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Sharing Revenue: How Much of Kenya's Budget is Already Committed and Cannot be Shared?

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Introduction

Every year, Kenyans must debate the national "division of revenue": how much money should go to counties and how much should go to national government. This is a debate about national priorities and should ensure that each level of government has adequate resources to carry out its functions.

However, there is a prior question. Just how much money is there? We need to start by understanding the total size of the budget, and then to understand which part of the budget is actually available to be negotiated each year.

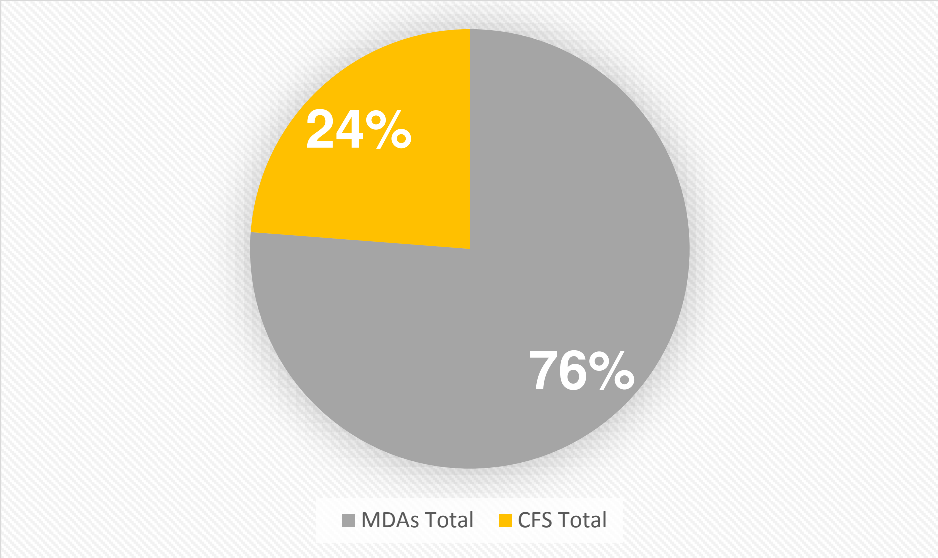
Governments will always have commitments for which they have to allocate funds each year and this reduces the amount of money that is available for service provision. These payments are known as "obligatory" or "non-discretionary" because they cannot be changed in a given year.

Consolidated Fund Services

Kenya is no different. Debt repayment is an example of one such commitment for which Kenya has to allocate funds each year. Debt repayment is the main expenditure item under what is called Consolidated Fund Services (CFS). CFS also includes a smaller amount of money for pensions and some salaries for constitutional offices. These payments are also obligatory and cannot be changed in any given year without major legal reforms.

If we think about the total budget each year, it consists of two main parts: the budget for Ministries, Departments, and Agencies (known as MDAs) and the budget for Consolidated Fund Services (CFS). Taken together, these give us a total expenditure of Ksh 1455 billion in 2012/13. Figure 1 below shows the breakdown of the 2012/13 Budget that went to MDAs and CFS.

Figure 1: Ministries, Departments and Agencies versus Consolidated Fund Services in the 2012/13 Budget



Source: Authors' calculations

Table 1 below shows what has been happening to CFS recently. Over the past four years, the figure has been on the rise. Because these funds form part of the national share of revenues that cannot be negotiated, they reduce the funds available for other services every year.

The largest component of CFS over these years has gone to debt repayment (consistently over 80 percent, and rising). Why is debt repayment rising? The Kenyan government has been taking loans to fund many projects, particularly infrastructure projects. These loans have to be paid back and ultimately increase the size of Consolidated Fund Services. As the table makes clear, debt is rising, and therefore debt repayment is also rising. While the size of CFS in a given year cannot be negotiated, every loan the government takes eventually leads to higher CFS allocations, and reduces the funds that can be used for other national and county services.

Table 1: Growth in Public Debt and Debt Repayment

Financial Year	2010/11 (Billions)	2011/12 (Billions)	2012/13 (Billions)	2013/14 (Billions)
Public Debt Repayment	158	173	304	337
Consolidated Fund Services	188	210	346	380
Proportion of Public Debt in CFS	84%	82%	88%	89%
% growth in CFS	-	12%	65%	10%
Financial Year	2010/11 (Billions)	2011/12 (Billions)	2012/13 (Billions)	2013/14 (Billions)
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Total Budget	999	1155	1455	1640
% of CFS to Total Budget	19%	18%	24%	23%

Source: Budget Estimate Books and Treasury Debt Reports
Note: The Public Debt figures for 2013/14 represent debt at the end of December 2013

Appropriations in Aid

Another part of the government budget that is not generally available for sharing between national and county governments is what is known as Appropriations in Aid (AiA). AiA primarily consists of two main types: donor grants/loans; and revenues collected directly by agencies through service fees and charges. These funds are known as AiA because they tend to be collected directly by agencies rather than passing through Treasury. They are still appropriated during the annual budget process, but they are not actually collected and then passed on to agencies by Treasury.

