THE EFFECT OF THE MEDIUM TERM EXPENDITURE FRAMEWORK ON THE BUDGETARY PROCESS IN KENYA

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DECLARATION

This research project is my original work and has not been presented in any other university or for any other award.

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DEDICATION

This research study is dedicated to my family and friends who have been source of encouragement and inspiration from the beginning until the finalization of the project.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Medium Term Expenditure Framework (MTEF) is intended to facilitate a number of important outcomes in the budgetary process including; improved inter- and intra – sectoral resource allocation, greater budgetary predictability for line ministries, promotion of consultation in decision making on resource allocation, promotion of transparency and accountability and fiscal discipline. This study assesses the effect of the Medium Term Expenditure Framework on the budgeting process in Kenya in terms of fiscal discipline, resource allocation, budget predictability and credibility of budgeting decisions. The study adopteda descriptive survey research approach and target population comprised of budget officers and economists from the government ministries in Kenya. The main tool for collection of primary data was a questionnaire complemented by secondary data which was obtained from financial reports at the National Treasury.Data wasanalyzed using both descriptive (mean and standard deviation) and inferential statistics (multivariate regression analysis). The study established that MTEF has been instrumental in the management of fiscal deficit and resource allocation in Kenya. The study recommends that the government review the implementation of MTEF guidelines regardingpolitical accountability in the budgetary process, enhancestakeholders' participation in the budgeting process, set up a budget secretariat office or a budget office independent of the National Treasury to implement the MTEF and integration of MTEF into all structures of governance in Kenya. The study recommends a further study on factors that intermediate the influence of Medium Term Expenditure Framework on the budgeting process and a further study on policy alignments between MTEF and other financial reform policies in Kenya.

CHAPTER ONE

INTRODUCTION

1.1Background of the Study

A budget is an agreed upon plan, expressed in financial terms, against which performance to be realized in the future is measured and compared (de Waal et al., 2004). As such, the budget is a financial reflection of the organization's annual operating plan, which in turn is a translation of the long-term strategic objectives into short-term actions. Masya and Njiraini (2003) in their discussion paper on budgeting process in Kenya, defines a budget as an important instrument that every government uses to define the direction of its national policy, the cost implications of government programmes, and the possible sources of revenues during a fiscal year. The budget is an end product of a lengthy process of monitoring and controlling public finances involving the National Treasury and other agencies.

The budgeting process is the iterative process in which the budget is determine in several rounds of dialogue between higher and lower management levels (André, Janssen and Ven, 2011). This dialogue results in a performance contract between lower and higher management, stipulating the targets to be achieved. Throughout the year, the organization checks regularly (often monthly) whether it is still on track to reach its targets. Thus, the budget is often used for control purposes within the organization (André, Janssen and Ven, 2011).

According to Lewis (2005) the basic functions of the budget entail: collection and allocation of scarce resources to priority sectors; provision of public goods and services by government; and re-distribution of incomes. In addition, the budget strives to ensure economic stabilization, social order and harmony, as well as acting as a measure of government performance and accountability. A budget is thus a planning tool which aims to achieve a number of objectives, namely: fiscal discipline, allocative and operational efficiency. The basic functions of the budget entail: collection and allocation of scarce resources to priority sectors; provision of public goods and services by government; and re-distribution of incomes. In addition, the budget strives to ensure economic stabilization, social order and harmony, as well as acting as a measure of government performance and accountability (Lambi, 2011).

1.1.1 Medium Term Expenditure Framework

The acceptance of new or adjusted management control practices by organizations is often explained by using frameworks based on deliberate decision making and economic arguments (Van de Ven and Vosselman, 2005). In this regard, a new budgeting approach, the Medium Term Expenditure Framework (MTEF) was introduced by the public Expenditure Review (PER) in 1997.Its key components include the definition of a global resource envelop, determination of inter-sectroral allocations based on core functions and proposals of inter-sectoral allocations based on outcomes, activities, outputs and operational efficiency. The new approach adopts a more transparent approach to budgeting through public hearings and involvement of private and civil society in the budget preparation. According to the World Bank (1998) the Medium Term Expenditure Framework is a tool of budgeting which seeks to translate governments' policies and plans into an expenditure program within a coherent multiyear macro framework.

Covaleski*et al* (2003) highlights that MTEF is intended to facilitate a number of important outcomes; greater macro-economic balance, improved inter- and intra –sectoral resource allocation, greater budgetary predictability for line ministries, and more efficient use of public monies. MTEF provides the linking framework that allows expenditures to be driven by policy priorities and disciplined by the budget realities. It consists of a bottom-up estimation of the current and medium term costs of existing policy and ultimately, the matching of these costs with available resource in the context of annual budget process.

The IMF (1999) identifies the key components of MTEF that improve fiscal management: increases predictability of flow of resources, promotes consultation in decision making on resource allocation, promotes transparency and accountability, and promotes fiscal discipline.

According to Abedian (1999) experience of budget reform in developing countries suggest that MTEF can help improve budget process and outcomes through greater clarity of policy objectives, predictability in budget allocation and transparency in the use of resources. He continues to argue that experience also illustrates that MTEF is not a Panacea and a successful MTEF must be diagnostic rather than formulaic. An ideal MTEF is preceded by a comprehensive detailed diagnosis of budget management systems and process. Where Public Expenditure Reviews do not provide this diagnosis then the MTEF may not make any Impact. Additionally, the World Bank (1998) asserts that

MTEF requires that other reforms complement it and thus where there are no reforms in governance, civil service, budget execution, monitoring and evaluation, then there are limitations to its impact.

The process also requires that there is adequate capacity both in Ministries of Finance to guide the process and in Line Ministries for implementation. Finally MTEF does not result in additional resources, and not unless there is a good criteria for prioritization or extra flow for meeting contingent liabilities the process may not be effective.

1.1.2 Budgetary Process

According to Flamholtz (1983), budgets are financial blue print that qualifies a firms plan for the future. It is a detailed plan that outlines the acquisition and use of financial and other resources over a given period of time. Budgeting process pushes managers to take time to create strategies, targets and goals before activity begins. Budget preparation helps management focus on the next month or the entire coming year. The budgeting process forces managers to assess current operating conditions and aids in forecasting and implementing needed changes (Anderson, 1996).

There are two main techniques for budgeting i.e. Incremental budgeting and Zero based budgeting (Lucey, 2004). An incremental budget is a budget in which the figures are based on those of the actual expenditure for the previous year with a percentage added to cover for an inflationary increase for the New Year. In zero based budgeting scenarios, past figures are not used as the starting point .the budgeting process starts from ‘scratch’ fore posed activities for the year. This results in a more detailed and accurate budget, although it takes more time and energy to prepare (Kariuki, 2010).

Anderson (1996) discuses four groups of budgetary principles: First is the long range goal principle. Long range goals projections covering a five to ten year period must be set by the top management. In doing so management should consider economic or industry forecast. Second are the short range goals: These short range targets and goals form the basis for the organization's operating budget for the year. Third, responsibility and interaction principles in which budgeting success or failure is in large part determined by how well the human aspect of the process are handled from top management down through the organization and all appropriate people must take part actively and honesty in the budgeting process. Fourth, budget follow up principles: Since the budget consists of projections and estimates, it is important that it be checked and corrected continuously.

1.1.3Effect of MTEF on the Budgetary Process

In Kenya, MTEF was introduced by the public Expenditure Review in 1997. The key elements of MTEF implementation were included as conditionality in the Economic and Public Sector Reform Credit (2000). According to the Government of Kenya (2000) the components in public financial management, of MTEF include resource estimation, sectoral reviews /resource allocation and financial programming. The role of MTEF is to improve fiscal management through; increased predictability of flow of resources, promotes consultation in decision making on resource allocation, promote transparency and accountability and promote fiscal discipline.

The National Treasury (2008) observes that Kenya, just like many other countries, adopted an overlapping set of organizational structures to manage MTEF. This has the weaknesses of ownership and legal framework. For example, MTEF moves power from the National Treasury as the shift moves from item or input to output. In addition, there is also the issue that most reforms are introduced because there is pressure from the development partners. This affects the ‘driver’s seat ‘and sustainability of the reforms. Additionally, the traditional set is that constitution gives the budget the legal backing but MTEF is not normally in that constitution and Kenya have to struggle to fix interpretation to back the new process.

Kenya adopted the medium term approach to budgeting during the 2000/01 annual budget. This followed the recognition that the annual focus limited the scope of the budget to short-term macroeconomic management - a firefighting approach to resource allocation limiting the possibility of addressing long-term development objectives through the budget. The medium term approach is thus intended to link budgeting and planning, while at the same time addressing the key weaknesses of the budget process.

Makau (2002) asserts that MTEF alone cannot deliver especially where key aspects of budget management notably remain weak. She observed that Kenya has used an overlapping set of organizational structure to manage MTEF, where dual budgeting based on traditional classification of budget items is adopted.

1.1.4Budgetary Process in Kenya

The Constitution of Kenya (CoK, 2010) has adopted a devolved system of government that entails substantial devolution of political, administrative and financial powers to county governments with a view to improving citizen participation, efficiency and responsiveness of service delivery (Lambi, 2011). Functions that were previously performed by the central government have as a result been assigned to county governments including specification of the corresponding share of national revenues that must be given to counties to enable them to perform their responsibilities. Counties have also been given power to make policy and operational decisions regarding revenue generation and expenditure priorities.

The constitution of Kenya provides that budgets of the national and county governments shall contain the estimates of revenue and expenditure, differentiating between current and development expenditure (Masya and Njiraini, 2003). It shall also include proposals for financing any anticipated deficit for the period and also proposals regarding borrowing and other forms of public liability that will increase public debt during the following year. The preparation of budget in Kenya is informed by national development plans which spell out the broad government policy objectives and are prepared to run for five year period. The actual budget making process involves the preparation of three main documents that outline the government expenditure plans namely the: forward budget; annual budget; and supplementary estimates (Lambi, 2011).

In Kenya the budgetary process proceeds in three main stages, namely: the drafting stage, the legislation stage, and the implementation and audit stage. Its contents include a policy statement, an inventory of programme priorities, and distribution/allocation of the corresponding resources as well as budget implementation/evaluation reports for the previous budget cycle (Masya and Njiraini, 2003).

These budget preparation mechanisms have faced various shortcomings including: complexity of the Forward Budget; lack of institutional/human capacity; fiscal constraints; inflexibility of Forward Budgeting; over-emphasis on ceilings; failure to include parastatal budgets; and poor sectoral prioritization, among others (IPAR, 2004).

Public Investment Programme (PIP) was introduced in the 1990s as an attempt to remedy past failures. PIP sought to establish a clear process for project review and selection criteria that would improve quality development projects. Like the rest, it faced problems of lack of effective institutional set up; inadequate capacity; donor influence in project selection; lack of political support; and poor linkage with the budget cycle, among others (IPAR, 2004).

1.2 Research Problem

Budgeting is still regarded as an organizational imperative if costs are to be controlled and financial performance to be achieved (Frow et al., 2010). However, traditional budgets are seen by practitioners of being incapable of meeting the demands of the competitive environment (Ekhol and Wallin, 2000; Østergren and Stensaker, 2011) and are heavily criticized for impeding efficient resource allocation and encouraging myopic decision making (Otley, 2003; Hansen et al., 2003). It is in this regard that MTEF was introduced to improve the budgetary process and Kenya has used an overlapping set of organizational structure to manage MTEF, where dual budgeting based on traditional classification of budget items is adopted (Makau, 2002).

Various studies have yielded mixed results on the effectiveness MTEF. In Namibia, Schade and Frodema (2000) established that under MTEF, the budget process was characterized by involvement of various stakeholders but there are overlaps between preparation of budget and implementation of the current budget. Palomba (2000) argue that the MTEF has been successful in attaining macroeconomic stability by helping to carefully match revenues in order to manage the fiscal deficit prudently. However studies by IMF and IDA (2002), indicate that even , a more comprehensive analysis the results does not support the contention that these MTEFs ,which are the most developed in Africa ,are associated with greater fiscal discipline. According to OECD (2000) most reforms in Africa, fail not because of the contents or technical aspects of the reform programmes, but because of the way in which they are implemented.

