Technical Note:

Review of post-disaster expenditures in Kenya 2014-2020, to inform implementation of DRF strategy

Disaster Risk Financing & Insurance Program

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Abbreviations and Acronyms

ARC	African Risk Capacity
ASAL	arid and semi-arid land
Cat-DDO	Catastrophe Deferred Drawdown Option
DRF	disaster risk finance
DRFS	Disaster Risk Financing Strategy
DRM	disaster risk management
DRR	disaster risk reduction
FIP	Final Implementation Plan
FY	fiscal year
GDP	gross domestic product
HSNP	Hunger Safety Net Programme
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
KAIP	Kenya Agricultural Insurance Program
KLIP	Kenya Livestock Insurance Program
KPI	key performance indicator
K Sh	Kenyan shilling
LDRRMF	Local Disaster Risk Reduction and Management Fund
LGU	local government unit
MDAs	ministries, departments, and agencies
MTI	Macroeconomics, Trade, and Investment (Global Practice)
NDEF	National Drought Emergency Fund
NDMA	National Drought Management Authority
NDMU	National Disaster Management Unit
NDOC	National Disaster Operations Center
NDVI	Normalized Difference Vegetation Index
NGA	national government agency
NGO	non-governmental organization
NSNP	National Safety Net Program
NT	National Treasury
OECD	Organisation for Economic Co-operation and Development
PBB	program-based budget
PER	Public Expenditure Review
PFM	Public Finance Management
PPE	personal protective equipment
QRF	Quick Response Fund
RMNCAH	Reproductive, Maternal, Newborn, Child, and Adolescent Health
TLU	tropical livestock unit
UNDRR	United Nations Office for Disaster Risk Reduction

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Executive Summary

This technical note is to inform the implementation and planning of the next steps by the government of Kenya's Disaster Risk Financing Strategy (DRFS) for 2018–22. It also forms a contribution to the government's ongoing Public Expenditure Review (PER), which is supported by the World Bank's Macroeconomics, Trade, and Investment (MTI) Global Practice. This note is the first comprehensive review of post-disaster expenditures in Kenya and is among the first reviews to be shared globally. It highlights the progress the Kenyan government has made in consolidating its prearranged financing for disaster response in addition to improvements that can be made with respect to the transparent and efficient use of funds to make better use of limited resources. Those considerations are in the context of creating additional fiscal space, improving delivery of responses, and rebuilding fiscal resilience to disasters, all of which have been undermined by Kenya's COVID-19 response. Recommendations made in this policy note will closely follow the four priorities laid out in Kenya's DRFS and can be considered as steps that facilitate achieving the DRFS's goals.

Kenya is exposed to a wide range of natural hazards and the impact on the budgets is expected to increase as a result of the changing climate, especially because currently only a very small portion of contingent liability risk is transferred to the markets and predominately sits with Kenyan government. Among the most impactful disasters affecting Kenya are droughts, floods, and—to a lesser degree—landslides and earthquakes.[1] Yet, in 2020, Kenya faced some of the less frequent yet extremely high-impact natural, biological disasters: a locust infestation and the COVID-19 pandemic, which both emphasized the potential damage of the rarely addressed risks. However, the high economic impacts of disasters are primarily driven by the low level of preparedness, both institutional and financial, and not the frequency or nature of shocks themselves.

Shocks in the Past

In the past few years, Kenya has made significant efforts to become better prepared for disasters by strengthening the disaster risk finance instruments it has available. Kenya has created dedicated disaster funds, adopted social protection measures to shield vulnerable households from consequences of shocks, and established a contingent credit facility to allow fast access to liquidity in the aftermath of shocks. Moreover, to enhance its institutional resilience, Kenya is increasing the autonomy and funding available to institutions such as the National Drought Management Authority (NDMA) and National Disaster Operations Center (NDOC). However, despite those efforts, both disaster risk management (DRM) in general and disaster risk finance (DRF) specifically remain fragmented, with some crucial legislation such as the Disaster Management Act still in the pipeline.

Shocks that took place in past years—especially the extraordinary disasters that Kenya faced during fiscal year (FY)2019/20, created an opportunity to assess the resilience of the existing DRF setup and to recommend further improvements. For example, the severe drought that took place during FY2016/17 was a significant test for drought resilience programs such as the Kenyan Livestock Insurance Program and the Hunger Safety Net Programme. Despite their limited scale, both programs showed large potential to protect vulnerable farmers and pastoralists during droughts. Two other shocks, the recurrent floods of past years and the COVID-19 pandemic that began in FY2019/20, were addressed by the Kenyan government with financing from the contingent credit line obtained just a year before (which made Kenya a pioneer on the African continent). Yet the scale of compound shocks that year forced the government to also use several ex-post financial instruments, including international

1. Global Facility for Disaster Reduction and Recovery, "Disaster Risk Profile: Kenya," GFDRR, 2019.

borrowing and budget reallocations. Those reallocations experienced issues with timeliness and accuracy of financial requirements, which reduced the efficiency of the response and increased the bureaucratic burden.

Reallocations through the issuance of a supplementary budget are currently the most common way of providing funding for disaster response activities in Kenya. An analysis of four ministries, departments, and agencies (MDAs) with a strong DRM mandate shows frequent budget adjustments of up to 68% of the total budget. In FY2019/20, this analysis attributed K Sh 50 billion of reallocations to disasters that were occurring (compared to the initial total provision of K Sh 5 billion for contingencies). The funds were spread over three supplementary budgets, the last one being issued only days before the end of the fiscal year.

Notably, more than one adjustment was made over the year to some response programs, both increasing and reducing their budgets to correct for previous inadequate or generous adjustments. Although it is a normal budgetary practice to finance responses through reallocations, the number and magnitude of adjustments suggest that planning could be improved to enhance efficiency. Historically, the Ministry of Health experiences the largest within-year changes to its budget, which is in part due to health shocks. However, even in normal years the ministry's recurrent budget is adjusted upward, suggesting challenges with budgetary foresting mechanisms.

During FY2019/20, there was considerable strain on the health ministry when its budget underwent three adjustments across all the programs it overlooks. The second adjustment was formulated amid the COVID-19 outbreak and reduced the budget of the ministry. The period of reduced liquidity led to the postponement of some expenditures that were crucial for responding to the pandemic. Delays in payment of salaries and in providing personal protective equipment (PPE) to medical personnel had a detrimental impact on Kenya's ability to promptly address requirements for resources arising from the pandemic and thus led to frustration and protests. Among the reasons for frequent reallocation, this analysis identified a budgeting process that underestimates the risk of shocks. For example, the MDA budgets with a drought mandate tend to be reduced following drought-free years. The commonly used method of calculating budget allocations may not, in the case of programs with significant contingent liabilities, be suitable unless risk transfer mechanisms are used.

When budget reallocations, which require an extensive legislative process and Parliament's approval, are not available, programs with a DRM mandate handle immediate costs of disasters through virements, thereby reducing allocations to other programs. Between FY2014/15 and FY2019/20, the government spent 13 to 15 percent of the budget on programs with a DRM mandate. In FY2019/20, 18 programs had disaster-related objectives. Those programs faced an elevated risk of needing to reduce or postpone their normal activities in the aftermath of shocks. Postponement of ongoing investments may occur in the case of large programs that include infrastructural projects, such as flood management programs that entail dam or other infrastructure construction.

Conversely, smaller programs with large risk exposure may be unable to fulfill their contingent obligations until additional funds become available. The Hunger Safety Net Programme (HSNP) offers an example: it is operated by the National Drought Management Authority (NDMA), an institution with a relatively small budget that would not be able to absorb the cost of a severe drought. This risk should be recognized, quantified, and prevented by the adoption of robust financing and contingency plans, by use of adequate financial instruments, and by building a capacity that would allow the programs to continue fulfilling their normal obligations while responding to shocks.

Nonetheless, despite the above mentioned challenges, Kenya was successful at mobilizing and distributing response funds during FY2019/20, although in the future the reduced fiscal

space will limit capacity to respond. Moreover, improvements are needed in mobilization and utilization of funds. Responding to disasters that affected the country, Kenya has significantly increased its level of debt, raising external debt by 21 percent in just one year.[2] The country has also exhausted its existing credit lines and had to put some development projects on hold.

Kenya's success in responding to disaster during FY2019/20 must be considered a qualified one. With a limited ability to borrow and a reduced tax revenue, Kenya's fiscal position is currently more vulnerable to disasters than ever. Given the possibility that another shock could affect the country while the impact of COVID-19 is still felt, there must be a call to action for authorities who, in turn, must take every opportunity to improve the efficiency of funds mobilization and utilization.

Considering the limited fiscal space and debt levels, the government should continue the ongoing projects that are aimed at establishing DRF instruments to reduce the potential pressure on public finances in case of another shock. Currently, in nearly all cases, risk exposure is internalized, thus creating a potential (but substantial) liability for the government. This risk could be better managed, for example, through the development of disaster funds at both the national and county levels to manage more frequent expenses, as well as through the establishment of new contingent credit facilities and risk transfer instruments to allow for easier budgeting of severe shocks with large financial costs (i.e., droughts and pandemics). Such instruments may initially increase fiscal pressures but make potential costs explicit and thus reduce pressures over the longer term. See the recommendations section of this report for more details.

Given the broad disaster mandate of programs, it is difficult to distinguish between expenditures that are linked to shocks; therefore, a dedicated mechanism for tracking post-disaster spending is required. Although an increasing number of programs in the Kenyan budget include a broad disaster management mandate, the focus is on preparedness rather than response, making expenses for the latter more difficult to track. Kenya's experience of disasters in FY2019/20 shows that post-disaster allocations are often channeled through programs with a broader DRM mandate. Establishment of programs dedicated to response and strengthening of a post-disaster expenditure tracking mechanism would allow the government to understand the real cost of disasters to the budget, to learn from experience and continually improve the budget's resilience to facilitate adoption of financial measures that reflect true needs. Kenya's National Treasury (NT) is currently at an early stage of piloting the tracking mechanism. It has the potential to become a foundation for more efficient, data-based planning for the financing of future contingencies.

Efficient use of post-disaster funds needs to build on a robust financial infrastructure that allows for swift dissemination of resources. The required mechanisms vary depending on the type of beneficiaries, their distribution, their ability to leverage the private sector in response activities, and the legal framework. The government is already undertaking significant efforts in the area, for example by creating an electronic and periodically updated database of Kenya Livestock Insurance Program (KLIP) and HSNP beneficiaries and by streamlining payout responsibilities in the aftermath of shocks. In FY2019/20, the Kenyan government used the National Safety Net Program (NSNP) platform to distribute support following the COVID-19 shock, thereby leading to a 39 percent increase in the actual expenditure under the safety net program. However, further improvements are necessary in, for example, strengthening the emergency procurement system, creating a public asset registry, or identifying reliable private sector service and goods providers.

2. Central Bank of Kenya: Public Debt, https://www.centralbank.go.ke/public-debt/ (note: YOY comparison between November 2019 and November 2020).

Recommendations

The review leads to five policy recommendations to support implementation of the DRFS strategic priorities (see appendix B for more details on the DRFS) and meet the challenge of debt sustainability and macroeconomic stability in the aftermath of disasters.

1. **Invest in a tracking system to collect information about post-disaster expenditures across MDAs at the national and county levels** (supporting strategic priority 4 of the DRFS as outlined in appendix B). The Kenyan government should intensify its efforts to build a robust tracking and reporting infrastructure by investing in a system that will facilitate collection of post-disaster expenditure data. Tracking funds is an effective way to identify institutional bottlenecks, to improve transparency and accountability, and to ensure that policy targets are followed—even at times of distress. The data will provide more evidence about the likely funding needs and efficient use of instruments, (e.g., risk retention and transfer, fund allocation).

2. **Support vulnerable MDAs to prepare annual financing plans to allow for disasters** (supporting strategic priority 4 of the DRFS). MDAs should consider preparing financial plans that address their financial risk exposure and that highlight potential volatility in funding needs. When justified, those financial plans should include prearranged financing instruments to ensure that timely and adequate funds are available when needed. The NT should provide a framework for MDAs to develop such plans. Those plans will enable more accurate initial budgetary requests; will enable NT to set a suitable level-budget flexibility for MDAs relative to the plans; and will reduce unnecessary costs due to delays, poor planning, and misallocation. By recognizing the increased exposure of certain MDAs to disasters, the budget's revision process could be initiated at the early indication of shocks, thereby reducing funding delays. The revision may undermine long-term development goals of affected MDAs. In the case of very frequent and therefore easily predictable shocks, such as mild droughts, some MDAs may benefit from regular budgetary allocations for responses that go through the normal budgetary process.

3. **Strengthen the policy and budgeting of contingency funds and explore options to transfer catastrophe risk to the insurance market** (supporting strategic priority 2 of the DRFS). Traditional disaster funding methods can be slow and costly, and the use of those methods can put pressure on fiscal space. The Kenyan government has made significant progress in managing drought risk (e.g., use of insurance and triggers, KLIP/HSNP, and regulations for the National Drought Emergency Fund [NDEF]), but there are opportunities to manage financial risk exposure further. The Kenyan government and relevant MDAs should explore putting in place further prearranged financing instruments to better manage budgetary volatility and to avoid the need for late reallocations from other development projects.

4. **Invest in the financial delivery infrastructure and strengthen financial inclusion** (supporting strategic priority 3 of the DRFS). To improve the efficiency of response, the Kenyan government should ensure that MDAs develop programs with the financial infrastructure to allow them to effectively use funds in the aftermath of disasters with limited leakage (e.g., predefined targeting policies, payment systems, and procurement procedures). Sharing infrastructure across programs and increasing financial inclusion will further strengthen delivery. The mechanisms used should take into consideration what diverse needs arise following shocks and how often those needs affect specific groups of households, businesses, and the public and private sectors.

5. **Extend the analysis of the disaster risk budgeting process and post-disaster expenditure monitoring at the county level** (supporting strategic priority 1 of the DRFS). With the disproportionally greater ability to collect revenue at the central level, the local governments in Kenya—like those in most peer countries pursuing devolution agendas—rely on transfers from the national government. Currently, the formula that is used for allocation does not include the risk exposure of county governments, and their ability to budget for contingencies remains low. It is therefore vital for strengthening financial resilience at the county level that the budgeting process, especially in countries with increased risk exposure such as the arid and semi-arid lands (ASALs), includes safeguards against shocks.

Introduction and Motivation

This technical note about post-disaster expenditures contributes to the rigorous evidence needed to strengthen fund management in the aftermath of disasters and to support the government of Kenya's strategic priorities as set out in its first Disaster Risk Financing Strategy (DRFS). The analysis presents recommendations for improving the transparency and efficiency of funds, as well as the effective use of available resources to create additional fiscal space, to improve delivery of responses, and to rebuild fiscal resilience to disasters. The compounded shocks of FY2019/20 resulted in use of numerous emergency financial instruments, which then created an opportunity to study the management of post-disaster expenditures in Kenya.

This note is the first comprehensive review of post-disaster expenditures in Kenya and is among the first reviews to be conducted globally. Despite the observed increasing impact of natural and human-made disasters on the Kenyan economy and the livelihoods of people, precise information about the monetary cost of disasters, and the type and timing of expenditures required, is limited, thereby impeding Kenya's ability to manage its financial risk exposure and to manage its resources efficiently. The analysis presented herein will therefore inform the government's ongoing public expenditure review (PER) supported by the World Bank's MTI Global Practice.

By improved tracking and analyzing of allocations associated with disasters, Kenya will become able to better target future expenditures. It will be able to use a range of available financial instruments in an informed manner, thereby reducing the cost of uncertainty and making it easier to transfer risk and to build capacity within institutions that are crucial during the post-disaster period. Moreover, tracking funds is an effective way to identify institutional bottlenecks, to improve transparency and accountability, and to ensure that policy targets are followed—even during times of distress.

This note uses currently available data to estimate the expenditure incurred because of disasters. Importantly, however, it identifies data gaps that must be addressed for the Kenyan government to continue strengthening its financial capacity in response to shocks. In an effort to lay a foundation for improved tracking of post-disaster expenditures and to support implementation of the DRFS, this technical note will attempt the following:

- Identify areas of the government affected by disasters.
- Investigate existence of data about disaster expenditures and highlight the gaps.
- Consider the legal framework that determines disaster expenditures.
- Discuss the existing financial instruments for financing responses to disasters.
- Use the drought of 2016/17 and the recent COVID-19 pandemic response as a case study to understand the multidimensional impact of disasters on the fiscal position.
- Look into steps the Kenyan government is undertaking to better understand the impact of disasters on its fiscal position.
- Identify areas in which the government is undertaking successful activities toward better DRF and provide recommendations for how the strategic priorities of the DRFS can be achieved.

Study Context

In recent years, the Kenyan government has increasingly prioritized disaster management as being fundamental to prudent budget planning. In line with the DRFS of 2018–22, it has introduced DRM into the mandates of 13 ministries and 18 programs. This change has been accompanied by a growing consensus in government that financing contingencies is more challenging and requires leveraging a broader array of financial instruments than non contingency activities. DRF is a central part of broader disaster risk management because it helps manage the fiscal impacts and economic losses caused by disasters. It also supports countries to be better prepared. Moreover, it is the process of developing and implementing a credible strategy and systems for how the costs of potential future disasters will be paid for, and it strengthens the transparency and targeting of spending. DRF often requires the prepositioning of financing by using a range of instruments to meet the costs of disasters of differing likelihoods.

In the fiscal year (FY)2019/20, the budget estimates for disaster-related programs hosted at the 13 ministries totaled Kenyan shilling (K Sh) 456 billion (US$ 4.2 billion) or 16 percent of the national budget. However, those estimates were highly volatile over the year in response to the three major shocks: pandemic, floods, and locust invasion. By the end of the year, the Kenyan government had allocated an additional K Sh 34 billion (US$314 million) for programs related to disaster response. Some of this additional liquidity came from prearranged instruments and external sources. The government used its contingent credit line with the World Bank, which amounted to US$200 million (K Sh 25 billion); borrowed US$2 billion (K Sh 217 billion) in the form of concessional loans from multilateral institutions; and received approximately US$130 million (K Sh 14 billion) in humanitarian support. Although the government's ability to quickly raise funds must be considered a remarkable success, the disaster funds must be spent efficiently to support economic recovery.

Despite the government's significant success in budget mobilization, tracking of expenditures following disasters is currently incomplete and fragmented, and the targeting of expenditures could be strengthened. Currently, the government cannot easily access information about the final spending for activities that are disaster response related and are undertaken by various agencies. The multidimensionality of disasters and the fact that costs are usually shouldered through several ministerial programs require a robust monitoring system to create a comprehensive source of information about the costs that can inform future programming and can help adequately monitor the use and efficacy of funds. Delays in financing approvals may also slow down the efficiency of the responses, thus forcing agencies to either delay their response or to risk making extra-budgetary expenditures.

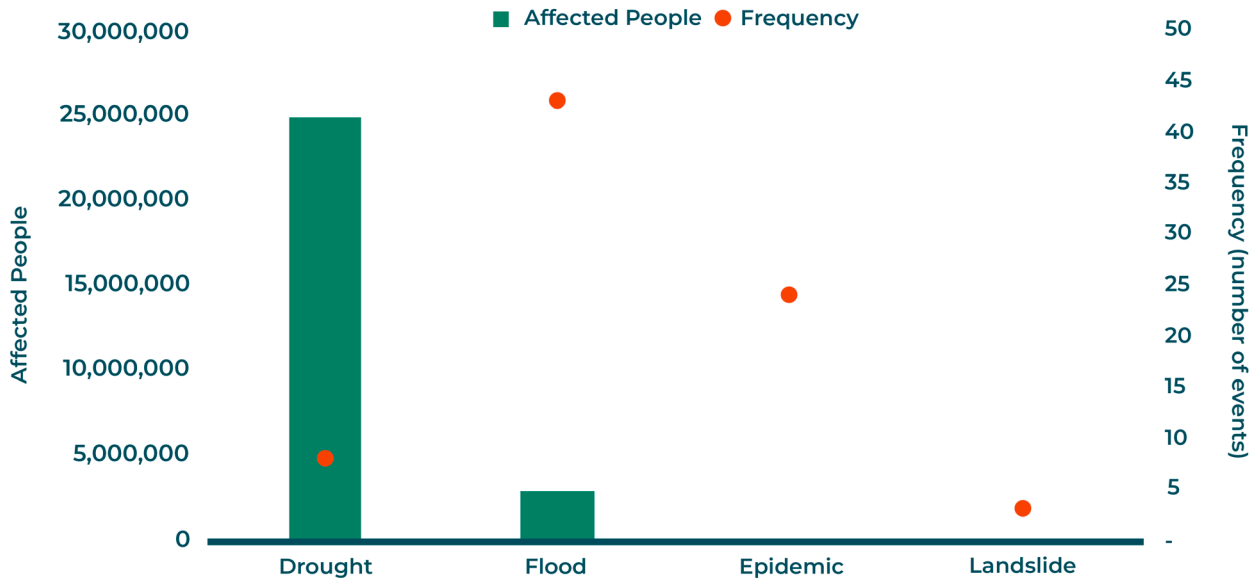
The NT is currently developing a framework to mandate all ministries, departments, and agencies (MDAs) with disaster management responsibilities to add post-disaster expenditure reporting to the NT's standard quarterly process of expenditure reporting. The FY2019/20 was planned to be the first for which disaster-specific reporting would be piloted and the results published. Unfortunately, at the time this report was written, the analysis was not yet available because the data collection process was still ongoing.

Although a dedicated framework for tracking and reporting of disaster expenditures is the preferred and most accurate way for improved disaster budgeting, it is possible to leverage the currently available expenditure data to inform this review. For example, program-based budgeting allows for identification of programs that have a disaster mandate. Therefore, both allocations—actual expenditures and reallocations that follow disasters—can inform the response expenditure. Similarly, drawing from contingency funds, use of credit lines, and new borrowings are all proxies for disaster expenditure data.

Exposure of Fiscal Position to Natural Hazards

Kenya faces a relatively high risk from disasters, which is amplified by the increasing impact of climate change. The country is exposed to floods, droughts, landslides, and rapidly spreading diseases that affect people, crops, and livestock (figure 1). Yet, the country's risk exposure is not simply due to the natural risk exposure but rather to its coexistence with socioeconomic vulnerabilities and to the still inadequate physical and institutional infrastructure.

Figure 1. Frequency and the People Affected by Disaster Type in Kenya, Cumulatively from 2000 to 2019



Source: The International Disaster Database, http//www.emdat.be.

