BUDGET CREDIBILITY: KENYA'S PERFORMANCE IN THE CONTEXT OF COVID-19

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Paper

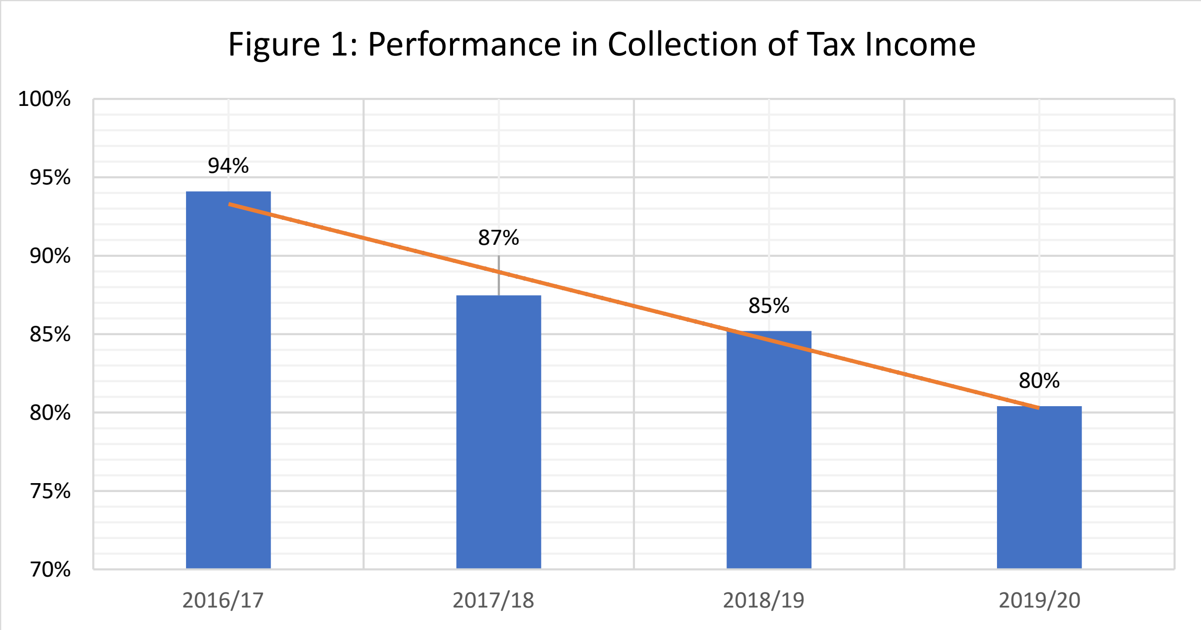
Introduction

In March 2020, Kenya reported its first case of COVID-19. In response, the government announced budgetary measures to mitigate the immediate and medium-term effects of the pandemic. The budgetary policies ranged from several tax reliefs, expansion of social protection, and economic stimulus programmes, with the most crucial focus being on health measures to deal with the disease itself. The emergency measures were not budgeted for and the government had to hastily raise the money necessary to fund these measures in an already constrained fiscal environment. The National Treasury raised revenue by borrowing domestically and externally, making re-allocations through supplementary budgets, and receiving grants from donors.

This study takes a first look at how the Kenyan government's fiscal response to COVID-19 was implemented, especially in the first months of the pandemic covering the financial year 2019/20. In doing so, we hope to understand how the government's capacity to spend its approved budget was affected by the crisis, especially in sectors that were critical to addressing the pandemic, such as health and social protection. The government's ability to raise and spend in line with its approved budget is what we refer to as budget credibility. The health and economic challenges brought about by COVID-19 have mostly affected poor and vulnerable households, making it even more important that the government fully implement its budget in the provision of services to its citizens. In addition, the government's ability to spend the resources it raised to respond to the pandemic is indicative of how well it responded to the health crisis and supported vulnerable households through social protection programmes. Therefore, we also look at the justifications the government provided in areas where there were deviations from what was approved. Lastly, the study looks at the level of transparency during the COVID-19 crisis as an indication of the government's accountability on its budgetary response to the pandemic.

Key Findings

The government revenue collection in FY 2019/20 was 86 percent of the revenue target approved for the year. With the tax relief measures that the government put in place to cushion citizens from the economic effects of COVID-19, it was expected that revenue collection would be negatively affected. However, one notable concern is the drop in tax revenue collection against approved targets even in the three previous years, as shown in Figure 1. Tax is Kenya's largest and most stable revenue source, accounting for 92 percent of ordinary revenue in FY 2019/20. Historical performance of revenue shows that it was underperforming even prior to COVID-19.