Besides the mixed results on MTEF, there seems to be little empirical evidence of organizations adopting new or adjusted budgeting practices (Ekholm and Wallin, 2000; Østergren and Stensaker, 2011). To understand this paradox a deeper understanding is needed of the process which could lead to the acceptance of adapted budgeting practices within organizations (Ahmad et al., 2003; Hansen et al., 2003). In the Kenyan context, initial evaluations of the MTEF at the National Treasury , in 2002, showed limited success, largely because of the highly complex, political and institutional nature of the task (Ministry of Finance, 2002). While the aim of MTEF was to improve fiscal management through; increased predictability of flow of resources, promote consultation in decision making on resource allocation, promote transparency and accountability and promote fiscal discipline (Ministry of Finance,1997), the question is whether those objectives have so far been realized in Kenya. It is against this knowledge gap that this study will extend literature in the Kenyan context by investigating how MTEF affect the budgetaryin Kenya. The study will seek to answer the research questions: The study will be guided by the following research questions: What is the effect of MTEF on fiscal discipline in Kenya? How does MTEF influence resource allocation in Kenya? What are the contributions of MTEF to budget predictability in Kenya? What is the effect of MTEF on the credibility of budgeting decisions in Kenya?

1.3 Objective of the Study

The objective of the study is to assess the effect of the Medium Term Expenditure Framework on the budgeting process in Kenya.

1.4 Value of the Study

The study findings will be of great values to the financial policy-making institution in Kenyan government especially the National Treasury. The research is relevant to the natural settings in the public sector and will provide insight into the effects of MTEF on budget performance. The study would further provide more insight into how MTEF in the public sector budget performance contributes to the ideals of budget predictability, resource reallocation, and credibility of budgetary decisions. The study findings will help the government to offer quality financial services by ensure that budget as a tool for fiscal discipline and development is implemented effectively through MTEF.

The study will also contribute to the available body of knowledge on budgetary processes. Therefore, the study will serve as a source of reference for scholar and researcher in the field of Accounting and Financial Management.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to the concept of MTEF.

2.2 Theoretical Review

This section presents theoretical underpinnings of the study. Specifically, the study discusses the theory of budgeting and the theory of capital budgeting.

2.2.1 The Theory of Budgeting

Budgets are a collection of plans and forecasts that reflect the financial implication of business plans, identifying the amount, quantity and timing of resources needed (Innes, 2005). The budgeting process is comprised of two main phases: the planning phase and the control phase (Jones, Parastand Adams, 2010). The planning phase quantifies the corporate goals to be attained during the fiscal year, and the financial plan necessary to achieve them, thereby proving a benchmark to which performance can be assessed in the control phase (detector). When actual revenues and expenses vary from the plan articulated by the budget, the control phase provides the efficient assessor for this, the management function within an effective MCS takes the appropriate action for improvement (effector).

The budgeting cycle, according to Horngren, Harrison, Bamber, Willis and Jones (2002), starts with the master budget: A set of budgeted financial statements and supporting schedules used for an entire organization. This comprehensive budget includes; the operating budget, capital expenditure budget, and the financial budget. The operating budget sets the expected revenues and expenses - and thus operating income - for the period. The capital expenditure budget presents the company's plan for purchases of property, plant, equipment and other long-term assets. The financial budget projects cash inflows and outflows, the period-ending balance sheet, and the statement of cash flows.

There are two broad approaches to budgeting: traditional budgeting and modern budgeting. According to Nolan (2005), the traditional approach to budgeting usually focuses on a fixed timed period, usually coinciding with the company's fiscal year. Forecasting values remain static, and are not changed during the life of the budget-cycle. Modern budgeting creates a rolling budget (Hosack, 2006). A budget that is continuously updated so that the time frame remains stable while the actual period covered by the budget changes. As each month passes, a one-year rolling budget would be extended by one month so that there would always be a one-year budget in place.

The study seeks to assess the effect of the Medium Term Expenditure Framework (MTEF) on the budgeting process. The implementation of budgetary procedures, that is, the establishment of short to medium-term objectives, serves the purpose of providing estimates of future sales revenues and expenses, to provide short and long-term objectives for a coordinated management policy. Further benchmarks for management and task controls are provided by comparing actual results with budgeted plans and to take corrective actions if necessary (Fisher, Maines, Pfeffer& Sprinkle, 2002).

2.2.2 Theory of Capital Budgeting

The process approach to the capital budgeting endorses broader perspectives, attempting to explain the way the companies actually handle into effect the investment decisions, the way the investment opportunities are identified and analyzed, the way the decisions are made, the way the returns on investments are evaluated (Ducai, 2009).According to Ducai (2009), the process of capital budgeting is being carried out in five stages: examining and the selection of the investment projects, the proposal of the capital budget, the approval of the budgeting and its authorization, surveying the execution of the project and exerting the control after the projects execution starts.

Burns and Walker (2009) describe the capital budgeting process in terms of four phases: identification, development, selection, and control. The identification stage comprises the overall process of project idea generation including sources and submission procedures and the incentives/reward system, if any. The development stage involves the initial screening process relying primarily upon cash flow estimation and early screening criteria. The selection stage includes the detailed project analysis that results in acceptance or rejection of the project for funding. Finally, the control stage involves the evaluation of project performance for both control purposes and continuous improvement for future decisions. All four stages have common areas of interest including personnel, procedures, and methods involved, along with the rationale for each

This study adopts the theory of capital budgeting because capital budgeting decisions are among the most important decisions made by the National Treasury. The government has policies that how investment opportunities are identified and how investment decisions are made. During capital budgeting process investments compete for scarce resources and some sectors survive the intrinsic selection process while others are not selected.

2.3Determinants of the Budgetary Process

The following are the determinants of the budgetary process:

2.3.1 Fiscal Discipline

The budgeting literature suggests that budgets form an important basis for financial control (Premchand, 2003; Coombs and Jenkins, 2001). At the crudest level, total annual expenditure should not exceed the budget. To achieve organization-wide control, the same requirement can be applied to expenditure on and within services, and to discrete expenditure items. Under decentralized management structures, altered accountability relationships might be expected to change the way in which budgets are used as control tools for approving and monitoring expenditure (Awio and Northcott, 2001).

The fiscal discipline is a measure of the fiscal balance (including grants).A pre and post MTEF comparison is done on MTEF. Studies by the World Bank and IMF (2002) on Tanzania and on South Africa indicate that over the period 1998 -2000, a somewhat smaller fiscal deficit in the post MTEF periods when compared with pre-MTEF period. The deficit was indicated as a percentage of GDP (including grants).

2.3.2 Resource Allocation

The ability of managers to prioritize budgetary expenditure according to local needs ought to be enhanced under a decentralized management structure (Kaplan and Atkinson, 2002). Decentralized budgets help to direct resources to areas of priority. Every institution in the decentralized system has particular needs and can cater for them in their allocations. According to Awio and Northcott (2001) improved resource prioritization is linked to increased stakeholders participation in the budgeting process in the decentralized system. The new planning and budgeting cycle encourages consultation with beneficiaries and plans of local governments are integrated into national plans, so the priorities of beneficiaries are considered.

Studies by Birdsall et al (2002) do provide some limited support for the hypothesis that MTEF are associated with reallocations of resources to government priorities. For example, in a study by the Tanzanian Government, the share of recurrent budget (as a percentage of GDP), spent on social services increased from 3.6 percent in 1998 to 3.8 percent in 1999. In the same study, comparing the actual increases in recurrent expenditures over an eight month period also showed a net increase of 8.5 percent in allocations to the five priority areas.

Similarly, studies by Bevan and palomba (2000), in Uganda, indicated that there is some evidence that MTEF has been associated with limited sectoral reallocation. The evidence was most pronounced in the case of education sector which grew from 19.8 percent of total expenditure in 1994/5, to 26.6 percent in actual outturns.

Bevan (2001) argues that the overall the story of budget composition seems to be one of considerable, but not wholly reliable, achievement, with signs of real gains in the last few years as a result of MTEF. He further added that contrary to Uganda, in which the problems with reallocation seems to have something to do with a breakdown of budgetary scrutiny. According to Bevan (2001), a study on Ghana indicated breakdown occurring earlier in the process, there is a dis-juntucture between budget figures and MTEF projections, which means that the MTEF has not contributed to sectoral reallocation. Though, social sector allocations were quite close to the MTEF allocations, the infrastructure and general administration shares were quite different. Moreover, the sectoral share to social services actually declined from the 1999 budget figure of 30.4 percent .According to the National Treasury, MTEF policy statement (1998-2000) in South Africa, MTEFs are associated with some level of sectoral reallocation. The reallocation is however, partial.

2.3.3 Budget Predictability

The MTEF aims to deliver greater budget predictability in terms of match between execution and approved budgets and the MTEF projections. Moon (1997) suggest that a useful indicator for assessing the match between execution and formulation is the budget deviation index (BDI) which is the sum of the absolute values of the differences between the approved budget and the executed budget expressed as a percentage of the approved budget.

As Bevan and Palomba (2000) have pointed out, the BDI is subject to the level of aggregation at which it is calculated. As an alternative, they propose the 'sector implementation ratio'' which is the ''ratio between sector spending as a percentage of total spending in the initial budget and in the final outturns. The simple comparison of BDI between financial years does not, however, provide evidence that MTEF deliver budget predictability (and less deviation).

2.3.4 Credibility of Budgeting Decisions

Green and Thompson (2002) points out that the MTEF ,by virtue of its design ,is based on change in central budgetary decision-making processes .As a result of the MTEF ,the budgetary decision-making process should become more accountable , legitimate and credible .Political accountability should increase at both the political and managerial levels through greater transparency.

Killick (2004) highlights that the MTEF forces politicians to be up front about their priorities, as well as their willingness to fund them. At the same time, sectoral managers may also be held more accountable to produce results because their intra-sectoral priorities and resources are well specified in the context of the MTEF.

The World Bank (1998) asserts that the MTEF should put the number on the table in the way that allows for greater scrutiny by civil society and the private sector (though this is ultimately contingent on publishing budget execution data. Furthermore, the MTEF should yield greater legitimacy to the PEM process by facilitating cooperative and consensus-based decision-making. McGill (2001) emphasizes that one indicator of accountability is whether the MTEF is published and made available to the public. If it's not published, it runs the risk of being merely an internal, technical document.

LeLoup and Taliercio (2002) observe that, currently, MTEFs published in Uganda, South Africa, Tanzania, Ghana and Kenya. Publication of the MTEF brings forth with it the possibility that civil society would play a greater role in the PEM process. Moreover, in countries such as South Africa and Kenya, where the MTEF must be approved by parliament, the MTEFs profile is raised considerably.

There is some anecdotal evidence that publication and administration of MTEFs have led to greater civil society involvement in PEM issues. Lewis (1988) indicates that the MTEF seems to be providing a mechanism forum) for taking civil society perspectives into account. For instance, in some countries, including South Africa, Kenya, Tanzania, the MTEF is clearly raising expectations.

The PEM process also becomes more accountable when technical, professional expertise is brought to bear on it. In several cases the working groups that produce MTEF include civil society representatives, some of whom are experts in their fields. Broom and McGuire (1995) suggests that opening up the decision making process to experts has the potential to make it more accountable to professional criteria and less responsive to political calculations. If MTEF is designed properly, may be successful in building some pressure for greater accountability in the PEM process.

The MTEF should lend greater credibility to budget management .With better data and hard aggregate and sectoral budget constraints, the budget itself should become more and more credible. According to Robinson and Brumby (2005) the MTEF is necessary, in part, to restrain strategic decision making. Rubin (1988) notes that there is implicit sense that politicization of public expenditure management is at the root of the problem and that decision makers need to be restrained by enforcing a set of procedures that enhance the rigor of decision making. Essentially, if the MTEF can restrain decision-making, then the budget process would become more credible. The MTEF is thus intended to increase the credibility of the PEM process. Using the MTEF, a technical-institutional tool, as a solution for a fundamentally political problem is an issue that has not yet been sufficiently explored.

