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REPORT ON THE

PERMANENT SECRETARIES WORKSHOP ON

Financial Management

March 12, 1992

Office of Vice-President and Ministry of Finance and
the Strengthening Budget and Economic Management Project

Nairobi, March 1992

OFFICE OF THE VICE-PRESIDENT AND MINISTRY OF FINANCE

REPORT OF THE PERMANENT SECRETARIES WORKSHOP ON FINANCIAL MANAGEMENT

1. Introduction

The Office of the Vice-President and the Ministry of Finance organized a one-day workshop for all Accounting Officers (Permanent Secretaries) on Thursday, March 12, 1992 at the Kenya Commercial Bank College of Banking and Finance at Karen, Nairobi. The main objective of the workshop was to brief the Accounting Officers on the current economic and fiscal situation and to seek their views and recommendations for reducing the rate of growth of Ministry expenditures and for improving their efficiency and productivity.

1.2 Four Discussion Briefs on the following subjects were prepared by the Office of the Vice-President and Ministry of Finance and circulated in advance to the participants, as background material for discussion:

1. Discussion Brief 1/92 : Budget and the National Economy,
2. Discussion Brief 2/92 : Current Fiscal Situation and 1992/93 Financial Planning,
3. Discussion Brief 3/92 : Budget Management and Financial Control and
4. Discussion Brief 4/92 : Rationalization of Public Expenditures.

1.3 The workshop discussions were chaired by Dr W. Koinange, Permanent Secretary, Office of the Vice-President and Ministry of Finance. Welcoming the participants to the workshop, Dr Koinange briefly explained the background and the current status of the economic adjustment programme being implemented by the Government and the fiscal constraints being noticed in financing this year's budgeted expenditures. Dr Koinange also highlighted on the importance of controlling this year's budget deficit and on ensuring that the 1992/93 budget deficit is on target, in order to get back into a suitable macroeconomic programme.

1.4 The agenda followed for the workshop and the list of participants are attached as Annex I and Annex II respectively.

2. Message from H.E. The President

2.1 The workshop was inaugurated by Prof. Philip Mbithi, Secretary to the Cabinet, Head of the Public Service and Permanent Secretary in the Office of the President. At the outset Prof. Mbithi conveyed a special message from H.E. The President to the workshop participants. Emphasizing the importance of the workshop, H.E The President directed that all Permanent Secretaries should go into the details of the working of their Ministries and ensure the following:

(1) Permanent Secretaries should exercise strict control on extra expenditures, so that the existing commitments on debt service and pending bills can be met. For this purpose, all Ministries should give priority to the settlement of pending bills before making any new commitments;

(2) The non-payment of bills on electricity, water and telephone expenses by Ministries leads to financial problems in the State Corporations creating a vicious cycle of poor financial management. Each Permanent Secretary should therefore give top priority to the settlement of such bills;

(3) Permanent Secretaries must ensure that all payments to contractors are made after following strictly the existing financial regulations. Permanent Secretaries should take particular care to distance themselves

from contractors and ensure that Government integrity is maintained in all financial transactions;

(4) Variation of contracts, once contracts they have been approved and signed should be completely prohibited and any violation of this directive will be viewed very seriously.

(5) Permanent Secretaries are responsible to ensure that strict priorities are followed in funding projects. Projects motivated by personal interests must be rejected and as Accounting Officers, they should organize their work within a programme that is both rational and can be financed. They should therefore resist political pressures for funding projects quietly and firmly.

(6) Effective action must be taken to control the eight or nine runaway parastatals whose financial performance has become a matter of concern to the Government.

(7) Accounting Officers must exercise strict financial discipline and advise their Ministers technically on all matters.

3. Inaugural Address by the Head of the Public Service

3.1 In his inaugural address, Prof Mbithi urged the participants to appreciate the close linkages that existed between the Government budget and the national economy and urged them to ensure that the fiscal targets on budget deficit are adhered to by concentrating expenditures on the most high priority projects and programmes. Given the current economic situation and balance of payments difficulties, Prof. Mbithi urged the participants to make sure that Government expenditures are concentrated on high priority projects and on programmes which will assist in increasing production and productivity in the economy. Prof. Mbithi also urged the Permanent Secretaries to take the initiative and leadership in determining priorities for expenditures in their sector. The full text of Prof. Mbithi's address is given in Annex III.

4. Presentation of Discussion Briefs

4.1 At the beginning of each session, the material covered in the respective Discussion Brief for the session was summarized. Prof.Ryan, Economic Secretary explained the trends in the economy, particularly the critical balance of payments situation and the close relationship that existed between the composition of Government expenditures and economic performance. In the second session, Mr D.B. Kimutai, Financial Secretary, traced the growth of revenues and expenditures during the last ten years, the reasons for increase in Consolidated Fund Services (CFS) payments and the process through which the Ministry expenditure ceilings were established. Reviewing the fiscal performance since 1986/87, the Financial Secretary highlighted the fact that since the implementation of the Budget Rationalization Programme, the overall budget deficits have been controlled, except during 1990/91. However, the continuing increases in CFS payments and the balance of payments situation required even further reductions in the deficit levels. During this session, Mr Kimutai also reviewed in detail, the fiscal performance so far in 1991/92 as well as the tentative expenditure plans for 1992/93.

4.2 During the third session on budget management and financial control, Mr I.G. Mwaniki, Director of Accountancy Services explained the fiscal problems arising out of the tendency to incur large supplementary expenditures and the issuance of cheques by Ministries without adequate balance in the cash-book. Mr Mwaniki also dealt on the need to control commitments and to prevent excess votes, both of which required a considerable tightening of financial control at the Ministry level. Dealing with the increases in the PMG overdrafts, Mr Mwaniki also explained that such increases are mainly contributed by debt service (CFS) payments not debited to the Exchequer, issuance of cheques without cash balance and excess votes.

