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Workshop on Problems of Budget
Reclassification and Management

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BUDGET RECLASSIFICATION IN KENYA

Prepared by the Economic & Statistics Division,
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BUDGET RECLASSIFICATION IN KENYA

1. A reclassification of the central government Appropriation Accounts is undertaken by the Economics & Statistics Division annually, starting with the financial year 1954-55 when the exchequer system of accounts was introduced in Kenya. This analysis has the dual object of eliminating internal transfers and thus providing series of total revenue and expenditure year by year free of double-counting, and of providing a consistent functional classification of expenditure. The Budget Estimates of revenue and expenditure are analysed on a similar basis after approval by the Legislature. The reclassified figures are published in the Kenya Statistical Abstract and the total figures are reconciled with the totals derived from the Appropriation Accounts. A similar analysis of revenue and expenditure is undertaken by the East African Statistical Department in respect of the East African High Commission Services extending over all the territories in East Africa.

2. Recently attempts have been made to extend the Kenya analysis in two directions. This additional work was undertaken in the first instance with a view to building up Government Sector Accounts for national income purposes, but always with the idea in mind that it would eventually be of use for budgetary purposes also, particularly when figures were available for a series of years. At present results of the extended analysis are available for one year only. They have not been published since the form of presentation has by no means been finalized. It is now possible however, to assess how much additional analysis can be made with present staff resources even if the results are provisional and not of practical use immediately.

3. One direction in which the analysis is being extended is to cover local authorities' financial operations. Attention has been concentrated on their so-called general revenue accounts which cover virtually all current expenditure and a certain amount of capital expenditure. Eventually the capital accounts also will be covered, but this is of less urgency since all local authorities in Kenya render special returns of their

capital expenditure to the Statistical Department each year. It was decided to aim from the start at a combined economic-functional analysis, and this proved quite practicable in the event.

4. The second direction in which the analysis is being extended relates to the central government's operations. Here the two objects are to produce a cross-classification of expenditure by economic-functional categories and to draw into the analysis extra-budgetary funds and authorities. This again proved a practicable undertaking though certain difficulties of consolidation were encountered.

5. In order to give some idea of the scope of the central government analysis and its relationship to the budgetary accounts, two features of the form of presentation of the budgetary accounts may be mentioned. The principles on which extra-budgetary funds are included or excluded may also be given briefly:

a) The Colony and Development Accounts.

The Kenya budget is divided into Colony Account and a Development Account. Speaking generally, the latter covers expenditure which it is considered may properly be met from grant or loan funds. Accordingly it includes substantial provision for expenditure which is finally made from the Colony Account. At the same time the Colony Account includes some small provision for development expenditure. Apart from these inter-Account transfers, considerable expenditure of a current nature is made directly from the Development Account and, on the other hand, considerable capital expenditure is incurred directly by the Colony Account. The division between the Colony and Development Accounts thus bears only a distant relationship to the division between current and capital accounts and is not of great significance for economic analysis. Since, however, the Colony Development division is firmly established in Kenya's budgetary system, it is necessary to analyse each account separately in the economic-functional reclassification and separate figures for each Account are included even in the main consolidated statement.

b) Appropriations in Aid.

Under the exchequer system certain receipts are collected by Ministries and appropriated with legislative approval to meet, in part, the collecting Ministry's expenditure. The budgetary total of expenditure are presented net of such Appropriations in Aid. Since Appropriations in Aid cover a wider variety of receipts (e.g. some are in the nature of indirect taxes, some charges made to the private sector for services provided, some reimbursements from other branches of government) in order to be able to view the economic effect of Kenya Government operations as a whole, expenditure is analysed in the first place gross of Appropriations in Aid. These latter receipts then have to be analysed also and added, where appropriate, to revenue. A proportion may, however, be treated appropriately in the economic as well as in the budgetary sense as negative government expenditure and this proportion only is deducted from Ministries' gross expenditure.

c) Extra-Budgetary Funds and Authorities.

In addition to revenue and expenditure included in the budget, the consolidated statement includes the transactions of these categories of extra-budgetary accounts.

- (i) Funds which were originally financed from the budget, whose transactions are controlled by Ministries and the accounts of which appear in the Appropriation Accounts, although their expenditure year by year is not subject to annual vote.
- (ii) Sinking Funds.
- (iii) Statutory authorities which are solely or mainly dependent for finance on the Kenya Government and whose operations are of a non-commercial nature. An exception to this

rule is the Mombasa Pipeline Board which operates as an independent public enterprise but which is retained in the government sector along with other water undertakings. As a long term measure the importance of statutory authorities operating as independent trading enterprises is possibly great enough in Kenya to warrant the setting up of sector accounts. At the moment, however, independent statutory authorities operating commercially, with the one exception noted, are classified outside the government sector.