



The KENYA INSTITUTE for PUBLIC
POLICY RESEARCH and ANALYSIS

Policy Brief

No. 9/2006

Improving public policy making for economic growth and poverty reduction

Using Social Budgeting to Improve the Budgetary Process in Kenya

For a long time in Kenya, the budget has focused more on achieving macroeconomic targets. Despite being participatory in design, the Medium Term Expenditure Framework (MTEF) approach implemented since the year 2000 is non-participatory in practice. Most decisions, including prioritisation and allocation of resources, are made at the top with little input from the implementers and beneficiaries. This practice tends to ignore social issues and human development needs. It is, therefore, important to introduce a new initiative that strengthens the existing process by mainstreaming social indicators in budgeting in order to achieve targeted social outcomes. Social budgeting provides such an initiative.

The MTEF approach is meant to promote efficient and effective utilization of public resources to support growth of income and creation of employment. It is both a top-down and bottom-up resource allocation process intended to provide an explicit link between policy framework, on the one hand, and planning and budget process on the other. MTEF has three major objectives: that is fiscal discipline, allocative efficiency and operational efficiency. While the MTEF serves as a tool for planning and budgeting in the medium term, it is only a part of an integrated planning and budgeting system and does not always address all development concerns. This budgeting approach pegs the budget on macroeconomic fundamentals such as inflation, economic growth, exchange rate, fiscal deficit, public debt and unemployment. While the MTEF framework is used to determine how resources are to be used, it does not adequately address the human development needs due to its

inclination on the supply side. There is need to introduce a process of negotiation in the budgeting process in order to bring together the macroeconomic framework (supply side) and the human development needs framework (demand side). For instance, stakeholders can argue for more resource allocation to social services since such services benefit everyone.

The main problems with the current budgetary process arise from the weak institutional framework, manifested in poor governance, lack of capacity at the district level, and conflicting interest between sustaining of old and new budgeting systems. To effectively operationalise the MTEF, there is need to strengthen the existing institutional framework and allow for partnership among the public, private, civil and community in the prioritisation of needs and allocation of resources; strengthen the capacity at the districts and provide adequate resources; improve on the systems of accountability and transparency; and provide the necessary political commitment for the decentralized process.

Experiences from Kenya and Other Countries

Experiences from other developing countries such as Brazil where approaches similar to

This policy brief is based on KIPPRA Discussion Paper No. 57 of 2006 on Mainstreaming Social Budgeting into the Budgetary Process in Kenya. The study analyses the current MTEF budgetary process in Kenya with the aim of examining the extent to which it addresses the concerns of the social sector.

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social budgeting have been successful show that a social budgeting approach helps align budgeting to the needs of the people, especially in social services, and reduces wastages primarily seen in centralized budgetary systems. It helps influence public resource allocation to priority sectors or regions. However, several factors need to be put in place for social budgeting to succeed. They include an effective policy and legislation to accommodate social budgeting, and an active civil society and political support by the governing regime.

Given the weaknesses in the MTEF process, such as lack of wide consultations with the local communities, there is limited input from community stakeholders. Most heads of departments of various ministries do not give priority to the development of district development, arguing that such plans are usually an output of the Ministry of Planning and National Development. This attitude is partly due to non-involvement of the district heads in the formulation of the guidelines for the preparation of district development plans.

In the absence of an all-inclusive budgeting process, district heads of departments submit their sectoral proposals annually to their respective ministry headquarters without taking into account the proposals in the District Development Plan. The concentration and focus given to these ministerial work-plans and budgets is of a much higher level since the funding received by the head of department is determined by the justification of their proposals and performance of the previous work-plan. The District Development Plan is then reduced to a routine document produced in the line of duty of the District Development Officer. The District Planning Unit, which is supposed to scrutinize the draft before the

District Executive Committee looks at it is not operational in most districts. This means that the social agenda may not receive adequate attention during the budgetary process. Furthermore, there are no forums to evaluate the plan formulation process at the district level after the district development plans have been published, yet they are official documents that spell out district priorities that should form the basis of the national budgets.