4.3 Briefly presenting the material covered in the Discussion Brief on Rationalizing Public Expenditures, Dr S. Ramakrishnan, Senior Adviser, highlighted the fact that all expenditures on 100% GOK projects in the development vote are financed entirely through very expensive domestic borrowings as a result of the rapid decline in the current surplus available for development expenditures. A number of Ministries have a very large portfolio of under-funded GOK projects, which could take many years to complete because of this financial constraint. Dr Ramakrishnan also explained that the general and financial guidelines in the Budget Rationalization Programme for allocating the available budgetary resources should be supplemented by Ministry-specific priorities so as to improve the quality of the current portfolio of projects and to rationalize the number of projects in the PIP and annual budgets.

5. Brief Summary of Discussions

5.1 A number of Permanent Secretaries wanted to know as to how the expenditure ceilings for Ministries were arrived at and whether the special needs of some Ministries such as pending bills are taken into account while determining ceilings. It was explained that total Government expenditures are based on the projection of revenues less the requirements for Consolidated Fund Services (CFS) and a target level of budget deficit; the target budget deficit is determined in advance, based on an assessment of the macroeconomic variables such as inflation, trends in money supply growth, balance of payments situation and the availability of concessionary loans to finance the deficit. The distribution of the total expenditure ceilings amongst the Ministries is based on the expenditure levels reflected in the forward budget, produced every year. It was also clarified that all expenditures for a Ministry will have to be contained within the expenditure ceilings and that increases in ceilings for a particular Ministry can only be had, if corresponding reductions in ceilings are made in some other Ministry.

5.2 On the question of pending bills the workshop was informed that the Government is concerned over the delays in settling such bills, particularly bills pertaining to electricity, water and telephones. In a number of Ministries pending bills of contractors have also accumulated due to the incurring of commitments far above the budget provisions and frequent variations of contracts. It was clarified that as per the existing financial regulations, pending bills should form the first charge on the available budget resources, and hence must be properly assessed and budgeted for at the time of preparing annual estimates. Where necessary, expenditures in other areas and fresh commitments must be reduced, till such pending bills are settled. All Permanent Secretaries were requested by the Chairman of the workshop to assess the extent of pending bills in their votes and send the information to the Office of the President and Treasury, so that ways and means could be found for settling them.

5.3 On the question of increasing the AIA (direct payments) provisions in the development budget for loan-financed projects, it was felt that since these payments are made by the donors to the contractors on certification by the Permanent Secretary concerned, there should not be any objection to increasing them, with a view to speed up disbursements. It was however explained that such increases in the budget provisions for loan-financed projects will increase the overall budget deficit and can only be considered, if there are likely savings in other loan-financed projects.

5.4 There was considerable agreement amongst the participants that the practice of issuing cheques without adequate balance in the cash-book must be controlled and action must be taken against those responsible for this practice. Some Accounting Officers however expressed concern that officers in charge of Accounting Units in their Ministries are often responsible for this practice and that the Treasury should clarify as to whom such officers are responsible. It was clarified that all officers in the Ministry, including the Heads of Accounting Units are answerable to the Permanent Secretary and that in financial matters, Permanent Secretaries as Accounting Officers are responsible for all aspects of financial management. In this

connection, the practice of approving cheques above a certain financial limit followed by the Permanent Secretary, Ministry of Transport and Communications was mentioned as a method through which better control can be exercised.

5.5 On the increasing share of salaries and allowances, some concern was expressed about the social consequences of a large scale reduction in the rate of growth of employment in Government. While it was agreed that there could be excess staffing at lower levels in some Ministries, in a number of other Ministries, the services being performed were labour-intensive and hence it is obvious that the share of salaries and allowances in the total expenditures will be high. It was also felt that Ministries should exercise greater control in recruitment of non-technical staff at lower levels and ensure that the existing directives issued by the Directorate of Personnel Management are implemented effectively.

5.6 Many participants felt that the practice of cutting budgets during the course of the year contributes to the accumulation of pending bills and must be avoided in future. The reasons behind cutting the budget range from shortfalls in anticipated revenues and grants, payments by the Exchequer of debt service defaulted by State Corporations and the incurring of additional expenditures by a number of Ministries. It was also emphasized that the actual release of cash by the Treasury is based on liquidity and often it becomes necessary to reduce such issues to a level which is below the budget provisions, due to constraints being experienced in the realization of revenues and programme assistance.

5.7 A number of Permanent Secretaries agreed that there is an urgent need to establish clear priorities in each sector and reduce the number of projects and commitments, so that the available budgetary resources could be concentrated on completing high priority projects. In this regard, the Permanent Secretary, Ministry of Works, explained in detail the review of all Government building projects in Ministries and selected State Corporations, by the Committee of Permanent Secretaries

(Rationalization Committee). The review resulted in the identification of a number of projects and consultancies for design to be phased out and/or reduced in scope, so that projects identified for continuation could be completed within the budgetary resources available. Participants felt that there was a need for such rationalization in other GOK financed projects such as road projects, water supply projects and the construction of health centres, in order to complete the high priority projects in time and avoid cost escalation.

5.8 On the question of operating expenses for improving the utilization of physical infrastructure and Government services, it was felt that the magnitude of under-utilization differed from sector to sector and that there is an urgent need to increase the allocations in this area. While the reduction in the number of GOK financed development projects could release resources in some sectors, the problem requires more detailed assessment by the Ministries, so that priorities can be established for improving the allocation of operating expenses. It was felt that given the current fiscal constraints, it may not be possible to increase operating expenses across the board for all programmes and services. There is also the need to develop standard norms for increasing operating expenses and to assess the recurrent cost implications of the on-going and completed development projects, particularly in the water and the health sectors.

