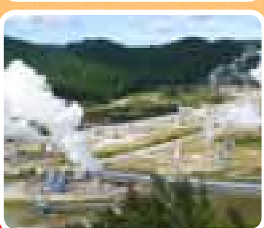


Government of Kenya

OFFICE OF THE DEPUTY PRIME MINISTER
AND MINISTRY OF FINANCE

Government of Kenya

Programme Based Budgeting Manual

November 2011

Government of Kenya

Programme Based Budgeting Manual

November 2011

Table of Contents

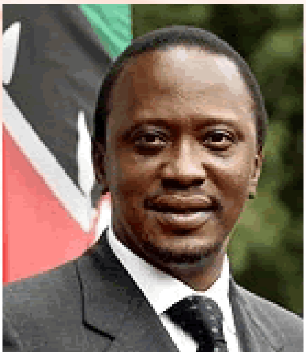
Tables

Figures

ABBREVIATIONS

BOPA	Budget Outlook Paper
BROPA	Budget Review and Outlook Paper
BPG	Budget Procedures Group
BSP	Budget Strategy Paper
BSC	Budget Steering Committee
BSO	Budget Supply Officer
CoA	Chart of Account
CoFoG	Classifications of Functions of Government
East AFRITAC	IMF East Africa Technical Assistance Centre
EWG	Estimate Working Group (Budget)
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (German Development Cooperation)
GoK	Government of Kenya
GRB	Gender Responsive Budgeting
IFMIS	Integrated Financial Management System
IPSAS	International Public Sector Accounting Standards
LA	Local Authority
MIS	Management Information System
MoF	Ministry of Finance
MPER	Ministerial Public Expenditure Review
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MWG	Macroeconomic Working Group
NGO	Non-Government Organisation
PBB	Programme Based Budgeting
PBBs	Programme Based Budgets
SAGAs	Semi-Autonomous Government Agencies
SCOA	Standard Chart of Accounts
ZBB	Zero Based Budgeting

FOREWORD



The Kenya Government is committed to the Public Financial Management Reforms (PFMR) within the context of the wider public sector reforms. As part of PMRF initiative, the government introduced Programme-Based approach to budgeting in the year 2007. The first stage of implementing this budget reform was undertaken through the preparation of the Indicative Programme Based Budget for the FY 2008/09. The programme based budget, aims at ensuring that citizens derive maximum value from public spending and investments through efficient and effective delivery of public goods and services.

Programme Based Budgeting (PBB), embedded in the three years Medium Term Expenditure Framework (MTEF) seeks to re-orient the focus of the current budget from an input based financial programmeming to a result based budget. PBB links appropriated funds to distinct deliverables and outcomes envisaged in the Vision 2030 and its Medium Term Plan. This linkage establishes a performance measurement framework that ensures monitoring of desired results, reporting on progress and feedback mechanism that informs policy and decision making. This Manual for Programme-Based Budgeting is designed to assist Ministries/Departments to understand and implement PBB activities in a multi-year framework; it also serves as a point of reference and a guide to public officers and the various stakeholders involved in the budget making process. It supplements all other budget manuals applicable for the Government of Kenya.

The manual addresses itself to issues related to defining outcomes and outputs, designing of programmes and how to measure their performance, and monitoring and evaluation. It also defines the applicable chart of accounts and coding structure, the process of budget appropriations, execution, financial and technical reporting. The manual will be useful as we prepare to submit programme base budget alongside the itemized line budget to Parliament from the ensuing financial year.

In view of the experiences likely to unfold as we implement the Kenya Constitution 2010 and the dynamism in the field of Public Finance Management, the manual will be subjected to continuous review and improvements to ensure it matches best international practice and continues to remain relevant. I wish in this regard to appeal to all the users to give us feedback on this manual.

HON. UHURU KENYATTA, EGH, MP.
DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE

ACKNOWLEDGEMENT

The Programme-Based Budgeting (PBB) Manual is a product of the concerted efforts and contribution of many people. The content of this publication has benefited from an array of expertise of institutions and professionals. Their tireless efforts and guidance have informed the guidelines for each chapter of the PBB manual. We wish therefore to express or gratitude to all those persons and institution that participated in the drafting and printing of the manual.

In particular, I wish to acknowledge the role of Mr. P.B.M Ngugi, Director, Budgetary Supply Department, in providing technical guidance and steering the process. The dedicated efforts of the embers of the technical working team who comprised Messers Onderi N. Ontweka, Francis Anyona, Samuel Kiiru, Samuel Macharia, Kariuki Kimemia, Kenneth Waithiru, Victor Onyango, Josiah Babu, and Ms. Elizabeth Nzioka and Ms. Miriam Musyoki, all from Budgetary Supply Department, Ministry of Finance. I wish to also recognize the efforts of Messers John Owour and Osiri Nyakundi, from the Ministry of State for Planning, National Development and Vision 2030.

We are equally grateful to our development partners for their financial and technical support in the production of this manual. Specifically, Mr. Kristian Rosbach of GIZ, Mr. Michael Schaeffer and Mr. Guy Anderson of IMF East AFRITAC, Prof. Marc Robinson, Technical Advisor, Programme Based Budgeting, and Mr. Bernard Ndungu, Technical Advisor, Standard Chart of Accounts.

Finally, we hope that this manual would serve to guide programme based budgeting in the Public Sector. The manual will be updated periodically to reflect new lessons and practical experiences by users.

JOSEPH K. KINYUA, CBS
PERMANENT SECRETARY/TREASURY

I. NOTES ON THE MANUAL

A. What is this Manual?

1. **This manual is intended to serve as a guide towards the full development of the Kenyan system of programme based budgeting (PBB).** The Manual contains an introduction to programme based budgeting, a brief discussion of types of budgets, a detailed discussion of PBB, and practical guidance on how to proceed. This manual supplements all other GoK budget manuals, as in the initial years of implementation the PBB format should not replace but be an explanatory attachment to the budget.

B. Who Should Use this Manual?

2. This manual guides **Budget Users throughout the whole process of preparing budgets using PBB methodology for all levels of government.** The various parts of the manual are designed to enhance familiarisation and better understanding of budget preparation, execution and control of all government officials involved in the process.

C. How should this Manual be Used?

3. The manual serves as a **baseline tool to assist the Government to implement necessary fiscal management reforms.** These guidelines have been developed with the aim of serving both as desk references for government officials already trained in the respective fiscal competency as well as training tools for structured capacity-strengthening programmes.

D. What this Manual is Intended to do?

4. **This manual will assist officers involved in budget preparation and execution to understand public sector budgeting by placing the PBB methodology in the context of some of the budgeting reforms that have been successful internationally.** This manual is intended to assist line ministry officials and budget agencies in their understanding as to how a programme based budget is to be developed and submitted to the Ministry of Finance.

II. MODERNISING THE BUDGET

This chapter on programme based budgeting aims at assisting the readers…

- To understand the broad concepts of line item budgeting, zero base budgeting and programme based budgeting (PBB);
- To understand the basic distinction between the traditional and programme based budget; and
- To understand basic programme based budgeting terminology.

By the end of this chapter, you should be able to…

- Discuss the basic objectives of a programme based budget,
- Discuss the compatibility of a programme based budget with budgetary line items which are less detailed than those found in a traditional budget.

A. Introduction

5. **Programme based budgeting aims to achieve two principal goals.** The first is to improve the prioritisation of expenditure in the budget – that is, to help allocate limited government resources to those programmes which are of greatest benefit to the community. The second is to encourage spending ministries to improve the efficiency and effectiveness of service delivery. In achieving these goals, a programme based budget also becomes an effective tool to help citizens understand the reasons behind policy decisions.

6. **Traditionally, line item budgets have been the predominant method of presenting government budgets.** As explained below, line item budgets allocate funds to types of inputs, usually based on a fairly detailed classification. While there are advantages to the line item budget, modern budget techniques include other elements in the budget request.

7. **Programme based budgets combine best practices such as programme budgeting and performance measurement in a medium term approach.** The principal advantage of PBB is that it helps to ensure that the budget clearly reflects government priorities, by making the purposes for which funds are being allocated more transparent together with the service levels anticipated for these activities. The development of programme based budgeting also helps to improve decision-making by providing better information on how well Government services meet the needs of its female and male citizens. The line item principle of allocations to types of inputs does not disappear under PBB. Rather, the line item classifications become less detailed, giving ministries some flexibility to shift funds between detailed input categories. At the broad level, however, input controls remain, and in this sense the PBB and line item budgeting approaches may be seen as complementary[1].

1 In a sense, PBB should be seen as a complementary approach to effective and transparent budgeting

8. **Combining a summary level line item budget with the elements from programme budgeting (identifying programme objectives) and performance measurement** in a medium term framework is a powerful combination for explaining and justifying the budget. It becomes a single mechanism for answering the basic questions of budgeting:

- What policy objectives do we want to emphasise?
- What services do we expect to provide to different population groups (e.g. women and men)?
- What outputs do we expect to deliver to the community?

9. **The style of budget gives decision makers and the public necessary information to make better choices about spending priorities.** It is also an enormous help in assessing the quality, quantity, and productivity of government programmes.

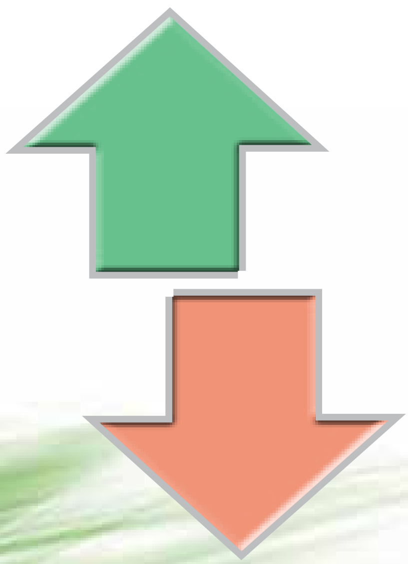
B. Types of Budgeting Systems

10. **Kenya has gone through various stages of budgetary reforms.** This has involved transformation of budgeting methods from incremental to programme (performance) based budgeting. This section examines the various budgeting methods including incremental, zero based, and programme (performance) based budgeting.

1. Line Item Budgeting

11. **Line item budgeting is associated with an input-oriented budget preparation process with detailed ex ante controls and well-defined appropriation rules (e.g. rules regulating or forbidding transfers between line items).** Within the budget, expenditures are often classified by organisation and economic object of expenditure (line-item). In brief, line item budgeting is defined as the process of adjusting the

Figure 1: Pros and Cons of Line Item Budgeting



Advantages:

- Analysis of budgets is relatively simple
- Budget generally stable
- Budget changes are gradual

Disadvantages:

- Inadequate justification for continuation or elimination of government spending
- Does not link government objectives to services delivered by government
- No accountability for results
- No incentives to reduce costs
- Ignores linkage with government policy

budget by a certain arithmetical factor regardless of outcomes. Figure 1 below, illustrates the primary advantages and disadvantages of line item budgeting.

12. **A line item budget provides a list of the types of goods and services each department will purchase followed by a cost estimate for each. Examples include wages and salaries, supplies, utilities, and capital outlay**. Some line item budgets are reported at very detailed object of expenditure levels. Other versions have various degrees of aggregation. Normally, however this budget type provides little explanation of why the money will be spent or what will be achieved. Department line item budgets provide a simple basis for allocating funding.

13. **A detailed line item budget shows how much will be spent on every type of expenditure a government budgetary organisation makes**. Primarily objects of expenditures such as salaries, materials and supplies, and goods and services are the basis for organising expenditures. Normally amounts spent on line items and staffing levels are described as budgetary inputs.

14. **At a basic level, all budget managers must be aware of input indicators.** If a budget manager does not monitor spending to remain within budgetary limits, then difficulties arise. Payment arrears (pending bills) may result so that vendors may have to wait for payment for goods and services. Accordingly, a certain type of performance measure (input measure) can reflect the progress of a government organisation with respect to spending in accord with its line item budget.

15. **In many governments, the line item budget and its natural counterpart, line-item control, allow little opportunity for flexibility.** Line item control establishes significant control on spending and only allows spending in accordance with the approved budget plan. Line item budgets are generally converted to detailed quarterly and/or monthly spending plans. Accordingly, financial procedures may make it difficult to deviate from the approved plan.

16. **Knowing how much the government spends for salaries, supplies, maintenance, and utilities does not reveal much about the actual delivery of services,** such as:
    - How many kilometres of roads are maintained?
    - What is the cost per kilometre of roads maintained?
    - What is the quality of education?
    - Do girls and boys have equal access to education?

17. To answer these questions, governments must prepare different kinds of information for the budget. The government needs to provide information to decision makers to focus the budget discussion on what government accomplishes.

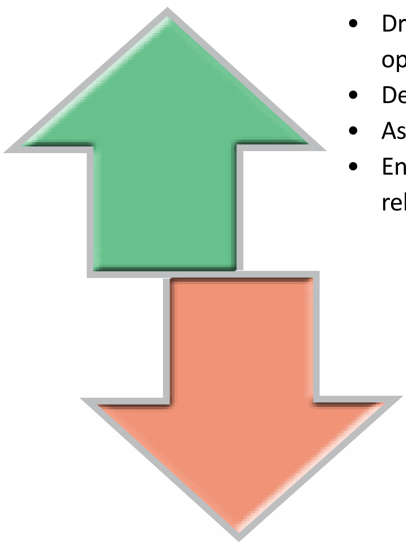
2. Zero Based Budgeting

18. **In the late 1970s, Zero Based Budgeting (ZBB) was introduced as an attempt to improve upon the drawbacks to purely incremental budgeting.** ZBB involves costing each activity, programme or vote from scratch every year. The zero based budgeting is not based on the incremental approach and previous figures are not adopted

as the base. Zero is taken as the base and a budget is developed on the basis of likely activities for the future period. A unique feature of ZBB is that it tries to assist management in answering the question, "Suppose we are to start our business from scratch, on what activities would we spend our money on and what would we give the highest returns?"

19. **In a purely Zero Based Budgeting system all programmes are evaluated each year and must be justified in each fiscal year as opposed to simply basing budgeting decisions on a previous year's funding level.** The fact that resources have already been granted to a programme does not necessarily mean that it should be continued. The ZBB approach is used for occasional expenditure reviews, but it is practically impossible to undertake each year for the preparation of the annual budget. Zero based budgeting is far too complex to undertake for an annual budget submission process. Figure 2 below, illustrates the primary advantages and disadvantages of ZBB.

Figure 2: Pros and Cons of Zero Based Budgeting



Advantages:

- Drives managers to find cost effective ways to improve operations
- Detects inflated budgets
- Assists in identifying wasteful and obsolete operations
- Encourage cost centres to identify their mission and relationship to overall goals

Disadvantages:

- Difficult to define decision units and decision packages
- Extremely time-consuming
- Budget agencies are forced to justify every detail related expenditure
- Requires a tremendous amount of training (training can be costly)

C. Structuring Information through Programmes

20. **Programme based budgeting is a way to structure the budget information to help decision makers choose among alternatives for providing services.** This approach addresses the following questions:

- What are we trying to accomplish?
- How will the goal be accomplished?
- How much will be spent to accomplish this goal?

21. **Performance budgeting is based on programme budgeting, but uses performance criteria as the basis for budget allocations.** It has advantages which are similar to those of PBB but allocations are based on the outputs that a ministry/department/agency wants to achieve. The main disadvantage is that lots of information is required.

22. **Combining a summary level line item budget with the elements from programme based budgeting (identifying programme goals and objectives) and performance measurement in a medium-term framework is a powerful combination for explaining and justifying the budget.** This manner of budgeting provides a method for organising government activities into programmes (activities or services with similar or related goals). By organising its activities in this way, governments can begin to identify alternatives for achieving each goal, to determine the costs and benefits for each alternative, and to select the alternative that they believe will maximise benefits.

23. **There are various methods used in the instructions for preparing the narrative justification portion of the programme budget.** For instance, most programme budget formats require a description of services, a statement of the programme's long-term goals, and some identification of short-term objectives (usually in the form of accomplishments expected in the next year). Some instructions also require citing the government orders or laws that established the programme, descriptions of important issues, and concerns, summary descriptions of implementation plans, etc. Countries have generally focused on developing their programme budget format to attempt to satisfy the information needs of decision makers rather than establish complete uniformity. The following sections will provide insight into how to design programmes and provide for effective programme (performance) indicators.

III. OUTCOMES AND OUTPUTS

This chapter on outcomes and outputs aims at assisting the readers to:

- Understand the key concepts of outcomes, outputs, activities (processes) and inputs (resources),
- Understand the distinction between high-level and intermediate outcomes,
- Understand the concept of "external factors" and how they influence the outcomes which are achieved by government interventions,
- Understand why in some cases different activities have to be identified in order to ensure that both women and men or girls and boys respectively have equal access to outputs and outcomes; and
- Understand the "results chain" (programme logic) under which inputs are used in activities to produce outputs which then result in outcomes.

By the end of this chapter, you should be able to:

- Have the foundational knowledge required to move on to properly defining programmes, which are formulated in terms of outcomes and outputs,
- Have the foundational knowledge necessary to move on to the appropriate definition of programme performance indicators,
- Avoid confusing outcomes and outputs, and
- Avoid confusing outputs and activities.

A. Introduction

24. **Programme based budgeting aims to improve the efficiency, effectiveness and equity of government expenditure.** To do this, it focuses particularly on *outcomes* and *outputs*. The starting point in developing an effective programme based budgeting system is therefore a clear understanding of these and certain related concepts. This is crucial because, for example, the programmes need to be defined, and programme performance indicators selected, in terms of outcomes and outputs.

B. Key Concepts

25. **"Outcomes" are changes which government interventions bring about on individuals, social structures or the physical environment** For example, literacy is an educational outcome; increased crop yields an outcome of agricultural programmes; and reduced crime of policing. It is to deliver outcomes to the community that government undertakes expenditure. Outcomes of public spending are often different for women and men. For example, in 2008 literacy rates in Kenya for adult men (+ 15 years) were 90% while literacy rates for adult women were only 83%. Several studies have also shown that crop yields of women and men differ.

26. **"Outputs" are the services delivered to, or for the direct benefit of, external parties in order to achieve these outcomes.** Examples of outputs

include: medical treatments; advice received by farmers from agricultural extension officers; students taught; and police criminal investigations. Outputs can be goods as well as services, but in practice most outputs delivered by government are services. We therefore use "services" as shorthand in this manual. Also, for example, when looking at "outputs", differences between women and men need to be taken into consideration. The different outcomes of women and men ("gender gaps") are often due to the fact that women and men do not have the same access to "outputs" or "services" such as medical treatment or agricultural extension services because of their different roles in society and different constraints.

27. **"Activities/processes" are the work processes used to produce outputs.** For example, some of the activities which contribute to the delivery of the medical treatments output are surgery, nursing, hospital cleaning, medical record keeping, and the dispensing of required pharmaceuticals by the hospital pharmacy. Other more general examples of activities are: the recruitment of staff, policy advice to the minister, and public consultations on proposed new public policies or plans. In some cases, different or additional activities are necessary in order to ensure that women and men have equal access to "outputs" or "services" (e.g. the provision of child care).

28. **"Inputs" are the labour, material, equipment, buildings and other resources which are used in activities to produce outputs**. The results chain presented in Figure 3 below (also known as "programme logic") summarises the process by which inputs are turned into outcomes. It is useful to expand a little on these key concepts, and in the process to deal with certain common misconceptions (see Figure 4).

Figure 3: Results Chain - Programme Logic

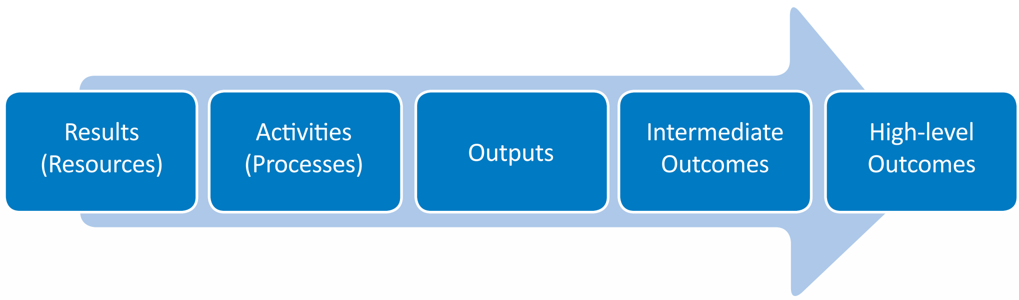
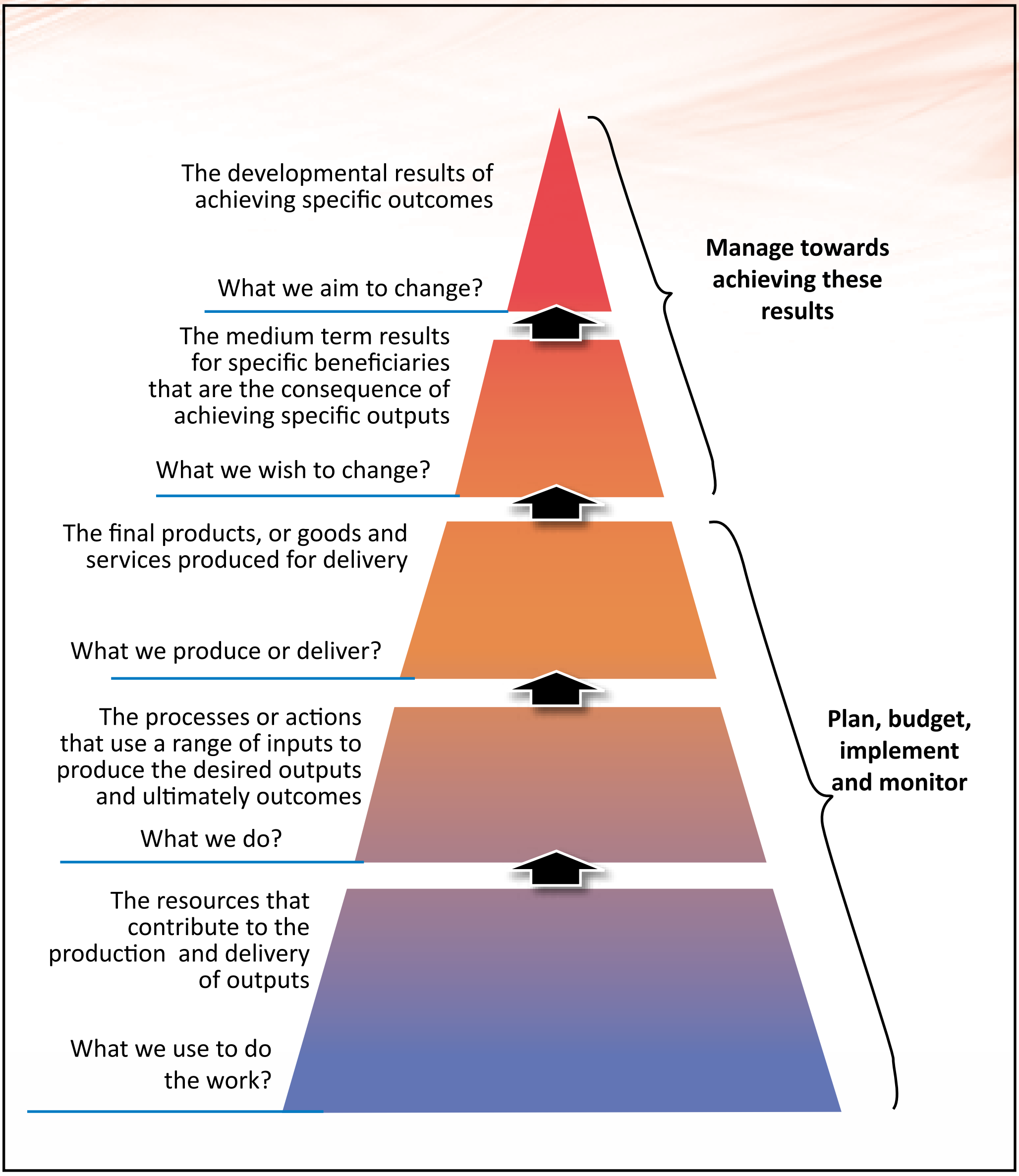


Figure 4: Key Programme Budget Concepts



C. Outcomes

29. A distinction is made between **intermediate outcomes** and **high-level outcomes**, where the former contribute to the achievement of the latter (See Figure 5 below). For example, student knowledge outcomes such as literacy and numeracy are intermediate outcomes of education. But they contribute also to the objective of building a stronger economy, which is therefore a high-level outcome of education (as well as of many other government services).

Figure 5: Intermediate and High Level Outcomes

The concepts of intermediate and high-level outcomes can be illustrated with the example of an anti-smoking awareness campaign based on television, radio and newspaper advertising. The campaign (which is an output – or more precisely, a group of related outputs) aims to reduce the incidence of smoking related disease (the high-level outcome) by using information about the health dangers of smoking to change people's behaviour (an intermediate outcome). As one steps up the hierarchy, each intermediate outcome describes an objective that the agency will need to achieve in the medium term in order to contribute to the high level outcome. In effect, each arrow should be read as 'which leads to'.