The majority of AiA is in the form of loans and grants that cannot be easily shared with counties because they are generated through contracts between international donors and the national government. Unless donors/creditors agree to redistribute these funds to counties, they are not available for sharing. These funds are often spent on major national infrastructure programs and are part of the debt mentioned above that ultimately becomes part of Consolidated Fund Services.

AiA generated by agencies through service charges also presents a challenge for revenue sharing. These fees are often used by the institution that generates them to fund operational costs. For example, Kenyatta National Hospital generates user fees that are used to run the hospital. These are part of the budget but should remain with the hospital. When a facility or department is devolved to counties, these fees can also be devolved. When an agency remains at national level, however, the fees should not be considered part of shareable revenue. AiA should not be considered part of revenues that can be shared with counties unless it is in the form of agency fees for departments that are being devolved.

In addition to AiA, the government also collects funds from donors that pass through the Consolidated Fund and are then passed to ministries and departments. These funds are not called AiA, but are known simply as external revenues. Nevertheless, like AiA, they cannot be easily shared due to contracts with donors and various conditions.

The table below shows the AiA and external revenue estimates in 2012/13.[1] Note that when added together over 80 percent of AiA and external revenue is foreign, rather than domestically generated by ministries. In addition to the 226 billion in AiA received by government in 2012/13, there was an additional 52 billion in external revenue. Altogether, this constituted roughly 25 percent of the total MDA budget in 2012/13.[2] Taken together, AiA, external revenue and CFS accounted for almost 625 billion in 2012/13.

[1] For an explanation of how we classified ministries into sectors, please see our brief "The Right Priorities? Understanding what the Kenyan government spends money on," available at http://internationalbudget.org/wp-content/uploads/Understanding-What-the-Kenyan-Government-Spends-Money-On.pdf

[2] In calculating recurrent AIA, we removed Ksh 21.5 billion for the Local Authority Transfer Fund (LATF) Grant, which was classified as AiA in 2012/13, but has been devolved. We also removed Ksh 8.5 billion from the Ministry of Roads that was devolved in 2012/13. Finally, we deducted Ksh 3.5 billion generated by MDAs but not attached to any specific state corporations or agency operating costs, on the assumption that this could potentially be shared with counties.

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Table 2: Appropriations in Aid (AiA) and external revenue estimates in 2012/13

	AiA (Billions)		External Revenue (Billions)	Total (Billions)
Sectors	Recurrent	Development		
Infrastructure + Energy	18.5	109.7	16.4	**154.8**
Water and Irrigation	2.0	19.4	4.2	**25.6**
Health	3.9	14.4	7.2	**25.5**
Education	19.0	11.5	0.8	**31.5**
State Administration	0.1	11.2	3.5	**15.0**
Regional Development	0.1	5.7	3.9	**31.2**
Agriculture	0.0	2.8	5.2	**8.2**
Gender, Youth and Culture	0.0	1.8	7.0	**8.9**
Lands, Housing and Environment	2.5	1.4	3.6	**8.4**
Security	0.4	0.2	0.1	**1.0**
International Relations and Commerce	1.4	0.2	0.2	**1.9**
Parliament, AG, Judiciary and Constitutional Commissions	0.1	0.0	0.1	**0.3**
Total (AiA and External Revenue)	**47.8**	**178.5**	**52.3**	**278.6**
Of Which;				
Grants				***20%***
Loans				***61%***
Local Sources				***20%***
CFS				**346.0**
Total CFS, AiA and External Revenue				**624.6**
Total MDAs Budget				**1,109.0**
Total Budget				**1,455.0**
% of the Total (AiA and External Revenue) to Total MDA Budget				**25%**
% of CFS, AiA and External Revenue to Total Budget				**43%**
Budget after remove CFS, AIA and Ext Rev				**830.4**

Source: Budget Estimates 2012/13; Authors' calculations

Conclusion: What is available for sharing?

While CFS is not a revenue source, Kenya must essentially set aside this amount of revenue each year for debt repayment and other obligations. At the same time, the funds that are raised through AiA and external revenues cannot be shared with counties. Taken together, this means nearly 43 percent out of a total 2012/13 budget of Ksh 1455 billion were not available for sharing, leaving about Ksh 830 billion for negotiation.

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