

PLANNING AND BUDGETING THROUGH A CRISIS

Presentation to Members of ICPAK

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PLANNING AND BUDGETING THROUGH A CRISIS

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Introduction

- THE CONSTITUTION OF KENYA 2010, ARTICLE 201 AND PFM ACT, 2012 REQUIRE THE PARTICIPATION OF THE PUBLICS IN PLANNING AND BUDGETING.
- THE CONSTITUTION FURTHER REQUIRES THAT THE EXPENDITURES should PROMOTE THE EQUITABLE DEVELOPMENT OF THE COUNTRY, INCLUDING BY MAKING SPECIAL PROVISIONS FOR MARGINALIZED GROUPS AND AREAS

Introduction

Principles of Good Governance



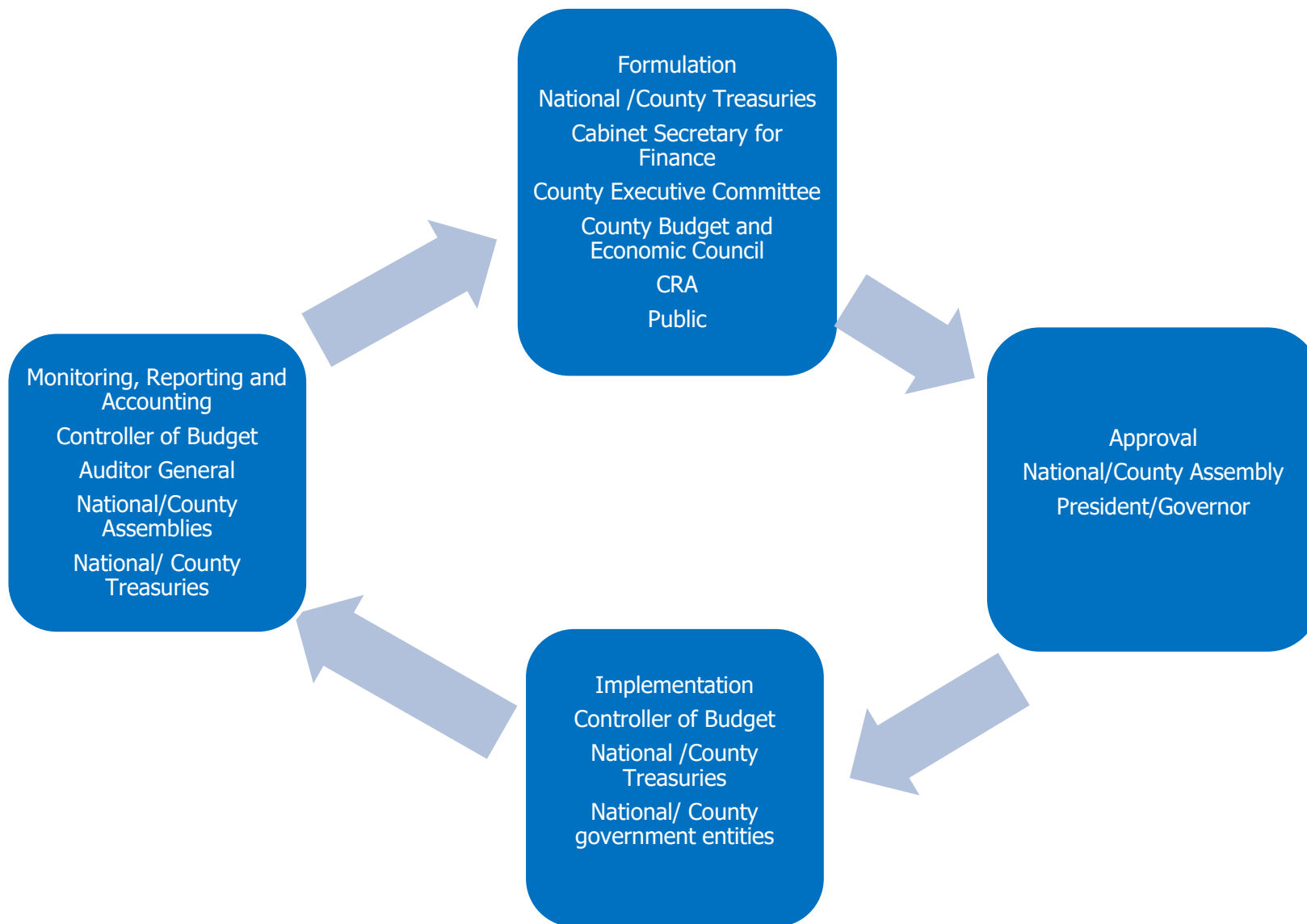
Introduction

- Budgets are not just macroeconomic instruments
- They are also the expression and intended implementation of policies and priorities
- They are also the framework for service delivery
- Greater recognition now is that good budget just don't happen automatically and much more so in a crisis.
- So we need to focus more on sound budget systems also.