5.9 Permanent Secretaries also expressed concern that the budget was not able to provide enough funding as GOK contribution for donor projects. It was felt that priority should be given while allocating resources to earmark enough Government financial contributions for such projects, according to the agreed level in the project document. In many Ministries this will require a further scaling down of the expenditures on 100% GOK financed projects.

5.10 Participants also urged that the Treasury should take even more vigorous efforts to increase the realization of revenues. While it was agreed that the potential for increasing the current rates was somewhat limited, there is still the need to increase the base, reduce tax evasion and improve collection.

5.11 The need for all Permanent Secretaries to have up-to-date information on all projects and programmes as well as other statistics such as the number of people employed was highlighted by Mr A.K. Kiptanui, Comptroller of State House. On a number of occasions, Permanent Secretaries were not in a position to supply such information quickly to the Head of the State, leading to an impression of a lack of awareness of details. Mr Kiptanui also suggested that such project information could be very useful to identify duplication of efforts. The Financial Secretary explained that as far as donor-financed projects are concerned such project level information is readily available and is published at the end of the forward and annual budget exercises. Also, the Recurrent Estimates of each Ministry provides information on the number of authorized positions in a Ministry and the actual number employed, by job-group. Mr Kiptanui also felt the need to ensure that the Treasury Circulars are brief and to the point and ceilings are properly explained to the Ministry officers.

5.12 Towards the end of general discussions, Mr W. Kimalat, Permanent Secretary, Provincial Administration in the Office of the President suggested that Permanent Secretaries should go into the detailed working of their Ministries and take a personal interest in improving the general and financial management. The practice of blaming the Treasury for all their problems should be stopped and an effort should be made to work together as a team, so that projects and programmes are evaluated objectively, action initiated to avoid duplication and an element of flexibility and qualitative analysis introduced in financial management. Mr Kimalat also emphasized on the importance of establishing a proper expenditure monitoring system, so that actual expenditures and commitments are routinely monitored and controlled.

6. Remarks by the Controller and Auditor General

6.1 Reacting briefly to the discussions, Mr D.G. Njoroge, the Controller and Auditor General stated that as a result of the substantial increase in the costs of debt service, nearly 60% to 65% of the available revenues go to CFS payments and that sometimes, the Government is forced to borrow even for payment of salaries. Under these circumstances, the question of controlling the rate of increase in Government pay-roll must be addressed urgently as nearly 63% of the recurrent budget is now accounted for by salaries and allowances. Mr Njoroge also emphasized that it is extremely important for the Ministries to adhere to the expenditure ceilings and exercise strict control over commitments.

6.2 Stating that the present volume of pending bills is mainly due to a lack of effective control over commitments by various Ministries, Mr Njoroge also stated that such bills should form the first charge on the available budget resources and must be first paid at the beginning of the financial year, before incurring new commitments or starting new projects. Mr Njoroge also explained that budget estimates refer to the potential level of expenditures that can be incurred in a financial year, whereas the actual expenditures by Ministries must be limited to the availability of cash released by the Exchequer.

7. Recommendations on Specific Issues

7.1 At the conclusion of the discussions, the Chairman suggested that the participants divide themselves into two groups and consider some of the more specific issues in financial management for the purpose of making some specific recommendations. The Chairman also explained that the list of issues identified for the workshop should not be considered exhaustive, but represents some of the more important ones for immediate action. The list of issues and the recommendations made are given below:

GROUP I

1. Government Employment Issues

What measures should be taken to control recruitment especially by districts and provinces; What measures should be enforced to ensure complement control; should authorized posts that have remained vacant for more than six months be removed?

a. It is recommended that all Accounting Officers must exercise strict control over any fresh recruitment in their Ministry/Department for all job groups, by very closely supervising the working of the Personnel Units in their Ministry. The recruitment at provinces and districts should be done only the Accounting Officers.

b. The Directorate of Personnel Management (DPM) should issue appropriate guidelines and instructions to ensure that no recruitment is done at any level, unless there is an authorized establishment.

c. It is recommended that the Establishment Committee for the creation of new posts must be revitalized and senior officers should take part in the discussions.

d. The DPM should monitor and review the actual number of employees so as to ensure effective complement control.

e. The existing directives prohibiting the recruitment for positions in Job Groups A to G, should also be strictly applied for recruitment of casuals.

f. The DPM should very quickly identify excess employment, i.e employment above the authorized establishment and consider immediate measures for the re-deployment of excess staff to such of those Ministries where vacancies exist or for new services as and when any additional posts are authorized. The DPM must ensure that some Ministries do not recruit new people while in others there is still excess employment of the same type of staff.

g. Posts that have remained vacant for more than six months must be removed from the establishment. However before doing so, the DPM should ascertain whether some of the vacancies can be filled by redeploying people from Ministries with excess establishment.

h. It is recommended that in order to reduce the rate of growth of salaries and allowances, early retirement from civil service should be encouraged. It is also recommended that the Government consider establishing a Special Fund to give special benefits for those who are to be retired, before their normal retirement age.

2. User Charges

Collection of User Charges - Potential and Problems in monitoring actual collections, recovery of arrears, accounting and actual use;

a. The Workshop noted that there is considerable potential for the levy of user charges for Government services, as a mechanism for increasing the availability of resources for operating expenses. It is therefore recommended that once a decision is taken to levy user charges, there should not be any reversal of the policy. Also, before decisions are taken for levying any fresh user charges, there should be a thorough assessment of the potential collection procedures and efforts to educate the public of its benefits through improvement in services.

b. All Accounting Officers should thoroughly review the actual collection of AIA's in their Ministry and implement measures to ensure proper accounting and use of funds realized. A regular system of monitoring actual AIA collections should be established, so as to identify problems in the realization of budgeted AIA's.

c. It is recommended that in some cases, such as for example road tolls, user charges could be recovered more efficiently and in a less costly manner through the levy of surcharges on existing revenues.

