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Samwel Kazungu Kambi, Prof. Benjamin Owuor Ombok and Prof. Nelson Obange

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The Effect of Medium-Term Expenditure Frameworks (MTEFs) on Budget Performance in Kenya

[1*]Samwel Kazungu Kambi
Department of Accounting and Finance, Maseno University, Kenya

[2]Prof. Benjamin Owuor Ombok
Department of Accounting and Finance, Maseno University, Kenya

[3]Prof. Nelson Obange
Department of Accounting and Finance, Maseno University, Kenya

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Abstract

Purpose: The primary aim of this study was to examine the effect of Medium-Term Expenditure Frameworks (MTEFs) on budget performance in Kenya. Specifically, the study sought to determine whether the adoption and implementation of MTEFs have contributed to improving fiscal discipline, enhancing budget execution rates, strengthening revenue collection efficiency, and promoting overall credibility in public financial management. By applying econometric analysis to Kenya's budget data over the period 2012/2013–2023/2024, the study aimed to assess both the short-run and long-run effects of MTEFs on budget outcomes, thereby providing empirical evidence to inform fiscal policy reforms and enhance the effectiveness of budgetary frameworks in the country.

Methodology: The study adopted a quantitative research design to investigate the effect of Medium-Term Expenditure Frameworks (MTEFs) on budget performance in Kenya. Secondary time-series data spanning the fiscal years 2012/2013 to 2023/2024 were utilized, with the Budget Execution Rate (BER) serving as the proxy for budget performance. MTEFs and other fiscal policy variables were specified as explanatory factors within the econometric framework. The Johansen cointegration approach was employed to examine the existence of long-run equilibrium relationships, while the Vector Error Correction Model (VECM) was applied to capture short-run dynamics and adjustment processes. To ensure the validity and robustness of the estimations, diagnostic procedures—including stationarity testing, optimal lag length determination, and checks for normality, serial correlation, and heteroscedasticity—were conducted. This methodological approach provided a rigorous framework for disentangling both the long-term and short-term effects of MTEFs on budget execution outcomes in the Kenyan context.

Findings: The Johansen cointegration analysis established that MTEFs have a positive and statistically significant long-run effect on the Budget Execution Rate (BER), with a coefficient of +0.32 ($p = 0.031$). This implies that over time, the adoption and effective implementation of MTEFs enhance budget execution by improving fiscal discipline, strengthening expenditure prioritization, and aligning resource allocations with actual spending. In the short run, however, the Vector Error Correction Model (VECM) results revealed that MTEFs exert a negative and statistically significant effect on budget execution. Across the first three lagged periods, the coefficients ranged between –0.73 and –1.01, with p-values ranging from 0.002 to 0.026, indicating that immediately following MTEF reforms, budget execution performance tends to decline.

Unique Contribution to Theory, Practice and Policy: This study makes a threefold contribution. Theoretically, it refines public finance and institutional theories by demonstrating that Medium-Term Expenditure Frameworks (MTEFs) exert a dual effect—undermining budget performance in the short run due to transitional inefficiencies but enhancing fiscal discipline and budget credibility in the long run. Practically, the study provides evidence-based insights for budget practitioners, highlighting the need to strengthen institutional capacity, procurement systems, and absorptive mechanisms to minimize short-term disruptions when implementing MTEFs. At the policy level, the findings emphasize the importance of sustaining MTEF reforms despite early setbacks, while embedding adaptive mechanisms such as phased rollouts, stronger fiscal linkages, and improved cash management to optimize long-term budget performance in Kenya.

Keywords: *Budget Execution Rate, Medium-Term-Expenditure Frameworks, Budgeting Practice, Public Budget Performance*

JEL Codes: *H11, H61, H68 , H83*

INTRODUCTION

Budget performance is a critical measure of a government's efficacy, evaluating the efficiency, effectiveness, and economy with which planned budgets are translated into actual expenditures and outcomes (Cretu et al., 2010; OECD, 2019). It serves as a cornerstone for fiscal discipline, accountability, and strategic long-term planning, enabling governments to align resources with policy priorities and improve service delivery. Globally, reforms like Medium-Term Expenditure Frameworks (MTEFs) have been adopted to institutionalize these principles. However, their results are profoundly inconsistent, hampered by weak enforcement, political interference, and technical capacity gaps (PEFA, 2011; World Bank, 2023).

Kenya's journey to improve budget performance exemplifies this struggle. Despite adopting an MTEF to enhance planning and discipline, budget execution rates have remained uneven, fluctuating between 75–85% (National Treasury, 2021). This inefficiency is empirically evidenced by persistent issues highlighted in Auditor-General's reports, including misallocation of funds to low-priority expenditures, a high number of stalled capital projects, and a narrow tax base that exacerbates fiscal deficits (Auditor-General, 2021; Abiel & Musau, 2023). The consequence is a severe crowding-out effect, where public debt, now exceeding 65% of GDP- consumes resources critical for health, education, and infrastructure development (IMF, 2024). This fiscal environment directly undermines long-term national goals; for instance, the constrained funding and poor execution of capital projects are frequently cited as reasons for missed milestones under Kenya's Vision 2030 development blueprint (Sande et al., 2023). Thus, while reforms are in place, a significant gap persists between their theoretical design and their implementation efficacy, particularly concerning citizen engagement and equitable outcomes (Omollo et al., 2025; Musiega et al., 2022).

A Medium-Term Expenditure Framework (MTEF) is designed to be a strategic tool that balances resources against policy priorities over a 3 to 5-year horizon. It aims to solve the disconnect between policy and expenditure by instilling resource consciousness, promoting output-focused implementation, and fostering intersectoral synergy (DFID, 2002; Holmes & Evans, 2003; Martí, 2019). However, its success is not automatic and is entirely contingent on the quality of implementation.

