INTRODUCTION

County governments still struggle to achieve the revenue and expenditure targets, as set out in the approved budgets. Research conducted by International Budget Partnership Kenya (IBP Kenya), under the Addressing Budget Credibility Initiative, indicates that, between 2014/15 to 2017/18, the 47 counties, on average, were unable to utilize 20 percent of their budgets. One of the cross-cutting challenges impeding full implementation of county budgets is slow and late disbursement of funds (equitable share and conditional) by the National Treasury.

In light of the above, IBP Kenya and its partners in Baringo, Busia, Mombasa and Tana River counties, embarked on a study to understand the process of cash flow from the national government to counties. In this report, the focus is on the flow of funds in Tana River County.

Through this study, we aimed to understand and respond to the following salient issues:

- The legal framework on timelines, key actors, requisitions, procurement and disbursement processes of funds from the County Revenue Fund Account to the county operational account.
- The actual practice on how funds flow from the County Revenue Fund (CRF) Account to end-user points.
- Key challenges in the flow of funds that are affecting budget implementation and possible practical solutions to address these.

METHODOLOGY

This study employed a mixed-method approach, involving both qualitative and quantitative aspects of primary and secondary sources. The primary data was obtained through Key Informant Interviews while the secondary data was collected through desktop research and reviews. To establish how funds should flow and processes of requisitions and disbursements, reference was made to the Constitution of Kenya (2010), Public Financial Management Act (2012) and County PFM regulations, 2015.
To establish the actual practice on how cash flows in Tana River County we analyzed the quarterly budget implementation & reviewed reports from the Controller of Budget that has the exchequer disbursements and expenditure plus the sector budget absorption percentages. In addition, we conducted interviews with key informants who are directly linked to the process. They included: the CECM Finance, Director of Procurement and Supplies, Chief Officer for Education, Director of Finance and the County Budget Coordinator who is a representative of the Office of The Controller of Budget at the county level.

FINDINGS AND OBSERVATIONS

EXPECTED PRACTICE - BASED ON THE LEGAL FRAMEWORK.

The cash flow process begins at the national level with the division of revenue process. This entails approval of the Division of Revenue and County Allocation of Revenue Bills.

Division of Revenue

Article 218 (1) (a) (b) of CoK, 2010 provides for vertical and horizontal sharing of revenue in Kenya. The Division of Revenue Act divides revenue raised nationally between the national government and the county governments (vertical sharing of revenue), whilst putting into account the criteria provided by Article 203(1) of the constitution of Kenya. One of the criteria is equitable sharing. On the other hand, the County Allocation of Revenue Act (CARA) specifies each county’s share of the equitable share to counties and other transfers to the counties from the national government e.g., conditional grants.
Disbursement Schedule and Timelines

Section 17 (6) requires the National Treasury to disburse monies to the counties not later than fifteen days, after the commencement of each quarter. Section 17(7) further requires that the disbursements should be in accordance with a schedule, prepared by the National Treasury, in consultation with the IBEC, which should be approved by the Senate and gazette, not later than 30th May each year.

Withdrawal from the County Revenue Fund

Article 207 (1) of CoK and section 109(1) establishes a County Revenue Fund Account (CRF) into which county revenue (Equitable share, Conditional Grants, Local Revenue and Appropriation in Aid) is deposited.

The approval of the Controller of Budget to withdraw money from the County Revenue Fund, together with written instructions from the County Treasury requesting for the withdrawal, is sufficient authority for the approved bank where the County Exchequer Account is held to pay amounts from this account in accordance with the approval and the instructions.¹

The actors in this process are:

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¹ PFMA, 2012, Section 109 (7)
1. **The Controller of Budget** - Article 207 (3), 228(4) (5) of the Constitution of Kenya mandates the Controller of Budgets to approve the withdrawal of funds from the CRF account.

2. **The County Assembly** - Approves the Appropriation Act to effect withdrawal from CRF Account (Art.207 (1) (b). The Act is the basis on which funds are requisitioned.

3. **County Treasury** - Headed by the CECM finance, the County Treasury is made up of the Chief Officer Finance (Accounting officer), the head of the County Treasury, Revenue officer, head of Finance and Economic Planning, Principal Finance officer, head of IT and the head of Internal Audit Committee. The CT Treasury manages the County Revenue Fund Account according to Section 104 (1) and Section 109 (3).

