



**PARLIAMENT OF KENYA
PARLIAMENTARY BUDGET OFFICE**

**FISCAL CONSOLIDATION IN THE MIDST OF A
GLOBAL RECESSION, WHAT IS THE MAGIC?**



Budget Options for FY 2023/2024 and the Medium Term

Disclaimer

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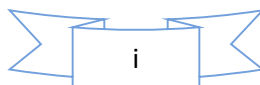


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Acronyms and Abbreviations

AGOA	African Growth and Opportunity Act
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CFS	Consolidated Fund Services
COVID-19	Coronavirus Disease 2019
EPZA	Exports Processing Zone Authority
FDI	Foreign Direct Investment
FY	Financial Year
GDP	Gross Domestic Product
ICT	Information, Communication and Technology
IMF	International Monetary Fund
IPO	Initial Public Offer
KAM	Kenya Association of Manufacturers
KIE	Kenya Industrial Estates
KNBS	Kenya National Bureau of Statistics
MSMEs	Micro, Small and Medium Enterprises
NCPB	National Cereal and Produce Board
PBOM	Parliamentary Budget Office Model
PPG	Public and publicly guaranteed debt
PV	Present Value
SEZ	Special Economic Zones
SMEs	Small and Medium Enterprises
SOEs	State Owned Enterprises
TFP	Total Factor Productivity
TREO	Tax Remission for Exports Office
USA	United States of America
USD	United States Dollars
VAT	Value Added Tax
WDI	World Development Indicators
WRS	Warehouse Receipt System

Foreword

"... countries that decide to postpone fiscal reform and adjustment for fear of the political and economic consequences usually end up paying a much higher price when economic necessity forces them to act."

Rodrigo De Rato, 2004 (Benefits of Fiscal Consolidation)

That the country is facing significant debt vulnerabilities is no longer a matter of conjecture. IMF Debt Sustainability Analysis for 2022 established that Kenya is in breach of four of the six indicative thresholds for debt burden indicators, namely: the PV of public debt to GDP ratio; the PV of public debt to revenue and grants ratio; the PV of PPG External debt to exports ratio; and the PPG debt service to exports ratio. This essentially means that the country is at a significantly higher risk of debt distress.

Available statistics as at June 2022 indicate that total debt service as a percentage of revenue was estimated at 47.9%; implying that for every Ksh. 100 collected as tax revenue, Ksh. 47.9 is used to service debt. This Leaves only 52.1% of the tax revenue to finance an ambitious government development programme in an economy experiencing a high budget deficit that requires further borrowing in a recessionary global environment. Furthermore, the breach of the external debt to exports ratio is especially worrying, because it implies that the country is not generating enough forex from exports to comfortably service its external debt. As a result, there are concerns that we are living beyond our means.

In order to address these prevailing challenges, the new administration has expressed commitment to undertake fiscal consolidation that will enable it to achieve a deficit financing target of 5.8 percent of GDP in FY 2022/2023 and 3 percent by FY 2026/2027. This will be achieved primarily through rationalization of expenditure. The Bottom-Up Economic Transformation Plan outlines a cautious revenue projection path along with limited growth in expenditures and budget neutrality as the key guiding principles for policy implementation. For new programmes that need to be financed, the plan is to release resources from other programmes or projects that are either completed or closed. Furthermore, external borrowing will be limited and will mostly target concessional financing.

Despite the perceived gains of fiscal consolidation on debt accumulation, conventional wisdom indicates that this is likely to have a contractionary effect on economic activity, at least in the short run. Economic theory heralds that in order to spur economic production in times such as what Kenya is currently facing, the economy requires injections into the financial system. The strategy adopted by the new administration of fiscal consolidation is in contrast.

Reducing government expenditure will invariably lead to lower output. Thus, the challenge of the national government is to strike the right balance that will be able to undertake fiscal consolidation without harming economic growth.

The Budget Options for FY 2023/2024 (edition no. 14) explores policy options that the government can consider in order to achieve fiscal consolidation in a way that does not harm economic growth. This includes focusing more on productivity increases and efficiency in use of resources as well as empowering the private sector to drive economic growth.

The report was prepared under the leadership and guidance of Dr. Martin Masinde (Ag. Director, Parliamentary Budget Office); with close supervision from Mr. Robert Nyaga (Deputy Director and Head of Budget Analysis and Expenditure Review Department) and Ms. Lucy Makara (Deputy Director and Head of Senate Affairs Department). The Paper was also reviewed by FA. Dr. Wakah George of the Centre for Parliamentary Studies and Training.

Dr. Martin Masinde



Ag. Director

Parliamentary Budget Office (PBO).

Summary of Budget Options for FY 2023/2024

Options for fiscal consolidation	
Privatization of state-owned enterprises	<ul style="list-style-type: none"> i. Privatization program can lead to proceeds worth Ksh. 30 billion annually. ii. Develop a privatization policy for sustainable privatization process and addresses recurring challenges, including the repeal of the Privatization Act 2005. iii. Privatization program be implemented along with a strategy of improving the financial status of SOEs in order to derive long-term benefits. iv. For long-term impact, privatization proceeds should be earmarked to capital projects that have potential to generate future revenues or be used to retire expensive public debt. v. There is need to urgently review PPP law and enabling framework in order to ensure that the Government has an option to privation through a clearer PPP policy and framework that guarantees benefits to Kenya as opposed to the private sector players and foreign entities involved in the PPP process
Options to support economic growth	
Transforming the Agriculture sector	<ul style="list-style-type: none"> i. Allocate Ksh. 15 billion for expansion of the agricultural input subsidy programme to target 200,000 metric tonnes of subsidized fertilizer and other assorted farm inputs. ii. Restructure the e-voucher input management system to achieve efficiency and effectiveness in the supply of farm inputs. iii. Allocation of Ksh. 1.5 billion for the provision of extension services iv. Allocate Ksh. 300 million to ensure the full implementation and operationalization of the Warehouse Receipt Systems. v. Provide Ksh. 200 million for procurement of mobile grain driers or grain drying centres and cold storage systems at community level, especially where WRS is not accessible. vi. Each county to allocate Ksh. 50 million annually towards investment in small-scale irrigation infrastructure in the agricultural zones. vii. Maximizing on the already existing irrigation infrastructure for agricultural production. viii. Provide Ksh. 7.2 billion as credit or working capital to farmers through well-managed farmer organizations or cooperatives. The actualization of the warehousing receipt system will also play a critical role in credit provision. ix. Provide Ksh. 3 billion as a subsidized loan product specifically designed for production of key food staples for the Strategic Food Reserve.
Revitalizing the manufacturing sector	<ul style="list-style-type: none"> i. Allocate Kshs. 5 billion towards scaling up of KIE operations country wide - enhanced credit disbursements from the current Ksh. 1 billion to Ksh. 3 billion; and establishment of industrial parks to support incubation centres in all the 47 counties.

- ii. Restructure the Financial Inclusion Fund to enable it respond to the needs of SMEs in the manufacturing sector.
- iii. Provide **Ksh. 8.2 billion** per year over the medium term to enable completion of special economic zones and industrial parks.
- iv. Re-appraise all the projects in the manufacturing sector to ensure that funding is channelled only to the viable projects.
- v. Funding for research entities (Public Universities and other National Research Institutes) be enhanced from the current 0.8 percent of GDP, progressively to one percent. It is recommended that the allocation be increased by 0.1 percent in FY 2023/24 (an equivalent of additional **Ksh. 11 billion**) before achieving the 1 percent in subsequent years and increased collaboration between these institutions with industry players including incorporating industry led standards into the curriculum.
- vi. Invest more in Technical and Vocational Training and halt the conversion of polytechnics into universities to enable the country produce more graduates with technical skills.
- vii. Provide training and professional development opportunities for manufacturing workers to improve their skills and knowledge, incentivize manufacturers to invest in employee training to build a skilled and competent workforce and establishing apprenticeship or internship programs to provide hands-on experience for learners.
- viii. Negotiate for the extension of AGOA beyond 2025 early enough and if there likelihood of decline by the USA government to renew, this will call for the urgent need to finalise on the negotiations for Strategic Trade and Investment Partnership to specifically provide for market access of Kenya's exports.
- ix. Continue with incentives such as Tax Remission for Exports Office (TREO), to encourage local manufacturers to export their products by remitting duty and VAT (duty drawbacks) on raw materials used.
- x. Address challenges in the agricultural sector to support agro-processing and encourage policies which aid value addition to agricultural exports.

CHAPTER ONE



Recent Economic Developments

Julie Mwithiga and Loise Olesia

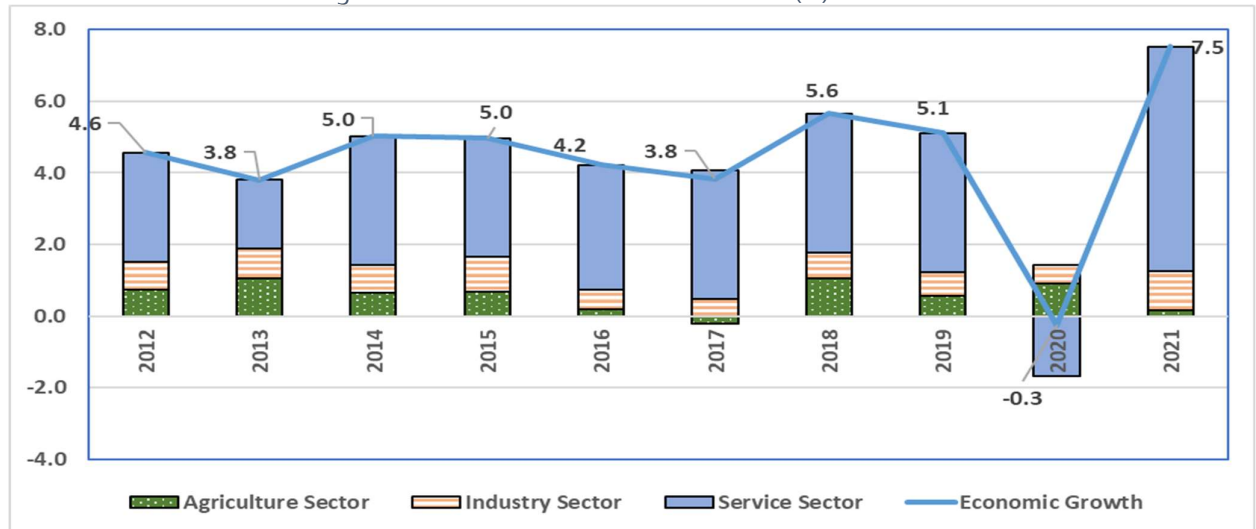
a. Economic Growth

1. Kenya's economy grew at an average of 4.4 percent both in the past decade and in the past 5-years, which was below the Medium-Term Plan III (Vision 2030) target of 7.0 percent.

This lower-than-expected economic growth is attributed to unfavourable weather conditions affecting the Agriculture Sector whose contribution to economic growth dropped when the country experienced drought specifically in 2017 and 2021. Similarly, the contribution of the Industry Sector was affected by weather-dependent agricultural production since approximately 50 percent of manufacturing activities involve food processing. The problem was exacerbated by the supply chain

disruptions in grain imports caused by the war between Russian and Ukraine. Continued reliance on rain-fed agriculture, particularly in the midst of effects of climate-change are becoming a permanent phenomenon, may be one of the reasons for the decline in the share of real GDP in Agriculture from 21.4 percent in 2012 to 19.5 percent in 2021 and consequently in Manufacturing from 9.6 percent in 2012 to 9.2 percent in 2021. Other factors affecting productivity in Agriculture and Manufacturing will be expounded in part III of this publication

Figure 1: contribution to Economic Growth (%)



Source: KNBS

2. The Service Sector has been driving the economy indicating a continued shift from agricultural activities to services and further depicting Kenya's status as a lower middle-income country with a rising middle-class.

