IMPACT OF DEBT SERVICING ON SOCIAL SPENDING AND WELL BEING OF LOW-INCOME HOUSEHOLDS IN KENYA

A CASE STUDY OF NAIROBI CITY AND MOMBASA COUNTIES

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LIST OF ABBREVIATIONS

ASALs	–	Arid and Semi-Arid Lands
CHVs	-	Community Health Volunteers-
COB	–	Controller of Budget
CRA	–	Commission of Revenue Allocation
CSOs	–	Civil Society Organizations
ECED	–	Early Childhood Educational Development and Studies
GDP	–	Gross Domestic Product
ICT	–	Information and Communication Technology
KNBS	–	Kenya National Bureau of Statistics
MES	–	Managed Equipment Services
MSMEs	–	Micro Small and Medium Enterprise
NEMA	–	National Environmental Management Authority
NMS	–	Nairobi Metropolitan Services
PFM	–	Public Finance Management
SGBV	–	Sexual and Gender Based Violence
SMEs	–	Small and Medium Enterprise
SSA	–	Sub – Saharan Africa
TVC	–	Technical Vocational Centres
VAT	–	Value Added Tax

ACKNOWLEDGEMENT

This study was conceptualized and project managed by Andrew Gogo and Riva Jalipa and authored by Dr. Francis Omondi and Dr. Perez-Onono-Okello. Copyright Oxfam, 2021.

EXECUTIVE SUMMARY

Kenya has been implementing massive infrastructure projects aimed at social and economic transformation desired in its development blueprint: *The vision 2013.* Due to persistent expenditure revenue gap over the years, the stock of debt has grown exponentially in the last five years and the government resorted to borrowing to finance the deficits. There is growing concern that increased demand for resources for debt service may have adverse effects in the economy including but not limited to reduction in social spending, introduction of new taxes, increased rates for existing taxes, increased costs of borrowing to the private sector, and rising costs of production leading to higher prices for goods and services with negative impacts on household overall consumption. In such cases, the low-income households bear the greatest burden because of their low purchasing power and high dependency on the basic public services for wellbeing.

The growing concern on the effects of the spiraling level of public debt and specifically the impact of its servicing on social spending and well-being of low-income households in Kenya motivated Oxfam to commission a study to provide empirical evidence on the same based on experiences in two selected counties – Nairobi and Mombasa. The specific objectives sought to establish the correlation between debt servicing and social spending; establish the impact of changes in social spending on low income households; assess the trends in investment of the loan-driven infrastructural development on socio-economic development from 2015 to 2020; determine the opportunity costs of debt financing to social and economic prosperity of low-income citizens and to analyse the level of Citizen Participation in the debt cycle. The study findings provide a knowledge base upon which policies and advocacy messages linking debt service to the socio-economic outcomes for low income households can be formulated.

The study adopted a mixed methods approach in which both secondary and primary data were used. Secondary data on debt stock and repayments, expenditures by the national government on education, health and social protection were extracted from various issues of statistical abstracts of the Kenya National Bureau of Statistics (KNBS). Data on budget allocations and actual expenditures by the Nairobi City and Mombasa Counties on health, education, water and Sanitation were obtained from the Controller of Budget (COB) reports. Primary data was collected from a sample of 387 households comprising 201 households from *Mukuru (Kwa Reuben, Kayaba, and Viwandani)* in *Nairobi* and 186 households from Mombasa's *Bangladesh* and *Kalahari* slums.

On the correlation between debt service and social spending in Kenya the following conclusions are made

- **The negative correlation between debt service and expenditures in the two keys social sectors show that debt service crowded out social spending**. The proportion of debt service in total ordinary revenue grew from 23.97 percent 2011/2012 to a high of 49.82 percent in 2018/2019. Similarly, the proportion of debt service in national government spending increased exponentially from 2015 to 2020 remaining high above the proportion of spending on education and health which depicted a gradual downward trend.
- **Accumulation of large stock of debt acts as an indirect fiscal instrument for transferring wealth from poor taxpayers to government bondholders**. The interest component of debt service grew at an increasing rate and remained higher above total spending on social protection programmes across the years. The social protection programmmes in Kenya are mainly financed by development partners. The increasing growth in total interest on debt therefore benefit government bondholders at the expense of poor taxpayers
- **The reduction in spending in social sectors is manifested in lack of essential services in health and education facilities**. Survey respondents indicated lack of medicines and specialized equipment in most of the hospitals at level three and below where they are to access free treatment. Requirements to provide most of the resources for learning in public schools, delays in government disbursements of capitations to schools as well as payments for social protection transfers and public works programmes were cited as indicators of lack of adequate resources to sustain social services

On the Impact of changes in social spending on low income households:

- **Trends in the recurrent and Development Spending by the county governments of Nairobi and Mombasa on health and Education are not consistent with rising demand for services.** Fluctuations in spending and declining development expenditures far below budgetary allocations depict uncertainty in realizing expansion required in facilities to enhance access to quality services
- **Insufficient funding of the public health and education facilities has negatively impacted the quality of services to citizens.** Congestion in classrooms, few schools and few teachers to handle very many students, lack of water and good sanitation facilities as well as requirements to pay for services have caused ineffective learning from public education institutions. Lack of medicine, inadequate medical laboratory services, long queues, few qualified staff in public health facilities that are meant to offer free services have denied many low-income households' access to quality healthcare
- **The delays in remitting Cash transfers to the vulnerable populations (old persons, orphans and vulnerable children) cause inconveniences to beneficiaries. Further lack of updating beneficiaries register and lack of clear criteria for awarding bursaries to students has left some of the most vulnerable groups out of the government support programmes** Many students from low income households have dropped out of school because they are often sent home for fee and other required resources. Some of the very needy students get bursaries to join form one but drop out after failing to get support in subsequent years. Some of the beneficiaries of the transfer programmes find the amounts insufficient citing many dependents and lack of other stable sources of livelihood.

Loan driven infrastructure investment for social and Economic development from 2015 to 2020 in the social sectors cut across various programmes and subsectors in the social sectors

- **In Education there are school infrastructure projects in early and basic education, vocational and technical training, University education and Research**. The investments support establishment of education, training and research centers, construction of new and rehabilitation of existing facilities as well as equipping them to enhance quality in training. The aim is to expand the facilities to increase access to quality training and support effective transition across all levels of education
- **In health investments cover development in health promotion, communicable disease control, national referral systems and Forensic and diagnostics**. Health promotion projects are aimed at enhancing food and nutrition for the vulnerable, Environmental health services and public laboratory networking project while projects in communicable disease programmes are aimed at Prevention and treatment for HIV/, Tuberculosis and Malaria. In the National referral systems, Projects components include Modernization, expansion and equipping of hospitals including Kenyatta National Hospital, Moi Teaching and Referral Hospital and *Wajir* District hospital. Other projects in Forensic and Diagnostics focus on construction, rehabilitation and equipping of hospitals and dispensaries, clinical waste management, technical support, basic health insurance for the poor and informally employed and Universal Health Coverage
- **Projects in water and sanitation include construction and rehabilitation of rural water schemes, drilling boreholes and construction of small dams/pans in ASALs and implementation of rural and urban water and sanitation projects in low-income areas**. The focus is to achieve sustainable increase in water supplies for all populations both in rural and urban areas and to increase access to modern sanitation facilities

The opportunity costs of debt financing to social economic prosperity of low-income citizens include:

- **Debt servicing crowds out private investment in Kenya.** The rise in the stock of debt, which is directly proportional to debt servicing, crowds out credit to the private sector and by extension private investment.
- **Increased burden of debt servicing negatively affects the welfare of low-income households.** Through loss of employment opportunities from the private sector thereby worsening their economic welfare. More joblessness and lack of income.
- **Increased burden of debt servicing results to increased cost of living hence reduction in household's final consumption expenditure:**

Regarding the analysis of the levels of citizen participation in the debt cycle.

- **There is clear constitutional provision for public participation in fiscal decision making in Kenya.** The constitution provides space for citizen participation in fiscal policy decision making throughout the budget and debt cycle.
- **The implementation of the constitutional provision for public participation has not been satisfactory.** Citizens have not been adequately engaged in public borrowing decisions. Therefore, most households believe that the public borrowing decision is a preserve of the political class led by the president.
- **Most of the surveyed Households were dissatisfied with the prevailing public borrowing decision making in Kenya** citing misappropriation of borrowed funds adequate involvement of citizens in the borrowing decisions and non-prioritization of their immediate needs

The recommendations from the findings are:

1. The Kenya government through the National treasury should adhere to the Debt policy that encourages increasing amounts of public debt on concessionary terms allowing longer grace periods. Such loans attract lower interest rates and are also associated with lower amounts for service in each period. Longer grace periods can enable the government to retire pending loans while also freeing the fiscal space required to finance social services to citizens
2. The government and the Semi-autonomous agencies should exploit the alternative options for infrastructure investments in public private partnerships (PPPs) to reduce growth in debt. The PPPs enable private capital into investments that support public service provision but are productive. This would free up revenues for provision of services while also allowing the debt service burden to fizzle out
3. Loan driven Infrastructure spending should only be approved if the outputs are associated with large positive externalities and the future income streams from it can sustain repayment of the debt
4. Early disbursement of the equitable share to the counties to enable them sustains programmes that rely on private suppliers. Private suppliers require payments to provide resources to county government and state departments critical to performance of their functions. Suppliers pull affects service delivery and halt in socio economic programmes causing massive losses of gains already made
5. National and County governments should prioritise spending towards critical programmes for the social and economic wellbeing of vulnerable groups and low-income households including supplies of medicines to health facilities and level three and below, capitation to schools and other public institutions, student loans and bursaries.
6. The County governments should ensure fully financing development budgetary allocation to the social sectors to enable expansion of capacity for service in response to rising demand. Service provision from congested facilities even with increase in recurrent spending cannot improve quality of service.
7. National and county governments to ensure effective and efficient budgeting and factor in only the immediate public expenditure needs for recurrent and development financing to curb wastage of resources through corruption.
8. Sustainable measures should be taken to reduce crowding out of private sector borrowing such as prudent external borrowing by the government to avoid competing with private investors in the domestic financial market.
9. The government can reduce debt servicing burden through debt conversion and minimizing commercial external loans that attract higher interest rates.
10. Additional revenue raised through taxes should target progressive taxes which have less impact on the low-income households. VAT on basic commodities that impact heavily on low-income households should be removed.
11. Full implementation of the constitutional provisions for public participation in fiscal management to ensure satisfactory citizens engagement. The national treasury should allocate sufficient time for public participation during budget formulation.
12. National and county governments in collaboration with civil society and other stakeholders should undertake effective civic education for citizens on their right and role in public participation on fiscal management matters. This would enhance their level of participation and quality contribution. Enhanced citizens engagement in the budget and debt cycle would change their perception that decisions on debt is solely the responsibility of the political class.
13. Enhanced accountability and transparency in fiscal management: Stringent measures should be taken to fight graft which the majority of the households felt was contributing to increased debt burden in Kenya.

1.0 BACKGROUND

1.1 Context

Kenya's long-term development blueprint, the Vision 2030 with its three key pillars: Economic; Social; and Political Governance, envisions to transform the country into "a rapidly industrializing middle-income nation providing high quality of life to all its citizens in a clean and secure environment by the year 2030"[1]. To make Vision 2030 a reality, huge financial resources are required to develop the numerous infrastructural projects outlined. However, Kenya faces economic bottlenecks in raising sufficient resources to fund her investment plans in roads, energy, ports, education, and health inter alia. World Bank report of 2018, estimated that the annual infrastructure financing deficit for Kenya is nearly $2.1 billion[2]. The report further noted that Kenya would require a sustained infrastructural development expenditure of nearly $4 billion annually to realize its infrastructural development agenda by 2030. Coupled with a public debt that is now above 65 percent of the GDP, raising the financial resources from the domestic economy remains a tall order[3]. The country has thus recourse to external creditors (multilateral, bilateral and commercial lenders) and domestic borrowing (loans and issuance of debt securities) to fund her development projects[4].

Kenya's Public debt has grown exponentially from 2013 due to increased borrowing particularly from commercial sources which are associated with short grace periods but attract high interest rates. The consequence is increased demand for resources for debt service which, by extension, may result to reduction in social spending. This can take the form of widening deviations between actual expenditures in the social sector and the approved estimates or where the desired real per capita spending in the social sectors reduces as debt service increases. Other plausible negative impacts of increased burden of public debt service may include introduction of new taxes, increased rates for existing taxes, increased costs of borrowing to the private sector, and rising costs of production leading to higher prices for goods and services, hence a reduction of the household consumption sets. Such effects have disproportionate burdens on low-income households whose purchasing power is usually low and largely dependent on the basic public services for their wellbeing.

Widespread concern on the effects of the growing debt and specifically the impact of its servicing on the low-income households in Kenya motivated the need for empirical evidence on how debt servicing is impacting social spending and the wellbeing of low-income households in Kenya. Two case studies were conducted based on a sample of respondents from Nairobi and Mombasa Counties. The study findings provide a knowledge base upon which policies and advocacy messages linking debt service to the socio-economic outcomes for low income households can be formulated.

1 http://vision2030.go.ke/wp-content/uploads/2018/09/Kenya-Vision-2030-Sector-Progress-Project-Updates-June-2018.pdf.
2 https://www.worldbank.org/en/about/partners/brief/kenya-enabling-private-sector-participation-in-infrastructure-and-social-services.
3 https://www.statista.com/statistics/451122/national-debt-of-kenya-in-relation-to-gross-domestic-product-gdp/.
4 http://ntnt.treasury.go.ke/wp-content/uploads/2021/02/Debt-and-Borrowing-Policy-2020-Final-June-2020.pdf.