Introduction

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- So we need to focus more on sound budget systems also.

Summary of the Budget Formulation and Implementation Cycle in Kenya



BUDGET PREPARATION THROUGH A CRISIS

Our economy is currently facing challenges with the covid-19 pandemic adversely affecting an already dire situation.

The invasion of the locusts in some parts of the country which adversely affected the agricultural and livestock industry.

Distress of the economy from increased public debt.

Hospitality industry badly affected and also some companies closing down.

Shrinking job market for kenyans

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Budget Formulation-Planning

- **Budget Circular – 30th August every year** budget process commences with the issuance of **Budget Circular** i.e. Initial instructions to guide the budget process by the **Cabinet Secretary NT (s.36(2)&(6)) County Executive Committee Member for Finance (S.128)**
- **Development Plans –No public funds can be appropriated** without a development plan (Section 104 –County Governments Act 2012). Article 220 of the Constitution also requires a development plan. **County Executive Committee Member for planning** to prepare and submit a development plan to County Assembly for approval **before 1st September** every year.

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Potential Impact of Covid-19 on 2021/22 Budget

The projected revenue for the FY 2021/2022 of Kshs.2.08 trillion is an increase from FY 2020/2021 projection of Kshs.1.89 trillion. According to BPS 2020; there has been underperformance of revenue targets over the years. ***There is need to set realistic revenue targets to finance the budget in view of the Covid 19 Pandemic.***

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- The need to ensure prioritization of programmes
- Identification of programmes that will alleviate the crisis
- Funding of programmes that improve job creation
- Increasing funding to Manufacturing sector to scale up reforms to encourage investments in the manufacturing sector to support and protect local industries

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Potential Impact of Covid-19 on 2021/22 budget

Sectors most affected by Covid-19-Education sector, Health Sector, Tourism and Infrastructure Development.

Led to changes in budget allocation patterns-Government directed funds to priority areas such as:

Health sector funding- total funds to health sector was Ksh.121.09 billion which is an increase of 7.6% from the current year allocation, which may not be adequate given the 3rd phase of Covid-19 menace. The increase is mainly to cater for preventive and promotive health care.

Health sector heavily relies on donor funding which has dwindled due to covid-19 pandemic.

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- Loss of jobs and livelihood has taken place which has affected revenue inflows
- The Underperformance of revenue has been mainly due to the containment measures put in place and which affected business and economic activities.
- Tourism, Sports, Culture, Recreation and Arts- these sectors have been adversely affected by the Covid 19 pandemic and containment measures.
- A number of businesses closed down due to covid -19 containment related measures.
- There has also been resource mismanagement leading to serious leakages.

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Potential Impact of Covid-19 on 2021/22 budget

To combat spread of covid-19, the government had allocated Kshs 7.6 billion in the current budget and has proposed an allocation of Kshs.14.3 billion in the FY2021/22 budget, this is not adequate given the upsurge of 3rd phase of Covid-19 pandemic.

The government has introduced tax relief to pharmaceutical products and medical products to assist in combating Covid 19.

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Key Issues in the FY 2021/2022 Budget Estimates

'Big Four Agenda', Housing Development and Human Settlement was allocated Kshs.14.854 billion compared to Kshs.21.4 billion in FY2020/21 and two new programmes were introduced i.e. Urban and Metropolitan Development-Kshs.17.6 billion and Regulation and Development of the Construction Industry at Kshs.1.6 billion in FY 2019/20. ***These programmes received less compared to FY 2020/21.***

Growth in compensation to employees under recurrent expenditure. Total allocation amounts to Kshs.684 billion, a 12.7 per cent increase from Kshs.565 billion budgeted in the FY 2021/22. ***There is a need to curb the growing wage bill in order to save funds geared towards development proj***

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Key Issues in the FY 2021/2022 Budget

The Consolidated Fund Services (CFS) budget estimates amounts of Kshs.1,327.22 billion in the FY 2021/22 which is a significant increase from Kshs.1,073.71 billion budget in the FY 2020/21, it will account for 36.26% of the total budget and 65.1% of the projected ordinary revenue.

