



Fact Sheet

Quarterly Budget 2020/21: Q1 Performance

1.0 Introduction

Budget implementation which runs from 1st of June to end of July every financial year entails raising of funds, authorization of release of funds to spending units (Ministries, Department and Agencies-MDAs) for service delivery to citizen according to approved budget.

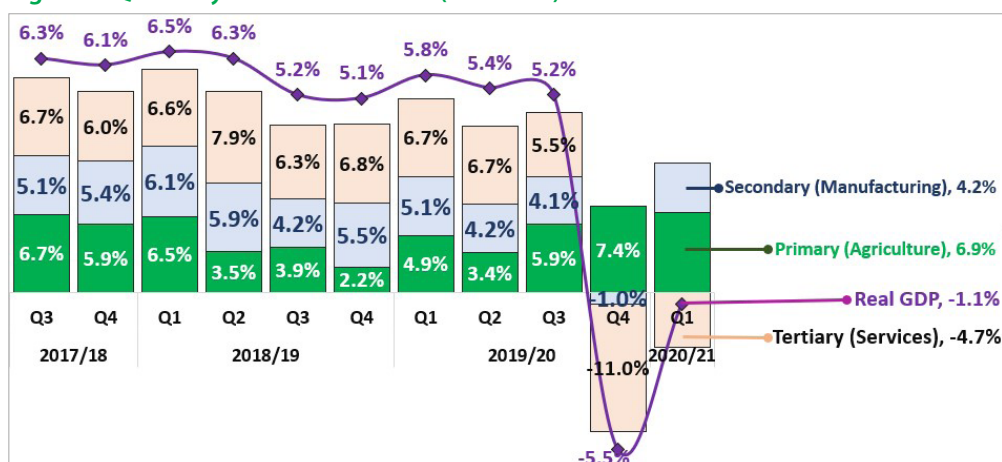
This fact sheet¹ focuses on the first quarter of 2020/21 fiscal year and presents some key facts in response to the following questions:

- What are the underlying macroeconomic conditions for the quarter?
- Is the national government budget implemented as approved and if not, what are the differences? What are the implications of this on service delivery and accountability to citizens?
- What factors are the causes of the national government's inability to utilize their budgetary provisions?
- What are the corrective measures towards improving budget execution?

1.1 Macroeconomic Outlook

Economic performance in the first quarter of 2020/21 remained depressed but relatively improved compared to the fourth quarter of 2019/20. This is as summarized in Figure 1 below: -

Figure 1: Quarterly Economic Growth (Real GDP)



Source: KNBS ~ Quarterly GDP Reports

¹It is a citizen friendly version of IEA-Kenya Budget Focus First Quarter National Budget Performance 2020/21 via <http://www.ieakenya.or.ke/publications/bulletins>. It is based on an analysis of first quarter 2020/2021 Office of Controller of Budget Implementation and Review report and the National Treasury First Quarterly Economic and Budgetary Review 2020/2021 report.

Real GDP is estimated to have contracted by 1.1 per cent in the quarter compared to a decline of 5.5% in the previous quarter. While, the overall growth was boosted by agriculture sector (6.9%), significant underperformance was registered by the service sector (-4.7%), with the latter partly affected by the COVID 19 pandemic shock.

2.0 National Government Performance in Spending

The national government performance for Ministries, Departments and Agencies (MDAs) in the first quarter (Q1) of 2020/21 in terms of its ability to utilize approved budget provisions (absorption rate) of 23% is a significant improvement compared to 16% for a similar period in 2019/20 (see figure 2).

In fact, this was the highest performance in first quarters of the period 2016/17 to 2020/21. Furthermore, this was notably two percentage points short of ideal rate of 25% and indeed a surprising performance despite onset of COVID 19 pandemic.

Breakdown of MDAs performance by recurrent and development spending in Q1 of 2020/21 is equally impressive relative to previous financial years of similar period as shown in figure 2.

