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Operationalizing the Bottom-up Economic Transformation Agenda

Budget Watch for FY 2023/24 and the Medium Term

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Disclaimer

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Acknowledgement

The Budget Watch is an annual series produced by the Parliamentary Budget Office (PBO) that disseminates the assessment of key issues regarding the implementation of the approved budget in a particular financial year. By examining the government's priority programmes and projects, the Budget Watch is instrumental in holding the government to account on its promises and enhance efficiency, effectiveness, equity and accountability in the collection and utilization of public finances. It is intended to enrich the oversight role of the Legislature and other stakeholders on management of public resources. This 16th edition of the Budget Watch has been prepared to facilitate the monitoring of the budget for the Financial Year 2023/2024.

The report was prepared by a team under the overall guidance of Dr. Martin Masinde (Director, PBO), Robert Nyaga (Senior Deputy Director and Head of Budget Analysis & Expenditure Review Department) and Lucy Makara (Deputy Director and Head of Senate Affairs & Inter-Fiscal Relations Department).

The report was prepared by staff of Parliamentary Budget Office. Chapter 1 (Introduction), Chapter 2 (Macroeconomic Outlook), and Chapter 3 (Fiscal Policy Outlook) were prepared by the Macroeconomic Analysis and Statistics Department. Chapter 4 (National Government's Investment in BETA) was prepared by the Budget Analysis and Expenditure Review Department and Chapter 5 (Supporting BETA through Counties) was prepared by the Senate Affairs and Inter-Fiscal Relations Department.

The findings, interpretations and conclusion expressed in this publication are entirely those of the authors and do not necessarily represent the views of the Parliament of Kenya.

The document can be downloaded from www.parliament.go.ke.

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List of Acronyms and Abbreviations

AIA – Appropriations-in-Aid

BETA – Bottom-Up Economic Transformation Agenda

CBK – Central Bank of Kenya

CBR – Central Bank Rate

CFS – Consolidated Funds Services

EAC – East African Community

e-TIMS – Electronic Tax Information Management System

EPRA – Energy and Petroleum Regulatory Authority

FDI – Foreign Direct Investment

GDP - Gross Development Product

KMRC – Kenya Mortgage Refinancing Company

KRA – Kenya Revenue Authority

MDAs – Ministries, Departments and Agencies

MSME - Micro, Small and Medium Enterprise

PAYE – Pay-As-You-Earn

PBO - Parliamentary Budget Office

PDL – Petroleum Development Levy

PPP – Public Private Partnership

PFM – Public Finance Management

RDL – Railway Development Levy

RML – Roads Maintenance Levy

SRC – Salaries and Remuneration Commission

SSA – Sub-Saharan Africa

SDGs – Sustainable Development Goals

TSC – Teachers Service Commission

VAT – Value Added Tax

CHAPTER 0NE: INTRODUCTION

1. **The less than the desirable rate of economic growth of 4.8% in 2022 and rising debt load have reoriented the primary focus of the recent expenditure and fiscal reforms**. This is aimed at: one, to refocus limited resources towards critical high productivity value chains and social sectors; two, to ensure a sustainable reduction of public borrowing by curbing the growth of the fiscal deficit; three, boosting domestic revenue collections to help bridge the resource gap; and four, to continue supporting development in the devolved units. The FY 2023/24 budget provides a strong anchor for renewed growth of the economy as highlighted by the Government's Bottom-up Economic Transformation Agenda (BETA).

2. **The Bottom-up Economic Transformation Agenda (BETA) has been designed to address the current challenges facing the country's economy, stimulate economic recovery and bolster resilience.** It places special emphasis on priorities that target reduction in the cost of living, creation of jobs, achievement of more equitable distribution of income, enhancement of social security, expansion of the tax base and increase of foreign exchange earnings.

3. **The agenda is anchored on 5 pillars with the largest impact and linkages to the economy as well as on household welfare, and 12 enablers that aim at the creation of a conducive business environment for socio-economic transformation.** The 5 pillars are: Agricultural Transformation; Micro, Small and Medium Enterprise (MSME) Economy; Healthcare; Housing and Settlement; and Digital Superhighway and Creative Industry. Likewise, the key enablers are: Blue Economy; Education and Training; Environment and Climate Change; Foreign Policy and Regional Integration; Governance; Infrastructure; Manufacturing; Service Economy; Women Agenda; Social Protection; Sports, Culture and Arts; and Youth Empowerment and Development Agenda.

4. **To realize the aspirations of the BETA strategy spanning the value chains, delivery of enablers, the sustainable debt management, and delivery of social services, a number of interventions in the FY 2023/24 budget should be closely monitored.** Some of the critical areas to continually monitor throughout the financial year include: the implementation of the fiscal consolidation strategy to ease debt vulnerabilities through boosting revenue collection measures while slowing down expenditure growth; full implementation of funded strategic priorities identified under BETA; maintaining macroeconomic stability to foster a conducive business environment; and good performance of various spending sectors including health, education, infrastructure, water and sanitation, agriculture, energy, trade and manufacturing.

5. This report will highlight the key interventions proposed in the FY 2023/24 budget that stakeholders should keep an eye on for successful implementation of the BETA strategy.

CHAPTER TWO: MACROECONOMIC OUTLOOK

6. **Kenya's economic growth is expected to remain strong in the midst of domestic and global headwinds.** The economy is projected to expand by 5.5 percent in 2023 relative to 4.8% in 2022, and by above 6.0 percent on average in the medium term. The growth is projected to be majorly driven by the easing of the cost of living as a result of improved agricultural output, including food production and declining global prices. Improvements in the investment climate will be premised on the continued implementation of the BETA value chains while private and government consumption provide the buffers on the demand side[1].

7. From a sectoral view, the growth projection will be supported by the services sector which is projected to grow by 5.4 percent in 2023 and by 5.6 percent on average in the medium term from 6.7 percent in 2022. Growth in industry is projected to increase from 3.9 percent in 2022 to 4.9 percent in 2023 and by 5.1 percent on average in the medium term[2]. Growth in the agriculture sector is expected to rebound by 3.8 percent in 2023 and by 4.2 percent on average in the medium term from a deceleration of 1.6 percent.