1.2 Scope and Objectives of the Study

The overall purpose of this study was to assess the impact of public debt servicing on social spending and well-being of low-income households in Nairobi city and Mombasa Counties of Kenya. The specific objectives of the study were to:

i) Establish the correlation between debt servicing and social spending
ii) Establish the impact of changes in social spending on low income households
iii) Assess the trends in investment of the loan-driven infrastructural development on socio-economic development from 2015 to 2020
iv) Determine the opportunity costs of debt financing to social and economic prosperity of low-income citizens
v) Analyse the levels of citizens participation in debt cycle

2.0 METHODOLOGY

2.1 Study Design

The study adopted a mixed methods approach in which both secondary and primary data were used. Secondary data on debt stock and repayments, expenditures by the national government on education, health and social protection were extracted from various issues of statistical abstracts of the Kenya National Bureau of Statistics (KNBS). Data on budget allocations and actual expenditures by the Nairobi City and Mombasa Counties on health, education, water and Sanitation were obtained from the Controller of Budget (COB) reports.

Primary data from low-income households[5] was collected in Nairobi and Mombasa counties. The household data collection was from sampled households in the informal settlements of *Mukuru* area in Nairobi (*Kwa Reuben, Kwa Njenga, Kayaba, and Viwandani) and Bangladesh* and *Kalahari* slums in Mombasa County. Estimated total population for *Mukuru* slums was 301,683 living in approximately 100,661 households[6] in 2017. However, estimates for total population for Bangladesh and Kalahari slums was not available. Therefore, assuming an infinite total population for the selected study sites and 5% level of precision, the sample size was determined based on the formula:

$$n = \frac{z^2 pq}{e^2}$$

Where:

n = required sample size
p= 1-q (variance expected in the responses assumed to be 50:50 proportion rate).
z = Z score value at 95% confidence level (standard value of 1.96)
q = Estimated responses.
e = Level of precision or margin of error at +-5% (standard value of 0.05).

The optimal sample size by the formula was 384 households but data was collected from 387 households sampled from the informal settlements in Nairobi's Mukuru area (*Kwa Reuben, kwa Njenga, Kayaba and Viwandani*) and 186 from Mombasa's *Bangladesh* and *Kalahari* slums. Household data collection was by interview method guided by a structured questionnaire. A total of 20 key informant interviews were undertaken with selected directors of County departments (economic planning and budget, education, health, water and sanitation) area chiefs, religious leaders and community leaders. Two focus group discussions were held with a total of 26 participants (10 female and 16 male) representing various community groups including women led organisations, youths, persons with disabilities, civil society organisations (CSOs) and community based organisations (CBOs), religious and other Community leaders, representatives of micro, small and medium enterprises (MSMEs). Quantitative and qualitative techniques were used to analyse information from the various sources to address the study objectives.

2.2 Social and Economic characteristics of the sampled Households

2.2.1 Characteristics of the Household head

The social and economic classification of sampled households is based on the sex, age, level of education and marital status of the household heads. Out of the 387 households, 217 (56.07%) were headed by males while the remaining 170 (43.93%) were headed by females. Summaries in Table 1 indicate a well distributed sample across the various possible ages, level of education and marital status for heads of households in many urban informal settlements.

5 According to the Kenya National Bureau of Statistics, low-income households are those with monthly expenditure below Ksh. 23, 670. https://www.planning.go.ke/wp-content/uploads/2020/11/Economic-Survey-2020-Popular-Version.pdf

6 https://static1.squarespace.com/static/58d4504db8a79b27eb388c91/t/5a65fbd653450a34f4104e69/1516633087045/Mukuru+SPA+Situational+Analysis+2017+Phase+2.pdf

Table 1: Household head characteristics

Age	n	%	Education	N	%	Marital status	N	%
>60 years	25	6.5	No education	18	4.7	Single	64	16.5
36 – 59 years	178	46	Some Primary	41	10.6	Married	217	56.1
18 – 35 years	184	47.5	Completed Primary	84	21.8	Cohabiting	10	2.6
< 18 years	0	0	Post Primary	6	1.6	Separated	29	7.5
			Some secondary	64	16.6	Widowed	41	10.6
			Completed secondary	117	30.4	Divorced	25	6.5
			College	41	10.6	Refused to say	1	0.3
			University	14	3.6			
			Refused to say	2	0.5			
TOTAL	**387**	**100**	**TOTAL**	**37**	**100**	**TOTAL**	**387**	**100**

2.2.2 Utilisation of Public Education Institutions and Health Facilities by Households

Majority of the sampled low-income households access health services and education from public institutions as shown in tables 2 and 3.

Table 2: Education institutions attended by household members

Type of Institution	Pre-School		Primary		Secondary		College		University	
	N	%	N	%	N	%	N	%	n	%
Public	81	66.39	202	83.13	143	88.27	32	74.42	25	92.59
Private/ religious	41	33.61	41	16.87	19	11.73	11	25.58	2	7.41
TOTAL	**122**	**100**	**243**	**100**	**162**	**100**	**43**	**100**	**27**	**100**

Table 3: Health facilities used by household members for various services

Type of Institution	Child immunization		Pre-natal Care		Post-natal Care		Reproductive health services		In case of Sickness		Chronic disease management	
	N	%	N	%	N	%	N	%	N	%	N	%
Private Hospital/Clinic	39	17.57	46	17.42	43	17.2	43	15.47	38	10.50	10	8.62
Public Hospital or Clinic	181	81.53	215	81.44	206	82.4	232	83.45	314	86.74	105	90.52
Chemist/ Pharmacies	2	0.90	3	1.14	1	0.4	3	1.08	10	2.76	1	0.86
TOTAL	**222**	**100**	**264**	**100**	**250**	**100**	**278**	**100**	**362**	**100**	**116**	**100**

The pattern of utilization of public education and health facilities suggest that any changes in spending that affect services in the public facilities would greatly impact access to quality healthcare and education for low income households.

2.2.3 Access to clean piped water and Sanitation Facilities

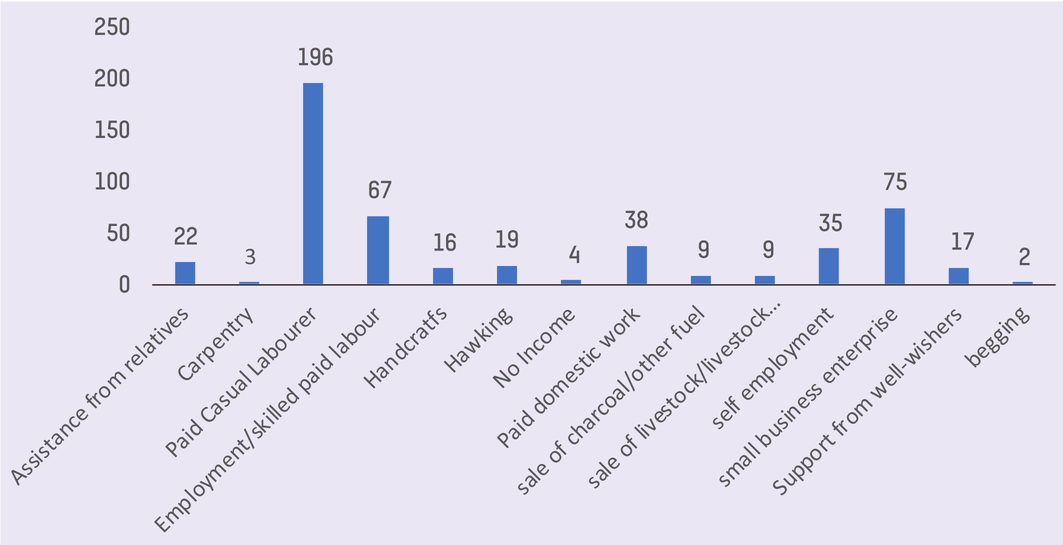
Only 30 percent of sampled households accessed clean piped water in their neighborhood with only 23 percent getting the water daily. A majority (61%) get the water 2-3 times in a week. Most of the households (62%) without clean piped water in the neighborhoods purchase from vendors, spending between Ksh.30 - 200 per day. Others (1%) access water from government boreholes from other estates for free. There are no proper toilets for residents in the informal settlements due to inadequate sewerage systems. Furthermore, the toilets used are shared by many households with no separate spaces for males and females. The need for government intervention in provision of modern sanitation facilities in the informal settlements remain critical and would require more allocation to development spending by the two county governments.

2.2.4 Vulnerabilities of Low-income households

Vulnerability of households increases demand for government services. Indicators of vulnerabilities among low income households include livelihood sources easily affected by shocks, members with special needs, and food insecurity status.

Sources of Livelihoods: Majority of the households derive livelihoods from non-stable sources (casuals, domestic workers, small businesses among others) which are highly vulnerable to negative shocks. Only 67 (17.31%) of the households derived livelihoods from some employment of skilled labour, which tend to be more stable. Special needs in the sampled households include chronic illness (45), persons living with disability (32), orphans (22) and old persons above 70 years old.

Figure 1: Sources of livelihood for the households



Food Security status: Almost all the sampled households purchase their food with 93% reporting inability to meet their food preferences. At least 50% of the households reported that they eat two meals a day but there are 18% that eat only one meal in a day and another 5% that report sometimes going without food. More than half of those who reported to sometimes go without food missed eating many times in the last one month indicating the severity of the food insecurity in their households. From the nature of the sources of livelihoods, purchasing food implies living from hand to mouth. Any economic shock would therefore leave the households highly exposed to hunger and malnutrition. When asked how they cope when faced with lack of income to buy food, 206, 129 and 124 households report that they reduce the number of meals, eat less quantity, borrow or work for food respectively.

Figure 2: Households coping mechanism when faced with lack of income to buy food

Other coping strategies include begging, sale of assets and some take their children to the village. Such coping strategies are associated with more malnutrition and poverty.

3.0 FINDINGS

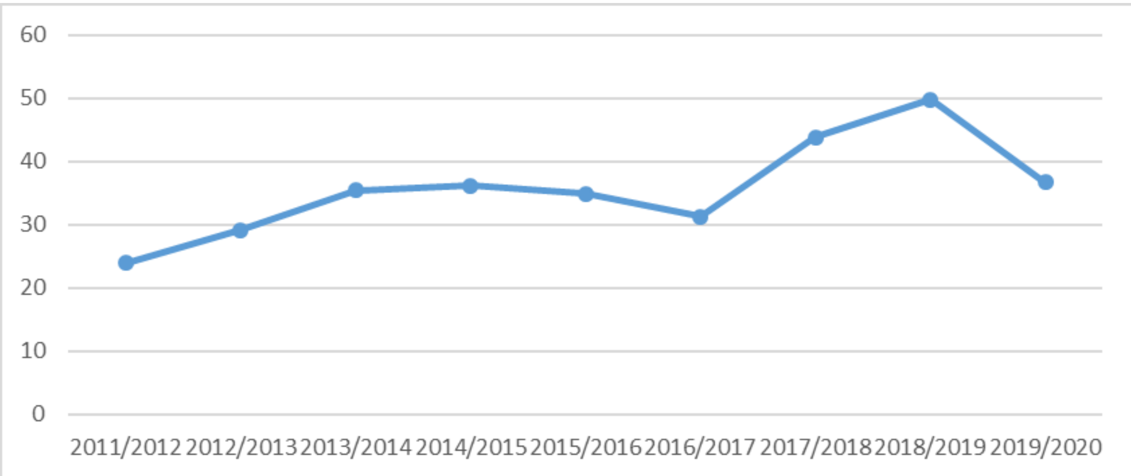
3.1 Correlation between Debt Servicing and Social Spending in Kenya

Servicing rapidly growing stock of debt can crowd out other government expenditures. This occurs when it absorbs a significant share of public revenues and expenditure thereby setting limits on resources available for investment in social and human development such as education, health and water.

3.1.1 Time series trend analysis

The trends in debt service as percent of total government revenues in figure 3 shows that the proportion of government revenues directed to servicing debt rose from 23.97% in 2011/2012 to a high of 49.82% in 2018/2019. The fall recorded in 2019/2020 could be a result of the temporary debt service suspension initiative that was rolled out by multilateral lenders during the COVID – 19 period.

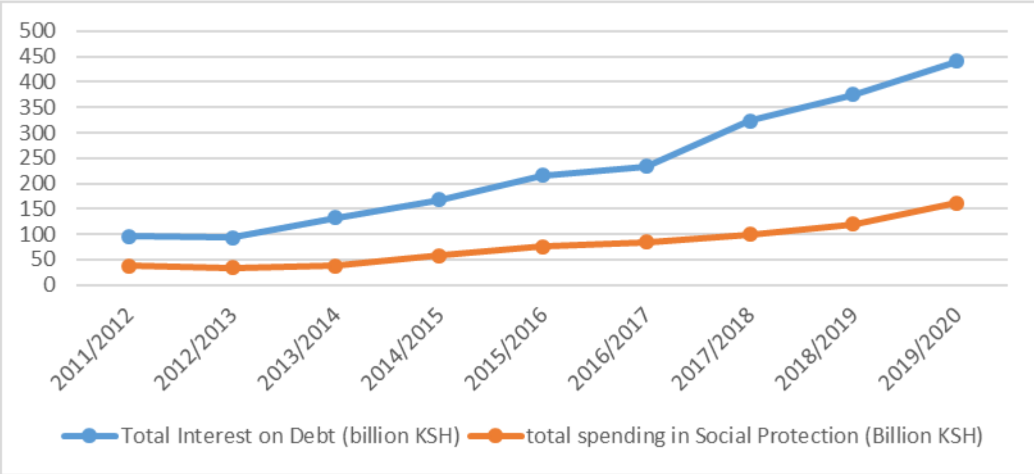
Figure 3: Total Debt service as percent to total government Revenues



Data Source: Statistical abstracts from National Bureau of statistics (Various issues)

The high proportion of revenues used to service public debt by the government indicates a reduction in resources available for economic and social sectors. The consequences have been insufficient budgetary allocation to sectors that are critical in providing services to citizens. It also suggests an underlying pressure towards continued borrowing to implement development plans in the Country
Debt service comprise two components; repayment of principal loan and interest payments. The interest component is a form of transfer payments through government from tax payers to the bondholders because such expenses are not accompanied by the supply of goods or services in the period in which they are made. The trends for total interests on domestic and external debt shown in figure 8 indicates a rapid growth from Ksh. 95.2 billion in 2011/2012 to Ksh. 441.5 billion in 2019/2020 due to the exponential growth in debt. Government transfers to low income households are through social protection programmes that extend subsidies, cash transfers to vulnerable groups in the population, humanitarian response and relief services to citizens impacted negatively by natural calamities and other shocks such as those experienced due to COVID – 19. The trend on total government spending on social protection shown in figure 4 indicates a gradual growth from Ksh.37.3 billion in 2011/2012 to Ksh.161.6 billion in 2019/2020.

