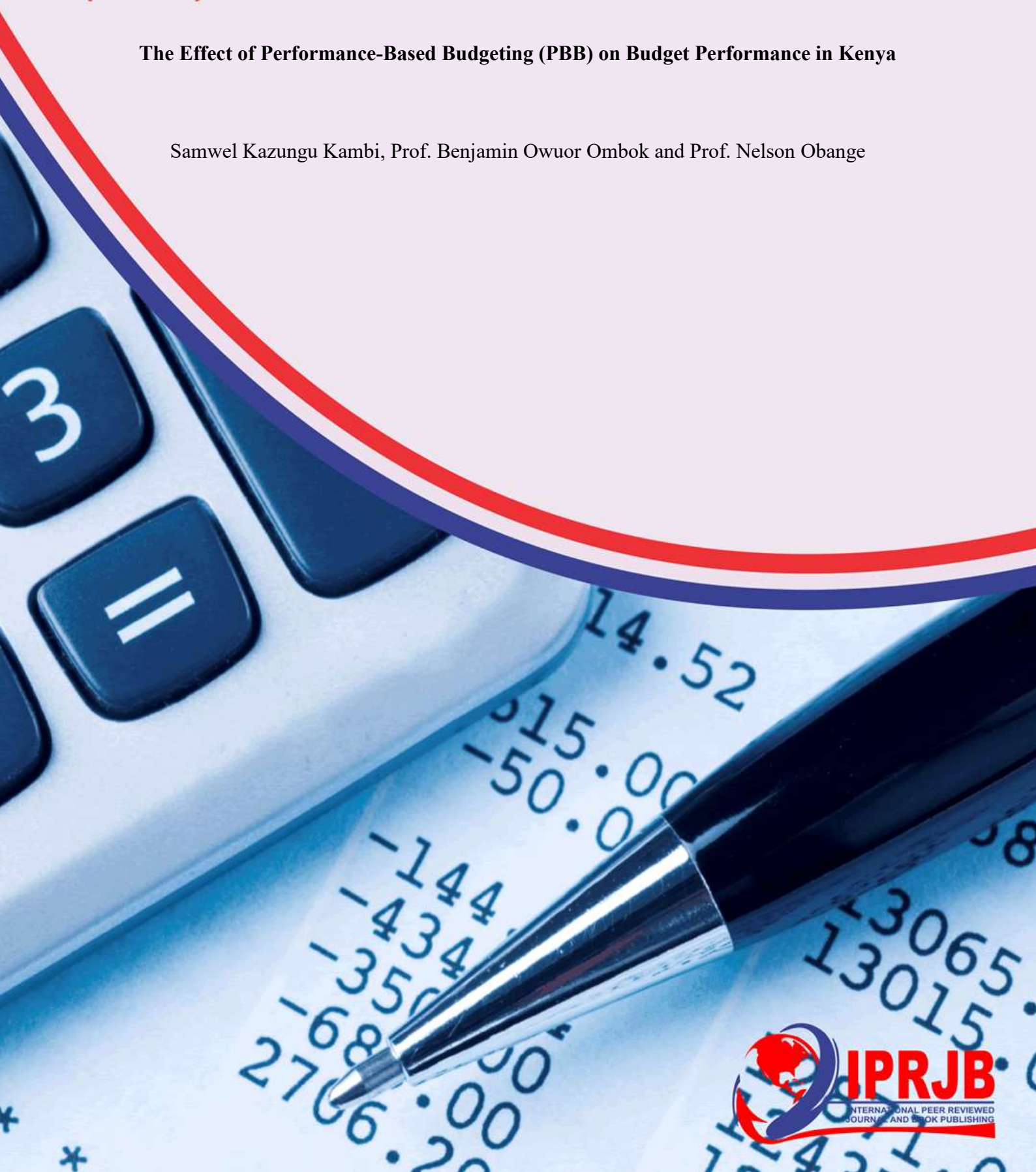


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**The Effect of Performance-Based Budgeting (PBB) on Budget Performance in Kenya**


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### The Effect of Performance-Based Budgeting (PBB) on Budget Performance in Kenya

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#### Abstract

**Purpose:** The primary aim of this study is to examine the effect of Performance-Based Budgeting (PBB) on budget performance in Kenya. Specifically, the study seeks to determine whether the adoption and implementation of PBB, as a public financial management reform, has contributed to improved budget execution rates and fiscal discipline. By applying econometric analysis to secondary time-series data from 2012/2013 to 2023/2024, the study evaluates both the short-run and long-run relationships between PBB and budget performance, while considering the influence of control variables such as revenue collection efficiency and the debt-to-GDP ratio. Ultimately, the study aims to provide empirical evidence on whether PBB has enhanced efficiency, accountability, and resource utilization within Kenya's public budgeting system.