2.4 Empirical Review

Various empirical studies have been carried out on MTEF. Lister (1992) studied the Botswana MTEF system describing the key features of the system, and making a link between national development plan, the budget, expenditure monitoring and control. The study established that a weak implementation structure affected the outcomes of the MTEF.

In Namibia, Schade and Frodema (2000) studied the budgetary process in Namibia and described in detail, the preparation of the MTEF budget, approval, and implementation. The study concluded that budget process is characterized by the involvement of various government institutions and Cabinet at various stages throughout the process.

Schade et al (2000) explained the budget cycle further, in Botswana, indicating that the MOF is the main player in the MTEF budget process. The study highlighted the fact that AG reports are always delayed and that there are usually overlaps between the preparations of the budget, meaning that the budgetary institutions are very busy with different series of the budget at the same time, i.e implementing the current budget, auditing of previous budget and preparation of the next budget.

McGill (2001) and Robinson (2002) argue that with the wave of new public management engineered reforms in the public sector, a very important aspect of the budgeting process has become the issue of performance. They concluded that, the budget is increasingly used as an instrument for generating reliable information to pursue the effectiveness and efficiency objectives of government and ultimately fiscal sustainability. In addition, they concluded that the core of performance budgeting is addressing two fundamental budgetary issues; allocative and productive efficiency in public expenditure.

According to Kiringai and West (2002) the MTEF is intended to address three key weaknesses in the budget planning process: improve fiscal discipline, operational efficiency and locative efficiency. First, the MTEF was expected to impose a "hard" budget ceiling for accounting officers, in macroeconomic management and for line agencies. The second objective is operational efficiency (service provision at the least possible cost) through a budget that is based on medium term performance measurement. Third, the MTEF is intended to improve allocative efficiency: (i.e. doing the right thing" through a medium term budget framework). Essentially, the medium term budget framework shall determine sectoral resource allocations in line with the national consensus achieved upon the development agenda (Achieved through a bottom up consultative process).

Kipkirui (2009) carried out an analysis of the budgetary process inKenya and recommendations for improvement. This study identifies that the budgeting process in Kenya is yet to be an accountable, effective and efficient tool for translating policies into tangible results. Poor synchronization between policy making, planning and budgeting has led to a disparity between what government promises in its policies and what the government can actually manage to pay for. Budgeting has become a struggle to keep things afloat, rather than allocating the little resources based on planned policies intended to achieve agreed objectives. Kipkirui (2009) recommends establishment of a dedicated parliament budget office to provide legislators with objective and nonpartisan analysis necessary for informed economic and budget decisions, among other comprehensive institutional reforms in the budget and budgeting process in Kenya.

Kariuki, M. (2010) investigated the challenges of budgeting in the Kenya public sector. The study findings reveals that majority of the departments participate in preparation of recurrent budgets, development budgets, MTEF budgets, incremental budgets, master budgets and performance-based budgeting. The study also concludes that when processes are relatively routine and repetitive; budgets could be used effectively to achieve organizational coordination and that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. The study further deduces that majority of the Ministries experience challenges of budget planning and budget control, communication, poor or lack of modem technology, budget inflexibility and competition among the budgeted items for scarce resources. Kariuki, M. (2010) recommends that budgets should be used effectively to achieve organizational coordination and that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately.

Ochanda (2012) investigated the impact of medium term expenditure framework on operational efficiency of government ministries in Kenya The research found that adherence to MTEF ceilings has a negative impact on the performance of Government Ministries in Kenya. The study was however limited by the poor availability of information and inconsistency of the financial information gathered as compared to all other publications of the same, as well as Ministry re-organizations. Ochanda, (2012) recommend that Links between Budgeting and Planning be strengthened, and IFMIS be rolled out to operational areas to improve efficiency and information consistency, as well as the setting up of efficient reward and sanction systems to encourage prudent fiscal responsibility.

Maritim (2013) investigated the effects of budgeting on the financial performance of manufacturing and commercial Parastatals in Kenya.The established that the budgeting practices that are common among the firms are budget planning, budget participation, budget participation and budgetary sophistication. However, employee participation in the budgeting process resulted in greater success in actualization of the plan set out in a particular period followed by budget planning. The results therefore reinforced the need for a participatory budgeting process whereby all cadres of staff through their sectional heads are involved and their views are incorporated in the budget process. Establishment of a feedback mechanism was also found to be important in actualization of the budget.

Ng'ang'a (2013) investigated the effect of the MTEF budgetary process on the allocation of resources to strategic government priorities in Kenya.The study established that MTEF has improved allocation of resources to strategic government priorities. Resources allocation to strategic government priorities has been enhanced through macro targets prediction/ estimation, determination of sectoral priorities and financial programming as stipulated in the MTEF. The improvements have been on a moderate scale and the budgetary process is yet to reap full benefit of MTEF. MTEF has not been particularly effective in prediction and estimation of desired level of domestic borrowing in Kenya, preparation and approval of macro-fiscal framework, decision making on indicative sector resource ceiling, budgetary predictability, integration of policy, planning and budgeting and adherence to a budget process that starts with a top down consideration of macroeconomic outcomes, fiscal outcomes and robust revenue projections.Ng'ang'a (2013) recommends an effective implementation of MTEF procedures on preparation and approval of macro-fiscal framework through a sequenced process that align input by different actors to ensure availability of information and expertise.

2.5 Summary of Literature Review

This section has reviewed both theoretical and empirical literature. The theoretical literature has focused on the theory of budgeting and theory of capital budgeting. The theory of budgeting argued that the implementation of budgetary procedures, that is, the establishment of short to medium-term objectives, serves the purpose of providing estimates of future sales revenues and expenses, to provide short and long-term objectives for a coordinated management policy (Fisher, Maines, Pfeffer& Sprinkle, 2002). The theory of capital budgeting is important in decision making during budgeting.

The government has policies that how investment opportunities are identified and how investment decisions are made.

The study has reviewed literature on the determinants of the budgetary process which include: fiscal discipline (Premchand, 2003; Coombs and Jenkins, 2001), resource allocation (Kaplan and Atkinson 2002, Awio and Northcott 2001), budget predictability (Moon 1997, Bevan and Palomba 2000) and, credibility of budgeting decisions (Green and Thompson 2002, Killick2004). The study has also reviewed various empirical studies on MTEF (Namibia, Schade and Frodema 2000; Schade et al., 2000; Lister 1992; McGill 2001; Robinson 2002 and;Kiringai and West 2002). The literature has revealed that MTEF is intended to address three key weaknesses in the budget planning process: improve fiscal discipline, operational efficiency and locative efficiency.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research design, target population, and the methods employed for data collection and analysis.

3.2 Research Design

This study adopteda descriptive survey research approach. According to Mugenda and Mugenda(2003) a descriptive survey seeks to obtain information that describes existing phenomena Descriptive research answers the questions who, what, where, when and how.This study sought to survey how the budgetary process in Kenya is affected by the Medium Term Expenditure Framework.

3.3 Target Population

The target population for the study comprised of budget officers from the government ministries in Kenya. There are 18 government ministries in Kenya as shown in appendix ii.

3.4 Data Collection

The main tool for collection of primary data wasquestionnaires. Data was collected from budget officers. To complement the primary data, secondary data was obtained from financial reports at the National Treasury. The study collected secondary data on total revenue, expenditure, financial deficit including grants and financing for the period 2002-2014.

3.4.1 Data Reliability and Validity

A pilot study was conducted to determine reliability and validity tests of the questionnaire. The pilot study involved the administration of the questionnaire to five respondents at the National Treasury. The purpose of pilot testing is to establish the accuracy and appropriateness of the data collection instruments. The results of the pilot study wasnot be included in the final data analysis.

Nunnally (2000) defines validity refers to the extent which a test measures what we actually wish to measure: it is based on the adequacy with which the items in an instrument measure the attributes of the study. To ascertain the validity of questionnaire, a pilot test is conducted. Besides, the researcher sought for evaluation and guidance from the supervisor and experts in research.

According to Neuman (2000) the scale reliability is the extent to which any measuring procedure yields the same results on repeated trials. Reliability of the questionnaire was evaluated by determining the Cronbach Alpha of the results from the pilot study. Cronbach's alpha is used to measure internal consistency of the data collected through the questionnaires. Cronbach's alpha (α) ≥ 0.9 indicate excellent internal consistency $0.7 \leq \alpha < 0.9$ good excellent internal consistency $0.6 \leq \alpha < 0.7$ acceptable excellent internal consistency $0.5 \leq \alpha < 0.6$ poor excellent internal consistency and $\alpha < 0.5$unacceptable excellent internal consistency (Cronbach, 1951)

3.5 Data Analysis

Data analysis was based on both descriptive and inferential statistics. Statistical Package for Social Sciences (SPSS) was used to generate both descriptive and inferential statistics. Descriptive statistics included measures of central tendency (mean and standard deviation). The results from descriptive statistics was presented in tables and graphs.

The inferential statistics constituted of multivariate regression analysis which was used to determine the relationship between the dependent and independent variables.

3.5.1 Regression Analysis

The study adopted the following regression model:

$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + ẹ$

The model is further modified as s follows:

Where:

Y = Budgetary Process
β_0 = Constant Term

β_1= Beta coefficients

X_1= Fiscal discipline

X_2= Resource allocation

X_3= Budget predictability

X_4 =Credibility of budgeting decisions

ẹ= error term

3.5.2Operationalization of the Study Variables

Variable	Metrics	Scale
Dependent: **Budgetary Process**	a) Fiscal deficits (as a percentage of GDP) b) Fiscal balance c) Share of recurrent budget (as a percentage of GDP) d) Budget deviation index (BDI) e) Sector implementation ratio	
Independent: **Medium Term Expenditure Framework**	**Fiscal Discipline** • Fiscal deficit • Expenditures • Fiscal balance • Macroeconomic stability	Ordinal
	Resource Allocation • Linkage between budgeting and planning • Local needs • Prioritized resource allocation • Stakeholders participation • Integration of budgets • Resource ceiling • poverty reduction targets and the annual budget priorities • Reconciliation of costs • Public expenditure to GDP	Ordinal
	Budget Predictability • Match between budgets • budget deviation index (BDI) • Sector implementation ratio • Revenue projections • macroeconomic balance • Sectoral budget ceilings • Link between sectoral, sub-national and national strategies • Projection of macro-aggregates	
	Credibility Of Budgeting Decisions • Budgetary scrutiny • Legitimacy • Transparency • Consensus-based decision-making • Flexibility • Monitoring • Feedback	Ordinal

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents study findings, interpretation and discussion. The objective of the study was to assess the effect of the Medium Term Expenditure Framework on the budgeting process in Kenya.Specifically, the study investigated the influence of Medium Term Expenditure Framework on the budgeting process in terms of fiscal discipline, resource allocation, budget predictability and credibility of budgeting decisions.

4.1.1 Response Rate

The study collected data from budget officer in 16 ministries out of the 18 ministries in Kenya. This resulted in a response rate of 88.8%. This response rate was adequately representative of the target population thus allowing generalization of the study findings. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a 60% response is rated as good, while a response rate of 70% and above is rated as excellent.

4.1.2 Reliability

Cronbach's alpha was used to measure internal consistency of the data collected. The Cronbach's alpha (α) generated from SPSS was 0.8 which indicated a good internal consistency of the data. According to Cronbach (1951), an alpha (α) in the range $0.7 \le \alpha < 0.9$ indicates good internal consistency.