8. **However, there are substantial risks to the outlook that may dampen the growth projection for 2023 and the medium term.** These include prolonged drought which is likely to worsen food insecurity, a slowdown in both government and private consumption due to the ongoing fiscal consolidation, high cost of production due to high energy prices, economic distortion from political demos and the tight monetary policy which could lead to higher cost of credit which would impact on private sector investments.

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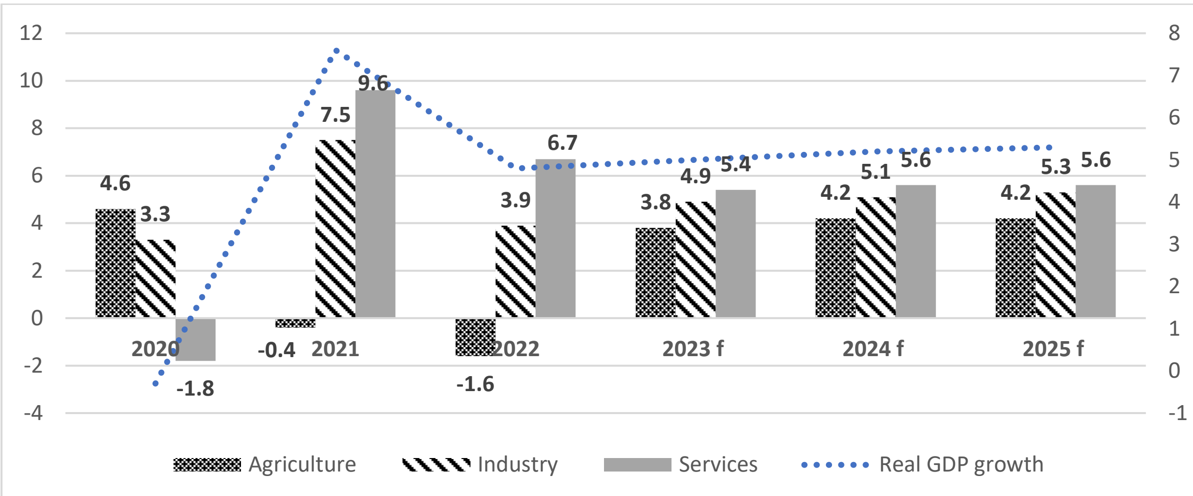
[1] https://country.eiu.com/kenya

[2] https://documents1.worldbank.org/curated/en/099060523141041477/pdf/P17976900a185c0a608fc8057aefbd0539d.pdf

9. From the external front, the weaker global demand and monetary tightening in advanced countries could hurt Kenya with lower net exports, reduced foreign investments and increased capital outflows. Indeed, the World Bank projects a slightly modest growth rate of 5.0 percent in 2023 and an average of 5.2 percent over the medium term due to the probability of these risks materializing[3].

Figure 2.1: Medium term economic growth projections by sector



Data Source: World Bank

10. **The government projects that inflation will slow down to the CBK target range of 5 ± 2.5 percent in 2023 and over the medium term.** The country has witnessed high inflationary pressures over the last year with inflation averaging 7.6 percent in 2022 mainly due to adverse weather conditions, high global commodity prices and direct effects of the depreciation of the Kenyan shilling. To avert further escalation in inflation, the CBK has sustained a tightened monetary policy by maintaining the CBR rate at 10.5% since June 2023. While the tightening of the monetary policy has helped soften inflationary pressures, it has also contributed to higher interest rates for government securities, upward adjustment of bank lending rates and possible slowdown in credit growth to the private sector.

11. Although continued tightening of the monetary policy is likely to slow down economic activity by increasing the cost of credit for the private sector and aggravate debt vulnerabilities by raising the cost of borrowing for government. The ongoing coordination of non-monetary measures to deal with the cost of living, inflation, and growth will help dampen the negative effects of higher interest rates. Prominent measures under this category include the provision of subsidized fertilizer to lower the cost of farm inputs, the provision of duty-free importation of key food items particularly maize, cooking oil, rice and sugar, and the planned investment in critical economic value chains.

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[3] https://www.worldbank.org/en/news/press-release/2023/06/07/kenya-afe-economy-is-recovering-from-the-polycrisis-but-challenges-remain

12. Inflation is therefore expected to remain within a manageable statutory range throughout 2023/2024 due to slowdown of food inflation associated with good rainfall performance in the recent months. To keep inflation under control, a few structural measures are expected to help in the medium term. These include improving the functioning of the interbank market to strengthen monetary policy transmission, and continued improvement of communication on monetary policy decisions.

13. **The government projects a continued narrowing of both the current and financial account deficits and maintaining the import cover above the statutory 4-month reserve level.** Between June 2022 and June 2023, the current account deficit narrowed by 25.3 percent with exports and income from diaspora remittances growing while imports shrunk due to the currency depreciation and foreign exchange liquidity constraints. In addition, there was an expansion in income receipts due to increased diaspora remittances. However, there was a notable decline in Foreign Direct Investments (FDI) and portfolio investments, an indication of capital outflow due to monetary tightening in most advanced countries.

14. The foreign exchange reserves have risen to above 4 months of import cover reflecting recent foreign official loan disbursements but the status of the Kenya shilling exchange rate will largely depend on the sustained contraction of the current account deficit, either supported by increasing exports or falling imports. It is expected that the depreciation itself may help reduce the demand for imports, while also supporting exports. More directly, several policies in the FY 2023/24 budget will greatly help set the conditions for a slowdown of the shilling depreciation. These policies or interventions include: monetary interventions especially the rise of the CBR, and the related fall in demand for imports, increases in certain duties on imports of furniture, vehicles, among other items as contained in the Finance Act, 2023, stronger local production of food items, and a sustainable management of Kenya’s fuel import bill.

