

Public Expenditure Review

Health, Water and Sanitation





THE NATIONAL TREASURY

Public Expenditure Review

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Foreword

The Constitution of Kenya 2010 lays a very strong basis for efficient and effective management of public finances as espoused under Article 10, the bill of rights and the principles of public finance. The Government has taken bold steps to actualize these stipulations as reflected in the new legal framework under the Public Financial Management Act and the County Government Act (2012).

Since the onset of devolution public investments in the social sectors in Kenya have been significantly enhanced to support the realization of the human development targets. To effectively accomplish this, Kenya remains committed to the PFM principles focusing on transparency and accountability, promotion of equitable development including making special provision for marginalized groups and areas.

In an effort to gauge the impact of budget spending on Health and WASH in the context of devolution, the National Treasury spearheaded a Public Expenditure Review (PER) covering national and select 10 counties of Turkana, Mombasa, Kakamega, Siaya, Kisii, Nyeri, Nakuru, Kitui, Migori and Garissa.

The PER study sought to provide a closer look at how devolution has affected the financing and delivery of public services in key social sectors – health, water hygiene and sanitation with emphasis on gender. The PER points at opportunities to further strengthen and deepen public financial reforms in Kenya in support for effective and efficient service delivery. The analysis and policy recommendations are timely in strengthening the ongoing preparation and finalization of the FY2018/19 and Medium Term Budget, the Vision 2030 Medium Term Plan III and the next generation of CIDP.

It is our expectation that the evidence provided by this PER will be utilized to improve both allocative and operational efficiency of financial resources both at the national county levels.

I wish to extend my sincere appreciation to our development partners notably UNICEF, UN Women and the World Bank for their financial and technical support in undertaking this study. The National Treasury is also grateful to the sampled counties for providing data and support and validation of this PER study.



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Executive summary

The objective of the assignment was to carry out a county-level public expenditure review (PER) for the health sector and for the water, sanitation and hygiene (WASH) sector in Kenya. This review assesses public spending trends, identifies the challenges and opportunities, and makes recommendations for improving public financial and expenditure management in order to maximise the achievement of health and WASH sector outputs and outcomes.

This PER focuses on the health and WASH sectors in 10 purposively selected counties. The county-level focus of this PER provides an insight into how funds are invested, as well as the effectiveness of budget planning and distribution. It also provides a view on how expenditure has been allocated and delivered since devolution, as well as providing a comprehensive analysis of the systems and frameworks that determine how public resources are managed from the drawing of budget allocations to fund distribution to counties. This provides insights into how county governments are engaging in the budget process, and how they are improving access to services for their citizens in these two key sectors.

The PER aims to answer the following questions:

- Are policy priorities clear at county level, and are they clearly linked to national legal and policy frameworks?
- Are budget allocations and spending in line with these policy priorities?
- What has this spending achieved; and how effective and efficient has county government spending following devolution been?
- How can the public financial management (PFM) system be improved? What support is needed?

Special attention is paid to the context of ongoing devolution, in order to reflect the changes in service delivery, and consequently welfare of the population, in health and WASH. Note will also be made of the gender and equity dimension of each of the above where evidence exists.

The Kenyan health and WASH sectors have both undergone a substantial change in a short period of time. Despite challenges in PFM at the county level, discussions with national and county officials indicate a general perception that the devolution process is seen as a success that will make service delivery more responsive to the needs of the people. While it has been politicised in parts and is moving in fits and starts, the officials interviewed as part of this PER are broadly supportive of the devolution process. Nevertheless, a number of PFM issues were identified in these initial county budget and planning processes that may affect county-level service delivery:

- High expectations of the devolution process, together with a lack of clear human resource guidance, have increased recurrent expenditure outlays and introduced ambitious development budget proposals. Continued reported delays in transfers from the national government and underperforming local revenues have made executing both recurrent and development budgets challenging.
- Cash shortages and slow procurement procedures have led to low development budget execution and an accumulation of domestic payment arrears. Counties have prioritised paying the increasing wage bill, followed by operations and maintenance expenditures – leaving few funds to fulfil the county mandate for providing and improving service delivery.
- The budget process is well understood in the counties, though officials report difficulties in meeting the timelines for key parts of the budget planning and preparation cycle. As a result, annual development and financing strategies are delinked from medium-term planning, and participation in the budget process is limited. Lack of clear reflection of citizens' needs in planning, of clear prioritisation, and of published budget documents and reports, implies that credibility of county budgets is still low.
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- Across the period over 70% of county governments' revenues are from the equitable share (unconditional transfers) from the national government. Local revenues account for only between 21% (2013/14) and 14% (2015/16) of budgets, with the remainder funded from conditional grants and other transfers. With signs that counties' finances are normalising after the initial few years of devolution, it is important that PFM capacity gaps are addressed in order for county governments to maintain and build on pre-devolution levels of service delivery without undue reliance on the national government. However, a high degree of fiscal discretion for counties means the incentives will work against, for instance, efforts to improve accountability and revenue mobilisation.



Gender

Gender is a recurring theme in national and international policy statements in Kenya. At national level, gender equality is enshrined in the Constitution of Kenya (2010) and initial efforts have been made to introduce gender-responsive budgeting (GRB). Guidelines have been developed and approved, but their implementation does not seem to have been so straightforward. There are aspects of equity introduced in budget laws, and allocations are made to support and promote women as well as other social groups, yet these regulations and allocations are utilised on an ad hoc basis.

Officials interviewed in the 10 counties acknowledged gender and gender budgeting concepts, but noted that they were not yet incorporated into the budget cycle. Both capacity and tools for practising useful gender-responsive budgeting are currently lacking. Notably, there is a significant lack of gender-disaggregated data with which to inform planning, monitoring and evaluation.



Health

While Kenya invests less in the health sector than its peers at 5.5% of GDP, continued improvement can be seen in some healthcare indicators. Kenya outperforms the sub-Saharan Africa average with regard to life expectancy, births attended by skilled health staff and use of insecticide-treated bed nets. Nevertheless, maternal mortality and HIV prevalence remain high. Improvements in health are below national targets, and universal healthcare is far from a reality.

Nominal health sector budget allocations have increased, with larger shares being spent through counties than through the national Ministry of Health (MOH). Recurrent healthcare spending is increasing at county level largely due to the substantial personnel costs. As at the national level, execution rates for development budgets are low. County health service delivery is strongly affected by delayed and lower-than-budgeted transfers of concessional and conditional transfers from the national government. Improved coordination between the various levels and institutions involved in healthcare service delivery may help overcome service delivery planning issues, though disbursement delays cast significant doubt on the efficiency of health sector spending.

Nevertheless, health outcomes at the county level are improving, indicating that health spending at county level has been broadly effective at supporting the policy objectives towards which county health budgets are geared. County integrated development plans (CIDPs) and subsequent county health budgets have contributed towards reducing maternal and infant mortality, and improving antiretroviral therapy (ART) services for people living with HIV/AIDS (PLHIV), and have put more resources towards preventative over curative healthcare. Though health spending per capita has increased for all counties reviewed, variations in health spending per capita have widened further with devolution, implying that mismatches between resources and demand for healthcare persist.

The budget cycle has been implemented to the legal and procedural requirements, but there are many improvements to be made. Counties need midterm reviews of their CIDPs to ensure they are implementing as they expected and to update priorities if necessary. The planning and budgeting functions for health at county level could be improved with better monitoring and evaluation (M&E), particularly to generate and review quality, gender-disaggregated data. Capacity building and extra funding for staff would be required to implement this effectively.

Donor funding currently accounts for approximately a fourth of total health sector spending. While part of this funding, such as funds delivered directly to healthcare facilities and funds used to centrally procure medical supplies, helps maintain the effectiveness and efficiency of health spending, over-reliance on external funding implies a real risk to the sustainability of projects at county level, and has a knock-on effect on county budgets. The bias towards HIV/AIDS funding and lack of forecasted funding flows underlines the risks for health service delivery.



WASH

This PER goes further than recent PERs (GoK, 2013; World Bank, 2014). in unpacking expenditure in the WASH sector through considering the balance of expenditure between the national ministries, semi-autonomous government agencies, and county governments. In doing so it provides a more comprehensive analysis of WASH sector expenditure than has previously been available.

The growing importance of county governments. While the national Ministry saw a nominal reduction in budget allocations over the period, the county ministries with responsibility for water (CMoWs) have seen their budget increase to the degree that overall Ministries, Department and Agencies (MDA) funding is increasing. However, WASH MDA funding is reducing as a portion of total government expenditure; that is, the growth in WASH MDA funding is lower than the growth in total government expenditure.

The semi-autonomous government agencies (especially the WSBs and WSPs) continue to play a central role in the sector. Water service boards (WSBs) account for 40% of the national Ministry's WASH expenditure, while the water service providers' (WSPs) expenditure on operation and maintenance (O&M) is greater than that of the total county governments' recurrent WASH expenditure in most cases.

The WASH sector is heavily reliant on external finance. Appropriation in aid (AIA) accounts for 40% of the national Ministry's WASH expenditure funding, with additional external finance channelled through loans. External finance is heavily skewed towards loans as opposed to grants. For the period running from 2016/17 to 2018/19 external finance is projected to account for over 80% of the MDA budget requirements.

Expenditure in the sector is heavily weighted towards development expenditure, though budget execution rates for development expenditure in the counties is generally lower than recurrent, highlighting the need to prioritise recurrent spending items such as salaries over development expenditure, as well as the challenges for counties in executing development expenditure. In addition, for many counties the development execution rate is falling.

Many of the county CIDPs reviewed do not contain specific county-level access targets for WASH, and so for those counties it is not possible to assess the degree to which the county policy is aligned with national objectives. Those CIDPs that do set targets set ambitious targets, with most being sufficient to meet national policy goals.

Despite numerous monitoring initiatives there are few sources of data for a comparative analysis: county monitoring systems are weak, with the majority dependant on using output data reported through cascaded performance agreements, and counties do not use common indicators for monitoring progress on core WASH indicators.

Projected sector finance allocations are insufficient to meet requirements¹: Government of Kenya (GoK) projections reveal a large and widening gap in sector funding. The projections also point to a continued dependence on external finance sources.

¹ As per the ministries' own calculations in Sector reports.



Recommendations

The PER has shown that county funding for both health and WASH has increased, but with slightly lower execution rates than the national government achieves. This is due to capacity constraints at county levels, as would be expected, and additionally there are underlying logistical and administrative challenges. Seventeen key recommendations to overcome these are set out below:

Public finance management

- 1. Strengthening the credibility of county budgets.** A concerted effort will need to be made during the 2016/17 financial year to raise county treasuries' capacity to develop CIDPs. In particular, medium-term objectives need to be more clearly formulated, costed and prioritised by giving more space and support to the development of CIDPs, and these objectives need to be better linked to national policies, county annual targets and expenditure outlays. These are preconditions for medium-term and programmatic budgeting to take hold at county level.
- 2. Clarifying legislative and procedural gaps.** These notably include sectoral policies providing the framework for service delivery, and county-level civil service human resource management guidelines. The latter will rationalise personnel needs and ensure that personnel emoluments in the recurrent budget are kept within affordable limits.
- 3. Strengthening consultation and collaborative planning and drafting processes for key deliverables in the county budget planning and preparation process.** This notably includes support to develop realistic CIDPs that include clear timelines and costings for priority projects that can usefully feed into annual development plans (ADPs), so that ADPs can be used as an effective tool for annual planning and defining priorities.

4. Improving programme-based budgeting. County executive committees need to catch up to national ministries in developing programme-based budgets with clear narratives and targets for budget lines.

Programme-based budgets need to be introduced in the next few budget cycles to ensure accountable and aspirational service delivery expenditure and to avoid counties preparing incremental budgets. Specifically, if counties are to improve on gender equality, budgeting, and monitoring gender issues then additional training and funds will need to be targeted in this area.

5. Enhancing local revenue collection and administration. Counties need a better understanding of taxable formal and informal activity to improve tax revenue forecasts, and of how to increase tax compliance and reduce leakages. Non-tax revenues need to be identified for counties with high informal sector activity. Further revenues generated in addition to concessional transfers from the national government should be allocated to benefit accountability and execution of development budgets in underfunded sectors. It may be the case that the national government has greater economies of scale in levying some taxes than county governments, which would require revenue-sharing agreements to be rethought.

6. Increasing the coverage of integrated financial management information systems (IFMIS). ‘Blind spots’ in the IFMIS at county level need to be filled, including the recording of expenditures financed by local revenues. A roadmap for integrating sources of development expenditure, such as e-ProMIS, into the IFMIS needs to be developed. This will allow for more complete tracking of public expenditures and support accountability efforts by civil society, media and county assemblies.

Gender

7. Developing capabilities and systems for gender-disaggregated reporting, monitoring and evaluation. The introduction of IFMIS needs to be complemented by systems and practices that allow county governments to track progress on development projects, the promotion of gender equality and delivery of basic services, in both urbanised and non-

urbanised areas. Notably, gender- and location-disaggregated data should be made available for civil society, media and county assemblies to exercise oversight of public funds and make PFM more responsive to citizens’ needs. Capacity-building efforts should prioritise counties that were not previously provincial headquarters, and whose CECM-F members did not previously occupy Treasury or other related positions.

8. Facilitating counties’ efforts for gender-responsive budgeting. Counties need specific support and guidance to help target and promote gender equality, including through basic service budgets and projects. Existing gender-responsive budgeting guidelines need to be adapted specifically for the county level, and gender focal points need to be trained on the guidelines. The National Gender and Equality Commission (NGEC) can support by developing a tool for setting gender-based targets in time for the next CIDP process. Civil society organisations need to work closely with National Treasury, NGEC and other gender-relevant institutions to integrate gender responsiveness into budget guidelines, and support ministries and county governments to integrate and track progress on gender-sensitive budgeting.

Health

9. Regularly review and where possible formalise practices to increase information flows on disbursements of transfers. Increased communication from national government to county health sectors on what proportion of the scheduled payment will be made, or when they can expect the delayed payment, would benefit county’s ability to manage projects and payment of salaries.

10. Following the midterm review of the KHSSP 2014–2018, agree on a clearer framework for estimating medium-term resource needs for staffing and facilities’ O&M. The national MOH and county-level administrations have shared responsibilities with regard to health sector staffing and the countrywide access to healthcare services even after devolution – current planning documents offer little indication of joint planning. Particularly, both sides need to take into account existing geographical inequities in access to healthcare services.

11. Support the development of county M&E functions. In addition to the staffing and structures for collecting data to secure and monitor conditional grants, more permanent M&E functions need to be fulfilled by county health administrations in order to generate more detailed, sex-disaggregated data to monitor and evaluate progress against CIDPs.

12. Increased county and development partner collaboration. Counties should replicate the National Ministry of Health (MOH) resource tracking tool they hope to introduce to the National MOH planning and budgeting process. Peer learning could be an efficient training method and add consistency through the country in terms of external funding protocols.

WASH

13. Joint planning, or at least coordination in planning, between sector institutions is required. Currently the planning processes for the county governments, WSPs, WSBs, and the Ministry of Water and Irrigation (MoWI) are not linked. Given the structure of the water sector it is essential that these institutions consult one another during their planning processes and align investments to maximise impact.

14. Currently many county ministries of water (CMoWs) report targeting their investments equally by ward as opposed to targeting populations based on access level. There are limited data on access to improved WASH services at the county and sub-county level. Consequently, counties are not targeting their investments by need. For the same reason, it is not possible to assess the equity of service delivery. CMoWs should begin collecting and using access data for targeting, and the MoWI has a role in defining core monitoring indicators.

15. Sanitation expenditure is not readily identifiable within the IFMIS classifications. Further to the recommendation in Section 2.4.3 regarding the use of IFMIS programme codes there is a need for dedicated sanitation budgets. Despite the institutional home of sanitation being the Ministry of Health, sanitation investments, particularly in urban sanitation, are also undertaken by CMoW and WSBs with the WSPs maintaining and delivering sanitation services. Currently policy and practice do not reflect one another in this area.

16. CMoW O&M arrangements outside of WSP service areas are weak and there is limited monitoring of service sustainability. County governments report utilising community-based management models for rural services, but few assess service sustainability or direct budget towards the O&M of rural services threatening service sustainability.

17. Many of the county CIDPs reviewed do not contain county-level WASH access targets. For the current planning cycle, there is a need to establish and monitor county-level WASH targets. The current CIDPs are not clearly aligned with national policy due to the absence of such targets. The MoWI should also encourage the use of core indicators for planning and monitoring purposes to enable comparisons between counties on WASH performance.



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List of abbreviations

ADP	Annual Development Plan
AfDB	African Development Bank
AIA	appropriation in aid
AOP	annual operation plan
ART	antiretroviral therapy
CEC	County Executive Committee
CECM-F	County Executive Committee Member for Finance
CFS	Consolidated Fund Services
CFSP	County Fiscal Strategy Paper
CHA	county health accounts
CIDP	county integrated development plan
CMoW	County Ministry of Water
COB	Controller of the Budget
CRA	Commission on Revenue Allocation
Danida	Danish International Development Agency
DFID	UK Department for International Development
DHIS	District Health Information System
DHSs	demographic and health surveys
FDI	foreign direct investment
EAC	East African Community
EaSA	Eastern and Southern Africa
GDP	gross domestic product
GGE	general government expenditure
GHE	general health expenditure
GoK	Government of Kenya
GRB	gender-responsive budgeting
HPP	health policy project
HSSP	health sector strategic and investment plan
ICT	information and communication technology
IDA	International Development Agency
IFMIS	Integrated financial management information system
KEWI	Kenya Water Institute
JMP	Joint Monitoring Programme
LMIC	low- and middle-income country
KASF	Kenya Aids Strategic Framework
KENAO	Kenya National Audit Office
KNBS	Kenya National Bureau of Statistics
Ksh	Kenyan shilling
M&E	monitoring and evaluation
MDAs	Ministries, departments and agencies
MDGs	Millennium Development Goals
MICS	Multiple Indicator Cluster Surveys
NCGCS	National and County Government Coordinating Summit

NGO	non-governmental organisation
MOF	Ministry of Finance
MOH	Ministry of Health
MoWI	Ministry of Water and Irrigation
MEWNR	Ministry of Environment Water and Natural Resources
MTEF	Medium-Term Expenditure Framework
NCD	non-communicable diseases
NGEC	National Gender and Equality Commission
NTD	neglected tropical diseases
NHA	National Health Accounts
NHIF	National Health Insurance Fund
ODF	open defecation free
OECD	Organisation for Economic Cooperation & Development
O&M	operation and maintenance
OOP	out of pocket
OPM	Oxford Policy Management
PBB	programme-based budget
PER	Public expenditure review
PEFA	Public Expenditure and Financial Accountability
PHO	Public Health Officer
PHT	Public Health Technician
PFM	Public finance management
PFMA	Public Finance Management Act
PLHIV	people living with HIV/AIDS
PPP	public–private partnership
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WAP	Water Appeals Board
WASH	water, sanitation and hygiene
WASREB	Water Service Regulatory Board
WHO	World Health Organization
WRM	Water resource management
WRMA	Water Resources Management Authority
WSB	Water Service Board
WSP	Water Service Provider
WSTF	Water Service Trust Fund
WWDA	Water Works Development Agency
WWDB	Water Works Development Board

1. Introduction



1 Introduction

The objective of the assignment was to carry out a county-level public expenditure review (PER) for the health sector and for the water, sanitation and hygiene (WASH) sector in Kenya. This review assesses trends in public spending, identifying the challenges and opportunities, and making recommendations for improving public financial and expenditure management in order to maximise the achievement of health and WASH sector outputs and outcomes.

It follows from previous public expenditure reviews conducted in Kenya, most notably the Comprehensive PER conducted by the Government of Kenya in 2013, as well as two PER conducted by the World Bank in 2014. Whereas those reports have taken a macro view of public expenditure planning and execution, this report aims to complement this analysis with insights into county-level public expenditure management and service delivery in key sectors following devolution in Kenya from 2013 onwards.²

This PER focuses on the health and WASH sectors in 10 purposively selected counties: Garissa, Kakamega, Kitui, Kisii, Migori, Mombasa, Nakuru, Nyeri, Siaya and Turkana. The selection of counties was purposively done³ to provide a mix of populous and less populous, high- and low-performing counties, as shown in Table 1.

Table 1: Basic statistics of counties under review

County	Population, '000s, 2015	Poverty, headcount ratio, 2014	Total revenue (2015/16, Ksh bn)
Average	799*	45.2	7.3
Garissa	656	58.9	6.9
Kakamega	1,931	49.2	10.9
Kisii	989	51.4	8.6
Kitui	1,347	60.4	8.2
Migori	1,094	49.6	6.7
Mombasa	1,176	34.8	11.1
Nakuru	1,961	33.5	11.9
Nyeri	949	27.6	6.7
Siaya	717	38.2	5.8
Turkana	1,306	87.5	10.9

Source: DHIS, KNBS, 2014; Controller of Budget, 2016,

* 2014 figure from KNBS, 2014

2 Devolution indicates a form of decentralisation, in which both governance and administrative responsibility for specific functions of government are transferred to subnational level, usually still in public government but outside the direct control of the national government.

3 This selection was done by UNICEF, UN Women and the World Bank, who have ongoing programmes in these counties.

The Health and WASH sectors were selected because they represent constitutionally mandated service delivery commitments for which a significant portion has been devolved from the national to county governments (in accordance with Chapter 4 of the Bill of Rights of the Constitution). A previous PER was conducted for the health sector in 2014 (World Bank, 2014), which this report aims to build on.

While both sections have seen increased budget allocations in recent years, and some service delivery gains, they continue to face significant challenges, including insufficient funding at national and county levels, a shortage and inequitable distribution of skilled workers and PFM systems still evolving to meet service delivery needs. These sectors therefore give an insight into how devolution has affected public planning of and expenditure on critical, under-invested service delivery needs.

The county-level focus of this PER provides an insight into how funds are invested, as well as the effectiveness of budget planning and execution. It also provides a view on how expenditure has been allocated and delivered since devolution, as well as providing a comprehensive analysis of the systems and frameworks that determine how public resources are managed from the drawing of budget allocations to fund distribution to counties. Given the recent process of devolution and the upcoming elections in 2017, this provides insights into how county governments are engaging in the budget process, and how they are improving access to services for their citizens in these two key sectors. Special attention is paid to the context of ongoing devolution, in order to reflect the changes in service delivery, and consequently welfare of the population, in health and WASH. Note will also be made of the gender and equity dimension of each of the above where evidence exists.

Two main data sources are used: the budget and outturn data from the Office of the Controller of the Budget (COB) and the National Treasury's integrated financial management information system (IFMIS). The former is used primarily for the national and county overview, whilst the latter is used to identify the more in-depth breakdown for the 10 counties – Annex A provides full details. The PER covers the three fiscal years post-devolution: 2013/14, 2014/15 and 2015/16.

This review was conducted while expenditure recording, monitoring and evaluation systems were still being developed at county level. In order to draw conclusions on the effectiveness, efficiency and equity of current budgets and public expenditure, both for individual counties and across counties, clear disaggregated data are required on budget allocations, expenditures and service delivery outputs and outcomes. Indication is given throughout the report where requisite data are unavailable or insufficiently clear to draw such conclusions with confidence.

The remainder of the PER is structured as follows:

- Chapter 2 provides an overview of the pre-devolution context, and an analysis of the recent socioeconomic trends and the devolution process. This is then discussed in terms of the changes to devolved public financial management (PFM) and the budget cycle. Budget trends for national-level and county allocations are presented and discussed.
- Chapter 3 provides an overview of health sector policies, financing and performance at national and county level, and how these have evolved for the 10 counties subsequent to devolution.
- Chapter 4 examines the findings from the WASH sector, each providing an institutional and policy assessment before focusing on the 10 counties' performance over the past three years.
- Chapter 5 provides an overview of key findings and recommendations from the previous sections.

2. Macro-fiscal context and the devolution process



2 Macro-fiscal context and the devolution process

This chapter provides an overview of the Kenyan context prior to devolution. Subsequently, an analysis is given of the recent socioeconomic trends and of the devolution process. This is then discussed in terms of the changes to devolved public financial management (PFM) and the budget cycle. Finally, budget trends for national-level and county allocations are presented and discussed.

2.1 Fiscal context prior to 2013

This section provides an overview of (sectoral) budget performance and PFM in Kenya prior to devolution, by drawing on prior public expenditure review, undertaken by the Ministry of Devolution and Planning in 2013 and by the World Bank in 2014, and PEFA analyses from 2012. This sets the scene for findings in later sections of the report.

With regard to overall public financial management, recurrent trends noted prior to devolution include:

- Increasing allocations to development expenditure from low levels in the early 2000s to close to one third of the total budget in 2011/12. Development budget execution was rapidly catching up to recurrent spending, after large underspends were seen against development budgets in 2009/10 and 2010/11. This increase was largely financed by net foreign and domestic financing, which has been rising rapidly since 2009/10.
- Low quality of costings, planning and prioritisation in budgets. Poor planning and budgeting has led to frequent supplementary budgets being prepared (at least once a year), with pending bills for both development and recurrent expenditure accumulating rapidly.
- Improving recurrent budget execution, despite oft-noted delays in exchequer releases. Development budget execution has remained comparatively low despite increased allocations, accredited to slow procurement procedures limiting the implementation of development projects.
- Recurrent pressure on the budget by the wage bill. Civil servant strikes in 2013 led to an increase in public sector wages budgeted for 2013/14, despite the wage bill increase having been slowed down in prior years.
- Low transparency of budget documentation, accounting & fiscal reporting, with PEFA scores worsening from 2006 to 2012. Financial and performance reporting is hard to access and not easily understandable, with major gaps in reporting (e.g. donor-funded expenditure and semi-autonomous government agencies' spending), and off-budget expenditures, leakages and in-year reallocations not clearly explained (World Bank, 2012).

Forecasted costings of devolved functions indicated that the 15% equitable share could be inadequate to continue providing services 'at current levels', with the Medium-Term Expenditure Framework estimating that at least a 20% share would be necessary.⁴ The 2013 PER explicitly notes that counties will receive less funding for healthcare service delivery per capita following devolution than they are currently spending (GoK, 2013).

It also notes that there was limited attention to properly costing for achieving service delivery needs and outcomes, with reference to the health sector. Trends in the Kenyan healthcare sector prior to devolution were as follows:

- Improvements in health outcomes, particularly for life expectancy, under-five and infant mortality, supported by public health initiatives and including greater access to water and sanitation. However, a high prevalence of communicable diseases and rising levels of non-communicable disease were recorded, while maternal mortality remains high.

⁴ Budget allocations to subnational government are also higher in other EAC countries, averaging around 20% in Uganda and close to 25% in South Sudan.

- Increasing health sector expenditure increased to 7.8% of total spending in 2011/12, from an average of 5% in prior years, allocated in favour of funding hospitals and high-end curative care (GoK, 2013). The health sector budget reflected the overall trend of increasing allocations to and execution of development budgets, and a rise in the overall budget execution rate to 85%. A small part of public health expenditure was already decentralised through the Constituency Development Fund and local authorities' expenditures.
- Persistent challenges to further healthcare gains included a lack of adequate staffing, with 19 doctors and 83 nurses per 100,000 population in Kenya versus the WHO-recommended 36 and 356 respectively (despite 40% of government spending allocated to wages), as well as inadequately equipped and unequal geographical distribution of public health and sanitation facilities, services and workers across the country – with the best endowed county estimated to receive nine times the government funding per capita of the least endowed county.
- Concern about the efficiency of healthcare spending, with the majority of funds allocated to national teaching and referral hospitals, and pressure for higher wages and employment of more health personnel. Efficiency of spending at the level of public health facilities is estimated to be low (World Bank, 2014a).
- Initiatives were underway to address low budget execution and pending bills in recurrent expenditure (up to Ksh 1.4 billion in 2011/12) and low development budget execution rates, such as procuring medical commodities and supplies centrally and decentralising the payment of electricity and utility bills.
- Large share (approximately 50%) of health sector expenditure funded through appropriations in aid, as off-budget expenditure. GoK 2013 characterises the composition of health sector spending as that government budgets fund health workers, hospital operations and capital investments, while donor funds support clinics and purchase medical supplies, with the latter funding personnel costs for specialised staff.

Finally, the Kenyan water and sanitation sector saw the following trends:

- Access to improved water lagging behind targets at urban and rural level, with respectively 60% and 45% of urban and rural households having improved access in 2011/12. Similarly, access to sanitation by urban households remained low at 21%, though improvement in rural access rose from 6% to 9% between 2009/10 and 2011/12.
- Small budget allocations to the water sector through the Ministry of Water & Irrigation, ranging from 3–4% of the total budget, with a high share of funds allocated to development (83% on average). Steady execution rate of around 80%, in which 81% of funds executed are for development expenditure. This is as a result of a large share of donor-funded development expenditure (45% in 2011/12) to fund the expansion of water infrastructure.
- Allocations from the budget to state corporations slowly decreased, while they have increased own funding generation, with self-financing of these institutions upwards of 13% in 2011/12. Spending on water & sanitation by local authorities increased from Ksh 6.1 billion in 2009/10 to Ksh 8 billion in 2011/12, through water service providers.
- Low absorption rates accredited to slow disbursement of donors' funds, the sector being targeted for cuts in supplementary budgets and slow procurement procedures. Rapid accumulation of pending bills for development expenditure in 2010/11 and 2011/12 to support payments to National Water Conservation and Pipeline Corporation, to be cleared.
- Public works and water and sanitation service provision to be devolved to counties, with approximately 10% of MoWI budget forecast to be allocated to counties.
- Water accessibility and availability enhanced through drilling of new boreholes, exceeding targets. Concerns on the sustainability and efficiency of spending on maintenance of facilities and water service provision due to low cost recovery levels. Estimated 15–40% of operations and maintenance costs recovered.

2.2 National socioeconomic and macro-fiscal trends

This section presents recent social and macroeconomic trends for Kenya, highlighting the country's performance in the real, external, fiscal and monetary sectors, as well as providing a discussion of key socioeconomic indicators. The key socioeconomic and macro-fiscal trends are:

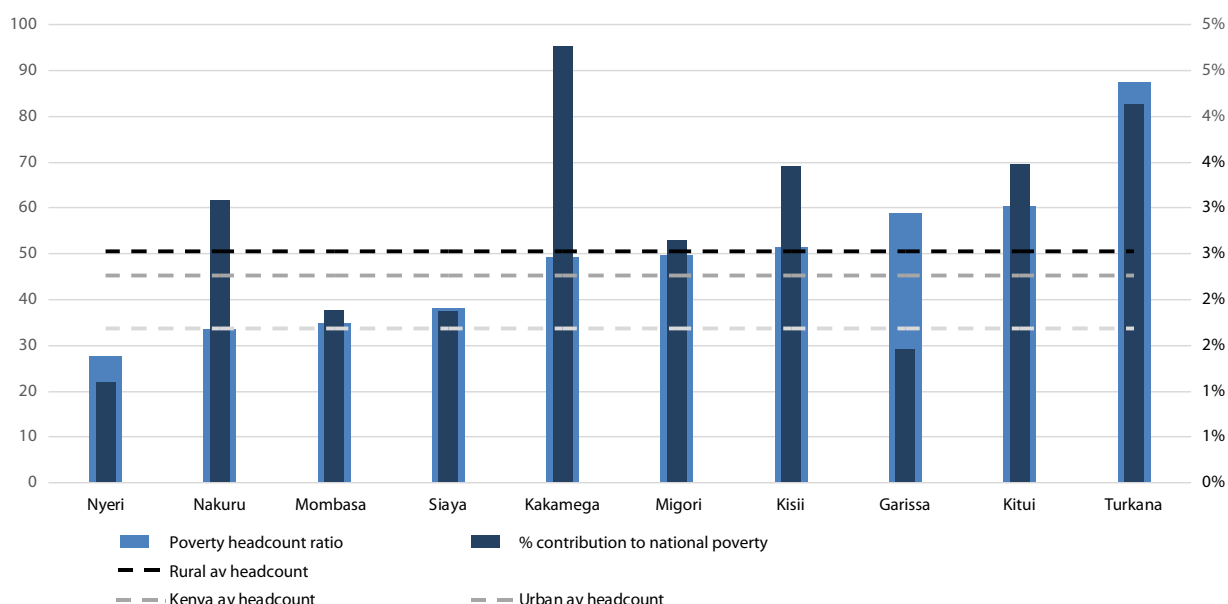
- Private consumption has continued to drive economic growth rates of 5.5–6.5% between 2013/14 and 2015/16. Kenya, however, is running a persistent current account deficit: in 2015, the current account deficit equalled 11.4% of gross domestic product (GDP) – the highest deficit as a share of GDP in the East African Community (EAC) region, and far above the continental average. This deficit is financed increasingly through foreign exchange income, as a result of growing remittances from abroad.
- The Government of Kenya (GoK) has continued a trend of fiscal expansion in budgeting for devolution and priority sectors noted in the Vision 2030 Medium-Term Plan II, with sectors such as education, governance and energy, infrastructure, and information and communication technology (ICT) receiving around 75% of allocated spending on ministries, departments and agencies (MDAs) year on year. In comparison, the health and environment sectors (including expenditure on water and sanitation) have received an average of just 7% of total budgeted agency spending.
- Whereas tax revenues in particular have grown, recurring fiscal deficits (reaching -8.1% of GDP in 2014/15) have resulted in Kenya's overall public debt accumulating at a faster rate. Faced with rising costs of borrowing both in domestic and global markets, the GoK has increased domestic borrowing to finance its fiscal expansion and cover for revenue shortfalls – domestic borrowing comprises 77% of financing.
- Expenditures on interest and loan repayments have increased almost as fast as those on county governments and development expenditures. The mounting pressure of domestic borrowing has led to delays in releases from the exchequer and increases in pending bills.

- Development budgets, including those financed by donor grants, continue to see low absorption rates. Recurrent expenditures for MDAs are the largest component of both budgeted and actual expenditure, at 38% on average, with consistently high absorption rates of over 80%. By contrast, development expenditures saw an average absorption rate of 54.7% throughout the three years. This raises concerns about Kenya's capacity for managing public procurement and investment in order to meet the targets set out in Vision 2030.
- The GoK has to date allocated the necessary minimum of 15% of total national government revenues to transfers to county governments.

While progress is being made in key sectors, poverty and vulnerability remain a key challenge, both in urban and rural contexts. An estimated 45.9% of Kenyans currently live below the national poverty line: 51% in rural areas and 33% in urban areas.¹ There is still also a considerable geographical disparity in poverty rates across different counties, as shown in Figure 1. For example, Turkana has 88% poverty incidence, whilst Nairobi has 21.8% (Kenyan National Bureau of Statistics (KNBS), 2014). Kenya also has one of the highest levels of income inequality in eastern Africa – with a Gini coefficient estimated at 0.45 in 2013 (higher in urban than rural areas) (KNBS and Society for International Development (SID), 2013).

¹ Poverty is estimated according to the headcount ratio, referring to the number of individuals in a sample whose consumption expenditure is below the national poverty line, as a percentage of the total population. The national poverty line is determined by the cost of a basket of food and non-food items deemed to be minimum requirements in order to meet basic nutritional and non-food needs.

Figure 1: Poverty incidence in selected counties in Kenya against national averages, 2014

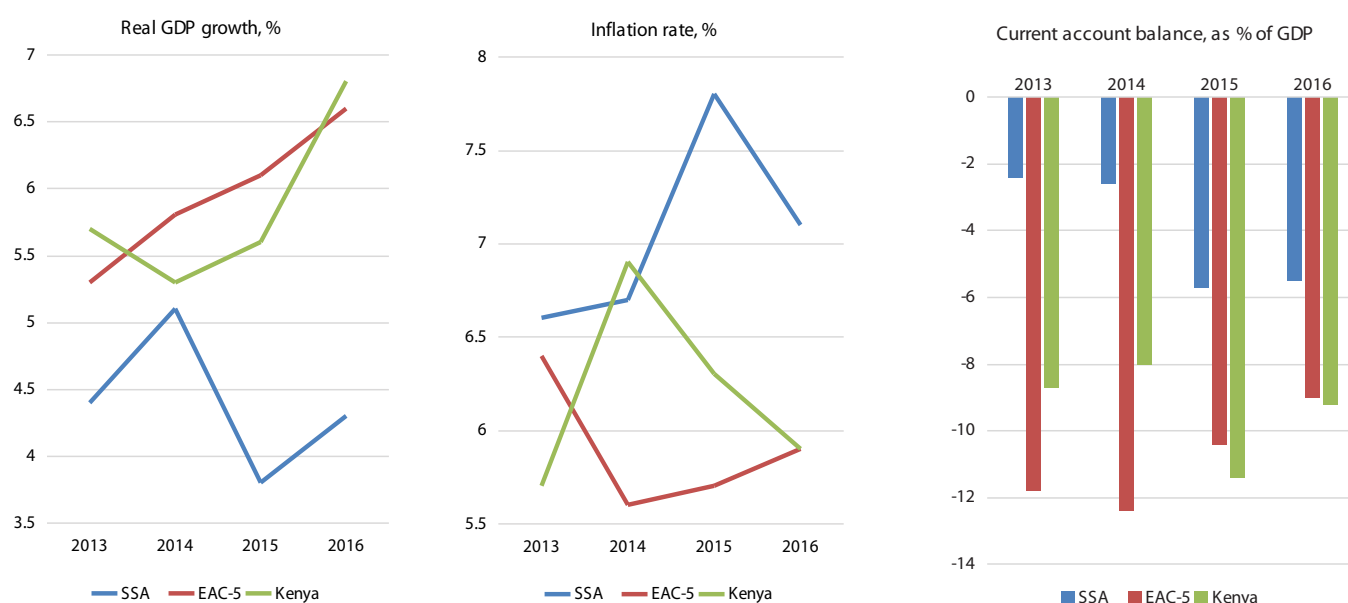


Source: KNBS, 2014

Kenya is considered to be a hub for financial, transport and communication services in East Africa. It has a primarily service-based economy (63.4% of real GDP in 2015), focused on tourism and financial services (African Development Bank (AfDB), 2014).² As seen in Figure 2 and Table 1, the rate of GDP growth in recent years has largely kept in step with the moderately high EAC average – averaging 5.5% in the past three years and currently at over 6.5%. This has been largely supported by private sector consumption – contributing around 97% of GDP and providing 80% of formal employment (AfDB, 2014).

The country is running a persistent current account deficit, increasingly financed by high remittances and positive capital and financial account balances. In 2015 the current account deficit equalled 11.4% of GDP – the highest in the EAC region and far above the continental average. Remittances have, however, increased steadily over the past decade, with remittances through official channels reaching 2.7% of GDP in 2015, providing a vital source of foreign exchange for Kenya (World Bank, 2016).

Figure 2: Performance of vital economic statistics compared to region and continent



Source: KNBS, 2016

² These numbers refer to 2013 real GDP.

Kenya's capital market is the third largest in terms of capitalisation in sub-Saharan Africa (SSA), after South Africa and Nigeria. It is dominated by equities and government bonds and has a balanced mixture of national and international investors (World Bank, 2016). Foreign direct investment (FDI) remains lower than in other neighbouring countries, but is expected to continue rising, especially due to increases in investments from Brazil, Russia, India, China and South Africa (the BRICS countries) in emerging extractive industries (AfDB, 2014).

The Central Bank of Kenya has kept the inflation rate at 5% \pm 2.5% target over the past five years (AfDB, 2014). In 2014 the Kenyan shilling depreciated against the dollar, but appreciated against the euro and the pound (KNBS, 2015, p. 143). Consequently, the Central Bank increased its reference interest rate to 11.5% in July 2015, in an attempt to stem currency depreciation and to anchor inflation expectations. The Central Bank rate has since been decreased back down to 10% in September 2016.

Recurring fiscal deficits (which reached -8.1% of GDP in 2014/15³) have resulted in Kenya's overall public debt accumulating at a faster rate – though still at a sustainable level. External debt reached 25% of GDP in 2014/2015, supported by the increasing use of external lenders to finance government infrastructure projects (World Bank, 2016). Most of Kenya's external public debt remains on concessional terms. Nevertheless, its non-concessional component is increasing, particularly after the 2014 first sovereign bond issuance (IMF, 2014). Net domestic borrowing reached 29% of GDP in 2015/16.

Table 2: Selected macroeconomic indicators for Kenya, 2013–2015

	2013	2014	2015
GDP growth rate (%)	5.7	5.3	5.5
Total revenue (% GDP)	19.3	19.4	20.3
Total expenditure (% GDP)	25.8	28.7	29.6
Budget deficit (inc. grants) (% GDP)	-5.9	-8.6	-8.1
Total debt (% GDP)*	41.5	46.7	52.7
Exports (fob) (% GDP)	10.6	10.1	9.7
Imports (cif) (% GDP)	31.0	31.0	27.2
Current account balance (% GDP)	-8.7	-10.0	-7.2
Financial and capital account (% GDP)	10.0	12.3	7.1
Inflation (average)	5.7	6.9	6.6
Exchange rate (average Kenyan shilling (Ksh)/\$)	86.1	87.9	98.2

Source: World Bank, 2016

* International Monetary Fund (IMF) data

National government revenues are made up of tax and non-tax revenues, domestic borrowing, and loans and grants.⁴ National revenue collection has generally experienced high absorption rates⁵ (around 90% a year), and was significantly larger than funds received in grants and loans on a year-to-year basis. Low absorption rates particularly for donor grant funding have been ascribed to slow procurement procedures and low government capacity (PwC, 2012).

Table 3: National budgeted and actual revenues, 2013/14–2015/16 (Ksh billions)

	2013/14			2014/15			2015/16		
	Estimate	Actual	Absorption	Estimate	Actual	Absorption	Estimate	Actual	Absorption
Total revenues	960.1	967.3	101%	1130.7	1216.2	108%	1256.4	1198.1	95%
Tax income	921	895.4	97%	1,050.90	1,001.40	95%	1,141.90	1,108.20	97%
Non-tax and other income	39.1	71.9	184%	79.8	214.8	269%	114.5	89.9	79%
Other sources of financing	303.4	313.1	103%	392.3	378.5	96%	606.7	655.4	108%
Commercial loans	46	0	0%	36.4	75	206%	154.3	134.9	87%
Grants	21.2	11.1	52%	16.1	10.8	67%	24.7	14.3	58%
Net domestic borrowing	236.2	302	128%	339.8	292.7	86%	427.7	506.2	118%

Source: COB, 2014a, 2015a, 2016a

³ In sync with the EAC, Kenya's financial year runs from 1 July to 30 June.

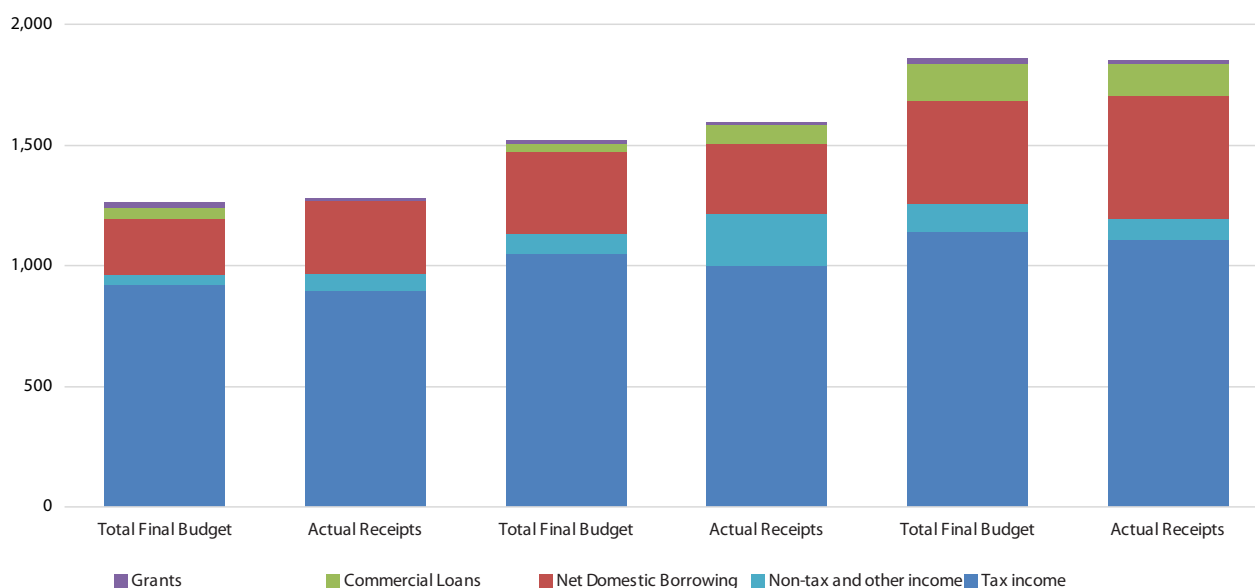
⁴ These include domestic and external loans and grants, as well as appropriations in aid (AIA). Revenues of the national government do not include local revenues raised by county governments.

⁵ The absorption rate reflects the share of the planned budget that has been 'absorbed' into expenditure, and is commonly used to measure budget execution performance.

Tax and non-tax incomes comprise over 70% of national revenues. Whereas tax revenues in particular grew by over 10% year on year for the three years from 2013/14 to 2015/16, their overall share of government revenues decreased, as

shown in Figure 3. This is due to growing domestic borrowing, which increased by more than 70% in 2015/16. Domestic borrowing is by far the largest source of financing for the GoK, currently at 77%.

Figure 3: Budgeted and actual government revenues, 2013/14 to 2015/16 (Ksh billions)



Source: COB, 2014a, 2015a, 2016a

National expenditures comprise recurrent expenditures,⁶ development expenditures and transfers to county governments.⁷ Table 3 gives an overview of the budgeted figures and outturns for 2013/14 to 2015/16. Budgeted allocations for recurrent expenditures made up 57% of the total budget on average across the three years, while development expenditures totalled 31% on average. Actual recurrent expenditures averaged 65% of total actual execution, while development expenditures equalled 20% on average.

Development budgets, including those financed by donor grants, continue to see low absorption rates. Total absorption rates for national government expenditures were 75% and above between the period 2013/14 and 2015/16. Recurrent expenditures for MDAs are the largest component of both budgeted and actual expenditure, at 38% on average, with consistently high absorption rates of over 80%. By contrast, development expenditures presented an average absorption rate of 54.7% throughout the three years. This raises concerns

about Kenya's capacity for managing public procurement and investment in order to meet the targets set out in Vision 2030 (discussed further in Section 2.2).

Actual transfers to county governments were modest in comparison to other sources of expenditures for the national government. Allocations of the equitable share to county governments have averaged around 15% of total expenditures each year, in line with the provisions of the 2010 Constitution. Even though they have been increasing in nominal terms, as a percentage of total expenditures they have remained constant. Transfers to county governments have also seen consistently high absorption rates of 80% or above.⁸ The GoK has up to now therefore devolved the necessary minimum of national government revenues to support the setting up of county-level administrations.⁹ Section 2.2 provides more background information on fiscal devolution in Kenya.

⁶ Recurrent expenditures include MDA expenditures and Consolidated Fund Services (CFS) expenditures (including servicing of public debt, pensions, payment arrears, guaranteed loans and membership fees for international organisations).

⁷ Including the equitable share of national revenue, allocations for Level 5 hospitals and allocations from the Danish International Development Agency (Danida).

⁸ Budgeted figures for expenditures on county governments at national level do not include local revenues raised by county governments. Actuals, however, include expenditures financed by locally raised revenues – which is why these budget lines can have absorption rates of over 100%.

⁹ In its 2016/17 budget proposals, however, the GoK proposed to allocate 33% of national government revenues to counties, more than double the Constitutional requirement.

Table 4: National budgeted and actual expenditures,¹⁰ 2013/14 to 2015/16

(Ksh billions)

	2013/14			2014/15			2015/16		
	Budget	Actual	Absorption	Budget	Actual	Absorption	Budget	Actual	Absorption
Recurrent	938.0	804.1	86%	1,173.6	1,054.9	90%	1,306.2	1,182.0	90%
MDAs	672.6	493.3	73%	736.7	623.2	85%	811.6	706.5	87%
CFS	265.4	310.8	117%	436.9	431.7	99%	494.7	475.5	96%
Development	463.6	241.14	52%	696.5	318.7	46%	681.9	451.8	66%
County governments	210.0	169.4	81%	242.4	258.0	106%	287.0	295.3	103%
Total	1,611.6	1,214.6	75%	2,112.5	1,631.6	77%	2,275.1	1,929.1	85%

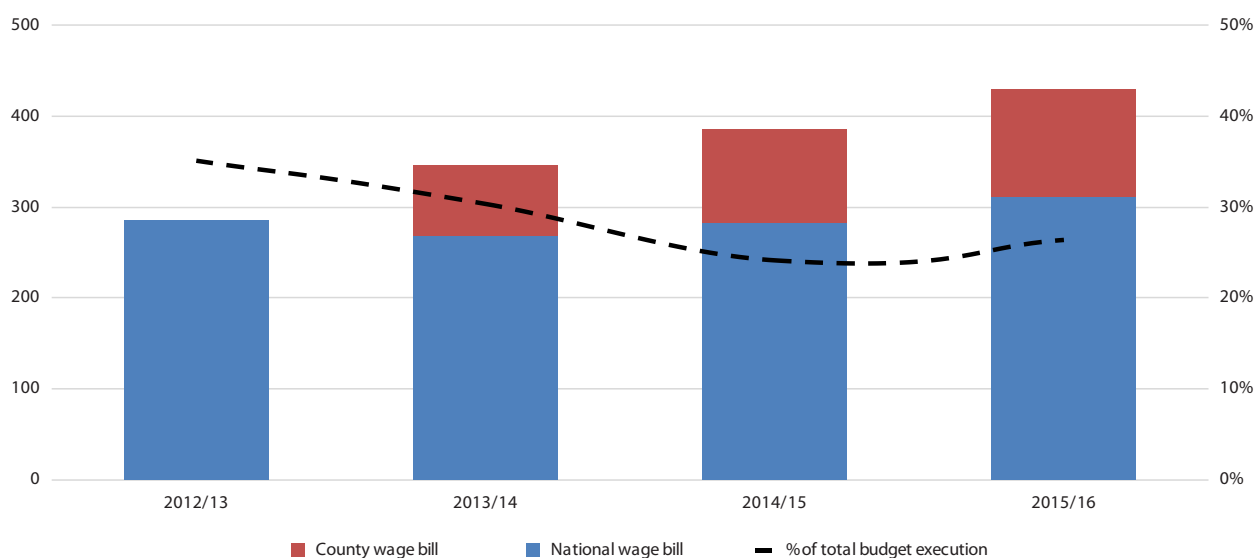
Source: COB, 2014a, 2015a, 2016a

Kenya continues to invest increasingly in flagship infrastructure projects and in the devolution process. As noted in other sources (World Bank, 2014, 2016) Kenya currently has an expansionary fiscal stance. While recurrent expenditures for MDAs remain the largest source of government expenditures, the country's year-on-year growth slowed down in the period under review. From 2013/14 to 2015/16, development expenditures, transfers to county governments and recurrent expenditures on CFS were the fastest-growing expenditure areas, growing at an average rate of 25% or above year on year.

The government wage bill has seen an increase in recent years, after signs of its growth being contained in 2011/12. The wage bill has increased by just over 50% since 2012/13, largely due to increased expenditure on personnel emoluments at county level, as seen in Figure 4. County-level spending on salaries made up 28% of the total wage bill in 2015/16, and 7% of total expenditures.

However, the share of the wage bill of total government expenditure has decreased in recent years, owing to rapid increases in development expenditure both at national and county levels, as well as consolidated fund services. The fact that the share of the wage bill is seen to increase again in 2015/16 is an indication that wages do continue to put pressure on budget execution in other areas.

Figure 4: Evolution of the wage bill following devolution, in Ksh million



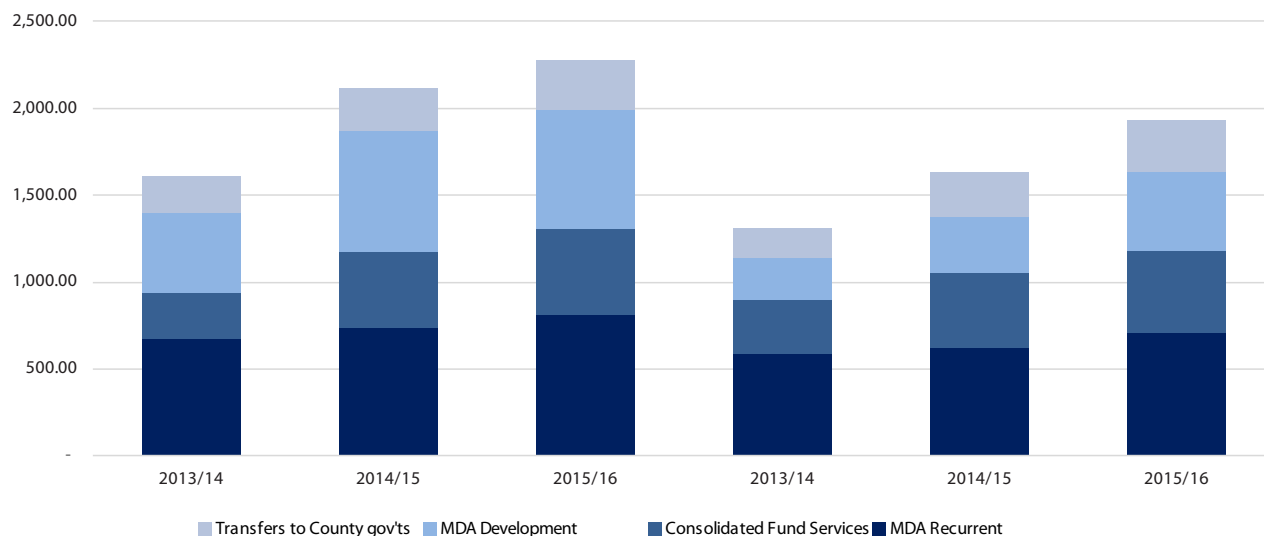
Source: COB, 2013, 2014a, 2015a, 2016a

¹⁰ MDAs stands for ministries, departments and agencies, CFS stands for Consolidated Fund Services (including debt repayment, pensions, gratuities, international organisation membership fees and salaries and allowances for Constitutional post-holders). Budget estimates noted include supplementary budget appropriations.

Continued fiscal expansion is driving up domestic borrowing. Faced with rising costs of borrowing in both domestic and global markets, the GoK has increased domestic borrowing to finance its fiscal expansion and cover for revenue shortfalls. The increase in expenditures on CFS seen in Figure 5 reflects interest and loan repayments against

the commercial loans and domestic borrowing which the GoK has had to undertake to finance the growing fiscal gap. This has, furthermore, led to delays in releases from the exchequer and increases in pending bills, as discussed further below (World Bank, 2016).