4.2 Background Information

Table 4.1 shows the background information of the respondents

Table 4.1: Background Information of the Respondents

		Frequency	Percent
Position	Budget Officers	28	87.5
	Economists	4	12.5
	Total	**32**	**100**
Duration of work (years)	1-5	8	25.0
	6-10	13	40.6
	11-15	5	15.6
	16-20	4	12.5
	More than 20	2	6.3
	Total	**32**	**100**

Source: Research Findings

The study findings in table 4.1 shows that the respondents compiled of budget officers (85.5%) and economists (12.5%). Majority (40.6%) of the respondents had worked in the government ministries for periods ranging from 6 to 10 years followed by 25%, 15.6% 12.5% and 6.3% of the respondents who had worked in their ministries for periods ranging 1-5years, 11-15 years, 16-20 years and more than 20 years respectively.

The study findings imply that the respondents, who were officers involved in the budgetary process, had substantial work experience hence knowledgeable on the effect of the Medium Term Expenditure Framework on the budgeting process in Kenya.

4.3 Medium Term Expenditure Framework and Fiscal discipline

The respondents were asked to indicate the extent to which Medium Term Expenditure Framework influenced the following aspects of fiscal discipline in Kenya. The response was rated on a scale of five units whereby 1=no extent at all, 2=little extent, 3=moderate extent, 4=great extent, and 5=very great extent. The mean and standard deviations were calculated as shown in Table 4.2.

Table 4.2: Medium Term Expenditure Framework and Fiscal discipline

	Mean	Std. Deviation
MTEF has led to reduction in fiscal deficits	4.014	0.1048
MTEF has ensured that expenditures (budgeted amounts as well as actual) match the revenues in order to manage the fiscal deficit prudently	4.151	0.1036
MTEF ensures that the total annual expenditure should not exceed the budgeted expenditure	4.157	0.2275
MTEF has improved Kenyan fiscal balance	4.249	0.1941
MTEF has led to greater macroeconomic stability in Kenya	4.057	0.2168
MTEF has led to greater fiscal discipline	4.061	0.2631

Source: Research Findings

The response with a mean rounded off to 1 indicated no influence all, 2 indicated little influence, 3 shows a moderate influence, 4 shows a great influence and 5 indicate a very great influence. From the study finding in table 4.2, the respondents indicated that, to a great extent,MTEF has led to reduction in fiscal deficits (x=4.014, S.D=0.1048), greater macroeconomic stability in Kenya (x=4.057, S.D=0.2168),greater fiscal discipline (x=4.0610.2631) and improved Kenyan fiscal balance (x=4.249, S.D=0.1941).

The study findings show that MTEF has greatly ensured that expenditures (budgeted amounts as well as actual) match the revenues in order to manage the fiscal deficit prudently (x= 4.151, S.D=0.1036)and that the total annual expenditure does not exceed the budgeted expenditure (x=4.157, S.D=0.2275).

4.4 Medium Term Expenditure Framework and Resource allocation

The study enquired the extent to which Medium Term Expenditure Framework influenced the following aspects of resource allocation in Kenya.Table 4.3 shows the findings of the study.

Table 4.3: Medium Term Expenditure Framework and Resource allocation

	Mean	Std. Deviation
MTEF has linked the budgeting and planning	4.074	0.2716
MTEF has addressed the key weaknesses of resource allocation during the budget process	4.349	0.0688
MTEF has improved the ability of regional financial officers to prioritize budgetary expenditure according to local needs	4.185	0.2172
MTEF has enabled government to direct resources to areas of priority	4.074	0.1725
MTEF ensures that every ministry and government institution streamline allocation of resources to areas of priority	4.052	0.1481
MTEF has increased stakeholders participation in the budgeting process	3.271	0.2312
The new planning and budgeting cycle under MTEF has encourages consultation in the budgeting process	3.128	0.1481
MTEF facilitates efficient integration of local/county governments' budgets and plans to the national budget	3.371	0.1539
MTEF approach places government policies and priorities at the centre of budget planning	3.452	0.1518
MTEF has been associated with limited sectoral reallocation	2.142	0.2708
MTEF has provided a realistic budgetary resource ceiling against which to prioritize the allocation of resources consistent with policy objective	4.095	0.1346

Source: Research Findings

The study findings indicate that MTEF has greatly linked the budgeting and planning (x= 4.074, S.D=0.2716), addressed the key weaknesses of resource allocation during the budget process (x=4.349, S.D=0.0688), improved the ability of regional financial officers to prioritize budgetary expenditure according to local needs (x= 4.185, S.D=0.2172), enabled government to direct resources to areas of priority (x=4.074S.D=0.1725), ensured that every ministry and government institution streamline allocation of resources to areas of priority (x= 4.052, S.D=0.1481) and provided a realistic budgetary resource ceiling against which to prioritize the allocation of resources consistent with policy objective (x= 4.095, S.D=0.1346).

The study findings show that MTEF has moderately increased stakeholders participation in the budgeting process (x=3.271, S.D=0.2312), encouraged consultation in the budgeting process (x=3.128, S.D=0.1481), facilitated efficient integration of county governments' budgets and plans to the national budget (x=3.371, S.D=0.1539) and placed government policies and priorities at the center of budget planning (x=3.452, S.D=0.1518). However, the respondents indicated that MTEFis not associated withlimitedsectoral reallocation (x=2.142, S.D=0.2708).

The respondents were further asked to indicate their level of agreement with the following statement regarding the influence of MTEF on resources allocation. The response was rated on a scale of five units whereby 1=strongly disagree, 2=disagree, 3=moderately agree, 4=agree, and 5=strongly agree. The mean and standard deviations were calculated as shown in Table 4.

Table 4.4: Medium Term Expenditure Framework and Resource allocation

	Mean	Std. Deviation
MTEF has provided the link between ambitious poverty reduction targets and the annual budget priorities of government	4.185	0.1579
MTEF has improved decision on indicative sector resource ceiling by considering proposed inter-sectorial priorities, national objectives of enhanced economic growth and poverty reduction, baseline requirement spending and medium term adjustments.	4.049	0.1561
MTEF has integrated critical processes of policy, planning and budgeting within a medium term perspective during allocation of resources to strategic Government programmes	4.175	0.1841
MTEF has provided an iterative process of decision making that reconciles these costs with available resources.	4.014	0.1235
MTEF has ensured efficient and effective use of government resources to strategic priorities thus reducing the share of public expenditure to Gross Domestic Product (GDP)	4.157	0.2528

Source: Research Findings

The respondents indicated that MTEF has, to a great extent, provided the link between ambitious poverty reduction targets and the annual budget priorities of government (x=4.185, S.D=0.1579) and improved decision on indicative sector resource ceiling by considering proposed inter-sectorial priorities, national objectives of enhanced economic growth and poverty reduction, baseline requirement spending and medium term adjustments (x=4.049, S.D=0.1561).

MTEF has to a great extent, integrated critical processes of policy, planning and budgeting within a medium term perspective during allocation of resources to strategic Government programmes (x=4.175, S.D=0.1841), provided an iterative process of decision making that reconciles these costs with available resources (x=4.014, S.D=0.1235) and ensured efficient and effective use of government resources to strategic priorities thus reducing the share of public expenditure to Gross Domestic Product (x=4.157, S.D=0.2528).

4.5 Medium Term Expenditure Framework and Budget predictability

The study sought to establish the extent to which MTEF has affected the aspects of predictability shown in Table 4.5in the Kenyan budgetary process.

Table 4.5: Medium Term Expenditure Framework and Budget predictability

	Mean	Std. Deviation
The MTEF delivers greater budget predictability in terms of match between approved budgets, executed budget and the MTEF projections	4.046	0.1127
MTEF has reduce the budget deviation index (BDI) in the Kenyan budget	4.108	0.1293
MTEF has increased the sector implementation ratio	4.057	0.2128
MTEF budgetary process ensures a top down consideration of macroeconomic outcomes, fiscal outcomes and robust revenue projections	4.049	0.1157
MTEF has facilitated greater macroeconomic balance through good estimates of the available resource envelope	4.114	0.1201
MTEF has facilitated greater budgetary predictability as a result of commitment to more credible sectoral budget ceilings.	4.104	0.2662
MTEF has ensured that sector and sub-national strategies are linked to the national development strategy in terms of timing and sequencing, consistency of their objectives and institutional responsibilities.	3.157	0.1502

Source: Research Findings

From the study findings in table 4.5, the MTEF has greatly improved budget predictability in terms of match between approved budgets, executed budget and the MTEF projections(x=4.046, S.D=0.1127), reduced the budget deviation index (BDI) in the Kenyan budget (x=4.108, S.D=0.1293), increased the sector implementation ratio(x=4.057, S.D=0.2128) andensured a top down consideration of macroeconomic outcomes, fiscal outcomes and robust revenue projections (x=4.049, S.D=0.1157).

MTEF has greatly facilitated greater macroeconomic balance through good estimates of the available resource envelope (x=4.114, S.D=0.1201) and facilitated greater budgetary predictability as a result of commitment to more credible sectoral budget ceilings (x=4.104, S.D=0.2662). MTEF has, to a moderate extent, ensured that sector and sub-national strategies are linked to the national development strategy in terms of timing and sequencing, consistency of their objectives and institutional responsibilities (x=3.157, S.D=0.1502).

The study made further enquiry in to the extent to which MTEF process been able to improve predictability or estimation of the macro targets indicated in Table 4.6in the Kenya budgetary process.

Table 4.6: Predictability of macro targets in the Kenya budgetary process

	Mean	Std. Deviation
Desired inflation rate	3.087	0.1754
Money supply	3.149	0.1196
Projected economic growth	3.286	0.2614
Projected interest rate	3.071	0.2492
Desired level of domestic borrowing	3.357	0.2264
Desired level of external borrowing	3.308	0.2823
Other macro aggregates including realizable revenue an sustainable expenditure	3.106	0.1335

Source: Research Findings

The study findings in table 4.6 indicate that MTEF has moderate influenced predictabilityof desired inflation rate (x=3.087, S.D=0.1754),money supply (x=3.149, S.D=0.1196),projected economic growth (x=3.286 0.2614), projected interest rate (x=3.071, S.D=0.2492),desired level of domestic borrowing (x=3.357, S.D=0.2264),desired level of external borrowing (x=3.308, S.D=0.2823) and other macro aggregates including realizable revenue an sustainable expenditure (x=3.106, S.D=0.1335).

4.6 Medium Term Expenditure Framework and credibility of budgeting decisions

The study sought to establish the extent to which enquired the extent to which MTEF affected the aspects of credibility shown in Table 4.7 in the Kenyan budgetary process.

Table 4.7: MTEF and credibility of budgeting decisions

	Mean	Std. Deviation
MTEF has enhanced budgetary scrutiny by civil society, the private sector, technical and professional expertise	3.025	0.1192
As a result of the MTEF, the budgetary decision-making process has become more accountable, legitimate and credible	4.103	0.1944
MTEF has led greater transparency in the budget and budgeting process in Kenya	4.208	0.1518
MTEF has ensured that sectoral managers are held more accountable to produce results because their intra-sectoral priorities and resources are well specified	4.101	0.1322
MTEF yields greater legitimacy to the budgetary process by facilitating cooperative and consensus-based decision-making.	3.256	0.1658
MTEF has ensured that budgetary decision making is more legitimate and there is a greater political accountability for expenditure outcomes	3.074	0.1435
MTEF has made public expenditures more efficient, effective and credible by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programs	4.262	0.1147
MTEF has broadened the credibility of resource ceilings beyond those concerned with the macro to encompass line ministers, budget agencies, parliaments and civil society.	4.259	0.1694
The MTEF has led to greater credibility to budget management in Kenya through better data and hard aggregate and sectoral budget constraints	4.108	0.1259
MTEF has instituted effective mechanisms for the monitoring of budgetary inputs, outputs and outcomes	4.021	0.0147
MTEF has instituted effective mechanisms for feedback of monitoring information into the subsequent expenditure planning cycle	3.094	0.2878

Source: Research Findings

The study findings in table4.7 shows that MTEF has, to a great extent, made the budgetary decision-making more accountable, legitimate and credible (x=4.103, S.D=0.1944), led to greater transparency in the budget and budgeting process in Kenya (x=4.208, S.D=0.1518), ensured that sectoral managers are held more accountable to produce results because their intra-sectoral priorities and resources are well specified (x=4.101, S.D=0.1322) and made public expenditures more efficient, effective and credible by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programs (x=4.262, S.D=0.1147).