The contribution of the service sector to economic growth increased exponentially in the past decade except for 2020 when Covid-19 restrictions set-back activities in the sector. However, the economy rebounded from the negative effects of the Covid-19 pandemic to record a growth of 7.5 percent in 2021 (Figure 1). Notably real estate, finance and insurance activities displayed a consistent increase in the share of real GDP (Figure 2). This is attributable to continued expansion in financial and

insurance activities enabled by mobile banking. During this period the value of mobile money transactions increased from Kshs. 3.4 trillion in 2016 to Kshs. 6.9 trillion in 2022¹. In addition, the real estate sector has continued to expand to meet the demand of middle-class households. It is estimated that the actual value of residential building plans approved increased from Kshs. 75.2 billion in 2012 to 100.7 billion in 2022; whereas the actual value of non-residential buildings declined from Kshs. 115.2 billion to Kshs. 29.8 billion during the same period. This growth was also supported by the government policy on affordable housing through various schemes and projects under the Big Four Agenda.

3. Recent data indicates that in 2022 the economy is moving back to precovid-19 trends as portrayed by the trend of quarterly economic growth

Quarterly GDP consistently declined from 9.3 percent in the 3rd quarter of 2021 to 4.5 percent in the 3rd quarter of 2022 which is the average pre-Covid growth rate. The decline was persistent in the Agriculture and Industry sectors due to the negative effects of drought. According to the Famine Early Warning Systems Network, by end of

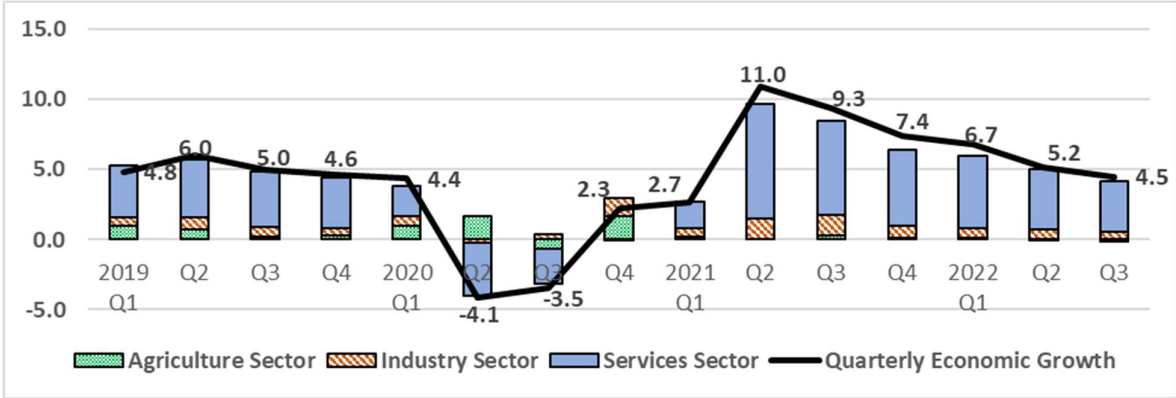
2022, Kenya had experienced 5 consecutive below average rainy seasons which resulted in increased food insecurity and decline in forage available for livestock. For instance, milk intake reduced from 209.3 million litres in 3rd quarter of 2021 to 187.0 million litres in a similar period in 2022.

4. The International Federation of the Red Cross and Red Crescent Societies (IFRC) estimated that close to 3.1 million people in Arid and Semi-Arid regions of Kenya were facing severe food insecurity due to famine. This led to a by the Government of Kenya of Kshs. 16 billion (USD 160 million) to provide humanitarian support in terms of food and water distribution to famine stricken families in affected areas. This is the highest demonstration of the failure and unreliability of rain-fed agriculture.

¹ Data available up to September 2022

5. The service sector remained stable supported by activities in ICT evident through increased internet and mobile services; accommodation and restaurants evident by increased visitors' arrivals; and transport and storage whereby the number of passengers and freight transported by SGR increased.

Figure 2: Contribution to Quarterly Economic Growth 2019-2022

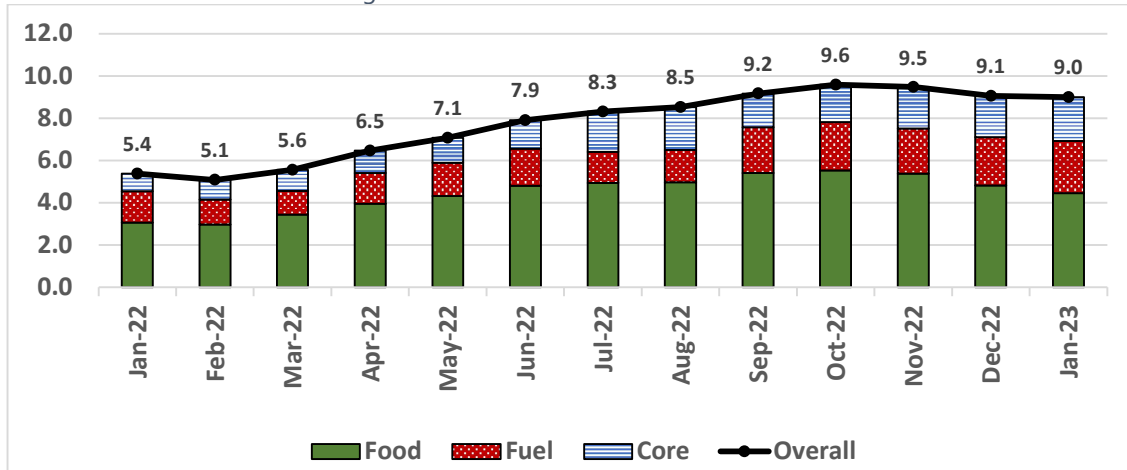


Data Source: KNBS

b. Inflation

6. **Inflation persistently increased from 5.1 percent in February 2022 to 9.0 percent in January 2023; breaching the upper target of 7.5 percent.** Inflationary pressures primarily stemmed from increased food prices due to supply shocks as a result of below-average rainfalls that affected food production. In addition, the depreciating Kenyan Shilling to the USD resulted in increased prices of imported food items. Fuel inflation also remained high despite the decline in international oil prices (MURBAN-ADNOC) from 117.7 USD per Barrel in June 2022 to 81.6 USD per Barrel in January 2023, pointing to lagged periods of oil imports coupled by exchange rate effect of a stronger USD. Pump prices remained elevated for the better part of the year but the negative effect to the Kenyans was partly cushioned by the Government’s Fuel Subsidy which was later dropped.

Figure 3: Contribution to Overall Inflation



Source: PBO, KNBS

7. Core inflation has been on an upward trajectory from 2.1 percent in January 2022 to 5.1 percent by January 2023 due to underlying cost-push factors. This is an indication that other than the main drivers of overall inflation arising from food and fuel, there has been a significant push in other components whose contribution to inflation has increased such as Restaurants & Accommodation Services; Furnishings & Household Equipment; Personal Care & Social Protection; and Recreation, Sports and Culture. This is likely from spill-over effects of a weakening Kenyan Shilling that resulted in higher cost of imported goods and services.

Table 1: Contribution to overall inflation from various categories

Category	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23
Food & Non-alcoholic Beverages	57.0	58.6	61.7	61.2	61.0	60.6	59.5	58.3	58.9	57.6	56.8	53.2	49.5
Alcoholic Beverages, Tobacco & Narcotics	2.2	2.2	2.2	1.9	1.8	1.6	1.6	1.8	1.8	2.5	2.7	2.7	3.1
Clothing & Footwear	1.2	1.3	1.1	1.0	0.9	0.9	0.8	0.8	0.9	0.9	0.9	1.1	1.1
Housing, Water, Electricity, Gas and other Fuels	14.5	14.3	13.6	12.2	13.1	13.3	9.7	9.5	12.3	11.5	10.0	10.6	12.5
Furnishings, Household Equipment and Routine Household Maintenance	3.6	4.1	4.5	4.1	4.4	4.6	4.3	4.5	4.6	4.5	4.4	4.3	4.1
Health	0.5	0.5	0.6	0.5	0.4	0.3	0.4	0.5	0.5	0.5	0.6	0.6	0.7
Transport	12.8	9.0	6.7	10.2	9.2	9.1	8.0	8.5	11.4	12.4	12.6	14.7	14.9
Information & Communication	3.8	4.0	3.5	2.9	2.8	2.5	8.3	8.1	0.8	0.9	1.0	1.0	1.0
Recreation, Sports & Culture	0.2	0.3	0.4	0.3	0.7	0.7	0.6	0.6	0.7	0.7	0.8	0.9	1.1
Education Services	1.1	1.0	0.9	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.8	0.8	1.4

Category	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23
Restaurants & Accommodation Services	0.3	2.1	2.3	2.8	2.7	3.2	3.8	4.3	4.5	4.8	5.6	6.1	6.2
Personal Care, Social Protection and Miscellaneous Goods & Services	2.4	2.4	2.4	1.8	2.0	2.1	2.2	2.5	2.8	3.0	3.5	3.7	3.9
Insurance and Financial Services	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100
Inflation Rate	5.4	5.1	5.6	6.5	7.1	7.9	8.3	8.5	9.2	9.6	9.5	9.1	9.0

Source: PBO, KNBS

c. Interest Rates and Credit to the Private Sector

- 8. The Central Bank Rate rose from 7.5 percent in August 2022 to 8.25 percent in October 2022 depicting a tightening of monetary policy.** In October 2021, the CBR rate stood at 7.0 percent. The tightening of monetary policy by the Central Bank is aimed at subduing inflation which has been above the monetary authority's target of 5 percent (+ or – 2.5 percent) since June 2022. The 91-day T-bill rate also rose in October 2022 to 9.06 percent from 6.95 percent in the same period in 2021. This indicates a rise in the cost of short-term borrowing with relatively no change in the lending rates implying that it has become more expensive to borrow for individuals and the government. The savings rate rose from 2.58 percent in October 2021 to 3.46 percent in October 2022. Despite the rise in the savings rate, higher inflation poses a risk on the savings made by Kenyans as they spend a relatively higher proportion of their incomes on consumption and therefore less on savings. Further, the real rate of return on savings will also be significantly reduced due to the high inflation rates.
- 9. Recent data available indicates a shift in the growth of credit from government to the private sector.** Credit to the government dropped from 27.3 percent in October 2021 to 15.2 percent in November 2022 while credit to the private sector grew from 7.8 percent to 12.5 percent in the same period. Notably, during this period, credit growth in the private sector was mainly driven by Mining and Quarrying that grew from 6.2 percent to 58.3 percent; Transport & Communications from 9.6 percent to 21.8 percent; Agriculture from 2.7 percent to 20.3 percent and Trade from 5.5 percent to 14.3 percent. This depicts increasing demand for credit from the private sector as the economy recovers. This trend is likely to linger as the

Central Bank's Credit Repair Framework continues to be implemented up to May 2023. According to the CBK, the framework is meant to improve the credit standing of over 4.2 million mobile phone digital borrowers by offering them a discount of at least 50 percent of their non-performing loans valued at Kshs. 30 billion.

	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022
Agriculture	2.7	1.3	0.5	1.3	3.0	7.7	6.4	11.6	12.5	10.8	19.2	17.0	21.7	20.3
Manufacturing	10.9	11.5	13.1	9.7	7.6	9.9	12	15.5	15.2	16.1	15.2	14.2	17.5	14.9
Trade	5.5	6.1	8.5	9.6	8.9	10.4	10.7	9.1	11.6	15.2	13.3	16.4	15.3	14.3
Building & Construction	-0.5	2.8	1.9	2.9	7.9	6.4	8.2	9.0	13.9	14.1	11.5	12.5	8.0	6.0
Transport & communications	9.6	8.3	14.3	20.7	24.1	25.0	28.9	26.5	22.2	27.0	13.5	21.6	22.8	21.8
Finance & insurance	8.9	7.1	5.8	3.5	3.6	3.6	5.8	5.3	6.5	2.8	1.2	0.2	5.4	4.4
Real estate	2.4	1.1	0.6	0.5	0.7	0.5	0.8	0.8	0.5	1.7	1.0	0.1	1.6	2.8
Mining and quarrying	6.2	8.3	42.9	24.9	-10.7	-4.9	28.3	47.9	28.5	78.6	97.2	57.4	53.5	58.3
Private households	2.7	3.3	3.7	4.3	5.0	7.5	6.7	7.5	6.1	7.6	7.8	7.8	5.9	6.0
Consumer durables	16.5	15.3	15	14.6	14	15.6	16.1	15.1	14.7	14.8	14.3	14.4	14.0	12.6
Business services	8.2	10.8	9.5	8.4	11.6	14.7	12.2	11.3	15.2	16.9	16.1	12.5	13.2	14.5

10. However, it is important to note that the rise in the Central Bank Rate may derail the recovery of private sector credit growth due to higher interest rates.