**Methodology:** This study adopted a positivist research philosophy, relying on empirical data and quantitative analysis to objectively test hypotheses on the effect of Performance-Based Budgeting (PBB) on budget performance in Kenya. A correlational research design was employed to establish the nature and strength of relationships among variables. The dependent variable was budget performance, proxied by the Budget Execution Rate (BER), while the key independent variable was PBB, and control variables included revenue collection efficiency and the debt-to-GDP ratio. The study used quarterly secondary time-series data covering the financial years 2012/2013 to 2023/2024, drawn from the National Treasury, Controller of Budget, Auditor-General, and World Bank reports, yielding 44 data points. Data analysis followed a structured econometric approach: unit root testing using the Augmented Dickey-Fuller (ADF) test, Johansen cointegration analysis to assess long-run relationships, and estimation of a Vector Error Correction Model (VECM) to capture both long-run equilibrium and short-run dynamics. Descriptive statistics and correlation analysis complemented the econometric modeling, while hypothesis testing relied on standard errors, t-statistics, p-values, and confidence intervals.

**Findings:** The study found that Performance-Based Budgeting (PBB) has a significant and positive effect on budget performance in Kenya in the short run, with improvements in PBB leading to higher budget execution rates after one to two quarters. However, Johansen cointegration analysis revealed no statistically significant long-run relationship between PBB and budget performance, suggesting that PBB reforms have yet to be fully institutionalized to deliver sustained improvements. Further analysis showed that PBB itself is positively shaped by participatory budgeting, medium-term expenditure frameworks, and transparency mechanisms, while rising debt burdens constrain its effectiveness. These results indicate that although PBB reforms enhance expenditure efficiency in the short term, their long-term impact remains limited by institutional, political, and capacity-related challenges.

**Unique Contribution to Theory, Practice and Policy:** This study contributes to theory, practice, and policy by showing that while Performance-Based Budgeting (PBB) enhances budget performance in Kenya in the short run, its long-run impact remains negligible. The findings refine New Public Management (NPM) and Principal-Agent Theory (PAT) by illustrating how institutional and political constraints weaken the intended efficiency and accountability gains of PBB. Practically, the study demonstrates that PBB's effectiveness depends on complementary reforms such as participatory budgeting, medium-term expenditure frameworks, and transparency mechanisms. For policy, it highlights the need to institutionalize PBB through legal enforcement, robust performance data systems, and stronger fiscal discipline measures. Overall, the research underscores that PBB must move beyond compliance reporting to become a transformative tool for improving public financial management.

**Keywords:** Performance-Based Budgeting (PBB), Budget Performance, New Public Management (NPM), Principal-Agent Theory (PAT), Public Financial Management (PFM).

**JEL Classification Codes:** H50, H61, H83, D73, C32

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## INTRODUCTION

Public budget performance varies widely across countries, shaped by institutional capacity, governance structures, and fiscal discipline. Developed countries generally achieve high performance due to robust institutions, advanced technology, and strong accountability frameworks, often reinforced through performance-oriented budgeting systems such as the U.S. Government Performance and Results Act and the European Union's Stability and Growth Pact (OECD, 2014).

Comparative research affirms that these variations are not merely institutional but are also influenced by bureaucratic incentives, fiscal transparency, and program evaluation mechanisms (Robinson & Last, 2009; Habiburrochman & Rizki, 2020). Studies in developing contexts demonstrate persistent gaps, with weaker institutions, limited revenue bases, and governance deficits undermining budget performance (Allen, 2009; IMF, 2018).

Kenya has undertaken significant Public Finance Management (PFM) reforms under the 2010 Constitution and the Public Finance Management Act (2012). These include devolution, the adoption of Integrated Financial Management Information Systems (IFMIS), and modern budgeting approaches such as Performance-Based Budgeting (PBB). Despite these reforms, Kenya's budget execution rate has remained inconsistent, averaging 75–85% between 2014/15 and 2022/23—below regional benchmarks such as Rwanda's 90%+ (IMF, 2023).