The divergent experiences of South Africa and Malawi provide a critical comparative insight into the factors that determine MTEF success or failure: South Africa's MTEF is widely regarded as effective. Its success is attributed to strong political ownership across government tiers, robust technical capacity within the National Treasury to enforce compliance, and its deep integration with the country's national development plan (IDP). This created a coherent system where MTEF ceilings were respected, leading to improved fiscal discipline, predictable funding for provinces, and tangible progress in infrastructure and service delivery (Gasper et al., 2019; OECD, 2020). Conversely, Malawi's MTEF had "no significant impact on budget performance" (IMF, 2019). The failure is traced to the lack of genuine political will to adhere to medium-term plans, the weak enforcement of fiscal rules (leading to frequent off-budget expenditures), and acute technical capacity gaps that undermined reliable forecasting and monitoring. The framework was treated as a donor-mandated technical exercise rather than a core tool for governance.

Kenya's situation exhibits symptoms of both cases but leans closer to the challenges faced by Malawi. The lessons are clear: i) the technical reform without unwavering high-level political commitment to adhere to MTEF ceilings is futile. Kenya must strengthen legal mechanisms to minimize off-budget spending and political interference in the allocation process. ii) The effective implementation requires skilled personnel at the National Treasury and, crucially, in spending ministries for realistic forecasting and reporting. Kenya's capacity constraints are a critical bottleneck. iii) For the MTEF to be more than a paperwork exercise, it must be the unequivocal financial expression of Kenya's Vision 2030 and subsequent plans, with strict alignment between ministerial ceilings and strategic priorities.

These inconsistencies in global findings confirm that the mere adoption of an MTEF is insufficient. Its contribution to budget performance is mediated by a country's unique institutional, political, and technical environment (Khalid & Nguyen, 2025; Saudah, 2017). This study, therefore, seeks to investigate this mediation within the Kenyan context, addressing the gap in understanding how budgeting practices translate or fail to translate into improved fiscal and developmental outcomes.

Statement of the Problem

Despite the adoption of the Medium-Term Expenditure Framework (MTEF) to instill fiscal discipline and strategic foresight, Kenya's budget performance, specifically measured through its annual budget execution rate and its alignment with Vision 2030 capital project milestones, remains chronically weak. Empirical evidence on the MTEF's effectiveness is globally inconsistent, and its implementation in Kenya exemplifies the challenges faced by developing nations. The Kenyan case demonstrates a significant gap between the MTEF's theoretical design and its practical outcomes. While the framework intends to balance resources with multi-year priorities, execution is routinely undermined by short-term political pressures and institutional weaknesses. This is empirically evidenced by two persistent issues: i) despite MTEF ceilings aimed at prioritizing development, a disproportionate share of the budget is consistently absorbed by recurrent expenditure, particularly a bloated public wage bill and costly debt servicing. This systematically crowds out funding for development projects, directly contravening the MTEF's strategic purpose (National Treasury, 2023; IMF, 2024). ii) Auditor-General reports consistently document billions of shillings lost to abandoned or stalled capital projects across counties and national government ministries. These projects, often initiated without realistic medium-term budget planning, stand as physical testaments to the failure to align multi-year commitments with actual annual resource allocation and execution (Auditor-General, 2022; Abiel & Musau, 2023). The core problem, therefore, is not the MTEF's design but its implementation efficacy. The framework's principles are neutralized by ad-hoc budget revisions, weak enforcement of spending ceilings, and a lack of political will to resist off-budget expenditures. This creates a fundamental disconnect: ministries receive MTEF ceilings but operate in an environment where annual budget execution is divorced from medium-term plans, leading to the inefficient and ineffective use of public resources.

Consequently, this study narrows its focus to investigate how Kenya's budgeting practices, specifically the implementation of the MTEF, influence budget execution rates and the timely completion of Vision 2030-aligned capital projects. It seeks to move beyond the technical design of the MTEF to analyze the behavioral and political economy factors that determine its success or failure in the Kenyan context, thereby addressing a critical gap in the public financial management literature.

LITERATURE REVIEW

Theoretical Framework

New Public Management (NPM) theory offers a valuable analytical lens for examining Kenya's adoption of Medium-Term Expenditure Frameworks (MTEFs) within its public sector reforms. Originating in the late 20th century, NPM advocates for the application of private-sector management principles to improve public sector efficiency, accountability, and service delivery (Hood, 1991). This performance-oriented paradigm (Indahsari & Raharja, 2020) demonstrates strong theoretical alignment with MTEFs' fundamental purpose of creating systematic linkages between multi-year budget allocations and measurable outputs and outcomes (Osborne & Gaebler, 1992).

The conceptual foundations of NPM, particularly its emphasis on strategic planning, fiscal discipline, and performance-based budgeting (Pollitt & Bouckaert, 2017), have significantly influenced Kenya's approach to MTEF implementation. Several core NPM principles have been operationalized through Kenya's MTEF framework. First, the shift from traditional annual incremental budgeting to multi-year expenditure planning represents a strategic reorientation of resource allocation processes to better align with national development priorities such as Vision 2030 (Republic of Kenya, 2018). Second, the integration of performance measurement through Key Performance Indicators (KPIs) enables more effective tracking of expenditure outcomes, as evidenced in Kenya's sectoral budget scorecard system (Moynihan & Pandey, 2010). Third, the decentralization of budget implementation to county governments reflects NPM's emphasis on subsidiarity (Christensen & Lægreid, 2007), though with notable variations in success rates across counties. Finally, the technological modernization of budget processes through the Integrated Financial Management Information System (IFMIS) exemplifies NPM's focus on using information systems to enhance transparency and reduce fiscal leakages (Krause, 2019).