High level outcome:	Fewer people develop smoking related diseases
	↑
Intermediate outcome:	Fewer people smoking
	↑
Intermediate outcome:	Fewer people take up smoking
	↑
Intermediate outcome:	People view smoking negatively
	↑
Output (Service):	Awareness campaign on health dangers of smoking

As this example indicates, an output may have several intermediate outcomes. More generally, whether an outcome is intermediate or high-level is often a question of degree.

30. **So-called "impacts" are simply a type of outcome, and no distinction between impacts and outcomes is made in this manual.** Some people attempt to distinguish between outcomes and impacts.
    - For some, the distinction is based on time: if the outcome is only realised in the medium to long term, it is called an "impact", and if it is realised in the short term, it is an "outcome".
    - For others, the distinction is instead that between intermediate and high-level outcomes – what we call high-level outcomes are "impacts" and what we call intermediate outcomes are "outcomes".

31. **The problem with both of these approaches is that it is frequently unclear as to whether something is an outcome or an impact.** For this

reason, the term outcome is used in this manual in the most general sense, and includes longer-term and higher-level outcomes.

32. **Outcomes are the changes brought about by government intervention.** If the level of malaria falls for reasons which have nothing to do with government actions – because, for example, there is a drought which reduces mosquito numbers substantially – this fall is not a government outcome. Neither is it an outcome if the rate of economic growth increases substantially because, and only because, the world economy is very buoyant. Finally, if a student does well not because of good schooling, but because of extensive educational support from parents who in effect take over a substantial part of the teaching responsibility, the student's success is not a government outcome. Only to the extent that the fall in malaria, boost in the growth rate, or student learning is actually the results of government actions does it constitute an outcome. For instance, government can stimulate growth by eliminating inequalities between women and men with regard to education and access to agricultural inputs.

33. **Outcomes therefore need to be distinguished from the consequences of "external factors".** External factors are causes beyond the control of government which influence the characteristics of individuals, social structures or the physical environment which the government is trying to change. The level of rain is therefore an external factor impacting on the malaria rate. The state of the world economy is an external factor impacting on the rate of domestic economic growth. And the level of parental support is one of a number of external factors impacting on student learning. In assessing outcomes, the challenge is to distinguish the impact of external factors from that of the government intervention. Further, sometimes programmes/outcomes need to be changed in order to adapt to changed external factors.

D. Outputs

34. **Outputs are frequently confused with support services and activities, so it is important to clarify the difference.** A ministry's outputs are all of the services it delivers to parties external to the ministry. This means that not only services delivered to the community, but also any services delivered to other ministries or the government as a whole, count as outputs of the ministry providing the service. So when the Cabinet Office provides coordination services to the government as a whole, or the Ministry of Finance manages the budget, they are delivering outputs. This is the consequence of the definition of an output as a service provided by an organisation to an external party.

35. **A service which is delivered to a client within the same ministry is not an output, but a support service**. As previously noted, the Ministry of Agriculture delivers an output when one of its officers provides technical advice to a farmer. By contrast, when

the transport section of the agriculture ministry organises the transport for one of its officers to go and visit farmers, the service it provides is a support service rather than an output. Similarly, the human resources department of a ministry provides support services rather than outputs when it manages the filling of vacant positions and the promotion process.

36. **In understanding the nature of outputs, it may be useful to think about the analogy of a car manufacturing corporation.** The corporation's outputs – its *products* – are the cars which it sells to its customers (i.e. to external parties). No one would say that the services provided by the corporation's Human Resource (HR) department, legal department or design departments are the corporation's products.

37. **Another way of looking at this is that a service only constitutes an output if it is potentially capable of delivering a desired outcome.** Agricultural advice to farmers is capable of improving farming productivity. Transport services within the ministry cannot in themselves deliver a desired outcome – rather, they support the delivery of the outputs which can deliver outcomes. This statement must be qualified by saying that it applies only to outputs provided to the community, and not to outputs which ministries supply to other ministries or to the government as a whole.

E. Activities Are Not to Be Confused With Outputs

38. **Activities should not be confused with outputs.** Activities are work processes in the production of the output, and do not constitute outputs in their own right. Some examples can help to clarify the distinction.

- In a hospital, it is completed treatments of patients which are the outputs. By contrast, surgery, nursing, hospital cleaning, and medical record keeping are – as noted above – activities rather than outputs because they are components of the overall treatment provided to the patient, rather than the complete service. The patient cannot recover through anaesthesia or cleaning in isolation, and it is only via the combination of all the necessary activities that the complete service (the output) is delivered. ***This example illustrates that the key test of whether something is an output is whether it is potentially capable of delivering the intended outcome.***
- Bus driving is an activity, whereas passenger trips are the outputs. Similarly, teaching is an activity rather than an output, which is students taught. ***These examples illustrate that outputs are services received by external parties. This becomes important when a single activity delivers services to multiple clients – in other words, when that single activity delivers multiple outputs.***
- Sometimes **different or additional activities** are needed in order to ensure that both women and men have equal access to outputs and that outcomes are gender-equitable.

39. **Physical assets are inputs which are sometimes mistakenly thought of as outputs** – for example, the number of roads or bridges provided by government to the community. It is not the roads and bridges which are outputs, but rather the service which citizens get from these roads and bridges. This means that passenger miles travelled is an output measure while kilometres of road is an inputs measure.

F. Effectiveness, Efficiency and Equity

40. **Effectiveness, efficiency and equity are concepts which are based on outcomes and outputs.**

41. **Effectiveness means the extent to which an output achieves its intended outcome.** Education is effective if students learn. Policing is successful if it reduces crime. And agricultural advice to farmers is effective if it results in tangible improvements in the techniques used by farmers. The core aim of programme based budgeting – improved expenditure prioritisation – can therefore be said to be in part about ensuring that public money is spent only on programmes which are effective (or can with redesign or improved management, be made effective).

42. **Efficiency refers to delivering of outputs at low cost.** The lower the cost at which a service is delivered, the more efficient its production can be said to be – assuming the quality of the service is not sacrificed. Reducing the quality of the service to cut costs does not represent an improvement in efficiency.

43. **Equity refers to the extent to which programmes meet the needs of women and men, girls and boys across the nation.** The consideration of equity may considerably increase the effectiveness of public spending. Women, for instance, do the bulk of work in farming. If agricultural advice falls short of reaching women, an increase of agricultural yields will not be achieved to the extent possible.

IV. DESIGNING PROGRAMMES

This chapter on designing programmes aims to assist readers in …

- Formulating and developing ministerial programme budgets that are aligned with the national goals and strategies.

By the end of this chapter, you should be able to…

- Understand how to develop effective programmes; and to
- Prepare programme narratives and performance indicators.

A. Introduction

44. **Programmes bring together expenditures with a shared objective which, for most programmes, refers to the outcome which the programme aims to achieve.** As noted in the previous section, outcomes are changes which government interventions bring about on individuals, social structures or the physical environment. Thus, for example, a "preventative health" programme brings together a diverse range of outputs all of which aim at the outcome of reduced death and disability. These outputs might include:
    - Sanitation promotion publicity campaigns,
    - Safe sex awareness campaigns,
    - Awareness campaigns to encourage pregnant women to have recourse to reproductive health services,
    - Installation of notices warning people against swimming or washing in lakes or rivers with waterborne diseases,
    - Anti-smoking pamphlets distributed in public health clinics,
    - The spraying of water sources which breed malaria-carrying mosquitoes,
    - The distribution of information pamphlets on healthy eating practices.

45. **Similarly, a "vocational education" programme brings together a range of vocational education outputs** (formal courses, government support for apprenticeships etc.) which all aim to ensure that the skilled labour requirements of the economy are met (the outcome).

B. Formulating Programmes

46. **Programmes are groupings of outputs – that is, of services provided to or for the direct benefit of the community.** The outputs grouped together under a programme will often share not only a common intended outcome, but other common characteristics such as a shared mode of intervention or a common client group. For example, various outputs under the preventative health programme all seek to achieve reduced death and disability via preventative (as opposed to treatment) intervention. Similarly, a "crop industries" programme groups together services such as extension services, fertiliser subsidies and marketing support with a common target industry. In summary, programmes are in general based upon outcome and outputs. In brief, the programme is defined by the

shared outcome and other common characteristic(s) of the outputs which constitute it.

47. **There are limited exceptions to the principle that programmes are outcome and output based, of which the most important is "administration" programmes.** These exceptions are discussed below. Unless a programme falls explicitly into such a category, it is essential that it be defined as a grouping of outputs which share a common outcome.

48. **The number one objective of programme based budgeting is to help government allocate its limited financial resources to the areas of public services which will deliver the greatest benefits to the community.** Programme based budgeting is designed to turn the budget into a tool by which government can make and give effect to decisions about, for example, how much money is to be spent on preventative health versus health treatment services. It can only do this if programmes are defined as groupings of related outputs. Further, in order to ensure that both women and men benefit equitably from programmes it is important to take account their respective priorities and needs that may differ in some areas due to their different social roles and positions.

49. **Programmes cover all expenditure directed towards the programme objective.** This includes capital expenditure as well as current expenditure.

Table 1: Components of Programme Budgets

Programme Budget Component	Definition
Programme	• A Programme is a collection of related activities working toward a common purpose.
Subprogrammes	• A group of projects/activities under the same operational or development priority policy objective.
Projects/Activities	• The work that is done within a subprogramme over a specified timeframe. • A development project.

C. Designing Programme Titles

50. **Each programme must be defined by its title and its overarching programme objective.** What are the basic characteristics of a programme title?
    - Programme title should be short and informative.
    - Programme title should make clear the types of outputs and/or outcomes which the programme aims to deliver.

51. The programme's title should give an immediate idea of the programme's content by referring to the type of outputs, clients, or objective of the programme. **Examples of good**

programme titles are: "nature conservation", "crime prevention", and "adult education".

D. Programme Objectives

52. **Programme objectives should be explicit and brief. Ideally programme objectives should be succinctly stated in one sentence.** Programme objectives are often poorly defined. Oftentimes they are too wordy and unclear. It is not unusual to find programme objectives which focus entirely on the output (service) which the programme delivers to the public, or on programme activities/processes, with no reference to the intended outcomes.

53. **The overarching programme objective should indicate the key outcome(s) the programme seeks to achieve.** This is important not only for clarity in programme definitions, but also to provide a framework for the derivation of programme performance indicators and targets.

Figure 6: Defining Programmes - Best Practices

Examples of well-formulated programme objectives:

- "The conservation of biological diversity in healthy ecosystems" (Nature Conservation Programme);
- "Maintenance of territorial integrity and national independence" (Armed Forces Programme);
- "Increased foreign investment leading to technology transfer and a stronger economy" (Investment Facilitation Programme); and,
- "Reduced crime and greater security of persons and property" (Crime Prevention Programme); and,
- "Reduced violence against women" (Violence Against Women Programme)

Examples of incorrect approaches to defining programme objectives:

- "Provision of medical assistance to persons in an emergency" - refers only to outputs.
- "Manage the development, implementation, evaluation and maintenance of national policy, programmes and systems for general education and quality assurance" - refers only to activities.

54. **The programme objective should be formulated in such a way as to be relevant to the programme as a whole.** The ***programme objective*** is the overarching objective which all of the outputs (services) provided under the programme aim to achieve. By defining programme objectives in this manner, we do not refer to subordinate, more operational objectives which might be relevant to some programme outputs but not to all. Take, for example, the "nature conservation" programme example presented above. Amongst the operational objectives of this programme might be "save the lesser black-spotted pea duck" and "prevent desertification". Such

objectives are the focus of certain of the outputs under the nature conservation programme, but not of the programme as a whole. ***A good test of whether programme titles and overarching programme objectives are well defined is whether they make it obvious to which programme each of the specific outputs delivered by the ministry belongs.***

55. **Programme objectives must not be confused with programme performance indicators or targets.** In the example of the crime prevention programme presented above, "reduced crime and greater security of persons and property" is neither an indicator nor a target. Indicators are quantitative measures such as "burglaries/ population", "murders/population" or "rape cases/population", while targets state quantitative goals along with timelines for achieving these – e.g. "reduce the burglary rate by at least ten percent by 2020". It is crucial that all programmes have objectives upon which indicators and targets are based. The role of programme indicators and targets is discussed below.

E. Optimal Number and Size of Programmes

56. **Programmes are the level at which central decisions about expenditure priorities will generally be made.** This has two important implications when formulating the programme structures for ministries:

1. Creating one big programme is a mistake!

- In the Ministry of Education, for example, there should be a number of programmes such as primary education, secondary education and tertiary education in an education ministry than to have a single enormous education programme.
- **A programme classification based on giant programmes will be too crude to permit central decision makers to make the type of spending reallocations such as, for example, shifting money from tertiary education to primary education or from treatment health to preventative health.** Expressed differently, programmes should capture the distinct dimensions of the role of each ministry so as to permit central decisions about where the ministry's principal efforts should be directed. Of course, for small ministries with narrowly-focused missions, a structure with a single programme may be appropriate.

2. Too many small programmes should be avoided.

- Because central decision makers need to concentrate primarily on expenditure priorities between programmes, a proliferation of very small programmes runs the risk of unnecessarily complicating the central budget preparation process.

Figure 7: Rules Regarding Number and Size of Programmes

The following rules should be applied by line ministries in developing programmes:

1. Ministries should, in general, not allocate all of their expenditure to one large programme.
2. No ministry will, without approval from Treasury based on special circumstances, have more than 5 programmes (including an administration programme); and,
3. In cases where a ministry has more than 5 programmes, no programme should represent less than 15 percent of a ministry's total expenditure.

F. Programme Narratives

57. **To achieve its aim of improved expenditure prioritisation, an effective programme based budgeting system must bring information on the performance of programmes – that is, on their success in achieving their intended outcomes and outputs and in reaching out to various population groups (e.g. women and men) – together with information on their cost.** This enables budget decision-makers to make better judgments about whether programmes should be cut, expanded, maintained or revised.

58. **Putting cost and performance information side by side is important in the budget preparation process.** Political decision-makers – the Cabinet, the President and the Cabinet Secretary for Finance – should receive succinct briefings on programme performance when deciding budgetary funding allocations.

59. **Parliament and the public should be kept informed via programme statements presented with the budget documents which accompany the annual budget legislation**. Programme statements should include the following information for each programme:

- Title and objectives,
- List of the main outputs (services) which comprise the programme,
- List of main development (capital) projects falling under the programme,
- A brief narrative outline of programme strategy (i.e. the relation between programme outputs and the programme outcome) and challenges
- Key programme performance indicators,
- Programme expenditure estimates, preferably with medium term projections, and,
- A breakdown of programme expenditure by broad categories of economic classification (staff, capital etc), for information purposes.

60. **The specific content of the programme statement in respect to a number of these elements is discussed in more detail in subsequent sections.** One way of presenting this material is for each ministry to prepare a document containing all of its programme statements to be made available to parliament as an annex to the budget documents. The Ministry of Finance will provide a standardised format for these documents.

61. **In designing programmes, the structure should correspond to main lines of service delivery and mandate performed by the ministry/department/agency.** Each programme should be confined within a single ministry/department/agency and all ministerial functions should fall within programmes. There should be no activities or functions which are not assigned to respective programmes or crosscutting across ministry/department/agency. Each programme should have a distinct name which provides a brief description of the main objective of a programme. Care should be taken to avoid replication of programme names used by other ministries/departments/agencies.

62. **Some programmes are large and complex, involving a diverse range of outputs.** To accommodate the ministry's explanation of their programmes, programme managers may chose to further divide a programme into two or more subprogrammes, as discussed below. Programme based budgeting is a flexible budgeting approach that allows officials some discretion to define their programmes and subprogrammes. In addition, the programme based budgeting approach requires narrative explanation of programmes and subprogrammes.

63. **Subprogramme budget narratives require the same key elements as programme narratives** defined above, including but not limited to:

- Subprogramme description,
- Key objective for each goal,
- Key gender inequalities that are relevant in the sector that the subprogramme is addressing, and,
- Primary performance indicator for achieving each goal.

G. Programme Budget Narratives Quality Assurance

64. **During the process of programme budget documents preparation, and upon receipt of the programme budget narratives from line ministries (budget users), MoF Budget Officers should analyse the work for consistency with the Programme Budget Manual and Budget Circular on guidelines and requirements.** Budget Officers should undertake this analysis using a checklist of questions (against key criteria in terms of compliance with basic programme budget requirements, ministry's area of responsibility and Kenya Vision 2030 specific objectives and benchmarks) as defined in Annex B.

H. Management and Administration Programmes

65. **Most programmes are based on outputs and outcomes. As such, programme objectives should refer to the intended outcome of the programme.** This is true for the great majority of programmes which deliver outputs directly to, or for the direct benefit of the public. However, there are some programmes which are not focused on delivery of outputs to the public but instead on support activities – that is, on internal service provided to government itself. Such programmes are generally referred to as "administration" programmes. However, the same point applies to some of the programmes of certain

central ministries which support government as a whole. Such programmes constitute an exception to the rule that programme objectives should be outcome-oriented.

66. **In cases where a ministry/department/agency has more than one programme, a third programme covering planning, policy and administration should be created to cater for overhead costs which cannot be attributed to only one programme.** Such a programme should be confined to common services such as general administration, financial services, accounting, internal audit, procurement, planning services, human resource management and IT services which are not programme specific in nature.

67. **A ministry's "administration" programme groups together internal ministry support or "overhead" services.** What these all have in common is:
- They deliver services not to the external clients but to the rest of their organisation; and,
- They support multiple programmes.

68. **Administration programmes are used for a purely practical reason – to avoid the need to allocate all overhead expenditure between the multiple outcome and output based programmes which they support.** The accurate allocation of such support costs – "indirect costs", as accountants refer to them – is a demanding management accounting exercise which most countries do not find worthwhile to attempt.

69. **The support services covered by administration programmes should be only those which support two or more programmes.** Any support service expenditure which is focused on only one programme should be included within that programme, and not within the administration programme. For example, if in addition to the education ministry's human resources directorate there is a separate group which provides HR services exclusively to the primary education system (e.g. managing recruitment, promotion etc of primary school teachers), the latter group should be part of the primary school education programme and only the ministry-wide human resources group would be included in the ministry's administration programme.

70. **Salaries of staff in organisational units which are devoted entirely to a single programme should be allocated to that programme.** For example, if there is a secondary education department within the Ministry of Education, the remuneration of all officers who belong to that department should be part of the secondary education programme.

1. One Administration Programme per Ministry

71. **There should be only one administration programme for each ministry.** The use of administration programmes is a pragmatic choice. Administration programmes do not help central budget decision-makers in making decisions about priorities in respect to the types of services to be offered to the public. There is therefore no advantage in fragmenting the administration programme into, say, an IT and communications support programme, a ministry financial management programme and the like.

72. **In small ministries/departments with a single programme, there is no need for an administration programme.** For example, the Ethics and Anticorruption Commission quite appropriately has only one programme – an "anticorruption" programme. Given that all of the Commission's support services support this single programme, the difficulties associated with their possible allocation between several programmes do not arise. The pragmatic reason for introducing an administration programme therefore does not exist.

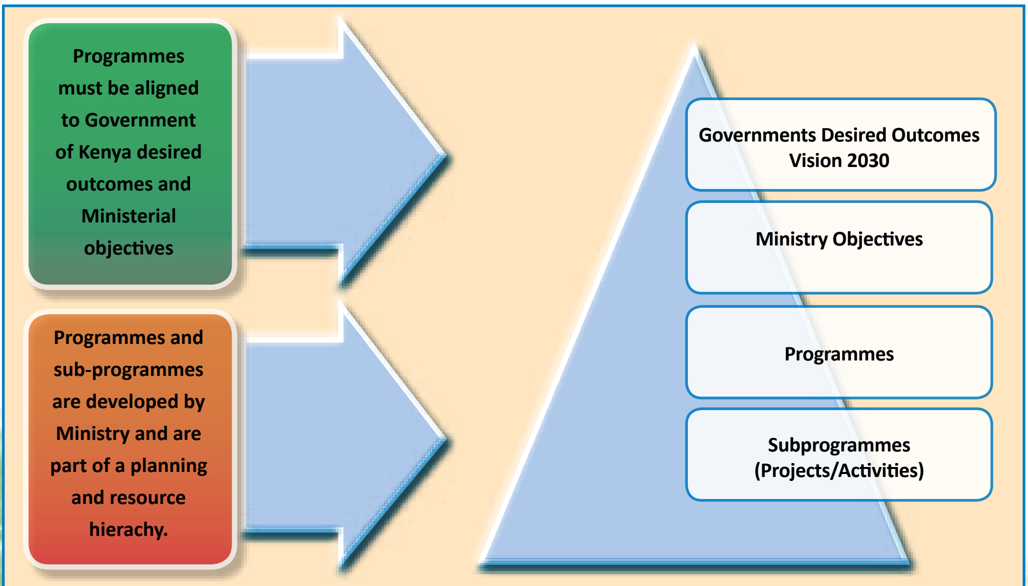
73. **Some programmes in central ministries which provide support or coordination services to government are also exceptions to the rule that programmes should be outcome and output based.** For example, the Kenya Cabinet Office has a "Cabinet Services" programme, the objective of which is "to facilitate efficient and effective organisation of Government Business and communication of policies". As this example shows, such programmes will in general have programme objectives which do not refer to outcomes.

74. **To take another example, suppose there is a government agency which has a programme which manages the provision of office accommodation to government ministries.** The objective of such a programme would be something like "ensuring that the needs of government ministries´ agencies for appropriate premises are met in a timely fashion" – which is not an outcome because it does not refer to changes which government interventions bring about on individuals, social structures or the physical environment. This is unavoidable because the service involved does not directly deliver outputs to the community.

2. Linking to Strategy and Programme Hierarchy

75. As illustrated in the following diagram, programmes are a part of a planning and resourcing hierarchy.

Figure 8: Programme Hierarchy



76. **Through this hierarchy, it is possible for budget implementers to assess the likely effectiveness of programmes as clear linkages can be made between the subprogrammes and programmes and among programmes**. Once the budget is executed and the ministries report against their programme goals and objectives, assessments can be made of the effectiveness of the programmes, and this assessment can provide guidance to the allocations required in the next budget.

77. **Efficiency assessment is also facilitated by the programme hierarchy.** Where a ministry's programme is similar in nature to programme(s) in any other ministry, the opportunity exists for benchmarking between ministry's programmes. This is particularly the case in the administration programmes that will appear in each ministry's structure. For the benefits of this to be achieved, it is important that these programmes cover the same functions and activities in each ministry.

I. Programmes and Ministry Boundaries

78. **Programmes do not cross ministry boundaries. Each programme should be unique to a specific ministry.** This is necessary because, under a fully developed programme based budgeting system, the budget is approved and allocated to programmes and it is essential that each ministry knows clearly what its budget allocation is. If money were allocated to a programme which was shared between two or more ministries, without further specification, there would inevitably be disputes as to the amounts which each of the relevant ministries could draw from the programme allocation.[2]

79. **Independent commissions and similar bodies with budgetary autonomy are also to be given their own programmes.** The vote structure of the Printed Estimates is essentially based on ministries. Most of the "heads" and "sub-heads" under the votes in the traditional Estimates structure refer to directorates and similar internal organisational units with the relevant ministry which, because they are internal units of the ministry, do not manage their budgets autonomously, but are part of the ministry's overall budget. However, many ministries have associated with them independent commissions or similar bodies that have autonomous budgets. Where this is the case, such bodies should be associated with one or more programmes which are uniquely theirs.

80. **The move to a programme based budgeting system should provide an impetus to review and clarify ministry responsibilities in order to eliminate inappropriate duplication.** Such duplication becomes much more apparent in the development of programme structures. It is not essential that administrative reorganisation takes place immediately at the time of introduction of a programme based budgeting system. To require this might

2 However, some outcomes can only be achieved if the programmes of different ministries are coordinated. For example, in the case of a programme "Violence against Women" the Ministry of Gender, the Ministry of Communication, the Ministry of Justice and the Ministry of Health need to be involved. Under these circumstances it would be necessary to coordinate how to achieve a successful outcome using the resources from all the four ministries.

cause reform overload. However, the assignment of ministry responsibilities should definitely be reviewed over the medium term after the move to programme based budgeting.

J. Programmes and Ministry Organisational Structure

81. **To keep things simple, each major internal organisational unit ("sub-head" in the traditional budgeting framework) with each ministry will be assigned to one programme and within that, one subprogramme.** This section describes how this will work in respect to programmes. The next section discusses subprogrammes.

82. **Alignment between the internal organisational structure of ministries and their programmes is desirable.** If a single department within a ministry is responsible for a programme, managerial responsibility for the effectiveness, efficiency and equity of the programme is clear-cut. This would be the case, for example, if the education ministry had a "primary school", "secondary education" and "tertiary education" programmes and primary school, secondary and tertiary education departments to manage each of these programmes.

