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Opportunities and Missed Opportunities: Budget Estimates 2020/21

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Overview

- A review of ordinary revenue and deficit financing for 2020/21
- Kenya’s debt position and its sustainability
- A review of major expenditure lines within the context of the current pandemic.
  - Debt and pensions
  - Big Four
  - County allocations
  - Social protection
  - Covid-19

Revenue

Revenue contraction

- The government's target for ordinary revenue in 2020/21 is 14% lower than the target for 2019/20.
- This is still 1% lower than the revised revenue target for 2019/20 after Covid-19 amendments.
- Kenya's ordinary revenue is expected to contract in the coming financial year.
- Historical performance trends does put doubt on whether the Ksh 1.62 trillion will be achieved.

Are revenue targets realistic?

- In the last 3 years revenue collection has deviated by 9% from the targets.
- The economic uncertainty cause by Covid-19 means this could still happen in 2020/2.

Year (Ksh Billions)	Approved Estimates	Revised Estimates	Actual Receipts	Deviation
2015/16	1,254.90	1,184.40	1,158.20	-8%
2016/17	1,376.40	1,311.30	1,305.80	-5%
2017/18	1,549.40	1,489.60	1,365.10	-12%
2018/19	1,672.63	1,588.10	1,496.90	-11%
2019/20	1,877.10	1,643.40		
2020/21	1,621.40			
Average Deviation (2015/16 to 2018/19)	**5,853.33**	**5,573.40**	**5,326.00**	**-9%**

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Fiscal space was already contracting

- Revenue growth has been slowing down.

Year (Ksh Billions)	Total Tax Revenue	Non-Tax Revenue	Total Revenue	Total Tax Revenue Growth	% Total Revenue Growth
2012/13	739.89	82.77	822.67		
2013/14	851.80	117.36	969.16	15%	18%
2014/15	958.19	123.01	1,081.19	12%	12%
2015/16	1,072.42	149.60	1,222.02	12%	13%
2016/17	1,219.50	181.08	1,400.58	14%	15%
2017/18	1,260.59	278.82	1,539.41	3%	10%
2018/19	1,400.57	298.30	1,698.87	11%	10%

Budget Deficit is on the rise again

- The declining ordinary revenue will lead to a widening budget deficit.
- The 2020/21 fiscal deficit (inclusive of grants) of Kshs. 823.2 billion is equivalent to 7.6% of GDP.
- This is the highest rate since the 9% deficit rate during the election period in 2016/17.
- Therefore, Kenya is likely not to achieve the East African target of 3% soon.

More debt…

- Kenya will be in the market to fill the Kshs. 823.2 billion funding gap.
- However, the lower credit rating may make it more expensive for the country to borrow.
- Kenya is already taking more expensive and faster maturing credit.

