



# Fact Sheet

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## Analysis of 2020/21 (Q4) and 2021/2022 (Q1) budget implementation

### 1.0 Introduction

The national and county government in any fiscal year focuses on raising of resources and spending this resources with the intention of providing efficient services to the citizens. The implementation of the budget at both levels of government requires authorization of release of funds to spending units by the controller of budget in fulfillment of the requirement of the constitution of Kenya under article 228(4) and (6) according to approved budget. Further, the controller of budget is required to share with each house of parliament a report on the implementation of budgets at both levels of governance on a quarterly basis providing an assessment and identifying critical issues hampering effective budget implementation.

This fact sheet focuses on the fourth quarter of 2020/21 and first quarter 2021/2022 fiscal years and presents some key facts in response to the following key areas;

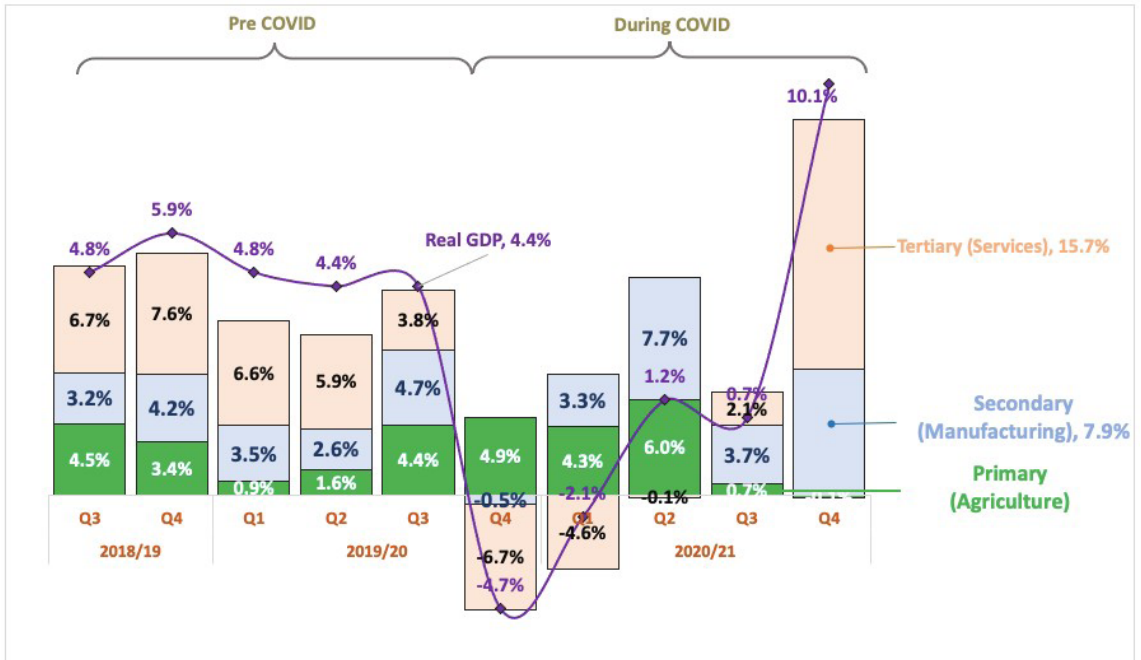
- i. The macroeconomic environment on the budget implementation for the two quarters
- ii. Revenue and expenditure performance by the national government
- iii. Is the national government budget implemented as approved and if not, what does the differences mean? What are the implications of this on service delivery and accountability to citizens?

This fact sheet is based on the analysis of budget implementation for the national government 2020/2021(Q4) and 2021/2022 (Q1) main report which is available in the IEA-Kenya website: [www.ieakenya.or.ke](http://www.ieakenya.or.ke)

## 2.0 Macroeconomic Outlook

The budget for the fourth quarter of 2020/21 and first quarter of 2021/22 was implemented when the economy was recovering from depressed economic performance occasioned by containment measures enforced to curb the spread of the COVID-19. Particularly, the fourth quarter of 2020/21 showed remarkable improvement with rebased figures showing real economic growth by 10.1% from 0.7% in quarter 3 of the same financial year.