4. **Accounting Officers** - The CECM finance should designate a county accounting officer and ensure every county entity has an accounting officer pursuant to Article 148(1) (2) of PFMA, 2012.

**ACTUAL PRACTICE**

To understand actual practice, we analyzed the data from the Controller of Budget, county budget implementation reports and conducted key informant interviews. The findings are classified into:

- Disbursement from the National Government to the County Revenue Fund (CRF)
- Procurement and Requisition processes
- Challenges in the process

**Disbursement of Funds from the National Government to Tana River County**

In the years studied, Tana River County had not yet received even 50 percent of the county’s budget estimates by the end of the second quarter. The bulk of the money is disbursed in the third and fourth quarters.

**Table 1: Trends in Exchequer Issues to Tana River County**

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2 Appropriation Act
3 PFMA, 2012,Section 103(3)
4 Section 103 (1) (2) of PFMA, 2012
Disbursement of funds has a direct implication on budget absorption. Counties can only plan and execute the approved budgets if they are able to receive their funds in line with their approved work plans and cash disbursements schedules. More funds are released towards the end of quarter three and quarter four and due to lengthy procurement processes the financial year lapses. Counties cannot, therefore, spend such money unless appropriated in the next financial year. This fuels rollover.

**Table 2: Total County (Tana River) Budget Absorption Rates**

<table>
<thead>
<tr>
<th></th>
<th>Budget Absorption Rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rec</td>
</tr>
<tr>
<td>2017/18</td>
<td>60</td>
</tr>
<tr>
<td>2018/19</td>
<td>69</td>
</tr>
<tr>
<td>2019/20</td>
<td>125</td>
</tr>
<tr>
<td>Average</td>
<td>85</td>
</tr>
</tbody>
</table>

Notably, in Table 2 above, in the years that exchequer issues (Table 1) were fairly distributed across the quarters, the County’s budget performance was higher. In 2019/20, we have relatively higher exchequer issues in the first quarter than the other two years. The total budget absorption 2019/20 is also relatively higher than total budget absorption in the other two years. This further validates the need for county funds to be disbursed as scheduled and not have disbursements only peak in the last quarter when counties cannot do much to spend.
Other implications for late disbursements include:

- Late disbursement of funds disrupts adherence to cash flow projections and plans. This is because work plans, cash flow plans and procurement plans are based on the assumption that there will be a seamless flow of funds from the National Treasury to the County. This consequently affects the implementation of projects and programmes across departments in the county.

- The county is forced to prepare more than two supplementary budgets because of the late disbursement of funds. On how soon the county can prepare a supplementary budget and the interval between one and the next, a key interviewee noted that a supplementary budget can be prepared two months after the first requisition has been made.

- The issue of pending bills is exacerbated by late disbursement of funds because then the county is unable to pay contractors who have completed tasks within the required timelines.

- Rollover funds. Poor disbursement of funds to the county characterized by delayed disbursements that have even been made late into the financial year means that the county is unable to spend its entire budget. On average, Tana River County was only able to spend 72 percent of its budget in the three years studied.

**Withdrawal of Funds from the CRF**

In the three years studied, withdrawal from the CRF is very minimal in the first quarter drawing a parallel to the trends in the disbursement of county funds by the national government as shown in Table 1.

**Table 3**: COB-Approved Withdrawals from the CRF

<table>
<thead>
<tr>
<th>FY</th>
<th>Original Approved Budget (Billion Ksh)</th>
<th>Exchequer Issues as a Proportion of Approved Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>3.34</td>
<td>2.46</td>
</tr>
<tr>
<td>2018/19</td>
<td>4.57</td>
<td>2.74</td>
</tr>
<tr>
<td>2019/20</td>
<td>3.22</td>
<td>5.00</td>
</tr>
</tbody>
</table>

Source: Controller of Budget County Quarterly Implementation Reports 2017/18, 2018/19 and 2019/20

In the first quarter, for all three years, no funds were released for development expenditure and the controller of budget only approves requisition after confirming the availability of funds in the CRF.

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5 The approved budget and approved withdrawals are inclusive of equitable share, conditional grants, own source revenue and cash balance
account. There are no justifications given for this; however, this is synonymous with the very low disbursements in the first quarter (Table 1).