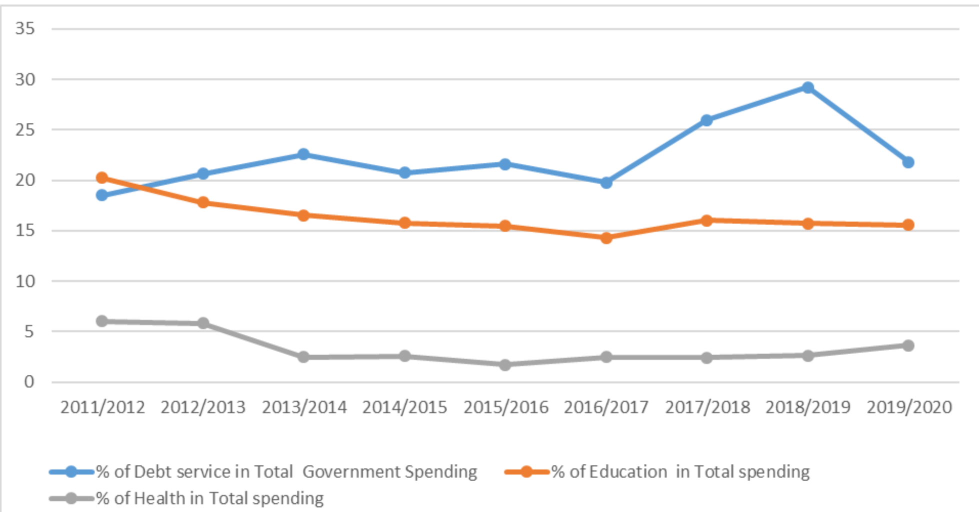
Figure 4: Trends of Government spending on Social protection and interest payments on Public debt



Data Source: Statistical abstracts from National Bureau of statistics (Various issues)

A comparison of the trends in figure 4 indicates that total interest on debt remained higher and above the total government spending on social protection during the entire analysis period. Furthermore, the gap between the two trends became wider from 2015/2016 onwards to 2019/2020.The widening gap indicates that public debt accumulation in Kenya has become an indirect fiscal instrument for transferring wealth from the poor who pay taxes towards the rich who receive massive interest incomes for lending to the government. This is because the beneficiaries of interests on debt are commercial banks, insurance companies, pension funds, credit and savings societies and high-income individuals within and outside the economy. Furthermore, a large proportion of government spending on social protection is supported by grants from development partners and other non-government institutions without which there would be high and rising inequality in the Country.
Fiscal instruments for redistribution include progressive taxation and spending on pro poor services. Increasing government expenditure in basic services such as education, health, water and sanitation, as well as environmental protection can enhance access to basic services critical for their social and economic transformation for low-income households. Trends for proportion of total National Government spending on Education and Health in the period 2011/2012 to 2019/2020 compared to the trend in proportion of total spending on debt service shown in figure 5 indicates that spending on debt service was higher than spending on Education and health programmes over the period.

Figure 5: Trends of National Government Spending on Debt service in comparison to Total[7] Spending on Education and Health from 2011/2012 to 2019/2020



Data Source: Statistical abstracts from National Bureau of statistics (Various issues)

7 * Total spending in education and Health include development and recurrent expenditures

The trend in debt service fluctuated on a rising trend while that for both health and education components fluctuated on a downward trend showing that increased spending on debt service in the period reduced resources available for spending on education and health. This is further confirmed by negative correlation coefficients shown in table 4 indicating that increased proportion of debt service in total spending is generally associated with decreases in spending in health and education decreased.

Table 4: Correlation coefficients of spending on debt service and spending on education and health by the National Government

	% government spending in Debt service
% Total Government spending in Education	-0.34598
% Health in total government Spending	-0.44815

The absolute value for correlation coefficient for health expenditure (0.44815) is larger in value compared to that for education (0.34598) showing that health spending has been increasingly sacrificed in the budgets than education. The trends and the negative correlation coefficients confirm the crowding out effect of servicing increasing debt on spending in the two leading social sectors in the country.

3.1.2 Manifestations of insufficient budgetary allocations and spending in social sectors in Nairobi city and Mombasa Counties

Key informants and participants in Focus group discussions in Nairobi City and Mombasa Counties pointed out some of the manifestations of budgetary constraints in education, health, sanitation, environmental protection, and social protection of vulnerable groups. These are summarized in BOX 1

BOX 1: Manifestations of insufficient budgetary allocations and spending in social sectors

1. No medicines in hospitals
2. Lack of critical equipment needed to provide quality treatment in level three hospitals
3. No recruitment of critical staff in medical facilities to provide treatment.
4. Inability to get even first aid services at the new level three hospitals in *Mukuru* area – *Mukuru kwa Rueben* and our lady of Nazareth hospitals in Nairobi city county
5. Delays in payments of youths engaged in Public works programmes *(Kazi kwa Vijana)*.
6. The halt in Public works programmes *(Kazi Mtaani)* which has left many youths jobless
7. Inadequate government Cash transfer programmes. There are a number of people to benefit but are not enrolled in the transfer programmes. Further, there are delays in paying the beneficiaries, with payments delaying even for three months
8. Very needy children do not get bursaries and needy university students who apply for HELB loans, follow up for too long and fail to get allocated the stipends
9. Lack of facilitation to activities of community health volunteers (CHVs)
10. Delays in remitting capitation to schools to support free primary education
11. Delays in remitting equitable share to county governments.
12. Rising pending bills to suppliers contracted by county and national government which is a reason to the many stalled projects
13. Lack of funding allocations by government to useful programmes such as Sexual and Gender based Violence (SGBV)

Source: Key informants and Participants in Focus Group Discussions in Nairobi and Mombasa Counties (September, 2021

VERY NEEDY CHILDREN DO NOT GET BURSARIES

3.2 Impact of changes in social spending on low income households

3.2.1 Trends of Spending in selected Social sectors by the Nairobi City and Mombasa County governments from 2015/2016 to 2019/2020.

Trends in recurrent spending for selected social sectors for Mombasa and Nairobi Counties are presented in figures 6a and 6b while those for development spending budget allocations for development spending are presented in figures 7a and 7b, respectively. Recurrent spending cover wage bills and cost of maintenance and operations while development spending support infrastructure development to expand capacity for increased efficiency in service delivery in response to increase in demand for services due to rising populations and incomes in the county.

Figure 6a: Recurrent Expenditure-Mombasa

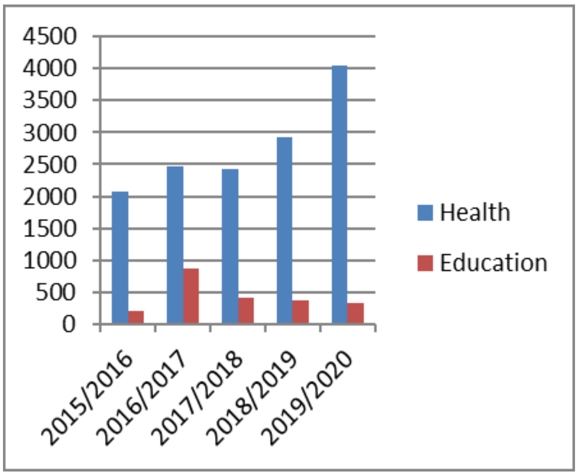


Figure 6b: Recurrent Expenditures - Nairobi

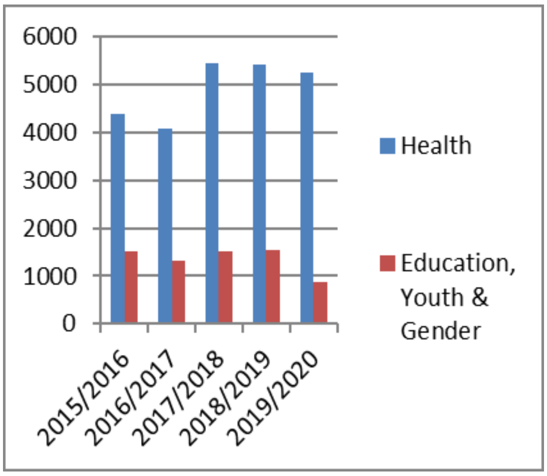


Figure 7a: Development Expenditure-Mombasa

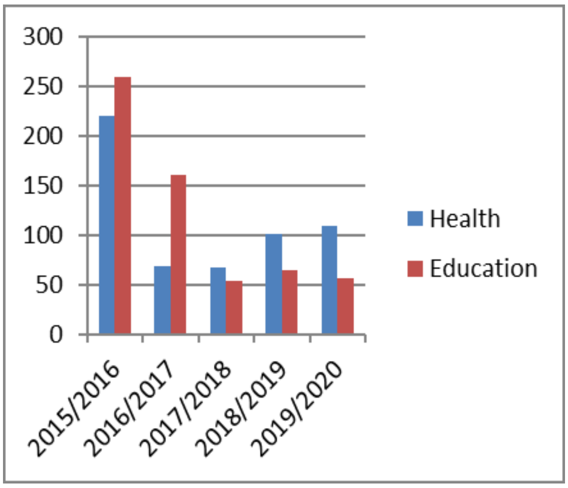
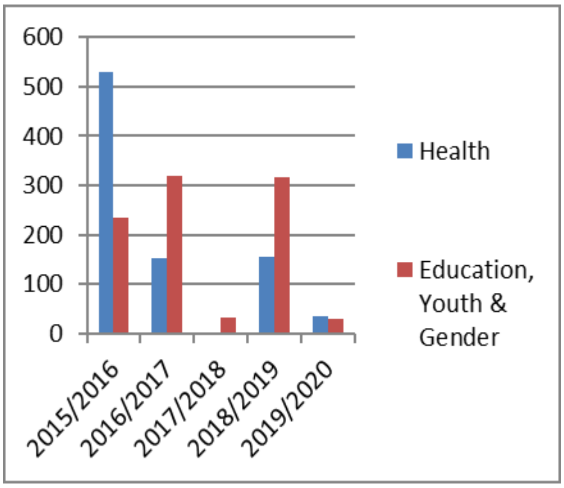


Figure 7b: Development Expenditures - Nairobi



In both Mombasa and Nairobi Counties, recurrent spending was highest on health. Recurrent spending on health in Mombasa County had a consistent rising trend throughout the analysis period while for Nairobi City County, the trend shows fluctuations with drops observed in 2016/2017 and 2018/2019 relative to the immediate previous fiscal period. According to the County Director for Public Health, Mombasa County, the consistent rise in Spending has been made possible because all revenues raised within the facilities are retained and used to finance operations in the facilities. However, health development spending in Nairobi County had a downward trend with no development spending reported for 2017/2018. For Mombasa the downward trend continued up to 2017/2018 but has since assumed a rising trend through 2018/2019 to 2019/2020.

Recurrent spending on education for the two counties has depicted fluctuations over the last five years. Development expenditures on education consistently dropped over the years for Mombasa County. For Nairobi the trends show that development spending increased significantly in the 2016/2017 and 2018/2019 while very low amounts were spent in the years 2017/2018 and 2019/2020.

The declines and fluctuation in recurrent spending in the social sectors suggest persistent challenges to the county governments on employment of additional staff to perform various functions and payment to suppliers of materials needed to provide services. Further, declining and fluctuating development spending imply uncertainty in expansion of capacity for service delivery through infrastructure development to overcome congestion in facilities. Furthermore, development spending in the two social sectors remained far below budgetary allocations across the years as shown in the figures 8 and 9.

