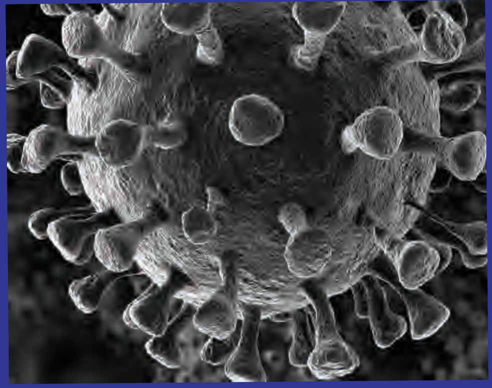

Public Debt Service during Covid-19 Crisis to increase Miseries of the Poor in Kenya

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Introduction

This brief reviews trends in public debt service and its potential results on public expenditure on pro-poor sectors in the Kenyan between the financial year (FY) 2017/18 – 2010/21. The review zooms in on COVID-19 pandemic period when public expenditure on pro-poor services is highly desirable. The pro-poor sectors considered were the health, water and sanitation, education, and the social protection. It adopted a desktop review method and data analysis was conducted using Microsoft excel.

The analysis revealed that the growth observed in Kenya's expenditure has majorly been fuelled by the high public debt spending. This has been at the expense of pro-poor sectorial spending such as spending in the health, social protection, water and sanitation and the education sectors. The situation has worsened because of the Novel Corona Virus Disease. In its report on the estimates of revenues and expenditures for FY 2020/21, the Budget and Appropriations Committee indicated that the fiscal deficit is projected to increase to 7.3% of Gross Domestic Product (GDP) from the initial projection of 4.9% of GDP as had been earlier indicated in its report on the Budget Policy Statement of 2020.

It is expected that the deficit will be financed by public debt (The National Assembly, 2020). In his speech during the issuance of the 2020/21 budget statement, the cabinet secretary of the National Treasury indicated that government revenue in financial year 2020/21 is estimated to reduce by about Ksh 172.0 billion (The National Treasury and Planning, 2020) implying that the fiscal deficit is likely to widen and more government borrowing will be incurred to finance the deficit. The major limitation that the study faced was insufficient data on the effect that the pandemic has had on these four pro-poor sectors due to the inherent fact that the effects of the pandemic disease are still been felt all over as it was discovered recently in December 2019.

However, the analysis focussed on review of the trends in expenditure on these sectors and the likely effects that it has had on them in light of the pandemic. Indeed, the pandemic has caused a global health crisis which economists argue that it will plunge the global economy into a severe contraction of about 5.2% in 2020, representing the deepest recession since the second world war (World Bank, 2020). In Kenya for example, the economy is projected to decline to about 2.5% and below from the earlier projected 6.1%, compounded by an increased public debt repayment of about Kes 904.7 billion amid decreased ordinary revenue projections of Kes 1.63 trillion. This leaves about Kes 726 billion to finance the economy implying that the government shall incur public debt to finance the Kes 2.79 trillion budget or further compromise on delivery of quality services to the citizens.

The pandemic has exposed weaknesses in the health sector such as limited human and capital resources which can partly be attributed to minimal observance of the April 2001 Abuja declaration by the government that has led to lack of preparedness when the pandemic stroke. WHO (2020) indicated that practising proper hygiene was one of the most efficient ways that this pandemic would be fought.

Thus, countries which had not invested in a sector like the Water and sanitation especially in informal settlements meant that those people would be worst affected by the pandemic. In Kenya for example, the lack of credibility in the water and sanitation sector budget for FY 2019/20 and FY 2020/21 for those living in urban informal settlements has led to those living in areas like Kibra (the largest and poorest slum in Africa and among the top three largest slums in the world) being one of the most affected by the pandemic, (Mutahi Kagwe, 2020).