**Figure 1.0: Quarterly Economic Growth (Real GDP)**



Source: KNBS | Quarterly GDP Reports

Figure 1 presents quarterly real economic growth rates across the three main sectors: Agriculture, Manufacturing and Tertiary. Overall, at the onset of COVID, the economy plunged in very low economic growth rates partly due to the enforcement of the containment measures by government. The evolution of the sectoral growth rates indicates that while the tertiary sector is the largest contributor in the economic growth (2018/19 Q3 – 2019/20 Q3), it is the most volatile, especially having been worst hit in 2019/20 Q4 but recovered the strongest in 2020/21 Q4. and sharp positive growth in 2020/21 Q4. Improved economic performance enhanced revenue performance as would be observed in Table 1 with most of the revenue streams meeting the revenue targets. However, greater performance would have been achieved had the government responded to the pandemic more effectively

## 2.1 National Government Performance in Revenue and Expenditure

### 2.1.1 Revenue performance

Improvement in economic performance in the fourth quarter and first quarter (fiscal year 2020/2021 and 2021/2022) corresponds highly with the enhanced performance in revenue. Total revenue and external grants collected in quarter one of 2021/22 amounted to Ksh 513 billion, representing a growth by 34.07% compared to a similar period in 2020/21 and at least 4.36% of the target revenue amount.

**Table 1.0: Breakdown of total revenue**

	2020/21	2021/22		%	%	%
	Actual (Ksh Bn) [A]	Actual* (Ksh Bn) [B]	Target (Ksh Bn) [C]			
<b>Total Revenue (a+b)</b>	379	506	480	5.41%	33.70%	4.05%
<b>(a) Ordinary Revenue</b>	343	442	425	3.93%	28.96%	3.53%
Import Duty	23	27	27	-0.62%	16.84%	0.22%
Excise Duty	47	58	56	3.52%	23.39%	0.47%
PAYE	72	106	100	6.03%	47.71%	0.84%
Other Income Tax	80	90	99	-9.17%	12.65%	0.72%
VAT Local	41	60	59	0.89%	44.72%	0.48%
VAT Imports	42	61	54	13.53%	45.13%	0.49%
Investment Revenue	21	19	12	52.35%	-12.07%	0.15%
Traffic Revenue	1.1	1.1	0.9	22.92%	5.51%	0.01%
Taxes on Intl. Trade & Trans.(IDF Fee)	8.4	11	8.0	34.30%	27.0%	0.09%
Others <sup>1</sup>	7.0	10	9.1	8.61%	42.18%	0.08%
<b>(b) Appropriation in Aid<sup>2</sup></b>	36	65	55	16.82%	78.72%	0.52%
o/w Railway Development Levy	6.3	8.0	7.7	4.56%	28.0%	0.06%
<b>(c) External Grants</b>	3.9	6.7	11	40.61%	69.99%	0.05%
<b>Total Revenue and External Grants (a+b+c)</b>	383	513	492	4.36%	34.07%	4.10%
<b>Total Revenue and External Grants (% of GDP)</b>	3.38%	4.10%	3.93%			

<sup>1/</sup> includes rent on land/buildings, fines and forfeitures, other taxes, loan interest receipts reimbursements and other fund contributions, fees, and miscellaneous revenue

<sup>2/</sup> includes receipts from Road Maintenance Levy Fund and A-I-A from Universities