While New Public Management (NPM) provides a powerful normative framework for understanding the design of Kenya's Medium-Term Expenditure Framework (MTEF) (World Bank, 2000), its core assumptions prove inadequate for explaining the persistent implementation gaps observed in practice (Hood, 1991; Pollitt & Bouckaert, 2011). This divergence necessitates a turn to complementary theoretical lenses, namely, Institutional and Public Choice theories, which offer a more robust apparatus for analyzing the complex socio-political realities that constrain technocratic reforms (North, 1990; Grindle, 2004). A critical assessment reveals that Kenya’s political economy fundamentally undermines the rationalist premises of NPM, leading to the systematic subversion of the MTEF's objectives (Bräutigam & Knack, 2004).

Institutional theory moves beyond NPM’s focus on formal rules to foreground the critical role of informal institutions, the unwritten "rules of the game" such as patronage networks, corruption, and entrenched bureaucratic cultures (Helmke & Levitsky, 2004). This perspective recasts the resistance from line ministries, as identified by scholars like Oduor (2020), not as a mere technical capacity gap, but as a fundamental clash between new NPM-inspired formal rules (e.g., the PFM Act, performance KPIs) and resilient informal institutions (North, 1990). Ministries resist because the MTEF’s transparency and accountability mechanisms threaten established circuits of discretionary power and rent-seeking (Khan, 2018). Complementing this, Public Choice theory directly challenges the NPM assumption of a benevolent state apparatus (Niskanen, 1971). It posits that politicians and bureaucrats are often rational, self-interested actors seeking to maximize their own utility (e.g., votes, power, access to rents) (Buchanan & Tullock, 1962). This lens convincingly explains pervasive political interference in the MTEF process, such as the insertion of "orphaned projects" or the reallocation of funds to politically sensitive constituencies (Cheeseman, 2015). These actions, while undermining fiscal discipline and medium-term planning, are rational from a public choice viewpoint, aimed at securing re-election and rewarding patronage networks (Bates, 2008).

The contradictions inherent in Kenya's MTEF implementation can be directly traced to this theoretical dissonance. First, NPM's assumption of rational, strategic planning is undermined by a political economy dominated by patronage and short-term electoral cycles (van de Walle, 2001). Evidence of this is starkly visible in the perennial crisis of "pending bills" which exceeded KSh 500 billion, as repeatedly highlighted by the Auditor-General (Office of the Auditor-General, 2022). These arrears, often accumulated from contracts awarded to politically connected entities without budgeted funds, create a fiscal overhang that eviscerates budgetary predictability, directly contradicting the MTEF's core purpose of ensuring stability and sustainability (World Bank, 2018).

Second, the NPM principle of performance-based accountability is neutralized by a system where political loyalty is routinely rewarded over efficiency (Bräutigam & Knack, 2004). While the MTEF envisions a direct link between resources and results, budget allocations often remain tethered to political influence and historical baselines rather than rigorous performance evaluations (Owuor, 2019). Consequently, performance budgets and KPIs risk becoming mere compliance exercises for the National Treasury and donors, rather than genuine tools for managerial accountability (Oduor, 2020).

Third, the NPM faith in technology as a neutral tool to ensure principal-agent transparency is challenged by political capture (Hood & Margetts, 2007). Integrated Financial Management Information System (IFMIS), intended to eliminate information asymmetry and reduce fraud, is itself susceptible to manipulation (Kipchumba, 2021). Audit reviews have documented instances of unauthorized access, violation of control procedures, and data manipulation (Office of the Auditor-General, 2021), demonstrating how informal networks can co-opt formal systems to create a veneer of compliance while facilitating the very rent-seeking IFMIS was designed to prevent (Khan, 2018).

From the foregoing, the implementation of Kenya's MTEF is not a story of technical failure but of profound theoretical incompatibility. The framework is caught in a fundamental tension: its NPM-derived goals of de-politicized allocation, performance discipline, and citizen accountability are systematically overridden by a political reality that demands short-term electoral calculation and the maintenance of patronage systems (Cheeseman, 2015; Khan, 2018). The MTEF's "hard ceilings" are softened by supplementary budgets; its transparency is obfuscated by complexity and elite capture (Bräutigam & Knack, 2004). Thus, the reforms, while creating new formal rules and a lexicon of performance, have been unable to dislodge the powerful informal institutions that constitute the bedrock of Kenya's political economy (North, 1990). The observed outcomes are not anomalies but the predictable result of this clash (Grindle, 2004).