In the education sector, learning has been disrupted with most governments directing the closures of education institutions to contain the spread of the pandemic. This has impacted almost 70% (1.19 billion) of the global students' population with above 15 million learners affected in Kenya (Extracted from https://en.unesco.org/covid19/educationresponse at 10:12AM on 28th/05/2020). Despite this fact, the real growth in allocation to the education sector in the country has decreased by 2.11% in the fiscal year 2020/21 which is likely to imply that access to education might be compromised.

Besides WHO (2020) reporting that the older were at the highest risk of being adversely affected by COVID-19 due to physiological changes (Kluge, 2020), the Kenyan government through its 2020 finance bill has proposed to subject retirement benefits to income tax. This is likely to decrease disposable income to the older people in the society at this critical time that they most require the money.

The paper recommends that the National Treasury should implement the Abuja Declaration treaty, observe budget credibility in the water and sanitation, exempt retirement benefits from taxation, observe transparency in the use of funds allocated towards the fight against the effects of the pandemic, renegotiate the terms of maturing loans and operate within a balanced budget, and the ministry of education in collaboration with the Ministry of Information, communication and technology to fast-track the final roll-out of the digital literacy programme.

The pandemic has exposed weaknesses in the health sector

Discussion

Analysis of public expenditure on Public debt, social protection, health, education and water and sanitation Sectors between FY 2017/18 to FY 2020/21

Between the FY 2017/18 to 2020/21, public debt has continuously consumed more of the national government's budget than the sectors which offer services to the most vulnerable in the country as shown in the figure 2 below.