83. **Internal ministry organisational structure may not fully correspond to an ideal programme structure based on outcomes and outputs**. Organisational structure will correspond to programme structure to the extent that organisational structure is along "product" lines – that is, organised in terms of major types of services delivered to or for external parties – as in the education ministry example just cited. The existence of organisational units which provide ministry-wide support services is the most common reason for this, and justifies – as discussed above – the creation of administration programmes. However, organisational structures sometimes diverge from the "product line" basis in other ways. Thus:

- A ministry may have regional units which deliver a range of services which relate to two or more programmes. An environment ministry might, for example, have separate conservation and anti-pollution programmes, with separate headquarters directorates managing these programmes. At the same time, however, it might have regional units which deliver both conservation and anti-pollution services.
- The Ministry of Education might have separate primary and secondary education programmes, but at the same time have a single inspection directorate, responsible for quality inspections of both primary and secondary school teachers (i.e. the work of inspectorate who visit schools and observe/monitor the work of front-line teachers).

84. **In order to deliver the programme based budgeting goal of improved expenditure prioritisation, it is essential that programmes be based as far as possible on results – outputs and outcomes – and not functions or some other criteria** (e.g.

organisational units). Inspection of teachers is not an output - rather one activity supporting the provision of the educational service (output). It is therefore inappropriate to create a "quality" programme corresponding to the inspection directorate. Creating a regional services programme in the environment is wrong because, even though the regional services are delivering outputs, the outputs are a diverse group without a common shared outcome.

85. **Programmes should therefore not simply be based on the existing internal organisational structure of the ministry.** To force the programme structure to conform to internal organisational structures in all cases would be to establish an organisational rather than a programme classification of expenditure.

86. **In principle, the expenditure of organisational units such as regional service delivery units should be split between the several programmes in respect to which they provide services.** In practice, however, such cost allocation is difficult to do, just as it is difficult to do for the cost of internal support services. Quite sophisticated management accounting systems would have to be developed. For this reason, consideration of the possibility of splitting the costs of organisational units which deliver services under multiple programmes will be deferred till the future. In the meantime, a more practical approach will be followed.

87. **Any directorate or other major organisational unit which serves multiple programmes will be allocated to the "administration" programme, irrespective of whether or not its role is internal support services.** This approach will ensure that no such directorate or other major organisational unit will be split between several programmes, while at the same time avoiding a "programme" structure built around the existing organisational structure rather than outputs and outcomes.

88. **A single programme may cover two or more directorates or similar major organisational units.** This would be the case where a number of directorates provide closely related services contributing to a common outcome. However, it is wrong to think that every directorate has a right to its "own" programme. Directorates and other major internal organisational units like to have their own programmes because it gives them clear budgets which belong to them alone. Such an approach leads to an organisational structure rather than to a true programme budget. If two or more directorates serve the same public policy objectives, they should be part of the same programme rather than separate.

89. **The move to programme based budgeting should be accompanied by a review of internal organisational structures within ministries to make them more results-based. The alignment of ministerial organisational structure may be considered over time.** Restructuring more along "product" lines will unify the chains of command at the organisational unit and product levels. Naturally, it cannot be expected to bring programme and organisational structures completely into line. Many ministries will need, for example, to operate regional service centres which deliver multiple programmes.

90. **The budget allocation consequences of the relationship between programme structure and internal ministry organisational structure are discussed further in the section on budget appropriations and execution.** Simply stated, it is necessary for ministries to translate programme based budgets into organisational unit budgets. Only in this way is it possible to ensure that programme allocations set by Parliament will be respected during budget execution. Since the approach outlined above ensures that no major internal organisational unit will be split between several programmes, the only issue which will arise is that of programmes which cover two or more directorates. Under these circumstances, it will be necessary that the ministry concerned allocate the overall programme budget between those organisational units during budget execution.

K. Developing Hierarchal Subprogrammes that Roll-up To Programmes

91. **Programmes are broken down into "subprogrammes".** All programme expenditure must be allocated to one or another of these subprogrammes, so that the sum of all subprogramme expenditure equals total programme expenditure.

92. **In the Kenyan system of programme based budgeting, there are only two levels – programmes and subprogrammes – to the programme hierarchy.** Some other countries have third or even fourth levels (i.e. sub-subprogrammes and sub-sub-subprogrammes). This adds considerably to the accounting complexity without being of substantial budgeting or managerial benefit.

Figure 9: Examples of Subprogrammes

A nature conservation programme might be composed of subprogrammes such as:

- Protection of endangered fauna;
- Anti-deforestation;
- Identification and protection of habitats of special conservation value; and,
- Nature conservation management.

An administration programme might be composed of the following subprogrammes:

- Human resources;
- Information technology and communication services;
- Provision of child care facilities for staff; not sure about that bullet. It pretty advanced even for western standards...
- Accounting and financial management; and,
- Health services to ministry staff (including AIDS/HIV prevention)

93. **Subprogrammes are used primarily for internal management within the ministry or agency concerned.** As explained later in this manual, the Parliament will legally appropriate at the level of vote and programmes. This will leave executive government free to vary the allocation of expenditure between subprogrammes in each programme during budget execution.

Subprogrammes represent a level of disaggregation of expenditure which is in general too detailed for the central decision-makers to either focus on during the budget preparation process (although they take subprogramme information into account in deciding programme allocations).

94. **Exactly the same programmes are to be used in the Development Budget as in the Recurrent Budget.** Programme based budgeting requires that an integrated view be taken of all expenditure on particular policy objectives.

95. **To keep things simple, subprogrammes will be based on the organisational units within the programme.** This is to ensure that each major internal organisational unit corresponds to one and only one subprogramme.

96. **In principle, subprogrammes should be defined along the same output and outcome principles as programmes.** In other words, they will constitute groups of the outputs (or, in the case of administration programmes, support services) within the programme as a whole which have a common objective and possibly, other shared characteristics.

Figure 10: Subprogrammes Based on Outputs and Outcomes

Many subprogrammes are like programmes: groups of outputs with common characteristics. Consider an "anti-deforestation" subprogramme within the nature conservation programme. This subprogramme would comprise a number of individual outputs designed to counter deforestation, such as:

- Enforcement of laws against inappropriate logging;
- Replanting initiatives in deforested areas; and,
- Information campaigns designed to build public understanding of the importance of protecting forests.

Each of these outputs shares the specific, intended outcome of reducing deforestation while - at the same time - sharing the overall programme objective of conserving nature more generally.

For a contrasting example of the type of common characteristic which might define subprogrammes, consider a ***"crops industry"*** programme with subprogrammes based on sectors of the crops industries – e.g. a cereals subprogramme, a vegetable production subprogramme and an arboriculture industries programme. These subprogrammes do not differ in terms of their specific outcomes – they have a common objective that is the same as the overall programme objective. Rather, what distinguishes the subprogrammes is the sector upon which they are focused.

97. **Insisting that subprogrammes always be based on outcomes and output would create the same conflicts between organisational structure and programme structure.** It would become necessary to split the costs of some "sub-heads" between two or more subprogrammes. This, as previously noted, would be unnecessarily complicated. For this

reason, each major organisational unit ("sub-head") within a programme will constitute a subprogramme. For example, a police ministry with a "criminal investigations" programme within which there is a forensics department would create a "forensics" subprogramme.

98. **Subprogrammes should not be defined in terms of other criteria such as the economic classification of expenditure.** It would, for example, be a mistake to have a "teachers' salaries" subprogramme within the primary education programme (as occurred in another country).

99. **Administration subprogrammes should be used to cover any overhead costs which are specific to a programme** rather than to the ministry as a whole. For example, any senior management or support staff who work for the whole nature conservation programme rather than specifically for a subprogramme such as anti-deforestation.

L. Programmes and Development Projects

100. **Programmes and subprogrammes are not the same thing as projects, and the two should not be confused.** Most projects are time-bound: that is, they are intended to operate only for a defined time period. This is particularly the case with capital projects such as the construction of a major airport. By contrast, programmes and subprogrammes will generally be based on objectives and services which will endure indefinitely. This means that time-bound projects should be placed under the relevant long-term subprogrammes and programmes. Thus, a specific airport project might properly be placed under the "air transport infrastructure" subprogramme of the "transport infrastructure" programme.

M. Role of Programme Manager[3]

101. **The responsibilities, authority and accountability of each programme manager should be established with a clear job description.** Programmes and subprogrammes should be headed by senior management and where appropriate may be headed by officials at mid-level management levels. While the job description will vary in detail and technical content from programme to programme, or ministry to ministry, it should include several fundamental elements, including:
    1. **Coordinate the preparation and appropriation of the programme.** This includes development of the targets for performance delivery for the near and medium terms. The programme manager must also establish realistic priorities with the programme's activities and ensure that the delivery of public services is defined by clearly specified outputs.
    2. **Prepare annually a multi-year rolling programme budget.** The programme manager must provide a multi-year programme budget with an appropriate cost allocation by economic object. In collaboration with the Budgetary Supplies Department,

3 This section is derived from several primary sources including Republic of Mauritius "Manual of Programme-Based Budgeting (PBB)" Pg. 10; and Government of Georgia "Methodology for the Introduction of a Programmatic Approach to Budgeting".

the programme manager must also supervise and maintain records of the assets used for the implementation of the services. The programme manager is also responsible for programme expenditure and cash flow management;

3. **Authority to vire funds.** The programme manager must have authority to vire (transfer) funds appropriated for the programme between subprogrammes and activities within the rules defined by the PFM Act;
4. **Coordination of monthly/ quarterly/annual financial and performance monitoring reports.** The programme manager is responsible for coordinating the production of financial and performance monitoring reports related to the programme/ subprogramme during the fiscal year. The monthly performance reports should serve as an early warning system aimed at measuring the performance of activities during the appropriate reporting period. The programme manager should consult with senior officers responsible for financial management in the ministry with respect to all issues relating to the financial management of the programme. The programme manager is also responsible for contributing to the preparation of the annual budget and any adjustment budget submission;
5. **Supervision and development of Staff within the programme.** The programme manager is responsible for supervising and developing programme staff and is accountable for timely and efficient delivery of services within the programme. The programme manager is expected to participate and actively contribute to the work of the relevant programme area linked to the ministry and programme, including the execution of tasks assigned as a member of any internal programme committees and reporting back to the senior management of the ministry; and
6. **Provide all relevant information and specific reports on programme activities.** The programme manager is expected to provide all relevant information when officially requested either by the concerned ministry or the Ministry of Finance.

N. Summary

102. **Appropriately defining programmes is of critical importance if programme based budgeting is to achieve its objective of improving expenditure prioritisation.** The nature of each programme needs to be made as clear as possible through an appropriate title, clearly formulated objective, and the identification of the key outputs which fall under the programme. With the limited exception of support and coordinating service programmes, programme objectives should be formulated with reference to the programme's key outcome(s). Outcomes are the anchor which links programme budgeting to strategic (including national) planning.

103. In order to define outcomes, outputs, and activities that will benefit female and male citizens equitably it is crucial to understand the different situations of women and men, or girls and boys, respectively, and their different needs and priorities in a given area/sector.

104. **Programmes should be specific to ministries, rather than shared.** Within ministries, programmes should not be simply selected to fit with the pre-existing organisational structure. They should, rather, be results oriented and the organisational structure reviewed, if necessary, to make it also more results oriented. There needs to be consistency in the approach taken by spending ministries to the programme classification. Leadership by the MoF is critical. This does not, however, mean that MoF will dictate the choice of programmes. Rather, the process will be a collaborative one.

Designing Programmes: A Checklist

In developing programmes, the following rules should be applied:

- Programmes should – with the exception of management programmes – be defined as groups of outputs with a shared outcome;
- Programme titles should be short and give an immediate idea of the type of output and/or outcome which the programme delivers;
- A short statement of programme objective must be developed for each programme. Except in the case of management programmes, this should refer to the (intermediate) outcome which the programme aims to achieve;
- Ministries should as a rule have no more than 5 programmes without approval from Treasury;
- Other than in the case of small ministries with a narrow mission, it is a mistake for ministries to have only a single programme;
- No programme should, as a rule, account for less than 15 percent of the ministry's expenditure;
- The different situation of women and men as well as their differing priorities and needs should be taken into consideration;
- The management programme groups together the support services of the ministry, which are not outputs because they are services provided to internal ministry clients;
- Ministries should have one and only one management programme. The sole exception is small ministries with a narrow mission which appropriately have only one programme;
- Programmes should be unique to ministries – i.e. there must not be any programmes which are shared by two or more ministries;
- Organisational units at sub-head level should be aligned with programmes to avoid messy cost allocation; and
- Any organisational units within the entity which deliver a wide variety of different types of outputs (e.g. a regional service delivery centre), and which cannot therefore be readily aligned to a single programme, should be placed within the management programme.

V. MEASURING PROGRAMME PERFORMANCE

This chapter on programme budgeting aims at assisting the readers to:

- Understand the nature of indicators, and targets;
- Understand the distinction between output and outcome indicators, on one hand, and activity and input indicators on the other hand;
- Understand the four types of indicator which are to be developed for programmes – effectiveness (outcome), output quantity, output quality, output efficiency, and output equity;
- Understand that performance indicators provide a running check on whether programmes meet their objectives and work towards goals; and
- Understand what is meant by gender-sensitive indicators and why it is important to define targets separately for women and men wherever it is possible.

By the end of this chapter, you should be able to:

- Avoid confusing indicator with objectives;
- Avoid confusing targets and indicators;
- Select appropriate programme performance indicators, focusing on programmes outputs and outcomes;
- Define gender-sensitive indicators; and
- Avoid the mistake of using operational indicators of activities and inputs as programme indicators.

A. Introduction

105. **The Ministry of Finance (MoF) will increasingly use performance information to help in decisions on the allocation of resources to priorities.** A Ministry's programmes and outputs should be targeted toward achieving the results envisioned in Vision 2030. Performance measures should:
    - Measure the outputs (services provided by and to whom) of the programme;
    - Directly relate to strategic (i.e. programme) and operational objectives;
    - Measure the same thing over time, to enable the analysis of trends and progress achieved;
    - Use information that is easily understood and affordably collected;
    - Disaggregate information wherever applicable by sex (women and men); and
    - Provide information useful to programme managers to manage and improve programme performance.

106. **Ministries will be required to develop for each of their programmes a minimum of five high quality key performance indicators.** These indicators must be ones which are useful for the general public and for budget decision makers in making decisions about levels of programme funding and in holding programmes to account for results delivered to the community. Ideally, programmes should seek to develop at least one of each of the following types of programme indicator:

- Outcome indicator;
- Output quantity indicator;
- Output efficiency indicator;
- Output quality indicator, and
- Output equity indicator.

107. It is, however, recognised that for some programmes, it will not be possible to develop meaningful indicators for all of these five categories. Wherever it is possible, information about indicators should be collected for women and men separately.

B. What is a Performance Indicator?

108. **Performance indicators are quantitative measures which provide information on the effectiveness, efficiency and equity results of programmes and organisations.** There is no difference between a performance indicator and a performance "measure".

Table 2: Performance Indicators

Type of Indicator	Definition	Example
Effectiveness (outcome) Indicator	The degree to which the intended objective of the service is being met.	• Percentage increase in employment (for women and men) • Literacy rate of young females/young males at age 15. • Percentage decrease in crime rate (by women and men)
Output quantity indicator	Quantity of Service Provided	• Number of female and male students taught • Number of women and men served
Equity indicator	Gender equity	• School enrolment rate of girls as percentage of total enrolment rate and/ or as a percentage of male enrolment rate
Output Quality indicator	Quality of the service provided	• Client satisfaction rate (by female, male)
Output efficiency indicator	Cost per unit of output	• Cost/litre of water delivered to household • Cost per vaccination • Average staff time taken to process visa application
Activity indicator	Indicator of internal work processes	• Number of staff positions filled Number of policy statements developed
Input indicator	Measure of Resources Employed	• Equipment Needed • Employees Required • Supplies Used

109. **It is crucial not to confuse performance indicators with objectives or with performance targets.** An objective is a statement of what one is trying to achieve – for example "Reducing death from HIV/AIDS". By contrast, a performance indicator is quantified (e.g. "the percentage of the women and men who are HIV/AIDS positive", or "the number of women and men dying annually from HIV/AIDS").

110. **A target goes one step further and sets a precise aim to be achieved by a specific date.** In some areas, statistics reveal differences between women and men, e.g. with regard to adult literacy rates, salaries, or the incidence of HIV/AIDS. With the aim to reduce these differences between women and men and to close the gap, targets should be set separately for women and men in those areas where these gaps can be observed (e.g. "reducing the percentage of HIV/AIDS of women by at least 40% and of men by at least 30% by 2030"). The following are examples of supposed programme "performance indicators" presented in the Indicative Programme Based Budget 2009/10 – 2011/12 (IPBB 2009/10) programme based which are in fact targets, objectives or something else.

Table 3: Examples of Programme Performance Indicators

Supposed Indicators	Which is really a/n...	What a true indicator would be
Student textbook ratio (TPR) of at least 1:3 for lower primary and 1:2 for upper primary in all primary schools	Target	Student/textbook ratio
Prompt response to serious incidents affecting security especially cattle rustling.	Objective	Average time taken for police to initiate enquiries re cattle rustling events.
1,200 community groups assisted with grants this year	Target	No of community groups assisted with grants
Gap analysis report on the UNCAC and AUCPCC prepared	Activity	No of reports prepared
Reduction of delays in court rulings/awards (on election petitions) by 20%	Target	Average time taken till court ruling/award
Timely payment of 3500 teaching staffs in Public Technical Institutions.	Objective	Average delay (beyond due date) in payment of public teacher salaries

C. Selecting Key Programme Performance Indicators

111. **Outcome and output indicators are the most useful ones for the programme budget.** For the purposes of programme based budgeting, the indicators which are of most value are those which are most useful to budget decision-makers in determining appropriate programme funding levels. This means indicators of the

results achieved by programmes – the outcomes that they achieve and the outputs which they deliver to achieve these outcomes. These are the types of indicators which are also of greatest interest to the general public – because they provide information on the level of service being provided to the public, and the effectiveness and efficiency of these services.

112. **Wherever applicable, information about output and outcome indicators should be collected and analysed separately for women and men.** In some cases it may also be useful to measure if the gender gap in a specific area has been reduced or increased and therefore, to define gender equity indicators. Examples for gender equity indicators are, for instance the Millennium Development Goals (MDGs) 3-related indicators (ratio of girls to boys in primary, secondary and tertiary education; ratio of literate females to males of 15 to 24 years-olds; share of women in wage employment in the non-agricultural sector; proportion of seats held by women in national parliaments).

113. **Activity and input indicators are mainly for internal use rather than for the programme budget.** Because key programme performance indicators are intended to aid budget decisions, the indicators developed by ministries for the programme based budgeting will be different from indicators used for other purposes. In particular, indicators of internal processes, capacities and resources of the ministry – that is, activity and input indicators – are in general only useful for internal ministry management.

Figure 11: Indicators Which Should Not Be In the Programme Budget

The following are examples taken from the IPBB 2009/10 which represent indicators that are appropriate for internal management use, but should be excluded for use as indicators for programmes.

- Number of management training programmes mounted by 30/06/10;
- Number of feasibility studies prepared;
- Increased salary for Job Groups "C-L";
- Number of policies reviewed;
- Number of consultation meetings held; and
- Number of internal positions filled.

114. **The objective of the programme based budget is to focus attention on the outputs and outcomes which the budget delivers to the community, not on internal activities which may or may not result in benefits to the community.**

D. Limiting the Number of Indicators

115. **Many programmes can and should develop more than five key indicators.** Five is a strict minimum, and many programmes may develop, say, six or even, in a few cases, up to ten or so

key performance indicators. However, there should never be dozens of key programme performance indicators. To be useful to budget decision-makers, who invariably have great demands on their limited time, it is also important to restrict the number of performance indicators to a limited number of key ones. The fact that only a handful of key indicators are used for programme based budgeting purposes does not mean that these are the only performance indicators which ministries will develop. But it means that the larger set of indicators will be more for internal use than for inclusion in the programme based budget documents.

E. Developing Outcome Indicators

116. **The development of more outcome indicators should be a key focus of performance indicators development by ministries in the coming years.** In general, there are far too few such indicators available at the present time. In education, for example, the most important indicators to develop are indicators of literacy and numeracy of female and male students at key stages in their school careers. In health, the IPBB 2009/10 made use of only one outcome indicator – the clinical incidence of malaria.

117. **For a small minority of programmes, the development of outcome indicators will not be possible.** Thus, it is usually not possible to measure – even approximately – the outcome of a defence programme since countries are only rarely at war and the level of national security in peacetime is not measurable. The outcomes of a foreign diplomacy programme are also impossible to measure. However, these are the exception, and for this type of programme there is no choice but to rely entirely upon output measures. It is expected that most programmes will, over time, develop outcome measures.

F. Output Quantity Indicators

118. Output quantity indicators measure the volume of service provided. Examples of output quantity indicators are:
- Number of vaccinations carried out (by sex);
- Number of malaria prone districts sprayed;
- Number of female and male students taught at seventh grade; and
- Number of planning applications determined.

119. All programmes should develop output quantity indicators, and programmes which deliver a range of different services should in general have a number of output quantity measures.

G. Output Quality Indicators

120. **The two types of quality indicators which are most readily able to be developed are timeliness indicators and client satisfaction indicators.** A timeliness indicator is an indicator of how rapidly an output is provided, such as:
- Average waiting time of a hospital patient between arrival and treatment;
- Average time for a planning application to be determined; and

- Average response time of the fire brigade to a fire.

121. Client satisfaction measures can be of various types, from simple measures of the level of satisfaction felt by the client, to more targeted measures such as:
    - Client ratings of the courtesy of the service provider; and
    - The rate at which clients obtained the service which they were seeking.

122. Women and men may have different perceptions and priorities regarding public services. In order to ensure that public service provision benefits both women and men it is, thus, important to collect and analyse satisfaction data separately for women and men.

H Output Efficiency Indicators

123. **Unit output cost is the best efficiency measure for most programmes.** Efficiency, as outlined in section II, relates to the cost of delivering outputs. So *unit output cost* – approximately speaking, average cost per unit of output – will for many programmes be the best efficiency indicator. Expressed differently, unit output cost measures the total cost of delivering an output divided by output quantity. Examples of unit cost measures are:
    - Cost per vaccination (including delivery);
    - Cost per planning application determined; and
    - Cost per visa application processed.

124. **However, there are some programmes for which unit cost may not be a useful measure of efficiency.** An example is a criminal policing programme. The outputs of such a programme are crimes investigated, and the appropriate output quantity measures would be, for example, number of burglaries investigated, number of murders investigated, etc. It would, however, not be very useful to develop an indicator of the unit cost of murder investigations, because the circumstances of murders vary greatly and with them the cost of the murder investigation. So if, say, the average cost of murder investigations fell by 10 percent this year, it would be foolish to assume that this was because of increased efficiency. As such, activity cost measures can sometimes be a useful substitute for unit output cost measures.

I. Performance Indicator Plan

125. **Ministries which are not yet able to offer a full suite of key programme performance indicators will be asked to present their plans for doing so.** If ministries are not able at present to put in place the minimum of five key performance indicators, they will be required to indicate what indicators they propose to develop in the future to achieve this. If they believe that it is not possible to develop indicators in certain categories, they will be asked to explain why. This information will be provided in the form of a "performance indicator development plan" (see below) for each programme, which will be reviewed by the Ministry of Finance and where appropriate, discussed with the respective ministry.

Figure 12: Programme Performance Indicator Plan

Programme Performance Indicator Plan
Ministry or Agency: ……………………..
Programme Title: ……………………………..

Category of Indicator	Indicators currently in place	Indicators to be developed in future	Date when indicator to be introduced	If type of indicator cannot be practically developed, please explain why	Detail of definition of indicator
Outcome	• [indicator 1] • [indicator 2, if more than one, etc.…]				
Output quantity					
Quality					
Efficiency					
Gender equity (where relevant)					

J. Programme Performance Targets

126. **A performance target is a quantitative goal with a timeline (usually explicit, but sometimes implicit) for achievement**. Targets may be set for outcomes, output (quantity, quality, efficiency and/or equity), or even for activities or inputs.

127. **Performance targets should not be confused with programme performance indicators.** Targets are always based on specific performance indicators, which provide the yardstick for measuring target accomplishment. But indicators do not include quantitative objectives, nor are they "time bound". The percentage of HIV/AIDS infected women and men in the population are a performance indicator. Cutting the rate of HIV/AIDS infection by 10 % over 5 years for men and by 20% over 5 years for women is a performance target.

Figure 13: Performance Target Examples

- Increase adult literacy from 82.8% to 95% for women and from 90.3% to 95% for men by 2015 (outcome target),
- Vaccinate the whole population against polio by 2012 (output target),
- Ensure that all monthly accounting reports are completed within 15 days of the end of the financial year (activity target, with implicit timeline "immediately/this year"), and,
- Fill all vacant agricultural extension officer positions with suitably qualified persons during this financial year and ensure that at least 30% of agricultural extension officers are women (input target).

128. **Programme performance targets should, like indicators, refer mainly to outputs and outcomes, and usually not to support activities or inputs.** Thus, for a primary school education programme, targets for improvements in literacy levels (an outcome target) or for the increase in the female school attendance rate (an output target) are more useful than, say, targets relating to textbook distribution (an input target), the filling of vacant principal positions (input target) or the volume of "in-service" teacher training. The latter types of targets may be set by the education ministry for internal management purposes, but are not the types of targets which are of greatest interest to the political leadership and the public, and are therefore not appropriate for inclusion in the programme based budget documentation associated with the budget.

