INTRODUCTION

One of the objects of devolution was to promote socio-economic development and provide locally defined and accessible services. Budgets are the main vehicle through which county governments fulfill the socio-economic rights of their residents e.g., access to clean, safe and adequate water.

The Baringo County Integrated Development Plan 2018-2022 highlighted that the average distance to the nearest water point in Baringo County is 5km. In addition, the Kenya National Bureau of Statistics in the Kenya Integrated Household Budget Survey 2015/2016 report showed that 31 percent of households in Baringo County have to walk for more than 30 minutes to access drinking water. This statistic is higher than other counties such as Nandi, Kiambu, and Nyeri with just 1 percent of their population with similar challenges.

Residents of Baringo have strongly expressed their need for clean and safe water through prioritizing the water sector in consecutive budget processes. As a result, Water and Irrigation has been prioritized over the past five financial years through a substantial increase in the share of total budget allocations i.e., from 8.24% in FY 2016/17, 9.80% in FY 2017/18, 11.33% in FY 2018/19 to 13.50 % in FY 2019/20. Since FY 2017/18, the County Fiscal Strategy Papers have ranked the Water sector as a top priority and thus the department has consistently benefited from the highest increase in the share of total budget allocation.

Despite this consistent increase in budget allocation, the level of access to water has only slightly improved. According to the Kenya Population and Housing Census 2019 by KNBS, only 34% of the residents of Baringo County have access to clean water. This is a very small improvement, from 23% in 2014, considering the substantial budget allocations to development projects in the water sector.

One of the challenges has been persistent poor budget absorption, which has negatively impacted service delivery. Analysis of the County Budget Implementation Reports, through the Budget Credibility Research and conversations with County Government Officials in the County Treasury, revealed irregular cash-flow as one of the factors contributing to this problem. Thus,
there is a need for conversations among the actors to explore solutions. Before this can happen, it is important to understand the process, the actors and emerging issues regarding cash flow from the National Treasury to end-user service points in counties.

Against this backdrop, the Centre for Enhancing Democracy and Good Governance (CEDGG), in partnership with International Budget Partnership Kenya together with partners in Busia, Mombasa and Tana-river counties, conducted research with a view to understanding intergovernmental cashflow processes. This report focuses on the flow of funds from the County Revenue Fund account to the point of service delivery in the Department of Water, in Baringo County. The study sought to address the following salient issues:

1. The legal framework on timelines, key actors, requisitions, procurement, and disbursement processes of funds from the County Revenue Fund Account to the County Operations Account.
2. The actual practice in the flow of funds from the County Revenue Fund (CRF) account to operations, departments, and points of service delivery in the department of Water.
3. The identified challenges on decisions and the flow chain of funds affecting budget implementation and possible practical solutions to address the latter.

**METHODOLOGY**

The study applied desktop analysis and Key Informant Interviews as the main methods of data collection. Secondary data was collected through analysis of various National Treasury gazette notices on exchequer issues, Office of the Controller of Budget (OCOB) Reports and County Budget Implementation Reports. This review generated data on disbursement as well as budget performance trends.

Further, Key Informant Interviews were conducted with officials from the County Treasury and Department of Water and Irrigation with the aid of a questionnaire containing a set of questions specifically meant to explain trends from the desktop analysis.
FINDINGS AND DISCUSSION

DISBURSEMENT OF FUNDS FROM THE NATIONAL TREASURY TO THE COUNTY REVENUE FUND (CRF)

Baringo County did not receive any transfers in the first two months of the financial years 2017/18 and 2018/19 and 2019/20. Except for 2019/20, in the other two years (2017/18 and 2019/20) less than 10 percent was disbursed in the first quarter while more than 40% was released in the fourth quarter. The first quarter of the FY 2017/18 had the lowest exchequer releases where Baringo County did not receive any transfers from the National Treasury.

According to the officials in the County Treasury in Baringo, development activities stall during the period when no transfers are effected. Operations at the County Government are also slowed down and sometimes even stopped completely as suppliers halt their services. For instance, in the water department, there have been cases where field activities (design of water projects, supervision of ongoing water project and repair of water supply schemes) are put on hold due to a cut of supply (by suppliers) of goods such as fuel because of the highly accumulated pending bills. Contractors implementing development projects, including phased and rolled-over projects, also slow down knowing that the earliest they can be paid is towards the end of August.

Payment of Salaries for County Government staff is also delayed. ’It is known that we don’t pay salaries for July and August on time ’ - Senior Accountant Baringo County.