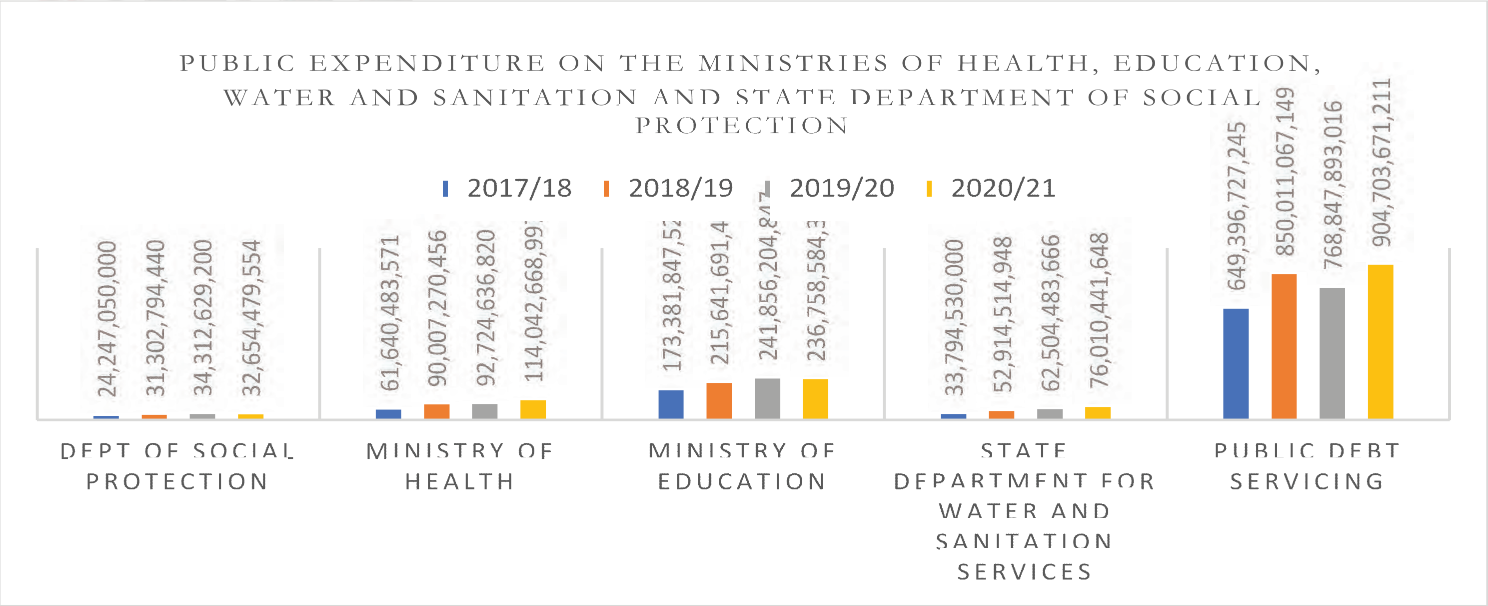


Figure 2: Public expenditure on public debt and pro-poor social sectors for the period between FY 2017/18 - 2020/21 (Source: The National Treasury and Planning, 2017/18 – 2020/21)

The figure 2 above shows the trend in government expenditure on the social protection, health, education, water and sanitation sectors as well as on public debt. The trend indicates that spending on public debt has always been higher than that in the other four pro-poor sectors. In the FY 2017/18 to FY 2019/20, the government spent Kes 649.4 billion, Kes 850.0 billion, Kes 768.8 billion respectively and in the coming FY 2020/21, it intends to spend Kes 904.7 billion in public debt repayment.

Throughout this period, the government has been spending more on public debt servicing than what it has been spending on the four sectors, implying that services offered by the sectors have been compromised. Despite WHO reports that the old and the people with disabilities are at a higher risk of being adversely affected by the pandemic, the government has allocated Kes 32.6 billion for the social protection sector in the FY 2020/21 as compared to Kes 904.7 billion that it has allocated to the public debt repayment, a difference of Kes 872.1 billion.

Government's expenditure in the health sector is Kes 114.0 billion which represents Kes 790.7 billion deviation from what the government will spend in FY 2020/21 in public debt repayment. This is despite the sector needing most of government expenditure on both human and capital to assist it in the fight and management of the pandemic. The government will spend Kes 668 billion less in education sector than what it will spend on public debt repayment despite UNESCO reports which indicated that above 15 million learners have been affected by the pandemic in the country.

In addition to all that, the water and sanitation sector will receive Kes 76.0 billion, which represents a deviation of Kes 828.7 billion from what will be spent on public debt repayment despite WHO reports that indicate that practising proper hygiene (a factor of access to clean water and sanitation services) is paramount in the fight against the pandemic.

The table 1 below indicates the real investment that the government has been making in the four sectors as well as in public debt servicing.

Real growth in public expenditure on social protection, health, education, water and sanitation and public debt

Table 1: Real growth in government spending on public debt against pro-poor sectors between FY 2017/18 - FY 2020/21

FY		Real growth in government spending on Social Protection	Real growth in government spending on Ministry of health	Real growth in government spending on Ministry of education	Real growth in government spending on Ministry of water and sanitation	Real growth in government spending on public debt repayment	Mean
2018/19		29.10%	46.02%	24.37%	56.58%	30.89%	37.39%
2019/20		9.62%	3.02%	12.16%	18.12%	(9.55) %	6.67%
2020/21		(4.83) %	22.99%	(2.11) %	21.61%	17.67%	11.06%
	Mean	11.29%	24.01%	11.47%	32.10%	13.00%	

Source: The National Treasury and Planning, 2017/18 – 2020/21

On average, between the fiscal years under review (2017/18 – 2020/21), real growth in government spending was highest in the FY 2018/19 with a 37.39%. This was majorly contributed by the growth experienced in the ministry of water and sanitation which was at 56.58% with the least growth experienced in the ministry of education at about 24.37%. Public debt repayment grew by 30.89%.

The average real growth rate in government spending was lowest in the FY 2019/20 at 6.67% with the real growth in the ministry of water and sanitation contributing the highest spending at about 18.12% while government spending in public debt repayment experiencing a negative real growth of 9.55%. In the FY 2020/21, government spending on the five areas of focus is estimated to grow at an average of 11.06%, an improvement of about 4.39% from the FY 2019/20.