In November 2022, the CBR was increased further to 8.75 percent, in order ease inflationary pressure in the economy. Further, this increase in the CBR is also pushed by the need for government to used local debt instruments in the money markets to bridge to huge budget deficit given the volatility in the international financial markets. This has led to government competing for credit with the private sector, the effects of which are likely to be manifested in the first quarter of 2023. Any further increases in CBR may reduce credit uptake by the private sector.

Table 2: Growth in Credit to Private Sector (%)

Source: CBK

d. External Sector

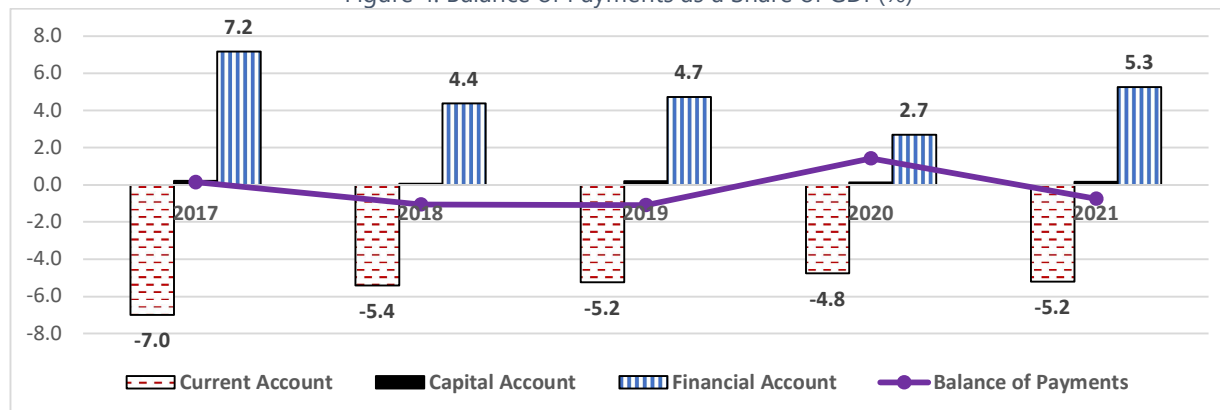
11. The overall balance of payments worsened from 0.1 percent of GDP in 2017 to -0.7 percent in 2021 mainly due to a worsening in the financial account from 7.2 percent of GDP to 5.3 percent of GDP in 2022. Notably, foreign direct investments² in the financial account declined in the same period from Kshs. 127.8 billion to Kshs. 5.9 billion while other investments³ declined from Kshs. 485.1 billion

² World Bank data indicates a drop in Foreign direct investments as a share of GDP from 1.6% in 2017 to 0.4% in 2021

³ According to KNBS, they comprise Equity, Debt instruments and investments undertaken by CBK, deposit-taking corporations and non-financial corporations.

to Kshs. 368.4 billion. **On the other hand, there was a general improvement in the current account deficit as a share of GDP from -7.0 percent in 2017 to -5.2 percent in 2021, attributed to diaspora remittances.** There was a significant increase in remittances from Kshs. 202.9 billion to Kshs. 413.3 billion during this period. Kenyans living in North America sent the highest remittances in the period under review. In addition, there was a general growth in the exportation of services specifically in international passenger travel by air except in 2020 when there were restrictions in movement due to COVID-19 pandemic.

Figure 4: Balance of Payments as a Share of GDP(%)

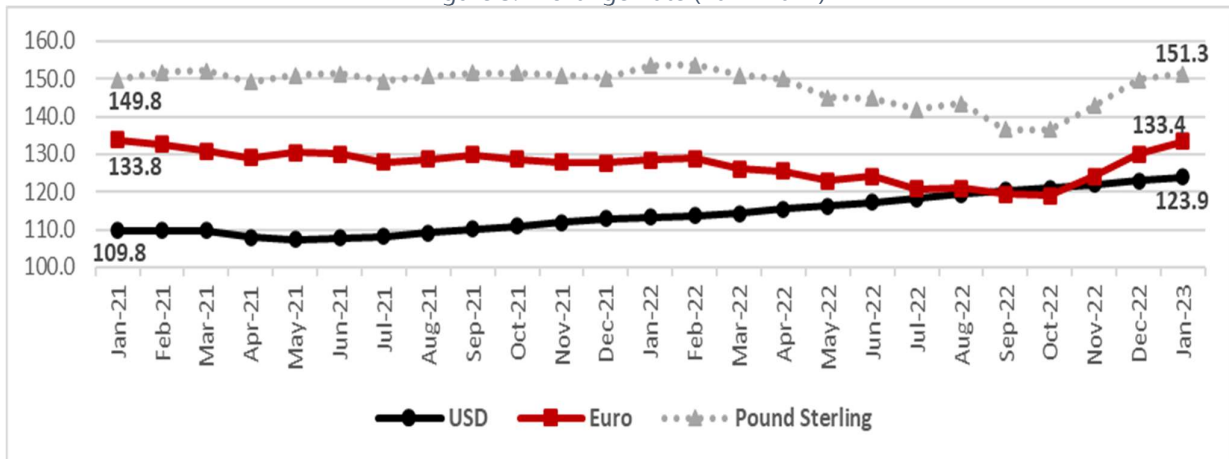


Data Source: KNBS

12. The Kenyan Shilling depreciated against the US Dollar as is the case for most currencies occasioned by the USA monetary policy stance (Figure 8). The US Dollar appreciated against the Kenyan Shilling from 109.8 in January 2021 to 123.9 in January 2023. On the other hand, against the Pound Sterling from 149.8 in January 2021 to 151.3 in October 2022 and against the Euro from 133.8 to 133.4 in the same period. Most countries experienced capital flight and in Kenya’s case, the situation was worsened by a deterioration in the foreign exchange reserves with the months of import cover declining from 4.9 in January 2021 to 3.9 in January 2023⁴. This had a bearing on the overall import bill and the cost of servicing external debt that is majorly USD dominated. Going forward, there is need to enhance the resilience of the economy against external shocks through increased foreign reserves, reduction of import bill and promotion of exports.

⁴ Weekly data from CBK during the last week of January 2023

Figure 5: Exchange Rate (2021-2022)



Data Source: CBK

CHAPTER TWO



Medium Term Economic Outlook and Risks

Dr. Abel Nyagwachi, Dr. Benjamin Ng'imor, Ms. Millicent Makina and Mr. Ringine Mutwiri

a. Economic Growth and Inflation

i. Baseline Scenario

13. The baseline scenario assumes no policy change whereby the status quo with regard to government’s overall policy direction and expenditures remains in place indefinitely. Under this scenario, the government gradually increases its discretionary expenditure to cater to the demand pressures arising from wage demands, welfare concerns particularly with regard to drought and social transfers, as well as implementation of new and ongoing projects. GDP growth will be driven largely by the service sector which has been the main driver of economic growth over the last decade. On the demand side, consumption is likely to remain muted due to high cost of living.

14. An intensification of the drought conditions is likely to weigh down on growth even as food prices improve partly due to imports. Weak global growth, high global inflation, tight global financial conditions, the Russia-Ukraine conflict and high(er) energy prices constitute the external risks to this outlook. Thus, it is estimated that GDP will expand by 5.3 percent in 2023; edging up slightly to 5.5 percent in 2024 and 5.9 percent in 2025.

Table 3: Baseline (No policy change)

Scenario 1 - Baseline (No policy change)				
GDP growth and Inflation 2021/22-2024/25				
	2021/22	2022/23	2023/24	2024/25
Output				
Real GDP growth (%)	6.4	5.3	5.4	5.7
Prices				
Inflation (average)	6.8	6.8	6.0	5.5
Assumptions				
i. Overall government expenditure follows historical trends with adjustment for inflation				
ii. Negligible fiscal consolidation efforts/ expenditure pressure				
iii. Lower food prices/ high(er) energy prices				
iv. Increased social spending to cater for drought, welfare subsidies				
v. Continued rebound in the services sector to drive growth				

Source: PBO Macro Model

ii. High Growth scenario

15. The alternative scenario postulates targeted investment in agriculture and MSMEs to boost their performance along with concurrent fiscal consolidation efforts in order to limit expansion of the fiscal deficit.

Targeted investment in agriculture and MSMEs as proposed in the bottom-up economic transformation plan will yield higher growth through increased contribution to growth from these sectors as well as increased household income to the workforce, majority of whom subsist in these sectors. This will encourage spending and saving. To protect fiscal consolidation efforts, the assumption is that any increase in government spending in these two sectors will be matched by a decrease in another non-priority sector.

16. The government can enhance efficiency and productivity in these two sectors by putting in place measures to ensure programmes/ projects are proficiently implemented.

This has the distinctive potential to improve productivity without necessarily increasing expenditure.⁵ Based on this scenario, it is estimated that the economy will expand by 6.1 percent in 2023, 6.3 percent in 2024 and 6.7 percent in 2025.

Table 4: Alternative Scenario (targeted investment to increase productivity)

Scenario 2 - Alternative (increase in total; agricultural productivity)				
GDP growth and Inflation 2021/22-2024/25				
	2021/22	2022/23	2023/24	2024/25
Output				
Real GDP growth (%)	6.4	5.8	6.2	6.5
Prices				
Inflation (average)	6.8	6.8	6.0	5.5
Assumptions				
Investment of approximately Ksh. 50 billion in agriculture in line with manifesto				
Investment of approximately Ksh.26 billion in MSMEs; increasing by 50 billion in outer years in line with manifesto				
All amount invested is converted into productive capital				
Lower food prices/ high(er) energy prices				
No adverse shocks in the medium term				

Source PBO Macro Model

⁵ Simulations using PBOM indicate that an increase in total productivity by approximately 1.5 percent has the same impact on economic growth as approximately Ksh. 100 billion increase (and efficient use of) government investments. Thus, innovation and skills building using already available resources may trigger higher productivity and growth without adversely impacting fiscal consolidation efforts.

Table 5: enhanced investment in Agriculture and MSMEs: Economic Opportunities and Risks

Drivers (Aggregate demand)	Drivers (Sectors)	Risks to economic growth
<p>Consumption: approximately 85% of the country's rural workforce works in agriculture whereas MSMEs are estimated to employ approximately 15 million people. Higher profitability in these sectors will therefore lead to higher incomes and therefore higher consumption demand and (eventually) higher savings. Propensity to consume is generally higher for low-income households</p>	<p>Agriculture: increase in productivity through provision of subsidized inputs (fertilizer, seeds) agricultural extension services, working capital per farmer; irrigation infrastructure; revamping value chain</p>	<ul style="list-style-type: none"> ▪ worsening drought conditions; ▪ delays in fiscal consolidation; ▪ weak growth in trading partner economies; ▪ high global inflation; ▪ high global commodity prices; ▪ high crude oil prices; ▪ worsening global financial conditions;
<p>Investment: enhanced government investment in agriculture and manufacturing and business environment is likely to attract investors in the agribusiness value chain from production to processing. Agribusiness already accounts for 20% of total Foreign Direct Investment (FDI) in the region. Professionalizing agriculture will also lead to new, higher skilled entrants in the sector</p>	<p>Manufacturing: increase in productivity through provision of affordable finance, investment in entrepreneurial development, improvement of regulatory environment</p>	
<p>Exports: enhanced investment along the agriculture value chain especially processing is likely to enhance exports especially in horticulture. Increased quality of production by MSMEs may also create opportunities for non-agricultural export commodities</p>		

b. Fiscal Projection for FY 2023-2024

i. Baseline Scenario

17. The fiscal projections under the baseline scenario are based on the assumption that the economy will continue to operate as usual without significant policy

change or disruption. As such, revenues are anticipated to grow moderately remaining at around 17.2 percent of GDP. Recurrent expenditure is expected to be maintained at close to 16 percent of GDP, coupled with continued debt-funded infrastructural development projects. This may result to a fiscal deficit of approximately Ksh. 927.2 billion which is equivalent to 5.8 percent of GDP for the FY 2023-2024.