Figure 8a: Development allocation and Expenditure-Mombasa

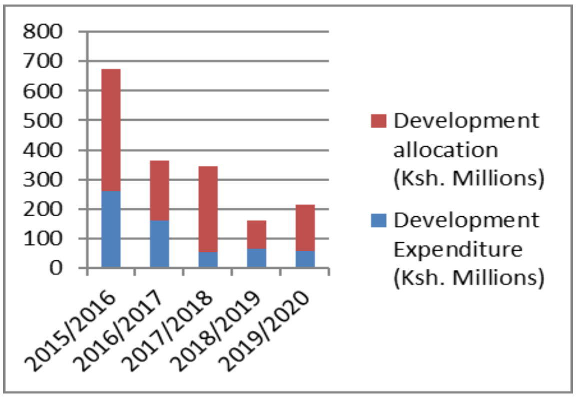


Figure 8b: Development allocation and Expenditure-Nairobi

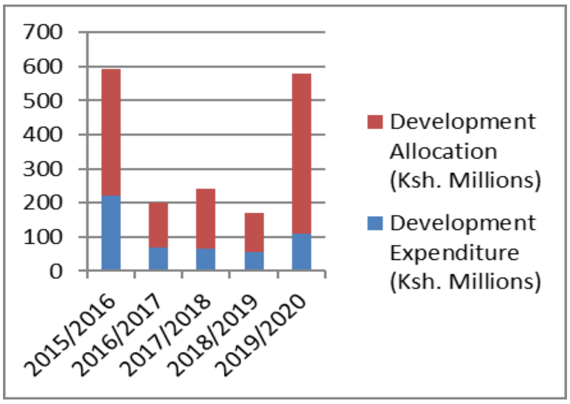


Figure 9a: Development allocation & Spending on Education – Nairobi

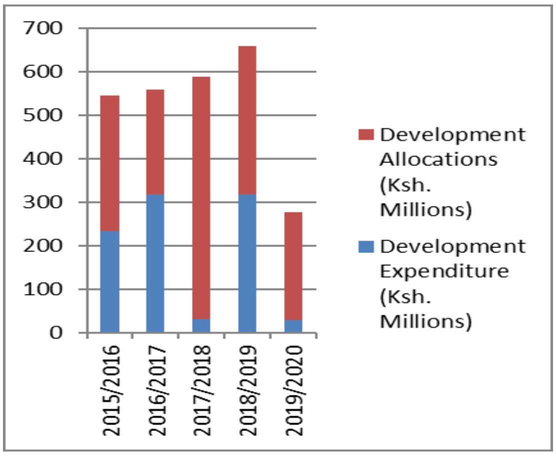
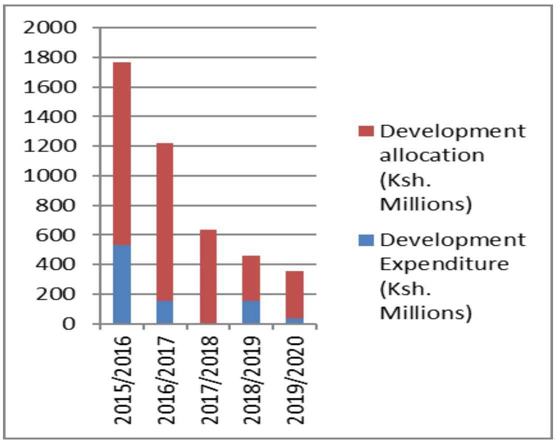


Figure 9b: Development allocation & Spending on Health- Nairobi



In Mombasa County, actual development expenditure in Education and Health were below the approved budget allocations in all the years. The same trend is depicted for the health sector for most of the years and the department of Education, Youth affairs & social services in Nairobi City County. The trends show a consistent lack of sufficient resources to meet the infrastructure needs in the sectors with negative consequences on quality service delivery from the health and educational facilities.

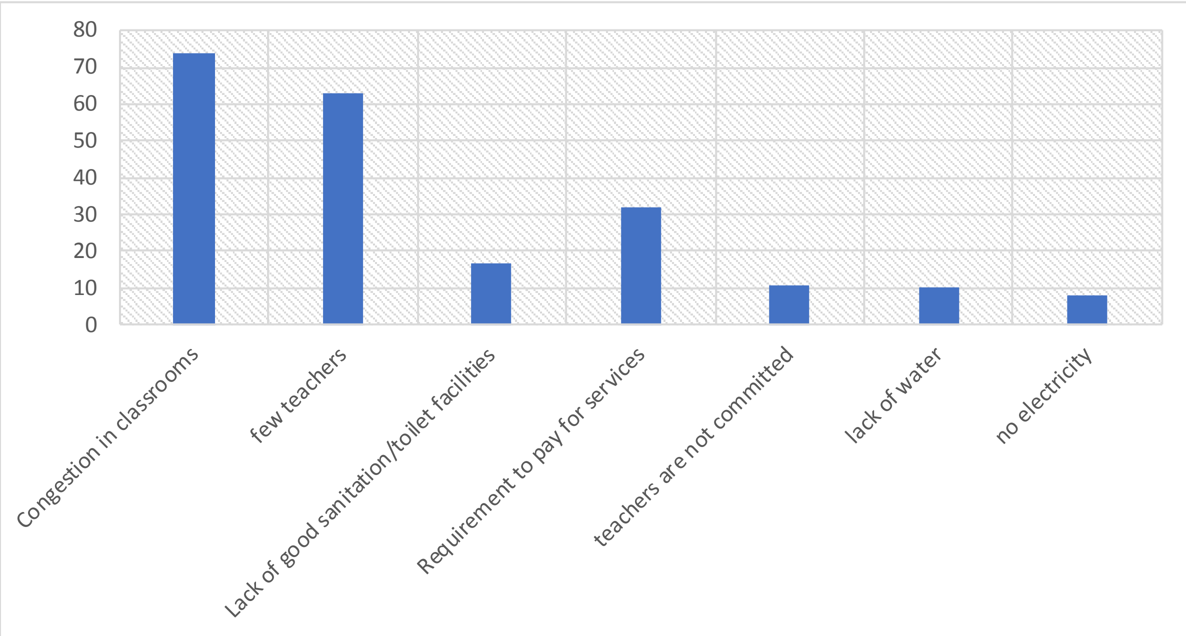
3.2.2 Impact of changes in social spending on the wellbeing of Low-income households

Insufficient spending in various sectors has impacted quality of service delivery from public facilities as well as access to government services by low income households. Low-income households rely heavily on public education institutions for education of the members. However, 32 percent of the sampled households were dissatisfied with the public education facilities for various reasons summarized in the figure 10.

Majority of the households cited congestion in classrooms, few teachers and the requirements to pay for services as the main reasons for their dissatisfaction with public education facilities. Other issues include lack of good sanitation facilities, water and electricity. Participants in the Focus group discussions cited insufficient allocation of money to schools and inadequate funding to education infrastructure as the main cause of the shortcomings in the education institutions. There is only one primary school in *Mukuru kwa Njenga* as well as in *Mukuru kwa Reuben* slums in Nairobi City County, yet there are many children attending school. Congestion was also evident in the many informal schools in the slums indicating the need for more schools to be established.

The congestion has led to ineffective learning in the schools.

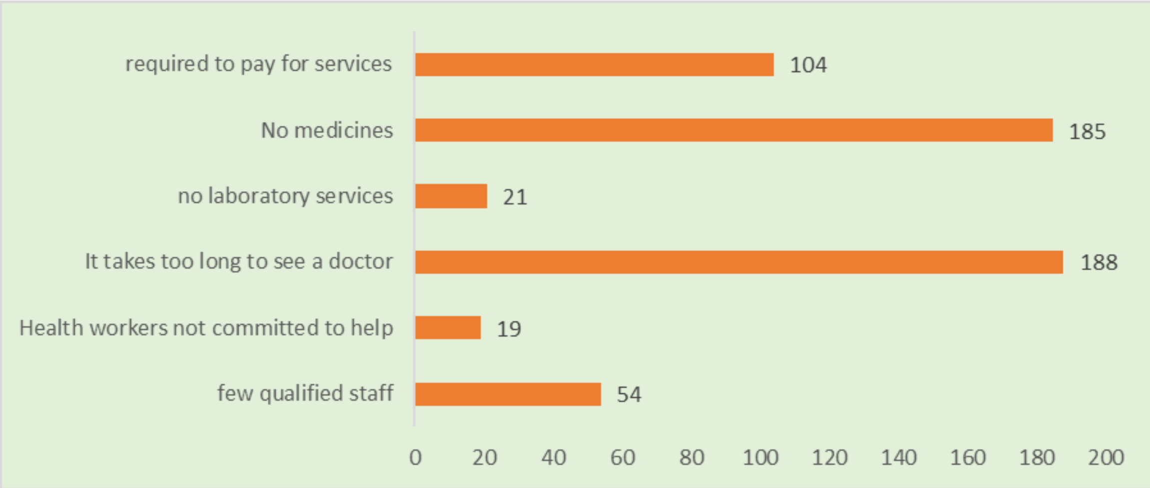
Figure 10: Main Reason for households Dissatisfaction with Services in Public Schools



Respondents indicated that the existing schools are not equipped with prerequisite resources and learning materials which have led to parents being required to buy and provide other leaning resources without which their children are not allowed in school. The latter is worsened by requirements for the competency-based curriculum (CBC) which many households cited as being very expensive in terms of books and leaning materials. Many children from low income households are therefore out of school most of the time because of the inability of their parents to pay school fees (for secondary schools and those attending informal and private schools) or lack the money to purchase learning resources. The consequences cited by respondents include dropouts and poor performance in examinations. which has hindered the educational advancement for children from low income households.

For public health facilities 185 (50 percent) sampled households were dissatisfied with services from the facilities citing reasons as summarized in figure 11.

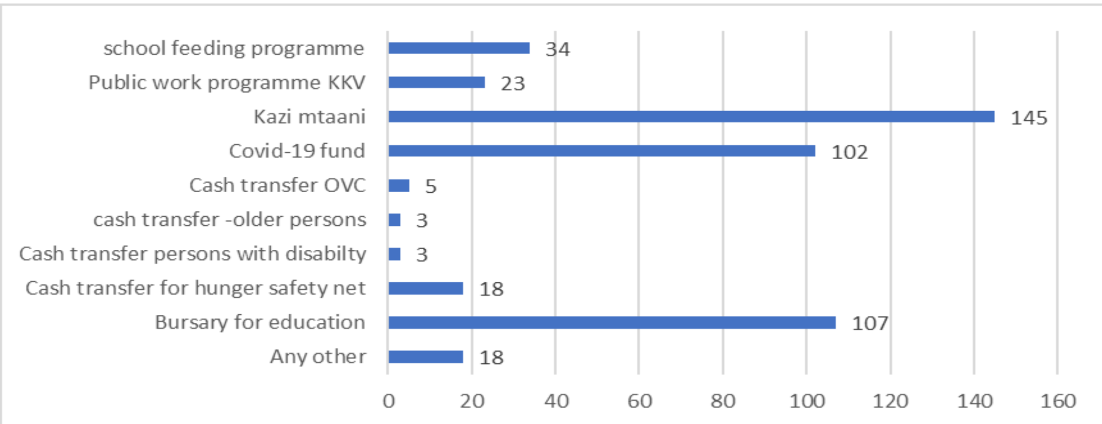
Figure 11: Reasons for Households Dissatisfaction with Public Health Facilities



Key informants comprising community leaders in *Mukuru* area in Nairobi City County indicated that in the two new level three hospitals in the area have very few qualified medical personnel to attend to patients, people buy most of the prescribed medicines and are referred for laboratory test in higher level health facilities or private ones where they must pay. In Mombasa, the four new community outreach centers of the Coast General Hospital have not helped low income residents since services are charged for. There are no public hospitals or dispensaries in *kalahari* slums (Mombasa) hence residents have to go a long distance to access better healthcare from outside the community. According to other respondents, the insufficient budget allocations and spending to health programmes is the main cause for lack of medicines and other important equipment needed for services as well as failure to hire qualified personnel in most of the county health facilities. They further indicated that many low-income households cannot afford the high costs of services from private facilities or chemists.

Households have benefitted from a number of government transfer programmes as shown in figure 12.

Figure 12: Government Support Programmes to Households

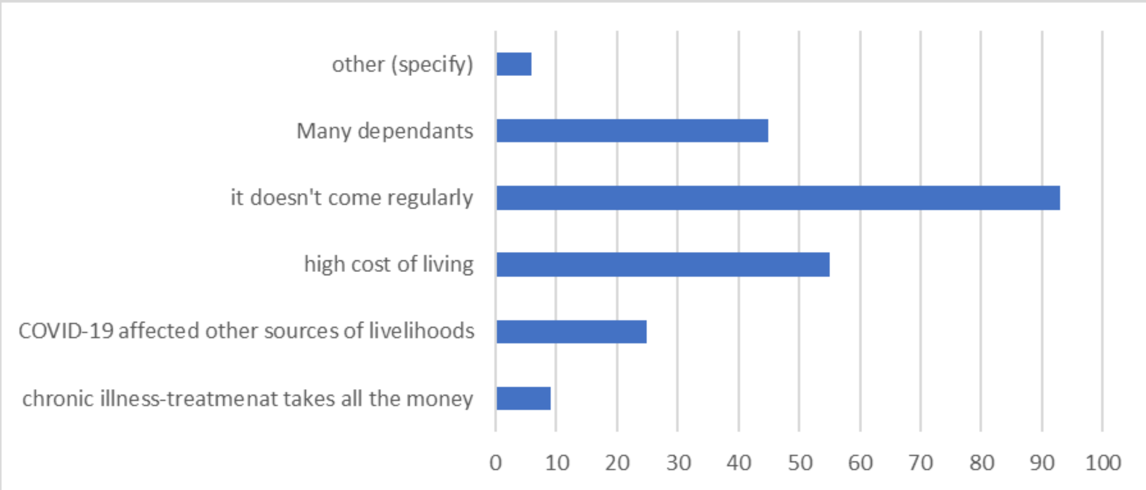


The programmes that benefited most of the low-income households in the informal settlements are *kazi Mtaani*[8] (street work), Education bursaries and the *COVID- 19* cash transfers. Some members of sampled households reported to have benefited from school feeding, public works programme, hunger safety net programme, Cash Transfer for Orphans and Vulnerable Children, Older Persons Cash Transfer and Persons with Severe Disabilities Cash Transfer.