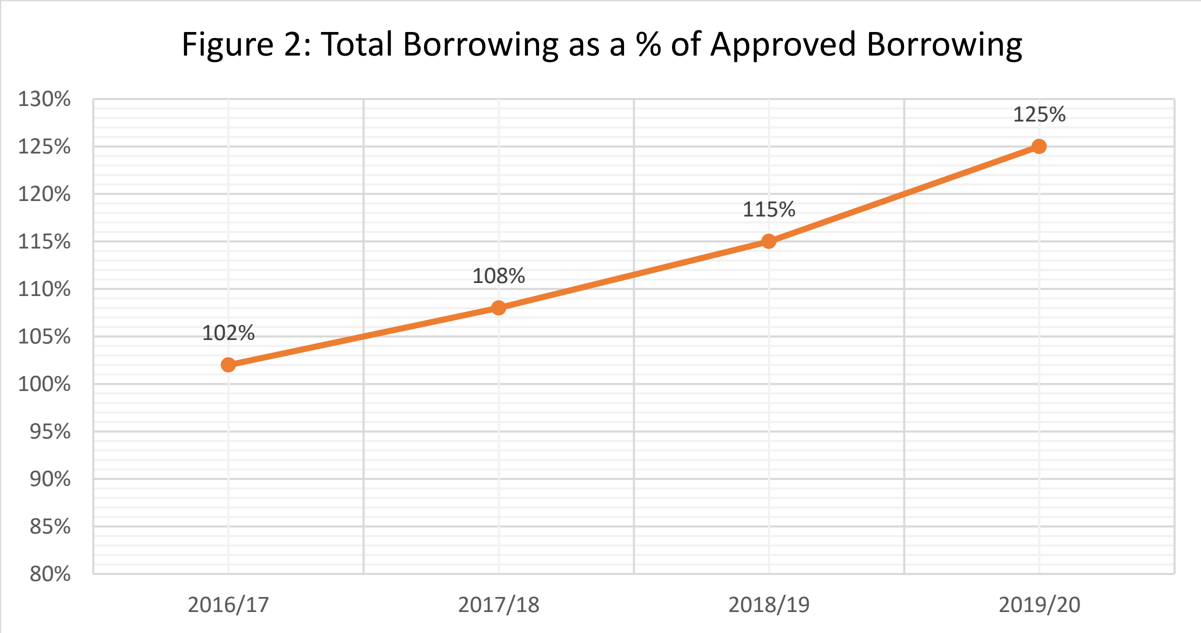


Source: Controller of Budget Annual Budget Implementation Reports for FYs 2016/17-2019/20

Tax revenue collection rates have been in decline over recent years; therefore, the decline in FY 2019/20 cannot be solely attributed to the impact of the pandemic. Unfortunately, publicly available budget documents do not explain, beyond COVID-19, why the government has missed its tax collection goals by an increasing margin. According to the 2019/20 Controller of Budget annual report on the national government's budget implementation, the reason for this is COVID-19 and its impact on the economy. However, historical performance indicates that this may not be the only reason for poor revenue performance in FY 2019/20.

Borrowing by the Kenyan government during the pandemic exceeded the approved targets for 2019/20. This issue is also not new – that is, not only as a result of COVID-19, as shown in Figure 2. However, the borrowing rate in 2019/20 was the highest compared to the three previous years. Fiscal deficits have often increased within-year and as such the funding gaps have to be met, occasioning higher than the approved borrowing. Borrowing during FY 2019/20 reached 125 percent of the target in the original estimates, driven largely by loans taken in the first three months of the pandemic. Larger-than-expected deficits are also evident in the three financial years before the pandemic. Most new debt is taken on in the second half of the financial year, suggesting the government may be struggling with fiscal discipline that threatens to undermine debt sustainability. Previous research by IBP Kenya on issues of public debt shows that the reported debt numbers tend to increase during budget implementation.[1] Government budget implementation reports for these years do not explain the increased deficit levels or provide justifications for why additional borrowing was needed.