The socioeconomic vulnerability of Kenya in the face of disasters is due to its large population that is resource poor—especially among uprooted and socially excluded groups that lack access to social networks. Moreover, Kenyan infrastructure has low levels of disaster resilience.[3] To address those challenges, Kenya would need to strengthen mechanisms that can be used in the aftermath of disaster, both to reduce the impact and to build long-term resilience. For example, a well-developed and easily scalable safety net that incorporates a database of vulnerable households can be used to minimize the negative coping mechanism resulting in long-term socioeconomic damage from disasters. Instruments such as public asset insurance can be used to ensure that recovery of infrastructure is not based on temporary structures but adheres to the build-back-better rule.

Although the risk of individual disasters in Kenya may be moderate, their realizations can often overlap or occur one after the other. When two or more risks interact, the potential collective impact can be greater than the sum of their parts. This negative effect was illustrated starkly in 2020 by the triple impacts of the COVID-19 pandemic, floods, and locust invasion. Compound risks pose a significant threat to the fiscal position of the government, which might otherwise be able to cope with an isolated shock.

However, even considered independently, disasters are a significant fiscal risk in Kenya. The average annual cost of a drought is estimated at some US$1.25 billion (1.4 percent of GDP).[4]

3. Inform Risk Country Profile, https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Country-Profile/moduleId/1767/id/419/controller/Admin/action/CountryProfile.
4. Vincent Mutie Nzau, "IIED Insuring against Climate Risk in Kenya," International Institute for Environment and Development, June 6, 2017, https://www.iied.org/insuring-against-climate-risk-kenya.

This macroeconomic impact is further increased if the response is delayed. A severe and prolonged drought from 2008 to 2011 affected 3.7 million people, caused US$12.1 billion in damages and losses, and totaled more than US$1.7 billion in recovery and reconstruction needs.[5] Furthermore, the economic impact of the drought is estimated to have slowed down the growth of the country´s economy by an average of 2.8 percent per year.

Climate change is expected to continue amplifying the likelihood of severe climatic events, thereby showing an increase in climatic threats to life and livelihoods. Economic models vary in their predictions, but the consensus is that the cost of climate change in Kenya will be significant. In general, econometric models tend to indicate additional net economic costs that are equivalent to almost a 3 percent reduction in the GDP by 2030 when benchmarked against the scenario without climate change, and changes will increase further beyond 2030.[6] The extra costs derive from the negative economic impact in sectors such as health, energy, water, and infrastructure—and most importantly in agriculture and fisheries.

The expected frequency and severity of shocks is among the most important criteria the government of Kenya needs to consider when reviewing its DRF strategy. In the case of Kenya, low to moderate impact shocks include dry spells and local flooding. Both are experienced in most years across disaster-prone areas of the country. Therefore, they represent events that can be relatively easily captured through the normal budgetary process that allows inter-year adjustments based on updated short-term forecasts. Similarly, the government should be able to establish efficient, shock-specific response mechanisms such as cash transfers to affected populations or property insurance schemes.

Conversely, high-impact low-frequency shocks such as severe droughts, major epidemics or seismic events cannot be efficiently provided for in the regular budget and may be efficiently addressed through a combination of risk transfer mechanisms and risk retention instruments alongside robust plans for emergency finance mobilization. For such events, response mechanisms need to rely on fewer disaster-specific systems, such as broad-mandate response teams and scalable social protection networks.

Kenya's current approach relies heavily on ex-post borrowing; however, relying on debt will inevitably become more difficult in future years. Following the especially difficult FY2019/20, Kenya reached a debt level of 69 percent (gross, as percent of GDP) at the end of 2020. According to IMF's forecasts, this level will reach at least 73 percent in 2022.[7] The cost of servicing such obligations will continue to mount and, after a 35 percent year-on-year increase between FY2020/21 and FY2021/22 will reach K Sh 1.2 trillion.[8] This increase will follow the end to post-COVID-19 relief programs, such as the suspension of debt repayment to the Export-Import Bank of China. As a result, the perceived risk of default on Kenyan bonds is likely to continue increasing.

As Kenya struggles to conduct major fiscal consolidation in the medium term, thus prioritizing recovery from the pandemic's effects, the government's ability to borrow will diminish. Should another shock affect Kenya, the rating of sovereign bonds would likely fall further into the speculative grade category, thereby severely reducing Kenya's access to the capital market. It is therefore vital that the reliance on emergency borrowing that constituted a major part of Kenya's financial response to disasters in FY2019/20 is reduced by increasing the availability of prearranged sources of finance, such as special credit lines or insurance products.

5. ACP-EU Program, Kenya: Post Disaster Needs Assessment—Droughts in 2008–2011, https://www.gfdrr.org/en/publication/kenya-post-disaster-needs-assessment-droughts-2008-2011.
6. The Economics of Climate Change in Kenya: Final Report submitted in advance of COP15 (2009).
7. International Monetary Fund, "Kenya: Requests for an Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility—Debt Sustainability Analysis," March 19, 2021, https://www.imf.org/-/media/Files/DSA/external/pubs/ft/dsa/pdf/2021/dsacr2172.ashx.
8. David Herbling, "Kenya Resumes China Debt Repayment with $761 Million, Bloomberg, July 31, 2021, https://www.bloomberg.com/news/articles/2021-07-31/kenya-resumes-china-debt-repayment-with-761-million-remittance.

Disaster Challenges Facing Kenya in FY2019/20

In FY2019/20, Kenya saw the highest cost resulting from disasters in the past 20 years. Those costs followed three major shocks: a locust infestation, the severe floods with resulting landslides, and the COVID-19 pandemic. The shocks have caused a sharp deceleration of the Kenyan economy, with a fall in domestic spending (consumption and investments), which is the main reason for the decreasing GDP. This economic decline has, in turn, widened the fiscal deficit as public revenues have fallen and as the government cut taxes and increased some expenditures to support households and firms. As a result, the fiscal deficit expanded by about 1.8 percentage points to 8.1 percent of GDP[9] from a budget target for FY2019/20 of 6.3 percent. The public debt is projected to increase from 62.7 percent of GDP in 2019 to about 71 percent of GDP over the medium term[10] (largely because of the reduction in both domestic and foreign revenue).

In this context, Kenya may struggle to mobilize funds if it is affected by another shock, and such a struggle is likely to be the case for several years as the government seeks to resume the fiscal consolidation needed to preserve debt sustainability and macroeconomic stability.[11] This difficulty makes it imperative to pursue prudent and efficient spending, including for disaster response. However, given the significant opportunity cost of reducing or delaying response efforts, savings should be made by improving efficiency of funds rather than by reductions.

Financial preparedness measures can significantly reduce the financial burden of disasters. During the challenging FY2019/20, Kenya was able to build on provisions it had previously made that allowed it to access quick liquidity through instruments such as Catastrophe Deferred Drawdown Option (Cat-DDO) that provided US$200 million of additional liquidity to the budget. Currently Kenya does not have existing sovereign risk transfer mechanisms, and its ability to mobilize funds is limited.

Methodology for Data Analysis

Kenya does not have a dedicated mechanism for tracking post-disaster expenditures. Therefore, the program-based budget (PBB) is the main source of information about post-disaster spending. The PBB captures some programs and subprograms that focus on response. Unfortunately, however, because it only captures a small fraction of actual post-disaster expenditures, analyzing only those from the PBB would produce an unrealistically small estimation of post-disaster expenditures. Nonetheless, in the absence of a dedicated expenditure tracking system, the PBB remains a useful source of information about expenditures under programs, subprograms, and institutions within the Kenyan government that have a larger disaster risk management (DRM) mandate, even if PBBs officially focus on ex-ante activities. According to interviewed stakeholders within the government and according to tracking reallocations that followed shocks, such programs—despite no explicit response mandate—are used to expend budget reallocations following shocks.

Therefore, the post-disaster expenditures can be tracked by analyzing reallocations to programs with a disaster mandate following those disaster events. Since its introduction in FY2013/14, PBB has been improved, and subprograms are better defined, with key performance indicators (KPIs) that allow for identifying disaster-focused programs. Those improvements have made analysis of post-disaster expenditures easier, but they are still prone to errors and omissions. As will be shown in the following sections, both within-program allocations and

9. National Treasury, "2021 Budget Policy Statement," https://www.treasury.go.ke/wp-content/uploads/2021/03/2021-Budget-Policy-Statement.pdf .
10. Fitch Ratings, "Fitch Affirms Kenya at 'B+'; Outlook Negative," March 26, 2021, https://www.fitchratings.com/research/sovereigns/fitch-affirms-kenya-at-b-outlook-negative-26-03-2021.
11. International Monetary Fund, "Samoa: Request for Disbursement under the Rapid Credit Facility—Debt Sustainability Analysis," April 20, 2020, https://www.imf.org/external/pubs/ft/dsa/pdf/2020/dsacr20138.pdf.

reallocations that constitute corrections to the initial budgetary figure but are not related to disasters will complicate analyses.

Unfortunately, despite best efforts, errors in the estimations of post-disaster expenditures can occur because it is not always possible to distinguish between expenditures that were made ex-post or ex-ante unless an expenditure was financed through a specific reallocation or was made under a program where the primary objective is disaster response. A relatively unique example of the latter may be the HSNP that provides cash transfers to drought-affected communities in Northern Kenya and that has its budget increased through budgetary reallocation following droughts. In the case of such programs, the reported numbers are actual post-disaster expenditures, while in other cases reported numbers are less accurate.

Key data sources for the writing of this report were the BOOST tool (which captures Integrated Financial Management Information System [IFMIS] data) for the period FY2014/15 to FY2019/20 and supplementary budget documents for the period FY2016/17 to FY2019/20. Expenditures under programs that, over the past five fiscal years, have had disaster response mandates are identified and tracked. Both complementing consultations with relevant stakeholders and feedback from the National Treasury's team conducting of pilot data collections for post-disaster expenditure for FY2019/20 significantly informed this policy note.

It is important to remember that numbers reported in this document are aggregated at the program level. This means that whenever a value is reported, it includes both DRM and non-DRM program activities. Therefore, the numbers should not be interpreted as DRM budgets, because that approach would significantly overestimate the value. Instead, the correct interpretation would see the numbers as the size of the budget for activities that are most likely to be affected by virements and, to a degree, by reallocation in the aftermath of shocks. Using the National Treasury's currently underway project, which is aimed at creating a post-disaster expenditure reporting framework, one can see that it will become possible to precisely distinguish between post-disaster expenditure and other DRM spending. Such reporting framework will also create an opportunity to tag budget lines with a DRM or even most specifically with a post-disaster financing mandate. Further, this reporting framework may eventually inform creation of specific budgetary lines for ministries that frequently encounter post-disaster spending.

The following steps were taken to conduct the analysis on post-disaster expenditures in Kenya:

1. Reviewing the existing legal and institutional framework. This part looks at the legal acts and institutions that have a mandate that makes them focal points for the study of disaster expenditures. It also summarizes existing instruments that constitute ex-ante budgeting for post-disaster expenditures. The key documents that are considered under this step are the Public Finance Management (PFM) Act of 2012 and all acts governing the following institutions: National Disaster Operation Center, National Drought Management Center, National Drought Emergency Fund, and Disaster Management Fund.

2. Identifying budget categories that contain explicit and implicit disaster-related spending. Categorization into implicit and explicit liabilities was conducted by analyzing program-based budget books for FY2014/15 up to FY2019/20. Explicit disaster-related expenditures include programs where disaster response is the sole or leading objective. Implicit expenditures are related to, for example, welfare programs that can be scaled up following shocks or infrastructural projects that are leveraged during the reconstruction process to stimulate the local job market. Furthermore, programs were defined by their focus on a specific type of shock or a general disaster response mandate. Given the limited information available, this process required a level of subjective judgment from the authors, and other authors may have categorized the data in a different way.

3. Mapping the budget allocations and realized expenditures of programs and subprograms with a disaster budget at the central level of the government. Budgeted amounts and actual expenditures of programs with mandates that entail post-disaster expenditures were tracked using the government's IFMIS database and were correlated with disaster events that happened in the year.

4. Reviewing supplementary budgets issued after disasters. In this case, the key sources of information were supplementary budget estimates approved following disasters. In all but the most recent study period, two supplementary budgets a year were issued. In FY2019/20, three such documents were approved, each of them amid significant shocks. Because reallocations at the program or even subprogram level do not provide a full picture, stakeholders were consulted to identify allocations that resulted from unforeseen circumstances and not from normal corrections.

5. Identifying key case studies to help illustrate and understand the vulnerabilities. Disasters experienced by Kenya during FY2019/20, as well as the largest drought events of the past five years, were analyzed to provide a background to the discussion about the importance of strengthening the planning and oversight process of disaster-related expenditures.

Stakeholder Selection

Disaster can affect any part of the government; however, specific ministries, agencies, programs, and subprograms in the Kenyan government have higher levels of risk exposure. Their financial standing and therefore the ability to perform normal, planned duties—as well as their ability to absorb shocks—depends on the scope of their mandate and the type, magnitude, and frequency of disasters that may come into the scope of their duties.

The role of different ministries and programs in DRM can be split into primary and nonprimary. On the one hand, MDAs, such as the State Department for the Development of Arid and Semi-Arid Lands, manage programs with predominantly disaster management mandates—in this case focusing on droughts. On the other hand, the State Department for Social Protection, Pensions, and Senior Citizens Affairs manages programs focused on vulnerable populations that can be scaled up following disasters and indeed have been used to provide additional cash transfers as part of the COVID-19 response.[12] Disaster response, however, is not a core responsibility of the ministry.

Further, some ministries operate programs with a strong disaster response mandate, but those programs remain a minor component of their overall budgets. For example, the Ministry of Defense has an overarching mandate to provide supportive services to the population during disasters under its general defense program and the civil aid program. The role that the defense services may play during disasters has been apparent during the COVID-19 epidemic, as K Sh 1.9 billion in additional funding has been allocated to the ministry under the third supplementary budget, which was released in June 2020.

Thirteen vote-level ministries and departments[13] have a significant disaster mandate. The classification was made on the basis of an analysis of the objectives of programs that are included within their mandates in the FY2014/15 to FY2019/20 budgets. Those institutions both host programs that have an explicit DRM objective and, in the past, have been involved in

12. "President Kenyatta Urges Kenyans to Observe Government Directives on Coronavirus," April 7, 2020, https://www.president.go.ke/2020/04/07/president-kenyatta-urges-kenyans-to-observe-government-directives-on-coronavirus/.
13. State Department for Interior; State Department for Development of the ASAL; Ministry of Defense; Ministry of Health; State Department for Public Works; Ministry of Environment and Forestry; Ministry of Water, Sanitation, and Irrigation; State Department for Livestock; State Department for Crop Development; State Department for Agricultural Research; State Department for Social Protection, Pensions, and Senior Citizens Affairs; State Department for Devolution; and the National Treasury.

response activities. Appendix A provides more detailed information about the role that each institution plays in DRM activities and provides examples of past involvement in response activities. Departments vary in their level of involvement in DRM and in the extent to which responses to disasters may take the central place in their activities.

As part of the devolution efforts, counties are expected to start taking an increasing role in disaster risk management, including financing responses (see box 1 and box 2 for examples of devolved DRM in South Africa and the Philippines). The Kenyan DRM policy of May 2018 envisions collaboration between spheres of the government, but little detail is provided on how to involve counties in disaster relief management or financing activities. Counties play a critical role in the health sector and in particular in COVID-19 policy responses (spending more than 60 percent of the total health budget). Most counties have DRM systems in a very nascent state; where disaster fund regulations exist, they are not operationalized or funded.[14] Therefore, the analysis underlying this report has largely focused on national-level analysis. However, as the devolution process continues and includes DRM activities, county governments will become important counterparts for a future review of disaster-focused expenditures.

Box 1. Devolution of Disaster Risk Management: Lessons from South Africa

Background

The process of devolution of the government in Kenya started in 2010 with the ratification of the new constitution.[a] The principal objective of separating spheres of governance was, on the one hand, to promote equity and, on the other hand, to leverage the local expertise and understanding of local challenges. Disaster risk management is an area that naturally corresponds to those objectives, because unequal exposure to shocks of people inhabiting different regions in Kenya is likely to disadvantage certain groups—as is generally the case with households in drought-prone counties in the northern part of Kenya. Moreover, the intimate understanding of local vulnerabilities is indispensable for efficient identification of risk—both infrastructural and human—and for precise targeting of response.

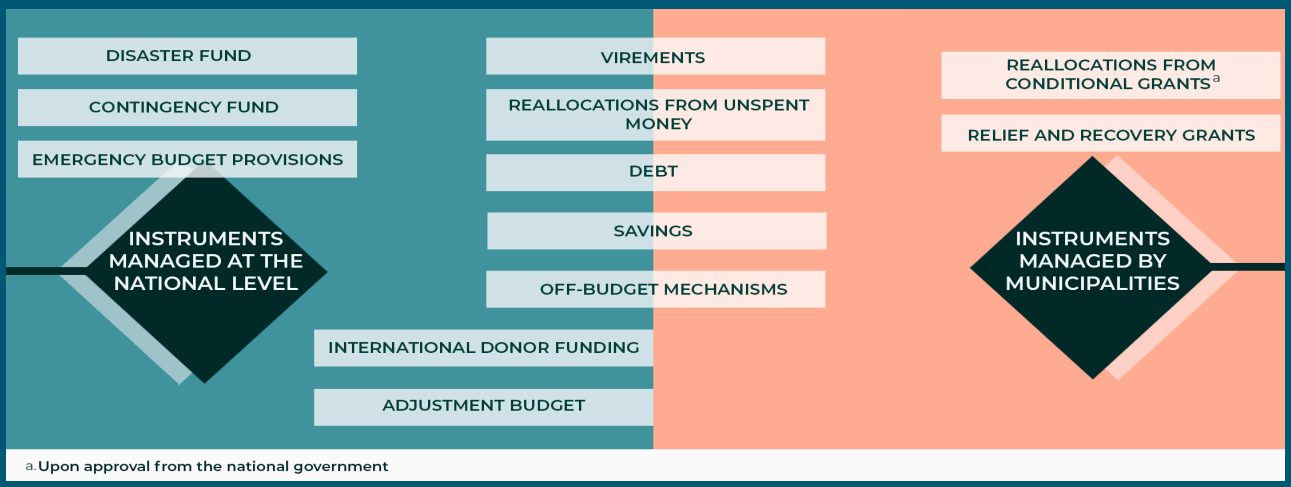
The value of understanding community dynamics in targeting response is illustrated by the ongoing process of creating a roster of vulnerable households to enroll in the Hunger Safety Net Programme and in the Kenya Livestock Insurance Program. Because indicators of vulnerability differ between communities and circumstances change over time, local representatives and chiefs are consulted before families are enrolled. Unfortunately, despite the significant potential of communities' involvement in the disaster risk management (DRM) process, their role is currently limited as a result of both financial and capacity limitations. This condition is partly because the government has only recently recognized the role of counties in disaster response. The DRFS provides some guidance on the role of counties and subcounties, but the operationalization of its objectives would require clear guidelines and funding from the national-level government.

Lessons from South Africa

South Africa has long been Africa's devolution leader and has incorporated decentralization of governance through a three-sphere government in South Africa's Constitution of 1996.[b] The country's DRM act emphasizes the roles that different spheres of the government play in DRM. Importantly, the act creates strong incentives for lower levels of government to invest in financial preparedness by using instruments such as insurance or by the creation of dedicated disaster funds. At the same time, the policy framework for DRM in South Africa that followed the act recognizes the role of the national government in supporting lower spheres of the government in developing their DRMs and in supporting a capacity enabling them to take advantage of a wider range of DRF instruments.

14. World Bank, Kenya Accountable Devolution Program: Devolution and Locally-Led Climate and Disaster Risk Management Project

Figure B1.1. In South Africa, DRF Instruments Are Managed Jointly or Independently by Different Spheres of the Government



a. Upon approval from the national government

Source: World Bank Analysis

Although the South African DRM system is not without flaws, it presents an example of how a devolved government can be leveraged to boost the efficiency of a DRF. The overall strategy aims to empower and incentivize local governments to adopt financial risk mitigation measures that build on the understanding of local needs. At the same time, it recognizes the superior ability of the National Government to collect revenue and its broader access to expertise. Therefore, the country has created an institutional setup with disaster management centers at all levels of government as well as a set of revenue-sharing instruments such as a municipal disaster relief grant and a recovery grant. At the same time, the National Disaster Management Center is continuously strengthening the capacity and institutional resilience of local governments to ensure that they can self-govern most of the low- and medium-scale, high-frequency disasters.

This approach was used following the COVID-19 pandemic, when first response in areas such as access to utilities or distribution of hygiene products was initially managed by cities from savings or through reprioritization of conditional grants. In later stages, as the national government engaged in mobilizing additional funds through reallocations and from issuing of debt, lower spheres of the government remained major beneficiaries, channeling funds to the most-affected communities.

Kenya is still in the process of gradually devolving its government. Like South Africa, Kenya distributes revenue to lower spheres of the government with a combination of equitable share and conditional grant allocations. However, now it does not use any of those mechanisms to help local governments boost their DRF capabilities.c While 14 Kenya counties currently work toward or already have disaster funds, they do not use other DRF instruments and rarely have DRF strategies in place. Therefore, Kenya could build on the lessons available from South Africa as Kenya works toward devolving its disaster risk management.

Sources:
a. Chapter 11 of the Kenyan Constitution of 2010.
b. S. N. Ndegwa, “Decentralisation in Africa: A Stocktaking Survey,” Africa Region Working Paper Series 40, World Bank, 2002.
c. County Allocation of Revenue Bill 2020.

New Reporting Framework and the Way Forward for Future Expenditure Reviews

In July 2020, the National Treasury issued a circular called "Guidelines on Mandatory Reporting of Disaster-Related Expenditures by Ministries, Departments, and Agencies."[15] The document provides guidelines on how MDAs should report their disaster-related expenditures. It provides a reporting template that has to be submitted quarterly by all MDAs. The framework requires the categorization of costs, a detailed description of each item, and an allocation to a specific program and subprogram.

The attempt to introduce a dedicated reporting framework for post-disaster expenditures places Kenya at the forefront in terms of transparency and efficiency building of those post-disaster expenditures. However, the process is still at a very initial stage, and only a small number of MDAs reported their expenditures for FY2019/20. It is therefore not yet possible to build on this data source in this report. The longer-term vision is to make this a more automated and standardized process.

The initial data that became available when this report was being written highlights the significant potential of the initiative. For example, the framework made it possible to identify programs and subprograms that are used to finance post-disaster expenditures. They tend to be the ones that already have a related DRM mandate, and the response mandate is implicit. Going forward, data from post-disaster reports allow the Kenyan government to update objectives of existing programs or to add new ones with an explicit response mandate. This process will significantly improve the financial management of the programs.

