Institute of Economic Affairs

THE BUDGET FOCUS

A Publication of the IEA Public Finance Management Programme

Issue No. 36 • April, 2021

First Quarter National Government Budget Performance 2020/21

Executive Summary

By the end of the first quarter of 2020/21, national government ministries, department and agencies (MDAs) managed to utilize 23% of their approved budget of Ksh 2.69 trillion. This means that about 2% (Ksh 53.8 billion) remained unspent. Overall performance in government spending in 2018/19 was however marginally better, by two percentage points than in 2019/20. Performance.

Trend analysis for 2016/17 to 2019/20 confirmed, albeit progressive improvement, that the biggest challenge is on uptake of development budget relative to recurrent budget. Despite slip up in performance, uptake of development budget was higher in 2019/20 than in 2018/19. The three least performers, with the highest proportion of unspent funds, over 15%, are Agriculture, Rural and Urban Development, Social Protection, Culture and Recreation and Education sectors in that order implying poor results in service delivery to citizens.

Notably, overall performance for the first quarter of 2020/21 by sectors mask salient issues, sectors that recorded highest improvement in the recurrent spending include: National Security (26%), Governance, Justice, Law and Order (22%), Education (22%), and Environment, Water and Natural Resources (22%). On the other hand, sectors that reported high performance on the development spending include: Energy, Infrastructure and ICT (41%), General, Economic and Commercial Affairs (32%), Governance, Justice, Law and Order (21%) and Public Administration and International Relations (21%).

The quarter was occasioned by underperformance of the main tax heads (PAYE and VAT) is a response due to the mitigation measures by the government against the effects of COVID 19 to the Kenyan economy from 25th April, 2020 which included Reduction of Personal Income Tax top rate (PAYE) from 30% to 25%; Reduction of Resident Corporate Income Tax rate from 30% to 25% and Immediate reduction of VAT rate from 16% to 14%. This led to low overall disbursement rate of 20.9% and 20.6% for recurrent and development respectively, below the ideal rate of approximately 25%.

As a consequence, this leads to frequent revision of the budgets to accommodate the shortfall in revenue. Due to the falling revenues, the Debt Service to Tax Revenue ratio has increased from 30% in 2013/14 to 49% in 2020/21 which may significantly disrupt the budget implementation.

To this end, the IEA proposes the need for the government to strengthen revenue forecasting capacity to improve the predictability of public funds; strengthen and enforce reporting of AiA and scale down projection's donor disbursements in subsequent financial years for more accurate budget planning and develop a contingency plan to address a potential deepening of the economic shock due to higher level of uncertainty with regards to increased debt defaults. In addition, the reintegration of off-budget donor funds is not only key in enhancing reporting but also overall transparency. These actions are key to averting rise in pending bills, volatility in planning and budgeting, and citizen wellbeing.

1.0 Introduction

The first quarter of 2020/21 (July – September) saw improved, albeit low macroeconomic performance because of the disruptions of economic activities as a result of the COVID 19 pandemic. The economic disruptions necessitated revisions in not only macroeconomic outlook but also expenditure priorities and revenue projections. Moreover, in an effort to mitigate against the ensuing shocks experienced by the economy, Economic Stimulus Programme (ESP) was rolled out by the government to catalyze economic activities and provide a lifeline for businesses to recover from the adverse effects of pandemic.

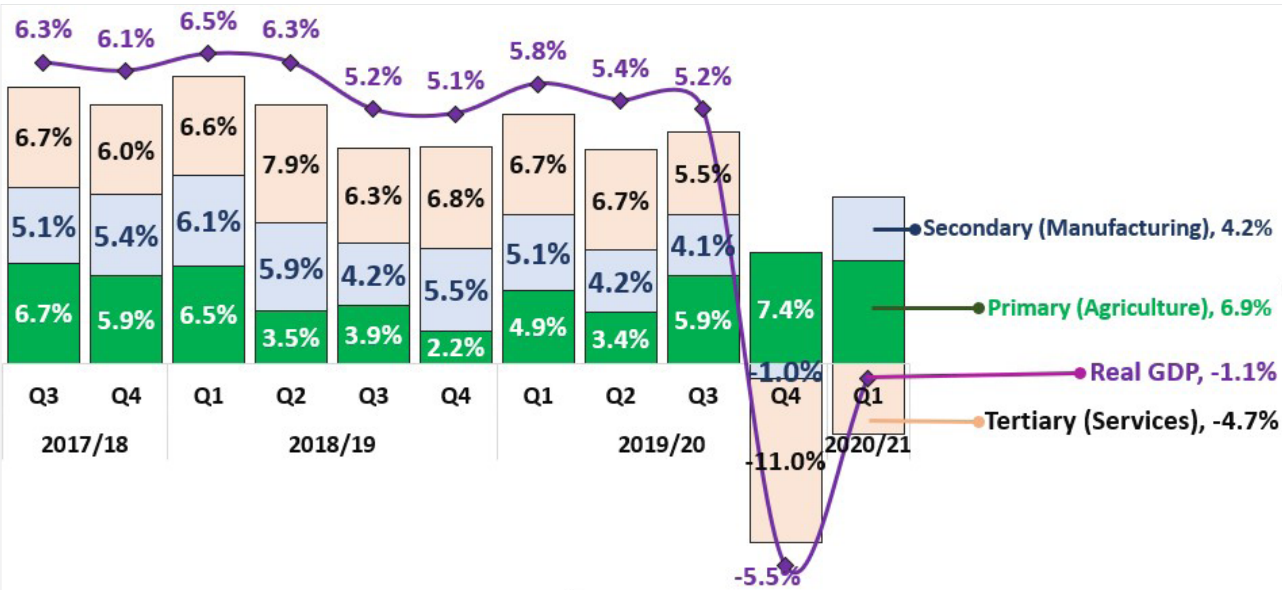
This report uses the first quarter of 2020/21 National Treasury's Quarterly Economic and Budgetary Review (QEBR) Reports and Office of the Controller of Budget's Quarter Budget Implementation and Review (BIRR) Reports to assess the budget performance of by the national government of Kenya against its own targets. In addition, the brief seeks to highlight key implementation challenges and gaps and proposes corrective measures.