Figure 2: Trends in Absorption Rates (2016/17 -2020/21)



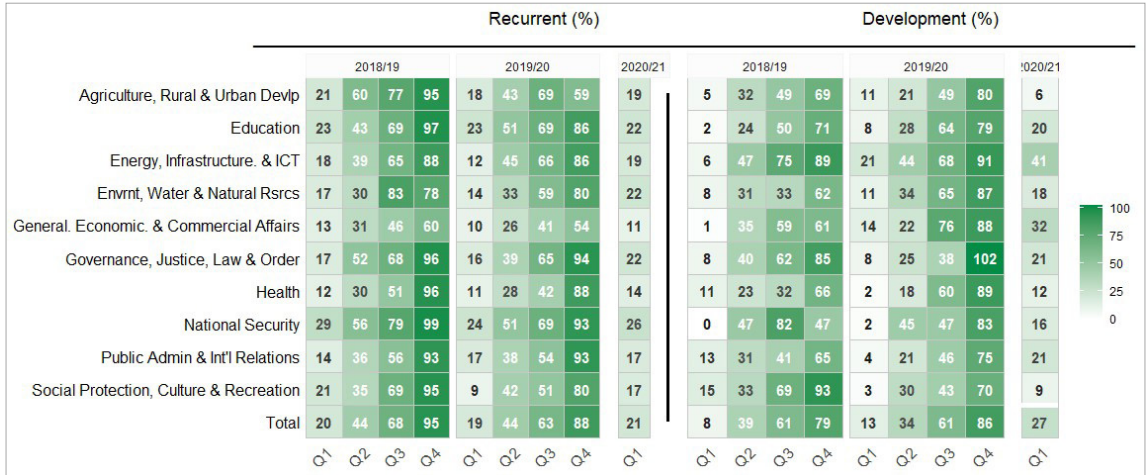
Source: Office of the Controller of Budget

- About 21% of recurrent budget was spent in Q1 of 2020/21 up from 19% in Q1 of 2019/20. The absorption rate of 21% represents Ksh 261.1 billion out of the budget of Ksh 1,254.4 billion.
- For development budget, about 27% was spent by end of Q1 of 2020/21, two percentage points above ideal target, compared to 13% in Q1 of 2019/20. This is absorption rate of 27% represents Ksh 172.0 billion out of the budget of Ksh 633.31 billion.
- Notably, the driver for the high absorption rate in Q1 is the heavy development spending on infrastructure despite the onset of the COVID-19. On the other hand, government expenditure on the relief services such as in social protection programme in order to cushion the populace from the effects of the pandemic is responsible for generally high recurrent spending. More details in the next section.

2.1 Performance in spending across Sectors

Disaggregation of quarterly overall national government spending by recurrent and development for the period 2018/19 to 2020/21 shows significant variations in performance by sectors in terms of percentage of funds spent vis-à-vis budget estimates (see figure 3).

Figure 3: Distribution of Cumulative Absorption Rates across Sectors



Source: Office of the Controller of Budget

Performance in spending by sectors in Q1 of 2020/21 was better all-round relative to the same period in 2019/20. The only exception was a slight drop for the education sector from 23% to 22% on the recurrent budget side as well as for the Agriculture, Rural and Urban Development sector, from 11% to 6% on the development budget side.

The breakdown of the performance across MDAs for recurrent expenditure is as follows:

- **Top performing sectors include:** The National Security (26%) which is slightly above the expected target of 25%.
- **Sectors with moderate performance over the same period include:** Education (22%), Governance, Justice, Law & Order (22%), Environment, Water & Natural Resources (22%); others being Agriculture, Rural & Urban Development (19%), Energy, Infrastructure & Infrastructure, Communication and Technology (19%).
- **The poorest performers include:** General Economic & Commercial Affairs with an absorption rate of 11%, and Health (14%)

On the other hand, breakdown in performance for the development expenditure across MDAs is as follows: -

- Top performing sectors are; Energy, Infrastructure & Communication and Technology (41%) and General Economic & Commercial Affairs (32%)
- Sectors with moderate performance over the same period include: Governance, Justice, Law & Order (21%), Public Admin & Intl Relations (21%) and Education (20%)
- The poorest performers include, Health (12%), Social Protection, Culture & Recreation (9%), Agriculture, Rural & Urban Development (6%)

3.0 What explains Budget Execution Results by end of Q1 2020/21

The following section looks at factors that may explain budget execution results by end of Q1 as aforementioned.