Further, the available data will allow for better identification of the costs of disasters while making the simulation of future expenses and the underlying risks more accurate, thereby allowing for a more efficient use of resources. For example, the government will be able to improve its risk-layering strategy not only for the entire budget but also for specific MDAs that are exposed to a range of different risks of varied magnitudes and that require different responses. The ability to estimate precisely the cost of disaster makes risk layering possible. For example, the HSNP already benefits from accurate scenario analysis that has allowed the government to introduce cost-efficient risk-layering strategies. HSNP is unique because it already offers more precise information about the government's contingent cost. It is a cash-transfer program that supports a predefined group of vulnerable households with payouts based on an objective weather index. The piloted reporting framework will allow the government to collect data that will enable similar efficiency improvements across other programs with a disaster-response mandate that gives the government a complete insight into its risk exposure.

Legal and Institutional Arrangements

Legal Setup for DRF in Kenya

Constitution

The Kenyan Constitution of 2010 sets up the context for disaster management in the country. The document regulates the conditions under which a state of disaster can be declared. Importantly, it distributes the responsibility for disaster management between the national and county governments. However, although disaster management is mentioned as a separate responsibility in the case of the central government, it is included in the case of counties

15. "Guidelines on Mandatory Reporting of Disaster-Related Expenditures by Ministries, Departments, and Agencies," Treasury Circular No. 9, July 23, 2020, https://www.treasury.go.ke/wp-content/uploads/2021/03/Circular-No.9-2020-on-Guidelines-for-Effective-Reporting-of-Disaster-Related-Expenditures-by-MDAs_29.07.2020.pdf.

under Part V, Point 12, as Firefighting Services and Disaster Management, thus suggesting that counties' responsibilities in DRM are seen primarily as those of the first responder. At the same time, however, the county governments' responsibility includes activities that may lead to post-disaster expenditures. For example, those activities include plant and animal disease control, ambulance services, county roads' maintenance, and water and sanitation services.

Further, in the case of some MDAs, post-disaster responsibilities are already assigned in the Constitution. Specifically, the defense forces are required to assist in situations of emergency and disaster. Such activities may have potentially high costs, as was the case during the response to the COVID-19 epidemic when the army played a crucial part in the response strategy. Similarly, the liability of health authorities in an emergency may result in costs. The Constitution guarantees emergency medical treatment to all people. Therefore, disasters resulting in human casualties are likely to create a cost to the Ministry of Health, with epidemics posing a significant threat to its financial stability.

Public Finance Management Act

The second-most-important document creating the context for post-disaster spending is the Public Finance Management (PFM) Act of 2012. In section 16, the PFM Act allows the government to deviate from the budget policy statement in the event of a natural disaster, but only after approval from the parliament. The act also gives the cabinet secretary the power to make advances from the contingencies fund if an urgent and unforeseen need for expenditure has arisen. The PFM Act gives the same powers to county governments, with the County Executive Committee member for finance authorized to draw from the county contingency fund—should such funds exist. As of FY2015/16, only 19 of 47 counties established such funds. The act also regulates conditions for the issuance of debt by both national and county governments.

The PFM Act includes provisions that allow the Kenyan government to enter derivative transactions both directly and through an intermediary. From the perspective of risk financing, it means that going beyond financing disasters through standard risk retention measures such as reallocations, issuance of debt, or creation of contingency funds, the Kenyan government is also allowed to hedge risks and to purchase insurance products.[16]

In many countries, the provision of a PFM Act for financing disasters is furthered by a dedicated disaster management act. Such legislation exists in Namibia, South Africa, and Tanzania. In Kenya, the DRM bill remains in the pipeline. The act was originally put forward in 2018 and is awaiting the parliament's approval.

Contingency Fund Regulations

Kenya has legislation that mandates the creation of dedicated disaster funds. The two most important such documents mandate the creation and regulate the operation of the National Drought Emergency Fund and the Disaster Management Fund.

The National Drought Emergency Fund (NDEF) is designed to finance both drought preparedness (up to 50 percent of the annual allocation) and drought response (up to 40 percent of the annual allocation). The regulation allows for the fund to be used to finance programs in the following areas related to drought: water and sanitation, agriculture and livestock, education, health, sanitation, and nutrition, cash transfer scale-ups, conflict management and resolution, and drought coordination. As of FY2019/20, the fund has not been capitalized.

The regulation for the disaster management fund is currently undergoing public consultation.

16. Article 56 of the PFM Act 2012, available at https://www.treasury.go.ke/wp-content/uploads/2020/11/Public-Finance-Management-Act-2012.pdf

The proposed legislation for the Public Finance Management Standing Disaster Management Fund of 2020, by and large, reflects that of the Drought Emergency Fund. Its mandate, however, is broader because it can be used for financing DRM activities for all disasters except droughts. The fund is expected to finance all phases of DRM. The regulation allows for up to 60 percent, 20 percent, and 17 percent for response and mitigation, preparedness, and recovery, respectively.

Institutional Setup for DRF in Kenya

The National Disaster Operations Center

The National Disaster Operations Center (NDOC) is among the most long-standing DRM-tasked institutions in Kenya. It was established in 1998 as the focal point for coordinating the response to emergencies and disasters. The NDOC operates under the Ministry of Interior and Coordination of National Government. The NDOC's mandate is strictly focused on post-disaster activities because the NDOC coordinates response activities and mobilization of resources. It is hosted by the State Department for Interior. The NDOC acts as a command focal point during disasters.

The National Disaster Management Unit

The National Disaster Management Unit (NDMU) was established in 2013 to become an effective and competent disaster management unit with an established command structure and budget. It provides leadership, command, control, and a coordinated approach to disaster mitigation, prevention, preparedness, response, and recovery. It has a high-level coordination role between all national stakeholders and development partners during a disaster event and is hosted by the State Department for Interior.

The two organizations have a very similar mandate, and this similarity has been recognized through a bill passed in Kenya in 2019. The bill establishes a new authority, the National Disaster Management Authority. The objective of the authority is also coordination. Although it is not explicitly stated in the act, apparently the act discontinues the NDMU and the NDOC because both staff and property of those two institutions are transferred to the new body.[17] Despite passing the law, the authority did not appear to be operational as of FY2019/20.

National Drought Management Authority

The NDMA was established in 2016 with a mandate to exercise overall coordination relating to drought risk management and to establish mechanisms, either on its own or with stakeholders, that will end drought emergencies in Kenya. The NDMA has established offices in 23 ASAL counties that are considered vulnerable to drought. Among its responsibilities is the management and financing of the HSNP. The authority is hosted by the State Department for Development of the ASALs.

The NDMA's activities are limited to drought management, which reflects the unique place that drought management has in Kenya's DRM strategy. The agency is mandated to provide overall coordination and implementation of all drought-related activities between central and local governments as well as external bodies such as non-governmental organizations (NGOs). In doing so, it uses its local representations and staff members working at the headquarters in Nairobi. Continuing with response-related activities, NDMA has a broad mandate to conduct research on drought preparedness and to create response and prevention manuals as well as contingency plans. The agency leads the way in Kenya in implementing financial infrastructure for the dissemination of post-disaster resources because it has been compiling a roster of vulnerable households for rapid drought payouts under the HSNP program.

17. Kenya Gazette Supplement, March 1, 2019. http://www.parliament.go.ke/sites/default/files/2019-04/National%20Disaster%20Management%20Authority%20Bill%2C%202019_compressed.pdf.

Ex-Ante Disaster Risk-Finance Instruments Used in Kenya

Contingencies Fund

The fund is established under the Kenyan Constitution and is further defined by the Public Finance Management Act. It is financed directly from the consolidated fund and is kept in a separate account maintained at the Central Bank of Kenya. The objective of the fund is to mitigate the damage that would arise due to funding delays from following the standard budgetary procedure to mobilize funds for disaster response. Therefore, the fund is created to service payments that were not

budgeted for but that cannot be delayed until the next fiscal year without harming the public interest. Capitalization of the fund is capped at K Sh 10 billion by the Constitution but can vary, as per the PFM Act, 2012.

County Government Emergency Funds

The Contingencies Fund and County Emergency Funds Act of 2011 grants counties an option to create contingency funds that are established by county governments with the approval of the country assembly. The funds are expected to provide emergency liquidity when waiting until the next financial year would harm the public interest. There is no cap on the fund's size, but payments made from it in any given year cannot exceed 2.0 percent of the county's revenue.

Catastrophe Deferred Drawdown Option (Cat-DDO)

A Cat-DDO of US$200 million of International Development Association (IDA) Development Policy Financing was arranged. The World Bank's IDA credit serves as early financing amid shocks while funds from other sources, such as bilateral aid or reconstruction loans, are being mobilized. Kenya became the first country on the African continent to secure such funding. Currently, the country has successfully drawn the entire amount in two tranches: (a) to follow floods at the end of 2019 and (b) to finance COVID-19 response efforts. The Kenyan government is currently exploring the option for extending the instrument or replacing it with a similar contingent credit line.

Hunger Safety Net Programme (HSNP)

HSNP is a flagship cash transfer program to protect the most vulnerable households in northern Kenya. It was implemented through the NDMA and is currently operating in the four poorest and most arid counties in Kenya, namely, Mandera, Marsabit, Turkana, and Wajir. The program has two components: (a) regular payments to vulnerable households and (b) emergency payouts that follow periods of drought. Both components build community resilience to shocks. Regular payments, which allow the most vulnerable communities to improve their diets and to make long-term plans, allow them to be more prepared in the face of shocks. This preparation is among factors that lead to some studies showing a return on investment in HSNP regular payments at the level of 38 percent to 93 percent. The multiplier effect is even higher and is at as much as 2 for emergency payments as the communities allow households to avoid negative coping mechanisms.[18]

HSNP's emergency scale-up component is triggered automatically by predefined drought events (using the satellite vegetation condition index) that activate transfers to preidentified,

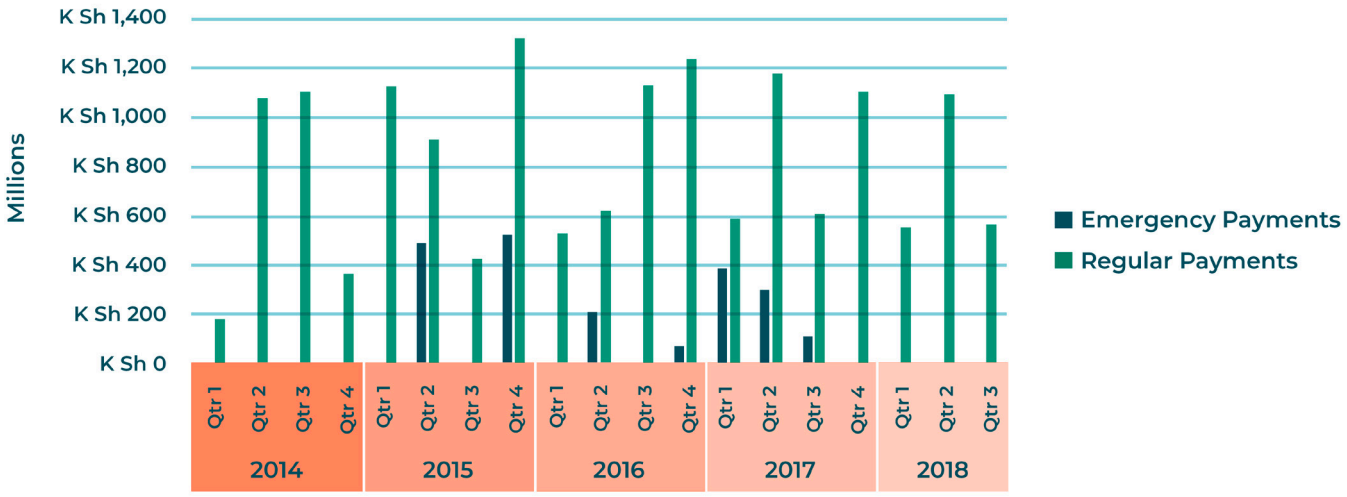
18. Oxford Policy Management, Evaluation of the Kenya Hunger Safety Net Programme Phase 2: https://www.opml.co.uk/projects/evaluation-kenya-hunger-safety-net-programme-hsnp

drought-vulnerable households using mobile bank accounts within two months.[19] Though limited in coverage, the program is a prominent example of how good planning, availability of funds, and efficient financial mechanisms for quick distribution of funds can protect the most vulnerable while remaining efficient from the fiscal perspective.

Currently, 250,000 households in the four counties are eligible for disaster relief under the HSNP. About 100,000 of those households receive monthly unconditional payments, and a further 150,000 are eligible for payments in the event of drought. In FY2021/22, the program was due to expand to an additional four counties: Garissa, Isiolo, Samburu, and Tana River, although the expansion may be delayed due to budget constraints.

The level of payouts from the emergency mechanism varies according to the prevailing drought conditions. In total, the safety net has disbursed more than US$26 million in the past five years in response to drought, with transfers peaking in FY2016/17 because of the 2017 drought and then falling to a very low level in FY2019/20 given it was a relatively drought-free period (figure 2). In FY2015/16, the program was used to provide transfers that total K Sh 650 million for those affected by El Niño–induced flooding, thus highlighting that the mechanisms in place can be used for quick response to disasters other than a drought.

Figure 2. Payouts under the Hunger Safety Net Programme



Source: HSNP Dashboard, http://197.254.7.126:9700/glance/payments.aspx.

In May 2020, the permanent secretary of the National Treasury signed and endorsed a financing plan for the program that sets out the funding requirements to meet the cost of transfers in 98 percent of drought years and confirms the treasury's intentions to adopt an efficient risk-layering approach. That approach combines a budget allocation to an emergency transfer fund with a risk-transfer instrument and to fund HSNP scalability. Given the commitment from the Kenyan government to making emergency payouts in the event of drought, the use of a risk-transfer product will protect the budget against high payouts and will reduce the volatility of funding needs in return for an upfront premium.

19. See the website of the Health Safety Net Programme, https://www.hsnp.or.ke/index.php/our-work/scale-up.

Kenya Livestock Insurance Program (KLIP)

In 2013 following a period of prolonged drought, the Kenyan government recognized agricultural insurance as an important tool for protecting farmers and herders against production crises. The Ministry of Agriculture, Livestock, and Fisheries allocated funding under the Second Medium-Term Plan Two, 2013–17, for (a) the implementation of a National Livestock Insurance Scheme and (b) increasing producers' access to credit and financial services including agricultural insurance. Those efforts resulted in the launch of a public-private arrangement called the KLIP, which offers subsidized index-based livestock insurance to selected beneficiaries.

The index-based livestock insurance program is technology-based, uses satellite measures of the level of pasture on the ground, and is triggered when these pasture conditions fall below a predetermined level. The insurance payments are disbursed through mobile payments. The insured pastoralists, therefore, receive quick payouts in case of drought and can invest in water, fodder, and veterinary services required to keep their livestock alive. To effectively reach the target beneficiaries, the government is building an electronic and periodically updated database of beneficiaries, as well as collaborating with seven private sector insurance companies in order to use the efficiency that carefully selected private sector players can bring to the response process.

KLIP started purchasing insurance coverage on behalf of 5,000 vulnerable households from two counties (Turkana and Wajir) in October 2015. Each household received fully subsidized coverage for five tropical livestock units (TLUs).[20] KLIP rapidly scaled up to eight counties in the arid and semi-arid lands (ASALs), namely, Garissa, Isiolo, Mandera, Marsabit, Samburu, Tana River, Turkana, and Wajir. Those counties cover around 18,000 pastoralist households and their 90,000 tropical livestock units annually. In the first five years of KLIP implementation, more than K Sh 1.1 billion was paid out to vulnerable pastoralists to protect their livestock and livelihoods from severe drought events (figure 3). The total payouts since inception have exceeded the total premiums paid by the Kenyan government, although this net difference varies year on year. Over a longer period, one would expect the premium amount to be greater than the payouts. However, the use of insurance reduces the volatility of the government's budget needs and provides access to greater resources in bad years.

Figure 3. Summary of KLIP Premiums, Annual Payouts, Insured Households, and Tropical Livestock Units (all monetary amounts in K Sh millions)

Agricultural Year	Premium	Annual Payout	Insured HH	TLU Insured
2015-16	56	3.5	5,000	25,000
2016-17	164	534	14,000	70,000
2017-18	247	175	18,012	90,060
2018-19	241	385	18,012	90,060
2019-20	241	0	18,012	90,060

Source: Fava et al. (2020).
Note: HH = households; TLUs = tropical livestock units.

20. A TLU is a standardized measure for livestock, where 1 TLU corresponds to 1 mature cow, 10 goats or sheep, or 1.4 camels.

Kenya Agriculture Insurance Program (KAIP)

In 2014, the government rolled out a national scheme for area-yield crop insurance: the Kenya Agricultural Insurance Program (KAIP). That scheme was in a partnership with domestic insurers to provide more protection to smallholder farmers. The program provides insurance for wheat and maize, but it plans to increase the coverage to sorghum, coffee, sunflower, and potato. KAIP is an indemnity-based product using a yield index, and it pays out when average yields in defined spatial units fall 20 percent or more below their 10-year averages. Average yields are determined through seasonal crop cuttings. There is a 50 percent subsidy of the premium from the government.

By late 2019, KAIP was covering around 900,000 farmers in 20 counties. KAIP beneficiaries received payouts of K Sh 91 million against premiums of K Sh 173 million for the farming seasons of 2016–18, with a total insured value of K Sh 2.5 billion. In 2019, payouts of K Sh 63 million were made to nearly 156,000 beneficiaries for a premium of K Sh 179 million and a total insured value of K Sh 2.6 billion.[21]

African Risk Capacity (discontinued)

The African Risk Capacity (ARC)[22] Group is a specialized agency of the African Union and is run by the 34 African Union member states to help African governments improve their capacities to better plan, prepare, and respond to extreme weather events. The ARC Group comprises two entities: the African Risk Capacity Agency and ARC Limited (Ltd.). Together, they provide the ARC member states with capacity-building services and access to early-warning technology, contingency planning, and risk pooling and transfer facilities. In FY2019/20, the following 11 member states participated in the risk pool: Burkina Faso, Chad, Côte d'Ivoire, The Gambia, Madagascar, Mali, Mauritania, Niger, Senegal, Togo, and Zimbabwe.

In FY2014/15 and FY2015/16, Kenya signed up to ARC's drought coverage, insuring both the long rains and the short rains seasons with maximum coverage of US$30 million (K Sh 3.3 billion) for each season. The attachment point for each policy was chosen at the 1-in-4-years level[23] for each season, and the resulting total annual insurance premium was US$9 million (K Sh 975 million) for each 1-year cover period. For both periods, Kenya submitted the same drought operations plan that describes the intended use of funds in case an insurance payout was received.[24] The plan stated that 75 percent of funds would be used to scale up cash transfers to beneficiaries under the Hunger Safety Net Programme (HSNP) and 25 percent for water-related humanitarian response activities such as water trucking. The funds were to reach beneficiaries within 120 days of the ARC payout.[25]

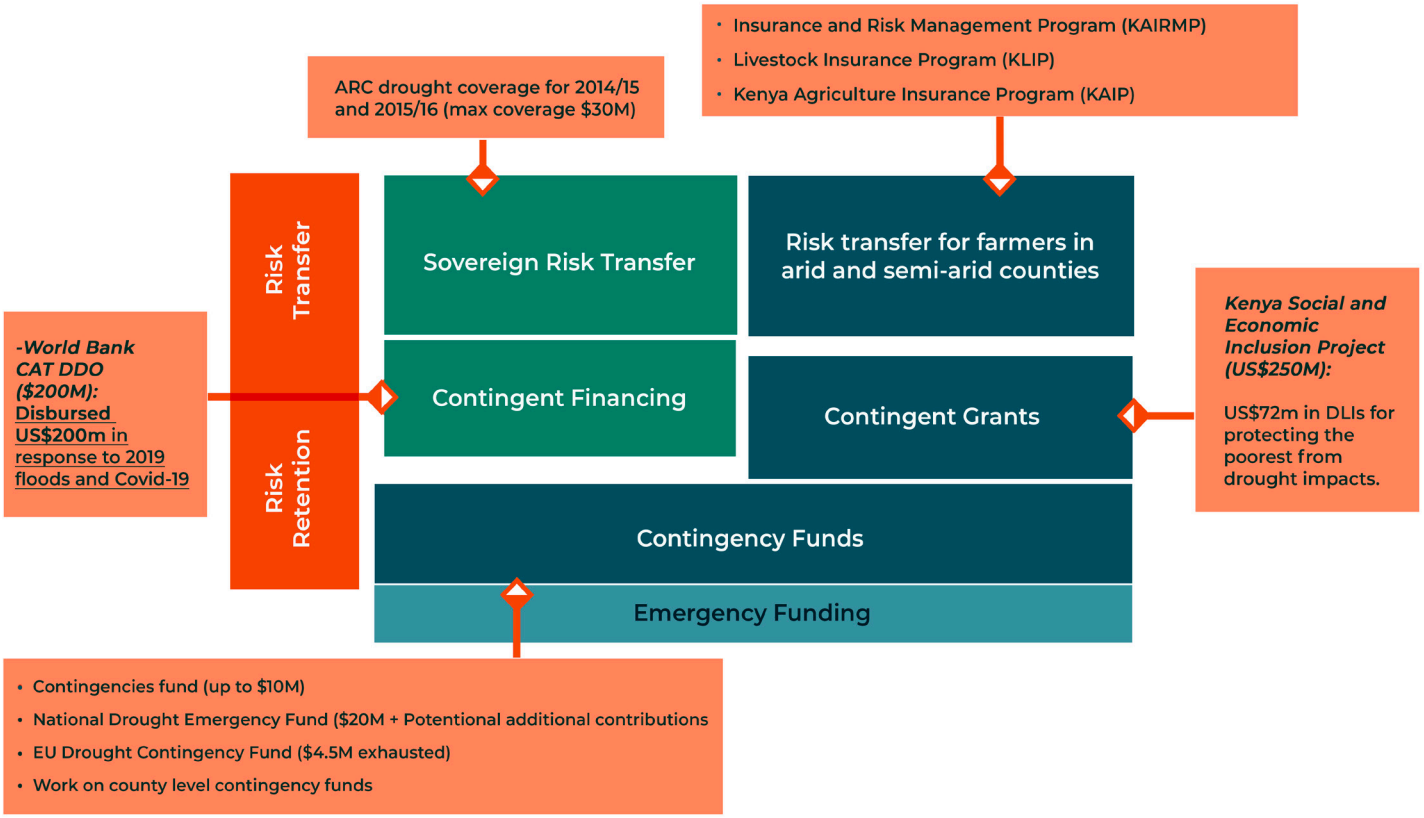
In FY2014/15, the drought conditions were below the attachment point according to the risk-transfer parameters selected by the government and therefore did not trigger a payout.[26] This finding was met by criticism from various stakeholders in Kenya because the drought had also been experienced in Kenya during that period, especially in the ASALs. This experience was in part due to the coverage being based on one country-wide insurance unit, and thus it does not reflect the north-south divide concerning drought exposure in Kenya.