Academic studies highlight similar trends: fiscal decentralization positively influences budget implementation (Sande et al., 2023), while IFMIS adoption has shown mixed results—sometimes correlating negatively with execution outcomes (Kipchumba & Kariuki, 2020). County-level analyses in health and education reveal that PBB has improved transparency and alignment between planning and resource allocation, yet remains hindered by technical capacity gaps and political interference (PubMed, 2021; UoN Repository, 2018).

Persistent issues such as stalled projects, resource misallocation, weak oversight, and rising debt levels continue to hinder budget performance (Auditor-General, 2021; Controller of Budget, 2023). Scandals such as the NYS and Afya House expose gaps in accountability and highlight the limitations of existing reforms (Transparency International, 2021).

Peer-reviewed studies further underscore these systemic weaknesses, linking Kenya's fiscal challenges to principal–agent dynamics—where weak monitoring mechanisms allow slippage between policy intentions and execution outcomes (Christensen & Læg Reid, 2007; Andrews & Van de Walle, 2013).

Against this backdrop, Performance-Based Budgeting has been identified as a key instrument for improving efficiency, transparency, and accountability in Kenya's public expenditure. By linking budget allocations to measurable outputs, PBB aims to address chronic weaknesses in planning and execution that erode fiscal discipline and public trust. However, evidence of its effectiveness in Kenya remains mixed, creating the need for deeper empirical assessment.

Public budgeting practices provide the mechanisms through which governments allocate and manage resources to achieve policy objectives. While multiple approaches exist—including incremental, zero-based, and participatory budgeting—Performance-Based Budgeting (PBB) has gained prominence as a central reform in Kenya. Unlike traditional input-focused budgeting, PBB links resources to results, emphasizing efficiency, accountability, and service delivery (Robinson & Last, 2009).



Recent analyses across sub-Saharan Africa note that while PBB adoption correlates with improved accountability, its impact on fiscal discipline and service delivery is often constrained by political economy dynamics and institutional weaknesses (Habiburrochman & Rizki, 2020; Sande et al., 2023).

Kenya has progressively adopted PBB, particularly in sectors such as health, education, and infrastructure, where performance indicators are increasingly integrated into budget preparation and monitoring (Kipchumba & Kariuki, 2020). The National Treasury and line ministries now incorporate measurable targets into budget frameworks, aiming to improve fiscal discipline and ensure that funds translate into tangible outcomes. While complementary practices such as Medium-Term Expenditure Frameworks (MTEFs) and public participation forums play supportive roles, the government's reform agenda has placed PBB at the core of efforts to enhance budget performance (World Bank, 2017; OECD, 2020).

Nevertheless, implementation challenges—including weak institutional capacity, data limitations, and political interference—have constrained PBB's impact. Some studies report improved accountability and service delivery, while others highlight inefficiencies and limited long-term gains (Habiburrochman & Rizki, 2020; Sande et al., 2023). These mixed findings underscore the importance of empirically examining the effect of PBB on Kenya's budget performance, particularly in the context of persistent fiscal deficits, rising debt, and growing public demand for accountability.

### **Statement of the Problem**

Budget performance remains a central concern in Kenya's public financial management, as it directly affects fiscal discipline, resource utilization, and service delivery. Despite major reforms under the 2010 Constitution and the Public Finance Management Act (2012), Kenya continues to face challenges of low budget execution rates, stalled projects, resource misallocation, and rising public debt. Between 2014/15 and 2022/23, budget absorption averaged 75–85%, consistently below regional peers such as Rwanda, which has maintained over 90% execution (IMF, 2023). These inefficiencies undermine economic growth, erode public trust, and constrain the government's capacity to deliver on its development agenda. Performance-Based Budgeting (PBB) has been adopted as a core strategy to address these persistent fiscal management challenges by linking budget allocations to measurable outputs and outcomes, thereby promoting efficiency, accountability, and transparency in resource use. However, sectoral performance outcomes remain uneven. Positive results are reported in the health sector, where PBB has supported improved delivery of essential medical supplies and expansion of primary healthcare access (Kipchumba & Kariuki, 2020). Conversely, infrastructure and development projects continue to experience delays, cost overruns, and incomplete implementation due to weak project management systems and inadequate performance tracking (Auditor-General, 2021; Controller of Budget, 2023).