18. This is contrary to the National Treasury⁶ projection that ordinary revenue collection will increase by 17 percent in the 2023/24 financial year to an average of 17.8 percent of GDP. It is important to note that, without the implementation of fundamentally different and quantifiable tax policy measures in the 2023-2024 FY, it is unlikely that the ambitious target of collecting total revenue amounting to Ksh. 2,897.7 billion will be realized. Consequently, over-projection of revenue either through overestimation of economic growth or revenue as a share of GDP, may result to a fiscal deficit exceeding the projected -4.3 percent of GDP.

19. The outcome of this scenario suggests that, over the medium-term, debt service may continue to crowd out expenditures targeted at service delivery and public investments. This may result to a further constrained fiscal space thereby undermining the sustainability of economic growth, revenue performance, limiting the ability of the government to respond to emerging challenges and suppressing opportunities for the majority of Kenyans to grow their incomes.

ii. High Growth Scenario

20. The high growth scenario envisages an alternative outlook where deliberate pro-growth policy decisions are undertaken to enhance fiscal consolidation without instituting additional tax burden nor compromising service delivery significantly. This is informed by the current state of the economy characterized by constrained fiscal space, rising inflation and high cost of living for the majority of the population. The scenario strives to strike a balance among competing needs while allowing the economy a sufficient environment for an upward trajectory.

21. The scenario takes into consideration moderate growth in revenues and reorganization of expenditures. This is geared towards improved food security, enhanced incomes for smallholder farmers, and provision of a conducive environment that will spur growth in agro-processing and other small-scale manufacturing firms. The specific interventions that are aimed at achieving higher

⁶ Budget Review and Outlook Paper, 2022

GDP growth and improved incomes for consumers are discussed in subsequent sections of this document.

22. Based on these considerations, revenue performance is anticipated to remain at 17.4 percent of the GDP just like in the baseline scenario. However, it is slightly higher in absolute terms given the higher projected economic growth. Expenditure outlook, on the other hand, is expected to marginally decline from 23.2 percent of GDP in the baseline scenario to 22.8 percent translating to a reduction of about Ksh. 19.4 billion in non-priority expenditures. As such, this provides a more realistic path to fiscal consolidation that may attain a fiscal deficit of around 5.4 percent of GDP for the 2023-2024 fiscal year and a higher economic growth rate.

Table 6: Fiscal Framework for Baseline and High Growth Scenario

Fiscal Framework (Ksh. Billion) for Baseline and High Growth Scenario							
	2020/21	2021/22	2022/23		2023/24		
	Actual	Prel Actual	Budget Est	BROP	BROP Proj	PBO Baseline ¹	PBO Alt ²
Revenue and grants	1,815.1	2,230.8	2,495.7	2,540.8	2,945.8	2,758.5	2,795.5
Total Revenue	1,783.7	2,199.8	2,462.4	2,512.7	2,897.7	2,726.3	2,763.2
Ordinary Revenue	1,562.0	1,917.9	2,141.6	2,191.9	2,566.0	2,396.1	2,433.0
Income tax	694.1	876.7	997.3	1,004.3	1,198.5	1,103.2	1,118.3
VAT	410.8	523.1	584.7	587.7	703.3	651.0	661.0
Import duty	108.4	118.3	144.9	145.9	173.3	159.2	166.5
Excise duty	216.3	252.1	297.2	297.2	352.7	313.3	316.7
Other tax revenue	132.5	147.7	117.5	156.8	138.2	169.3	170.5
Appropriation-in-Aid	221.7	281.9	320.8	320.8	331.7	330.2	330.2
Grants	31.3	31.0	33.3	28.1	48.1	32.2	32.2
Total expenditures & net lending	2,749.5	3,027.8	3,358.7	3,390.0	3,641.0	3,685.8	3,666.4
Recurrent expenditure	1,796.6	2,135.3	2,271.0	2,352.7	2,422.3	2,500.9*	2,457.6*
Wages & salaries National gvt	493.0	520.0	537.2	690.6	600.0	592.5	592.5
Pensions & Other CFS	112.9	122.4	150.6	145.3	165.9	165.9	165.9
Interest	495.1	578.0	690.6	690.6	750.5	750.5	750.5
On domestic debt	388.8	456.8	553.4	553.4	604.8	604.8	604.8
On foreign debt	106.3	121.1	137.2	137.2	145.7	145.7	145.7
Operation and maintenance	652.1	866.1	866.7	794.3	877.4	901.5	858.3
Contribution to civil ser pension fund			25.9	31.9	28.5	28.5	28.5
Development & net lending	553.9	540.1	676.7	596.7	796.4	762.5	786.5
Development expenditure	553.9	540.1	667.4	576.9	771.7	737.8	761.8
Net lending	-	-	2.3	14.7	17.2	17.2	17.2
Contingency Fund			4.0	4.0	5.0	5.0	5.0
Transfer to Counties	399.0	352.4	407.0	436.6	417.3	417.3	417.3
Equitable Share	346.2	340.4	370.0	399.6	380.0	380.0	380.0
Conditional Allocation	52.8	12.0	37.0	37.0	37.3	37.3	37.3
Parliamentary service	29.2	32.7					
Judicial Service	14.3	16.2					
Equalization Fund			7.1	5.1	7.5	7.5	7.5
Overall balance including Grants	(934.4)	(797.0)	(863.0)	(849.2)	(695.2)	(927.2)	(870.9)
Overall balance excluding grants	(965.7)	(828.0)	(896.4)	(877.3)	(743.3)	(959.4)	(903.1)
Adjustment to cash basis	5.1	11.9	-	-	-	-	-
Deficit incl grants cash basis	(929.3)	(785.1)	(863.0)	(849.2)	(695.2)	(927.2)	(870.9)
As a Share of GDP							
Revenue and grants	15.9%	17.5%	17.8%	17.5%	18.1%	17.4%	17.4%
Total Revenue	15.6%	17.3%	17.6%	17.3%	17.8%	17.2%	17.2%
Ordinary Revenue	13.7%	15.1%	15.3%	15.1%	15.8%	15.1%	15.1%
Total expenditures and net lending	24.1%	23.8%	24.0%	23.3%	22.4%	23.2%	22.8%
Overall balance excluding grants	-8.5%	-6.5%	-6.4%	-6.0%	-4.6%	-6.0%	-5.6%
Overall balance including Grants	-8.2%	-6.3%	-6.2%	-5.8%	-4.3%	-5.8%	-5.4%
Nominal GDP	11,407	12,736	14,001	14,522	16,290	15,882	16,057

¹ Baseline refers to "Business as usual"/No Policy Change.
² Alt -Alternative scenario that includes expenditure rationalization and targeted investment that will accelerate economic growth.
*Includes an allocation for Parliament and The Judiciary.

C. Expenditure Outlook for FY 2023-2024

i. Baseline Scenario

23. The baseline expenditure outlook is premised on gradual increases in expenditure across all sectors without deliberate efforts to alter the trajectory as has been the practice. Mandatory expenditures including wages and salaries, interest payments on domestic and foreign debt as well as pension and other CFS-related expenditures were assumed to remain as per the National Treasury projections in the Budget Review and Outlook Paper.

24. The sectoral ceilings have been aligned to the attendant fiscal framework to ensure that they are in line with the revenue projections and the resultant fiscal deficit. The total ministerial expenditure (including Judiciary and Parliament) is projected at Ksh. 2,301 billion comprising Ksh. 1,556.1 billion recurrent and 745.3 billion development expenditure. This translates to 67.6% and 32.4% in recurrent and development expenditure respectively in adherence to fiscal responsibility principles.

ii. High Growth Scenario

25. The high growth scenario is based on the assumption that there are deliberate efforts towards expenditure reorientation with an objective to align expenditure to the potential drivers of economic growth. The priority sectors in this context include agriculture and the Micro, Small and Medium Enterprises. While cognizant of other potential drivers of growth, the choice of the two was informed by their potential to impact the majority of the population in the short run and the constrained fiscal space. The strategies, interventions and resource requirements have been outlined in the next section of the document.

26. The total ministerial expenditure including that of Judiciary and Parliament is projected at Ksh. 2,282.0 billion consisting of Ksh. 1,512.7 billion recurrent and 769.3 billion in development expenditure. This translates to 66.3% and 33.7% in recurrent and development expenditure respectively. The increase in development expenditure has been occasioned by additional resources channelled to the Agriculture, Rural and Urban Sector and General Commercial and Economic Affairs under which the manufacturing and MSME sector fall.

27. Mandatory expenditures including wages and salaries, interest payments on domestic and foreign debt as well as pension and other CFS-related expenditures were assumed to remain as projected in the Budget Review and Outlook Paper. It is also important to note that there was no reduction in development expenditure across all sectors and the reductions in recurrent expenditure were mostly in relation to operations and maintenance to ensure

minimal disruption in service delivery. The ceilings for the social protection sector both for recurrent and development were maintained at baseline since a reduction would have implications in delivering social protection programmes.

28. It is important to emphasize that for this scenario to crystallize, the targeted interventions must be realized effectively and efficiently. This entails not just the commitment of the implementing agencies but also the timely availability of resources and meticulous intergovernmental coordination for interventions requiring cooperation of the National and County governments.

Table 7: (Sectoral Expenditure Ceilings for FY 2023/24 (Ksh. Millions)

Sector		FY 2021/22	FY 2022/23	FY 2023/24		
		Prel. Actual Expenditure	Approved Budget	BROP	PBO Baseline	PBO Alternative
Agriculture, Rural & Urban Development	Sub-Total	59,646.0	68,959.5	67,671.2	69,570.0	81,226.5
	Rec. Gross	24,751.0	27,059.7	28,229.2	29,770.0	32,470.0
	Dev. Gross	34,895.0	41,899.8	39,442.0	39,800.0	48,756.5
Energy, Infrastructure & ICT	Sub-Total	381,336.0	407,760.1	398,252.8	393,165.3	385,665.3
	Rec. Gross	189,825.0	131,010.0	110,344.4	144,165.3	136,665.3
	Dev. Gross	191,511.0	276,750.1	287,908.4	249,000.0	249,000.0
General Economic & Commercial Affairs	Sub-Total	22,925.1	26,032.0	33,894.8	35,478.5	41,845.0
	Rec. Gross	16,243.1	19,076.8	19,396.3	20,980.0	20,980.0
	Dev. Gross	6,682.0	6,955.2	14,498.5	14,498.5	20,865.0
Health	Sub-Total	110,088.0	122,519.3	148,293.3	137,455.7	137,455.7
	Rec. Gross	66,632.0	68,503.0	74,155.7	75,355.7	75,355.7
	Dev. Gross	43,456.0	54,016.3	74,137.6	62,100.0	62,100.0
Education	Sub-Total	514,754.6	544,519.5	580,568.0	583,300.0	587,000.0
	Rec. Gross	498,447.6	515,600.7	544,255.0	551,500.0	546,500.0
	Dev. Gross	16,307.0	28,918.8	36,313.0	31,800.0	40,500.0
Governance, Justice, Law & Order	Sub-Total	209,344.0	234,408.1	234,746.2	257,460.8	249,840.0
	Rec. Gross	199,065.0	224,127.2	222,813.9	245,120.8	237,500.0
	Dev. Gross	10,279.0	10,280.9	11,932.3	12,340.0	12,340.0
Public Admin. & International Relations	Sub-Total	279,754.4	356,857.6	371,396.9	408,876.5	386,300.0
	Rec. Gross	136,341.3	177,982.1	205,757.2	228,176.5	205,600.0
	Dev. Gross	143,413.1	178,875.5	165,639.7	180,700.0	180,700.0
National Security	Sub-Total	183,960.0	177,811.0	220,748.7	220,586.7	217,154.0
	Rec. Gross	177,810.0	174,343.0	187,732.7	188,232.7	184,800.0
	Dev. Gross	6,150.0	3,468.0	33,016.0	32,354.0	32,354.0
Social Protection, Culture and Recreation	Sub-Total	65,677.3	73,213.5	74,358.2	77,389.5	77,389.5
	Rec. Gross	43,151.4	41,674.0	43,560.7	45,850.0	45,850.0
	Dev. Gross	22,525.9	31,539.5	30,797.5	31,539.5	31,539.5
Environment Protection, Water & Nat. Resources	Sub-Total	88,595.0	107,178.2	122,877.8	118,151.0	118,151.0
	Rec. Gross	23,866.0	24,527.5	26,705.0	26,970.0	26,970.0
	Dev. Gross	64,729.0	82,650.7	96,172.8	91,181.0	91,181.0
Total	Sub-Total	1,916,080.4	2,119,258.8	2,252,807.9	2,301,434.0	2,282,027.0
	Rec. Gross	1,376,132.4	1,403,904.0	1,462,950.1	1,556,121.0	1,512,691.0
	Dev. Gross	539,948.0	715,354.8	789,857.8	745,313.0	769,336.0

Source: PBO

CHAPTER THREE



The Strategy

Mr. Chacha Machage, Mr. Edison Odhiambo, Mr. Robert Ng'etich, Mr. Jonathan Lemurt, Ms. Terry Ondiko, Mr. Collins Lokitella, Mr. Job Mugalavai and Ms. Priscilla Wangu

a. Options for Fiscal Consolidation

29. Over the past years, fiscal consolidation efforts by the government have not been successful. Expenditure pressures emanating from wage demands, welfare spending (cash transfers) and implementation of huge infrastructure projects have contributed to a widening fiscal deficit despite presumed commitments to reduce the same. To mitigate this, the strategy adopted by the government has been to upscale revenue collection and reduce expenditure in areas deemed as 'non-priority'. This has led to across-the-board cuts in expenditure items such as hospitality, printing, training, domestic and foreign travel, routine maintenance among others. This strategy was successful only up to a certain point. In recent years, such expenditure cuts undertaken without critically reviewing each ministerial expenditure item on its own merit have disrupted service delivery in some ministries, departments and agencies depending on the nature of their work.