CHAPTER THREE: FISCAL POLICY OUTLOOK

3.1 Revenue Projections

15. **The National Treasury has set a total revenue target of Kshs. 2,985 billion (18.3 percent of GDP) in FY 2023/24, which represents 26 percent growth relative to the reported collection of Kshs. 2,360 billion (16.3 percent of GDP) for FY 2022/23**. The raft of revenue enhancement measures included in the Finance Act of 2023 are expected to be the main drivers of the accelerated growth in revenue collection. Historically, the average annual growth rate in tax revenue collection has been around 10 percent. Consequently, if some of the tax measures contained in the Finance Act of 2023 are affected by litigation processes, the ambitious revenue collection targets may not be met.

16. **Ordinary revenue as a share of GDP declined from around 16.2% in 2013/14 FY to around 14.1% in 2022/23 FY.** This is an indication that revenue collection has not kept pace with economic expansion over the last decade. In an attempt to address the deteriorating revenue collection as a share of economic output in the current financial year some administrative measures such as rolling out the electronic Tax Invoice Management System (eTIMIS), Integration of KRA tax system with Telecommunication companies, mapping of rental properties and enhanced compliance through hampering the prevalence of counterfeit excisable products stamps are set to be implemented.

17. The administrative and other revenue-raising measures contained in the Finance Act 2023 are expected to increase ordinary revenue collection from 14.1 percent of GDP (Ksh. 2,042 billion) in FY 2022/23 to 15.8 percent of GDP (Kshs. 2,571 billion) in FY 2023/24. The sharp increase by 2.2 percentage points in ordinary revenue as a share of GDP is expected to be driven by enhanced collection of income tax and VAT as a share of economic output.

Table 3.1 FY 2023/24 Revenue in Ksh. Billion							
	2019/20	2020/21	2021/22	2022/23	2023/24		
	Actual	Prel Actual	Prel Actual	Prel Actual	Approved Budget	Change	% Change
Revenue and grants	**1,815.5**	**1,815.1**	**2,230.8**	**2,383.6**	**3,027.9**	**644.3**	**27%**
Total Revenue	**1,795.7**	**1,783.7**	**2,199.8**	**2,360.5**	**2,985.7**	**625.2**	**26%**
Ordinary Revenue	**1,573.4**	**1,562.0**	**1,917.9**	**2,041.1**	**2,571.2**	**530.0**	**26%**
Income tax	706.9	694.1	876.7	941.6	1,198.5	257.0	27%
VAT	383.7	410.8	523.1	550.4	703.3	152.9	28%
Import duty	98.0	108.4	118.3	130.1	173.3	43.1	33%
Excise duty	195.3	216.3	252.1	264.5	352.7	88.2	33%
Other tax revenue	189.5	132.5	147.7	154.5	143.3	(11.1)	(7%)
Appropriation-in-Aid	222.2	221.7	281.9	319.4	414.6	95.2	30%
Grants	19.8	31.3	31.0	23.1	42.2	19.1	83%
As a Share of GDP							
							P.P
Revenue and grants	**17.3%**	**16.0%**	**17.5%**	**16.4%**	**18.6%**		**2.2**
Total Revenue	**17.1%**	**15.7%**	**17.3%**	**16.3%**	**18.3%**		**2.1**
Ordinary Revenue	**15.0%**	**13.7%**	**15.0%**	**14.1%**	**15.8%**		**1.7**
Income tax	6.7%	6.1%	6.9%	6.5%	7.4%		0.9
VAT	3.7%	3.6%	4.1%	3.8%	4.3%		0.5
Import duty	0.9%	1.0%	0.9%	0.9%	1.1%		0.2
Excise duty	1.9%	1.9%	2.0%	1.8%	2.2%		0.3
Other tax revenue	1.8%	1.2%	1.2%	1.1%	0.9%		(0.2)
Appropriation-in-Aid	2.1%	1.9%	2.2%	2.2%	2.5%		0.3
Grants	0.2%	0.3%	0.2%	**0.2%**	0.3%		0.1
Nominal GDP	**10,484**	**11,374**	**12,752**	**14,355**	**16,290**		
Source: National Treasury							

18. Income tax collection which accounts for around 46 percent of ordinary revenue is one of the main targets for curbing the decline in revenue collection as a share of GDP. To achieve the projected collection of Ksh. 1,198.5 billion from income tax in FY 2022/23 the Finance Act 2023 included measures aimed at expanding the tax base through enhanced collection from income earned in the digital marketplace and the informal economy. Specifically, the Act included clauses on taxation of income drawn from digital content monetization, limiting the deduction of foreign exchange losses, change of the threshold and rate for turnover tax, taxation of digital assets, enforcement of the use of Electronic Tax Invoice Management System, expansion of the PAYE Bands and withholding tax on advertising.

19. Value Added Tax (VAT) collection as a share of GDP has largely remained at around 4 percent over the last decade. However, tax expenditure with respect to VAT which includes the revenue forgone due to tax exemptions and zero-rating of some goods amounted to Ksh. 211 billion (1.75 percent of GDP) in 2021. The exemption and zero-rating of some basic goods have partly been necessitated by the impact of the high cost of living especially on low-income households. Consequently**,** the Government has had to balance between raising additional revenue and cushioning low-income households from the high cost of living. To enhance revenue collection from VAT, the Finance Act increased the VAT rate on fuel products from 8% to the standard rate of 16%. However, exemptions targeting the manufacture of pharmaceuticals, agricultural inputs, and cooking gas were maintained to cushion consumers from the high cost of living and incentivise production.

20. Excise duty is another revenue head whose performance is expected to significantly improve in the 2023/24 FY. One of the main policy measures that have been taken by the Government is the introduction of penalties for counterfeiting excise duty stamps. This is not only a revenue-raising measure but it also seeks to protect consumers from harmful products that use counterfeit stamps.

21. The highlighted revenue-raising measures and others contained in the Finance Act 2023 are expected to enhance revenue collection and expand the tax base. However, the achievement of the ambitious revenue targets is premised on the assumption that the tax measures will not alter consumer behavior or hamper economic activity and hinder growth. Slower economic growth and the possibility of the reversal of some of the measures contained in the Finance Act 2023 might result in the National Treasury failing to meet the set revenue targets.

3.2 Expenditure Projections

22. **Total expenditure net lending as a share of GDP has remained around 25 percent over the last decade as opposed to an average of around 20 percent between 2007 and 2013.** One of the drivers of higher expenditure was the increase of statutory expenditures such as payment of interest payment on public debt which increased from below 2 percent of GDP to around 4.5 percent.