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<tr>
<th>TABLE 1. ANALYSIS OF EXCHEQUER ISSUES TO BARINGO COUNTY</th>
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<tr>
<td><strong>Monthly Exchequer Issues to Baringo County (Ksh. Million)</strong></td>
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<tr>
<td>**Approved Budget Estimates</td>
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<td>July</td>
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WITHDRAWAL OF FUNDS FROM THE COUNTY REVENUE FUND (CRF)

Funds from the National Treasury are disbursed into the County Revenue Fund. Once funds get to the County Revenue Fund from the Consolidated Fund, there are several procedures to be followed for withdrawal of funds from the CRF to the county operational accounts and then to various levels of service delivery.

For funds to move to the departments, the County Accounting officers in each department are responsible for forwarding requests to the County Treasury. For this, they are required to provide the County Treasury with an annual cash flow plan as the basis for requisition of funds (PFM Act 2012, Section 43 (1)). Further, according to (Section 43(4) of the PFM Act, 2012), the cash flow projections prepared by the accounting officers should be accompanied by a procurement plan approved in line with the Public Procurement and Disposal Act, 2005.

After departments have placed requests with the County Treasury, the Treasury then submits requisitions to the Controller of Budget (COB) who has to approve all withdrawals from the CRF. To obtain approval from the COB, certain requirements have to be met. These are discussed in detail in the ‘National Cash Flow Study Paper’. Upon approval, the County Treasury will receive written instructions from the COB authorizing withdrawal of funds. The COB's approval and written instructions from the County Treasury requesting withdrawal (Section 109(7) of the PFM Act, 2012) should be sufficient authority for the bank to pay the approved amount.

The department of Water and Irrigation is a heavy development department, meaning most of its expenditures are on capital projects. Approval of development expenditure requests for a development project, in addition to other requirements, is generally based on the availability of the item and corresponding allocation in the approved budget, approved cash flow plans and requisite procurement supporting documents (contracts, inspection and acceptance committee minutes, completion certificates from technical departments, request for payments, duly filled vouchers). According to County Treasury officials, for some of the huge expenditures, the COB has to verify the validity of the request through various methods including physical verification of projects.

PROCUREMENT PROCESS

Procurement for all goods and services in Baringo County is centralized and handled under one department. The procurement unit is domiciled at the Department of Finance and Economic Planning (County Treasury), which is at the County Headquarters. The department receives technical support
from the user departments at various points of the process i.e., project design, requests for procurement, technical evaluation of the bids and project inspection and acceptance visits. However, all payments are done through the County Treasury.

The procurement process, with respect to the department of Water\(^1\) is highlighted below:

- Once the budget is approved and a procurement plan is in place, tenders are advertised on various platforms.
- After bids are submitted, the Evaluation Committee, preliminarily evaluates the responses after which the bids are then opened by a group called the ‘unsealers’; people who unseal the best price from the suppliers.
- After evaluation of the tenders, the contract is awarded to the most qualified contractors.
- The department then invites the identified contractor for a project site meeting to launch the project; also referred to as ‘handing over of the site’. It is during this meeting that the County government allows citizens to elect the Project Implementation Management Committee.
- Some contractors request partial payment while others with higher capacity opt for full payment after project completion.
- At the end of each milestone, the inspection committee goes with the contractor to the project site to evaluate the work’s cost and quality and then issues the contractor with a completion certificate.
- The department (Chief officer) prepares the payment voucher (which ends the manual process). The payment process as is with procurement is done through the Integrated Financial Management Information System (IFMIS).

**REQUISITION PROCESS**

1. The requisition process starts with the presentation of vouchers based on completed tasks (Projects phases or complete).
2. The department of finance verifies vouchers for completeness (in compliance with procurement laws).
3. Requisitions are then entered into the system which goes through 25 steps in the Integrated Financial Management Information System (IFMIS).

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\(^1\) Detailed procurement process
4. After 25 steps it goes into Internet Banking which the Central Bank of Kenya manages. The signatory (Director, Finance) authorizes the move from IFMIS to Internet Banking. Under this step there are the following sub-steps:

- Printing of a payment schedule- The payment schedule is taken to the OCOB at the county level, for scrutiny and budget control. Once they are satisfied, they generate FORM A.
  - FORM A should be authorized by the Head of Finance (Director, Accounting Services) and by the County Budget Coordinator (a representative of the OCOB at the county) and forwarded to the OCOB Head Office. If satisfied, the OCOB generates FORM B which is authorized by the COB.
  - Once FORM B is out, the County Treasury generates FORM C which is authorized by the county treasury signatories (Chief Officer, Director and Deputy Director of Finance).
  - It is then forwarded by CEC Member, Finance to Central Bank. Without this forwarding, the forms cannot sail through Central Bank.

- FORM C (presented in duplicate i.e., hard copy and a conqueror paper) and FORM B are taken to Central Bank.
- Central Bank receives and takes about 2-3 hours to verify and transfer the money to beneficiary accounts.

5. The Controller of Budget prepares ‘a form’ to the National Treasury on what the office has approved for Transfers from the County Revenue Fund Account.