8 The National hygiene programme

Most of the beneficiaries of the government transfer programmes (79 %) found some of support inadequate citing a range of reasons reported in figure 13.

Figure 13: Reasons for Inadequacy of Government Support Programmes



Irregular disbursement of the transfers, high cost of living, high dependency, negative effects of COVID – 19 on other livelihood sources and treatment related costs for chronic illness which absorb most of the money received make the support received inadequate. Some key informants indicated that many low-income households who qualify to benefit from the government social protection and support programmes have not been registered. Further bursary awards are inconsistent with needs because amounts given to many students are insufficient to cover their school feess. In Nairobi's Mukuru area, some of the needy students receive bursaries when they join form one but the awards are not guaranteed for subsequent years. This is said to have caused many students who would solely rely on the bursaries to drop out of school. The words of a community leader in *Mukuru kwa Rueben to stress this was that, "there are a few University students from this community. But when they apply for the Higher Educations Loans Board (HELB) for support, they follow up and wait for too long with no response until they have given up"*

The halt of most of the government support programmes have had secondary effects on low income households. Many youths who were employed in *kazi mataani* are still not able to find jobs because the economy has not recovered. Some of the affected youths are said to have joined criminal gangs and engage in drug abuse taking away the gains that were already being realized through the programmes. In Mombasa County, the halt of the school milk programme by the county due to nonpayment of suppliers (blamed on delayed release of equitable share) is feared to worsen school enrolment and retention for children from low income households

All households in the informal settlements in the survey lacked adequate sanitation facilities due to inadequate or absence of sewerage services, exposing low income households to polluted environments. For the *Mukuru* area in Nairobi County a sewer lines project by the NMS has been planned. FGD participants were hopeful that once the project is realized, sanitation in the area will improve. Lack of enforcement of environmental regulations especially in the *Mukuru* area exposes residents to industrial pollution. Complaints submitted to the National Environmental Authority (NEMA) have not been addressed and industries continue to operate without meeting the standards for managing emissions. On the consequences of these impacts on achievement of Kenya's long-term socio-economic development objectives all the Key informants paint a bleak picture to the possibility of realizing the social and economic transformations envisaged in the vision 2030. Some of their statements are highlighted in BOX 2

BOX 2

1. If things remain as they are, then there will be no resources for operations and development and the consequence is that Mombasa county services would come to a halt
2. If the situation does not change, realization of quality free basic education will not be realized
3. Bondholders are the ones benefiting including "banks- who report increasing volumes of non-performing loans and yet reporting rise in profits made"
4. Access to capital is constrained and therefore the country cannot achieve its aspirations. The focus will be narrowed only to food and healthcare and therefore the multiplier effect will be negative
5. There will be a general delay in the achievement of the long term social and economic transformation
6. Reduction in budgetary allocation will derail the achievement of the targets. However, if public debt is utilized in a manner that increases revenue generation, the challenge may be overcome in the long-run

...Key Informants in September, 2021

"

IF PUBLIC DEBT IS NOT UTILIZED, REALIZATION OF QUALITY FREE BASIC EDUCATION MAY NOT BE REALIZED

3.3 Trends in loan-driven infrastructure investment for social and Economic development from 2015 to 2020

The Kenya government has been implementing elaborate infrastructure projects aimed at achieving required transformations in the various social sectors aimed at improving the quality of life of her citizens[9] Most of the infrastructure projects are financed using loans. Table 5, 6 and 7 provides information on some of the loan driven infrastructure projects in the leading social sectors in Kenya between 2015 and 2020.

Table 5: Loan driven infrastructure Investments in the Education Sector

Sub sector	Loan Component of Project Cost (millions Ksh)	Purpose
Early Learning and Basic education	51, 833	Kenya Primary and Secondary Schools infrastructure – construction of new and refurbishment of existing Class rooms, laboratories and Equipping them
Vocational and Technical Training (VTT)	19,600	Establishment, expansion and equipping of VTT institutions
University Education and Research	22,242	Establishment of Research and service centers including Kenyatta University children Hospital, University of Nairobi Biotechnology project, construction of KAIST at KONZA and establishment of Wangari Maathai institute of Peace and Environmental studies

Source: Medium Term Expenditure Framework for Education

9 The aim of Kenya Vision 2030 is to create "a globally competitive and prosperous country with a high quality of life by 2030". It aims to transform Kenya into "a newly-industrialising, middle income country providing a high quality of life to all its citizens in a clean and secure environment"

The projects in education are aimed expanding at infrastructure and equipping the institutions to support actualization of free and compulsory basic education through increased school enrolment, 100 percent transition for all school going citizens to successive education levels through primary, secondary technical institutions or universities. Facilities are also to enhance integration of special needs', information and communication technology (ICT) into learning and training in all institutions and to promote research and innovation. The infrastructure investments made in the sector so far are in tandem with the country's development plans and are critical for skill development and competencies for the job market.

Table 6: Loan driven infrastructure investments in the health sector

Programme	Loan Component of Project Cost (millions Ksh)	Purpose
Health Promotion	6,922	Food and nutrition. Environmental health services and public laboratory networking project
Communicable disease Control	12,640	Prevention and treatment for HIV/, Tuberculosis and Malaria
National Referral system	3555	Modernization, expansion and equipping of hospitals including Kenyatta National Hospital, Moi Teaching and Referral Hospital, and Wajir district Hospital
Forensic and Diagnostics	30,271	Establishment , construction and rehabilitation of hospital and dispensaries; national technical assistance, clinical waste management, clinical laboratory radiology improvement, basic health insurance for the poor and informally employed, construction of cancer center at Kisii level 4 hospital, East Africa's Centre of Excellence for Skills & Tertiary Education, Up Grade of Health Centers in slums, Roll out of Universal Health Coverage
Family Planning services	2,320	Health sector development commodity, health System management

Source: Medium Term Expenditure Framework for Health

The investments in health programmes are part of the efforts to provide an efficient and high-quality health care system with the best standards to ensure the majority of citizens achieve of Universal health coverage.

Table 7: Loan driven infrastructure investments in Water and Sanitation

Project	Loan Amount
Kenya Karimenu II Dam Water Supply	CNY 200,530,600
Ithanga Water Project	EUR 10,520,826.83
Ithanga Water Supply Phase II	USD 280,759,117
Homabay Cluster Water & Supply	EUR 8,174,911.52
Itare Dam Project	EUR 306,129,860.54
Kajiado Rural Water Supply Project	EUR 4,254,325.21
Vihiga Cluster Water Supply	EUR 5,495,170.07
Sabor-Iten Tambach Water Supply Project (Keiyo District)	EUR 9,364,753
Kenya Towns Sustainable Water supply	USD 381,191,000
ADF-Kenya Towns Sustainable Water Supply and Sanitation Program	XDR 131,800,000
Water and Sanitation Development	AUA of 5,134,564
Coastal Region Water Security and Climate Resilience	EUR 105,417,579.22

Source: The National Treasury -External Debt Register

The investments are within the focus of Kenya government plans to enhance sustainable increase in water supply in rural areas including ASALs, increase water supply in the major urban towns of Nairobi, Mombasa Kisumu, Nakuru, and their surrounding satellite towns and implementation of urban water and sanitation projects in low-income areas.

3.3.2 Infrastructure Projects in Mombasa and Nairobi County

Key informants as well as participants from the FGDs provided information on infrastructure projects that have been implemented by the government within their communities over the last five years.

Nairobi – Infrastructure projects within Nairobi City County are mainly in roads, railway, hospitals and water projects. Completed projects within *Mukuru* slums include two level 3 hospitals namely *Mukuru Kwa Reuben* Hospital and Our lady of Nazareth in *Mukuru kwa Njenga*; paved roads, boreholes for clean water, police post, railway station and security lighting, Ongoing projects at the time of the survey included construction of a girls' boarding secondary school, electrification project and sewer lines project. Other than the electrification project known to be funded by the World Bank, residents did not know whether the other projects including the boreholes drilled by the Nairobi Metropolitan services (NMS), the roads and other projects by government in the community were through loans or not.

The residents indicated that the projects have conferred benefits to the community such as:

- People no longer walk for long distances to access health care facilities, although most of the time there are no medicines
- They can easily access schools, hospitals and public transport due to the paved roads
- The improved water access has reduced living costs. Most of the residents of *Mukuru* area exclusively purchased water in the past. But due to the borehole project, majority now get water for free.
- There is improved security due to the lights and police post within the community.

2

COMPLETED PROJECTS WITHIN MUKURU SLUMS

Level 3 Hospitals:

Mukuru Kwa Reuben Hospital

Our lady of Nazareth in *Mukuru kwa Njenga;*

Mombasa – Infrastructure projects over the last five years cited by informants in *Mombasa* include water and sanitation (WASH) projects; roads, and hospitals. The ongoing WASH projects include the replacement of the old water pipe network (done in the pre-colonial era) in Mombasa town to serve the rising demand due to increased population; the *Mwache* Dam in *Kwale* intended to supply water to *Mombasa* county, Boreholes to increase water supply, sewerage network reliability projects and construction of public toilets. Construction works to enable relocation of *Mama Ngina* Girls to the *Shanzu* area for expansion of the national school were ongoing. Completed projects include *Kibarai* road and *Dongo Kundu* bypass; *Mama Ngina* waterfront, rehabilitation of in Old Town area around Fort Jesus and other recreation facilities, establishment of the Oncology center at the Coast General Hospital, four hospitals (*Shika Adabu, Mtongwe, Vikwatami and Chaani*) as community outreach centers for the Coast General Hospital. The county government has constructed new and rehabilitated existing ECED centers and schools.

ONGOING WATER AND SANITATION (WASH) PROJECTS

Replacement of the old water pipe network in Mombasa town

The Mwache Dam (Kwale)

Boreholes to increase water supply

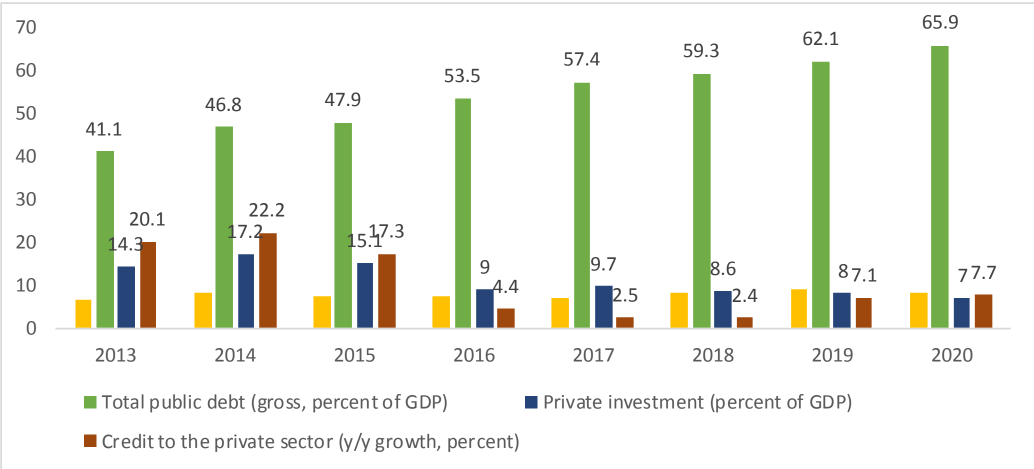
3.4 Opportunity costs of debt financing to social economic prosperity of low-income citizens

In the study, the opportunity cost of debt financing to social economic prosperity of low-income citizens has been conceptualized at the macro and micro level. At the macro level, opportunity cost of debt service is conceptualized on the basis of the impact of rising stock of debt on access to credit by the private sector, private investment, and private consumption. An assumption is made that the stock of debt is directly proportional to debt servicing so that rising stock of public debt is followed by a rise in the burden of debt servicing. At the micro-level, opportunity cost of debt service is considered on the basis of economic burdens to households as a result of increased demand on the government to repay its debts.

3.4.1 Macro level analysis of the opportunity cost of debt financing to social economic Prosperity of low-income citizens

Figure 14 presents total public debt compared to private investment and credit to the private sector (households and other players).

Figure 14: Trends in total Public debt, Private Investment & Credit access to Private Sector as a % of GDP



Source: World Bank, 2021, IMF, 2020.

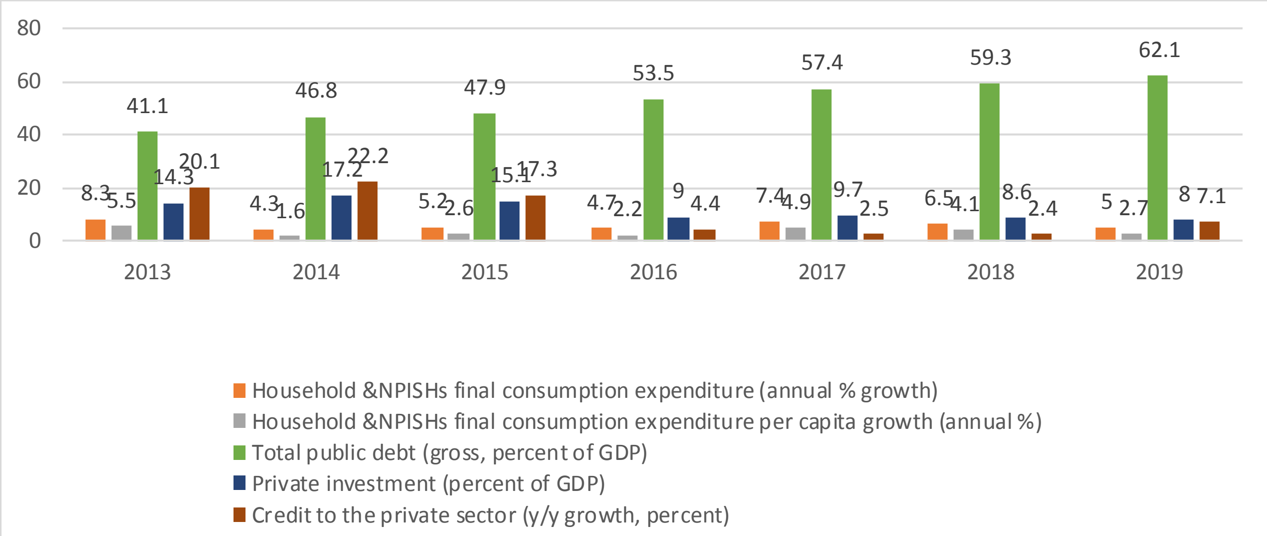
From figure 14, it can be shown that as total public debt as a percentage of GDP increased, access to credit and private investments as a percentage of GDP decreased. In the period 2013 to 2020 the total public debt as a percentage of GDP increased from 41.1percent to nearly 66 percent. At the same time, there was a remarkable decrease in both growth in the access of credit to the private sector and private investment by 12.4 percent and 7.3 percent, respectively Private investments by households in business ventures and other sources of livelihoods shows a determination to improve their living conditions. A shrink in growth of access to credit and private investments hurt low income households the most in two ways: job opportunities reduce and the trickle-down effect is watered down.

