | 303.40 | 322.50 | 713.10 | 2,267.22 | *217.9* |
| 207-897 | Water rights | 77.89 | 40.60 | 158.30 | 140.30 | *-11.4* |
| 207-893 | Water resources | | 46.43 | 140.00 | 76.40 | *-45.4* |
| 207-563 | Construction of sewerages | | 3.00 | 808.50 | 755.50 | *-6.6* |
| 208-944 | Integrated ASAL programmes | | 17.00 | 18.70 | 17.80 | *-4.8* |
| 208-995 | Turkana Rehabilitation Project | | 3.04 | 4.40 | 5.00 | *13.6* |
| 209-936 | Construction of rural water supply | | 114.69 | 82.40 | 82.50 | *0.1* |

**Appendix 2: Kenya Core Poverty Programmes: Development Expenditures in Ksh million (Gross) monitored under the programme for 2004/2005**

| | | 2001/2002 | 2002/2003 | 2003/2004 | 2004/05 | Change |
|---|---|---|---|---|---|---|
| | | *Revised* | *Revised* | *Revised* | *Printed* | *%* |
| | **ENVIRONMENT** | | | 351.2 | 403.86 | **14.9** |
| 211-672 | Forestry development (Environment) | 37.61 | 82.51 | 139.78 | 186.36 | ***33.3*** |
| 211-738 | Arid and semi-Arid lands forestry development | 0.00 | 4.77 | 33.00 | 69.00 | ***109.1*** |
| 211-938 | Soil conservation | 0.00 | 6.00 | 19.00 | 14.00 | ***-26.3*** |
| 215-702 | Environment policy analysis | | 131.23 | 140.52 | 116.75 | ***-16.9*** |
| 215-736 | Support to district environment programme | | 7.00 | 18.90 | 18.00 | ***-4.8*** |
| | | | | | | |
| | **PLANNING AND NATIONAL DEVELOPMENT** | | | | | |
| 061-207-312 | Community development (Finance and Planning) | 312.00 | 323.00 | 245.00 | 245.00 | ***0.0*** |
| | | | | | | |
| | **FINANCE AND PLANNING** | | | | | |
| 075-171 | Rehabilitation of District Cash Offices | | 22.00 | 20.00 | 43.04 | ***115.2*** |
| | | | | | | |
| | **ENERGY** | | | | | |
| 301-430 | Wood fuel resources development | | 8.00 | 5.00 | 8 | ***60.0*** |
| 302-444 | Rural electrification | | 1,934.60 | 2,780.00 | 1988 | ***-28.5*** |
| | | | | | | |
| | **AGRICULTURE** | | | | | |
| 101-481 | Veterinary investigation laboratories | | 9.30 | 27.40 | | |
| 101-490 | Veterinary farms development (Agriculture) | 7.45 | 7.18 | 31.10 | | |
| 102-533/4/7 | Fisheries development (Agriculture) | 28.76 | 58.32 | 46.90 | | |
| 103** | Facilitation and supply of agriculture and livestock extension services (Agriculture) | 294.47 | 613.17 | 514.89 | 543.20 | ***5.5*** |
| 105-491 | Monitoring and management of food security (Agriculture) | 60.74 | 52.10 | 40.00 | | |
| 106** | Crop and livestock disease and pest control (Agriculture) | 131.85 | 131.85 | 154.10 | | |
| | | | | | | |
| | **LANDS AND SETTLEMENT** | | | | | |
| 362-173 | SFT State Lands Schemes | 0.00 | 48.69 | 66.71 | 11.65 | ***-82.5*** |
| 362-199 | SFT Shirika Conventional Schemes | 0.00 | 2.61 | 5.61 | 5.88 | ***4.8*** |

*Source: MTEF Secretariat*