6. The County Treasury then prepares a duplicate that authorizes monies to move from the CRF account to the respective beneficiary accounts (e.g., suppliers).

**PRIORITIZATION OF DEPARTMENTS**

The main criterion for disbursement of funds to each department is the annual procurement plan which provides the quarterly cash requirements for each department. This is so, especially for the operations and maintenance budget. On the other hand, the disbursement of the development budget is based on a request from a department through the submission of complete vouchers. According to a County Treasury official interviewed in this study, requisitions are raised only upon verification of completeness of vouchers. Documents that are scrutinized include invoices, end product reports (inspection and acceptance committee minutes), completion certificates from the technical departments, local purchase orders (LPO), valid contracts, etc. However, it was observed that in some instances the requisitions made usually surpass the amounts available in County Revenue Fund at which point the allocations are on a first-come-first-served basis.
TABLE 2. ANALYSIS OF DEPARTMENTAL DISBURSEMENTS IN THE 1st AND 2nd QUARTER IN BARINGO COUNTY

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<tr>
<th>Departments</th>
<th>FY 2017/18</th>
<th>FY 2018/19</th>
<th>FY 2019/20</th>
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<td>Source: Office of the Controller of Budget Reports for FYs 2017/18 -2019/20</td>
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| From figure 2 above, departments seem to get high disbursed allocations as a percentage of their budget and as a share of the total amount disbursed, while others get very low allocations. There is a clear difference between what is disbursed to recurrent and heavy development departments. For example, departments whose budgets are recurrent heavy such as County Executive, County Finance and Economic Planning—which are also largely administrative- seem to get the highest allocations of the amounts disbursed as compared to departments whose budgets are development heavy. The departments of Water and Irrigation, Roads, Transport and Infrastructure and Education and Vocational Training are among those that receive the lowest allocations in the first two quarters of the financial years.

Through interviews, county government officials from the Department of Water and Irrigation explained that processes involved from project design to payment level are more complex and time-consuming compared to the processes involved in requisitioning money for recurrent budgets. Even with this, the water department is faced with unique challenges that make it difficult to maneuver these processes resulting in very low funds for the department. These include:
• **Understaffing among technical officers:** The inadequate number of technical officers is slowing down budget implementation and, by extension, requesting funds. Before a request for payments can be raised, the technical officers need to have visited the project site to verify the status of the projects. Even more, the pace of design and procurement of these projects is dependent on the availability of technical officers. The more ready the vouchers, the more monies issued to the department.

• **Low financial capacities among contractors:** Most contractors do not request payments in the first quarter due to past experience where the county government could not make payments in the first quarter. Given the challenge of raising capital, the contractors fast-track project implementation and subsequently request payments towards the end of the second and third quarters.

• **Stringent procurement process for development projects:** As opposed to departments whose budgets are heavily recurrent, such as the County Assembly, the Water department’s budget is procurement heavy and involves 28 steps provided for in the IFMIS. Thus, before the projects can reach the payment stage, it takes a long time, and this is worsened by the two issues discussed above. The process of procurement also starts late in the financial year, as departments must wait for the County Treasury to notify them on the availability of funds. From the time of requisition to the time when cash moves into the county operations accounts, the turnaround time is about 2-3 weeks.

**KEY FACTORS AFFECTING CASH FLOW**

1. **Revenue Limitations:** Sometimes, requisitions from a department may fail to be honoured in good time due to inadequate monies in the CRF and becomes a rollover. This may be because of unmet national revenue targets which negatively affect the disbursement of funds to counties. Additionally, the National Treasury usually ‘limits’ what the County Government can requisition at a go. Officers usually communicate this in the national government via phone calls.

2. **Delays in passing of the budget and related statutes:** Delay in passage of the county budget delays flow of cash into the County. Even for projects that are being rolled over, payment cannot be made because of the lack of a budget code. In addition, delays in enactment of the Division of Revenue Bill and County Allocation of Revenue Bill also have a negative impact on cash flow to counties. For example, in 2019/20, the Division of Revenue and the County Allocation of revenue bills were approved on the 17th and 18th September 2019 respectively. This was almost three months into the financial year. More recently, the County Allocation of Revenue Act for the FY 2020/21 was passed by the National Assembly on 6th October 2020, well into the second quarter of the financial year. This means the National
Treasury could not disburse funds to counties before the DORA and CARA were approved and assented to as these are the laws that guide revenue sharing.

3. **Non-adherence to timelines:** In Baringo County, requisitions for payments are done monthly but only when there is money in the CRF accounts. Due to the logistics involved (including travel to Nairobi), the department consolidates vouchers until a reasonable amount is reached – about Ksh. 50 M. In some cases, departments have presented a request for payments at the deadline. In the last days of the fourth quarter, all the 47 counties rush to make requests, increasing the workload at the Office of the Controller of Budget and congesting the network.