21. APA Insurance Limited, Kenya, 2019.
22. See the African Risk Capacity's website at https://www.africanriskcapacity.org/.
23. The 1-in-4 years refers to the selected return period; in other words, the probability that the chosen attachment point would be exceeded in any given year is on average 25 percent.
24. ARC procedures require an additional Final Implementation Plan (FIP) to be completed and approved shortly before the insurance payout is made. The provisions made in the FIP should be within the provisions made in the Operations Plan but can also differ to be able to address unforeseen circumstances of the drought, approval by the ARC Agency Board provided.
25. Government of Kenya.
26. For the short rains policy, government officials selected an attachment point that corresponded to 2.3 million people affected before the policy would start paying out. The short-rains season of 2014 experienced some localized pockets of prolonged dry spells in 2 of the 23 covered counties. The impact in terms of food security and response needs, as modeled within Africa RiskView and Kenya's own drought monitoring tools, was well under this attachment point, despite being severe in the affected areas (i.e., total population affected was fewer than 2.3 million). The insurance policy therefore did not trigger a payout.

In FY2015/16, the policy was adjusted to differentiate between the ASALs and other areas, but the policy still didn't trigger the more localized drought conditions. As a result, the policy was dropped; for a few years, the government refrained from adopting risk-transfer instruments in favor of ex-post instruments. This sentiment is now changing again. An example of the shift is the adoption of the 2020 financial plan for HSNP emergency transfers, and the government is exploring the option for a new ARC insurance product to provide coverage for HSNP. That option uses triggers similar to those used for HSNP scale-ups rather than a national-scale policy.

Figure 4 presents the risk-layered strategy for the ex-ante DRF instruments used in Kenya. Instruments shown in green are either exhausted or under review and thus are no longer in place. This figure highlights the gaps left by the drawn-down Cat-DDO, the lack of a sovereign risk-transfer instrument, and the limited coverage of agri-finance products and scalable social protection interventions for the poorest.

Figure 4. National Disaster Risk Finance Strategy



Source: Developed by the National Treasury, Kenya, with technical assistance from the World Bank Group.

Box 2. Devolution of Disaster Risk Management — Lessons from the Philippines

Devolution of Disaster Risk Management (DRM)

In devolved models of governance, the responsibility for response is commonly shifted to decentralized bodies such as local levels of government or semi-independent corporations. Decentralized DRM systems can leverage the information advantage of local authorities, can build on the competition between jurisdictions and agencies for best solutions, and can enjoy increased citizens' engagement leading to higher levels of accountability. Further, bringing governments closer to citizens makes service delivery following shocks better tailored and more agile than in centralized systems.[a]

Case Study of the Philippines

The Philippines is an example of a devolved government, which faces significant exposure to disaster risk. The country has been identified as the third most-vulnerable country in the world to weather-related extreme events.[b] The main hazards include typhoons, floods, earthquakes, and volcanic eruptions. The shocks are largely managed by local governments and are represented by 80 provinces, 114 cities, 1,496 municipalities, and approximately 42,000 barangays. Each level has its executive and is headed by an elected official.[c] Local government units (LGUs) have the primary response responsibility and provide basic services to citizens.

Because the national government recognizes the importance of devolved government for DRM, the DRM capacity of local government in the country is continuously strengthened. The national government incentivizes innovativeness in DRM through initiatives such as the annual awards called Gawad Kalasag, which are awarded in recognition of projects that protect high-risk communities against hazards.[d] At the policy level in 2015, the government adopted a disaster risk finance and insurance strategy, which is a key milestone in improving financial planning for disasters. The strategy aims to maintain the sound fiscal health of the national government, to develop sustainable financing mechanisms for local government units, and to reduce the impact on the poorest and most vulnerable, thus preventing them from falling into a cycle of poverty while also shielding the near-poor from slipping back into poverty as a result of shocks. In line with the strategy's focus on devolved DRM, response funds are channeled through a set of coordinated but largely autonomous funds.

Disaster Risk Finance (DRF) in the Devolved Pilipino Case

The DRF strategy of the Philippines is an example of a risk-layering strategy where local contingency funds are the key source of funding for high-frequency lower-severity shock. The national funding becomes available for less-frequent shocks of higher impact. Only when those funds are exhausted will the parliament decide on reallocations from other sources. The local contingency funds aim to ensure that the informational advantage of local units is leveraged to quickly address post-disaster needs while managing the inefficiencies created by using siloed funds. This issue is addressed by limiting the size of the decentralized funds and creating a system for needs-based replenishment. Finding the right balance between efficiently using resources and ensuring fast and precise disbursement of funds requires pre-established procedures and is the crucial aspect of having an effective DRF in devolved government.

At the national level, the Philippines has four main sources of funds for response and recovery, and the main source of local disaster financing is the Local Disaster Risk Reduction and Management Fund.

National Disaster Risk Reduction and Management (NDRRM) Fund

The NDRRM Fund is a designated budget line for disaster-related programs and projects. It can finance activities related to (a) the mitigation of disasters; (b) the reconstruction after a disaster; (c) the epidemics, as declared by the Department of Health; or (d) the crises resulting from armed conflicts, insurgencies, terrorism, or other catastrophes occurring in the current year or the two preceding years.

The fund can also be used (a) to augment or replenish depleted Quick Response Fund allocations to relevant national government agencies (NGAs) when the balance of allocations reaches a critical level or (b) to finance local government funds.

Quick Response Fund (QRF)

The QRF serves as a standby fund to key NGAs. It can be used for response, reconstruction, and rehabilitation programs, activities, and projects, including, in a few cases, the prepositioning of goods and equipment to quickly normalize the living conditions of people living in areas affected by disasters, epidemics, crises, or catastrophes.

Agency-Specific Budget Allocations for Post-disaster Programs, Activities, and Projects

After disasters, government agencies can request budget allocations for recovery and reconstruction through the regular budget process, use some of their existing budget lines, modify the issued allotment, or use savings. Agency-specific budgets include appropriations or allocations for disaster-related programs, activities, and projects.

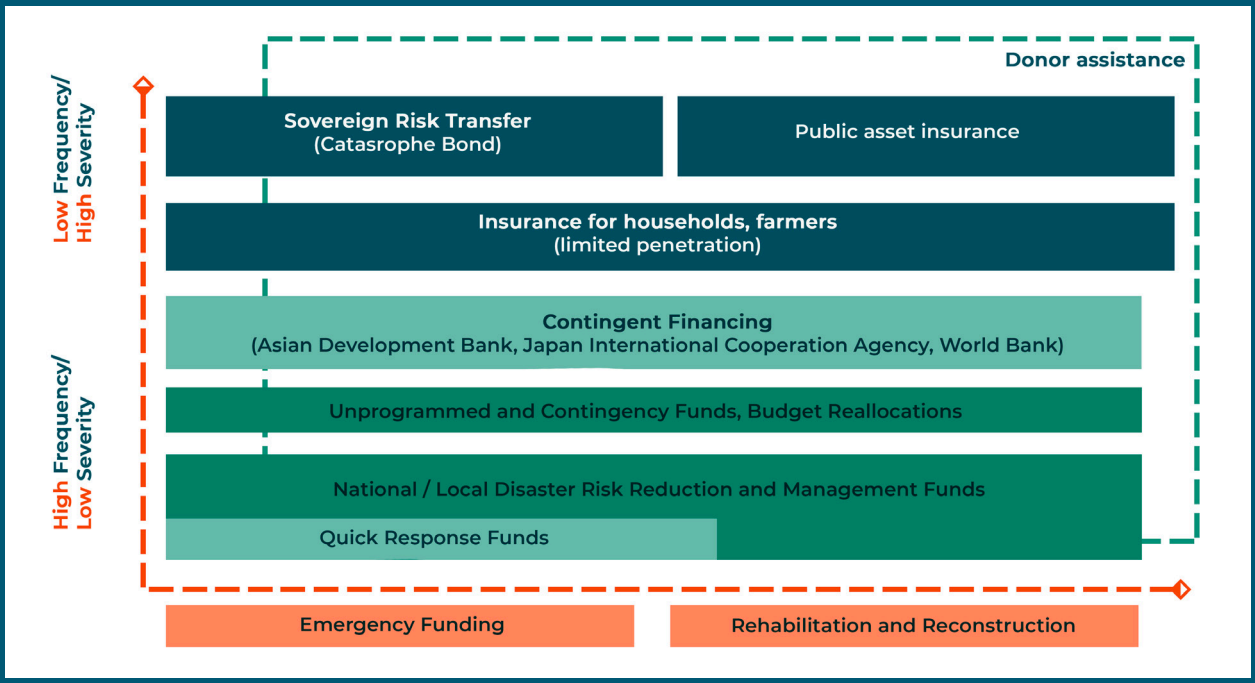
Unprogrammed or Contingent Funds of the General Appropriations Act

The funds are used only to supplement other budget lines when needed for existing or new programs, activities, and projects. Unprogrammed and contingent funds under the General Appropriations Act provide standby funds for new or urgent projects and activities or both. Any NGA or government-owned and -controlled corporations could use those funds to cover funding deficiencies or additional expenditures.

Local Disaster Risk Reduction and Management Fund (LDRRMF)

The LDRRMF is the main source of disaster financing at the local government level. There are a total of 43,594 LGUs and LDRRMFs (from the provincial down to the barangay level). LGUs are required to set aside no less than 5 percent of their estimated revenues from regular sources in the LDRRMF to support local disaster risk-management activities such as (a) the pre-disaster preparedness programs, including training; (b) the purchase of life-saving rescue equipment; (c) the procurement of supplies and medicines; (d) the payment of premiums on calamity insurance; and (e) the post-disaster activities. Among the LDRRMF, 30 percent is to be allocated as a quick-relief fund or as standby funds; unused local appropriations for the current year should be transferred to a special trust fund of the LGU under the LDRRMF to be used in future years. On average, over FY2015 to FY2018, the fund size was 0.14 percent of national GDP. (See box figure B2.1.)

Figure B2.1. Philippines Risk-Layering Strategy



Sources: Composed by World Bank staff with these data sources:
a. Decentralization and Regionalization in Portugal.
b. World Bank. "Getting a Grip on Climate Change in the Philippines: Overview." Washington, DC: World Bank, 2013.
c. Devolution of Environmental and Natural Resource Management in the Philippines: Analytical and Policy Issues.
d. OECD. "Approaches in the Philippines to Increased Coherence in Climate Change Adaptation and Disaster Risk Reduction." https://www.oecd-ilibrary.org/sites/4ec0f8bc-en/index.html?itemId=/content/component/4ec0f8bc-en.

Ex-Post Processes and Instruments for Managing Disaster-Related Contingent Expenses

Virements

The instrument is a movement of financial resources that takes place after the approval of the budget and does not require legislative authority, such as parliament approval. The Kenyan PFM Act allows for virements, but the legislation governing it is relatively strict. The national entity can reallocate money between programs or between subprograms, if they are unlikely to be used, and upon approval from the National Treasury. However, the total sum of all reallocations made to or from a program or subprogram cannot exceed 10 percent of the total expenditure approved for that program or sub-vote for that financial year. The national entity is also not allowed to reallocate money appropriated for wages. Allocations for capital expenditures can be transferred only to finance other capital projects. Because virements do not require approval from the parliament, they are a faster way than reallocations through supplementary budgets.

In-Year Reallocations through a Supplementary Budget

These reallocations are mandated by the Constitution in article 223 and by the PFM Act in article 44. The national government may spend up to 10 percent of the sum appropriated by the parliament for the financial year. The spending requires approval from the parliament; however, it can be obtained within two months after the spending. If the required additional spending is more than 10 percent, approval from the parliament is required before the withdrawal. In Kenya, typically two supplementary budgets are voted on every year, with FY2019/20 being an exception caused by unprecedented changes that were required as a result of the COVID-19 pandemic and that were made through an additional third reallocation.

Borrowing

Both domestic and international borrowing are regulated by the PFM Act and need to follow the latest Budget Policy Statement. The borrowing limit is set by the parliament. The borrowing can finance only the budget approved by the parliament. Moreover, the borrowing must be conducted at the lowest possible cost and must maintain low-risk exposure of the government. This means that, in the context of emergency borrowing following a disaster, the government may need to seek approval from the parliament, especially if the borrowing threshold has been exhausted. Further, it may take time to ensure that borrowing remains competitive because the occurrence of a disaster may increase the premium charged by market lenders. Thus, it may not be suitable for financing of immediate response needs.

Grants

Grants to the national government need to be approved by the cabinet secretary. The secretary has the power to start the project funded by the grant even before all required money has been appropriated. In practice, however, most of the post-disaster grants are received by non-governmental and humanitarian organizations.

Post-disaster Expenditure Review

Post-disaster Risk Expenditure Trend over Time

Budgetary Commitments to Post-disaster Expenditure

Over the years, the Kenyan budget's focus on disasters has increased. Objectives and key performance indicators (KPIs) of a growing number of programs and subprograms are tied to shocks or responses or even specifically discuss contingencies among their primary objectives. Between the budget for FY2014/15 and FY2019/20, the number of programs that reference disasters has increased from just 7 to 18.

In 2020, the United Nations Office for Disaster Risk Reduction (UNDRR) published a risk-sensitive budget review for Kenya that assesses disaster risk reduction (DRR) investments between FY2013/14 and FY2016/17.[27] The review concludes that approximately 2.5 percent of the budget is allocated to programs with a principal DRM mandate and approximately 2.2 percent to programs with a significant DRM mandate. The UNDRR review adopts a similar methodology to this report but focuses only on investments included in initial budgets.

The budget review highlighted the low visibility of post-disaster expenditures in the budget. It concludes that among the programs marked as significant for the DRR process, 99.7 percent of

27. UNDRR, "Kenya: Risk-Sensitive Budget Review," 2020, https://www.undrr.org/publication/kenya-risk-sensitive-budget-review.

funds are allocated to pre-disaster activities. This value changes for programs with a principal DRR mandate, because on average 33.5 percent of DRM allocations go toward post-disaster expenses. However, this number is driven by only two ministries: the Ministry of Devolution and ASALs and the Ministry of Transport, Infrastructure, Housing, and Urban Development. Although the former allocated special funds to response activities, the Ministry of Transport does not explicitly address post-disaster expenditures in the budget document.

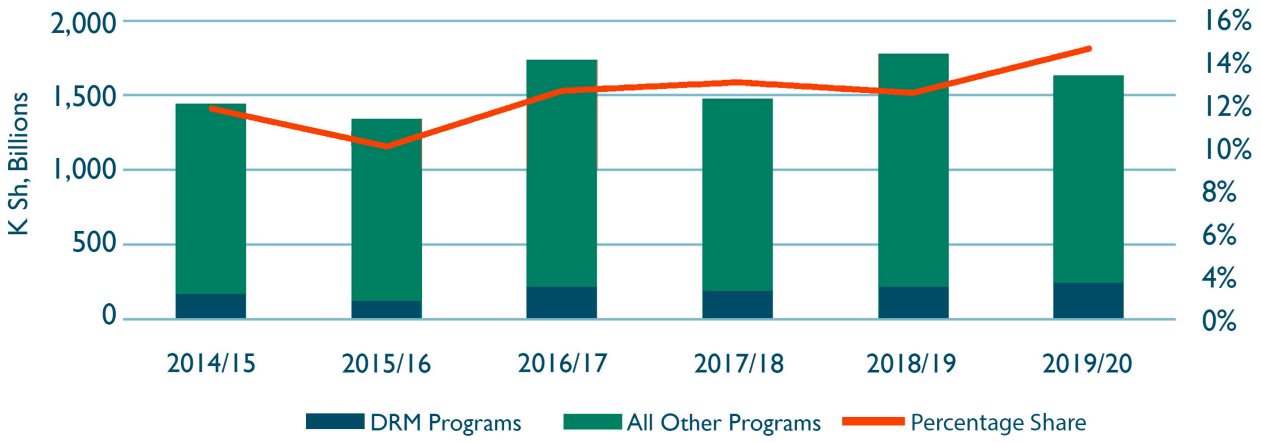
This report recognizes the challenge of the low visibility of post-disaster expenditures in the budget. Assessing post-disaster expenditures on the basis of initial budgets poses a significant risk of underestimation. To partially mitigate this effect, this report follows a pattern of reallocations that take place in the aftermath of shocks, and it notices that additional funds often flow toward programs that initially did not have a post-disaster mandate.

Therefore, before more detailed reporting about post-disaster spending becomes available, it is informative to consider a broad DRM mandate of a program as an indication of its potential exposure to risk. Analysis of the size of those programs and the type of shocks they are exposed to can be a source of information about the vulnerability of their budgets. The size of the programs can help assess whether the shock can be absorbed without significant damage to the normal activity or if additional funds would be required to respond to a shock without undermining the normal activities of a program. It is, however, incredibly challenging, if not impossible, to put an exact figure on the size of post-disaster expenditure in Kenya.

The overall budget of programs analyzed in this report oscillated greatly between K Sh 263 billion in FY2014/15 and K Sh 456 billion in FY2019/20. However, because of high volatility in the budget's performance, the actual expenditure was highest in FY2018/19 when K Sh 237 billion was spent and lowest in FY2015/16 when the actual expenditure reached K Sh 182 billion, or 12 percent of the overall expenditure (figure 5).

Analysis at both the ministry level and the program level reveals low levels of budget execution. The actual expenditures show the average execution level at 79 percent over the past 5 years for programs with a DRM mandate. This level is in line with those of the general budget.

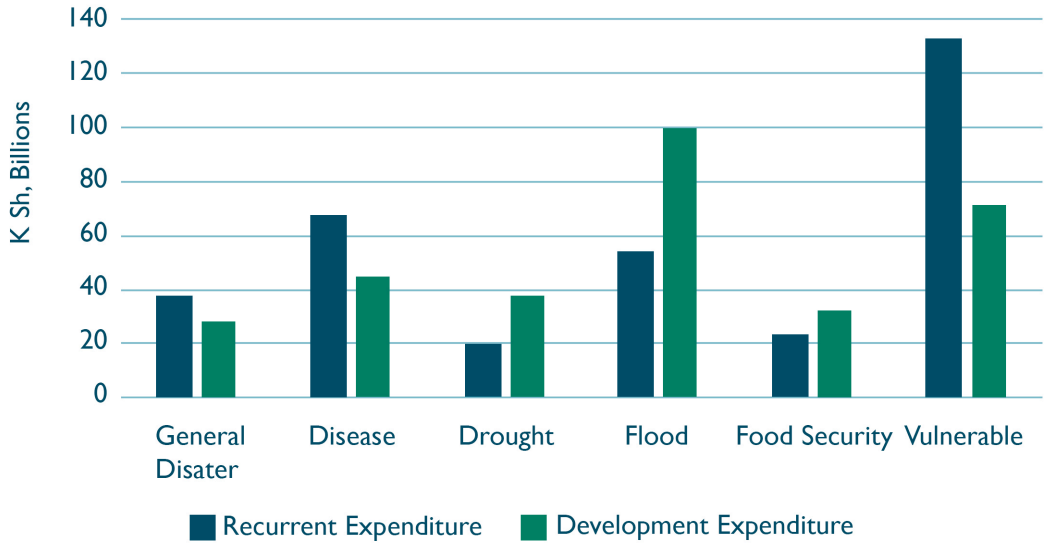
Figure 5. Actual Expenditure for Programs with and without a DRM Mandate in Budget (real values in 2014 K Sh)



Source: Boost dataset.
Note: Based on the final approved budget from Boost.

If one is to better understand the disaster-related spending patterns, it is useful to look at the attention given to different dimensions of DRM. Therefore, programs that are within the budget and that are included in the analysis of this report have been categorized by their principal objective (figure 6).

Figure 6. Budget of Programs with a Disaster Mandate in the Budget in FY2019/20 (nominal values)



Source: Boost dataset.
Note: Based on the adjusted budget from Boost. The findings may differ from the initial budget.

Most of the programs have a broad mandate, and disasters tend to be only one of the focus areas, which is especially the case for all programs targeting vulnerable populations. Most transfers under the programs are not related to disasters and include regular transfers to the elderly, orphans, or otherwise vulnerable people. It is, however, under such programs that emergency cash transfers—such as the one ordered by the president of Kenya in March 2020 to cushion the effect of COVID-19—are included.[28]

Drought Expenditures

Droughts are arguably the most prevalent and highest socioeconomic impact shocks faced by Kenya. On average, every 5 years, Kenya records droughts with moderate to significant negative impacts. Every 10 to 20 years, the amount of rainfall decreases to levels that directly and indirectly affect the lives of people beyond any affected regions through food price inflation, job losses, and other mechanisms that undermine economic well-being and food security. An example of what could be classified as a catastrophic drought took place in FY2010/11, with severe droughts experienced as recently as in FY2016/17 that resulted in 3.4 million Kenyans classed as food insecure.[29]

The highest risk is faced by people living in the drought-prone areas of Kenya known as the ASALs. It is, therefore, the State Department for Development of the ASALs that takes a leading role in responding to and managing expenditures in drought-prone areas. As of FY2019/20, the allocated budget to the ministry stood at K Sh 4.9 billion, which constitutes 0.3 percent of

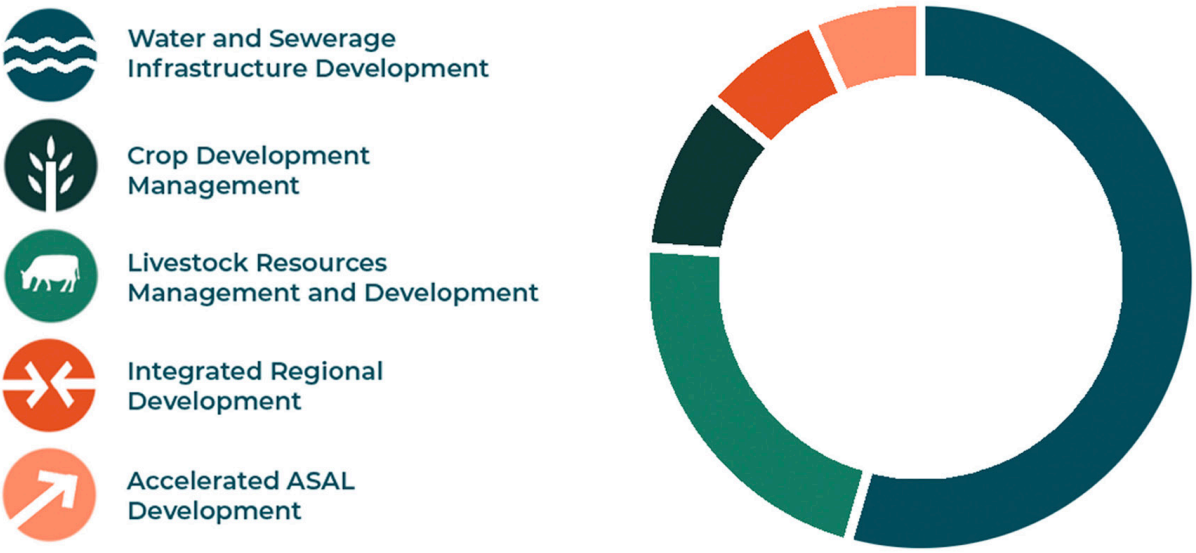
28. "Presidential Address on the State Interventions to Cushion Kenyans against Economic Effects of Covid-19 Pandemic on 25th March 2020," https://www.president.go.ke/2020/03/25/presidential-address-on-the-state-interventions-to-cushion-kenyans-against-economic-effects-of-covid-19-pandemic-on-25th-march-2020/.
29. OCHA, "Horn of Africa: Humanitarian Impacts of Drought," Issue 9, August 10, 2017, https://reliefweb.int/sites/reliefweb.int/files/resources/HOA_drought_updates_snapshot_10Aug2017%20%5Bfinal%5D.pdf.

the country's overall budget. The National Drought Management Authority (NDMA) manages most of the funds allocated to the department.