IEA provides this analysis every quarter. For more reports, please visit www.ieakenya.or.ke

1.1 Macroeconomic Outlook

Economic performance in the first quarter of 2020/21 remained depressed although with relative improvement compared to the fourth quarter of 2019/20. While the overall poor performance in the quarter was to a large extent negatively impacted by measures aimed at containing the spread of the COVID-19 which included restriction of movement, closure of learning institutions, and closure of some businesses and near cessation of international travel. As a result, the performance of most sectors of the economy contracted. It is important to note that the improved overall performance of the economy during the quarter was cushioned from a deeper slump by improved growths in the Agriculture Sector whose growth was 6.9%, this is as summarized in Figure 1 below: -

Figure 1: Quarterly Economic Growth (Real GDP)



Source: KNBS | Quarterly GDP Reports

Figure 1 presents breakdown of quarterly real economic growth rates across the three main sectors: Agriculture, Manufacturing and Tertiary. Evolution of the growth rates indicates that while the tertiary sector is the largest contributor in the economic growth (2017/18 Q2 – 2019/20 Q2), it is also the most volatile in terms of performance as shown by large swings in the last quarter of 2019/20 and the first quarter of 2020/21.

The overall, real GDP is estimated to have contracted by 1.1 per cent in first quarter of 2020/21, this is significant improvement from a contraction of 5.5% in the previous quarter, 2019/20 Q4. The driver of the overall growth is mainly by agriculture sector (6.9%), followed by manufacturing (4.2%) while the service sector contributed the negative growth, it grew by -4.7%.

Conspicuously, as shown in the chart, during the pandemic (2019/20 Q3 – 2020/21 Q1), agriculture sector has recorded quite remarkable improvement becoming the largest contributor of the economic growth rate, this is partly explained by favourable weather conditions.

Re-bound of the service sector from -11% to -4.7% is a clear indicator of high resilience.

2.0 Revenue Performance

The contraction in economic performance as observed in the previous section corresponds highly with the depressed performance in revenue. Total Revenue and External Grants collected in quarter one of 2020/21 amounted to Ksh 383 Bn, representing a decline by 9.8% compared to a similar period in 2019/20 and atleast 13% of the targeted revenue amount. The breakdown in further presented in Table 1.

Table 1: Government Revenue and Ext. Grants

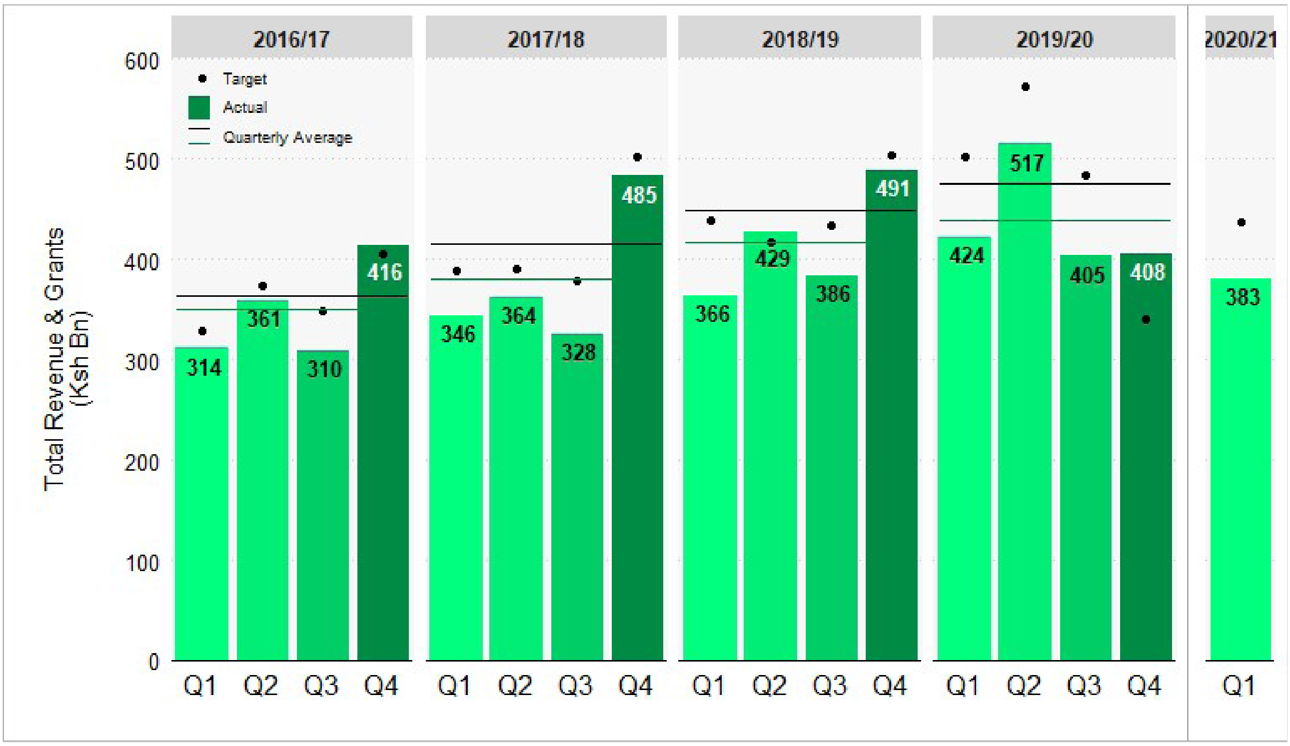
	2019/20	2020/21		Deviation (%)	% of Target	% of GDP
	Actual Ksh Bn (A)	Actual Ksh Bn (B)	Target Ksh Bn (C)	[(B-A)/A]*100	[B/C]*100	[B/C]*101
Total Revenue (a+b)	421	379	429	-10.1%	88%	3.37%
a. Ordinary Revenue	**384**	**343**	**384**	**-10.9%**	**89%**	**3.04%**
Import duty	26	23	26	-10.0%	88%	0.21%
Excise duty	50	47	57	-4.8%	83%	0.42%
PAYE	98	72	91	-27.1%	79%	0.64%
Other income tax	83	80	77	-3.4%	104%	0.71%
VAT local	59	41	61	-30.8%	67%	0.37%
VAT Imports	46	42	53	-9.5%	79%	0.37%
Investment Revenue	6	21	3	-250.3%	822%	0.19%
Traffic Revenue	1	1	1	-3.7%	108%	0.01%
Taxes on int'trade and IDF	6	8	7	46.2%	123%	0.07%
Other income tax	9	7	9	-26.4%	76%	0.06%
b. Appropriation in Aid	**37**	**36**	**45**	**-1.9%**	**81%**	**0.32%**
o/w Railways Dev't Levy	6	6	7	13.4%	91%	0.06%
c. External Grants	3	4	8	39.7%	47%	0.03%
Total Revenue and External Grants (a+b_c)	**424**	**383**	**437**	**-9.8%**	**87%**	3.40%
as % of GDP	4.1%	3.4%	3.9%	-9.8%	87%	3.40%

Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

Underperformance of the main tax heads (PAYE and VAT) is a response due to the mitigation measures by the government against the effects of COVID 19 to the Kenyan economy from 25th April, 2020 which included Reduction of Personal Income Tax top rate (PAYE) from 30% to 25%; Reduction of Resident Corporate Income Tax rate from 30% to 25% and Immediate reduction of VAT rate from 16% to 14%. Cross-border restrictions, that affected the smooth flow of cargo coupled with shift in the demand of some imports due to change in the lifestyle and businesses disrupted the Import Duties. The notable contributor to overall increase in ordinary revenue collection was investment revenue, mainly dividends from state owned enterprise (parastatals).

The failure to meet the revenue targets by The National Treasury has featured in the public discourses in Kenya for the last decade. Findings, as presented in Figure 2 confirms not only the shortfalls in revenue but also illustrates that the gap[1] between the revenue collected against the target has been widening, (moving from 3.8% in 2016/17 to 7.8% in 2019/20).

Figure 2: Trends of Quarterly Total Revenues and Grants (2014/15 – 2020/21)



Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

The Total Revenue and Grants[2], actual collection in Q1 of 2020/21 was Ksh 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 2). This suggests improved forecasting of revenue during the pandemic.

However, past trends reveal an increasing revenue gap, there is an upward trend in receipts of Total Revenue and Grants for the full years in absolute terms from Ksh 1.40 Trillion 2016/17 against a target of Ksh 1.47 trillion to Ksh 1.75 Trillion in 2019/20 against a target of Ksh 1.90 trillion. This reiterates the common theme of actual receipts that have fallen short of annual target. The widening gap is in part attributed to optimistic revenue forecasting. Lack of appropriate forecasting model and capacity is often blamed for inaccurate revenue forecast. It is also important to note that optimistic revenue projections are often driven in guise of widening budget deficit due to growing appetite for government expenditure.

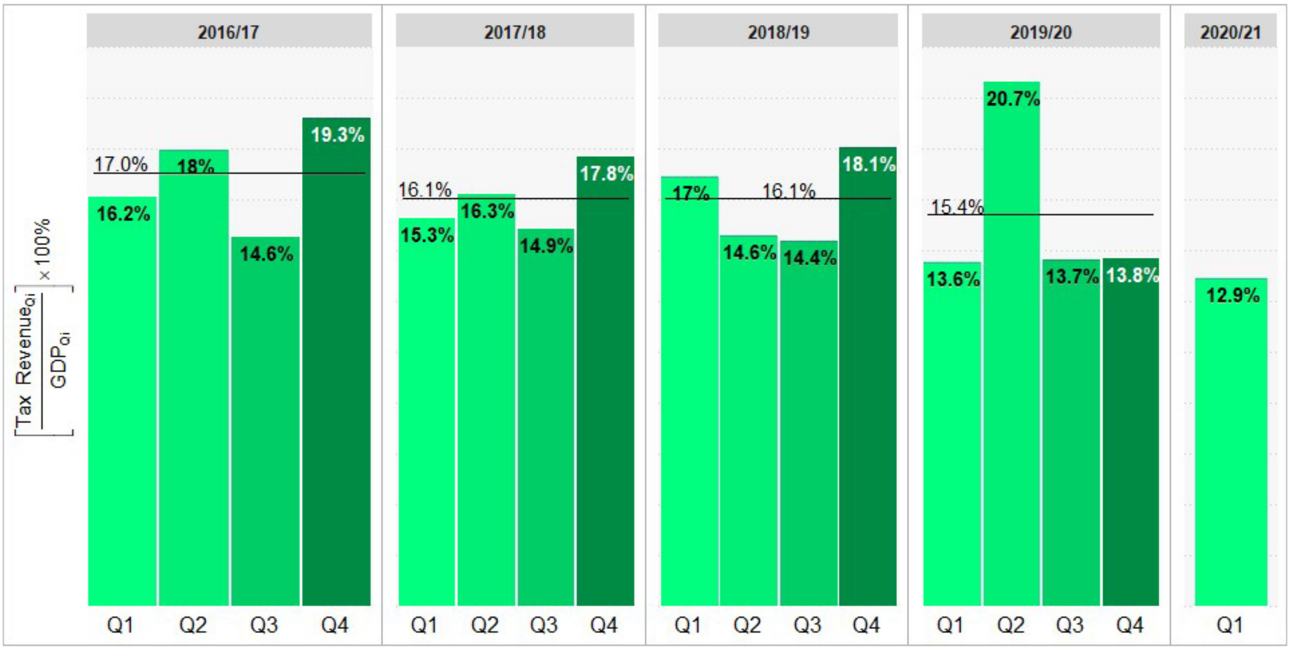
From a quarterly perspective nominal revenue receipts are highest in the second and the fourth quarter for the period 2016/17 to 2019/20, the quarters coinciding with increased economic activities during the end year (second quarter) and the increase in filling of returns towards the end of the fiscal year (fourth quarter)

As a share of GDP, tax collection in the first quarter of 2020/21 was 12.9%, lowest across all quarters since 2016/17. This is explained by depressed economic performance that was occasioned by COVID-19 pandemic.