Most of the services that matter to the poor are the basic necessities such as basic education, primary healthcare, safe drinking water, sanitation, agricultural services and access roads. Ensuring that resources reach the poor at the point of service delivery involves three critical issues: the design and resource allocation criteria, citizen participation at the local level, and monitoring and accountability. In Kenya, for instance, resources are transferred from the central government to local authorities through the Local Authority Transfer Fund. However, this input has not been adequate to finance local services, taking into account the needs of the poor. Further, the government structure is such that the main revenue sources are collected by the central government, while significant responsibilities are assigned to sub-national government. Citizen participation in the district as well as the local budgetary process has been historically weak. There is lack of local capacity, monitoring and accountability to assess whether resources allocated are actually used to deliver services of the required standards, and particularly services to the poor.

Importance of Social Budgeting

Social budgeting is a process through which budget as a policy instrument and a tool of development is initiated and sustained by the people. It attempts to safeguard the interests of vulnerable groups, especially children, women

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and the marginalized. However, the effectiveness of social budgeting as a policy instrument and a tool of development depends on the degree of participatory preparation and resource availability. Its importance lies in its emphasis on the inclusion and prioritisation of social issues in the budget.

Social budgeting involves the following steps:

- i. Identifying the resource envelope available to the society in a given time period, usually a financial year;
- ii. Spelling out social needs by stakeholders, through a participatory needs assessment and then prioritising them in order of importance or their contribution to the society;
- iii. Setting appropriate goals and objectives to be achieved within a given period;
- iv. Identifying the different interventions, including budget interventions that are likely to achieve the desired results; These interventions are rated by assessing their feasibility and costs;
- v. Implementation of feasible interventions; and
- vi. Participatory monitoring and evaluation and feedback to assess whether the desired goals are met.

Most social services are public goods whereby benefits are not always quantifiable. Public resources available for provision of social services have to contend with competing needs from various groups. Some social groups are more vulnerable than others and require deliberate targeting of public allocations to improve their access to social services and well

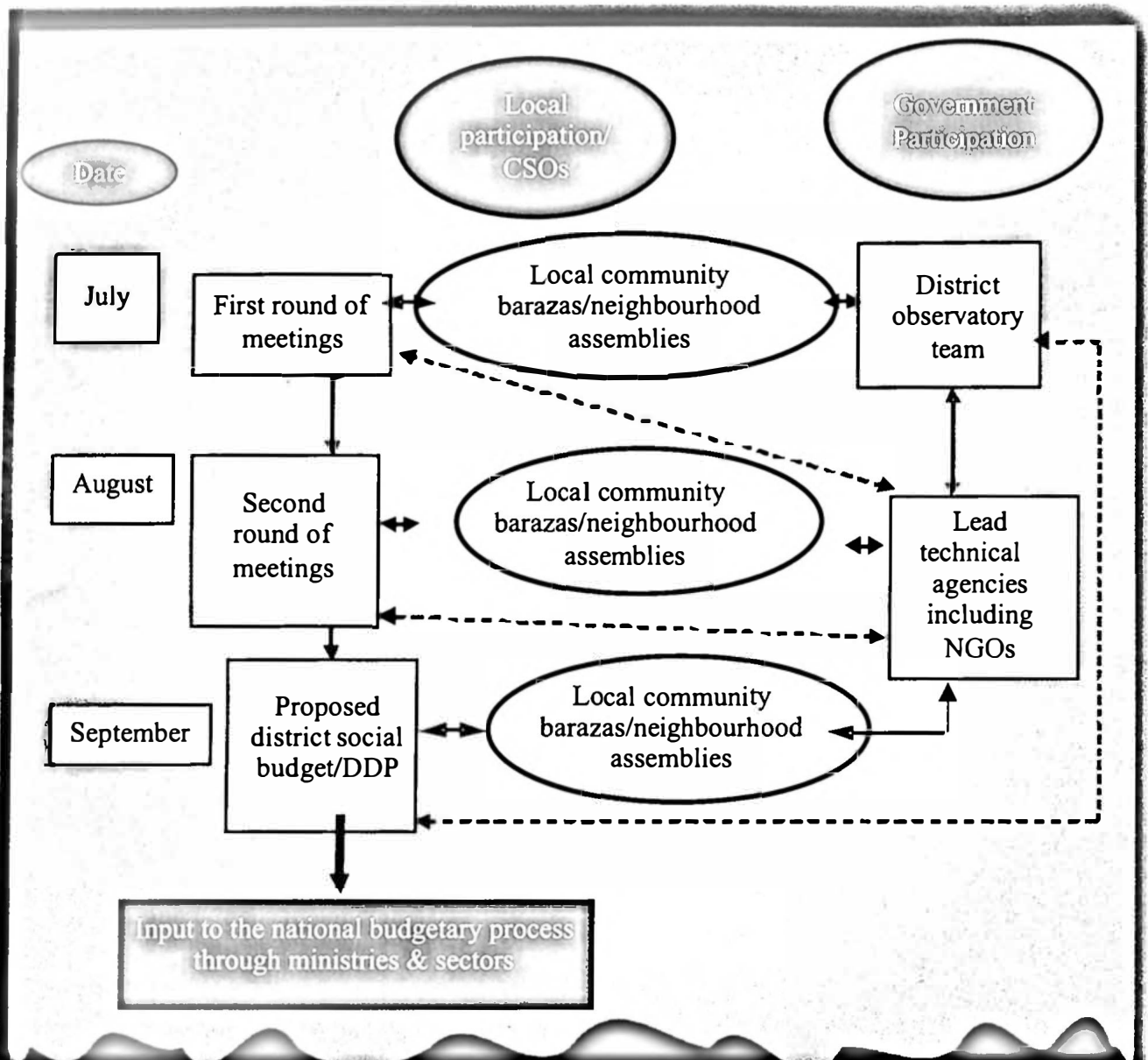
being. The current budgetary process focuses more on the achievement of macroeconomic fundamentals rather than social indicators, and is therefore input-oriented as opposed to outcome-oriented.