Empirical evidence on the impact of PBB in Kenya remains mixed and inconclusive. While some studies report improvements in accountability and efficiency (Habiburrochman & Rizki, 2020), others reveal persistent institutional weaknesses, insufficient performance data, and political interference that undermine results (Sande et al., 2023). Moreover, most existing studies rely on descriptive case analyses or single-year budget reviews, which provide limited insights into long-term trends and causal relationships between PBB adoption and budget performance. This study addresses these methodological shortcomings by applying econometric analysis to a decade-long dataset (2012/13–2022/23), enabling a robust

assessment of PBB's effect on Kenya's budget performance across sectors. By distinguishing areas of success (e.g., health) from persistent weaknesses (e.g., infrastructure) and providing evidence of causal impact, the study contributes to policy decisions on strengthening fiscal discipline, efficient resource allocation, and improved service delivery.

## **LITERATURE REVIEW**

### **Theoretical Framework**

#### **New Public Management (NPM) Theory**

New Public Management (NPM) emphasizes efficiency, accountability, and performance orientation in the public sector by applying private-sector management principles (Hood, 1991; Pollitt & Bouckaert, 2017). Within budgeting, NPM underpins reforms such as Performance-Based Budgeting (PBB), which directly links financial allocations to quantifiable outputs and outcomes. The theory highlights fiscal discipline, cost-efficiency, decentralization, and performance measurement as mechanisms to improve public expenditure effectiveness.

For this study, NPM provides the theoretical foundation for understanding how PBB seeks to enhance budget performance in Kenya. By requiring government ministries, departments, and agencies to justify resource use in terms of outputs achieved, PBB embodies NPM's principles of managerial accountability and results-oriented management. In Kenya, reforms such as IFMIS adoption, program-based budgeting, and sectoral performance indicators demonstrate NPM's influence on public financial management.

Thus, NPM theory guides the analysis of whether PBB has improved Kenya's budget performance through enhanced efficiency (optimal use of resources), effectiveness (achievement of objectives), and accountability (transparent use of funds).

#### **Principal-Agent Theory (PAT)**

This theory explains the delegation of authority in public budgeting, where citizens and policymakers (principals) entrust public officials and institutions (agents) with managing financial resources (Jensen & Meckling, 1976; Eisenhardt, 1989). Agency problems—such as information asymmetry, moral hazard, and misaligned incentives—often lead to inefficiencies, misallocation, and corruption in budget execution.

Performance-Based Budgeting (PBB) directly addresses these agency problems by creating incentives and accountability mechanisms that align agents' actions with principals' expectations. By linking budget allocations to performance indicators, PBB reduces information asymmetry (through transparent reporting), mitigates moral hazard (via measurable outcomes), and promotes accountability (through audits and performance reviews).

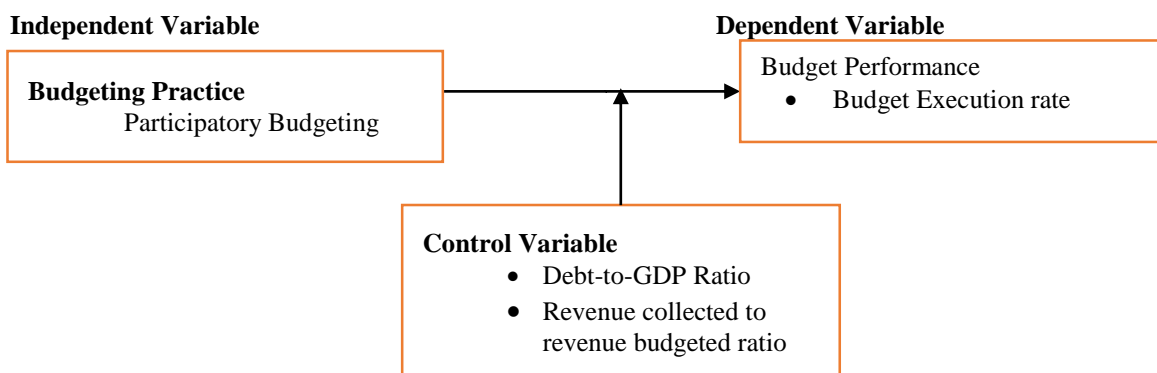
In the Kenyan context, PAT is relevant in examining how PBB reduces agency risks in national and county governments. Mechanisms such as performance contracts, public participation, and independent audits operationalize PAT by ensuring that agents (budget implementers) act in the interest of principals (citizens and policymakers).

Thus, PAT frames the analysis of how PBB improves budget performance by strengthening accountability, enhancing transparency, and minimizing inefficiencies caused by weak oversight or opportunistic behavior.