Debt servicing (interests and redemption) **ALONE** account for 57.3% of the projected ordinary revenue and 31.9% of the total budget.

From the above, the proportion of funds budgeted to cater for debt service and the CFS continue to constrain the budget and recommended a review of strategies over the medium term to lessen the burden on the entire budget.

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Key Issues in the 2021/2022 Budget

Some enablers of the “The Big Four Agenda” received a huge allocation of the budget.

The Agriculture, Rural and Urban Development which consist Ministries responsible to deliver some of Food Sustainability Programmes seem to have received only 3.1% of the total MDAs budget and therefore, *were not in line with the "Big Four Agenda" announcement.*

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Possible trade-offs and effects on development priorities

Health sector was allocated Kshs.121.09 billion in FY 2021/22 compared to Kshs.106.993 billion in FY 2020/21. Health is a devolved function. There is an increase from the BPS Ceiling mainly due to increased allocations for preventive and promotive health. Covid-19 interventions have been allocated ksh.15.4 billion of which

- Kshs. 3.9 is for procurement of covid vaccines
- Kshs. 9.5 billion is for engagement of 650 COVID-19 specialists

Given the gravity of the covid 19 pandemic one would expect a greater investment towards fighting the pandemic. The provision for procurement for vaccines is hardly adequate. (the estimated cost of vaccinating 30% of the population is approximately KShs. 34 billion)

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Trade-offs in budget allocations and effects on development budget

- Budget implementation in FY2021/22 to be affected by revenues shortfalls and rising expenditures
- Less priority activities such as development activities may not be funded
- Reduced investment in long-term development projects to negatively affect the private sector
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Budget Policy Statement (BPS) (Approved (by Cabinet) BPS should be submitted to Parliament 15th February)

BPS-sets out the broad strategic priorities and policy goals to guide the National and County Governments in preparing their budgets both for the following financial year and over the medium term. term in line with Section 25 (3).

Strategic Priorities and policy goals: Should indicate strategic priorities, and policy goals.

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Assumptions of 2021/2022 BPS

- The economy has contracted due to covid-19 pandemic and measures put in place to contain the pandemic
- Economy slowed down to 0.6% in the year 2020 from growth rate of 4.0% in year 2019
- Economy to recover to 6.4% in the year 2021 and to slow down to 6.2% in the medium term

A reflection on 2021/2022 BPS

Proposals vs reality

- Even before the challenges of the COVID-19 Pandemic our economy had shown signs of distress.
- Many companies had closed down over the past two years
- Other disasters i.e. floods, Locusts, droughts etc.
- There have been Revenue underperformance
- Fiscal indiscipline and there is disregard of medium term targets hence affecting policy direction
- A poor saving culture leading to widening of saving-investment gap.

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Reflections on 2021/22 BPS –vs- Reality

- the average growth rate in the year 2018 was of 6.3%, while the growth rate in 2019 was 5.4%.
- According to BPS 2021, the projected growth rate for the year 2020 was expected to be 0.6 per cent signaling slowed momentum due to the pandemic.
- For year 2020, the economy grew by 5.2 per cent in the first quarter and then contracted to 5.5 per cent in the second quarter following containment measures due to COVID-19.