[1] Page 7 - https://www.internationalbudget.org/wp-content/uploads/state-of-public-debt-Kenya-october-2020.pdf



Source: Controller of Budget Annual Budget Implementation Reports for FYs 2016/17 – 2091/20

Kenya's Contingencies Fund was not allocated any resources in 2019/20, and neither were any funds spent out of it for that year. The PFM Act created a Contingencies Fund that is meant to operate as a first call when emergencies arise that could not have been budgeted for during the formulation and approval of the budget. The annual budget implementation report from the National Treasury for the year 2019/20 shows that the fund was not allocated any resources for the year and therefore, there was also no spending from it. It is not clear whether the lack of allocation was because the fund was already at its Ksh 10 billion limit at the end of 2018/19. However, the lack of spending from the fund in a year when Kenya faced a serious emergency raises concerns about the existence and utility of the fund. This scenario was also not unique for 2019/20: in three previous years between 2016/17 and 2018/19, the same is reported in the budget implemented reports. This raises questions about the role of emergency policy and its utilization, especially if recommendations for how Kenya can better prepare for future emergencies lean in this direction.

The total budget absorption in FY 2019/20 was 89 percent of the approved budget for the year. This performance was not significantly different from the three previous financial years and is slightly above a four-year average of 88 percent for the period between 2016/17 and 2019/20. Across the ten sectors in government, only the health sector hit the 100 percent mark in its spending and had an expenditure rate that was over 100 percent, which represented the highest absorption. Absorption performance across the years shows that all sectors have been erratic with no improving or decreasing trends in performance between FY 2016/17 to FY 2019/20. Only the social protection, culture and recreation sector shows a pattern of constant decrease in absorption across the four-year period that we analyzed.

A closer look at the Ministries Departments Agencies (MDAs) of government shows that, on average, about half of all the national government MDAs have underspent their budgets by 10 percent or more in the last four years. In FY 2019/20, 22 out of 42 MDAs absorbed less than 89 percent of their budgets, with the number being higher than FY 2016/17 and FY 2018/19 but lower than FY 2017/18, which saw 25 MDAs spending below the total average. Just like at the sector level, this performance is not unique to a year affected by COVID-19. The trend of overspending and underspending in the majority of the MDAs can be seen across the three previous financial years, as shown in Table 1.

Table 1: MDAs with the Highest and Lowest Budget Absorption Between FY 2016/17 – FY 2019/20[2]

	National MDAs	2016/17	2017/18	2018/19	2019/20	AVERAGE
1	The Presidency	115%	73%	101%	139%	**107%**
2	National Land Commission	97%	51%	92%	123%	**91%**
3	Ministry of Transport and Infrastructure Development	88%	78%	98%	112%	**94%**
4	**Ministry of Health**	**94%**	**85%**	**85%**	**111%**	**94%**
5	Directorate of Public Prosecutions	82%	74%	90%	103%	**87%**
38	Ministry of Sports and Heritage	102%	127%	114%	52%	**99%**
39	**Labour and Social Protection**	**91%**	**106%**	**96%**	**48%**	**85%**
40	Ministry of Devolution and Arid and Semi-Arid Lands (ASALs)	173%	116%	94%	39%	**105%**
41	Ministry of Tourism and Wildlife	67%	37%	48%	37%	**47%**
42	Public Service Commission	108%	108%	92%	13%	**80%**

Source: Quarterly Budget Implementation Review Reports, FY 2016/17- FY 2019/20, Office of the Controller of Budget

Supplementary budgets and their timing may be worsening Kenya's budget credibility, and they do not improve budget absorption. Even before COVID-19 hit toward the end of the third quarter of FY 2019/20, Parliament had already approved a supplementary budget. Therefore, with or without COVID-19, the Kenyan government often revises its budget two to three times in one financial year. However, with COVID-19 in the picture, preparation of the second and third Supplementary budgets in 2019/20 in April and June, respectively, was anchored to the government's response to the pandemic. The government adjusted the budget in part to reallocate resources from non-priority areas to front-line sectors. The three supplementary budgets in FY 2019/20 raised the size of the total budget by 3 percent. This was especially targeted at the health and social protection sectors. However, this revised budget also saw a similar underspending trend with only 87 percent of spending against the approved revised budget.

This raises questions about the role of supplementary budgets in achieving a certain level of realism in budgets. An argument fronted has been on the need to adjust budgets based on revenue and expenditure performance so that they are more realistic. The lower performance in budget execution after the revisions shows that this objective was not achieved in this case and, of more concern, resources reallocated to deal with the pandemic may have been underspent.