3. Expenditure Monitoring System

How can Ministries ensure that there is an orderly review of actual expenditures and commitments each month; what steps can be taken to ensure that the Treasury gets the monthly expenditure reports every month, by the 15th?

a. Accounting Officers should issue instructions to their Accounting Units and require them to produce monthly expenditure reports in the formats prescribed by the Treasury. Action should be initiated against such of those officers within the Ministry and in the districts causing delays in the production of monthly expenditure reports.

4. Issuance of Cheques Without Balance in the Cash-book

What steps can be taken to stop this practice? Should officers responsible be surcharged?

a. It is recommended that this practice must be completely eradicated by all Accounting Officers. It is also recommended that officers found responsible for this practice should be subjected to severe disciplinary measures, including the levy of surcharge.

5. Supplementary Estimates

What steps can be taken to minimize supplementary expenditures and confine them only to requirements of very high priority which cannot be postponed? Should all such needs for additional expenditures limited to and met from the Civil Contingency Fund?

a. It is recommended that supplementary estimates should be allowed only for emergency expenditures and not for normal services and projects. Such supplementaries should also be limited to and financed from the Civil Contingency Fund. In order that this recommendation is effectively implemented by all Ministries, it is also recommended that Accounting Officers take particular care in finalizing their draft estimates proposals, to ensure that all requirement of funds during the year are identified and properly prioritized within the given expenditure ceilings.

c. It is also recommended that the Treasury should desist from the practice of approving additional expenditures and releasing Exchequer cash for such additional expenditures, once the budget is published. All such additional requirements, wherever they may arise, must be met by reallocation from within a Ministry's budget.

6. Measures to enforce economies in the use of vehicles telephone, electricity etc., How can the use of Government vehicles be avoided on Fridays and weekends? What steps can be taken to reduce expenditures on transport and travel, telephones, electricity and water.

a. It is recommended that Accounting Officers must take steps to completely prohibit the use of Government vehicles on Fridays and week-ends; they should also review the current practices of authorization of use of Government vehicles in their Ministry, identify loopholes and ensure that such authorizations are given strictly for official purposes and by responsible and senior officers. In authorizing long trips, it must be ensured that the vehicle is shared by enough number of officers to reduce expenditures on fuel.

b. It is recommended that the number of direct lines and level 9's in each Ministry should be further reduced, a ceiling should be allocated for each direct line in a Ministry and any expenditure above the ceiling should be recovered from the officer concerned. Accounting Officers must also ensure that where a direct line is provided, the same officer is not given a level 9 extension, to prevent misuse by secretaries and subordinate staff.

c. It is recommended that Accounting Officers should assign responsibility to a senior officer in the Ministry to ensure that all lights are switched off after before people leave the building.

d. It is recommended that Government residential houses which are not having water meters should be provided with the same, and the occupants made to pay on the basis of actual consumption.

7. Pending Bills

What are the recommendations to pay the existing pending bills and ensure that these do not accumulate beyond a point?

a. It is recommended that Accounting Officers should promote financial discipline by all officers in their Ministry to avoid the accumulation of pending bills. Pending bills should always be considered the first charge on available budgetary resources and should be catered for while preparing the annual estimates.

b. It is noted that most of the pending bills are the result of incurring of excess commitments through the authorization of new services, commencement or variation of construction projects, when there are no corresponding budget provisions for such expenditures. The workshop also noted that the practice of incurring commitments by State Corporations such as Regional Development Authorities and Research Institutes financed entirely through the Ministry budget, without any relation to the budget provisions or the levels of expenditure reflected in the forward budget for future years, requires to be effectively controlled by the Accounting Officers to avoid the accumulation of pending bills.

GROUP II

1. Rationalization of Government Building Programme

How can the recommendations of the Committee be implemented starting from the 1992/93 budget? How can uniform standards be laid down for payment of consultants fees? How can we ensure that Ministries and State Corporations do not incur commitments and engage consultants before getting Treasury approval?

a. It is recommended that only such of those buildings whose construction has reached an advanced stage, i.e. 90% or more should be completed. In those projects whose engineering design are at an advanced stage, only the design work should be completed, so that designs are retained for future use. Those projects whose engineering designs have not yet started or at an early stage, i.e less than 25%, should be stopped immediately.

b. The recommendations of the Committee of Secretaries (Rationalization Committee) should be incorporated in the 1992/93 annual estimates, by not making any budget provisions for such of those construction projects and consultancy studies which have been postponed or canceled. The available ceiling~~s~~ should be earmarked for (i) payment of pending contractors bills ~~and~~ certificates, and (ii) completion of projects or consultancies which are 90% completed, in that order. If there are funds still left in the GOK ceilings, only such of those Government construction projects which have been recommended for continuation by the Committee should be included in the annual estimates. In such of those Ministries where the Treasury GOK ceilings are not adequate for (i) and (ii) above further rationalization of Government construction projects should be carried out by the Ministry concerned.

c. The above criteria for the selection of building projects for inclusion in the annual estimates 1992/93 should also be followed by all State Corporations.

d. There is an urgent need to change the formula for payment to engineering and design consultants, which seems to be based on a percentage of the total cost of construction proposed. Apart from leading to very expensive buildings and inappropriate designs, this practice also leads to large expenditures on design of buildings, at a time of serious financial constraints for completing on-going construction projects. It is recommended that the Ministry of Public Works should propose an alternative formula, keeping in view the need to economize expenditures and to ensure viable designs. The Ministry of Public Works should also issue standard or type designs for different types of Government buildings, so that unnecessary expenditures on such consultancies can be avoided.

e. With a view to control commitments on consultancies for design of building projects, it is recommended that no such commitment should be entered into by Ministries and State Corporations, without obtaining in advance, the specific and written approval of the Treasury.