23. The National Treasury reduced the total expenditure net lending from an annual average of around 24 percent of GDP in the preceding financial years to 22 percent of GDP in FY 2022/23 as a result of fiscal consolidation which included some reduction in operations and maintenance expenditures as well as postponing the implementation of some development projects including those that are development partner financed.

24. The proposed fiscal consolidation path that involves slower growth in government expenditure was expected to continue in FY 2023/24 and over the medium term. However, total expenditure and net lending is projected to increase **from Ksh. 3,218 billion (22 percent of GDP) in FY 2022/23 to Ksh. 3,746.6 billion (23 percent of GDP) in FY 2023/24.** The main drivers of the higher expenditures are the continued growth in CFS expenditures and the reinstatement of development projects that were postponed in the last financial year.

25. The proposed strategies aimed at slowing down the growth in expenditure over the medium term include the elimination of non-priority expenditures, the **elimination of consumption subsidies**, the use of **public-private partnerships (PPPs)** in commercially viable projects, rolling out of **e-procurement system**, the implementation of the superannuation pension scheme and rolling out of the **Public Investment Management System (PIMIS)**.

26. The use of PPPs as alternative financing for projects will serve to reduce the growing demand for debt-financed development expenditures if bottlenecks that have been experienced during the implementation of past PPP projects in some sectors such as energy and road transport are addressed. Further, the full rollout of PIMIS and the end-to-end e-procurement system will ensure that Kenyans get value for money in the delivery of public investments. However, the team that is setting up the two systems should take cognisance of past shortcomings in similar endeavours where huge investments in systems such as **e-promis** failed to achieve the intended outcomes.

27. The proposals aimed at improving efficiency are laudable and if implemented well may contribute to curtailing discretionary expenditure growth over the medium term. However, it should be noted that some non-discretionary expenditure items contained in the consolidated fund services (CFS) have driven the growth in expenditure as a share of GDP may continue to limit the effective use of fiscal policy in addressing BETA priorities.

3.3 Consolidated Funds Services

28. **A key element of the 2023/24 budget and the budgets of recent years is the prominence of the size of expenditures on debt service and pension payments.** Growth in debt service, pension, and salaries for constitutional office holders, also known as the Consolidated Fund Service (CFS) expenditures, presents a risk of crowding out other critical expenditures including those supporting strategic priorities under the BETA. Therefore, management of the CFS expenditures is paramount in ensuring the budgeted resources are availed to priority areas to achieve the governments development agenda.

29. **Total expenditure on debt service, pension, and salaries for constitutional office holders is projected to grow by 18 percent from Kshs. 1.6 trillion in FY 2022/23 to Kshs. 1.8 trillion in FY 2023/24.** The key drivers of this growth are interest payments which are projected to grow by 14.7 percent from Kshs. 675.8 billion to Kshs. 775.1 billion and debt redemptions which are projected to grow by 24.1 percent from Kshs. 685.2 billion to Kshs. 850.1 billion (Table …). Pensions will grow by 9.6 percent to Kshs. 189.1 billion, while guaranteed debt is projected to grow by 17 percent to 17.2 billion. Other CFS expenditures are expected to grow by 2.2 percent to Kshs. 4.7 billion.

Table 3.2: CFS expenditures for FY 2023-24 Estimates (Kshs. Billions)

	2021/22 Actual	2022/23 Prel.	2023/24 Budget	2024/25 Proj	2025/26 Proj
Interest	605.3	675.8	775.1	833.6	885.2
Interest – Internal	*479.2*	*537.4*	*628.2*	*680.9*	*730.8*
Interest - External	*126.1*	*138.4*	*146.9*	*152.7*	*154.4*
Redemptions	546.0	685.2	850.1	794.0	819.1
Redemptions – Internal	*343.9*	*461.4*	*374.5*	*512.6*	*516.9*
Redemptions - External	*202.1*	*223.8*	*475.6*	*281.5*	*302.2*
Pensions	153.6	172.6	189.1	189.1	228.6
Guaranteed Debt	-	14.7	17.2	22.2	19.6
Other CFS expenditures	4.5	4.6	4.7	4.7	4.7
Total	**1,309.5**	**1,552.9**	**1,836.3**	**1,843.6**	**1,957.2**

Source: National Treasury

30. Domestic interest payments are expected to rise by 17 percent to Kshs. 628.2 billion while external interest payments will increase by 6 percent to Kshs. 146.9 billion. The larger growth in domestic interest compared to external interest is linked to the higher average interest on domestic debt (related to tenor and interest rates on government securities) compared to the average interest rates on external debt. Even though interest payments on external debt remain modest, the burden of this debt remains significant on account of expected foreign debt redemptions, Kenya's current account situation and the depreciating Kenya shilling exchange rate.

31. Apart from the quantum of absolute interest payments, other challenges linked to domestic debt management include the proportion of bonds to short-term securities and the quantum of refinancing required to deal with short-term securities. The management of domestic debt remains critical to help reduce the interest rate burden, particularly the upward creep in interest rates linked to the refinancing of short-term domestic debt in the form of Treasury Bills. In line with this, the Medium-Term Debt Management strategy for 2023 recognized this risk and recommended a borrowing mix of 50:50 domestic to external borrowing which was considered and approved by Parliament.

32. Considering the interest rate projections, Legislators need to keep an eye on the proposed reduction in domestic borrowing so as to manage the size of domestic interest payments and curb refinancing risk. Consistency between the MTDS and implementation should be enhanced to help sustainably address escalating public debt vulnerabilities.

33. With respect to public debt redemption, domestic debt redemptions are expected to fall by 19 percent to Kshs. 374.5 billion while external debt redemptions are expected to increase by 112.5 percent to Kshs. 475.6 billion. **The higher external debt redemptions in FY 2023/24 is due to the maturity of Eurobond in June 2024**. Foreign redemptions often come with refinancing risks if the repayment of the debt requires issuing a new loan, with any increases in interest rates and currency depreciation further increasing the costs of refinancing. The government debt management plan in 2023/24 includes

the stable management of the expected foreign debt redemption and various approaches can be explored to deal with these debts with minimal budgetary and economic effects.