4. **Failure by counties to meet some conditions for disbursement of funds:** According to the National Treasury some counties may not have equitable share disbursed due to failure to observe directives. For example, in the recent past, the National Treasury has issued a directive requiring counties to prioritize payment of pending bills. However, even though directives on pending bills have been given, these do not appear to have affected disbursements to counties.

5. **The linkage between cash balances and delayed disbursement:** Over the last 3 financial years Baringo County Government has realized high rollovers in the development budget. The County Treasury officials interviewed were not certain of the criteria used by the National Treasury to disburse funds to counties; however, they felt that ‘budget absorption could be one of the factors’. This is because of the observable trend where the National Treasury disburses very low amounts to the Baringo CRF account during the first quarter and increases as the year progresses. The National Treasury has previously fallen back on the fact that counties still have unspent funds in their accounts in an attempt to justify that, counties can still proceed with operations despite funds not being disbursed as scheduled².

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FIGURE 2. A SNIPPET OF THE NATIONAL TREASURY PRESS STATEMENT

Nonetheless, the National Treasury notes that as at 13th January, 2021, the balances of county governments at the Central Bank of Kenya (CBK) stands at KES 34.6 billion and appeal to them to make full use of these funds in the meantime, as further disbursements from the Exchequer are made in due course.

RECOMMENDATIONS

National Treasury

- The National Treasury should release Baringo’s equitable share to the County Revenue Fund as soon as the financial year begins, by the 15th of every first month of the quarter as is stipulated in the Public Finance Management (PFM) Act. Regular cash disbursement timelines should also be maintained.

County Treasury

- There is a need to capacitate the County Treasury to increase the number of staff and their skill set to enable fast-tracking of procurement processes.
- The procurement process should be made ‘watertight’ to be able to identify contractors with the capacity to deliver quality projects and in a timely manner.
- Undertake quality control and build the capacity of the county departments on PFM Act requirements to avoid the back and forth.
- County Treasury should enhance own source of revenue collection to reduce dependency on national transfers.

County Assembly

- The County Assembly should strengthen budget oversight, more so budget control. Through proper scrutiny of reports on budget implementation, they should identify gaps in implementation and bring this up with the County Executive and, specifically, the County Treasury based on the gaps identified in this study.

Department of Water and Irrigation

- The Department of Water and Irrigation should strengthen supervision of projects for speedy implementation. They should allocate more funds to the operations and maintenance budget
to facilitate the speedy design of projects (including feasibility studies) and field visits for project supervision.

Office of the Controller of Budget

- The office of the Controller of Budget should aim for the timely processing of requisitions. This includes but is not limited to the automation of the process.
- The OCOB should also provide advisory services to County Governments on prudent cash flow management.

Citizens/ CSOs

- Citizens should actively seek information on budget implementation. Transparency is key to government actors being accountable and taking responsibility for addressing budget implementation challenges; cash flow challenges in this case.
- Citizens should seek technical advice (for instance, ask for a cost reference) during public participation to be able to identify viable projects and allocate adequate funds for effective and efficient budget implementation.

CONCLUSION

In Baringo County, the process of procurement and payments to suppliers can only be initiated upon the availability of funds in the CRF account. Therefore, delays by the National Treasury in disbursing funds to the County Revenue Fund, especially in the first quarter, is the main challenge affecting cash flow in Baringo County. In addition, inadequate technical personnel in the water department and the county procurement unit slows down vital steps in the procurement process which affects the pace of processing cash requisitions which ultimately delays service delivery.
ANNEX

A brief outline of the data obtained from the sources mentioned in the report:

- The National Treasury gazette notices\(^3\) - Monthly data on disbursements to Counties from the National Treasury.

- The Office of the Controller of Budget reports\(^4\) – Quarterly data on disbursements to Counties from the National Treasury as well as data on County budget performance. These reports also confirmed the exchequer releases as presented in the gazette notices.

- County Budget Implementation Reports\(^5\) - The reports offered a comparison to the information on County budget performance presented in the OCOB Reports. They further provided budget absorption rates. Of interest in the County Budget Implementation Reports was the distribution of amounts disbursed among the county departments and constraints related to cash flow at the County level.

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\(^3\) These are notices on the Statement of exchequer issues to National government MDAs, CFS and County governments. An example: [http://kenyalaw.org/kenya_gazette/gazette/notice/194440/](http://kenyalaw.org/kenya_gazette/gazette/notice/194440/)

\(^4\) [https://cob.go.ke/reports/consolidated-county-budget-implementation-review-reports/#1578905910783-33b0c37f-b9cc](https://cob.go.ke/reports/consolidated-county-budget-implementation-review-reports/#1578905910783-33b0c37f-b9cc)