2. Water Supply Projects

How can the number of on-going water supply projects be rationalized? What guidelines or criteria should be followed for assessing requests for new water supply projects?

a. It is recommended that criteria similar to those developed by the Rationalization Committee for Government buildings be developed by the Ministry of Water Development, to bring down the number of on-going and proposed water projects to a reasonable number. These criteria should be supplemented by sectoral policies for water supply and an effort should be made to determine which of the on-going and proposed projects should be completed, which of them should be phased down and which projects should be canceled, keeping in view the limited GOK budgetary ceilings likely to be available in the next two to three years.

b. The Ministry of Water Development should also ensure that the available GOK budgetary resources in the 1992/93 budget are concentrated on (i) paying pending bills and (ii) completing projects which are 90% complete. If, and only if, there will be sufficient resources available in the ceilings after meeting the requirements of (i) and (ii), all other projects be considered for funding in the annual budget. Similar rationalization is recommended for the on-going and proposed consultancy studies for water projects, to reduce unnecessary expenditures on such studies for such of those projects not likely to be funded in the next two or three years.

c. In order that all the agencies concerned, including the DDC's, the Sectoral Planning Group and the Estimates Working Group are properly guided, the Ministry of Water Development should prepare and publish widely the criteria that will be followed for the funding of new water supply projects.

3. Road Projects

How can the number of on-going road projects be rationalized? What guidelines or criteria should be followed for assessing requests for new road projects?

a. In view of the financial constraints for completing all on-going and new 100% GOK financed road projects, it is recommended that the Rationalization Committee review all projects, and keeping in view the GOK ceilings likely to be available in the next two or three years and the economic benefits being generated, recommend projects to be continued, to be scaled down, to be phased out and to be stopped or canceled. These recommendations should form the basis for funding for such projects in the 1992/93 annual estimates;

b. As in the case of the water development sector, it is recommended that the Ministry of Public Works should also ensure that the available GOK budgetary resources in the 1992/93 budget are concentrated on (i) paying pending bills and (ii) completing projects which are 90% complete. If, and only if, there will be sufficient resources available in the ceilings after meeting the requirements of (i) and (ii), should other projects be considered for funding in the annual budget. Similar rationalization is recommended for the on-going and proposed consultancy studies, if any for road projects, to reduce unnecessary expenditures on such studies for such of those projects not likely to be funded in the next two or three years.

c. In order that all the agencies concerned, including the DDC's, the Sectoral Planning Group and the Estimates Working Group are properly guided, the Ministry of Public Works should prepare and publish widely the criteria that will be followed for the funding of new road projects.

4. Recurrent Costs of Completed Projects

What are the sectors in which priority should be given for increasing recurrent costs? How can Ministries assess the requirement of funds for on-going and completed projects?

a. It is recommended that economic sectors, particularly road maintenance and repairs and maintenance of other physical infrastructure essential for increasing production and productivity in the economy, should be given priority for the allocation of increased funds for recurrent costs. Similarly in respect of Government services, increased allocation of operating expenses should be considered for such of those services whose output is capable of increasing production and productivity in the private sector in the short run.

b. At the time of preparing the PIP and the Forward Budget, Ministries should identify the recurrent cost requirements of completed and on-going projects, by developing sector specific norms. Once the funds required are identified, an effort should be made to identify priorities amongst such of those projects competing for the allocation of recurrent costs and funds shifted from development ceilings of the Ministry concerned to finance the high priority recurrent cost needs. It has to be recognized that in a number of sectors, the economic benefits arising from improved maintenance of completed infrastructure investment projects and improved delivery of services far outweigh the economic benefits from new projects and/or services.

5. Initiation of New Projects and Programmes

What procedures should be put in place for assessing proposals for new projects and programmes in different sectors? How can we promote a systematic cost-benefit evaluation of all new projects, including those initiated by State Corporations?

a. Taking into consideration the large number of under-funded projects, particularly those financed 100% by GOK resources, it recommended that new projects and programmes should be subject to very careful evaluation, before they are included in the PIP or the annual estimates. The Ministry of Planning and National Development should come out with a simple and clear circular, covering the entire project cycle and laying down the specific procedures to be followed by sector Ministries for evaluation of projects and feasibility studies.

b. No new project or programme should be approved for funding in the annual estimates or included in the PIP, unless a thorough cost-benefit analysis is carried out, including the recurrent cost implications and approved by the Ministry of Planning and National Development.

c. In order that all new projects and programmes of Ministries and State

Corporations are subjected to a thorough cost-benefit analysis and duplication of efforts avoided, the Ministry of Planning and National Development should strengthen its relevant department/s, and create, if necessary, additional positions and post well-qualified planners and economists. The Ministry should also ensure that the planning units in the sector Ministries are fully involved in project and programme evaluation, and compile and maintain information on all projects, so as to strengthen the information base for the annual budget and PIP exercises.