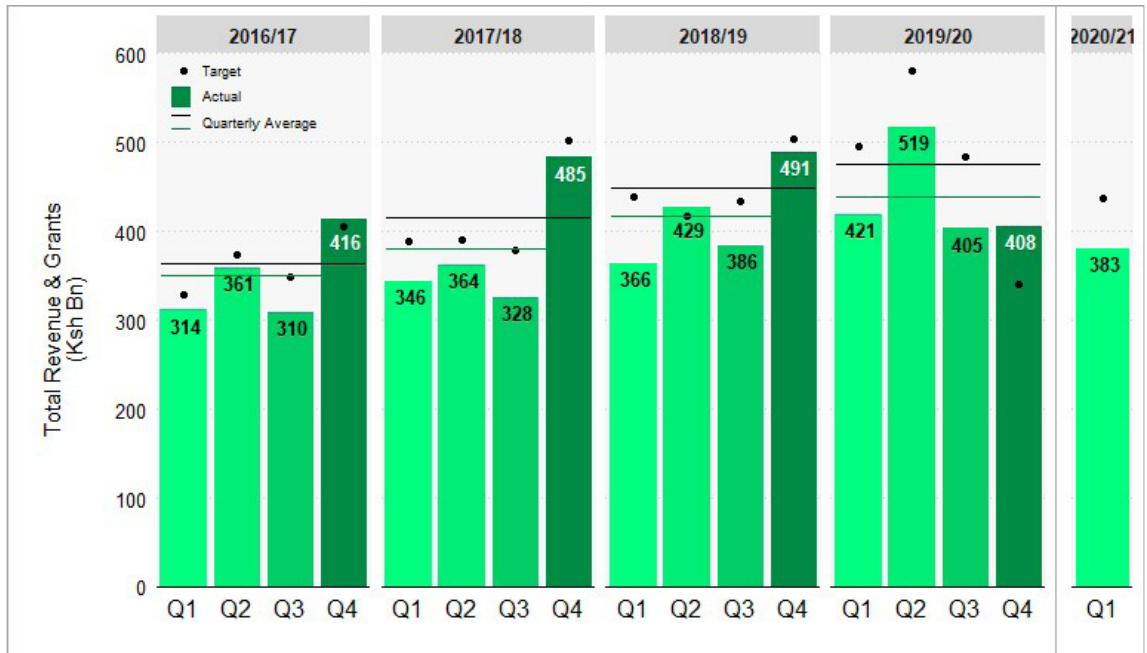
3.1 Predictability of funds

The issue of cash flow and its predictability is critical in enabling spending units to implement their budgets. This manifests in the performance of revenue and specifically the gap between actual revenue realized against revenue projections (see Figure 4).

From the OCOB reports, by end of Q1 of 2020/21 total receipts (domestic revenue, external grants, domestic and external borrowing) into the Consolidated Fund constituted 21.3% (Ksh 602 billion) of estimated receipts of Ksh 2,830.4 billion. Overall underperformance of total receipts in Q1 was attributed specifically to tax revenue, which contributes slightly over half of the total receipts as well as dismal performance in external loans and grants and other domestic financing with a combined contribution of about 2% of total receipts.

Specifically, on total revenue and grants, actual collection in Q1 of 2020/21 was 383 billion, about 12.5% short of target, relative to Ksh 424 billion for Q1 of the previous year, which was short of its target by a slightly bigger margin, 15.1% (See figure 4).

Figure 4: Trends of Quarterly Total Revenues and Grants (2014/15 – 2020/21)



Source: The National Treasury QEBR

- Drop in actual collection of total revenue and grants was in part occasioned by the dual effect of COVID 19 pandemic shock that resulted to disruption of economic activities and tax relief measures introduced in April 2020 leading to overall reduction in collection of income tax (particularly PAYE) and VAT.

- Evidence of declining domestic revenue is clear from Annexe 1 that shows downward trend of tax revenue to GDP ratio in Q1 from 16.2% in 2016/17 to 12.9% in 2020/21. This implies that growth in the GDP is not resulting in significant tax revenues, suggesting shortcomings within the structure of economy.