Figure 5: Budgeted and actual government expenditures, 2013/14 to 2015/16 (Ksh billions)

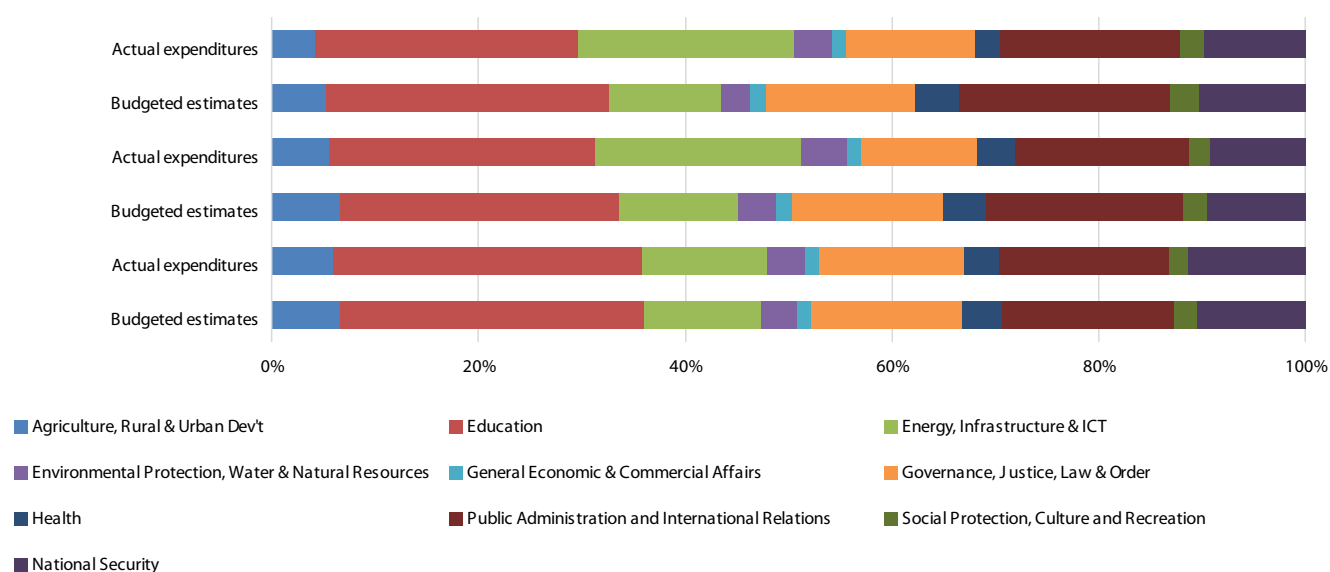


Source: COB, 2014a, 2015a, 2016a.

The GoK has allocated resources at national level towards priority sectors noted in the Vision 2030 Medium-Term Plan II. As shown in Figure 6, priority sectors include education, governance, justice, law and order, energy, infrastructure and ICT, and public administration. These sectors combined received

around 75% of allocated spending on MDAs year on year. In comparison, the health and environment sectors (which includes expenditure on water) received an average of just 7% of total budgeted agency spending. This pattern is largely reflected in budget execution.¹¹

Figure 6: Budgeted estimates and expenditures per sector as percentage of total MDA spending, 2013/14 to 2015/16



Source: Authors' own design, based on COB, 2014a, 2015a, 2016a

¹¹ These figures cover GoK expenditures. In addition, some sectors in Kenya receive substantial allocations in grant and loan aid. Overviews of the latest reported aid figures can be found on E-ProMIS: <http://e-promis.treasury.go.ke/e-promis/#>

The health of Kenyan citizens has improved in recent years, following an observed deterioration in the 1990s and 2000s (partly due to the increasing prevalence of HIV/AIDS, tuberculosis and malaria) (KNBS, 2015). However, regional disparities remain. All indicators for infant, child and under-five mortality rates have been decreasing, particularly since 2003 (the under-five mortality rate decreased from 115 in 2003 to 52 in 2014, for example). However, this still implies that about one in every 20 children born in Kenya dies before reaching the age of five¹² (KNBS and others, 2015). Between 2008 and 2014, stunting decreased from 35% to 26%, wasting declined from 7% to 4%, and the proportion of underweight children fell from 16% to 11%.

These health improvements have benefited women at least as much as men. The average life expectancy for women increased more for women than for men from 2000 to 2014, and maternal mortality in Kenya decreased from over 600 per 100,000 live births in 2000 to 500 in 2015. However, there are clear signs that shortcomings in access to healthcare services in Kenya affect women more than men. For instance, the HIV infection rate is higher among women than men, and the women's share of the population aged 15+ living with HIV increased from 55% in 2000 to 58.5% in 2015 (World Bank, 2016).

There has been an overall slight increase in access to water and sanitation services in the country. The Joint Monitoring Programme for Water Supply and Sanitation estimated that in 2015 63% of Kenyans (82% in urban areas and 57% in rural areas) had access to improved drinking water sources, compared to 60% in 2010 (83% urban, 53% rural) (WHO/UNICEF, 2015).

Progress on water is driven by increases in rural access, as in urban areas the proportion of the population with access to piped water fell between 2010 and 2015 from 47% to 45%. There was a one percentage point rise in those using other improved sources and unimproved sources. With regard to sanitation; 30% of Kenyans (31% of urban and 30% of rural) had access to private improved sanitation in 2015, compared to 29% in 2010. In rural areas, open defecation was estimated to still be practised by 12% of the population (compared to 13% in 2010). Figure 41 summarises the trends in access to sanitation between 1990 and 2015.

There has been a moderate increase in access to improved sanitation in most areas, although the rate of progress is behind what is needed to meet the government target and LMIC and regional peers. With regard to sanitation, the UNICEF/WHO Joint Monitoring Programme (JMP) classifies Kenya as having made 'little to no progress' and 'good progress' with regard to water (WHO/UNICEF, 2015). Section 4.3 includes a more detailed and county-specific analysis of sector performance.

While women have roughly the same average level of human development as men in Kenya according to the Gender Development Index, equality of opportunity for women is still low. Kenya ranks lowest out of the EAC members on the Gender Inequality Index. Female to male labour force participation has remained constant at approximately 85% since 2000, lower than other EAC members which reach closer to 100%. Approximately 20% of seats in the national Assembly and 30% of ministerial positions in Kenya are filled by women, both lower than neighbouring countries in the region (World Bank, 2016; UNDP, 2015).

Table 5: Scores on the Social Institutions & Gender Index (SIGI) for EAC members, 2014

	Discriminatory family code	Restricted physical integrity	Son bias	Restricted resources & assets	Restricted civil liberties
Kenya	Medium	High	High	High	Low
Uganda	High	High	High	High	Low
Rwanda	Medium	Medium	Medium	High	Low
Burundi	Very high	High	Medium	Medium	Low
Tanzania	Very high	High	Medium	High	Low

Source: OECD, 2014

¹² The average rate for sub-Saharan African countries was 83 per 1,000 in 2015.

The 2014 Social Institutions and Gender Index classifies Kenya as a country with 'medium' levels of gender discrimination in social institutions, as shown in Table 5. This is in line with other members of the East African Community, and is characterised by high degrees of discrimination in laws addressing domestic violence, and low access of women to land and non-land assets as well as financial services (OECD, 2014).

The Constitution explicitly provides for gender equality, and policy frameworks and institutions for promoting gender equality are now established in Kenya. Box 3 provides an overview of gender-relevant national and international policies and initiatives adopted by Kenya. In practice, the Department of Gender under the Ministry of Devolution and Planning¹³ and the National Gender and Equality Commission (NGEC),¹⁴ supported by gender desks in every ministry and by the Ministry of Labour, Social Security and Services, are mandated to mainstream gender in policy-making, budgeting, service delivery and M&E.

Box 1: Government of Kenya domestic and international commitments to gender equality

As per GoK, 2008, the Government of Kenya is part of or has signed and ratified the following international gender-related treaties and programmes:

- 1984 Recommendations by the Committee on the Elimination of Discrimination against Women (CEDAW),
- 1985 Nairobi Forward Looking Strategies for the Advancement of Women (NFLS),
- 1989 Convention on the Rights of the Child (CRC),
- 1993 United Nations Declaration on Violence Against Women,
- 1994 International Conference on Population and Development (ICPD),
- 1995 Beijing Platform of Action (BPFA)
- 1996 National Assembly adopted the motion for the implementation of the BPFA,
- 2000 Millennium Development Goals (MDGs) and
- 2004 resolution of the African Union summit on employment creation and poverty alleviation

In addition, GoK is a signatory to the African Union's African Charter on Human and People's Rights. The Government of Kenya has also actively engaged with and in 2015 adopted the Sustainable Development Goals (SDGs). Several domestic policy documents relating to gender have been developed and adopted, including:

- National Gender and Development Policy (2000);
- Sessional Paper No.2 of 2006 on Gender Equality and Development;
- 2007 Gender Mainstreaming Implementation Plan of Action (GMIPA);
- Monitoring and Evaluation Framework for Gender Mainstreaming (2009);
- National Policy on Gender and Development (NPGAD) (2011), and
- The 2012 National Affirmative Action Policy on Women.

Vision 2030 MTP II focuses on mainstreaming gender across all government agencies; the further development and implementation of gender policy; improving research and data on gender; and specific initiatives against gender-based violence and female genital mutilation.

¹³ Budget allocations to this institution include allocations to the Women Enterprise Fund.

¹⁴ In fiscal 2015/16, further allocations were made towards gender within the Ministry of Education, Science and Technology and the Ministry of Agriculture, Livestock and Fisheries.

The GMIPA includes the task of improving 'responsiveness of the national budget to the needs of the poorest women; putting in place responsive macro-economic policy formulation systems for sustainable development, and conducting gender responsive annual budget audits to highlight the gender expenditure patterns'. The Vision 2030 MTF II specifically targets women through three channels:

- 30% of planned procurements and asset disposals are reserved for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups.
- The Uwezo Fund, launched in 2013, which funds women- and youth-led enterprises to expand their access to finances and generate gainful self-employment for youth and women.

- The Women's Enterprise Fund, which was set up as a semi-autonomous government agency in the Ministry of Public Service, Youth & Gender Affairs under the Vision 2030 MTF I, to provide accessible and affordable credit to support women's start-up businesses.

Expenditures towards gender mainstreaming are less than 1% of total national government expenditure. Actual expenditures grew from Ksh 850 million to 1.6 billion over the three years in question, as shown in Table 6. Overall absorption rates improved year on year from 75% in 2013/14 to 92% in 2014/15. Absorption rates of recurrent expenditure improved in 2014/15 compared to 2013/14 and capital expenditure absorption rates were higher than the national average.

Table 6: Budget and actual expenditures on gender (Ksh millions)

	2013/14			2014/15			2015/16		
	Budget	Actual	Absorption	Budget	Actual	Absorption	Budget	Actual	Absorption
Recurrent	603.5	335.6	56%	463.0	411.5	89%	656.2	550.9	84%
Capital	525.2	513.9	98%	476.0	419.4	88%	1,126.4	1,083.9	96%
Total	1,128.6	849.5	75%	939.1	830.8	88%	1,782.6	1,634.9	92%

Source: IFMIS

2.3 Devolution in Kenya and county-level public finance management (PFM)

The following sections provide an overview of the legislative and institutional framework for county-level PFM following devolution, the resources available to counties and the planning and budget process at county level.

The reasons underlying the implementation of the devolution agenda include the need to address deeply entrenched development disparities between regions, as well as to improve equity in access to social and economic services at the county level and to work progressively toward equalising opportunities for all Kenyans. The expected benefits from devolution in Kenya include:

- setting public policies which are more tailored to local needs through closer proximity to the people;
- promoting better governance and accountability structures;

- achieving more cost-effective approaches to delivery of services through peer competition; and
- increasing accountability with a positive relationship to growth, where there is subnational tax autonomy.

However, devolution is not without risks. It was feared that the devolution process could result in higher costs for setting up and maintaining new administrative units, and that the fact that counties would receive a mandate for budget execution (expenditure) without an equal mandate for revenue mobilisation would lead to inefficient or ineffective spending. Combined with worries about capacity constraints in the initial phases, the risk is that devolution will negatively impact growth by adding to the recurrent fiscal deficit (PwC, 2013; World Bank, 2013a).

2.3.1 Legislative, institutional and policy framework for counties following devolution

The introduction of the new Constitution in 2010 has had significant social, political and economic implications for Kenya. Forty-seven county governments were created, with 14 devolved sectoral mandates, including health, pre-primary education and village polytechnics, agriculture, livelihoods, county roads, disaster management and water supply (KPMG, 2013). Article 175 of the 2010 Constitution describes the principles of devolution in Kenya. County governments have a range of powers in regard to collecting their own revenues and delivering services within the 14 key devolved sectors, whereas the national government remains responsible for macroeconomic management of the national economy, national policy formulation, regulation, setting of national standards, and monitoring and evaluation (Transition Authority, 2016).

Box 2: Key principles of fiscal responsibility at county level

- Development expenditure shall not be less than 30% of the county government budget over the medium term.
- Personnel emoluments and benefits shall not exceed a specified percentage of total county revenues, to be determined in regulations developed by counties.
- Borrowing will only take place to finance budgeted development expenditures.
- County public debt will be maintained at a sustainable level and shall not exceed the level specified annually by a resolution of the county assembly at the time of the passage of the budget.
- Fiscal risks shall be managed prudently.
- The tax rates and tax bases should have a reasonable degree of predictability.

Devolution has changed the legislative and policy framework for subnational public finances. The new counties replaced previous local authorities, under the oversight and coordination of the Transition Authority¹⁵ and other institutions (World Bank, 2013a).

Following the enactment of the Kenya Constitution 2010, the Public Finance Management Act (PFMA) 2012 was signed into law on 23 July 2013. The Act promotes transparency and accountability in the management of public finances at the national and county government levels.

The PFMA, alongside the Constitution and a series of related laws, sets the legislative and institutional context for counties under devolution. Relevant laws and institutions for the devolution process are summarised in Annex B and Annex D. Within this context, the relevant mandates for the management of public finances for county governments relate to:

- generating their own revenues, including from property tax, entertainment tax and user fees, at rates set by the county Treasury in the National or County Finance Bill;
- obtaining and managing concessional and conditional transfers of funds from the national government (National Treasury);¹⁶
- attracting and obtaining grants and loans funding from donors and/or commercial sources;¹⁷ and
- determining and implementing the structure of the county executive, including the number of, and division of, responsibilities between the various county executive committees, with a maximum of 10 committees.

¹⁵ The Transition Authority was created for the specific purpose of facilitating the devolution process – its mandate officially expired in March 2016, with the remaining work on the devolution process passed on to the Intergovernmental Relations Technical Committee.

¹⁶ The formula, which was approved by the 10th Parliament in November 2012, and which was used to share revenue for financial years 2012/13, 2013/14, 2014/15 and 2015/16, is weighted as follows: population (45%), poverty index (20%), land area (8%), basic equal share (25%) and fiscal responsibility (2%).

¹⁷ Counties are entitled to draw loans and establish public–private partnerships (PPPs), using the national government as a guarantor. However, currently only Mombasa County has actively done this.

Overall responsibility for these mandates lies with the County Assembly and Executive. The Assembly is the legislative authority charged with ensuring that the county budget and finances adhere to key principles of fiscal responsibility, denoted in the PFMA 2012 and summarised in Box 2.

The Executive is made up of County Executive Committees (CECs), which implement county laws, draft legislation for consideration by the County Assembly, manage the county's administration and departments and supervise service delivery in the county and in all of its decentralised units. Their form and functions are described in more detail in Annex B. The County Executive Member for Finance (CECM-F) and the county Treasury have the principal mandate for developing and implementing plans and budgets for each financial year, in line with national and county development plans.

2.3.2 Resources allocated to county governments

The PFMA 2012 details how resources will be shared in the country between the national government and the county government, and also creates new institutions with a public financial mandate, such as the Commission on Revenue Allocation (CRA) and the COB, amongst others, with distinct functions aimed at enhancing efficiency. Sources of revenues for county governments include:

- Concessional transfers from the national government (equitable share): over 70% of counties' revenues for the past three years have come from the constitutionally mandated allocation of 15% of total national government revenues. These funds are divided between the counties by Parliament, on the basis of the Revenue Allocation Formula proposed by the CRA, resulting in the approval of the Division of Revenue Act. For the fiscal years 2013/14 to 2016/17 the formula was based on five parameters for each county: 45% population – based on 2009 census; 25% basic equal share – provides minimum funding for key administrative functions; 20% poverty levels – a proxy for development needs and provides extra funding to poorer counties; 8% land area – to account for varying service delivery costs; and 5% fiscal responsibility – to incentivise optimisation of raising local revenues.¹⁸ These funds are known as the 'equitable share'. It is worth noting that the formula was to be revised for the fiscal year 2016/17 but agreement was not reached. The formula was, however, revised for 2017/18; the weighting for poverty was reduced from 20% to 18%, with the basic equal share increasing from 25% to 26% and 1% allocated to a new 'development factor' parameter. The development factor considers access to water, electricity and roads, to capture economic disparities and developmental needs of counties, and was introduced to complement the poverty parameter to ensure that development resources are paired with development needs.
- Conditional grants: A conditional grant is money given to counties for specific items, conditional on certain parameters. For example, counties may receive a special grant for hospitals, or a special grant for road maintenance, based on a formula of specific needs indicators. Counties also receive funds from the government's Equalisation Fund, in the form of conditional grants to bring basic services to marginalised communities. As seen in Table 7, the combination of concessional transfers and conditional grants from the national government account for an average of 80% of county governments' revenues.

¹⁸ See <http://www.crakenya.org/> for further information.

- The large share of transfers from the national government includes increasing numbers of funds allocated to recurrent personnel and operational expenditures, including transfers to Level 5 hospitals, payments to compensate for free maternity healthcare to dispensaries and health clinics, leasing of medical equipment for some counties, payment of free medical user fees, grants for road maintenance and other conditional grants.
- Locally collected taxes: Almost all major taxes are collected by the national government, except for property tax and entertainment tax, which are collected by county governments. Some fees for the use of services (such as hospitals, or charges for licences) are collected by counties. As seen in Table 7, locally generated revenues from taxes, fees and licences account for only 10% on average.
- Other sources of revenue: Counties can receive three other types of revenues: firstly, they can receive grants from donors, which they should then report in their budgets. Secondly, counties can receive loans from donors or investors. However, all loans received by a county must be guaranteed by the national government. Finally, residents' voluntary contributions can also contribute to revenue generation at county level. As seen in Table 7, funds from donor partners also increased throughout the period covered in this study. They include both Danida supplementary financing of county health facilities, as well as the World Bank operations support through the results-based financing initiative (since 2014/15). No other sources of loans or grants have been contracted by the county governments (and passed through government systems) to date.

Table 7: County budgeted and actual revenues, 2013/14 to 2015/16 (Ksh millions)

	2013/14			2014/15			2015/16		
	Budget	Actual	Absorption	Budget	Actual	Absorption	Budget	Actual	Absorption
Local revenues	54,200	26,300	49%	50,380	33,850	67%	50,539	35,022	69%
Equitable share of revenue	190,000	174,400	92%	226,660	226,660	100%	259,770	259,775	100%
Conditional Grants	3,400	5,665	167%	2,604	3,995	153%	11,966	11,784	98%
Level 5 hospitals	3,400	3,419	101%	1,870	1,863	100%	3,600	3,601	100%
Danida grants	0	0	n/a	734	734	100%	845	664	79%
Free Maternal Healthcare	n/a	2,246	n/a	n/a	1,398	n/a	3,321	3,320	100%
Compensation of User Fees Foregone	n/a	n/a	n/a	n/a	n/a	n/a	900	900	100%
Road Maintenance Fuel Levy	n/a	n/a	n/a	n/a	n/a	n/a	3,300	3,300	100%
Grants & loans (incl. KHSSP-HSSF)	0	0	n/a	404	404	100%	538	538	100%
Other revenues & cash balances	16,600	17,635	106%	46,243	39,871	86%	44,627	36,061	81%
Total	264,200	224,000	85%	326,290	304,780	93%	367,440	343,180	93%

Source: COB, 2014b, 2015b, 2016b; National Treasury, 2016

Annex C provides an overview of the resources allocated to county governments, and the functions they are meant to fulfil. It should be noted that the equitable share has consistently comprised 75% or more of actual county revenues, while local revenues account for 10–12%. Table 8 summarises these trends more clearly. The local revenues as

a proportion of total spend is consistently lower for the actual figures than budget across years, though the comparative gap between projected and collected revenue is closing compared to other sources' relative execution rates.

Table 8: Composition of county budgets and expenditure by source

	2013/14		2014/15		2015/16	
	Budget	Actual	Budget	Actual	Budget	Actual
Local revenue	21%	12%	15%	11%	14%	10%
Equitable share	72%	78%	69%	74%	71%	76%
Conditional grants	1%	3%	1%	1%	3%	3%
Other revenues	6%	8%	14%	13%	12%	11%

2.3.3 Key planning and budgeting deliverables at county level

The starting point for planning at county level is Article 126 of the PFMA 2012, which states that each county government must prepare integrated development plans, including strategic priorities for the medium term that reflect both the national and county governments' priorities and how these will be met. Counties prepare five-year County Integrated Development Plans (CIDPs), which are aligned to national policies and priorities within the framework of the second Medium-Term Development Plan of Vision 2030, which currently provides the overarching national strategy.

CIDPs are the basis for the formulation and revision of related county-level plans and strategies, as represented in Figure 7. Notably, CIDPs are the starting point for developing annual development plans (ADPs), which break the objectives and priorities outlined in the CIDP into yearly and medium-term targets and costing estimates. ADPs represent a clearer description of priorities for the county, as they are also informed by county sector plans and reviews. These are then translated into budget allocations through the County Fiscal Strategy Papers (CFSPs). These determine the fiscal

ceiling for the year and medium-term expenditure forecasts by developing a fiscal strategy based on the priorities expressed in the ADPs and macro-fiscal constraints estimated by the CECM-F and county Treasury.

The CFSP is then translated into draft budget estimate tables, and submitted to the county assembly for approval each year alongside the county appropriations and county finance bills. All these policy documents require extensive public participation: the public are consulted at various times throughout the year, including in the pre-budget public sector consultative forums, the County Budget and Economic Forum,¹⁹ sector working groups / department working groups' budget, and at appropriations committee hearings (Odour, 2014). These consultations present opportunities for the views and needs of specific groups to be represented, including women, youth and persons with disabilities. An overview of the linkages between the planning and budgeting inputs deliverables noted in the PFMA 2012 is given in Figure 7 below.

¹⁹ The forum is chaired by the governor and among those represented are an equal number of county executive and non-public officials. The non-public officials should be nominated by organisations representing professionals, business, labour issues, women, persons with disabilities, the elderly and faith-based groups at the county level.

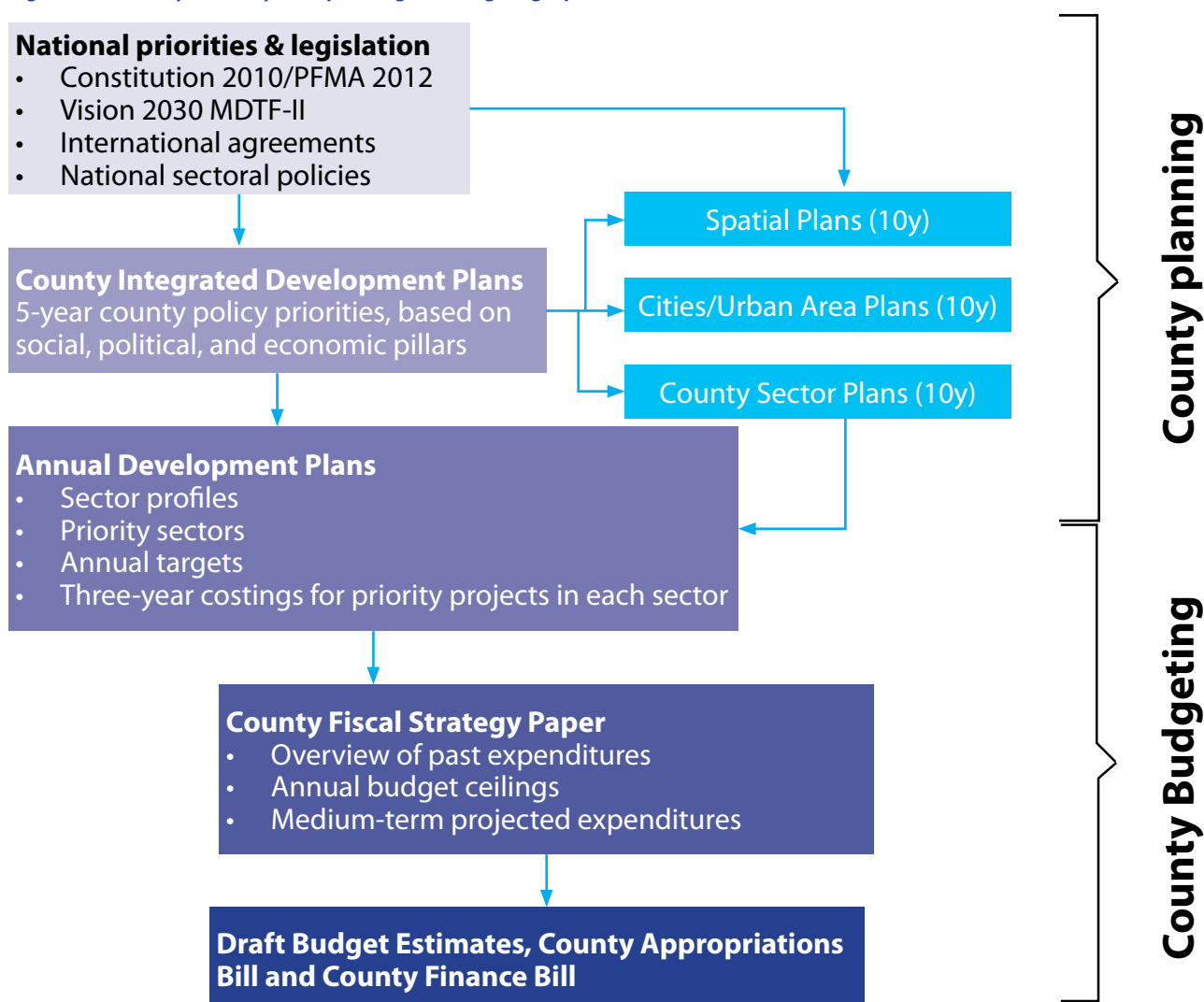
2.3.4 County-level budget cycle

The county governments' budget planning and preparation process is aligned to the national government budget process, which is meant to finish before the end of the fiscal year on 30 June. The process consists of a series of steps across the fiscal year involving consultation, review and approval, as described in the PFMA 2012.

Figure 7 provides a detailed overview of the budget planning and preparation process at county level. The new fiscal year starts on 1 July, with expenditures

being legally mandated as soon as the appropriation bill is enacted by the Assembly. The CECM-F and county Treasury are the main actors at county level involved in ensuring the proper execution of the approved budget estimates. If county governments need to spend more than allocated in the Appropriation Act, county governments may issue up to six supplementary budgets in a given year. The national government has drawn up an average of two supplementary budgets per year for the period assessed, as have county governments.

Figure 7: Hierarchy of county-level planning and budgeting inputs and deliverables



Source: Authors' own design

As at the national level, quarterly budget execution reports are drawn up at the county level both by the county Treasury (CECM-F) and by the COB. These reports record spending, revenue trends and execution rates, though they do not record all expenditures of government-owned enterprises. In

addition, the Kenya National Audit Office (KENAO) is mandated to produce audited reports within six months of the close of the previous fiscal year, reconciling National Treasury reports with those of the COB.

2.3.5 Gender-responsive budgeting

Initial efforts have been made to introduce gender-responsive budgeting at national level. In addition to equity being introduced in most budgetary laws and regulations and allocations to supporting programmes targeting women and promoting gender equality, guidelines for gender-responsive budgeting have been developed and approved in 2014. It is unclear, however, whether they have been fully adopted in recent budget cycles.²⁰

The PFMA also makes special provisions to support gender-responsive budgeting in that the principle of equity must be adhered to in the budget making process (both at the national and county-level governments). This applies to measures to raise revenues, the allocations of resources made and representation in preparing budget plans and allocations.

At national level, multiple government and semi-autonomous agencies are mandated to promote gender equality, most notably the National Gender and Equality Commission and the network of gender focal points. This structure of responsibilities is not the same at county level. All county governments have a CEC in charge of gender, though this is mostly aggregated with tourism, youth and sport or culture. Special funds set up to promote women's rights and employment, noted above, do not play a clear part in county-level planning and budgeting. The Women's Empowerment Fund's units of lending and resource allocation, for instance, are individual constituencies – disbursement of loans is therefore devolved but does not pass through the county administration.

2.3.6 Flow of funds from national to county governments

Annex C provides a stylised overview of the flow of funds from the national to county governments. Revenues collected by the national government are deposited in Consolidated Fund or national exchequer accounts, managed by the National Treasury.

Following the approval of the national budget by the National Assembly, it is intended that the National Treasury will disburse monies to county governments within 15 days of the start of every quarter, based on a schedule prepared in consultation with the Intergovernmental Budget and Economic Council.

The National Treasury requisitions a withdrawal and awaits approval of the COB, upon which the Central Bank may effect the payment or transfer in accordance with the instructions from the National Treasury. Funds are then transferred to the county governments' Consolidated Fund accounts.

2.4 County fiscal trends and challenges²¹

This section provides an overview of the forecasted revenues, budgeted estimates and expenditure actuals of county governments for the financial years 2013/14, 2014/15 and 2015/16. It also draws on the figures noted in reports of the COB, and provides insights into how budget and resource flows from the national level are matched at county level, and how funds at county level are currently being utilised. This section further highlights current and emerging challenges in PFM at county level. It draws on literature reviews of previous PERs, sector reports, the Transition Authority 2016 report and the fieldwork conducted. Finally, a set of recommendations is given based on the analysis.

2.4.1 County budget trends

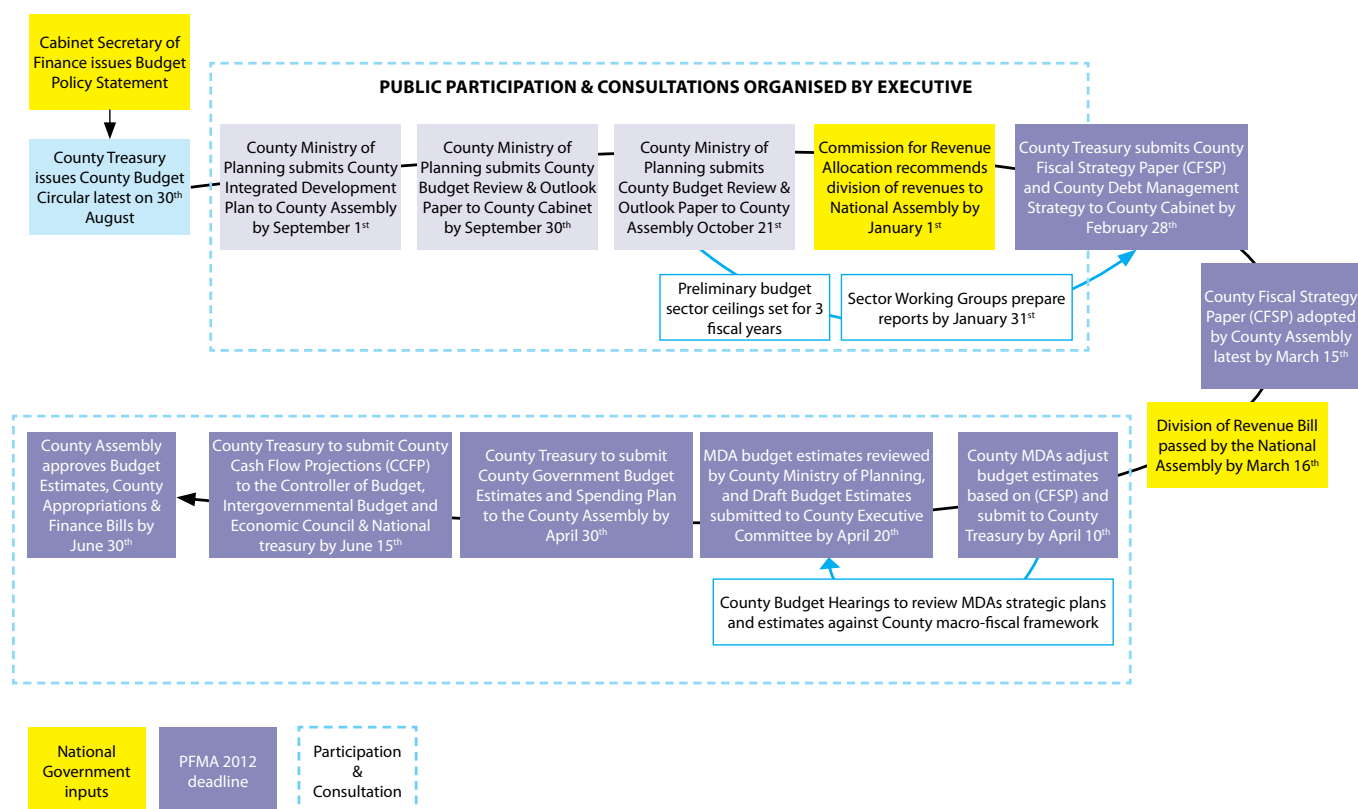
Budget allocations for counties increased year on year for the three years in question, as shown in Table 9. This was the case for both recurrent and development expenditures. Whereas the ratio of recurrent to development budget allocations over the three years was approximately 60:40, the ratio for actual expenditures was approximately 70:30. While this means county governments prioritise recurrent over development expenditures, they are more or less meeting the medium-term PFMA 2012 objective of allocating at least 30% of the budget to development expenditures.²²

²⁰ Analysis of the 2014/15 and 2015/16 budgets by the National Gender Equality Commission indicates that key budget documents made no explicit mention of gender considerations.

²¹ All figures and tables noted in this section are from the COB's annual reports on national and county budget implementation 2013/14 – 2015/16.

²² Turkana is a notable exception, having budgeted over 70% of its total budget allocation for development expenditures. This is probably due to the low level of developed infrastructure in the county, necessitating higher development allocations.

Figure 8: Detailed overview of county-level budget planning and preparation process



Source: Authors' own design

County budgets include little clear focus on gender, with varying types of programmes for promoting women and gender equality seen across the counties assessed. These include special programmes for women's social and economic empowerment, gender mainstreaming programmes, data collection, financing women entrepreneurs through the two funds stated above,²³ or through county-specific programmes. All of these budget lines include very little detail beyond the number of women or women's groups that specific programmes are intended to benefit. Maternal health programmes are likely the most explicit evidence of gender-specific planning at county level.

Budget execution trends for county governments are similar to those at national level. Recurrent expenditure constitutes the majority of budget execution, as seen in Table 9, with absorption rates averaging around 90%. Although development expenditure at county level is executed at a far lower rate than at the national level (on average 55%), these rates have improved significantly in past years, increasing by more than 180% since 2013/14.

Table 9: Budgeted & actual expenditures, all counties, 2013/14 to 2015/16, Ksh million

Expenditure	2013/14			2014/15			2015/16		
	Budget	Actual	Absorption	Budget	Actual	Absorption	Budget	Actual	Absorption
Recurrent	160,645	132,795	83%	181,379	167,560	92%	208,822	191,876	92%
Development	100,436	36,557	36%	144,907	90,440	62%	158,617	103,421	65%
Total	261,081	169,352	65%	326,286	258,000	79%	367,439	295,297	80%

Source: COB, 2014b, 2015b, 2016b

²³ The Uwezo and Women's Empowerment Fund allocations, however, do not flow through the county budget, and mainly engage constituencies directly. Counties only have very limited influence on the planning and execution of these funds.

The tables in Annex E give summary breakdowns of budgets and expenditures of the 10 counties under assessment in this report in more detail, which give rise to a number of conclusions.

Recurrent expenditures mainly comprise personnel emoluments, and operations and maintenance (O&M). As seen in Figure 10, personnel emoluments constitute more than half of counties' recurrent expenditures in most cases, and close to 40% of total county government expenditures – as at the national level, they are the largest overhead of the county governments.

Expenditures on personnel costs have increased consistently year on year across all counties assessed. Development expenditure is the second largest expenditure item for counties, currently at 35% of annual expenditure. Expenditures on O&M have not increased as rapidly as personnel emoluments,

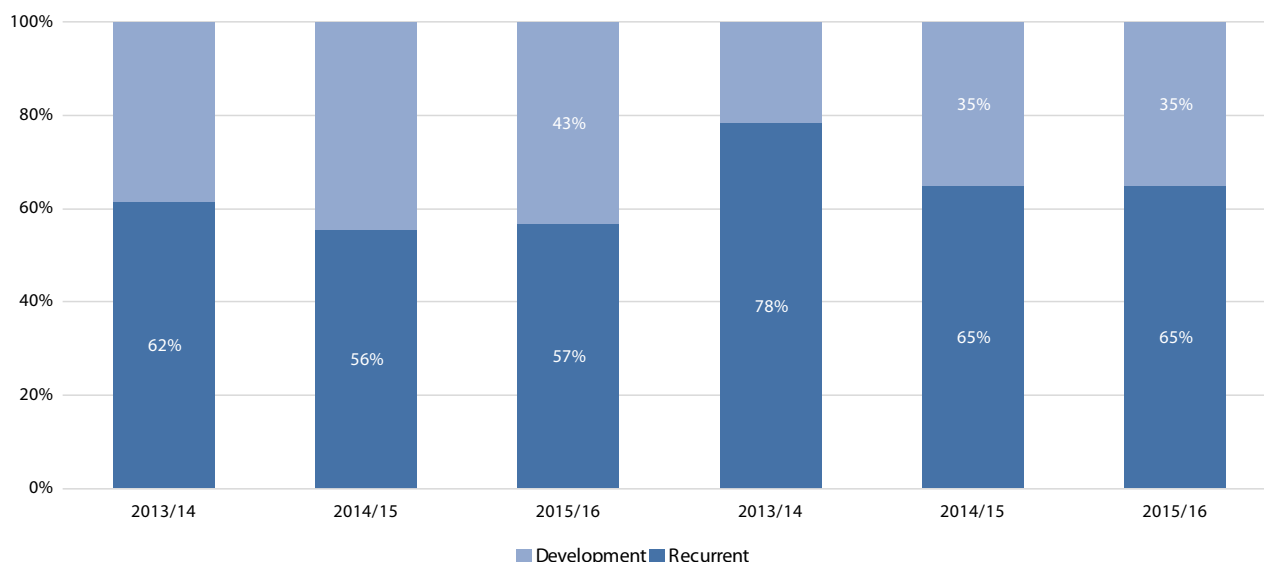
though they still make up a quarter of annual expenditures of county governments on average. Approximately 15% of expenditures on O&M are expenditures relevant to capital costs – including fuel, vehicle expenses and routine maintenance of machines and assets.

Many of the county administrations expressed frustration at the salaries paid to staff who were transferred to county authorities after previously being employed centrally pre-devolution. Specifically, that staff previously employed centrally who have now been transferred to the county administrations are on a considerably higher salary than those subsequently recruited by the county administrations themselves. This process has reportedly led to some odd situations; such as administrative staff being paid more than their superiors.

Box 3: Summary of county budget trends and PFM challenges

- Budget preparation and execution at county level is normalising. Counties are more or less meeting the medium-term objective of allocating at least 30% of the budget to development expenditures. Absorption rates are increasing, for both revenue and expenditure budgets. Personnel emoluments remain the largest overhead of the county governments, constituting close to 40% of total county government expenditure, while operations and maintenance make up 25% of county expenditures. Absorption rates for development expenditure remain lower, and county governments' debts and pending bills have increased tenfold since 2013/14.
- With respect to the adoption of PFM legislation and procedures, finance officials at county level have found the budget planning and preparation cycle to involve too many stages and referral documents. Aside from technical capacity challenges, some deliverables in the official budget calendar are too close together or not well aligned (at county level or between the national and county level). Plans formulated in CIDPs are currently too broad to be useful for programme design, having been written without much awareness of how they link to planning and policy – this risks annual financing and development strategies being delinked from medium-term plans.
- It is noted that the devolution process has raised expectations as to counties' responsibilities and capacity to meet needs and deliver services. The wage bill is starting to rise: lack of human resource guidelines to accompany devolution has meant counties that were previously the seat of provincial governments have had to accommodate previous staff, as well as recruiting new staff. High recurrent and ambitious development expenditure outlays appear to have led to initial local tax revenue overestimations, especially forecasted collections in 2013/14.
- Persistent delays in disbursements of grants from the national government strongly affect budget execution at county level. This is particularly true for the development budget, in which procurement procedures rely on credible cashflow forecasts and approval at multiple levels. However, as on average 75% of counties' revenues are from concessional transfers from the national government, a critical incentive is missing for counties to improve local revenue collection.
- Counties' weak institutional capacity and budgetary pressures are compounded by the fact that the relationship between the national and county-level governments is not always clear, either de jure or de facto. Both levels of government are still in the process of determining the chains of command and accountability for service delivery on a day-to-day basis. This is most clear in the water sector.
- With the introduction of the IFMIS at national and county levels concurrent with devolution, the potential for regular, transparent fiscal reporting has increased dramatically but is still to be fully realised. There is much scope for improving compliance with PFMA requirements for budget transparency at county level, and only a few counties have made progress on developing capacities for monitoring and evaluation (M&E). Consequently, reporting against medium-term plans and development objectives remains a significant blind spot for county-level accountability.
- Despite the challenges noted, the devolution process is seen as a success that will make service delivery more responsive to the needs of the people. While it has been politicised in parts and is moving in fits and starts, officials are supportive of the devolution process – though it remains to be seen whether the potential gains will materialise.

Figure 9: Balance of recurrent and development expenditure, all counties, 2013/14–2015/16

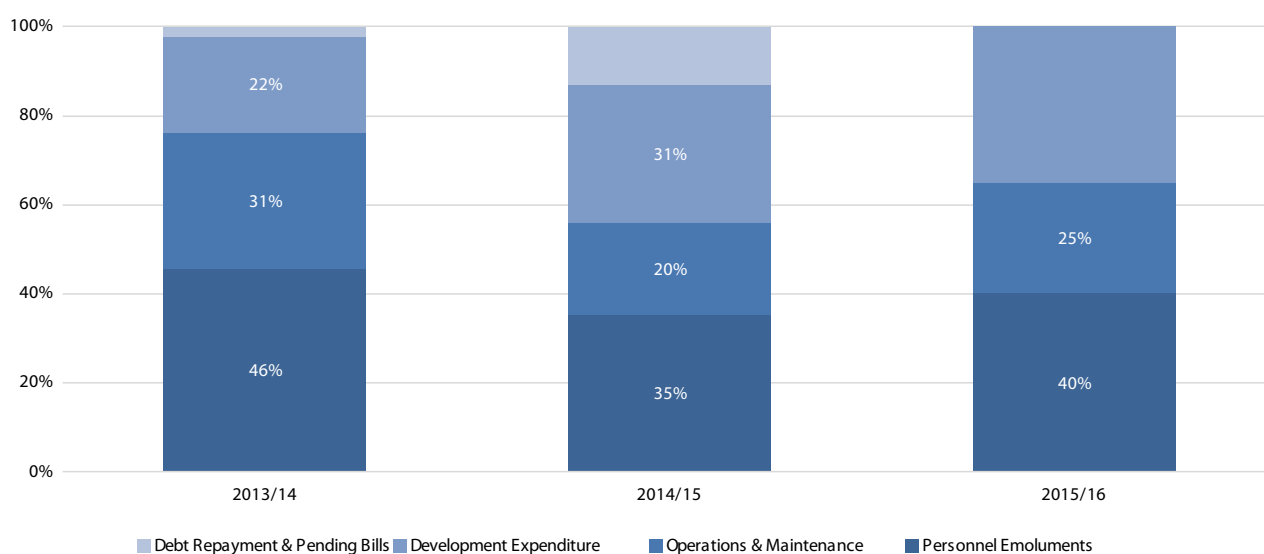


Source: COB, 2014b, 2015b, 2016b

Budget performance has improved over the period assessed for all counties – in the counties assessed, the absorption rate was on average almost 80% of their budgets in 2015/16, up from just under 60% in 2013/14, as seen in Figure 11. High absorption rates are driven by the performance of recurrent

expenditure budgets. Just over 90% of recurrent budgets were executed on average in 2014/15 as well as 2015/16. Development expenditure, meanwhile, lags behind, with budget lines only 65% executed on average – largely due to slow procurement processes and cash shortages.

Figure 10: Composition of expenditure, all counties, 2013/14–2015/16



Source: COB, 2014b, 2015b, 2016b

In accordance with the functions described in the PFMA 2012, the National Treasury may unilaterally delay the issuing of new contracts depending on cashflow projections, particularly during the preparation of supplementary budgets (usually during the midpoint of the financial year, in December). In practice, that leaves very little time to execute development budgets. As the National Treasury is also involved in approving procurement of county governments, this affects counties' development budget execution as well.

The 2012 PEFA notes that commitments are controlled according to the approved budget rather than forecasted cashflow, which implies that revenue shortfalls and budget reallocations (supplementary budgets) at the national level have a direct impact on development budget execution (procurement) to counties as well as payments to suppliers, leading to an accumulation of pending bills (see Table 10).

Table 10: Pending bills (Ksh billions)

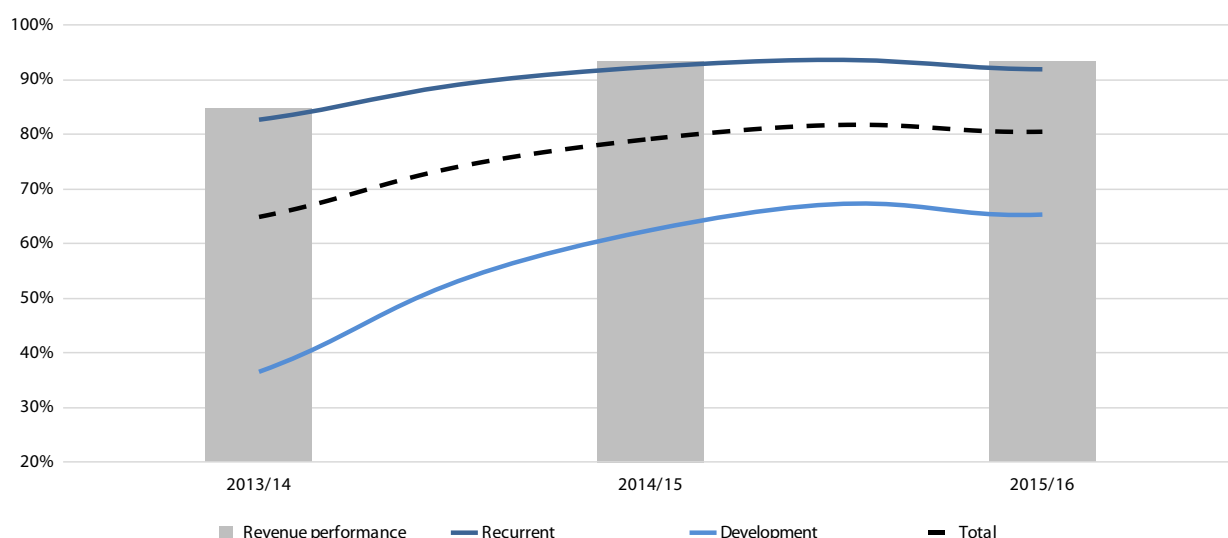
	2013/14	2014/15	2015/16
Expenditure on debts & pending bills	4	2.24	n/a
Pending bills for recurrent at years-end	n/a	28.61	26.92
Pending bills for development at years-end	n/a	9.21	10

Source: COB, 2014b, 2015b, 2016b

The steady execution of budgeted recurrent expenditure is largely due to the regularisation of transfers from the consolidated fund, which is principally used to pay for the personnel and operational costs of the counties. At the same time,

however, county governments' debts and pending bills have increased tenfold since 2013/14, to Ksh 37 billion per year in 2015/16. The following section discusses a number of factors behind this.

Figure 11: Revenue performance & budget absorption of recurrent and development expenditure, all counties, 2013/14–2015/16



Source: COB, 2014b, 2015b, 2016b

In summary, budget preparation and execution at county level is normalising, following the initial years of devolution. This is reflected in Figure 11. Currently, the majority of revenues from the shared revenue transfers go towards covering recurrent expenditures. However, development expenditures are also normalising, alongside receipts of locally generated revenues. While experiences vary between counties, the general trends outlined above hold across all 47 counties. Annex E contains relevant data tables pertaining to the analysis above.

2.4.2 PFM issues and challenges in county governments

County governments in Kenya have been responsible for conducting their own policy-making, budget planning and implementation since 2013.

As an official in the National Treasury commented: 'Devolution was a massive transformation. Previously, county governments didn't exist. They had no experience of planning and budgeting. Kenyan devolution is more complex than other countries.'²⁴

Although there have been previous efforts to improve PFM at subnational level (CIDA/CID, 2012), the devolution process is a far-reaching, ongoing reform process. As such, there are expected to be teething problems in terms of counties having the capacity to produce planning and budgeting documents. County governments are still very much in the process of developing systems and structures to adopt and successfully carry out the tasks devolved to them. Counties which house previous

²⁴ Interview with Treasury staff, September 2016.

provincial headquarters benefit to some extent from higher staff capacities and more developed infrastructure, though they have also faced new budgetary pressures and have had to adapt to newly mandated functions and PFM practices.

As three years have passed since the start of the devolution process, it is now possible to give an early assessment of how county-level PFM structures and processes are performing. This section provides a narrative of the current and emerging challenges faced by counties following the first three years of the devolution process.

i. Adoption of new PFM legislation and processes

A number of PFM-relevant laws and regulations had not yet been drawn up fully or clearly, or passed into law when the start of devolution took place in 2013 (Transitional Authority, 2016). While budget planning and preparation processes as spelt out in the PFMA 2012 were fairly well understood by relevant county staff in counties such as Garissa, Kakamega, Mombasa, Nyeri and Turkana, they seemed not to be well understood in Kisii and Siaya. The quality of initial county plans and strategies was, however, low for the all counties assessed, with CIDPs being returned for review by County Assemblies in several cases.

Table 11: Assessment of the 2013 CIDPs

	Needs assessment	Planned projects by sector	Targets and objectives	Timeline for projects	Proposed cost breakdown
Garissa					
Kisii					
Kitui					
Migori					
Mombasa					
Nakuru					
Nyeri					
Siaya					
Turkana					
Kakamega					

Source: Authors' analysis of CIDPs

NB: Green boxes indicate that the component is included in the CIDP, yellow boxes indicate that it is partly included and red boxes indicate that it is not included.

Many CIDPs do not include a clear timeline, proposed cost breakdowns or clear targets and objectives for planned programmes. These issues were highlighted during informant interviews, when officials pointed to the fact that CIDPs were too broad to be functional for programme design and had been written without much awareness of their role in planning and policy. Clarifying amendments to existing laws and the passing of corresponding regulations to the devolution laws, currently being discussed at national level, will help to clarify some of the issues and strengthen subsequent CIDPs. The sector-specific aspects of the CIDPs are considered separately in chapters 3 and 4.

All CIDPs note gender-disaggregated population estimates, employment and enrolment ratios and

in some cases relevant healthcare statistics (such as the maternal mortality rate). Beyond this, gender-disaggregated needs assessment are not included in the CIDPs. Most counties, however, note the promotion of gender equality and women's rights as a cross-cutting challenge, as well as a focus area of a specific subsector, and furthermore note gender-specific objectives and costed programmes. These are, however, in all cases formulated very generally.

The one-year ADPs are meant to link seamlessly to the CIDPs in a given year. Upon review, however, it was found that some objectives stated in the ADPs are overly ambitious or unrealistic, given the scope of funds and the timeframe of the strategy. Flagship projects of the ADPs furthermore have weak links to sectoral priorities. For example, the Mombasa

ADP highlights the purchase of vehicles as well as the purchase of furniture and equipment for early childhood development education (ECDE) as key activities to improve the quality of education; however, there is limited articulation of how these will achieve such an objective. Gender equality is mentioned in some ADPs as a cornerstone of sectoral strategies (including health and WASH). Overall, however, gender equity is not well articulated in most county documents in terms of either specific activities or budget allocations.

Meanwhile, finance officials at county level have found the budget planning and preparation cycle to be demanding, involving too many stages and too many referral documents. Aside from technical capacity challenges, some deliverables in the official budget calendar are too close together or not well aligned (at county level or between the national and county level). A notable recurring comment concerned the limited amount of time counties have between the issuing of the budget circular and the preparation of the ADP by the end of August: County Fiscal Strategy Papers (CFSPs) are only drawn up in February. County Treasury officials recognised

that it is normal for priorities to change during this time, potentially rendering ADPs redundant. This also risks delinking annual financing strategies from medium-term development plans.

As such, three-year costings of flagship projects provided in the ADPs are more useful for the purpose of project planning and management (compared to five years in the CIDPs), but they are not based on the project costings in the CIDPs. Interviews indicated frustration with the ADPs, which interviewees felt should be more useful for planning purposes, as they reflect more clearly defined needs for the county and specific plans by year to feed into the budget. CFSPs are meant to link to both ADPs and CIDPs, yet in practice they only clearly link to the latter. For instance, the 2014/15 Mombasa CFSP does not even mention the ADP.

Similarly, the Commission on Revenue Allocation normally only publishes the recommendation for the annual shared revenue a few days before the budget submission deadline. Consequently, there have been delays in the finalisation of budget plans – Nyeri for instance has not yet had a budget approved before the end of the fiscal year.

Figure 12: Summary of issues in key stages of county budget planning

	CIDP	ADP	CFSP
Timing	Developed rapidly in 2013, with low understanding county planning	Prepared rapidly after issuing of budget circular (late August)	Prepared 5-6 months after ADPs, priorities have changed
Priority needs	Needs assessment & participation done, no disaggregated data	Projects additional to CIDP, not linked to sectoral strategies	More closely linked to CIDPs than ADPs
Quality	Broad objectives, lack of cost breakdowns, timelines & targets	Objectives and projects too ambitious, 3-year costings included	Draw on lower-quality costings from CIDPs instead of ADPs

Source: Authors' own design

These compressed timelines have a knock-on effect on certain aspects of the budget process. Particularly, they do not allow much time for concerted public participation, which poses a significant risk that the views and needs of vulnerable or underrepresented groups, such as women, children and people with disabilities, will not be sufficiently reflected in budget planning documents. Interviewees noted that no effort was made to explicitly undertake gender-based planning and budgeting.

Timeline pressure also affects efforts to introduce programme-based budgeting. Although programme-based budgeting was meant to be rolled out at county level, as it is at the national level, programmes are currently not clearly and consistently assigned to committees and departments. Not only are current budgets for most counties still largely incremental as a result, but the pressure on participation due to the short timeframes raises doubts about the credibility of these budgets. Counties where CECM-F members

previously occupied roles in the Treasury, such as in Nakuru or Nyeri, have more experience in programme budgeting and have done better in this regard.

Interviewees demonstrated an understanding of gender and gender-sensitive budgeting concepts, but also clearly indicated that gender budgeting has so far not been done in county budget cycles. For example, county officials in Garissa and Turkana stated that despite gender equality being (loosely) integrated in the CIDP, rigid views and mind-sets on gender equality make mainstreaming gender into policy and practice difficult. Gender-responsive budgeting guidelines developed and disseminated at the national level have also not been disseminated or applied at the county level. Gender equity is therefore not clearly reflected in terms of specific activities and budget allocations.

Moreover, there is little room for county-level processes – both those that existed previously and newly emerging discussions – to be formalised. For example, a recent report by the World Bank observes that much of the recent focus on counties' own revenues has been on fees and charges set out in county Finance Acts, while the legal power to impose them is generally found in other legislation dealing with various regulatory processes administered by county governments, such as building control and development planning laws (World Bank, 2014b).

In sum, while the budget calendar is understood and accepted by county officials, capacity issues in managing and meeting the deadlines have meant that many county budgets have no clear linkages between medium-term plans, annual plans and annual financing strategies. This has had knock-on effects on the roll-out of programme based budgeting and the quality of prioritisation through public participation. County budgets are for the most part incremental as a result. Figure 12 summarises the issues.

ii. Managing new budgetary pressures as a result of devolution

The devolution process raised expectations as to counties' responsibilities and capacity to meet needs and deliver services, as noted by county officials. The PFM law gives county governments the discretion to determine the structure of their government, allowing for a maximum of 10 County Executive Committees (CECs) (excluding the County Executive and County Assembly, as well as the office of the government and town administrations). All

counties have set up a full list of 10 CECs, covering all functions devolved to county governments, as well as other sectors. This constitutes a significant increase in the size of state administrations and the corresponding need for financing.