6. Public Investment Programme

What steps should be taken to strengthen planning inputs in the annual preparation of the PIP? What relationships should be established between the PIP and Forward Budget exercises?

a. In order that the existing portfolio of projects and programmes in the different sectors are rationalized during the next round of PIP exercises, the Sectoral Planning Groups and the Estimates Working Groups should follow criteria similar to those followed by the Rationalization Committee.

b. Planning inputs into the PIP exercises should be strengthened, through a more active involvement of the Ministry of Planning and National Development (MPND) in the exercises; for this purpose MPND should strengthen its SPG's and train them as well as the planning units in the sector Ministries on (i) the analysis of the existing portfolio of projects and programmes from the point of view of benefits being generated, (ii) how to go about establishing clear priorities in each of the major sectors for the allocation of budgetary resources, (iii) how to identify projects within the sector which should be considered as "core" and "high priority" projects, (iv) for compiling data on project implementation for review of actual implementation record of projects and programmes and (v) the analytical techniques for socio-economic evaluation (cost benefit analysis) of new project proposals.

c. It is recommended that the PIP exercises should be used to review projects and programmes and to rationalize the existing portfolio of projects in all sectors. Therefore, these should be completed first, with substantial inputs from the MPND, before the compilation of the development forward budget. It is recommended that the development forward budget should be prepared after the PIP is completed and reflecting the projects included in the PIP.

7. Implementation of Donor Projects

What procedures should be followed before initiating discussions or committing resources for feasibility studies for new donor projects, so as to ensure that such proposals follow sector priorities and are financially viable? How can the implementation and disbursement of funds on major donor-financed projects be improved? What systems can be put in place to speed up the preparation of claim documents for reimbursement of expenditures on donor-financed projects and for the effective use of the available facilities of Special Accounts?

a. Discussions with donor agencies for all new donor financed projects, whether to be implemented by a Ministry or a State Corporation should always be initiated by the Treasury. In order to ensure that new donor project proposals follow sector priorities and do not result in duplication of on-going programmes or projects, the Treasury should consult the Ministry of Planning and National Development, before going ahead with the discussions. The Treasury should also ensure that the financial viability of new projects, particularly the recurrent cost implications are assessed carefully before completing negotiations.

b. It is recommended that Permanent Secretaries should take a personal interest in the implementation of all donor-financed projects in their Ministry. It is also recommended that they should systematically review the implementation of such projects on a monthly basis, to identify problems causing delays in implementation and to identify corrective measures.

c. The existing procedures for withdrawal of funds from Special Accounts are extremely cumbersome and lead to considerable delays in the payment of bills. The Treasury should therefore consider simplifying these procedures to improve the speed of disbursement on donor-financed projects.

d. It is also recommended that wherever possible, the Treasury should encourage implementation through direct payments, so that projects are not delayed for want of Exchequer releases by the Treasury.

e. In order that the financial implications of donor-financed projects are taken into account, the Treasury, before agreements are finalized, should assess carefully the requirement of Government contribution for such projects, keeping in view the tight GOK ceilings in the different sectors.

ANNEX I

PERMANENT SECRETARIES WORKSHOP ON FINANCIAL MANAGEMENT

Kenya Commercial Bank College of Banking and Finance
Karen, Nairobi, Thursday, March 12, 1992

AGENDA

Session I

9.00 - 9.30 a.m:	Welcome Address by Dr W. Koinange Permanent Secretary, Treasury and Chairman of Workshop Inauguration of Workshop by Prof. Philip Mbithi, Secretary to the Cabinet and Head of Public Service.

Session II

9.30 - 10.30 a.m:	Budget and National Economy. (Resource Persons: Prof. T.C.I. Ryan, Mr G.M. Mitine, and Dr S. Chakrabarti).
10.30-11.00 a.m:	Coffee Break

Session III

11.00-12.30 p.m	Current Fiscal Situation and 1992/93 Financial Planning (Resource Persons: Mr D.B. Kimutai, Mr I.G. Mwaniki, and Mr A. Shah)
12.30-2.00 p.m	Lunch for Participants

Session IV

2.00 - 3.00 p.m	Budget Management and Financial Control (Resource Persons: Mr D.B. Kimutai, Mr I.G. Mwaniki and Dr S. Ramakrishnan)

Session V

3.00 - 4.00 p.m	Rationalization of Public Expenditures (Resource Persons: Mr D.B. Kimutai, Prof. Ryan, Mr D.R. Ongalo, Mr H. Bagha and Dr S. Ramakrishnan)
4.00 - 4.30 p.m	Coffee Break

Session VI

4.30 - 5.00 p.m	Participant groups review discussions and prepare recommendations.
5.00 - 5.30 p.m	Participant groups present recommendations.

Annex II

Permanent Secretaries Workshop on Financial Management

March 12, 1992.