According to the budget allocations in FY2019/20, three more ministries now host drought response programs. The Ministry of Water and Sanitation runs a program aimed at improving water access. The State Department for Livestock operates the Pastoral Livelihood Resilience Project that includes an insurance scheme and conducts cattle purchases from drought-hit farmers. The State Department for Crop Development operates a drought-resilience program.

The overall adjusted budget of those drought-focused programs in FY2019/20 is K Sh 75 billion. Out of all analyzed programs, only one—the smallest one—is focused primarily on drought risk management (the Accelerated ASAL Development program in figure 7). Therefore, by applying Organisation for Economic Co-operation and Development (OECD) disaster markers,[30] the drought-specific budget for FY2019/20 can be estimated at K Sh 26 billion, or 1.3 percent of the overall government budget.

Figure 7. Programs with a Drought Mandate in the Budget for FY2019/20

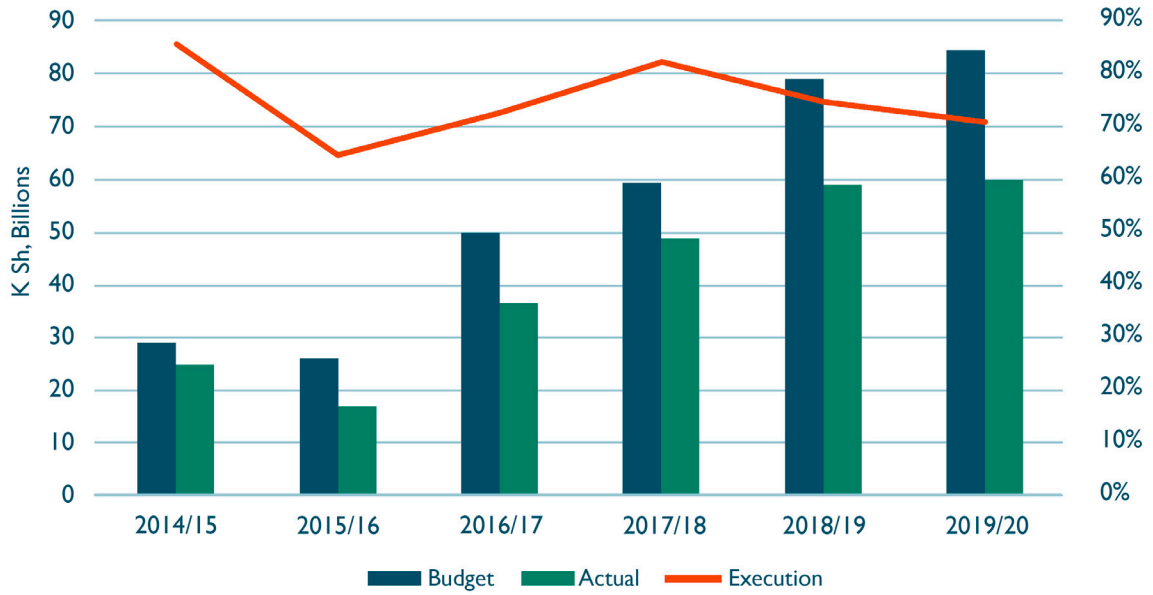


Source: National Treasury budget books for FY2019/20.

The overall budget of drought-related programs changes from year to year, with an increasing trend (figure 8). Noticeably high execution rates in FY2017/18 correspond with severe drought impacts carried forward from the previous fiscal year. This finding indicates that ministries responsible for programs that address drought risks were able to effectively increase spending, thus suggesting that in other years the budgeted amounts provided for a response buffer or the response was financed from resources originally allocated to other activities.

30. Development Assistance Committee, "Proposal to Establish a Policy Marker for Disaster Risk Reduction in the OECD DAC Creditor Reporting System," OECD, December 6, 2017. For the purpose of this analysis, activities marked as "principal" are weighted at 100 percent, activities marked as "significant" are weighted at 40 percent, and other activities are marked at 0. percent. http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT(2017)26&docLanguage=En.

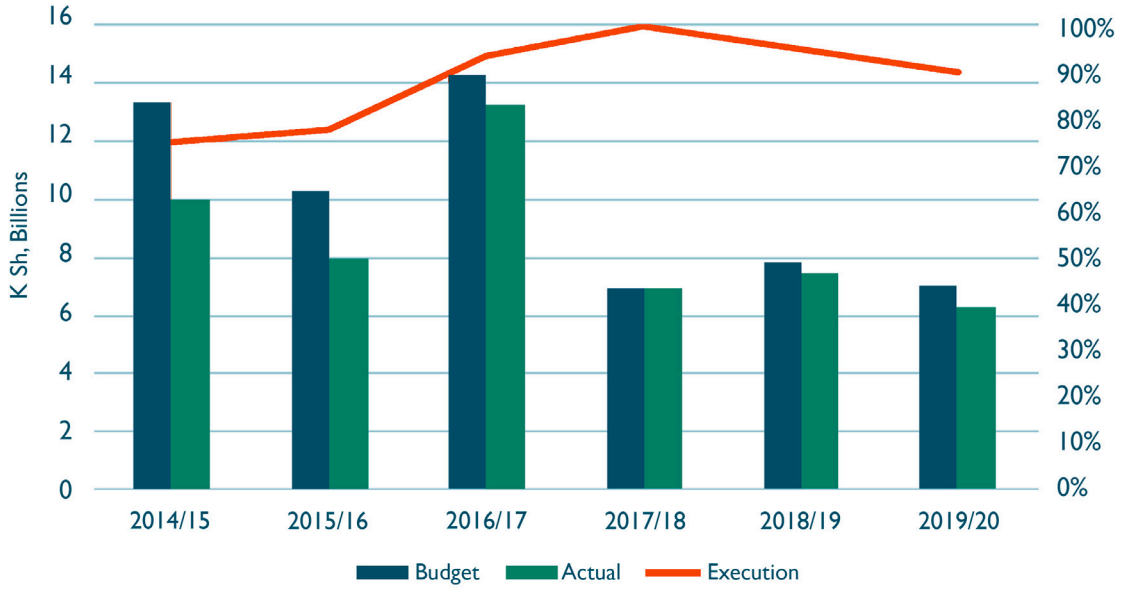
Figure 8. Execution Rates of Drought-Related Programs (real values in 2014 K Sh)



Source: Boost dataset.
Note: Findings are based on the following programs: Crop Development and Management, Livestock Resources Management and Development, Special Initiatives, Accelerated ASAL Development, and Integrated Regional Development.

The high overall execution rate and the performance nearing full execution after drought years are especially apparent for two predominantly drought-focused programs: Accelerated ASAL Development and Special Initiatives. The severe drought of FY2016/17 was associated with higher than usual spending on drought mitigation and drought response in ASAL regions (figure 9). In FY2016/17 across the programs, the budgeted spending of K Sh 14.2 billion and the 93 percent execution suggest that resources were swiftly allocated and spent. However, after FY2017/18, the budgetary allocation was reduced by 45 percent. Yet, the complete execution of the budget in FY2017/18 suggests that drought-related humanitarian needs prevailed, and perhaps the budget reduction was too hasty.

Figure 9. Budget and Execution Rates for Two Programs with the Strongest Drought-Response Budget (real values in 2014 K Sh)



Source: Boost dataset.
Note: Initial budget values shown in the graph are based on the adjusted budget, which in some cases was passed late in the year and hence may present an overly positive view of the execution rate.

Flood Expenditures

Floods are among the most prevalent disasters in Kenya. Every rainy season, the country sees localized floods when the drainage and sewage infrastructure, as well as the inadequately controlled riverbanks, are unable to contain the excess rainfall. All urban areas in Kenya are exposed to floods, with the highest non-urban flood risk observed in northern Kenya. Over the past five years, the floods recorded in 2020 had the most significant social and economic cost because more than 100,000 people needed to be relocated and more than 200 lost their lives. Floods have, therefore, led to significant immediate costs related to saving lives and livelihoods and have resulted in reconstruction expenses.

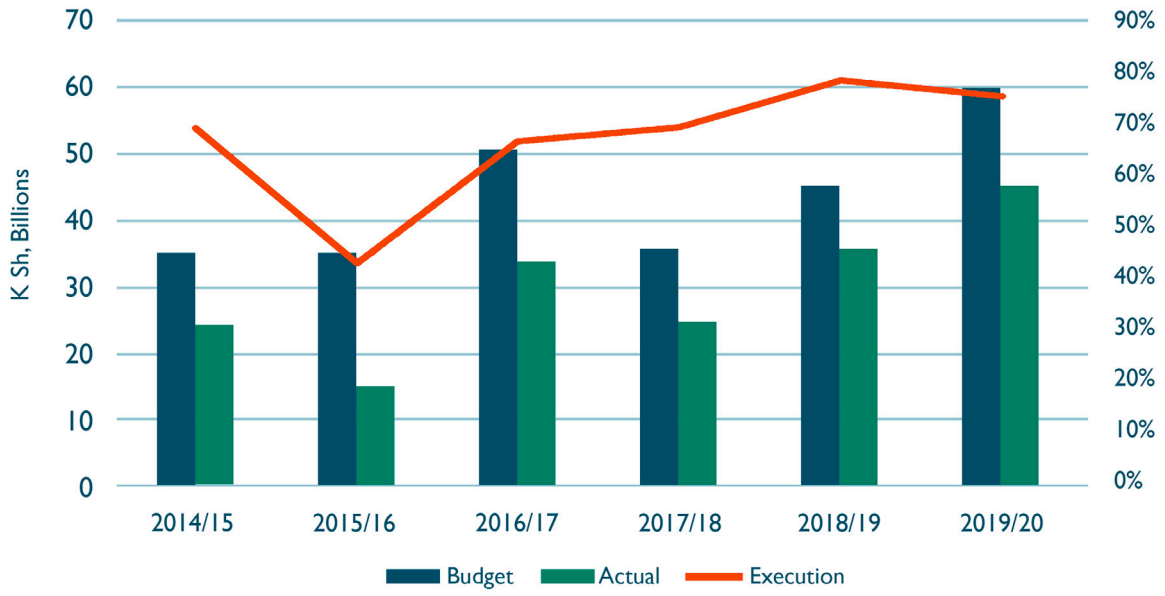
As of FY2019/20, the leading ministries responsible for managing risks related to floods are the Ministry of Water and Sanitation, the Ministry of Environment and Forestry, and—to a lesser extent—the State Department for Irrigation. Although all three institutions have undergone renaming and reorganization of their responsibilities, the key programs dedicated to flood control remained largely unaffected by the changes.

The program-based budget of FY2019/20 includes eight programs with a flood prevention and flood response mandate. Their total adjusted budget was K Sh 154 billion. All but three of the programs have had their mandate expanded to specifically address flood disaster expenditures that were only in FY2019/20. The three longstanding programs with a significant flood focus are the Water Resources Management, the Water Storage and Flood Control, and the Water and Sewerage Infrastructure Development programs. All programs almost exclusively focus on preparedness through large infrastructural projects. Although they undertake response activities and receive additional funds following disasters, the programs are rarely captured by key performance indicators, which leads to challenges for distinguishing between expenditures for ex-ante and ex-post activities.

The Ministry of Water, Sanitation, and Irrigation manages almost all important flood risk management programs in Kenya. Two that address flood risks are the Water Resources Management Program and the Water and Sewerage Infrastructure Development Program. The first addresses issues related to dam maintenance, flood early warning systems, river cleanups aimed at preventing floods, and flood control measures. That program also includes the control and maintenance of drinking water sources as well as monitoring contamination that may result from flooding. Additionally, the Water and Sewerage Infrastructure Development Program is responsible for urban sewerage systems and dikes that are crucial for reducing flush flood risks. Moreover, the program complements the Water Resources Management Program in its role to construct and maintain dams, as well as to monitor the quality of drinking water.

The significant reduction in the programs' budgets followed years of low-execution levels and many years with a relatively limited number of large-scale flooding events in Kenya (figure 10). However, the expenditure started increasing in FY2018/19 following high-profile flooding events in Turkana that led to a relocation of more than 20,000 people.

Figure 10. Actual Expenditure of Main Three Flood-Related Programs (real values in 2014 K, Sh)



Source: Boost dataset.
Note: Findings are based on the following three programs: Water Storage and Flood Control, Water Resources Management, and Water and Sewerage Infrastructure Development.

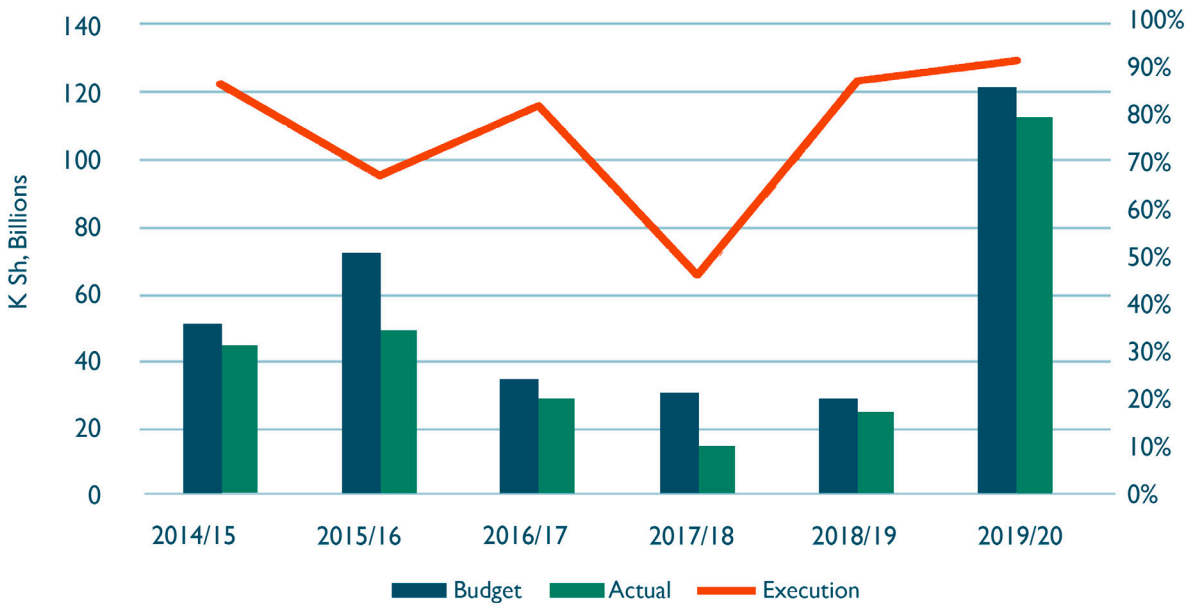
The FY2016/17 budget was the first budget to introduce a specific flood-control program. However, despite its name, the program has relatively similar objectives to the previously mentioned flood-related programs and does not immediately distinguish between flood-response expenditures and investments in infrastructure. The adjusted budget of the program in FY2019/20 stood at K Sh 9.8 billion.

The ministry responsible for flood risk management has recorded execution levels below 70 percent in most years, even after adjustments. This underperformance indicates difficulties with timely delivery of planned infrastructural projects and, potentially, an attempt to budget for contingencies through generous budgeting.

Disaster Response and Coordination Expenditures

The coordination of disaster operations in Kenya is budgeted under a subprogram that is titled the DRR Program and is hosted by the State Department of Interior. The subprogram finances the operations of the National Disaster Operations Center (NDOC) of Kenya. The budget of the NDOC increased very significantly during FY2019/20 when the center's coordination mandate became greatly relevant in face of COVID-19 pandemic (figure 11). The actual expenditure increased almost fivefold, and the execution rate increased to 92 percent.

Figure 11. National Disaster Operations Center Budget (real values in 2014 K Sh)



Source: Boost dataset.
Note: Based on the subprogram titled Disaster Risk Reduction.

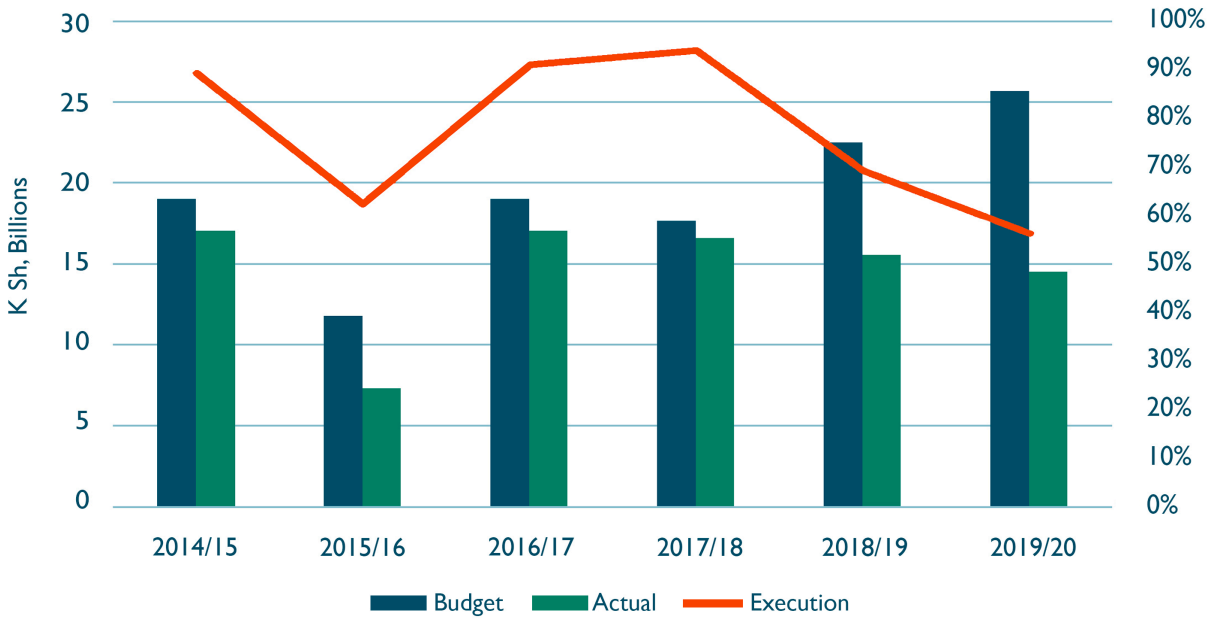
Food Security Expenditures

Food security is embedded in the mission of numerous ministries. However, the State Department for Crop Development, which is hosted by the Ministry of Agriculture, has arguably the strongest mandate because it maintains the food reserve that is distributed to vulnerable populations and is used to control the price of staple foods through direct market interventions. The department is also responsible for facilitating and subsidizing crop insurance projects and for subsidization of fertilizers and other agricultural inputs as part of both prevention and response to droughts.[31] The program generally sees very low execution levels, which increase in drought years. This finding suggests that overbudgeting is done in anticipation of possible disasters, which in many years do not materialize. This type of budgeting may create inefficiencies in the use of resources.

Food security is also addressed through the provision of inputs that are necessary to prevent the fall armyworm and other pest emergencies. The worm has been present in Kenya since 2016, and it poses a significant threat to Kenya's maize production.[32] In 2017, the government—through the Ministry of Agriculture—allocated about K Sh 300 million toward preventive measures such as (a) capacity building, (b) surveillance, (c) awareness creation and response amid outbreaks by procurement of pesticides, (d) knapsack sprayers, and (e) PPE equipment.[33] The evolution of the budget of the Crop Development and Management Program is further described in figure 12.

31. Republic of Kenya, "Programme-Based Budget, 2019/2020," April 2019, p. 511, http://www.parliament.go.ke/sites/default/files/2019-05/Programme%20Based%20Budget%20for%20the%20FY%202019%20-%202020.pdf.
32. Food and Agriculture Organization of the United Nations, "FAO Trains Farmers in Kenya to Save Crops from Fall Armyworm," November 19, 2018, http://www.fao.org/emergencies/fao-in-action/stories/stories-detail/en/c/1170647/.
33. Ministry of Agriculture and Irrigation, "Status of the Fall Army Worm in Kenya."

Figure 12. Crop Development and Management Program (real values in 2014 K Sh)

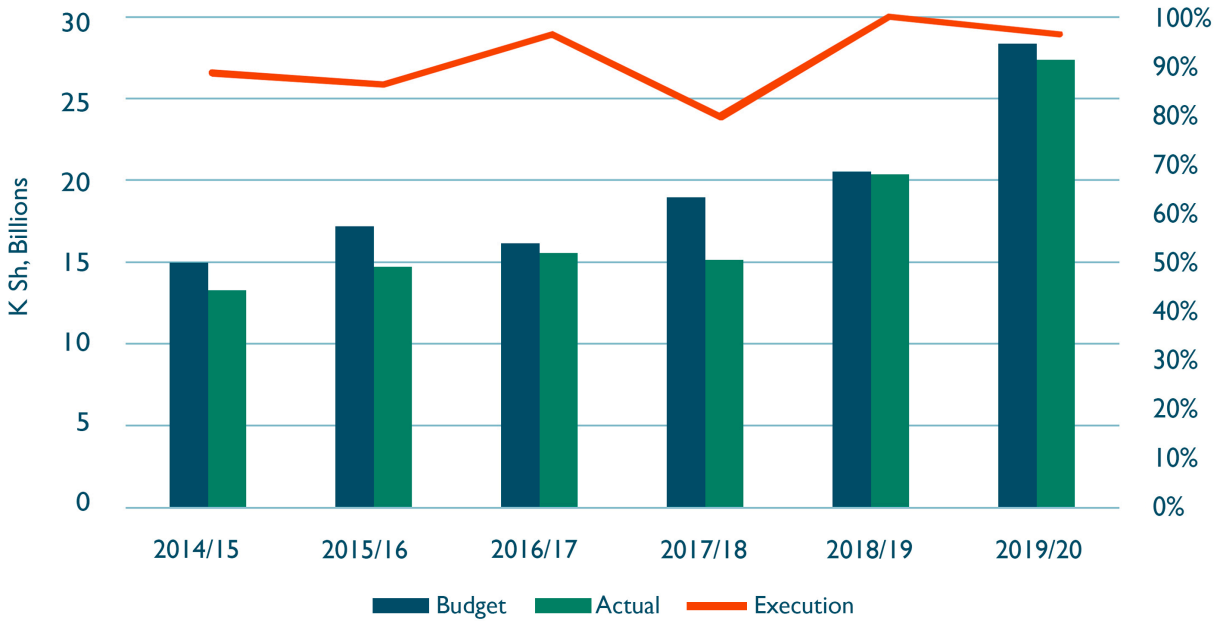


Source: Boost dataset.