30. Worth noting is that despite these efforts, the fiscal deficit has continued to expand. It should also be noted that there are contractual obligations associated with on-going government projects funded under development expenditure budgets. These obligations also exist in contracts related to maintenance and those relating to proprietary rights. A blanket reduction of budgets relating to these expenditures may lead to legal costs and penalties associated with breach of contract. Caution should be taken while implementing the fiscal consolidation strategy to avoid such legal risks.

31. The success of fiscal consolidation is dependent on the design, approach and commitment of the government to the process. How large, how fast, and which sectors to target are the three key questions which if well answered, will result in a successful fiscal consolidation strategy. The conventional approach has been to limit expenditure growth and/or increase revenue collection efforts. However, this may carry economic and political costs. Economic costs include an adverse impact to economic growth while political costs primarily stem from the perception of a higher tax burden due to increased revenue collection efforts. The challenge therefore is for the government to find a strategy that strikes a delicate balance such that fiscal expansion is limited without harming growth. These strategies range from those that can be executed in the short term, the medium term and in the long term.

i. Privatization of State-Owned Enterprises (SOEs)

32. Privatization of State-Owned Enterprises is one of short-term fiscal consolidation strategy which if well executed, could become a source of revenue

while at the same time reducing costs and risks to the government as well as inviting higher capital investment as the privatized enterprises seek fresh capital to improve profitability and enhance service delivery.

33. Privatization involves government transfer to the private sector, all or part of its share ownership, in a State-Owned Enterprise (SOE) including sale of assets.

Given the current constrained fiscal environment, privatization may provide deficit financing for government. It also has the potential to create savings by substituting government expenditure for private capital and unlocking the potential of SOEs to increase their efficiency and long-term productivity. If undertaken through Initial Public Offer (IPO), it could reinvigorate the stock market during bearish periods thereby stimulating private investments.

34. The overall success of the privatisation process will depend on its impact on monetary and fiscal policy.

Since privatisation is a withdrawal of equity and not dividend, it can have an effect on the net worth of the government. Proceeds of privatization should not be used for financing recurrent expenditure, priority could be given to critical capital projects and retiring expensive public debt for fiscal consolidation to stay its course.⁷ On the monetary side, domestic proceeds are akin to domestic financing while external proceeds have a similar effect to external financing. These can therefore put pressure on aggregate demand, interest rates and exchange rate and might require monetary policy intervention.

35. The Government could raise approximately Ksh. 30 billion annually from the privatization programme over the medium term.

There are 248 State Corporations in Kenya, and it is estimated that the privatization program will primarily target commercial enterprises that account for 19% of total state corporations. While privatization of non-commercial enterprises that account for 81% could be undertaken on a case-by-case basis. Depending on economic conditions, privatization can raise between 0.5%⁸ and 1% of GDP⁹. For Kenya, depending on the privatization methodology, targeted SOEs and response from private purchasers: the privatization resources are estimated to range between Kshs. 60 billion and Kshs. 110 billion spread out over the medium.

36. The overall potential of privatization will depend on the government investment share of GDP, which has declined since 2014/15.

Decline of government investment as a share of GDP over could be indicative of decline of

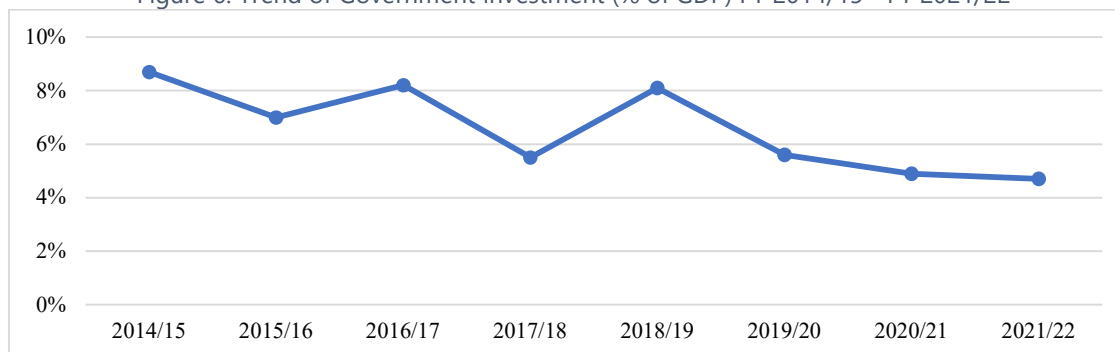
⁷ This may also signal positive measures targeting the stabilizing of public debt and stimulate capital inflow

⁸ Kikeri S. and Kolo A. F. (2005). *Privatization: Trends & Relevant Developments*

⁹ Mackenzie G. A. (1998). *The Macroeconomic Impact of Privatization.* &

government liquefiable assets which could affect overall viability of the privatization programme. Given that privatization results will depend on its impact on the governments net worth (due to loss of dividend income), the proceeds should be reinvested in other priority areas (such as building Reserves), priority sectors with higher revenue generation and investment potential or public debt repayment.

Figure 6: Trend of Government Investment (% of GDP) FY 2014/15 - FY 2021/22



Source: Annual Budget Policy Statement

37. The Privatization Commission, is the single agency for undertaking privatization in Kenya¹⁰. The Commission has been unable to successfully privatize any SOE since 2008, partly owing to operational challenges (lack of a board) and external challenges (legal & stakeholder resistance¹¹). Overall, challenges persist due to the lack of a (publicly adopted) Privatization Policy, that highlights challenges experienced and sets out appropriate strategies to address them, modernize privatization mechanisms, ensure broad based approaches to enhance support, minimize resistance and prevent legal glitches.

38. There is need to review PPP law and enabling framework in order to ensure that the government has an option to privatization through a clearer PPP policy and framework. This will guarantee benefits to the nation as opposed to the private sector players and foreign entities involved in the PPP process. Caution should be taken on the long-term economic risk of privatising institutions key to long term national interest and strategic positioning in the hands of the private sector. This becomes even more pronounced if the private sector institutions taking over this key and strategic institutions have a heavy leaning toward foreign ownership.

39. The financial status of SOEs will likely influence the attractiveness and capacity to mobilise capital. The status of assets and nature of liabilities are indicative of past corporate decisions and future performance of an SOE. Large liability (current

¹⁰ Established under the Privatization Act, 2005

¹¹ For example, privatization of sugar companies has long encountered challenges leading to an attempt of privatization by long-term lease model.

and non-current), indicate a high level of burden on the SOE's Assets and future profitability. This might: *a)* force the government to sell an institution below potential/economic value (when an SOE is run efficiently) or *b)*, may work in favour of large private sector purchasers with the capacity to meet huge liabilities or have a high-risk appetite.

40. Financial status also points to the risks emanating from SOEs and is indicative of the public sector financial burden to be transferred to the private sector. In FY 2021/22, the fiscal exposure amounted to Kshs. 1.3 trillion in on-lent loans and potential bailouts which could result in a serious budget disruption should the risks materialise. Unprofitable strategic SOEs accounted for the largest share of on-lent loans, commercial (non-guaranteed loans) and arrears. Weaknesses in SOE financial positions arise from historically poor revenue performance or loss-making trends, leading to liquidity challenges that might affect their capacity to meet current expenditures without the usual national government capital injection¹².

Table 8: State Corporations Fiscal Risk Exposure

	Operating Profits / Loss	On Lent Loans	Guaranteed Debt	Commercial Debt (Non-Guaranteed)	Contingent Liabilities	Arrears
Profitable strategic	30,683	95,809	96,343	42,703	55,340	3,200
Unprofitable Strategic	(12,356)	543,000	51,900	53,800	7,100	132,500
Marginal Strategic	(5,250)	-	91,500	1,720	42,694	33,800
Service Providers	(5,276)	25,231	-	4,847	3,418	41,523
Total	7,801	664,040	239,743	103,070	108,552	211,023

Source: Budget Policy Statement, 2022

41. Finally, domestic market economic conditions will also be a critical determinant of the potential of the capitalization progress. The current post-COVID macroeconomic conditions of high inflation, high interest rate and depreciating exchange rate might affect the capacity of the domestic market to raise investment capital during the privatization process, especially if the privatization investment portfolio is riskier and not competitive when compared to other investment opportunities in the market. This might affect the indigenization of SOEs if foreign firms, foreign controlled firms or individuals have a financial advantage over local or diaspora investors.

Policy Options

- i. If properly designed, the privatization programme can lead to proceeds worth Kshs. 30 billion annually over the medium term.*

¹² To avoid future nationalization, the privatization programme should be implemented alongside a strategy aimed at improving the financial sustainability of SOEs and a structural transformation program

- ii. *Develop a privatization policy for sustainable privatization process and addresses recurring challenges, including the repeal of the Privatization Act 2005.*
- iii. *Privatization programme should be implemented in line with a strategy of improving the financial status of SOEs in order to derive long-term benefits.*
- iv. *For long-term impact, privatization proceeds should be earmarked to capital projects that have potential to generate future revenues or be used to retire expensive public debt.*
- v. *Review PPP law and enabling framework in order to ensure that the government has an option to privatization through a clearer PPP policy and framework that guarantees benefits to Kenya*

b. Options to Support Economic Growth

i. Transforming the Agricultural Sector

Overview of the Agriculture Sector

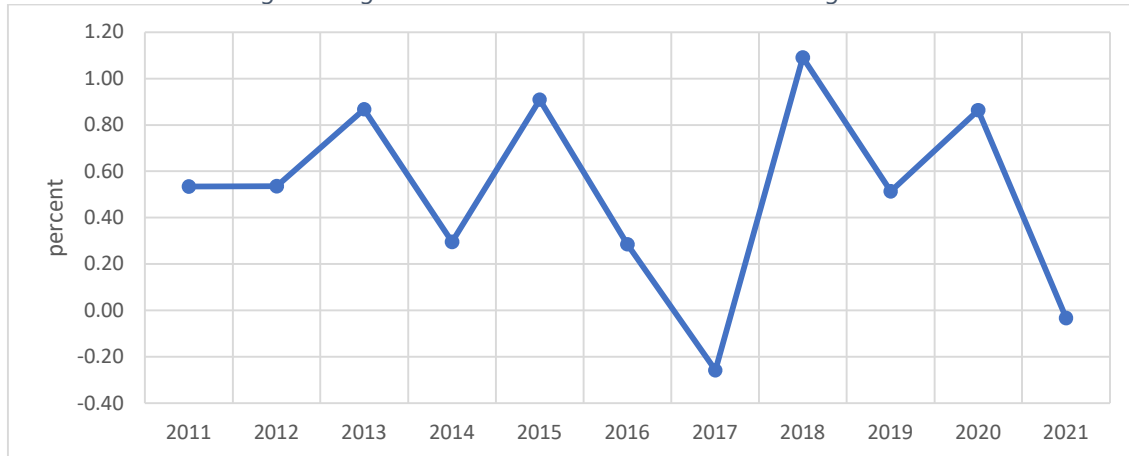
42. The agriculture sector is a major driver of growth in Kenya's economy and an important source of employment and poverty reduction. In 2021, it accounted for more than 45 percent of real GDP (20 percent directly and over 25 percent indirectly through its linkage with the manufacturing and service sectors). It is responsible for more than 65 percent of the country's merchandise exports and accounts for about 90 percent of the country's food supply (KNBS, 2022). The sector also employs over 40 percent of the total population and more than 70 percent of the rural populace¹³. Further, it has been a significant contributor to the reduction of poverty in the country. The poverty rates for rural households reduced from 50.5 percent in 2005/06 to 38.8 percent in 2015/16 with a third of this reduction being attributed to agricultural households (World Bank, 2018). Consequently, the transformation of the sector is likely to be a strong driver for the country's economic development and poverty alleviation.