34. The key focus of oversight institutions like Parliament is to monitor and ensure sustainable and least-cost management of all maturing debts while ensuring new debts are in line with the debt ceiling or debt anchor and the planned borrowing framework for the year and the medium term.

35. The pensions comprise ordinary pensions amounting to Kshs. 82.9 billion, commuted pension amounting to Kshs. 77.6 billion, Public Service Superannuation Scheme (PSSS) amounting to Kshs. 28.5 billion and other pension schemes amounting to Kshs. 132.1 million. The increase in pension payments could be indicative of delays in payment in previous financial years to retired public servants. It is therefore important that pension expenses be accurately projected and planned for to ensure timely payment of pension as well as up-to-date contributions to the PSSS.

36. The other CFS expenditures consist of salaries and allowances to constitutional office holders and miscellaneous services and this is expected to marginally increase by 2 percent. The variation in this component is largely informed by reviews of the Salaries and Remuneration Commission (SRC) on the salaries and allowances for various constitutional offices. The Office of the Controller of Budget (OCoB) has previously indicated the estimates have been exceeding the actual and therefore this will be an item for oversight going forward to establish the actual levels of remuneration.

37. The allocation for guaranteed debt of Kshs. 17.2 billion is for payment of the Kenya Airways loan which became non-performing and a liability of the national government. This allocation comprises of Kshs. 14.7 billion for principal repayments and Kshs. 2.5 billion for interest payments. As of June 2022, the total outstanding guaranteed debt was Kshs. 136.6 billion, consisting of Kshs. 68.1 billion for commercial loans and Kshs. 67.3 billion for bilateral loans, showing an elevated exposure to contingent liabilities.

3.4 Financing the Fiscal Deficit

38. The fiscal deficit including grants as a share of GDP is expected to **decline from 5.7 percent (Ksh.834.0 billion) in FY 2022/23** to **4.4 percent** (**Ksh. 718 billion**) in FY 2023/24. This is in line with the fiscal consolidation effort of the Government that is aimed at addressing unsustainable debt accumulation as well as curbing future expenditures on debt servicing. The ambitious target set for FY 2023/24 is to have **a surplus fiscal primary balance as a share of GDP of 0.3%.**

Table 3.3 Fiscal Framework for FY 2023/24 in Ksh. Billion							
	2019/20	2020/21	2021/22	2022/23	2023/24		
	Actual	Prel Actual	Prel Actual	Prel Actual	Budget	Change	% Change
Revenue and grants	**1,815.5**	**1,815.1**	**2,230.8**	**2,383.6**	**3,027.9**	**644.3**	**27%**
Total Revenue	**1,795.7**	**1,783.7**	**2,199.8**	**2,360.5**	**2,985.7**	**625.2**	**26%**
Ordinary Revenue	**1,573.4**	**1,562.0**	**1,917.9**	**2,041.1**	**2,571.2**	**530.0**	**26%**
Appropriation-in-Aid	222.2	221.7	281.9	319.4	414.6	95.2	30%
Grants	19.8	31.3	31.0	23.1	42.2	19.1	83%
Total expenditures & net lending	**2,565.4**	**2,749.5**	**3,027.8**	**3,218.2**	3,746.6	528.4	16%
Overall balance including Grants	**(750.0)**	**(934.4)**	**(797.0)**	**(834.6)**	**(718.7)**		
Overall balance excluding grants	**(769.8)**	**(965.7)**	**(828.0)**	**(857.7)**	**(760.9)**		
Adjustment to cash basis	**11.8**	**5.1**	**11.9**	37.0	-		
Deficit incl grants cash basis	**(738.2)**	**(929.3)**	**(785.1)**	**(797.6)**	**(718.7)**		
As a Share of GDP							
							P.P
Revenue and grants	**17.3%**	**16.0%**	**17.5%**	**16.4%**	**18.6%**		**2.2**
Total Revenue	**17.1%**	**15.7%**	**17.3%**	**16.3%**	**18.3%**		**2.1**
Ordinary Revenue	**15.0%**	**13.7%**	**15.0%**	**14.1%**	**15.8%**		**1.7**
Appropriation-in-Aid	2.1%	1.9%	2.2%	2.2%	2.5%		0.3
Grants	0.2%	0.3%	0.2%	**0.2%**	0.3%		0.1
Total expenditures & net lending	24.5%	24.2%	23.7%	22.2%	23.0%		0.8
Overall balance including Grants	-7.2%	-8.2%	-6.2%	-5.7%	-4.4%		
Overall balance excluding grants	-7.3%	-8.5%	-6.5%	-5.9%	-4.7%		
Adjustment to cash basis	0.1%	0.0%	0.1%	0.3%	0.0%		
Deficit incl grants cash basis	-7.0%	-8.2%	-6.2%	-5.5%	-4.4%		
Nominal GDP	**10,484**	**11,374**	**12,752**	**14,355**	**16,290**		

Source: National Treasury

39. It should however, be noted that the projected reduction in the overall fiscal deficit and the resultant surplus in the primary balance is partially attributed to an ambitious projection in tax revenue collection that is pegged on full implementation of the Finance Act 2023 as well as robust economic growth. Consequently, in order to attain the fiscal deficit target, expenditure targets will need to be aligned to revenue performance if there are any supplementary budgets.

40. To finance the deficit, the National Treasury plans to borrow **Ksh. 587.2 billion** from the domestic market and **Ksh. 131.5 billion** from foreign sources. In order to meet external debt obligations there is a proposal to seek external commercial financing of **Ksh. 270 billion in FY 2023/24**. This additional foreign commercial debt is expected to increase future statutory expenditures that are not channelled towards service delivery. Further, given the dynamic nature of foreign financing, the financing mix may change in the course of the financial year.