\*Provisional

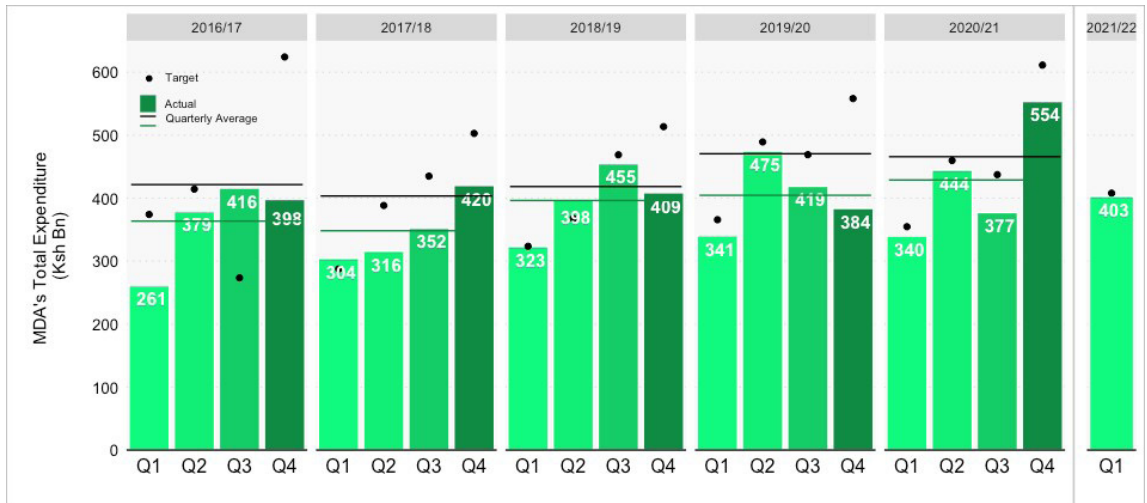
Source of Data: National Treasury

The revenue surplus in the first quarter of 2021 is commendable and this is likely to result to improved budget implementation. Additionally, as observed in table 1.0, there is enhanced performance of the main tax heads Pay as You Earn (PAYE) and Value Added Tax (VAT) as a response due to relaxation of the mitigation measures that had been enforced by the government against the spread of COVID-19. The overall contributor of the ordinary revenue in the quarter is attributed to VAT, PAYE and Appropriation in Aid.

### 2.1.2 Expenditure Performance

This section analyses national government budget implementation in terms of ability of national government spending units (MDAs) to utilize their approved budget in order to achieve planned outputs. Enhanced performance in revenue mobilization as illustrated table 1.0 has correspondingly resulted in improved expenditure as shown in Figure 2.0.

**Figure 2.0: Total Expenditure Ministries, Departments and Agencies (MDAs)**



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

The total expenditure for the MDAs in the first quarter 2021/2021 was ksh 403 billion compared to a target of ksh 407 billion. Notably, the national government made progressive improvement in reducing the proportion of spending the compared with other quarters from 2016/17 to 2020/21. This is shown by the narrowing gap between first quarter of 2021/22 against the quarterly target. The reduction in the expenditure gap is attributed to the enhanced revenue collection which represent a significant improvement from the previous quarters.

**2.1.3 Performance in spending across Sectors**

Disaggregation of quarterly overall national government spending by recurrent and development for the period 2020/2021 to 2021/22 shows cumulative distribution of absorption of cash disbursements across the sectors.

**Figure 3.0: Distribution of Cumulative Absorption Rates across Sectors**



Source: Office of the Controller of Budget/Budget Implementation and Review Reports(BIRR)

Performance in spending by sectors for both the recurrent and development expenditure Q1 of 2021/22 was better relative to the same period in 2020/21. The only exception was a slight drop for the Agriculture, Rural and Urban Development sector, from 19% to 17% on the recurrent budget side, Education sector recorded a drop from 20% to 15% on the development component while the social protection, culture and recreation had a reduction on the recurrent from 17% to 7%.

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 (24%), Governance, Justice, Law & Order (22%), Environment, Water & Natural Resources (24%); and Energy, Infrastructure & Infrastructure, Communication and Technology (21%).
- The poorest performers include, Agriculture, Rural & Urban Development (17%) General Economic & Commercial Affairs with an absorption rate of 15%, and Health (15%)

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 (24%), General Economic & Commercial Affairs (27%), Governance, Justice, Law & Order (30%), and National Security (56%)
- The poorest performers include, Health (10%), Social Protection, Culture & Recreation (12%), Agriculture, Rural & Urban Development (9%), Public Administration and international relation (12) and Environment, Water and Natural Resources (9)

### 3.0 What explains Budget Execution Results by end of Q1 2021/22

The following section looks at factors that may explain budget execution results by end of Q1 fiscal year 2021/2022