[1]The gap is represented by differences between the two quarterly average lines across the bars

[2] Total Revenues and Grants comprise Ordinary Revenue, A.I.A and Grants

Figure 3: % Tax Revenue (Ordinary Revenue) to GDP



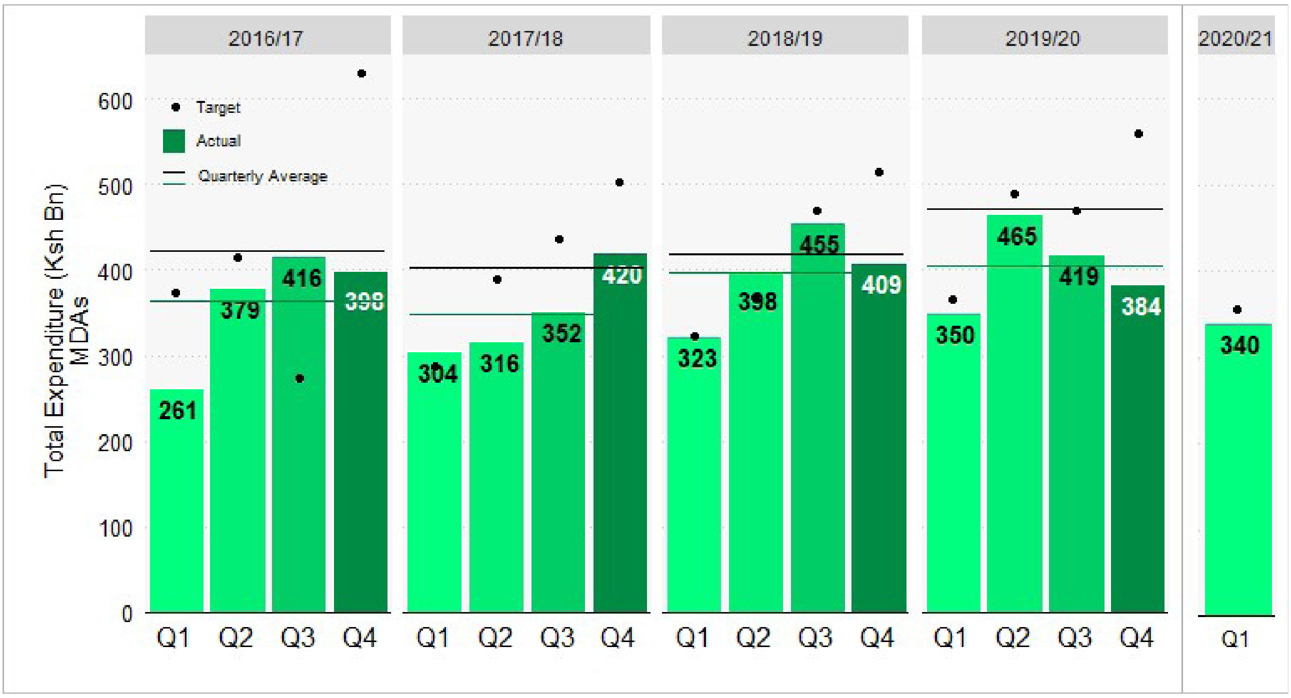
Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

As Figure 3 further illustrates, there have been a general downward trend of tax revenue-to-GDP ratio, from 17.0% to 15.4%% over the period 2016/17 to 2019/20. It is noteworthy that tax revenue-to-GDP ratio is below the government's target of 18%. A similar trend is observed for the quarter-on-quarter[3] averages of tax revenue-to-GDP ratio revenues. This points to structural issues in the economy such as high indebtedness, that has negatively reduced capital for the private sector, resulting in low tax revenues in relation to GDP.

3.0 Government Spending

Although the National Government made progressive improvement in reducing the proportion of unspent funds by the end of the financial year from 10.3% in 2016/17 to 4.4% in 2018/19 there was a reversal of gains in 2019/20 where the proportion more than doubled.

Figure 4: Quarterly Trends in Total Expenditure (MDAs)



Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

[3]Quarter-on-quarter (QOQ) refers to comparison of one fiscal quarter and the previous fiscal quarter

From 2016/17 to 2020/21, average quarterly spending in Q1 is Ksh 316 Bn compared to Q2 (Ksh 390 Bn), Q3 (Ksh 411 Bn) and Q4 (Ksh 403 Bn). The actual expenditure (quarter to quarter averages) across all quarters is below the Target. However, it is worth noting that the actual expenditure in the first quarter of 2020/21 (Ksh 340 Bn) is closer to the target implying improved forecast.

Absorption Rates

This section provides examines the actual expenditure of the budget out of the planned expenditure to ascertain the extend of budget implementation. Annual budget performance is included for year-to-year comparison.

As summarized in Figure 5, on disaggregation of MDAs expenditure, it is observed that actual spending on development projects in relation to the budget was 27% compared to 21% for recurrent spending, a remarkable improvement from 13% and 19% respectively in the similar period in the previous year.

Figure 5: Trends in Absorption Rates

Source: Controller of Budget | Budget Implementation and Review Reports (BIRR)

- In the first quarter of 2020/21, it is notable that recurrent expenditure improved by 2 percentage points while development improved by 14 percentage points from the previous year
- Improvement in the development spending is mainly associated with improved disbursement of funds especially towards Energy, Infrastructure and ICT and General Economic and Commercial Affairs as shown in Table 3
- Figure 9 shows that poor or low spending relative to approved budget is more a development budget challenge as across the four year it recorded the lowest absorption rates.

Sectoral Absorption rates

The figure below illustrates cumulative distribution of absorption rates cash disbursements across the sectors on quarterly basis. The absorption rate is an indicator of the budget implementation rate, the higher rate the higher the implementation rate.

Table 2: Distribution of Cumulative absorption rates across sectors

	Recurrent (%)									Development (%)								
	2018/19				2019/20				2020/21	2018/19				2019/20				2020/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Agriculture, Rural & Urban Devlp	21	60	77	95	18	43	69	59	19	5	32	49	69	11	21	49	80	6
Education	23	43	69	97	23	51	69	86	22	2	24	50	71	8	28	64	79	20
Energy, Infrastructure. & ICT	18	39	65	88	12	45	66	86	19	6	47	75	89	21	44	68	91	41
Envrnt, Water & Natural Rsrcs	17	30	83	78	14	33	59	80	22	8	31	33	62	11	34	65	87	18
General. Economic. & Commercial Affairs	13	31	46	60	10	26	41	54	11	1	35	59	61	14	22	76	88	32
Governance, Justice, Law & Order	17	52	68	96	16	39	65	94	22	8	40	62	85	8	25	38	102	21
Health	12	30	51	96	11	28	42	88	14	11	23	32	66	2	18	60	89	12
National Security	29	56	79	99	24	51	69	93	26	0	47	82	47	2	45	47	83	16
Public Admin & Int'l Relations	14	36	56	93	17	38	54	93	17	13	31	41	65	4	21	46	75	21
Social Protection, Culture & Recreation	21	35	69	95	9	42	51	80	17	15	33	69	93	3	30	43	70	9
Total	20	44	68	95	19	44	63	88	21	8	39	61	79	13	34	61	86	27

Source: Controller of Budget | Budget Implementation and Review Reports (BIRR)

Significant budget performance was recorded in the first quarter of 2020/21 compared to similar period in the previous year. There was atleast 21% of the overall recurrent spending out of the planned spending across sectors compared to 27% development expenditure, representing an improvement by 2 and 14 percentage points for recurrent and development respectively from the previous period in the previous year.