MTEF has also broadened the credibility of resource ceilings beyond those concerned with the macro to encompass line ministers, budget agencies, parliaments and civil society (x=4.259, S.D=0.1694), led to greater credibility to budget management in Kenya through better data and hard aggregate and sectoral budget constraints (x=4.108, S.D=0.1259), instituted effective mechanisms for the monitoring of budgetary inputs, outputs and outcomes (x=4.021, S.D=0.0147), enhanced budgetary scrutiny by civil society, the private sector, technical and professional expertise (x=3.025, S.D=0.1192) and yielded greater legitimacy to the budgetary process by facilitating cooperative and consensus-based decision-making (x=3.256, S.D=0.1658).

The study findings in Table 4.7 show that MTEF, to a moderate extent, ensured that budgetary decision making is more legitimate and there is a greater political accountability for expenditure outcomes (x=3.074, S.D=0.1435) and instituted effective mechanisms for feedback of monitoring information into the subsequent expenditure planning cycle (x= 3.094, S.D=0.2878).

4.7 Medium Term Expenditure Framework and the Kenyan budgetary process

The study sought to establish the effect of Medium Term Expenditure Framework on the Kenyan budgetary process. Therespondents were asked to indicate the extent to which MTEF improved the budgetary process in Kenya in the aspects shown in Table 4.7.

Table 4.8: Medium Term Expenditure Framework and the Kenyan budgetary process

	Mean	Std. Deviation
Fiscal discipline	4.114	0.0866
Resources allocation	3.798	0.5808
Budget predictability	3.471	0.4644
Credibility of budgeting decisions	3.459	1.2017
Macroeconomic planning	4.138	0.1985
Expenditure control	4.246	0.7472
Cash management	4.424	0.1186
Aid and debt management	3.289	0.1095
Audit	3.315	0.1278

Source: Research Findings

The study findings in Table 7 show that MTEF has greatly contributed to fiscal discipline (x=4.114, S.D=0.0866),resources allocation (x=3.798, S.D=0.5808),macroeconomic planning (x= 4.138, S.D=0.1985),expenditure control (x=4.246, S.D=0.7472) and cash management (x= 4.424, S.D=0.1186).

The study established that MTEF has moderately contributed to budget predictability (x=3.471, S.D=0.4644), credibility of budgeting decisions (x=3.459, S.D=1.2017), aid and debt management (x=3.289, S.D=0.1095) andaudit (x=3.315, S.D=0.1278).

The study made further enquiry into the extent to which MTEF improved the aspects financial programmingshown in table 4.9 in the Kenyan budgetary process.

Table 4.9: Medium Term Expenditure Framework and the Kenyan budgetary process

	Mean	Std. Deviation
Preparation of the itemized budget estimates for development expenditure	4.067	0.0264
Preparation of the itemized budget estimates for recurrent expenditure	4.118	0.0475
Consolidation of the itemized budget by treasury, parliamentary and judicial commissions	4.133	0.0769
Approval of the itemized budget	4.227	0.0468
Adherence to expenditure ceilings and financial programming guidelines	4.231	0.2733
The ministerial/ departmental expenditure analysis by the National Treasury and planning	4.244	0.1032
The preparation of budget strategy paper for sector and county ceilings	3.382	0.1951
The update of macro/fiscal framework by Macro Working Group	4.081	0.0295
Preparation of budget estimates by line ministries, Agencies, parliamentary and judicial service commissions and counties	4.354	0.0148
Review of budget submissions from line ministries, Agencies, parliamentary and judicial service commissions and counties	4.354	0.0457
Matching the resource availability with spending needs through a process of trade-offs	4.551	0.1392

Source: Research Findings

The study established that MTEF has greatly improved preparation of the itemized budget estimates for development expenditure (x=4.067, S.D=0.0264), preparation of the itemized budget estimates for recurrent expenditure (x=4.118, S.D=0.0475), consolidation of the itemized budget by treasury, parliamentary and judicial commissions (x=4.133, S.D=0.0769), approval of the itemized budget (x=4.227, S.D=0.0468),adherence to expenditure ceilings and financial programming guidelines (x=4.231, S.D=0.2733), the ministerial/ departmental expenditure analysis by the National Treasury and planning (x=4.244, S.D=0.1032) and the update of macro/fiscal framework by Macro Working Group (x=4.081, S.D=0.0295).

MTEF has also greatly improved preparation of budget estimates by line ministries, agencies, parliamentary and judicial service commissions and counties (x=4.354, S.D=0.0148), review of budget submissions from line ministries, Agencies, parliamentary and judicial service commissions and counties (x=4.354, S.D=0.0457) and matching the resource availability with spending needs through a process of trade-offs (x=4.551, S.D=0.1392). However, MTEF has moderately improved the preparation of budget strategy paper for sector and county ceilings (x=3.382, S.D=0.1951).

4.8 Budgetary Process

The study also collected data on Kenya'sfiscalresults in order to evaluate the budgetary process in Kenya. Table 4.10 shows the descriptive Statistics data on total revenue, expenditure, financial deficit including grants and financing for the period 2002-2014.

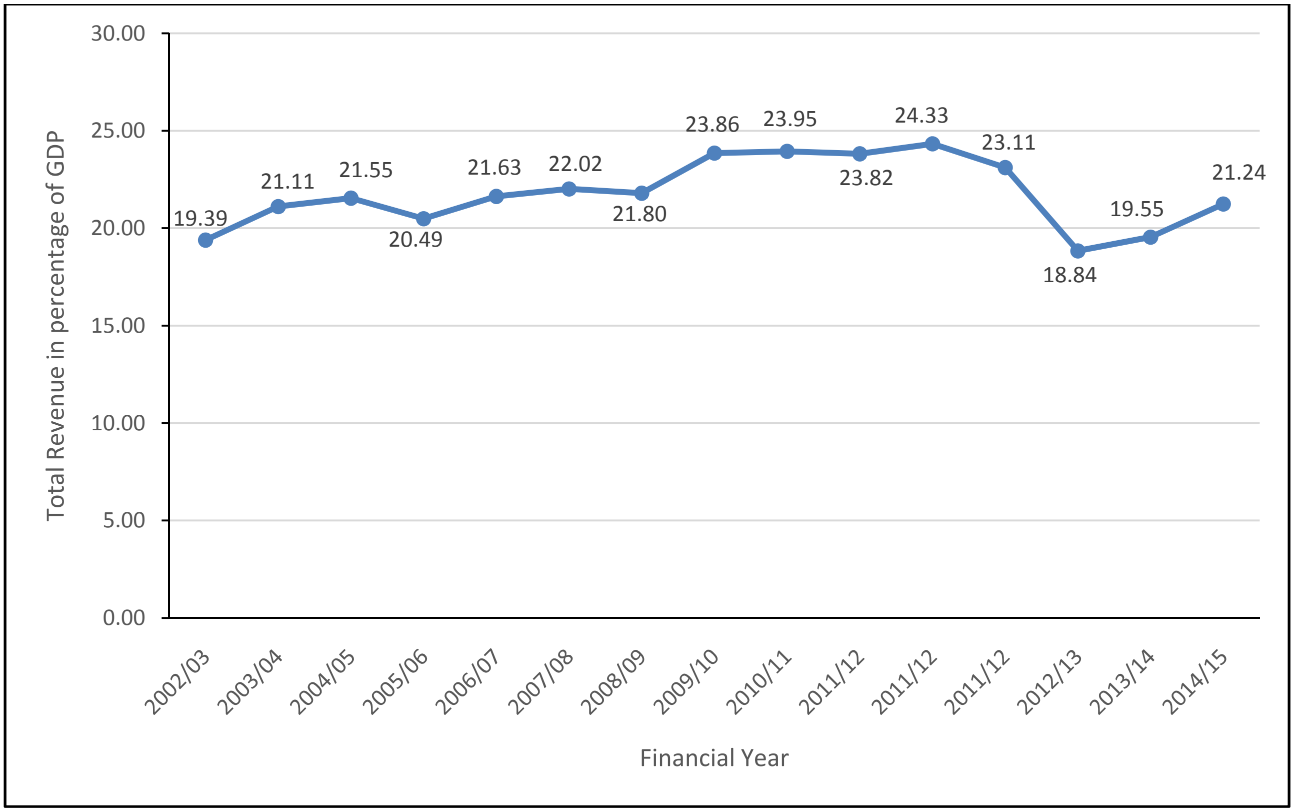
Table 4.10: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Total Revenue	15	18.84	24.33	21.7793	1.75936
Expenditure	15	22.56	32.75	27.0593	3.11797
Fiscal Deficit	15	-7.20	0.10	-4.2687	2.15746
Financing	15	-0.54	7.14	4.0880	2.78655

Source: Research Findings

The descriptive statistics in table 4.10 shows that the average total revenue, expenditure, financial deficit (including grants) and financing as a percentage of GPP for the period for the period 2002-2014 was 21.7793, 27.0593, -4.2687 and 4.088respectively. Descriptive statistics shows higher fluctuations in financing (high Std. Dev.= 2.78655 in relation to the mean of 4.08) and fiscal deficit (Std. Dev.= 2.15746) followed byexpenditure(Std. Dev.= 3.11797)and total revenue (Std. Dev.= 1.75936).

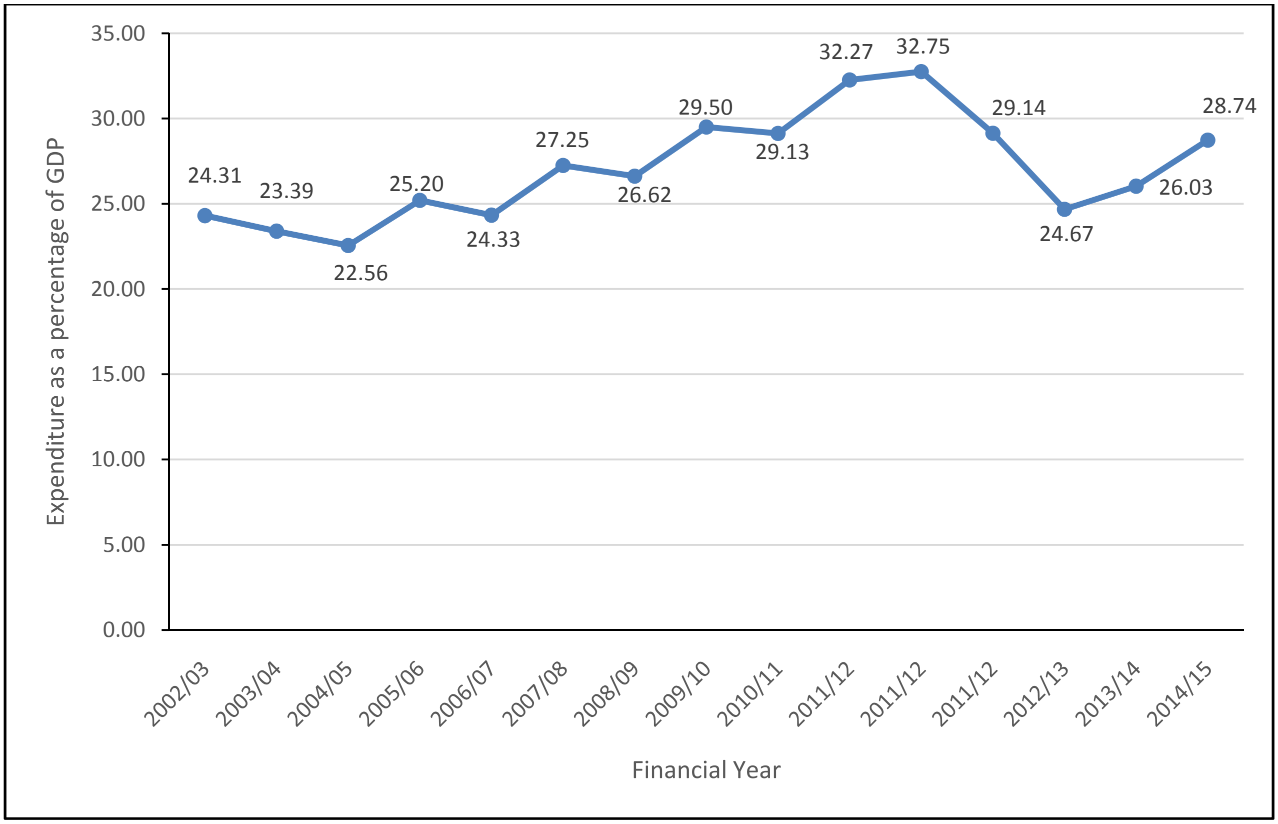
Figure 4.1: Trends in Total Revenue (2002-2014)



Source: Research Findings

Figure4.1 shows that total revenue in Kenya has been fluctuating with the highest total revenue (24.33% of GDP) recorded in the financial year 2011/12and the lowest total revenue (18.84% of GDP) recorded in the financial year 2012/13. The total revenue has been increasing in the last three financial years 2012/13 to 2014/15.