The lack of appropriate human resource guidelines to accompany the devolution has posed a significant challenge: widespread recruitment has exacerbated pressures on the personnel emolument budgets for counties. This is particularly acute for counties that were previously the (seat of) provincial government (such as Garissa, Kakamega, Mombasa, Nakuru and Nyeri), which had to accommodate staff from the former local authorities and municipalities, national-level staff seconded to the new counties, as well as new recruits. Many of the 'inherited' national government and municipality staff members in these counties are, furthermore, on a higher pay scale than the other staff, leading not only to a high wage bill but to large wage differentials for staff doing similar work. This has contributed to the large personnel emoluments costs reflected in counties' budgets.

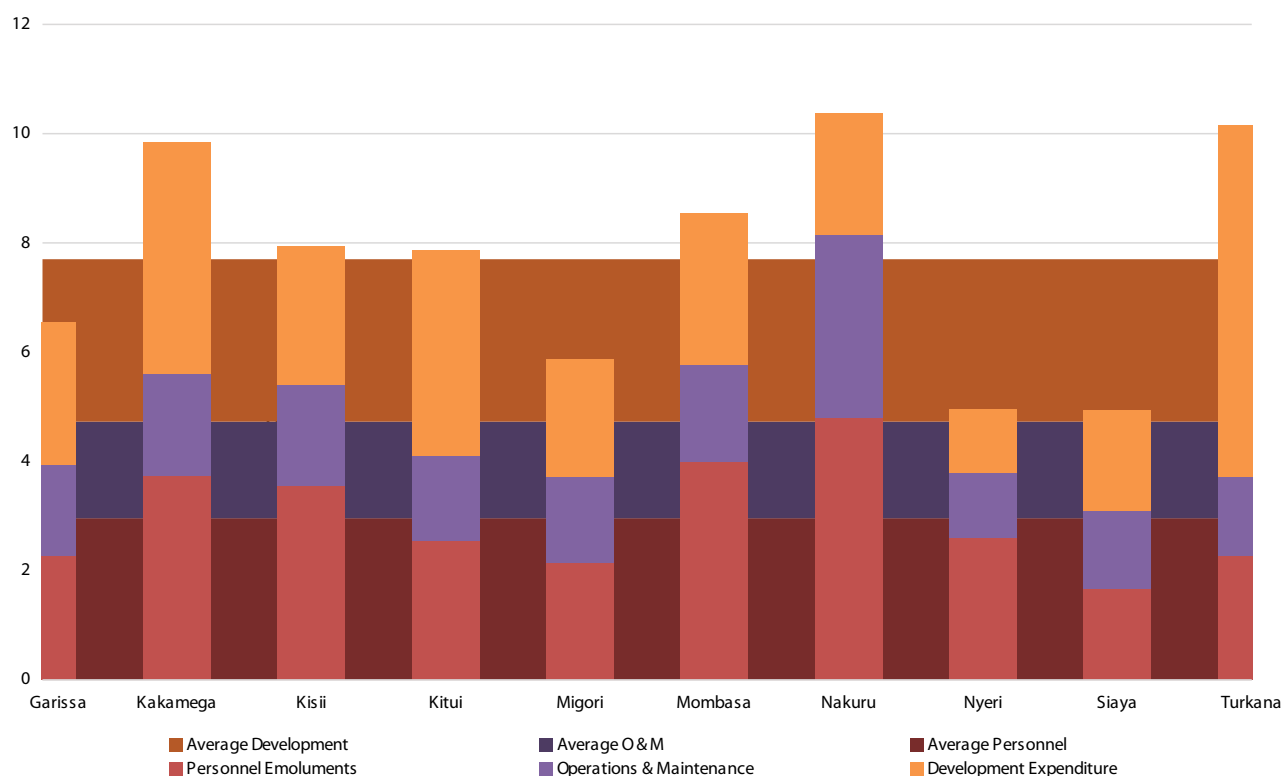
No clear guidance documents for recruitment process and limitations were mentioned during interviews. In the case of health, a strategy and guidelines for the management of human resources in health under devolution were only issued by the national Ministry in the second half of 2014/15. Furthermore, while the majority of the public sector health workforce are governed by the Civil Service Code of Regulations, which lays out the minimum standards for recruitment, management and development for all civil servants, including health workers, this has limited the flexibility with which frontline managers and different counties can, for instance, adjust incentive packages to attract and retain workers in rural and hard-to-reach areas or lay off or reassign staff where necessary (European Commission/Austrian Development Cooperation, 2014).

Large wage bills currently make up an average of 40% of county expenditures, as shown in Figure 13. There is, however, no clear evidence of resource needs for other recurrent expenditures (operations and materials) or development expenditures being prioritised or rationalised during budget planning and preparation. Instead, ambitious budget allocations are made for nascent county government structures and development projects.

County government officials have noted that initial budget processes were contentious. Interviewees noted that County Assembly members actively voiced needs and concerns of their respective wards, including in sessions where the Assembly was tasked to scrutinise the budget overall. In several cases this was reported to have resulted in upward pressure on the overall spending envelope. While counties have in most cases met the PFMA 2012 requirement of allocating at least 30% of expenditure to development outlays over the medium term, recurrent expenditures in many cases constitute more than two-thirds of the budget.

On average, more than half of recurrent expenditure of counties is on personnel emoluments. Recurrent expenditures related to the implementation and maintenance of capital investments (such as fuel and routine maintenance) make up a significant share of non-personnel recurrent costs. The largest recurrent expenditure line and actual expenditure after personnel emoluments remains domestic and foreign travel for staff.

Figure 13: Breakdown of expenditures for 10 counties, 2015/16 fiscal year (Ksh billions)



Source: COB, 2014b, 2015b, 2016b

High recurrent and development expenditure outlays appear to have driven up initial local tax revenue estimations to balance proposed county budgets, especially for collections in 2013/14 (World Bank, 2014). These expectations were somewhat moderated and rationalised for 2014/15 and 2015/16, with the performance of tax collections increasing from less than 50% in 2013/14 to close to 70% in 2015/16. County officials in some cases attributed low receipts to incomplete coverage of taxable activity and leakages for collections of entertainment and business licence taxes, as well as low non-tax revenue collections on property tax due to unclear or outdated valuation laws. The latter is potentially a significant source of revenue for counties with limited formal business activities, such as Garissa and Turkana.

Furthermore, a number of counties (such as Kakamega, Siaya and Garissa) have reported that unpaid bills have increased rapidly as a result of cashflow shortages from lower-than-forecast tax receipts. Such accumulations of domestic payments arrears will continue to put pressure on county budgets over subsequent financial years, most likely leading to reductions in allocations to and expenditures for development. This will make it harder for counties to continue to meet the 30% target for development expenditure over the medium term.

The increasing amount and diversity of subnational budgetary needs emerging from devolution have put County Executives under pressure to pragmatically balance budgetary procedures with fiscal realities. Most of the counties assessed for this study adopted two or more supplementary budgets each fiscal year – a signal that the county budgets are not yet wholly credible as county governments, like the national government, are not carefully prioritising development expenditures based on forecasted resources after deducting forecasted recurrent expenditures.

In some cases, county governments employed unsustainable solutions to manage unforeseen expenditure needs (e.g. by creating specific funds for scholarships or emergency relief in order to more flexibly appropriate funds, creating significant fiduciary risk) or manage revenue shortfalls (by governors and the County Assembly mandating expenditure cuts without consulting the CECM-F and MDAs). Such actions have led to a number of governors or county government officials being impeached for breaching the provisions of the PFMA 2012.

iii. Relationship with the national government and its effects on budget execution

Counties' weak institutional capacity and budgetary pressures are compounded by the fact that the relationship between the national and county-level governments is not always clear, either *de jure* or *de facto*. The Government of Kenya's PFM Reform Strategy 2013–18 emphasises that the devolution of fiscal functions and working arrangements between national and county-level governments is still very much a work in progress – the framework for intergovernmental fiscal relations will be drawn up over the course of these five years. Both levels of government are still in the process of determining the chains of command and accountability for service delivery on a day-to-day basis. This is most clear in the water sector and in the unclear relationships between the regional water boards, the water companies and the county governments.

The devolution process has intended to 'bring the government closer to the people' and devolve service delivery functions in order to make them more responsive to citizens' needs. In practice, county officials are very conscious that concessional and conditional transfers from the national government constitute on average 80% of annual revenue receipts, with the equitable share transfers alone making up 75% of county budgets. With high

expectations to meet recurrent and development expenditure needs, county administrations are still largely reliant on transfers from the national government.

Despite this, counties in Kenya have a high degree of discretion on how to budget for and spend these funds. The ratio of unconditional to conditional transfers is very high in Kenya when compared to the neighbouring region (e.g. close to 90% of the funds received by counties in Uganda are conditional versus 2–3% in Kenya). With transfers from the national government being both the largest source of revenue and largely concessional, there is little incentive for greater accountability for the use of funds at county level, or indeed incentive for raising local revenues.

Releases to county governments are not clearly announced and publicised by the National Treasury. This makes it difficult for county Treasuries to forecast their cashflow, and should be the first step in the accountability chain. The National Treasury recently publicly reported on the status of fiscal transfers to county government, and the COB produces quarterly reports in the absence of real-time release notices.

With cashflow issues at national level still present during devolution, all 10 counties have reported significant and regular delays in these transfers (up to one month, sometimes two to three months in the cases of Kakamega and Kisii). This has made fully executing recurrent budget lines, for personal emoluments and service delivery needs for instance, significantly more challenging. Such delays, coupled with the lack of clearly prioritised budget plans, are two major 'upstream' issues that have affected execution of development budgets in particular. Faced with regular cash shortages and high recurrent and development budget outlays, most counties have clearly prioritised the former in order to pay civil servant salaries to the extent possible.

This is further complicated by downstream factors, mostly by procurement procedures. The Public Procurement and Asset Disposal Act 2015 extends procurement systems and practices to the county level in line with the Constitution – article 53 states that county government or any organ or department of a county government will not begin the procurement process until it is confirmed that the requisite funds were secured in the county revenue fund account to complete the full procurement process – meaning the full value for tendering and settling invoices of multi-annual projects and

programmes. For county Treasuries, interest accrues on overdue payments making large development expenditures fiscally risky, disincentivising rapid procurement. Procurement planning documents and the subsequent procurement process is complicated and requires approval from national government institutions including the Public Procurement Oversight Authority, further delaying execution. This has been a particular problem within the health sector, wherein timeframes for approval of and procurement from conditional grants are impractical.

Detailed procurement procedures have, however, ensured that county-level procurement practices comply with the provision that 30% of planned procurements and asset disposals are reserved for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups. Whether this benefits women directly is unclear, as the Act and associated regulations offer no way of checking whether women legitimately own tendering businesses, whether a majority of women work in these enterprises and how equitably the government funds awarded are spent by the winning bidder.

The national government has indicated that unspent funds and budget lines at the end of the fiscal year may lead to reductions in transfer allocations in subsequent years. This presumably originates from constitutional and PFMA provisions for unspent funds to be carried forward to future financial years. While counties in general manage to execute the majority of budget allocations, this puts further pressure on already fragile county cashflow management processes. County officials feel they are being threatened with penalties for factors they have no control over.

However, in contrast, some interviewees noted that there is limited scope for the government (both at national and county level) to take action on departments and ministries underspending or overspending budget allocations, with the only recognisable consequences being impeachment of officials following KENAO reports and recommendations.

iv. Downstream PFM capacity and reporting, monitoring and evaluation

With devolution, the day-to-day practices of executing budgets and accounting for expenditures have changed remarkably. A few interviewees felt that new challenges had arisen from financial management systems 'prescribed' by the National

Treasury and with the gradual adoption of computerised systems such as the IFMIS and the e-procurement systems (Cherotich, 2016). This has led to greater potential transparency and accountability of county government expenditures through the adoption of a common chart of accounts, clear procurement processes and the establishment of county payroll systems.

Yet this has also created greater demands on capacity, particularly that of county Treasuries. The new systems and procedures require enough specially trained and experienced staff to manage them. Officials in Siaya and Kakamega noted that having only two IFMIS operators in the county Treasury made it difficult to process purchase orders in a timely manner. In addition, county governments and service providers need to be connected to both the internet and the system to follow budget execution procedures. Although most counties are now connected, their capacity to process and execute payments is in some cases limited. Turkana, for instance, reported that the payment process is often interrupted due to power shortages, making it impossible to access the IFMIS. Small service providers who do not have access to an internet connection are also restricted, as there is no alternative payment system.

The GoK's Strategy for Public Finance Management Reforms 2013–2018 takes note of the increased capacity demands on PFM at county level, and that more support is needed for devolved funds to achieve equitable outcomes and reduce debts of local authorities (Ministry of Finance, 2013). This national-level reform strategy towards developing PFM capacities at subnational level, however, allocates over three-quarters of the estimates resource needs towards determining resource requirements for devolved functions rather than the needs for capacity development.

There is little evidence in the county budgets that counties themselves are investing in developing these capacities. Meanwhile, the Public Procurement and Asset Disposal Act 2015 also provides the basis for e-procurement systems and practices, which may improve both efficiency and accountability of GoK procurement when rolled out to counties (Ochieng and Muehle, 2012). The Public Procurement Oversight Authority has also set up regional offices in Mombasa and Kisumu, with plans for four more regional offices, which may speed up procurement processes for counties. Currently, counties would overall find it challenging to fully execute development budgets even if resource shortages did not arise. Absorption rates for development expenditure are not likely to continue rising in the short term.

There remain a number of 'blind spots' in the IFMIS. Donor funds are not included in the system and are consequently not easy to separately monitor and report on. The GoK has introduced E-ProMIS to do this separately; however, this relies on the voluntary compliance of donor agencies, and E-ProMIS can only show disbursements on a sectoral basis (meeting donors' needs for donor reporting more than the governments' reporting needs). The health sector has made progress in mapping and monitoring these expenditures, for example; however, this has not been the case for WASH.

Nevertheless, the potential for regular, transparent fiscal reporting has increased dramatically since the introduction of the IFMIS at national and county levels. This potential is yet to be fully realised, however, with expenditure reports and procurement announcements generally not published in the Kenyan Gazette. There is also far less compliance with PFMA requirements for budget transparency, both at national and county level, in terms of availability of documents to the public. For example, budget documents are generally not online even six months into the fiscal year (World Bank, 2013a).

There are also limitations in the budget and fiscal reporting as a result of data quality. These are listed in Box 4.

The Strategy for Public Finance Management Reforms 2013–2018 notes that an M&E framework should have been developed and introduced at county level in 2013. Yet, despite the emphasis of the national government on having strong M&E systems in place for all devolved socioeconomic sectors, few counties have established official M&E departments. Where progress has been made on efforts to establish M&E systems and employ M&E staff, such as in Siaya, Kakamega and Garissa counties, officials note a lack of resources and relevant data for tracking progress, as well as a low level of capacity for M&E. Mombasa is a notable exception to this, being in the process of setting up an M&E department under the Office of the Governor (with support from the UK Department for International Development (DFID) – other counties have requested similar assistance). The results of this department's work have, however, not yet been published.

Box 4: Data quality issues for analysing public expenditure

For this report, the authors assessed all available fiscal data sources that could help to understand and assess trends in public expenditure. As highlighted in Annex A, choices had to be made to consistently analyse and present findings from data that could be well understood. Although data are abundantly available, there are quality issues that make it difficult to form a clear picture of public expenditure – these issues may affect the future reporting of the GoK:

- Accounting practices and standards vary significantly between the national and the state level. In particular, programme-based budgeting and expenditure accounting does not clearly follow the national Chart of Accounts. This currently makes tracking allocations of funds for specific programmatic purposes from the national to the county level impossible.
- Audited reports from the COB and the KENAO include insufficient explanation of significant deviations from IFMIS data and reports published by the national and county treasuries. Different data sources also infrequently refer to one another. This makes it hard to assess the most useful or reliable data source.
- There is at present no publicly available guidance documentation on what is and is not recorded in Kenya's IFMIS, and how. In addition to the large gaps in the data (aid data, expenditure on publicly owned companies, and county expenditures financed by local revenues), this currently makes it hard to interpret and develop actions based on IFMIS data. Particularly, expenditure data in IFMIS report does not clearly separate commitments from payments, making it difficult to assess the extent to which development budgets have actually been executed, and to quantify the link between procurement and pending bills.

Consequently, reporting against medium-term plans and development objectives remains a significant blind spot for county-level accountability and improved planning. The annual progress reports against CIDPs which counties are mandated to produce and submit to County Assemblies are hence currently not being produced. Notably, gender disaggregated reporting, both on budget execution and progress against the CIDPs, is not conducted. Budget documentation furthermore does not include any (gender-disaggregated) staffing or targeted beneficiary figures (NGEC, 2015). This implies a lack of gender disaggregated data for planning budgeting and reporting for key sectors such as WASH and Health, and presents a significant obstacle to comprehensive gender mainstreaming (see also Ministry of Environment and Natural Resources, 2015).

Furthermore, this limits the scope for accountability in the management of public finances: while civil society groups, media and county assemblies do participate in county planning and budgeting, the lack of detailed, transparent and accessible fiscal information means they are not equipped to exercise effective oversight of public funds and make PFM more responsive to citizens' needs.

2.4.3 Conclusions and recommendations

Despite the challenges noted above, discussions with national and county officials indicate a general perception that the devolution process is seen as a success that will make service delivery more responsive to the needs of the people. While initial budget processes have been contentious, and stakeholders are still growing into the functions and mandates devolved to them, officials are supportive of the devolution process.

Nevertheless, a number of issues have come up in these first few county budget and planning processes that may affect county-level service delivery:

- High expectations of the devolution process, together with a lack of clear human resource guidance, have increased recurrent expenditure outlays and introduced ambitious development budget proposals. Continued reported delays in transfers from the national government and underperforming local revenues have made executing both recurrent and development budgets challenging.

- Cash shortages and slow procurement procedures have led to low development budget execution and an accumulation of domestic payment arrears. Counties have prioritised paying the increasing wage bill, followed by operations and maintenance expenditures – leaving few funds to fulfil the county mandate for providing and improving service delivery.
- The budget process is well understood in the counties, though officials report difficulties in meeting the timelines for key parts of the budget planning and preparation cycle. As a result, annual development and financing strategies are delinked from medium-term planning, and participation in the budget process is limited. Lack of clear reflection of citizens' needs in planning, of clear prioritisation, and of published budget documents and reports implies that the credibility of county budgets is still low.
- Across the period over 70% of county governments' revenues are from the equitable share (unconditional transfers) from the national government. Local revenues account for only between 21% (2013/14) and 14% (2015/16) of budgets, with the remainder funded from conditional grants and other transfers. With signs that counties' finances are normalising after the initial few years of devolution, it is important that PFM capacity gaps are addressed in order for county governments to maintain and build on pre-devolution levels of service delivery without undue reliance on the national government. However, a high degree of fiscal discretion for counties means the incentives will work against, for instance, efforts to improve accountability and revenue mobilisation.

Recommendations on addressing these obstacles are listed in Box 6. The following sections will examine these aggregate expenditure trends to provide more detail on the composition and flow of funds in key sectors at the county level.

- **Strengthening the credibility of county budgets. A concerted effort will need to be made during the 2016/17 financial year to raise county treasuries' capacity to develop CIDPs. In particular,** medium-term objectives need to be more clearly formulated, costed and prioritised by giving more space and support to the development of CIDPs, and these objectives need to be better linked to national policies, county annual targets and expenditure outlays. These are preconditions for medium-term and programmatic budgeting to take hold at county level.
- **Clarifying legislative and procedural gaps.** These notably include sectoral policies providing the framework for service delivery, and county-level civil service human resource management guidelines. The latter will rationalise personnel needs and ensure that personnel emoluments in the recurrent budget are kept within affordable limits.
- **Strengthening consultation and collaborative planning and drafting processes for key deliverables in the county budget planning and preparation process.** This notably includes support for developing realistic CIDPs that include clear timelines and costings for priority projects that can usefully feed into ADPs, so that ADPs can be used as an effective tool for annual planning and defining priorities.
- **Improving programme-based budgeting.** County Executive Committees need to catch up to national ministries in developing programme-based budgets with clear narratives and targets for budget lines. Programme-based budgets need to be introduced in the next few budget cycles to ensure accountable and aspirational service delivery expenditure and to avoid counties preparing incremental budgets. Specifically, if counties are to improve on gender equality, budgeting, and monitoring gender issues, then additional training and funds will need to be targeted in this area.
- **Enhancing local revenue collection and administration.** Counties need a better understanding of taxable formal and informal activity to improve tax revenue forecasts, and of how to increase tax compliance and reduce leakages. Non-tax revenues need to be identified for counties with high informal sector activity. Further revenues generated in addition to concessional transfers from the national government should be allocated to benefit accountability and execution of development budgets in underfunded sectors. It may be the case that the national government has greater economies of scale in levying some taxes than county governments, which would require revenue-sharing agreements to be rethought.
- **Increasing the coverage of IFMIS.** 'Blind spots' in the IFMIS at county level need to be filled, including the recording of expenditures financed by local revenues. A roadmap for integrating sources of development expenditure, such as e-ProMIS, into the IFMIS needs to be developed. This will allow for more complete tracking of public expenditures and support accountability efforts by civil society, media and county assemblies.
- **Developing capabilities and systems for gender-disaggregated reporting, monitoring and evaluation.** The introduction of IFMIS needs to be complemented by systems and practices that allow county governments to track progress on development projects, promotion of gender equality and delivery of basic services, in both urbanised and non-urbanised areas. Notably, gender- and location-disaggregated data should be made available for civil society, media and county assemblies to exercise oversight of public funds and make PFM more responsive to citizens' needs. Capacity-building efforts should prioritise counties that were not previously provincial headquarters, and whose CECM-F members did not previously occupy Treasury or other related positions.
- **Facilitating counties' efforts for gender-sensitive budgeting.** Counties need specific support and guidance to help target and promote gender equality, including through basic service budgets and projects. Existing gender-sensitive budgeting guidelines need to be adapted specifically for the county level, and gender focal points need to be trained on the guidelines. The NGECC can support by developing a tool for setting gender-based targets in time for the next CIDP process. Civil society organisations need to work closely with National Treasury, NGECC and other gender-relevant institutions to integrate gender-responsiveness into budget guidelines, and support ministries and county governments to integrate and track progress on gender-sensitive budgeting.

3. Health



3 Health

This chapter assesses how and to what extent health policy objectives in Kenya are being attained at county level following the introduction of devolution in 2013. This PER is the first to explore health sector expenditure at county level, and thus provides a more comprehensive analysis of health sector expenditure than has previously been available. The chapter is structured as follows:

- Section 3.1 provides an overview of health sector performance and financing in Kenya at national and county level at the onset of devolution;
- Section 3.2 analyses health planning, budgeting and budget execution for the 10 counties under review following devolution;
- Section 3.3 assesses changes in health service delivery performance following devolution;
- Section 3.4 provides a summary of the key PER findings in relation to health.

3.1 Background

This section provides an overview of health sector context in Kenya at the onset of devolution, covering the health status of Kenyan citizens, the national policy objectives for the health sector and financing arrangements at national and county level.

3.1.1 National health performance, guiding policies and budgets

As shown in Table 12, Kenya has seen continued improvement in some healthcare indicators up to the start of devolution:

- Life expectancy has improved over the past five years and the average Kenyan lives three years more than the SSA average: 61.6 years versus 58.6 years.
- The fertility rate has fallen from 4.6 to 4.3 births per woman, and this is lower than the SSA average of 5.0.
- A greater proportion of births attended by skilled health staff in Kenya compared to the SSA average: 61.8% versus 50%.
- Whilst use of insecticide-treated bed nets is currently 54% compared to 43% in SSA, the HIV prevalence rate in Kenya is slightly higher than the SSA average – 6% compared to 4.9%. This burden is largely concentrated in the Western counties.

Table 12: Kenyan health indicators compared to SSA average

	2010	2011	2012	2013	2014	SSA av. 2014
Life expectancy at birth, total (years)	58.7	59.5	60.3	61.0	61.6	58.6
Fertility rate, total (births per woman)	4.6	4.6	4.5	4.4	4.3	5.0
Births attended by skilled health staff (% of total)	-	-	-	-	61.8	50.0
Maternal mortality ratio (national estimate, per 100,000 live births)	-	-	-	-	362	-
HIV/AIDS prevalence rate*	-	-	6.0%	6.0%	6.0%	4.9%
Use of insecticide-treated bed nets (% of under-five population)	-	-	-	-	54.3	43.2

Source: World Bank Development Indicators Database

Note: * = UNAIDS AIDS Info Database

Kenya's Vision 2030 sets out the long-term goal for health, namely to 'provide equitable and affordable healthcare at the highest affordable standard to her citizens' (GoK, 2012) and to 'shift the emphasis to "promotive" care in order to lower the nation's disease burden (Ibid., p. 104). In 2006, 51 per cent of public sector expenditures in health went towards curative health with only 5 per cent dedicated to preventive and promotive healthcare. This is the pattern the Vision aims to reverse' (Ibid., p. 106). The Vision goes on to state that the number of healthcare professionals will need to be increased and these professionals will need to be reoriented towards preventative healthcare.

Vision 2030 identified five focus areas in 2007 to overcome health challenges and achieve 'equitable and affordable' healthcare: access (geographical, financial and social), equity (regionally, socially, and gender), quality, capacity and institutional framework. Fourteen flagship projects were developed under the Vision's social pillar of health.²⁵ These range from the rehabilitation of health facilities, strengthening the Kenya Medical Supplies Agency and developing a human resource strategy, to areas such as channelling funds directly to health facilities and revitalising the efficacy of the health management information system (HMIS). Each of the 14 projects has a medium-term plan target – under the Medium-Term Plan II 2013–2017, which acts as an implementation plan – and annual targets.

The 2014 health sector strategic and investment plan (HSSP) aligns the long-term vision with medium-term planning cycles (together with the Kenya Health Policy 2014–18). The goal of the HSSP is the 'realization of Universal Health Coverage (UHC) whose concept involves optimizing equity to make even the poor have access to care, protection from catastrophic health spending and to ensure that resources are utilized in the most efficient and cost-effective way' (MOH, 2014a).

The plan identifies several challenges to the health sector: 'high maternal, neonatal and child mortalities from preventable conditions, emerging and re-emerging diseases, increasing numbers of persons newly infected with HIV, threats from fevers such as Ebola and Marburg and the increasing cases of injuries and non-communicable diseases. Poverty still remains a major challenge affecting people's ability to maintain health and seek health when needed. Limited resources, inefficiencies in utilization of available resources and weak regulatory systems have greatly constrained the sector from effectively responding to these challenges' (MOH, 2014, p. iii)

Total health expenditure (THE, measured using National Health Accounts data from the WHO Global Health Expenditures Database) in Kenya has been rising in real terms, from 5.2% in 2011 to 5.7% of GDP in 2014, as seen in Table 13. In nominal terms THE has risen from Ksh 2.2 to 3.5 million, this equates to an increase from Ksh 4,935 per capita in 2011 to Ksh 7,181 per capita in 2014 (an average of 70\$ per capita).

Table 13: Total health expenditure (USD, Ksh, and as a proportion of GDP and THE)

	2011	2012	2013	2014	Average
THE (million USD)	2,195	2,768	3,068	3,512	2,886
THE (million Ksh)	194,919	233,960	264,222	308,782	250,471
THE per capita (USD)	56	68	73	82	70
THE per capita (Ksh)	4,935	5,748	6,321	7,181	6,046
GHE per capita (USD)	12	21	23	28	21
GHE per capita (Ksh)	1,109	1,745	2,004	2,420	1,820
THE as % GDP	5.2%	5.5%	5.6%	5.7%	5.5%

Source: WHO Global Health Expenditures Database – NHA; per capita figures are authors' calculations.

²⁵ See: <http://www.vision2030.go.ke/>

Total health expenditure in Kenya is structured as follows:

- GHE accounted for an average 30% of THE over the four years from 2011 to 2014. This rose over the time period, from 23% in 2011 to 34% in 2014. In nominal terms, the contribution more than doubled from Ksh 43.8 billion in 2011 to Ksh 104.1 billion in 2014.
- External resources have accounted for an average of 30% of THE, representing high donor dependency in the health sector. On average, the health sector has received Ksh 71.2 billion per annum. This is higher than the average for SSA countries in 2014 (11.1%), but lower than other East African LMICs and near neighbours with similar population sizes.²⁶ Lesotho, Zambia and Tanzania all had higher rates in 2014 – 52.2%, 38.4%, 35.9% respectively. Swaziland was the only LMIC East African country with a lower rate at 21.7%.²⁷
- Households' out-of-pocket (OOP)²⁸ expenditures have accounted for another 30% of THE. This is relatively high when considering the World Health Report of 2010 stated that: 'It is only when direct payments fall to 15–20% of THE that the incidence of financial catastrophe and impoverishment falls to negligible levels' (WHO, 2010). This is a significant decline from 2010 when the figure stood at 50%, and for 2014 WHO reported OOP as a percentage of THE as 26.1%. Kenya is now below the SSA average of 34.5% in 2014 (up from 30.8% in 2010). Compared to near neighbours the drop is dramatic. In Zambia, Lesotho and Swaziland OOP expenditure fell over the period – but by less than 2.5 percentage points. In Uganda OOP expenditure was rising over the period, though Tanzania also saw a substantial decline over the period – nearly 10 percentage points. It should be noted the decline in OOP expenditure in Kenya preceded the abolition of user fees in 2013. Despite this substantial decrease, the level of OOP spending still appears to be putting citizens at risk of catastrophic health expenditures.
- Private sector health expenditures have been growing in nominal terms, from Ksh 21.3 to 39.0 billion. However, as a proportion of THE, the private sector expenditure has remained low at around 12% over the four years.

Table 14: Structure of health expenditure as per the NHA (% of THE)

	2011	2012	2013	2014	Average
THE (Ksh million)	194,919	233,960	264,222	308,782	250,471
GHE as % THE	22.5%	30.4%	31.7%	33.7%	29.6%
External resources as % THE	27.7%	30.2%	28.4%	27.5%	28.4%
OOP expenditures as % THE	38.9%	26.6%	26.9%	26.1%	29.6%
Other private expenditure as % THE	10.9%	12.9%	13.0%	12.6%	12.4%
Total	100%	100%	100%	100%	100%

Source: WHO Global Health Expenditures Database.

²⁶ Lesotho, Swaziland, and Zambia are also LMICs. Tanzania and Uganda are low-income countries but they have comparable population sizes and are near neighbours.

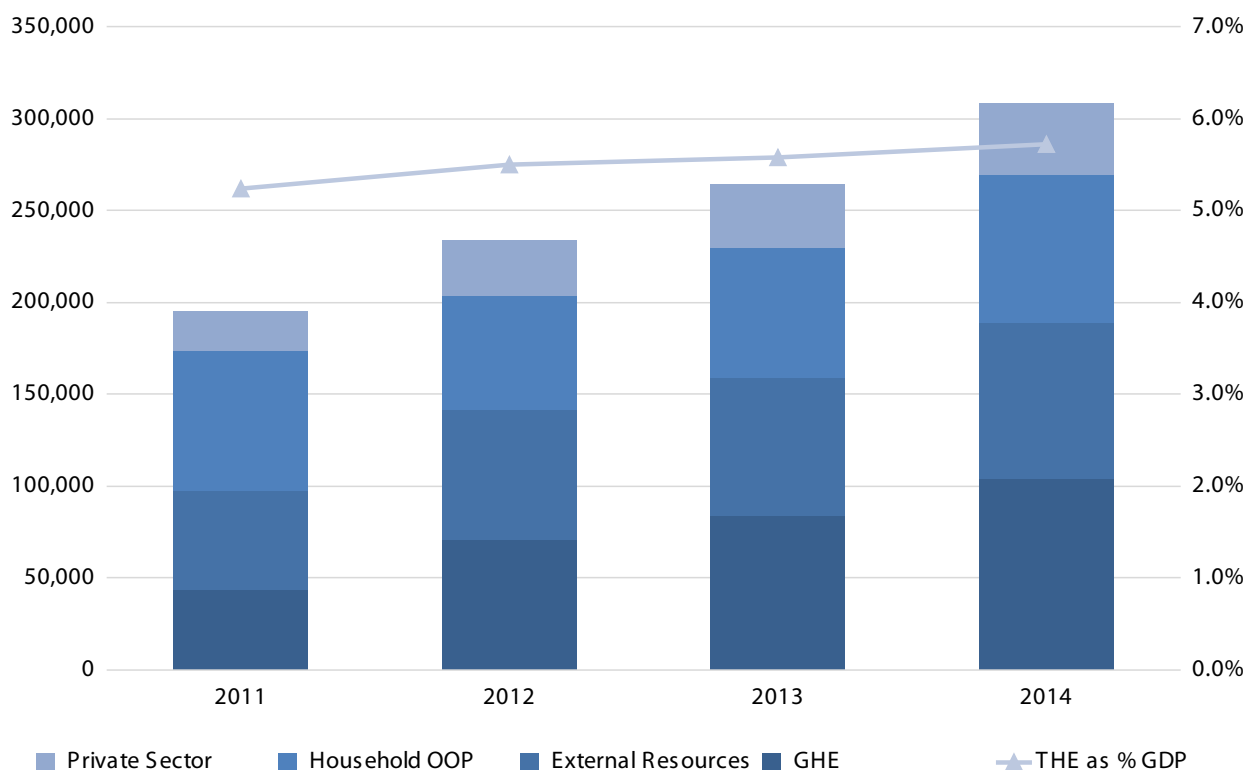
²⁷ All data from the WHO Global Health Expenditure database

²⁸ The WHO definitions for OOP are based on the System of health accounts (SHA) classifications. Which differentiate Private expenditure from OOP expenses (see page 173 of OECD, Eurostat, WHO (2011)) for details. In the SHA definition OOP expenditures show the direct financial burden of medical care for the household, which may have a catastrophic effect on its financial situation. This justifies a separate first-digit level category for voluntary private schemes (other than OOPs) and Out-of-pocket payments

Figure 14 shows how THE evolved from 2011 to 2014. Overall, at 5.5% of GDP, Kenya spends less in the health sector than its Southern African peers. A recent study of 15 countries in the Southern African Development Community revealed wide variation

in health spending, with THE as proportion GDP of averaging 7.8% (Lievens et al, 2015; refers to 2012/13 data from NHA). This ranged from 2.6% in the Democratic Republic of Congo to 12.9% of GDP in Lesotho.

Figure 14: THE by source (Ksh millions and as proportion GDP)



Source: WHO Global Expenditures Database – NHA, and IMF World Economic Outlook for GDP

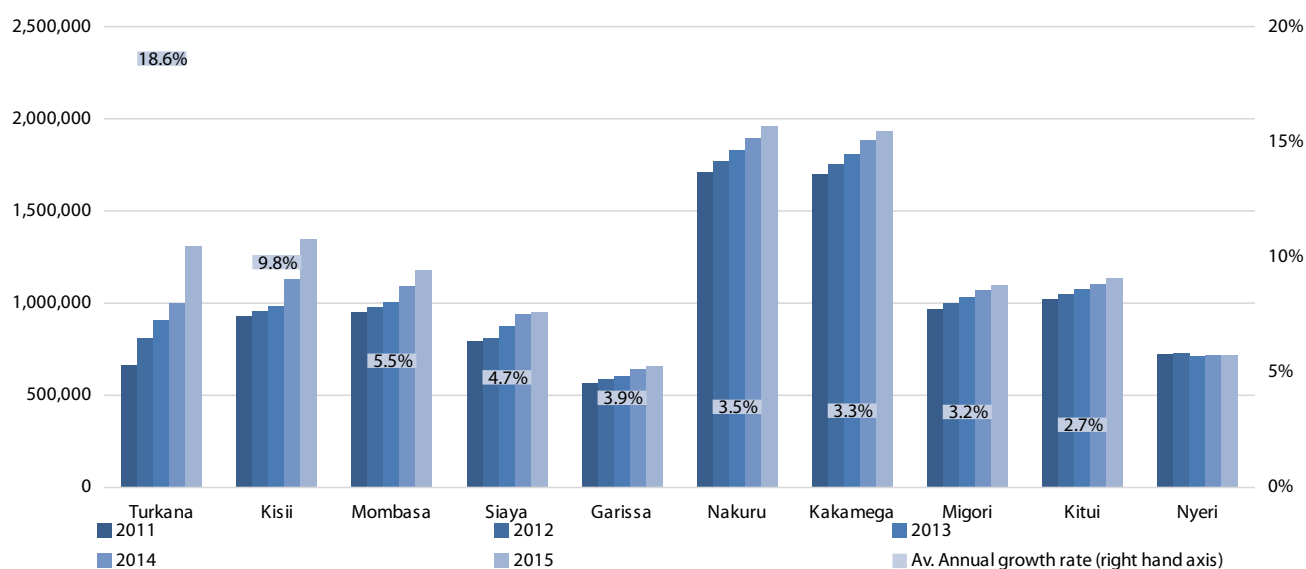
3.1.2 County health context

This sub-section provides a quick overview of relevant contextual information on healthcare in the counties covered by this study, specifically: demographic information; an overview of the county facilities and their ownership; relevant county health accounts (CHA) data; and a summary of the pre-devolution financing landscape from recent PERs. The data in this section are drawn from DHIS data and complemented with work undertaken by the Health Policy Project in producing CHA covering six of the 10 counties studied in this review.

Figure 15 presents both the absolute population within the counties as well as population growth.²⁹ Turkana and Kisii have extremely high rates of population growth; in Turkana's case the DHIS has recorded over a doubling of population between 2011 and 2015. Mombasa and Siaya show high rates of population growth. The remainder of the counties are closer to, though still higher than, the national average of 2.5%, with the exception of Nyeri which recorded a slight decline.

²⁹ The population data used in this PER are those reported in the DHIS data, which allow for a more detailed view of relative growth rates across the counties and are preferable to linear extrapolations from the census.

Figure 15: County population growth, 2011–2015



Source: DHIS

Approximately half the population for each of the counties was female in 2015, while approximately 15% of the population on average was under the age of five, as shown in Table 15.

Table 15: Basic demographic data, 2015

	Garissa	Kakamega	Kisii	Kitui	Migori	Mombasa	Nakuru	Nyeri	Siaya	Turkana
% female	46%	52%	52%	52%	52%	48%	50%	51%	53%	48%
% under 1	1.9%	3.6%	3.7%	2.8%	3.7%	3.5%	3.4%	2.5%	3.7%	3.4%
% under 5	14%	17%	17%	14%	17%	16%	16%	12%	17%	16%

Source: HPP County Factsheets 2015

Table 16 presents an overview of health facilities, from all providers (e.g. government, private, NGO, etc.). For all counties except Kisii, over 90% of facilities

are either Level 2 or 3. Six out of the 10 counties also have at least one Level 5 hospital (with Mombasa the only county with two), and therefore benefit from conditional grants for Level 5 hospitals.

Table 16: Health facilities by level, current

Level	Description ¹	Garissa	Kakamega	Kisii	Kitui	Migori	Mombasa	Nakuru	Nyeri	Siaya	Turkana
Level 2	Dispensaries and clinics	82	170	101	220	153	211	268	275	114	127
Level 3	Health Centres	22	55	34	53	32	19	43	26	40	17
Level 4	Primary referral facilities	10	13	20	11	13	13	20	9	8	8
Level 5	Secondary referral facilities	1	1	1	0	0	2	1	1	0	0
None	n.a.	0	0	0	0	0	1	0	0	0	1
Total		115	239	156	284	198	246	332	311	162	153

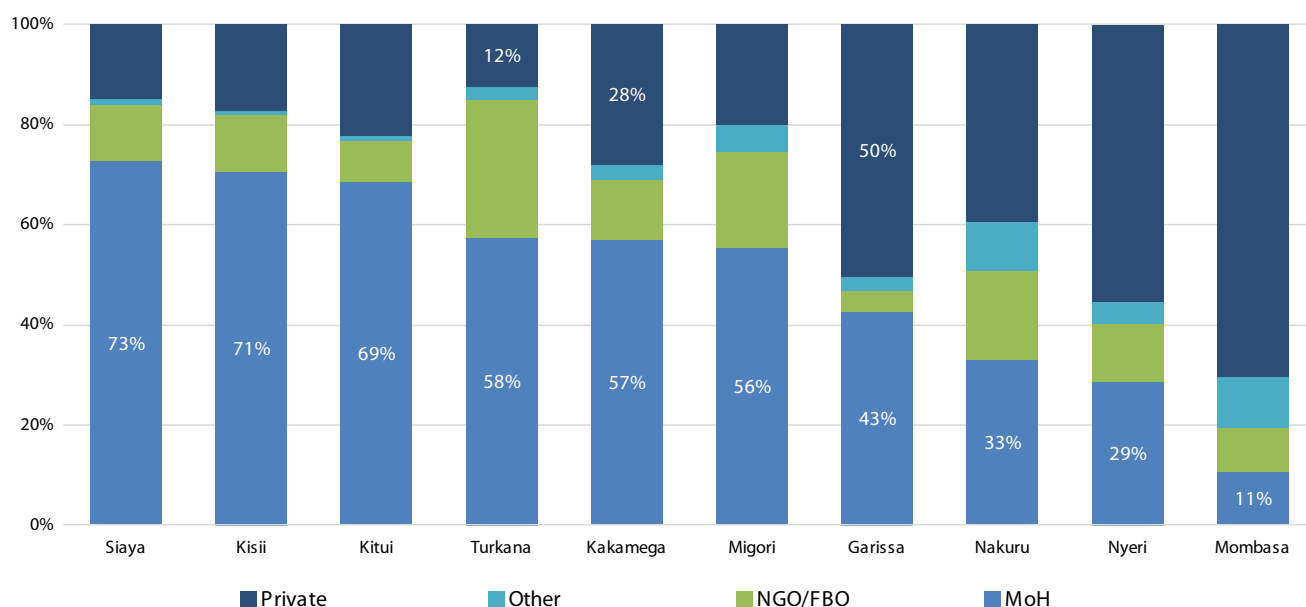
Source: Kenya Health Facilities Master List³⁰

³⁰ Accessed at <http://kmhfl.health.go.ke/#/home> on 3 March 2017.

The counties with large urban centres, most notably Mombasa but also Nakuru, Garissa and Nyeri, have a much larger private healthcare sector, as shown in Figure 16. In all cases the private facilities are mostly Level 2 facilities – with the exception of Kisii (59%) – and over 70% of the private sector facilities are Level 2 facilities; 83% in Nakuru and Garissa, 88% in Mombasa, and 96% in Nyeri.

The variation between counties in the total number of basic healthcare facilities (Level 2 and 3) per population, and their ownership, is striking, as shown in Figure 17. Counties with large dense urban populations and a large number of private facilities (e.g. Mombasa, Nakuru) have the fewest government-run Level 2 and 3 facilities, suggesting a de facto substitution effect between government and private facilities.³¹

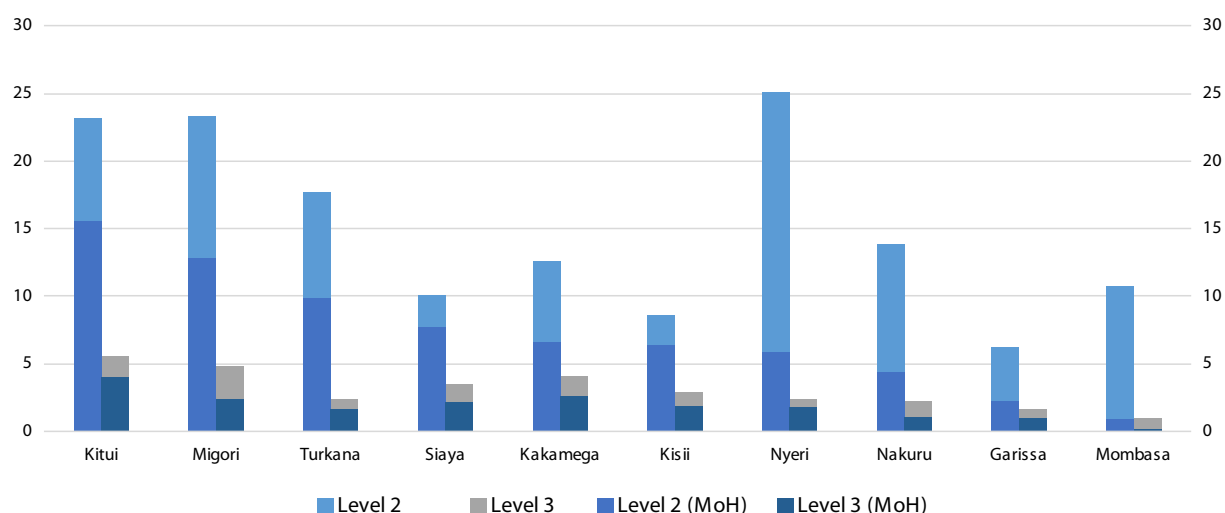
Figure 16: Facility ownership, current



Source: Kenya Health Facilities Master List

³¹ These figures do not reflect the size of the facilities, however.

Figure 17: Level 2 and Level 3 facilities per 100,000 people (all and MOH owned)

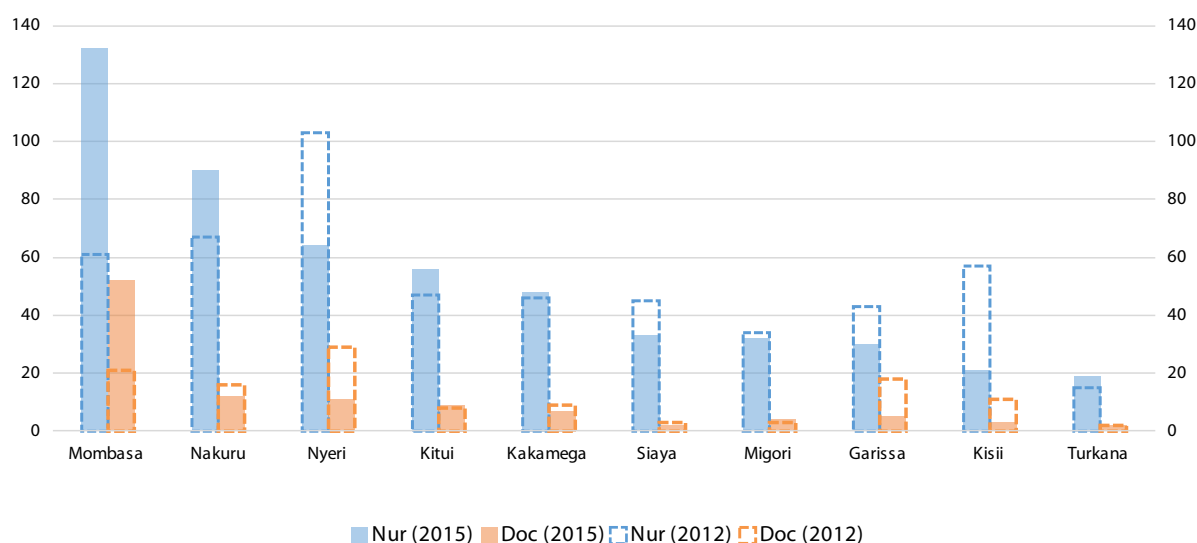


Source: Kenya Health Facilities Master List

Counties with a Level 5 and a high number of Level 4 facilities have a high concentration of doctors and nurses, as shown in Figure 18. Whereas most counties have seen an increase in professional

health staffing, Nyeri, Garissa and Kisii have seen a significant erosion. As with other parts of the country, these counties were hit by doctors' strikes over the period, and also more recently.³²

Figure 18: Doctors and nurses per 100,000 people, 2012 versus 2015



Source: Health Policy Plus County Health Factsheets

³² No data are available on the number of (types of) health professionals disaggregated by level or type of health facility. These data are from the County health factsheets done by Health Policy Project (HPP), which in turn draw their data from the 'integrated payroll and personnel data base'. It could be assumed that these figures are only government staff.

3.1.3 Health sector structure and financing under devolution

Following devolution, the primary role of the national MOH is to 'provide the policy framework that will facilitate the attainment of highest possible standard of health, and in a manner responsive to the needs of the population. This is done through the constitutionally assigned functions of: health policy, health regulation, national and referral facilities and capacity building and technical assistance to counties' (MOH, 2014a, p. iii).

The role for each county's health sector is defined in Schedule 4 of the Constitution, which 'assigns to the County Governments the function of delivering county health services' (MOH, 2014a, p. 1) with further delineated responsibilities³³

- Counties focus on preventive care, promotive care, primary care, and some secondary care; while
- The national MOH focuses on the National Health Insurance Fund (NHIF), policy, national referrals, the four hospitals and research institutions.

At the county level, the county integrated development plans (CIDPs)³⁴ are the core medium-term planning documents, on the basis of which counties prepare annual development plans

(ADPs), which detail the annual implementation plans. Within the county government sectoral and departmental plans are created. While CIDPs are meant to focus on country-specific priorities and are developed independent of the national government, they are also required to align themselves with national / sectoral plans and policies, in this case the health sector strategic and investment plan (HSSP).³⁵

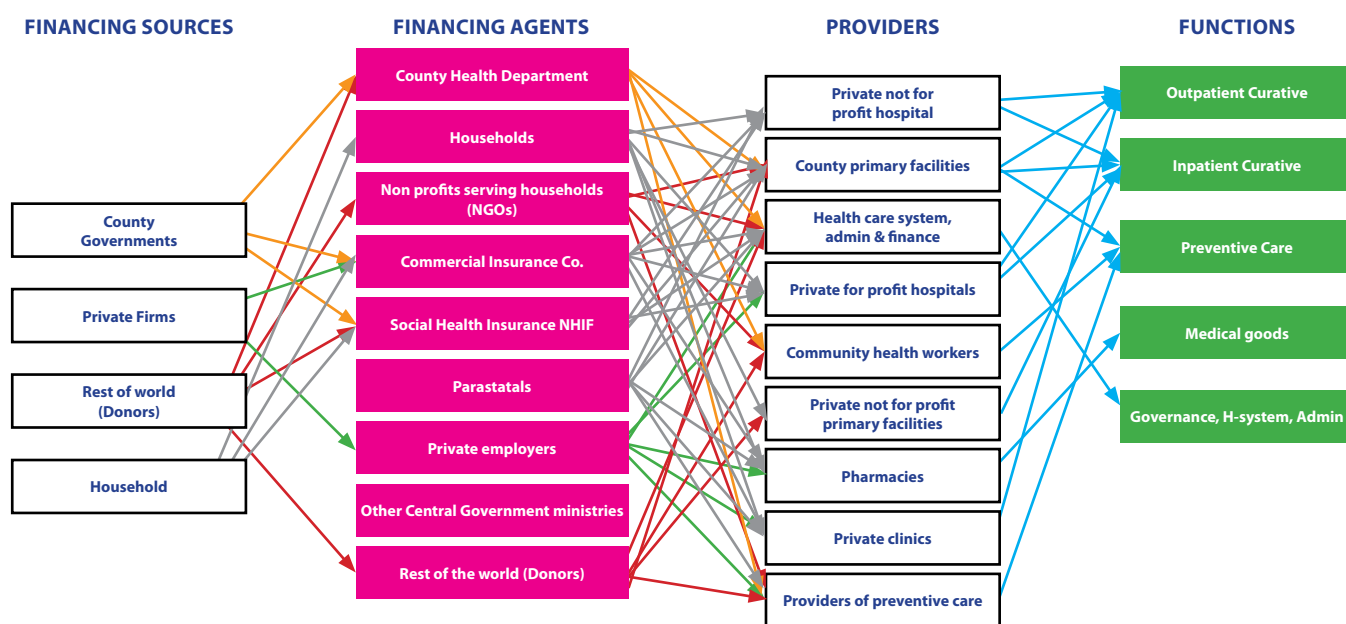
The national Ministry of Health (MOH) supported counties in developing their strategic plans and CIDPs.

However, the end product was the responsibility of each county and, as mentioned in Chapter 2, the quality of the CIDPs varies across counties. Indeed, the devolution process has been interpreted and implemented at an individual level. Thus, it is important to now turn to each of the 10 counties we are analysing to see how they have dealt with health issues.

Figure 19 presents a stylised map of the flow of funds in the health sector in Kenya. This PER concentrates mainly funds from county governments, but makes note of funding from other sources where possible and relevant.

Funding of the health sector to counties comes from two main sources: unconditional transfers from the equitable share, and from conditional grants.

Figure 19: Map of the actors and flows of funds in the health sector in Kenya



Source: Maina et al, 2016

33 Interview with MOH staff, September 2016.

34 Interview with National MOH staff, September 2016.

35 Interview with Ministry of Devolution and Planning Official, September 2016.

Resources from the equitable share can be allocated as to the health sector, following the budget process. There are five conditional grants earmarked for certain health services³⁶:

- Level 5 hospitals – There are 11 Level 5 hospitals. These were aligned with provinces pre-devolution and now still are in certain counties, but they take in patients from other counties. Thus, these counties receive compensation. Conditional grants are made to finance the costs of these hospitals. The funds flow to the 11 counties as a separate envelope outside of the resource allocation formula. Resources from National Treasury and national MOH define the disbursement schedule based on historical allocations. The baseline for each was calculated by indicators such as workload, bed capacity and population coverage in 2013/14, the base year. As such, the annual allocations are equal to the baseline plus a certain proportional increase – usually inflation-based. Disbursements are made every six months. These transfers are defined as development or capital expenditure and are made from the National Treasury directly to the hospital. They are shown in the MOH budget, despite never actually coming through the MOH's financial systems (called AIA).
- Maternity – This payment upholds the government's promise to provide free maternal care and is based on the number of county-level facility deliveries. The MOH receives funds from the National Treasury for each baby delivered in a county health facility.³⁷ The MOH in turn pays counties for these deliveries. The rate of pay for each is based on the facility's agreed rates. Payments are automated through the District Health Information System (DHIS). Information on deliveries is submitted by facilities each month. There can be delays in updating the IT system due to rural capacity constraints and staff turnover problems. However, at hospital level this data update is very routine. The flow of funds for this conditional grant should be backdated quarterly. However, the free maternity policy is a tax revenue-based grant. If there have been low tax revenues at national level then the National Treasury may not be able to pay the full reimbursements requested by county governments for that quarter.
- Primary healthcare user fees – Reimbursement of outpatient fees. Again, payment is backdated using the IT-based DHIS. The submission of automated reports is generally timely and most facilities have few problems with this. It is a similar system to maternity grants, and there are similar problems with payments.
- Results-based financing grants: 'P4R' – World Bank support via the Kenya Health Sector Support Project. This conditional grant is available to 20 arid and semi-arid counties plus Migori County and was implemented in FY 2016 based on lessons learned from a pilot implemented in Samburu County. These counties were chosen as they had a high burden of low-performing indicators for child and maternal health. The funds flow is guided by a National Treasury circular dated 28 August 2015 on transfers of HSSF (World Bank and Danida) conditional grants to county governments pursuant to CARRA 2015 and the PFM Act 2012. According to the circular, counties set up a special purpose account and the county then pays performance payments to the health facilities from this account. Performance payments are paid after the results are verified and adjusted by a quality assessment. There have been some teething problems in invoicing, establishing the special purpose account and requisitioning funds from the county revenue fund to the special purpose account, which have led to delays in payment to the health facilities. These challenges are being addressed jointly by the MOH and county governments. The process is being improved by automating invoices via a web portal linked to DHIS2 and IFMIS.
- Danida grants – Funding is provided to support the NHSSP's first objective, to 'increase equitable access to health services', to reduce maternal and under-five mortality, increase access to HIV/AIDS services, reduce morbidity and mortality from malaria and other diseases. Funds are provided directly through the Health Sector Services Fund (HSSF) to dispensaries (level 2) and health centres (level 3), the lowest level of service delivery, to cover recurrent operating and maintenance costs and annual operation plan (AOP) activities. The grants are jointly managed by facility management committees and in-charges, who are responsible for developing plans, budgets and reports for all funds received (including community outreach activities) to qualify for the grants.