[2] The MDAs are ranked based on their budget execution rate in FY 2019/20
The composition/structure of some MDAs has been changed in certain years, therefore, the performance data in Table 4 is after matching MDAs to their initial parent ministries e.g. Labour and Social Protection. Currently, these are two separate MDAs.

According to the Office of the Controller of Budget implementation report for FY 2019/20, the timing for supplementary budgets has not helped line ministries to spend their budgets on time. For example, the third supplementary budget of FY 2019/20 was approved by Parliament on 30th June 2020, the last day of the financial year. This may explain the poor execution of the budget against the revised budget as discussed in this paper.

All COVID-19 budget lines in Health and Social Protection were allocated for under one program. Health and Social Protection sectors were at the center of the response to COVID-19, and this is evident from the supplementary budget allocations to these sectors. The State Department for Social Protection and the Ministry of Health are the only two sectors that had allocations with a COVID-19 tag. Even then, allocations for COVID-19 in these two MDAs are largely in one programme for each of the two: the National Social Safety Net Programme (NSSNP) under Social Protection and the Health Policy, Standards and Regulations Programme under Health. This centrality in the allocation and management of COVID-19 funds poses risks to accountability.

The Ministry of Health spent 11 percent over its approved budget in FY 2019/20; however, this is solely attributed to one programme: Health Policy, Standards and Regulations programme with a 63 percent overspend. All the other programmes spent below the approved budgets. The general assumption is that most of the funding to the health response to COVID-19 was under the Health Policy, Standards and Regulations, which had a significant increase in its budget. However, this raises challenges in terms of accountability. The absorption of the revised budget for the Health Policy, Standards and Regulations programme for FY 2019/20 is 92 percent; an underspending of 8 percent. While the program spent 92 percent of its budget, including additional resources for COVID-19, it is not clear whether the accountability for this underspending is by the implementing unit or the budget holder programme. Despite not spending 8 percent of the revised budget allocation, the programme's capital expenditure was still above the capital budget by 11 percent, with recurrent expenditure taking up only 77 percent of the revised recurrent budget. This implies that the COVID-19 interventions allocated under the recurrent budget may not have fully been spent on. However, reports from the Controller of Budget and the National Treasury noted that COVID-19 was a major factor in the recurrent budgets underspending due to the containment measures and particularly travel bans.

Expenditure performance for COVID-19 budget lines is mixed, with full implementation of certain programmes and barely 50 percent implementation of others, such as the Kenya COVID-19 Emergency Response Project.[3] Up to Ksh 3.6 billion under the emergency response project had not been spent by the end of FY 2019/20 as budgeted. The underspend is 68 percent of the Ksh 5.35 billion allocated for this project under the health development budget. Information on whether the target to test 100,000 people was met is not provided. However, underspending points to unmet targets.

[3] This is reflective of spending at the national level. Additional funds were channeled to counties and government agencies

Table 2: Budget Absorption By The Kenya COVID-19 Emergency Response Project Is Well Below 50 Percent

	Ksh Million					
	Approved Allocation	**Actual Expenditure**	**Absorption**	**Target**		**Actual**
Conversion of a daycare center to a ward for COVID-19 patients at KNH	140	140	**100%**			
Operationalization of 300 beds for COVID-19 cases at KUTRRH	526.5	526.5	**100%**	Number of beds operationalized	300	400
Kenya COVID-19 Emergency Response Project	5,350	1727.12	**32%**	Persons tested and treated for COVID-19	100,000	

Source: Health Sector Working Group Report 2020

At the end of FY 2019/20, only 82 percent of the final revised budget for the State Department of Social Protection had been spent, leaving Ksh 7.6 billion unspent. The National Social Safety Net Programme, which had been allocated an additional Ksh 9.99 billion toward its recurrent budget in the Supplementary II budget, did not spend Ksh 5.8 billion of its recurrent allocation. This is the programme under which we have the cash transfer programmes meant to support vulnerable citizens.

Underspending means that certain targeted beneficiaries may not have been reached and the sector's working group report confirms this. None of the targeted households for the cash transfer programmes, through which the government intended to alleviate the economic effects of the pandemic on the vulnerable, were met (Table 3).

The target number of households supporting older persons had been adjusted to 1 million, yet even the initial lower target of 916,000 was not achieved. That means 233,576 households did not receive support as planned.