129. **Performance targets should only be set for performance indicators which are reliable and in relation to which there is several years of data which give a reliable measure of "baseline" performance.** Performance targets demand improvement in performance relative to initial ("baseline") measured performance. It is dangerous to set targets if one is not confident of the reliability of the baseline measure, because the measurement and data processing methods have not been verified and the data might turn out to be unreliable. For example, this would be the case if the sample size upon which the indicator depended turned out to be too small to have statistical validity. Moreover, measured performance of indicators sometimes fluctuates significantly between years, making it unsafe to set a target relative to any specific year's performance. It is therefore important not to rush to set performance targets in relation to every new performance indicator when it starts to be reported. Better to wait several years until the quality of the indicator can be assessed and several years' data are obtained.

130. **Programme performance targets should not be set for variables which are in large measure outside the control of government because of the impact of "external factors".** For example, it would be inappropriate to

set a target of "increase the weighted average of the prices received of Kenya's top three agricultural exports by 5 percent by the end of the decade", given that prices are largely set by supply and demand factors in global markets which are beyond Kenya's control.

131. **Care should be exercised in setting targets which can be met in ways which would reduce rather than improve performance.** This refers to the danger of what are known as "perverse effects" of targets. There are some indicators which are very useful but in relation to which it may be dangerous to set targets. Unit cost is a good example. Unit cost (i.e. the average cost per unit of output) may be reduced by improvements in efficiency, and it is this which makes it a potentially valuable performance indicator. However, unit cost may also be reduced by cutting service quality. Moreover, if quality is difficult to measure, it may not be easy to see whether a specific reduction in unit costs is due to improved efficiency or reduced quality. This means that for services where quality is difficult to measure or to safeguard, it may not be a good idea to set targets for the reduction of unit costs.

132. **Ministries are not expected to set targets for all of their key programme performance indicators**. As indicated in the previous paragraphs, there are some programme performance indicators for which targets should never be set. Others may be too new for it to be appropriate yet to set performance indicators.

133. **Targets should be neither too easy to achieve, nor too difficult**. Setting easy targets serves no purpose. Setting targets which are impossible to achieve may, on the other hand, actually demoralise service delivery staff rather than encourage them to improve performance: if they believe that, whatever they do, they will fail to meet the target, they may make no attempt to improve performance.

K. Programme Performance Information Reports

134. **The programme budget Estimates presented to Parliament will contain, in addition to the financial information discussed in Section 8, key performance information about the programmes of each ministry.** Concretely, they will include:

- **The programme objective:** the overarching objective which all of the services provided under the programme have in common,
- **Key programme outputs:** up to three of the key services provided under the programme. The purpose of this is to give readers a clear idea of what the programme does,
- **Key programme performance indicators:** a minimum of five performance indicators, focused on programme results rather than internal activities and inputs. Ideally, these should include effectiveness, quality efficiency and equality indicators, although it is recognised that this will not be immediately possible for many programmes.
- **Programme performance targets:** this will identify targets which may have been set for certain of

the key programme performance indicators. Note that there is no expectation that targets will be set for all indicators. The programme performance information will follow the format of the following table. An example of how this table, when filled in for a hypothetical programme, is attached.

Figure 14: Programme Performance Information Template

Programme Title: ....

Programme Objective: ....

Main Programme Outputs	Key Performance Indicators	Performance Targets (for the female and male targeted group, where applicable)

Programme Title: Primary Education

Programme Objective: Educated and competent young Kenyans who are equipped for further education or to more effectively play their role in society and the economy.

Main Programme Outputs	Key Performance Indicators	Performance Targets
Education of primary school aged children	Percentage of girls and boys who are literate at conclusion of primary school *(effectiveness indicator)*	Increase literacy rate by x percent for boys and by x percent for girls over next 5 years
	Average level of numeracy at conclusion of primary school *(effectiveness indicator)*	Increase average measured numeracy rate by 5 percent over next 5 years.
	Percentage of primary school age girls and boys attending school *(output quantity indicator)*	Increase attendance rate from 75 percent to 80 percent within next two years.
	Female attendance rate as proportion of male attendance rate *(output quantity rate equity indicator)*	Increase the female attendance rate to at least 80 percent of the male rate within the next 10 years.
	Teacher absentee rate *(quality indicator)*	[No target set, as setting a target of, say, reducing unjustified absenteeism by half might suggest that the remaining level of absenteeism was somehow acceptable]
	Cost per child *(efficiency indicator)*	[No target set, as setting target might encourage cost-cutting at the expense of quality]

VI. MONITORING AND EVALUATION

This chapter on programme-based budgeting aims at assisting the readers…

- To understand basic monitoring and evaluation procedures.
- To understand that performance indicators are not sufficient to assess programme performance, and need to be accompanied by evaluation.
- To understand why it is necessary to also evaluate gender equality impacts.

By the end of this chapter, you should be able to…

- Determine when it might be needed to supplement indicators with evaluations.
- Prepare a basic programme evaluation report and related evaluation questions.

A. Introduction

135. **Performance-based budgeting is quite often represented as being only about the use of performance indicators in the budget. This overlooks the crucially important role of monitoring and evaluation.** This evaluation is the formal assessment of programmes using systematic methodologies, with the intention of forming an assessment as objective as possible. Evaluation is important because performance indicators in isolation are frequently insufficient to permit judgments on programme performance. As noted above, some programme outcomes cannot be measured, or can be measured only very imperfectly. Many outcome indicators are heavily contaminated by external factors. Evaluation is very important as a means of making judgments about the likely impact of external factors, and also as a means of making the best possible judgment about effectiveness in the absence of outcome measures. This section provides guidelines for the monitoring and evaluation of ministerial programmes.

B. Rapid Evaluations

136. **A well-developed programme based budgeting system requires the conduct of selected programme evaluations specifically intended to inform the budget process – that is, to give budget decision-makers better information upon which to base budget decisions.** Such evaluations will differ in important ways from evaluations conducted for other purposes, such as internal management improvement within ministries. In particular, budget-linked evaluation needs to:

- Be focused on outcome evaluation, with process evaluation only relevant to the limited degree that it can guide budget decision makers on whether it is worth postponing cuts to an ineffective programme to give the agency a chance to make design or management improvements; and
- Deliver its findings quickly and at the right time to be taken into account in budgetary decisions

137. **Evaluations can be conducted in great depth, if desired, making extensive use of surveys, interviews and other data gathering techniques.** However, in-depth evaluations tend to take considerable time, and therefore are as a rule not well geared to serving the needs of budget decision-makers.

138. **Rapid evaluations are as a rule much more useful for budgetary purposes.** This system will essentially involve the selection of a small number of major expenditure programmes (no more than ten) each year for rapid evaluation and the provision to Treasury and ministers of a timely report advising on whether the programme concerned should be eliminated or scaled down in the coming budget. Rapid evaluations focus primarily on:

- **Evaluation of programme logic.** This considers whether it makes sense to believe that the programme intervention is likely to achieve the intended programme outcome. To evaluate programme logic, the first step is to be clear on exactly how the programme is supposed to achieve the outcome. Expressed in terms of the "results chain" (a.k.a. programme logic), the key questions are: What intermediate outcome is the programme expected to deliver? How is it that those intermediate outcomes are expected to generate, or contribute to, higher-level outcomes? Once the programme logic is clarified, the next step is to ask whether it is reasonable to assume that the programme will achieve its intended outcomes.
- **Analysis and interpretation of available performance indicators.** The extent to which this can be done will depend critically on the availability of good indicators.

139. **Most programme budget evaluations can initially be limited to simple reviews which consider the following questions:**

1. Are the outcomes of a programme and the priority objectives of a subprogramme a priority with the Government?
2. Is the programme designed in such a manner that it can be expected to achieve its intended outcome(s)?
3. What do the available performance indicators signify about the efficiency and effectiveness of the programmes? Have the goals and objectives been achieved?

C. Evaluation versus Monitoring[4]

140. **Evaluations of programmes (and subprogrammes) rely on data generated through monitoring activities as well as from other external sources.** Table 4 below presents key features of the monitoring and evaluation process.

4 The following three sections utilise procedures from Republic of Mauritius "Manual for Programme Based Budget (PBB)" Pages 31-33.

Table 4: Monitoring versus Evaluation Process Features

Item	Monitoring	Evaluation
Objective	Track changes from baseline conditions to desired outcome(s) and identify impediments.	Analyse what results are achieved; how and why they were or were not achieved.
Focus	Measuring progress on the outputs of programmes/subprogrammes and projects and their contribution to outcomes.	Compares planned with realised outcome of achievements. Focuses on questions of relevance, effectiveness, efficiency, sustainability and impact, including impact on gender relations.
Methodology	Tracks and assesses performance progress towards outcome through comparison of the size and significance of indicators over time.	Evaluates achievement of outcome; role of concerned ministry by comparing indicators before and after intervention. Relies on monitoring data and on information from external sources.
Conduct	Observes whether there is continuous and systematic flow by programme managers and concerned ministries.	Determine whether it is time-bound, periodic and in-depth.
Use	Alerts programme managers to problems in progress and delivery of outputs and provides insights into possible corrective actions.	Provides programme managers with strategy and policy options. Provides basis for learning and demonstrates accountability.

Source: Manual for Programme Based Budgeting (PBB), Various.

D. Preparing for Evaluation

141. **The scope of a programme based budget evaluation will be more substantial i**n most cases than that of an investment project evaluation which should be self-defined within the project appraisal and review documentation. The programme manager should participate in defining the scope of the evaluation together with a representative from the Ministry of Finance (Budgetary Supplies Department). At a minimum, the scope of an evaluation should incorporate the following categories:

1. **Outcome status:** Have the outcome(s) been achieved? And, if not, what is the progress towards achieving the outcomes?
2. **Underlying factors:** This part of the evaluation should include an analysis of the underlying factors that have influenced the outcome(s).
3. **Other interventions by the ministry:** This part of the evaluation should review whether or not outputs and other interventions of the concerned ministry can be linked towards the achievement of the outcome

4. **Impact on gender relations:** The evaluation should, wherever possible, analyse what kind of impacts (intended and unintended) the programme had on gender relations.

5. **The programme (subprogramme) selected** along with the timing, purpose, duration and scope of the evaluation will dictate much of the substance of the evaluation procedure.

Table 5: Evaluation Criteria

Category	Evaluation Criteria
Evidence of Change	Degree of Change
Review of Factors Influencing the Implementation of the Programme	Relevance Effectiveness
Concerned Ministry's Contribution to the Programme	Relevance Effectiveness Efficiency Equity Degree of Change Sustainability
Partnership Involved in the Programme	Relevance Effectiveness Efficiency Equity Degree of Change
Rating	Efficiency Equity Degree of Change Sustainability Relevance
Improving the Approach	Relevance Effectiveness Equity Sustainability

Source: Manual for Programme Based Budgeting (PBB), Various

E. Collecting and Analysing Data

142. **Primary data collection and analysis of programme evaluation is the responsibility of the concerned department or budget agency**. Both qualitative and quantitative analysis procedures can be used in the programme evaluation process. Preparing for an evaluation generally requires a combination of both types of methods:

1. **Qualitative methods** can be used to inform the questions posed by evaluators through interviews and surveys; and
2. **Quantitative analysis** can be used to inform the qualitative data collection strategies by applying statistical analysis.

143. **Whatever data collection method is applied, evaluators should ensure that women and men alike are interviewed, which often necessitates that female and male interviewers are involved if an evaluator cannot interview someone of the opposite sex due to cultural reasons.** All data should be collected and analysed separately for women and men wherever applicable. Sometimes, it may also be necessary to collect gender-specific data (data related to topics that are relevant either only for women or only for men, such as the incidence of breast cancer or prostate cancer, the incidence of violence against women etc.) and time use data

Table 6: Data Requirements for Monitoring and Evaluation

Item	Quantitative Approach	Qualitative Approach
Objective	To assess causality and reach conclusions that can be generalised.	To understand processes, behaviours and conditions as perceived by the groups or individuals being studied.
Use	To measure: How much? How many? How often?	To analyse how and why?
Data Collection Instrument	• Standardised interviews; • Formal questionnaires; and • Surveys.	• In depth interviews; • Direct observation; • Focus group discussions; • Written documents.
Sampling	Probability sampling (random sampling).	Representative population sampling.
Methodology of Analysis	Statistical and financial analysis.	Perception, validation and documentation.

Source: Manual for Programme Based Budgeting (PBB), Various.

F. Evaluation Reporting

144. **A sample outline for an Evaluation Report is provided in Annexure C.** The evaluation group's team leader is expected to submit the evaluation report to the appropriate department in the line ministry with a copy submitted to the Ministry of Finance's Budget Department.

145. **The evaluation process does not end with submission and acceptance of the evaluation report.** The findings, conclusions, recommendations and lessons learned need to be fed into the forward planning cycle and acted upon.

VII. BUDGET CALENDAR

This chapter on budget calendar aims …

- To put programme based budgeting and costing in the context of the broader budget calendar.

By the end of this chapter, you should be able …

- To have an understanding of the entire budget cycle.
- To understand when budget submissions, monitoring and evaluation, and other submissions are due.

A. Introduction

146. **This section attempts to put programme based budgeting and costing in the context of the broader budget calendar.**

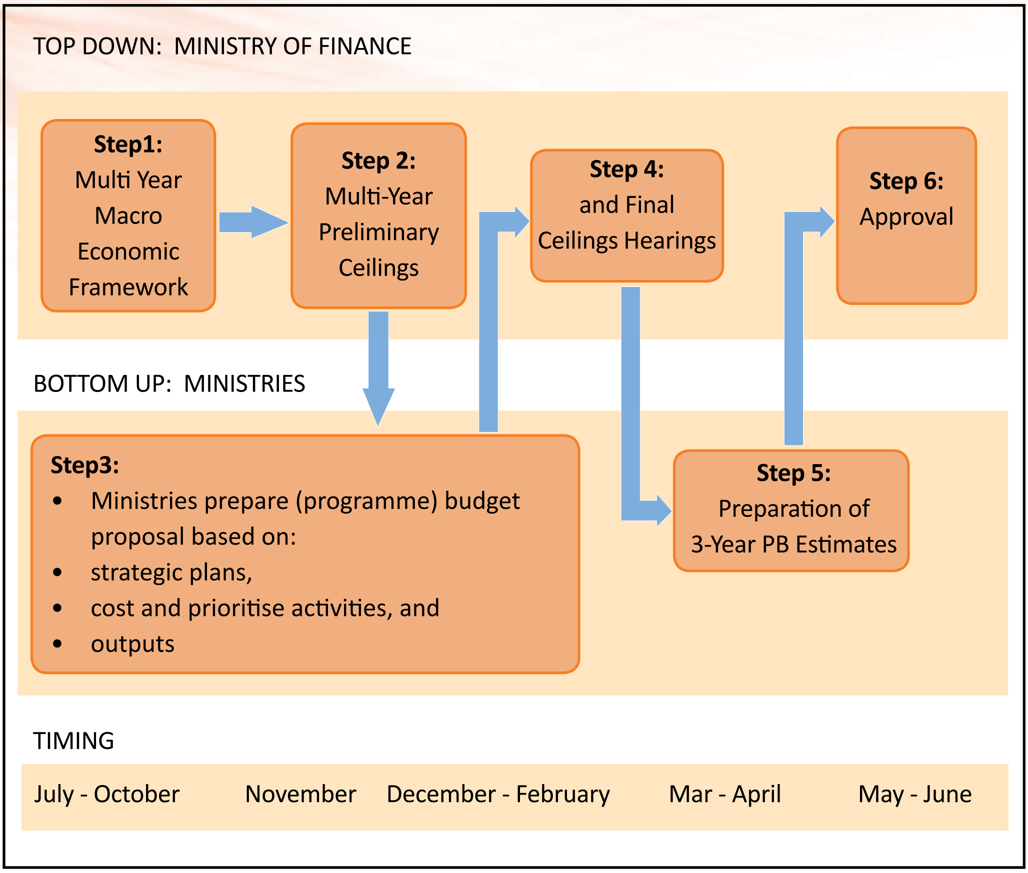
B. Top-down and Bottom-up Budgeting Approach

147. **There are two basic phases in the budget preparation cycle.** (i) The top down approach, which is followed through (ii) preparation of the Budget Review and Outlook Paper (BROP), to be prepared by end September/ October (See Figure 15, below). The aim is to:

- Calculate available funds in the next and following two years (domestic and donor funded);
- Select most important priorities of the national strategy that can be financed from the available funds;
- Establish budget ceilings.

148. **The MoF collects needed information from line ministries for this based on the issued MTEF Budget Circular asking for the most important priorities, how they link with the national development strategy and what is the estimated cost of implementing ministerial priorities.** To provide this information, ministries need to prioritise their budgeted activities.

Figure 15: Kenya Budget Process



149. **The second part of the budget preparation cycle is the bottom-up preparation of the detailed National Budget.** Based on the information from MTEF Sector Working Groups Process, the MoF issues the Budget Circular, requesting ministries to prepare detailed budget calculations for selected priorities and within given ceilings. For these submissions line ministries will have to prepare detailed budget calculations. Upon receipt of detailed budget submissions, the Budget Department will analyse these submissions and discuss them during the budget hearings - when budget users will be given opportunity to justify and defend their budget requests.[5] Based on the outcomes of budget hearings, the Printed Estimates will be compiled for Cabinet review and consequent Parliament approval.

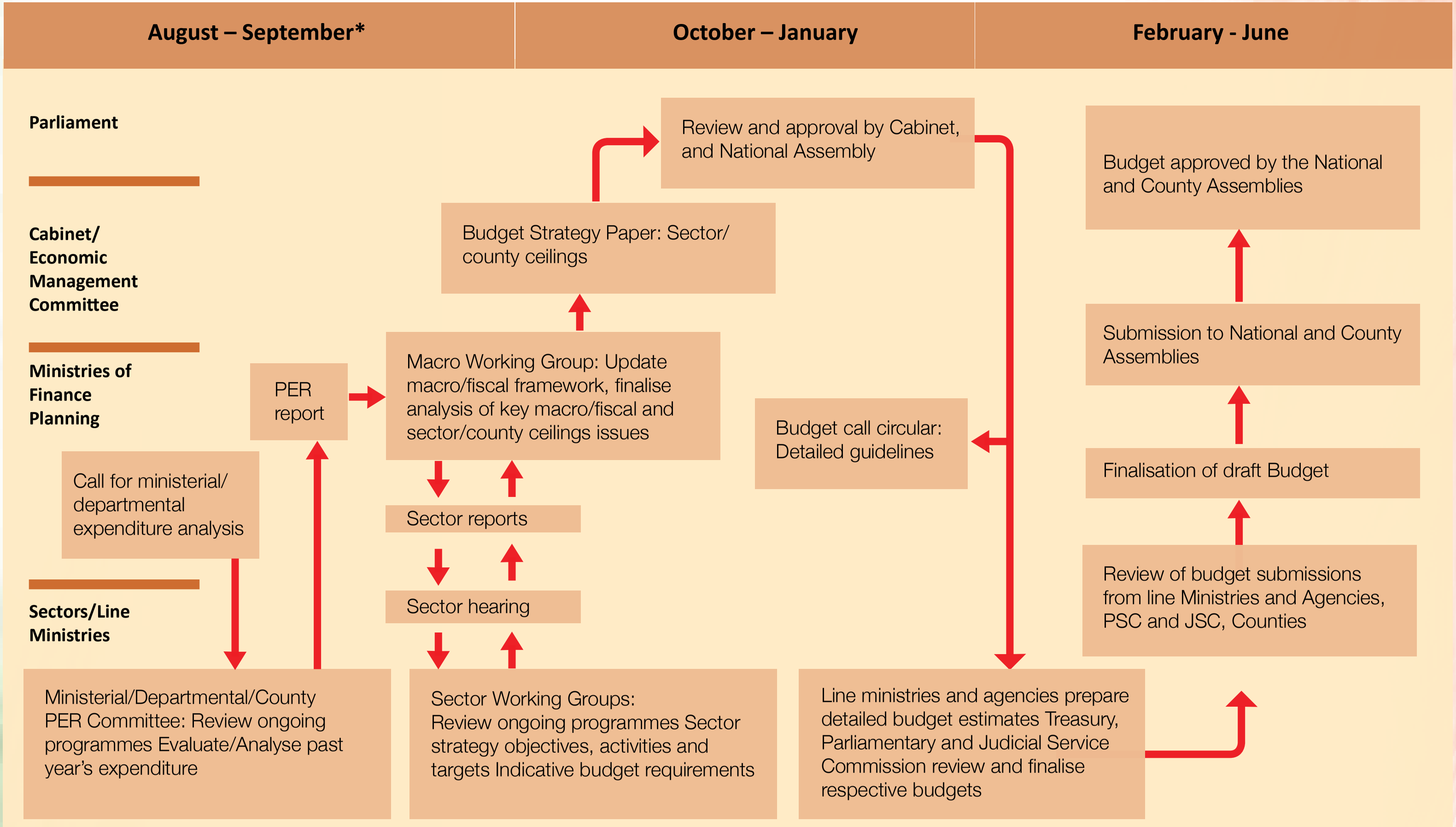
5 The submissions are discussed with the Ministry of Finance; before that in the Sector Working Groups (SWGs) for the relevant sectors. In the hearings the results of these discussions are presented in form of draft sector reports to the public and stakeholders for comments and corrections. After the hearing, the sector reports will be finalised with the final distribution of funds within a sector for the next financial year and the outlook for the outer years.

150. **Since programme based budgeting is still in a pilot phase in Kenya, the MoF will issue the initial Programme Budget Instructions the MTEF Budget in the Circular.** The objective is to summarise instructions given in this Programme Budget Manual and request ministries to start their work on developing their programmes and subprogrammes in addition to developing performance indicators. This work should be finalised by end of October. With issuing of the Budget Circular asking for a detailed itemised budget, ministries can start working on the financial/budget calculations.

C. Budget Calendar

151. **The preparation and dissemination of the annual budget calendar, timelines, tasks and processes involved in budget preparation is an essential first step of an effective and successful budget process.** It includes a comprehensive calendar ranging from the setting of fiscal policy, budget preparation, budget execution and Treasury management as well as accounting and auditing (presented in Table 7 below). The proposed calendar envisages the adoption of the budget before the start of the fiscal year and the closure of the audit review process before the next year's budget is adopted.

Table 7: Integrated Budget Calendar



NOTES*

1. The time periods given in the plan are tentative but based on practical experience. The commencement months/dates vary depending on the circumstances/operational challenges prevailing.
2. According to the Constitution, National and County Assembly should approve the annual Estimates by June.

VIII. MEDIUM TERM BUDGET PREPARATION

This chapter on budget preparation under programme based budgeting aims at assisting the readers to:

- Understand the medium term budget formulation process. And,
- Understand the information that line ministries are expected to provide to MoF during the medium term budget process.

By the end of this chapter, you should be able to:

- Understand the linkage between Medium Term Expenditure Framework (MTEF) and programme budgets.

A. Introduction[6]

152. **Programme based budgeting is not a new budgeting process to replace the MTEF rather it builds on the MTEF by incorporating performance measure into the budget.** While the MTEF has been more concerned with costing inputs for the entire government budgeting system, PBB introduces performance such that one does not only concern oneself with the inputs but also with the outputs of the budgets and more so with the budget outcomes. Thus programme based budgeting reinforces budgeting as a policy tool of achieving a given set of government objectives in a specified period. This section focuses on the relationship of programme based budgeting to the MTEF.

B. Link between Programme based Budgeting and the Medium Term Budget Framework

153. Programme based budgeting under the MTEF will address the weakness inherent in the MTEF which includes among others:

- MTEF focuses on expenditure at the item level and therefore is more concerned with inputs without giving much attention to the outputs and outcomes of the expenditure;
- Lack of transparency in the relationship between resources consumed and results achieved by the respective agencies;
- Limited opportunity for systematic assessment of the efficiency and effectiveness of spending or for relating allocations directly to policy
- The budgets reveal little about the purpose of expenditure and only allow analysis of inputs employed and budget aggregates, but not resulting outputs and outcomes; • Expenditure may not be related to organisational mandates/objectives and may easily lead to duplication of efforts by various agencies.

6 For a detailed description of MTEF process in Kenya, please see ***MTEF Manual (Kenya Budget Process)*** 2011.

154. **Budget preparation under programme budgeting is closely linked with the Medium Term Expenditure Framework in Kenya.** Concretely, the links are the following:

- The MTEF aims to provide a clear medium term fiscal policy framework – in particular, concrete objectives in respect to the budget balance and debt – which provide the overarching context of budget preparation. This component of the MTEF is referred to as the MTFF.
- Under an MTEF, programme expenditure estimates must be prepared for the medium term and not just for the coming budget year.
- The estimation of the budget baseline is a key tool for improving the quality of the medium term expenditure forecasts which are integral to the MTEF.