³⁶ MOH and Treasury interviews, September 2016.

³⁷ The amount paid is per delivery and facilities are reimbursed at Ksh 2,500 per delivery in primary healthcare facility; Ksh 5,000 at Level 4 and Level 5 hospitals; and Ksh 17,500 at Level 6 hospitals.

The Health Intergovernmental Consultative Forum is the formal coordination platform between the MOH and county health sectors. This forum was put in place to allow the MOH to engage with counties on health issues and national health goals. There are five thematic groups: healthcare financing; health products and technologies; service delivery and PPPs; M&E; and human resources. The forum should meet every six months.

3.2 PER findings

This section looks at health planning, budgeting and budget execution for the 10 counties under review following devolution. It draws on previous PERs as well as Controller of Budget (COB) and integrated financial management information system (IFMIS) data for actual outturn budget data.

3.2.1 Challenges in implementing devolution in the health sector

This section highlights a few existing structural problems in the health sector still being resolved in the ongoing devolution efforts. The 2014 World Bank health PER notes that the healthcare sector had the largest share of budget allocations earmarked for devolution (54%, followed by infrastructure at 43% and public administration at 23%). It notes several emergent challenges in healthcare budget execution, namely falling execution rates despite

rising budget allocations, declining spending on operations & maintenance, and slow and insufficient exchequer releases leading to payment arrears. This PER's recommendations pertaining to devolution are captured in Box 6 for reference.

A significant change process like devolution requires careful coordination. Interviews with national Ministry of Finance (MOF) and MOH staff, however, described the Health Intergovernmental Consultative Forum as 'not effectively implemented'.³⁸

A number of alternative institutional arrangements have been put in place to improve communications and ensure alignment with county and national policies. There are moments of dialogue and participation in county-level budgeting processes as described in Chapter 2. There are also annual targets for collaboration in the HSSP, under the Division of Health Sector Inter-Governmental Affairs (MOH, 2014a, p. 23). No mention of the sector reaching these targets is, however, made in the latest Health Sector Review (MOH, 2015, p. 23).

Box 6: Recommendations regarding devolution from a previous health PER (World Bank, 2014a)

- County governments now have an opportunity to address historical inequities in access to health services. There are significant disparities in access to health services. One possibility for county governments to increase access within the limited fiscal space is to formulate partnership frameworks with 'private not-for-profit' providers who already have infrastructure and staff on the ground and who are relatively more efficient than public providers.
- Create appropriate incentives for health staff and equip health facilities with adequate essential medicines and medical supplies (EMMS) needed to provide quality care. Absenteeism and the knowledge practice gap are some of the sources of inefficiencies in Kenya's health sector. County governments need to create incentives for staff to be present at work during scheduled times and also address knowledge practice gaps, while ensuring that the required resources are in place to enable good practice.
- Counties can benefit from effective sharing of resources (networked hospitals) rather than new investments (building new hospitals). Rather than invest in high-end curative infrastructure in each county, county governments within the same region can identify effective ways of sharing resources; for example, by networking hospitals to provide high-quality care across several neighbouring counties.
- Adopting cost-effective preventive care interventions to improve service delivery is also critical. In this regard, cost-effective approaches adopted by Sri Lanka offer some useful insights. The country has achieved remarkable health outcomes and is considered to demonstrate good practice in health delivery.

Source: World Bank, 2014a

³⁸ Interviews with MOH and Treasury staff, September 2016.

One MOH official indicated that the Ministry would not directly be able to ensure alignment of counties with national policy priorities. 'MOH cannot intervene, they can only influence through dialogue and working together with the county-level governments. They monitor performance and share results to provide feedback, however, the process is not complete.'³⁹ This suggests significant challenges in planning and budgeting to achieve Kenya's health policy priorities.

To overcome inconsistencies between national and county-level prioritisation the Intergovernmental Fiscal Relations department has been put in place in the National Treasury⁴⁰ with a mandate to assess county- and sector-level budgets. The department is meant to focus on the efficiency, compliance with the Constitution and relevance to national priorities of county budgets, and provide advice to county finance departments. The department plans to interact with counties along the entire budget cycle. However, the department has not been fully functional over the past three years in terms of the flow of data, and analysis is still being developed.

The MOH also highlights the problem of capacity within county health sectors: 'Counties have challenges in capacity, planning for resources, and budgeting this effectively. Counties inherited different levels of human resources, which has put pressure on resources.' However, as can be seen from Table 17 the health training requirements from national to county level were not expected to be applicable for all 47 counties in the first three years of devolution, and so it seems the training from national to county level has not been prioritised within the initial devolution years. The National Treasury have commented on the long-term process required to build county capacity. Using the example of programme-based budgeting, PFM and procurement they conclude that there is 'still a long way to go' before counties attain effective competencies.⁴¹

Table 17: HSSP capacity building for counties – targets

	2013/14	2014/15	2015/16
No. of counties trained on KQMH and QI activities	8	10	12
Percent of hospitals with TOTs trained on hand hygiene	N/a	10%	50%
Kenya Patient Safety Impact Evaluation Report produced	N/a	N/a	1
No. of NIPCC meetings conducted	4	4	4
No. of counties trained on accreditation implementation plan	0	0	12
No. of counties trained on IPC	N/a	10	10

Source: MOH HSSP

The MOH released its health sector Human Resources Strategy 2014–2018 midway through the 2014/15 financial year. While the strategy notes the MOH's commitment to devolve the coordination and implementation of county HRH strategies by end 2015 and institutionalise HRH planning and budgeting tools by the end of the 2016/17 fiscal year, it also notes significant commitments for recruitment. The MOH is committed to recruit at least 12,000 health workers (nurses, clinical officers,

doctors, laboratory technologists, health records officers, nutritionists and radiologists) per year by 2017 to support healthcare service delivery at facility level, and 40,000 community health extension workers by 2017 while increasing community health units from 2,511 in 2012 to 9,294 in 2017. While this would happen in consultation with the National Treasury, no mention is made of how these objectives translate to budget planning at national and county level.

³⁹ Interview with MOH staff, September 2016.

⁴⁰ Interview with Treasury staff, September 2016.

⁴¹ Interview with National Treasury staff, September 2016.

3.2.2 Health planning & budgeting

This section looks at the 10 counties' health priorities, and how they have planned, budgeted and monitored for them. Priority goals in healthcare over the period 2013–2017 are set in the MTP II, namely to reduce the maternal mortality rate (MMR), under-five mortality rate (U5MR), infant mortality rate (IMR), HIV/AIDS prevalence rate, and malaria inpatient case fatality rate, and to improve under-one immunisation coverage (MOH, 2014). The MTP II also notes that: 'In order to achieve these objectives, the health sector will focus on universal access to health care, preventive and primary health care, management of communicable diseases, maternal and child health and non-communicable diseases' (cited in MOH, 2014, p. 11).

The strategic programmes and their intervention focus within the HSSP covering the same period are:

- Child health – continuous supply of all necessary childhood vaccines;
- HIV prevention and control – scaling up antiretroviral therapy (ART) uptake and elimination of mother to child transmission of HIV;
- TB control – case detection, TB drug resistance monitoring, TB defaulter tracing, TB/HIV integration;
- Neglected tropical diseases (NTD) and non-communicable diseases (NCD) – health promotion and health education, tobacco control, nutrition policy including promotion of healthy diets and physical activity, cancer control policy, screening NCDs, violence and injury prevention; and
- Disease outbreak response – disease surveillance and epidemic response.

The two sets of priorities are mostly aligned in terms of the core maternal and child health priorities, and diseases such as HIV/AIDS. Table 18 shows where the 10 counties' CIDPs match these priorities. Most CIDPs adequately covered five of the six MTP II health priorities – MMR, U5MR, IMR, Immunisation, and HIV/AIDS. The malaria priority is missing or inadequately planned for in 50% of the CIDPs.

Priorities aligned across the HSSP and medium-term plan (MTP) (free maternal services, child health, and HIV prevention and control) are represented to an extent in the CIDPs, yet:

- Only 50% of CIDPs mention TB and only three of these identify this as a priority and only two have measurable targets.
- 70% mention NTD and NCDs as priorities but only two counties have measurable targets in this health area.
- Only one CIDP mentions the disease outbreak response strategic programme, and this has no measurable target.

In general, counties have aligned their health sector priorities to overarching health goals, despite the concern of the MOH. The lack of prioritisation of HIV/AIDS, malaria or TB coverage can be explained in some CIDPs with respect to their prevalence data. The quality of the CIDPs as planning documents is varied. Most are written according to a standardised template, but lack clearly prioritised targets, timelines and costings. For example, Migori CIDP has such an extensive priority list that it covers almost the entire health sector (Migori County Government, 2013, pp. 119–128), and only Kakamega and Mombasa have consistent targeting outlined in their CIDPs. This demonstrates persistent limitations to the budget process due to capacity constraints: annual development plans take annual implementation goals from CIDPs and are the basis for annual health budgets. The budget process requires counties to stick to CIDPs to develop annual plans and budgets, whereas these can quickly become outdated, as was the case for Kitui.

Two versions of county budgets are produced: one line item budget and a Programme-Based Budget. Programme-based budgeting has been introduced at county level from 2014/15,⁴² yet a number of counties (such as Kitui and Garissa) commented that in fact they are still using an itemised budgeting system in their budgeting and planning daily tasks⁴³ and that budgets are rushed. In some cases, the health sector received a static budget ceiling year on year.

⁴² This paragraph draws from interviews with National Treasury and county officials, September 2016.

⁴³ The examples given in the following sections are evidence from interviews county officials carried out for all 10 counties in September and October 2016.

Interviewees feel the health sector has little negotiating power to increase budget allocations for newly arising priorities in the initial budget. Counties are instead happy to pursue supplementary budgets to raise health budget allocations, as it allows them

to react flexibly to emerging needs within the fiscal year. As Chapter 2 explains, supplementary budgets and poor planning do have a strong effect on budget execution.

Table 18: CIDP linkages to MTP II and HSSP priorities

MTP II	HSSP	CIDPs									
Priorities	Strategic Programmes – Intervention Focus	Garissa	Kakamega	Kisii	Kitui	Migori	Mombasa	Nakuru	Nyeri	Siaya	Turkana
Reduce maternal mortality rate	Free Maternal Services*										
Reduce under-five mortality rate	Child Health										
Reduce infant mortality rate	Child Health										
Improve under one immunisation coverage	Child Health – Continuous supply of all necessary childhood vaccines										
Reduce HIV/AIDS prevalence rate	HIV Prevention and Control – Scaling up ART uptake and elimination of mother to child transmission of HIV										
Reduce malaria inpatient case fatality rate	-										
Other disease control	TB Control – case detection, TB drug resistance monitoring, TB defaulter tracing, TB/HIV integration										
	NTD and NCDs – Health promotion and health education, tobacco control, nutrition policy including promotion of healthy diets and physical activity, cancer control policy, screening NCDs, violence and injury prevention										
	Disease Outbreak Response – Disease surveillance and epidemic response										

Source: HSSP, and the 10 county CIDPs.

Key: Dark Green = Explicit objective with indicators and targets; **light green** = Identified as a priority but no measurable targets; **Amber** = Implicit / generalised priority; and **Red** = Not mentioned as a priority area, or no focused project/ programme in this area.

Note: * = A flagship programme rather than a strategic programme or intervention focus.

3.2.3 National and county-level health expenditure following devolution

The 2013 Comprehensive Public Expenditure Review (CPER) noted a number of healthcare budget trends from 2009–2012, namely increasing budget allocations to the health sector and relatively consistent absorption rates (at approximately 85%⁴⁴) and growth in the relative share of development expenditure (with recurrent spending dropping from 70% of total spending in 2009/10 to 59% in 2011/12). It also notes increasing staffing levels of health personnel (doctors, nurses, pharmacists, etc.) and improvements in most core healthcare outcome indicators over the period, but offers no clear data or trends on healthcare spending efficiency.

Budget allocation to the MOH out of national-level general government expenditure (GGE) rose in nominal terms but remained stable in real terms over the financial years 2014/15 and 2015/16. Table 19 shows actual MOH expenditures rising from 43 to 47 billion Ksh; this is around 3% of the central level expenditures (i.e. GGE excluding county transfers). When looking at just ministry, department and agencies (MDA) allocations, health is one of the top 10 recipient ministries, receiving 5.1% of total MDA allocations over the past three years. The table also shows that:

- As expected, under devolution counties are increasing their share of expenditures within the health sector vis-à-vis the national MOH. In 2014/15 56% of health spending was from counties and this rose to 58% in 2015/16.
- Adding county health and MOH spending together 'national health spending' accounts for 5.8% of GGE, on average over the two years. Growth in national health spending has primarily come from rising county spending in the sector.

Table 19: Total health sector allocation (Ksh millions)

	2014/15	2015/16
Central GGE*	1,373,600	1,633,800
Ministry of Health	42,885	46,742
MOH as % Central GGE	3.1%	2.9%
County's health budgets	54,379	63,535
National health spending**	97,264	110,277
County health as % national health spending	56%	58%
National health spending as % GGE	6.0%	5.7%

Source: IFMIS, apart from Central GGE from COB

* Central GGE = recurrent and development spent at central level, i.e. excludes county transfers

** National health spending = MOH and county health budgets

Table 20 presents the administrative breakdown of the national MOH expenditure for the period. Within the recurrent expenditure the two national hospitals (Kenyatta and Moi) account for just over 30% of all MOH expenditure and nearly half of all recurrent expenditure. Other large areas of expenditure within recurrent include the 'headquarters administrative, technical and professional services'; accounting for 11% of total Ministry expenditure and roughly one sixth of recurrent expenditure over the three years.

⁴⁴ This is ascribed to the low reporting of appropriations in aid by development partners.

Table 20: Breakdown on MOH spending (Admin classification, Ksh millions)

	2013/14	2014/15	2015/16	Average over the three years (% of MOH expenditure)
MOH actual total expenditure	30,374	34,093	41,378	n.a.
Recurrent	19,286	23,629	25,140	64.3%
Kenyatta National Hospital	7,584	6,793	6,678	19.9%
Moi Referral and Teaching Hospital	2,930	4,125	4,399	10.8%
Kenya Medical Training Centre	2,037	2,287	2,478	6.4%
Headquarters Administrative Professional services	456	2,793	3,317	6.2%
Headquarters Administrative and Technical Services	1,119	2,207	1,512	4.6%
Kenya Medical Research Institute	1,249	1,743	1,896	4.6%
Rural Health Centres & Dispensaries	700	700	900	2.2%
Development	11,088	10,465	16,237	35.7%
Family Planning Maternal and Child Health	3,302	2,550	4,306	9.6%
District Health Services	995	1,028	5,447	7.1%
Rural Health Centres & Dispensaries	1,526	2,129	0	3.5%
Special Global Fund – Malaria Control	560	1,446	313	2.2%
National Aids Council	1,950	170	133	2.1%
Special Global Fund – HIV	267	897	1,065	2.1%

Source: IFMIS

The development spending of the national ministry is in line with some stated policy aims. Large areas for recurrent expenditure include (share of MOH expenditure in parenthesis): Family Planning Maternal and Child Health (10%), Malaria control (2%); the Aids Council (2%); and the Special Global Fund – HIV (2%). Throughout the devolution period development spending on district health services, and rural health centres and dispensaries, remained a large area of expenditure for the MOH, accounting for an average of 11% of ministry expenditure across the three years.

Counties meanwhile allocate on average a quarter of their budgets to healthcare spending. The share of total county budgets allocated to health for the 10 counties ranges from 12% in Migori to 43% in Nyeri, as shown in Table 21. There is no clear pattern of these shares in relation to population, health performance, or levels of healthcare facilities and staffing.

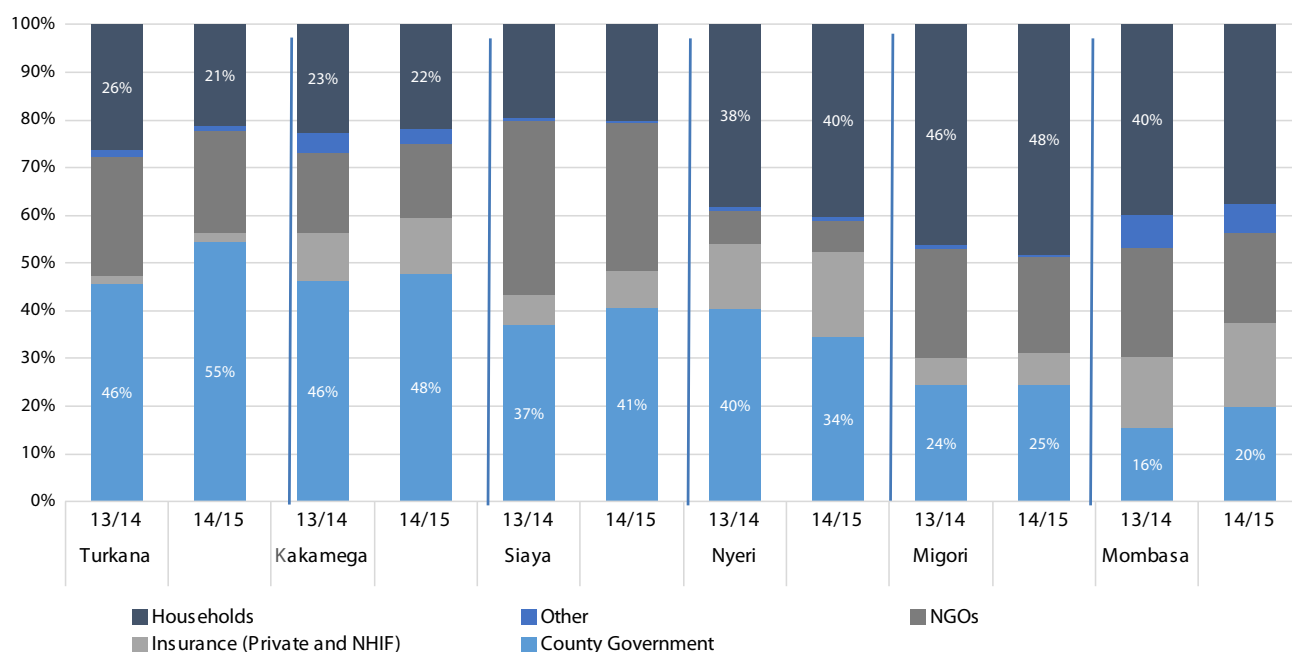
Table 21: County health budget allocations as a proportion of total county budgets

	2014/15	2015/16	Average
Garissa	19%	20%	19%
Kakamega	25%	30%	28%
Kisii	25%	32%	29%
Kitui	23%	20%	21%
Migori	8%	16%	12%
Mombasa	20%	28%	24%
Nakuru	37%	35%	36%
Nyeri	45%	41%	43%
Siaya	27%	27%	27%
Turkana	23%	6%	15%
Total 10 counties	25%	26%	26%
Total 47 counties	22%	25%	24%

Source: IFMIS

County health accounts (CHA) offer insight into the composition of healthcare financing sources at county level. Figure 20 presents the data for the counties in this study for which CHAs are available. In those counties with a large private sector, household expenditure is a higher proportion of sector financing, though Migori stands as having few privately owned facilities relative to household expenditure. Notable also is the high contribution NGO funding makes to the sector, averaging 17% of sector finance across these six counties. County expenditure varies widely, driven by the relative prevalence of NGO finance and the level of household expenditure.

Figure 20: County health accounts, 2013/14 and 2014/15



Source: Maina et al, 2016

The CHA data do not point to a clear cross-county trend with regard to the changing composition. Between 2013/14 and 2014/15 household expenditure rose in three of the six counties (Siaya, Nyeri and Migori), falling in the others – most notably a five percentage point fall in Turkana. County expenditure as a proportion of health finance increased in four of counties, but was stable in Migori and fell sharply (six percentage points) in Nyeri.

County-level budget execution rates for healthcare vary widely, ranging from 35% in Turkana to 127% in Mombasa. Most counties average around 80% budget execution for 2014/15 and 2015/16, as shown in Table 22 – a little lower than the trend at national level prior to devolution.

Table 22: County, MOH budget execution rates (Ksh millions)

	Budget		Actual		Execution Rates	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
Garissa	1,448	1,497	1,271	1,196	88%	80%
Kakamega	2,285	3,302	1,648	2,442	72%	74%
Kisii	1,852	2,831	1,647	2,519	89%	89%
Kitui	1,889	2,123	1,575	1,546	83%	73%
Migori	537	1,085	442	862	82%	79%
Mombasa	1,440	1,913	1,523	2,435	106%	127%
Nakuru	2,684	3,758	2,488	2,901	93%	77%
Nyeri	2,104	2,187	1,939	2,041	92%	93%
Siaya	1,680	2,156	1,197	1,327	71%	62%
Turkana	1,029	691	1,156	243	112%	35%
Total 10 counties	16,946	21,543	14,886	17,512	88%	81%
Total 47 counties	64,181	84,623	54,379	63,535	85%	75%
National MOH	42,885	44,957	34,093	41,378	79%	92%

Source: IFMIS

The majority of health expenditure goes towards recurrent spending needs, and increasing budget allocations have been spent on recurrent spending. Counties under review spent 83% of total funds on recurrent expenditures, as shown in Table 23. The recurrent budget allocations at the county level are notably higher than that of the national level (61%); and both are higher than the pre-devolution level of 59% (GoK, 2013). There is also no clear trend for development allocation increasing; for both the 10

counties in this study and all counties there was only a marginal (1%) increase in the proportion allocated to development spending over the two years in question.

This implies the overall figure for budget execution is overly optimistic. Counties' budget execution rates are similar to those at national level. However, these execution rates are driven mainly by high execution rates for recurrent expenditure.

Table 23: Recurrent and development county health expenditures* (Ksh millions)

	Actual recurrent		Actual development		Recurrent as % total health budget	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
Garissa	877	1,001	395	195	69%	84%
Kakamega	1,363	1,940	285	501	83%	79%
Kisii	1,347	1,818	300	701	82%	72%
Kitui	1,363	1,259	212	287	87%	81%
Migori	188	703	254	159	43%	82%
Mombasa	1,460	2,177	63	257	96%	89%
Nakuru	2,361	2,637	126	264	95%	91%
Nyeri	1,662	1,844	277	198	86%	90%
Siaya	1,053	1,090	144	237	88%	82%
Turkana	856	0	300	243	74%	0%
Total 10 counties	12,531	14,470	2,356	3,042	84%	83%
Total 47 counties	44,662	51,554	9,716	11,981	82%	81%
National MOH	23,629	25,140	10,465	16,237	69%	61%

Source: IFMIS

* 2013/14 data not available in this format

While detailed execution data on recurrent expenditure for salaries are unavailable, interviewees confirmed that a large share of county recurrent expenditure is for personnel emoluments. Considering the substantial personnel needs of the health sector for which counties are responsible, this could be in the region of 60–70% of recurrent expenditures:

- Garissa – The bulk of the money is consumed by recurrent expenditures especially salaries. And even so, the county is grossly understaffed in the health sector. For general doctors and specialised cadres, the gap is around 50%. For nurses, the county has a gap of about 200.
- Mombasa – Two thirds of the budget is for wages. The county inherited senior officers, municipality staff and national-levels staff, and these staff are significantly more expensive: Government staff get Ksh 8,000, and municipal staff Ksh 47,000.

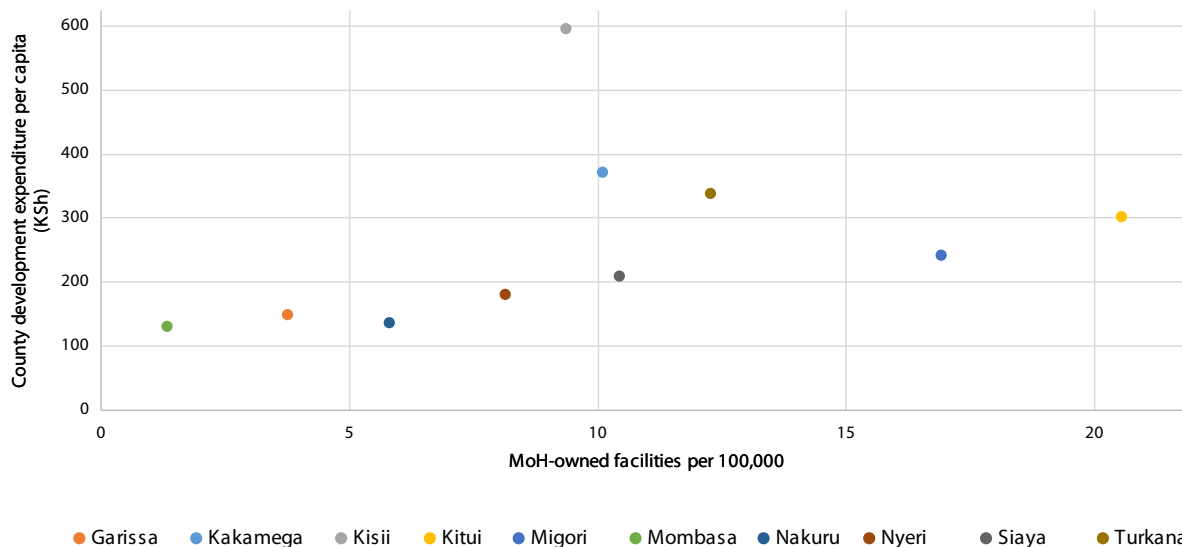
- Nyeri – 1,650 health staff, which accounts for more than half of all county staff (total 3,200). There are also staff on contracts, bringing the total health staff to 1,800. The annual budget allocation for this is not enough.

With the burden of paying the wage bill comes a reduction in discretionary expenditure for counties. Counties on average have just less than 40% of their recurrent spending to spend on non-salary items (e.g. operations & maintenance). Whereas county officials indicated that the wage bill is a pressing burden, it is unclear from the data available whether the wage bill is unsustainably crowding out recurrent expenditure on other items in the healthcare sector. Recurrent expenditure is also not clearly linked to numbers of doctors or nurses employed in the county.

Despite recurrent spending pressures, county officials clearly value development budgets. Much of the support for devolution from interviewees originates from the conviction that county administrations are better positioned to identify and invest in development needs for their citizens than the national government. Interviewees referred to development projects captured in ADPs as evidence of this fact. Kitui county mentioned that citizens liked to see development expenditure as they think it's a more efficient use of money.

Levels of development expenditure appear to be linked to the number of facilities present per county. Figure 21 maps development expenditure per capita to MOH-owned facility density (all levels) per 100,000 people. Here, there is a slight positive correlation between development expenditure and facility density. Those counties with a large number of facilities continue to make more significant development investments per capita.

Figure 21: Development expenditure per capita and MOH-owned facility density per 100,000 people

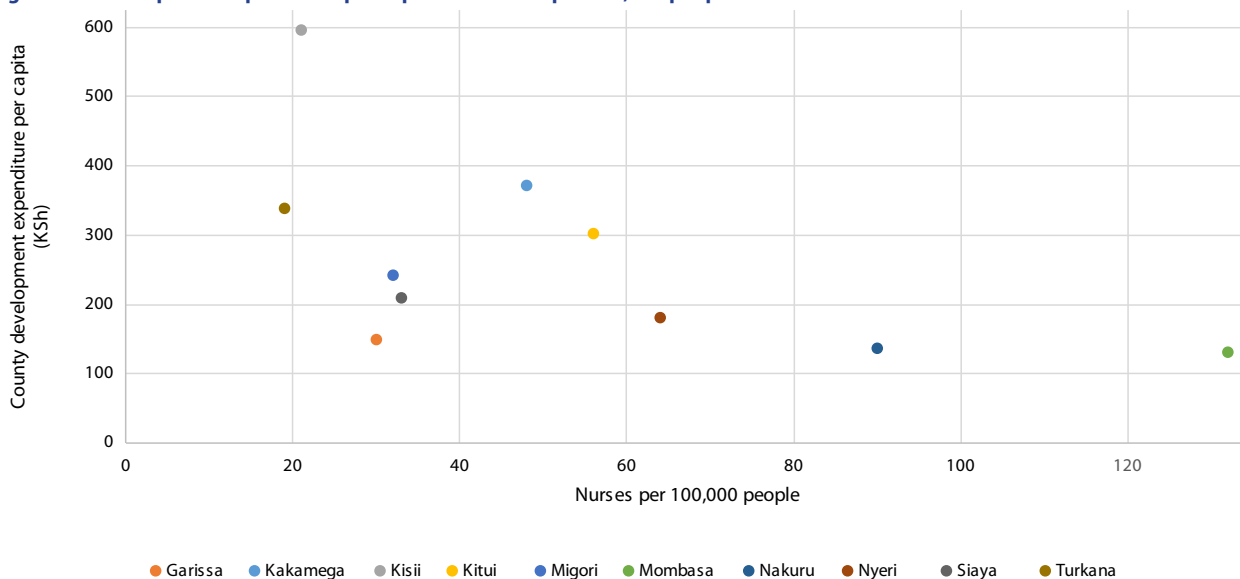


Source: IFMIS and Health Facilities Master List

This trend is reversed when looking at another measure of capacity (nurses per 100,000 people);

Figure 22 shows that there is a 'catch-up effect', with counties with low health capacity making higher development investments per capita.

Figure 22: Development expenditure per capita and nurses per 100,000 people



Source: IFMIS and HPP, 2015

3.2.4 County health expenditure profile: curative, preventive & administrative

This sub-section presents data on the balance of health expenditure between curative, preventive and administrative health expenditures, described in Table 24. Data from the CHAs (for six of the 10 counties) are used as context, and IFMIS data and data from the 2015/16 county programme-based budgets (PBBs)⁴⁵ are analysed.

Table 24: Programme areas and their objectives

Programme	Objective
General Administration and Planning Services	To improve service delivery and provide supportive services to agencies under the health sector
Curative Health Care Services	To improve health status of the individual, family and community.
Preventive, Promotive and Rehabilitative Health Services	To reduce incidences of preventable diseases

Figure 23 presents the expenditure areas for THE expenditure within the counties as per the CHA (and as such includes private sector, NGO and otherwise funded healthcare expenditure in addition to government expenditure). Figure 24 presents the results of an analysis of the PBBs of 2015/16 and as such pertains only to county expenditure. Similarly, Figure 25 presents the same classifications as reported via the IFMIS.

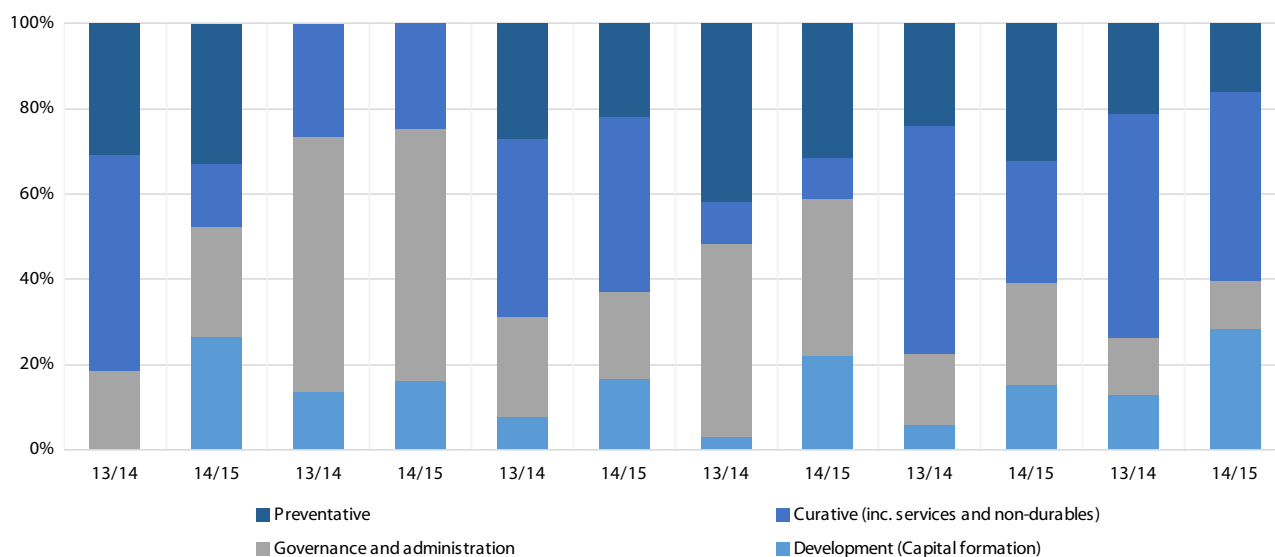
The three data sources present markedly different pictures of the balance between curative, preventive and administrative expenditure in the healthcare sector at county level. Some figures reported are clearly wrongly reported (e.g. Nyeri and Siaya IFMIS data report all county expenditure as being preventive and promotive).

As such it is unfortunately not possible to draw clear conclusions on whether counties have aligned to the Vision 2030 objective of realigning expenditure from curative to preventive care, and whether room has been kept in this balance to recruit additional professional healthcare staff.

While some of the discrepancies between the data sources can be attributed to the fact that all three measuring methods have only recently been introduced, these differences remain a source of potential confusion and contention. The lack of consistent and quality use of PBBs means clear and comparative reporting on the value for money of public healthcare expenditure is difficult.

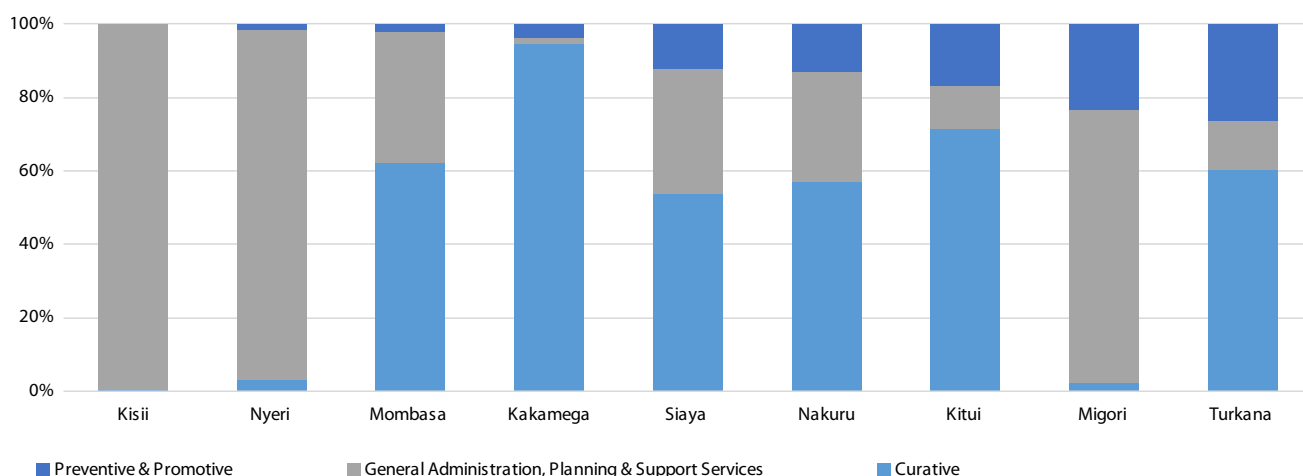
⁴⁵ 2015/16 was the first year in which county governments widely produced and published PBBs. Though most counties are using the prescribed templates for PBBs, counties use very different classifications of programmes and present the information differently. The authors have grouped the data by common healthcare spending categories: curative healthcare, preventive and promotive healthcare, and general administration and planning. It is also worth noting that the CHA data present development expenditure outside of these classifications.

Figure 23: Health expenditure areas (county health accounts)



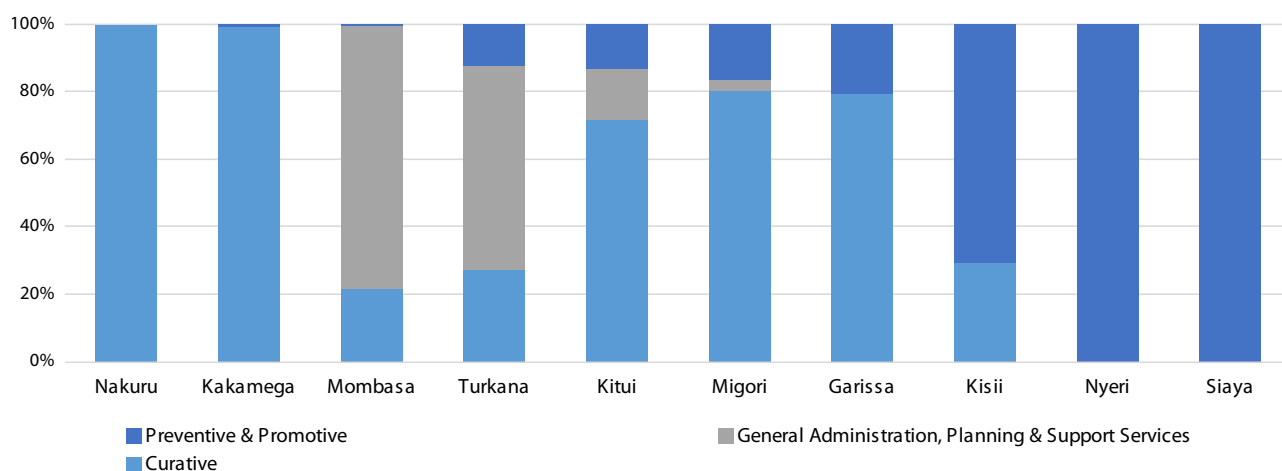
Source: Maina et al, 2016

Figure 24: Health expenditure areas (PBBs – 2015/16)



Source: County PBBs 2015/16 as provided to the authors by county treasuries

Figure 25: Health expenditure areas (IFMIS – 2015/16)



Source: IFMIS

3.2.5 Health transfers to county governments

County governments rely on transfers from the national government to fund the majority of their healthcare budgets. While health-sector specific grants amount to 10% of actual county health expenditure, larger shares of concessional transfers are allocated to paying health recurrent and development expenditures at county level.

COs in all 10 counties, however, suggested that the allocated transfers were insufficient for their healthcare spending needs and the demands of citizens. As the Siaya county official pointed out, 'the public's expectations are far beyond the capacity of the county in terms of financial resources and HR capacity'. In Kitui the county stated that people want the county government to address all issues and that there was a lack of understanding of the differentiation of national and county responsibilities.⁴⁶

Seven of the 10 counties under analysis have Level 5 hospitals and so receive Level 5 Conditional Grants. These are Garissa, Kakamega, Kisii, Migori, Mombasa, Nakuru and Nyeri. Again, these grants have received criticism. Nyeri for example states that the Level 5 grant is not adequate, and does not even pay for salaries at the hospital. Kisii highlighted that in 2013 a county-level act was passed that made Kisii hospital a Level 6 – teaching and referral. However, this has not been recognised at the national level and it is still considered a Level 5.

More pressingly, interviewees in all 10 counties have noted that delays in transfers from the national government are a significant problem. Maternity and user fee grants are paid from tax revenue; when revenues are on target and National Treasury cashflow is healthy, quarterly back payments can reach health facilities from the National Treasury in two weeks. When, as has recurrently been the case in recent fiscal years, cashflow is limited, it can take much longer for these payments to reach facilities, or there is less than full reimbursement.

Mombasa officials reported that it only received eight of the 12 months of transfers in the last fiscal year – this meant they were forced to write a supplementary budget. In addition, funds reached the counties with one or more month's delay, and in some cases the full amount did not arrive, making it difficult to pay salaries. Funds received late near the end of the year that cannot be spent must be sent back to the National Treasury, as in the case of Kakamega.

This also affects conditional grants, such as the maternity grants. Counties report the number of maternity deliveries on a monthly basis but are reimbursed by the national government on a quarterly basis. Table 25 lists the dates various quarterly conditional grant transfers were received in Kitui County over 2015/16 against when they were due – each disbursement was late. Counties and facilities have a difficult time providing free maternal healthcare with consistent delays in funds to repay hospitals and facilities' cost of deliveries. World Bank and Danida funded conditional grants, delivered directly to healthcare service facilities, are meant in part to ensure service delivery is not affected.

Table 25: Funds received compared to due date in Kitui County (2015/16)

Date Received	Fund	Amount (Ksh)	Due	Delay
30/10/2015 – Q2	User Fees	7,012,870	1st Quarter	1 Quarter
11/03/2015 – Q3	Maternity	17,940,000	1st Quarter	2 Quarters
12/02/2015 – Q3	Maternity	4,925,000	2nd Quarter	1 Quarter
29/12/2015 – Q2	Danida	18,495,000	1st Half	None
03/03/2016 – Q3	Maternity	2,465,000	2nd Quarter	1 Quarter
18/03/2016 – Q3	User Fees	4,200,080	2nd Quarter	1 Quarter
31/03/2016 – Q3	Danida	18,495,000	2nd Half	None
05/05/2016 – Q4	Maternity	11,592,500	3rd Quarter	1 Quarter
05/06/2016 – Q4	User Fees	12,393,261	3rd & 4th Quarters	None
16/06/2016 – Q4	Maternity	13,867,500	4th Quarter	None

Source: Kitui County

⁴⁶ There are also considerations with regard to inter-county funding as certain regional hospitals (Such as the Kisii teaching and referrals hospital) act as regional centres for many specific services and as such have a broad catchment area. Interestingly, Kisii declared the teaching and referral hospital to be a Level 5 hospital by an act of the CA, though this has yet to be recognised at the national level.

Other counties have also experienced substantial delays in receiving these grants. For the last fiscal year 2015/16 Kakamega was due to receive Ksh 113 million, while the National Treasury released only Ksh 104 million. Turkana report that the free maternity refunds are always delayed by several months. Similar issues were raised for the User Fees Conditional Grant. Seven of the 10 counties under analysis have Level 5 hospitals and so receive Level 5 Conditional Grants: Garissa, Kakamega, Kisii, Migori, Mombasa, Nakuru and Nyeri. The latter had noted that the grant does not even pay for salaries at the hospital.

The COB budget county implementation report for 2015/16 is the first implementation report to provide details of the releases of the conditional grants. It provides an optimistic picture with regard to the healthcare transfers (aside from maternity services grants⁴⁷), with county treasuries reporting 100% delivery of expected payments within the financial year. Reported figures are reflected in Table 26. These run contrary to the reports of county officials interviewed as part of this PER.

Delays in conditional grants compromise service delivery. The flow of reimbursements is disruptive and means that there is difficulty in providing free or low-cost health services to the population. The National Treasury can transfer funds to counties' accounts in two weeks, but lower than forecast tax revenues introduce delays in these transfers.⁴⁸ An interview with the national MOH identified human error and communication problems aggravating this shortfall in funding. The National Treasury had not informed the MOH that they paid less than 100% of the transfers due. Facilities and counties complained about less-than-full transfers to MOH, but the National Treasury asserted that funds had been transferred, so that a time-consuming audit was required. An agreement between the National Treasury and MOH was put in place to signal when transfers will be made.

Table 26: Percentage release of conditional grants as per COB implementation report 2015/16 by grant

	Garissa	Kakamega	Kisii	Mombasa	Nakuru	Nyeri	Siaya	Turkana	Kitui	Migori
User Fees foregone	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Level 5 hospitals	100%	100%	100%	100%	100%	100%	-	-	-	-
Danida grant	0%	0%	100%	0%	100%	100%	100%	100%	100%	50%
Free maternal healthcare	84%	77%	69%	82%	59%	77%	58%	100%	80%	63%
World Bank grant	0%	-	-	-	-	-	0%	0%	100%	100%
Leasing of medical equipment	-	-	-	0%	-	-	0%	0%	-	-

Source: COB, 2016b

In response, the national MOH has improved coordination with the National Treasury and IFMIS. The new process entails that the National Treasury is required to inform the MOH and counties in advance on when the payment was made, rather than retrospectively. Counties have, however, expressed scepticism at this solution, and reported that some facilities are threatening to charge fees for maternal care, or to withhold user fees to account for the delays and reduced grant payments.

Counties have also linked execution problems to the IFMIS. While counties are supportive of the introduction of IFMIS, a number of problems have come up:

- Only the county Treasury has the IFMIS codes – All other county ministry budgeting officers use Excel. The county Treasury then has to key in all Excel copies of budgets into IFMIS. Almost all 10 counties mention that this system can be the source of human error as well as cause delays in payments.

⁴⁷ This may be associated with the fact that here expected revenues are based on expected deliveries, and as such these data may not entirely reflect grants not delivered or delivered late.

⁴⁸ See note above.

- The system is overloaded at peak times – Many complained that the limitation of one code-holder meant that there were delays in processing budgets or procurement. Kisii and Siaya stated that this commonly occurs at the end of the fiscal year when workloads are so high the system can crash (as staff rush to pay for goods and services).
- Network connectivity problems mean that payments are not made – Garissa had serious problems, meaning no payments were made for a week. Siaya and Turkana counties stated that the regular network problems adversely affected their payment to service providers and therefore reduced budget execution.
- Limited numbers of purchase order creators creating problems for projects – Siaya county related an example of how limited IFMIS-trained personnel cause a project to be cancelled. Pending bills for services that required purchase orders resulted in the tender committee being disbanded.

More structurally, a few counties have noted that monthly fund releases are inadequate for funding large expenditures or new contracts, which need large lump sums – for example to build a new referral hospital. This presents a significant obstacle to counties executing their development budget plans, and in turn makes it difficult for national health priorities and objectives to be met.

3.2.6 Donor health funding

There is a wide variety of programmes supported by external funding throughout the counties. HIV/AIDS, malaria and TB are common programmes, as is maternal and child health (including immunisation and nutrition). Supply of drugs and capacity building are also popular. Notably, there is a bias towards HIV/AIDS programmes.

The national MOH is trying to gather together data and information from key health sector donors to begin developing a donor mapping / resource tracking tool.⁴⁹ This will provide a list of donors and their health sector funding area. It is hoped that this can be incorporated into the national MOH's planning and budgeting processes to help identify areas of over- and underspend and have external funding streamlined with national health priorities.

⁴⁹ Interviews with National MOH and Development Partners for Health in Kenya, September 2016.

This is being developed at the time of writing but data was unfortunately not available to the authors.

The rate of donor dependency in the health sector is high, but additionally the lack of on-budget funding is a major concern. Donor dependency in the health sector is just below 30%, as measured by NHA. Both national and county-level governments do not have full information on fund flows of these off-budget funds within the health sector. Interviews with national MOH and county-level health sector officials raised concern that donors were not aligned with government priorities, and there was a lack of information on commitments and their plans for investment.

Whereas HSSP in particular is meant to provide a platform for collaboration with development partners, interviews underlined that this had not been successfully achieved in all cases. Furthermore, some donor-run projects are organised and managed at the national level and so counties do not know what is going on. For example, in Garissa the health sector is unaware of the financing flows of certain projects within the county. Additionally, donors operate and spend their money through partner NGOs. There was also criticism of duplication of projects due to the national–county lack of communication and the off-budget nature of external funding.

Over-reliance on external funding implies a real risk to sustainability of projects at county level, and has a knock-on effect on county budgets. The bias towards HIV/AIDS funding and lack of forecasted funding flows underlines the risks for healthcare delivery. For example, in Kitui a donor was employing a large proportion of the workforce in HIV/AIDS. However, this fiscal year they pulled out and the county health sector has had to find an alternative donor to pay for 300 HIV/AIDS workers. The county Treasury indicated there was no room in the county budget. In Siaya, where the HIV/AIDS prevalence rate is 24%, a donor who was paying for more than 700 HIV/AIDS workers over the past five years removed funding. Implications for Kisii, whose health budget was entirely funded from off-budget external funding, are even starker.

In 2015 the COB published details of external funding to national MDAs: this forms the basis of the more detailed analysis of the on-budget donor funding in 2014/15, though it should be noted that these figures are for the print estimates of the first

budget of the year and as such are not compatible with the figures presented elsewhere in this report (which are for the second supplementary estimate). These figures do, however, provide a view on the composition of on-budget external funding to the health sector. External funding is either recoded as appropriations in aid (AIA) or revenues.

There are two important points to bear in mind when examining AIA and external funding: i) that AIA is not exclusively made up of external funding, and ii) not all external funding to MDAs is recorded as AIA. AIA can include, in addition to external funding, revenues from services provided by the MDA, for which it charges. In addition to AIA the COB use the classification of 'external revenue' for external finance directed to ministries via the Common Fund. These are recorded revenues and accordingly are included in IFMIS data and consequently in the

analysis of MDA funding in the previous sections, though it is not possible in that analysis to separate the external component. The detailed analysis of 2014–15 includes an analysis of both AIA by source (donor), composition (loan, grant, or local revenue) and the external revenue that is directed via AIA and 'revenue'.

Table 27 summarises the proportion of revenue channelled as loans and grants and the balance between revenues and AIA. The majority of external funds to the MOH are directed as grant AIA (59%); grants in total account for 86% of external funding, with a relatively small proportion of external funds provided as loans. Table 28 breaks down the external financing by donor. In 2014/15 external finance to the ministry totalled 11,165 million shillings. This compares to a MOH budget of 42,885 million shillings for the same year.

Table 27: Composition of external funding to the Health sector 2014/15 (Ksh millions, share of external funding in parenthesis)

	Loans	Grants	Total
Revenue	1,494 (12%)	3,277 (27%)	4,771 (39%)
AIA	210 (2%)	7,184 (59%)	7,394 (61%)
Total	1,704 (14%)	10,461 (86%)	11,165 (100%)

Source: COB, 2014c

Table 28: MOH external funding by donor

	Revenues		AIA		Total
	Loans	Grants	Loans	Grants	
Global Alliance Vaccine Initiative (GAVI)				21%	21%
Global Fund		19%			19%
Government of United States of America (USAID/USA)				16%	16%
Government of Germany (KFW and GIZ)				15%	15%
International Development Association (IDA)	12%				12%
Government of Denmark		7%		0.3%	7%
UNICEF				6%	6%
Government of Italy		1%			1%
Others			2%	0.4%	3%
Total	12%	27%	2%	59%	100%

Source: COB, 2014c

The two largest donors to the health sector are GAVI and the Global Fund, together accounting for 40% of the external finance to the sector. Notable among the bilateral donors are USAID, KFW and GIZ, and Danida, who collectively account for just under 40% of the external finance.

3.3 Health sector performance following devolution

The main source of county-level data is that relayed to the national District Health Information System (DHIS). Data are collected by all health facilities (dispensaries, health facilities and hospitals) from as low as the village level. The county health staff also make field visits to sub-counties to collect and validate data. The data are then transmitted through the National MOH headquarters for aggregation to country / national level. Some of the key indicators monitored relate to maternal and newborn health; health facility deliveries; immunisation; and antenatal and prenatal family planning – these are in line with national health priorities. The rest of this section draws primarily on DHIS data.

Table 29: Key health performance indicators

	Jun-13	Jun-16	Status
HIV Control Program			
HIV Testing (% Adults & Adolescents tested)	71%	76%	Improving
Number of New Infections	85,000	78,000	Improving
People Living with HIV on ART (number of people)	656,359	946,788	Improving
Number of Deaths Averted	n/a	400,000	n/a
Malaria Control Programme			
Insecticide Treated Mosquito Net Distribution (Million)	1.5	12.2	Improving
Outpatient Attendance due to Malaria	31%	18%	Improving
Malaria Prevalence	11%	8%	Improving
Safe Motherhood			
Free Maternity Services (# Skilled Deliveries in Health Facilities)	0.6	1.2	Improving
Maternal Mortality Rate (per 100,000 live births)	488	362	Improving

Source: MOH, 2016

Some areas have, however, seen worsening performance, particularly with regard to non-communicable diseases. The Health Sector report 2016/17 (GoK, 2016b) echoes the qualitative findings of this PER in highlighting a major challenge of 'recurring pending bills attributed to inadequate funding of health interventions including some flagship projects'.

Performance against the Health Sector Strategy has been mixed, with 20 out of 34 KPIs having achieved or exceeded the target for 2015/16. The Health Sector Working Group further reports that 80% of the target was achieved for eight of the KPIs and the target was missed for the remaining seven KPIs.

3.3.1 Health outcomes and health sector performance at national level

Table 29 summarises national performance on several key health indicators under the control of county governments as reported by MOH (2016). This paints a broadly optimistic picture in the three priority sectors: HIV, malaria and maternal health. HIV testing has increased over the period with the number of new infections also falling over the period. With regard to those living with HIV, the number on ART has increased nearly 50% in the last three years. The number of deaths averted is estimated to be 400,000. Similarly, the indicators for malaria treatment and prevention are improving; set against a falling prevalence rate. With regard to safe delivery, the number accessing free maternity services is increasing and the outcome indicator for maternal mortality improving.

Table 30 highlights performance improvements or worsening for those targets for which there are data, with the full data available in Annex F. Twenty-eight out of 35 KPIs showed improving performance between 2014/15 and 2015/16. Good performance was mostly seen in programmes with output-based rather than outcome-based targets. KPIs related to referral hospitals and specialised health services or equipment performed notably less well.