Despite reduction in receipt of total revenues and grants by 11% between Q1 of 2020/21 and in the same period in 2019/20, the actual gap relative to respective quarterly target narrowed from 15.1% to 12.5%. Nevertheless, this may necessitate budget revision in the ensuing quarters to adjust expenditure in line with drop in anticipated revenue.

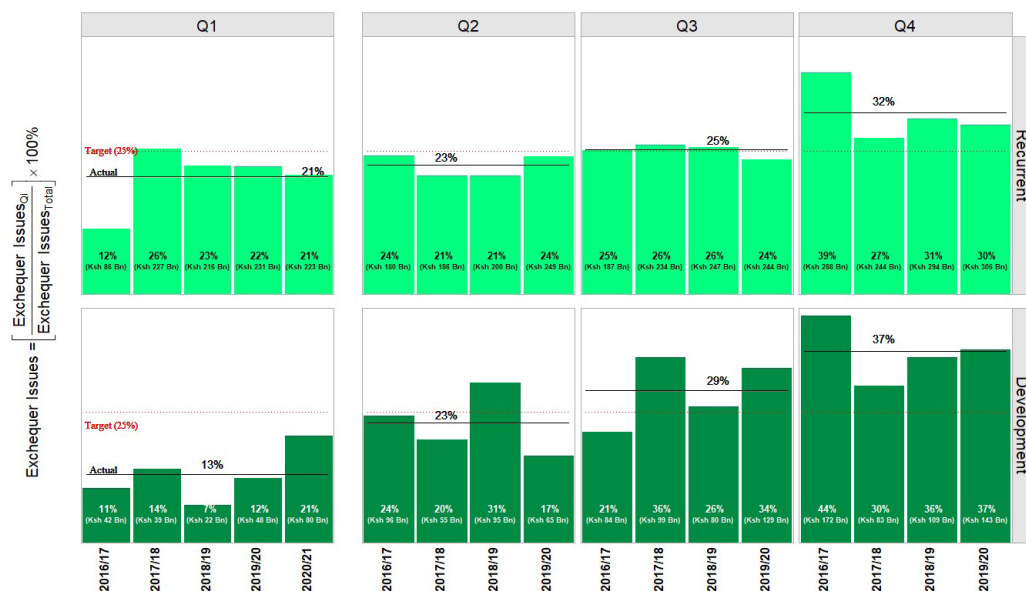
- Notably underperformance of revenue and grants for Q1 of 2020/21 was lower than for the same period in 2019/20. Simply put, by revenue performance by end of Q1 of 2020/21 was comparatively better.
- Relatedly, concerns about rising public debt levels and thus huge debt service payment obligation (debt service to tax revenue is >40%) in light of falling revenues may further disrupt budget implementation

3.2 Release of Funds to Spending Units

Trends of quarterly exchequer issues to the national MDAs as shown in figure 5 indicate that on average, Q1 receives the lowest exchequer issues compared to the other quarters. This is a more pronounced challenge for development budget. Generally, this pattern invariably mirrors high and low periods in revenue collection and indeed general levels of economic activities.

- Figure 5 further shows that out of the total budget for 2020/21, less than a quarter (21%) of available funds were released each for recurrent and development expenditure by end of Q1 of 2020/21. This denotes some delays though not as significant as was in Q1 of 2019/20.
- There was however, a minimal reduction in quarterly exchequer issues as a ratio of recurrent budget relative to Q1 of 2019/20. This was contrasted by significant rise in quarterly exchequer issues to development expenditure which is attributed to improved absorption rates for development budget as observed in Figures 2 and 3.

Figure 5: Quarterly Exchequer Issues to the National MDAs



Source: Office of the Controller of Budget

- Disaggregated data by sectors show for example, that an equivalent of slightly over a quarter (28%) of Energy, Infrastructure and ICT sector budget was release. This is largely what is attributed to the sectors' markedly high absorption rates by end of Q1 of 2020/21 (See annexe 2).
- In contrast, poor performance in spending by sectors such as Health; Agriculture, Rural & Urban Development; National Security and Social Protection, Culture & Recreation is in part due to low exchequer issues, below 15% of their budgets.