Table 2: Average Terms of New Loan Commitments

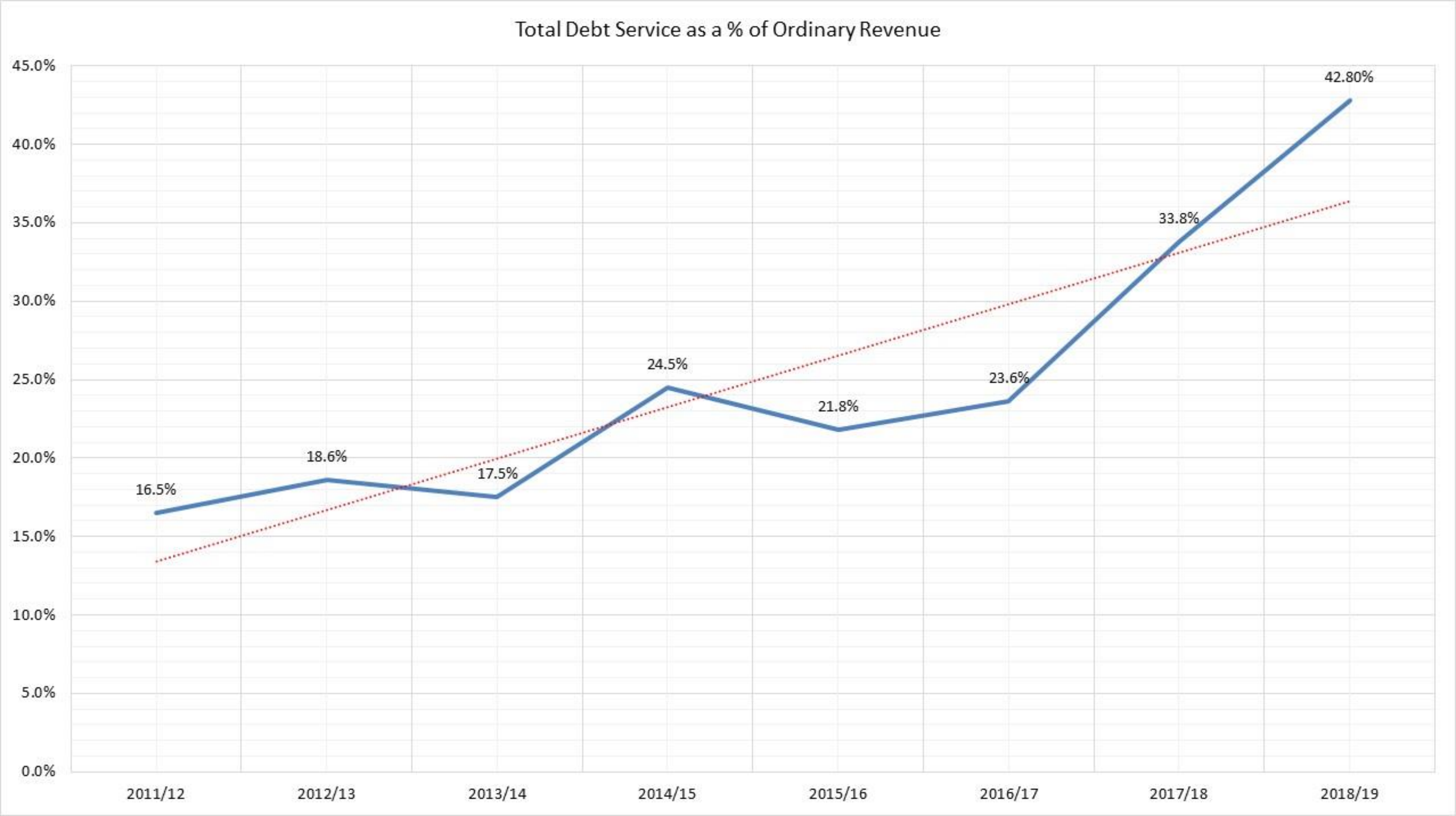
Description	Jun-17	Jun-18	Jun-19
Average Maturity (years)	17.6	20.8	15.3
Grace Period (years)	4.5	10.3	5.6
Weighted Average Interest Rate (%)	2.6	3.9	3.9

Source: The National Treasury

Expenditure

Debt Service is the largest budget line

- Kenya will spend Ksh 905 billion in repaying domestic and external debt in 2020/21.
- This is equivalent to 56% of ordinary revenue target for the year.
- It is also well above the threshold of 30% for debt service to revenue ratio.
- This is an all time high from 17% in 2012/13.


Total Debt Service as a % of Ordinary Revenue
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
16.5%
18.6%
17.5%
24.5%
21.8%
23.6%
33.8%
42.80%
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19

Pension bill is also rising fast

- Government pension payments have grown by 114% in 5 years from Ksh 56 billion in 2016/17 to Ksh 119 billion in 2020/21.
- Therefore, the Consolidated Fund Services(CFS) will take up 63% of the total ordinary revenue.
- This will significantly crowd out funding for basic services especially the Big Four.

Big Four-Do we have the funds?

- The grand ideas in the Big 4 require significant resources injection.
- The current resources constraint put in question Kenya's ability to implement the program.
- Do we know how much we actually require in the remaining two years?
- The PBO indicated that Treasury has not submitted the implementation matrix of projects under the Big Four despite requests.

