

## KENYA

### Country snapshot

- Rating/outlook: Moody's: B1/Stable, S&P: B+/Stable; Fitch: B+/Neg
- Budget coverage: Central Government
- OBI rank: 2015: 46/ 102; 2012: 46/100
- TI Corruption Index: 2015 Rank 139 out of 168
- Availability of Year-End Report: Yes
- Fiscal rule/Fiscal responsibility law: Yes
- Accounting methodology: Cash
- Budget oversight by the Legislature is limited, while budget oversight by the Supreme Audit Institution is adequate.

### Key areas for improvement

- Further expand the institutional coverage of key fiscal reports.
- Report flow of funds on an accrual rather than cash basis.
- Further improve budget participation and strengthen budget oversight.
- Ensure the Supreme Audit Institution has adequate funding to perform its duties.
- Improve credibility of forward estimates of spending.
- Enhance disclosure and management of fiscal risks related to devolution.
- Report and quantify all fiscal risks and discuss their implications for fiscal forecasts.

## Budget Reporting

### Timing and coverage

The Government provides the public with limited budget information. Coverage of fiscal reporting is almost exclusively central government on a cash-basis. Timeliness of reporting varies. The quality of reporting is diminished by the existence of different estimates of actual fiscal outcomes that are not internally consistent with verifiable information. Integrity of reporting is weak.

In-year budget execution reports do not allow for proper budget monitoring. Year-end final accounts are often subject to adjustment by line ministries after they have been submitted for audit. Kenya's substantial parastatal and extra-budgetary sectors are mostly outside the key fiscal reports.<sup>1</sup>

***Encourage the authorities to further expand the institutional coverage of the key fiscal reports.***

### Revenue and expenditure classification

While the classification of reporting is good, there are large fiscal operations that remain unreported and thus inconsistent with

<sup>1</sup> Kenya is required to move to full general government reporting under its East African Monetary Union (EAMU) commitments.

international standards. The budget classification system is mainly based on an administrative and economic classification basis and does not clearly indicate the intended purpose of government spending.

***Encourage the authorities to improve the quality and timeliness of the audited financial statements.***

### Accounting

Fiscal reports are predominantly prepared on a cash basis and do not recognize accrual flows. Significant accrual-based flows that would impact on net worth therefore remain unreported.

***Encourage the authorities to report flow of funds on an accrual rather than cash basis.***

## Budgeting and the Budget Process

### Availability of key budget information

Kenya produces the 8 key budget documents<sup>2</sup> of international good practice standards and publishes all except the Mid-Year Review.

<sup>2</sup> Pre-budget Statement, Executive's Budget Proposal, Enacted Budget, Citizens' Budget, In-Year Reports, Mid-Year Review, Year-End Report, Audit Report, as covered by the IBP's Open Budget Survey as reflected in country OBI scores (see below).

In terms of the usefulness<sup>3</sup> of the reports, only two are deemed to provide extensive or substantial information: the Pre-Budget Statement and the In-Year Reports respectively. The Mid-Year Review is produced for internal use only. The remaining five are considered to only be of limited, minimal or scant use.

***Encourage the authorities to increase the comprehensiveness of budget reports and publish a Mid-Year Review.***

#### Budget Process and Policy Orientation

Kenya's fiscal year runs from July 1 to June 30. The Treasury tables a Budget Policy Statement (BPS) in Parliament by February 15. The budget is presented to Parliament at the end of April, and the budget estimates are approved and published before the beginning of the fiscal year.<sup>4</sup>

Significant budget execution weaknesses have an impact on service delivery and weaken the ability of the external scrutiny function to hold the executive to account.

***Encourage the authorities to improve the internal control system; and strengthen preparation, coordination, appraisal and monitoring of public investment projects.***

#### Credibility

The non-partisan Parliamentary Budget Office (PBO) provides independent medium-term macroeconomic and fiscal forecasts, and offers a benchmark against which the Treasury's forecasts can be evaluated by parliamentarians and the public.

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<sup>3</sup> The following categories are used to assess the usefulness of each document: Not produced, Published Late, Internal Use, Scant, Minimal, Limited, Substantial, or Extensive.

<sup>4</sup> In 2010, Kenya adopted an ambitious new Constitution. It imposes previously unheard-of checks on the executive, and recognizes public participation as a principle of governance. It provides a framework for greater public participation and strengthens the role of the legislature.

Expenditure outturns are always significantly lower than both supplementary and original budgets, undermining the budget as an effective guide to expenditure.

***Encourage the authorities to improve credibility of forward estimates of spending.***

#### **Fiscal risk analysis and management**

Macro-economic volatility has been low in recent years, but Kenya is still exposed to a wide range of fiscal risks, emerging notably from devolution. The present disclosure and management of fiscal risks is not very comprehensive, and there is still no systematic monitoring or reporting of activities beyond the central government.

Corruption remains a serious problem in Kenya and a significant growth constraint. Substantial amounts of development money are lost, and corruption appears to be the main reason.

***Encourage the authorities to report and quantify all fiscal risks and to reinforce the fight against corruption.***

#### **Open Government**

##### Open Budget Survey<sup>5</sup>

Kenya's Open Budget Index score of 48 out of 100 is barely above the global average of 45. It ranked in 46<sup>th</sup> place out of 102 countries in the 2015 survey.

Kenya scored 33 out of 100 on public participation, indicating that the public is only given limited opportunities to engage in the budget process. Legislative budget oversight is limited, as reflected in a score of 49. The Supreme Audit Institution provides adequate budget oversight, as reflected by a score of 67 out of 100.

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<sup>5</sup> The International Budget Partnership prepares the Open Budget Survey, which is an independent comparable measure of budget transparency, participation, and oversight.

***Encourage the authorities to improve budget participation and oversight.***

Open Government Commitments

Kenya joined the Open Government Partnership (OGP) in 2011. The second National Action Plan was submitted in 2016. As part of its OGP commitments, Kenya has committed to implementing the Open Contracting Data Standards (OCDC) on Public Sector Procurement and tender processes, including a do-not-pay database for black-listed contractors.

Kenya has also committed to publishing oil and gas contracts, including revenue information to ensure transparency and accountability of the extractive sector. This will help improve natural resource governance systems, as the country moves toward compliance with and signing of EITI.

**Key sources and web sites:**

Ministry of Finance and National Treasury  
<http://treasury.go.ke>

IMF Kenya Fiscal Transparency Evaluation July 2016.

European Union, Public Expenditure and Financial Accountability (PEFA) Assessment August 2012.

IBP Kenya OBS  
<http://www.internationalbudget.org/wp-content/uploads/OBS2015-CS-Kenya-English.pdf>

IBP Kenya Analysis of Budget Policy Statement 2016  
<http://www.internationalbudget.org/publications/kenya-budget-policy-statement-2016/>

The Republic of Kenya Open Government Partnership National Action Plan II July 2016 – June 2018

Contact information:

<http://eminvestorsalliance.org/about>

[Fiscaltransparency.net](http://Fiscaltransparency.net)