List of Participants

1. Prof. Philip Mbithi,
Head of Public Service and Secretary to the Cabinet, Office of the President.

2. Dr. W. Koinange,
Permanent Secretary, Office of the Vice-President & Ministry of Finance

3. Mr. W. Kimalat,
Permanent Secretary, Office of the President

4. Mr. A.K. Kiptanui, Comptroller of State House

5. Mr. P.M. Munene,
Permanent Secretary/Director, Directorate of Personnel Management

6. Ms Sally J. Kosgei,
Permanent Secretary, Ministry of Foreign Affairs

7. Mr. Z. Kamencu,
Permanent Secretary, Ministry of Home Affairs

8. Mr. J. M. Hungu,
Permanent Secretary, Ministry of Planning and National Development

9. Mr. D. B. Kimutai,
Financial Secretary, Office of the Vice-President and Ministry of Finance

10. Mr. A. K. Sawe,
Deputy Secretary, Department of Defence

11. Mr. D. R. Mboya,
Permanent Secretary, Ministry of Reclamation and Development of Arid Semi-Arid and Wasteland

12. Mr. J. M. Magari,
Permanent Secretary, Ministry of Agriculture

13. Mr. D. N. Mbiti,
Permanent Secretary, Ministry of Health

14. Mr. L. Arap Sawe,
Permanent Secretary, Ministry of Local Government

15. ENG. W. P. Wambura,
Permanent Secretary, Ministry of Public Works

16. Mr. S. S. Lesirma,
Permanent Secretary, Ministry of Transport and Communications

17. Mr F. L. Abuje,
Permanent Secretary, Ministry of Labour

18. Mr. P.E. Mwaisaka,
Permanent Secretary, Ministry of Tourism and Wildlife

19. Mr. S. A. Wasike,
Permanent Secretary, Ministry of Livestock Development

20. Mr. P. Mulei,
Permanent Secretary, Ministry of Culture and Social Services

21. Mr. D. K. Andere,
Permanent Secretary, Ministry of Information and Broadcasting

22. Mr. S. M. Mbova,
Permanent Secretary, Ministry of Water Development

23. Mr. M. G. Okeyo,
Permanent Secretary, Ministry of Environment and Natural Resources

24. Mrs C. W. Kuria,
Deputy Secretary, Ministry of Co-operative Development

25. Mrs. M. W. Githinji,
Permanent Secretary, Ministry of Commerce

26. Mr. H. Guleid,
Permanent Secretary, Ministry of Supplies and Marketing

27. Mr. B. P. Kubo,
Solicitor-General

28. Mr. J. L. Ole Kipury,
Registrar-High Court, High Court of Kenya

29. Mr. J.S. Polong,
Secretary, Public Service Commission

30. Mr. D. G. Njoroge,
Controller and Auditor-General

31. Mr. J. K. Masya,
Clerk, National Assembly

32. Mr. C.N. Mutitu,
Permanent Secretary, Ministry of Energy

33. Mr. B.K. Kipkulei,
Permanent Secretary, Ministry of Education

34. Mr. B.E. Mwangi,
Permanent Secretary, Ministry of Industry

35. Prof. M. Karega,
Permanent Secretary, Ministry of Technical Training and Applied Technology

36. Mr. F. M. Kuindwa,
Permanent Secretary, Ministry of Manpower Development and Employment

37. Mr. S. N. Arasa,
Permanent Secretary, Ministry of Research, Science and Technology

38. Mr. J.K. Sang,
Permanent Secretary, Ministry of Lands and Housing

39. Mr. E.M. Masale,
Permanent Secretary, Ministry of Regional Development

40. Mr G.M. Mitine,
Principal Secretary, Office of the Vice-President & Ministry of Finance

41. Prof. T.C.I. Ryan,
Economic Secretary, Office of the Vice-Presdient & Ministry of Finance

<u>Office of the Vice-president and Ministry of Finance officials</u>:

42. Mr. I.G. Mwaniki
43. Mr. A.S. Shah
44. Mr. D.R. Ongalo
45. Mr. W. Kemei
46. Mr. C.M. Kibunja
47. Mr. S. Nyaga
48. Mr. H. Bagha
49. Mr. N. Kirira
50. Mr P.D.M. Maundu
51. Mr. J. Nyamiobo
52. Ms P. Kithakye
53. Ms Grace Omondi
54. Dr. S. Ramakrishnan
55. Dr. S. Chakrabarti

ANNEX III

INAUGURAL ADDRESS BY PROF. PHILIP MBITHI, SECRETARY TO THE CABINET AND HEAD OF PUBLIC SERVICE, OFFICE OF THE PRESIDENT-

PERMANENT SECRETARIES WORKSHOP ON FINANCIAL MANAGEMENT
Kenya Commercial Bank College of Banking and Finance

Dr Koinange, Ladies and Gentlemen:

It is indeed a great pleasure for me to inaugurate this important workshop on financial management organized by the Office of the Vice-President and the Ministry of Finance. Most of you, as very experienced and committed Accounting Officers are fully aware of the importance of finance to carry out your programmes and to implement your projects. At the same time, as you might have seen from the discussion papers circulated for this workshop, our current and projected fiscal situation calls for hard decisions on the use of the limited resources that are available. Therefore, I consider this workshop a very important one, particularly to listen to your views and seek your suggestions as to how best we can handle the situation in an orderly manner.

The emergence of severe budget constraints is not special to Kenya, but is indeed a world-wide phenomenon, common to both developed and developing countries. Gone are the days when we used to think that a balanced budget is a luxury that a developing country can ill-afford. To-day there is an increasing realization that public expenditures need to be more productive and that the Government should not keep on borrowing and spending and compete with the private sector for the use of available financial resources. Again compared to the Sixties and Seventies, the debt burden has increased substantially, resulting in less and less resources being available for investments and the delivery of Government services.

This change in emphasis does not mean that we put an end to the development process. Far from that, Government organizations, to borrow a metaphor from my doctor friend's specialization, should behave like amoeba and grow by substitution. Growing by substitution simply means increasing our activities and funding in certain

places while shrinking them in other areas. This means that we need to be very clear in our minds as to what is sought to be achieved through Government expenditures.

Therefore the first issue that you should address in this workshop is the question of priorities for Government expenditures. I understand that the Treasury has issued several guidelines and has been trying for the past few years, to persuade the Ministries to establish clear priorities for the allocation of available resources; but it has not been able to succeed in any significant manner. Ministries tend to think that each and every project and activity funded in their vote is equally important.

Ladies and Gentlemen, let me assure you that we cannot afford this luxury any longer. In fact this lack of prioritization in many of the major sectors has to-day resulted in a huge portfolio of under-funded projects in areas such as Government buildings, water supply projects, roads and health centres, which will take many years to complete. I understand that a preliminary estimate of the funds required to complete all the on-going Government financed projects is about K£ 2.6 billion at current prices. At the rate of about K£ 250 million per year, which is all we can afford for 100% Government financed projects, it will take us more than ten years to complete these projects. Meanwhile costs will escalate and you will be flooded with requests for funding new projects and starting new programmes.