#### 3.1 Predictability of funds

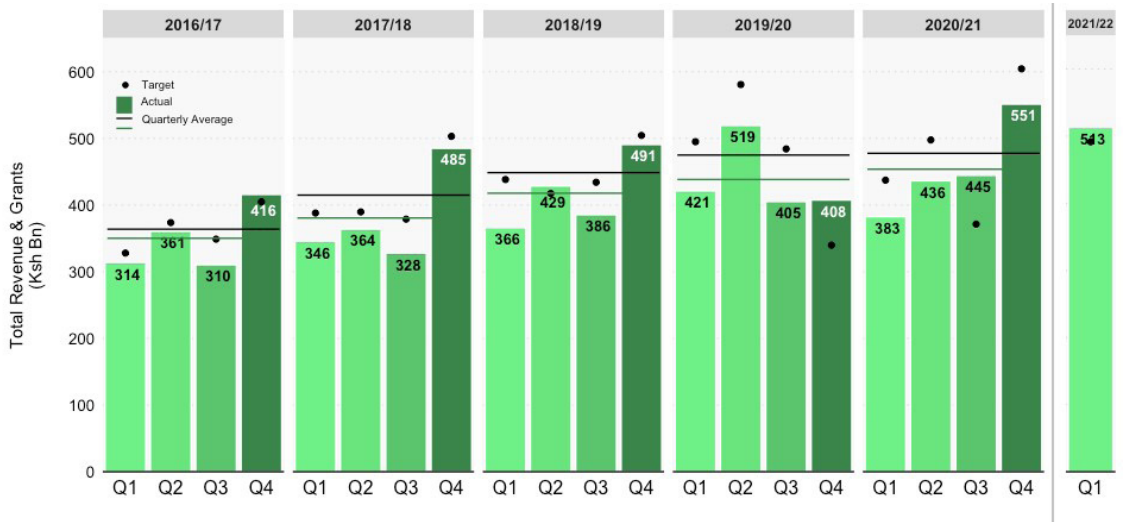
The issue of cash flow and its predictability is critical in enabling spending units to implement their budgets. This manifests in the performance of revenue and specifically the gap between actual revenue realized against revenue projections (see Figure 4).

The *Total Revenue and Grants*<sup>1</sup>, actual collection in Q1 of 2021/22 was Ksh 543 billion, about 4.36% above the target, an improvement from the previous quarter which had a wider margin in the revenue shortfall, suggesting improved forecasting of revenue during the pandemic.

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<sup>1</sup>Total Revenues and Grants comprise Ordinary Revenue, A.I.A and Grants

**Figure 4.0: Trends of Quarterly Total Revenues and Grants (2016/17 – 2021/22)**



Source: The National Treasury QEBR

- From a quarterly perspective nominal revenue receipts are highest in the second and the fourth quarter for the period 2016/17 to 2019/20 coinciding with increased economic activities during the end of the calendar year (second quarter) and the increase in filing of returns towards the end of the fiscal year (fourth quarter). Further, the breakdown of the revenue from ordinary taxes as illustrated in Figure 4.0 reveals seasonal nature of revenue collection by various tax revenue sources.
- Past trends reveal that there has been an increasing gap in revenue. For example, Total Revenue and Grants in absolute terms for FY2016/17 was Ksh 1.40 trillion against a target of Ksh 1.47 trillion and the FY 2019/20 was Ksh 1.75 trillion 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 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.