- Sectors that recorded highest improvement in the recurrent spending include: National Security (26%), Governance, Justice, Law and Order (22%), Education (22%), and Environment, Water and Natural Resources (22%).
- On the other hand, sectors that reported high performance on the development spending include: Energy, Infrastructure and ICT (41%), General, Economic and Commercial Affairs (32%), Governance, Justice, Law and Order (21%) and Public Administration and International Relations (21%).

Mixed spending performance across sectors

Table 3 compares disbursement of funds to the ten sectors and respective utilization rates in order to assess the extent of how the release of funds affect the budget performance. The Net Estimates refers to Gross Budget Estimates less the Appropriation in Aid (funds raised by the respective sectors) Exchequer Issues is the total approved disbursements to the respective MDAs. Disbursement Rate assesses actual disbursement in relation to the total amount to be disbursed while the utilization rate is the extent to which the disbursed funds have been expended.

Table 3: Budget Performance across Sectors (2020/21 Q1)

	Recurrent					Development				
Description	Net Estimates (A) Ksh Bn	Exchequer Issues (B) Ksh Bn	Expenditure (C) Ksh Bn	Disbursement rate (B/A) * 100 %	Utilisation Rate (C/B) * 100 %	Net Estimates (A) Ksh Bn	Exchequer Issues (B) Ksh Bn	Expenditure (C) Ksh Bn	Disbursement rate (B/A) * 100 %	Utilisation Rate (C/B) * 100 %
Agriculture, Rural & Urban Development	16.77	3.73	3.69	22.2%	98.9%	36.72	5.41	2.61	14.7%	48.2%
Education	424.11	87.24	106.61	20.6%	122.2%	20.06	4.03	4.90	20.1%	121.6%
Energy, Infrastructure & Information Comm. Technology	13.49	3.69	17.72	27.4%	480.2%	118.42	32.98	112.66	27.9%	341.6%
Environmental Protection, Water and Natural Resources	19.28	6.39	6.12	33.1%	95.8%	41.05	7.79	13.61	19.0%	174.7%
General Economic & Commercial Affairs	8.00	1.84	1.87	23.0%	101.6%	10.82	3.64	3.99	33.6%	109.6%
Governance, Justice, Law and Order	184.22	44.07	40.51	23.9%	91.9%	10.87	0.73	2.27	6.7%	311.0%
Health	48.97	9.22	8.91	18.8%	96.6%	43.59	2.92	5.46	6.7%	187.0%
National Security	145.32	34.14	37.46	23.5%	109.7%	3.00	-	1.50	0.0%	∞
Public Administration and International Relations	169.98	29.90	31.33	17.6%	104.8%	87.50	20.56	22.19	23.5%	107.9%
Social Protection, Culture and Recreation	38.08	2.60	2.80	6.8%	107.7%	15.91	1.78	6.80	11.2%	382.0%
Total	1,068.22	222.82	257.02	20.9%	115.3%	387.94	79.84	175.99	20.6%	220.4%

Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

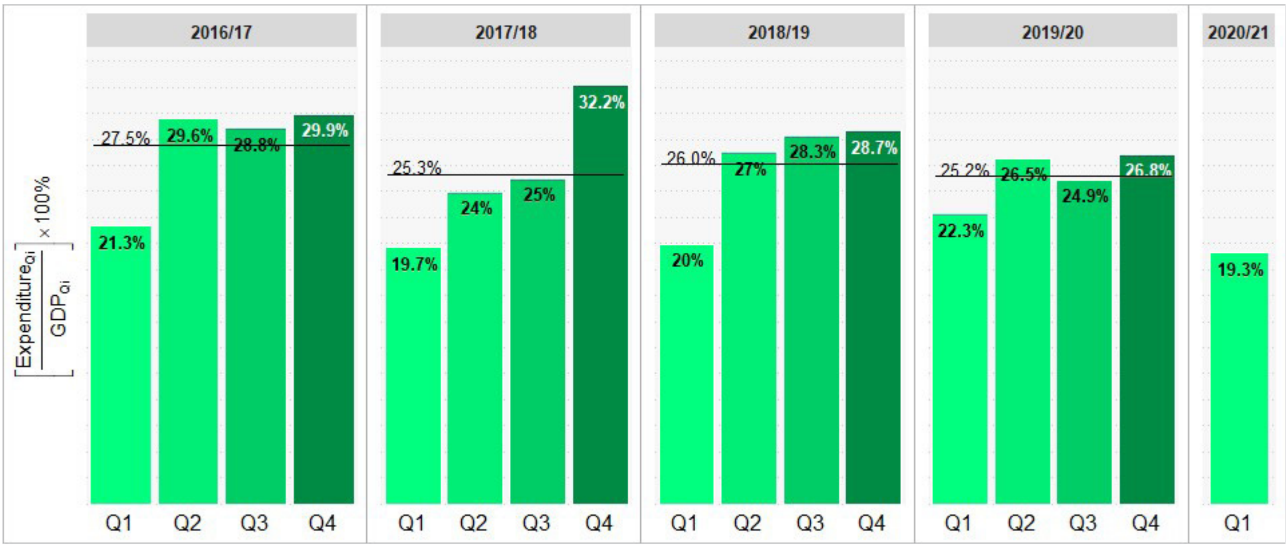
Results show that sectors that sectors: -

- Overall disbursement rate in the first quarter of 2020/21 is 20.9% and 20.6% for recurrent and development respectively, below the ideal rate of approximately 25%
- Sectors with higher disbursement rate for recurrent spending include; Environmental Protection, Water and Natural Resources (33.1%), Energy, Infrastructure and ICT (27.4%), Governance, Justice, Law and

Order (23.3%) and National Security (23.5%) which coincidentally record generally high absorption rates as shown in Table 2.