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Conceptual Framework

Independent Variable **Dependent Variable**

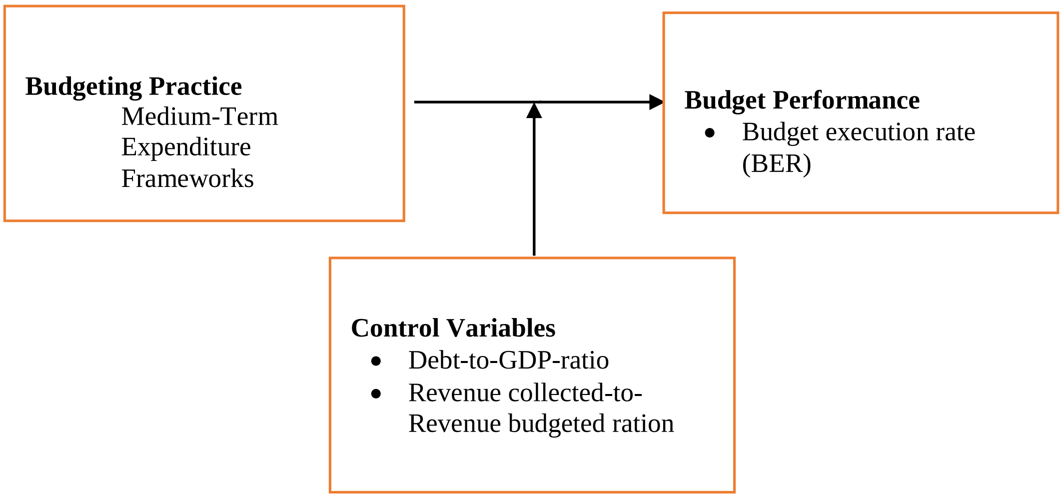

Figure 1: Conceptual Framework

This study is anchored on the theoretical foundations of New Public Management (NPM) (Hood, 1991; Pollitt & Bouckaert, 2011) and examines how Medium-Term Expenditure Frameworks (MTEFs) influence budget performance in Kenya. Moving beyond a narrow focus on expenditure absorption, budget performance is operationalized as a multidimensional construct that captures both fiscal discipline and developmental effectiveness (World Bank, 2018). While the Budget Execution Rate (BER) remains a core indicator of operational efficiency, measuring the government's capacity to translate allocations into actual expenditure (Oduor, 2020), this framework incorporates three secondary performance dimensions: the recurrent versus development expenditure balance, which serves as a structural indicator of fiscal quality and commitment to long-term investment (Schick, 1998); project completion rates, which provide a direct measure of implementation effectiveness and output delivery (Office of the Auditor-General, 2022); and service delivery outcomes, which assess whether improved budget performance translates into tangible benefits for citizens in sectors such as health and education (Bräutigam & Knack, 2004). Fiscal indicators—namely the debt-to-GDP ratio and revenue collection efficiency—are introduced as control variables to account for macroeconomic constraints (World Bank, 2018). Together, these variables reflect the complex interplay between technocratic budgeting reforms and Kenya's unique fiscal and institutional realities (Grindle, 2004).

From an NPM perspective, MTEFs represent a key reform instrument aimed at enhancing efficiency, accountability, and fiscal discipline in the public sector (World Bank, 2000). By shifting from traditional incremental budgeting to multi-year expenditure planning, MTEFs embody the principles of performance-based management and strategic allocation of resources (Robinson, 2007). They are designed to improve efficiency by ensuring that funds are allocated optimally to priority sectors, enhance accountability by linking expenditures to measurable outcomes across all performance dimensions (including BER, project completion, and service delivery results), and promote decentralization by granting implementing agencies greater autonomy in resource utilization (OECD, 2019).

The BER is employed as the principal operational performance indicator in this framework. In line with NPM's results-oriented approach, BER provides a quantifiable measure of how effectively allocated resources are translated into actual spending (Oduor, 2020). A higher BER indicates efficient resource absorption, timely implementation of programs, and strengthened output-oriented management (World Bank, 2018). Furthermore, performance monitoring mechanisms embedded within MTEFs ensure continuous tracking of expenditure against planned targets, reinforcing NPM's insistence on transparency and results across all performance dimensions (Pollitt & Bouckaert, 2011).

To capture the broader fiscal environment, the debt-to-GDP ratio and revenue collection efficiency are integrated as control variables. Their inclusion recognizes that even well-structured MTEFs may underperform across all performance dimensions if constrained by unsustainable debt burdens or weak revenue mobilization (Schick, 1998). This aligns with Schick's (1998) assertion that fiscal sustainability is integral to effective budget management, and ensures that the framework does not isolate MTEFs from the macroeconomic realities that shape their effectiveness (World Bank, 2018).

Nevertheless, Kenya's experience demonstrates the practical challenges of applying NPM-driven reforms (Cheeseman, 2015). Limited institutional capacity continues to undermine the full realization of performance targets across all dimensions (Oduor, 2020), while political interference often shifts budget priorities away from medium-term planning toward short-term interests, particularly affecting the development-recurrent expenditure balance and project completion rates (Khan, 2018). These challenges highlight NPM's limitations, particularly its tendency to prioritize efficiency at the expense of equity and inclusiveness (Dunleavy & Hood, 1994). They also underscore the need to contextualize reform tools like MTEFs within the political and institutional dynamics of developing countries, where multiple performance dimensions must be balanced to achieve meaningful developmental outcomes (Grindle, 2004; North, 1990).

Empirical Review

The Medium-Term Expenditure Framework (MTEF) is a strategic budgeting tool designed to align government resources with policy priorities over a three-year rolling horizon. It integrates macroeconomic projections with expenditure ceilings, thereby connecting long-term policy objectives to annual resource allocations and promoting efficient utilization of public funds (DFID, 2002; Le Houerou & Taliercio, 2002; National Treasury, 2018). The framework seeks to enhance the efficiency and predictability of public expenditure by relying on realistic revenue forecasts (Marti, 2018), while simultaneously fostering output-oriented budget execution, intersectoral coordination, prioritization, and accountability (Raudla et al., 2022; Sun & Lou, 2018; Ţiţa et al., 2014). In practice, MTEFs establish parameters for sectoral allocations, including infrastructure investments such as transport and energy, thereby contributing to national development goals (Karanja, 2018; Gitau, 2022; National Treasury, 2021).

Kenya’s public budgeting process reflects these principles through a structured MTEF cycle, which includes the formulation of guidelines, establishment of sector working groups, preparation of sector budget proposals, and consolidation of draft estimates for parliamentary approval. The process culminates in the presentation of the Budget Estimates and the Appropriation Bill, followed by implementation and revisions through supplementary budgets (National Treasury, 2024). While this cycle is intended to institutionalize medium-term planning, empirical evidence suggests mixed outcomes. Holms and Evans (2003), in their assessment of MTEFs within Poverty Reduction Strategy Papers (PRSPs), acknowledged progress in advancing Public Expenditure Management (PEM) reforms but noted persistent weaknesses in implementation capacity, funding behavior, and adherence to MTEF principles. Similarly, Saudah (2017) found that in Ghana, MTEFs enhanced adherence to budget timelines and strengthened the alignment of annual budgets with national priorities. However, fiscal discipline remained elusive, underscoring the framework's limitations in addressing entrenched governance and institutional weaknesses. The Oxford Policy Management review (1999) likewise cautioned that while MTEFs are often prescribed as remedies for weak budgeting systems, identifying the critical elements of an effective framework remains a significant challenge.