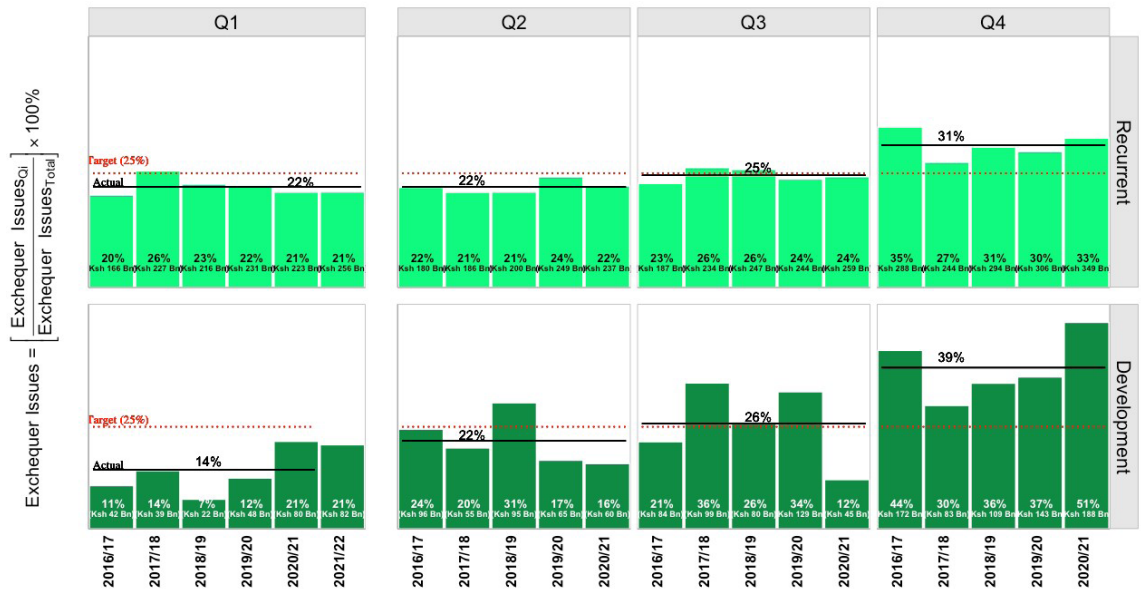
### 3.2 Release of Funds to Spending Units

Trends of quarterly exchequer issues to the national MDAs as shown in figure 5 indicate that on average, Q1 and Q2 receives the lowest exchequer issues compared to quarters Q3 and Q4. This is a more pronounced challenge for development budget.

Figure 5 further shows that out of the total budget for 2021/22, less than a quarter (21%) of available funds were released each for recurrent and development expenditure by end of Q1. This denotes the same level of delays for the same quarter in the fiscal year 2020/21.



**Figure 5.0: Proportions in the quarterly exchequer issues to the MDAs**



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

## 4.0 Recommendations

MDAs performance in budget implementation by end of Q1 for 2021/22 is better both in revenue collection and execution of spending comparing with set targets compare. The health, social protection, governance justice and in agriculture rural and urban development sectors will be undermined if flow of cash does not improve and this might hinder service delivery in those sectors. Equally, delays in releases of funds 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.

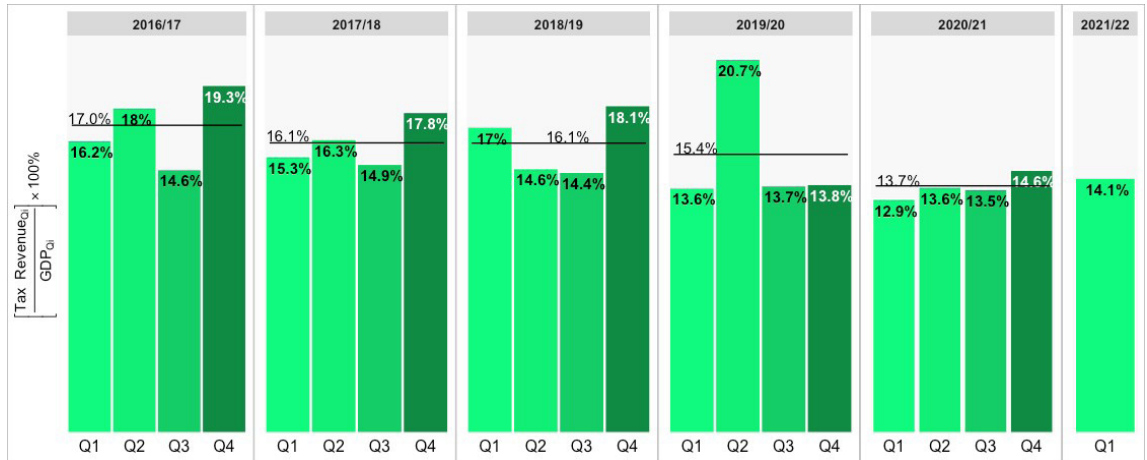
No.	Issues	Recommendations
1	Predictability of funds flow and Economic Recovery	<ul style="list-style-type: none"> <li>The National Treasury should set realistic revenue targets to inform budgeting process in order to improve predictability of public funds to enhance execution and reduce on frequent budget revisions that often compromise credibility</li> <li>The National Treasury should consider the seasonality in the revenue collections in designing annual work plans and cash flow projections in order to improve on the timing of the releases in order to enhance effective service delivery</li> </ul>
2	Enhanced public accountability and reduction on the wastage	<ul style="list-style-type: none"> <li>The National Assembly and other oversight institutions should enhance enforcement of sound financial management to promote prudence in the use of public funds. There is need to set up effective mechanisms (both at the oversight institutions such as National Assembly but also within the respective MDAs to enhance further follow up on the audit recommendations to address the audit queries</li> </ul>