Table 30: Health sector key performance indicators (KPIs)

Sub-programme	Key Performance Indicator	% of 2015/16 target achieved	Change between years
SP.1.1: Communicable disease control	No of PLHIV on ARVs	95%	Improving
	Proportion of counties implementing county-specific HIV&AIDS Strategic Plans, in line with KASF	313%	Worsening
	Number of First Line anti-TB medicine doses distributed	89%	Worsening
	Number of artemether combination therapy (ACT) doses distributed to the public sector. (Million)	121%	Improving
	Number of AFP	106%	Improving
SP.1.2: Non-Communicable disease prevention & control	No. of Women of Reproductive Age (WRA) screened for cervical cancer	36%	Worsening
SP.1.4: RMNCAH	Proportion of WRA receiving FP commodities	110%	Improving
	Proportion of deliveries conducted by skilled birth attendants in public health facilities	99%	Improving
	Proportion of fully immunised children	86%	Worsening
	Proportion of children given 2 doses of Vitamin A	68%	Improving
SP.1.5: Environmental Health	No of counties implementing the Kenya ODF strategy	100%	Output achieved
SP2.1: National Referral Health Services	ALOS for Trauma patients at KNH	36%	Worsening
	Number of open-heart surgeries done KNH	29%	Worsening
	Number of renal transplants done KNH	67%	Worsening
	Number of minimally invasive surgeries done KNH	19%	Improving
	Average waiting time for oncology treatment (months)	75%	Improving
	No. of kidney transplants undertaken MTRH	83%	Worsening
	Average length of stay (ALOS)	90%	Worsening
	Number of theatre operations	121%	Improving
SP2.2: Specialised Health Services	No. of patients receiving mental health services	108%	Improving
	No. of patients receiving spinal services	49%	Improving
SP2.3: Specialised Medical Equipment	No. of public hospitals with specialised equipment	41%	Improving
	Proportion of installed machines functional	100%	Improving
SP2.4: Forensic/ diagnostic services	No. of blood units secured	620%	Worsening
SP2.5: Health Products & Technologies	Order refill rate for HPTs	102%	Improving
	Order turnaround time	111%	Improving
SP3.1: Training	No of Middle level health professionals graduating	200%	Improving
SP3.2: Health Research	No of briefs informing health policy	89%	Output achieved
	No. of completed research projects	130%	Output achieved
SP4.1: General Administration	No. of Schemes of services reviewed	300%	Output achieved
	Ratio of staff to computers	100%	Worsening
SP4.2: Financing and planning	No. of resources mobilised and utilised as per plan	89%	Output achieved
	No. of strategies, plans and guidelines developed	150%	Output achieved
	No. of performance review reports developed	100%	Output achieved
S.P 5.1: Health Policy	No. of policies	50%	Output not achieved
S.P 5.2: Social protection in health	No. of vulnerable persons accessing subsidised insurance	104%	Improving
	Health Financing Strategy	50%	Output not achieved
	Amount of funds disbursed (million)	100%	Improving
SP5.3: Health Standards & regulations	No of Health Laws and regulations developed	200%	Output achieved

3.3.2 County-level health performance

In order to estimate the effectiveness of public spending on healthcare, DHIS data were assessed on key indicators to form a picture of health sector performance at county level.⁵⁰ The data relate to priority healthcare outcomes outlined above, including:

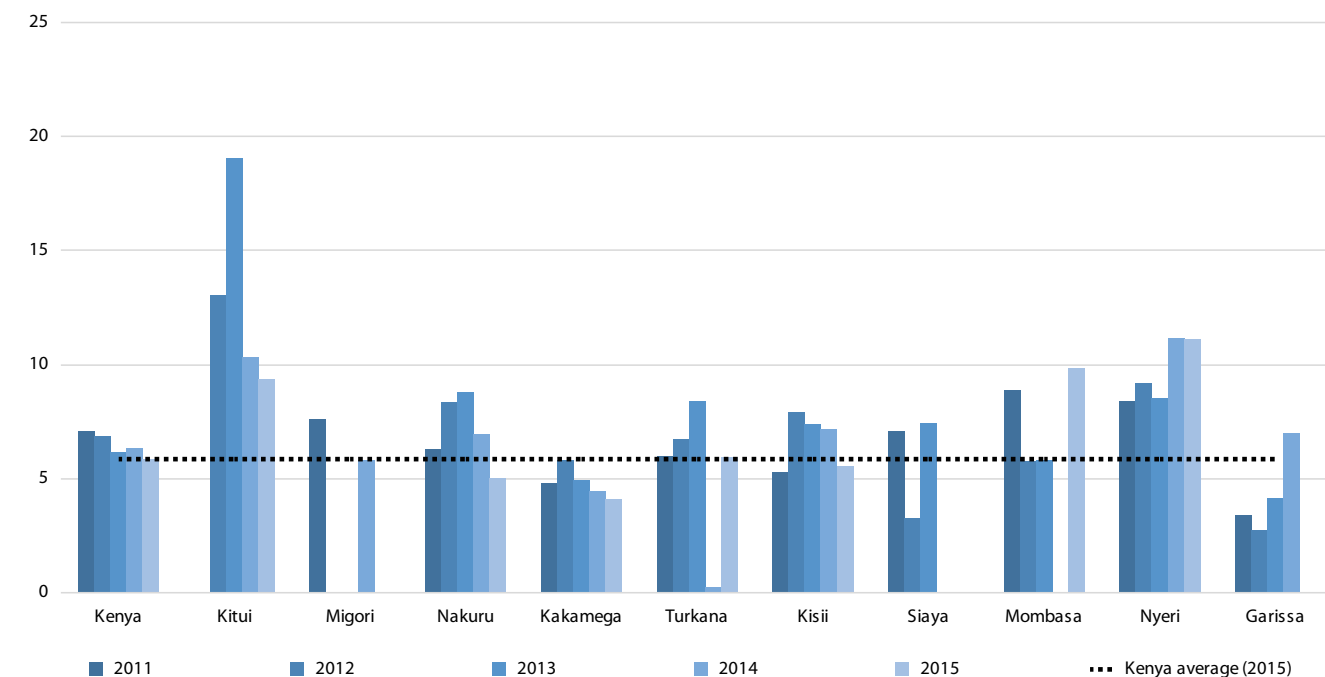
- A. average length of stay for general inpatient admissions, and outpatient attendance;
- B. indicators related to maternal mortality, safe delivery, and neonatal mortality;
- C. indicators related to the coverage of key HIV interventions;
- D. indicators related to child health; and
- E. the growth in outpatient treatment compared to population growth in the counties.

On these core indicators, access to and quality of healthcare services appears to have improved since devolution. It should, however, be noted that there are numerous instances where the DHIS changes significantly year on year, implying that some caution with respect to a trend in the outcomes is advisable.

A. ALOS, inpatient admissions and outpatient attendance

There has been a steady decline in the average length of stay (ALOS) for both men and women for general inpatient admission in Kenya since devolution. This continues the trend prior to devolution, though it is not clearly reflected in county-level performance as shown in Figure 26 and Figure 27. The overall trend suggests improved efficiency, but there were sharp increases in ALOS in Garissa, Nyeri, Mombasa and Siaya directly after devolution.

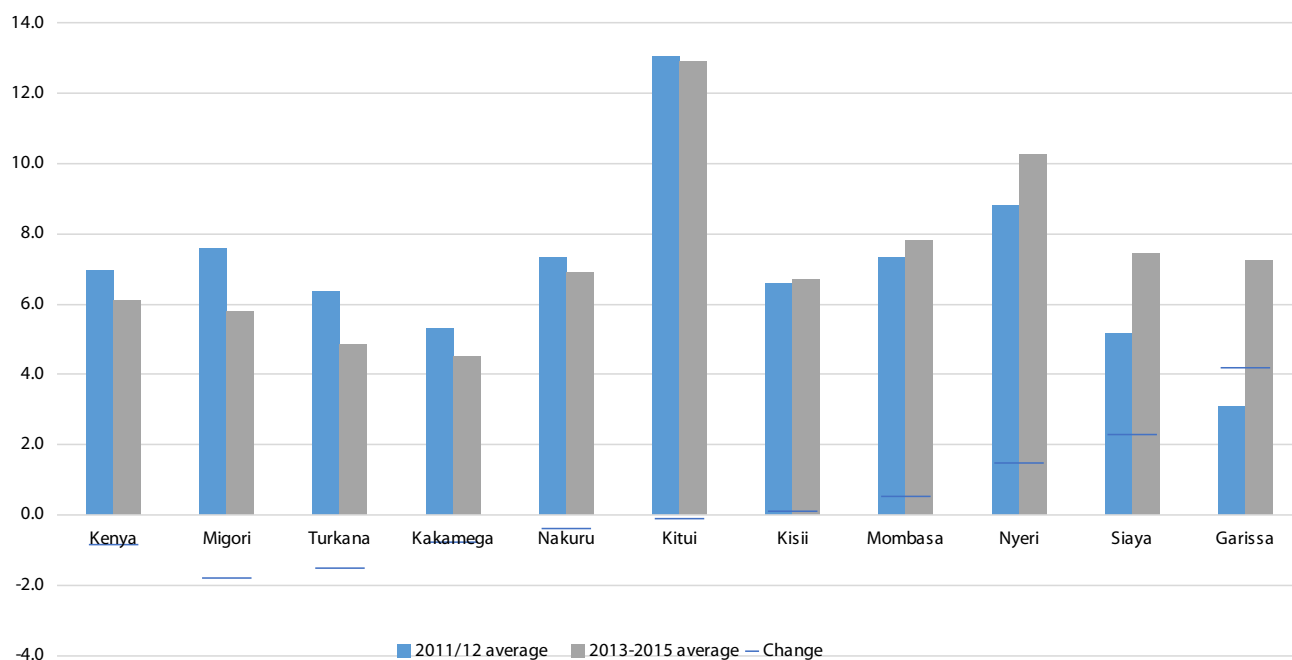
Figure 26: Average length of stay (days) 2011–2015



Source: DHIS

⁵⁰ The PER review team were granted access to the DHIS and extracted the data directly from the monitoring system.

Figure 27: ALOS pre- and post-devolution

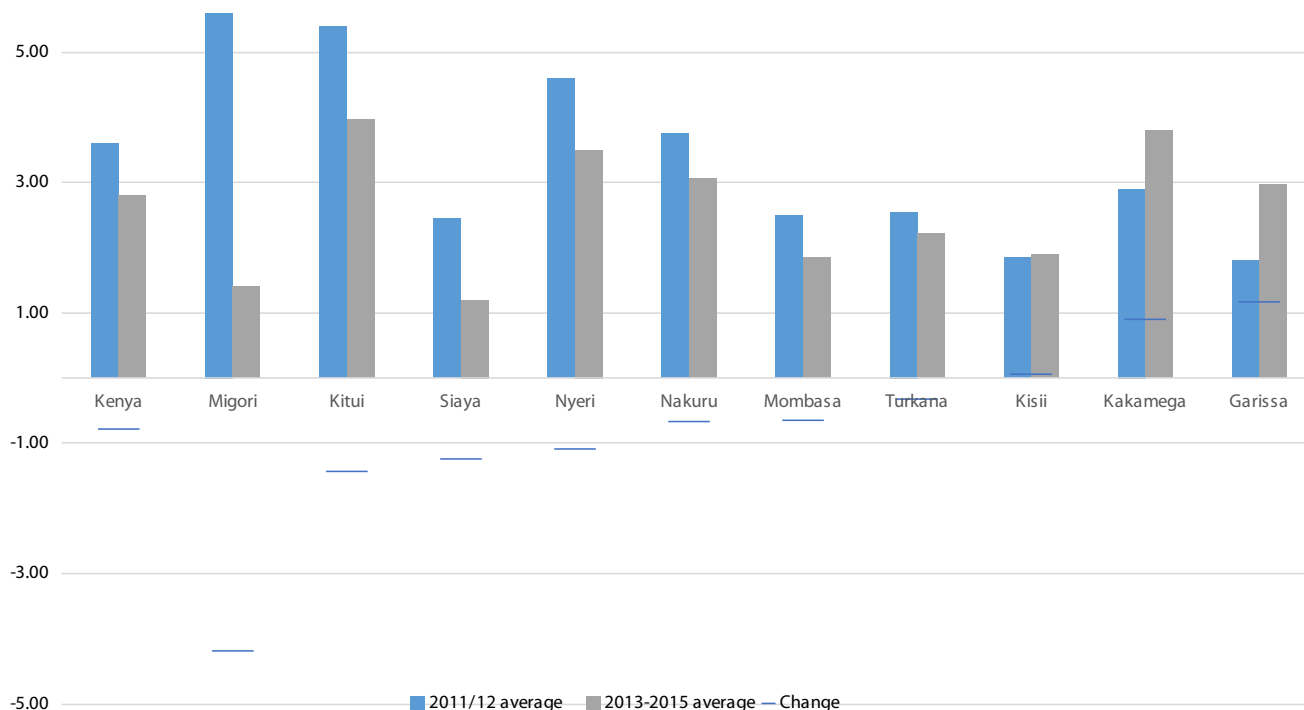


Source: DHIS

Similarly, there has been mixed performance between the counties with regard to ALOS in maternity wards. As with ALOS, Migori performs particularly well, and overall a higher number of

counties have seen a greater decline in maternity ward ALOS than for ALOS in general, as shown in Figure 28.

Figure 28: ALOS maternity ward pre- and post-devolution



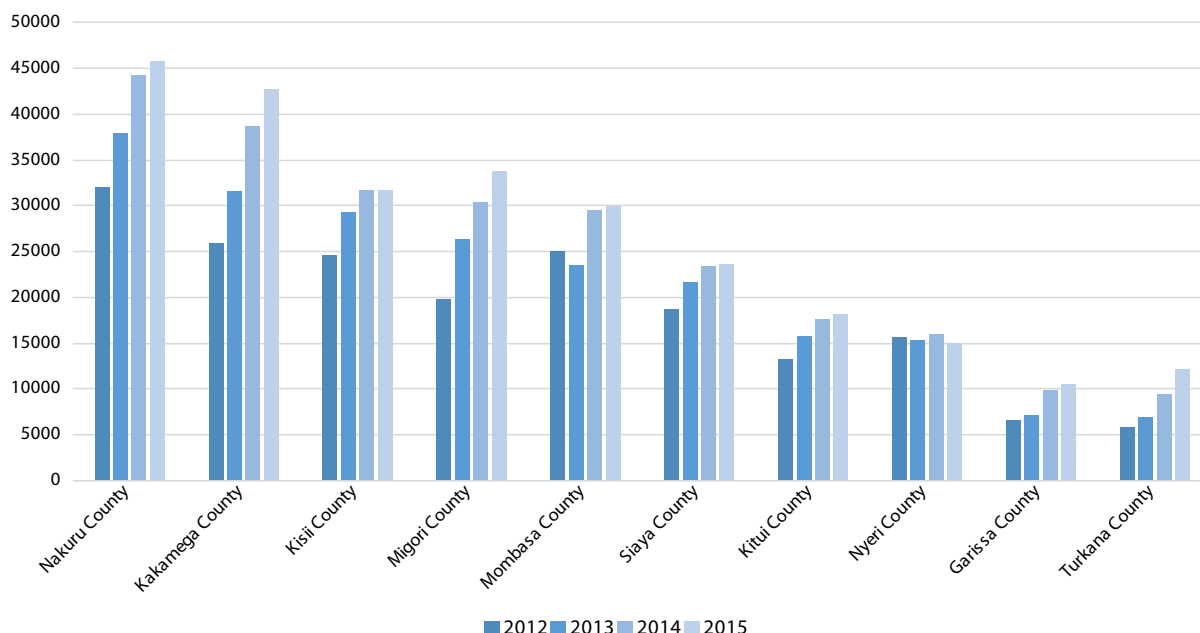
Source: DHIS

B. Maternal mortality, safe delivery, and neonatal mortality

Total numbers of deliveries within healthcare facilities (HCF) have risen for all counties except for Nyeri, as shown in Figure 29. The rate of growth in the number of deliveries was highest in Turkana,

where the average growth over the period was over 17% annually; other counties with rapid growth include Garissa, Kakamega and Migori – all of which had average growth rates over 13% annually.

Figure 29: Number of deliveries taking place in a healthcare facility (2012–2015)

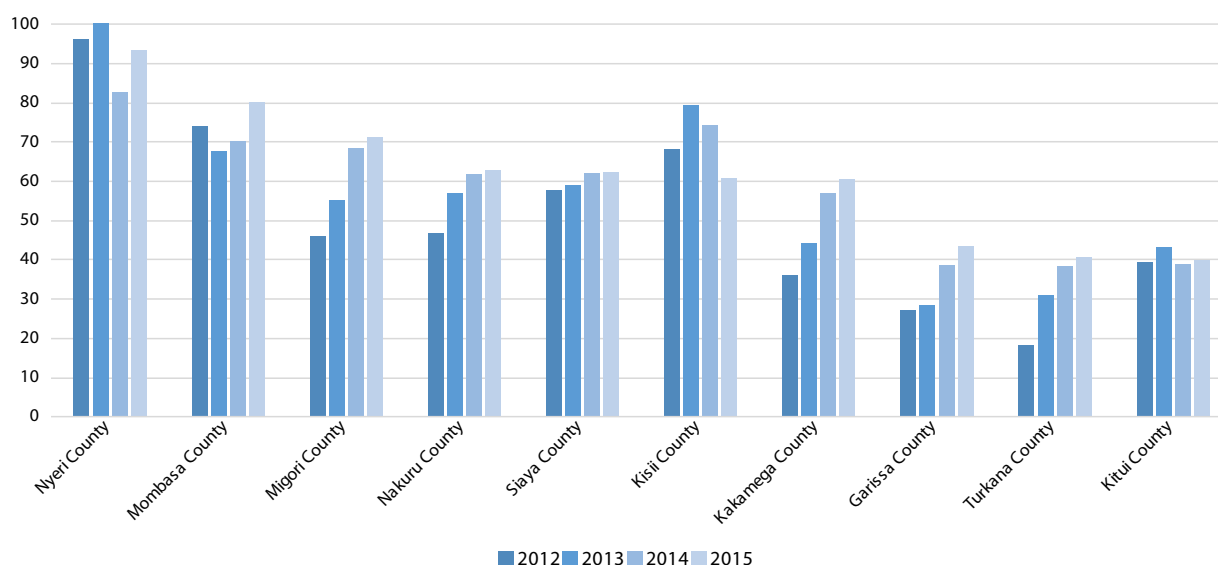


Source: DHIS

The proportion of births attended by skilled a birth attendant (a more outcome-focused indicator) has risen for seven out of 10 counties. Coverage

fell in Nyeri, Kisii and Kitui, indicating declines in service delivery quality since devolution. Migori and Kakamega have both seen remarkable improvements in coverage, up to 70% and 60% respectively, as presented in Figure 30.

Figure 30: Proportion of births attended by a skilled birth attendant

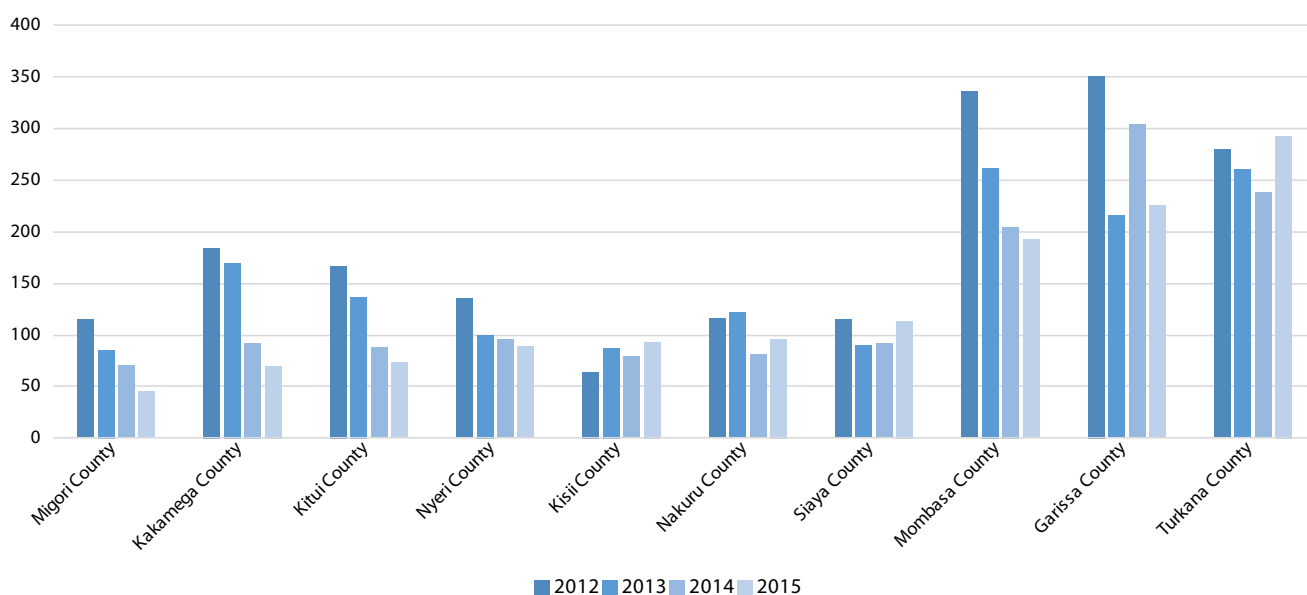


Source: DHIS

In eight of the 10 counties the facility-level maternal mortality rate (FMMR) fell over the devolution period, as shown in Figure 31, with particularly sharp declines seen in Mombasa, Kakamega and Kitui.

This indicates an improvement in service delivery in Level 2 and 3 health facilities since devolution. Kisii and Turkana saw an increase in the FMMR over the period, despite decreases in specific years.

Figure 31: Facility maternal mortality ratio (deaths per 100 live births)

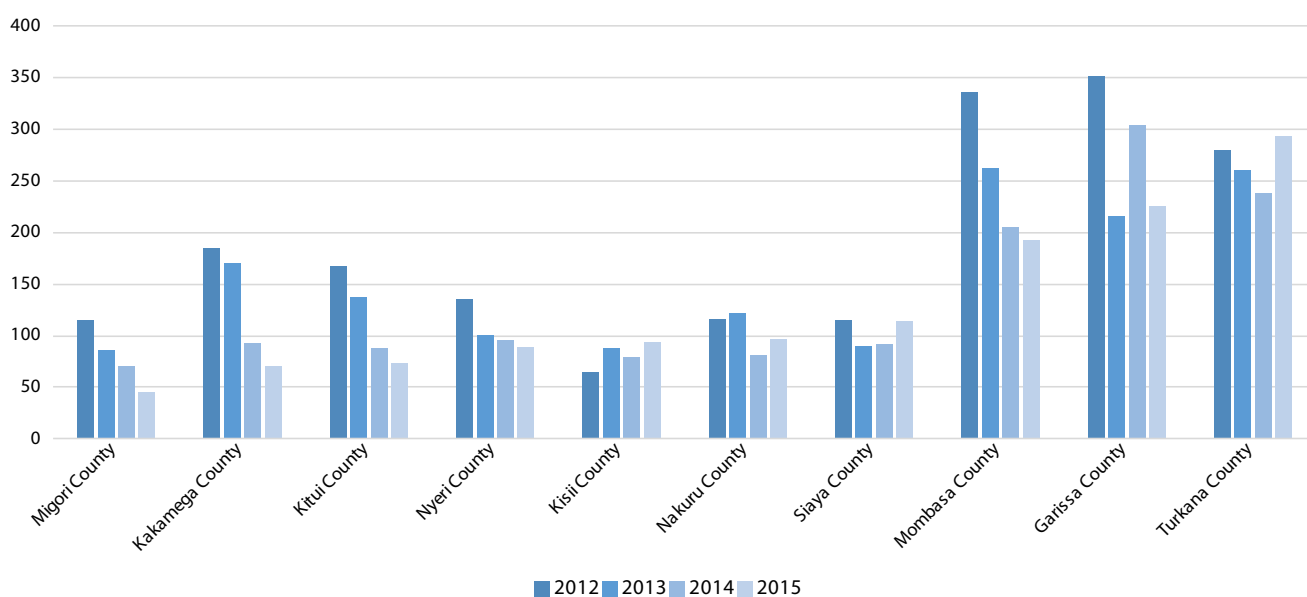


Source: DHIS

The neonatal death rate has broadly shown a worsening of performance since devolution. As shown in Figure 32, only Nyeri and Migori show a decline in the neonatal death rate over the period. The trend growth in the neonatal mortality rate was highest in Turkana, Mombasa and Kakamega.

The increase in neonatal mortality is particularly concerning as it is against the context of a reported increase in the proportion of births attended by a skilled birth attendant, and an absolute increase in the number of deliveries taking place in HCF for most counties.

Figure 32: Neonatal death rate (deaths within 0–28 days per 1,000 live births)

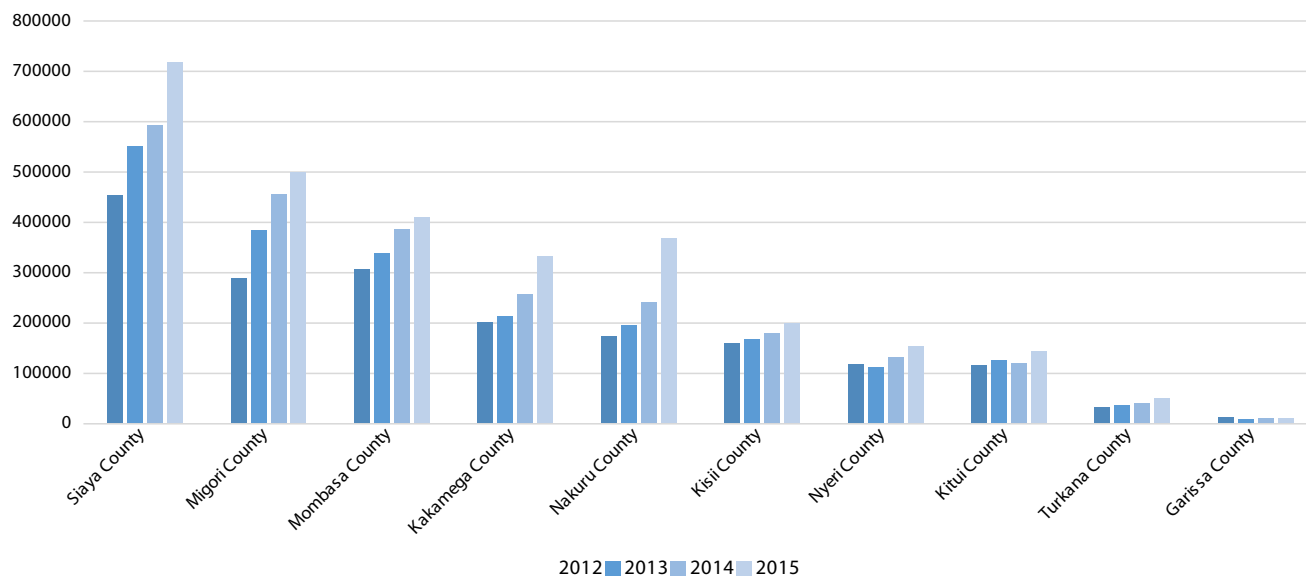


Source: DHIS

C Coverage of key HIV interventions

In all counties with the exception of Garissa, the number of HIV positive persons receiving ART increased, with particularly rapid growth in Nakuru, Migori, Siaya and Turkana, as shown in Figure 33.

Figure 33: Total number of HIV-positive cases receiving ART

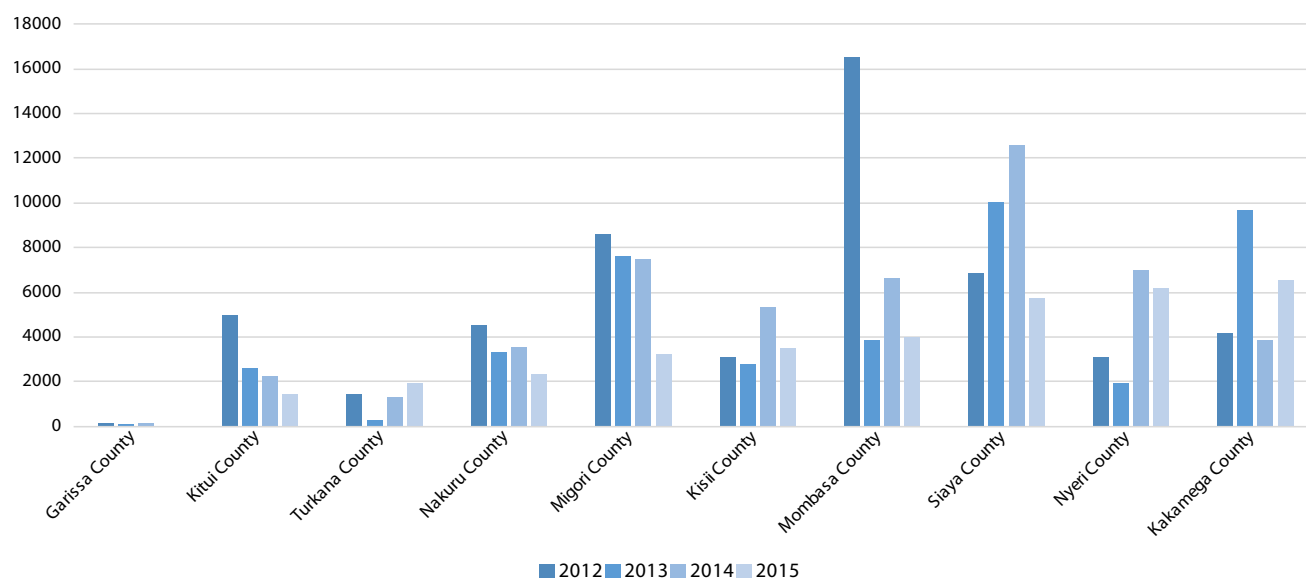


Source: DHIS

In most cases the waiting lists for receiving ARTs are shortening, as reflected in the number of people eligible and enrolled to receive ART (but not yet receiving it), shown in Figure 34. In Kakamega, Kisii,

Turkana and Nyeri there are an increasing number of people eligible but not receiving ART; indicating that demand for these services is growing more rapidly than supply.

Figure 34: Number of people eligible and enrolled for ART not receiving ART

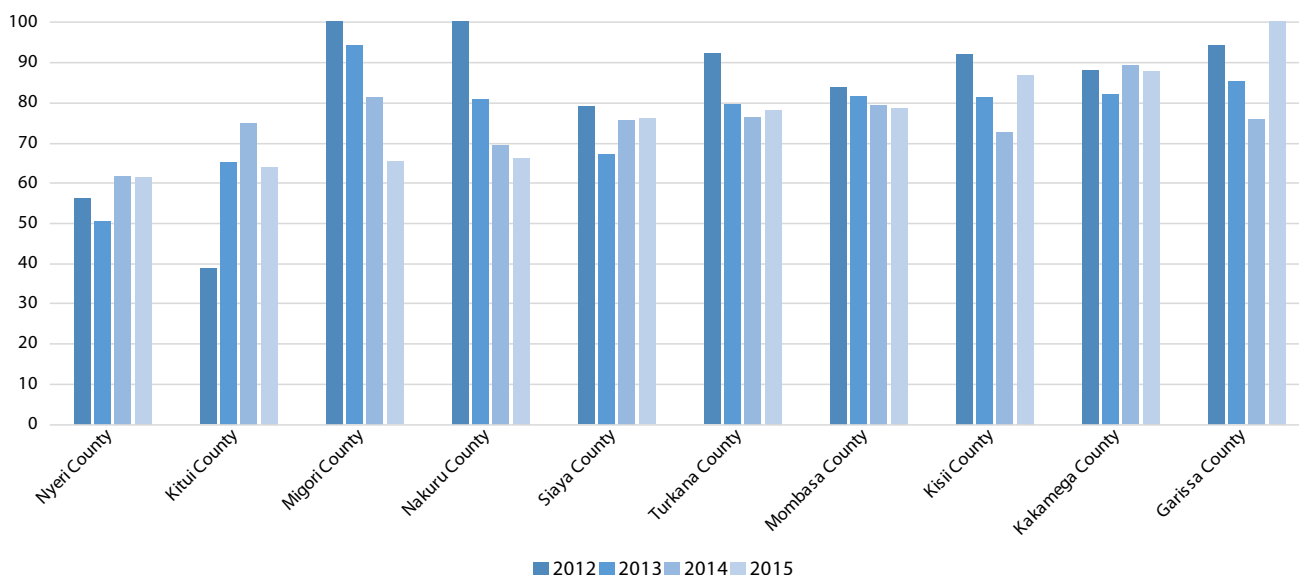


Source: DHIS

D Coverage of child health interventions

The proportion of children under five fully immunised has declined in half of the counties since devolution, with particularly sharp declines seen Migori and Nakuru. Only in Kitui did the immunisation rates increase substantially over the period, as seen in Figure 35.

Figure 35: Proportion of children under five fully immunised

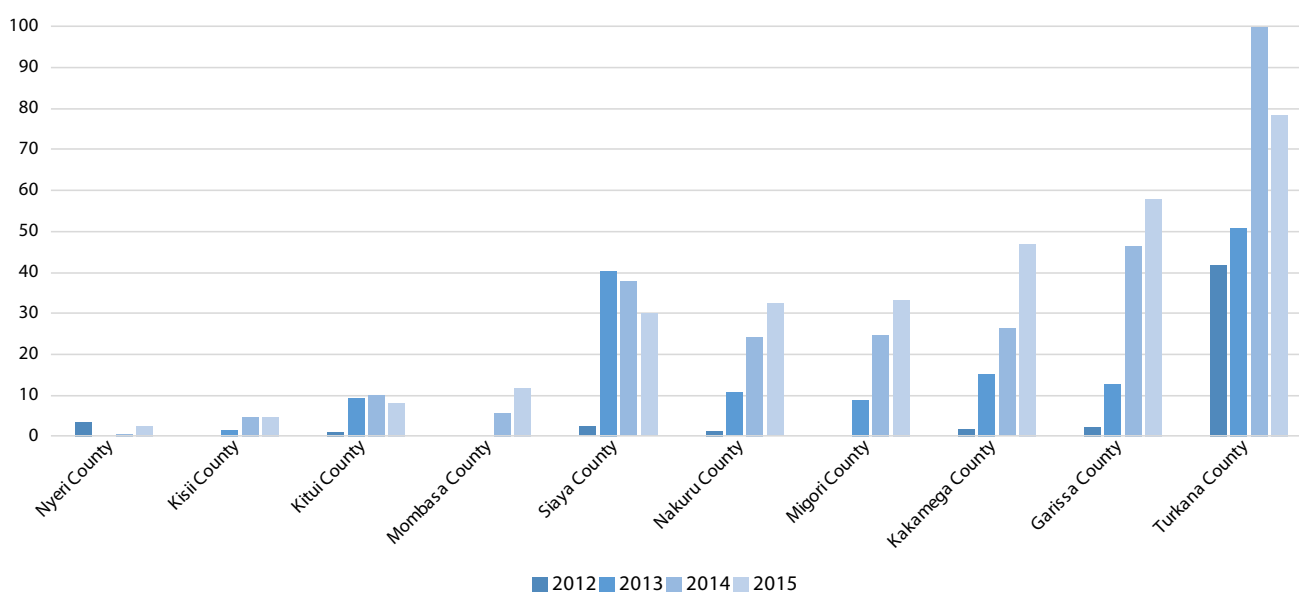


Source: DHIS

Marked progress was seen in the proportion of children (aged 12–59 months) dewormed, with Mombasa, Nakuru, Migori and Kakamega seeing

30% growth year on year over the review period. As in Figure 36, only in Nyeri was there a trend decline in the proportion of children dewormed.

Figure 36: Proportion of children aged 12–59 months dewormed

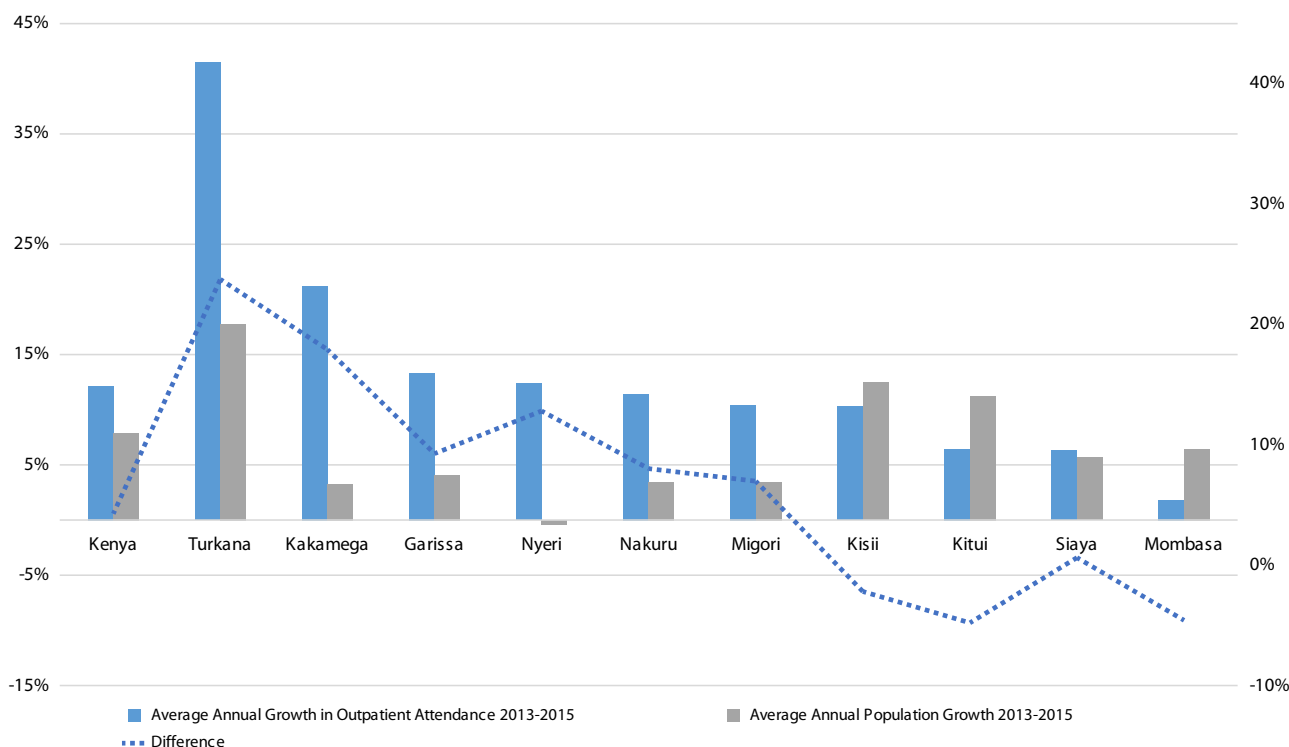


Source: DHIS

E Outpatient treatment compared to population growth in the counties

Service at the point of delivery (as captured by comparing outpatient attendance growth to population growth) is improving for the majority of counties. In seven of the 10 counties service provision outstripped population growth, with Garissa, Turkana and Kakamega seeing particularly large increases, as shown in Figure 37.

Figure 37: Outpatient attendance growth compared to population growth



Source: DHIS

3.3.3 Effectiveness, efficiency and equity of healthcare spending

Table 31 summarises the analysis of the previous section, reflecting areas where specific counties have seen an improvement over 2014/15–2015/16 as green, and areas where performance has worsened as orange. In general access to healthcare is rising under devolution; the table provides an overview of whether county performance against specific health indicators is improving or worsening.

Table 31: Summary of county health indicators

Area		Indicator	Garissa	Kakamega	Kisii	Kitui	Migori	Mombasa	Nakuru	Nyeri	Siaya	Turkana
Inputs	Budget	County budget allocation per capita	-21%	21%	42%	11%	96%	28%	36%	1%	25%	-33%
		GHE per capita	-28%	24%	42%	-3%	89%	55%	14%	3%	8%	-79%
	Staffing	Nurses per 100,000										
		Doctors per 100,000										
Outputs	Inpatient	ALOS – General										
		ALOS – Maternity										
	Outpatient	Outpatient attendance										
Outcomes	Maternal and newborn child health	Skilled attendant										
		FMMR										
		Deliveries in HCFs										
		Neonatal deaths										
	Child health	Immunisation coverage										
		Deworming										
	HIV treatment	ART services										
		ART waiting										

Source: DHIS, IFMIS, HPP (2016)

Encouraging performance was seen particularly in maternal and newborn child health, with the exception of rising levels of neonatal deaths in most counties. With regard to child health, rapid progress was seen in deworming while immunisation coverage remains a clear area for improvement. HIV treatment is expanding in all but one of the counties; however, the number with HIV who are not receiving ART is increasing in four of the counties. Finally, outpatient attendance is rising in most counties, even when accounting for population growth.

These trends indicate that health spending at county level is broadly effective at supporting the policy objectives towards which county health budget plans are geared. All counties have seen an increase in government health expenditure per capita over the period, with the exception of Turkana and Garissa.

It is hard to form a clear picture of the technical efficiency of county-level health expenditure due to the data constraints. However, several inferences can be made as to the allocative efficiency:

- At national level, the MOH still spends close to 40% of the total health budget on national healthcare and health science facilities, whose benefits largely accrue to the richest segment of the population (World Bank, 2014a). Yet more than half of MOH expenditure now consists of transfers to counties and county-level facilities, whose mandate for healthcare service delivery mainly rests with preventive public health and where budget allocations go towards public health facilities.
- Over 70% of county expenditure on rural health centres and dispensaries is development rather than recurrent. Interviews confirm that while salaries are still a considerable drain on budgets, and problems of absenteeism have not been fully overcome, investments in development expenditure are being made. Though clearer data are needed, county-level health expenditure is also strongly biased towards preventative healthcare, which is reportedly more cost-effective than curative healthcare.

- Reported delays in disbursements from the national to the county government still persist, and range from one week to three months, excluding subsequent time taken to get funds from the county Treasury to healthcare facilities. The latter was not noted as a problem by interviewees: inefficiencies largely originate with the National Treasury's cashflow shortages. Recurring references to facilities mentioning they would start charging patients for series imply a higher reliance on OOP payments as disbursement delays persist, which is both inefficient and inequitable. The CHA data available points to increasing household expenditure in half of the counties included in this study for which there are CHA data.

There is some evidence of technical efficiency gains, as ALOS has decreased in most counties, outpatient attendance is increasing relative to population while staffing levels in healthcare have not increased for most counties. However, no sufficiently granular data were available for this review to reach firm conclusions.

With regard to equity, comparing an estimate of per capita health spending⁵¹ for 2015/16 against the 2010/11 estimates shows that healthcare spending has increased for all counties, but this has not meant that the geographical equity of health spending is higher. However, budget allocations have fallen in per capita terms for two of the 10 counties in this study.

Table 32: Comparison of estimated county per capita health expenditure (Ksh), 2010/11 and 2015/16

	Population	Estimated per capita health spend		
	000s, 2015	2010/11	2015/16	increase
Garissa	656	800	2,834	2,034
Kakamega	1,931	580	1,485	905
Kisii	989	560	2,212	1,652
Kitui	1,347	575	1,578	1,003
Migori	1,094	775	951	176
Mombasa	1,176	1,100	2,649	1,549
Nakuru	1,961	1,000	1,856	856
Nyeri	949	1,700	3,007	1,307
Siaya	717	400	1,593	1,193
Turkana	1,306	225	303	78
Average all counties	799*	825	1,691	866

Source: DHIS; KNBS, 2014; GoK, 2013; IFMIS

* 2014 data from KNBS, 2014

Whereas previously underserved areas, such as Nyeri and Kisii, have seen large increases in per capita health spending, others such as Turkana have not. The least populous of the counties reviewed, Garissa, has the highest estimated increase in per capita health spending. Using spending per capita as a proxy for health supply, this implies that the mismatch between available resources and demand for healthcare persists.

3.3.4 Summary and recommendations for the health sector

The emergent challenges faced in the health sector at the onset of devolution still persist. Nominal health sector budget allocations have increased, with larger shares being spent through counties than through the national MOH. Recurrent healthcare spending is increasing at county level largely due to the substantial personnel costs. As at the national level, execution rates for development budgets are low. County health service delivery is strongly affected by delayed and lower-than-budgeted transfers of concessional and conditional

⁵¹ Estimated by dividing total recurrent and development expenditure for 2015/16, taken from the IFMIS, for each county by the 2014 KNBS county population estimates from 2014. This figure is compared against a previous MOH estimate.

transfers from the national government. Improved communications between the various levels and institutions involved in healthcare service delivery may help overcome service delivery planning issues, though disbursement delays cast significant doubt on the efficiency of health sector spending.

Nevertheless, health outcomes at the county level are improving, indicating that health spending at county level has been broadly effective at supporting the policy objectives towards which county health budgets are geared. While this is hard to quantify, CIDPs and subsequent county health budgets have contributed towards reducing maternal and infant mortality, and improving ART services for PLHIV, and have put more resources towards preventative over curative healthcare. Though health spending per capita has increased for all counties reviewed, variations in health spending per capita have widened further with devolution, implying that mismatches between resources and demand for healthcare persist.

The budget cycle has been implemented to the legal and procedural requirements, but there are many improvements to be made. Counties need midterm reviews of their CIDPs to ensure they are implementing as they expected, and to update priorities if necessary. Across the board planning and budgeting could be improved with regular county M&E. Capacity building and extra funding for staff would be required to implement this effectively.

Donor funding currently accounts for approximately a fourth of total health sector spending. While part of this funding, such as funds delivered directly to healthcare facilities and funds used to centrally procure essential medicines and medical supplies, helps maintain the effectiveness and efficiency of health spending, over-reliance on external funding implies a real risk to the sustainability of projects at county level, and has a knock-on effect on county budgets. The bias towards HIV/AIDS funding and lack of forecasted funding flows underlines the risks for healthcare delivery.

Box 7: Health-specific recommendations

- **Regularly review and where possible formalise practices to increase information flows on disbursements of transfers.** Increased communication from national to county health sectors on what proportion of the scheduled payment will be made, or when they can expect the delayed payment, would benefit counties' ability to manage projects and payment of salaries, etc.
- **Following the midterm review of the KHSSP 2014–2018, agree on a clearer framework for estimating medium-term resource needs for staffing and facilities' O&M.** The national MOH and county-level administrations have shared responsibilities with regard to health sector staffing and the countrywide access to healthcare services even after devolution – current planning documents offer little indication of joint planning. Particularly, both sides need to take into account existing geographical inequities in access to healthcare services.
- **Support the development of county M&E functions.** In addition to the staffing and structures for collecting data to secure and monitor conditional grants, more permanent M&E functions need to be fulfilled by county health administration in order to generate more detailed, sex-disaggregated data to monitor and evaluate progress against CIDPs.
- **Increased county and development partner collaboration.** Counties should replicate the National MOH resource tracking tool they hope to introduce to the National MOH planning and budgeting process. Peer learning could be an efficient training method and add consistency through the country in terms of external funding protocols.

4. Water, Sanitation and Hygiene (WASH)



4 Water, Sanitation and Hygiene (WASH)

This chapter will assess how and to what extent WASH policy objectives in Kenya are being attained at county level following the introduction of devolution in 2013. This PER explores WASH expenditure in greater detail than other recent PERs (GoK, 2013; World Bank, 2014a) by considering the balance of expenditure between the national ministries, semi-autonomous government agencies, and county governments. In doing so it provides a more comprehensive and granular analysis of WASH sector expenditure than has previously been available. The chapter is structured as follows:

- Section 4.1 provides a detailed overview of sector performance at the national level, a summary of the institutional structure of the sector, and a summary of the sector policy documents and the targets therein;
- Section 4.2 presents the PER findings, with a focus on: the relative expenditure between national, county and semi-autonomous institutions; the balance between recurrent and development expenditure; comparative execution rates; and the role of external finance in the sector;
- Section 4.3 provides a detailed county-level performance analysis and includes an assessment of the degree to which policy objectives are being met, as well as looking at sector financing requirements; and
- Section 4.4 provides a summary of the key PER findings in relation to WASH.

4.1 Background

This section provides an overview of the status of WASH in Kenya and goes on to describe the guiding policy documents and plans.

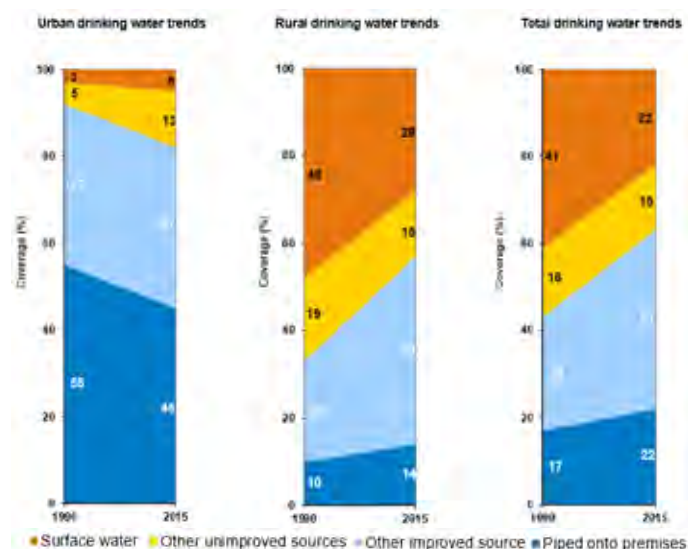
4.1.1 Status of WASH

There has been an overall slight increase in access to water and sanitation services in the country. The Joint Monitoring Programme for Water Supply and Sanitation estimated that in 2015 63% of

Kenyans (82% in urban areas and 57% in rural areas) had access to improved drinking water sources, compared to 60% in 2010 (83% urban, 53% rural) (WHO/UNICEF, 2015).

Progress on water is driven by increases in rural access, as in urban areas the proportion of the population with access to piped water fell between 2010 and 2015 from 47% to 45%. There was a one percentage point rise in those using other improved sources and unimproved sources. Figure 38 summarises the trends in access to water between 1990 and 2015.

Figure 38: Trends in access to improved water



Source: WHO/UNICEF, 2015

Figure 39 and Figure 40 compare Kenya's performance on water to the low- and middle-income countries' (LMICs') and eastern and southern African (EaSA) countries' average and to close⁵² neighbours: compared to neighbours and the averages Kenya performs poorly. Access to improved water is below both the LMIC and EaSA averages; the same is true for the rate of improvement between 2010 and 2015.

⁵² Lesotho, Swaziland, and Zambia are also LMICs. Tanzania and Uganda are low-income countries but they have comparable population sizes.

Figure 39: Access to improved water sources

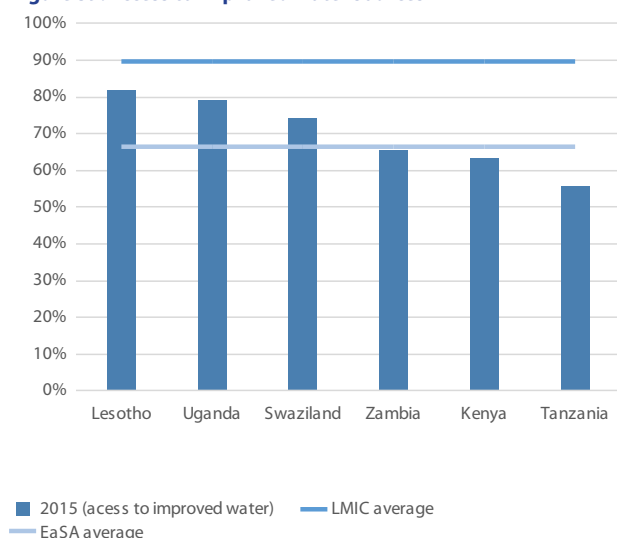


Figure 40: Percentage point increase to improved water sources since 2010

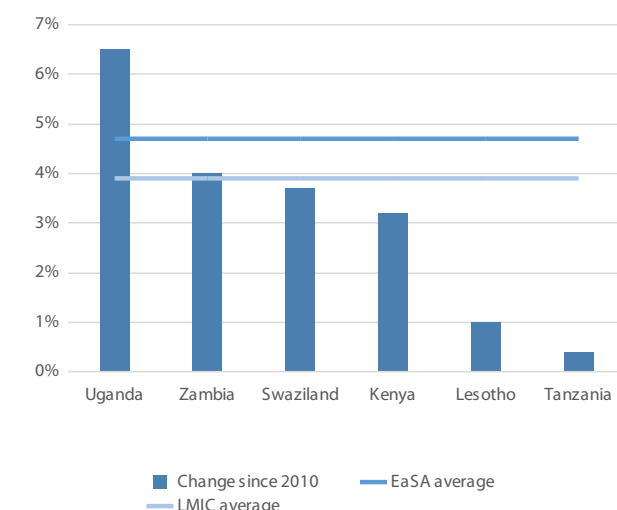
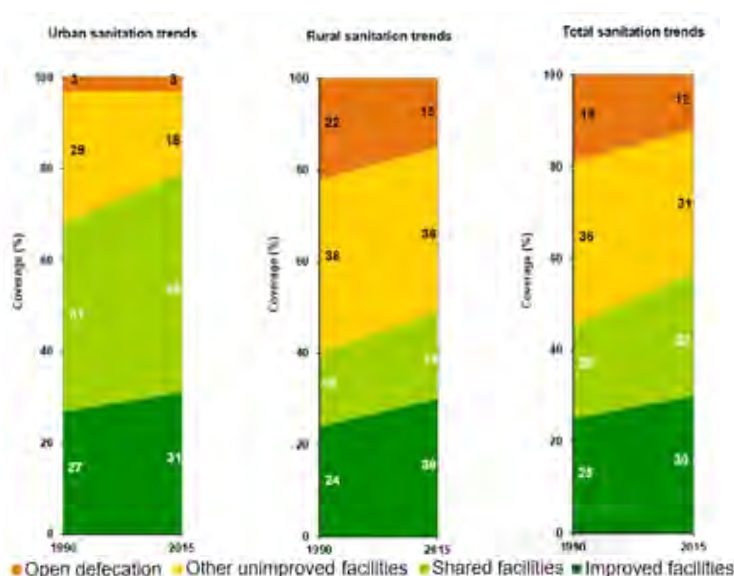


Figure 41: Trends in access to sanitation



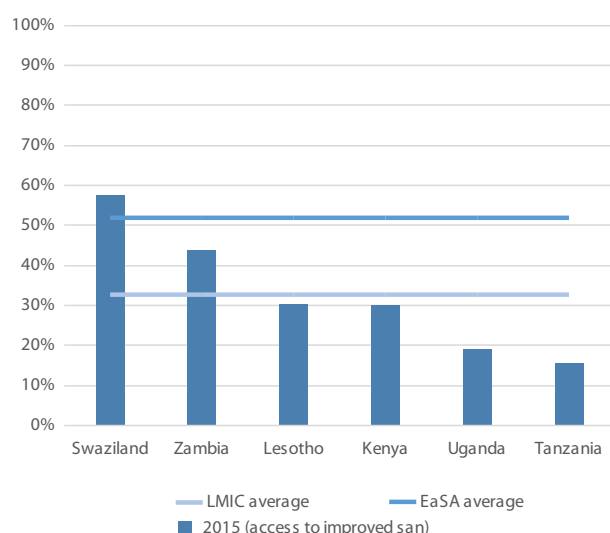
Source: WHO/UNICEF, 2015

With regard to sanitation: 30% of Kenyans (31% of urban and 30% of rural) had access to private improved sanitation in 2015, compared to 29% in 2010. In rural areas, open defecation was estimated to still be practised by 12% of the population (compared to 13% in 2010). Figure 41 summarises the trends in access to sanitation between 1990 and 2015.

The percentage of Kenyans not treating water before drinking in 2014 stood at 54% of the total national population, while 28% of households do not have water and soap for regular hand-washing. The lack of adequate WASH services puts additional strain on the healthcare systems due to communicable diseases that occur as a result. The Water and Sanitation Program report of March 2012 indicates that approximately 19,500 Kenyans, including 17,100 children under five, died from diarrhoea in 2012 – nearly 90% of these cases being directly attributed to poor WASH alone (Water and Sanitation Program, 2012). Cholera and other waterborne or water-washed diseases remain prevalent; for example a cholera outbreak (1,143 reported cases) occurred in Migori County in 2015, and public health officials traced the source of the disease back to a stream on the Kisii/Migori border used for drinking water which subsequent laboratory tests confirmed as the source.

Figure 42 and Figure 43 compare sanitation performance to the LMIC and EaSA average and close neighbours: as with water, Kenya compares unfavourably on both access levels and the rate of recent progress.

Figure 42: Access to improved sanitation in 2015



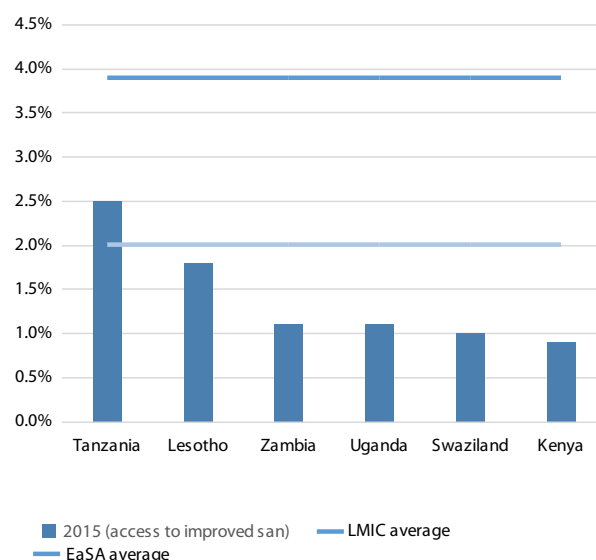
Source: WHO/UNICEF, 2015 – Author's calculations

There has been a moderate increase in access to improved sanitation in most areas, although the rate of progress is behind what is needed to meet the government target and LMIC and regional peers. The UNICEF/WHO Joint Monitoring Programme (JMP) classifies Kenya as having made 'little to no progress' with regard to sanitation and 'good progress' with regard to water (WHO/UNICEF, 2015). Section 4.3 includes a more detailed and county-specific analysis of sector performance. It should also be noted that the burden of poor WASH services falls disproportionately upon women. In relation to water the responsibility for collecting water falls on women, and poorer infrastructure can often result in this burden being higher as women have to travel further. With regard to sanitation, access to a household latrine and hygiene products are important in terms of both dignity and safety.