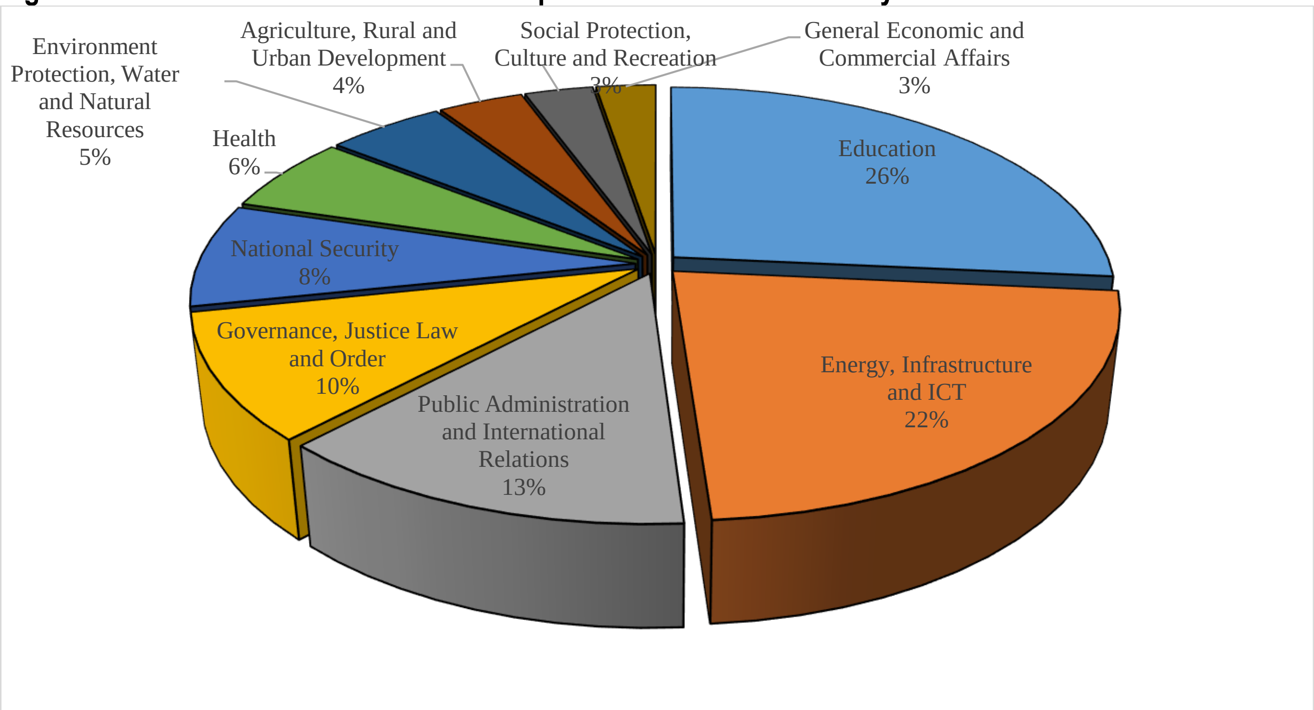
Table 3.4: Financing of the Fiscal Deficit

Financing of the Fiscal Deficit (in Ksh. Billion)					
	2020/21	2021/22	2022/23	2023/24	
	Actual	Prel Actual	Prel Actual	Budget Estimates	Diff
Fiscal Balance (incl. grants) Cash Basis	**(929.3)**	**(785.1)**	**(797.6)**	**(718.7)**	
TOTAL FINANCING	**950.2**	**747.8**	**770.3**	**718.7**	**(51.6)**
NET FOREIGN FINANCING	**323.3**	**142.5**	**310.8**	**131.5**	**(179.3)**
Disbursements	**451.6**	**327.1**	**548.2**	**607.1**	**58.9**
Commercial Financing	114.3	0.0	102.2	270.0	167.8
o/w Export Credit- Commercial Financing	6.7	0.0	-	-	-
Sovereign Bond other Commercial Financing	107.6	0.0	102.2	270.0	167.8
External Debt Operations - Refinancing	-	-	-	-	-
Semi concessional Loans	-	-	-	-	-
Project Loans AIA	104.8	92.6	74.2	149.1	74.9
Project Loans Revenue	52.4	58.6	62.0	122.5	60.5
Project Loans SGR _Phase I_ AIA	4.6	-	-	-	-
Project Loans SGR _ PHASE 2A_AIA	6.9	-	-	-	-
Use of IMF SDR Allocation	-	40.8	42.8	-	(42.8)
Programme Loans	168.6	135.0	266.9	65.4	(201.5)
O/W P for R Programme Loans	11.0	4.0		3.5	
IMF - RCF/ECF/EFF	76.9	29.1		61.9	
Development Policy Operations - WB	80.8	86.3		-	
Support for COVID-19 Vaccine Purchase	-	4.3		-	
Development Policy Operations - ADB	-	11.3		-	
Debt repayment - Principal	**(128.3)**	**(184.5)**	**(237.4)**	**(475.6)**	
NET DOMESTIC FINANCING	**626.9**	**605.3**	**459.5**	**587.2**	**127.7**
Financing gap	20.9	-37.3	(27.3)		

CHAPTER FOUR: NATIONAL GOVERNMENT INVESTMENTS IN BETA

4.1 Overview of Ministerial Expenditures for FY 2023/24

Figure 4.1: Breakdown of the Ministerial Expenditures for FY 2023/24 by Sector



Source: Approved FY 2023/24 Budget Estimates

41. **The total Ministerial Expenditure for the FY 2023/24 amounts to Kshs. 2.37 trillion which comprises of Kshs. 1.56 trillion (*66% of total*) for recurrent expenditure and Kshs. 807.6 billion (*34% of total*) for development expenditure.** The funds will be utilized by 81 Ministries, Departments and Agencies (MDAs). When broken down among the 10 sectors, the largest share of the expenditures will be utilized by the Education Sector (26% of total); the Energy, Infrastructure and Information Communication and Technology (ICT) Sector (22%); Public Administration and International Relations Sector (13%) and Governance, Justice, Law and Order Sector (10%).