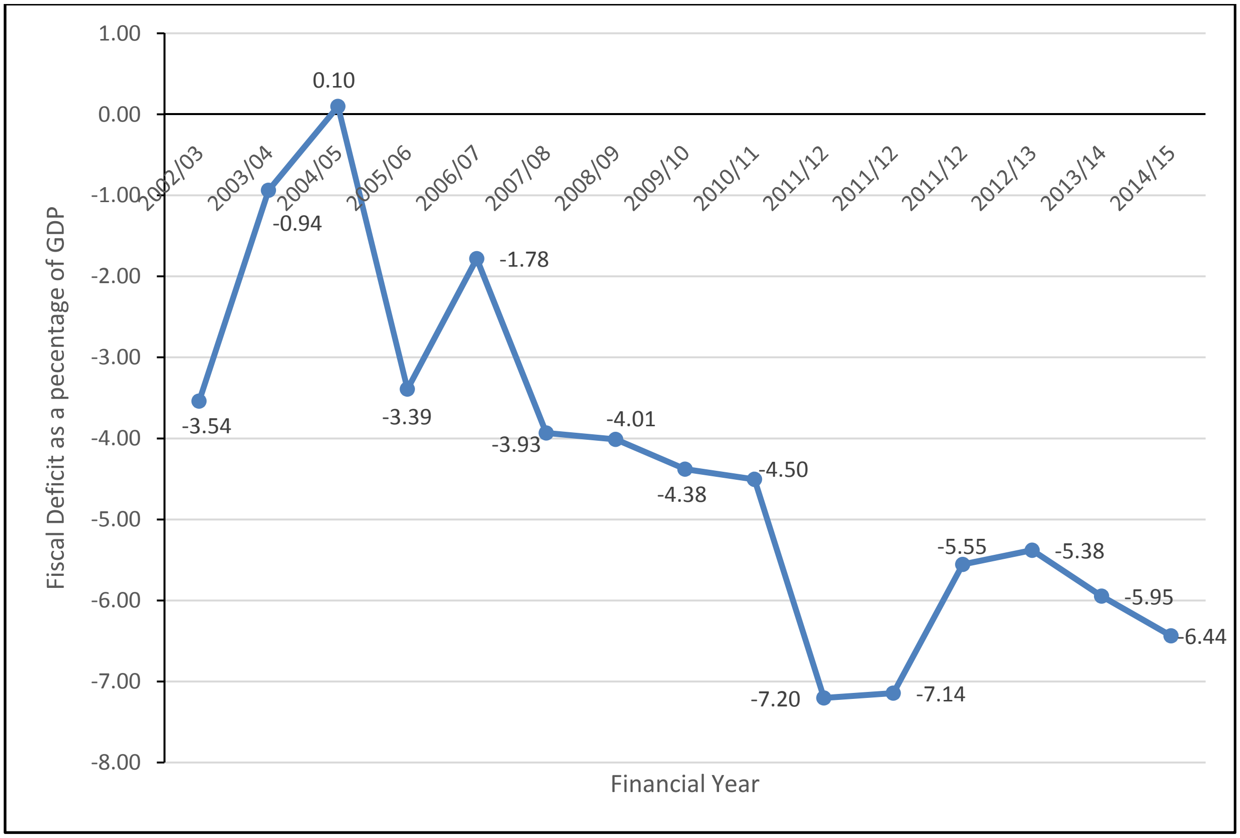
Figure 4.2: Trends in Expenditure (2002-2014)



Source: Research Findings

Figure4.2 shows that expenditure in Kenya has been fluctuating with the highest expenditure (32.75% of GDP) recorded in the financial year 2011/12 and the lowest expenditure(22.56% of GDP) recorded in the financial year 2004/05. The expenditure gradually increased between the financial years 2004/05 and 2011/12 and then a decline in 2011/13. Expenditure has also been increasing in the last three financial years 2012/13 to 2014/15.

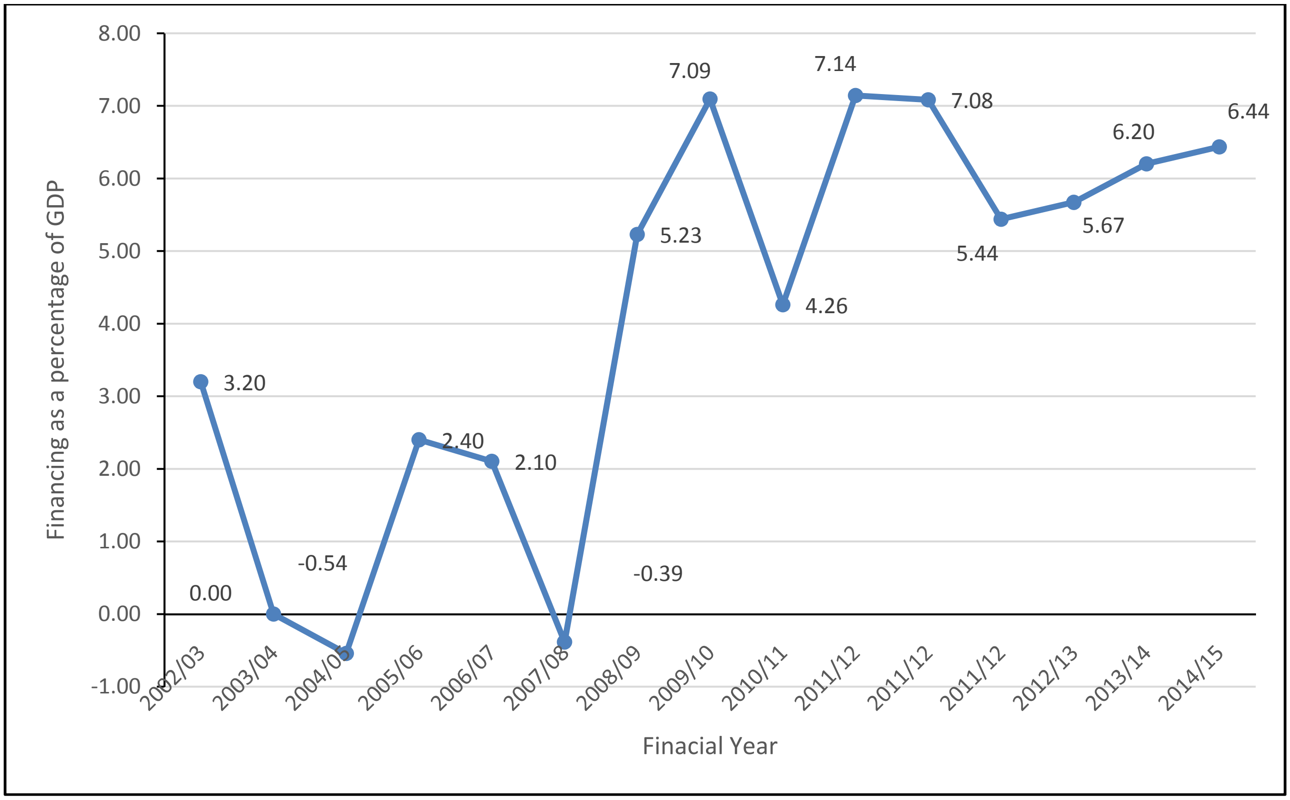
Figure 4.3: Trends in Fiscal Deficit (2002-2014)



Source: Research Findings

Figure4.3 shows that Kenyan fiscal deficit has been fluctuating across the period 2002-2014. The highest fiscal deficit (-7.20% of GDP) recorded in the financial year 2011/12and the lowest fiscal deficit (0.10% of GDP) wasrecorded in the financial year 2004/05. The general trend shows a gradual increase in Kenyan fiscal deficitacross the period 2002-2014.

Figure 4.4: Trends in Financing (2002-2014)



Source: Research Findings

Figure4.4 shows that financing in Kenya has been fluctuating with the highest financing (7.14% of GDP) recorded in the financial year 2011/12 and the lowest financing (-0.54% of GDP) recorded in the financial year 2004/05. The general trend shows a gradual increase in financingacross the period 2002-2014.

4.9 Regression Analysis

The following multiple regression modelwas used to determine the relationship between Medium Term Expenditure Framework on the budgeting process in Kenya.

$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + ẹ$

The model is further modified as s follows:

Where:

Y = Budgetary Process

β_0 = Constant Term

β_1= Beta coefficients

X_1= Fiscal discipline

X_2= Resource allocation

X_3= Budget predictability

X_4 =Credibility of budgeting decisions

ẹ= error term

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.819[a]	.671	.525	2.16193

a. Predictors: (Constant), fiscal discipline, resource allocation, budget predictability and credibility

Source: Research Findings

The study finding in Table 4.11 shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R Squareis 0.671. Therefore, Medium Term Expenditure Framework (fiscal discipline, resource allocation, budget predictabilityandcredibility)explains 67.1% of observed change on the budgeting process in.

Table 4.12: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85.940	4	21.485	4.597	.027[b]
	Residual	42.066	9	4.674		
	Total	128.005	13			

a. Dependent Variable: Budgetary process
b. Predictors: (Constant), fiscal discipline, resource allocation, budget predictabilityandcredibility

Source: Research Findings

The Analysis of Variance in Table 4.12 reveals that the composite effect of the four variable onMedium Term Expenditure Framework (fiscal discipline, resource allocation, budget predictabilityandcredibility) on the budgeting process in Kenya is statistically significant. This is revealed by a significance (p) value of0.27 which is less than level of significance set at 0.05.

Table 4.13: Coefficients of Regression Equation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	12.869	4.646		2.770	.022
Fiscal discipline	5.212	1.452	1.077	3.589	.006
Resource allocation	4.753	1.648	1.140	2.884	.018
Budget predictability	1.293	.842	.353	1.535	.159
Credibility	1.117	.724	.322	1.541	.158

a. Dependent Variable: Budgetary process

The regression equation becomes:

$$Y = 12.869 + 5.212X_1 + 4.753X_2 + 1.293X_3 + 1.117X_4 + 4.646$$

Then constant 12.869shows that if all the independent variables (fiscal discipline, resource allocation, budget predictabilityandcredibility) are rated at zero, the dependent variable (budgetary process in Kenya)would be rated at 12.869.

The significance (probability) values shows the significance of the relationship between independent and dependent variables. The level of confidence was set at 95% (0.05). The study findings in table 14 shows that budgetary process in Kenyawas significantly influenced by Medium Term Expenditure Frameworkin terms of fiscal discipline (p=0.006) and resource allocation (p=0.018).Budgetary process in Kenya was not significantly improved by Medium Term Expenditure Framework in terms of budget predictability (p=0.159)andcredibility (p=0.158).