For withdrawal of funds from the CRF, counties must make requisitions and can only withdraw once the Controller of Budget approves. The county departments forward their requests for funds to the County Treasury based on the cash flow projection plans and the procurement plan. The cash flow projection plans are as prepared by the Accounting Officers at the departmental level. The County Director of Finance is the officer responsible for the preparation of requisition forms that are submitted to the Office of the Controller of Budget for approval.

Overview of the Requisition Process

There are three levels in the county requisition process:

▪ The process at the County Budget Coordinator's office
▪ Confirmation process at OCOB head office's Exchequer Unit
▪ Final review and approval by the Controller of Budget

According to a key interviewee from the county, statutory documents required for funds requisition and approval by the COB are the:

▪ County Integrated Development Plan (CIDP),
▪ Annual Development Plan (ADP),
▪ Approved Budget,
▪ General Warrant and
▪ Appropriation Act for the corresponding financial year.

These documents are submitted at the beginning of the financial year.

Additional requirements include:

▪ All transactions are to be processed through Internet Banking.
▪ Form A, which is a requisition form, should be duly filled and attached. Recurrent and Development Expenditure and Salaries, each require different Form A’s.
▪ A statement showing there is money in the CRF account.

The COB issues Form B once they have verified that there is money in the CRF account, and that Form A is filled appropriately. Form B indicates approval and subsequent is a Form C that has to be filled by two signatories and the head of the County Treasury instructing the Central Bank of Kenya (CBK), where the CRF is held, to release funds.

Flow of Funds from the County Operational Account

It takes approximately one week for funds to move from the CRF Account to the County Operational Accounts from the time a requisition has been placed. This is according to a key informant at the county. Once funds move to the operational account, Authority to Incur Expenditure (AIE) is then issued to Accounting Officers at the department level. Funds flow and the amount allocated to each department is determined by the payments that a department has already processed up to the Internet Banking level at the time of funds requisition.
However, upon spending, it came out during this study that departments cannot ascertain what has been spent on recurrent and development expenditure areas. According to key informants, this happens because once funds have been released to the departments, the County Executive Committee Member for Finance and the Chief Officer decide what is to be paid.

**Overview of the Procurement Process**

The procurement process in Tana River County is centralized, and sectors are supposed to prepare procurement plans that the County Treasury then consolidates into an annual procurement plan implemented in four quarters. An outline of the process is:

1. The user department raises a purchase requisition order.
2. The purchase requisition order is signed by the department's chief officer and then forwarded to the head of the procurement unit.
3. A quotation is raised (if it is below Kshs. 2M) based on the department's needs or a bill of quantities in case of construction-related works.
4. A procurement process involving the following is done:
   - Advertisement
   - Tender Opening
   - Evaluation
   - Awarding

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Figure 2: Sample of a Procurement Plan