Vulnerable Population and Safety Nets

The State Department for Social Protection, Pensions, and Senior Citizens Affairs has the primary responsibility for managing the NSNP. It consists of four subprograms: Cash Transfer for Persons with Severe Disabilities, Cash Transfer—Orphaned and Vulnerable Children, Older Persons Cash Transfer, and Hunger Safety Net Programme (HSNP). All but the last one are managed by the State Department of Social Protection. The evolution of the budget of the NSNP is shown in figure 13.[34]

Figure 13. National Social Safety Net Budget (real values in 2014 K Sh)



Source: Boost dataset.

34. NSNP includes both DRM spending and recurrent spending.

The role of the programs is to reduce the impact of extreme poverty on especially vulnerable populations. All those groups face a heightened negative impact of disasters. Natural disasters can lead to a larger group of individuals qualifying for a program because the adverse shock may make them qualify for welfare support.

The NSNP has been used as a platform to distribute support following the COVID-19 shock. In March 2020, the president of Kenya announced a scale-up by an additional K Sh 10 billion of the NSNP to create a cushion for vulnerable groups during the COVID-19 pandemic.[35] This scale-up has led to a 39 percent increase in actual expenditures under the safety net program.

Additional Allocation through Supplementary Budgets

Relocations that exceed the threshold of 10 percent of a program or when relatively strict conditions for virements cannot be met will require the parliament's approval. In most years, the Kenyan parliament votes on two supplementary budgets a year. Changes to planned expenditures that are introduced by those votes can result from either inaccurate forecasting and planning at the time of initial budget creation or the emergence of unforeseen circumstances, such as disasters, that are not accounted for with ex-ante instruments.

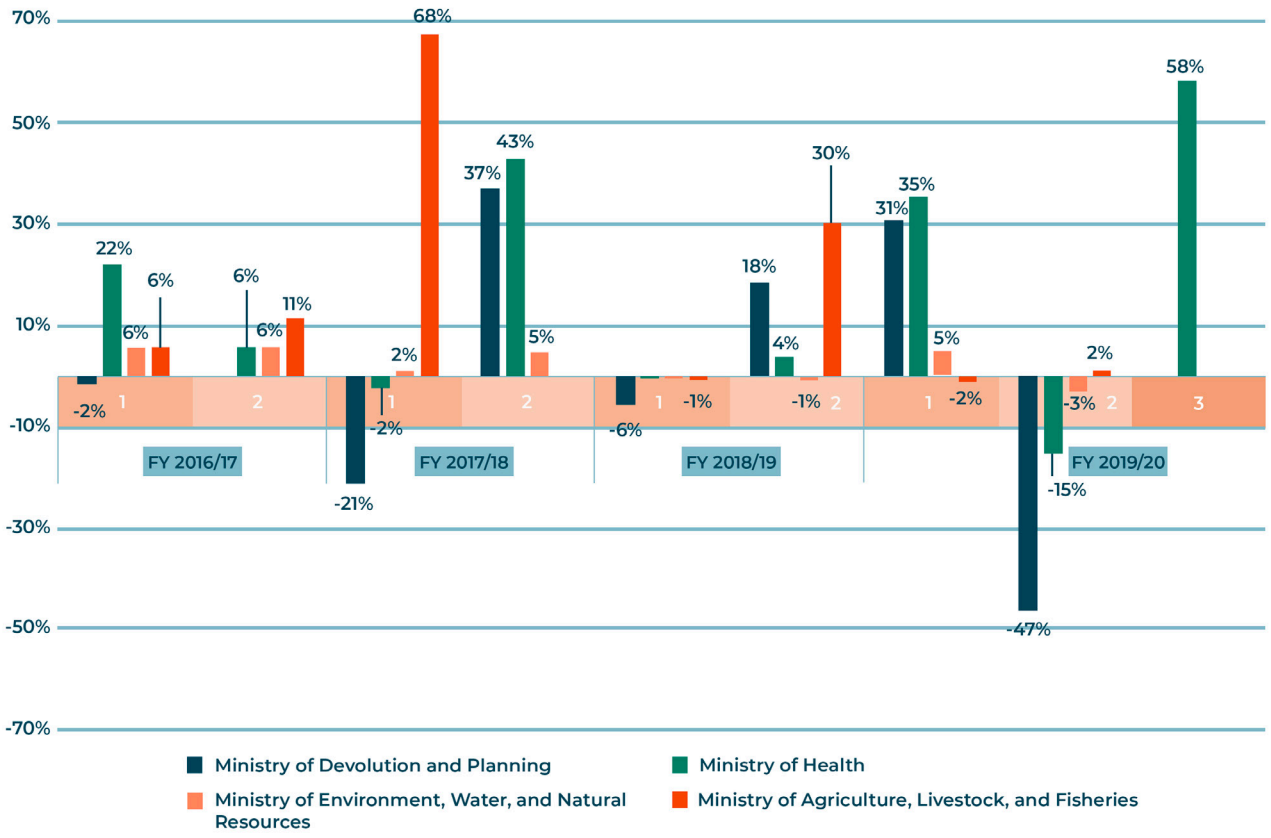
To a large extent, the Kenyan government relies on reallocations to finance disaster response. However, key challenges are associated with financing responses through such mechanisms. First are delays resulting from the lengthy legislative process, and second are the uncertain sizes of allocations. Both can undermine the efficiency of any response. Therefore, reallocations should typically not be used as the first measure and should be reserved for less frequent and greater-magnitude events.

Challenges with the timeliness and size of post-disaster allocations through a supplementary budget were experienced after two of the most severe shocks of recent years: the 2016/17 drought and the COVID-19 pandemic in 2019/20. Following the drought that occurred during October–December 2016, the supplementary budget was announced in May 2017, just a month before the end of the fiscal year. The supplementary budget followed a remarkably high budget absorption of 110 percent in the previous quarter, thus suggesting that the approved budget had already been spent[36] (see box 3 for a case study about the drought in FY2016/17). Similarly, the third supplementary budget that was passed to allocate additional funds to COVID-19 response efforts in FY2019/20 was presented to the parliament only seven days before the end of the fiscal year. This late submission led to a backlash as the approval was sought for the spent funds and came just two months after the previous supplementary budget, which undermined the credibility of the budgeting process.[37]

The budget of the Ministry of Health has been affected by almost every supplementary budget over the years. Adjustments are typically made to both recurrent and development estimates. As seen in figure 14, most of the inter-year adjustments significantly increase the budget, thereby suggesting initial underbudgeting, which especially affects the recurrent expenditures. If one combines this finding with a high risk of exposure of the ministry resulting from frequent epidemiological outbreaks and delays observed in figure 15, the approval process of supplementary budgets results in the Ministry of Health's vulnerability to liquidity challenges.

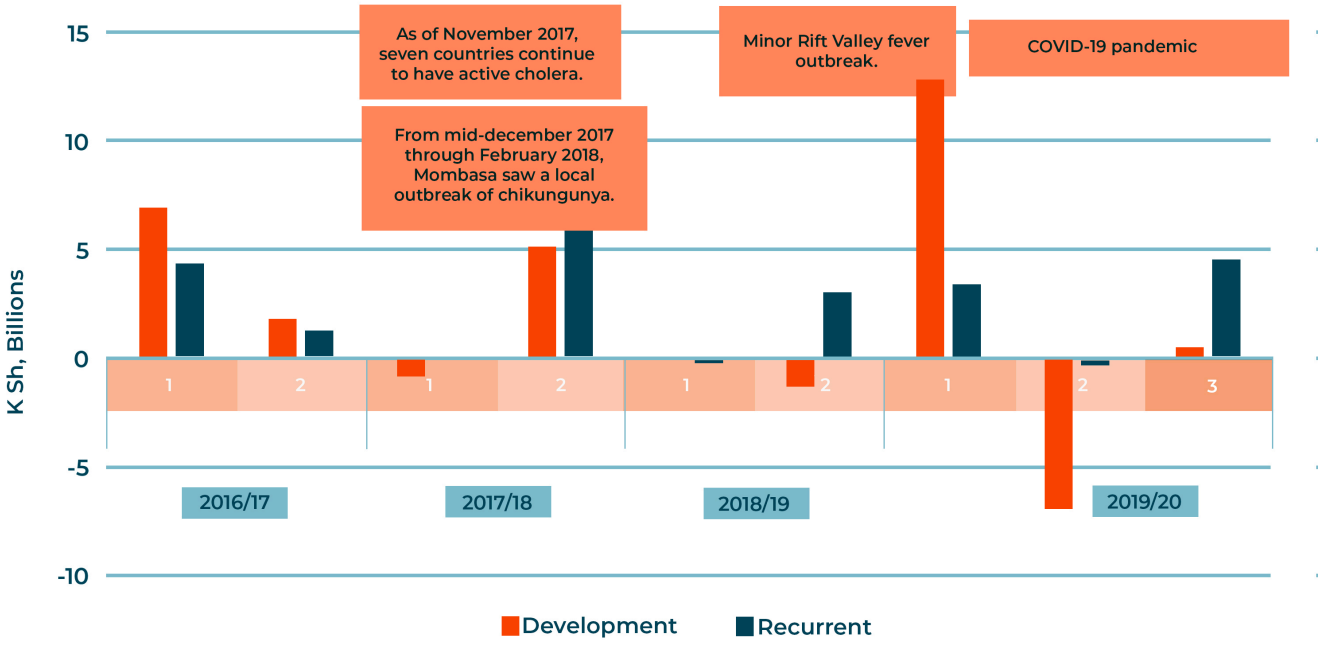
35. "Presidential Address on the State Interventions to Cushion Kenyans against Economic Effects of Covid-19 Pandemic on 25th March 2020," https://www.president.go.ke/2020/03/25/presidential-address-on-the-state-interventions-to-cushion-kenyans-against-economic-effects-of-covid-19-pandemic-on-25th-march-2020/.
36. Cytonn Investments, "Supplementary Budget 2016/17 Note," n.d., https://www.cytonn.com/uploads/downloads/Supplementary_Budget_2016-17_Note.pdf.
37. David Mwere, "Kenya: Supplementary Budget Raises Concern in House," Daily Nation, June 25, 2020, https://allafrica.com/stories/202006250765.html.

Figure 14. Percentage of Total Vote's Budget Reallocated in a Supplementary Budget in Each Fiscal Year



Source: Supplementary budgets issued during FY2016/17–2019/20.
Note: Initial budget approved by the parliament has been used in denominator.

Figure 15. Supplementary Reallocations Affecting the Ministry of Health and a Timeline of Health Emergencies in Kenya (real values in 2014 K Sh)



Source: Supplementary budgets issued during FY2017/17–FY2019/20.
Note: Reallocations may not necessarily be directly correlated with the indicated outbreaks.

The large volatility of the Ministry of Health's budget during the challenging FY2019/20 reduced the effectiveness of response. The first supplementary budget, which was passed shortly before the pandemic, increased the budget by 35 percent. This change was then reverted with a subsequent reduction by 15 percent, which was relative to the initial budget approved by the parliament—a change already made amid the pandemic. The most affected program was the Preventive, Promotive, and Reproductive, Maternal, Newborn, Child, and Adolescent Health (RMNCAH) program that includes the key elements of the universal health care coverage and is responsible for communicable disease control. Some of the challenges that such budget volatility may pose to a program's response ability became apparent in August 2020 as Kenyan medical personnel, following a long period of delayed salaries and limited provision of protective equipment, began a series of large-scale strikes.[38] The following sections build on the experience of the Ministry of Health.

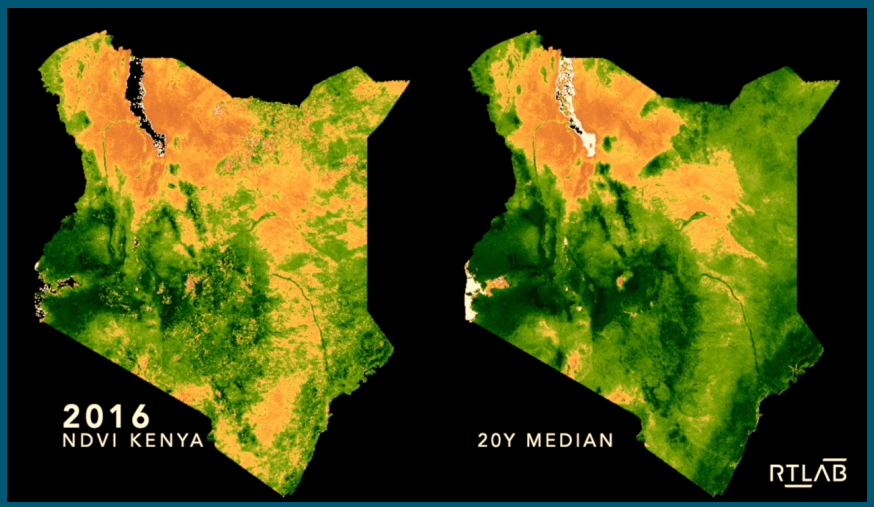
Frequent budgetary changes also affect other ministries with a DRM mandate. Analysis of four MDAs with a strong DRM mandate shows frequent adjustments of up to 68 percent of the total budget. Interestingly, budget increases often closely follow reductions within the same vote, suggesting that—even if adjustments are at times necessary—their use could be reduced.

Box 3. Case Study: The Budget Impact of the Drought of FY2016

At the end of 2016, Kenya experienced its most recent severe drought. The crisis that predominately affected the northwest and southeast parts of Kenya began with unusually high temperatures and low precipitation during the short rains of October to December 2016. By February, the drought had affected 23 out of 47 counties, and the price of staple food increased by 30 percent as production of food decreased. Approximately two million people required food aid, among them vulnerable populations such as pregnant and lactating mothers, as well as children. The Kenyan government responded by mobilizing funds using both ex-ante and ex-post instruments.

Only a small part of Kenyan agricultural land is generally unaffected by droughts because most of Kenya's vegetation is reduced significantly during dry spells. Box figure B3.1 shows how at the start of the drought in 2016, almost the entire country recorded below-median values of the Normalized Difference Vegetation Index (NDVI), which captures the general health condition of plants as shown in the near-infrared bands captured with satellite imagery.

Figure B3.1. Snapshot of the NDVI Index in the Last Quarter of 2016 vs. the 20-Year Median



Source: RTLAB. https://rtlab.io/

38. George Obulutsa and Baz Ratner, "Doctors Strike in Nairobi over Pay, Lack of Covid Protection," Reuters, August 21, 2020, https://www.reuters.com/article/us-health-coronavirus-kenya/doctors-strike-in-nairobi-over-pay-lack-of-covid-protection-idUSKBN25H0XE?il=0. See also Mohammed Yusuf, "Kenyan Doctors Strike over Pay, Working Conditions, VOA News, December 21, 2020, https://www.voanews.com/africa/kenyan-doctors-strike-over-pay-working-conditions.

Livestock losses account for approximately 70 percent of damages caused by droughts.a One survey from Marsabit and Wajir reports that following the drought of 2017, the median respondent lacked sufficient food for up to 14 days in a month; 20 percent of respondents went without eating for more than 24 hours.b Moreover, numerous distressed households needed to pull their children from school, to slaughter their livestock, and to use informal credit to cope with the shock.

When one is responding to disasters that affect the most vulnerable, timeliness and precise targeting of response drive effectiveness. The drought of FY2016/17 was the first significant opportunity for the Kenyan government to test its mechanisms for transferring cash to affected communities and for disseminating funds under programs such as HSNP and KLIP.

Notably, despite limited coverage, the distribution mechanism worked well. Unfortunately, future sustainability may face challenges in availability of funds. NDMA reports frequent delays in funding as budgets are prepared on the basis of experience in previous fiscal years. Because NDMA has a limited scope to reallocate funds within the program, it has historically referred to development partners who finance some of the activities with up-front payments. However, that source of immediate liquidity is likely to reduce as an increasing number of key partners, such as UK Foreign, Commonwealth and Development Office, hand over the financial management of programs to the Kenyan government.

Food Distribution Financed with Funds Mobilized Ex-Post

On February 10, 2017, the government of Kenya announced a state of emergency. The announcement was followed by the government's introducing several interventions with a significant and negative budgetary impact. The two most notable initiatives, food distribution and maize subsidies, aimed to address food security. That same year, the government initiated food distribution to vulnerable populations. For example, Marsabit, one of the most affected counties, distributed 700 metric tons of relief food to more than 250,000 people. The government also intervened in the food market by providing subsidies for staple foods. In May 2020, President Uhuru Kenyatta initiated a K Sh 6.5 billion subsidy program for maize.

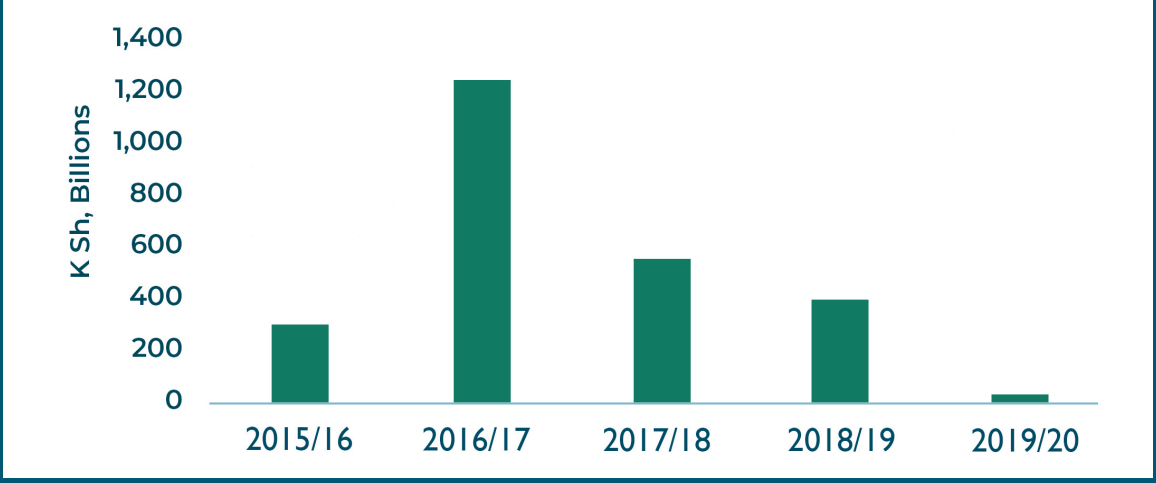
Unfortunately, the disaster-response measures were financed ex-post and were announced at a relatively late stage of the drought: between three and five months after the first signs were observed. The supplementary allocation of an additional K Sh 4 billion to the Crop Development and Management Program nearly doubled the recurrent budget of the program and increased the recurrent budget of the entire vote by 53 percent. Both the magnitude of the additional allocation and the late date of the approval put a significant strain on the financial infrastructure.

The following two programs were in place at the time of the drought, and their financial infrastructure enabled quick and transparent financing for the most vulnerable in northern Kenya.

Hunger Safety Net Programme (HSNP)

The emergency component of the HSNP has a technology-enabled trigger and builds on an efficient system for channeling money to predefined households. Payouts are based on the objective level of the Vegetation Condition Index (VCI) for the sub-county, and transfers are made using mobile money. Box figure B3.2 shows how emergency payouts closely follow the development of drought in Northern Kenya.

Figure B3.2. HSNP Emergency Drought Transfers



Source: Government of Kenya, Kenya Social and Economic Inclusion Project.

Kenya Livestock Insurance Program

Between October 2016 and September 2017, the government of Kenya paid K Sh 167 million in premiums for 14,000 farmers; by February 2017, 12,000 pastoral households benefited from K Sh 215 million. This severe drought was the first proper test of the KLIP, which was originally piloted in October 2015 in two Kenyan counties. The final amount paid to pastoralists in the year totaled K Sh 527 million.

More than 80 percent of beneficiary households reported that the KLIP payout changed their response to the drought.c They predominately bought food for the family and inputs for the livestock, thus reducing the negative coping mechanisms that would likely have had a long-term impact on the well-being of households and the performance of their businesses. Therefore, on the one hand, the predictability of relief funds benefited families, which were able to adjust their coping mechanisms. On the other hand, the transfer of risk to the market has allowed the Ministry of Agriculture, which is responsible for livestock, to avoid negative coping mechanisms such as delaying or reducing investments.

There is likely to be an overlap in households benefitting from HSNP and KLIP, leading to an inefficient use of public funds. Both HSNP and KLIP rely on a beneficiary registry for targeting, with HSNP targeting the most vulnerable in addition to the regular beneficiaries and KLIP targeting pastoralists with a small number of livestock assets. To date, these registries have not been harmonized, and so there is a risk of double-dipping.

Sources:
a. Kenya Livestock Insurance Program (KLIP), https://www.financialprotectionforum.org/publication/kenya-livestock-insurance-program-klip.
b. M. Taye, V. Alulu, W. Gobu, and N. Jensen, "Livestock Insurance Payouts and Coping Strategies of Pastoralists during Drought," ILRI Research Brief 90, Nairobi, Kenya, 2019.
c. Taye et al., 2019.

Disaster Expenditure during FY2019/20

The COVID-19 pandemic that began in 2020 put disaster-response capabilities of government budgets around the world to a test. That extremely rare event had a tremendous impact and forced governments to use a wide range of prearranged instruments and to seek additional funds through ex-post arrangements. In that context, the situation in Kenya was even more difficult than that in other countries because when the pandemic began, Kenya was still facing the consequences of two other natural shocks: a crop-damaging locust infestation and a series of floods and resulting landslides in the coastal areas.