### **Conceptual Framework**

This study is anchored on a conceptual framework that links Performance-Based Budgeting (PBB) to budget performance in Kenya, drawing on the principles of New Public Management

(NPM) and Principal–Agent Theory (PAT). Budget performance, measured primarily through the budget execution rate, is the dependent variable, while PBB is the key explanatory factor. Control variables such as the debt-to-GDP ratio and the revenue collected-to-budgeted ratio are included to capture fiscal discipline and revenue efficiency..



*Figure 1: Conceptual Framework*

Performance-Based Budgeting (PBB) represents a significant shift in public financial management, particularly when viewed through the lens of New Public Management (NPM). NPM emphasizes results-oriented governance, where financial allocations are directly linked to measurable outputs and outcomes. Under this paradigm, the budget execution rate becomes a key indicator of efficiency and effectiveness, while revenue and debt measures reflect accountability and cost-effectiveness. Participatory budgeting further strengthens this approach by promoting decentralization and citizen engagement, reinforcing transparency and inclusivity in the budgeting process. Kenya's adoption of program-based budgeting, the Integrated Financial Management Information System (IFMIS), and performance contracts illustrates how NPM principles have been institutionalized to enhance fiscal discipline and improve service delivery.

Complementing NPM, Principal–Agent Theory (PAT) provides a framework for understanding how PBB mitigates agency problems inherent in public budgeting. In this context, PBB serves as a mechanism to reduce information asymmetry, align incentives, and strengthen oversight through audits, performance reports, and participatory mechanisms. Kenya's performance contracts, audit systems, and citizen participation forums are practical examples of agency-control measures designed to limit rent-seeking behavior and ensure adherence to budgetary priorities.

Beyond NPM and PAT, additional theoretical perspectives enrich the study's conceptual foundation. Institutional Theory explains how the implementation of PBB is shaped by Kenya's legal, political, and organizational environments. Budget reforms are influenced by coercive pressures such as constitutional and legal mandates, normative pressures from professional standards among budget officers and auditors, and mimetic pressures that drive adoption of international best practices. This perspective helps explain why, despite formal adoption, compliance and performance often vary across sectors.

Resource Dependence Theory (RDT) shifts attention to the role of external funding flows and intergovernmental relationships in budget performance. According to RDT, the success of PBB depends not only on internal processes but also on the availability and timeliness of resources from line ministries, county governments, and donor agencies. This is particularly relevant for

capital-intensive sectors like infrastructure, where resource dependencies and power dynamics heavily influence allocation efficiency.

Finally, Public Value Theory broadens the evaluative lens beyond fiscal efficiency to focus on the value created for society. It positions budgeting not merely as a control mechanism but as a tool for delivering tangible social outcomes—such as improved healthcare, quality education, and reliable infrastructure—while maintaining public trust. Within this framework, PBB is assessed not only by fiscal indicators but also by its capacity to enhance service delivery and generate meaningful public value.

The study includes debt and revenue ratios as control variables because they are among the most direct fiscal determinants of budget performance. Debt levels influence fiscal space and the government's ability to meet expenditure commitments without resorting to excessive borrowing or reallocations that may undermine program implementation. Similarly, revenue performance directly affects resource availability for funding planned activities, with shortfalls often leading to budget cuts, arrears, or incomplete project execution. These two indicators are also widely used in empirical studies examining fiscal discipline and efficiency, providing a consistent basis for comparison.

However, the study recognizes that budget performance is influenced by a wider set of determinants, including governance quality, corruption levels, political stability, institutional capacity, and macroeconomic conditions. These factors can significantly impact resource allocation efficiency, compliance with financial rules, and the overall credibility of the budget. Their exclusion is primarily due to data limitations, potential multicollinearity with included variables, and the need to maintain a parsimonious model suitable for the available dataset.

### **Empirical Review**

The integration of performance measures into public budgeting has increasingly been promoted as a mechanism for enhancing accountability, transparency, and service delivery (Cheryle & McGuire, 1995). In Kenya, the 2010 Constitution and subsequent public finance reforms embedded performance considerations into the budget process, linking the allocation of resources to measurable outcomes (Ahrens & Ferry, 2018). Recent empirical evidence demonstrates that effective budget execution, monitoring, and reporting are positively associated with county-level performance. For instance, Mong'are and Atheru (2023) found that budget reviews and monitoring significantly improved compliance and fiscal discipline across Central Rift counties. Similarly, Magani and Gichure (2018) observed that budgeting efficiency and fiscal decentralization positively influenced county performance, though IFMIS re-engineering yielded weaker or insignificant effects.