No.	Issues	Recommendations
		<ul style="list-style-type: none"> <li>The National Assembly utilise the findings of the audit reports to identify areas of wastage, invoke sanctions to public entities that have perennially failed to adequately account for the management, address cases of fiscal indiscipline including misallocations, wastage of resources and lack of value for money in implementation of projects</li> <li>Civil Society Organizations (CSOs) and other non-state actors including the media should interrogate revenue projections towards influencing realistic budget ceilings for MDAs</li> </ul>
3	Overall delays in releases as manifested by lowest quartile exchequer release in Q1	<ul style="list-style-type: none"> <li>There is need for harmonization and synchronization of MDAs work plans and cash request working with the National Treasury to releases</li> </ul>
4	High debt vulnerabilities and the need to support economic recovery	<ul style="list-style-type: none"> <li>The National Treasury should seek to lengthen maturities of large debts such as the Euro bonds in order to limit refinancing risks</li> <li>The National Treasury should develop a contingency plan to address a potential economic shocks due to high debt distress levels and high level of uncertainty with regards to increased probability of debt defaults by businesses and parastatals</li> <li>National Assembly should ensure MDAs have rigorous criteria used to determine the advancement of additional loans to State Owned Enterprises (SOEs) to minimize issuance of loans to Non-Performing Entities</li> </ul>



# Annexe

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



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

## Annexe 2: Budget performance across sectors (2021/22 Q1)

	Recurrent					Development				
	Gross Estimates (Ksh Bn)	Exchequer Issues (Ksh Bn)	Expenditure (Ksh Bn)	Utilisation (%)	Absorption (%)	Gross Estimates (Ksh Bn)	Exchequer Issues (Ksh Bn)	Expenditure (Ksh Bn)	Utilisation (%)	Absorption (%)
ARUD	23.62	3.96	4.05	23.1	17.1	50.35	4.57	4.57	9.4	9.1
Education	482.60	113.15	114.90	25.4	23.8	21.38	2.41	3.22	13.5	15.1
EI & ICT	90.06	3.51	19.16	22.6	21.3	250.40	31.46	60.77	29.6	24.3
EPWNR	24.49	4.31	5.42	24.5	23.9	76.10	6.74	6.60	17.9	8.7
GECA	15.23	2.12	2.31	23.0	15.2	7.11	1.55	1.76	23.9	27.4
GJLOs	206.32	42.33	45.60	20.8	22.1	11.00	1.90	3.28	18.3	29.8
Health	64.87	10.87	9.76	22.9	15.0	56.22	4.78	5.45	10.7	9.7
Nat. Security	157.10	36.62	40.50	24.6	25.8	5.08	2.82	2.82	55.6	55.6
PAIR	169.68	34.55	33.48	22.2	19.7	158.19	21.56	19.64	22.1	12.4
SPCR	39.64	2.99	2.80	7.9	7.1	32.56	4.27	4.03	25.6	12.4

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



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