43. Historical analysis shows that the agriculture sector is facing diverse challenges that have impacted on its potential. Its contribution to real GDP has decreased from 22 percent in 2011 to 20 percent in 2021 while its contribution to real GDP growth has exhibited significant volatility (figure 7). Kenya's agricultural total factor productivity (TFP) index dropped from 111 in 2011 to 91 in 2020. This means that in 2020, 20 percent less output was obtained from a similar number of inputs than in 2011. The country's TFP index is way below the average for lower

¹³ <https://www.fao.org/kenya/fao-in-kenya/kenya-at-a-glance/en/#:~:text=Agriculture%20is%20key%20to%20Kenya's,cent%20>

middle-income countries of 108 and the world average of 104. To optimize the agricultural potential of the county, a value chain approach is envisaged where appropriate interventions are developed from at each stage from pre-production to marketing and value addition.

Figure 7: Agriculture Sector contribution to real GDP growth



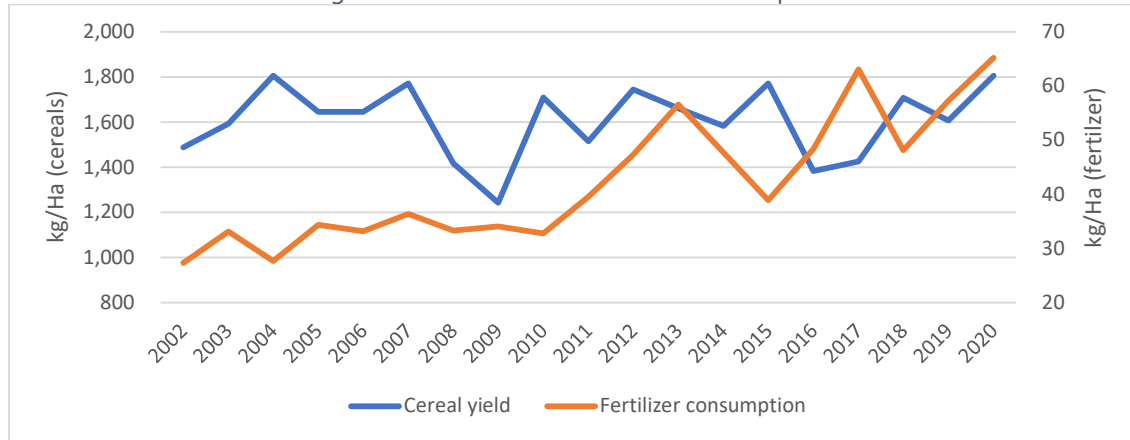
Source: KNBS

Policy Options for enhanced Productivity

(a) Input Subsidy and Extension Services

44. The use of quality farm inputs, especially seeds and fertilizers, has the potential to increase yields by 50 – 75 percent. However, majority farmers are small-scale producers (73 percent) who are generally resource-poor and unable to access these inputs in sufficient quantities due to their high costs. To address this issue, the government introduced the input subsidy programme mainly targeting fertilizers so as to motivate its use. This led to an increase in the country's fertilizer consumption from about 30 kg/Ha in 2009 to 65 kg/Ha in 2020. Despite the significant increase, the country's fertilizer consumption is lower than the world average of 146 kg/Ha and the average for lower middle-income countries of 148 kg/Ha. The country's cereal production of 1,806 kg/Ha in 2020 lags behind the world average of 4,072 kg/Ha and the average for lower middle-income countries of 3,256 kg/Ha.

Figure 8: Cereal Yield vs. Fertilizer Consumption



Source: World Bank WDI

45. The inefficiencies of the subsidy programme was attributed to a number of issues including the poor targeting of beneficiaries, late delivery, inefficient distribution system resulting in leakages and crowding out of the private sector¹⁴. Since the distribution of the fertilizers was through National Cereals and Produce Board (NCPB) stores, the smallholder farmers who were the intended beneficiaries were disadvantaged due to the significant transportation costs since the average distance travelled to the nearest stores was 40 km. Therefore, most were not incentivized enough to access the subsidized fertilizers and it was the commercial farmers who were the biggest beneficiaries. In addition, there were also leakages in the system with approximately one-third of the subsidized fertilizer being purchased in bulk by unscrupulous middlemen and then resold at prevailing market rates thereby depriving the small-scale farmers of the intended benefits. The design of the subsidy program to distribute the subsidized fertilizer solely through the NCPB lead to crowding out of the private sector from the retail fertilizer market thereby creating further supply-chain bottlenecks for commercial fertilizers.

46. The lower productivity for cereals may also be attributed to the decline in soil quality in the grain basket areas due to poor farming methods. The farmers continuously plant maize and wheat on their lands using the wrong quantity of fertilizers. Moreover, most small holder farmers lack the awareness and resources to undertake soil testing so as to choose the correct type and quantity of fertilizers for their farms.

47. To address these challenges, the government replaced the input subsidy programme with an e-voucher input management system in 2020 after a

¹⁴ Makau, et al, 2018

successful pilot study. Under the e-voucher system, registered farmers are issued with a voucher to buy subsidized inputs from registered and licensed agro-dealers. The inputs covered include soil testing services, certified seeds, basal and top-dressing fertilizers, lime, agro-chemicals and post-harvest equipment. The e-voucher scheme gives farmers a 40 percent subsidy so that the farmer only pays 60 percent of the cost of whatever input they are purchasing. The voucher is only redeemable at pre-qualified and registered agro-dealers around the country. After purchase, the agro-dealers will then claim payment from the government with the voucher thereby guaranteeing traceability of funds. A mandatory requirement for certification of the agro-dealer is that they should be physically located not more than 3 kilometres from the catchment area of the farmers being served so as to create a fair distribution system with a good farmer to agro-dealer ratio.

48. Despite its benefits, the e-voucher programme is yet to be fully functional due to its complexity since it requires input from both levels of government. For it to be fully operational, focus should be given on creating awareness of the programme to the beneficiaries, accurate data capture of the targeted farmers and agro-dealers, efficient coordination of the e-voucher system, regular monitoring and evaluation of the system and timely delivery of the inputs. Critical to the use of farm inputs and best farming practices is the use of agricultural extension services and therefore, extension services should be integrated into the system to ensure efficiency and effectiveness in farm production. Extension service is a primary tool in securing agricultural productivity- a means of passing information, education and demonstration on new farming technologies to farm households.

Policy Options

- a. *Allocation of Ksh. 15 billion for the agricultural input subsidy programme to target 200,000 MT of subsidized fertilizer and other assorted farm inputs.*
- b. *Restructure the e-voucher input management system to achieve efficiency and effectiveness in the supply of farm inputs. The programme has the benefit of providing subsidies for a wide range of inputs for farmers and revitalize the growth of the wholesale and retail industry in the country through use of agro-dealers as distributors.*
- c. *Allocation of Ksh. 1.5 billion for the provision of extension services- counties to employ agricultural extension officers given that it is a critical tool for improving productivity. The National government is to develop a policy on providing agricultural services and may provide funding support where necessary.*

(b) High post-harvest losses

49. Post-harvest losses are a major contributor to food inadequacy and must, therefore, be effectively addressed as a strategy to achieve food security¹⁵.

According to Tegemeo Institute Report, post-harvest losses range from 5 to 8 million bags per year which is enough to feed Kenyans for approximately 2 months. Food and Agricultural Organization (FAO) have estimated that post-harvest losses can go up to 30 percent for dairy and fish, 20 percent for cereals, and 40 percent for fruit and vegetables. For improved food security and to reduce food import bill, it is crucial to address the huge post-harvest losses.

50. The introduction of the Warehouse Receipt System (WRS) through the enactment of the Warehouse Receipt System Act, is a critical milestone in addressing the challenge of post-harvest losses and the provision of credit.

The implementation of the WRS has however been slow due to low budgetary allocation. The Warehouse Receipt Council requires approximately Ksh. 300 million for full implementation and operationalization of the system. The establishment and accessibility of WRS in farming zones is very critical in promoting the shelf life of farm products as well as food safety. Key among the services that certified warehouses will be providing include grain quality services, cold storage systems, drying services, and warehousing services amongst others.

Policy options

- i. Allocation of Ksh. 300 million to ensure the full implementation and operationalization of the Warehouse Receipt Systems.*
- ii. Provision of Ksh. 200 million for procurement of mobile grain driers or grain drying centres and cold storage systems at the community level and especially where WRS is not accessible. Farmers can be organized into groups for the operation and management of these facilities*

(c) Water harvesting for Irrigation

51. Kenya's food production is largely reliant on rainwater for crop and animal production which renders it very vulnerable to weather variability and climatic changes. The country is now facing frequent droughts, rising temperatures, floods, and invasive crops and pests. The provision of water for irrigation in addition to the provision of subsidized inputs and extension services can be a wholesome solution to the current challenge of agricultural productivity. Kenya has an irrigation

¹⁵ Tegemeo Institute of Agricultural Policy and Development-Post-Harvest Losses: A Key Contributor to Food Insecurity in Kenya.

potential of 1.342 million hectares but only approximately 120,503 hectares (9%) have been developed. Furthermore, even the already developed hectares have not been utilized fully. Expanding and rehabilitating irrigation schemes across the country will expand farmers' production opportunities and mitigate risks, thereby enhancing food security. In order to support the increasing population in the face of reducing farm land size, it is critical to embrace intensive agricultural production which is possible only with provision of water for irrigation.

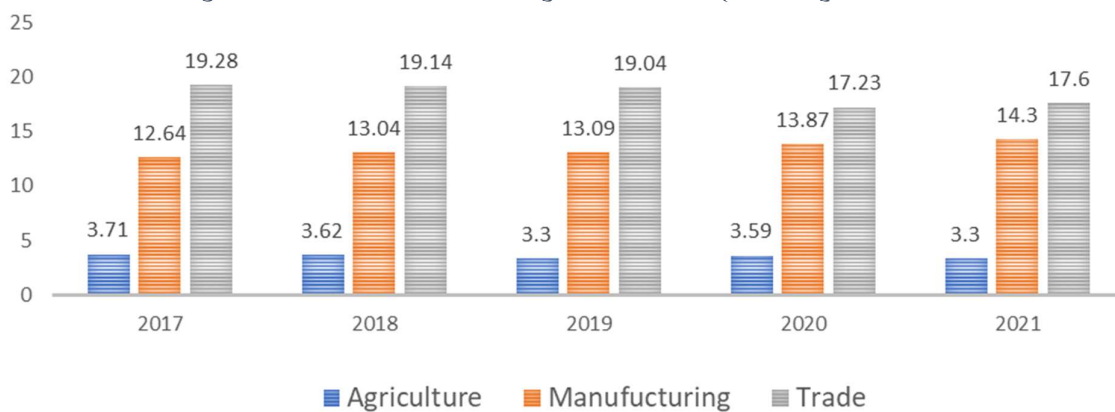
Policy Options

1. Each county allocates Ksh. 50 million annually towards investment in small-scale irrigation infrastructure in the agricultural zones.
2. Maximizing on the already existing irrigation infrastructure for agricultural production.

(d) Limited access to financing

52. Despite the relatively well-developed banking sector in Kenya, the Agricultural sector still faces a major challenge in access to financing. Over the past five years' credit to agriculture has averaged 3.5% of the total gross loans made by the banking sector as shown in figure 9. This is due to various factors including risks associated with livestock and crop production, agribusiness, complicated land laws and tenure systems, cost of bank credit coupled with limited number of banks in rural areas among others.