Comparative studies from middle-income countries highlight how PBB, when combined with governance reforms and technology, can contribute to improved fiscal outcomes. South Korea and Singapore, for example, have successfully leveraged performance budgeting, e-governance, and medium-term expenditure frameworks (MTEFs) to align resources with long-term development priorities, reduce corruption, and enhance service delivery (Wang, 2000; Khoo, Rahman & Kamil, 2024). These reforms have produced tangible improvements in infrastructure and education, although broader challenges such as persistent inequality and balancing economic growth with social protection remain (Srithongrungrung, 2017). Such experiences underscore that PBB is not a standalone solution, but rather part of a wider package of reforms required to sustain budget credibility and effectiveness.



Nonetheless, several countries continue to encounter systemic obstacles to realizing the full benefits of PBB. Technical deficiencies in planning, governance and institutional capacity, frequent budget reallocations, and limited availability of high-quality performance data often undermine the credibility of budgets and reduce their usefulness as strategic allocation tools (Poister & Streib, 1994). These constraints are evident in contexts such as Malaysia, where PBB has been formally adopted but poor implementation capacity has restricted its impact. Similar challenges persist in developing countries, where weak institutional frameworks and political interference dilute the intended benefits of performance-oriented budgeting.

Conceptually, PBB is designed to strengthen the efficiency, economy, and effectiveness of public expenditure by systematically linking funding to outputs and outcomes (Robinson & Last, 2009). Empirical evidence generally supports this expectation, though with variation. Klase and Dougherty (2008) showed that PBB enhances efficiency by aligning spending with results, while Suriani (2015) demonstrated that budget planning, reporting, and accountability exerted significant positive influences on performance. Conversely, Yanxia and Mensah (2012) reported mixed outcomes in U.S. state governments, finding that PBB constrained socially oriented expenditures from general funds but promoted reprioritization in dedicated funds. Abbasov (2025) further argued that although PBB reduces budget variances and improves cost efficiency, these benefits depend on leadership commitment, reliable performance data, continuous capacity building, and phased implementation strategies.

Taken together, the literature reveals that PBB has considerable potential to improve fiscal discipline, efficiency, and accountability, but its effectiveness remains highly context-dependent. Successful implementation requires more than the adoption of technical reforms; it hinges on the quality of governance, institutional capacity, and the consistent integration of performance information into budget decision-making. These insights highlight the importance of context-specific assessments—such as the Kenyan case—to evaluate whether PBB has genuinely strengthened budget performance within unique institutional and political environments.

### **Research Gaps**

Despite widespread adoption of Performance-Based Budgeting (PBB), the literature reveals several gaps that justify further inquiry. First, while studies in Kenya show positive associations between budgeting practices, fiscal decentralization, and county performance (Mong'are & Atheru, 2023; Magani & Gichure, 2018), much of this evidence is descriptive and limited to county-level analyses, with little focus on the national budget framework. Second, comparative evidence from middle-income countries demonstrates how PBB, supported by technology and MTEFs, can enhance transparency and efficiency (Wang, 2000; Khoo et al., 2024), yet the transferability of these experiences to Kenya's political and institutional context remains unclear. Third, although PBB is conceptually expected to improve efficiency and accountability (Robinson & Last, 2009), empirical findings remain mixed, with some studies reporting significant gains (Klase & Dougherty, 2008; Suriani, 2015) while others identify negative or uneven effects on expenditure priorities (Yanxia & Mensah, 2012). Finally, existing research highlights persistent implementation challenges—such as weak performance data, political interference, and capacity deficits—that undermine PBB's credibility, but few studies empirically test how these constraints shape actual budget outcomes in Kenya. Collectively, these gaps underscore the need for country-specific research that rigorously evaluates the effect of PBB on budget performance in Kenya, thereby bridging the divide between reform intentions and practical outcomes.



## METHODOLOGY

This study adopted a positivist research philosophy, which emphasizes empirical observation, hypothesis testing, and objective analysis. Positivism was considered appropriate given the study's aim of testing the effect of Performance-Based Budgeting (PBB) on budget performance using measurable indicators. This paradigm enabled the operationalization of theoretical constructs, the application of statistical methods, and the generalization of findings.

A correlational research design was employed to both describe the characteristics of budget practices and establish the relationships among key variables. PBB was measured as the percentage of the budget linked to performance targets, while budget performance was captured through the budget execution rate. Control variables included revenue collection efficiency (actual versus targeted revenue) and the debt-to-GDP ratio, reflecting fiscal discipline and resource mobilization.