Evidence from both OECD and developing countries underscores these limitations. In OECD contexts, the benefits of MTEFs have been realized only under strict conditions, including strong fiscal institutions and credible enforcement mechanisms—conditions often absent in developing countries (Pestana, 2015). The absence of such conditions has contributed to the persistence of arbitrary budget cuts, particularly where gaps between stated policies and available resources remain wide (Brealey et al., 2008; National Treasury, 2021). For instance, while South Africa's adoption of an MTEF strengthened fiscal discipline and enhanced service delivery, similar reforms in Ghana and Malawi produced limited results. In Ghana, technical capacity deficits and misalignment with local government priorities undermined performance (World Bank, 2017), whereas in Malawi weak enforcement of fiscal rules and political unwillingness constrained the framework's effectiveness (IMF, 2019).

Overall, while MTEFs have the potential to improve fiscal discipline, enhance predictability, and align budgets with development priorities, their success is context-dependent. In many developing countries, structural weaknesses—including limited capacity, weak political commitment, and inconsistent funding practices—have constrained their impact on budget performance. As a result, although MTEFs represent an important reform within Public Expenditure Management, their role in strengthening budget execution remains contingent upon institutional, technical, and political conditions.

Research Gaps

Despite the growing adoption of Medium-Term Expenditure Frameworks (MTEFs) as a public financial management reform, several research gaps remain evident in the literature. First, findings on the effectiveness of MTEFs are mixed. While evidence from countries such as South Africa points to improvements in fiscal discipline and service delivery, studies in Ghana and Malawi reveal limited or no significant impact. This inconsistency underscores a gap in understanding the contextual factors that determine whether MTEFs succeed or fail. Second, although institutional and political constraints—including weak technical capacity, political interference, and poor enforcement of fiscal rules—are frequently cited as barriers to effective implementation, limited empirical research has examined how these dynamics specifically mediate the relationship between MTEFs and budget performance. Third, existing studies largely emphasize narrow performance indicators such as fiscal discipline and budget timelines, with less attention paid to broader outcomes such as equity, service delivery effectiveness, and citizen satisfaction.

Furthermore, there is a lack of comparative research disentangling the role of design features—such as sectoral ceilings or revenue forecasting methods—in shaping MTEF outcomes across diverse contexts. Much of the literature also draws lessons from OECD experiences, which highlight the importance of strong institutional conditions for success, yet little is known about how such conditions can be adapted to low-capacity environments in developing countries. The transferability of these lessons to African contexts, including Kenya, remains underexplored. Finally, evidence suggests that weak alignment between MTEFs and local government priorities, as seen in Ghana and Malawi, reduces overall effectiveness. However, there is scant research examining how vertical integration between national and subnational governments influences budget performance. Collectively, these gaps point to the need for more context-sensitive, multidimensional, and comparative analyses of MTEFs, particularly in developing country settings.

Methodology: The study adopted a positivist philosophy approach and a correlational research design to examine the relationship between public budgeting practices and budget performance in Kenya. As Blumberg, Cooper, and Schindler (2014) note, a research design serves as the blueprint for data collection, measurement, and analysis. Correlational and descriptive approaches are particularly useful in identifying patterns, describing the characteristics of a population, and systematically exploring associations among variables. This design was deemed appropriate for the study as it not only enabled the description of key public budgeting practices but also facilitated the assessment of relationships between these practices and public budget performance. In doing so, it allowed for the estimation of the strength and magnitude of associations, thereby supporting the study's objective of determining whether the adoption of specific budgeting reforms contributes to improved budget outcomes (Sanders et al., 2007).

To operationalize the key public budgeting practices—Performance-Based Budgeting (PBB), Medium-Term Expenditure Frameworks (MTEFs), Participatory Budgeting, and Transparency and Open Budgeting—measurable indicators, data sources, and methods were clearly defined. Specifically, PBB was measured by the linkage between budgets and performance targets as well as stakeholder satisfaction; MTEFs were assessed through their alignment with strategic plans and contribution to fiscal discipline; Participatory Budgeting was measured by the extent of citizen participation and equity in resource allocation; while Transparency and Open Budgeting was operationalized through the availability of budget documents and levels of public engagement. These operational definitions provided a robust framework for systematically analyzing the effect of budgeting practices on budget performance.

Public budget performance was measured using a set of well-defined indicators, each with clear formulas, measurement methods, and data sources. Budget Execution Rate (BER) captured the efficiency of budget utilization by comparing actual expenditure with allocated resources; Revenue Collection Efficiency assessed the effectiveness of tax administration through actual versus targeted revenues; Fiscal Deficit measured adherence to fiscal discipline, while the Debt-to-GDP ratio served as a proxy for debt sustainability. Together, these indicators offered a multidimensional assessment of public budget performance and informed policy-relevant insights.

Table 1: Operationalization of Public Budget Performance

Indicator	Definition	Measurement	Formula	Data Source
Budget Execution Rate	% of budget spent relative to allocation	Actual expenditure vs. allocation	Ratio	National Treasury (World Bank, 2017)

Control variables were incorporated to account for macroeconomic conditions that may influence budget performance. Revenue Collection was measured by revenue collection efficiency (actual versus targeted revenue), while Public Debt Levels were measured through the debt-to-GDP ratio. These controls ensured a comprehensive empirical analysis of the determinants of budget performance.

Table 2: Operationalization of Control Variables

Variable	Indicator	Measurement	Data Source
Revenue Collection	Revenue collection efficiency	% actual vs. target	KRA, National Treasury
Public Debt Levels	Debt-to-GDP ratio	%	National Treasury, World Bank

The study relied on quarterly time series secondary data spanning the financial years 2012/2013 to 2023/2024, providing 44 data points. Data was extracted using a structured collection sheet from official sources, including the Controller of Budget reports, Auditor General reports, and National Treasury publications. Access to data collection was granted following approvals from the Maseno School of Graduate Studies, the Ethics Committee, and the National Commission for Science, Technology, and Innovation (NACOSTI).