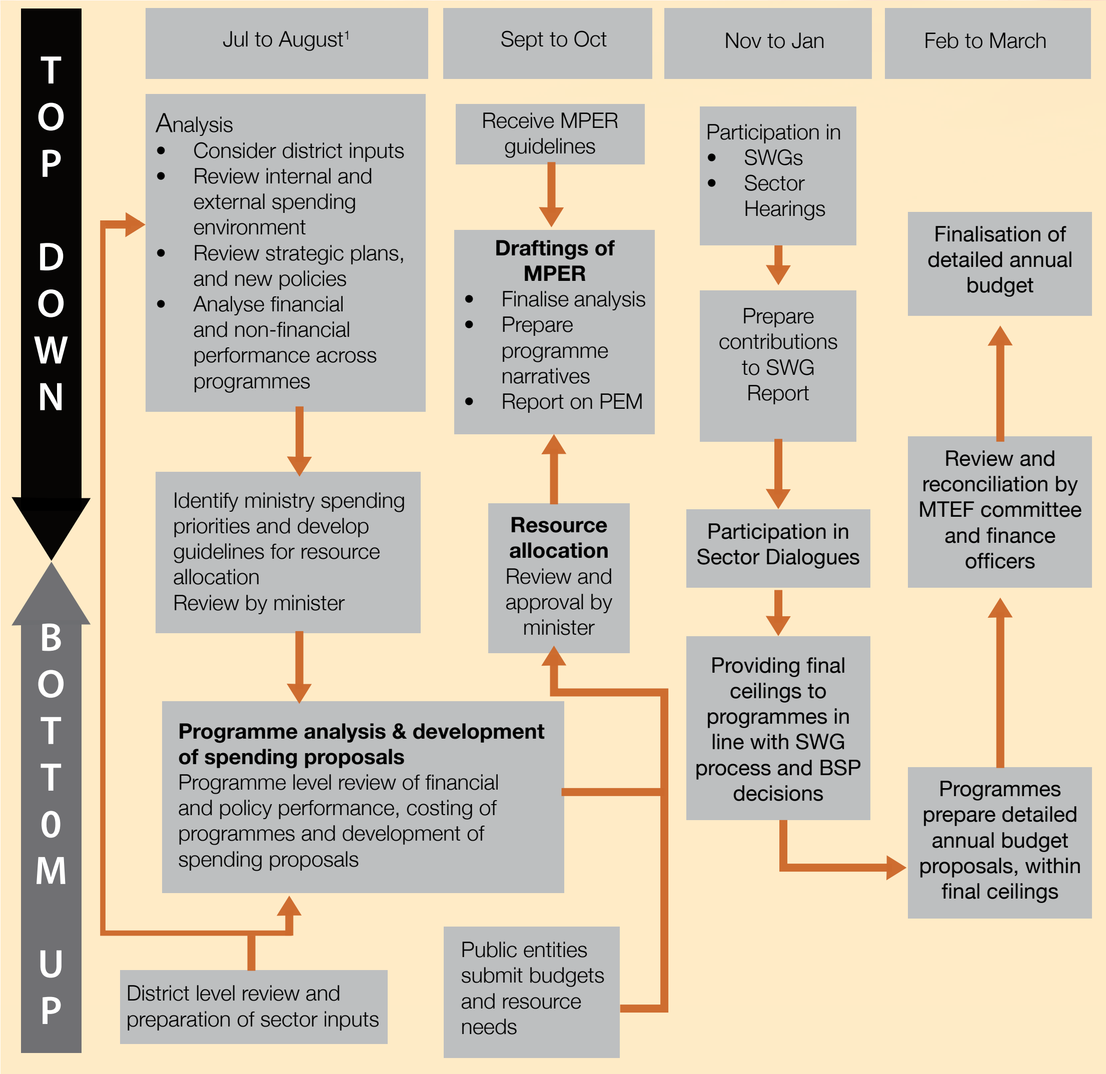
155. **Thus programme based budgeting instils real performance related transparency into the budget by clearly linking day-to-day programme activities with the long term goals of the agency through**:

- Identifying the operational aims of each programme and activity for the budget year;
- Budgeting and accounting so that the separate costs and revenues of each programme are shown;
- Measuring the outputs and performance of activities so that these can be related to activities' costs and to mandate/strategic objectives of the agency;
- Using the relevant data to establish standards and norms so that costs and performance can be evaluated and Government resources can be used more efficiently; and
- Long term programmes/projects just like before will be costed for the medium term with clear targets, outputs and outcomes over the three year period clearly and one can trace the outcomes over the MTEF period.

C. Multi-Stage MTEF Process

156. **The preparation of budget estimates under MTEF involves matching ministries/departments/agencies with total resources based on overall spending priorities.** The MTEF process involves the preparation by Ministries of strategic plans in line with the government's current priorities. On the basis of the strategic plans, Ministries must produce an integrated budget that reflects the cost of policies. The MTEF multi-step budget process is indicated in Figure 16, below.

Figure 16: MTEF Budget Process



157. **The capacity of the Government to raise revenue to pay for the delivery of goods and services to Kenyans depends on the overall level of economic activity**. While external grants can supplement domestic revenue over the short term, it is not sustainable. The only sustainable source to fund Government's activities to develop Kenya is the economy itself. It follows that the starting point for preparation of the MTEF is an analysis of the underlying prospects for the economy and of Government's macro-level economic and fiscal policies and strategies.

1. Macro-Economic Forecast

158. **Preparing an MTEF fiscal framework requires a focus on projecting those macroeconomic aggregates that have the greatest influence on the fiscal framework.** Of these, GDP and the inflation rate are the most important in driving the growth of both revenues and expenditures. The exchange rate is similarly important, because of its impact on external financing and external payments from the budget. Changes in the balance of trade can similarly affect revenues on external trade related taxes. The implications for public revenues and expenditure of major government policy initiatives, such as the poverty reduction strategy, privatisation, public sector reform and financial sector reform should also be outlined.

2. Revenue Projections

159. **Public revenues comprise tax revenues, non-tax revenues (including income of budgetary institutions and external grants), and social fund contributions accruing to both central and local governments.** The projection of revenues over the medium term needs to be informed by:

- An understanding of recent domestic revenue trends and the factors underlying them;
- An understanding of development partner grant financing commitments, including an analysis of risks associated with their reliability;
- An assessment of the "tax burden" and the scope for and desirability of further increases in the share of GDP taken as public revenues;
- An assessment of agreed or planned tax policy changes and their expected impact on revenues;
- An assessment of the scope for improvements in revenue administration.

160. **Based on this analysis, an initial projection should be made of revenue as a share of GDP for each of the main revenue sources.** Since the revenue projections will reflect the implementation of planned tax policy measures and changes in tax administration, it is important to spell out what these measures are and the necessary actions to be taken to ensure their timely implementation. The projections should also take account of the impact of changes in major government spending aggregates, such as the size of the Government's wage bill, where these are likely to have a significant impact on levels of revenue collection.

3. Financing of the Budget Deficit

161. **The size of the budget deficit is the other factor that determines the overall level of resources available**

to finance public expenditure. In an economy like Kenya, the budget deficit is affected by two factors – the level of foreign concessional financing available to the Government and the level of domestic and external financing deemed appropriate for fiscal stability. The budget deficit, excluding public investment financed by external grants and credits, is normally an explicit macroeconomic policy objective of the Government.

162. **MTEF documentation should review progress against the agreed deficit targets and provide projections for the main sources of financing of the deficit over the medium term.** This should include an assessment of the external financing, both credit and grant, that is expected to be available to finance public investment. It should also highlight specific factors that are likely to affect the level of the deficit (e.g. an upsurge in debt servicing costs or macro-economic risk), the way in which the deficit is to be financed (e.g. the use of privatisation revenues as a source of domestic financing), and the costs of financing.

163. **The process described above is harmonised in the macro-economic model: The Treasury-KIPPRA model, which brings together various macro economic variables to forecast on the attainment of targeted economic objectives.** This is presented in the Budget Review and Outlook Paper in which various targets on taxation, expenditures and the sector ceilings are provided and presented before the cabinet for approval. These targets are finally firmed up and sub sector ceilings are set down in the Budget Policy Statement.

D. Medium Term Expenditure Framework: The Process [7]

164. **The MTEF process consists of two sub–processes: The first is the preparation of an economic and fiscal update referred to as Macro Economic Framework and the second is the setting of sector and ministry level ceilings.** In establishing the macro economic framework the following factors are taken into consideration.

1. **The projection of economic growth targets in the medium term.** Providing the economic and fiscal outlook is a challenging task this process entails an update of all expected imports and exports, projections of investments and consumption. In working out the growth targets, consideration is made of the government's long term policy concerning wages, investment by government and other long term policies relating to other sectors of the economy. Hence the growth projections are also consistent with planned aggregate spending by Government.
2. **Once the growth targets are identified then the Ministry of Finance is able to project the revenue targets that are consistent with the growth targets.** The share of the various targets of revenues is also guided by the projections of the growth of various sectors, for example the expected realisation of import taxes is guided by the

7 This section is derived almost in entirety from MTEF Manual (Kenya Budget Process)

assumptions in the growth of imports in the macroeconomic model. The prevailing government policies on other issues are also taken into consideration in projecting the revenues from domestic sources.

3. **The other variable is the assumptions on private sector credit. Depending on the assumptions made on contributions by private sector to domestic investment and growth targets, the level of change in private sector credit is determined.** The tradeoffs made while deciding on this variable include the level of government credit that will be targeted.
4. **The Government credit level which is also referred to as domestic borrowing is a variable taken into consideration.** The key guiding principles in deciding or determining the level of domestic borrowing is the government's own policy on public debt.
5. **The other key principle strategy is inflation rate and the rate of interest.** Assumptions are made on the interest rates of government securities as well as setting targets for inflation for the year and the medium term.

165. **The medium term framework also contains the aggregate expenditures levels.** The main categories of public expenditures are recurrent and development. There are two categories of recurrent expenditures: Non-discretionary and discretionary expenditures. The *non-discretionary expenditures* are those expenditures that are pre-determined by law. These expenditures which include principal repayment of public debt, payment of interest on debt, pensions and consolidated fund services such as salaries and wages for constitutional officeholders. These expenditures are also known as *mandatory expenditures*. Since they are pre-determined by law, they are simple to estimate and cannot be part of a trade-off process. They are therefore just deducted from the overall resource envelope as a first charge.

166. ***Discretionary expenditures* are those expenditures used by various agencies to produce goods and services for the citizenry.** These expenditures are not pre-determined by law but by Government policy and resource availability. Most recurrent expenditures are accounted for in the recurrent budget and most capital expenditures are accounted for in the development budget. A key policy decision is the trade-off between recurrent and development expenditures. The desire for economic growth dictates that, as much as possible, expenditures should be oriented towards pro-growth development programmes.

1. Budget Ceilings

167. **Ceilings are determined by the available resources as determined by the Macro Working Group.** The ceilings for the sectors are determined on the basis of government policies and priorities attached to each Sector. The following are the main considerations and steps involved in producing ceilings:

- The national objectives to achieve enhanced economic growth;

- The requirements of core poverty programmes;
- Funding of on-going programmes; and
- Donor commitments through project loans and grants.

1. The first step is to review individual Sector Working Group Reports, containing ministerial budget proposals as a basis for assessment of resources required by each sector.
2. For the Development Budget, the Macro Working Group first assesses forward commitments for externally financed projects and programmes and for on-going domestically financed projects. Secondly, it assesses new project proposals against policy priorities together with donor commitments through project loans and grants and the commensurate counterpart funding. The total is put against a sector's account as a floor since this represents ear-marked sector funding on the revenue side.
3. On the recurrent side, the process involves the determination of non-discretionary expenditures and the wage bill for all the ministries and required operating expenses.
4. The final process is to add up all sectors funding requirements and comparing them with available resources and making trade-offs between sectors in the discretionary, non-core poverty programmes and non-committee portions of budget proposals

2. Making Difficult Choices

168. **This section examines the main instruments and institutions in the Kenyan Budget Process that ensure that available resources are reconciled with competing demands.** The section describes a two-phased process which provides a forum for trade-offs and ensures that guidelines are followed while making budget decisions for resource allocation.

169. **In the Kenyan budget process, the levels of resource allocation process are: Sharing between the National and County Governments, sharing among County Governments (see Article 216 (1)), allocation to the sectors and allocation within the sectors.** The principles for the allocation between National and County Governments and among Counties are developed by the Commission on Revenue Allocation (CRA). The sector allocation is by Treasury through the Macro Working Group while the allocation to the sub sectors (ministries) is done by Sector Working Groups.

170. **The MTEF process involves the setting of Sector Ceilings as contained in the Budget Review and Outlook Paper (BROPA).** The BROPA establishes the resource framework for the three year MTEF period and the national policy priorities. The bottom up process involves the compilation of Ministerial Public Expenditure Reviews (MPERs), prioritisation of programmes to be funded and finally compilation of Sector Budget Proposals (Sector Reports).

171. **The overall objective of PER is to inform the budget process by providing an in-depth analysis of budget performance in the past so as to inform the future budget decisions.** Ideally, this process is supposed to be a critical self assessment of each ministry on

challenges, weaknesses and successes in order to use that information to chart the way forward. The two levels of the process have sets of activities that produce outputs required for the decision making. The processes are described in the following sections.

3. Sector Working Group

172. **During the Sector Working Group resource allocation process, the sector ministries together with representatives from the Ministry of Finance, the Ministry of Planning, National Development and Vision 2030 and external stakeholders, review the MPERs, programme funding proposals, including individual ministerial spending proposals.** Through a series of working sessions the group rationalises and prioritises ministerial proposals, ensures that linkages are made between ministries and submits a consolidated Sector Budget Proposal to the Treasury. The Sector Working Group Report comprises of a clear statement of sector objectives, sector programmes and expected outputs against the proposed expenditure.

4. Sector Hearings

173. **During the Sector Hearings, the draft Sector Working Group Reports are presented to an open meeting of stakeholders. Submissions are heard from participants, which are taken into account in the finalisation of the Reports.** These hearings are normally known as public hearings.

174. **Why Should we Involve Stakeholders in Budgeting Process?** There are many good reasons for including the stakeholders in discussions about budgeting. Such involvement can:

- Better inform residents about national/ministerial budgets, including revenues, expenditures and challenges;
- Highlight the trade-offs associated with allocating limited resources;
- Provide important information to policy-makers about the kind of goods and services that communities value;
- Generate support for the budget-related ideas and actions that will effectively address local needs; and
- Support transparency of government decision-making and create a more collaborative and trusted governance over time.

5. Finalisation of the Budget Policy Statement

175. **The Economic and Budget Steering Committee, supported by the Macro Working Group, drafts the Budget Policy Statement for submission to Cabinet and finally to Parliament by March 21st in line with the Fiscal Management Act, 2009.** The paper presents the proposed allocations to ministries linked to an updated macro-fiscal framework and sets out the expected achievements of funding.

6. Cabinet and Parliament Approval of the Budget Policy Statement

176. **Cabinet reviews, discusses and amends the Budget Policy Statement as may be appropriate, clearing the way for the finalisation and tabling of the same in Parliament.** The Budget Policy Statement is tabled in Parliament making it a public document and establishing the overall, ministry-specific and county resource allocation for developing the detailed estimates in the final phase of the budget preparation process.

IX. PREPARING PROGRAMME ESTIMATES

This chapter on preparing programme estimates aims at assisting the readers...

- In estimating the current costs of programme/subprogramme activities (for both recurrent and capital); and
- Prioritise activities so that total costs remain within the resource ceiling.

By the end of this chapter, you should be able to...

- Prepare a programme based budget.

A. Introduction

177. **This section focuses on the preparation of detailed programme based budgets over a multi-year time frame.** The Ministry of Finance budget staff coordinates budget activities with members of ministries/departments/agencies. Beyond coordinating, the Budgetary Supplies Department has the duty to actively encourage efficiency in resource allocation and budget allocations, and should also encourage realistic programming and costing of activities. This section provides some basic tools for consideration in developing programme based budgets.

B. Budget Appropriations under Programme Based Budgeting

178. **The overarching context of budget preparation under programme based budgeting is the changed nature of budget appropriations** of which the key elements are:
   - Ministries will receive budget appropriations framed in terms of programmes.
   - Budget appropriations based on organisational units will play a much lesser role. Each core ministry will receive an appropriation, but this will not be broken into multiple appropriations for each of the ministry's internal directorates or other "sub-head" organisational units. Only independent authorities associated with ministries will receive their own specific budget appropriations. Under PBB, ministries and other independent authorities will have greater freedoms in resource reallocation and therefore more powers for internal prioritisation.
   - Appropriations by item will also become much less detailed, with a small number of appropriations to broad categories of item (item "control totals") replacing the item-by-item appropriations of the present system.

179. **Although budget appropriations by organisational units will largely disappear and appropriations by items will become less detailed,**

ministries will still need to plan and prepare their budgets in just as much organisational and sub-item detail as under the traditional budgeting system. This is because it is essential that ministries know in advance what funding they plan to allocate to each internal directorate or other relevant organisational unit ("directorates" for short in what follows), and for what types of purchases. This means that when each spending ministry prepares its budget, it will need to prepare simultaneously:

- ***A programme based budget***, showing the breakdown of proposed expenditure between programmes and subprogrammes, together with a planned breakdown by item of expenditure on each;

- ***An organisational budget*** – primarily for internal purposes – showing the planned breakdown of expenditure between sub-heads of relevant organisational units within the ministry, broken down by sub-items.

C. Organisational Units and Programmes

180. **Because spending ministries need for internal purposes to prepare budgets in terms of their directorates, the relationship between these organisational unit budgets and the programme based budget prepared by the ministry needs to be completely clear.** This requires that every sub-item of expenditure by each directorate needs to be mapped to the appropriate subprogramme, and vice versa. As explained in the section IV on Designing Programmes, the potential difficulties which can arise in linking programme based and organisational unit budgets are to be avoided in Kenya in the near- and medium-terms by requiring that each directorate or other major internal organisational unit (each "sub-head" in pre-programme based budgeting terminology) be linked to one and only one subprogramme.

D. Form of the Budget Submission

181. **Ministry budget submissions will present their proposed budgets in programme terms - broken into programmes and subprogrammes.** Notwithstanding the change in the format of budget appropriations, spending ministries during the transition period will be required to continue to present to Treasury a full breakdown by sub-item and by directorate/sub-head. The purpose of this is to assist Treasury to assess the merits of spending ministry budget proposals. **Annex A provides the various templates for the financial estimates to be provided by each spending ministry to the Ministry of Finance during the budget preparation process**.

E. Annual Spending Plan

182. **When completing the annual budget, the government requires much more specific financial and accounting detail.** The increased specificity of annual budget detail requires a "bottom-up" budgeting approach. The Budget Circular presents the mechanism for line ministries to present their budgets using a bottom-up approach. Since the annual budget exercise and subsequent budget

execution occurs at the level of major and minor economic classification, annual budget costing is carried at an equal level of detail. Minor object details are rolled-up to the major object level by activity, which in-turn will be rolled-up to subprogramme and programme level detail.

183. **This is accomplished by inserting the detailed information for each subprogramme into the budget submission forms and ensuring there are linkages present to accumulate costs on a programme and then ministry basis. The following sections present the basic elements involved in costing ministerial functions under a programme based budget structure.** Recurrent and Capital (development) expenditure at the subprogramme level are estimated, line ministries are required to submit a detailed budget proposal utilising the major/minor object economic categories.

F. Costing of Public Sector Goods

184. **The programme based budget framework consists of strategic plans, annual performance plans, and semi-annual performance reports.** This requires ministries/departments to develop and deliver

- **Multi-year strategic plans** which establish the mission and set of outcomes at the programme level and priority objectives at the subprogramme level.
- **Annual 3-year fiscal rolling programme based budget** which includes performance measures with target levels for a particular fiscal year, covering all programmes and subprogrammes, and displaying current and future years' data.
- **By linking performance results to the budget planning process, ministries/departments/agencies can attribute activities by their true costs so that a comprehensive financial picture can be created.** At this point, the financial summary of the budget can be linked to performance goals.
- **Costs are assigned to programmes and** subprogrammes based on the amount of inputs that they use directly.

G. Preparing Cost Estimates: Baseline versus New Initiative Expenditure

185. **A key change which will take place in the budget preparation process under programme based budgeting is the separation in spending ministry budget proposals of baseline expenditure and expenditure on proposed new initiatives.** A *budget baseline* is to be calculated for each spending ministry (distinguishing between recurrent and development expenditure) and also for aggregate government expenditure. Under the medium term expenditure framework, these baselines are calculated not only for the coming financial year, but also for the two subsequent years. The relationship between the baseline and projections for individual programmes is discussed below.

186. **The budget baseline is an estimate of the amount of expenditure required in future years to maintain *existing expenditure policy* (including meeting expenditure obligations),**

whereas new initiatives expenditure refers to expenditure arising from a change in policy. Existing expenditure policy refers to the government policies and expenditure obligations which determine, other things remaining constant, the level of future expenditure.

187. **Expenditure policies may be explicit or implicit. Explicit expenditure policies may relate to inputs, output or transfers. For example:**
    - A public undertaking by the government to inoculate all children under 5 against certain diseases is an example of an explicit expenditure policy relating to the *outputs* (services) to be provided to the public.
    - A stated government policy of replacing only 1 out of 2 of departing civil servants, in order to slim down the civil service (either in general or in a particular ministry) is an example of an explicit government expenditure policy relating to *inputs*.
    - An affirmative action policy of the government that states that 30% of public servants are to be women is an explicit expenditure policy relating to inputs.
    - A government policy of using subsidies to ensure that the price of flour does not exceed a certain ceiling is an example of an expenditure policy relating to transfers.

188. **Implicit expenditure policies mean government obligations to provide a certain level of service even when no explicit public commitment or legal obligation exists to that effect.** For example, even if there is no law obliging government to make primary school education available to all children, and no public statement from government that it would do so, there still may be a general community expectation that government would provide this service. As this example indicates, an "implicit" expenditure policy means an obligation which government feels to provide a certain level of service even though there is no clearly stated commitment to do so.

189. **The existence of any such expenditure policies defines – in the absence of policy change – the evolution of expenditure in the area concerned.** Thus in the case of the vaccination commitment, future expenditure will be determined by number of children and unit cost of the vaccines. And in the case of the civil service replacement policy, expenditure will be determined by the cost of continued employment of existing civil servants plus the costs of the (reduced number) of each new civil servant hired to replace two departing bureaucrats.

190. **Existing expenditure policy is considered to include meeting existing obligations.** Obligations include not only contractual commitments, but also other expenditures which are unavoidable or quite difficult to avoid because of legal obligations of a non-contractual type or social expectations which impose heavy political pressure on government to undertake the expenditures concerned. Examples of obligatory expenditures in this wider sense include:

- Legally mandatory social security expenditure;
- Expenditure on continued employment of existing civil servants or other public sector workers who either enjoy legal job security or a de facto expectation of job security.

191. **Expenditure obligations may be overridden by policy.** This would be the case, for example, if – notwithstanding legal guarantees of job security – the government stated publicly its determination to engineer the departure of some portion of the permanent civil service workforce (e.g. by offering voluntary redundancy or by changing the civil service employment law). A more extreme and exceptional example would be a government announcement, under extreme conditions, that it intended to repudiate part of the public debt.

192. **In preparing and presenting baseline expenditure estimates, it is necessary to distinguish the policy-related and obligation-based elements.** The process for calculating ministry budget baselines by category of expenditure is as follows:

H. Development Expenditure Baseline Budget

193. **For the development budget, the baseline includes only development budget projects which have been previously approved by government and for which**:

- Multi-year construction contract already exist, or
- Multi-year funding has been approved by the government, but not yet contractually committed.

194. **The amount of funding for each project which is included in the baseline calculation for any given year must not exceed the projected amounts previously approved by the government for that year (and for outer year projections).** When the project is initially approved by the government, the approval should cover the total project cost plus a medium term year-by-year breakdown of project expenditure. If the ministry concerned wishes to increase spending on the project above the level previously included in the year-by-year breakdown, the proposed increase is considered as part of new initiative funding and must be the subject of a submission requesting supplementary project funding.

195. **The baseline estimates for the development budget must be realistic.** This means that, if execution of the project in the coming or subsequent years is now expected to be at a slower pace than previously envisaged, the baseline calculation should reflect this, and provide a realistic estimate of what will be spent. Treasury will review the realism of these estimates. If a given project has been proceeding very slowly in its first year, but the concerned spending ministry nevertheless proposes to base its baseline estimates on the assumption that the delays will cease in the second and subsequent years, it will be necessary to provide the Ministry of Finance with a convincing explanation as to why the first-year delays were purely temporary and

will not be experienced in subsequent years.

I. Recurrent Expenditure Baseline: Personnel Expenditures

196. **The calculation of the budget baseline for recurrent expenditure distinguishes between personnel expenditure and non-personnel recurrent expenditure.** In respect to personnel expenditure, the process for estimating baseline expenditure involves two steps:

- *Calculation of obligatory personnel* expenditure: This means estimating the personnel expenditure which the ministry concerned will be obliged to undertake in respect to previously-hired civil servants and other workers who enjoy job security or contractual employment rights. In brief:
    - These estimates should be based strictly on staff members who have been previously engaged, and not on staff who may be hired in the coming financial year or subsequently.
    - The estimates take into account expected departures of existing staff, as a result of natural attrition (retirement, death resignation).
    - These estimates also factor in any wage drifts (promotions, any approved general salary increases, and annual growth).