4.1.2 The WASH sector in Kenya: Ministerial responsibilities

This section outlines the institutional structure of the WASH sector in Kenya, with a focus on the key institutions and their mandates, the legislative basis of the sector and key policy documents and the targets therein.

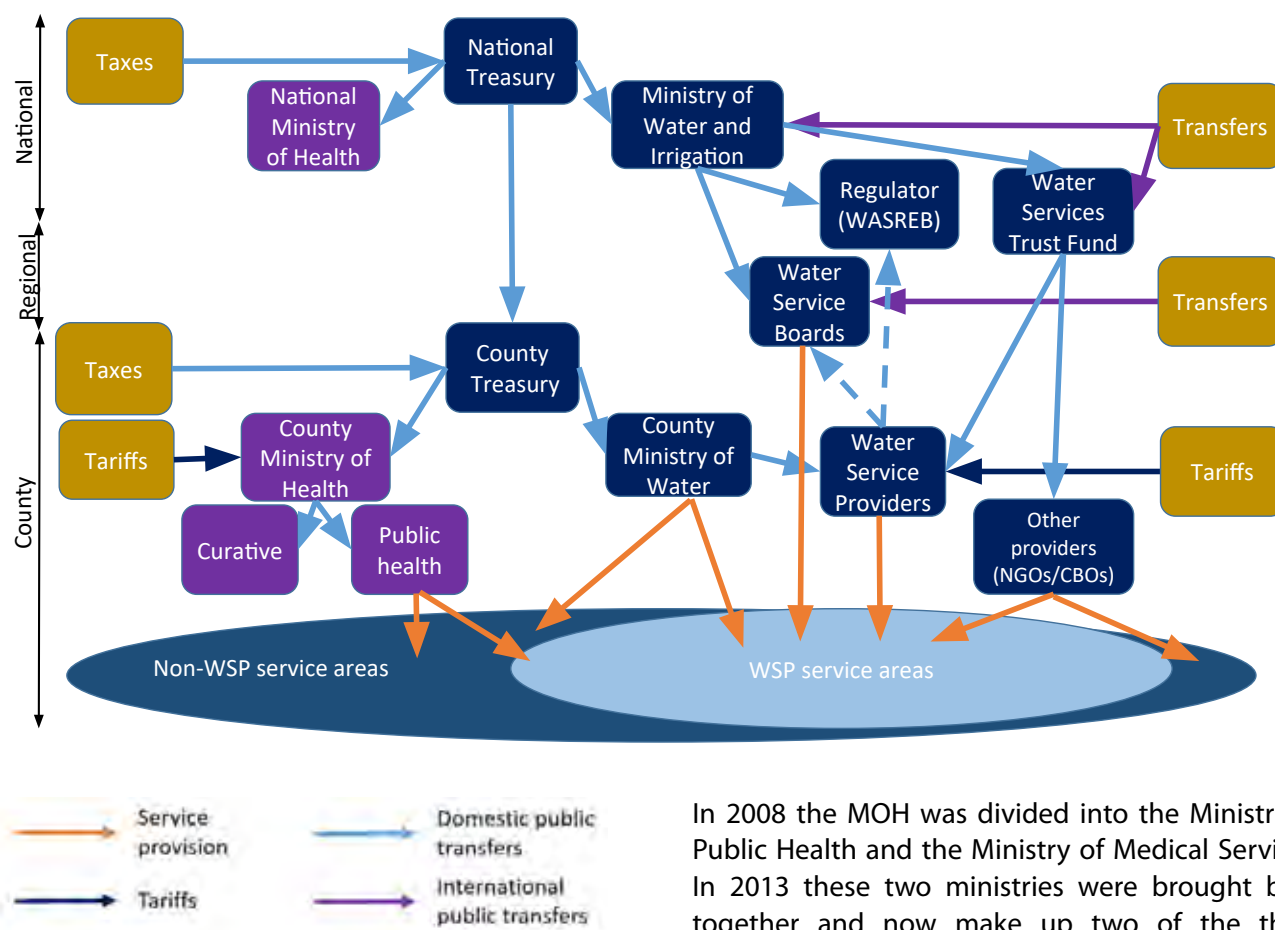
Figure 43: Percentage point change in access to improved sanitation 2010 to 2015



Responsibility for WASH is divided across two national ministries in Kenya: the Ministry of Water and Irrigation (MoWI) and the MOH, with the responsibilities for water and sanitation divided across the two. The implications of this are discussed throughout this section; however, we first discuss the institutional structure of water and sanitation. For the purposes of this PER the WASH sector is taken to include institutions, programmes and funding associated with the delivery of household water and sanitation services. Water resource management (WRM) is not strictly considered part of the WASH sector but is considered in the analysis, with separate figures presented for WRM where relevant.

The WASH sector underwent significant reforms following the Water Act (2002), which established the institutional structure for service delivery. Throughout devolution these structures have remained largely intact and are reinforced in the Water Act (2016). Figure 44 presents a simplified map of the WASH sector in Kenya. Those institutions making investments in both water and sanitation are in dark blue, while those concerned exclusively with sanitation are in purple. It is important to note that this figure summarises the main flows in the sector considered in this analysis.

Figure 44: Map of the actors and flows of funds in the WASH sector in Kenya



Source: Authors' own design

4.1.3 Key WASH sector institutions: Their mandates and functions

Key institutions and their functions are summarised below. Annex F also contains further details on these institutions and their functions.

The national MoWI was formed in April 2015 following the break-up of the Ministry of Environment, Water and Natural Resources (MEWNR).⁵³ The MoWI has five directorates: Administration; Water Services; Water Resources; Water Storage and Land Reclamation; and Irrigation and Drainage. Most expenditure relevant to this PER is under the Water Services directorate. The ministry's specific functions include: overall policy guidance for the sector, including national legislation and the supporting policies and sector strategies; sector M&E; sector investment planning and resource mobilisation; and capacity development.

⁵³ MEWNR itself was formed in May 2013 through executive order No. 2/2013 in an effort to rationalise the portfolio, responsibilities and functions of all the ministries and other government agencies and bring them into line with the Constitution.

In 2008 the MOH was divided into the Ministry of Public Health and the Ministry of Medical Services. In 2013 these two ministries were brought back together and now make up two of the three departments of the MOH. As with the MoWI, the central mandate in relation to health is for: overall policy guidance for the sector, including national legislation and the supporting policies and sector strategies; sector M&E; sector investment planning and resource mobilisation; and capacity development.

The Water Services Regulatory Board (WASREB) is a non-commercial state corporation that was established in 2003 following the Water Act (2002). WASREB sets rules and enforces standards that guide the sector towards ensuring that consumers are protected and have access to efficient, affordable and sustainable services. Key functions include: issuing licences for the provision of water services; establishing and monitoring standards for service provision; regulating licensees and enforcing licence conditions; and developing guidelines for fixing tariffs for the provision of water services.

The Water Service Boards (WSBs) were formed following the Water Act (2002) and were established between 2003 and 2004. They are the asset holders for the water and sanitation infrastructure in

their respective jurisdictions, and manage large-scale investments in WASH infrastructure within their jurisdictions. The functions of the WSBs include: planning and developing national public water works for bulk water supply and sewage in their service areas; formulating and developing investment plans in liaison with county governments; providing technical assistance to water service providers (WSPs) for county asset development; and contracting of WSPs.

WSPs are the service delivery agents in the water sector. There are currently 91 licensed providers, with roughly 20 million people in their service areas (WASREB, 2015). The WSPs were formed following the Water Act (2002). All are commercialised, with the vast majority being state owned. Under the service provision agreements the WSPs usually have

a mandate to supply water (operate and maintain water and sewage infrastructure) and to collect tariff revenue in their service areas.

The county ministries with responsibility for water (CMoWs) were formed following the promulgation of the 2010 Constitution. Often the responsibilities for environment, natural resources, irrigation, agriculture and energy are also in the same ministry as water. The mandate of the ministry varies by county but most include: formulation and review of county policy and legislation related to water; implementation of national and county policies and legislation; the development and conservation of water resources; water provision, both in towns and rural areas; management of sewage; and solid waste management. Figure 45 outlines the areas of responsibilities of the CMoWs.

Figure 45: CMoW areas of responsibility

County	Ministry name	Water	Sanitation	Forestry	Solid waste	Agriculture	Energy	Conservation	Irrigation	Mining	Fisheries
Kitui	Agriculture, Water and Irrigation	•				•			•		
Kisii	Energy, Water, Environment and Natural Resources Sector	•		•			•				
Turkana	Water, Irrigation and Agriculture	•				•			•		
Nyeri	Water, Forestry and Wildlife, Environment and Natural Resources	•	•	•	•						
Migori	Water and Energy	•	•			•					•
Kakamega	Environment, Water, Energy and Natural Resources	•	•	•	•		•				
Nakuru	Environment, Natural Resources and Energy (inc. Water)	•	•	•	•		•				
Siaya	Water, Environment and Natural Resources	•	•	•	•			•			
Garissa	Water and Sanitation	•	•	•	•			•			
Mombasa	Water, Environment and Natural Resources	•	•	•	•			•		•	

Source: County ministry websites⁵⁴

54 <http://www.kitui.go.ke/index.php/ministries/ministry-of-agriculture-water-and-irrigation>;
<http://www.kisii.go.ke/index.php/departments/energy-water-environment-and-natural-resources/departments-overview-energy>;
<http://www.nyeri.go.ke/water>;
<http://migori.go.ke/index.php/migori-county-departments/agriculture-livestock-and-water-development>;
<http://kakamega.go.ke/water-environment-natural-resources/>;
<http://www.nakuru.go.ke/ministry-of-environment-natural-resources-energy-and-water/>;
http://www.siaya.go.ke/?page=attraction&attraction_id=4&place_id=20;
<http://garissa.go.ke/directorate-of-water-services-and-sanitation/>;
<https://www.mombasa.go.ke/departments-of-water-environment-natural-resources/>.

County ministries of health were also formed following the promulgation of the Constitution. These largely divide their structure along curative and preventative lines. In relation to WASH, the most important mandate relates to public health, with responsibilities extending to: formulation and review of county policy and legislation related to public health; implementation of national and county policies and legislation; surveillance of water quality; disease surveillance; health promotion education; and environmental health, including food licensing and surveillance.

The Water Service Trust Fund (WSTF) was formed following the Water Act (2002). It is a channel through which donor funding enters the sector, often with co-financing from the MoWI. The mandate/object of the fund is to provide conditional and unconditional grants to the counties and to assist in financing the development and management of water services in the marginalised and underserved areas.

Other important actors in the WASH sector include: the National Water Conservation and Pipeline Corporation; Water Resources Management Authority (WRMA); the Kenya Water Institute (KEWI); and the Water Appeals Board (WAP). These institutions are left out of the description here as they are less central to WASH service delivery than those listed above.

There are a few important features of the institutional structure of the sector in relation to public expenditure:

- i. The difference in the flow of funds to non-WSP and WSP service areas: Populations within WSP service areas (currently under 50% of the Kenyan population) benefit from expenditure from a wider variety of sources, whereas expenditure in non-WSP serviced areas is generally only from CMoWs or WSTF-funded agents other than WSPs.
- ii. Though the responsibility for water and sanitation is divided across two ministries, most institutions making investments in water also make investments in sanitation – particularly in the case of the WSBs and WSPs, who largely take responsibility for urban sanitation and sewerage. The WSTF and CMoWs make investments in both rural and urban water and sanitation.

- iii. Significant channels for on-budget donor funding entering the sector are the MoWI, WSBs and the WSTF. An assessment of off-budget funding was not within the purview of this PER.
- iv. WSPs collect the tariffs for water and sanitation services provision in WSP areas. These funds are retained by WSPs for water and sanitation service provision. As mandated in the service provision agreements, the WSPs interviewed report transferring between 4% and 15%⁵⁵ of revenue to their WSB, and 1% of revenue to WASREB.⁵⁶ Many CMoWs reported making transfers to the WSPs for recurrent expenditures to ensure service continuity, as the WSP tariff revenues are insufficient to cover expenditure.

These features will be discussed more thoroughly, together with the supporting data, in the presentation of the findings later in this chapter.

4.1.4 Key WASH sector legislation

Constitutional provisions place the county governments at the centre of water and sanitation service delivery. Chapter 4 of the Bill of Rights of the Constitution guarantees every Kenyan ‘the right and access to clean, safe and adequate water; and reasonable standards of sanitation’, and the Fourth Schedule (point 11) set the provision of ‘county public works and service including – a) storm water management systems in built-up areas; and b) water and sanitation services’ as county functions and powers. The division of responsibility for water services is not entirely clear and, as noted in the literature at the time (World Bank, 2013b) the terms ‘national public works’ and ‘county public works’ are ill defined and lead to confusion surrounding the division of responsibilities. The Water Act (2016) defines national public works but not county works. The definition employed by the Act is broad but is specific enough to mean that the national government retains responsibility for some aspects of WASH service delivery.

⁵⁵ Figures are based on interview with WSPs. Nakuru Rural (NARUWASCO) reported transferring 15% of revenue and Gusii water and sanitation company (GUWASCO) reported transferring 4% of revenue.

⁵⁶ Though many acknowledge that this is not always paid.

Table 33: Key legislation in the WASH sector

Document	Year	Description
Water Act	2002	The Water Act sets out the institutional structure for the water sector and grants mandates. This act laid the foundations for the water sector reforms of the 2000s that established the service delivery structure that largely remains intact today.
Constitution of Kenya	2010	The Constitution enshrines the right to water and grants the national government the responsibility for national public works and county governments the responsibility for county public works, and makes specific reference to water and sanitation. As part of the promulgation of the constitution the CMoWs and county ministries of health were formed.
Water Act	2016	This Water Act reinforces the structure of the 2002 Water Act, with some revisions, and, importantly, defines national public works, thereby clarifying the roles as set out in the constitution.

While the Constitution establishes the right to water it is in the Kenya Vision 2030 (page 96) that the goal of the sector is established as 'to ensure water and improved sanitation availability and access to all by 2030'. Subsequent policies and plans are all aligned with this goal.

The legislative framework for water rests on the 2002 Act and the 2010 Constitution, though it is still changing, with the Water Bill 2016 recently receiving Presidential assent. The 2016 Bill will replace the 2002 Water Bill. In the 2016 Bill many of the institutions established under the 2002 Act and subsequent reforms remain in place or are slightly reformed. Though a PER is by nature backward looking, the implementation of the Water Act (2016) will have important implications for funding in the sector. Key changes outlined in the Act are discussed below, though it should be noted that the impact on funding and service delivery will largely depend on how the changes are implemented as the Act's formulation leaves much to the discretion of the Cabinet Secretary for Water, particularly with regard to regulation.

The Water Act 2016 recently received Presidential assent. The 2016 Act will supplant the 2002 Act. Many of the institutions established under the 2002 Act and subsequent reforms remain in place. With regard to WRM a newly created Water Resources Authority will take on the functions and assets of the WRMA; the National Water Conservation and Pipeline Corporation's functions and assets will be transferred to the National Water Harvesting and Storage Authority. With regard to water and sanitation provision, the roles of WASREB, the WSPs and the WSTF remain largely unchanged.

The 2016 Act does, however, bring some changes: specifically, the creation of the concept of 'national public water works' (see Section 8 of the Act), and the creation of Water Works Development Board(s) (WWDB) and Agencies (WWDAs). The 2016 Act defines national public works as including: water storage; water works for bulk distribution and provision of water services; inter-basin water transfer facilities; and reservoirs for impounding surface run-off and for regulating stream flows to synchronise them with water demand patterns which are of strategic or national importance.

This broad definition means that some functions for water provision have a clearer legal basis for being delivered nationally. The wording of the Act itself makes this clear:

'National Public works are to be designated by the Cabinet Secretary, by notice published in the Gazette, as a national public water works based on the fact that– (a) the water resource on which it depends is of a cross county in nature; (b) it is financed out of the national government's share of national revenue pursuant to the provisions of the Public Finance Management Act, 2012; (c) it is intended to serve a function of the national government; or (d) it is intended to serve a function which, by agreement between the national and county government, has been transferred to the national government.'

Most WSB functions are to be passed to the WWDAs. The WWDAs will also take on the assets of the WSBs. The decision regarding the number of WWDBs to be established rests with the Cabinet Secretary. With regard to water and sanitation service provision the responsibility for executing national public

water works rests with WWDB(s) and WWDAs. Both the board(s) and agencies are to be funded via the National Treasury. Significant changes compared to the 2002 Act, to reflect the devolved system, include: making provision for county governments to create water service providers (75.1); placing a specific responsibility on counties to serve non-commercially viable rural areas (92.2); placing county governments under the supervision of the regulator (92.4 and 152.a/152.b); handover of works to the county governments (67.1); and the management of cross-county water disputes (part VI).

In 2015 the Council of Governors (CoG) published a Sectoral Policy and Legislative Analysis. At the time, they raised some concerns surrounding the new water bill as it was then constituted. These related to:

- I. the proposal to take away the power of counties to implement county public works and develop projects for the provision of water and sanitation services and vesting the same in national agencies;
- II. the proposal to take away the power of counties to supervise and coordinate the activities of WSP and vesting the same in a national regulatory commission;
- III. the fact that the Bill did not recognise the power of county governments to establish joint committees or authorities to implement cross-county waterworks and cross-county water supply and sanitation services; and

- IV. the fact that the Bill proposed to establish a WSTF, whose objectives and functions seemed to directly conflict with the duty of county governments to expand the provision of water and sanitation services to marginalised areas (see detailed comments on the Bill in Annex 1).

While the Water Act 2016 goes some way towards addressing the concerns raised by the CoG, the final version of the Act retains many of the aspects that caused concern. The extent to which these are realised in practice will rest largely on the way in which the Act is implemented. Nevertheless, broadly, the structure of the sector will remain as outlined in Figure 44.

4.1.5 Key WASH sector policy documents

The key policy documents in the sector flow from Kenya Vision 2030, which establishes the goal of universal access. The water sector policies within the period focused on the overarching goal of Vision 2030 as well as the more immediate goal of achieving the Millennium Development Goals (MDGs). The sanitation policies also aim to achieve universal access, with the interim target of achieving open defecation free (ODF) status by 2020, as established in the KESH policy 2016–2030. Table 34 considers some of the most relevant policy documents and their policy objectives.

Table 34: Key policy documents in the WASH sector

Document	Year	Description
Kenya water policy	1999	The National Policy came into effect in 1999, after it was adopted by Parliament as Sessional Paper No. 1 of 1999. The policy addressed development and management of water resources, as well as water conservation. The policy laid the foundations of the 2002 Water Act and the creation of the semi-autonomous agencies within the sector.
Kenya Vision 2030	2007	Kenya Vision 2030 summarises Kenya's long-term national planning strategy, stating the main goals of the economic, social and political pillars underpinning Vision 2030. The medium-term goals of the Vision are outlined in the medium-term plans. Within Vision 2030 water is considered a social sector and Vision 2030 sets the goal of improved water and sanitation for all by 2030.
Water services strategy 2007–2015	2007	The water services strategy reinforces the goals of Vision 2030 and considers their realisation in the context of the 2002 Water Act. It sets specific goals relating to: drinking water quality; time to source; O&M cost recovery; the coverage of waterborne sewage collection and treatment; and increased access to basic sanitation.
Kenya health policy 2014–2030	2014	The health policy aims to give direction to the goals outlined in Vision 2030 and the Constitution by grouping objectives into six objectives and eight orientations. With regard to WASH, sanitation is placed within Policy Objective 1 (eliminate communicable conditions): the policy calls for the promotion of good sanitation and hygiene, and increased access to improved services.
KESH policy 2016–2030	2016	The KESH policy builds on many of the aforementioned policies and reinforces the target of universal access through setting the three goals of: a) achieving and sustaining 100% ODF status in Kenya by 2030; b) achieving and sustaining 100% access to improved sanitation in rural and urban areas by 2030; and c) increasing public investment in sanitation and hygiene from 0.2% to at least 0.5% of GDP by 2020 and to 0.9% of GDP by the year 2030. The policy also establishes sub-objectives and outlines the implementation framework.

CIDPs represent the most comprehensive summary of county-level policy priorities. All cover the period 2013–17, with many setting targets and ambitions beyond this period. Table 35 outlines the targets set within the county CIDPs. Only access targets are included in this table. Many CIDPs set output targets under specific project plans, but these were excluded for the sake of brevity and as they do not represent an overarching target by which the county priorities may be compared to national priorities.

Three of the 10 counties do not set county-level access targets for water (Kakamega, Kitui and Migori). The counties that do set targets set ambitious targets. For the counties that set targets the rates of progress implied by these targets, if continued to 2030, are sufficient to take the counties to universal access. However, some of the targets focus only on a subsection of the population (Mombasa) or target a specific service level (Nakuru). The CIDPs do not employ common indicators for their targets, which hinders both a comparative analysis of the CIDPs as well as an analysis of performance in reference to the targets.

Four of the 10 counties do not set county-level access target for sanitation (Kakamega, Kisii, Migori and Nyeri). None of the counties that do set targets make specific reference to ODF, though the rates of progress implied by the targets mean that Kitui, Siaya and Garissa would achieve the goal of ODF by 2020 if they achieved their targets, while all of the targets set, if continued to 2030, would be sufficient to achieve universal access. As with water, the indicators used for the targets are not common across all counties.

Table 35: CIDPs and county WASH objectives

	Water	Sanitation
Garissa	To increase access to safe drinking from 27,725 households to 90,000 households by 2017 (50,000 by 2015) and to reduce the average distance to water points from 25 km to 10 km by 2017.	To increase the latrine coverage from 31% to 75% of the population.
Siaya	To increase the current coverage of 42% to 60%.	To Improve latrine coverage to 100%, through the scale up of community-led total sanitation.
Turkana	To increase the number of households with access to potable water from 15,200 to 25,000 by 2018.	To increase the coverage of latrines from 22,800 to 30,000 by 2018.
Nyeri	To increase water access by 30% by 2017.	No overarching access target is set.
Kitui	No overarching access target is set.	To increase latrine coverage from 75% to 100% in the county by the year 2017.
Mombasa	To increase access from 25% to 70% by 2017 for the urban poor.	Improve coverage of sewers from 15% to 35% by December 2017.
Nakuru	Increase coverage of water supply, sanitation and drainage services in Nakuru County by 20% across all the service levels and increase the availability and accessibility of clean/piped water by 40% by 2017.	Increase coverage of water supply, sanitation and drainage services in Nakuru County by 20% across all the service levels.
Kisii	To increase coverage of piped water by 30% by 2017.	No overarching access target is set.
Migori	No overarching access target is set.	No overarching access target is set.
Kakamega	No overarching access target is set.	No overarching access target is set.

Source: County CIDPs

The WASH sector is distinct from many other social sectors in that the water reforms of the 2000s established an institutional structure centred on semi-autonomous agencies. The now disbanded district water offices also previously received allocations for service provision directly from the national ministry. The decentralised nature of the pre-devolution institutional structure is reflected in the current staffing of the sector under the devolved structure; with the semi-autonomous agencies largely retaining their role in the sector, and many of the district water office staff reportedly moving to positions in county ministries or sub-county offices. However, the counties' prioritisation of administrative staff in recruitment and natural attrition means that the MoWI report a perceived erosion of HR capacity in the sector at the national level.

4.2 PER findings

The nominal amount allocated to WASH⁵⁷ sector ministries increased over the period. This increase was driven by increases in allocations to county ministries with responsibility for water. Table 36 presents the allocations to ministries with responsibility for water for the years following devolution. Between the financial years 2014–15

and 2015–16 the funding to the State Department of Water and Regional Authorities (hereafter the 'State department') fell slightly. This was offset by an increase in funding to county ministries with a responsibility for water, leading to a very slight increase in funding within the sector. Within the State department the vast majority of expenditure is directed towards WASH spending⁵⁸; the breakdown of national ministry spending is discussed in greater detail in below.

Table 36: National and county ministry expenditure (Ksh millions)

	2013/14	2014/15	2015/16
State department for Water	16,676.7 ²	16,907.3	15,808.0
of which WASH spending*	11,905.8	12,656.6	10,469.3
CMoWs	– ³	18,548.1	20,085.6
Total (MoWI and CMoWs)	-	35,455.4	35,893.5

Source: IFMIS; COB, 2013, 2014, 2015

* Spending on WASH is separated from spending on WRM and irrigation; authors' analysis using programme descriptions

Though the nominal amount allocated to WASH sector ministries increased, as a proportion of total government expenditure, funding to the sector fell in all areas.

⁵⁷ Please note that this is the terminology used in the budget book and IFMIS and as such is adopted here. The State Department refers to one of the five divisions of the Ministry of Water and Irrigation.

⁵⁸ Identified as administrative units that are focused on increasing access to water.

Table 37 presents the national and county ministry budget allocations as a proportion of GGE budget allocations, and expenditure as a proportion of total government expenditure. Consistent with the falling absolute allocation to the State department, the proportion allocated in the budget has been

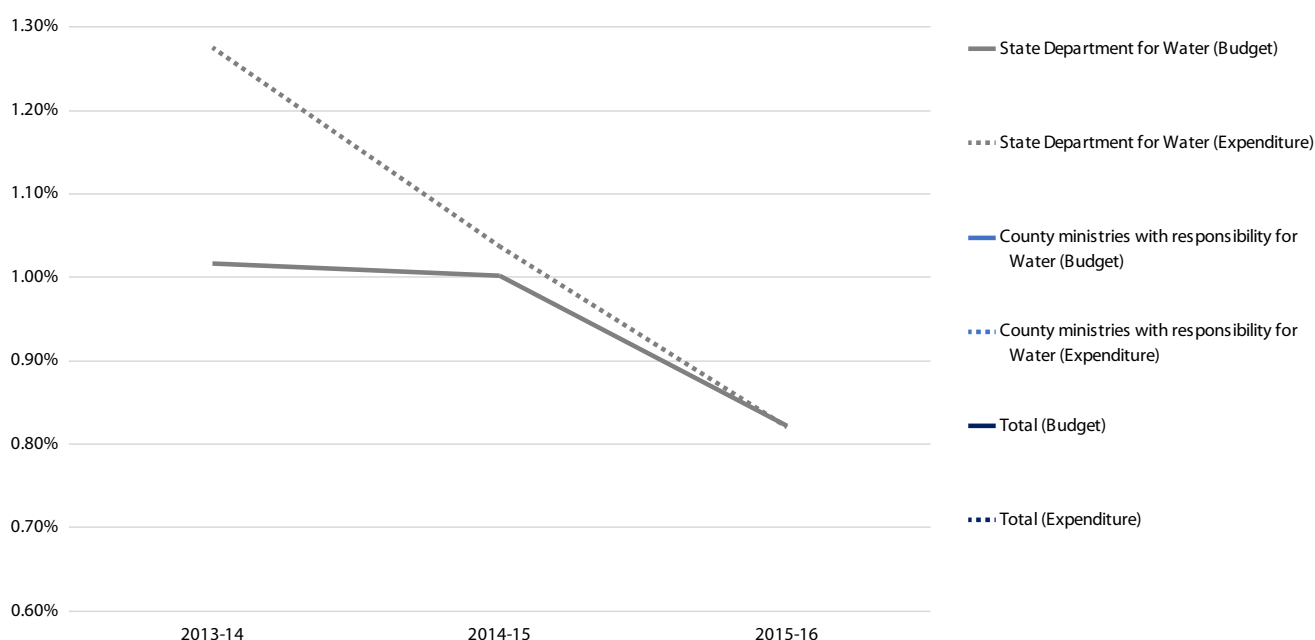
declining. The converse is true for the CMoWs, whose proportional budget allocation has increased – but with lower than average execution rates. The consequence of this is that while the CMoWs received a greater share of the budget allocation, their share of expenditure actually fell between 2014–15 and 2015–16.

Table 37: National and county MDA budget allocations as a proportion of TGE

	Budget			Expenditure		
	13/14	14/15	15/16	13/14	14/15	15/16
State Department for Water	1.02%	1.00%	0.82%	1.27%	1.04%	0.82%
of which WASH spending	0.49%	0.78%	0.57%	0.91%	0.78%	0.54%
CMoWs	-	1.11%	1.33%	-	1.14%	1.04%
Total (MoWI and CMoWs)	-	2.11%	2.15%	-	2.17%	1.86%

Source: National Treasury IFMIS data; COB, 2013, 2014, 2015

Figure 46: National and county ministry budget allocations and expenditure as a proportion of general government budget allocations and expenditure



Source: National Treasury IFMIS data; COB, 2013, 2014, 2015

The last PER that provides an overview of spending in the WASH sector was the 2013 CPER. The CPER is not directly comparable to the results presented below as it does not provide a view on county-level trends. Also, the CPER analysis was at the sector ministry level and as such the financial data groups Water, Sanitation and Irrigation together.

As per the CPER, in 2011/12 the total budget for the MoWI was 3.1% of TGE, and was in a declining trend over the period. This PER finds that the budget for Water within the MoWI and county expenditure are 2.2%, though this figure excludes irrigation.

As outlined in Figure 44, the tariffs collected by WSPs and donor financing through the WSTF are important channels of funding, though both are outside of what can strictly be considered public expenditure.⁵⁹ Table 38 outlines the trends in expenditure for WSPs and the WSTF. It must be stressed that these figures are not directly interoperable with the IFMIS data. The figure quoted below for the WSP expenditure is their reported turnover: as their sole purpose is the O&M of water and sanitation services their turnover is considered expenditure within the sector for the purposes of this analysis. The WSTF data are drawn from the annual audit reports of KENAO.

⁵⁹ Expenditure which is subject to the budget cycle processes described in Section 2 and under the control of the National Treasury and county Treasuries

Table 38: Other key expenditure on water and sanitation (Ksh millions)*

	2013/14	2014/15	2015/16
WSTF** (via donor finance)	1,275.4	447.9	No data
WSPs (via tariffs)	15,594.8	15,956.8	16,798.8

Source: KENAO, 2013, 2014, 2015; WASREB

* As the WSTF receives funding from the State department, to avoid double counting the figures in this table are the expenditure figures as reported in the KENAO reports with the ministry expenditure on the WSTF (as reported in IFMIS) subtracted.

** The data here are drawn from the WSTF audit reports and WSREB data, and as such they are not fully compatible with the IFMIS data and are not included in the TGE expenditure figures. For this reason, these data are not presented as a proportion of TGE

The WSPs are an important source of expenditure within the sector, with their collective turnover being greater than the expenditure by the State

department and comparable in magnitude to that of CMoWs. WSP turnover has increased over the years of this PER. The expenditure by the WSTF declined sharply between 2013–14 and 2014–15 and is, in terms of sector expenditure, a small portion of total expenditure. The importance of WSP expenditure is considered in greater detail in the discussion of the balance of recurrent and development expenditures in Section 4.2.4. A detailed analysis of WSTF expenditure is presented in Section 4.2.7.

In considering overall expenditure it is also important to consider the proportion of funds channelled through the WSBs. The biggest single area of ministry expenditure within the administrative classifications are the WSBs, which in 2013–14 and 2014–15 received around 40% of ministry expenditure. In 2015–16 the IFMIS classifications were extended to include specific programmes or projects: many of these are implemented by the WSB. This change in IFMIS codes is likely to explain the sharp fall in the amount allocated to the WSB administrative classification in 2015–16, as many of those specific projects are capital investments delivered by WSBs.

Table 39: Spending by programme area within the State Department of Water and regional authorities by recurrent (R), development (D) and total (T) expenditure

	2013/14			2014/15			2015/16		
	R	D	T	R	D	T	R	D	T
State department WASH expenditure	39%	77%	71%	57%	77%	75%	57%	71%	66%
Of which WSB	12%	45%	40%	14%	45%	41%	13%	20%	21%
Of which specific WASH projects	-	-	-	-	-	-	0%	39%	38%
Of which 'other' WASH	27%	32%	31%	43%	32%	34%	44%	12%	7%
Water resources	22%	2%	5%	13%	5%	6%	11%	9%	10%
Regional Development Authorities	35%	21%	23%	30%	17%	19%	17%	8%	10%
Other ministry expenditure	4%	0%	1%	0%	0%	0%	15%	12%	14%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: National Treasury IFMIS data; WASREB

Note: Expenditure is grouped by functional classification.

The net expenditure on WSBs from the ministry in 2014–15 was Ksh 6,380 million (roughly 135.8 million per county). This analysis does not extend to semi-autonomous government agencies, and as such a detailed analysis of WSB expenditure was not carried out to associate WSB expenditure with the counties of focus for this study. However, considering that

the average WSB development spend per county was Ksh 135.8 million and the average development spend by the CMoWs in the same year was Ksh 252.1 million, it is clear that the WSBs remain an important player within the sector with regard to infrastructure development.

Despite the importance of both the WSPs and the WSBs in service provision, many of the WSPs and CMoWs report that they do not undertake a joint planning process. Similarly, the CMoWs interviewed on the whole reported that they did not undergo a joint planning process with the WSBs. This is especially pertinent with regard to infrastructure developed by the CMoWs within WSP areas as the WSPs have a legal responsibility for the O&M of that infrastructure. There were cases where WSPs interviewed reported that they had been approached by communities to conduct repairs on infrastructure developed by the county government which the WSPs were unaware of.

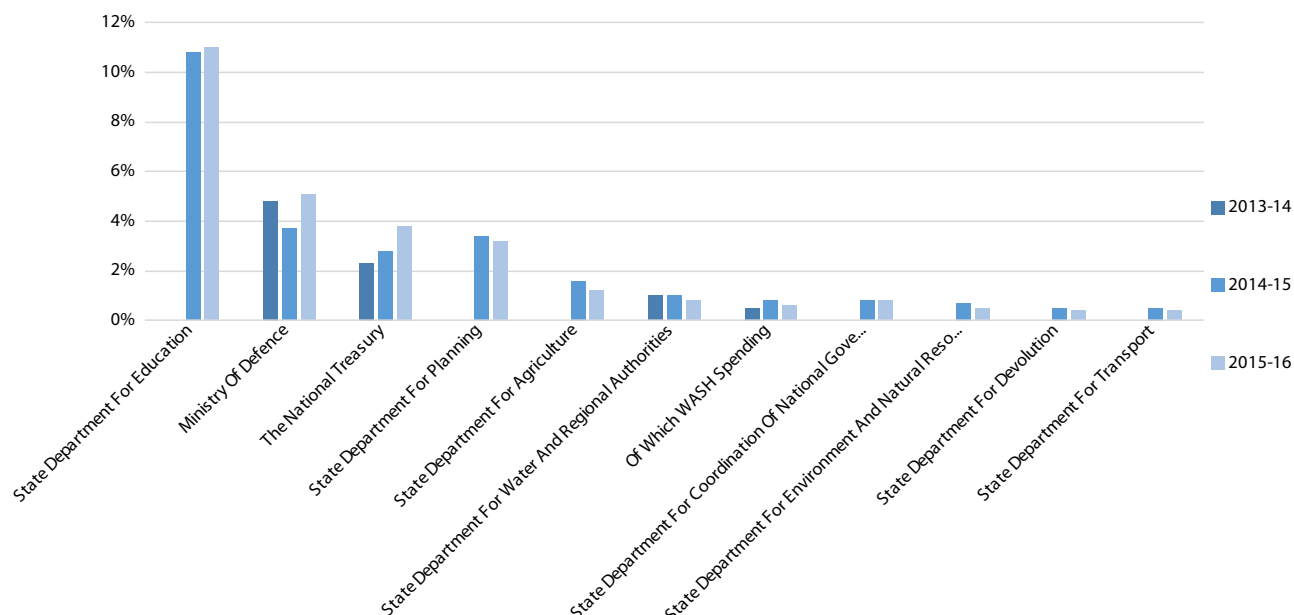
The relationship between the WSPs and the county government is itself not clear. The majority of the WSPs in the counties have their service provision agreements with the WSBs, though many are due for renewal within the next year due to the

timing of the water reforms and the incorporation of the companies. Partly due to the uncertainty surrounding the implementation of the Water Act 2016, at the time of conducting the interviews many of the WSPs were unsure if they would be signing their new service provision agreements (SPAs) with the WSBs or the county governments.

4.2.1 National MDAs budget allocations

The decline in State department funding must be set in a broader context. It might be assumed that the relative fall is a facet of devolution; however, this is not the case as many national MDAs have seen an increase in their share of budget allocation. Figure 47 presents the relative budget allocations to select MDAs compared to the State departments for water, and Table 40 outlines those MDAs experiencing sharp increases or decreases in budget allocation.

Figure 47: Budget allocation to select national MDAs



Source: National Treasury IFMIS data

The State Department for Water is one of the MDAs that has seen the sharpest decline in budget allocations over the years of devolution. This may partially be associated with devolution as many of the MDAs experiencing budget reductions are

those whose functions link to those devolved to counties, while the MDAs seeing an increase in budget allocations are those whose responsibilities remain a national government function as per the Constitution – a notable exception being the State Department for Infrastructure.

Table 40: Changes in MDA budget allocations as a proportion of general government budget allocations

	MDA	Percentage point change in budget allocation	
		2014/15	2015/16
MDAs with large increases	Ministry of Defence	-1.12%	1.34%
	The National Treasury	0.48%	1.00%
	Ministry of Information, Communications and Technology	-	0.25%
	National Intelligence Service	0.80%	0.22%
	Teachers Service Commission	-2.30%	0.16%
	State Department for Interior	-	0.11%
MDAs with large decreases	State Department for Water and Regional Authorities	-0.02%	-0.18%
	Of which WASH spending	0.29%	-0.21%
	State Department for Environment and Natural Resources	-	-0.23%
	State Department for Planning	-	-0.25%
	State Department for Agriculture	-	-0.38%
	State Department for Infrastructure	-	-0.59%
	Parliamentary Service Commission	-0.30%	-0.75%

Source: National Treasury IFMIS data; COB, 2013, 2014, 2015

This section has outlined the main changes in funding to national MDAs and the sector as a whole; next we turn to the trends within the 10 counties that are the focus of this PER.

4.2.2 County allocations to WASH MDAs

For all 47 counties as a whole and for seven of the 10 counties that are the focus of this PER budgets increased – both in absolute terms and as a proportion of the total county budget – between 2014–15 and 2015–16. Table 41 presents the allocations to CMoWs for the 10 counties that are the focus of this PER.⁶⁰ There is a huge range in the proportion of the county budget allocated to water ministries – ranging from highs of 17% (Kitui) to 3% (Kakamega). The average across all counties is an allocation of 8.5%, with the majority of the counties in this study falling below that average.

⁶⁰ The National Treasury IFMIS data used in this analysis do not allow for a disaggregation below the county ministry level. This is a key limitation in assessing the absolute volume of public expenditure allocated to WASH, and in comparing relative county allocations. It should also be noted that the programme classifications within IFMIS are unsuitable for conducting a comparative analysis due to the inconsistent use of programme codes between counties and inconsistencies between the administrative and programme classification figures themselves within the IFMIS data. The programme classified budgets were considered as a source for analysis in this PER and were deemed to be unsuitable.

Table 41: Allocations to CMoWs as a proportion of total county budget allocation

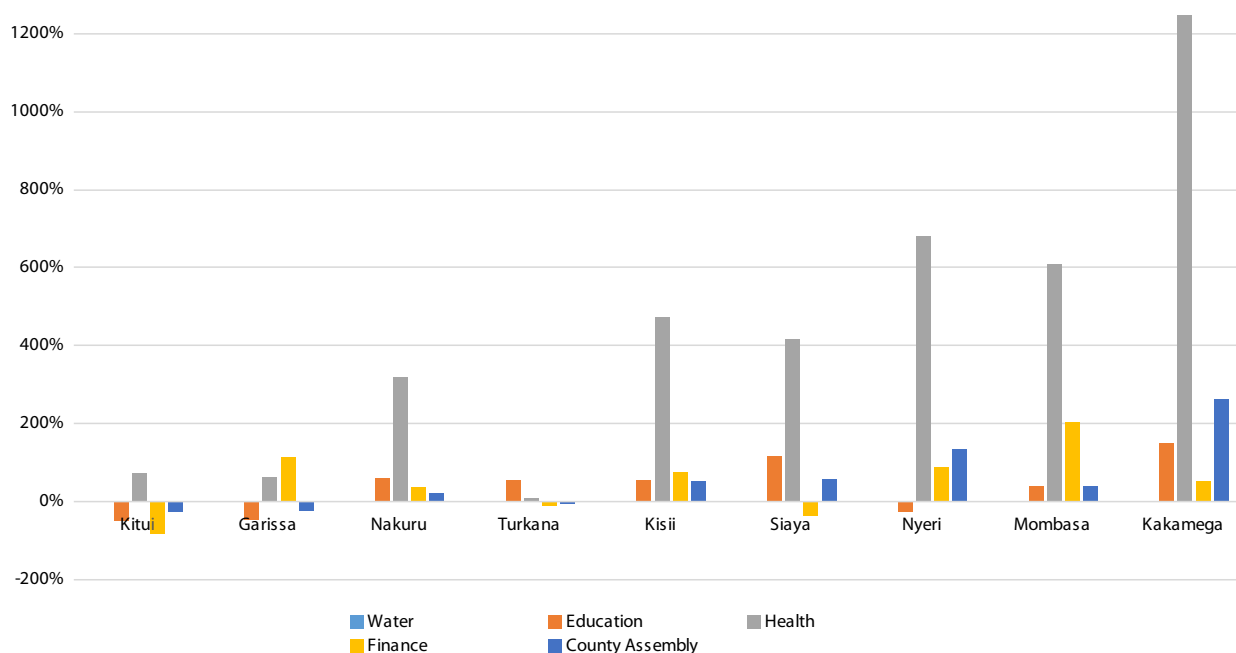
County	County ministry	Budget			Expenditure		
		2014-15	2015-16	Change	2014-15	2015-16	Change
All counties	CMoWs	7.63%	8.45%	0.82%	7.64%	7.86%	0.22%
Garissa	Ministry of Water and Sanitation	12.25%	12.38%	0.12%	12.22%	14.10%	1.87%
Kakamega	Ministry of Environment, Water, Energy and Natural Resources	3.15%	3.31%	0.16%	2.01%	2.60%	0.59%
Kisii	Ministry of Energy, Water, Environment and Natural Resources	3.41%	6.68%	3.27%	2.50%	4.11%	1.61%
Kitui	Ministry of Agriculture, Water and Irrigation	16.35%	16.49%	0.13%	14.75%	16.66%	1.91%
Migori	Water and Energy	3.72%	No data	No data	1.90%	No data	No data
Mombasa	Ministry of Water, Environment and Natural Resources	5.03%	3.65%	-1.38%	10.16%	8.11%	-2.04%
Nakuru	Ministry of Environment, Natural Resources and Energy (inc. Water)	7.90%	12.10%	4.20%	5.43%	7.95%	2.52%
Nyeri	Ministry of Water, Forestry and Wildlife, Environment and Natural Resources	3.21%	3.78%	0.57%	2.03%	3.12%	1.09%
Siaya	Ministry of Water, Environment and Natural Resources	4.81%	5.64%	0.83%	3.64%	4.37%	0.74%
Turkana	Ministry of Water, Irrigation and Agriculture	7.19%	8.62%	1.42%	7.25%	3.83%	-3.42%

Source: National Treasury IFMIS data

Figure 48 presents the budget allocations indexed to the allocation to the CMoWs; i.e. the allocation to water ministries is equal to zero, and an increase of 100% on the y-axis indicates the other ministry was allocated double the funds than water (200%, three times the amount, etc.). This sharply highlights the difference in allocation between the counties.

Health ministries are allocated between 8% (Turkana) and 1,249% (Kakamega) more than water ministries. In all counties, the allocation to County Ministries of Health exceeds that of CMoWs, the smallest difference being in Turkana and the largest in Kakamega.

Figure 48: County budget allocations to key ministries indexed to the CMoW (0=water ministry allocation)



Source: National Treasury IFMIS data

Similarly, the allocations to county education ministries are consistently higher than those to CMoWs, the exceptions being Nyeri, Kitui and Garissa. In all counties, the expenditure on key

administrative functions is high: in seven of the 10 counties the County Assembly receives a higher budget allocation than the CMoW – the same being true of ministries of finance and planning. Figure

48 highlights the wide variation in allocations to CMoWs relative to other social sectors. Table 42 compares the budget allocations of the CMoWs to

other social sectors (health and education) and key administrative ministries (finance and planning, and the county assembly).

Table 42: Allocations to CMoWs as a proportion of total county budget allocation

	Social sectors			Administrative	
	Water MDA	Education MDA	Health MDA	Finance MDA	County Assembly
Garissa	12.4%	6.6%	20.2%	26.5%	9.2%
Kakamega	3.3%	8.3%	44.6%	5.1%	12.0%
Kisii	6.7%	10.4%	38.2%	11.7%	10.1%
Kitui	16.5%	8.1%	28.7%	2.5%	11.9%
Migori	-	3.3%	14.7%	13.4%	11.7%
Mombasa	3.6%	5.1%	25.8%	11.1%	5.0%
Nakuru	12.1%	19.4%	50.8%	16.5%	14.6%
Nyeri	3.8%	2.8%	29.6%	7.1%	8.9%
Siaya	5.6%	12.2%	29.1%	3.6%	8.9%
Turkana	8.6%	13.3%	9.3%	7.5%	8.0%

Source: National Treasury IFMIS data

Table 43 shows the change in proportional county budget allocation between the last two years of this PER. With the exception of Mombasa, all CMoWs saw their budget allocation increase. However, the rate of increase in the other social sectors was greater. For example, in Nakuru the water allocation grew by 4.2% but the health allocation grew by 12.4%

more than the water one. With the exception of Kakamega the education budget grew more rapidly than that allocated to the CMoW, and, similarly, with the exception of Turkana the health budget grew more rapidly. This trend is reversed when comparing the CMoWs to the administrative units: the relative growth of budgets was greater in the sector-specific ministries.⁶¹

Table 43: Changes in budget allocation 2014–15 to 2015–16 for key social sector and administrative ministries (change relative to water in parenthesis)

	Social sectors			Administrative	
	Water MDA	Education MDA	Health MDA	Finance MDA	County Assembly
Nakuru	4.2%	6.1% (1.9%)	16.6% (12.4%)	3.5% (-0.7%)	1.2% (-3.0%)
Kisii	3.3%	4.0% (0.8%)	14.6% (11.4%)	-5.2% (-8.5%)	1.9% (-1.3%)
Turkana	1.4%	3.4% (2.0%)	-3.8% (-5.2%)	-3.2% (-4.6%)	1.9% (0.5%)
Siaya	0.8%	4.0% (3.1%)	7.7% (6.9%)	-4.3% (-5.1%)	0.4% (-0.4%)
Nyeri	0.6%	1.2% (0.6%)	2.7% (2.2%)	-0.8% (-1.4%)	4.0% (3.4%)
Kakamega	0.2%	-0.2% (-0.4%)	15.5% (15.3%)	-4.2% (-4.4%)	2.4% (2.2%)
Kitui	0.1%	1.5% (1.4%)	4.6% (4.5%)	2.5% (2.4%)	1.0% (0.9%)
Garissa	0.1%	2.8% (2.7%)	1.8% (1.6%)	0.4% (0.3%)	4.6% (4.5%)
Mombasa	-1.4%	1.4% (2.8%)	7.5% (8.9%)	3.2% (4.6%)	2.7% (4.1%)
Migori	No data	1.8%	7.8%	-0.8%	5.4%

Source: National Treasury IFMIS data

⁶¹ This analysis does not seek to demonstrate that CMoWs should be funded more, or less, than they are but is purely descriptive. The precise composition of the budget allocations within any given country should be responsive to need.

This analysis has highlighted the wide variation between allocations to CMoWs, both in terms of the share of the budget the ministries receive and the size of that share relative to other social sectors. The analysis also reveals that though the CMoWs are receiving a greater share of GGE, and though their budgets are increasing as a share of county budgets (see Table 43), this growth is less than in the other social sectors. The following section considers the absorption rates of the national and county MDAs, the balance between recurrent and development expenditure, and the importance of external finance to the sector.

It is worth noting that identifying specific subsector expenditure within the government IFMIS data (for both the county ministries and the national ministries) is difficult. This is also true for the semi-autonomous agencies (WSBs and WSPs). The donor expenditure is more easily grouped in subsector; though this is often because the programmes funded by donor are specific to a subsector, or it can be reasonably estimated which subsectors a programme pertains to.

As noted in the Health section of this report, 2015/16 was the first year that the programme budgets were widely produced and published by the county governments. While the IFMIS data themselves do not reflect these budgets and cannot be used to

identify sanitation expenditure (see Health section for details of these sources conflicting with one another), the versions produced and published by the county governments themselves occasionally go to a level of detail whereby sanitation expenditure can be identified within the health budgets. However, it should be noted that CMoWs regularly report undertaking activities across all of the four main WASH subsectors (Urban/Rural and Water/Sanitation). Similarly, CMoH staff report only partial responsibility for WASH services. Broadly the division is characterised as the CMoH having responsibility for rural sanitation, with other agencies holding the responsibility for the other three main WASH subsectors.

A notable exception here is Migori, which distinguishes between Urban and Rural WASH expenditure. It is important to be able to distinguish between these subsectors in the PBBs, for several reasons. From a planning perspective all four of the subsectors require different human resources and other inputs. And perhaps more importantly, being able to break down the financial data across subsectors allows for basic assessments to be made of value for money. The adoption of PBBs marks an opportunity to begin tracking this. Table 44 outlines where such programmes were found pertaining to sanitation expenditure within the health departments.

Table 44: Sanitation expenditure identifiable within the PBBs of county ministries

	Programme	Amount (Ksh millions)	% of CMoH budget
Kitui	Specific CLTS programme	30.5	1.6%
Migori	Environmental health services	4.7	0.8%
Nakuru	Environmental health and sanitation programme	63	1.8%
Nyeri	Sanitation services	33.7	1.5%
Turkana	Public health and sanitation	18.7	1.7%
No such programmes were found in Garissa, Kisii, Kakamega and Siaya. Mombasa had a specific line for sewage within the Water department there.			

Source: County PBBs 2015/16

It is also worth noting that environmental health departments are funded in a variety of ways; many collect fees for the broader services that fall under the environmental health departments within the CMoHs. For example, in Kisii the environmental health department has been given the discretion to collect, retain, and spend as it sees fit the monies it collects for services rendered. In Migori, these fees are directed directly to the county Treasury, where they join general revenue collection.

4.2.3 Actual versus planned budgets

In theory, a budget execution rate of 100% indicates good costing, budgeting and resource forecasting, and as such acts as an indicator for the degree to which these elements of the budget are linked. This analysis considers: the degree to which execution rates have changed year on year; if the changes in execution were in the context of an increasing or decreasing budget; and the absorption rate relative to other key social and administrative MDAs at the county level.

Table 45: Absorption rates for national and county ministries with responsibility for water (budget and expenditure figures in Ksh million)

	2014/15			2015/16			Change in Absorption rates
	Budget	Expenditure	Absorption	Budget	Expenditure	Absorption	
State Department	21,135	16,907	80.0%	18,695	15,808	84.56%	4.56%
of which WASH spending	16,473	12,657	76.8%	12,999	10,469	80.54%	3.70%
All CMoWs	23,534	18,548	78.8%	30,193	20,086	66.53%	-12.29%
Mombasa	394	673	100%	270	492	100%	-
Garissa	961	810	84.3%	916	855	93.34%	9.05%
Kitui	1,283	977	76.1%	1,220	1,011	82.87%	6.72%
Nyeri	252	134	53.2%	280	189	67.50%	14.33%
Kakamega	247	133	53.8%	245	158	64.49%	10.64%
Siaya	378	241	63.8%	418	265	63.40%	-0.36%
Nakuru	619	360	58.2%	896	483	53.91%	-4.25%
Kisii	267	166	62.2%	495	249	50.30%	-11.87%
Turkana	564	480	85.1%	638	232	36.36%	-48.74%
Migori	291	126	43.3%	-	-	-	-

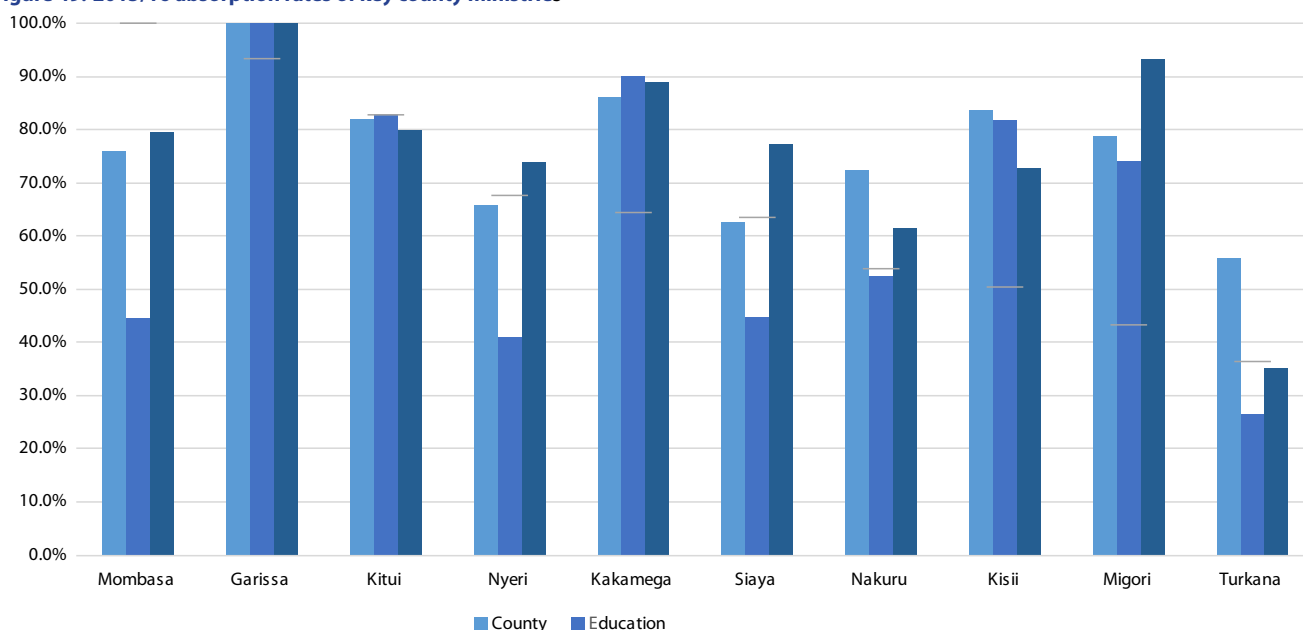
Source: National Treasury IFMIS data

At the national level the State department's execution rate improved in the context of a falling overall budget, indicating a prioritisation of WASH expenditure within the State department. At the county level the picture is more mixed: in both years, seven of the 10 counties' execution rates were below the average for all CMoWs; only in Mombasa, Garissa, Kitui and Nyeri (in 2015/16) were the rates higher. In addition, in many of the poorer performing counties the situation is worsening: in Siaya, Migori, Kisii and Turkana execution rates dropped between 0.3 and 49 percentage points. Execution rates increased in four of the 10 counties; in three (Kitui, Kakamega

and Garissa) of these four counties this was in the context of both a decline in the budget allocation as well as an increased expenditure, indicating both better performance in delivery as well as more realistic budgeting.

Figure 49 compares the execution rate of the CMoWs to other social and administrative county MDAs as well as to the county as a whole. This allows for the CMoWs' execution rates to be set in a wider context and provides an indication of whether the rate is sector-specific or part of a county-wide trend.