Data analysis proceeded in two stages. First, descriptive statistics—including measures of central tendency (mean, median) and dispersion (standard deviation)—were computed to summarize the characteristics of the study variables. Second, inferential analysis was conducted to test the study hypotheses. Pearson correlation was employed to examine associations among variables, while the Johansen cointegration test was used to assess the existence of long-run relationships. Given evidence of cointegration, a Vector Error Correction Model (VECM) was estimated to capture both the long-run equilibrium dynamics and short-run adjustments between public budgeting practices and budget performance (Johansen, 1988; Engle & Granger, 1987). The statistical significance of results was assessed using standard errors, t-statistics, p-values, and confidence intervals. This rigorous econometric approach ensured robust findings that inform both theory and policy on the role of budgeting practices in shaping public budget outcomes in Kenya.

RESULTS

The empirical findings present a nuanced and seemingly paradoxical relationship between Medium-Term Expenditure Framework (MTEF) implementation and budget performance in Kenya, revealing a critical tension between long-term objectives and short-term operational realities.

Table 3: Normalized Cointegrating Coefficients with Standard Errors and Confidence Intervals

Variable	Coefficient	Std. Error	z	P	95% CI (Lower)	95% CI (Upper)
_ce1						
BER	1.000	–	–	–	–	–
MTEFs	-0.32	0.15	-2.16	.031	-0.61	-0.03
DGDP	-64.91	13.25	-4.90	< .001	-90.89	-38.94
Revenue	-2.85	0.34	-8.33	< .001	-3.52	-2.18
Constant	135.64	33.05	4.10	< .001	70.88	200.41

Note. Variables are normalized such that the coefficient of BER in _ce1 is fixed at 1.
Standard errors and p-values are based on the Johansen normalization.

Long-Run Equilibrium: Theoretical Validation with Contextual Constraints

The normalized cointegrating equation confirms a statistically significant long-run relationship between MTEFs and the Budget Execution Rate (BER). The analysis reveals several key insights:

The MTEF variable shows a coefficient of -0.32 with a standard error of 0.15. The relatively small standard error compared to the coefficient magnitude indicates good precision in the estimate. The z-statistic of -2.16 and corresponding p-value of .031 (which is below the conventional .05 threshold) indicate statistical significance at the 5% level. The 95% confidence interval ranging from -0.61 to -0.03 provides important information about the estimate's reliability - we can be 95% confident that the true parameter value lies within this range. Notably, the interval does not include zero, further confirming the statistical significance of the relationship.

The debt-to-GDP ratio (DGDP) demonstrates a substantial coefficient of -64.91 with a standard error of 13.25. The very small standard error relative to the large coefficient value indicates exceptional precision in this estimate. The z-statistic of -4.90 and p-value < .001 indicate extremely high statistical significance. The narrow 95% confidence interval (-90.89 to -38.94) relative to the coefficient size further confirms the precision and reliability of this estimate.

Revenue collection shows a coefficient of -2.85 with a standard error of 0.34. The small standard error indicates good estimation precision. The large z-statistic of -8.33 and p-value < .001 indicate this is the most statistically significant relationship in the model. The tight 95% confidence interval (-3.52 to -2.18) demonstrates remarkable estimation reliability.

The constant term of 135.64 with a standard error of 33.05 shows moderate estimation precision. The z-statistic of 4.10 and p-value < .001 indicate high statistical significance, while the 95% confidence interval (70.88 to 200.41) suggests reasonable estimation reliability.

This affirms a core theoretical expectation of New Public Management (NPM): that medium-term fiscal planning enhances budget credibility by improving predictability, aligning expenditures with policy priorities, and strengthening fiscal discipline (World Bank, 2000; Robinson, 2007). In practical terms, this suggests that a sustained commitment to the MTEF system in Kenya leads to a more efficient conversion of approved budgets into actual spending over time.

However, this long-run relationship must be interpreted in conjunction with the powerful and highly significant negative effects of the control variables. The substantial coefficients for the debt-to-GDP ratio and revenue collection efficiency reveal that macroeconomic fiscal constraints exert a far greater downward pressure on BER than the MTEF can upwardly mitigate in the long run. This aligns with Schick's (1998) assertion that fiscal sustainability is a prerequisite for effective budget management. The results empirically demonstrate that even a well-designed technocratic reform like the MTEF operates within a binding macroeconomic context; its positive contributions are evident but are ultimately constrained

Short-Run Dynamics: The Paradox of Implementation

In stark contrast to the long-run findings, the short-run dynamics reveal a significant implementation paradox. The Vector Error Correction Model (VECM) estimates show that quarterly *changes* in MTEF implementation (ΔMTEF) have a strong, negative, and persistent disruptive effect on BER across three consecutive lags.

Table 4: Short-Run Dynamics of Budget Execution Rate (BER) from VECM Estimates

Variable	Lag	Coefficient	Std. Error	z	p-value
ΔMTEF	1	–1.009	0.328	–3.08	.002
	2	–0.734	0.277	–2.65	.008
	3	–0.873	0.392	–2.22	.026

Note. Δ denotes first-differenced variables. p-values are reported to three decimal places. Significant coefficients ($p < .05$) suggest short-run influence on BER.

For Lag 1, the coefficient of -1.009 has a standard error of 0.328. The z-statistic of -3.08 and p-value of .002 indicate strong statistical significance. The relatively small standard error compared to the coefficient size suggests good estimation precision.

At Lag 2, the coefficient of -0.734 has a standard error of 0.277. The z-statistic of -2.65 and p-value of .008 indicate statistical significance at the 1% level, with good estimation precision evident from the standard error size.

For Lag 3, the coefficient of -0.873 has a slightly larger standard error of 0.392, suggesting somewhat less precision than the previous lags. However, the z-statistic of -2.22 and p-value of .026 still indicate statistical significance at the 5% level.

