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<u>Uhuru's legacy remains one of implementing the largest public debt budgets ever.</u>

Today's budget reading as we go into Uhuru Kenyatta's final year as President, threatens his legacy of leaving a united country as envisioned in the March 2018 handshake. Instead, the legacy is now that of overseeing Kenya's largest public *debt budget* ever. As the Cabinet Secretary to the National Treasury Mr. Ukur Yatani reads the budget statement for the next financial year (2021/22) this afternoon, it is time to reflect on how the current budget ending this month has fared. One importance of keeping history is that it helps us to understand the present and predict the future, therefore how does the last 10 months of FY 2020/21 look like?

Ten months of the financial year 2020/21 overall budget performance

When Mr. Ukur Yatani read the budget statement on Thursday June 11, 2020, he indicated that the government expected a total revenue (from taxes and loans) of KES 2.8T between July 2020 to June 2021. To realize this target, Mr. Yatani hoped to raise KES 1.6T from taxes and fees charged by various government agencies on the services such as issuance of passports, birth, and death certificates, certificates of good conduct, among others. Additionally, the CS planned to borrow a total of KES 1.2T with a huge portion of it coming from the domestic market, that is 70 percent of the loans with the rest coming from external lenders.

After eight months of implementation of the 2020/21 budget, the government faced a dilemma of increasing need for government spending and declining revenues. The revenue was not performing as expected due to the impacts of the Covid-19 pandemic and the resultant containment measures such as the lockdowns, cessations of movement, prohibition of social gatherings which severely affected critical revenue streams especially in the services sector like the hospitality industry, transport, exports, among others. The national treasury through the first supplementary budget revised the budget upwards by KES 100B (4%) to KES 2.9T from the original estimates of KES 2.8T. All this increase was to be financed by additional borrowing.

Ten months' actual revenue performance

A 10-month statement of revenues received and disbursed by the national treasury shows that for the period of July 1st, 2020 – April 30th, 2021, the national treasury received about two trillion shillings this being 74% of annual revenue expected by end of June 2021. This revenue consists of KES860B or 40% of total revenue from loans and grants and KES1.3T or 60% from all other government sources (taxes, fees, and charges). Majority of the borrowing that happened during this period, that is 85%

came from domestic lenders with the balance from the external market. The big question now is, where has the two trillion shillings received by the government during the last 10 months been spent?

Ten months' actual expenditure performance

The numbers show that between July 2020 and April 2021 the government has spent KES841B on consolidated funds services (CFS) being about 78% of total expenditure expected by the end of the financial year. Funds appropriated to the CFS account are used for public debt repayment and other mandatory obligations placed upon the republic. The expenditure on CFS represents about 40% of total revenue raised during this period and about 71% of total taxes collected by KRA. This means that for every KES100 that KRA collected from Kenyans for the period KES70 went to repay the country's debt and this figure is projected to rise in the next year as Kenya's debt burden worsens. The numbers further show that the government has spent KES826B on recurrent budget out of KES1T planned for the whole year representing performance of about 76% compared to KES258B spent on the development budget or 64% of KES401B planned for the year. The counties on the other hand have so far received KES240B (63%) out of the KES384B they are expected to receive for the whole year in terms of equitable share and conditional transfers.

In summary, the FY 2020/21 ten months' report card for Uhuru looks like this.

Revenue report card

The average 10 months' revenue performance is at 64% with domestic borrowing leading followed by tax revenue and external loans and grants at 85%, 81% and 27% respectively. It is overly ambitious to expect the government to increase revenue collection from 64% to 100% in two months between May and June 2021. To meet this target, the easiest way as it has been the tradition of this government is to incur additional short-term loans that are quite expensive. However, the government could have introduced a supplementary budget cutting unnecessary expenditure with the shortfall expected.

Expenditure report card

As of April 2021, the government had realized about 78% of the total planned expenditure for the whole year. Top in performance is the consolidated Funds services account which is majorly used to repay the country's debt at 78% followed by recurrent expenditure for the national government, spending on development and disbursements to the counties at 76%, 64% and 63% respectively.

The budget numbers depict a serious problem in terms of budget credibility. There is a very high likelihood that the government will not meet its stated priorities because the budgets are not being implemented as planned. As all this happens, the biggest casualty are the county governments and the development budgets. The government priority for this period seems to be repayment of public debt with counties being the least of the government's worries.

This trend of prioritization of public debt repayment in the FY 2020/21 is the same in the 3.7T budget to be presented by Mr. Yatani for the FY 2021/22. It is shocking that at a time when the government is facing challenges in revenue performance, instead of cutting down the expenditure it has increased the budget by KES800B. Majority of this budgetary increase is to cater for ballooning debt service repayment. This implies that Kenyans must be ready to lose part of their current income to the government through additional taxes. Additionally, the government has already planned to borrow more funds from the domestic market which is going to make it very difficult for individuals and small businesses to access credit locally. For the government to borrow more money, the current debt ceiling of KES9T must be revised upwards to create space for more debt.

The current debt stock stands at KES8.4T. The government will require more than KES1T in new debts to implement the FY 2021/22 budget. According to our reviews at the Institute of Public Finance Kenya and based on publicly available information from the Parliament Budget Office, the national treasury should consider putting a stop on introduction of any new development projects, defer a third of current ongoing development projects, tap into tax exemptions and expenditures currently estimated at over KES500B which is considered one of the highest levels globally for more revenue. Moreover, it should prioritize and fast-track transfers to the counties and expenditure on development budget to realize the promises made to the people.

Finally, parliament should play its constitutional role of representation and oversight which it has abdicated by giving the executive a free hand with regards to our public finances.