The social budgeting initiative aims to reverse this situation by being people-driven and participatory in terms of needs identification, prioritisation, tracking and evaluation. The initiative can be used for targeting resources to their intended beneficiaries at the district level and supplement the weaknesses associated with the top-down budgetary structure in the MTEF. It provides a framework that can deliberately evaluate how resources are allocated and utilized at the district level. It also demystifies the budgetary process by domesticating the stages of the budget cycle and reinforces the thinking that citizen forums can prioritise spending according to their needs and preferences. It also helps identify local spending activities across agencies and reveal overlaps. Social budgeting enhances popular ownership of the budgetary process and the projects and programmes that are implemented. It improves transparency, accountability and effectiveness of the budgetary process. Members of the community have the opportunity to hold duty bearers accountable for their actions, besides the potential to harmonize, align and coordinate the activities of and resources at district level. It eventually promotes participatory democracy and encourages neighbourhood assemblies.

Challenges in Implementing Social Budgeting

Social budgeting requires political will and an environment where political parties want to promote democracy through empowerment and encouraging popular participation. Secondly, it requires communities and district departments with capacities to carry out the tasks that social budgeting requires of them. This may be a handicap when the social budgeting process is getting introduced but

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can be improved upon over time through capacity building initiatives. The process is also likely to be captured by interest groups, just as the current budgetary process is. However, monitoring structures embodied in the social budgeting process can mitigate this shortcoming. Problems may arise regarding how prioritisation is arrived at when dealing with large numbers of participants in the process. Nevertheless, setting up of strong committees in the social budgeting structure can help in prioritisation of the needs of the community.

Despite the challenges, and from experiences from some developed and developing countries, social budgeting has been successful in making public budget more effective.

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Policy Recommendations

■ **Mainstream Social Budgeting**

In order to mainstream social budgeting into the MTEF, it is imperative to influence the process where it has its greatest impact. In the case of MTEF, it is likely to have its greatest impact at the priority setting and resource allocation stages. This should be the entry point for social budgeting. These two stages can present the most obvious interaction between the MTEF and social budgeting and therefore provide an opportunity to prioritise and allocate funds more effectively to the social sector. While resource allocation is done at the macro level, participatory priority setting can benefit from social budgeting that could be implemented at the local level (see figure). Such priorities would then inform the resource allocation process. In addition, the process of social budgeting could strengthen implementation, monitoring and evaluation of decentralised funds such as the School Bursary Fund, Constituency Development Fund, Local Authority Transfer Fund, and HIV/AIDS Fund.