- ***Calculation of personnel expenditure resulting from new hiring:*** This means estimating the additional personnel costs which will arise from the hiring of additional staff in accordance with government policy. Where there is an explicit hiring policy – for example, a stated policy to increase the number of primary school teachers by 5 percent each year for the next five years – the personnel expenditure estimate should be based upon that. Where no such explicit policy governing future hiring exists, the estimates should be based on the assumption that the workforce of the ministry remains constant: in other words, that the number of new staff hired equals the number of departures (retirements and resignations).

J. Recurrent Expenditure Baseline: Non-Personnel Recurrent Expenditure

197. **Recurrent expenditure on items which are not personnel-related essentially refers to expenditure on goods and services, plus any transfer payments.** In respect to such expenditure, the methodology to be applied is to:

(a) Estimate the costs of any expenditure based on explicit policy commitments or obligations; and

(b) Estimate any remaining expenditure by means of the application of relevant price indexes.

198. **In the first step, any explicit policy commitments and obligations – such as inoculations commitments mentioned above or a legal obligation to make certain social payments – should be identified and their cost estimated based accordingly.** For example, the government may have committed itself to the delivery of certain numbers of anti-malaria bed nets in each of the next three years. If this is the case, the recurrent baseline needs to include an estimate of the

cost of purchasing and delivering these numbers of bed nets. Similarly, if the government had promised to use subsidies to ensure that the price of flour does not exceed a certain level, then the cost of those subsidies in the recurrent budget baseline would need to be estimated based on expected supply and demand of grain in the coming year, rather than on the application of price indexes to last year's subsidy expenditure. Such expenditure will for most ministries be a small proportion of non-personnel recurrent expenditure.

199. **In the second step, remaining non-personnel recurrent expenditure will be projected by taking the current year's actual expenditure and applying relevant price indexes provided by Treasury.** Treasury will provide a general price index to apply to goods and services expenditure as a whole, but may also provide indexes specific to certain items or sub-items (for example, a specific index for fuel costs).

200. **Expiring temporary expenditure must be excluded from the non-personnel recurrent budget baseline.** If, for example, the government approved in a past budget additional recurrent funding for a ministry for a purely temporary purpose, expenditure on that temporary purpose must be excluded from the calculation of the recurrent budget baseline once the period of the temporary expenditure is concluded. For example, if the Ministry of Youth Affairs and Sports had been provided with additional temporary recurrent (as well as development) funding over a three year period to organise regional games in Nairobi, such funding must not be factored into the ongoing baseline expenditure of the ministry after the games have been held.

201. **The estimate of baseline non-personnel recurrent expenditure for the coming budget year and future years should also adjust for any new spending initiative introduced part way through the current financial year, as a result of which their full annual cost was not factored into the current year budget.**

K. Baseline Estimates versus Simple Projections

202. **The budget baseline for next year is not in general the same as last year's expenditure, or last year's expenditure adjusted for inflation.** For example:

- The civil service salary bill for next year will depend upon a number of variables including planned recruitment (for previously-approved programmes), departures and career progression, and will therefore not necessarily equal last year's salary bill adjusted for any general public sector percentage salary increase.
- Baseline expenditure on capital projects means continuing expenditure on projects approved and initiated in previous budget years. The capital component of the baseline budget estimates will therefore depend upon the time profile of project execution, and will in general decline significantly over the medium term as some existing projects are completed.
- If the government decided in a

previous budget that a particular programme would expand in future years – for example, if it approved a multi-year programme for the provision of malaria bed-nets under which the number of bed-nets distributed was planned to increase by 30 percent per year over five years, the increased cost of this programme expansion would be calculated as part of the budget baseline.

L. Incorporating New Initiatives

203. **New initiatives are expenditure on development projects or new or expanded services outside the budget baseline.** New initiatives therefore comprise:
- Any new development project not previously approved and programmed by government;
- Recurrent expenditure to provide a service which has not previously been provided;
- Recurrent expenditure to expand a service, unless the expansion is pursuant to a previous commitment (in which case it is part of the baseline).

204. **Each proposed new initiative will need to be itemised and justified separately, so as to enable Treasury and the government to assess its impact upon the overall budget of the ministry concerned.** The financial estimates provided by spending ministries to Treasury will include medium term costs of new initiatives itemised by each initiative. In addition to the financial estimates for new initiatives, information on objectives, "intervention logic" and expected results will need to be provided.

M. Unit Costs as a Programme Costing Tool

205. **For some services, a calculation based on unit costs is the best method for estimating the cost of an existing policy commitment or a planned new initiative.** Such a calculation involves multiplying the planned quantity of services to be provided by the unit cost of the service. A unit cost is defined as 'the ratio of inputs required per unit of outputs'. This definition seeks to establish the level of inputs required (e.g. labour, materials, etc.) to produce one unit of output (e.g. 1 km of tarmac road).

206. **Unit costs can also be a basis for gauging the efficiency in delivering products or services.** For example, the higher the unit cost, the greater the inputs required to deliver the product and hence the less efficient. Or, if the unit costs for maintaining a road in District "A" are higher than in District "B", then operations in district A may be less efficient.

1. Limitations of Unit Costing

207. **The unit cost methodology is appropriate when the unit cost of the service concerned is constant.** Take the example of a policy commitment to inoculate all children under 5 against certain diseases. If it is known that the cost of purchasing and administering these inoculations is, for example, KSh 800 per child, and this cost does not vary significantly between regions, the total cost of the vaccination

programme can be most accurately estimated by multiplying KSh 800 by the projected number of children under 5 to be inoculated. The cost of a proposed new initiative may, if the unit cost of the service is constant, be estimated on the same basis.

208. **Unit cost calculations cannot, however, be undertaken for many government services.** This is the case wherever the unit cost is not constant. Other considerations and limitations with respect to unit costs include:

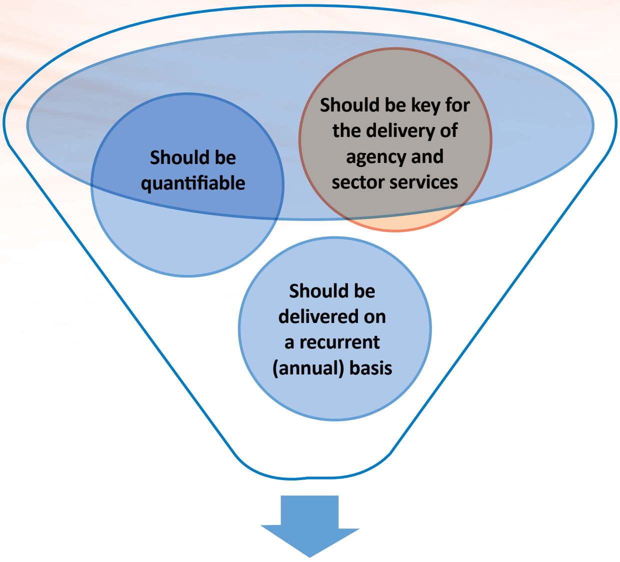
- Identifying and costing inputs can be fairly complex. Costs include direct costs attributable to inputs (e.g. labour, materials, etc.) and indirect costs linked in particular to process overhead costs (e.g. supervision, rent, utilities, etc.). Apportioning indirect costs can be a fairly complex assignment. Using an activity based costing (ABC) technique is a recommended approach.
- Costs are not always linearly related to outputs. There is usually an element of fixed variation of the cost structure. For example, the cost of training a class of twenty is not necessarily half of the cost of training a class of 40 students. Some costs (e.g. teacher's salary, lighting) may remain constant.
- Products, public goods and services or outputs are not always quantifiable. This is usually the case for qualitative outputs, e.g. improvement in the health of the population or satisfaction with a government service.
- Some outputs cannot be easily attributed to a single sector. Contribution is from more than one sector or agency. For example, in the provision of sanitation services, contribution comes from education, health and water ministries. When it comes to combating violence against women, contribution comes from education, health, communication, internal security and justice.
- Unit costs may not be standardised across the board because of varying conditions. For example, conditions for maintaining 1 km of road may differ from region to region.

2. Application of Unit Costs

209. **Unit costs can be used in some instances in the process of budget formulation to assist in costing expenditure projections.** This means that unit costs will be required at the time of costing work plans and generating budget estimates. A set of items, based on the Chart of Accounts, for which they may be used, fall largely in the goods and services and assets categories. In view of the complexity in generating unit costs, the criteria presented below may apply.

210. **Some examples of outputs in**

Figure 17: Application of Unit Costing in the Budget Process



Criteria to Select Application of Unit Costs

this category include: unit cost of vaccinations, per-student annual costs of school education (differentiated by level of schooling), and unit costs of road construction and maintenance by region. These are merely examples, and it will be important over time for each ministry to identify the outputs which it delivers to which the unit costing methodology may be applied.

N. Budget Ceilings and Budget Consolidation

211. **Annual budget ceilings put pressure on ministries to prioritise requirements within the ceilings to undertake new activities or provide greater support to effective programmes and thus better achieve their objectives.** Hard budget ceilings assist ministries in taking the initiative to:
- Better relate activities to objectives
- Review activities in terms of providing better value
- Improve effectiveness, efficiency and equity of spending
- Overall prioritisation.

212. **Once the budget ceilings have been provided, it will be necessary to reduce or increase the ministerial budget to meet the ceiling.** The difference between the indicative ceilings for the ministry and the baseline spending is that discretionary funds will be used for new spending proposals.

213. **In general, ministries will not need to reduce the baseline, but only rationalise proposed new priority spending initiatives.** For example, if the total identified expenditure requirements exceed the ceiling, the ministry should prioritise new priority spending initiatives expenditures by either:
- Eliminating the new spending initiatives entirely;

- Deferring new priority spending initiatives; and
- Scaling back or reducing the scope of these spending priorities.

O. Financing of Budget Proposals above Ceiling

214. **Where the expenditure proposals submitted by a ministry/department/agency are within its overall ceiling, these will be approved without much adjustment by the Ministry of Finance. However, in certain circumstances,** a ministry/department/agency may request appropriations that would exceed its ceiling. Under such circumstances, the only way to accommodate such requests for additional funding would be through a combination of:

- Efficiency savings;
- User charges and fees levied by the sector under the control of the line ministry/department/agency;
- Increase in general taxes or borrowing; and
- Borrowing, with negative effects on fiscal sustainability and potentially on macroeconomic stability.

215. **All proposals for the allocation of funds in excess of the expenditure ceiling should, be supported by appropriate justifications**, including how to pay for the proposals in terms of user charges, efficiency gains resulting in permanent savings and/or increases in general taxes. Since an increase in general taxes is generally not a viable option or, even under the control of the ministry. The ministry in question will need to focus on efficiency savings and other means of financing any spending above the ceiling.

P. Spending Review

216. Programme based budgeting is a tool to help government improve expenditure prioritisation and encourage ministries to improve their results. To achieve this, two things will happen:

1. Performance-Oriented Review of Spending Ministry Budget Proposals

217. **When Ministry of Finance receives line ministry expenditure estimates, it will scrutinise these in the light of:**

- The performance indicators and other information provided about the effectiveness and efficiency of expenditure on existing programmes, as annexed to the financial estimates; and
- Information on the objectives, intervention logic and expected results of proposed new initiatives.

2. Selective Spending Review

218. **Consideration will be given to the development of a complementary system of performance-based *programme efficiency and equity spending* reviews.** This will have two strands:

- A small number of programmes will be selected each year for more in-depth review with a view to advising the government as to whether the programmes concerned should be wound back or terminated in order to make way for other priority expenditure.
- Selected efficiency and equity reviews may also be established. Efficiency reviews will not examine specific programmes, but rather more general issues of service

delivery efficiency relating to many programmes. An example of an efficiency review might be “scope for reducing service delivery costs by the establishment of one-stop shops”. Equity reviews will examine the impact of service delivery on social relations between women and men in order to ensure that Government is on track to achieve its gender equality related objectives.

219. **The topics for such programme and efficiency reviews would be decided by the government at or prior to the commencement of the budget process, and the reviews conducted quickly so as to provide, in a timely manner, information to be used in the budget preparation process.** Further details of spending review mechanisms will be provided as and when these processes are established.

X. CHART OF ACCOUNT AND CODING STRUCTURE

This chapter aims at assisting the readers…

- In understanding the chart of account coding structure specifically as applied to budget preparation and monitoring purposes.
- In appreciating the purposes and scope of individual COA segments

By the end of this chapter, you should be able to;

- Comprehend the benefits of a flexible standardised chart of accounts structure.
- Define combinations of code segments for specific budget presentation, budget monitoring or analytical purposes.

A. Introduction

220. **A Chart of Accounts (COA)[8] can be described as a framework for budgeting, reporting and recording all the financial transactions in an organisation.** The Chart of Accounts (COA) is used to classify all accounting transactions and to control the budgetary allocations whilst also facilitating the financial reporting process. All accounting and budgeting transactions must be coded in accordance with the COA to ensure that the information is consistently and accurately recorded. Transactions are organised through the use of the COA mechanism such that individual transactions may be tracked but the information can then be aggregated and presented in formats useful for management purposes.

221. **A new Standard Chart of Accounts (SCOA) structure has been designed for use by the Government of Kenya budgetary institutions and will be applied with effect from the 2012/13 fiscal year.** All further discussion in this chapter relates to the new SCOA [9]. The chapter focuses on explaining the SCOA structure; individual code values will be found in the SCOA user manual.

B. Chart of Account Objectives

222. **The Kenyan SCOA has been designed to achieve the following objectives:**

- To address the current and anticipated financial reporting requirements of the users of the general purpose financial statements, including the requirements of specific interest groups such as international financial institutions and project donors.
- To ensure consistency between budget allocations and the

8 The term "Chart of Accounts" is used throughout this section. In the context of this manual it is interpreted as being synonymous with "Budget Classification" and "Accounts Classification", which may appear in other budgeting reference material.
9 Further information on the Chart of Accounts structure and application is available in: Government of Kenya, Standard Chart of Accounts User Manual, 2012.

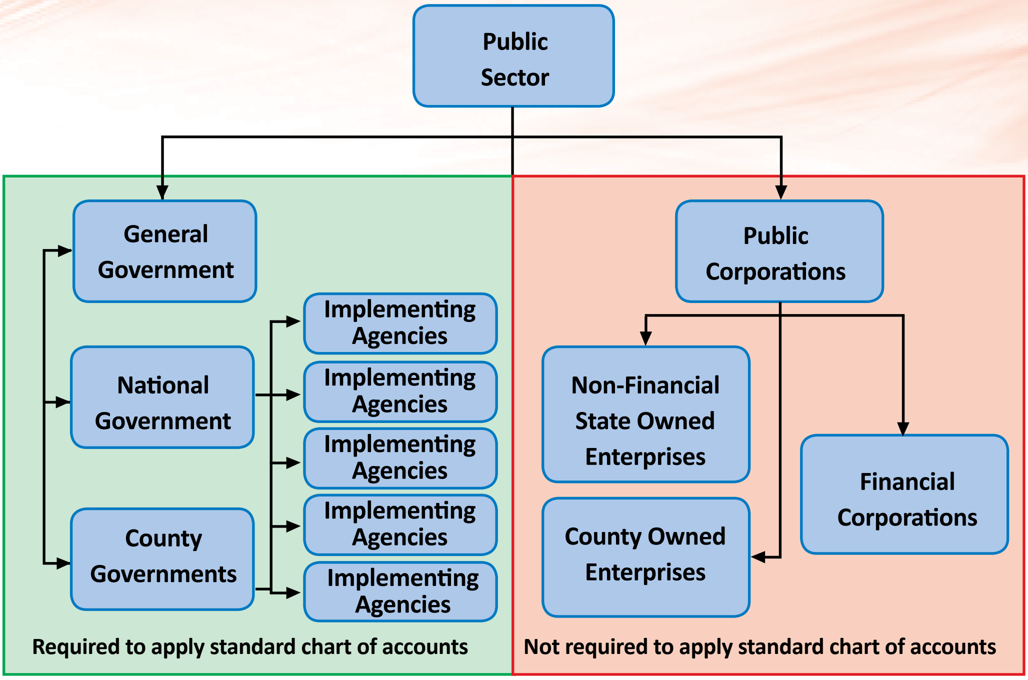
general ledger account codes. It is particularly important to be able to compare and report on: the approved budget, budget releases, budget variances and budget execution analysis.

- To build, where feasible, on existing COA structures and values, thereby limiting the effort required to retrain users as well as to migrate historic data enabling comparability with previous years.
- To construct a COA structure that is simple to understand and intuitive to apply, thus limiting the initial and ongoing training requirements.
- To ensure uniformity in accounting practice and reporting throughout Government. This is particularly important for enabling meaningful "whole of general government" analysis and facilitating the preparation of the government wide consolidated financial statements and statistics.
- To facilitate planning, performance and accountability through the aggregation of costs on the basis of organisational responsibilities, government programmes and projects, funding sources, and government functional areas.

223. **The word "Standard" in the description indicates that the chart of accounts structure and its values will be used consistently for all financial transactions and by all general government agencies.** The financial transactions cover the entire fiscal cycle and include budgeting, revenue collection, recurrent and development expenditures, as well as changes to assets and liabilities. The definition of "general government agencies" is inclusive of: institutions funded through the national budget such as ministries, departments and other agencies[10] (MDAs); county governments and their respective local authorities (LAs); special funds; and development projects. The SCOA will not be applicable to government controlled business and financial entities. The scope of SCOA coverage is illustrated in Figure 11, below.

10 The term "other agencies" includes: Constitutional bodies; regulatory bodies; and other autonomous and semi-autonomous public bodies receiving a vote or subvention. It does not include public enterprises.

Figure 18: Standard Chart of Accounts - Agency Coverage



224. **The benefits of applying the Standard Chart of Accounts to record all financial transactions by all general government agencies, include:**

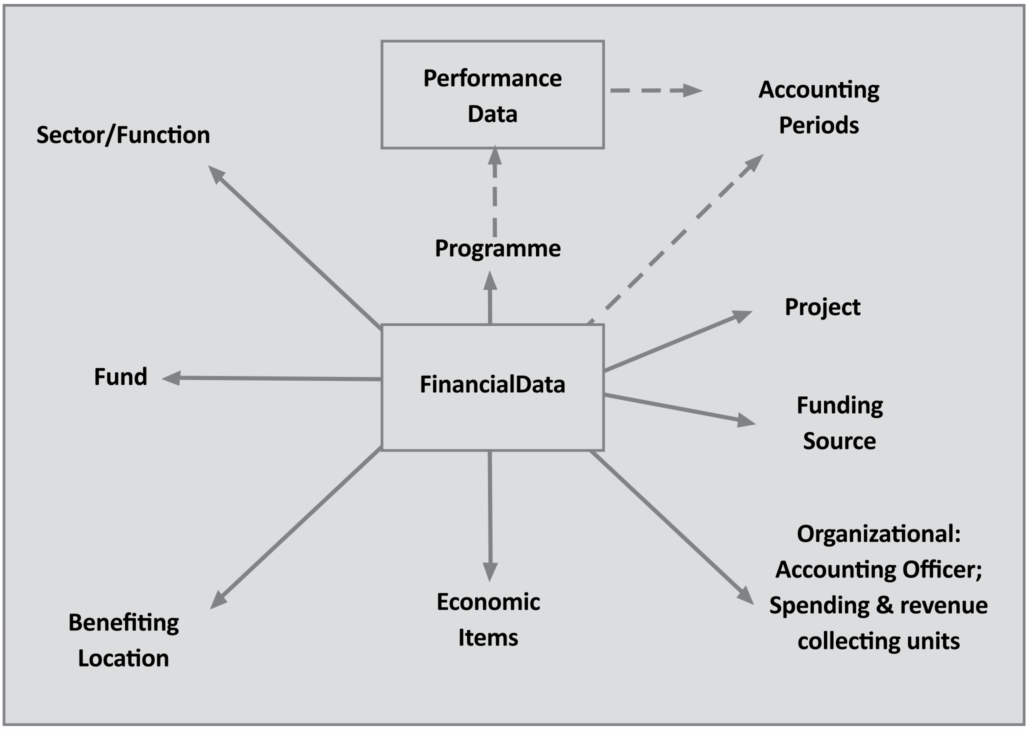
- Improved transparency and accountability through:
  - Enabling the sharing and comparison of financial data for an agency across the fiscal cycle (e.g. actual revenues and expenditures compared against the approved and released budgets).
  - Enabling the aggregation and comparison of financial data across agencies.
- Supporting uniformity of financial management practices throughout general government, enabling rationalisation of training and audit programmes, and standard financial management systems.
- Exploiting modern reporting tools by providing users with flexible reporting capabilities, for instance allowing the drilldown and rollup of data between different reporting levels.
- Supporting both the cash and accrual bases of reporting, and allowing agencies to progressively transition to the International Public Sector Accounting Standards (IPSAS) for accrual reporting.
- Enabling compliance to international reporting requirements by including within the COA reporting elements for Government Financial Statistics (GFS 2001) and Classification of the Functions of Government (CoFoG).

C. Reporting Dimensions

225. **Awide range of stakeholder groups have interests in government budget reports and financial statements.** Stakeholders include: Budget and accounting staff, internal and external auditors, accounting officers, politicians (Ministers, Cabinet, Parliament), councillors, development partners and international institutions, national statistics and financial system technical support staff.

226. **Stakeholder demand for analysis of financial data to meet specific reporting needs is similarly varied.** The range of reporting dimensions required by stakeholders for different analytical purposes is depicted in Figure 19 below.

Figure 19: Stakeholder Requirements - Report Dimensions



227. **Analysis of financial data by time period and relative to output/ outcome measures is not achieved through COA segments.** Breakdown of financial data by accounting period (week, month, quarter or financial year) is dependent on the calendars maintained in the respective accounting (i.e. general ledger) or budgeting modules. Analysis of financial data by all other dimensions illustrated above will be dependent on the structure and values of the chart of accounts.

D. Chart of Accounts – Design Considerations

228. To optimise the government's reporting potential, **the COA structure is characterised by a number of code segments, with each segment containing one or more hierarchical reporting lines.**

229. **Modern financial management computer systems, such as Kenya's IFMIS (Integrated Financial Management Information System), are capable of accommodating multiple code segments, where:**
- Each segment is independent from other segments and concentrates on a particular analytical dimension;
- Transactions will be defined by combining relevant values from each code segment; and
- Each code segment can contain one or more reporting hierarchies whereby:
  - The number of reporting levels is determined by operational and managerial requirements,
  - Transactions are recorded at the bottommost (or the most disaggregated level), and
  - Drilldown and rollup functionality allows the same data to be analysed at different levels of aggregation.

230. The SCOA structure has been established through a consultative process over several months led by a task force representing the interests of multiple stakeholder groups. The eventual structure sought to satisfy the design objectives and requirements for reporting dimensions, without introducing unnecessary complexities. The segments and code lengths are illustrated in Figure 20, below:

Figure 20: SCOA Design - Code Segments

Segment	Description	No. of characters
Segment 1	Class	1 digit
Segment 2	Vote	3 digits
Segment 3	Administrative	7 digits
Segment 4	Projects	6 digits
Segment 5	Source of Funding	8 digits
Segment 6	Programme	9 digits
Segment 7	Economic Items	7 digits
Segment 8	Geographic Location	7 digits

NB: The above structure was derived from the updated version of SCOA by the time of finalisation of this PBB Manual. However, it's possible that the SCOA maybe updated during finalisation and implementation. Accordingly, reference should be made to the most updated SCOA User Manual.

E. SCOA – Reporting Segments

231. **The SCOA structure comprises eight code segments, with each segment containing one or more reporting hierarchies.** This structure should allow for flexible reporting, should be capable of being used by all levels of government and will support the implementation of programme based budgeting. It also attempts to cater for a progressive move from cash to accrual basis of reporting. The SCOA segments are described below:

Figure 21: SCOA Reporting Segments

Code Segment	Segment Description
Segment 1 **Class** **(1 digit; 1 level)** **X** [11]	This segment basically distinguishes the type of budget – revenue budget, Recurrent and Development expenditures budgets. It also enables identification of transactions that do not affect the budget – referred to as Below the Line Items. The second level provides further breakdown e.g. recurrent and development budget.
Segment 2 **Vote** **(3 digits; 1 level)** **XXX**	Within the Oracle IFMIS system, this is described as the "balancing segment". The segment at which a trial balance is generated and financial statements produced. The structure allows for balancing at Ministry/ County organisational level. The higher reporting level allows for consolidated (aggregated) reporting.
Segment 3 **Administrative** **(7 digits; 3 levels)** **XXX.XX.XX**	This segment represents the organisational structure of a particularly government entity. The lowest level indicates the cost/revenue centre. Thus the code string runs as follows: Ministry>Department (Head)>Cost Centre (Sub-head). Special Funds have been designated at Departmental level and should be able to prepare separate financial statements.
Segment 4 **Projects** **(6 digits; 2 levels)** **XX.XXXX**	A separate segment for Projects has been created. Projects will be linked to implementing Ministries in the system, but not hard coded per ministry. The 6 digit project code includes 2 digits representing the year of project agreement and 4 digits for specific project code. The project coding will be specific in a particular year.
Segment 5 **Funding Source** **(8 digits; 4 levels)** **X.XXX.XXX.X**	Allows for analysis of revenues and payments by funding source. At broad level, it categorises revenues as either Domestic or External. At the lower level, it drills down to a particular source. E.g. a particular donor like WB. Donor funding is further identified by donor items (donor facilities) as each donor normally commits funding under a specific facility (referred to as "programme" in donor speak). And finally, at level 4, the funding mode (either Revenue or AIA) is identified.