Table 3: Targeted Beneficiaries For The Cash Transfer Programmes Were Not All Reached

	Targets (Number of Beneficiaries/Households)					**Achieved Targets**	**Deviation**
	Approved Budget Estimates	Supplementary I Budget Estimates	Change	Supplementary II Budget Estimates	Change		
National Social Safety Net							
Cash Transfer to Older Persons and OVC	916,000	833,000	-83,000	1,000,000	167,000	766,424	-233,576
Cash Transfer to Orphans and	393,000	393,000	0	390,500	-2,500	295,316	-95,184

Vulnerable Children							
Cash Transfer to Persons with Severe Disabilities	70,030	70,030	0	70,030	0	37,104	-32,926

Source: Approved PBB FY 2019/20, Supplementary I and II PBB & Social Protection Culture and Recreation Sector Report, 2020

The reason given in the Social Protection Culture and Recreation Sector Report, 2020,[4] for the unmet targets is, "*The number of beneficiaries on Payroll went down due to incomplete finalization of the migration of beneficiaries to the account-based payments; natural attrition; and payroll exceptions.*"

It is imperative for the government to not only set targets, including raising the targets as in FY 2019/20, but also to ensure resources are properly utilized and the set targets are met. It may seem unnecessary to set higher targets and increase allocations, especially if full implementation is not attained.

Transparency and accountability challenges persist in how the government raised and spent the COVID-19 funds. Disaggregated information on COVID-19 related budget allocations is limited. There is no transparency on the government's initial responses to the pandemic. For instance, detailed information on how funds from the Kenya COVID-19 Emergency Response Fund were allocated and expended is not available, particularly regarding voluntary contributions, grants and donations to the fund. Spending information at the national level, as provided in the Controller of Budget Reports and Sector Working Group Reports, is also not comprehensive regarding spending at the very granular budget lines, including the resulting impact. Implementation reports by the Controller of Budget provide top-level financial information – that is, absorption of funds at the Sector/Ministry level and programme level – but not at lower levels, e.g., sub-programme level. Sector reports help bridge the gap in information by further providing non-financial information, but there are still challenges with the presentation of detailed information.

The issue is even more clearly highlighted in IBP's review of COVID-19 response measures across 120 countries that looked at transparency, oversight and public participation in the formulation and execution of the measures. Kenya scored minimally on transparency and participation and had a better showing on oversight of some of the key measures that were evaluated, as shown in Figure 3. Kenya can borrow a leaf from countries such as Rwanda created special sections in their budget implementation reports that focused on reporting on the execution of fiscal measures responding to COVID-19.

[4] Page 54

Figure 3: Kenya Performed Minimally on Transparency and Participation in Its COVID-19 Response.

Kenya

Emergency Fiscal Policy Package (EFPP) assessed:
Supplementary Appropriation Act 2020 and Tax Laws (Amendment) Act 2020 (introduced April 2020)
Legislative Act

Transparency	**Limited**
Introduction of the package	Limited
Macroeconomic and aggregate budget info	Adequate
Policy measures	Limited
Recipients and performance	Limited
Sources of financing	Minimal
Extrabudgetary funds	Some
Implementation of the package	Minimal
Reporting on execution	Minimal
Extrabudgetary funds	Some
Procurement	Minimal

7/14/2021 International Budget Partnership: COVID-19 Report

Oversight	**Adequate**
Role of legislatures	Substantive
Role of national audit offices	Limited
Participation	**Minimal**
Public participation	Minimal

There are gaps in how information is presented within budget documents – that is, Programme Based Budgets. Presentation of non-financial information was disconnected from the allocations in some cases. This highlights an existing challenge in the structuring and understanding of the program-based approach to budgeting in Kenya. In addition, there are also disparities in the information provided across various government documents. For instance, the budget line item, '*Conversion of a daycare center to a ward for COVID-19 patients at KNH*' is reported as having been fully implemented according to the health sector working group report, which differs from the Office of the Auditor General's report on utilization of COVID-19 funds by the national government. According to the audit report, the Ksh 140 million had not been utilized as of 30th October 2020.