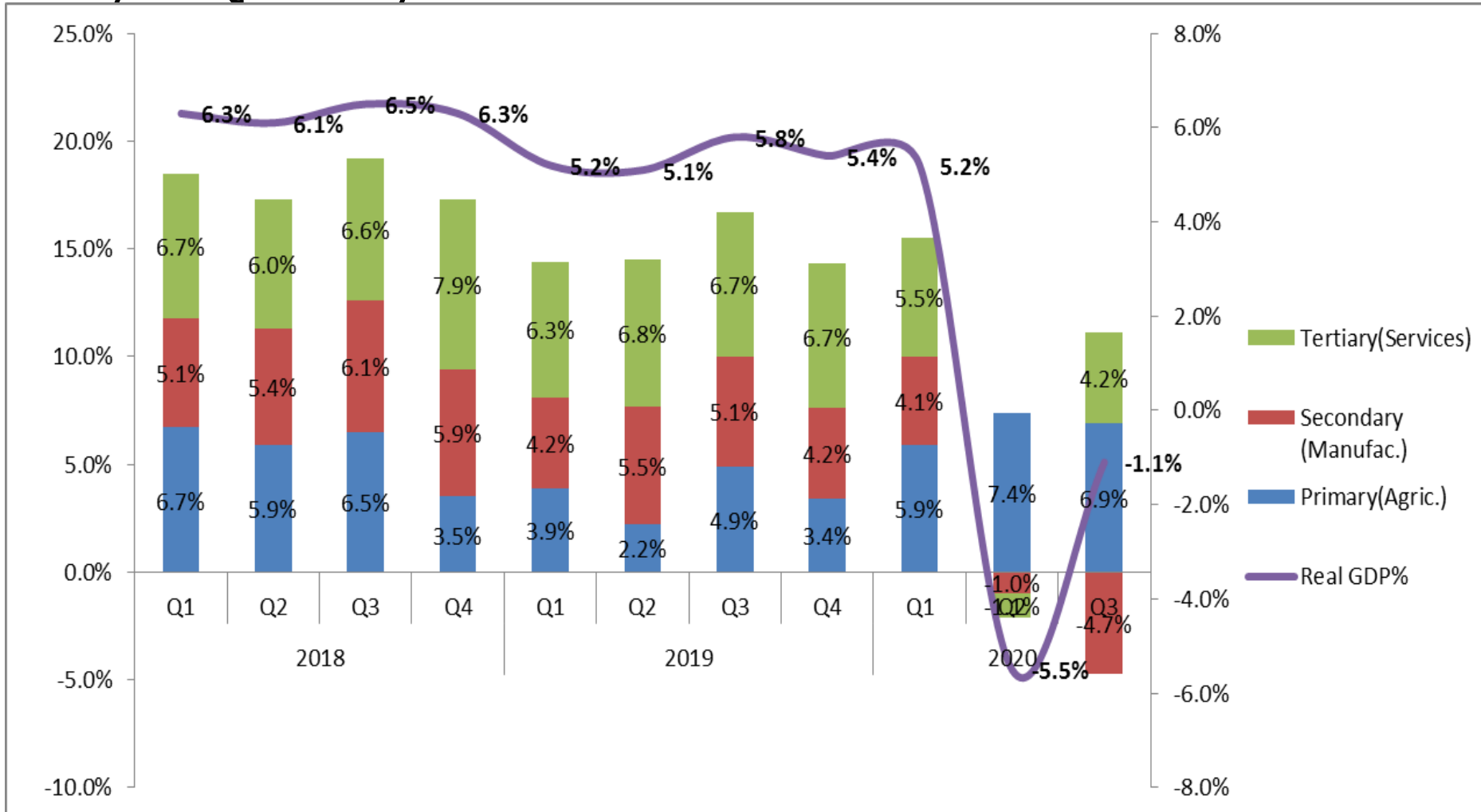
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Reflections on 2021/22 BPS –vs- Reality

- Kenya's GDP contracted by 1.1 percent in the third quarter of year 2020.
- The lower contraction in Q3 reflected the partial easing of measures to contain the coronavirus COVID-19.
- Rebound of growth in agricultural production, construction, and public administration contributed in reducing further contraction of the economy. (shown in next slide)

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Kenya's Quarterly Economic Growth Rates



Source: KNBS

A reflection on 2021/2022 BPS

Proposals vs reality

- A reduction in foreign direct investment with a possibility to decline further due to prevailing economic circumstances.
- There is serious concern with regard to debt accumulation more so among investors. This may lead to loss of access to cheap external markets.
- Weak public investment appraisal and management which allows new projects being introduced at any stage when they shouldn't.

A reflection on 2021/2022 BPS Proposals vs reality

- There is need to put in place measures that will enhance investments which may include re-appraisal of projects
- Empower the project management unit to vet the projects that will be funded in the budget.
- There is serious need to reduce the budget deficit to 3% of GDP immediately and target to balance within the medium term
- Ensure no new projects until we complete the

A reflection on 2021/2022 BPS

Proposals vs reality

- Allow an increase in development expenditures that are financed through external resources.
- Invest in promotion and marketing of exports of agricultural products which have performed well during the pandemic.
- It is uncertain when we will fully address the effects of the COVID-19 pandemic i.e. phase 3,4 and the slow acquisition of vaccines. I foresee further rationalization of the activities in the budget to fund these pandemic related issues.

A reflection on 2021/2022 BPS Proposals vs reality

- There is need to jump start the manufacturing sector to assist in economic recovery this is going to be possible due to additional resources allocated to the sector.
- Due the COVID-19 pandemic issues there is need to fast track social safety net programmes as they affect the most vulnerable groups
- Implement the economic stimulus programmes urgently

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Reflections on 2021/22 BPS –vs- Reality

- Although Government policies are aimed at providing an enabling environment for economic recovery to safeguard livelihood, jobs and businesses. They need to actualized

conclusion

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