■ **Establish national and district observatories for the social sector**

In order to lobby government, advocate for social issues in priority setting and resource allocations, mobilise and monitor domestic and external funds

for the social sector, it is important to have observatory teams both at the district and national level. These teams would be charged with the responsibility of ensuring that social issues are mainstreamed in the MTEF process. While there exist institutions at the district that could carry out such functions, past experience has shown that such institutions are inactive, and have not been able to champion the social sector agenda.

■ **Carry out capacity building and sensitisation**

For social budgeting to be successful, the technical and resource capacity of the duty bearers at the local level (district) should be improved to provide the necessary analyses for decision-making and implementation of social budgets. In addition, there is need to create awareness within the local communities for them to be able to demand for delivery of services and accountability from duty bearers and participate fully in budget formulation. It is also important to sensitise decision makers at all levels within the MTEF process, including those responsible for preparing sector reports, Budget Outlook Paper, Budget Strategy Paper and those who set sector ceilings. The public sector alone cannot carry out effective capacity building without the support of other partners. In view of this, there is need to encourage a vibrant and objective civil society that would complement government efforts in community capacity building.

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■ **Ensure political good will**

Early involvement and or engagement with political institutions and decision-making processes is inevitable if mainstreaming social budgeting into the MTEF is to be realized. Elected leaders should be involved in budget formulation and implementation at the district level with a view to getting their support for prioritising social issues and leading the masses in asking for accountability and results during the implementation stage.

■ **Strengthen MTEF and revitalize institutions**

The current MTEF framework is a participatory budgetary process by design. However, the process is slow because certain institutions take their actions late and therefore negatively impact on the actions of others. In addition, certain units within the MTEF are not functional. The MTEF district-based institutions should be revitalized through legal backing and political good will, and its members sensitised on ways of mainstreaming social budgeting. The district MTEF should work closely with other district-based institutions such as district development committees to implement social budgeting.

■ **Undertake budget tracking, monitoring and evaluation**

The use of accurate and complete information in planning and budgeting at the district level must be emphasised. Currently, district planning units and the national monitoring and evaluation unit require strengthening through the Central Bureau of Statistics in order to put together district-based data that can be used to reach optimal decisions. In addition, little work on budget tracking is going on at the districts, though the Public Expenditure Review attempts to fill this gap. In view of this,

there is need to build capacity and harmonise the national data management systems with district data banks. Periodic budget tracking activities, and participatory monitoring and evaluation are vital if the effectiveness of the budget is to be realized.

■ **Harmonize and coordinate district budgets and implementation of activities**

The district departmental heads should harmonise their budget plans, both expenditure and outputs, at the district level in order to have one district budget from which the Sector Working Groups could pick their respective areas. For this to succeed, there is need for a lead agency to play the role of coordination. Such an agency could be the District Executive Committee, District Development Committee or such other body with a capacity of coordinating an exercise of such a scale. In such harmonisation, the stakeholders should relate inputs to targeted social outcomes with a view to mainstreaming social issues into the budget.

■ **Adhere to and strengthen the MTEF process**

It has been observed that certain necessary actions, for instance issuance of the budget circular guidelines from the Ministry of Finance, comes late.

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Guidelines are therefore not utilised at the lower levels (district government departments) and this waters down the outputs of the MTEF process. It is important for the budget circular guidelines to reach the local level preferably within the first quarter of a financial year. Also, sector reports that

emanate from the respective ministries should be compiled from district reports, which should be a product of a participatory social budgeting process. Currently, there is little input from the district level and below in preparation of sector reports.

About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

KIPPRA acknowledges support from the Government of Kenya, the European Union (EU), the African Capacity Building Foundation (ACBF), and all the other development partners who have supported the Institute's activities.

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