Figure 49: 2015/16 absorption rates of key county ministries



Source: National Treasury IFMIS data

In all but a few cases the absorption rates of the CMoWs are considerably lower than both the county as a whole as well as the other sector and administrative ministries; driven largely by poor execution of development expenditure (discussed below). The exception here is Mombasa, where the execution rate in the CMoW is higher than the county as a whole as well as the other ministries. In Garissa, Kakamega, Kisii and Migori the execution rate is lower than both the county average and select comparative MDAs, indicating comparatively poor WASH sector performance on budget execution. Only in Kitui, Nyeri, Siaya and Mombasa is the execution rate for water better than the county average, though for all but Mombasa the difference is small (<2%).

Garissa, Kitui and Mombasa perform well in terms of overall execution rate, improving that rate between 2014/15 and 2015/16, and relative to the county as a whole and other social sector MDAs. For the other counties the picture is more mixed, with the situation worsening in many counties between years and the

performance below the county average – pointing to sector-specific issues. As discussed in greater detail later in this report, it is the poor execution rates for development expenditure in particular that drive poor performance in CMoWs.

4.2.4 Recurrent and development expenditure

Both at the national and the county level, with the notable exception of Mombasa, development expenditure accounts for the vast majority of budgeted expenditure. The PFMA 2012 requires that county governments spend at least 30% of their budgets on development expenditures. While this spending rule does not apply at the county ministry level it provides a useful benchmark by which to assess the expenditures by CMoWs relative to all other expenditure areas. Table 46 presents the balance of recurrent and development expenditure for the State department, total county expenditure, total CMoW expenditure and CMoW expenditure for the 10 counties that are the focus of this PER.

Table 46: Relative allocations between recurrent and development budget and expenditure for CMoWs

	2014/15				2015/16			
	Budget		Expenditure		Budget		Expenditure	
	R	D	R	D	R	D	R	D
State Department	10%	90%	12%	88%	10%	90%	3%	97%
Counties (all expenditure)	56%	44%	64%	36%	56%	44%	64%	36%
All CMoWs	28%	72%	37%	63%	26%	74%	34%	66%
Migori	6%	94%	13%	87%	-	-	-	-
Turkana	14%	86%	19%	81%	3%	97%	0%	100%
Garissa	20%	80%	19%	81%	14%	86%	13%	87%
Kakamega	30%	70%	48%	52%	20%	80%	16%	84%
Kitui	28%	72%	31%	69%	30%	70%	36%	64%
Siaya	25%	75%	34%	66%	25%	75%	39%	61%
Nyeri	62%	38%	70%	30%	48%	52%	47%	53%
Kisii	42%	58%	62%	38%	28%	72%	48%	52%
Nakuru	51%	49%	68%	32%	36%	64%	55%	45%
Mombasa	78%	22%	64%	36%	97%	3%	92%	8%

Source: National Treasury IFMIS data

Table 47 unpacks this trend by presenting the relative absorption rates between recurrent and development expenditures – clearly indicating where development execution rates are lower than recurrent. In only a few cases are development execution rates higher than recurrent – clearly indicating a trend of prioritising recurrent over development expenditure in county ministries. Table 47 does, however, also outline a trend of

the execution rates of development expenditure improving between the two years. This is explored further in Figure 50. Compared to the pre-devolution period the development expenditure at the national level has increased as a proportion of the budget, though the CMoW allocations are consistently below the pre-devolution ministry level (81%) and the current Ministry development allocation as a percentage of budget (90%).

Table 47: Absorption rates in recurrent and development budget and expenditure

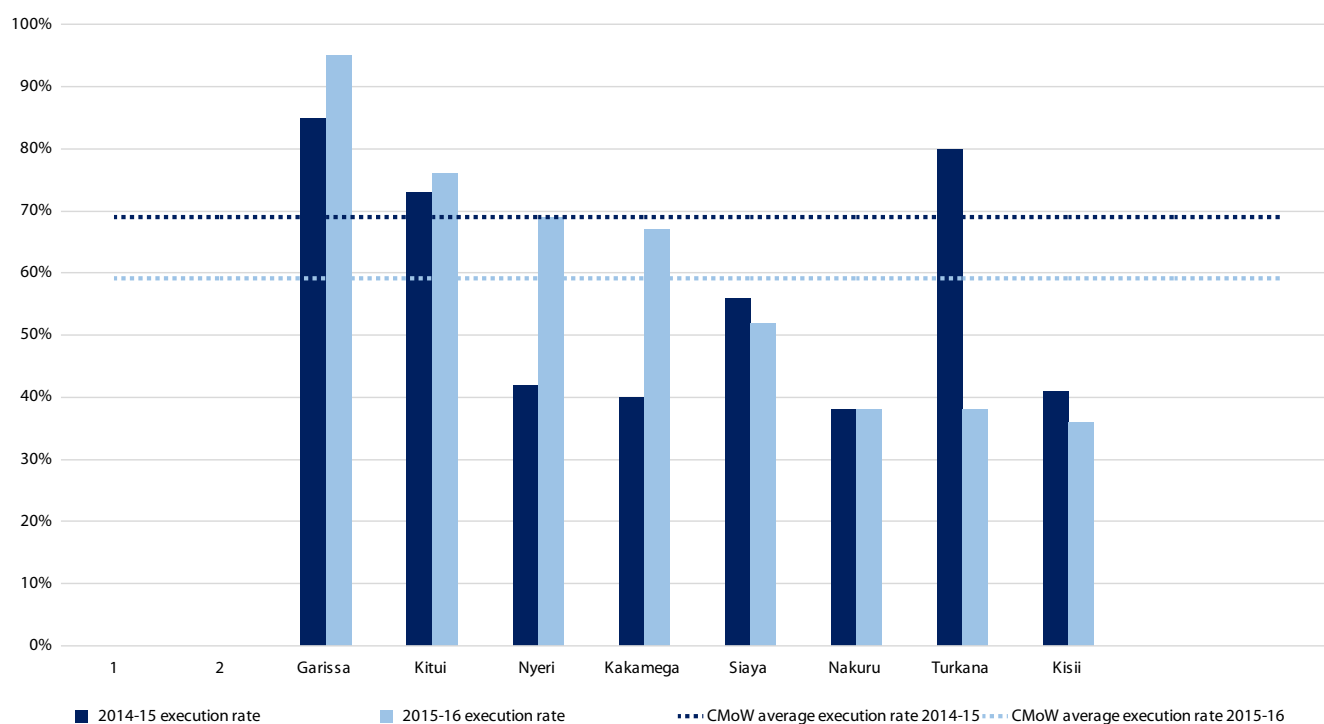
	2014/15			2015/16		
	R	D	Difference	R	D	Difference
State Department for Water	100%	78%	-22%	26%	91%	65%
Counties (all expenditure)	90%	64%	-26%	81%	59%	-21%
CMoW	100%	69%	-31%	87%	59%	-27%
Migori	95%	40%	-55%	-	-	-
Mombasa	100%	100%	0%	100%	100%	0%
Garissa	80%	85%	5%	83%	95%	12%
Kitui	85%	73%	-12%	100%	76%	-24%
Nyeri	60%	42%	-18%	67%	69%	2%
Kakamega	87%	40%	-47%	53%	67%	14%
Siaya	87%	56%	-31%	99%	52%	-48%
Nakuru	78%	38%	-40%	81%	38%	-43%
Turkana	100%	80%	-20%		38%	38%
Kisii	90%	41%	-49%	88%	36%	-52%

Source: National Treasury IFMIS data

For the majority of counties the execution rates improved between the years for the development budget. This is in the context of the average for all

CMoWs falling between years, though over both years most of the counties included in this PER fell below the average.

Figure 50: Development budget execution rates 2014/15 and 2015/16



Source: National Treasury IFMIS data

County ministries of water broadly report that a large portion of their budget is directed to developing point sources, and some counties also report investing in small schemes as well, with larger infrastructure development managed by the WSBs. In rural areas this is predominantly through borehole drilling, though some counties also report developing surface water (Athi dams) sources for drinking water. The main reason cited for not undertaking larger investment projects is the lack of funding and that CMoW currently do not utilise loan finance. The most notable example of the national government funding large infrastructure is the Mwache Dam project in Kwale county, but the target is to supply Mombasa county. The national Government is leading this project, and it is estimated to cost in the region of \$20 billion. The Mwache dam cannot go ahead without the signature of the Governor for a water purchase agreement, as under current plans the water company will have to buy from the water dam to supply Mombasa residents.

Devolution has raised the expectations surrounding service delivery, and ministries report that one way in which this impacts upon service delivery is the manner in which services are extended. The CMoWs in Nakuru, Migori, Kisii, Kitui and Nyeri all report that there is a political imperative to extend services at an equal rate by ward. The consequence is that the CMoWs of water are spread thinly over the wards. For example, in Nakuru the CMoW report that drilling, equipping and powering a borehole is a three-year process, because in order to cover all wards the investment required for a single borehole must be spread across years.

In interviews with WSB and WSP staff it was repeatedly raised that MCAs are overly focused on their own wards, to the detriment of the CMoW and other agencies to invest more strategically. The CMoW staff also reported this, but conveyed that they had limited scope to challenge the political imperatives from the county assembly (CA).

Within the context of planning expenditures, many counties do not have sufficient data to target investments equitably. In addition to the political pressures the CMoWs also undertake their planning with limited data on county-level access trends, or data on sub-county (and ward level) access data. Another facet of development expenditure planning is that many counties (despite the use of County Fiscal Strategy Paper (CFSPs)) report operating in practice only on an annual time horizon (i.e. the majority of projects are aimed to be delivered within that financial year), with few reporting undertaking multi-year projects.

4.2.5 The role of WSPs in service delivery

Due to the decentralised structure of the water sector, as established in the 2002 Water Act and reinforced in the 2016 Water Act, the CMoWs' expenditure (and public expenditure in general) only captures part of the total expenditure in the county. In reference to recurrent expenditure the semi-autonomous state-owned WSPs collect and spend a sizeable portion of sector expenditure (see Section 4.2.1). In reference to development expenditure the WSBs continue, under the devolved structure, to make considerable investments within the counties – particularly in large and urban infrastructure. Neither of these are considered public expenditure so are not – strictly speaking – within the scope of this review; nevertheless, their importance to the sector warrants their inclusion.

The contribution of WSP expenditure to service provision is considered below, while Section 4.2.1 considered the constitution of the WSBs to infrastructure development. Table 48 outlines the recurrent expenditure of the WSPs (and turnover) compared to that of the CMoWs.

In five of the 10 counties the WSP expenditure is greater than the recurrent expenditure by the county ministries; these are highlighted in bold. The difference is greatest in the counties with large urban populations and large and very large utilities⁶² – notably, Nyeri, Kakamega and Nakuru, where WSP O&M expenditure was 9.1, 7.0 and 4.1 times greater than county recurrent expenditure respectively. It should also be noted that many of the WSPs are operating at a loss throughout the year: in 11 of the 19 utilities included in this analysis O&M expenditure was greater than turnover for the financial year 2015–16, and 16 of the 19 utilities are operating on expired tariffs; meaning the rate they are permitted to charge has not been reviewed; in many cases since it was initially set during the creation of the WSPs. Many of the CMoWs report providing financial support to the WSPs, especially with regard to key recurrent expenditure items such as electricity and chemicals for water treatment. The Kitui Water and Sanitation company (KITWASCO); the Migori water and sanitation company (MIAWASCO); and the Gussi water and sanitation company (GIWASCO) all report receiving a subsidy directly from the county government.

⁶² As classified by WASREB

Table 48: WSP O&M expenditure and turnover compared to CMoW recurrent expenditure (Ksh millions)

County	WSP O&M expenditure (WSP turnover in parenthesis)			Recurrent spending county budgets			Ratio of WSP O&M expenditure to county recurrent expenditure (15/16)
	13/14	14/15	15/16	13/14	14/15	15/16	
Nyeri	711.0 (598.2)	794.5 (618.5)	811.5 (635.0)	-	94.2	89.4	9.1
Kakamega*	185.0 (149.6)	171.2 (157.0)	182.5 (167.4)	-	64.2	26.0	7.0
Nakuru	751.3 (805.0)	897.0 (853.9)	1093.0 (1032.5)	-	243.6	266.3	4.1
Garissa	124.4 (133.8)	138.8 (146.1)	167.9 (176.8)	-	154.5	107.4	1.6
Mombasa	905.3 (984.1)	736.2 (887.0)	694.3 (836.5)	-	427.4	450.8	1.5
Kisii*	46.8 (63.2)	39.0 (57.3)	35.0 (51.4)	-	102.4	119.7	0.3
Siaya	24.3 (48.5)	25.3 (50.5)	28.9 (57.7)	-	82.3	103.4	0.3
Kitui	85.4 (131.5)	89.6 (148.3)	90.1 (149.5)	-	302.6	362.7	0.2
Migori	8.2 (11.8)	9.0 (11.1)	16.1 (25.1)	-	16.3	-	-
Turkana	34.9 (41.0)	44.4 (41.1)	44.3 (41.0)	-	91.5	-	-

Source: National Treasury IFMIS data, WASREB

* Note that the utilities for Kakamega and Kisii serve two counties. In estimating the relative expenditure of the utility between the two counties the expenditure of that utility was weighted by the relative populations.

It is also extremely relevant to service sustainability that there is sufficient O&M expenditure, particularly in the Water subsector. Within WSP service areas the providers themselves have a clear mandate for service maintenance and devote their expenditure to keeping services running. In short, despite the challenges many of the providers are facing financially there is a mechanism there. Outside of service provider areas most counties report relying on communities to manage their own services through community-based organisations, whose responsibilities extend to collecting tariffs or fees for

O&M. For example, in Kitui, with the support of an NGO some communities have been connected to the larger network. Their connection point is master metered with the CBO responsible for collecting the fees to pay this community-level charge, though it is not clear if these CBOs also collect sufficient revenue for O&M. It is beyond the scope of this PER to assess the effectiveness of these CBOs in ensuring service sustainability. Nevertheless, the lack of a clear mandate for services outside of WSP service area presents a risk to service sustainability.

Table 49: County WSPs, their size and tariff status

County	Utility	Utility size	Area served	Tariff status	Turnover exceeds expenditure
Nakuru	Naivasha	Small	Urban	Expired	Yes
	Nakuru	Very large	Urban	Valid	No
	Nakuru Rural	Large	Urban	Expired	Yes
Nyeri	Mathira	Large	Urban	Expired	No
	Nyeri	Very large	Urban	Expired	No
	Othaya Mukurweni	Large	Rural	Expired	No
	Tetu	Large	Rural	Expired	No
Kitui	Kiambere Mwingi	Small	Urban	Expired	Yes
	Kitui	Large	Urban	Expired	Yes
Migori	Mikutra	Small	Urban	Expired	Yes
	Nyasare	Small	Rural	Expired	No
Nyamira	Gusii	Large	Urban	Expired	Yes
Kisii					Yes
Kakamega	Kakamega Busia	Very large	Urban	Valid	No
Busia					No
Mombasa	Mombasa	Very large	Urban	Expired	Yes
Siaya	Sibo	Large	Urban	Valid	Yes
Turkana	Lodwar	Medium	Urban	Expired	No
Garissa	Garissa	Large	Urban	Expired	Yes

Source: National Treasury IFMIS data, WASREB

Notes: The number of connections for the utility size as per the WASREB definition are as follows: small (<5,000 connection), medium (5,000–9,999 connections), large (10,000–34,999 connections), and very large (≥35,000 connections.)

The role of the WSPs in service provision cannot be overstated: though the tariffs they collect are not strictly considered public expenditure, as semi-autonomous government agencies they remain a core part of the institutional delivery structure and funding landscape. In the context of devolution there is a need for clarity surrounding their relationship to the newly formed county governments, and for joint planning processes to be undertaken. At times, the lack of clarity surrounding institutional roles and mandates has led to clashes between the WSPs and county governments; in Kisii the county government licensed informal service providers to discharge sewage into the network, with the county government collecting a levy, and without consulting the WSP. Consequently, the WSP filed charges citing the Water Act 2002 (Section 76, sub-section 1), though the charges were never taken to court.

4.2.6 Assessment of external funding to the State Department

This section considers two forms of donor funding: on-budget funding that is partially captured through the IFMIS system, and the funding directed through the WSTF. Within the CMOs, few reported receiving any direct donor funding, although some (for example Kitui⁶³ and Mombasa⁶⁴) were exploring the possibility of co-financing programmes with international NGOs and companies. Centrally, however, external funds remain an important source of funding for the sector, especially for development expenditure at the national ministry level and through the WSBs.

A portion of on-budget donor funding is captured in the government accounting as AIA, although AIA expenditure data were not included in the figures

⁶³ Exploring co-financing with World Vision International to be routed directly through the county ministry.

⁶⁴ In the process of undertaking a PPP project relating to a sea water desalination project with a Japanese company.

provided by the National Treasury for this analysis. The budget estimates published by the COB include the estimates for the portion of budgets accounted for by AIA. It is these data that form the basis of the analysis in this section, though it should be noted that neither the COB data or the IFMIS data include expenditure figures for AIA, and those presented in this section are for the second supplementary budget.

In 2015 the COB published details of external funding to national MDAs: this forms the basis of the more detailed analysis of the on-budget donor funding in 2014–15, though it should be noted that these figures are for the print estimates of the first budget of the year and as such are not compatible with the figures presented elsewhere in this report (which are for the second supplementary estimate).

There are two important points to bear in mind when examining AIA: i) that AIA is not exclusively made up of external funding, and ii) that not all external funding to MDAs is recorded as AIA. AIA can include, in addition to external funding, revenues from services provided by the MDA, for which it charges. In addition to AIA the COB uses the classification of 'external revenue' for external finance directed to ministries via the Common Fund. These are recorded revenues and accordingly are included in IFMIS data and consequently in the analysis of MDA funding in the previous sections, though it is not possible in that analysis to separate the external component. The detailed analysis of 2014–15 includes both an analysis of AIA by source (donor), composition (loan, grant, or local revenue) and the external revenue that is directed via AIA and 'revenue'.

Table 50: Final approved budget estimates and AIA estimates (Ksh millions)

	2013/14			2014/15			2015/16		
	AIA	Budget	AIA as % of total	AIA	Budget	AIA as % of total	AIA	Budget	AIA as % of total
State Department	12,211	16,379	43%	16,562	21,135	44%	22,182	18,695	54%
Of which WASH	11,454	11,382	50%	15,760	16,473	49%	16,866	12,999	56%
Of which WSBs	9,977	6,478	61%	14,068	9,024	61%	1,977	3,558	36%
Of which specific WASH projects	-	-		-	-		14,725	6,676	69%
Water resources	132	835	14%	238	1,226	16%	50	1,622	3%
Regional development	626	4,002	14%	563	3,436	14%	340	1,157	23%
Other ministry expenditure	-	160	0%	-	-		4,927	2,917	63%

Source: National Treasury IFMIS data; COB 2014, 2015, 2016

AIA is a large portion of the State department's total budget (AIA and printed budget) accounting for 40–45% of total funds available to the State department in 2013–14 and 2014–15, rising to 54% in 2015–16. In 2013–14 and 2014–15 a large portion of this AIA (over 55% in both years) was direct towards the WSB and in both of these years AIA accounted for 60% of the total funding available to WSBs. AIA is a far less significant component of the budgets with regard to water resources and the regional development agencies, accounting for between only 3% and 23% of available budgets across the period. This indicates that AIA within the ministry is heavily weighted towards WASH over water resources. AIA is the highest component of budgets with regard to the funding of specific WASH projects, where it accounts for nearly 70% of the available budgeted funds.

The second important facet of AIA funding is that it is overwhelmingly for development, as opposed to recurrent spending. Table 51 outlines the balance between recurrent and development expenditure for State department AIA. In all areas the vast majority of AIA is budgeted for development, as opposed to recurrent spending; in all areas for all years development accounts for at least 80% of AIA funding. In the case of water resources and the regional development authorities, all AIA is for development expenditure.

Table 51: Proportion of AIA funding budgeted for recurrent and development

	2013/14		2014/15		2015/16	
	R	D	R	D	R	D
State Department	18%	82%	13%	87%	10%	90%
Of which WASH	18%	82%	14%	86%	13%	87%
Of which WSBs	20%	80%	14%	86%	100%	0%
Of which specific WASH projects	-	-	-	-	0%	100%
Water resources	100%	0%	0%	100%	0%	100%
Regional development and development authorities	0%	100%	0%	100%	0%	100%
Other ministry expenditure	-	-	-	-	0%	100%

Source: National Treasury IFMIS data; COB, 2014, 2015, 2016

As mentioned previously, AIA is not exclusively made up of donor or external funding – though it does account for the vast majority – nor is all external funding classified as AIA. Table 52 provides a breakdown of the composition of AIA and Table 53 summarises the composition of external funding to the State department by donor. In 2014–15 the vast majority of AIA was from either grants or loans, with locally generated revenue accounting for only 3% of total AIA. In this respect, at least for the State department for water, it is reasonable to consider AIA to be predominantly external funding. It should be noted that for all MDAs local revenues accounted for 19% of AIA.

Table 52: Breakdown of AIA – 2014 printed estimate (Ksh millions)

Grants	Loans	Local
2,963.8	5,985.5	255.0
32%	65%	3%

Source: COB, 2014c

The single largest donor to the State department is the International Development Agency (IDA), which accounts for 41% of external funding. IDA is distinct from other donors in that all its funding is directed as revenue, as opposed to AIA. For the whole State department a total of 46% of external funding is as revenue, as opposed to AIA, though this is heavily skewed by the way IDA operates, as most other donors' funds are directed as AIA.

Table 53: Composition of external funding to the State department by donor (Ksh million)

	Revenue			AIA			Grand total	% of external funding
	Loan	Grant	Total	Loan	Grant	Total		
IDA	6,765	85	6,850	0	0	0	6,850	41.2%
African Development Fund (ADB/ADF)	42	150	192	2,458	450	2,908	3,100	18.7%
Government of France (AFD)	0	0	0	2,000	0	2,000	2,000	12.0%
Government of Germany (GIZ and KFW)	0	0	0	670	950	1,620	1,620	9.8%
Government of Japan	0	0	0	0	1,399	1,399	1,399	8.4%
International Fund for Agriculture Development	410	0	410	327	0	327	738	4.4%
Government of Italy	0	212	212	180	0	180	392	2.4%
Government of Belgium	0	0	0	300	0	300	300	1.8%
European Development Fund (EDF/EEC)	0	0	0	0	90	90	90	0.5%
Arab Bank for Economic Development in Africa (BADEA)	0	0	0	50	0	50	50	0.3%
UNICEF	0	0	0	0	43	43	43	0.3%
Government of Netherlands	0	0	0	0	30	30	30	0.2%
Government of Finland	0	0	0	0	2	2	2	0.0%
Total	7,217	447	7,664	5,985	2,964	8,949	16,613	100%
% of Total external funding	43%	3%	46%	36%	18%	54%	100%	-

Source: COB, 2014c

The balance of external funding is heavily skewed towards loans, as opposed to grants, with a total of 79% of external funding provided as loans. Again, IDA skews this total: of AIA, 67% of funding is directed as loans. The external revenues directed as AIA are less readily shared between the national and county governments as they are often provided under specific contracts signed between the donor and the government, and although these funds are accounted for within government accounting they are not subject to the same budget processes as other funds.

This section has highlighted the degree to which the State department draws a large portion of its budget from external funding, and in particular loan finance. The vast majority of external funding is for development, as opposed to recurrent expenditure.

Roughly half of all external financing comes via loans from IDA and is recorded as expenditure. The remaining half is channelled as AIA through a wider variety of donors, but is still weighted towards loans. The remainder of this section considers the WSTF's role in the sector.

4.2.7 Water Service Trust Fund (WSTF)

The WSTF is a state corporation established under the Water Act 2002, with the mandate 'to assist in financing the provision of water services to areas of Kenya which are without adequate water services'. It acts both as a basket fund for WASH projects within the sector and as a vehicle for specific programmes. The WSTF usually releases funding in windows, with grants open to proposals from various suppliers, including NGOs, county governments and WSPs.

Table 54: WSTF revenues and expenditures 2013/14 and 2014/15
(Ksh millions)

		13/14	14/15
Revenues	GoK grants	333.0	427.0
	Restricted donor funds	1,357.0	735.2
	Miscellaneous income	18.6	20.5
	Finance income	10.1	18.7
	Total	1,718.7	1,201.5
Expenditure	Administration expenses	164.4	196.9
	Project expenses	1,444.0	767.8
	Total	1,608.4	964.7

Source: KENAO, 2014, 2015

In the context of all WASH spending the WSTF is a comparatively smaller player: total expenditure in 2014–15 was just about Ksh 1 billion. This is compared to the Ksh 9 billion directed as AIA and a total State department budget of over Ksh 15 billion. Nevertheless, the WSTF performs a distinct function within the sector as funding is open to organisations to whom the other channels mentioned are not as open. Between its formation and June 2014 the WSTF had mobilised a total of Ksh 7.8 billion for projects, targeting over 5 million people.

The WSTF works across areas within WASH and water resources. Table 55 outlines the expenditure by programme. The majority of the WSTF's revenues are from restricted donor funding, although the GoK also makes significant grants to the WSTF: in 2013–14 and 2014–14 GoK funding accounted for 19% and 36% of WSTF revenues respectively.⁶⁵

⁶⁵ It is important to note that the data for this section were drawn from the audit reports of the WSTF for 2013–14 and 2014–15, as well as unaudited figures provided by the WSTF for 2015–16. These data are not directly interoperable with the treasury-supplied IFMIS data (which do record State department WSTF expenditure), and caution should be exercised in comparing figures. The data presented here are not directly compared to the IFMIS data for that reason.

Table 55: WSTF project expenditures 2013/14 and 2014/15 by programme
(KSH millions)

Sub-sector	Pro-gramme	2013/14		2014/15	
		Ksh millions	%	Ksh millions	%
Rural	Water Resources	64.28	4%	15.15	2%
Rural	WASH	638.09	44%	209.32	27%
Rural	Total	702.37	49%	224.47	29%
Urban	Water and Sanitation	697.14	48%	449.81	59%
Urban	UBSUP-BMGF	44.50	3%	46.69	6%
Urban	Aid on Delivery	-	0%	46.84	6%
Urban	Total	741.65	51%	543.34	71%

Source: KENAO, 2014, 2015

In both years the WSTF funding was weighted towards urban programmes: increasing from a share of 51% of project expenditure in 2013–14 to 71% of project expenditure in 2014–15.⁶⁶ In both years WSTF funding was overwhelmingly directed to WASH, as opposed to water resources. Table 56 presents programme funding by donor for 2013–14.⁶⁷ In this financial year the majority (65%) of WSTF project funding was provided by just two donors: the Government of Germany (34%) and the Government of Denmark (31%).

Table 56: WSTF project expenditures 2013/14 by donor (Ksh millions)

	2013/14	%
Government of Germany (KfW and GIZ)	486.1	34%
Government of Denmark	445.9	31%
European Union	211.0	15%
UNICEF	169.9	12%
Government of Sweden	80.7	6%
Bill and Melinda Gates Foundation	44.5	3%
Government of Finland	5.7	0.39%
African Development Bank	0.3	0.02%
UN-Habitat	0.04	0.003%

Source: KENAO, 2014

⁶⁶ At the time of writing the audit report for 2015–16 had yet to be published, which is why this financial year is not included in the analysis.
⁶⁷ Please note: this analysis was only conducted in relation to 2013–14 as inconsistencies in the audit report for 2014–15 with regard to the presentation of donor funding were identified and hence the data were disregarded.

For the purposes of this PER the WSTF provided data for the period 2015–16. These data are more detailed than those in the audit reports and as such provide

the opportunity to conduct a more detailed analysis, though it should be noted that all figures are self-reported and have not been subject to audit, and as such are not comparable to those presented earlier in this section.

Table 57 presents the total project costs for those projects operating in 2015–16. As with previous years, spending is heavily weighted towards WASH, with water resources accounting for 12% of budgeted project costs. However, unlike previous years rural, as opposed to urban projects, account for a larger share of the funding, and water projects are preferred over sanitation projects. The 2015–16 data provided by the WSTF also include target populations for specific projects, allowing for an assessment of budget expenditure per person intended to be reached.

Table 57: WSTF project budgets 2015/16 by programme (Ksh millions)

	Total project cost (Ksh millions)	%	Target population	Expenditure per person (Ksh)
Rural san.	71.7	4%	11,650	6,153
Rural water	679.8	36%	439,848	1,545
Urban san.	255.0	13%	126,400	2,017
Urban water	670.6	35%	273,129	2,455
WRM	224.9	12%		n.a.

Source: WSTF (unpublished data)

The 2015–16 data provided by the WSTF also include details regarding which county the project funding is directed towards, allowing for a focused analysis of the 10 counties included in this PER. Table 58 presents WSTF project funding by county and subsector: both the total project cost and the planned cost per person anticipated to be reached under the programme.

Table 58: WSTF project budgets 2015/16 by county and programme (Ksh millions) (expenditure per person in parenthesis, Ksh)

	Rural san.	Rural water	Urban san.	Urban water	WRM	Total
Migori	13.6 (6,465)	87.1 (2,730)	6.4 (3,177)	18.6 (6,957)	8.0 (n.a)	133.6
Garissa	10.5 (4,193)	52.5 (0,762)	-	-	21.1 (n.a)	84.1
Nakuru	-	-	21.3 (1,779)	26.0 (3,127)	-	47.3
Kitui	-	-	21.3 (1,779)	16.2 (4,047)	-	37.5
Nyeri	-	-	-	19.2 (3,840)	13.4 (n.a)	32.6
Turkana	-	-	-	19.0 (3,727)	-	19.0
Siaya	-	-	-	18.2 (2,397)	-	18.2
Kakamega	-	-	-	17.3 (1,764)	-	17.3
Mombasa	-	-	-	16.7 (3,089)	-	16.7
Kisii	-	-	6.4 (3,177)	-	-	6.4
Grand total	24.1 (5,230)	139.6 (1,385)	55.4 (1,978)	151.1 (3,157)	42.5 (n.a)	412.6

Source: WSTF (unpublished data)

Within the 10 counties that are the focus of this PER the spending, as with the WSTF as a whole, is weighted towards urban areas and towards spending on water over sanitation. Migori and Garissa receive the majority of the WSTF funding to the counties. This is perhaps unsurprising given the WSTF's focus on pro-poor provision and the fact that in 2014 the counties had the second and third highest open defecation rates of the 10 counties and Migori had the lowest level of access to improved water of all the 10 counties. The funding of urban water projects is relatively common compared to other programme areas across the counties, with programmes in rural areas only present in Migori and Garissa. The project costs per person vary greatly between urban and rural programmes and across counties, which is largely to be expected given the different implementation contexts. However, as an input-based measure it is not possible to assess the comparative value for money of these programmes.

4.3 County performance analysis and sector financing requirements

This section provides a summary of the monitoring sources available for sector performance analysis before considering county-level performance in water and sanitation, and the degree to which these are sufficient to meet policy goals. The section concludes by examining the medium-term expenditure framework (MTEF) sector financing requirements.

4.3.1 Overview of sector monitoring data

There are several WASH sector monitoring initiatives. However, due to the focused nature of many of them there is a distinct lack of reliable comparative figures across counties. This section outlines the sources available and their limitations.

The population census (2009) provides the first reliable source of figures for county-level access data within WASH. Though the 2009 census preceded devolution the data were collected to be representative at the district level and, as such, county-level figures can be constructed by aggregating the district figures in line with the new county administrative boundaries. For the purposes of this PER a secondary analysis of the published census data was undertaken for the 10 counties and nationally. In the county CIDPs the census data are used as the baseline figures for assessing WASH access.

It should be noted that the published census data are not fully in line with UNICEF/WHO Joint Monitoring process (JMP) categories of 'improved' and 'unimproved' sanitation. Specifically, the published data group together what are considered JMP improved and unimproved pit latrines.⁶⁸ Within the 10 counties 73% of households report using pit latrines, both improved and unimproved, and the uncertainty surrounding which of these are improved and unimproved means that it is not possible to reliably construct JMP categories using the census data.

The secondary analysis of the census data for this PER revealed that in the county CIDPs the figures reported for 'access' include both the unimproved and improved latrines. While there is no obligation for counties to report using JMP categories the authors believe that this definition of access potentially paints an overly optimistic view of sanitation within the counties. For this reason the analysis of sanitation performance focus solely on open defecation rates, which may also be more reliably compared to other secondary sources.

MajiData⁶⁹ is a database covering all the urban low-income areas of Kenya, which has been prepared by MoWI and the WSTF. The database is designed to 'assist the Water Service Providers (WSPs) and Water Services Boards (WSBs) to prepare tailor-made water supply and sanitation proposals for the urban slums and low-income planned areas located within their service areas'. While MajiData provides an overview of low-income areas specifically, the fact that it focuses on these areas only means the data themselves are not well suited to assessing sector performance, nor are they readily compatible with other sources as the populations for which the data pertains are not readily mapped against other sources.

WSPs report both financial and performance indicators to WASREB annually. These data are collected one year in arrears and published annually by WASREB in their 'impact report'. The data collected by WASREB provide a comprehensive view of performance within WSP service areas. However, in 2014–15 only 44.7% of Kenya's population were reported to live within WSP service areas (WASREB, 2015). As such, while the WASREB data provide a good overview of WSP performance they are not suitable for county-level analysis.

CMoWs report that their main monitoring mechanism is their ADPs, with progress tracked

⁶⁸ Though it is important to note that the questionnaire allows for partially disaggregating between these two categories.

⁶⁹ Maji means 'water' in Kiswahili.

through cascaded performance agreements. However, there are few common indicators reported across all county ADPs, and the majority of counties report progress in terms of outputs (water points constructed, etc.) as opposed to outcomes (people reached with services). The lack of common indicators or consistently applied methodologies means that the indicators used across the county ADPs are ill suited for conducting a comparative analysis of county performance.

In 2014 the MOH launched a national sanitation monitoring system, with a baseline conducted as part of the sanitation master planning undertaken around that period. The system is currently Excel based, with either Public Health Officers or Technicians (PHOs/PHTs) sending periodic reports on the number of villages triggered, claimed to be ODF, and verified ODF. Reporting is voluntary, and at the time of interviews the MOH reported that only 28 of the 47 counties were using the system; however, none of the county PHOs interviewed as part of this PER reported using the system – for this reason these data are not used in the analysis.

The JMP uses a wide range of nationally representative secondary surveys including: The Demographic and Health Surveys (DHS), Multiple Indicator Cluster Surveys (MICS), the Malaria Indicator Survey, the Kenya Aids Indicator Survey, the Kenya Integrated Household Budget Survey, and the census. However, many of these surveys are designed to be representative only at the national level and as such cannot be used to analyse county-specific performance.

The 2014 DHS survey was the first sample survey that was designed to be representative at the county level.⁷⁰ As such, this survey provides, following the census, the second most reliable data point for assessing county-level WASH access.⁷¹ For the purposes of this PER a secondary analysis of the 2014 DHS was undertaken, allowing for a comparative view of changes in county-level WASH access.

The rest of this section presents a county-level performance analysis using the 2009 census and the 2014 DHS, as well as a specific analysis of performance within WSP service areas utilising the WASREB monitoring data.

4.3.2 Progress on sanitation

Sanitation performance is assessed by reference to the rate at which counties reduced open defecation between the census and the 2014 DHS. Nationally, open defecation fell in both rural and urban areas by 3.8 percentage points (+/- 0.9 percentage points). At the county level, open defecation rates fell within seven of the 10 counties, though three of those seven falls are within the margin of error and as such it is not possible to reliably report as to whether or not sanitation in fact fell in those cases. Figure 51 summarise the changes in open defecation rates for the counties, with the high and low confidence interval estimates clearly indicated.

It should be noted that as a sample survey the DHS has an error margin on all of the estimates – this is reported in the table as the 'standard error' at the 95% confidence interval. The interpretation of this is that the 2014 estimate +/- this standard error is the range for the estimate. As this analysis focuses on a very specific variable (the open defecation rate) the standard errors are large.

⁷⁰ In line with the DHS's policy of being representative at the 'first administrative level'.

⁷¹ Though it is important to note that the error margins for key WASH indicators are large.

Figure 51: Changes in open defecation rates 2009–2013 (percentage point change in open defecation rate)



Source: Census 2009 (KNBS, 2010); DHS 2014 – Authors' calculations

In the majority of counties the data indicate a likely fall in open defecation rates. Garissa, Siaya, Nakuru and Mombasa all saw declines in open defecation rates, while Kisii saw an increase, driven by increases in rural open defecation. Turkana saw an increase in open defecation (this time due to changes in urban open defecation), although the margin of error is large.

The other counties all saw a decline in open defecation, though again the margin of error is such that this fall is not certain. Table 59 presents the data shown above. Where the standard error is greater than the estimated change in open defecation rates over the period we cannot be certain that open defecation rates have fallen or risen: data are highlighted in red in the table where this is the case.⁷²

Open defecation rates in 2014 were very low in Kisii, Nakuru, Kakamega, Nyeri and Mombasa: under 2% for all counties in both urban and rural areas. Except for Turkana open defecation rates were below 10% in all urban areas in 2014. Migori, Garissa and Turkana stand out as having very high rural defecation rates. Overall, the picture is positive in that open defecation rates are declining, though the uncertainty surrounding the estimation is high. As discussed in the previous section, the classification of unimproved and improved latrines is a barrier to effectively analysing changes in sanitation over the period.

⁷² The DHS surveys are designed to be representative at the first administrative level (counties). Open defecation is not an indicator the surveys were designed to measure (they were designed for capturing improved and unimproved sanitation). This causes the wide error margins; however, as the census data cannot be reliably compared on the improved/unimproved indicator it is necessary to use the open defecation indicator, even given the wide error margins.

Table 59: County-level open defecation rates, 2009–2014

	Rural				Urban				Total			
	2009	2014	Change	Std. error	2009	2014	Change	Error margin	2009	2014	Change	Error margin
Kenya	21%	16%	-4.7%	1.5%	3%	1%	-1.1%	0.3%	14%	10%	-3.8%	0.9%
Turkana	93%	94%	1.0%	3.8%	36%	53%	17.0%	24.8%	82%	86%	4.2%	6.2%
Garissa	60%	59%	-1.1%	15.9%	12%	1%	-11.3%	0.8%	48%	34%	-14.0%	10.9%
Migori	43%	36%	-6.6%	14.6%	16%	7%	-8.8%	3.3%	33%	27%	-6.4%	10.5%
Kitui	36%	28%	-8.3%	12.7%	4%	8%	3.8%	8.1%	31%	24%	-6.4%	10.8%
Siaya	21%	18%	-3.7%	4.6%	9%	9%	-0.2%	8.7%	20%	12%	-8.0%	4.0%
Kisii	1%	2%	1.5%	1.4%	0%	0%	-0.1%	0.4%	1%	2%	1.1%	1.1%
Nakuru	5%	2%	-3.6%	1.8%	0%	0%	-0.1%	0.2%	3%	1%	-1.7%	1.0%
Kakamega	1%	1%	-0.2%	0.8%	1%	0%	-1.0%	0.0%	1%	1%	-0.4%	0.7%
Nyeri	0%	0%	-0.1%	0.1%	0%	0%	-0.2%	0.0%	0%	1%	0.8%	1.0%
Mombasa	n.a.	n.a.	n.a.	n.a.	2%	0%	-2.1%	0.0%	2%	0%	-1.9%	0.3%

Source: Census 2009 (KNBS, 2010); DHS 2014 – Authors' calculations

To assess progress in sanitation, progress in the districts is assessed against progress towards Vision 2030 and universal access, as well as towards the intermediate goal of achieving ODF status by 2020 (MOH, 2016). The goal of universal access subsumes the goal ODF, as universal access implies the elimination of open defecation: thus districts are assessed as to whether or not they are on track to eliminate open defecation by 2030. In addition, Kakamega, Kitui, Kisii, Migori, Siaya and Nyeri all set the target of achieving ODF status by 2020. Nakuru and Garissa were not included in the ODF 2020 campaign framework (where these targets were set), while Turkana and Mombasa set less ambitious targets.

On current rates of progress only Mombasa and Nakuru are set to eliminate open defecation by 2020. Siaya and Kakamega are on trend to reach very low levels of open defecation. Kisii, Kakamega and Nyeri already have open defecation rates of between 1% and 2%, though slow progress recently means if current trends continue they will not eliminate open defecation by 2020. Siaya, Migori, Kitui and Garissa saw the sharpest decline in open defecation between the census and the DHS (2014), but while Siaya is moving towards very low levels of open defecation, Garissa, Migori and Kitui will not eliminate open defecation by 2020 if trends continue. Turkana was the only county where open defecation rates increased; if this trend is not reversed the 2020 target will be missed.

Table 60: Linear projections of open defecation rate to 2020

	2020	2020 – lower	2020 – high
Garissa	17%	30%	4%
Siaya	2%	7%	0%
Migori	19%	31%	6%
Kitui	17%	30%	4%
Mombasa	0%	0%	0%
Nakuru	0%	0%	0%
Kakamega	1%	1%	0%
Nyeri	2%	3%	1%
Kisii	3%	4%	2%
Turkana	91%	99%	84%

Source: Census 2009 (KNBS, 2010); DHS 2014 – Authors' calculations

The analysis of the secondary data reveals a reasonably positive picture, with open defecation falling in most counties in the context of growing populations, though many counties are still not on track to meet the 2020 objective of an ODF Kenya. The monitoring data within the sector do not allow for a comparison of county-level progress outside of these secondary sources. Specifically, the ADPs reviewed do not commonly report on either county-level figures for access to sanitation or reduction in open defecation – largely as there is not the monitoring apparatus in place to do so. While the MOH have made efforts to build this capacity and initiate a system for monitoring open defecation, the Public Health Officers interviewed reported that they do not use this system and the MOH itself recognises that a large majority of counties are not

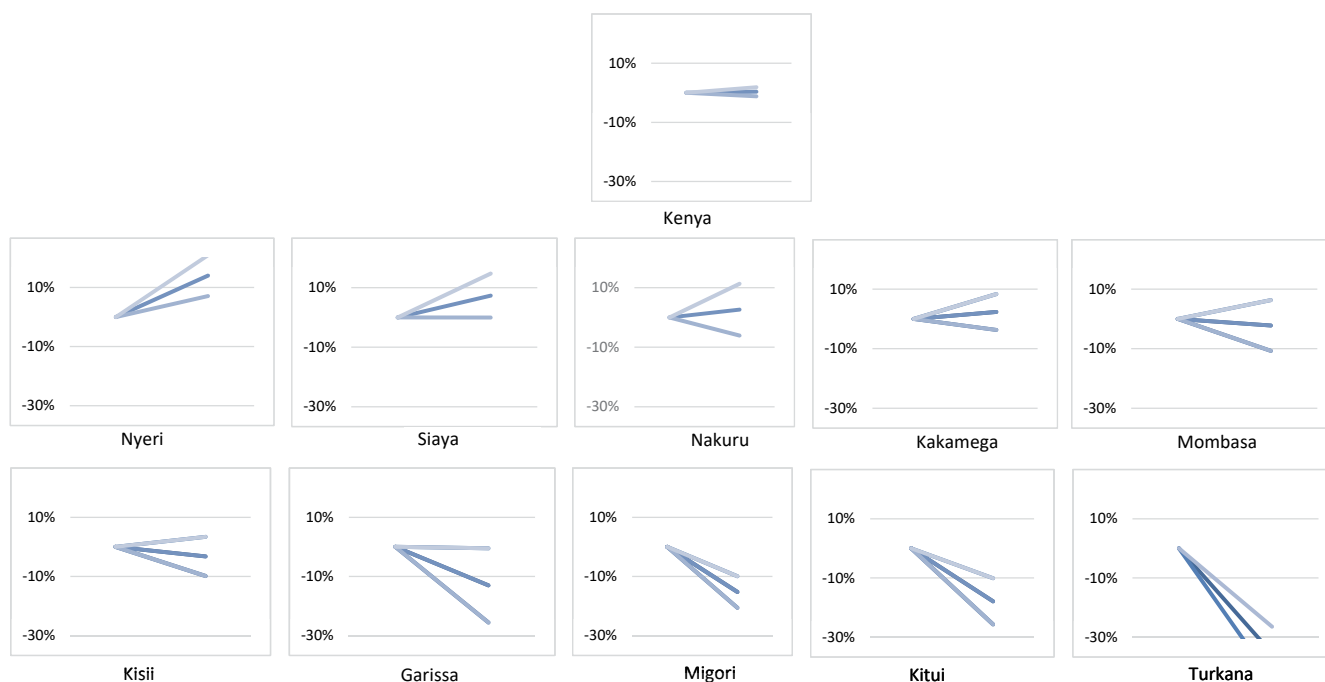
using the system. Furthermore, where targets exist in ADPs they are output-based and commonly relate to extending the existing sewer network, hindering a comparative analysis between counties on common indicators.

4.3.3 Progress on water

Between the census (2009) and the DHS (2014) access to improved sources improved marginally for Kenya as a whole. However, in most of the counties included in this PER the data indicate a

decline in access to improved sources. Figure 52 outlines the change in access over the period and Table 61 presents the data disaggregated by rural and urban areas. Nyeri is the only county where the data unambiguously point to an increase in access to improved sources. Siaya, Nakuru and Kakamega have seen marginal increases, though due to the margin of error associated with the DHS this trend is not certain. In Garissa, Migori, Kitui and Turkana the data indicate an unambiguous decline in access to improved water sources, with sharp declines of over 10% likely in Migori, Kitui and Turkana.

Figure 52: Changes in access to improved (JMP) water sources 2009–2013 (percentage point change in access)



Source: Census 2009 (KNBS, 2010); DHS 2014 – Authors' calculations

Due to the nature of this secondary analysis there is a high degree of uncertainty associated with these estimates; nevertheless, they provide the most reliable estimates from the sources currently

available for comparing county-level performance on common indicators. Overall, the data indicate slow or negative progress in the majority of counties.

Table 61: County-level access to improved water sources, 2009–2014

	Rural				Urban				Total			
	2009	2014	Change	Error margin	2009	2014	Change	Error margin	2009	2014	Change	Error margin
Kenya	46%	42%	-4%	2%	74%	77%	4%	2%	56%	57%	0%	2%
Nyeri	60%	73%	12%	11%	82%	95%	13%	2%	67%	81%	14%	7%
Siaya	33%	39%	6%	8%	47%	70%	23%	20%	36%	43%	7%	7%
Nakuru	46%	45%	-2%	12%	72%	79%	7%	10%	59%	62%	3%	9%
Kakamega	52%	54%	2%	7%	69%	80%	11%	9%	56%	58%	2%	6%
Mombasa	n.a.	n.a.	n.a.	n.a.	71%	66%	-5%	0%	69%	66%	-2%	9%
Kisii	48%	43%	-5%	8%	58%	61%	4%	14%	51%	48%	-3%	7%
Garissa	51%	13%	-38%	11%	89%	96%	7%	4%	62%	49%	-13%	13%
Migori	28%	10%	-18%	3%	51%	40%	-11%	13%	35%	20%	-15%	5%
Kitui	37%	15%	-21%	8%	44%	48%	4%	22%	39%	21%	-18%	8%
Turkana	50%	15%	-35%	8%	78%	50%	-28%	19%	57%	21%	-35%	9%

Source: Census 2009 (KNBS, 2010); DHS 2014 – Authors' calculations

4.3.4 Efficiency and equity dimensions

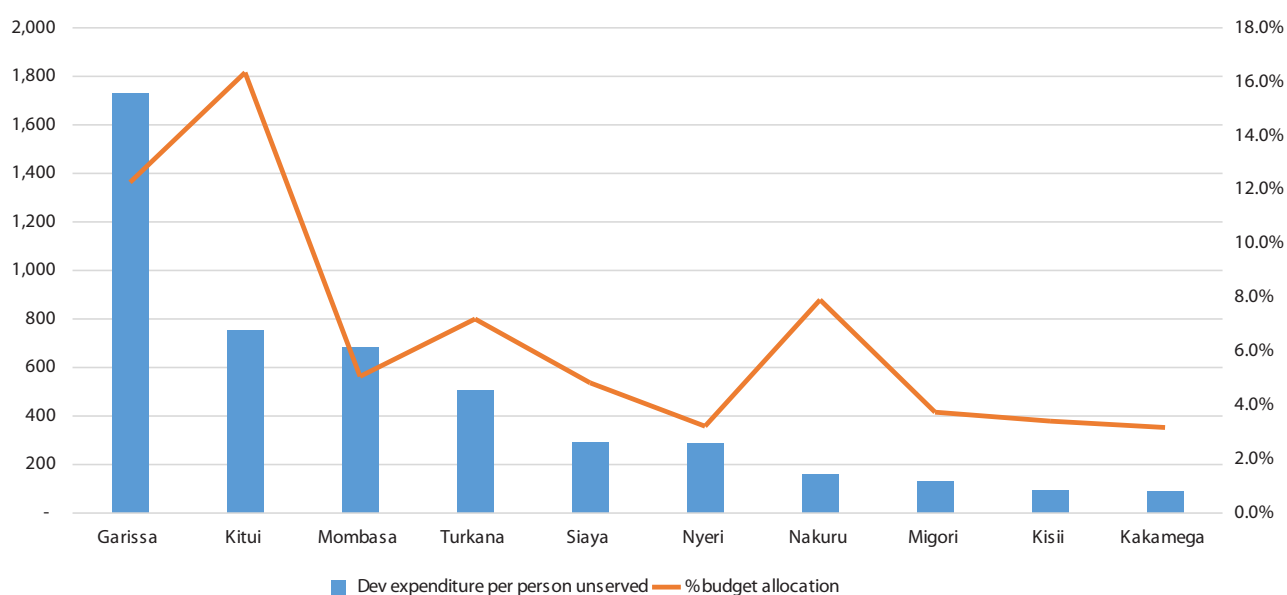
There are several facets to consider in assessing the efficiency and equity dimension; the primary one being access to improved services. Service levels, and the fact that WASH access is by nature a gendered issue as the burden of poor services most often falls disproportionately on women and girls, are also important aspects.

As discussed in detail in Section 4.3.1, county M&E systems do not readily facilitate a cross-county analysis in WASH access, as county M&E data do not report on county or sub-county access to WASH services. In relation to public spending, the rate at which services are extended is dependent on development expenditure while service continuity and service levels are largely dependent on provision of O&M expenditure. In the Kenyan context, this is higher within WSP service areas than non-WSP service areas.

In the context of low access levels, how services are extended directly impacts the equity of service provision. As discussed previously, due to a lack of sub-county M&E data the process for selecting wards and communities is relatively arbitrary and there is a strong push from County Assemblies to extend services at an equal rate per ward, as assembly members push for allocations for the populations they represent. While this may result in a relatively equal distribution of services; it does not necessarily result in an equitable distribution as factors including: wealth, current access levels and location (rural/urban and remoteness) are not explicitly considered in planning.

Figure 53 summarises the CMoW development expenditure per person without access to an improved water source and the budget allocation to that ministry. The spend per person unserved varies enormously between counties and, as may be expected, correlated with the budget allocation to the ministry.

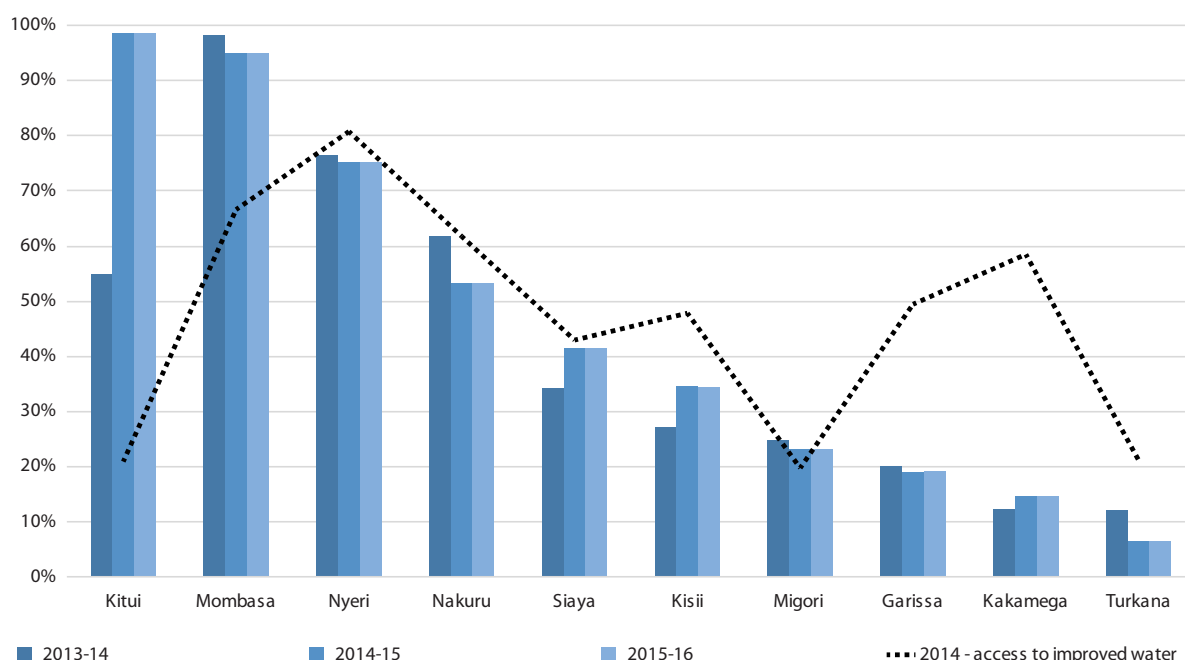
Figure 53: Development expenditure per person without access to an improved water source and proportion of county budget allocation



Being within a WSP service area also has important equity dimensions, as the service level and funds available change between WSP and non-WSP service areas. Figure 54 outlines the proportion of the population within a county covered by a WSP and the rate of WSP service area expansion. In most counties population growth has outstripped WSP service expansion, leading to a decline in WSP coverage of the population – the exceptions being Siaya, Kisii, Kakamega and notably Kitui. The dotted line displays the county-level access to improved water sources as per the DHS (2014). As may be expected, county-level access for improved water sources is highly correlated with the WSP coverage of the population.

For the majority of counties the proportion of the population served by WSPs fell between 2013–14 and 2014–15. Kisii, Garissa and Siaya saw increases in WSP coverage. WSPs themselves are not responsible for service extension within their service areas: the falling coverage rates are driven by both slow expansion, and many cases a fall, in the number of connections, as well as increases in population. In Siaya, Kakamega, Kisii and Kitui the absolute number of connections serviced by the WSP increased but in all other counties the absolute number of connections fell.