The magnitude of regression coefficient shows the strength of relationship between independent and dependent variables. The regression coefficients in table 14 shows that the budgetary process in Kenyais strongly influenced by fiscal discipline (coefficient 5.212) and resource allocation (coefficient 4.753) as principles of Medium Term Expenditure Framework. The budgetary process is least influenced by budget predictability(coefficient 1.293) andcredibility (coefficient 1.117) as advocated by Medium Term Expenditure Framework

4.10Interpretation of the Findings

This section presents the interpretation of the findings. The section is presented in line with the study objective which was to investigate the influence of Medium Term Expenditure Framework on the budgeting process in terms of fiscal discipline, resource allocation, budget predictability and credibility of budgeting decisions. The inferential statistics revealed that the budgetary process in Kenya is strongly influenced by MTEF in terms of fiscal discipline and resource allocation. However, the budgetary process is least influenced by budget predictabilityandcredibility as advocated by Medium Term Expenditure Framework.

The study findings show that MTEF has improved fiscal discipline. The study established that MTEF has improved the budgetary process though reduction in fiscal deficits, greater macroeconomic stability in Kenya, greater fiscal discipline and improved Kenyan fiscal balance. MTEF has also ensured that expenditures (budgeted amounts as well as actual) match the revenues in order to manage the fiscal deficit prudently and that the total annual expenditure does not exceed the budgeted expenditure.

The study established that MTEF has improvedresource allocation in Kenya by linking the budgeting and planning, addressing the key weaknesses of resource allocation during the budget process andimproving the ability of regional financial officers to prioritize budgetary expenditure according to local needs. MTEF has enabled government to direct resources to areas of priority, ensured that every ministry and government institution streamline allocation of resources to areas of priority and provided a realistic budgetary resource ceiling against which to prioritize the allocation of resources consistent with policy objective.

MTEF has also provided the link between ambitious poverty reduction targets and the annual budget priorities of government and improved decision on indicative sector resource ceiling by considering proposed inter-sectorial priorities, national objectives of enhanced economic growth and poverty reduction, baseline requirement spending and medium term adjustments. Moreover MTEFintegrated critical processes of policy, planning and budgeting within a medium term perspective during allocation of resources to strategic Government programmes, provided an iterative process of decision making that reconciles these costs with available resources and ensured efficient and effective use of government resources to strategic priorities thus reducing the share of public expenditure to Gross Domestic Product.

Nevertheless, MTEF is yet to effectively increasestakeholders' participation in the budgeting process, encourage consultation in the budgeting process, facilitate efficient integration of county governments' budgets and plans to the national budget, placegovernment policies and priorities at the center of budget planning.

The study established that MTEF has not had significant influence on the budgetary process. MTEF had moderate influence in ensuring that sector and sub-national strategies are linked to the national development strategy in terms of timing and sequencing, consistency of their objectives and institutional responsibilities. MTEF has moderately influenced predictability of desired inflation rate, money supply, projected economic growth, projected interest rate, desired level of domestic borrowing, desired level of external borrowing and other macro aggregates including realizable revenue and sustainable expenditure.

On the other hands MTEF had positively contributed to the budgetary process in terms of in terms of match between approved budgets, executed budget and the MTEF projections, reduced the budget deviation index (BDI) in the Kenyan budget, increased the sector implementation ratioand ensured a top down consideration of macroeconomic outcomes, fiscal outcomes and robust revenue projections. MTEF has also facilitated greater macroeconomic balance through good estimates of the available resource envelope and facilitated greater budgetary predictability as a result of commitment to more credible sectoral budget ceilings.

MTEF has not had major impact oncredibility of budgeting decisions in the budgetary process. MTEF has not been effective in ensuring that budgetary decision making is more legitimate and that there is a greater political accountability for expenditure outcomes and instituting effective mechanisms for feedback of monitoring information into the subsequent expenditure planning cycle.

MTEF has positively contributed to credibility of budgeting decisions by improving the budgetary decision-making more accountable, legitimate and credible andleading to greater transparency in the budget and budgeting process in Kenya.

MTEF hasensured that sectoral managers are held more accountable to produce results because their intra-sectoral priorities and resources are well specified and made public expenditures more efficient, effective and credible by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programs.

Besides, MTEF hasbroadened the credibility of resource ceilings beyond those concerned with the macro to encompass line ministers, budget agencies, parliaments and civil society, led to greater credibility to budget management in Kenya through better data and hard aggregate and sectoral budget constraints, instituted effective mechanisms for the monitoring of budgetary inputs, outputs and outcomes, enhanced budgetary scrutiny by civil society, the private sector, technical and professional expertise and yielded greater legitimacy to the budgetary process by facilitating cooperative and consensus-based decision-making.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents thesummary of the study findings, conclusions made from the findings and recommendations. The aim of the study was to assess the effect of the Medium Term Expenditure Framework on the budgeting process in Kenya.

5.2 Summary

This section presents summary of the study findings. The section summarizes the influence of Medium Term Expenditure Framework on the budgeting process in terms of fiscal discipline, resource allocation, budget predictability and credibility of budgeting decisions.

The study established that MTEF has improved the budgetary process though reduction in fiscal deficits, greater macroeconomic stability in Kenya, greater fiscal discipline and improved Kenyan fiscal balance. MTEF has also ensured that expenditures (budgeted amounts as well as actual) match the revenues in order to manage the fiscal deficit prudently and that the total annual expenditure does not exceed the budgeted expenditure.

The study established that MTEF has improvedresource allocation in Kenya by linking the budgeting and planning, addressing the key weaknesses of resource allocation during the budget process and improving the ability of regional financial officers to prioritize budgetary expenditure according to local needs. MTEF has enabled government to direct resources to areas of priority, ensured that every ministry and government institution streamline allocation of resources to areas of priority and provided a realistic budgetary resource ceiling against which to prioritize the allocation of resources consistent with policy objective.

MTEF has also provided the link between ambitious poverty reduction targets and the annual budget priorities of government and improved decision on indicative sector resource ceiling by considering proposed inter-sectorial priorities, national objectives of enhanced economic growth and poverty reduction, baseline requirement spending and medium term adjustments. Moreover MTEFintegrated critical processes of policy, planning and budgeting within a medium term perspective during allocation of resources to strategic Government programmes, provided an iterative process of decision making that reconciles these costs with available resources and ensured efficient and effective use of government resources to strategic priorities thus reducing the share of public expenditure to Gross Domestic Product.

Nevertheless, MTEF is yet to effectively increase stakeholders' participation in the budgeting process, encourage consultation in the budgeting process, facilitate efficient integration of county governments' budgets and plans to the national budget, place government policies and priorities at the center of budget planning and limitsectoral reallocation.

The study established that MTEF has not had significant influence on the budgetary process. MTEF had moderate influence in ensuring that sector and sub-national strategies are linked to the national development strategy in terms of timing and sequencing, consistency of their objectives and institutional responsibilities. MTEF has moderately influenced predictability of desired inflation rate, money supply, projected economic growth, projected interest rate, desired level of domestic borrowing, desired level of external borrowing and other macro aggregates including realizable revenue and sustainable expenditure.

Nevertheless, MTEF has greatly improved budget predictability in terms of match between approved budgets, executed budget and the MTEF projections, reduced the budget deviation index (BDI) in the Kenyan budget, increased the sector implementation ratio and ensured a top down consideration of macroeconomic outcomes, fiscal outcomes and robust revenue projections. MTEF has also facilitated greater macroeconomic balance through good estimates of the available resource envelope and facilitated greater budgetary predictability as a result of commitment to more credible sectoral budget ceilings.

In regard to credibility of budgeting decisions the study established that MTEF has made the budgetary decision-making more accountable, legitimate and credible, led to greater transparency in the budget and budgeting process in Kenya, ensured that sectoral managers are held more accountable to produce results because their intra-sectoral priorities and resources are well specified and made public expenditures more efficient, effective and credible by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programs.

MTEF hasbroadened the credibility of resource ceilings beyond those concerned with the macro to encompass line ministers, budget agencies, parliaments and civil society, led to greater credibility to budget management in Kenya through better data and hard aggregate and sectoral budget constraints, instituted effective mechanisms for the monitoring of budgetary inputs, outputs and outcomes, enhanced budgetary scrutiny by civil society, the private sector, technical and professional expertise and yielded greater legitimacy to the budgetary process by facilitating cooperative and consensus-based decision-making.

However, MTEF has not been effective in ensuring that budgetary decision making is more legitimate and there is a greater political accountability for expenditure outcomes and instituting effective mechanisms for feedback of monitoring information into the subsequent expenditure planning cycle.

The study established that MTEF has had positive impact on fiscal discipline, resources allocation, macroeconomic planning, expenditure control and cash management.The study established that MTEF has greatly improved preparation of the itemized budget estimates for development expenditure, preparation of the itemized budget estimates for recurrent expenditure, consolidation of the itemized budget by treasury, parliamentary and judicial commissions, approval of the itemized budget, adherence to expenditure ceilings and financial programming guidelines, the ministerial/ departmental expenditure analysis by the National Treasury and planning and the update of macro/fiscal framework by Macro Working Group.

MTEF has also greatly improved preparation of budget estimates by line ministries, agencies, parliamentary and judicial service commissions and counties, review of budget submissions from line ministries, Agencies, parliamentary and judicial service commissions and counties and matching the resource availability with spending needs through a process of trade-offs. However, MTEF has had moderate influence on to budget predictability, credibility of budgeting decisions, aid and debt management and audit.MTEF has moderately improved the preparation of budget strategy paper for sector and county ceilings.

5.3 Conclusion

The study concludes thatMTEF hasimproved budgetary process in Kenya. MTEF has been instrumental in the management of fiscal deficit and resource allocation in Kenya. MTEF has facilitated reduction in fiscal deficits, enabled greater fiscal discipline and improved Kenyan fiscal balance. In regard to resource allocation MTEF haslinkedlink between ambitious poverty reduction targets and the annual budget priorities, enabled government to direct resources to areas of priority, ensured that every ministry and government institution streamline allocation of resources to areas of priority andimproved the ability of regional financial officers to prioritize budgetary expenditure according to local needs. MTEF has provided a realistic budgetary resource ceiling against which to prioritize the allocation of resources consistent with policy objective.

MTEF has reduced the budget deviation index, increasing the sector implementation ratio, enabledgood estimates of the available resource envelope and facilitated commitment to more credible sectoral budget ceilings. MTEF has led to greater transparency in the budget and budgeting process, enhanced accountability of sectoral managers, enabled better data management, improved scrutiny by civil society, the private sector, technical and professional expertise and facilitated cooperative and consensus-based decision-making.

Despite the positive contributions to the budgetary process, MTEF is still lacking in terms of ensuring greater political accountability for expenditure outcomes, instituting effective mechanisms for feedback of monitoring information into the subsequent expenditure planning cycle, ensuring that sector and sub-national strategies are linked to the national development strategy, integration of county governments' budgets and plans to the national budget and stakeholders' participation in the budgeting process. The reforms in the budgetary process would not yield excellent results if there is no proper integration of MTEF into the structures of devolved governance in Kenya.

5.4 Recommendation for Policy Development

The study makes the following recommendations for policy development:

The study recommends that the government review the implementation of MTEF guidelines regardingpolitical accountability in the budgetary process. There is a need for politicians to be held more accountable for funds allocated to them in terms of constituency development funds and county development fund. MTEF can be an effective tool in ensuring greater political accountability for expenditure outcomes.

The study recommends that national government in Kenya should facilitate training on MTEF at County and Sub County levels in order to improve budgetary process across all structures of governance. The training on MTEF at County and Sub County levels will ensure that sector and sub-national strategies are linked to the national development strategy and enhance integration of county governments' budgets and plans to the national budget.

The study recommends further improvements in the Kenya budgetary process under MTEF by enhancing stakeholders' participation in the budgeting process. There is a need to involve civil society, the private sector, technical and professional expertise in the budgetary process.This would enhance credibility of budgeting decisions at the national level and relate to the aspirations for development of different stakeholders. Stakeholders' participation inthe budgetary process institutes an effective mechanisms for feedback which is important in improving budgeting under MTEF.