42. The largest share of recurrent expenditure goes to the Education Sector with an allocation of Kshs. 595.5 billion; the Governance, Justice, Law and Order Sector at Kshs. 220.5 billion; the Public Administration and International Relations Sector at Kshs. 194.2 billion; the National Security at Kshs. 185 billion; and the Energy, Infrastructure and ICT Sector at Kshs. 148 billion. Conversely, Energy, Infrastructure and ICT Sector receives the largest amount under the development budget, with the allocation of Kshs. 384.4 billion. Other key development spenders include Public Administration and International Relations Sector at Kshs. 116 billion, Environment Protection, Water and Natural Resources Sector at Kshs. 88.2 billion. An overview of the Ministerial Expenditures by sectors is presented in table 4.1.

Table 4.1: Overview of the Ministerial Expenditures for FY 2023/24 (Kshs. Billions)

No.	Sector	Recurrent	Development	Total
1.	Education	595.5	33.1	**628.6**
2.	Energy, Infrastructure and ICT	148.0	384.4	**532.4**
3.	Public Administration and International Relations	194.2	116.0	**310.2**
4.	Governance, Justice Law and Order	220.5	9.9	**230.4**
5.	National Security	185.0	4.3	**189.2**
6.	Health	80.6	60.6	**141.2**
7.	Environment Protection, Water and Natural Resources	32.3	88.2	**120.6**
8.	Agriculture, Rural and Urban Development	33.0	55.0	**87.9**
9.	Social Protection, Culture and Recreation	45.7	25.0	**70.6**
10.	General Economic and Commercial Affairs	30.0	31.4	**61.4**
	Total	**1,564.9**	**807.6**	**2,372.5**

Source: Approved FY 2023/24 Budget Estimates

43. **The sectoral expenditures are aligned to the government's policies underpinned by BETA whose objective is to improve the livelihoods and welfare of Kenyans.** The BETA identified 5 thematic areas that are expected to have the highest impact at the bottom of the economy, and 12 enablers that will assist in actualization of the thematic areas. The sectors can be mapped to the thematic areas and enablers as indicated in table 4.2. Discussion on how the expenditures for FY 2023/24 support BETA under various sectors is presented in the next section.

Table 4.2: Allocations to BETA Policies and Strategic Interventions

S/No.	Sector	BETA Policies and Strategic Interventions	
		BETA Thematic Areas	**BETA Enablers**
1.	Education		• Education and Training
2.	Energy, Infrastructure and ICT	• Housing and Settlement • Digital Superhighway and Creative Economy – *digital superhighway*	• Infrastructure - *roads, electricity, petroleum*
3.	Public Administration and International Relations		• Services Economy – *financial services* • Governance – *public service transformation* • Foreign Policy and Regional Integration
4.	Governance, Justice, Law and Order		• Governance – *respect for peace, justice and human rights, security*
5.	National Security		• Governance – *security*
6.	Health	• Healthcare	
7.	Environment Protection, Water and Natural Resources		• Infrastructure – *water & irrigation* • Blue Economy • Environment and Climate Change
8.	Agriculture, Rural and Urban Development	• Agriculture Transformation and Inclusive Growth	• Manufacturing – *Leather, Dairy, textile, edible oils, tea*
9.	Social Protection, Culture and Recreation	• Digital Superhighway and Creative Economy – creative economy	• Women Agenda • Social Protection • Sports, Culture and Arts • Youth Empowerment and Development
10.	General Economic and Commercial Affairs	• Transforming the Micro Small and Medium Enterprise (MSME) Economy	• Manufacturing – *leather, dairy, textile, edible oils, tea, building and construction materials* • Services Economy – *tourism*

Source: PBO

4.2 Alignment of Expenditures to BETA Policies and Strategic Interventions

4.2.1 Education Sector

44. Education sector was allocated Kshs. 628.6 billion for expenditure in 2023/24 comprising Kshs. 595.5 billion for recurrent expenditure and Kshs. 33.1 billion for development expenditure. The budget will be implemented by 4 MDAs namely Teachers Service Commission (TSC) with an allocation of Kshs. 323.8 billion; State Department for Basic Education which is allocated Kshs. 147.8 billion; and State Department for Higher Education and Research, whose allocation for the financial year is Kshs. 128.6 billion.

45. The sector supports the BETA enabler of Education and Training with a target to address the inequalities in the country's education system so as to level the playing file for all children irrespective of their backgrounds. The aim is to address the inequalities in the country's education system as well as provide adequate human capital that is responsive to the demands of the labor market. In the FY 2023/24, the national government plans to support the education sector as a BETA enabler through a number of interventions. These interventions include expansion of infrastructure, training on digital skills, funding of Junior Secondary School (JSS) learners, reforming higher education funding model, expansion of school feeding programme and the operationalization of the Open University.

46. Funding towards BETA capital projects is distributed across the various State Departments in the education sector. In total, the BETA capital projects have been allocated **Kshs 4.5 Billion** and various targets which need to be achieved at the close of the financial year, and which are of relevance for oversight by the relevant Committees are highlighted in Table 4.3.

Table 4.3: 2023/24 BETA projects (Kshs Millions)

BETA Projects	**Goal of the project**	**Allocation (Ksh. Mln)**	**2023/24 Target to "Keep an eye on"**
Construction of 52 TTI's	Expand access to TVET education by ensuring that all Constituencies have a TVET institution	890	Construction of 16 new TTI's to 85% completion level
ICT infrastructure to support Competency Based Assessment	Support the implementation of the Competency Based Curriculum	53	1 ICT infrastructure developed
Construction of Integrated Resource Centres/Laboratories	Provision of learning amenities/ resources required for implementation of CBC in Junior Secondary Schools	1,379	Construction of 400 Integrated resource centres
Construction of Junior Secondar School (JSS) classrooms	Provision of Infrastructure required for implementation of CBC in Junior Secondary Schools	2,000	Construction of 704 JSS classrooms
Support to *Open University*	Expand access to Higher Education through cost effective online learning	170	Operationalization and admission of the first cohort of students
Total (BETA Projects)		**4,492**	

4.2.2 Energy, Infrastructure and ICT Sector

47. The sector has a total expenditure of Kshs. 532.4 billion comprising of Kshs. 148 billion for recurrent expenditure and Kshs. 384.4 billion for development expenditure. The budget and the related programs in the sector will be implemented by 9 MDAs with the largest shares being for State Department for Roads at Kshs. 250.8 billion. The State Department for Housing and Urban Development has been allocated Kshs. 93.8 billion, State Department for Energy, Kshs. 63.1 billion, and, State Department for Transport, Kshs. 60.4 billion.