This was majorly contributed to by the growth in public debt repayment which increased by 17.67% (Ksh 135,855,778,195) to Ksh 904,703,671,211. Government spending on social protection and the ministry of education experienced a negative growth of 4.83% and 2.11% respectively. In addition to this, the average, government spending on public debt repayment has grown by about 13% between 2017/18 to 2020/21, which has been higher than that in social protection and the education sectors which grew at an average rate of 11.29% and 11.47% respectively over the same period.

This is despite the fact that the social protection sector covers the old and people with disabilities who according to global reports, are among the most vulnerable and at a higher rate of being adversely affected by COVID-19 pandemic (WHO, 2020). The spending in the education has also decreased despite the fact that above 15 million learners have been affected by the COVID 19 pandemic in Kenya (Extracted from https://en.unesco.org/covid19/educationresponse at 10:12AM on 28th/05/2020).

The Health Sector

Besides the analysis in table 1 above which indicated that government allocation to the health sector registered the least growth in FY 2019/20 out of all the sectors under review, the table 2 below further presents an analysis of the low commitment by the government in investment in the health sector.

Table 2: % of Health allocation of the annual budget in comparison to public debt for the period between 2017/18 – 2020/21

FY	Allocation to the Ministry of Health (Kes in billions)	Allocation to public debt servicing (Kes in billions)	Annual budget (Kes in billions)	Allocation to health as a % of Annual budget	Allocation to public debt servicing as a % of Annual budget
2017/18	61.6	649.4	2,323.1	2.65%	27.95%
2018/19	90.0	850.0	2,555.1	3.52%	33.27%
2019/20	92.7	768.8	2,874.2	3.23%	26.75%
2020/21	114.0	904.7	2,748.2	4.15%	32.92%

Source: The National Treasury and planning /PBB 2017/18 – 202021 & BPS 2018-2020

Kenya was among the African nations which signed the 2001 Abuja Declaration which required government to allocate 15% of a country's annual budget to the health sector. However, this has not been the case in Kenya as illustrated in the table 2 above. Within the period under review, the sector was allocated 2.65% of the annual budget of fiscal year 2017/18, 3.52% of annual budget for FY 2018/19 which declined to 3.23% in FY 2019/20 and has increased to 4.15% of annual budget in 2020/21. Minimal observance of the Abuja declaration by the government has led to lack of preparedness by the government when the pandemic stroke.

In comparison to the spending in public debt repayment which received above a quarter of the annual budget with FY 2019/20 recording the least at 26.75% and FY 2018/19 recording the highest with 33.27%. In the coming FY 2020/21, the government is projecting to spend about 32.92% of its annual budget on repayment of public debt amidst the pandemic. This not only negatively affects the health sector by exposing weaknesses in the sector when a health crisis as the Covid-19 emerges, but also undermines the attainment of agenda 3 of the sustainable development goals good health and well-being including ending communicable diseases like the current COVID-19.

The Water and Sanitation Sector

Those in urban informal settlements have suffered a blow with Kibra (the largest and poorest slum in Africa and among the top three largest slums in the world) emerging as one of the worst hit with majority of confirmed positive COVID-19 cases in Nairobi (Mutahi Kagwe, 2020). WHO (2020) indicates that general hygiene is the most important tool in the fight against this disease.

However, in Kenya, budget analysis for the period between 2017/18 – FY 2020/21 indicated that the sector received below 3% of the annual budgets and that key performance indicators over the period under review had questionable inconsistencies. These are indicated in tables 3 and 4 below.