Rise in the level of private investments in an economy signals growth in the productive sectors, essentially, job opportunities are being created which open up various ways for individuals in low income households to be employed and earn incomes. With depressed growth in access to credit and private investments, many would be working individuals in the low-income households remain without work and hence are caught up in a vicious cycle of poverty as their economic welfare gets worse.

The trickle-down effect occurs when as other individuals are employed, their private consumption expenditure on products sold by low income household's business ventures rise. Such investments not only put income in people's pockets but also creates jobs which eventually lead to social and economic transformation for low-income households.

When compared with final household expenditure growth (annual and per capita), as total public debt grew, the growth in final household consumption expenditure dwindled drastically showing a negative correlation between public debt and household consumption expenditure. Figure 15 below illustrates. It can be argued that as total public debt increased, the economic welfare of households only grew worse, which is a pointer to a growing need by the government to institute wide ranging safety nets to cushion households in the low-income brackets from adverse economic shocks.

Figure 15: Trends for Kenya's Total Debt, Private household final consumption and Per Capita private household final consumption 2013-2019



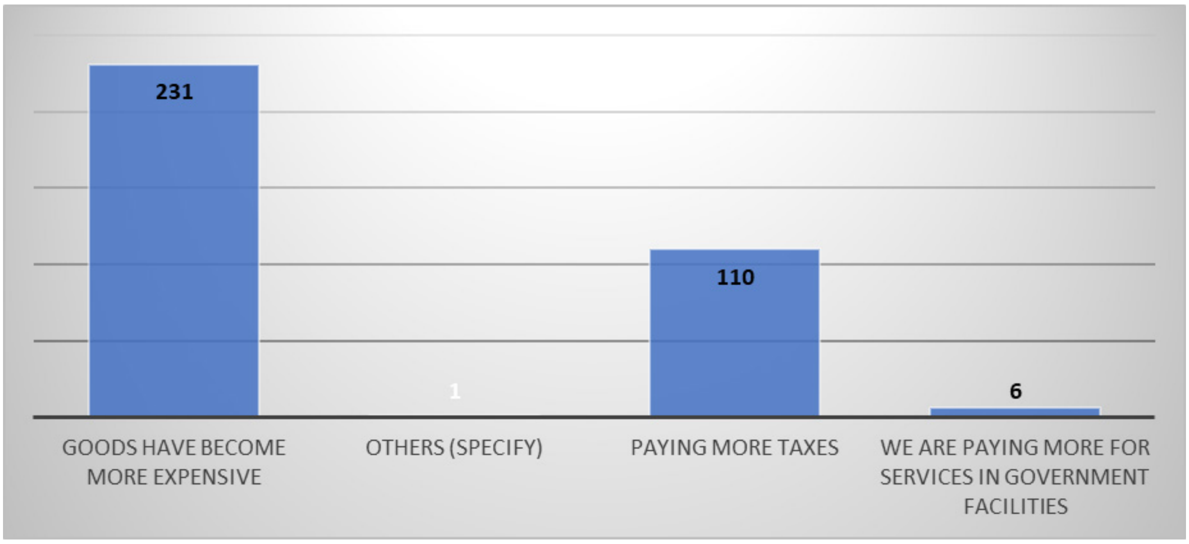
Source: World Bank, 2021.

3.4.2 Household level analysis of the opportunity cost of debt financing to social economic prosperity as of low-income citizens

The surveyed households' opinions were sought on whether they feel the burden of public debt servicing. 10 percent of the respondents in the two Counties responded negatively, 90 percent of the respondents affirmed that government's borrowing has worsened their economic welfare.

Households were further questioned on various ways through which they feel the burden of debt servicing. They gave varying responses ranging from increased cost of commodities, high tax rates, increased number of taxes, and increased cost of services at the government facilities. A summary of their responses is presented in figure 16.

Figure 16: The burden of debt servicing to low-income households



Results presented in figure 16 show that the majority of the households (231) linked the rising cost of commodities in the country to the burden of debt servicing. A good number of respondents (110) were of the view that they are paying more taxes to help the government with public debt repayment. On the same note, some respondents (6) reported that the increased cost of services at the government facilities was also as a result of increasing burden of debt servicing faced by the government.

1. The views of the surveyed households on the burden of debt servicing to citizen were further corroborated by the unanimous views of the participants in focus group discussions held in Nairobi and Mombasa counties who indicated that citizens had felt the weight of government repaying its loans through Increased costs of essential services such as education and health as material and equipment are heavily taxed to contribute to loan repayment.
2. High cost of living as all consumer goods are taxed including gas and cooking oils, digital tax, increase in VAT rate making costs to go up higher than usual. This they felt has affected low-income households more since the effect of a one shilling price increase is heavier for them.
3. Insufficient government relief to vulnerable groups. For instance, the Older Persons Cash Transfers Program remains at three to five thousand despite the increasing cost of living. Besides, the government has not updated the register to include those who qualified for the transfers after the initial registration.

KSHS.
3,000 - 5,000

CASH TRANSFERS PROGRAM TO OLDER PERSONS

3.5 Levels of citizen's participation in debt cycle (borrowing, re-financing, and repayments

Citizens by means of public participation are granted the opportunity to take part in critical decision making that influence public programs, policies, and legislation or play an oversight role in implementation of development programs, service delivery either directly or through their representatives[10]. Public participation may be done through town hall meetings, citizens surveys, or public hearing meetings or consultations. The notable benefits of effective public participation include diverse and new information may be obtained from the participants that may be critical in addressing major societal problems, it may contribute to more equitable distribution of resources, generation of new knowledge, and promote trust and legitimacy in decision making among others[11]. In Kenya, the enactment of the 2010 constitution ushered in a new legal, policy and institutional framework in the country's public finance management which put great emphasis on accountability and openness in the management of public resources with a strong foundation for public participation.

Kenya's Public Finance Management Act stipulates various avenues of public participation in the budget and policy formulation to enhance accountability and transparency. Articles 35, 94, and 96 of the constitution of Kenya state the process of disclosure of information to the public through clear fiscal reporting that guarantees access to timely and accurate budget information, programmes of the government, and results. Further, Articles 174, 201, CGA 89 guarantees transparency in public finance management by providing for independent commissions that enforce constitutional provisions and handle complaints by citizens. Whereas articles 174, 201,232, CGA 47,91, 99, PFM, 125, 128, 131, and 137 clearly outline the areas of direct public participation under the section on *public consultation and decision-making* which states that the public shall be involved in the budget and policy formulation, planning and social service delivery priority settings. Kenya's budget cycle allows for two levels of public participation namely; direct public participation by members of the public at the budget formulation stage, and indirect participation by their elected representative at the parliament and County Assemblies throughout the budget cycle. The main stages of the budget cycle in Kenya include; formulation, approval, implementation, and audit and evaluation. Despite the clear provision for public participation in fiscal management decisions in Kenya's constitution through the Public Finance Management Act, its implementation has not been satisfactory. For instance, in 2020, The Institute for Social Accountability (TISA) together with other CSOs noted that the government had not been allocating sufficient time for the public participation in the budget making process[12]. They observed that in the fiscal year 2020/21 budget, the National Treasury only reserved one week for public participation which was not sufficient. It was further noted with great concern that for the same fiscal period, the draft Budget Policy Statement (BPS) 2020 was released on the same day the public participation process was scheduled to close, a clear indication that it did not factor the views of the citizens presented during the public participation exercise. A clear pointer that the public participation exercise could have just been conducted as a formality.

10 https://statelaw.go.ke/wp-content/uploads/2020/07/Kenya-Draft-Policy-on-Public-Participation.pdf
11 http://stratas.cl/wp-content/uploads/2016/09/Theories-of-Public-Participation.pdf
12 https://www.kenyanews.go.ke/civil-society-calls-for-public-participation-on-debt-policy/

A study by the Intergovernmental Relations Technical Committee (IGRTC) on the status of the public participation at the two levels of government in Kenya, under the 2010 constitution, established that the constitutional provisions have not been fully adhered to[13]. The findings of the study indicated that while there has been effort to enhance public participation, implementation is still inadequate. It was therefore concluded that the level of public participation in Kenya is still inadequate and does not meet the constitutional threshold, and that there has not been any form of civic education to sensitize the citizens on their roles. Some of the key challenges identified to be hindering effective public participation in fiscal decision making in Kenya include: inadequate mechanisms for structured engagement with the public, limited budgetary allocation, constrained budgetary timelines, lack of dedicated staff to handle public participation[14]. At the National Assembly level, where the citizenry should have an opportunity to participate in public borrowing decisions to enforce openness as enshrined in Article 118 of the constitution[15], they have not been adequately involved. Some of the notable obstacles include inadequate committee meeting rooms, strict timelines, and understaffing[16]

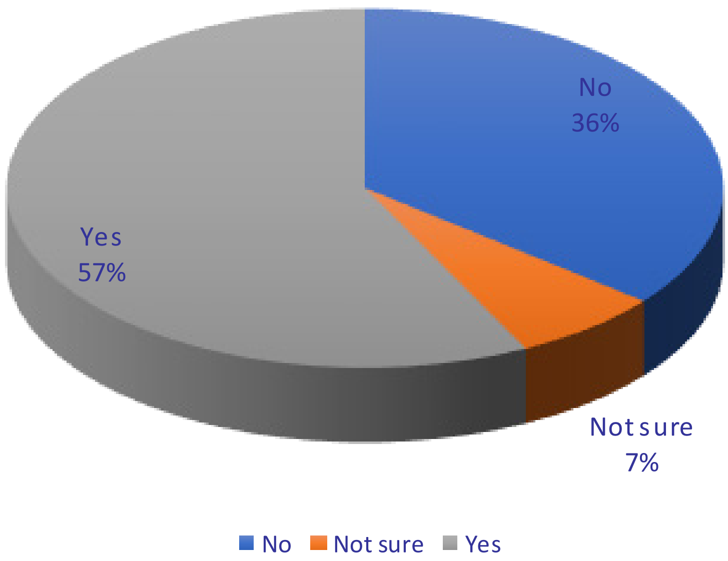
3.5.1 Households Level Analysis of the Space for Citizens Participation in Debt Cycle

The following section presents the responses obtained from the household surveys, key informant interviews and focus group discussion in Nairobi and Mombasa counties on citizens participation in the budget /debt cycle.

a) Households Participation in Government Budgeting and Borrowing Decisions

The respondents were asked whether they were aware of the need for their participation in government budgeting and borrowing decisions. The results of their responses are summarized in figure 17.

Figure 17: Households Awareness of Public Participation in Government Budgeting and Borrowing Decisions



Results presented in figure 17 show that 57 percent of the respondents were aware of their need to participate in the government budgeting and borrowing decisions. On the other hand, 36 percent of the respondents from the two counties were not aware of their need for public participation and 7 percent of the respondents were not aware of their role in public participation.

13 https://countytoolkit.devolution.go.ke/sites/default/files/resources/27. IGRTC Report: The Status of Public Participation at the National and County Governments levels in Kenya pdf

14 https://documents1.worldbank.org/curated/en/187591468253782383/

15 https://kenyanwallstreet.com/the-public-lenses-public-participation-in-2021-2022-kenya-budget-preparation/

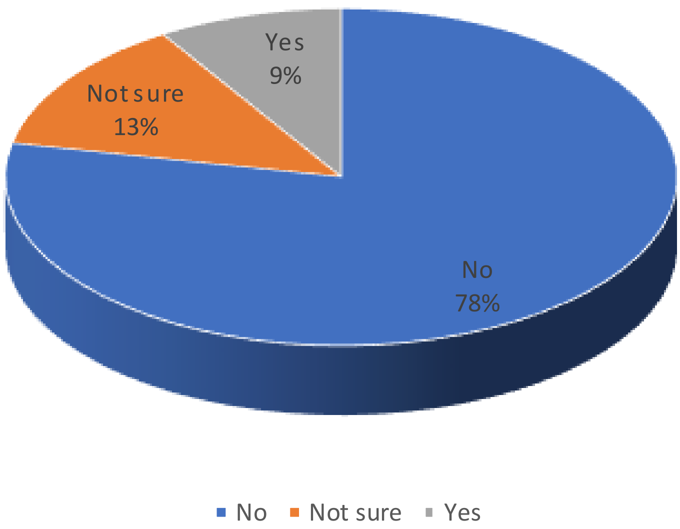
16 https://africog.org/wp-content/uploads/2013/04/Public_Participation_Report1.pdf pdf/945010NWP0P1500ear00n0FINAL00200020.pdf

On the same note, it was established that the level of awareness on public participation by citizens was higher among low-income households in Nairobi than in Mombasa. In Nairobi, 79 percent of the respondents responded in affirmative, whereas in Mombasa less than half of the respondents, 37 percent, confirmed their awareness of the need for their engagement in public participation. From the key informant interviews conducted in the two counties, the majority of the respondents confirmed that there were mechanisms in place in the country through the Public Finance Management Act for public participation. A fact that was also supported by the majority of participants in the focus group discussions.