3.3 Under Release of Funds

Utilization of available funds by MDAs is not a challenge. This fact is backed by data which shows that overall spending on recurrent budget exceeded available funds (funds released) by 17% and was more than double for development budget end of Q1 of 2020/21

Despite tremendous improvement in spending performance by MDAs in Q1 of 2020/21 relative to past years of the same period going back to 2016/17, the reasons for non-optimal performance is to some extent due to under release of funds, from domestic and external sources. This is demonstrated by table 1 below.

Table 1: Summary of Exchequer Issues as a Share of Recurrent and Development Budgets

	First Quarter of 2020/21					First Quarter of 2019/20				
	Gross Est. (Ksh Bn)	Net Est. (Ksh Bn)	Exchequer Issues. (Ksh Bn)	Exchequer issues as % of Net Est	Exchequer issues as % of Gross Est.	Gross Est. (Ksh Bn)	Net Est. (Ksh Bn)	Exchequer Issues. (Ksh Bn)	Exchequer issues as % of Net Est.	Exchequer issues as % of Gross Est
Recurrent	1,254	1,068	223	20.9	17.8	1,225	1,053	231	21.9	18.8
Development	653	388	80	20.6	12.2	704	422.3	48	11.4	6.8
Total	1,907	1,456	303	20.8	15.9	1,929	1,475	278.6	18.9	14.4

Source: OCOB 1st Quarter BIRR 2020/21

Exchequer issues as a share of quarterly gross recurrent budget is 18%, about 7 percentage points below the ideal target. Recurrent spending above available (released) funds denotes under reporting by MDAs of Appropriation in Aids (AiA) generated from services offered by these MDAs. In other words, MDAs spent some funds that should have been remitted to the Consolidated Funds without express approval by the National Treasury.

On the part of development budget, funds released only amounted to 12% of their quarterly budget. The balance of 13%, to the meet ideal target, accounts for potion of domestic resources and donor funds not released to MDAs for execution of their development budget based on their work plans.

4.0 Recommendations

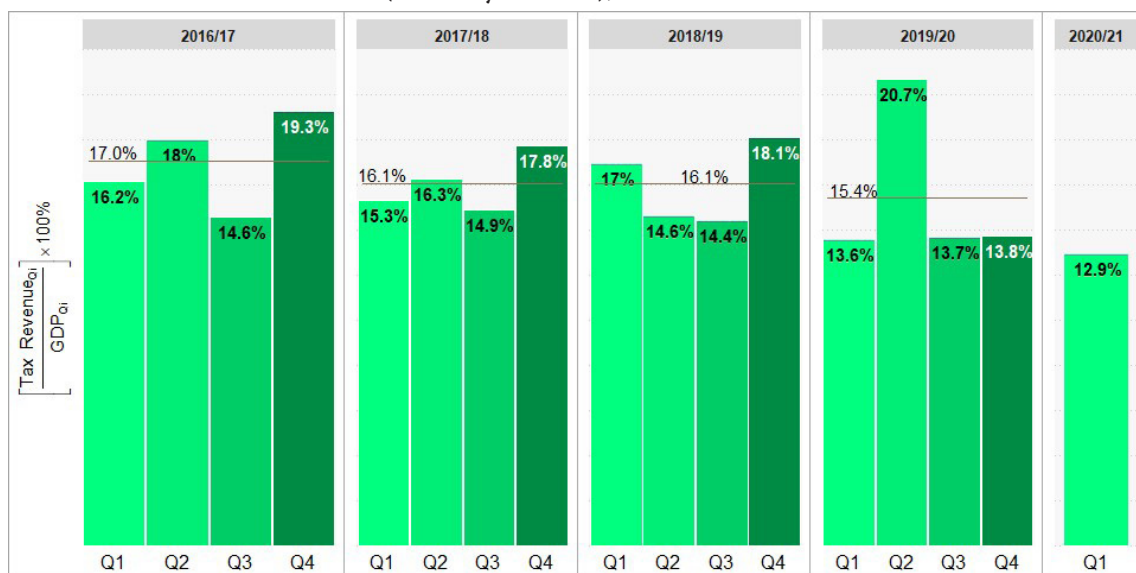
In summary, MDAs performance in budget implementation by end of Q1 of 2020/21, albeit being slightly off track, is better than for the same period in 2019/20. Of note is the concern that service delivery in health, social protection, governance justice, law and order and in agriculture rural and urban development sectors will be undermined if flow of cash does not improve. Equally, delays in releases of funds (exchequer releases) often disrupt budget execution and in particular affects implementation of on-going projects.