Table 1: % of water and sanitation allocation of the annual budget in comparison to public debt for the period between FY 2017/18 - FY 2020/21

FY	Allocation to the Water and Sanitation sector (Kes in billions)	Allocation to public debt servicing (Kes in billions)	Annual budget (Kes in billions)	Allocation to water and sanitation sector as a % of Annual budget	Allocation to public debt servicing as a % of Annual budget
2017/18	33.8	649.4	2,323.1	1.45%	27.95%
2018/19	52.9	850.0	2,555.1	2.07%	33.27%
2019/20	62.5	768.8	2,874.2	2.17%	26.75%
2020/21	76.0	904.7	2,748.2	2.77%	32.92%

Source: The National Treasury and Planning/ Programme Based Budget, 2017/18 – 2020/21

Table 3 above indicates that the allocation to the water and sanitation sector has been increasing from 33.8 billion in FY 2017/18 to Kes 76.0 billion in FY 2020/21. The FY 2017/18 recorded the least amount of 33.8 billion while FY 2020/21 recorded the highest amount at Kes 76.0 billion. The allocation as a percentage of the annual budget for the specific years has also been increasing with FY 2017/18 registering the least proportion of 1.45% while the FY 2020/21 registered the highest proportion at 2.77%.

However, when compared to the proportion of the annual budget that has been spent on repayment of public debt, it has been low. Public debt took up 27.95% of the annual budget of the FY 2017/18 and in the coming FY 2020/21, it will take up 32.92% of the annual budget. This indicates that service delivery in the sector is being compromised due to repayment of public debt.

Table 1: Number of people accessing water and sanitation in urban informal settlement

Delivery Unit	Key Output (KO)	Key Performance Indicators (KPIs)	2017/18	2018/19	2019/20	2020/21
Water Supply and Sanitation for the Urban Poor	Increased access to water and sanitation services in urban informal settlements	No. of people accessing improved Water and Sanitation	120,000	120,000		
		Increase in no. of people accessing water			40,000	
		Additional no. of people accessing sanitation services				4000

Source: The National Treasury, 2017 – 2020/ Programme based budget 2017/18 – 2020/21

Budget analysis for the period under review of the water and sanitation sector indicated that the key performance indicators for the access to water and sanitation services for people living in urban informal settlements showed questionable inconsistencies as shown in table 3 above. There was no change in the number of people accessing improved Water and Sanitation from FY 2017/18 to FY 2018/19 which remained at 120,000 people yet the budget allocation increased from Kes 33.8 billion to 52.9 billion as shown in figure 2 above.

There was also an absence of a key performance indicator for number of people accessing sanitation in FY 2019/20 and absence of people accessing clean water in FY 2020/21 for those living in urban informal settlements. Such inconsistencies are despite the increase in funds allocated to the sector like Kes 62.5 billion in FY2019/20 and Kes 76.0 billion in FY 2020/21.

These irregularities could explain why those in informal settlements have high infected numbers among the population of Nairobi because the usage of public funds indicates lack of credibility in the sector. Additionally, this is threatening the attainment of agenda 6 of the Sustainable Development Goals whose aim is to ensure availability and sustainable management of water and sanitation for all especially the vulnerable.

The Education Sector

In March 2020, the president of the Republic of Kenya directed the closure of education institutions to contain the spread of the pandemic. This led to about 15 million learners being affected out of which, the most affected were those in primary comprising 8.2 million while those in secondary were 3.2 million. The affected in pre-primary comprise about 3.1 million while those in tertiary learning institutions are about 500 thousand. (Extracted from https://en.unesco.org/covid19/educationresponse at 10:12AM on 28th/05/2020).

During the election period in 2013, in their manifesto, the Jubilee government pledged to integrate information and communication technology in the school curriculum. Through this, the government hoped to implement digital literacy programme in all public primary schools by providing free laptops to pupils in these schools. In May 2016, the government rolled out a pilot of the programme with selected 150 primary schools – 3 from each of the 47 counties and 9 special needs schools whereby 12,000 digital devices were distributed.

The latest information indicates that as of 19th September 2019, the total number of digital devices installed was 1,148,160 and a total of 21,232 schools had been installed with digital devices (Extracted from http://icta.go.ke/digischool/milestones/ at 17:54 hours on 14/06/2020). Had the government finished the rolling out of this programme, the sector would not have been that much affected. This situation if not addressed might compromise goal number 4 as enshrined in the Sustainable development goals of ensuring quality education to all boys and girls.