The surveyed households were further asked whether they have ever been invited to take part in any public participation exercise on budget or public debt decision, 83 percent reported to have never been invited either directly or indirectly. Only 10 percent confirmed ever receiving invitations for public participation meetings whereas 7 percent were not sure. The high proportion of the households (83 percent) who have never received an invitation for a public participation meeting is an indication of laxity on the part of the government to fully engage the citizens in such critical decision-making exercises as enshrined in the PFM Act of 2012.

The respondents who confirmed receiving invitations for public participation meetings were further asked whether they attended the meetings. Their responses are captured in figure 18.

Figure 18: Attendance of Public Participation Meetings

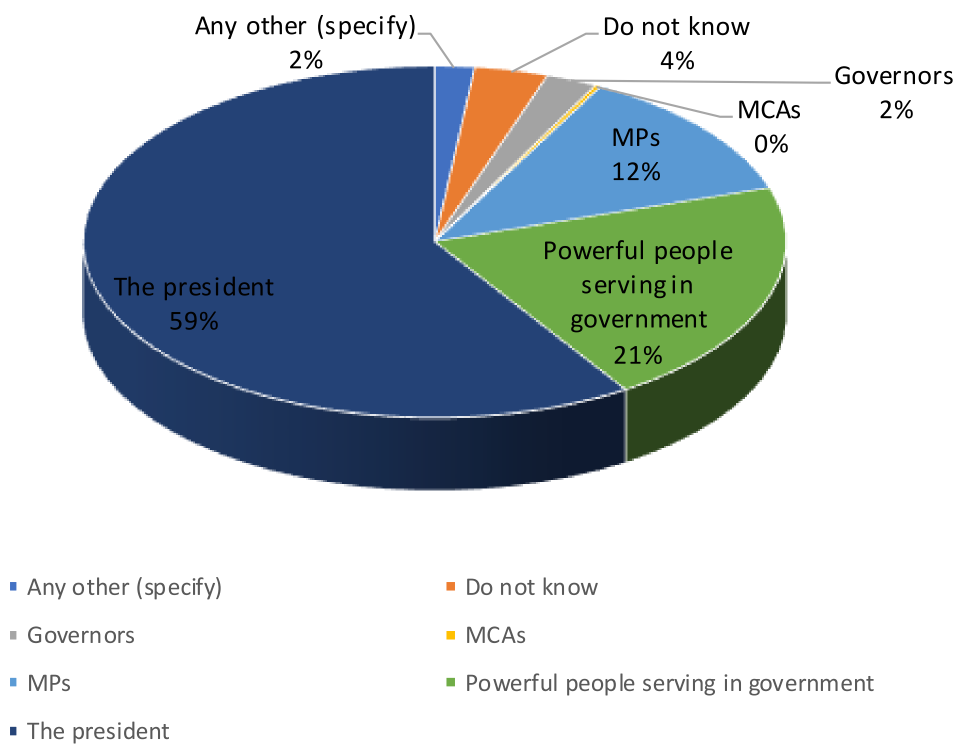


The results in figure 18 show that 78 percent of those invited never attended the meetings. Only 9 percent of the invitees attended. Majority of the key informants and participants in the focus group discussions were in agreement that even if they attend the public participation meetings, their views are never factored at the implementation level. It also emerged from the focus group discussions that there is a general perception among low income households that mechanisms for public participation are not designed for common-people (citizens without some level of expertise on fiscal matters) engagement. Besides, they are heavily ineffective because; Posters and calls for such engagements are put within very short notice thus not attracting a proper audience, the MPS in charge often engage citizens to merely make technical appearances without proper discussions, and the high illiteracy levels among low-income households prevent them from giving valid contributions.

b) Households Perception on Public Borrowing Decision Making in Kenya

The surveyed households were interviewed on their perception of who makes major decisions on borrowing in Kenya. A summary of their responses is captured in figure 19.

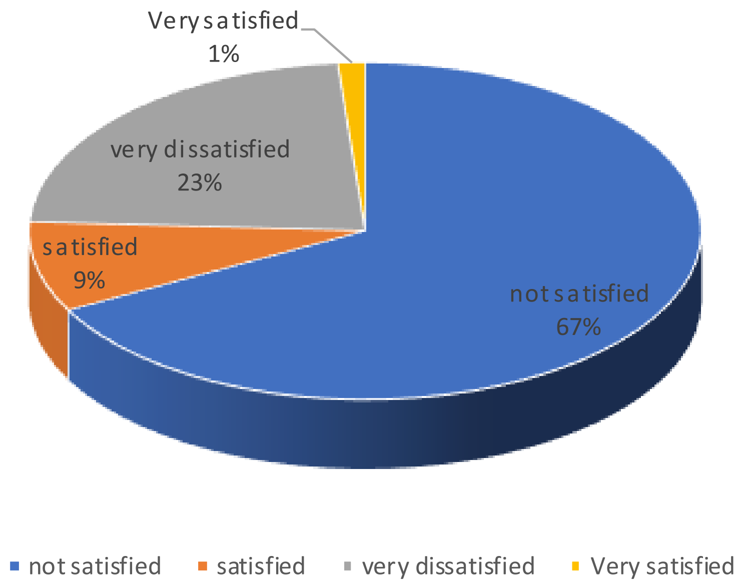
Figure 19: Households Perception on Borrowing Decision Making in Kenya.



The results in figure 19 show that 59 percent of households believe it is the president who makes major borrowing decisions, 21 percent believe the decision is made by powerful people within the government, and 12 percent think it is the MPs who make major decisions. The respondents seem to be in agreement that the president makes major decisions on public borrowing. The responses from both Nairobi and Mombasa counties have the majority pointing at the president as the main decision maker on public borrowing, followed by the powerful people within the government, and MPs respectively.

Further, the surveyed households' opinions were sought on whether they were satisfied with the way the public borrowing decisions are currently being made in Kenya. Their responses are summarized in figure 20. Figure 20 shows that 67 percent of the surveyed households reported not being satisfied and 23 percent were very dissatisfied with the prevailing borrowing decision making process in Kenya. Only 9 percent of the respondents expressed their satisfaction with the prevailing borrowing decision making process, and 1 percent were very satisfied.

Figure 20: Households Level of Satisfaction with the Prevailing Borrowing Decision Making.



At the county level, for Mombasa county, majority of the surveyed households (126 out of 186) reported that they were not satisfied with the way the government borrowing decision is being done in Kenya. Further, 46 of the respondents confirmed that they were very dissatisfied with the way the borrowing decision is being done, 10 were satisfied, and 4 were very satisfied. In Nairobi county, the majority of the surveyed households were not satisfied as well with the manner in which borrowing decisions are made in Kenya.

c) Increased households' participation for better public borrowing decisions in Kenya

The surveyed households' views were sought on whether increased public participation would result in better borrowing decisions in the country. A summary of their responses is presented in figure 21.

Figure 21: Can increased public participation improve borrowing decisions?

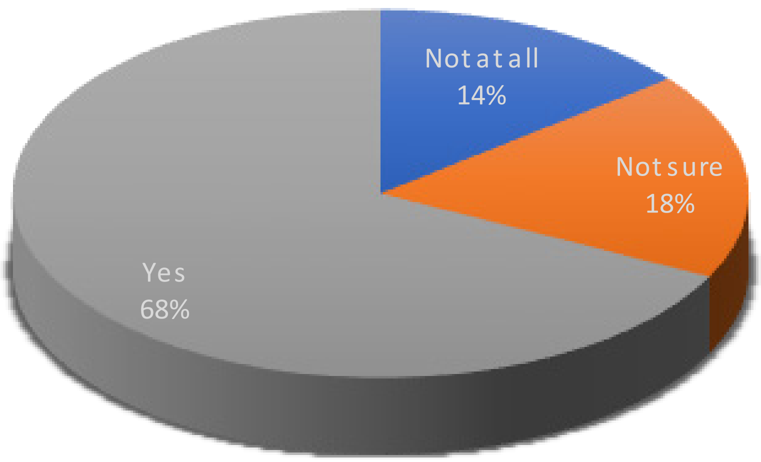


Figure 21 shows that 68 percent of households were in agreement that increased public participation would result to better public borrowing decisions in the country. Whereas 14 percent of the respondents were of the contrary opinion and were of the view that increased public participation would not result in better loan management at all. 18 percent were not sure. Nairobi county had the highest number of respondents, 88 percent, who were in agreement that increased public participation would better borrowing decisions. Whereas for the case of Mombasa county, less than half of the respondents, 44 percent, agreed that improved public participation would result in better borrowing management.

The responses clearly indicate that most households feel that the current level of public participation is not adequate and needs to be improved. However, participants in the focus group discussions also agreed on the importance of enhanced citizens participation but gave conditions for its effectiveness. The participants agreed that it would help only if the system was restructured. This is because the government has the final say on implementation regardless of public opinion or participation.

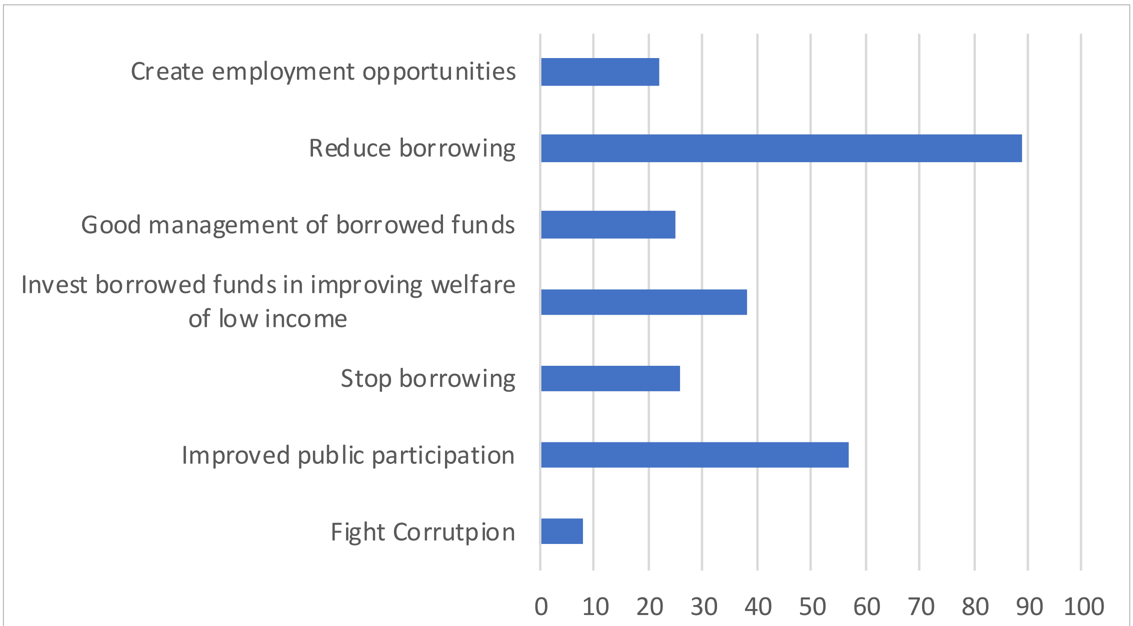
They gave the following recommendations;

1. The government should formulate an act that provides clear ways of guiding public participation to ensure maximum effectiveness in driving budget decisions.
2. The public should form groups and voice their concerns as one.
3. Improve participation by ensuring resources are utilized on projects that benefit people most and thus ensure maximum returns for loan repayment. Such projects must be prioritized. It is only through public participation that the government can identify such projects.
4. Develop clear ways of tracking money to seal loopholes for wastage including unnecessarily expensive projects, corruption, and other forms of mismanagement.

d) Households suggestions on public borrowing in Kenya

Finally, the surveyed households were requested to give their general comments on public borrowing in Kenya. Figure 22 presents a summary of the various suggestions provided by the respondents.

Figure 22: Households suggestions on what the government should change on the way it is borrowing.



Majority of the surveyed households were of the view that the government should reduce public borrowing, the second category of households recommended enhanced public participation followed by those of the view that the borrowed funds should be invested in areas that improve the welfare of the low-income households. Whereas, others recommended the need for good management of borrowed funds, some recommended that the government should stop borrowing as others advised on the need to fight corruption. Majority (60) of the respondents in Nairobi advocated for the use of borrowed money to improve the livelihood of low-income households in Kenya, followed by those who recommended the reduction in borrowing, as others recommended complete stopping of borrowing. For the case of Mombasa, majority (19) of the responses were of the view that enhanced public participation would improve public borrowing, followed by those who advocate for reduced borrowing, others suggested that borrowing should only be resorted to when necessary. The same sentiments were expressed by the key informants interviewed and the participants in the focus group meetings.