<table>
<thead>
<tr>
<th>No.</th>
<th>Item/Service Description</th>
<th>Estimated Unit Cost (£)</th>
<th>Unit of Issue</th>
<th>Quantity</th>
<th>Total</th>
<th>Procurement Method</th>
<th>Charge Account</th>
<th>SPECTRUM</th>
<th>SPECIAL GROUPS</th>
<th>Timing of Activities (Quarterly Basis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Electricity</td>
<td>3766568 Each</td>
<td>1</td>
<td>1</td>
<td>3766568</td>
<td>DIRECT PROCUREMENT</td>
<td>22/01/2010</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Water and sewerage</td>
<td>657178 Each</td>
<td>1</td>
<td>1</td>
<td>657178</td>
<td>DIRECT PROCUREMENT</td>
<td>22/01/2010</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Gas expenses</td>
<td>290000 Each</td>
<td>1</td>
<td>1</td>
<td>290000</td>
<td>REQUEST FOR QUOTATION</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Utilities, Supplies-Other</td>
<td>420000 Each</td>
<td>1</td>
<td>1</td>
<td>420000</td>
<td>REQUEST FOR QUOTATION</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Telephone, Tele, Facilitie &amp; Mobile Phone Services</td>
<td>728090 Each</td>
<td>1</td>
<td>1</td>
<td>728090</td>
<td>REQUEST FOR QUOTATION</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>Internet Connections</td>
<td>795694 Each</td>
<td>1</td>
<td>1</td>
<td>795694</td>
<td>REQUEST FOR QUOTATION</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Computer &amp; Softwares</td>
<td>3996995 Each</td>
<td>1</td>
<td>1</td>
<td>3996995</td>
<td>DIRECT PROCUREMENT</td>
<td>22/01/2010</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Communication, Supplies-Other</td>
<td>10563973 Each</td>
<td>1</td>
<td>1</td>
<td>10563973</td>
<td>REQUEST FOR QUOTATION</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>Travel cost (airline, bus, land, railway, luxury all)</td>
<td>5271800 Each</td>
<td>1</td>
<td>1</td>
<td>5271800</td>
<td>OPEN TENDER</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Accommodation-domestic Travel</td>
<td>6911600 Each</td>
<td>1</td>
<td>1</td>
<td>6911600</td>
<td>OPEN TENDER</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>Domestic Travel &amp; Subs - Others</td>
<td>4808348 Each</td>
<td>1</td>
<td>1</td>
<td>4808348</td>
<td>OPEN TENDER</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Travel cost (airline, bus, land, railway, luxury all)</td>
<td>14129999 Each</td>
<td>1</td>
<td>1</td>
<td>14129999</td>
<td>OPEN TENDER</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>Accommodation Foreign Travel</td>
<td>11500000 Each</td>
<td>1</td>
<td>1</td>
<td>11500000</td>
<td>OPEN TENDER</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>14</td>
<td>Publishing &amp; Printing Services</td>
<td>2986238 Each</td>
<td>1</td>
<td>1</td>
<td>2986238</td>
<td>REQUEST FOR QUOTATION</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>15</td>
<td>Subscriptions, Newspapers, Magazines and Periodicals</td>
<td>100,030,074 Each</td>
<td>1</td>
<td>31,370</td>
<td>3,257,071</td>
<td>REQUEST FOR QUOTATION</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>16</td>
<td>Advertising, Awareness and Publicity</td>
<td>1984174 Each</td>
<td>1</td>
<td>1</td>
<td>19,841,742</td>
<td>REQUEST FOR QUOTATION</td>
<td>22/01/2010</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Tana River County Treasury

CHALLENGES IN THE PROCESS

- The process of requisition for funds is lengthy such that it can take up to two weeks even when there is money in the County Revenue Fund Account. This further exacerbates the complex issue of slow/delayed disbursement to counties.

- In the case of development projects, project design takes long and has to be done by technical persons (this is in all departments). For instance, in the department of Education, designing modern ECD classes takes close to two months before the tenders are advertised and awarded. This further delays service delivery, which can be seen in the budget absorption rates of the Education sector’s budget. (See figure below).
Figure 3: Department of Education Absorption Rates in Tana River County

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Approved Dev Budget</th>
<th>Actual Expenditure</th>
<th>Absorption Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018/19</td>
<td>226.83</td>
<td>103.1</td>
<td>45%</td>
</tr>
<tr>
<td>2019/20</td>
<td>121,947,684</td>
<td>21,228,298</td>
<td>17.4 %</td>
</tr>
<tr>
<td>2020/21- 1st half</td>
<td>175,664,894</td>
<td>0</td>
<td>0 %</td>
</tr>
</tbody>
</table>

Source: County Treasury

- In-fighting between the Executive and the assembly delays the passage of county budgets and this, in turn, affects the time when the county can get approval from OCOB to access its funds. This has an impact on budget absorption and service delivery.

RECOMMENDATIONS

1. The National Treasury to streamline issues contributing to late disbursement of funds to counties.
2. Build the capacity of the county budget and economic planning officers so that they can plan and budget in line with the trends and patterns to avert disruptions of projects and programmes in every subsequent year.
3. Counties to come up with mechanisms that would address the issue of rollovers that are crippling further developments, and which is attributed to, in addition to poor disbursements, poor planning.

CONCLUSION

Revenue is essential to the implementation of the county’s budget. National transfers form the largest share of county budgets, at approximately 80 percent. Therefore, counties must receive their funds and do as is scheduled to avoid hampering service delivery. The cash flow process from the National Treasury to the County Revenue Fund and further to the operational accounts in Tana River County is characterized by several steps with various actors responsible at different stages. However, there is a lack of clarity on flow and utilization of funds after money moves from the operational account. Further analysis is required to understand the complexities of cash flow beyond the operational accounts to departments’ specific service delivery points.