Table 5: % of annual budget taken by the education sector and public debt servicing between FY 2017/18 - 2020/21

FY	Allocation to the education sector (Kes in billions)	Allocation to public debt servicing (Kes in billions)	Annual budget (Kes in billions)	Allocation to education sector as a % of Annual budget	Allocation to public debt servicing as a % of Annual budget
2017/18	173.4	649.4	2,323.1	7.46%	27.95%
2018/19	215.6	850.0	2,555.1	8.45%	33.27%
2019/20	241.9	768.8	2,874.2	8.42%	26.75%
2020/21	236.8	904.7	2,748.2	8.62%	32.92%

Source: The National Treasury and Planning/ Programme Based Budget, 2017/18 – 2020/21

Table 5 above shows the percentage of the annual budget for the FY 2017/18 to FY 2020/21 that has been allocated to the education sector and for public debt repayment. The analysis indicates that public debt repayment has been consuming above a quarter of the annual budget for all the years under review yet the education sector has been taking up less than 10% of the annual budget. In the FY 2017/18, the education sector received 7.46% of the annual budget for the same year, which represented the lowest proportion among all the years under review.

The FY 2020/21 represented the highest proportion of the budget that the sector received of 8.62%. In the FY 2019/20, the sector received 8.42% while in the FY 2018/19, the sector received 8.45% of the annual budget. This is in comparison to public debt repayment which represented 27.95% of the FY 2017/18 annual budget, a proportion that increased to 33.27% then later on decreased to 26.75% before increasing to 32.92% in the financial years 2018/19, 2019/20 and 2020/21 respectively. This indicates that service provision to those under this sector is being compromised due to high amounts being used iblic debt repayment.

The Social Protection Sector

WHO(2020) reported that the older were at the highest risk of COVID-19 due to physiological changes with 95% of the deaths reported in the European region by the 2nd of April,2020 being of those older than 60 years (Kluge, 2020) . Additionally, a document by the United Nations High Commissioner for Human Rights dated 29th April 2020 indicated that persons with disability are disproportionately impacted due to attitudinal, environmental and institutional barriers that are reproduced in the COVID-19 response since most of them have pre-existing health conditions that make them more susceptible to contracting the virus.

(Extracted from https://www.ohchr.org/Documents/Issues/Disability/COVID-19_and_The_Rights_of_Persons_with_Disabilities.pdf at 13:25 hours on 14th June, 2020).

Despite the above, budget analysis for the FY 2017/18 – FY 2020/21 indicate that the sector under which these vulnerable people are harboured has always been less than 2% of the total budget for those financial years. This is illustrated in the table 5 below.

Table 6: % of annual budget taken by the Social protection sector and public debt between FY 2017/18 - FY 2020/21

FY	Allocation to the Social protection sector (Kes in billions)	Allocation to public debt servicing (Kes in billions)	Annual budget (Kes in billions)	Allocation to social protection sector as a % of Annual budget	Allocation to public debt servicing as a % of Annual budget
2017/18	24.2	649.4	2,323.1	1.04%	27.95%
2018/19	31.3	850.0	2,555.1	1.22%	33.27%
2019/20	34.3	768.8	2,874.2	1.19%	26.75%
2020/21	32.6	904.7	2,748.2	1.18%	32.92%

Source: The National Treasury and Planning/ Programme Based Budget, 2017/18 – 2020/21

Table 6 shows the percentage of the annual budget for the FY 2017/18 to FY 2020/21 that has been allocated to the social protection sector and for public debt repayment. The analysis indicates that public debt repayment has been consuming above a quarter of the annual budget for all the years under review yet the social protection sector has been taking up less than 2% of the annual budget. In the FY 2017/18, the social protection sector received 1.04% of the annual budget for the same year, which represented the lowest proportion among all the years under review.