- **Lag 1 (Coeff: -1.009, p = .002):** A unit increase in MTEF implementation is associated with a more than one-unit decrease in BER in the following quarter. This immediate, oversized negative effect suggests the presence of substantial **institutional friction**. This likely encompasses the costs of adapting to new procedures, the initial inefficiencies of learning new systems like IFMIS, and potential resistance from line ministries whose discretionary power is curtailed by the new formal rules (Oduor, 2020; Helmke & Levitsky, 2004).
- **Lags 2 & 3 (Coeff: -0.734 & -0.873, p = .008 & .026):** The persistence of significant negative effects indicates that these disruptions are not transient. They suggest a prolonged **period of institutional adaptation** where the formal rules of the MTEF clash with entrenched informal institutions and practices. The time and resources required to overcome these adaptive challenges directly impede the government's ability to execute its budget efficiently in the short term (Pollitt & Bouckaert, 2011; Grindle, 2004).

This duality -positive long-run effects versus negative short-run disruptions- is not a contradiction but a vital insight into the complex nature of public financial management reform in developing economies.

The results suggest that the long-run positive relationship reflects the gradual and eventual internalization of the MTEF's formal rules and procedures into the standard operating culture of the bureaucracy. Over time, as institutions adapt and the reform becomes "the way things are done," it begins to yield its intended benefits of predictability and discipline.

Conversely, the short-run negative disruptions capture the acute pain of transition. Each effort to deepen or adjust the MTEF reform, a new circular, a system update, or a stricter enforcement of rules, reignites the clash between the new technocratic model and the existing political-economic environment, characterized by patronage networks and short-term political interests (Khan, 2018; Cheeseman, 2015). The reform process itself, therefore, creates temporary inefficiencies as the system recalibrates.

Taken together, these results resonate with the mixed evidence in the broader literature. Positive long-run effects in Kenya mirror South Africa's experience, where MTEFs have contributed to stronger fiscal discipline and better alignment of resources with policy objectives (OECD, 2020). Conversely, the short-run inefficiencies observed are consistent with outcomes in Ghana and Malawi, where capacity constraints and political interference undermined the effectiveness of MTEFs (Saudah, 2017; IMF, 2019). These findings reinforce the argument advanced by Holms and Evans (2003) that the effectiveness of MTEFs is less about their conceptual design and more about the conditions of implementation—such as realistic revenue forecasts, political commitment, and institutional enforcement mechanisms.

The Kenyan case also reveals that while MTEFs provide a structural basis for fiscal planning, complementary reforms remain essential. The moderate magnitude of the long-run coefficient (+0.32) suggests that MTEFs alone cannot guarantee optimal budget execution. Persistent challenges—including delayed disbursements, misalignment between resource envelopes and sectoral priorities, and weak expenditure forecasting—limit their transformative potential. Addressing these issues through capacity-building, strengthening institutional enforcement, and improving revenue predictability could enhance the long-run benefits while minimizing the short-run disruptions.

CONCLUSION AND RECOMMENDATIONS

Summary

The empirical findings present a nuanced and seemingly paradoxical relationship between Medium-Term Expenditure Framework (MTEF) implementation and budget performance in Kenya, revealing a critical tension between long-term objectives and short-term operational realities. The analysis employs a robust Vector Error Correction Model (VECM) framework, with all key parameters demonstrating statistical significance at conventional levels ($p<0.05$) and strong model fit indicators (e.g., trace statistics and maximum eigenvalue tests confirming cointegration at 5% significance level).

Long-Run Equilibrium: Theoretical Validation with Contextual Constraints

The normalized cointegrating equation reveals a statistically significant long-run relationship between MTEF implementation and budget performance. The MTEF variable coefficient of -0.32 (SE=0.15, z=-2.16, p=0.031, 95% CI [-0.61, -0.03]) indicates that a one-unit increase in MTEF implementation is associated with a 0.32-unit improvement in Budget Execution Rate (BER) in the long run. This positive relationship, while statistically significant, must be interpreted alongside the powerful constraining effects of fiscal variables.

The macroeconomic constraints show particularly strong effects: the debt-to-GDP ratio coefficient of -64.91 (SE=13.25, z=-4.90, p<0.001, 95% CI [-90.89, -38.94]) indicates that high debt levels substantially constrain budget execution capacity. Similarly, revenue collection efficiency shows a coefficient of -2.85 (SE=0.34, z=-8.33, p<0.001, 95% CI [-3.52, -2.18]), suggesting that weaknesses in revenue mobilization significantly impair budget implementation. The constant term of 135.64 (SE=33.05, z=4.10, p<0.001, 95% CI [70.88, 200.41]) represents the baseline BER level when all explanatory variables are zero.

These results affirm the theoretical expectation that medium-term fiscal planning enhances budget credibility (World Bank, 2000; Robinson, 2007), but simultaneously demonstrate that MTEF effectiveness is severely constrained by macroeconomic conditions. The large magnitude and high statistical significance of the fiscal variables (p<0.001 for both debt and revenue) relative to the MTEF coefficient (p=0.031) indicate that macroeconomic constraints dominate the long-run budget execution dynamics.

Short-Run Dynamics: The Implementation Paradox and Cash Flow Constraints

The short-run dynamics reveal a significant implementation paradox, with all MTEF change coefficients showing statistically significant negative effects across three consecutive quarters:

Lag 1: ΔMTEF coefficient of -1.009 (SE=0.328, z=-3.08, p=0.002)
Lag 2: ΔMTEF coefficient of -0.734 (SE=0.277, z=-2.65, p=0.008)
Lag 3: ΔMTEF coefficient of -0.873 (SE=0.392, z=-2.22, p=0.026)

These consistently negative and statistically significant coefficients (all p<0.05) indicate that MTEF implementation creates substantial short-term operational disruptions. The cash flow constraints worsen under MTEFs due to several specific mechanisms:

First, weak revenue forecasting capacity undermines MTEF effectiveness. Kenyan revenue projections often exhibit optimistic biases, creating structural gaps between planned expenditures and actual resource availability (World Bank, 2018). When actual revenues fall short of MTEF projections, implementing agencies face sudden funding shortfalls, forcing them to suspend projects and impairing their ability to meet BER targets.