Therefore, this practice of including all projects and activities in the budget and spreading the available funds too-thinly across the board must stop immediately, if we are to use the available resources in an efficient and productive manner. This can only be achieved, if you as Accounting Officers take the initiative and review each and every project and programme very carefully and develop a consensus within your Ministry as to which of them should be considered as high priority projects and completed first, before embarking on new ones. This kind of review should also enable you to identify projects and programmes which need to be phased out or postponed, so that funds can be freed for completing the more important ones and of course for paying pending bills, where this is an issue.

In fact this is an important function which the Government expects the Accounting Officer to perform in a systematic and objective manner. This is exactly what I referred to earlier as growing by substitution, namely setting priorities and increasing funding in high priority projects and decreasing it in others.

I believe, that you as Accounting Officers are the best judges on the priorities to be established in each sector for rationing the available funds. However, we all know that as budget-maximizing bureaucrats, your approach to this issue of priorities is often likely to be influenced by your strong desire to expand your activities and improve your services. Therefore, you should start this process by using the guidelines and the criteria already established by the Treasury in the Budget Rationalization Programme. To these general and financial guidelines you should also add the criteria that are derived from the policy priorities for your sector and use them as the basis for reviewing the allocation of funds within your vote.

It is only when a Ministry is unable to set its own priorities and limit its budget proposals to the ceilings available, that the Treasury is forced to make its own judgements on the allocation of funds. If your proposals are well within the expenditure ceilings and if you desist from seeking additional funds after the budget is approved by the Parliament, I am sure that the Treasury will be very happy to approve your proposals as they are, without using their scissors to cut.

While considering the issue of priorities for Government expenditures, we must also be aware of the very close relationship that exists between public expenditures and the rate of growth of the economy. On the one hand if the economy does not grow fast enough, we are not going to get enough growth in our tax revenues to sustain increased public expenditures. On the other hand, if a major part of public expenditures are spent on areas which promote consumption and not productive investment, these are not going to have any effect on the rate of growth of the economy. Thus the extent to which we can afford to have increases in public expenditures year after year, is very closely linked to the existing pattern of allocation of expenditures.

In other words, if we spend a major part of our budget on salaries and allowances and not enough on investments which can increase the production and productivity in the economy, such expenditures will have very little effect on the economy. On the other hand too much expenditures on consumption, will only add to inflationary tendencies and create demand for more foreign exchange. Thus the economic impact of the proposed expenditures should be the acid test through which you should review your projects and programmes before deciding on priorities.

Measuring the effectiveness of public expenditures through their anticipated effects on production and productivity in the economy, is indeed a critical requirement if we have to channel resources in the direction of improved economic growth, higher exports and the creation of employment opportunities in the economy. Ladies and Gentlemen, you will immediately see what this requirement implies. It means we should spend much more than at present on economic sectors such as the road network, agricultural access roads and their maintenance, generation of power, other physical infrastructure, small and medium-scale irrigation, soil conservation, and projects and programmes which will increase our export earnings and create the potential for more job opportunities in the private sector.

This requirement also implies that at the macro-level we need to look into the question of allocation amongst the different sectors in the economy. I am not implying that we should drastically reduce expenditures in non-economic sectors, but we should make every effort to ensure that allocations to such of those sectors and programmes which will help in increasing production and productivity in the economy in the short-run are increased and the rate of growth of expenditures in other areas slowed down, till such time the economy is able to generate enough revenues.

Ladies and Gentlemen, I do not want to take more of your time in entering into the details of this workshop. But let me take this opportunity to request you in all seriousness to appreciate the financial constraints we are facing now and are likely to face in the next couple of years. As you are probably aware, our economy, after witnessing an unprecedented period of growth averaging over 5% for the five year period 1986 to 1990, has now entered a declining phase. Our growth rate slowed down to 4.5% in 1990 and is expected to be around 3.5% for 1991. The prognosis for 1992 is not encouraging and we should be lucky if we are able to reach 3.0%. I am sure you will be going onto the reasons for this slow-down in one of your sessions.

The slow-down in the economy means that revenues available for financing expenditures are now much less than during periods of rapid economic expansion. This also means that we have to curtail our budget deficits and borrowing drastically and

adhere to the expenditure ceilings determined by the Government. More important, this is also the time when we have to be extremely careful in allocating the reduced level of resources, keeping in view, as I said earlier, their impact on the economy.

Ladies and Gentlemen, as I reflect on the problems of becoming the Head of the Public Service at a time of fiscal constraint, I am comforted by three things. First, we have been through hard times before and have emerged stronger and with reasonable comfort. Second, our situation is far better than many other developing countries in the region, although this is not a very good comparison, given our potential. We are not alone, yet we are fortunate to be less constrained than many countries. Third, I know I can rely on your help as we ration our hopes and arrange our programmes according to strict priorities. If we are thoughtful and committed to the welfare of our nation, we can come through these difficult times, without any crisis-driven changes.

Ladies and Gentlemen, let me conclude by saying that what I have placed before you is only a very brief diagnosis. I am certainly not the person to decide upon the treatment. I believe that the treatment should involve a combination of actions that, if carefully thought through, should be manageable, although not painless. I leave the treatment to you all, led by Dr Koinange and his technical team. I shall of course be looking forward to the prescriptions and will make sure that your recommendations are effectively implemented.

With these few words, it gives me great pleasure to officially declare this workshop open.

Thank you.