Figure 9: sectoral distribution of gross loans as a percentage of total



Source: CBK

53. The challenge of access to finance in the Agricultural sector traverses both the supply and demand side. On the supply side, key organizations should be supported and developed to provide a wide range of financial services in addition to establishing financial infrastructure. On the demand side, requirements such as financial literacy and land tenure should be addressed. In summary, there is an

urgent need to increase the level of lending if the sector is to make the contribution envisaged in the Government's medium-term plan.

Policy Options

- i. *Provision of Ksh. 7.2 billion as credit or working capital to farmers through well-managed farmer organizations or cooperatives. The actualization of the warehousing receipt system will also play a critical role in credit provision.*
- ii. *Allocation of Ksh. 3 billion to be provided as a subsidized loan product specifically designed for the production of key food staples for the Strategic Food Reserve.*

ii. Revitalizing the Manufacturing sector

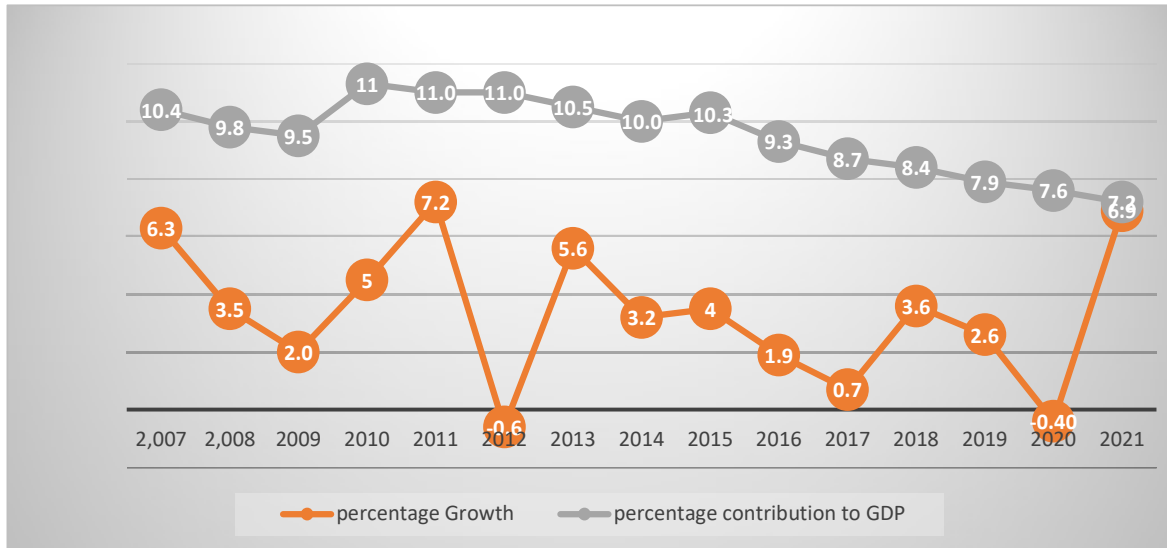
Overview of the Sector

54. The significance of the manufacturing sector to an economy cannot be gainsaid. The Kenya Vision 2030 points to the sector as a catalyst for economic development based on the strong forward and backward linkages it enjoys with other sectors of the economy such as Agriculture and Services. It also offers high prospects for the creation of employment, particularly in labour-intensive industries.

55. Various policies and strategies by successive governments have set goals of increasing the share of manufacturing in GDP over time. The Vision 2030 targeted to increase manufacturing share in GDP every year by at least 10 percent. The Previous Jubilee Administration, through its Big Four Agenda initiatives, targeted to increase the share of manufacturing in GDP over a five-year period to 15 percent by 2022. Despite these ambitious targets, the performance of the sector has been lacklustre.

56. The contribution of Kenya's manufacturing to GDP growth has been steadily declining, from 11 percent in 2010 to 7.2 percent in 2021. The current average standing is at 7.6 percent. Further, the manufacturing growth rate over the period under consideration has been fluid with the lowest growth rates in 2012 and 2020 as shown in figure 10. The slump in performance in 2020 could be attributed to a general slowdown in economic activity due to government measures to combat the spread of COVID-19. These restrictions reduced demand for manufactured goods both locally and globally. However, the manufacturing sector rebounded in 2021 following the removal of covid-19 restrictions and subsequent resumption of economic activity.

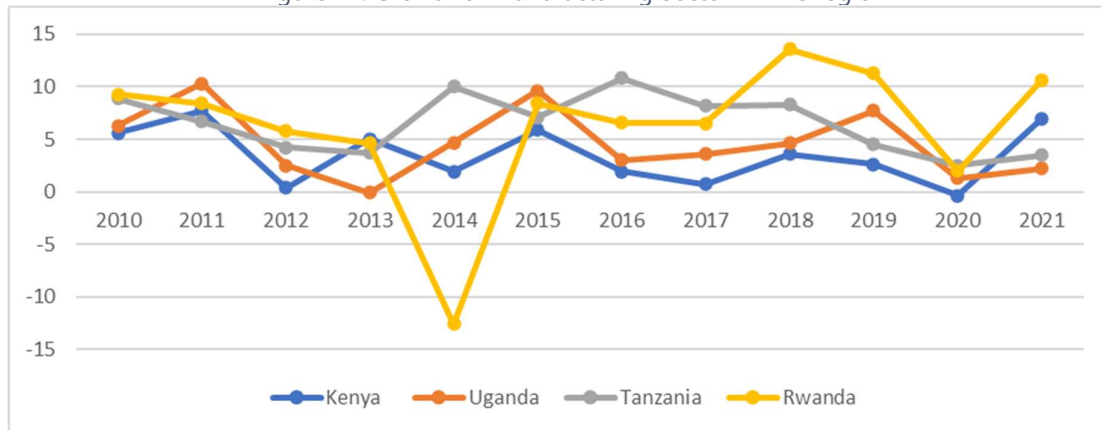
Figure 10: percentage growth and contribution of manufacturing industry



Source: KNBS

57. Although manufacturing in Kenya is widely recognized as the largest in the region, comparative analysis of growth trends suggests the manufacturing sector in Kenya has been growing slower than other countries within the EAC region for the last decade. The implication of such a trend, combined with increasing cheap imports from Asian countries in the region is that the market share of Kenya’s manufacturing exports in those countries may be declining.

Figure 11: Growth of Manufacturing Sector in EAC region



Source: World Bank Data

58. The lacklustre performance of the sector has been attributed to a combination of factors; ranging from poor quality of labour, high cost of transport & electricity, and lack of access to affordable finance (mainly by SMEs) among others. According to the Kenya Industrial Transformation Programme (KITP), poor quality of labour occasioned by skills mismatch, high electricity and transportation costs and other

overheads constitute 20 percent of the production cost making such a critical sector not to be competitive.

59. The poor quality of labour has been attributed to the 8-4-4 education system which placed emphasis on obtaining good grades as opposed to imparting practical knowledge to learners.

In few instances where such practical knowledge is being disseminated, the machines being used for such training are obsolete and do not necessarily expose the learners to the requisite skills required for the sector. In the end, the firms bear the cost of training such graduates to enable them cope with the required skills. The situation has not been made better by the emerging practice of converting polytechnics into universities. The polytechnics were very critical as they were centres where practical knowledge was being imparted.¹⁶

60. The challenges facing the sector have also been exacerbated by lack of access to affordable finance.

The current cost of financing is an average interest rate of between 15-18%. The high-interest rate puts firms in the industry at a disadvantaged position given that firms of a similar nature and ideally their competitors in other parts of the world, notably China, experience a lower interest rate of 2-3%. Local firms that end up accessing credit therefore remain uncompetitive as they have to push for a higher profit margin to cover their costly debt obligations.

61. While manufacturing purely remains a private sector initiative, the role of government in providing the necessary infrastructure is critical.

According to the National Industrial Policy and the Kenya Industrial Transformation Programme, the government committed to developing at least two Special Economic Zones and five SME industrial parks in addition to establishing an Industrial Development Fund with a minimum of Kshs. 10 billion for long-term financing of manufacturing enterprises. To this end, the government introduced various projects to achieve these initiatives. The pace of implementation of these projects however has been slower than expected with inadequate funding and budget cuts always cited as the main reason. Consequently, the SEZs and the industrial parks have been slow to attract investments. A review of the implementation status of the projects as shown in Table 9 reveals that these they may not be completed any time soon.

¹⁶ Anzette Were, Manufacturing in Kenya: Features, Challenges and Opportunities, August 2016

Table 9: Selected Projects supporting the manufacturing Sector (Ksh. Millions)

Table 9: Selected Projects supporting the manufacturing Sector (KSh. Millions)						
S/No.	Project	Total Cost	Start Date	End Date	Cumulative Expenditure	Completion stage (%)
1.	Athi River Textile Hub	8,240	1/7/2014	30/6/2024	5,367	65.1
2.	Modernization of Rivatex Machinery	7,200	1/7/2015	30/6/2022	6,740	96.1
3.	SEZ-Mombasa	5,000	1/7/2018	30/6/2023	339	6.8
4.	SEZ-Naivasha	4,620	1/7/2018	30/6/2023	284.7	6.1
5.	Industrial Park-Kenanie	16,465	3/1/2016	21/9/2020	814.1	5

Source: The National Treasury (Sector Reports, 2022)

Strategies for Revitalizing the Manufacturing Sector

Affordable credit to Micro, Small and Medium-sized Enterprises (MSMEs)

62. The centrality of addressing MSMEs challenges in the sector lies on how the government will fund key institutions such as Kenya Industrial Estates which are critical in supporting manufacturing. The KIE mandate for example seeks to facilitate the development and incubation of MSMEs countrywide by establishing industrial parks, providing credit and business development services in a sustainable manner. In 2021/22 FY, KIE provided loans amounting to Ksh. 1,028 million to various SMEs which led to creation of 31,377 jobs.

Options

- a) *Allocate additional **Ksh. 5 billion** towards scaling up KIE operations country wide. Some of the issues the allocation will address include enhanced credit disbursements from the current Ksh. 1 billion to Ksh. 3 billion; and establishment of industrial parks to support incubation centres in all the 47 counties. The Incubation Centres will provide training for the SMEs to enable them meet quality standards even for exports.*
- b) *Restructure the recently operationalized Financial Inclusion Fund to better target the manufacturing sector. The fund, as currently structured may not support SMEs in the manufacturing sector in terms of access to affordable long-term financing.*

Completion of Special Economic Zones and Industrial Parks

63. The special economic zones and industrial parks under the sector portend huge benefits to the country. This is in view of the investments that may be attracted and created employment opportunities. The government should therefore work towards the completion of Special Economic Zones in Mombasa

and Naivasha as well as industrial parks at Kenanie. Completion rates for these projects have been slow due to budget cuts and general lack of funding. These projects are critical in attracting investments and will act as a centre for fostering technological learning and innovation through incubation centres.

Options

- a) *The government should provide an average of **Ksh. 8.2 billion** per year over the medium term to enable their completion. This should enable the projects be completed as scheduled.*
- b) *The government should also re-appraise all the projects in the sector to ensure that funding is channelled only to the viable projects.*

Skills mismatch and Universities as centres for Research & Development

64. Over the years, successive governments have implemented policies of converting colleges offering Diploma courses such as polytechnics into universities to cope with the demand for university education. However, a country with challenges such as high unemployment coupled by low productivity of labour requires more polytechnics than universities. The purpose of university education varies significantly from that of polytechnic education. While university education is meant to produce thinkers and policy formulators to solve societal problems, polytechnic education was meant to produce technical support for the implementation of those policies¹⁷.

65. Notwithstanding this, universities also play a critical role in the industrialization space of any economy. The Kenya Vision 2030 recognizes the place of research institutions and universities in increasing the quantity, quality and relevance of the research output with a view to creating innovations and inventions that will enable Kenya to effectively transform into a knowledge-based economy. The institutions however remain underfunded with the Auditor General reporting that most public universities are technically solvent.