The following recommendations are critical towards improving budget execution by MDAs and indeed better service delivery benefits for citizens.

Issues	Recommendations
Economic recovery and predictability of funds flow	<ul style="list-style-type: none"> The government through the National Treasury should develop a contingency plan to address a potential deepening of the economic shock due rise in contingency liabilities on publicly guaranteed debt and a surge in non-performing loans, missed tax revenue targets and deterioration of the shilling leading to a shock on the external debt position. The National Treasury should strengthen revenue forecasting capacity in order to improve predictability of public funds for improved budgeting and execution. This is will reduce need and frequency of budget revisions. Debt management by the national government through renegotiation of debt terms and conditions is critical in creating more space especially in light of falling revenues. The Legislature should oversight and rein on optimistic revenue projections that are used to “understate” the magnitude of budget deficit and as a way of curbing borrowing appetite by the government Parliament oversight borrowing by the government to ensure it is within set plans. Civil Society Organizations (CSOs) and other non-state actors including the media should interrogate and analysis how realistic revenue projections towards influencing realistic budget ceilings for MDAs.
Overall delays in releases as manifested by lowest quartile exchequer release in Q1	<ul style="list-style-type: none"> There is need for harmonization and synchronization of MDAs work plans and cash request working with the National Treasury to releases
Under release of funds including donor funds	<ul style="list-style-type: none"> The National Government should scale donor funds projections to avoid huge gaps when commitments by donors do not materialize NG should agree with donors on a simple, harmonized and synchronized donor disbursement procedure.
Weak overall transparency on budget execution	<ul style="list-style-type: none"> The Legislature and civil society should rein on the National Treasury to strengthen and enforce reporting of appropriations in aid (A.i.A) as provided in the Public Finance Management Act (PFMA), 2012 Civil society should demand for accountability and reporting of direct donor funding in line with PFMA, 2012 and External Resources Policy as this will improve overall transparency of flow of donor funds.

Annexe

Annexe 1: Trends in Tax Revenue (Ordinary Revenue), % of GDP.



Source: *The National Treasury QEBR Reports*

Annexe 2: % Exchequer Issues to Net Estimates Sectors

Description	Recurrent			Development		
	Net Estimates	Exchequer Issues	(B/A) * 100	Net Estimates	Exchequer Issues	(B/A) * 100
	(A) Ksh Bn	(B) Ksh Bn	%	(A) Ksh Bn	(B) Ksh Bn	%
Agriculture, Rural & Urban Development	16.77	3.73	22.2%	36.72	5.41	14.7%
Education	424.11	87.24	20.6%	20.06	4.03	20.1%
Energy, Infrastructure & Information Comm. Technology	13.49	3.69	27.4%	118.42	32.98	27.9%
Environmental Protection, Water and Natural Resources	19.28	6.39	33.1%	41.05	7.79	19.0%
General Economic & Commercial Affairs	8.00	1.84	23.0%	10.82	3.64	33.6%
Governance, Justice, Law and Order	184.22	44.07	23.9%	10.87	0.73	6.7%
Health	48.97	9.22	18.8%	43.59	2.92	6.7%
National Security	145.32	34.14	23.5%	3.00	-	0.0%
Public Administration and International Relations	169.98	29.90	17.6%	87.50	20.56	23.5%
Social Protection, Culture and Recreation	38.08	2.60	6.8%	15.91	1.78	11.2%
Total	1,068.22	222.82	20.9%	387.94	79.84	20.6%

Source: *Office of the Controller of Budget*

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