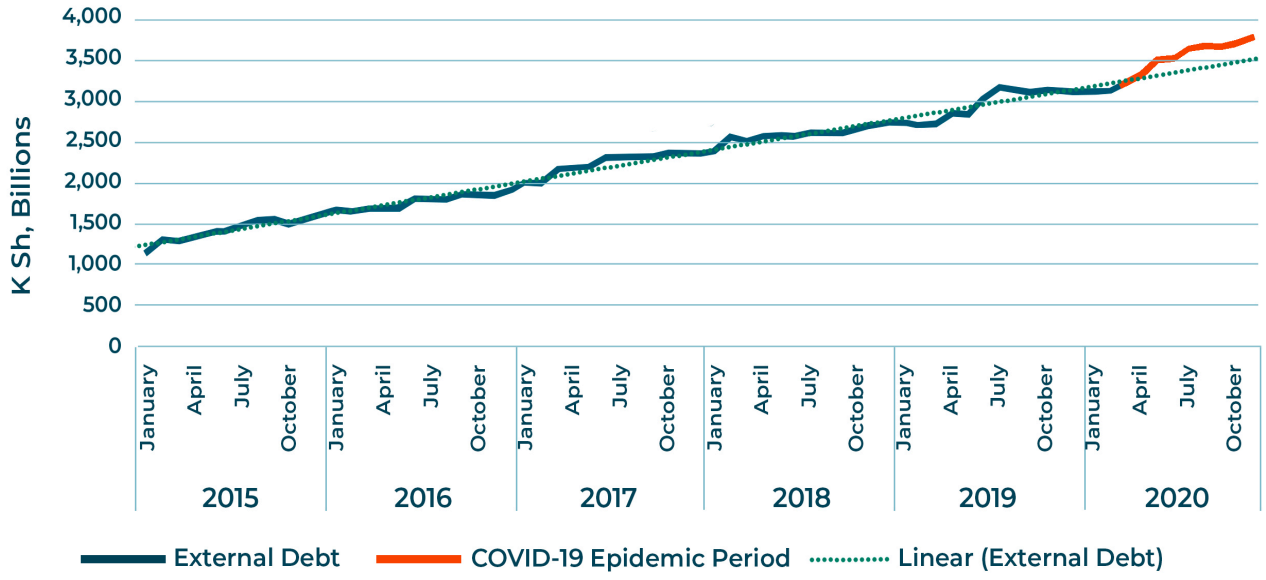
No country in the world was fully prepared for the disaster. However, stark differences in performance, measured both in the number of lives saved and the socioeconomic impact, resulted from—among other factors—the level of institutional and financial preparedness.[39,40] Thanks to a quick response and the ability to mobilize funds, Kenya performed relatively well compared to its peers.

Among the most significant instruments that the Kenyan government used following the shocks of FY2019/20 were large-scale borrowing, grant support, and budgetary reallocations. It is also evident, based on conversations with stakeholders, that reallocations within programs and subprograms were made to finance the response, but no reliable data exist that would allow estimating the scale of expenditures financed that way.

Funds Mobilized through International Borrowing

During FY2019/20, Kenya engaged in large-scale borrowing with three international lenders: the International Monetary Fund, the World Bank, and the African Development Bank. The total borrowing amounted to close to US$2 billion and increased the amount of Kenya's external public debt by 7 percent (figure 16).[41]

Figure 16. External Public Debt of Kenya



Source: https://www.centralbank.go.ke/public-debt/.

39. Jeffrey V. Lazarus, Agnes Binagwaho, Ayman A. E. El-Mohandes, Jonathan E. Fielding, Heidi J. Larson, Antoni Plasència, Vytenis Andriukaitis, and Scott Ratzan, "Keeping Governments Accountable: The COVID-19 Assessment Scorecard (COVID-SCORE)," Nature Medicine 26 (2020): 1005–08.
40. Ugo Gentilini, Mohamed Almenfi, Pamela Dale, Ana Veronica Lopez, and Usama Zafar, "Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures," Living Paper Version 12, July 10, 2020, https://openknowledge.worldbank.org/handle/10986/33635.
41. Based on the external debt for December 2019 and the K Sh–US$ exchange rate for December 2019.

The following major loans were taken to respond to shocks of FY2019/20:

- Approved on May 6, 2020, US$739 million disbursement from the International Monetary Fund to address the impact of the COVID-19 pandemic. The disbursement constitutes 100 percent of Kenya's quota under the Rapid Credit Facility. That facility provides rapid concessional financial assistance with limited conditionality to low-income countries that are facing an urgent balance of payment needs.

- Approved on May 14, 2020, €188 million in an African Development Bank loan to boost the COVID-19 response. The program resulted from a request by the Kenyan government dated April 17, 2020.

- Approved on May 20, 2020, US$1 billion in financing from the World Bank to help meet Kenya's financing needs, which had increased sharply due to COVID-19. The financing comprised a US$750 million credit from the International Development Association (IDA) and a further US$250 million loan from the International Bank for Reconstruction and Development (IBRD).

- Approved on May 21, 2020, US$43 million in IDA credit for Kenya as part of a larger regional Emergency Locust Response Project, which responds to the threat posed by the desert locust outbreak. It also strengthens Kenya's system for preparedness.

Funds Mobilized through Grant Funding in FY2019/20

The majority of grant funding that comes to Kenya following disasters is in off-budget funds. Those funds are channeled through numerous international and local humanitarian organizations and NGOs. The only notable and reported donation to the government to support its emergency effort was a US$3.6 million donation from the government of the United Arab Emirates.[42]

Following the shocks, the development partners in Kenya launched an emergency appeal in April 2020. That appeal addresses both the immediate public health crisis and the secondary impacts of the pandemic.[43] By November 2020, 41 percent of the US$260 million required was raised.[44] Some donations that Kenya-based organizations received to support the response efforts were as follows:

- Announced on October 14, 2019—€3.15 million for cash transfers to aid 17,500 drought-affected households. The Kenya Cash Consortium is providing cash assistance of K Sh 4,711 a month, quantified from household food needs, for a duration of three months. Those funds went to 17,500 families that face acute food and nutrition insecurity in the hard-hit counties of Baringo, Marsabit, Tana River, and Turkana. This program runs parallel to HSNP, which creates a potential for coordination.

- Announced on December 2, 2019—US$3 million contribution from the United Nations Central Emergency Response Fund to assist people affected by severe floods, mudslides, and landslides in Kenya. Besides providing food, shelter materials, and logistics support, the funds will be used to improve access to safe drinking water both through repair of damaged water supplies and through promotion of household water treatment and storage, as well as through hygiene promotion campaigns. Those funds were provided to United Nations disaster response agencies.

42. OCHA, Financial Tracking System.
43. United Nations, "Emergency Appeal Kenya," 2020, https://reliefweb.int/sites/reliefweb.int/files/resources/Kenya_2020_Emergency_Appeal.pdf.
44. United Nations, "Emergency Appeal—Key Achievements," April–September 2020, https://reliefweb.int/sites/reliefweb.int/files/resources/ROSEA_20201110_KenyaEmergencyAppeal_KeyFiguresResponse.pdf.

- Announced on June 8, 2020—The European Union is providing an additional €65 million to Kenya to address the socioeconomic impact of the COVID-19 pandemic.

- Announced on July 1, 2020—K Sh 5 billion from the World Bank to support health and economy recovery in Kenya's COVID-19 response. The grant of US$50 million will support Kenya's response and recovery efforts to meet the immediate and longer-term challenges that COVID-19 is posing. The funding will be channeled through NGOs and constitutes an additional financing of a World Bank health-related Investment for project financing.

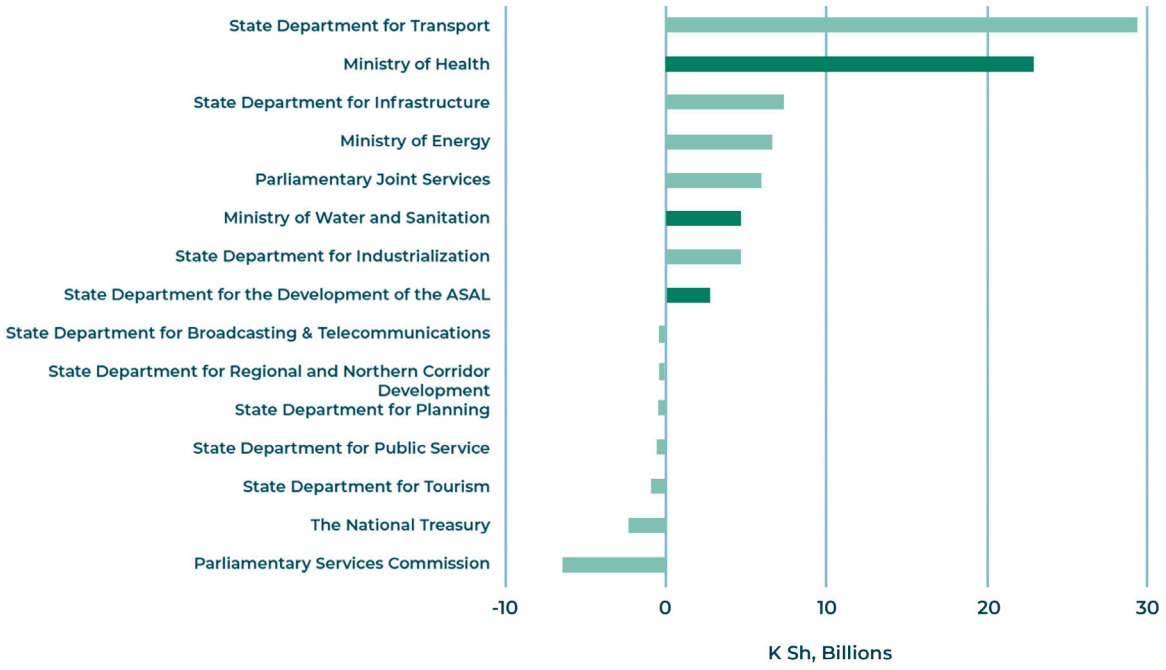
Supplementary Budget Allocations

During FY2019/20, the government of Kenya approved three supplementary budgets in December 2019, April 2020, and June 2020. The second and the third ones were discussed and approved amid the COVID-19 pandemic and soon after the severe floods and locust infestation. The first supplementary budget was discussed as flood risks were increasing but before the risk of COVID-19 and the scale of the locust infestation were known.

Budget Supplementary I of December 2019

The first supplementary budget affected three agencies with strong disaster-related mandates (figure 17). The reallocation of an additional K Sh 2.7 billion to the State Department for Development of the ASAL followed from the government's financing the scale-up of the HSNP from the budget. Thanks to this additional allocation, the commitment to ensure a full scale-up of the program could be met. The allocated amount was deemed safe because the Kenyan government did not anticipate a severe drought that year. Those predictions were correct, and only K Sh 30 million was used. However, because the allocation was made relatively late in the season, there was a risk of temporal illiquidity of the program if the onset of the drought had affected the country earlier. Some of the remaining money was reallocated within the vote and reallocated to other votes, specifically to Social Protection in the following supplementary budget.

Figure 17. Major Reallocations under Supplementary Budget Passed in December 2019



Note: Only large reallocations or allocations affecting a disaster-related program have been included.

The government acknowledges that the fulfillment of its commitment could have been at risk if the drought had been more severe. Moreover, both financing the scale-up based on the forecast and moving money using supplementary budgets create a significant bureaucratic burden and result in inefficiencies in using funds. Hence, the government is currently considering transferring part of the financial risk associated with the program to the market to avoid a risk of the program's illiquidity and the need for reallocations through supplementary budgets every time drought conditions occur, thus triggering the program's scale-up.

Together with the World Bank, the National Treasury and the NDMA prepared a detailed scenario analysis of expected payouts under different drought conditions. That analysis creates a foundation on which the financing plan for HSNP scale-up has been built; it also creates a basis for designing and pricing a risk-transfer instrument should the government pursue that approach.

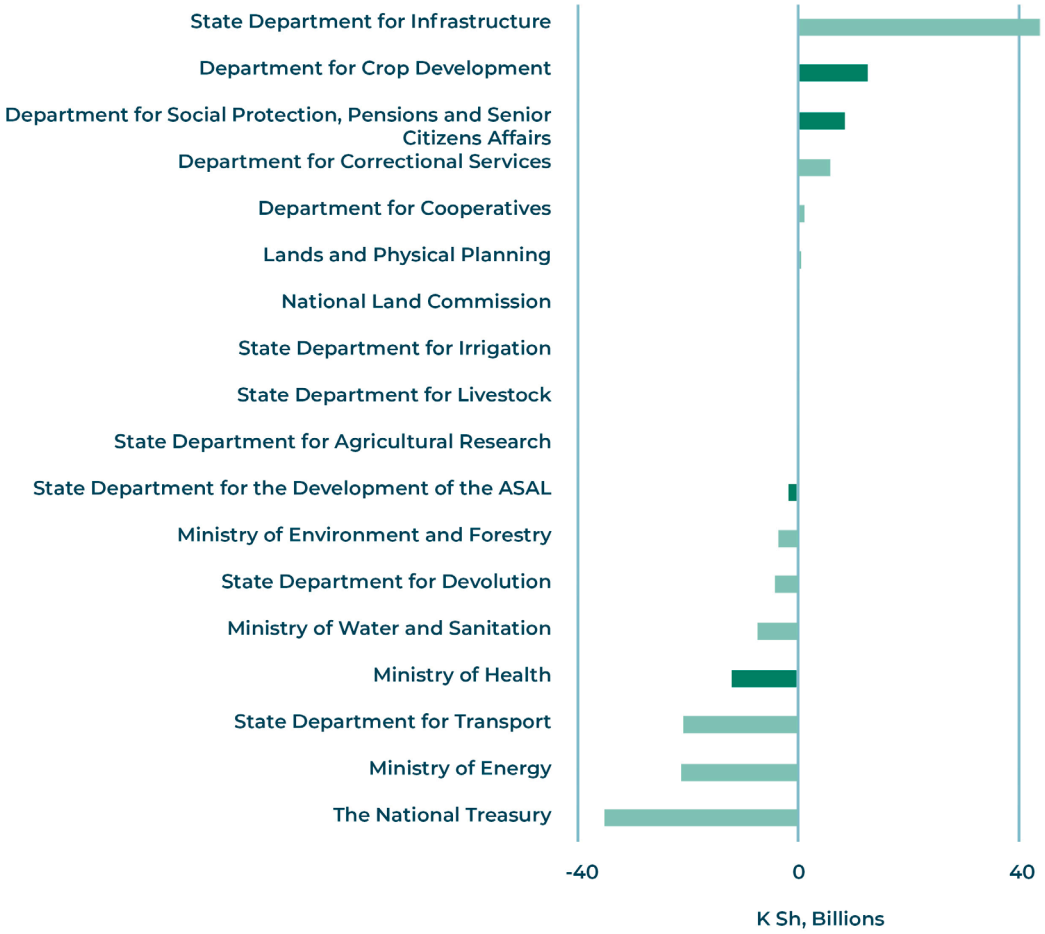
The reallocations to two other agencies, the Ministry of Health and the Ministry of Water and Sanitation (both with a disaster mandate), were not related to ongoing disasters. However, the allocation to the health ministry was focused on increasing the capacity of the communicable diseases program and included an improving capacity for targeting and treating tuberculosis. This approach was a very timely contribution toward improving control of communicable diseases and introducing a universal health coverage that took place before the COVID-19 outbreak.[45]

Budget Supplementary II of April 2020

In April 2020, the Kenyan government approved the second supplementary budget. Unexpectedly, it reduced the overall budget expenditure estimate by K Sh 79 billion, thus seeking to limit the rise in the fiscal deficit caused by the pandemic that weakened the economy and by the government's tax cuts. This decision, however, was made amid the progressing outbreak of COVID-19. Nonetheless, among the largest beneficiaries from reallocations were two programs related to shocks experienced by Kenya: the State Department for Crop Development and the State Department for Social Protection (figure 18).

45. World Health Organization, "Keeping to the Universal Health Coverage Path in Kenya," December 11, 2020, https://www.afro.who.int/news/keeping-universal-health-coverage-path-kenya.

Figure 18. Change in Gross Allocations through the Supplementary Budget of April 2020



Note: Only large reallocations or allocations affecting a disaster-related program have been included.

The State Department for Crop Development has been allocated an additional K Sh 12.7 billion to carry out locust spraying through the Land and Crops Development Program and to purchase and distribute more than 250,000 bags of staple grains through the Food Security Initiatives Program. The overall latter program saw a 56 percent increase in its budget. Part of the response was financed with a K Sh 4.6 billion loan from the World Bank.

In 2020, the NSNP was expanded by 29 percent as one of the measures used by the Kenyan government to reduce the impact of COVID-19 on vulnerable populations. The absolute increase in the allocation was K Sh 8.6 billion, less than the officially announced K Sh 10 billion. The government's response to the disaster by scaling-up an existing welfare program is a good example of how a preexisting welfare program can be used to promptly respond to and minimize a disaster's social impact.

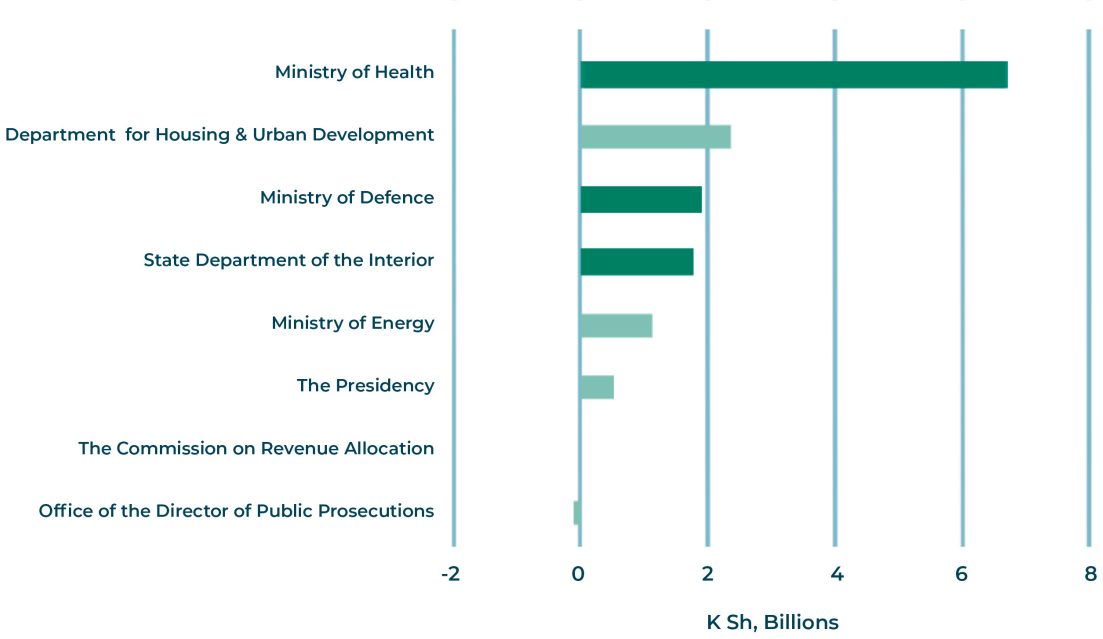
Notably, the Supplementary II, while formulated amid the COVID-19 outbreak, reduced the health ministry's budget. Specifically, the budget included reductions to allocations for preventive, promotive health, and RMNCAH and for the subprogram that accounts for obtaining protective equipment and for developing standards and policies in response to the health crisis. Cuts of more than K Sh 8 billion coincided with the addition of a target to test 100,000 for the COVID-19 virus. Without an expenditure tracking mechanism, it is not easy to say whether the reduction in budget estimates was a correction of a previously overestimated amount or if it constituted an actual spending reduction within the program.

Budget Supplementary III of June 2020

The third supplementary of June 2020 was drafted largely as a response to the ongoing COVID-19 emergency. It increased the overall budget estimate by K Sh 14.3 billion. The main beneficiaries were programs responsible for epidemic response under the Ministry of Health, as well as budget items for defense and police forces that support operations during the epidemic (figure 19).

The ambitious plan to reduce the expenditure amid the increasing epidemiological threat included under the second supplementary budget required a revision through a third supplementary budget, which was approved only a month later—in June. The revision reversed the previous reduction of the health budget by K Sh 6.7 billion. The third supplementary also adjusted the Ministry of Defense's budget, which supported COVID-19 curfew implementation and was allocated an additional K Sh 1.9 billion for that purpose. The Ministry of Interior, which maintains the police forces, was allocated a similar additional amount.

Figure 19. Change in Gross Allocations through Third Supplementary Budget of June 2020



High-Level Conclusions Following Supplementary Budget Reallocations in FY2019/20

Although tracking reallocations can help build a picture of the disaster cost, many expenditures that are absorbed within programs and financed through in-program virements are not captured in that way. Moreover, even where reallocations are documented in supplementary budgets, the broad mandate of many budget programs does not allow for an exact estimation of the amount used for funding response. Nevertheless, some high-level observations can be made on the basis of the supplementary budgets issued during FY2019/20.

Reallocations that followed the shocks suggest that poor planning and misallocation of funds may have led to higher costs and delayed response. Given the size and unprecedented nature of the COVID-19 shock, some level of reallocations would of course be expected. However, because none of the analyzed programs have explicitly budgeted for contingent expenses that form part of their mandate, including for relatively frequent disaster events, reallocations in many cases are the preferred option for financing contingencies. The funding of those programs should be guided by financing plans that stipulate the strategy for a swift mobilization of funds, which is required for response to disasters. Such funding will typically

build on a combination of fast-to-mobilize budgetary mechanisms with more complex and slower but higher-value ones.

As a result of the reliance on reallocations, it seems that some authorities with disaster-related expenses might have faced delays in accessing funds and executing their mandate. The most evident example in FY2019/20 was the program that focuses on contagious diseases in Kenya and that has seen three significant readjustments of its budget. Each of them is associated with a period of uncertainty, which adversely affects the quality and timing of a response. Although the total budget has a provision for contingencies amounting to K Sh 5 billion, it was disproportionately small given the reallocations through supplementary budget provisions that this analysis attributes to disasters. That supplement amounted to more than K Sh 50 billion in FY2019/20.

Further, programs that have a contingent element are often forced to finance the funding gap by reallocating from development programs. Indeed, a natural limitation of using traditional budgetary allocation to programs with a contingent mandate is the impossibility of formulating precise estimates in advance. Therefore, programs that have a substantial contingency element run a risk of overspending or of being forced to conduct reallocations between programs. Agencies with larger overall budgets may be able to absorb shocks, but the smaller ones may run into liquidity constraints that force them to make decisions that may undermine their long-term goals.

Conclusions

Disasters that affected Kenya during FY2019/20 were an extreme test of the country's resilience and its ability to respond to shocks quickly and efficiently. During this difficult time, many efforts the Kenyan government had previously made toward improving its resilience paid off. Among those rewards was the World Bank's Cat-DDO, which was adopted by the government and was the first in the Africa region. It provided initial liquidity both following flooding and later during the COVID-19 pandemic response. Kenya has built on its financial infrastructure such as the Social Safety Nets and the Hunger Safety Net to quickly identify and target vulnerable populations with financial relief that reduced a reliance on negative coping mechanisms.