4.0 KEY FINDINGS AND RECOMMENDATIONS

4.1 Key Findings

4.1.1 Correlation between debt service and social spending in Kenya

i) The proportion of debt service in total ordinary revenue grew from 23.97percent 2011/2012 to a high of 49.82 percent in 2018/2019. Growth in debt service in total national government spending increased exponentially from 2015 to 2020 and remains far above the proportion of spending on education and health. The exponential increase in debt service is associated with declining spending on the two social sectors indicating negative correlation. The negative correlation between debt service and spending in key social sectors show that debt service crowded out social spending in the analysis period.

ii) The interest component of debt service grew at an increasing rate and remained higher above total spending on social protection programmes across the years. The social protection programmmes that are mainly financed by development partners on the contrary showed a gradual rising trend. The gap between interest on debt and spending in social protection is widening over time showing that accumulation of large stock of debt confers large benefits to government bondholders at the expense of taxpayers This suggests that debt accumulation is acting as an indirect fiscal instrument transferring wealth from poor taxpayers to government bondholders.

iii) Insufficient spending in the social sectors is manifested through lack of essential services at health and education facilities. including lack of medicines and specialized equipment in most of the hospitals at level three and below where free services are expected, burden on parents to provide most of the resources for learning in public schools, delays in government disbursements of capitations to schools as well as payments for social protection transfers and public works programmes.

4.1.2 Impact of changes in social spending on low income households

i) Recurrent expenditure on health depicts a rising trend for Mombasa but largely fluctuated for Nairobi. Recurrent spending in Education fluctuated across the years for the two counties. Development spending on health and Education remained far below the budget allocations across the years indicating uncertainty in expansion required in the facilities to enhance access to quality services. Trends in social spending by the two county governments are therefore not consistent with rising demand for services.

ii) Insufficient spending on public health and education facilities has negatively impacted the quality of service to citizens. Congestion in classrooms in the few schools available, high number of students to teacher ratio, lack of learning resources, water and good sanitation facilities have caused ineffective learning and therefore poor quality of education from public education institutions. Further, lack of medicine, inadequate medical laboratory services, few qualified staff in public health facilities continue to exclude low income households from accessing quality healthcare.

iii) Many students from low income households have dropped out of school because they are often sent home for fees and other required resources. Some of the very needy students get bursaries to join form one but drop out after failing to get support in subsequent years. Some of the beneficiaries of government cash transfer programmes (old persons, orphans and vulnerable children cite the delays in disbursements as inconveniencing. Lack of updating beneficiaries' register and lack of clear criteria for awarding bursaries to students have made some of the most vulnerable groups left out of the programmes.

4.1.3 Trends of loan-driven infrastructure investment for social and Economic development from 2015 to 2020

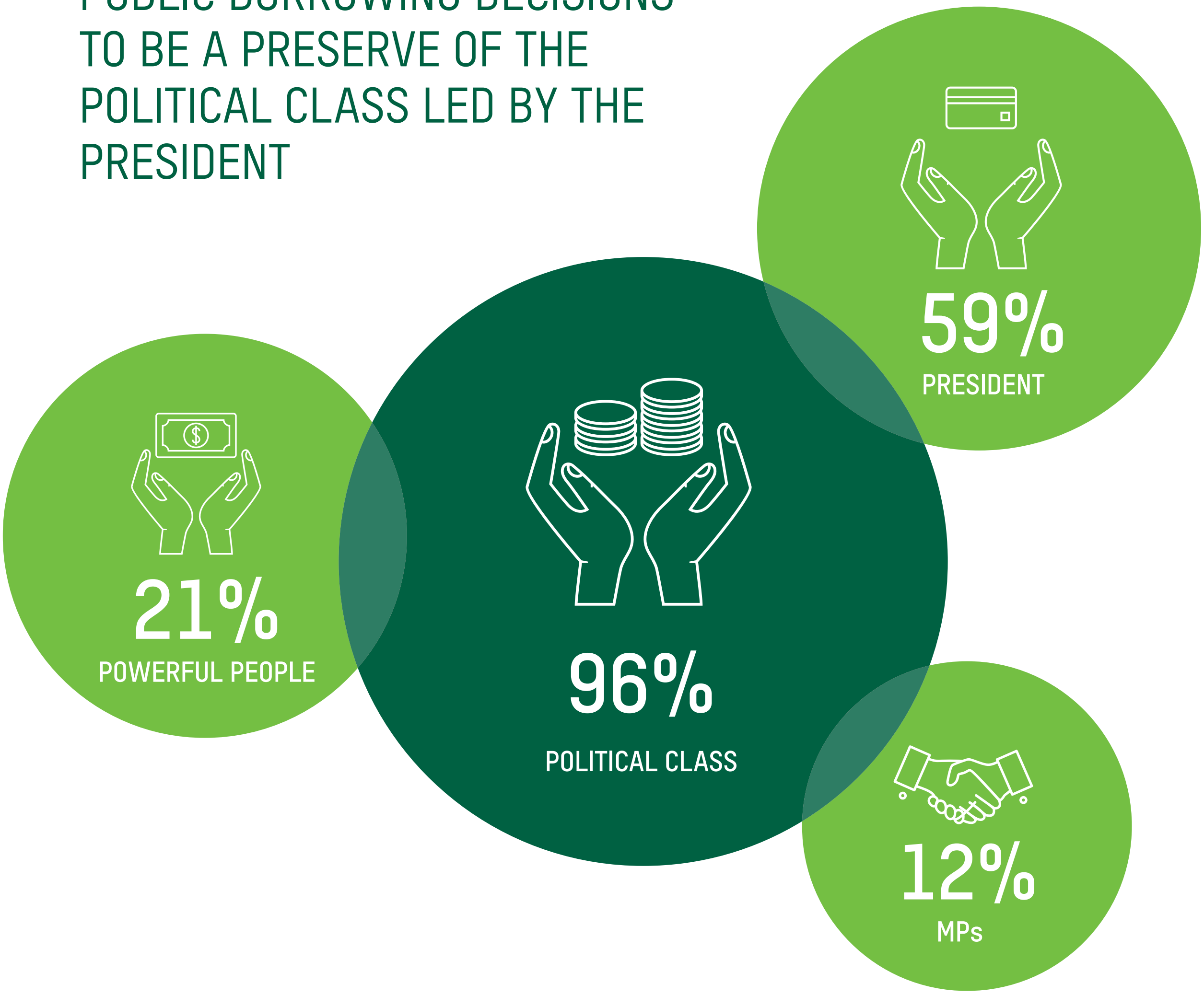
i) Loan driven infrastructure investment in education have focused on supporting establishment of education, training and research centers, construction of new and rehabilitation of existing facilities as well as equipping them to enhance quality in training. Main projects with loan components in cost include the school infrastructure projects in early and basic education, vocational and technical training, University education and Research
ii) In the health sector, infrastructure projects financed through loans cut across the various health programmes. Health promotion projects are on food and nutrition for vulnerable populations, Environmental health services and public laboratory networking project. Those in communicable disease programmes are projects in prevention and treatment for HIV/, Tuberculosis and Malaria. In the National referral systems, Projects components include Modernization, expansion and equipping of Kenyatta National Hospital, Moi Teaching and Referral Hospital and *Wajir* District hospital while in Forensic and Diagnostics there are a number of hospitals and dispensaries with loans financed construction, rehabilitation and equipment; clinical waste management. Other loans are for technical support in the health sector, basic health insurance for the poor and informally employed and roll out of universal health coverage (UHC)
iii) Infrastructure investments in water and sanitation are mainly for increased water supply and access to modern sanitation facilities in rural and urban areas. They include the rehabilitation of rural water schemes, drilling boreholes and construction of small dams/pans in ASALs and implementation of rural and urban water and sanitation projects in low-income areas.

4.1.4 Opportunity costs of debt financing to social economic prosperity of low-income citizens

i) Rise in public debt as a percentage of GDP was accompanied by reduced access to credit and private investments as a percentage of GDP. In the period 2013 to 2020 the total public debt as a percentage of GDP increased from 41.1% to nearly 66%, while there was a remarkable decrease in both growth in the access of credit to the private sector and private investment by 12. 4% and 7.3 % respectively. A clear indication that debt service crowded out private investment. The shrink in private investments hurt low income households the most through reduced job opportunities and trickle-down effect in the economy.
ii) Rise in debt servicing burden is accompanied by a general reduction in households final consumption expenditure. This can be linked to increased cost of commodities attributed to increased taxes and tax rates to raise revenue for debt service, and rising unemployment level associated with crowding out of private sector investment. 90% of surveyed households believed that public debt servicing had worsened their economic welfare through increased cost of basic consumer goods (such as cooking gas, cooking oil), increased taxes and tax rates, and increased cost of services in public facilities such as hospitals, schools, among others.

INFRASTRUCTURE INVESTMENTS IN WATER AND SANITATION ARE MAINLY FOR INCREASED WATER SUPPLY AND ACCESS TO MODERN SANITATION FACILITIES IN RURAL AND URBAN AREAS

KENYA HOUSEHOLDS PERCEIVE PUBLIC BORROWING DECISIONS TO BE A PRESERVE OF THE POLITICAL CLASS LED BY THE PRESIDENT



4.1.5 Levels of citizen's participation in debt cycle (borrowing, re-financing, and repayments

i) The constitution of Kenya clearly stipulates space for citizens participation in fiscal policy decision making throughout the budget and debt cycle. There is provision for two levels of public participation in the budget cycle: direct public participation by members of the public at the budget formulation stage; and indirect participation by their elected representative at the parliament and County Assemblies throughout the budget cycle.

ii) Implementation of the constitutional provision for public participation has not been satisfactory. This has been manifested in failure to prioritize public participation by the authorities, time allocated for the exercise has been largely insufficient, lack of well-established mechanism for public participation at the two levels of government, inadequate staffing of personnel to take charge of the exercise, inadequate budgetary allocation, among others.

iii) Households perceive public borrowing decisions to be a preserve of the political class led by the president. 96 percent of the surveyed households believe that public borrowing decisions are supposed to be made solely by the political class led by the president. (59 percent -president, 21 percent – powerful people within the government, 12 percent MPs, 4 percent – governors)

iv) Households are dissatisfied with the prevailing public borrowing decision making. 67 percent of the surveyed households indicated that they were not satisfied with the current public borrowing decision making because they are not adequately involved, they feel a good proportion of the debt proceeds is embezzled, and not invested in projects that directly benefit them.

4.2 Recommendations for Advocacy and Policy

1. The Kenya government through the National treasury should adhere to the Debt policy that encourages increasing amounts of public debt on concessionary terms allowing longer grace periods. Such loans attract lower interest rates and are also associated with lower amounts for service in each period. Longer grace periods can enable the government to retire pending loans while also freeing the fiscal space required to finance social services to citizens.
2. The government and the Semi-autonomous agencies should exploit the alternative options for infrastructure investments in public private partnerships (PPPs) to reduce growth in debt. The PPPs enable private capital into investments that support public service provision but are productive. This would free up revenues for provision of services while also allowing the debt service burden to fizzle out.
3. Loan driven Infrastructure spending should only be approved if the outputs are associated with large positive externalities and the future income streams from it can sustain repayment of the debt.
4. Early disbursement of the equitable share to the counties to enable them sustains programmes that rely on private suppliers. Private suppliers require payments to provide resources to county government and state departments critical to performance of their functions. Suppliers pull affects service delivery and halt in socio economic programmes causing massive losses of gains already made.
5. National and County governments should prioritise spending towards critical programmes for the social and economic wellbeing of vulnerable groups and low-income households including supplies of medicines to health facilities and level three and below, capitation to schools and other public institutions, student loans and bursaries.
6. The County governments should ensure fully financing development budgetary allocation to the social sectors to enable expansion of capacity for service in response to rising demand. Service provision from congested facilities even with increase in recurrent spending cannot improve quality of service.
7. Need for effective and efficient budgeting at national and county level. The budgets should only include the immediate public expenditure needs for both recurrent and development financing. This will reduce wasteful budgeting and ensure proper prioritization of budget items thereby reducing the huge budget deficit currently faced in Kenya. A reduction in budget deficit would be accompanied by a reduction in public borrowing and by extension ease debt servicing burden.
8. Sufficient measures should be taken to reduce crowding out of private investment by public domestic borrowing. This may include substitution of public domestic borrowing with prudent external public borrowing to reduce competing with private investors in the domestic financial market. Adequate financial facilities for private investors would promote private investment and create additional employment opportunities that to a larger extent will benefit low-income households.
9. The government should explore the various options available to reduce the current increasing burden of public debt servicing such as debt conversion in cases where the current interest rate is lower than the rate in which the government is repaying the loan. Avoid commercial external loans that attract higher interest rates hence greater burden of debt servicing.
10. Additional revenue raised through taxes should target progressive taxes which have less impact on the low-income households. VAT on basic commodities that impact heavily on low-income households should be removed.
11. Full implementation of the constitutional provisions for public participation in fiscal management to ensure satisfactory citizens engagement. The national treasury should allocate sufficient time for public participation during budget formulation.
12. National and county governments in collaboration with civil society and other stakeholders should undertake effective civic education for citizens on their right and role in public participation on fiscal management matters. This would enhance their level of participation and quality contribution. Enhanced citizens' engagement in the budget and debt cycle would change their perception that decisions on debt are solely the responsibility of the political class.
13. Enhanced accountability and transparency in fiscal management: Stringent measures should be taken to fight graft which the majority of the households felt was contributing to increased debt burden in Kenya.

4.3 Recommendations for Further Studies

1. Effect of Fiscal policy changes (new taxes) on Micro Small and Medium Enterprises
2. Impact of empowerment programmes targeting women and special needs groups within the informal settlement to document what has worked and improvements needed towards effective empowerment
3. Models for effective public / citizen participation in the budget cycle for different social and economic groups in Society
4. Evaluation of the constraints faced by County Governments in implementing social and economic transformation programmes

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