- Sectors with higher disbursement rate for development spending include; General Economic and Commercial Affairs (33.6%), Energy, Infrastructure and ICT (27.9%), Public Administration and International Affairs (23.5%) and Education (20.1%) which similarly coincidentally record generally high absorption rates as shown in Table 2
- Low disbursement of funds occurred in sectors such as Social Protection, Culture and Recreation sector for both recurrent and development. This coincided with a low absorption rate on development budget as observed in Table 2
- Disbursement rate for National Security and Health sector tended to have been more skewed towards recurrent spending to a low absorption rate on development as shown in Table 2
- With regards to utilization rates, it is noted that, across the sectors recurrent spending is mostly above 100% but four. This implies that most recurrent funds are mostly utilised in the period in which they are disbursed. Sectors with utilisation rates that are over and above 100% such as Energy, Infrastructure and ICT imply that part of the funds utilised was sourced from the Appropriation in Aid (internally generated funds from user fees)

Figure 6: Total Expenditure (% of GDP)



Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

Figure 6 illustrates trends in the quarterly

- The Overall trend in the Expenditure-to-GDP ratio is declining. Between 2016/17 and 2019/20, it reduced from 27.5% to 25.2%. The corresponding decline in the Total Revenue could be the likely explanation for the decline in the Total Expenditure-to-GDP ratio.
- A similar trend is observed for the quarter-on-quarter averages of the Tax Revenue-to-GDP ratio revenues that the highest spending relative to GDP occurs in Q4: 30%, followed by Q3: 27%, Q2: 27% and lastly Q1: 21%.
- It is evident that expenditure is highly skewed with the Q1 being the most affected.

Budget Performance

Budget Revisions

Adjustments on the original approved budget during the fiscal year by introduction of supplementary budgets have been a common feature in the budgeting process in Kenya. While this is within the legal provisions of the Public Finance and Management Act, the frequency and the magnitude of the adjustments may divulge challenges and weaknesses as far as budget planning is concerned.

Figure 7: Trends in the Budget Revisions (Revenue and Expenditure)

Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

The Figure above summarises budget revisions by MDAs[4] by noting deviations in the original budgets as approved at the beginning of the fiscal year (Q1) and the final budget at the end of the fiscal year (Q4). It is observed that: -

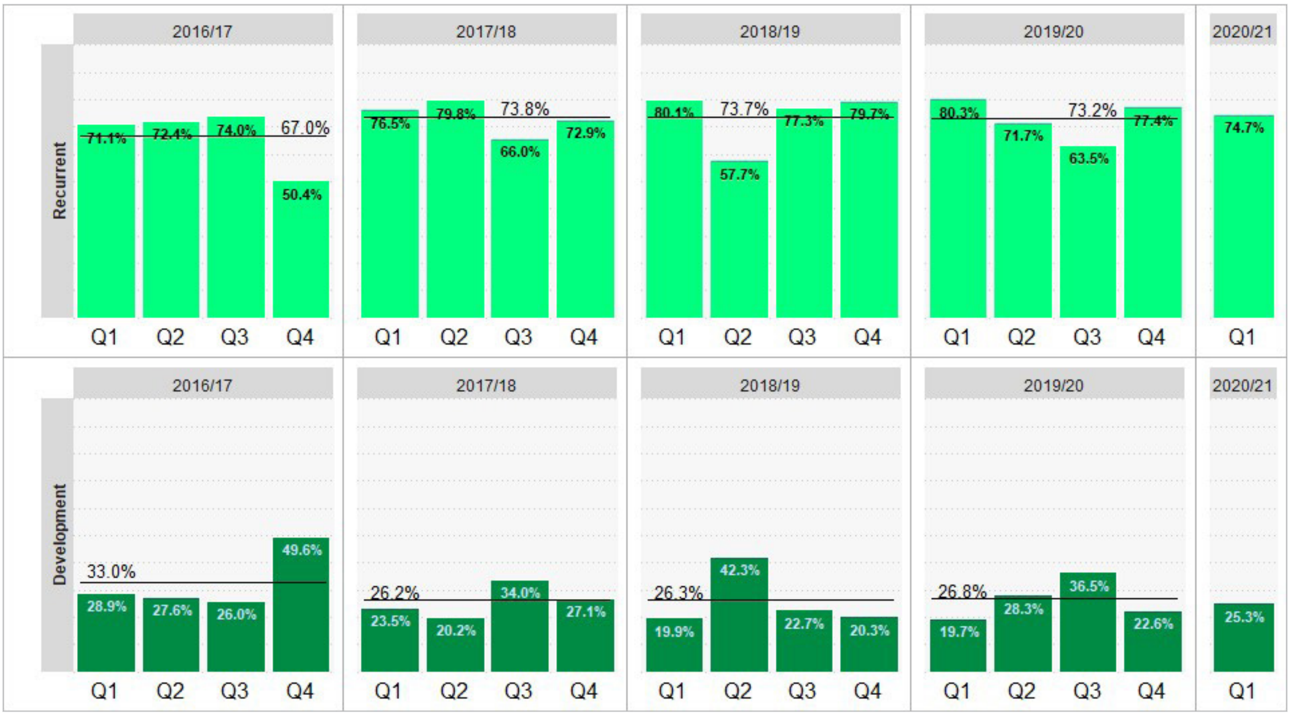
- Budget revisions have occurred both on estimates of revenue and expenditure.
- In both cases, the direction of the revisions has been downwards, as illustrated by negative deviations.
- The magnitude of the revisions has grown prominently in Revenue than Expenditure suggesting more pronounced poor planning on the revenue part of the budget.
- In 2019/20, respective adjustments on revenue and expenditure are: -11.9% and -8.2%.

[4]Ministries, Departments and Agencies (MDAs)

Adherence to fiscal responsibility principles

The budget constraints, already discussed, may lead to prioritization of the expenditure items in the course of the fiscal year. Section 15 of the PFM Act (2012) provides for a minimum threshold of 30% expenditure on development over the medium term. Figure 8, looks at expenditure performance of Ministries, Departments and Agencies (MDAs) by comparing first quarter with past trends.