A budget secretariat office or a budget office independent of treasury be set up to undertake the MTEF process continuously throughout setting out priority areas, guiding resource allocations and evaluating expenditures against the set targets in the medium term . Such an office would help the line ministries to achieve efficiency through an output based allocations of resources as opposed to input based method.

The study recommends proper integration of MTEF into all structures of governance in Kenya.In order to enhance proper management of MTEF, a formal structure be put in place that follows the normal approval process in the budget. This means that moving MTEF into another level where parliament and cabinet must approve. The MTEF should not to be an exclusive process of treasury. This would serve to enhance proper planning and integration of MTEF into the government national policies and visions. It would serve to ensure that MTEF is no longer a tactical planning tool but be a strategic framework guiding the government expenditure in the medium term in order to achieve economic growth.

5.5 Limitationsof the Study

The study was limited to the effect of Medium Term Expenditure Framework on the budgeting process in terms of fiscal discipline, resource allocation, budget predictability and credibility of budgeting decisions. However, there is a need for further investigation into the factors that intermediate the influence ofMedium Term Expenditure Framework on the budgeting process. A study of the effect of Medium Term Expenditure Framework on the budgeting process should also considers synergistic effects of other financial reforms and the available financial policies and structures.

The study was limited to government ministries. Medium Term Expenditure Framework and the budgeting process should include all government institutions in the country. The involvement of all levels of governance in the study would provide a more comprehensive analysis of Medium Term Expenditure Framework and the budgeting process.

5.6 Suggestions for Further Study

The study recommends further study on factors that intermediate the influence ofMedium Term Expenditure Framework on the budgeting process. The study would complement the findings of this study by establishing the key success factors upon which policies should be formulated to enhance the effect of Medium Term Expenditure Framework on the budgeting process.

The study also recommend further study on policy alignments between MTEF and other financial reform policies in Kenya. The study will identify the areas of synergies and disharmony among the financial reform policies. Therefore, the study will establish areas for policy review with a view to achieving greater synergies among financial reform policies.

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APPENDICES

Appendix I: Questionnaire

Please tick where appropriate or give the answer.

Section A: Background Information

1. Name of the ministry……………….…………………………………………….

2. Position in the ministry ………………..……………………………………

3. Years in service at the ministry

1-5 [ ]   6-10 [ ]   11-15 [ ]   16-20 [ ]   More than 20 [ ]

Section B: Medium Term Expenditure Framework (MTEF) and Fiscal discipline

1. To what extent has Medium Term Expenditure Framework influenced the following aspects of fiscal discipline in Kenya? Rate your response on scale of five units whereby 1=No extent at all, 2=Little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

	1	2	3	4	5
MTEF has led to reduction in fiscal deficits					
MTEF has ensured that expenditures (budgeted amounts as well as actual) match the revenues in order to manage the fiscal deficit prudently					
MTEF ensures that the total annual expenditure should not exceed the budgeted expenditure					
MTEF has improved Kenyan fiscal balance					
MTEF has led to greater macroeconomic stability in Kenya					
MTEF has led to greater fiscal discipline					

2. In which other ways has MTEF affected fiscal discipline the Kenyan budgetary system?

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Section C: MTEF and Resource allocation

3. To what extent has Medium Term Expenditure Framework influenced the following aspects of resource allocation in Kenya? Rate your response on scale of five units whereby 1=No extent at all, 2=Little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

	1	2	3	4	5
MTEF has linked the budgeting and planning,					
MTEF has addressed the key weaknesses of resource allocation during the budget process					
MTEF has improved the ability of regional financial officers to prioritize budgetary expenditure according to local needs					
MTEF has enabled government to direct resources to areas of priority					
MTEF ensures that every ministry and government institution streamline allocation of resources to areas of priority					
MTEF has increased stakeholders participation in the budgeting process					
The new planning and budgeting cycle under MTEF has encourages consultation in the budgeting process					
MTEF facilitates efficient integration of local/county governments' budgets and plans to the national budget					
MTEF approach places government policies and priorities at the centre of budget planning					

MTEF has been associated with limited sectoral reallocation					
MTEF has provided a realistic budgetary resource ceiling against which to prioritize the allocation of resources consistent with policy objective					

4. What is your level of agreement with the following statement regarding the influence of MTEF on resources allocation?Rate your answer on a five point scale whereby 1=Strongly Disagree, 2=Disagree, 3=Moderately Agree, 4=Agree, and 5=Strongly Agree.

	1	2	3	4	5
MTEF has provided the link between ambitious poverty reduction targets and the annual budget priorities of government					
MTEF has improved decision on indicative sector resource ceiling by considering proposed inter-sectorial priorities, national objectives of enhanced economic growth and poverty reduction, baseline requirement spending and medium term adjustments.					
MTEF has integrated critical processes of policy, planning and budgeting within a medium term perspective during allocation of resources to strategic Government programmes					
MTEF has provided an iterative process of decision making that reconciles these costs with available resources.					
MTEF has ensured efficient and effective use of government resources to strategic priorities thus reducing the share of public expenditure to Gross Domestic Product (GDP)					

5. In which other ways has MTEF affected resource allocation the Kenyan budgetary system?

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Section D: MTEF and Budget predictability

6. To what extent has MTEF affected the following aspects of predictability in the Kenyan budgetary process? Rate your answer on a five point scale whereby 1=No extent at all, 2=Little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

	1	2	3	4	5
The MTEF delivers greater budget predictability in terms of match between approved budgets, executed budget and the MTEF projections					
MTEF has reduce the budget deviation index (BDI) in the Kenyan budget					
MTEF has increased the sector implementation ratio					
MTEF budgetary process ensures a top down consideration of macroeconomic outcomes, fiscal outcomes and robust revenue projections					
MTEF has facilitated greater macroeconomic balance through good estimates of the available resource envelope					
MTEF has facilitated greater budgetary predictability as a result of commitment to more credible sectoral budget ceilings.					
MTEF has ensured that sector and sub-national strategies are linked to the national development strategy in terms of timing and sequencing, consistency of their objectives and institutional responsibilities.					

7. In which other ways has MTEF affected budget predictability in the Kenyan budgetary system?

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8. To what extent has MTEF process been able to predict or estimate the following macro targets in the Kenya budgetary process? Rate your answer on a five point scale whereby 1=No extent at all, 2=Little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

	1	2	3	4	5
Desired inflation rate					
Money supply					
Projected economic growth					
Projected interest rate					
Desired level of domestic borrowing					
Desired level of external borrowing					
Other macro aggregates including realizable revenue an sustainable expenditure					

Section E: MTEF and credibility of budgeting decisions

9. To what extent has MTEF affected the following aspects of credibility in the Kenyan budgetary process? Rate your answer on a five point scale whereby 1=No extent at all, 2= little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

	1	2	3	4	5
MTEF has enhanced budgetary scrutiny by civil society, the private sector, technical and professional expertise					
As a result of the MTEF, the budgetary decision-making process has become more accountable, legitimate and credible					
MTEF has led greater transparency in the budget and budgeting process in Kenya					

MTEF has ensured that sectoral managers are held more accountable to produce results because their intra-sectoral priorities and resources are well specified					
MTEF yields greater legitimacy to the budgetary process by facilitating cooperative and consensus-based decision-making.					
MTEF has ensured that budgetary decision making is more legitimate and there is a greater political accountability for expenditure outcomes					
MTEF has made public expenditures more efficient, effective and credible by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programs					
MTEF has broadened the credibility of resource ceilings beyond those concerned with the macro to encompass line ministers, budget agencies, parliaments and civil society.					
The MTEF has led to greater credibility to budget management in Kenya through better data and hard aggregate and sectoral budget constraints					
MTEF has instituted effective mechanisms for the monitoring of budgetary inputs, outputs and outcomes					
MTEF has instituted effective mechanisms for feedback of monitoring information into the subsequent expenditure planning cycle					

10. In which other ways has MTEF affected credibility of budgeting decisions Kenya?

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Section F: MTEF and the overall budgetary process

11. To what extent has MTEF improved the following aspects budgetary process in Kenya? Rate your answer on a five point scale whereby 1=No extent at all, 2=Little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

	1	2	3	4	5
Fiscal discipline					
Resources allocation					
Budget predictability					
Credibility of budgeting decisions					
Macroeconomic planning					
Expenditure control					
Cash management					
Aid and debt management					
Audit					

12. To what extent has MTEF improved the following aspects financial programming in the Kenyan budgetary process? Rate your answer on a five point scale whereby 1=No extent at all, 2= Little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

	1	2	3	4	5
Preparation of the itemized budget estimates for development expenditure					
Preparation of the itemized budget estimates for recurrent expenditure					
Consolidation of the itemized budget by treasury, parliamentary and judicial commissions					
Approval of the itemized budget					

Adherence to expenditure ceilings and financial programming guidelines					
The of ministerial/ departmental expenditure analysis by the National Treasury and planning					
The preparation of budget strategy paper for sector and county ceilings					
The update of macro/fiscal framework by Macro Working Group					
Preparation of budget estimates by line ministries, Agencies, parliamentary and judicial service commissions and counties					
Review of budget submissions from line ministries, Agencies, parliamentary and judicial service commissions and counties					
Matching the resource availability with spending needs through a process of trade-offs					

13. Kindly indicate the following financial results in Kenyan budgetary process for the year 2002-2014.

Fiscal Results (as a % of GDP)	**Total Revenue**	**Expenditure**	**Financial Deficit including grants**	**Financing**
2002/03				
2003/04				
2004/05				
2005/06				
2006/07				
2007/08				
2008/09				
2009/10				
2010/11				
2011/12				
2012/13				
2013/14				
2014/15				

11. Which measures can be taken to ensure that MTEF improve the budgetary process in Kenya?

i. ………………………………………………………………………………………
ii. ………………………………………………………………………………………
iii. ………………………………………………………………………………………
iv. ………………………………………………………………………………………
v. ………………………………………………………………………………………

Appendix ii: The Government Ministries as at October 2014

1. Ministry of Interior & Coordination of National Government
2. Ministry of Devolution and Planning
3. Ministry of Foreign Affairs
4. Ministry of Defence
5. Ministry of Education, Science and Technology
6. The National Treasury
7. Ministry of Health
8. Ministry of Transport and Infrastructure
9. Ministry of Information, Communication and Technology
10. Ministry of Environment, Water and Natural Resources
11. Ministry of lands, Housing and Urban Development
12. Ministry of Labour, Social Security and Services
13. Ministry of Sports, Culture and The Arts
14. Ministry of Energy and Petroleum
15. Ministry of Agriculture, Livestock and Fisheries
16. Ministry of Industrialization and Enterprise Development
17. Ministry of East African Affairs, Commerce & Tourism
18. Ministry of Mining

Source: Government of Kenya (2014)

Appendix iii: Kenya's fiscal results (2002-2014)

Fiscal Results (as a % of GDP)	Total Revenue	Expenditure	Financial Deficit including grants	Financing
2002/03	19.39	24.31	(3.54)	3.20
2003/04	21.11	23.39	(0.94)	0.00
2004/05	21.55	22.56	0.10	(0.54)
2005/06	20.49	25.20	(3.39)	2.40
2006/07	21.63	24.33	(1.78)	2.10
2007/08	22.02	27.25	(3.93)	(0.39)
2008/09	21.80	26.62	(4.01)	5.23
2009/10	23.86	29.50	(4.38)	7.09
2010/11	23.95	29.13	(4.50)	4.26
2011/12	23.82	32.27	(7.20)	7.14
2011/12	24.33	32.75	(7.14)	7.08
2011/12	23.11	29.14	(5.55)	5.44
2012/13	18.84	24.67	(5.38)	5.67
2013/14	19.55	26.03	(5.95)	6.20
2014/15	21.24	28.74	(6.44)	6.44

Source: Republic of Kenya (2014).