The FY 2018/19 represented the highest proportion of the budget that the sector received of 1.22%. In the FY 2019/20, the sector received 1.19% while in the FY 2020/21, the sector received 1.18% of the annual budget. This is in comparison to public debt repayment which represented 27.95% of the FY 2017/18 annual budget, a proportion that increased to 33.27% then later on decreased to 26.75% before increasing to 32.92% in the financial years 2018/19, 2019/20 and 2020/21 respectively. This indicates that service provision to the vulnerable under this sector who include the old and persons with disability is being compromised due to high amounts being used in public debt repayment.

In addition to this, Kenya's finance bill for the year 2020 proposed to subject retirement benefits to income tax, a move that is likely to decrease disposable income to these older people in the society who are above 60 years of age, at a time when they most need these funds to sustain their livelihoods as well as lives. This is an unpopular move by the National Treasury and Planning as it comes at a time when these people require support since they are most susceptible to the disease. We applaud the government for boosting the on-going cash transfer programme by providing additional Kes 10 billion. However, the amount should be disaggregated to provide for how much will go towards those with disability.

Conclusion

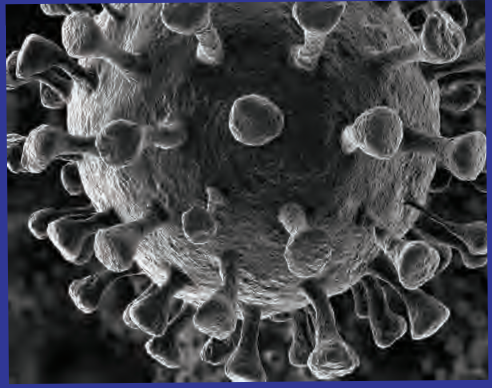
The analysis indicates that although government expenditure has been growing, it has largely been fuelled by public debt spending at the expense of quality service provision for the reviewed pro-poor sectors such as health, water and sanitation, education and social protection. Further, breach of various treaties by the government such as the Abuja Declaration has costed the government and exposed weaknesses in the health sector at a time when the world, including Kenya is grappling with a public health crisis.

The pandemic has also exposed the lack of or poor budget credibility as that observed in the water and sanitation sector specific analysis between FY 2017/18 and 2020/21 especially among those living in informal settlements. Additionally, the slow roll-out of the digital literacy programme where the government pledged to provide laptops to all public primary schools, has led to about 8.2 million learners being affected by the disease.

Further, in a bid to increase revenue collections for Kenya Revenue Authority, the National Treasury and Planning has proposed to subject retirement benefits to tax in the finance bill for 2020 which will decrease disposable income for the aged, who according to WHO reports are at the highest risk of being adversely affected by COVID-19. The provision of quality services by the government to the poorest and vulnerable in the society, has been compromised to a large extent due to high spending in public debt repayment. Transparency in the usage of public funds provided to fight the effects of the pandemic is necessary to ensure that the vulnerable in the society are cushioned.

Recommendations

1. The National Treasury should implement the Abuja Declaration Pact to promote a vibrant health sector, that provides high quality health services to its citizens.
2. The National Treasury should observe budget credibility in the water and sanitation sector for provision of quality water and sanitation services to the vulnerable such as those living in informal settlements.
3. The Ministry of education in collaboration with the ministry of Information, communication and Technology should fast-track the final roll-out and implementation of digital literacy programme to ensure access of education to equitably especially during this time.
4. The National Treasury should exempt retirement benefits from taxation to increase disposable income to the old during this time.
5. The National Treasury should promote transparency in the use of funds allocated towards the vulnerable in the society by disaggregating the information to provide for the amount going towards those with disability.
6. The National Treasury should renegotiate the terms of maturing loans to reduce on the expenditure pressures.
7. The government should operate on a balance budget to minimize on fiscal deficits.



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