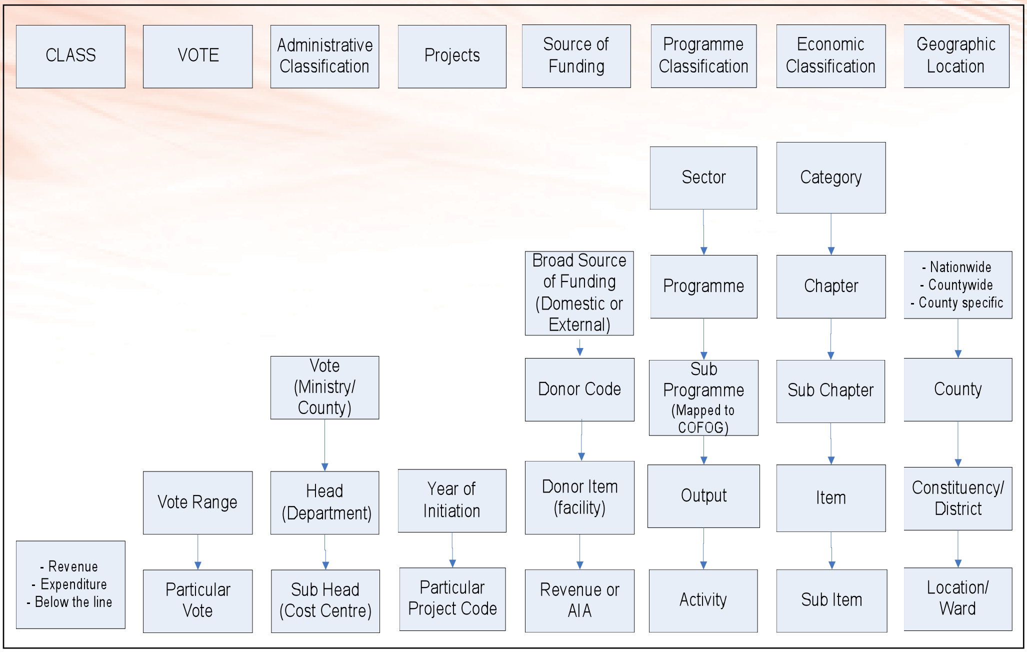
11 Note whilst the illustration includes "." as separators between the different reporting levels within a segment, these separators will not feature as part of the codes applied when recording transactions or generating reports.

Code Segment	Segment Description
Segment 6 **Programme (9 digits; 5 levels) XX.XX.X.XX.XX**	Provides for a programmatic reporting structure – all expenditures are categorised by programme/subprogramme to support performance or programme based budget. The reporting hierarchy comprises: Sector>Programme>Subprogramme>Output>Activity Each subprogramme will be mapped to CoFoG code to enable generation of the relevant reports. The level of Activity will not be populated in the near future.
Segment 7 **Economic (7 digits; 5 levels) X.X.X.XX.XX**	Analyses the nature of receipts, payments, assets, liabilities and funding flows. The values will be aligned to GFSM 2001. The reporting hierarchy comprises: Category>Chapter >Sub Chapter>Item>Sub Item
Segment 8 **Geographic (7 digits; 3 levels) XXX.XX.XX**	Enables payments to be tracked to the benefiting locations. The reporting hierarchy comprises: County>Constituency/District>Location/Ward The lower levels of devolution below the County level have not yet been determined, but the proposed structure is considered adequate for any structures that may be finally agreed.

NB: The above structure was derived from the updated version of SCOA by the time of finalisation of this PBB Manual. However, it's possible that the SCOA may be updated during finalisation and implementation. Accordingly, reference should be made to the most updated SCOA User Manual.

232. **The SCOA structure, showing the code segments and the reporting hierarchies within each segment, is illustrated in Figure 22.** Within this diagram, the bottommost levels of each code segment represent the coding levels which are to be applied for all accounting transactions; the higher levels indicate the levels at which data can be aggregated for reporting purposes. Alternative reporting hierarchies are shown in segments 5 and 6, enabling dual reporting streams – the primary stream to satisfy internal management purposes and the alternative stream to enable compliance to international reporting standards.

Figure 22: Standard Chart of Account Structure



NB: The above structure was derived from the updated version of SCOA by the time of finalisation of this PBB Manual. However, it's possible that the SCOA maybe updated during finalisation and implementation. Accordingly, reference should be made to the most updated SCOA User Manual.

F. Chart of Accounts – Flexible Reporting

233. **As illustrated, the SCOA structure comprises multiple code segments with each of these segments containing one or more reporting hierarchies.** The reporting capabilities benefit from the following features:
   - All accounting transactions will be entered at the lowest points in the code segment hierarchies;
   - The relationships between reporting levels in a segment hierarchy will be established in IFMIS such that they will always hold true (e.g. every time that a specific value is applied for a transaction, it will always roll up to a particular point in the hierarchy, which in turn will always roll up to a particular point in the next level of the hierarchy, and so on);
   - All transactions will assign values for each of the seven coding segments (even though for some transaction types the value will default to a zero-value code signifying that the segment is not applicable for this transaction type).

234. **These features allow for a very flexible reporting structure, enabling users to generate reports from combining the seven code segments at any level within the individual segment hierarchies.** The current combination is illustrated in Figure 22 above:

235. **Similarly, combinations of different levels from each of the code segments can be used for some budget preparation and budget execution tasks.** For instance hard budget ceilings could be enforced at highly aggregated levels; budgets could be released for commitment and expenditure (funds availability checking) at an appropriate level of aggregation.

236. **The reporting potential is further strengthened through combining the SCOA features with the functions contained in the modern reporting tools s**uch as those used for analysing budgets and actual revenues and expenditures. These reporting tools will typically allow users to:

- Drill down from a summary level in the reporting hierarch of a code segment, revealing more details on the transactions that make up the summary;
- Roll up from a detailed level of analysis to show the same data at a more aggregated level;
- Filter data, to include only specific code values or ranges of codes;
- Total and sub-total; and
- Specify the presentation order of segments for each report.

G. Chart of Accounts – Programme Segment

237. **The structure of the programme segment in the Chart of Accounts is described below.** This segment provides for classification of expenditures by programmes and subprogrammes. The current configuration of IFMIS includes this segment but it was not activated for one reason or another. This is the most significant omission from the current CoA and the integration of the programmes in the revised Chart of Accounts is one of the most significant improvements in order to support performance or programme based budgeting. The segment will have five levels as follows:

Figure 23: Structure of the Programme Segment

Level 1	Level 2	Level 3	Level 4	Level 5	Full Code
Sector	Programme	S-Programme	Output	Activity	
2 digits	2 digits	1 digit	2 digits	2 digits	9 digits

Below is the numbering outline, levels and the size of each level within this segment. Illustrative coding has been drawn from the Agriculture and Rural Development sector.

Figure 24: Coding Structure

Level 1	Level 2	Level 3	Level 4	Level 5	Full Code	Description
Sector	Programme	S-Programme	Output	Activity		
2 digits	2 digits	1 digit	2 digits	2 digits	9 digits	
01	**00**	**0**	**00**	**00**	**010000000**	**Agricultural and Rural Development**
01	**01**	**0**	**00**	**00**	**010100000**	**Policy, Strategy and Management of Agriculture**
01	**01**	**1**	**00**	**00**	**010110000**	**Development/Review of Agriculture Policy, legal and Regulartory Framework**
01	01	1	01	00	010110100	Policy frameworks reviewed and developed
01	01	1	01	01	010110101	Activity 1
01	01	1	01	02	010110102	Activity 2
01	01	1	01	03	010110103	Activity 3
01	01	1	02	00	010110200	Bills processed and submitted to the Attoney General
01	01	1	02	01	010110201	Activity 1
01	01	1	02	02	010110202	Activity 2
01	01	1	02	03	010110203	Activity 3
01	**01**	**2**	**00**	**00**	**010120000**	**Agriculrural Planning and Financial Management**
01	01	2	01	00	010120100	Establishment of Agricultural Development Fund
01	**02**	**0**	**00**	**00**	**010200000**	**Crop Development and Management**
01	**02**	**1**	**00**	**00**	**010210000**	**Land and Crops Development**
01	02	1	01	00	010210100	Surveillances and control of strategic pests carried out
01	02	1	02	00	010210200	Metric tons of traditional crop seeds multiplied and distributed
01	02	1	03	00	010210300	Reference materials on horticulture prepared
01	02	1	04	00	010210400	Water harvesting pans consructed for agricultural use
01	02	1	05	00	010210500	Agricultural machinery bought for AMS stations
01	02	1	06	00	010210600	Appropriate agricultural technologies developed/adapted, tested and disseminated

238. This segment is used to identify the programme, subprogramme, output and activity for a particular expenditure. The segment is applicable to expenditures only – during budgeting, execution and reporting. The segment enables generation of expenditure reports per programme/ subprogramme per MDA or across government. Planners and M&E function use programmes as their basis of planning and M&E. To enable reporting under the Classification of the Functions of Government (CoFoG), each subprogramme will be mapped to CoFoG code in the system. The Budgetary Supplies Department has already developed a set of programmes and subprogrammes. Programmes are domiciled within a sector, and coding of programmes in the Chart of Accounts follows this principle. The programmes and subprogrammes undergo annual review by the Sector Working Groups (SWGs) in line with the MTEF. Per the Budget Circular issued in September 2011, the budget for 2012/2013 will be presented both by programmes/ subprogrammes.

239. **The SCOA user manual will set out the responsibilities, forms and mechanisms for requesting and updating new SCOA segment values.** Careful control over the SCOA will be required to maintain the integrity of the SCOA structure by: Avoiding duplication of values, ensuring code segments are used for the correct purposes, eliminating inconsistencies and generally managing the SCOA so that it meets the reporting requirements of different stakeholder groups.

XI. APPROPRIATIONS, EXECUTION AND FINANCIAL REPORTING

This chapter on appropriations, execution and financial reporting aims to assist the readers…

- In understanding how appropriations will be dealt with under programme based budgeting.

By the end of this chapter, you should be able to…

- Prepare effective budget execution reports.

A. Introduction

240. **This section focuses on two closely related issues: 1) The system of legislative budget appropriations under programme based budgeting; and 2) Budget execution under programme based budgeting.** In other words, the manner in which spending ministries and the Treasury manage the implementation of the budget approved in programmatic terms by the Parliament.

B. Budget Appropriations

241. **Under programme based budgeting, the form of the budget estimates approved by the Parliament changes substantially relative to its traditional form.** The estimates will remain structured around "Votes" to ministries and certain other major institutional units (such as State House and the Kenya National Audit Office), but the structure of appropriations under each vote is significantly different.

1. Appropriations by Programme

242. **Within each Vote, the estimates approved by Parliament are allocated first and foremost to programmes.** This means that in endorsing the estimates, Parliament is deciding upon a particular allocation between programmes of the expenditure of each ministry. In executing their budgets, ministries are then required to respect this programmatic allocation decided by the Parliament, subject only to the possibility of minor transfers between programmes authorised by the Cabinet Secretary for Finance (see below).

243. **Allocations between subprogrammes may appear in the estimates, but only for information purposes.** This is because the Parliament will not be concerning itself with the fine detail of expenditure allocation between subprogrammes. Subprogrammes will, rather, be a tool for internal planning and budget management within spending ministries. Ministries will require approval from Treasury for them to reallocate money between subprogrammes within the same programme.

2. Appropriations by Economic Classification (Item)

243. **Appropriations by "economic classification" refers to the use of "items" in the estimates.** Under the

budgeting system operating in Kenya prior to the move to full programme based budgeting, the budget allocation provided to each "sub-head" has been broken into as many as twenty "items" such as "training expenses", "fuel oil and lubricants" and "communication, supplies and services". By contrast, under programme based budgeting the detail of budget control over expenditure by economic classification is reduced very substantially. This is because the *quid pro quo* for the greater accountability of ministries for results delivered to the community is greater freedom in their internal management of their budget.

244. **Concretely, with the move to full programme based budgeting, many "items" will be grouped together in new, broader "item control totals".** Within these item control totals, spending ministries will be authorised to shift money during budget execution if necessary without the need to request transfer authorisation from Treasury. Ministries will be able to move money between items within the same item control total in the same manner that (prior to the move to full programme based budgeting) they were able to move money between sub-items within the same item. For example, all items relating to salaries and other forms of remuneration of personnel (including the items "basic salaries – permanent employees", "personal allowance – paid as part of salary" etc.) will be grouped together into a new "personnel expenses" item control total, and reallocations between the items within that item control total will not require Treasury approval. The item control totals which will apply after the move to full programme based budgeting will be the following:

Table 8: Line Item Controls in Programme Budgeting

Item Control Total	Items
Personnel Expenses	Basic Salaries – Permanent Employees Basic Salaries – Temporary Employees Personal Allowance – Paid As Part of Salary Personal Allowances Paid As Reimbursements Etc …
Utilities Supplies and Services	Utilities Supplies and Services
Foreign Travel and Related Expenses	Foreign Travel and Subsistence, and Other Transportation Costs
Other Recurrent Expenditure	Communication, Supplies and Services Domestic Travel and Subsistence, and Other Transportation Costs Printing, Advertising and Information Supplies and Services Training Expenses Hospitality Supplies and Services Specialised Materials and Supplies Office and General Supplies and Services Fuel Oil and Lubricants Routine Maintenance – Vehicles and Other Transport Equipment Routine Maintenance – Other Assets Etc …
Capital Expenditure	Purchase of Office Furniture and General Equipment Purchase of Specialised Plant, Equipment and Machinery Research, Feasibility Studies, Project Preparation and Design, Project Supervision Construction of Buildings Construction and Civil Works Overhaul and Refurbishment of Construction and Civil Works Purchase of Certified Seeds, Breeding Stock and Live Animals Etc ….

245. **As illustrated in Table 8, the key item control totals under programme based budgeting are those for personal expenses, other recurrent expenditure and capital expenditure.** In addition to this, several minor item control totals will be preserved for special reasons. Thus, the "foreign travel and related expenses" item control total will be maintained so as to safeguard against excessive expenditure on foreign travel. And

the "utilities supplies and services" control total will be maintained so as to safeguard against the danger of ministries failing to pay their utility bills and as a consequence, either accumulating arrears or demanding budget supplementation from Treasury. However, it is anticipated that in the future the continued improvement in the quality of internal budget management within spending ministries will enable government to abolish the specific control total for utilities.

246. **The fact that approval of expenditure by economic classification will take place on a much more aggregated basis than in the past does not in any way imply that the accounting of expenditure by economic classification will become less detailed.** Accounting systems will continue to record expenditure during budget execution at the much more detailed sub-item level. See below for further discussion.

C. Programme Appropriations in the Budget

247. **In light of these four significant changes in the structure of budget appropriations, the new integrated estimates volume will look significantly different from the estimates volume under the traditional, pre-programme based budgeting system.** The vote structure in the estimates will now be as in the following hypothetical example as shown in Figure 25 below.

Figure 25: Example of Estimates Vote Structure Under Programme Based Budgeting

Vote 10: Ministry of Agriculture				
Programme	**Item Control Total**	**Amount budget year**	**Amount year N +1**	**Amount year N + 2**
Crop Industries	Personnel Expenses	Shillings	Shillings	Shillings
	Utilities Supplies and Services	Shillings	Shillings	Shillings
	Foreign Travel and Related Expenses	Shillings	Shillings	Shillings
	Other Recurrent Expenditure	Shillings	Shillings	Shillings
	Capital Expenditure	Shillings	Shillings	Shillings
Livestock Industries	Personnel Expenses	Shillings	Shillings	Shillings
	Utilities Supplies and Services	Shillings	Shillings	Shillings
	Foreign Travel and Related Expenses	Shillings	Shillings	Shillings
	Other Recurrent Expenditure	Shillings	Shillings	Shillings
	Capital Expenditure	Shillings	Shillings	Shillings
Further Programmes	.....	.....	.....	.....

248. **In addition, the breakdown by subprogramme will be attached to the estimates for information purposes.** As this example indicates, allocations to item control totals will be by programme. This means that it will not be possible, without Treasury approval, to shift money between, say, the personnel expenses allocation of one programme to the personnel expenses allocation of a different programme.

D. Appropriation Controls during Budget Execution

249. **During budget execution, there will be some scope for transfer of funds between appropriation categories, subject to Treasury approval.** The following transfers may be approved:

1. Virement between Programmes

250. **As one means of providing flexibility to respond to unanticipated developments which may occur during budget execution, there will be certain scope for transfers of funds between programmes.** Subject to Treasury approval, a ministry may transfer up to a certain percentage of the allocation approved by the Parliament for any programme to its other programmes. Transfers in excess of the limit are not permitted. More precisely, any transfer in excess of this will require an amendment of the budget by the Parliament.

2. Virement between Item Control Totals

251. **No transfer of funds between item control totals within a given programme may be made without the approval of Treasury, which may subject to certain constraints approve such transfers.**

252. ***There are two types of item transfers within programmes which Treasury is not* authorised by the Parliament to approve.** The first of these is transfers to personnel expenses from any other item control total. The second is transfers away from capital expenditure to any other item control total. The ban on transfers to personnel expenses means that each ministry must respect absolutely the upper limit imposed by the Parliament on personnel expenses in the Printed Estimates. The reason for this is that hiring additional staff usually creates expenditure obligations not only in the financial year when those staff are hired, but in future financial years. Maintaining control of expenditure therefore requires firm control of staffing decisions. This firm control will continue to be supported by the requirement of Public Service Commission approval of ministry's staffing levels.

253. **At the same time, transfers *from* personnel expenses to other item control totals within the relevant programme are not necessarily forbidden.** However, for Treasury to approve such a transfer, it would need to be convinced that the transfer does not risk leaving the spending ministry concerned without sufficient funds to meet all of the personnel expenses for which it is responsible during the financial year concerned.

254. **The ban on transfers away from capital expenditure is designed to prevent ministries from inappropriately sacrificing capital expenditure, which**

builds assets and infrastructure for the future, in order to increase current expenditure. When transferring funds between programmes ministries must not either:

- Increase the total amount of the ministry's allocation for personnel expenses for all its programmes taken together; or
- Reduce the total allocation for capital expenditure for the ministry as a whole.

255. **This means that when money is transferred between programmes up to the limit discussed above:**

- Programmes receiving funds transferred from another programme may not increase their personnel expenses by an amount in excess of the reduction in the personnel expenses allocation of the programme from which funds are being transferred; and
- Any capital expenditure allocations transferred from a programme may only be transferred to the capital expenditure allocations of other programmes.

E. Allocation by Ministry in Budget Execution

256. **During budget execution each spending ministry will need to translate the programme budget given to it by Parliament in the estimates into operational budgets for each of its directorates and other major spending units.** In a context where each such organisational unit is, as discussed in the programme design section, aligned with one and only one programme, this is not a difficult matter. If, as will frequently be the case, a programme corresponds to a single directorate, the budget for that programme is also the budget for the directorate. If, on the other hand, a programme corresponds to two or more directorates, it will be necessary for the ministry concerned to internally allocate the programme's budget between the directorates concerned. In doing so, it will naturally be guided by the organisational budgets which it drafted – together with the programme budget – during the budget preparation process. However, the ministry will retain discretion in the allocation of the programme budget between such organisational units, as this will not have been prescribed by Parliament when it approved the Printed Estimates.

257. **The allocation of the budget between subprogrammes within a programme during budget execution is also a matter which remains at the discretion of spending ministries**, which are therefore not necessarily bound to conform to the subprogramme allocation indicated in the financial estimates which they submit to Treasury during the budget preparation process.

F. Accounting and Financial Reporting During Budget Execution

258. **During budget execution, all expenditure is to be comprehensively recorded in the accounting system on a continuing basis in terms of programmes, subprogrammes, major organisational units (equivalent to heads and sub-heads), sub-item and certain other characteristics.** This is to be facilitated by a revised Chart of Accounts which is programme-compatible (See above).

259. **The simplified form of the budget estimates under full programme based budgeting does not in any manner affect the level of detail at which expenditure is to be recorded in the accounting system.** Thus, the system of broad item control totals will not remove the requirement to record expenditure by economic classification at the much more detailed sub-item level. Similarly, the fact that the Estimates allocate funding only at the programme and not the subprogramme level does not remove the requirement to record expenditure in the accounting system at the subprogramme level.

260. **Consistent with this, the final accounts prepared by each ministry at the conclusion of the financial year will provide full detail of expenditure including by subprogramme and sub-item**.

G. Performance and Financial Reporting

261. **Regular performance reporting should become an integral part of the budget planning and execution process.** Line ministries are expected to provide detailed and comprehensive information on actual budget execution as well as actual achievements of programmes, subprogrammes and activities in terms of output, outcomes, and efficiency, and equity results as appropriate. This is done on a quarterly basis, through quarterly, semi-annual and annual performance reports that will be prepared by the line ministries, based on the Performance Reporting Circulars issued by the Ministry of Finance.

262. **The Ministry of Finance will examine closely those programmes and subprogrammes to ascertain whether they are/are not performing well.** The MoF will also look closely at those (sub-) programmes. Bear in mind that it is difficult to justify continued funding if line ministries cannot demonstrate the effectiveness of their programmes. Sometimes external factors outside the control or influence of line ministries can impact budget execution performance and lead to results that are less than expected. These circumstances will need to be explained in the documents.

Table 9: Reporting Activity and Responsibility

Activity	Prime Agency Responsible	Period
Submission of Monthly Budget Accounts	All Agencies	Monthly
Financial / Physical Progress Reports	All Agencies	Quarterly
Mid-Year Review of the Budget	Ministry of Finance and All Agencies	November//December
Monitoring of Financial / Physical Progress	Budget Department//MOF	Year Round
Auditing	Internal Audit Units Audit General	Year Round

1. Monthly Financial Monitoring Reports

263. **A Financial Monitoring Report is to be prepared by each ministry/ department based on information provided by IFMIS.** Detailed financial monitoring tables regarding programme budgets must be provided. The report should include a summary of financial issues and developments during the considered period, an overview of the ministry/department financial results, steps taken to improve delivery of outputs by programme and subprogramme, and the medium term outlook.

2. Quarterly Performance Monitoring Reports

264. **A quarterly Performance Monitoring Report should be prepared by each ministry/department.** The report should include a summary of the significant performance issues and developments during the period, an overview of the ministry/departments performance, and an outlook for the following period. Performance results by programme/subprogramme by output should be provided (where available).

3. Annual and Semi-Annual Review of the Budget

265. **These two reports are produced by the Budgetary Supplies Department.** The semi-annual report is produced following the first six months in the financial year, while the annual report is produced after completion of the financial year.

266. **The purpose of these two reports is to examine and report on the performance of the budget in terms of both financial and non-financial aspects, against the objectives and targets established at the beginning of the financial year.** The MoF will hold a mid-year review to check if the budget is on-track. The review shall be based on the reports sent by budget users (agencies) and various monitoring reports. The semi-annual report will inform reviews and adjustments that may need to be made in light of the half-year performance. The Mid-Year Review shall result in:

- Revised budgets for ongoing development expenditures.
- Revision of rolling budgets for subsequent years.

4. Semi-Annual Performance Monitoring Report

267. **A semi-annual and annual Performance Monitoring Report is to be prepared by ministry/departments.** The report must first explain the process undertaken to monitor the progress of programme outcome(s) and performance measures (indicators and targets) of associated outputs. The monitoring report must also indicate data constraints, if any, and what steps are being taken to address data deficiency. In brief, the report must:

- Report on how the ministry/ department has performed during the period in relation to the expected delivery of programme/ subprogramme outputs and contribution to outcomes.
- Provide an assessment of how the ministry/department has progressed towards output targets and eventually outcomes. Therefore the report must include:

1. Reporting of actual results against programme/ subprogramme outputs and the specific performance information established in the multi-year programme budget documentation.
2. A concise narrative discussion and analysis of the detailed performance information. This should include: an overview of entity strategy during the year (including responses to emerging challenges and unexpected events), performance trend analysis, references to any significant changes in the nature of the ministry/department's principal functions or services (and how that may have impacted performance).
3. Discussion and analysis of the ministry/department's financial performance for the half-year period in line with the delivery of expected outputs.

H. Programme Budget Evaluation and Audit

268. **There are two levels of evaluations following the close of the financial year: programme evaluation and the statutory audit.**

1. Programme Reviews

269. **Programme reviews of the budget are a necessary process to assess the effectiveness of policy and programme implementation.** This evaluation focuses on:

- Assessing progress toward achieving targets that were set at the beginning of the year at both the vote and the sectoral level. These reviews also allow the assessment of the effectiveness of strategies chosen.
- Considering adjustments to policies, programmes and future strategies and activities.