Figure 54: Proportion of the population within WSP service areas and county-level coverage

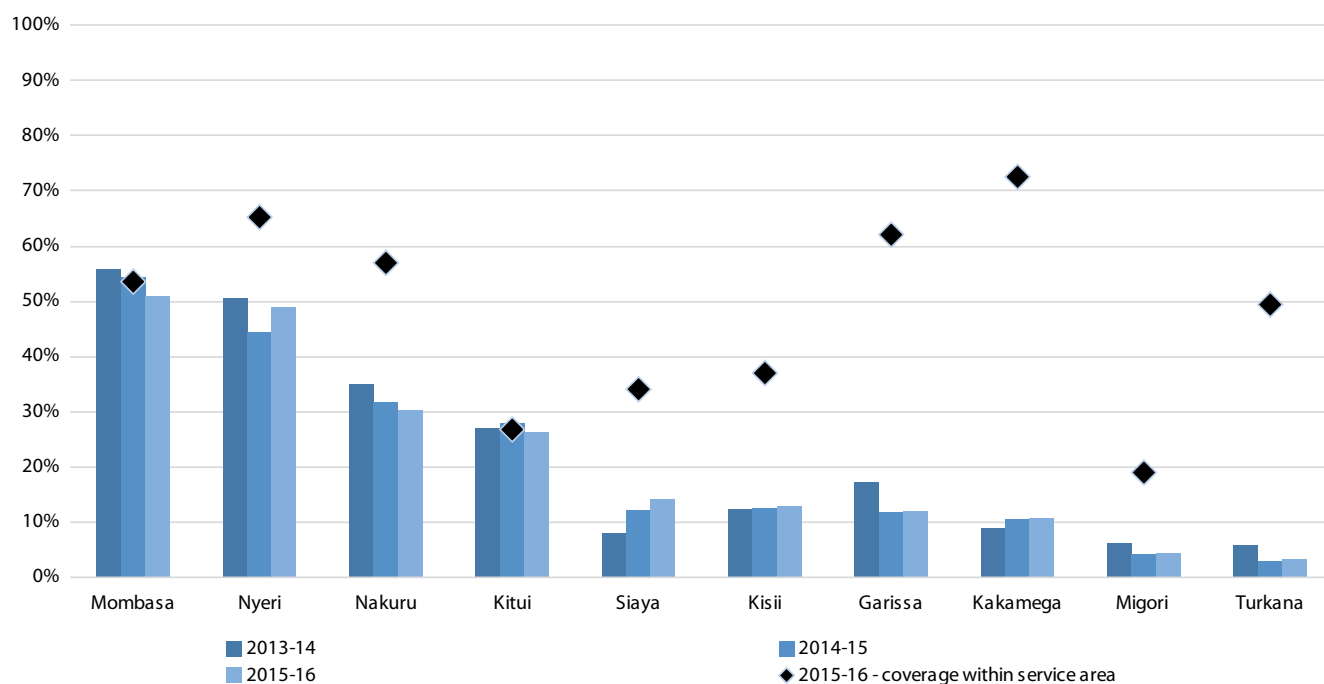


Source: WASREB 2014, 2015; DHS, 2014

Figure 55 presents the proportion of the county population served by a WSP (as indicated by the bars) and the coverage within WSP areas by WSPs (as indicated by the diamond). The proportion of the population served by WSPs is an important indicator as O&M arrangements outside of WSP areas are scant. None of the counties interviewed reported

having a dedicated O&M budget for non-WSP areas – rather, the majority reported that community-based management was the strategy employed to ensure continued service in non-WSP areas. The diamond in Figure 55 provides an indication of coverage within WSP areas, highlighting where coverage is high within WSP areas.

Figure 55: Proportion of county population with water services managed by a WSP



Source: WASREB 2014, 2015; DHS, 2014

The data indicate shrinking absolute water coverage in some counties, which is a cause for concern as it is set against the context of an increase in funding within the sector, indicating that increases in both development and recurrent expenditure identified in this PER are currently not leading to an expansion of services, or, in the majority of counties, are set in the context of falling service provision. The following section assesses the funding requirements for the sector as reported in the latest MTEF report.

4.3.5 Sector financing requirements

The MTEF sector report for the environmental protection, water and natural resources sector publishes the sector funding requirements for the National MDAs and WSBs. The requirements for sector funding for 2017–18 are around three times the allocation for 2016–17, and are projected to increase again in 2018–19 before falling slightly in 2019–20. The additional requirements are dependent on an increased allocation in GoK funding as the projected requirements for external financing (AIA, loans and grants) remain constant throughout the period.

Table 62: MDA funding requirements and allocation, 2017/18 to 2019/20 (Ksh millions)

	2016/17	2017/18			2018/19			2019/20		
		Req.	Allo.	%	Req.	Allo.	%	Req.	Allo.	%
Recurrent	3,625	3,965	3,656	92%	4,053	3,690	91%	4,249	3,725	88%
of which AIA	2,138	2,138	2,138	100%	2,138	2,138	100%	2,138	2,138	100%
Development	39,606	119,023	39,236	33%	142,340	40,021	28%	130,105	40,370	31%
Of which loans and grants	34,201	34,201	33,701	99%	34,201	33,701	99%	34,201	33,701	99%
Total	43,231	122,988	42,892	35%	146,393	43,711	30%	134,354	44,095	33%
of which AIA, loans, and grants	36,339	36,339	35,839	99%	36,339	35,839	99%	36,339	35,839	99%
AIA, loans and grants as a % of funding	84%	30%	84%		25%	82%		27%	81%	

Source: GoK, 2016a

The allocation for recurrent expenditure is around 90% of the requirements for the period, but the development allocation is only around 30% of the requirements for the period. Across the period recurrent expenditure is projected to be around 3% of sector funding requirements, with the vast majority of required expenditure for development – though this recurrent portion receives a near sufficient allocation. The major financing gap is in relation to development expenditure.

External financing is anticipated to remain a core source of finance for the sector: in 2016–17 it is anticipated to account for 84% of MDA financing. The requirement projections for sector financing assume no increase in external financing over the

period. However, as the projections for allocations indicate a limited increase in GoK funding, external finance remains a core source of finance for the sector, and is projected to constitute over 80% of the sector allocation throughout the period.

Under the MTEF projections the WSBs are anticipated to remain an important channel for MDA expenditure, though the degree to which projected allocations are sufficient to meet requirements varies enormously between the WSBs. The Northern WSB's planned allocations are sufficient to meet around 90% of the projected requirements over the period, while Tana and Tanathi WSBs are projected to receive an allocation that is between only 12% and 15% of their requirements over the period.

Table 63: WSB funding requirements and allocation 2017/18 to 2019/20 (Ksh millions)

	2016/17	2017/18			2018/19			2019/20		
		Req.	Allo.	%	Req.	Allo.	%	Req.	Allo.	%
Northern	4,325	4,694	4,325	92%	4,935	4,325	88%	5,193	4,325	83%
Rift Valley	13,914	20,018	13,914	70%	27,769	13,914	50%	22,886	13,914	61%
Athi	15,881	19,222	15,881	83%	22,945	15,881	69%	27,326	15,881	58%
Coast	2,015	3,497	2,015	58%	4,458	2,015	45%	4,335	2,015	46%
Lake Victoria North	1,362	4,859	1,362	28%	5,055	2,141	42%	5,257	1,711	33%
Tana	507	3,488	507	15%	4,328	507	12%	3,510	507	14%
Tanathi	592	4,056	592	15%	4,274	592	14%	4,504	592	13%
Total	38,596	59,834	38,596	65%	73,764	39,375	53%	73,011	38,945	53%

Source: GoK, 2016a

The MTEF projections for water sector financing highlight a significant gap between resource requirements and allocation. The projections also signal that it is expected that WSBs will continue to play an important role in the sector (given that these

are likely to become WWDAs under the new Water Act). The projections also signal that the sector is likely to remain dependant on external financing for a large majority of sector finance over the period.

4.4 Summary and recommendations for the WASH sector

This PER has gone further than recent PERs (GoK, 2013; World Bank, 2014) in unpacking expenditure in the WASH sector through considering the balance of expenditure between the national ministries, semi-autonomous government agencies, and county governments. In doing so it provides a more comprehensive and granular analysis of WASH sector expenditure than has previously been available. In particular the findings highlight:

- i) the growing importance of county governments: while the State department saw a nominal reduction in budget allocations over the period the CMoWs have seen their budget increase to the degree that overall MDA funding is increasing;
- ii) WASH MDA funding is reducing as a portion of total government budgets and expenditure: though nominal allocations are increasing, this growth is lower than the growth of total government expenditure;
- iii) the central role of the semi-autonomous government agencies: WSBs account for 40% of the State department's funding, while the WSPs' expenditure on O&M is greater than that of the county governments in most cases;
- iv) the importance of external finance to the sector: AIA accounts for 40% of the State department's funding, with additional external finance channelled through loans. External finance is heavily skewed towards loans as opposed to grants. For the following three years external finance is projected to account for over 80% of the State department's budget;
- v) CMoWs' budgets are growing as a portion of county expenditure: though this growth is slower than the other social sectors for most counties;
- vi) expenditure in the sector is heavily weighted towards development expenditure, though budget execution rates for development expenditure in the counties is generally lower than recurrent, highlighting the need to prioritise recurrent spending items such as salaries over development expenditure as well as the challenges for counties in executing development expenditure. In addition, for many counties the development execution rate is falling.
- vii) many county CIDPs do not contain specific county-level access targets for WASH, and, as such, for those counties it is not possible to assess the degree to which the county policy is aligned with national objectives. Those CIDPs that do set targets set ambitious targets, with most being sufficient to meet national policy goals;
- viii) despite numerous monitoring initiatives there are few sources of data for a comparative analysis: county monitoring systems are weak, with the majority dependant on using output data reported through cascaded performance agreements, and counties do not use common indicators for monitoring progress on core WASH indicators;
- ix) there has been moderate progress on sanitation: the available secondary indicators point to a trend of reduction in open defecation in most counties, though in all but a few cases this is insufficient to eliminate open defecation by 2020;
- x) progress has been slow or has been declining on water: at both the national level and in the counties there has been slow progress on water. Kenya is lagging behind EaSA and LMIC country peers; and
- xi) projected sector finance allocations are insufficient to meet requirements: GoK projections reveal a large and widening gap in sector funding. The projections also point to a continued dependence on external finance sources.

- **Joint planning or coordination between sector institutions is required.** Currently the planning processes for the County governments, WSPs, WSBs and the MoWI are not linked. Given the structure of the water sector it is essential that these institutions consult one another during their planning processes and align investments to maximise impact.
- **Currently many CMoWs report targeting their investments by ward as opposed to targeting populations based on access level.** There is a lack of WASH access data at the county and sub-county level. Consequently counties are not targeting their investments by need. For the same reason, it is not possible to assess the equity of service delivery. CMoWs should begin collecting and using access data for targeting. The MoWI has a role in defining core monitoring indicators.
- **Sanitation expenditure is not readily identifiable within the IFMIS classifications.** Further to the recommendation in Section 2.4.3 regarding the use of IFMIS programme codes, there is a need for dedicated sanitation budgets. Despite the institutional home of sanitation being the Ministries of Health sanitation investments, particularly in urban areas sanitation projects are also undertaken by CMoW and WSBs with the WSPs maintaining and delivering sanitation services. Currently policy and practice do not reflect one another in this area.
- **CMoW O&M arrangements outside of WSP service areas are weak and there is limited monitoring of service sustainability.** County governments report utilising community-based management models for rural services, but few assess service sustainability or direct budget towards the O&M of rural services, threatening service sustainability.
- **Many county CIDPs do not contain county-level WASH access targets.** For the current planning cycle there is a need to establish and monitor county-level WASH targets. The current CIDPs are not clearly aligned with national policy due to the absence of such targets. The MoWI should also encourage the use of core indicators for planning and monitoring purposes to enable comparisons between counties on WASH performance.

5. Summary of recommendations



5. Summary of recommendations

The Kenyan health and WASH sectors have undergone a substantial change in a short period of time through the devolution process. Devolution is currently only in its fourth year and yet national and county actors report – anecdotally – that the core aim of improving spending targeting by moving the financing closer to needs seems to have been achieved.

The PER has shown that county funding for both health and WASH has increased but with slightly lower execution rates than the national government achieves. This is due to capacity constraints at county level, as would be expected, and additionally there are underlying logistical and administrative challenges. Seventeen key recommendations are set out below to overcome these:

Public financial management (PFM)

- 1. Strengthening the credibility of county budgets.** A review of the timing, steps and deliverables in the budget planning and preparation process is necessary to improve the timeliness and quality of budget documents being produced, and to better link medium-term objectives to annual targets and expenditure outlays. These are preconditions for medium-term and programmatic budgeting to take hold at county level.
- 2. Clarifying legislative and procedural gaps.** These notably include sectoral policies providing the framework for service delivery, and county-level civil service human resource management guidelines. The latter will rationalise personnel needs and ensure that personnel emoluments in the recurrent budget are kept within affordable limits.
- 3. Strengthening consultation and collaborative planning and drafting processes for key deliverables in the county budget planning and preparation process.** This notably includes support to develop realistic CIDs that include clear timelines and costings for priority projects that can usefully feed into ADPs, so that ADPs can be used as an effective tool for annual planning and defining priorities.
- 4. Improving programme-based budgeting. County Executive Committees need to catch up to national ministries in developing programme-based budgets with clear narratives and targets for budget lines.** Programme-based budgets need to be introduced in the next few budget cycles to ensure accountable and aspirational service delivery expenditure and to avoid counties preparing incremental budgets. Specifically, if counties are to improve on gender equality, budgeting, and monitoring gender issues then additional training and funds will need to be targeted in this area.
- 5. Enhancing local revenue collection and administration.** Counties need a better understanding of taxable formal and informal activity to improve tax revenue forecasts, and of how to increase tax compliance and reduce leakages. Non-tax revenues need to be identified for counties with high informal sector activity. Further revenues generated in addition to concessional transfers from the national government should be allocated to benefit accountability and execution of development budgets in underfunded sectors. It may be the case that the national government has greater economies of scale in levying some taxes than county governments, which would require revenue-sharing agreements to be rethought.
- 6. Increasing the coverage of IFMIS. 'Blind spots' in the IFMIS at county level need to be filled, including the recording of expenditures financed by local revenues.** A roadmap for integrating sources of development expenditure, such as e-ProMIS, into the IFMIS needs to be developed. This will allow for more complete tracking of public expenditures and support accountability efforts by civil society, media and county assemblies.

Gender

7. Developing capabilities and systems for gender-disaggregated reporting, monitoring and evaluation. The introduction of IFMIS needs to be complemented by systems and practices that allow county governments to track progress on development projects, the promotion of gender equality and delivery of basic services, in both urbanised and non-urbanised areas. Notably, gender- and location-disaggregated data should be made available for civil society, media and county assemblies to exercise oversight of public funds and make PFM more responsive to citizens' needs. Capacity-building efforts should prioritise counties that were not previously provincial headquarters, and whose CECM-F members did not previously occupy Treasury or other related positions.

8. Facilitating counties' efforts for gender-responsive budgeting. Counties need specific support and guidance to help target and promote gender equality, including through basic service budgets and projects. Existing gender-responsive budgeting guidelines need to be adapted specifically for the county level, and gender focal points need to be trained on the guidelines. The NGEC can support by developing a tool for setting gender-based targets in time for the next CIDP process. Civil society organisations need to work closely with National Treasury, NGEC and other gender-relevant institutions to integrate gender responsiveness into budget guidelines, and support ministries and county governments to integrate and track progress on gender-sensitive budgeting.

Health

9. Evaluation of improving national to county-level transfers – particularly the health-specific conditional grants. In the minimal scenario, the system needs to have new regulations or procedures to follow if the National Treasury has limited cashflow. Increased communication from national to county health sectors on what proportion of the scheduled payment will be made, or when they can expect the delayed payment would benefit the counties' ability to manage projects and payment of salaries, etc. At best, the National Treasury, MOH and counties need to come

together to identify ways to ensure that core financing is received by counties in a timely fashion, e.g. to pay salaries.

10. Capacity building and training on IFMIS. The limited number of staff trained and authorised to operate IFMIS is causing bottlenecks in budgeting and procurement.

11. Implement county-specific M&E into the budget cycle. M&E is a central part of the budget cycle and is missing at the county level. Most counties stated they required training in M&E and funding for staffing.

12. Increased county and development partner collaboration. Counties should replicate the national MOH resource tracking tool they hope to introduce to the national MOH planning and budgeting process. Peer learning could be an efficient training method and add consistency through the country in terms of external funding protocols; the end goal being to align county needs with donor funding to fill financing gaps for priority areas.

WASH

13. Joint planning or coordination between sector institutions is required. Currently the planning processes for the County governments, WSPs, WSBs and the MoWI are not linked. Given the structure of the water sector it is essential that these institutions consult one another during their planning processes and align investments to maximise impact.

14. Currently many CMoWs report targeting their investments equally by ward as opposed to targeting populations based on access level. There is a lack of WASH access data at the county and sub-county level. Consequently counties are not targeting their investments by need. For the same reason, it is not possible to assess the equity of service delivery. CMoWs should begin collecting and using access data for targeting. The MoWI has a role in defining core monitoring indicators.

- 15. Sanitation expenditure is not readily identifiable within the IFMIS classifications.** Further to the recommendation in Section 2.4.3 regarding the use of IFMIS programme codes, there is a need for dedicated sanitation budgets. Despite the institutional home of sanitation being the Ministries of Health sanitation investments, particularly in urban sanitation are also undertaken by CMoW and WSBs with the WSPs maintaining and delivering sanitation services, currently policy and practice do not reflect one another in this area.
- 16. CMoW O&M arrangements outside of WSP service areas are weak and there is limited monitoring of service sustainability.** County governments report utilising community-based management models for rural services, but few assess service sustainability or direct budget towards the O&M of rural services threatening service sustainability.
- 17. Many county CIDPs do not contain county-level WASH access targets.** For the current planning cycle there is a need to establish and monitor county-level WASH targets. The current CIDPs are not clearly aligned with national policy due to the absence of such targets. The MoWI should also encourage the use of core indicators for planning and monitoring purposes to enable comparisons between counties on WASH performance.

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Annex



Annex A:

Methodology note on fiscal data section and analysis

This annex briefly summarises the choices taken in selecting and analysing fiscal data. In analysing and reporting fiscal data for this report the authors have intended to interpret available budget and expenditure data as consistently and clearly as possible. The authors were in some cases presented with multiple potential data sources, with varying levels of quality and completeness. The majority of the fiscal data were from two sources:

1. direct reports from the IFMIS; and
2. quarterly budget implementation reports of the COB.

The IFMIS was introduced in Kenya in 2013/14 to systematise recording and reporting accounts on a cash basis, while the COB has been releasing quarterly reports on government expenditures based on bank statements since 2012/13. The two data sources cover various aspects of the necessary analysis for this report, as shown below:

	IFMIS	COB
National-level data on:		
Headline revenue and expenditure totals	x	x
Budgets per sector, agency	x	x
Programme budgets	x	
Budgets by economic classification	x	x
Commitments and unpaid bills	x	
County-level fiscal data:		
Headline revenue and expenditure totals	x	x
Budgets per sector, agency	x	x
Programme budgets	x	
Budgets by economic classification	x	x
Commitments and unpaid bills	x	

Data quality and availability has been extensively discussed with staff of the National Treasury and Ministry of Finance, and the authors have received useful inputs also from the COB. From these exchanges, it is clear that integrated expenditure accounting and recording practices have evolved significantly with the introduction of the IFMIS in 2013/14, and continue to be improved. Although the automation and networking of expenditure accounting and recording has already remarkably enhanced the potential for consolidated, transparent fiscal reporting at national and county level, the authors found it difficult to interpret the actual data produced from the IFMIS.

This is largely due to the commitments recorded in the IFMIS. Commitment data are generally hard to interpret in cash-based accounting systems, unless clear evidence can be provided of clearly articulated and closely followed commitment management practices. The authors could not justify the usage of IFMIS commitment data for this study, given

that it was evident from the datasets provided that corrections and adjustments were being made to commitments in all financial years.

In addition, National Treasury staff indicated that figures reported in the COB reports provide a more complete picture of expenditures. Revenues collected by counties, and expenditures against these revenues, are not always recorded in the county IFMIS as it only compels them to transact online for monies disbursed from the exchequer. It was also suggested that counties would be compelled to disclose more and more accurate data to the COB, given that the COB would also have access to bank statements to reconcile counties' submitted reports and account statements.

As a result, the authors have adopted the following approach to selecting and analysing the data, with the stated caveats:

- COB data were used for analysis of budget estimates and expenditure at the national level and for aggregate figures across all counties, as well as summary figures for budgets and expenditures for the 10 counties assessed. The COB data are disaggregated to the necessary level and consistently available, and the authors are confident about their quality. The data can be clearly interpreted and they allow the figures in the report to be easily supplemented with data in future reports from the COB.
- IFMIS data were used for assessing budget execution trends in health, WASH and gender at county level. To limit the data issues, the authors have decided to exclude commitment data from county-level figures quoted from the IFMIS. The IFMIS data are disaggregated to the necessary level (by economic and programme classification for two financial years) and they allow the authors to draw conclusions regarding the usage of public funds transferred from the national government.

The latter point means that there remains a 'blind spot' in the report's data analysis of expenditures on health and WASH at county level, as expenditures financed by county local revenues can currently not be assessed through either COB reports or the IFMIS. Where possible, this gap was supplemented with qualitative data from the field missions.

More generally, it is evident from the data that recording and reporting practices in the 2013/14 financial year were adjusting to a new and evolving Chart of Accounts. The authors have concentrated their analysis and interpretation of the data on the 2014/15 and 2015/16 financial years to avoid drawing strong conclusions as a result of recording and reporting anomalies.

Annex B:

Relevant coordination and oversight institutions for devolution and governance at the county level and summary of the budget cycle

The Transition Authority: As established in Section 7 of the Transition to Devolved Government Act (2012), the Transition Authority was in charge of facilitating and coordinating the transition to a devolved system of government. Its remit included: facilitating the analysis and the phased transfer of the functions, determining the resource requirements for each of the functions, and developing a framework for the comprehensive and effective transfer.

County Assembly: The Assembly is in charge of drafting and passing laws necessary for the county government to perform effectively. In addition to its role as the legislative authority at the county level, Clause 8 of The County Government Act, 2012, outlines additional roles for the County Assemblies, including: vetting and approving nominees for appointment to county public offices; performing the roles set out under the Constitution; approving the budget and expenditure of the county government; approving the borrowing by the county government; approving county development planning; and performing any other role as may be set out under the Constitution or legislation.

County Executive Committee (CEC): The executive branch of the county government. Members of the CEC are appointed by the governor and approved by the County Assembly. Committee members are individually and collectively accountable to the governor for their work. CECs constitute MDAs at county level, and include:

A County Secretary who serves as the head of the public service, conveys decisions of the executive committee to the appropriate person or authority, and is responsible for arranging the business and keeping the minutes of the executive committee meetings.

County Chief Officers, appointed by the county governor, who report to the respective CEC member for the administration of a county department.

The Intergovernmental Budget and Economic Council: The Council determines funding for county governments and consists of 47 county finance 'ministers', the Cabinet Secretary for National Treasury, representatives of other arms of government and some key independent commissions.

Sector forums and subcommittees. These are chaired by the Deputy President and the Cabinet Secretary for Devolution and Planning, and the Cabinet Secretary responsible for National Treasury (or their nominees). They hold regular meetings and workgroups for key sectors which are devolved. The National Treasury can act as the Secretariat for the Council in place of the Intergovernmental Relations Technical Committee (World Bank, 2013a).

The Council of County Governors: This is an intergovernmental organising and advice-giving body for the county governments, with the power to establish other intergovernmental forums (e.g. inter-city and municipality forums) and sector working groups or committees to assist in carrying out its functions. The Council consists of 47 county governors, and a chairperson and vice chairperson selected from among its membership. It must convene at least twice a year. It submits an annual report to the National and County Government Coordinating Summit, to Parliament, and to County Assemblies within three months after the end of every financial year.⁷³

The National and County Government Coordinating Summit (NCGCS): The NCGCS is the highest intergovernmental body and ensures that relations between the national and county governments are effective and consultative. It consists of the President, who serves as the chairperson, all Governors of the Counties, and the chairperson of the Council of County Governors (who serves as the Summit's vice chairperson).

⁷³ Other functions of the Council include: consultation amongst county governments; information sharing on the performance of the counties; considering matters of common interest to county governments; resolving disputes between counties; facilitating capacity building for governors; receiving reports and monitoring the implementation of inter-county agreements on inter-county projects; considering matters referred by a member of the public; and considering reports from other intergovernmental forums on matters of national and county interest.

The NCGCS must convene at least twice a year and submits an annual report to Parliament and the County Assemblies within three months after the end of every financial year.⁷⁴

The Intergovernmental Relations Technical Committee: The Committee is responsible for the NCGCS's day-to-day operations, including facilitating its activities and implementing its decisions. It is made up of a chairperson and not more than eight members appointed by the Coordinating Summit. The Technical Committee also acts as the NCGCS Secretariat and is responsible for appointing a Secretary to serve as the secretariat's chief executive and financial officer.

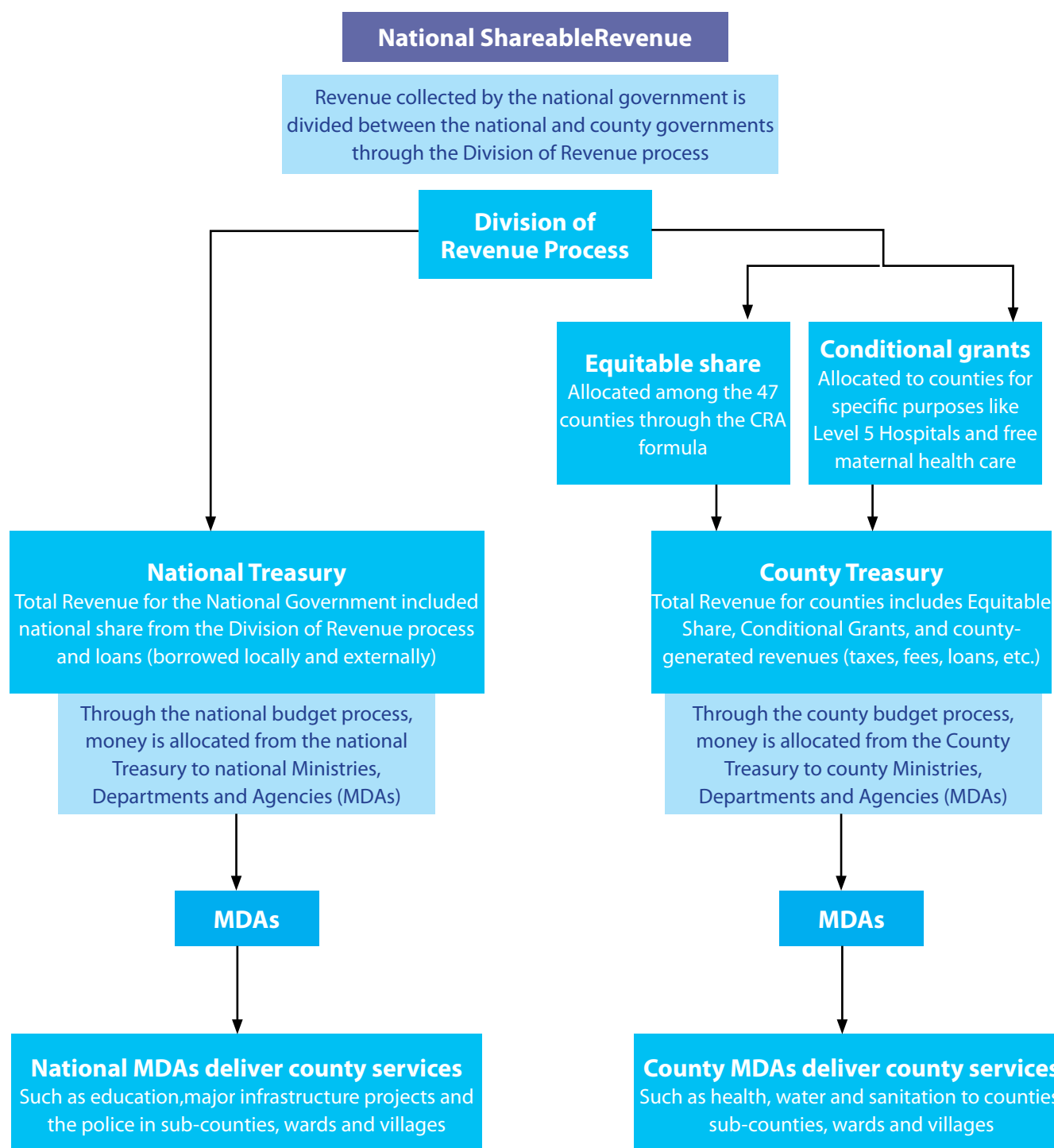
The Commission on Revenue Allocation (CRA): As established by Article 216, the CRA provides recommendations on the equitable basis for revenue sharing among county governments. It submits a yearly recommendation on the division of revenue by 31 December or a later, agreed date. For this purpose, the CRA makes use of a pre-established formula, which is revised every five years (initially revised every three years). The first formula was approved in November 2012 and has been used since that time.

Other institutions which work with PFM at county level, include the county Treasury, the CECM-F, accounting officers, receivers and collectors of county government revenue, Boards of Urban Areas or Cities, the County Budget and Economic Forum, the Public Sector Accounting Standards Board, the Public Debt Management Office, the COB (which has a system of representation at county level), the Auditor General, the Cabinet Secretary for Finance and the Parliament.

⁷⁴ Other functions of the Summit are outlined in Clause 8 of The Intergovernmental Relations Act (2012).

Annex C:

Resource flows to county governments



Source: IBP, 2015

Annex D:

Key documents produced during the budget cycle

Documents that are prepared during the budget process of the budget cycle by both the national and the county governments include:

Budget Circulars – The circulars shall include:

- a schedule for preparation of the budget, indicating key dates by which various exercises are to be completed;
- the procedures for the review and projection of revenues and expenditures;
- key policy areas and issues that are to be taken into consideration when preparing the budget;
- procedures setting out the manner in which members of the public shall participate in the budget process;
- the format in which budget information and documents shall be submitted; and
- any other information that, in the opinion of the Cabinet Secretary, may assist the budget process

The ADP is produced by each county government. The ADP should contain:

- the medium-term priorities that the county governments hope to achieve. The priorities should be drawn from the CIDP, which is a medium-term (five-year) development plan for the counties;
- all government programmes with performance indicators/targets. They should show priorities organised under programmes in a similar manner as the programme based budget;
- descriptions of major development/capital projects. These details include information on individual projects, their locations, timelines for completion and projected costs;
- explanations of major changes to programmes or projects in the CIDP. These changes may be necessitated by certain factors like public input. The narrative (explanation) helps the public and the respective assemblies to understand how the changes were made; and

- overall budget and estimated costs for major programmes and projects. The PFMA 2012 requires the ADPs to have a summary budget for the whole county, with rough allocations (projected costs) for each programme based on their priorities.

The County Budget Review and Outlook Paper – The County Budget Review and Outlook Paper should contain the following:

- the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
- the updated economic and financial forecasts, with sufficient information to show changes from the forecasts in the most recent CFSP;
- information on: (i) any changes in the forecasts compared with the CFSP; or (ii) how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.

The National Budget Review and Outlook Paper – Which should contain the following:

- actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
- updated macroeconomic and financial forecasts, with sufficient information to show changes from the forecasts in the most recent Budget Policy Statement;
- information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest Budget Policy Statement; and
- the reasons for any deviation from the financial objectives, together with proposals to address the deviation and the time estimated to do so.

The Budget Policy Statement

The Budget Policy Statement sets out the broad strategic priorities and policy goals that will guide the national government and the county governments in preparing their budgets both for the following financial year and over the medium term (usually three years). The National Treasury shall include in the Budget Policy Statement:

- an assessment of the current state of the economy and the financial outlook over the medium term, including macroeconomic forecasts: performance;
- the financial outlook with respect to government revenue, expenditures and borrowing for the next financial year and over the medium term: projections;
- the proposed expenditure limits for the national government, including those of Parliament and the judiciary and indicative transfers to county governments: ceilings and
- the fiscal responsibility principles and financial objectives over the medium term, including limits on total annual debt: priorities.

The Division of Revenue Bill

- The Division of Revenue Bill divides the equitable share (revenue raised by the national government) between the national and the county governments.

The County Allocation of Revenue Bill

- Divides the equitable share allocated to the counties among them (using a formula currently developed by CRA. The next and subsequent formulas will be prepared by the Senate and revised every five years).
- Indicates any other allocations to the counties, from the national government's share of revenue, and any conditions on which those allocations shall be made.

The CFSP

- The CFSP at the county level is the equivalent of the national Budget Policy Statement. The CFSP is aligned with the national objectives contained in the Budget Policy Statement. In preparing the CFSP, the county Treasury shall:
- specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term;
- include in its CFSP the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.

The Finance Bill

- The Finance Bill sets out the revenue raising measures for the national and the county governments, together with a policy statement expounding on those measures.

The audit reports by the Auditor General

- The audit reports should confirm whether (or not) public funds have been applied lawfully and effectively. After auditing the accounts of all governments and other public entities, KENAO prescribes measures for securing efficient and transparent fiscal management.
- (Information obtained from the PFMA 2012. Additional information from various budget documents prepared by International Budget Partnership Kenya.)

Annex E:

Summary data tables

Table 64: Budgeted estimates and expenditures of recurrent and development expenditure for 10 counties, 2013/14 to 2015/16 (Ksh millions)

County	2013/14						2014/15						2015/16					
	Budget estimates			Expenditure			Budget estimates			Expenditure			Budget estimates			Expenditure		
	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total
Garissa	3,275.7	1,571.3	4,847.0	1,682.6	486.8	2,169.3	3,813.2	4,032.0	7,845.2	3,676.6	2,919.6	6,596.3	4,101.6	3,300.7	7,402.3	3,945.5	2,600.9	6,546.4
Kakamega	4,063.9	5,576.3	9,640.2	3,699.8	1,518.9	5,218.6	5,453.8	5,123.7	10,577.6	4,380.2	3,107.2	7,487.3	6,446.7	5,865.7	12,312.5	5,605.8	4,246.5	9,852.3
Kisii	3,710.0	2,843.2	6,553.2	3,193.2	1,575.7	4,768.8	4,590.4	2,859.2	7,449.6	4,254.8	2,283.5	6,538.3	5,578.9	3,601.2	9,180.1	5,399.7	2,540.7	7,940.5
Kitui	3,618.3	2,870.8	6,489.0	2,935.6	506.3	3,441.9	4,480.6	5,089.1	9,569.7	3,936.5	2,964.8	6,901.3	4,691.8	5,422.6	10,114.4	4,098.7	3,771.9	7,870.6
Migori	3,874.7	1,656.0	5,530.7	3,238.7	1,008.7	4,247.3	2,890.4	2,912.5	5,802.9	2,857.4	1,905.9	4,763.3	4,046.4	3,223.0	7,269.4	3,720.3	2,152.7	5,873.0
Mombasa	6,975.7	4,710.3	11,686.0	5,097.8	112.0	5,209.8	6,687.6	3,182.7	9,870.3	5,625.4	2,092.0	7,717.4	6,823.2	3,155.6	9,978.8	5,770.4	2,774.6	8,545.0
Nakuru	7,141.6	2,896.5	10,038.0	5,386.4	477.6	5,864.0	7,339.0	3,746.1	11,085.0	6,603.6	1,600.2	8,203.8	8,601.6	5,383.4	13,985.0	8,154.7	2,230.9	10,385.6
Nyeri	3,098.1	1,452.3	4,550.4	3,340.5	934.1	4,274.6	3,866.9	1,577.6	5,444.5	3,739.1	1,076.1	4,815.2	4,419.6	1,857.9	6,277.6	3,804.2	1,161.3	4,965.5
Siaya	2,944.9	1,319.2	4,264.1	2,082.5	380.4	2,462.9	3,432.6	2,452.1	5,884.7	2,704.8	1,466.7	4,171.6	3,724.2	3,222.1	6,946.3	3,098.2	1,835.1	4,933.3
Turkana	4,157.9	3,987.2	8,145.1	1,484.2	1,925.1	3,409.3	3,302.3	9,819.3	13,121.6	3,232.8	5,782.3	9,015.1	3,810.7	9,707.4	13,518.1	3,757.1	6,402.9	10,160.0

Source: COB, 2014b, 2015b, 2016b

Table 65: Absorption rates for recurrent and development expenditure for 10 counties, 2013/14 to 2015/16 (Ksh millions)

County	2013/14			2014/15			2015/16		
	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total
Garissa	51.4%	31.0%	44.8%	96.4%	72.4%	84.1%	96.2%	78.8%	88.4%
Kakamega	91.0%	27.2%	54.1%	80.3%	60.6%	70.8%	87.0%	72.4%	80.0%
Kisii	86.1%	55.4%	72.8%	92.7%	79.9%	87.8%	96.8%	70.6%	86.5%
Kitui	81.1%	17.6%	53.0%	87.9%	58.3%	72.1%	87.4%	69.6%	77.8%
Migori	83.6%	60.9%	76.8%	98.9%	65.4%	82.1%	91.9%	66.8%	80.8%
Mombasa	73.1%	2.4%	44.6%	84.1%	65.7%	78.2%	84.6%	87.9%	85.6%
Nakuru	75.4%	16.5%	58.4%	90.0%	42.7%	74.0%	94.8%	41.4%	74.3%
Nyeri	107.8%	64.3%	93.9%	96.7%	68.2%	88.4%	86.1%	62.5%	79.1%
Siaya	70.7%	28.8%	57.8%	78.8%	59.8%	70.9%	83.2%	57.0%	71.0%
Turkana	35.7%	48.3%	41.9%	97.9%	58.9%	68.7%	98.6%	66.0%	75.2%

Source: COB, 2014b, 2015b, 2016b

Table 66: Expenditure for 10 counties by economic classification, 2013/14 to 2015/16 (Ksh millions)

	2013/14					2014/15					2015/16				
County	Personnel	O&M	Dev expenditure	Debt and pending bills	Total	Personnel	O&M	Dev expenditure	Debt and pending bills	Total	Personnel	O&M	Dev expenditure	Debt and pending bills	Total
Garissa	1,046	637	487	0	2,169	1,447	2,230	2,845	75	6,596	2,270	1,675	2,601	-	6,546
Kakamega	2,612	1,075	1,519	14	5,219	2,940	1,440	31,072	506	35,957	3,740	1,866	4,247	-	9,852
Kisii	2,181	997	1,576	16	4,769	3,153	992	2,284	110	6,538	3,565	1,835	2,541	-	7,940
Kitui	1,836	1,099	506	0	3,442	2,234	1,506	2,848	312	6,901	2,556	1,543	3,772	-	7,871
Migori	1,327	1,911	1,009	0	4,247	1,648	1,182	1,906	205	4,941	2,150	1,571	2,153	-	5,873
Mombasa	3,154	1,948	108	0	5,210	4,045	1,581	2,090	50	7,765	4,000	1,770	2,775	-	8,545
Nakuru	2,956	2,385	478	45	5,864	4,365	1,879	1,600	359	8,203	4,797	3,358	2,231	-	10,386
Nyeri	2,568	736	934	37	4,275	2,583	1,157	1,076	0	4,815	2,613	1,191	1,161	-	4,965
Siaya	1,137	945	380	0	2,463	1,612	941	1,418	201	4,172	1,682	1,416	1,835	-	4,933
Turkana	543	942	1,925	0	3,409	1,381	1,839	5,291	492	9,003	2,277	1,450	6,433	-	10,160

Source: COB, 2014b, 2015b, 2016b.

Table 67: Breakdown of O&M recurrent expenditures relevant to development expenditure for 10 counties, 2013/14 to 2015/16 (Ksh millions)

	2013/14					2014/15					2015/16				
	Fuel, oil, lubricants	Routine maintenance	Purchase of motor vehicles	Other O&M lines	Total O&M	Fuel, oil, lubricants	Routine maintenance	Purchase of motor vehicles	Other O&M lines	Total O&M	Fuel, oil, lubricants	Routine maintenance	Purchase of motor vehicles	Other O&M lines	Total O&M
Garissa	44.5	25.6	108.6	458.2	636.9	178.6	152.0	230.0	1,669.4	2,230.0	166.6	-	-	1,027.7	1,194.3
Kakamega	36.1	59.6	182.9	862.4	1,141.0	46.7	-	-	1,379.7	1,426.3	45.4	37.8	121.3	1,083.1	1,287.5
Kisii	31.3	53.6	-	657.8	742.7	56.4	25.5	-	940.6	1,022.5	72.5	103.7	64.0	1,301.2	1,541.4
Kitui	37.0	28.2	136.2	898.1	1,099.5	79.5	73.7	276.0	1,077.1	1,506.3	85.4	82.4	43.0	1,116.5	1,327.3
Migori	63.5	49.6	334.6	1,439.0	1,886.7	68.8	43.1	-	1,070.6	1,182.5	120.6	117.7	-	943.3	1,181.5
Mombasa	80.2	166.6	58.2	1,643.0	1,948.0	11.4	30.9	-	801.3	843.6	45.4	24.1	-	745.5	815.0
Nakuru	66.1	25.3	171.9	1,818.4	2,081.7	31.3	71.9	-	972.9	1,076.0	-	-	60.6	1,232.4	1,293.0
Nyeri	26.0	35.0	194.0	353.0	608.0	52.6	45.2	-	1,058.8	1,156.6	34.7	30.7	-	1,125.6	1,191.0
Siaya	40.0	20.0	144.0	557.0	761.0	55.1	-	41.3	862.9	959.3	52.2	20.9	42.8	1,221.3	1,337.0
Turkana	47.6	64.3	466.2	700.7	1,278.8	223.3	68.9	-	974.9	1,267.1	74.8	123.4	-	1,003.9	1,202.1

Source: COB, 2014b, 2015b, 2016b

Annex F:

Health sector KPIs

Sub program		Planned Targets				Achieved Targets			
		2013/14	2014/15	2015/16		2013/14	2014/15	2015/16	
SP.1.1: Communicable disease control	No of PLHIV on ARVs	425,000	750,000	1,000,000		642,472	850,000	947,000	
	Proportion of counties implementing county-specific HIV&AIDS Strategic Plans, in line with KASF	NA	NA	32		NA	N/A	100	
	Number of first-line anti-TB medicine doses distributed	90,100	89,247	88,355		91,013	85,289	78,394	
	Number of artemether combination therapy (ACT) doses distributed to the public sector. (Million)	12	12	12		11	11	15	
	Number of AFP	NA	3	3		NA	2	3	
SP.1.2: Non-Communicable disease prevention & control	No. of Women of Reproductive Age (WRA) screened for cervical cancer	150,000	200,000	325,000		178,747	291,318	117,000	
SP.1.3: Radioactive waste management	Percentage of Radiation sources monitored for safety	NA	NA	NA		NA	NA	100.00%	
	Proportion of WRA receiving FP commodities	40%	45%	43%		NA	40.7%	47.4%	
	proportion of deliveries conducted by skilled birth attendants in public health facilities	61%	70%	78%		69%	74%	77%	
	Proportion of fully immunised children	80%	80%	80%		69%	71%	69%	
	Proportion of children aged 6-59 months given 2 doses of Vitamin A	64%	80%	60%		32%	25%	41%	
SP.1.5: Environmental Health	Number of counties implementing the Kenya Open defecation free (ODF) strategy	NA	47	47		NA	23	47	
SP2.1: National Referral Health Services	ALOS for trauma patients at KNH	31	29	13		36	35	36	
	Number of open heart surgeries done KNH	48	60	167		40	58	48	
	Number of renal transplants done KNH	26	28	30		25	24	20	
	Number of minimally invasive surgeries done KNH	421	1,554	3,537		447	531	684	
	Average waiting time for oncology treatment including radiotherapy KNH (months)	17	7	6		18	12	8	
	No. of kidney transplants undertaken MTRH	-	-	12		-	-	10	
	Average length of stay (ALOS)	7	6	6		6	6	7	
	Number of theatre operations	7,687	8,456	9,302		8,541	9,600	11,233	

		Planned Targets			Achieved Targets		
		2013/14	2014/15	2015/16	2013/14	2014/15	2015/16
Sub program							
SP2.2: Specialised Health Services	No. of patients receiving mental health services	200,000	250,000	260,000	243,254	276,359	280,410
SP2.3: Specialised Medical Equipment	No. of patients receiving spinal services	NA	200	250	NA	111	122
	No. of Public hospitals with specialized equipment	NA	98	98	NA	5	40
	Proportion of installed machines functional	NA	NA	100%	NA	100%	100%
SP2.4: Forensic and diagnostic services	No of blood units secured	NA	214,000	25,000	NA		155,000
SP2.5: Health Products & Technologies	order refill rate for HPTs	40	50	85	50	60	87
	Order turnaround time	15	12	10	12	10	9
SP3.1: Pre- Service and In- Service Training	No of middle-level health professionals graduating	7,000	8,000	7,501	12,000	13,000	15,000
SP3.2: Health Research	No. of briefs informing health policy	NA	8	9	NA	7	8
	No. of completed research projects	NA	7	10	NA	9	13
SP4.1: General Administration	Customer satisfaction index	NA	1	1	NA	1	NA
	No. of Schemes of services reviewed	2	2	3	7	3	9
	Number MOH staff projected and trained	NA	NA	NA	329	287	180
SP4.2: Financing and planning	Ratio of staff to computers (Technical Non-Technical).	NA	1:3 & 1:13	1:1 & 1:10	NA	1:1 & 1:10	1:1& 1:10
	No. of resources mobilised and utilised as per plan		100	100	100	90	89
	No. of strategies, plans and guidelines developed	2	3	2	2	3	3
	No. of performance review reports developed	2	2	2	2	2	2
S.P 5.1: Health Policy	No. of policies	NA	2	2	NA	2	1
S.P 5.2: Social protection in health	No of vulnerable persons accessing subsidised health insurance	NA		210,000	NA		219,200
	Health Financing Strategy	NA	NA	Policy	NA	NA	Draft policy
	Amount of funds disbursed (million)		700	900	700	900	900
SP5.3: Health Standards & regulations	No. of Health Laws and regulations developed	NA	NA	1	NA	1	2
	No. of Counties who are capacity built on agreed quality management system	NA	8	8	NA	8	-

Annex G:

Key WASH sector institutions

Institution	Description	Functions and responsibilities
MoWI	The current ministry was formed in April 2015 through the break-up of the Ministry of Water and Natural Resources. ⁴ The MoWI has five directorates: Administration; Water Services; Water Resources; Water Storage and Land Reclamation; and Irrigation and Drainage. The majority of expenditure relevant to this PER is under the Water Services directorate.	<ul style="list-style-type: none"> Overall policy guidance of the sector, including: national legislation and the supporting policies and sector strategies. Sector M&E. Sector investment planning and resource mobilisation. Capacity development. <p>The specific mandate of the Water Service directorate includes:</p> <ul style="list-style-type: none"> Safety of hydraulic structures; quality assurance of design works; developing of water development master plans; developing, updating water and sewerage designs and construction standards; advisory role to all other government agencies on construction of water and sewerage systems; capacity building of the county governments; policy formulation; development of water and sewerage strategies; supervision and coordination of water services subsector institutions; monitoring and evaluating the impact of investments; coordination of water services development programmes; resource mobilisation; facilitation of development support from development partners; and coordination of sanitation issues.
MOH	In 2008 the MOH was divided into the Ministry of Public Health and the Ministry of Medical Services. In 2013 these two ministries were brought back together and are now two of the three departments of the MOH.	<p>The national-level mandate in relation to health is for:</p> <ul style="list-style-type: none"> overall policy guidance of the sector including: national legislation and the supporting policies and sector strategies; sector M&E; sector investment planning and resource mobilisation; and capacity development.

Institution	Description	Functions and responsibilities
WASREB	WASREB is a non-commercial state corporation established in 2003 following the Water Act 2002. WASREB sets rules and enforces standards that guide the sector towards ensuring that consumers are protected and have access to efficient, affordable and sustainable services.	<p>Key functions include:</p> <ul style="list-style-type: none"> • Issues licences for the provision of water services • Establishes and monitors standards for service provision and monitor progress in line with the Water Services Strategy • Monitors and regulates licensees and enforces licence conditions • Develops guidelines for fixing of tariffs for the provision of water services • Develops model performance agreements for use between licensees and WSPs; and monitors the operation of agreements between WSBs and WSPs; and takes appropriate action to improve their effectiveness
WSBs	The WSBs were formed following the Water Act 2002, between 2003 and 2004. They are the asset holders for the water and sanitation infrastructure in their respective jurisdictions.	<p>The functions of the WSBs include:</p> <ul style="list-style-type: none"> • planning and developing National public water works for bulk water supply and sewage in their service areas; • formulating and developing and investment plans in liaison with county governments; • providing technical assistance to WSPs for county asset development; and • contracting of WSPs.
WSPs	The WSPs are the service delivery agents in the water sector. There are currently 91 licensed providers, with roughly 20 million people in their service areas. The water companies were formed following the Water Act 2002. All are commercialised, with the vast majority being state owned.	<p>Under the service provision the WSPs usually have a mandate to:</p> <ul style="list-style-type: none"> • collect tariff revenue; and • operate and maintain water and sewage infrastructure in their service areas.

Institution	Description	Functions and responsibilities
CMoWs	These ministries were formed following the promulgation of the constitution. Often the responsibilities for environment, natural resources, irrigation, agriculture and energy are included under a single county ministry.	<p>The mandate of the CMoWs is county dependant but most include:</p> <ul style="list-style-type: none"> • formulation and review of county policy and legislation related to water; • implementation of national and county policies and legislation; • development and conservation of water resources; • water provision, both in towns and rural areas; • management of sewage; and • solid waste management.
County ministries of health	These ministries were formed following the promulgation of the Constitution. Largely they have responsibility for health only and divide their structure along curative and preventative lines.	<p>In relation to WASH the most important mandate relates to public health, with responsibilities extending to:</p> <ul style="list-style-type: none"> • formulation and review of county policy and legislation related to public health; • implementation of national and county policies and legislation; • surveillance of water quality; • disease surveillance; • health promotion education; and • environmental health, including food licensing and surveillance.
WSTF	The WSTF was formed following the Water Act 2002. It is one of the main channels through which donor funding enters the sector.	<p>The mandate /object of the Fund is to provide conditional and unconditional grants to the counties and to assist in financing the development of and management of water services in the marginalised and underserved areas, including:</p> <ul style="list-style-type: none"> • community-level initiatives for the sustainable management of water resources; • development of water services in rural areas considered not to be commercially viable; and • development of water services in the underserved poor urban areas.
Other important actors include: The national Water Conservation and Pipeline Corporation; WRMA; the Kenya Water Institute; and the Water Appeals Board. These institutions are left out of the description here as they are less central to WASH service delivery than those listed above.		

Annex H:

List of stakeholders consulted

Organisation/ department	County	Name
UNICEF	National	Andrew Trevett
		Ousmane Niang
		Godfrey K. Ndeng'e
		Shivanarain Singh
		Rory Nefdt
		Muna Shalita
		Mwangi Kibathi
		Jacob Kipkeny
	Garissa	Mohamed Abdulahi
	Turkana	Philip Aemun
	Kisumu	Margret Gwanda
		Jackson Mutia
		Dr. Edwin Lutomia
World Bank		Jane Chuma
		Jane Wangui Kiringai
		Lewnida Sara
UN Women		Maureen Gitonga
Development Partners in Health Kenya		Sandra Erikson
National Treasury		Dr Geoffrey Mwau
		Dennis Masinde
		Fred Owengi
		Mr. Francis Anyona
		Mr. Francis Kiilu
		Carol Anne
Controller of Budget (COB)		Agnes Odhiambo
		Mr. Joshua Musyimi
Director of Parliamentary budget office		Joseph Ndirangu
WASREB		Eng. Robert Gakubia
		Richard Cheruiyot
MOH		Dr Kepha Ombacho
		Dr Omar
Ministry of Water, Agriculture and Irrigation		Kennedy Musumba
		Eng. Lawrence Simitu
		Sophia Atieno Opiyo
		Dorcas Otieno
		Joyce Muchiti

Organisation/department	County	Name
Council of Governors (COG)		Jacqueline Mogueni
		Mr. Victor Odanga
		M/s Eunice Fedha
		Mr. Joseph Kung'u
		Masiga Asunga
		Bashir Billow
		Ngetuny Emanuel
General	Mombasa County	Francis Thoya
General		Jane Wandia
Water		Nasoro Bakari
COB		Wilfred Kakucha
Water		Mr. Peter Kimanthi Mbuvi
Health		Dr. Salma Swale
Health		Esha Mohamed Bakam
Health		Lucy Nyambura
Health		Hon Mohamed Ibrahim Abdi
Health		Shikely Khadija
General		Rehema Abdulazz
General		Mtalakui Mwashimba
General		Maureen K. Nyundo
General	Nyeri County	Solomon Chengecha
General		Mr. Francis Kirira
General		Mr. Richard Kimani
Water		Peter Gichaaga
Water		Eng. Stephen Githinji
Health		Dr. Munyua Macharia
Health		Dr Nelson Muriu
General		Paul Gachukia
General		John Mugenyu
Water	Kisumu	Daniel Obwamba
General	Kitui County	Alex Kimanzi
Health		Fredrick M. Muli
Health		Alex Muthyo
Health		Johnson Muinde
Water		Kennedy Muteti
General		Enoch Nguthu
Water		Jacob Mutua

Organisation/ department	County	Name
Water	Siaya County	Hon. Sarah Ondego
Water		Arthur Omollo
Health		Hon. Dr. Olango Onudi
Health		Dorothy Owino
General		Ethelberta Mutgayina
General		Dave Anyona Kanundu
Water		Julius Nyandiango
General		Lawrence Nyamwaya Kenyatta
General		Moses Otieno
General		Peter Lugulu
General		Jennifer Ogola
General		Juliet Owino
General		Dan Okoth
General		Edward Mwatha
Health		Mable Chanzu
Water	Kakamega County	Hon Robert Sumbi
Water		Joel Wamalwa
Health		Hon. Penina Mukabane
Health		Dr. Brenda Barasa
General		Samson Obwanga
Health		Dr David Oluoch
General		Jacob Mumia
Water		Eng. Alfred Amombo
Water		Eng. Peter Amollo Ouma
Health		Paul Manyasi
Health		Aggrey K. Indige
Health		Ondari Peter
General	Migori County	Chris Rusana
Health		Dr Gondi
Water		Elizabeth Ogweno
Health		Hon. Joseph Nyamita
Health		Kennedy Ochieng Ombogo
Health		Tukiko Agul
Health		Douglas Kimaiga
Water		Mr Isaac Mudhengi
Water		Peter Pesa
Water		Mr David Ombetu
General		Duncan W Mburu
General		Emilly moturi
Water		Charles Wambura
Water		George Adwera
Health		Dalmas Oyugi

Organisation/ department	County	Name
Water	Kisii County	Hon Moiru Omari
General		Johnstone Ndege
General		Wilfred Auma
Water		David Ongoro
Water		Zablon Ongori
Health		Hon. Sarah Omache
Water		Eng. Joan Moguche Zacharia
Health		Dr Geoffry
Health		Melitus kabar
Health		Kevin Andoalla
Health		Alice Abuki
Water	Garissa County	Hon Mohamed Aden Noor
Water		Mohamed Abdi Ali
Health		Dr. Sofia Ahmed
Health		Dr Siyat Moge
Health		Hon Hubbie Alhaji Hussein
Water		Abdkadir Osman
General		Robert Mutai
Health		Ahmed Haji
Health		Hassan D. Elmi
Health		Ahmed A. Arab
General		Hassan Abdirahman
Water		Mohamed Onle
General		Muktar Buro
General		Abdirahman Noor Hassan
General		Mohamud Aden Bare
General	Nakuru County	P.K. Torome
Health		Dr Mwaura
Health		Dr. Joe Lenai
Health		Hon Dr. Daniel Mungai Kabii
Health		Luke Kitpoon
General		Cyrus Kahiga
General		Jacinta Mwangi
Water		Ruben Korir
Water		Nelson Maar
Water		Johnson K. Njuguna

Organisation/ department	County	Name
Water	Turkana County	Hon. Linus Ebenyo
Water		Paul Ekutan
Health		Hon. Jane A. Ajele
Health		Agnes E. Mana
Health		Dr Joseph Epem
Health		Alfred Emanimam
Health		Reuben Kibiego
Water		Kenneth Omondi
Water		Francis Adome
Water		Bernard Adungo
General		John Namoit
Health		Sarah Lokaala
Health		Ronnie Odongo
General		Victor Lekaram



Public Expenditure Review

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