Reasons provided for challenges in budget implementation are generic and do not provide much clarity on gaps leading to underspending in 2019/20. The Office of the Controller of Budget makes a decent attempt to explain the challenges that affected budget execution in 2019/20. Some of these reasons include the late submission of supplementary budgets in the financial year, excess expenditure above the exchequer issues and the impact of COVID-19. These are reasonable explanations, but they do not provide enough detail to explain why some MDAs did better than others and which MDAs are affected by which factors listed in the report. This is the same challenge with the Sector reports and Budget Review and Outlook Paper that are published by the National Treasury. A perennial reason that is given for poor performance is the delayed release of cash to MDAs and spending units. This goes back more than five years and even the mitigation measures recommended have been the same: follow the workplans and cash disbursement schedules. Why has this not worked to solve the problem?

Recommendations: What Next?

The findings from this study show that legacy challenges to budget credibility still played out during the COVID-19 period as the government tried to harness the policy flexibility of the budget to deal with the pandemic. Therefore, by addressing these challenges, the government can ensure the budget is progressively spent in line with what is approved by the National Assembly. It also means there will be less need to keep revising the budget through supplementary budgets and the government will be better placed to deal with future emergencies that require a quick but transparent and accountable response through public budgets.

The government's underspending and under-collection of revenue is a challenge that affected the targets set, especially in some key areas like health and social protection. This is an indication that the approved budgets are often off the mark in terms of what can be achieved in line with set targets. Therefore, Parliament should seek clear justifications of the budgets that are tabled for approval before the Appropriation Bills are approved.

The rush to revise budgets and raise revenue – especially through borrowing – during the COVID-19 period was done in opaque ways. Even publicly available information was limited in the disaggregation that was provided on allocations and spending for COVID-19. The Government of Kenya raised over Ksh 200 billion for its response to COVID-19 in the first three months of the pandemic, but through its various documents does not provide detailed information on how the funding was achieved and the justification for those allocations. This makes it difficult for oversight bodies such as Parliament and civil society groups to hold the government accountable.

The budget implementation reports produced by the National Treasury and the Controller of Budget were also not comprehensive in their reporting on COVID-19 spending, especially at the National Level. Parliament had played a central role in passing the necessary legislation and polices directed at responding to the pandemic. However, the follow up oversight was not as strong especially on the impact of the measures that had been passed in parliament targeting disadvantaged households. This is a key area of improvement in Kenya's reporting and ensuring better mechanisms for accountability in emergency spending.

The Office of the Auditor General has been key in bringing to light detailed information on the utilization of COVID-19 funds by the national government, county governments and the Kenya Medical Supplies Authority. With the audit reports detailing irregularities in the allocation, management and spending of COVID-19 funds, it should be clear whether the issues raised have been addressed or how they are to be addressed. This responsibility lies squarely with Parliament, given its oversight role. The Office of the Auditor General should still conduct special audits on COVID-19 funds especially on the impact the response measures have had on different vulnerable groups. Australia presented budget implementation reports that had details of the impact pf COVID-19 measures on disadvantaged groups, including women, the elderly, children and those living in poverty.

Budget implementation was poor even in the pre-COVID period, and the same implementation challenges are reported every year by the Controller of Budget. This goes to show that the root causes are not addressed. For instance, the delay in exchequer releases, which is largely a result of revenue underperformance, has been a constant concern among the budget implementation challenges.

The connection between financial and non-financial remains weak in the formulation and execution of budgets at the national level. In the COVID-19 context, this was an important part of the budget to track the impact of different budgetary measures to the various target groups. Therefore, the National Treasury should guide how different line ministries should handle non-financial information, including the provision of baselines, updating targets during budget revisions and how to track actual performance, especially for targets whose data is collected across longer periods.

Conclusion

The COVID-19 pandemic forced the government to adjust its revenue expectations and expenditure priorities, especially for FY 2019/20. Additional external borrowing due to lowered tax projections and budget re-allocations through supplementary budgets then created a risk for the ability of the government to implement its approved budget and the programmes meant to respond to COVID-19. Kenya's budget credibility in FY 2019/20 remained within the same level as previous years. Government budget underspending was at 11 percent of the approved budget for the year, and more resources were allocated, particularly to the health and social protection sectors. While the two sectors spent amounts higher than the original approved budget, they still underspent the additional allocations directly meant to support the fight against the pandemic. Therefore, legacy budget implementation challenges affected the government's ability to raise and utilize the resources needed to fight the pandemic.

Lastly, the level of transparency and consistency in reporting on the budget during this period remained weak, a trend that existed even before COVID-19. Different agencies in the accountability chain can play a stronger role to ensure the next emergency is responded to in a more open and accountable manner.