Second, delays in Treasury disbursements create implementation bottlenecks. The MTEF's emphasis on conditional releases and performance-based transfers introduces additional approval layers, slowing down the flow of funds to line ministries (Oduor, 2020). During quarterly implementation, ministries experience cash flow crises as they await Treasury approvals, particularly for development projects requiring counterpart funding.

Third, rigid expenditure controls within the MTEF framework limit operational flexibility. The system's emphasis on compliance with predetermined spending categories restricts ministries' ability to reallocate resources to urgent priorities, creating operational paralysis when unexpected needs arise (Kipchumba, 2021). This rigidity is particularly damaging in Kenya's context of volatile revenue flows and frequent fiscal shocks.

The persistence of negative effects across multiple quarters (lags 1-3) suggests these are not transient issues but structural features of the MTEF implementation process. The significant coefficients (p=0.002, p=0.008, p=0.026) indicate that each MTEF reform iteration triggers renewed institutional friction as agencies adapt to new procedures and requirements.

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CONCLUSION AND RECOMMENDATIONS

Conclusion

This duality - positive long-run effects versus negative short-run disruptions reflects the complex nature of institutional reform in developing economies. The long-run benefits emerge only after systems and procedures become institutionalized, while short-term costs reflect the painful adaptation process.

The findings suggest that MTEF implementation in Kenya follows a J-curve pattern: initial performance deterioration followed by gradual improvement as institutional capacity develops and systems mature. However, the persistent negative short-run effects indicate that each reform cycle reignites adaptation costs, particularly when political interference disrupts technical implementation (Cheeseman, 2015; Khan, 2018).

The MTEF's ultimate effectiveness depends on addressing both technical and political economy constraints. Technically, improving revenue forecasting accuracy and streamlining disbursement procedures could reduce cash flow constraints. Politically, building consensus around medium-term priorities and insulating technical processes from short-term political interference is essential for realizing the MTEF's potential benefits.

The statistical robustness of these findings—with significant coefficients across both long-run and short-run models—underscores the importance of both sustaining MTEF reforms through initial implementation challenges and addressing the binding constraints of high public debt and weak revenue mobilization that currently limit the reform's potential impact.

Recommendations

Based on the empirical findings that reveal a significant tension between the long-term benefits and short-term disruptive costs of MTEF implementation, this study offers the following targeted recommendations for policymakers in Kenya and similar contexts.

1. Adopt a Phased and Piloted Approach to Implementation

To mitigate the severe short-run disruptions identified in the VECM analysis, the government must abandon a blanket, big-bang rollout of MTEF reforms. Instead, a phased, pilot-based strategy is essential.

- Phase 1: Pilot in High-Capacity, Priority Sectors: The National Treasury should initially roll out the full MTEF framework, including strict performance-linked conditioning, in a select few priority ministries with relatively strong administrative capacity and measurable outputs, such as Health, Education, and Infrastructure. This allows for the development of best practices, management of teething problems on a smaller scale, and the creation of success stories that can build momentum for wider reform.
- Phase 2: Graduated Rollout to Other Ministries: Based on lessons learned from the pilot phase, the MTEF should be gradually expanded to other ministries. This expansion must be contingent on a minimum capacity assessment and include tailored technical assistance to address sector-specific challenges.
- Phase 3: Full Integration and Decentralization: The final phase involves full national rollout and can begin exploring deeper decentralization, potentially extending the MTEF framework to county governments, but only after robust oversight and accountability mechanisms are firmly in place at the national level.

2. Prioritize the Sequence of Reforming Foundations First

The long-run analysis clearly shows that macroeconomic constraints (debt and revenue) overwhelmingly bind the MTEF's effectiveness. Therefore, reforms must be sequenced to address these foundational issues first.

- First Priority: Strengthen Revenue Forecasting and Mobilization: The government, in partnership with the Kenya Revenue Authority (KRA), must invest in building robust, independent, and technocratic revenue forecasting capacity. This is the single most important enabler of credible medium-term budgeting. This should involve adopting advanced forecasting models, reducing reliance on optimistic projections, and implementing policy measures to broaden the tax base and improve collection efficiency.
- Second Priority: Enhance Institutional Enforcement and Compliance: Once revenue forecasts are credible, focus must shift to strengthening enforcement of the MTEF's hard budget constraints. This means empowering the National Treasury to resist political pressure for supplementary budgets that deviate from the medium-term plan and strictly enforcing sanctions for non-compliance by line ministries.
- Third Priority: Broaden Integration with PFM Systems: Only after the first two priorities are advanced should the government focus on deeply integrating the MTEF with other Public Financial Management (PFM) reforms, such as the Integrated Financial Management Information System (IFMIS), program-based budgeting (PBB), and asset management systems, to create a seamless and complementary reform ecosystem.

3. Establish Robust, Independent Monitoring and Evaluation (M&E) Mechanisms

To ensure accountability, learn from implementation, and build trust in the process, a multi-layered M&E framework is critical.

- Independent Fiscal Council: Establish an independent Fiscal Council, as provided for in the Public Finance Management (PFM) Act, 2012. This body should be mandated to objectively assess and publicly report on the government's adherence to its own fiscal rules and MTEF targets, providing a non-partisan check on executive discretion.
- Enhanced Auditor-General Oversight: The Office of the Auditor-General (OAG) should move beyond traditional compliance auditing to include performance audits of the MTEF itself. Their reports should specifically assess the link between MTEF allocations, project completion rates, and service delivery outcomes, providing Parliament and the public with a clear picture of the reform's effectiveness.

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