At the same time, FY2019/20 revealed some weaknesses in the Kenyan ability to effectively finance a disaster response with poor contingency planning and an overreliance on reallocations. In FY2019/20 alone, approximately K Sh 50 billion was reallocated as part of the response. Although reallocations per se are a normal instrument used for financing emergencies and although the level of reallocations might be expected given the size of the COVID-19 crisis, the Kenyan experience reveals delays and, in some instances, inaccurate predictions, which led to numerous corrections of estimates that affected crucial votes. This correction in turn undermines the MDAs' ability to cover operational costs in moments when funds are most needed, as was the case during delayed payments to the health ministry during the COVID-19 pandemic. As part of its preparedness, the Kenyan government should aim to reduce reallocations caused by poor planning and should use them for emergencies only.

At the end of FY2019/20, the level of public debt in Kenya continued to increase, while the economy was likely to continue to experience the consequences of the pandemic that undermine its fiscal base and the number of vulnerable households for the years to come. From this perspective, it will become both increasingly important and difficult for the government to address future shocks. Therefore, it is crucial to continue improving the efficiency of post-disaster expenditures by focusing efforts on DRM and areas that face significant risk exposure. This report identifies 13 MDAs with a significant disaster mandate and proposes that the MDAs' resilience to shocks is furthered by implementing disaster-financing plans, by building human and institutional capacity to costs, and by effectively financing a response to shocks, as well as by leveraging a full range of financial instruments, including risk-transfer instruments that will improve the reliability and predictability of post-disaster funds.

Efforts should be made to improving the availability of data about post-disaster expenditures. Such information would allow for improving effectiveness of traditional methods for funding responses, for example by helping to improve initial budget estimates and by making reallocations more precise. Data availability would further allow for creating disaster funds when shocks are relatively frequent and when impact is low. Finally, it would become an invaluable tool for MDAs that consider transferring some more severe but less frequent risks to the market. That approach would allow MDAs to create tailor-made instruments that correspond to their contingent liabilities. Although no such dataset exists, the National Treasury is currently working toward building a post-disaster reporting framework that will potentially become a significant contribution to the efficiency of post-disaster funding.

Analysis from this review led to five specific policy recommendations that, if implemented, will strengthen the public finance management processes in the aftermath of disasters and that will constitute a step toward implementation of DRFS goals. Only with strong public finance management procedures will the Kenyan government be able to credibly commit to

achieving efficiency, effectiveness, and equity of spending following shocks.

1. Invest in a tracking system to collect information about post-disaster expenditures (supporting strategic priority 4 of the DRFS as outlined in appendix B). The Kenyan government should intensify its efforts to build a robust tracking and reporting infrastructure by investing in a system that will facilitate collection of post-disaster expenditure data. This data will be critical for policy decisions and will provide more evidence about likely funding needs and efficient use of instruments (e.g., risk retention and transfer, fund allocation) while reducing the need for frequent reallocations and enabling longer-term planning.

The government has already committed to improving its reporting framework and is currently piloting a system. Following the first year of pilot implementation, the data from this tool should be reviewed and feedback will be incorporated into improving processes for subsequent budgeting.

2. Support vulnerable MDAs to prepare annual financing plans that allow for disasters (supporting strategic priority 4 of the DRFS). Initial budgets are often prepared using only very recent experience to build institutional capacity and to improve the accuracy of budgeting needs for better financial planning. MDAs should consider preparing financial plans that address their financial risk exposure and that highlight potential volatility in funding needs. When justified, those financial plans should include prearranged financing instruments that ensure timely and adequate funds are available when needed. In the case of frequent and therefore relatively predictable shocks, allocations may be efficiently made through the normal budgetary process. The National Treasury should provide a framework for MDAs to develop such plans. Those plans will enable more accurate initial budgetary requests, will enable the treasury to set a suitable level of budget flexibility for MDAs relative to those plans, and will reduce unnecessary opportunity costs that result from delays, poor planning, misallocation, and low levels of execution. By recognizing the increased exposure of certain MDAs to disasters, the budget revision process could be initiated at the early indication of shocks, thereby reducing funding delays. It may also support long-term development goals of affected MDAs.

Now, the mandate of selected ministries emphasizes the special role of each in disaster response, and those MDAs may already be better prepared to deal with shocks. However, the COVID-19 epidemic proved that disasters could have a negative impact across all branches of government. It also proved that the efficiency of a response depends on the ability to act in a fast and targeted manner, as well as demonstrating that there may be no time for creation of ad hoc regulations after the shock.

3. Strengthen policy for and budgeting of contingency funds and explore options to transfer catastrophe risk to the insurance market (supporting strategic priority 2 of the DRFS). Traditional disaster-funding methods can be slow and costly and can put pressure on fiscal space. The Kenyan government has made significant progress in managing drought risk (e.g., use of insurance and triggers, KLIP/HSNP, and regulations for the NDEF), but there are opportunities to manage financial-risk exposure further. The government and relevant MDAs should explore putting in place further prearranged financing instruments to better manage budgetary volatility and to avoid the need for late reallocations from other development projects. Impacts of shocks can be minimized by fast response, yet analysis of past events indicates delays in response and imprecise budgeting that results in frequent and significant reallocations that undermine the ability of line ministries to quickly allocate resources.

For example, adequately capitalized emergency funds can help many more regular expenditures, and the government should establish regulations, alignment, and regular

commitments for contingency funds, including the NDEF and the Disaster Management Fund. The government should also explore opportunities to transfer more catastrophe risk to insurance markets. If based on strong data and financing plans, those instruments can be efficiently designed to reduce fiscal pressure.

4. Invest in the financial delivery infrastructure and strengthen financial inclusion (supporting strategic priority 3 of the DRFS). To improve the efficiency of response, the government should ensure that MDAs develop programs with the financial infrastructure to allow them to effectively use funds in the aftermath of disasters with limited leakage (e.g., predefined targeting policies, payment systems, and procurement procedures). Sharing infrastructure across programs and increasing financial inclusion will further strengthen delivery. The used mechanisms should consider the diverse needs that arise following shocks and that often affect specific groups of households, businesses, and the public and private sectors.

The COVID-19 epidemic showed further that resource mobilization and precise channeling of funds are crucial for effective response and recovery. During the challenging FY2019/20, Kenya benefited from the existing infrastructure when responding to shocks. For example, social safety nets were used to provide relief to the poor during the COVID-19 pandemic. HSNPs' scalability component allowed for swift transfers to households affected by drought, as did the Kenyan Livestock Insurance Programme, which relies on the private sector's mechanisms to distribute relief funds and helped alleviate some adverse impacts of regional droughts. However, in many areas, such mechanisms are still lacking, and the government should prioritize them as part of its disaster preparedness efforts.

5. Extend the analysis of the disaster risk budgeting process and of post-disaster expenditure monitoring at the county level (supporting strategic priority 1 of the DRFS). County governments are equipped with a unique insight into disaster vulnerabilities of local populations. In its decentralization efforts, Kenya is looking to recognize its potential to deliver better-targeted services. However, with the disproportionally greater ability to collect revenue at the central level, county governments in Kenya, like those in most peer countries pursuing devolution agendas, rely on transfers from the national government. The formula that is now used for allocation does not include the risk exposure of county governments, and the ability of county governments to budget for contingencies remains low. It is therefore vital to strengthen financial resilience at the county level so the budgeting process, especially in countries with increased risk exposure such as the ASALs, includes safeguards against shocks.

When looking to strengthen the budgeting process for contingencies, Kenya can build on the experience of peer countries, such as South Africa, which actively monitor and strengthen local budgeting processes, and which support local authorities in building financial plans for contingencies that reflect local risk profiles. This knowledge could support the government of Kenya when it revises its local contingency budgeting processes and as it develops strategies to empower county governments to adopt risk-sensitive financial practices, while it also ensures a transparent and efficient use of funds.

Appendix A. Ministries, Departments, and Agencies Included in the Study

Vote	Mandate	Examples of Post-disaster Expenditures Incurred
State Department for Interior	**General disaster response** The State Department hosts the National Disaster Operations Center (NDOC). It is a high-level institution tasked with (a) controlling and coordinating disaster response efforts, (b) acting as the command center for all communications and information relating to response operations, and (c) coordinating responsible ministries on national response efforts.	The police forces that are managed by the department are responsible for response activities. During the COVID-19 pandemic, policy played a major role in enforcing lockdowns and ensuring adherence to regulations. NDOC is an operating center that conducts constant monitoring following disasters in Kenya.
State Department for Development of the ASAL	**Droughts and food security** The department focuses on the most drought-prone areas of Kenya, and the only program that it manages is mandated (a) to ensure accelerated and sustained socioeconomic development in the arid and semi-arid lands (ASALs), (b) to build community resilience, and (c) to end drought emergencies in Kenya. The department hosts the National Drought Management Authority (NDMA) that supervises the Hunger Safety Net Programme (HSNP).	Under the HSNP, the department provided and coordinated cash transfers of up to 150,000 beneficiary households under emergency scaleup during the 2019/20 drought. Relief food amounting to 32,000 tons was procured and distributed in 28 counties during the 2017/18 drought. The National Drought Management Authority, managed by the department implementing the Kenya Drought Early Warning Project, provided reliable and timely drought and food security information to communities, governments, and non-governmental actors for appropriate and timely response.
Ministry of Defense	**General disaster response** The ministry provides general support operations in Kenya during peacetime. It also operates a program with a direct mission to respond to humanitarian crisis under the subheading of Civil Aid.	The Kenya defense forces host a Disaster Response Unit that supports response operations such as search and rescue. The National Defense Programme has received an additional K Sh 1.9 billion through the third budget allocation in FY2019/20 to finance its support in enforcing the national lockdown.

Vote	Mandate	Examples of Post-disaster Expenditures Incurred
Ministry of Health	**Communicable diseases and vulnerable populations** Two of the programs under the Ministry of Health are directly related to epidemiological response. The Preventive, Promotive, and Reproductive Program and the Maternal, Newborn, Child, and Adolescent Health (RMNCAH) work toward mitigation of the spread of communicable diseases in the country. The Health Policy, Standards and Regulations Program is responsible for development of procedures and procurement of equipment, including personal protective equipment, during epidemics.	As part of the response to the COVID-19 pandemic, Kenyatta University Teaching Referral and Research Hospital operationalized 560 beds, out of which 400 beds were designated for COVID-19 response.
State Department for Public Works	**Floods** The department has responsibility over mitigation and, to a lesser extent, over response to flooding in the coastal areas under the Coastline Infrastructure and Pedestrian Access Program.	The State Department of Public Works is charged with the responsibility of planning, designing, constructing, and maintaining government assets in the field of built environment and infrastructure development. Following coastal floods in 2014, it rebuilt damaged assets such as footbridges in Magarini Constituency. The ministry is also mandated with responding to disasters by constructing temporary structures, such as construction of a seawall that is in Lamu and will protect buildings amid floods caused by high tides.
Ministry of Environment and Forestry	**Floods and droughts** The ministry operates the Meteorological Service Department, which is responsible for monitoring, forecasting, and informing the public about adverse weather conditions and issuance of early flood-warning systems.	Kenya Meteorological Service is responsible for collecting data and processing it as part of monitoring the development of floods. The agency disseminates information to households that are at risk of impact.

Vote	Mandate	Examples of Post-disaster Expenditures Incurred
Ministry of Water and Sanitation	**Droughts and floods** The ministry is responsible for managing water resources in the country and operating the Water Storage and Flood Control Program that is specifically mandated with flood response. Programs operated by the ministry are also responsible for providing access to water for drought-affected communities.	Following the flood in 2019, the ministry has received K Sh 400 million to invest in flood mitigation control in the affected counties, with schools in flood-prone areas being prioritized to ensure that both national primary and secondary exams succeed. As part of the COVID-19 response and to improve access to hygiene in disadvantaged communities, the ministry allocated K Sh 1.62 billion to upscale water access for vulnerable groups in targeted areas in the advent of COVID-19.
State Department for Livestock	**Animal diseases and vulnerable pastoralists** The department is responsible for ensuring food security and for addressing the risk of diseases affecting animals through the Livestock Diseases Management and Control Program. The department manages the Kenya Livestock Insurance Scheme, which is a program that is for vulnerable pastoralist populations and that aims to insure 300,000 tropical livestock units by the FY2021/22.	Following the drought of 2017, the FAO and the State Department of Livestock allocated a consignment of enough animal feed to sustain the targeted animals over a period of about two months. The 800 bags of ranch cubes and 6,400 multi-nutrient feed-blocks will be distributed to 156 and 640 households respectively in drought-affected areas of Wajir County. The ministry responds to disease outbreaks among animals. In years 2017 and 2018 following three outbreaks of diseases that affected farm animals, the following measures were undertaken by the state department: disinfection, quarantine, screening, surveillance within containment or protection zone or both, surveillance outside containment or protection zone or both, vaccination in response to the outbreak(s), and movement control inside the country.

Vote	Mandate	Examples of Post-disaster Expenditures Incurred
State Department for Crop Development	**Droughts and food security** The department is responsible for food security activities that include maintaining and distributing food reserves and providing farmers with information and inputs required to fight diseases affecting crops and pests, such as fall armyworm or locust. The department is also responsible for development of the market for crop insurance products.	The department is responsible for the development of the agricultural insurance market in Kenya. It also offers 50 percent premium subsidies to farmers who buy coverage. Between 2016 and 2019, 37,500 farmers benefited from crop loss compensation to the tune of K Sh 217 million as part of the crop insurance program. Following the locust infestation, the department purchased and distributed pesticides and conducted mass spraying of affected areas.
State Department for Agricultural Research	**Crop diseases** The department is responsible for disseminating information about control measures for the fall armyworm, the maize lethal necrosis disease, and other emerging pests and diseases.	The 2019/20 budget gave the department a responsibility for responding to major diseases affecting crops in Kenya. Specifically, the department is responsible for disseminating information about control measures for the fall armyworm, maize lethal necrosis disease, and other emerging pests and diseases as well as for producing adequate Aflasafe KE01 for control of aflatoxin infestation in maize. Aflatoxin infestation becomes an increasing threat to the well-being of humans and spreads rapidly, thus contaminating Kenyan stable foods.
State Department for Social Protection, Pensions, and Senior Citizens Affairs	**Vulnerable populations** The department focuses on people who are the most vulnerable members of the society and who tend to be the most affected by disasters. It operates three of the four large National Social Safety Net Programs that have been scaled up during the COVID-19 epidemic: Cash Transfer for Persons with Severe Disabilities, Cash Transfer for Orphans and Vulnerable Children, and Older Persons Cash Transfer.	It provides a COVID-19 emergency response for homeless street families (2019/20).[a] It has K Sh 10 billion for cash transfers to vulnerable persons through COVID-19 scale-up of the NSNP.[b]

a. Social Protection, Culture, and Recreation Sector Report 2021/22–2023/24.
b. https://www.treasury.go.ke/wp-content/uploads/2021/03/Budget-Speech-2020-2021.pdf.

Vote	Mandate	Examples of Post-disaster Expenditures Incurred
State Department for Devolution	**Droughts, food security, and vulnerable populations** Among the most important tasks of the department are food relief management and humanitarian emergency response in ASAL areas of the country.	Following 2020 floods, the Ministry of Devolution and ASALs have been distributing food and nonfood items to Kenyans affected by floods and landslides. In its first round of relief food distribution in April, the ministry distributed more than 56,000 bags of 50 kilograms of rice and more than 2,100 cartons of cooking oil, among other items.
National Treasury	**General disaster response** The Treasury is responsible for the high-level financial management of funds to finance response to disasters. It manages the country's contingency fund and takes responsibility for the management of donor funding.	In the aftermath of disasters, the Treasury intensifies its work related to resource mobilization from development partners, as well as debt management, including emergency debt issuance. The Treasury allocates funds from the contingency fund.

Appendix B. Results Indicators of the Disaster Risk Financing Strategy, 2018–22

No.	Activity	Actor/ Implementer	Implementation means (how?)	Key Performance Indicators	Baseline/ current status	Target	Time-frame
SP1. Ensure a Coordinated Approach to Disaster Risk Financing across National and County Government Institutions that Manage Various Disaster Risk-Financing Instruments.							
1	Review structure and functions of the current intergovernmental committee on drought and food security to strengthen its coordination role and to incorporate other hazards.	National Drought Management Authority (NDMA); National Treasury	- Review existing legislation. - Review functions and corresponding regulations. - Review gaps in capacity. - Build consensus.	- No. of legislations reviewed - Consultations with key stakeholders	Currently, the NDMA Act provides for the Kenya Drought and Food Security Committee, which primarily deliberates on matters of drought and food security.	1	By 2021
2	Build on the existing single registry and vulnerability baselines to improve targeting of beneficiaries of key risk financing instruments and programs and to increase coordination.	Inter-Governmental Committee on drought and food security; State Department responsible for special programs; NDMA	- Expand the use of the single registry and vulnerability baseline to other disaster support programs, such as KLIP and others.	No. of disaster risk finance (DRF) instruments using the single registry and vulnerability baseline	Only the Hunger Safety Net Programme (HSNP) uses the single registry	3	2021
3	Commission regular reviews of the indices and triggers used by different government programs (ARC, KLIP, HSNP, etc.) to ensure alignment and harmonization across programs operating in the same geographic locations.	Inter-Governmental Committee on drought and food security	- Review the indices and triggers.	No. of reviews conducted	Currently, reviews are instrument specific (e.g., ARC ARV software is reviewed)	3	2022

SP2. Improve Sovereign Financing Capacity by Strengthening and Expanding the National and County Government's Portfolio of Disaster Risk Financing Instruments

4	Invest in strengthening the institutional capacity to quantify, monitor, and manage contingent liabilities, including those related to disaster impacts, as part of the National Treasury's fiscal risk-management function, including an integrated early warning system.	National Treasury; Kenyan Meteorological Department; National Drought Management Authority (NDMA)	Capacity-building key departments of the Treasury and other relevant institutions	- No. of workshops or seminars held - Review of disaster- related contingent liabilities	0 0	15 1 1	2022 2022
5	Review allocations and historical performance of the contingencies fund (CF)	National Treasury (NT)	Review of allocations to the CF and historical performance of the fund	- No. of budget reviews done - Review of historical performance and existing regulations	0 0	5 1	2022 2022
6	Incentivize the county governments to establish CEF where it is lacking and to strengthen the existing County Emergency Funds (CEFs).	NT; Council of Governors; Ministry responsible for devolution	-Sensitize county governments about the need to establish CEFs. - Develop guidelines on establishing CEFs.	- No. of sensitization and capacity-building forums held - Guidelines developed	0 0	10 1	2022 2022
7	Have the National Drought Emergency Fund, National Treasury, and NDMA work to finalize the operationalization of the new National Drought Emergency Fund (NDEF).	NDMA; National Treasury	Submit the regulations to the Cabinet and Parliament for approval.	- Cabinet memorandum - National Assembly memorandum	NDEF established but not yet operational	1 1	2020 2020

8	Sovereign risk transfer: Review of experience with African Risk Capacity (ARC) and potential next steps	National Drought Management Authority (NDMA); National Treasury; National Technical Working Group on ARC; Inter-Governmental Committee on drought and food security	Re-customize the African Risk View (ARV) model to ensure that it is responsive to country's needs.	ARV model re-customized	ARV model is under review.	5	2022
9	Contingent financing: Setting up a contingent credit line with the World Bank through a development policy loan with a Catastrophe Deferred Drawdown Option (Cat-DDO).	National Treasury	Fast-track the finalization of prior actions and undertake negotiations.	No. of prior actions finalized	4 (National Urban Development Policy; National Land Use Policy; Water Act, 2016; and Kenya National Policy on Climate Finance)	7	2018
10	Coordination with humanitarian and non-governmental organization sectors to ensure that resources are delivered in a manner in line with the Kenyan government's disaster response plans	National Treasury; Inter-Governmental Committee on drought and food security	Support the coordination of disaster response with the humanitarian sector.	No. of coordination meetings held Humanitarian Aid Investment tracker established	0 0	10 1	2022
11	Expanding of the disaster risk finance (DRF) portfolio to ensure that nondrought hazards that remain largely without cover are covered.	National Treasury; Inter-Governmental Committee on drought and food security	Explore disaster risk financing instruments by engaging and identifying sources of nondrought DRF.	No. of additional instruments added to the portfolio	0	2	2022

SP3. Support Key Programs to Protect the Most Vulnerable Populations from the Impacts of Disasters and Contribute to Building Resilience.

1	Expanding the geographical coverage as well as ensuring sustainability of Kenya Agriculture Insurance and Risk Management. Program (KAIRMP)	Ministry responsible for crop production; National Treasury	Up-scale KAIRMP Anchor KAIRMP into a legislative framework	No. of counties with KAIRMP No. of legislations formulated	10 1	15 1	2021 2021
2	Geographic expansion and up-scaling modalities of the HSNP	NDMA; National Treasury; Inter-Governmental Committee on drought and food security	Review the modalities in which Hunger Safety Net Programme (HSNP) scalability is implemented.	No. of reviews conducted	-	1	2020
			Implement expansion plan of HSNP.	No. of counties with HSNP	4	10	2022
			Review financing options to support HSNP scalability.	No. of reviews conducted	0	2	2022
3	Up-scaling and strengthening KLIP	State department responsible for livestock; Inter-Governmental Committee on drought and food security	Up-scale KLIP.	No. of counties with KLIP product	8	15	2022
			Use an electronic identification system.	Electronic registration system used	0	1	2020
			Launch the planned voluntary component.	No. of counties where voluntary component is available	0	15	2021
			Anchor KLIP into a legislative framework.	No. of legislations done	0	1	2022
			Have capacity building and awareness creation for KLIP.	Number of capacity-building activities			

SP4. Enhance Capacity and Raise Awareness in MDAs and County Governments on the Need to Strengthen Disaster Preparedness and Response Capacity for Resilience

1	Promoting targeted capacity building on County Emergency Funds (CEFs)	National Treasury; Council of County Governors; ministry responsible for devolution	Sensitization workshops about the importance of establishing CEFs and associated guidelines	No. of sensitization workshops held	0	15	2022
2	Awareness creation of the DRFS	National Treasury; Inter-Governmental Committee on drought and food security	Workshops on purpose of DRFS	No. of workshops held	0	15	By 2022
3	Capacity building on technical aspects and modeling of DRF instruments to ensure proper understanding and effectiveness in addressing the needs of the country	National Treasury	Capacity building workshops and seminar	No. of workshops held	0	15	By 2022

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