The study relied on secondary time series data drawn from official sources, including the Controller of Budget, Auditor-General reports, and the National Treasury, covering the financial years 2012/2013 to 2023/2024, yielding 44 quarterly observations. Data was collected systematically using a structured data extraction sheet after obtaining the requisite ethical approvals.

For data analysis, both descriptive and inferential statistical techniques were applied. Descriptive statistics (means, medians, and standard deviations) were used to summarize the study variables. To examine the relationships, Pearson correlation was first employed, followed by rigorous time series econometric analysis. Stationarity was tested using the Augmented Dickey-Fuller (ADF) test, and long-run relationships were established through Johansen cointegration analysis. Given evidence of cointegration, a Vector Error Correction Model (VECM) was estimated to capture both short-run dynamics and long-run equilibrium effects of PBB on budget performance. Statistical significance was assessed using standard errors, t-statistics, p-values, and confidence intervals.

## RESULTS

### Long-Run Effect of Performance-Based Budgeting (PBB) on Budget Performance

The Johansen cointegration analysis revealed that in the long run, Performance-Based Budgeting (PBB) does not exert a significant influence on budget performance in Kenya, as measured by the Budget Execution Rate (BER). The coefficient of PBB in the first cointegrating equation was effectively zero ( $-2.22e^{-16}$ ), suggesting that changes in PBB levels have negligible impact on execution outcomes. This implies that although PBB has been formally institutionalized, its implementation may be limited to compliance and reporting, with little effect on actual allocation or disbursement decisions. Weak institutionalization, underutilization of performance indicators, and the dominance of political or short-term fiscal considerations may explain this disconnect.

Interestingly, the second cointegrating equation, normalized on PBB, indicated that PBB itself is strongly shaped by governance and fiscal structures. Participatory Budgeting (PB), Medium-Term Expenditure Frameworks (MTEFs), and Transparency and Open Budgeting (ToB) were found to significantly enhance the long-run adoption of PBB, while rising debt-to-GDP ratios constrained its effectiveness. These results highlight an asymmetry: PBB has limited long-term impact on budget execution, but its institutionalization is itself dependent on broader reforms that promote transparency, participation, and fiscal discipline.

These findings contrast with those of Robinson and Last (2009) and Klase and Dougherty, (2008) that positions PBB as a driver of efficiency and accountability, and instead align with cautionary perspectives emphasizing the challenges of embedding PBB in developing economies (Poister and Streib, 1994; Alkhuzaie et al., 2025). The Kenyan case thus underscores the importance of strengthening enabling conditions—such as leadership, data systems, and accountability mechanisms—before PBB can deliver its intended long-run impact.

### **Short-Run Effect of Performance-Based Budgeting (PBB) on Budget Performance**

In contrast to the long-run results, the short-run dynamics from the Vector Error Correction Model (VECM) show that PBB significantly and positively influences budget execution. At the first and second lags, PBB improvements were associated with higher BER (coefficients of 2.95 and 3.04,  $p = 0.014$  and  $0.003$ , respectively). This indicates that reforms or adjustments in PBB produce tangible improvements in expenditure efficiency within one to two quarters, reflecting the time required for program budgets to translate into disbursements.

These findings affirm the practical relevance of PBB reforms in enhancing short-term fiscal performance. When performance-linked allocations, budget reviews, or program restructuring are implemented, they can yield measurable improvements in expenditure effectiveness within the fiscal year. This outcome is consistent with studies such as Suriani (2015) and Abbasov (2025), which highlight the positive short-term benefits of performance budgeting when closely tied to planning and execution cycles.

### **Comparative Synthesis: Short-Run vs Long-Run Effects**

Taken together, the findings reveal a critical contrast: PBB exerts a positive short-run effect on budget execution but lacks a sustained long-run impact on Kenya's budget performance. While reforms appear to improve expenditure effectiveness within the fiscal year, they do not translate into durable improvements over time, likely due to weak enforcement of performance reviews, limited integration with strategic planning, and political or administrative inertia.

This dual outcome suggests that PBB in Kenya is effective as an operational tool for short-term expenditure management but remains under-institutionalized as a strategic reform for long-term fiscal discipline and performance. Strengthening governance structures, enhancing data-driven accountability, and embedding PBB within broader fiscal frameworks such as MTEFs and participatory processes may be necessary to realize its long-run potential.