Figure 8: Proportions of Development versus Recurrent Expenditure



Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

The proportion of the recurrent to development spending is below the required threshold by the PFM act:

- In the first quarter of 2020/21, development expenditure composed atleast 25.3% of the total spending, representing sub-optimal performance by 5 percentage points.
- Past trends show that, with the exception of 2016/17, development expenditure has been under 30%, thus violating the fiscal responsibility minimum provision of 30%.
- Data reveals high tendencies for the significant development expenditure in the last two quarters.
- In not a single quarter, has the proportion of expenditure on development exceeded 30% in Q1.
- The over the period, the share of the spending on development in Q1 has been on a downward trend (from 2016/17: 28.8% to 2019/20: 20.1%.

35% maximum spending on Wages and Salaries

The other fiscal responsibility rules provided for in the PFM Act to promote prudence in the financial management is the 35% maximum spending on Wages and Salaries out of the total recurrent expenditure. This rule is important in ensuring availability of funds to the recurrent activities such as Operations and Maintenance. Figure 9, presents expenditure performance of Ministries, Departments and Agencies (MDAs) by comparing first quarter of 2020/21 with past trends.

Figure 9: % Distribution of the Recurrent Expenditure

Source: The National Treasury | Quarterly Economic and Budget Review (QEBR)

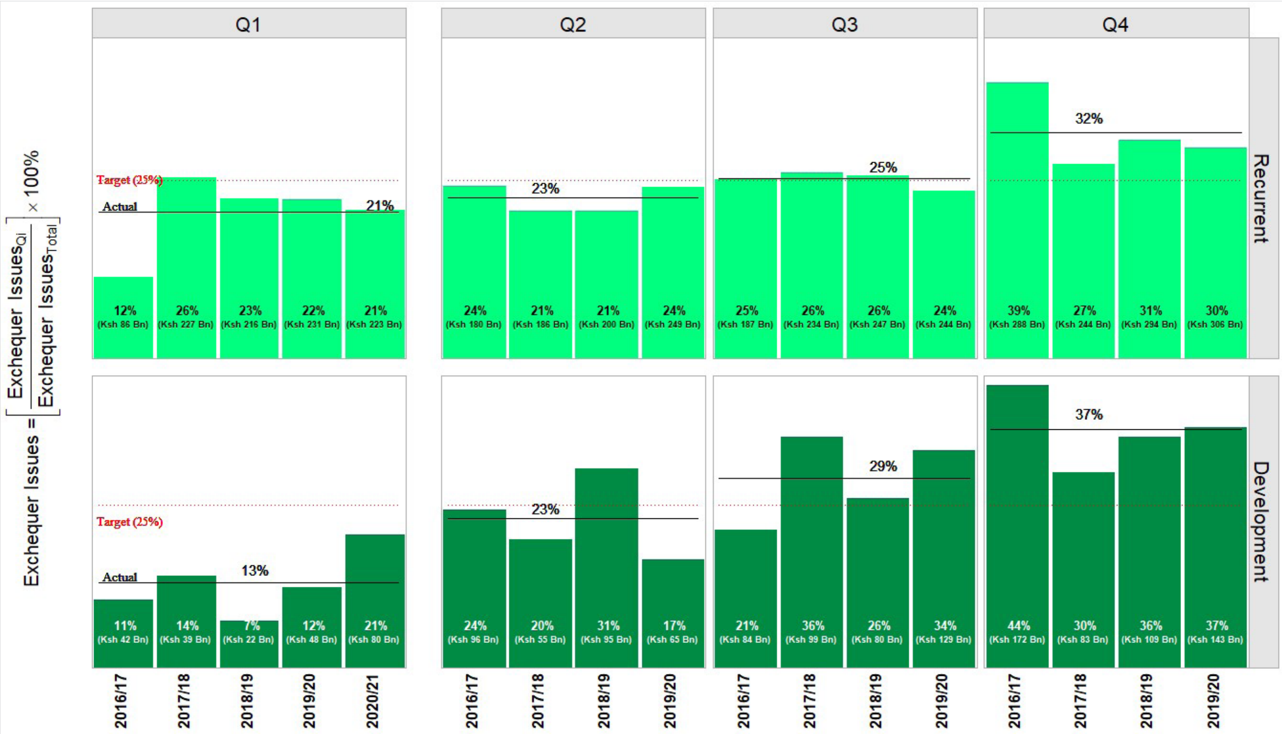
The breakdown of the expenditure on recurrent activities shows that: -

- With the exception of the second quarter of 2016/17 when the share of Wages and Salaries exceeded the threshold by 7 percentage points, the overall trend suggests that the wage bill is largely within the fiscal threshold.
- Quite striking is the debt serving charges that constitute the main component that is on the rise. Quarter-over-Quarter average shows that the proportion of debt servicing charges in relation to the total recurrent expenditure has increased from 29% in 2016/17 to 33% in 2019/20.
- Continued increase in the debt services may potentially crowd out spending especially on Operations and Maintenance.

Exchequer Issues

Figure 10 below shows quarterly distribution of cash disbursements to the MDAs for each quarter by examining the share and amount issued at every quarter out of the annual disbursements. Ideally, about 25% of the total funds ought to be disbursed on quarterly basis.

Figure 10: Proportions in Quarterly Exchequer Issues to the MDAs



Source: Controller of Budget | Budget Implementation and Review Reports (BIRR)