Options

- a) *Enhance funding to public universities and other national research institutes from the current 0.8 percent of GDP, progressively to one percent to enhance Research & Development. It is recommended that the allocation be increased by 0.1 percent in FY 2023/24 (an equivalent of additional **Ksh. 11 billion**) before achieving the 1 percent in subsequent years. There is also need to enhance*

¹⁷ <https://guardian.ng/opinion/that-frivolous-change-of-polytechnics-to-universities/>

collaboration between these institutions with industry players. Such collaboration may include incorporating industry led standards into the curriculum.

- b) Policy focus on promotion of Technical and Vocational Training and putting to a halt conversion of polytechnics into universities to enable the country produce more labour with technical skills is required not only for the manufacturing sector to thrive but also for graduates who can be self-employed.*
- c) Promote training and professional development opportunities for manufacturing workers to improve their skills and knowledge, encouraging manufacturers to invest in employee training and development as a way to build a skilled and competent workforce and establishing apprenticeship or internship programs to provide hands-on experience for learners.*

Promotion of manufactured exports

66. The growth of the manufacturing sector in Kenya is constrained by a narrow market base for their products. It is argued that countries that emphasize on manufacturing exports grow faster than those that rely on exports of primary commodities (Jarreau and Poncet 2012).

67. Kenya's export of manufactured commodities stood at 30 percent of its merchandise exports in 2021. This is less compared to other developing countries such as Lesotho (90 percent), Bangladesh (90 percent) among others. However, Kenya's manufacturing sector has the potential to support its efforts to increase the value and volume of exports similar to the miracle of the East Asian countries remarkable growth and export led industrialization (KAM, 2022)

Options

- a) The government should lobby for the extension of AGOA beyond 2025 early enough in order to boost investor confidence. This will enable investors in the EPZA to continue producing textiles and apparels for the USA market.*
- b) The government should continue with incentives such as Tax Remission for Exports Office (TREO), to encourage local manufacturers to export their products by remitting duty and VAT (duty drawbacks) on raw materials used.*
- c) Addressing challenges in the agricultural sector to support agro-processing and encouraging policies which aid value addition to agricultural exports.*

ANNEXTURES

Annex 1: Recurrent Expenditure Ceilings for FY 2023/24 (Ksh. Millions)

Sector		2021/22	2022/23	2023/24		
		Prel. Actual Expenditure	Approved Budget	BROP	PBO Baseline	PBO Alternative
Agriculture, Rural & Urban Development	Gross	24,751.0	27,059.7	28,229.2	29,770.0	32,470.0
	A-i-A	7,170.0	8,757.7	8,757.7	10,781.7	10,781.7
	Net	17,581.0	18,302.0	19,471.5	18,988.3	21,688.3
	Salaries	6,332.0	6,766.5	6,990.0	8,120.0	8,120.0
	O&M	18,419.0	20,293.2	21,239.2	21,650.0	24,350.0
Energy, Infrastructure and ICT	Gross	189,825.0	131,010.0	110,344.4	144,165.3	136,665.3
	A-i-A	110,043.0	108,262.5	92,834.5	114,326.5	114,326.5
	Net	79,782.0	22,747.5	17,509.9	29,838.8	22,338.8
	Salaries	4,577.0	5,080.3	5,215.7	6,095.7	6,095.7
	O&M	185,248.0	125,929.7	105,128.7	138,069.6	130,569.6
General Economic and Commercial Affairs	Gross	16,243.1	19,076.8	19,396.3	20,980.0	20,980.0
	A-i-A	7,557.3	8,724.9	8,724.9	10,724.9	10,724.9
	Net	8,685.8	10,351.9	10,671.4	10,255.1	10,255.1
	Salaries	1,592.9	1,803.9	1,863.1	2,165.1	2,165.1
	O&M	14,650.2	17,272.9	17,533.2	18,814.9	18,814.9
Health	Gross	66,632.0	68,503.0	74,155.7	75,355.7	75,355.7
	A-i-A	18,370.0	19,665.0	19,665.0	21,665.0	21,665.0
	Net	48,262.0	48,838.0	54,490.7	53,690.7	53,690.7
	Salaries	13,742.0	13,534.7	14,125.4	16,245.4	16,245.4
	O&M	52,890.0	54,968.3	60,030.3	59,110.3	59,110.3
Education	Gross	498,447.6	515,600.7	544,255.0	551,500.0	546,500.0
	A-i-A	43,497.0	49,052.5	49,052.5	52,052.5	52,052.5
	Net	454,950.6	466,548.2	495,202.5	499,447.5	494,447.5
	Salaries	298,972.0	290,301.3	299,027.8	332,575.6	332,575.6
	O&M	199,475.6	225,299.4	245,227.2	218,924.4	213,924.4
Governance, Justice, Law and Order	Gross	199,065.0	224,127.2	222,813.9	245,120.8	237,500.0
	A-i-A	2,763.0	2,668.8	2,668.8	3,668.8	3,668.8
	Net	196,302.0	221,458.4	220,145.1	241,452.0	233,831.2
	Salaries	126,314.0	133,056.8	136,970.8	159,670.8	159,670.8
	O&M	72,751.0	91,070.4	85,843.1	85,450.0	77,829.2
Public Administration and International Relations	Gross	136,341.3	177,982.1	205,757.2	228,176.5	205,600.0
	A-i-A	8,869.8	19,821.2	10,482.5	21,821.2	21,821.2
	Net	127,471.5	158,160.9	195,274.7	206,355.3	183,778.8
	Salaries	37,303.2	48,388.3	45,148.4	58,058.4	58,058.4
	O&M	99,038.1	129,593.8	160,608.8	170,118.1	147,541.6
National Security	Gross	177,810.0	174,343.0	187,732.7	188,232.7	184,800.0
	A-i-A	-	-	-	-	-
	Net	177,810.0	174,343.0	187,732.7	188,232.7	184,800.0
	Salaries	1,286.4	2,130.0	2,193.9	2,555.9	2,555.9
	O&M	176,523.6	172,213.0	185,538.8	185,676.8	182,244.1
Social Protection, Culture and Recreation	Gross	43,151.4	41,674.0	43,560.7	45,850.0	45,850.0
	A-i-A	1,359.6	1,676.0	1,676.0	2,676.0	2,676.0
	Net	41,791.8	39,998.0	41,884.7	43,174.0	43,174.0
	Salaries	3,934.9	3,603.3	3,722.1	4,325.1	4,325.1
	O&M	39,216.5	38,070.7	39,838.6	41,524.9	41,524.9
	Gross	23,866.0	24,527.5	26,705.0	26,970.0	26,970.0
	A-i-A	5,593.0	6,876.4	6,876.4	8,876.4	8,876.4

Sector		2021/22	2022/23	2023/24		
		Prel. Actual Expenditure	Approved Budget	BROP	PBO Baseline	PBO Alternative
Environment Protection, Water and Natural Resources	Net	18,273.0	17,651.1	19,828.6	18,093.6	18,093.6
	Salaries	1,968.0	2,248.8	2,316.3	2,700.0	2,700.0
	O&M	21,898.0	22,278.7	24,388.7	24,270.0	24,270.0
Total	Gross	1,376,132.4	1,403,904.0	1,462,950.1	1,556,121.0	1,512,691.0
	A-i-A	205,222.7	225,505.0	200,738.3	246,593.0	246,593.0
	Net	1,170,909.7	1,178,399.0	1,262,211.8	1,309,528.0	1,266,098.0
	Salaries	496,022.4	506,913.9	517,573.5	592,512.0	592,512.0
	O&M	880,110.0	896,990.1	945,376.6	963,609.0	920,179.0

Source: PBO

Annex 2: Development Expenditure Ceilings for FY 2023/24 (Ksh. Millions)

Sector		2021/22	2022/23	2023/24		
		Prel. Actual Expenditure	Approved Budget	BROP	PBO Baseline	PBO Alternative
Agriculture, Rural & Urban Development	Gross	34,895.0	41,899.8	39,442.0	39,800.0	48,756.5
	GoK	15,740.0	14,552.5	17,892.2	18,250.2	27,206.7
	Loans	16,737.0	24,730.1	19,613.9	19,613.9	19,613.9
	Grants	2,418.0	2,617.2	1,935.9	1,935.9	1,935.9
	Local AiA	-	-	-	-	-
Energy, Infrastructure and ICT	Gross	191,511.0	276,750.1	287,908.4	249,000.0	249,000.0
	GoK	94,440.0	82,629.9	87,490.4	50,128.3	50,128.3
	Loans	70,488.0	152,647.3	156,438.8	156,438.8	156,438.8
	Grants	1,460.0	5,205.9	6,752.2	5,205.9	5,205.9
	Local AiA	25,123.0	36,267.0	37,227.0	37,227.0	37,227.0
General Economic and Commercial Affairs	Gross	6,682.0	6,955.2	14,498.5	14,498.5	20,865.0
	GoK	4,564.9	3,936.1	12,435.5	12,435.5	18,802.0
	Loans	2,095.4	2,945.1	1,989.0	1,989.0	1,989.0
	Grants	21.7	74.0	74.0	74.0	74.0
	Local AiA	-	-	-	-	-
Health	Gross	43,456.0	54,016.3	74,137.6	62,100.0	62,100.0
	GoK	29,406.0	33,646.1	40,525.6	31,204.6	31,204.6
	Loans	10,442.0	12,612.6	23,028.0	23,028.0	23,028.0
	Grants	3,608.0	7,757.6	10,584.0	7,867.4	7,867.4
	Local AiA	-	-	-	-	-
Education	Gross	16,307.0	28,918.8	36,313.0	31,800.0	40,500.0
	GoK	10,437.0	13,226.0	14,712.2	10,199.2	18,899.2
	Loans	4,707.0	14,657.4	20,854.8	20,854.8	20,854.8
	Grants	1,163.0	1,035.4	746.0	746.0	746.0
	Local AiA	-	-	-	-	-
Governance, Justice, Law and Order	Gross	10,279.0	10,280.9	11,932.3	12,340.0	12,340.0
	GoK	8,154.0	9,435.9	10,779.5	11,187.2	11,187.2
	Loans	1,188.0	159.7	659.7	659.7	659.7
	Grants	937.0	685.3	493.1	493.1	493.1
	Local AiA	-	-	-	-	-
Public Administration and International Relations	Gross	143,413.1	178,875.5	165,639.7	180,700.0	180,700.0
	GoK	98,837.6	107,420.5	98,208.9	118,067.6	118,067.6
	Loans	10,456.2	27,222.4	21,174.4	21,174.4	21,174.4
	Grants	9,705.4	11,062.0	15,860.4	11,062.0	11,062.0
	Local AiA	24,413.9	33,170.6	30,396.0	30,396.0	30,396.0
National Security	Gross	6,150.0	3,468.0	33,016.0	32,354.0	32,354.0
	GoK	6,150.0	3,468.0	4,130.0	3,468.0	3,468.0
	Loans	-	-	28,886.0	28,886.0	28,886.0
	Grants	-	-	-	-	-
	Local AiA	-	-	-	-	-
Social Protection, Culture and Recreation	Gross	22,525.9	31,539.5	30,797.5	31,539.5	31,539.5
	GoK	18,474.4	10,322.2	11,277.2	12,019.2	12,019.2
	Loans	3,381.9	4,177.6	2,381.2	2,381.2	2,381.2
	Grants	669.6	1,289.7	1,139.1	1,139.1	1,139.1
	Local AiA	-	15,750.0	16,000.0	16,000.0	16,000.0
	Gross	64,729.0	82,650.7	96,172.8	91,181.0	91,181.0
	GoK	25,628.0	25,456.0	26,555.2	23,768.8	23,768.8

Sector		2021/22	2022/23	2023/24		
		Prel. Actual Expenditure	Approved Budget	BROP	PBO Baseline	PBO Alternative
Environment Protection, Water and Natural Resources	Loans	36,534.0	53,605.1	63,752.6	63,752.6	63,752.6
	Grants	2,567.0	3,589.6	5,865.0	3,659.6	3,659.6
	Local AiA	-	-	-	-	-
Total	Gross	539,948.0	715,354.8	789,857.8	745,313.0	769,336.0
	GoK	311,831.9	304,093.2	324,006.7	290,728.6	314,751.6
	Loans	156,029.5	292,757.3	338,778.4	338,778.4	338,778.4
	Grants	22,549.7	33,316.7	43,449.7	32,183.0	32,183.0
	Local AiA	49,536.9	85,187.6	83,623.0	83,623.0	83,623.0

Source: PBO