## **CONCLUSION AND RECOMMENDATIONS**

### **Summary**

This study set out to examine the effect of Programme-Based Budgeting (PBB) on budget performance in Kenya, using the Budget Execution Rate (BER) as the primary performance indicator. The findings reveal a clear divergence between the short-run and long-run effects of PBB. In the short run, PBB has a positive and statistically significant effect on budget execution, with reforms translating into measurable improvements in expenditure effectiveness within one to two quarters. This underscores the practical relevance of PBB as an operational tool for enhancing fiscal efficiency and accountability in the immediate budgeting cycle.

In the long run, however, the results show that PBB exerts no statistically significant effect on budget execution. This disconnect suggests that Kenya's adoption of PBB, while formally institutionalized, remains weakly embedded in the broader fiscal and governance framework. Performance indicators exist but appear underutilized in actual decision-making, and budget

allocations continue to be influenced by political considerations, fiscal stress, and institutional inertia. Consequently, PBB has not yet evolved into a transformative mechanism for sustained improvements in fiscal discipline and service delivery.

Importantly, the study also finds that PBB itself is significantly shaped by structural and institutional factors. Participatory Budgeting, Medium-Term Expenditure Frameworks, and Transparency and Open Budgeting all exert strong positive influences on the long-run dynamics of PBB, while rising debt burdens undermine its effectiveness. This implies that the sustainability of PBB reforms depends less on the reform in isolation and more on the broader governance environment that supports transparency, inclusivity, and strategic fiscal management.

### **Conclusion**

Overall, the study concludes that while PBB contributes positively to budget execution in the short term, it lacks a significant long-run effect on Kenya's budget performance. For PBB to achieve its intended goals of efficiency, accountability, and results-oriented public spending, Kenya must strengthen enabling conditions, including robust performance monitoring, stronger enforcement of accountability, integration with MTEFs, and the reduction of political interference in resource allocation. Without such systemic reforms, PBB risks remaining a compliance-oriented tool rather than a driver of sustained fiscal performance.

### **Recommendations**

The Executive should deepen the integration of PBB into Medium-Term Expenditure Frameworks (MTEFs) and align performance indicators with the priorities of the National Development Plan and Vision 2030. Fiscal discipline must be reinforced through debt management strategies to ensure that borrowing levels do not undermine performance-oriented allocations. Capacity-building initiatives for budget officers, including training on performance monitoring and data analytics, should be prioritized.

Parliament should strengthen its oversight role by ensuring that budget approval processes are informed by performance reports rather than historical allocations. Parliamentary committees particularly the Public Accounts Committee and Budget and Appropriations Committee should scrutinize performance audits and hold line ministries accountable for outcomes, not just expenditures.

The Auditor-General should expand performance audits beyond financial compliance to assess efficiency, effectiveness, and value for money. Regular expenditure reviews and public disclosure of findings will improve transparency and strengthen public trust in budgeting processes.

Civil society should be empowered to participate in budget formulation, monitoring, and expenditure tracking. This can be facilitated through open budgeting platforms, citizen scorecards, and participatory forums at national and county levels. Increased public awareness campaigns will also enhance citizen engagement and accountability.

Donors should align their funding frameworks with PBB principles by conditioning disbursements on performance milestones. They should also support capacity development in performance monitoring and provide technical assistance for strengthening the Integrated Financial Management Information System (IFMIS) and other data-driven budget tools.

### **Study Limitations and Areas for Future Research**

This study provides valuable insights into the effect of Programme-Based Budgeting (PBB) on budget performance in Kenya, yet several methodological and data constraints should be acknowledged. First, the analysis relied exclusively on secondary data, which, while reliable, limited the ability to capture real-time implementation challenges and contextual nuances that could be explored through primary data collection. Second, the study excluded county-level budgets, focusing only on the national government. This omission restricts the generalizability of findings, given that devolved units play a critical role in Kenya's fiscal framework and face distinct budgeting and performance dynamics.

Third, the study adopted a purely quantitative approach, which, while robust for identifying statistical relationships, may overlook qualitative insights such as perceptions of PBB effectiveness, institutional capacity constraints, and political economy factors influencing budget execution. Furthermore, governance quality, corruption indices, and political stability were not included as control variables, which may limit the explanatory power of the model, given their potential influence on fiscal performance.

Future research should address these limitations by incorporating mixed-methods approaches, integrating qualitative interviews, surveys, and case studies to provide a richer understanding of how PBB reforms are experienced by policymakers, budget officers, and citizens. Expanding the scope to include county-level data would also allow for a more comprehensive assessment of PBB performance across different levels of government. Finally, future studies could integrate governance indicators, political economy variables, and institutional performance measures to capture the broader determinants of budgeting effectiveness in Kenya.



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