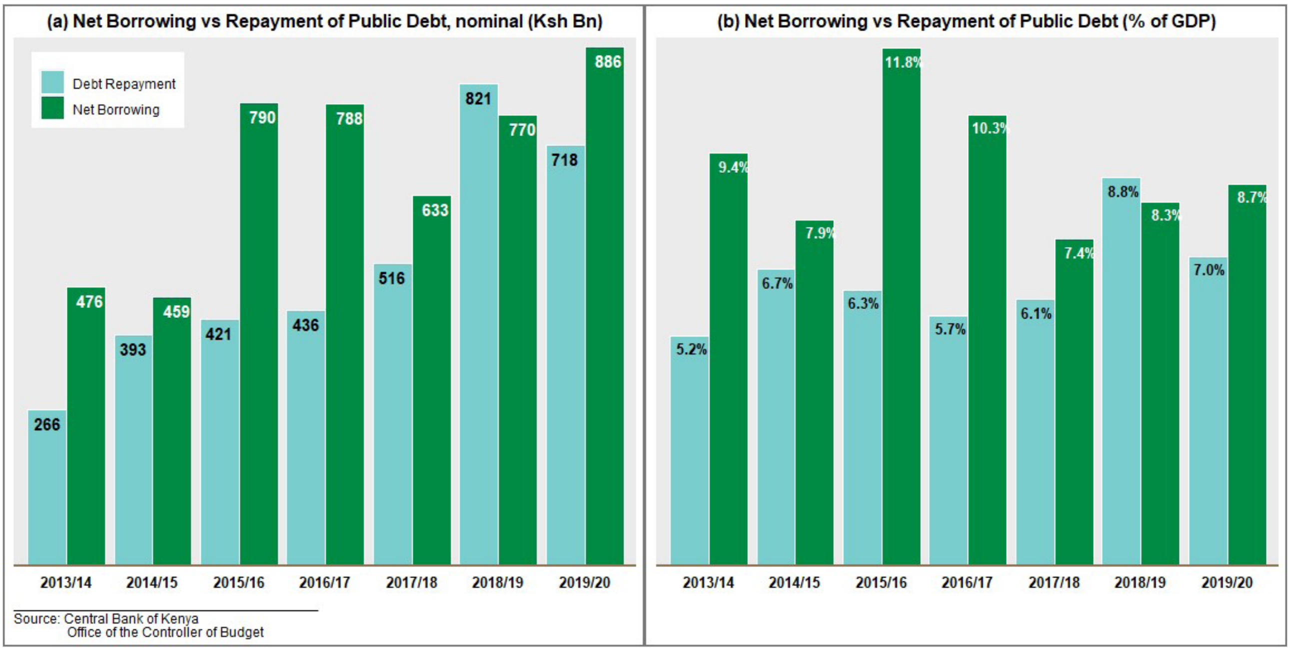
- Evidently, most disbursements are received in Q3 and Q4
- On average from 2016/17 to 2019/20, about 23% and 22% of the disbursements are issued in Q1 and Q2 respectively for recurrent spending compared to 25% and 31% issued in Q3 and Q4, implying delays in favour of the later quarters
- On average, over the same period, about 11% and 23% of the disbursements are issued in Q1 and Q2 respectively for development spending compared to 29% and 37% issued in Q3 and Q4, implying delays in favour of the later quarters
- In comparison, delays are more pronounced in development spending than recurrent spending

Rising of Kenya's debt and its implication on debt distress

Since 2013/14 Kenya has been borrowing a net amount of Ksh 685.72 Bn annually. This has increased the debt stock to Ksh 7.25 Trn by November 2020 and projections indicate that by 2023 the net accumulated debt will be Ksh 9.31 Trn, surpassing the current ceiling by Ksh 310 Bn.

The high level of debt stock has resulted in surge in debt servicing charges (see Figure 12(a)) and the situation may be worsened by the continued heavy borrowing (as shown in Figure 12(b)) and shortfall of revenue occasioned by low economic activities due to enforcement of the restriction measures due to the pandemic (as was seen in Figure 2 and 3).

Figure 11: Trends in Net Borrowing and Repayment (Nominal)



- In 2019/20, Ksh 718 Bn amount of debt was repaid compared to Ksh 886 Bn that was borrowed, this was equivalent to 7% and 8.7% share of GDP respectively
- Due to the falling revenues, the Debt Service to Tax Revenue ratio has increased from 30% in 2013/14 to 49% in 2020/21
- The increase in the high debt redemption, as per the current trend, may significantly disrupt the budget implementation especially in light with falling revenues as observed in Figure 2 and 3.

Debt Sustainability Analysis

Table 4: Debt Sustainability Analysis, April 2020)

Indicator	Threshold (%)	Actual			Actual		
		2017	2018	2019	2020	2021	2022
PV of public debt to GDP ratio	74	49	48.6	57.6	61.3	63.4	63.9
PV of public debt to revenue & grants ratio	300	235.7	226.6	313.9	338.1	356.6	357.4
Debt service-to-revenue & grants ratio	30	38.2	42.3	33.4	53.8	68.0	74.5

IMF Country Report No. 20/156

IMF Country Report No. 20/156

Kenya has experienced a deterioration in the debt level and debt services atleast breaching indicators on *debt-to-revenue ratio and debt service-to-revenue ratio. This has raised overall risk of debt distress to high.*

Recommendations

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

Issues	Recommendations
1. Unpredictability and insufficiency of funds	• 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. • Civil Society Organisations (CSOs) and other non-state actors including the media should interrogate and analysis how realistic revenue projections towards influencing realistic budget ceilings for MDAs. • 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
2. Debt Distress	• The is need to for national government through the National Treasury to develop a contingency plan to address a potential deepening of the economic shock due to higher level of uncertainty with regards to increased debt defaults by businesses and parastatals leading to an increase 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. • Seek to lengthen maturities of large debts such as the Euro bonds in order to limit refinancing risks • Determine and maintain an optimal liquidity in terms of foreign reserves as buffer against volatility in the forex
3. Overall delays in releases shown by quarters	• There is need for harmonization and synchronization of MDAs work plans and cash request working with the National Treasury to releases
4. Transparency in declaration of AiAs by MDAs	• 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.
5. Under release of donor funds, direct donor funding to project (off-budget) and lack of transparency	• 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. • Civil society should demand for accountability and reporting of direct donor funding in line with PFMA, 2012 and External Resources Policy to improve overall transparency of flow of donor funds.

NOTES

THE BUDGET FOCUS

The Institute of Economic Affairs is a public policy think tank which seeks to promote pluralism of ideas through open, active and informed debate on public policy issues by conducting policy research and analysis. IEA is independent of political parties, pressure groups and lobbies, or any other partisan interests.

Public Finanace Management Programme
5th Floor, ACK Garden House
P.O. Box 53989 - 00200
Nairobi, Kenya.
Tel: +254-20-2721262, +254-20-2717402
Fax: +254-20-2716231
Email: admin@ieakenya.or.ke
Website: www.ieakenya.or.ke

Written by:
PFM Team

With the support of:

NDI
NATIONAL
DEMOCRATIC
INSTITUTE