Can it be done without heavy borrowing?

	Budget Lines	Allocations
1	**Ordinary Revenue**	**1,621.50**
2	**Consolidated Fund Services**	**1,028.06**
	Wages	
3	Teachers	256.17
4	Military	104.24
5	Police	93.78
6	**Sub-Total(2+3+4+5)**	**1,482.25**
7	Counties	316.50
8	**Total (6+7)**	**1,798.75**
	Total Revenue(Ordinary Rev+AIA+Grants)	**1,906.70**
	Difference with Ordinary Revenue	***(177.25)***
	Difference with Total Revenue	***107.95***

Big Four-What we know?

- The government has struggled to implement projects under the program in the last two years.
- The supplementary budget II for 2019/20 reduced significant allocations for projects in the program.
- The government has allocated Ksh 128.3 billion to continue the implementation of big four projects.
- However, Covid-19 does provide an opportunity to accelerate Universal Health Care.

County Funding

- Counties are allocated Ksh 316.5 billion, the same amount as 2019/20.
- This was approved before Covid-19 pandemic.
- Therefore we anticipate calls to revise the amount downwards.
- This could affect service provision at the county especially health which is primary run at that level.
- Available data shows that only 13 out of 47 counties can meet more than 10% of their annual budget from their own sources of revenue.
- Therefore, they are still depending on inter-governmental transfers

Growth in County Equitable Share has been declining

Year	CRA	National Treasury	Ordinary Revenue	*Growth in National Ordinary Revenue*	Equitable Share Approved in the DoR	Growth in DOR approved Amounts
2014/15					226.66	-
2015/16	3-Year average growth in ordinary revenue	3-Year average growth in ordinary revenue	1,152.97	*13%*	259.77	15%
2016/17	3-Year average growth in ordinary revenue	Not provided	1,306.57	*13%*	280.3	8%
2017/18	3-Year average growth in ordinary revenue	3-Year average month on month inflation	1,365.06	*4%*	302	8%
2018/19	3-Year average inflation	Not Clear	1,496.93	*10%*	314	4%
2019/20	3-Year average inflation	Not Clear	1,643.40	*10%*	316.5	1%
2020/21	The country's 3-year (2016-2018) average development expenditure	Not Clear	1,621.40	*-1%*	316.5	0%

Social protection -Overwhelming Need

- The impact of Covid-19 will mostly be felt by poor and marginalized households.
- 36% of Kenyans live in poverty. That is 17.1M people. Representing 3.1M households.
- 14.5M are food poor. This is approximately 2.7M households.
- Covid-19 impact will push more people into these two brackets.
- Current Inua Jamii Program covers 1.1 million individuals. New ones like Kazi Mtaani will cover additional 26,000 people in urban areas.

Social protection-budget response

- State Department for Social Protection, Pensions & Senior Citizens Affairs is allocated Ksh 28.8B, slightly lower than 30.2B and Ksh 38.8B in Supll. Budget II.
- The budget should have clarified two key aspects:
  - Short term programs to cushion households, including timelines.
  - The changes to existing programs to increase allocations and coverage
- Programs are still scattered across the budget, which makes coordination quite difficult.

Covid-19 Response

- The budget indicates that cuts have been made to release resources for Covid-19 response.
- However, its not possible to identify them in the program budget
- The only expenditure earmarked towards Covid-19 response is a Ksh 2.6B allocation towards mass testing.
- The budget should have clear budget lines for short term emergency response and longer-term programs.
- For example, France has created budget lines specific for Covid-19 measures which helps in monitoring spending and accountability measures.

Conclusion

- Kenya’s fiscal space has contracted into negative territory.
- Debt service and pensions continues to take up more resources reducing funding for basic services.
- Public borrowing may not slow down anytime soon under the pressure of the Big Four.
- The budget does not seem awake to the social protection needs in the coming year.
- There is need for more clarity on Covod-19 response spending for accountability.