2. External Audit

270. **External Audit of ministry/ departments is a statutory requirement.** In carrying out financial audits, the Auditor General is required to examine the accounts and financial statements of an agency as submitted. The audit examines the completeness of accounts in representing budget outlays, compliance with appropriations, authorisations and observance of relevant controls. The Auditor General also examines and corrects errors in computations. On the basis of the examination, the Auditor General will issue an opinion on the accounts which may be any of the following:

271. **Unqualified opinion** which implies in the auditor's judgment, the financial statements provided represents a true and fair view and is prepared within the relevant accounting procedures. Qualified opinion means that the auditor has not a satisfactory representation of the financial statements. The qualification may be in relation to:

- **Scope:** Where the auditor has been limited in scope of their work, preventing them to express an unqualified opinion.
- **Disagreement:** Where the auditors disagree with the accounting treatment or disclosure of a material

matter in the financial statement.

- **Adverse:** Expressed when the effect of the disagreement is so material that the financial statements are thought to be misleading and do not give a true and fair picture.
- **Disclaimer:** Expressed when the possible effect of a limitation on scope is so material that the auditor is unable to obtain sufficient evidence to support or express an opinion on the financial statements.

3. Value for Money Audit

272. **Value for money audit refers to an examination of an expenditure programme in terms of exercising efficiency, economy, effectiveness, and equity in the management of public spending:**

- **Economy** is concerned with minimising the cost of resources used to deliver the same quality and quantity of services;
- **Efficiency** focuses on the relationship between outputs or results and the resources (inputs) used to produce them. The question is how to maximise outputs for a given level of inputs (i.e., is the money well spent).
- **Effectiveness** is concerned about the delivery of objectives. It compares the actual results against the intended results.
- **Equity** focuses on the extent to which programmes meet the needs of women and men, girls and boys.

273. **The Constitution requires the Auditor General to submit an annual report on audited accounts to Parliament.** Accounting officers of each ministry are required to submit their final accounts in respect to revenues and expenditures the votes under their responsibility to the Cabinet Secretary for Finance and Auditor General, with copies to the Accountant General within 3 months after completion of the financial year.

ANNEXURE A: MINISTRY OF FINANCE QUALITY ASSURANCE QUESTIONS

274. In reviewing the various budget proposals from various ministries, Ministry of Finance budget officers should review proposals based on the following check list:

- ***Has the line ministry defined strategic objectives?*** Is strategic wide enough to cover all responsibilities (activities) of the ministry in the next long-term period?
- ***Have gender gaps in the sector been identified?*** Are strategic objectives appropriate to reduce gender gaps in the sector and are they in line with the national gender policy and Plan of Action?
- ***Has the line ministry properly defined programmes?*** Are programmes defined as main areas of responsibility of the ministry? Are all core areas of responsibility of the ministry covered with programmes? Are these programmes sufficiently stable enough not to be changed in the next 5-10 years, at least? Are programmes defined in a way that for each programme a certain outcome – benefit to be produced in society in the long-term – can be clearly associated? Have gender differences been taken into consideration? Is there one programme General Administration and Management or Institutional Support? Is there more than one supporting programme in total (programmes that support ministries internal work, rather than outside client)?
- ***Has the line ministry defined a programme objective for each programme?*** Are programme objectives defined in a way that each defines a benefit the ministry is trying to achieve for the country in the long-term?
- ***Has the line ministry defined subprogrammes under each programme?*** Does every subprogramme correspond to one policy area of the ministry or to one service being delivered by ministry or one target client group within given programme? Are gender differences within the target client group mentioned and strategies to reduce gender gaps identified? Can one main output (result) be defined for each subprogramme? Are subprogrammes too small? Can several subprogrammes be actually merged into one more meaningful subprogramme – that would clearly define one of the main services being delivered under the given programme?
- ***Are the line ministry's departments mapped to subprogrammes?*** Has the ministry mapped each of its departments to one of the subprogrammes? Is one department split between two subprogrammes?
- ***Has the line ministry defined the objective for each programme?*** Are these objective statements of the outcomes which the ministry

expects to deliver over the coming years? Do programme objectives reflect the Government's policy priorities?

- ***Has the line ministry defined performance indicators?*** Are those indicators quantifiable and measurable?
  - Has at least one outcome indicator been defined for each programme? Are outcomes defined as impact or benefits ministry will achieve for society? Does each outcome address programme objective of the programme for which it has been defined?
  - Has one output been defined for each subprogramme? Are outputs defined as direct results of ministry's work or services produced by ministry? Do they reflect volume of work under specific subprogramme? Does each output address operational objective of the subprogramme for which it has been defined?

The following table provides guidelines for the Ministry of Finance budget officers to evaluate programme budget submission.

Table 10: Guidelines for Evaluating a Programme Budget Submission

1. Does the mission align with national priorities?	
1.1 Does the mission align with the national strategy priorities?	
1.2 Does the mission clearly state the entire Ministry's core functions and service delivery priorities?	
2. Do programme objectives reflect the desired result?	
2.1 Do all the objectives link clearly to the mission?	
2.2 Are the objectives aligned to the Vision 2030 priorities?	
2.3. Are the objectives in line with the priorities of the national Gender Strategy in the given sector?	
2.4 Do the objectives reflect the core function of the ministry?	
2.5 Do the objectives state the end product or results of the ministry's services?	
2.6 Can the objectives be translated into measurable results?	
2.7 Is it definitely stated as a result not an activity? *(an objective should state the end result not an activity)*	
3. Does the strategic overview provide a summary of the policies of the Ministry?	
3.1 Does the strategic overview state the purpose of the Ministry?	
3.2 Does it identify and evaluate the key policies implemented over the past two years?	
3.3 Does it capture the new policy developments and implications on activities for the next three years?	
3.4. Does it refer to the national Gender Strategy?	
3.5 Does it evaluate service delivery achievements for the past two years (differentiated by sex) and provide guidance for the next three years?	
3.6 Does it support the main programme objectives?	

4. Overview of expenditure trends (recurrent and capital)	
4.1 Does it explain significant increases or decreases in expenditure over the 5 year reporting period, e.g. the past two years and the next three years? (Increases: -*Use the national inflation rate as a benchmark. Any increases more than 5% over this figure should be explained)* *(Decreases: -Any decrease of expenditure greater than –5% of the previous year should be explained)*	
4.2 Do changes in expenditure relate to the policy priorities stated in the strategic overview?	
4.3 Are the financial implications of new policy developments captured in the medium term budget?	
5. Medium Term Performance Targets	
5.1 Review of past performance	
5.1.1 Is there any difference between the actual and projected performance targets?	
5.1.2 If there is any difference, check that there is a satisfactory explanation given for the variation.	
5.1.3 Would the stated reasons for variations affect the future performance and hence resource allocation for the medium term?	
5.1.4 Are there variations in the performance with regard to women compared to men (where applicable)?	
5.2 Do the performance indicators relate directly to the output?	
5.2.1 Does it describe in words how the output will be measured *(e.g. the number of kilometres of road)*	
5.2.2 Are there at least 2 indicators for each output? *(quantity; quality; time; cost)*	
5.3 Are the performance targets specific, measurable, appropriate, realistic/affordable and time bound?	
5.3.1 If a quantity target is used can it be achieved?	
5.3.2 If a quality target is used can you achieve the set standard?	
5.3.3 If a time target is used is it realistic based on the resources you have?	
5.3.4 If a cost target is used is the amount realistic?	
5.3.5 Are all the targets consistent with each other?	
5.3.6 Are different targets defined for women and men (where applicable)?	
6. Reviewing alignment of resource allocation to policy priorities and performance targets	
6.1 Within your Ministry budget estimate have sufficient resources been allocated to achieve the programme objectives?	
6.2 Within each programme budget, have sufficient resources been allocated to activities to attain the performance targets that have been set?	
6.3 Are the necessary policy and institutional arrangements being addressed to ensure efficient use of resources and achieving performance targets?	
6.4 Have the financial implications arising from a new reform and/or policy development been assessed and accommodated?	

ANNEXURE B: FINANCIAL ESTIMATE PRO FORMAS FOR BUDGET PREPARATION

FINANCIAL ESTIMATES PROFORMAS FOR BUDGET PREPARATION TO BE PROVIDED BY SPENDING MINISTRIES:

A. BASELINE EXPENDITURE ESTIMATES

1. Programme Estimates: Baseline Expenditure

Programme: Water Conservation and Pipeline (i.e. this and similar tables below need to be filled in for each of the ministry's programmes)										
Subprogramme Code	Item Control Total (CT) Code[12]	Item Code	Item	Recurrent Expenditure		Development Expenditure		Total Expenditure		
				Approved (previous year)	Estimate (budget year)	Approved (previous year)	Estimate (budget year)	Estimate (budget year)	Estimate year +1	Estimate year +2
PP			Water Conservation (subprogramme)							
	YY		Personnel (item CT)							
		YYZA	Basic salaries (item)							
		YYZB	Allowances							
		..								
	XX	..	Other Operating							
		XXZA	Basic salaries							
		XXZB	Allowances							
		..								
RR			Pipeline							
	YY		Personnel							
		YYZA	Basic salaries							
		..	..							

11 Note: for an explanation of "item control totals", see the section on appropriations and budget execution under programme-based budgeting.

2. Project Estimates: Baseline Expenditure (Existing Development Projects)

Programme:										
Subprogramme Code	Item Control Total (CT) Code[12]	Item Code	Item	Recurrent Expenditure		Development Expenditure		Total Expenditure		
				Approved (previous year)	Estimate (budget year)	Approved (previous year)	Estimate (budget year)	Estimate (budget year)	Estimate year +1	Estimate year +2

3. **Organizational Unit Baseline Estimates** (baseline expenditure by organizational sub-head and sub programme).

Programme: ……………………										
	Subprogramme X. A		**Subprogramme X. B**		**Subprogramme X. C**		**Subprogramme X. D**		**Total (by sub-head)**	
	Recurrent	**Develop.**	**Recurrent**	**Develop.**	**Recurrent**	**Develop.**			**Recurrent**	**Develop.**
Sub-Head 1	12000	3000	-	-	-	-	-	-	12000	300
Sub-Head 2	-	-	6000	2000	3000	1500	-	-	9000	3500
Sub-Head 3	-	-	-	-	-	-	7000	900	7000	900

B. NEW INITIATIVES ESTIMATES

1. New Recurrent Expenditure Initiatives Estimates: estimates by individual new recurrent expenditure initiative

Programme: ……… Subprogramme: ……. Recurrent Initiative Title: ……				
Item CT code	Item code	Estimate (budget year)	Estimate year +1	Estimate year +2

1. New Recurrent Expenditure Initiatives Estimates: estimates by individual new recurrent expenditure initiative

Programme: ……… Subprogramme: ……. Recurrent Initiative Title: ……				
Item CT code	Item code	Estimate (budget year)	Estimate year +1	Estimate year +2

C. NEW INITIATIVES ESTIMATES BY PROGRAMME AND SUBPROGRAMME

3. New Initiatives Estimates by Programme and Subprogramme (all new recurrent initiatives and development projects consolidated)

Programme: …..										
Subprogramme Code	Item Control Total (CT) Code[12]	Item Code	Item	Recurrent Expenditure Estimate (budget year)		Development Expenditure Estimate (budget year)		Total Expenditure		
								Estimate (budget year)	Estimate year +1	Estimate year +2

D. ORGANIZATIONAL UNIT NEW INITIATIVES ESTIMATES

4. Organizational Unit New Initiatives Estimates (planned budgets of each organizational sub-head by new recurrent and development project expenditure)

Programme: ……………………										
	Subprogramme X. A		**Subprogramme X. B**		**Subprogramme X. C**		**Subprogramme X. D**		**Total (by sub-head)**	
	Recurrent	**Develop.**	**Recurrent**	**Develop.**	**Recurrent**	**Develop.**			**Recurrent**	**Develop.**
Sub-Head 1	12000	3000	-	-	-	-	-	-	12000	300
Sub-Head 2	-	-	6000	2000	3000	1500	-	-	9000	3500
Sub-Head 3	-	-	-	-	-	-	7000	900	7000	900

E. CONSOLIDATED ESTIMATES (BASELINE PLUS NEW SPENDING)

Programme: …..										
Subprogramme Code	Item Control Total (CT) Code[12]	Item Code	Item	Recurrent Expenditure		Development Expenditure		Total Expenditure		
				Approved (previous year)	Estimate (budget year)	Approved (previous year)	Estimate (budget year)	Estimate (budget year)	Estimate year +1	Estimate year +2

F. ORGANIZATIONAL UNIT CONSOLIDATED ESTIMATES

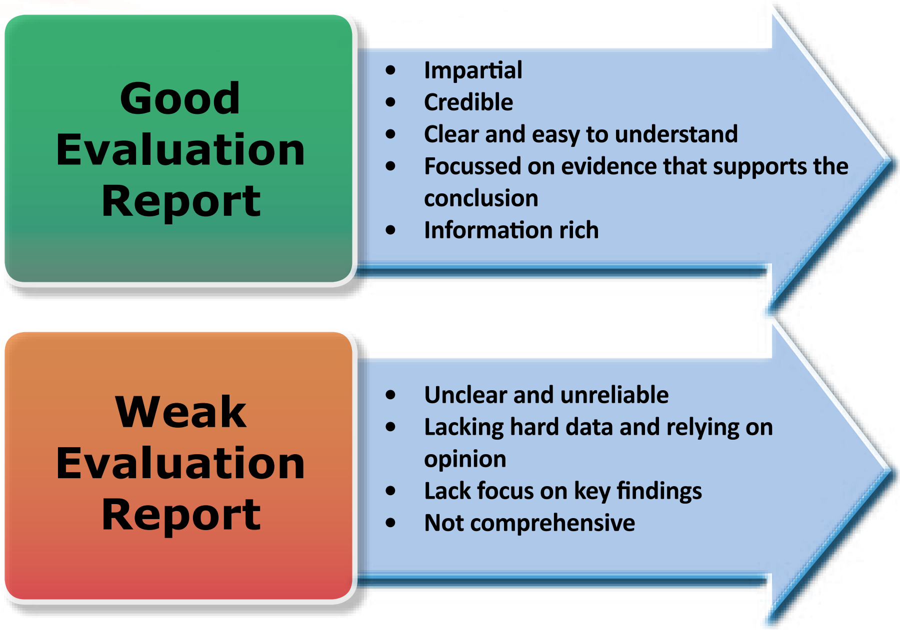
2. Organizational Unit Consolidated Estimates

Programme: ……………………										
	Subprogramme X. A		Subprogramme X. B		Subprogramme X. C		Subprogramme X. D		Total (by sub-head)	
	Recurrent	Develop.	Recurrent	Develop.	Recurrent	Develop.			Recurrent	Develop.
Sub-Head 1	12000	3000	-	-	-	-	-	-	12000	300
Sub-Head 2	-	-	6000	2000	3000	1500	-	-	9000	3500
Sub-Head 3	-	-	-	-	-	-	7000	900	7000	900

ANNEXURE C: SAMPLE EVALUATION REPORT OUTLINE

275. **This annexure presents an outline for a programme evaluation report.** [12] Figure 18 provides a portrait of good and weak evaluation reporting structure.

Figure 26: Characteristics of Good and Weak Evaluation Reports



Executive Summary

- What is the context and purpose of the programme/subprogramme evaluation?
- What are the primary findings and conclusions, recommendations and lessons learned?

Introduction

- Why was the programme/subprogramme selected for evaluation?
- What is the purpose of the evaluation?
- How will the evaluation results be used?
- What are the key issues to be addressed by the evaluation?
- What was the methodology used for the evaluation?
- What is the structure of the evaluation report?

Context

- When did the concerned ministry/department begin working toward the outcome(s)?
- What are the problems that the programme/subprogramme is expected to address?

12 This section utilises procedures from Republic of Mauritius "Manual for Programme Based Budget (PBB)" Pages 33-34.

- Who are the expected beneficiaries? Does the programme/subprogramme address differences between female and male beneficiaries (where appropriate)?

Findings and Conclusions

276. **The section on findings and conclusions should include the ratings assigned by the evaluators to the outcome(s), outputs, and sustainability and relevance of the outcomes.**

- **Status of the programme/ subprogramme**
  - Has the implementation of the programme been achieved?
  - Was the selected outcome(s) of the programme/subprogramme relevant?
- **Factors affecting the programme/ sub programme**
  - What factors have affected the implementation of the programme/subprogramme?
- **Ministry / department contribution to the programme/subprogramme outputs**
  - What are the key outputs produced by the concerned ministry/department?
  - What were the quantity, quality and timeliness of outputs?
  - Do women and men have an equal access to outputs (if applicable)?
  - What factors facilitated the production of such outputs?
  - How well did the concerned ministry/department produce its outputs?
  - Were the performance indicators appropriate to link outputs to outcomes?
  - Is there a need to improve these indicators?

Recommendations

- Recommendations should answer the following: What corrective actions are recommended for the new, on-going, or future work of the concerned ministry/ department?
- Lessons Learned - what are the main lessons that can be drawn from this experience?
- What are the best and worst practices in designing, undertaking, monitoring and evaluating outputs and activities?

ANNEXURE D: BUDGET GLOSSARY

277. The following words are being used in the context of programme based budgeting and have the following meaning:

Accounting System	The set of accounting procedures, internal mechanisms of control, books of account, and plan and chart of accounts that are used for administering, recording, and reporting on financial transactions. Systems should record all stages of the payments and receipts process needed to recognise accounting transactions, integrate asset and liability accounts with operating accounts, and maintain records in a form that can be audited.
Activity	An activity is generally the smallest building block within a programme that has a definable purpose and specific allocated costs. An activity is a thing you do to achieve a policy priority within a subprogramme.
Audit	Expert examination of legal and financial compliance or performance, carried out to satisfy the requirements of management (internal audit), or an external audit entity, or any other independent auditor, to meet statutory obligations (external audit).
Baseline Budget	This baseline budget includes the costs of the current level of activity, which is the costs of ongoing programmes adjusted for inflation services, legally mandated requirements, one-time expenditures, and the impact on a full year basis of decisions made in the current year.
Budget	The budget is generally prepared annually, and comprises a statement of the government's proposed expenditures, revenues, borrowing and other financial transactions in the following year and in many countries, for two or three further years. The budget is submitted to parliament, which authorises expenditure by approving either a budget act or an appropriation act that is consistent with the budget proposals.
Budgetary Unit	A ministry or government agency
Capital Investment	An outlay of money to acquire or improve capital assets such as buildings and equipment.
Cash Basis	An accounting method that recognises revenues when cash is received and recognises expenses when cash is paid out.
Chart of Accounts	A chart of accounts provides the structure for recording and reporting of all financial transactions for a governmental unit, and classifies and determines what financial transactions can be tracked for managerial purposes and reported in the financial statements.
Core Budget	Includes all income and expenditure (including donor funds) that pass through and are administered by the Ministry of Finance (through the Treasury Single Account).
Costing	A management tool used to estimate the overall resources needed for implementation of an activity/programme, assuming normal operations.

Efficiency	Measures the ratio of inputs needed per unit of output produced, measuring the extent to which resources are available for and applied targeted activities e.g. cost of vaccination programme/number vaccinated.
Effectiveness	Measures the ratio of outputs (or resources used to produce the outputs) per unit of project outcome/impact e.g. the number of vaccination (or cost) per unit decline in mortality rate.
External Budget	A subprogramme/activity that is funded directly from an aid donor and that financing does not go through the Ministry of Finance accounts outside the core.
Financial Management	Financial management includes the raising of revenue; the management and control of public expenditure; financial accounting and reporting; cash management; and in some cases, asset management.
Gender	A concept that refers to the social differences between women and men that have been learned are changeable over time and have wide variations both within and between cultures (European Commission, 1998).
Gender equality	The concept meaning that all human beings are free to develop their personal abilities and make choices without the limitations set by strict gender roles; that the different behaviour, aspirations and needs of women and men are considered, valued and favoured equally (European Commission, 1998).
Gender equity	Fairness in women's and men's access to socio-economic resources [...]. A condition in which women and men participate as equals and have equal access to socio-economic resources (European Commission, 1998).
Gender gap	The gap in any area between women and men in terms of their levels of participation, access, rights, remuneration or benefits (European Commission, 1998).
Gender mainstreaming	Mainstreaming a gender perspective is the process of assessing the implications for women and men of any planned action, including legislation, policies or programmes, in any area and at all levels. It is a strategy for making women's as well as men's concerns and experiences an integral dimension of the design, implementation, monitoring and evaluation of the policies and programmes in all political, economic and societal spheres so that women and men benefit equally, and inequality is not perpetuated. The ultimate goal is to achieve gender equality (ECOSOC).
Gender (Responsive) Budgeting	An application of gender mainstreaming in the budgetary process. It means a gender-based assessment of budgets, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality (Council of Europe).
Gender-sensitive	Addressing and taking into account the gender dimension (European Commission, 1998).
Line Item	In a line item system, expenditures for the coming year are listed according to objects of expenditure or "line items".

Outcome	Sometimes also called result and is used to describe what is intended to be achieved by the end of implementation on one or more activities. An outcome defines impact or effect we want to achieve in the society.
Operating Budget	Component of the core budget that is raised from government revenue and for which the government has sole charge of. Normally it is used for salaries and wages and goods and services but rarely acquisition of assets (capital) expenditure.
Objective	A concise statement of why a ministry exists, a programme objective (often just referred to as an objective) describes one of several responsibilities of a ministry, and an operational objective describes a task associated with a particular subprogramme (in order to achieve the objective of the programme).
Outputs	Goods or services produced by an activity e.g. number of vaccinations.
Programme	A grouping of ministry functions according to a key objective, based on the main functions performed or services delivered by a ministry. Normally there would be not more than 5 programmes per ministry.
Programme Based Budget	Programme based budgeting is linking government budget and other resources to the public policy objective. Programme based budgeting requires that programme objectives stretch beyond a single fiscal year. Programme based budgeting requires effectiveness measures, which means the measurement of outputs and outcomes.
Performance Indicators	Performance indicators or performance measures are defined as “quantifiable, enduring measures of public sector outputs, outcomes, and efficiency”.
Recurrent Activity	Package of ongoing and reoccurring operations that consumes inputs and produces a consumable good or service.
Strategic Plan	A plan that sets forth an organisation’s mission, goals, objectives, courses of action, and expected results for a specific time frame, usually five to ten years.
Subprogramme	For managerial efficiency, programmes are often sub divided into smaller units of work. They must have a well-defined purpose, budget, and time line and be related directly to achieving the purpose of the programme that is its host.

ANNEXURE E: BIBLIOGRAPHY

Anderson, Guy (2011) *Chart of Accounts Structure: Towards a Unified Solution* East AFRITAC (IMF)

Diamond, Jack (2006) *Budget System Reform in Emerging Economies: The Challenges and the Reform Agenda* Occasional Paper 245 Washington, DC: IMF

Diamond, Jack, I. Lienert, C. Balmer and M. Lawless (2006) *Introducing a Medium-Term Budget Framework* Washington, DC: IMF

Government of Afghanistan (2008) *Programme Budgeting in Afghanistan* Unpublished Mimeograph Ministry of Finance Kabul Afghanistan

Government of Georgia (2010) *Methodology for the Introduction of a Programmematic Approach to Budgeting* Ministry of Finance

Government of Kenya (2010) *MTEF Manual (Kenya Budget Process)* Ministry of Finance/Treasury

Government of Uganda (2009) *Uganda Planning and Budgeting Manual (Draft)* Budget Department.

Pearson, Alan and Michael Schaeffer (2009) *Programme Budget Classification and IFMIS Coding Structure: Review and Next Steps* East AFRITAC (IMF) Dar Es Salaam, Tanzania

Royal Government of Bhutan (2001) *Budget Manual* Ministry of Finance (MoF), Royal Government of Bhutan

Republic of Mauritius (2009) *Manual for Programme-Based Budgeting (PBB)* Ministry of Finance and Economic Empowerment, Budget Strategy and Management Directorate

Schneider, Katrin (2006) *Manual for Training on Gender Responsive Budgeting*, Eschborn

Sharp, *Rhonda (2003) Budgeting for Equity. Gender Budget Initiatives with a Framework of Performance Oriented Budgeting*, New York

USAID/India (2008) *The Expenditure Planning and Management Practitioner's Guide* United States Agency for International Development (India), New Delhi, India

World Bank (2007) *Afghanistan Public Sector Accounting and Auditing: A Comparison to International Standards* No. 41041F Washington, DC: World Bank

World Bank (2007) *Gender and Economic Growth in Kenya. Unleashing the Power of Women*, Washington D.C.

Government of Kenya

OFFICE OF THE DEPUTY PRIME MINISTER
AND MINISTRY OF FINANCE

Government of Kenya, Ministry of Finance
Budgetary Supply Department
P.O. Box 30007 - 00100 Nairobi | Tel: +254 020 225 2299
Email: info@treasury.go.ke | Website: www.treasury.go.ke