48. The sector supports the BETA thematic area of *Housing & Settlement* with a target to reduce the proliferation of slums and hence preserve human dignity. It also supports the BETA thematic area of *Digital Superhighway and Creative Economy* with a target to increase productivity and competitiveness by eliminating information asymmetry in market access and risk management. Lastly, the sector is expected to act as a BETA enabler of *Infrastructure* with a target to intensify national connectivity through road, rail, port, energy and fibre-optic infrastructure so as to foster an enabling environment for economic recovery and inclusive growth.

4.2.2.1 Housing

49. Achieving the Housing deficit remains one of the primary government's priority under the BETA. This is informed by the current imbalance between the demand and supply of affordable houses in Kenya as well as the potential role that the construction Industry can play towards job creation and economic growth. According to National Housing Corporation, the affordable housing deficit currently stands at 2 million units, growing by about 200,000 units per annum. While the market seems to have a constant supply of high-end houses, the supply of housing in the low and middle-income segment especially in satellite towns is still low. According to the World Bank, 61 percent of urban households live in slums, an indication of the housing gap in the country.

50. To address the deficit, the government is expected to implement the following BETA interventions:

   i. Increasing the supply of new housing to 250,000 per annum and the percentage of affordable housing supply from 2 percent to 50 percent. This is to be achieved by structuring affordable long-term housing finance scheme, including a National Housing Fund and Cooperative Social Housing Schemes, that will guarantee the offtake of houses from developers;

   ii. Growing the number of mortgages from 30,000 to 1,000,000 by enabling low-cost mortgages of KSh.10,000 and below; and

   iii. Giving developers incentives to build more affordable housing.

51. The main emphasis of the above interventions is to provide houses to low-income and Middle-income earners and even for job creation for over a million Kenyans. To support the implementation of Affordable Housing, the State Department for Housing and Urban Development has been allocated Ksh. 73.7 billion comprising KSh.63.22 billion in an appropriation in Aid as per the Finance Act 2023 and Ksh. 10.7 billion from GoK funding.

52. In addition, the Kenya Mortgage and Refinance Company (KMRC) has also been allocated Ksh. 5 billion for the Kenya Affordable Housing project and Ksh. 2.1 billion for the operationalization of KMRC. This allocation is geared to provide long-term funds to primary mortgage lenders (PMLs) for the purposes of increasing the availability of affordable home loans to Kenyans from 30,000 to 1,000,000 mortgages within 5 years. In order to achieve this target by 2027, the Government has to ensure the attainment of approximately 200,000 mortgages on average per financial year through KMRC.

53. If the affordable housing program is effectively executed, the initiative may result in improved safety, greater access to schools, hospitals, and markets, thriving social networks, crime management, and efficient use of existing public infrastructure.

54. Therefore, the legislature should **keep an eye** on the following**:**

i. The attainment of the set targets for affordable and social housing projects
ii. The progress of the Construction and delivery of the affordable housing units, to track the number of units completed vis a vis the target, quality of construction, and adherence to the project timeline.
iii. The utilization of land provided by the Government for the affordable housing project to ensure it achieves the intended purpose. On government-owned property, the preliminary target split under the AHP is a 70% - 30%, in favor of affordable housing.[4]

4.2.2.2 Land and Titling

55. **This is viewed as an enabler to the ambitious Affordable Housing Pillar under BETA that underpins the need to coordinate and expedite statutory approvals from authorities and utility providers**. The efficiency in obtaining Title deeds for new registrations as well as the transfer of titles in land transactions will therefore ensure the de-risking of projects and encourage private sector investment and participation in the affordable housing program. In FY 2023/24, the project has an allocation of Ksh. 1.2 billion to ensure the processing and registration of Title deeds 330,000 titles for settlement and adjudication areas as well as land buying companies. Registration of titles is a revenue measure due to the fees, taxes, and charges collected in the process, and as such, the State Department is expected to realize increased AIA. Therefore, the legislature should **keep an eye on:**

i. Any bottlenecks or delays in the processing and registration of Title deeds to assess the extent to which allocated funds are being used to streamline and expedite the issuance of title deeds.
ii. Equity in distribution of title deeds, settlement, and adjudication across beneficiaries
iii. Implementation of the Settlement of the Landless project to ensure funds are being effectively utilized to address the needs of these vulnerable populations.

4.2.2.3 Transport and Infrastructure

56. As part of the efforts to improving mobility and strengthening the country's logistic network, the government has been making huge investments in the Transportation sector. Continued and sustained investment in the sector makes the country enjoy superior Transport infrastructure to that of its neighbors. The enhanced investments were pursued both through direct budgetary allocations and partnering with the Private sector through PPP mode of financing. Building on the continued investment in the sector and informed by Kenya Kwanza Manifesto through the BETA, the government in the 2023/24 financial year allocated Kshs.314.8 billion to finance the development of land, marine and air transport.

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[4] https://www.housingandurban.go.ke/wp-content/uploads/2018/11/Development-Framework-Guidelines-Release-Version.pdf

57. The roads subsector which is a critical enabler of the BETA agenda and accounts for 80 percent (Kshs.250.8 billion) of the sector's allocation. The State Department for Roads has aligned its allocations to Construction, Rehabilitation and Maintenance of rural roads towards achieving the BETA objectives by prioritizing the low volume seal roads which play a vital cross-cutting role in supporting the BETA by providing access to markets for fresh agricultural produce. The initiative has been allocated Kshs. 30.1 billion in the financial year 2023/24.

58. The State Department has further prioritized maintenance of rural roads through gravelling by allocating Kshs. 9 billion to provide rural access to markets, farms, product collection centers and ease mobility within the rural set up. Through these interventions, it is expected that the citizens at the bottom levels of the pillar will experience a positive economic and social change. Despite the huge investment, the subsector of roads has over the years been grappling with accumulation pending bills that amounted to, according to the State Department, Kshs**.** 158.2 billion as at 30th April, 2023.

59. To successfully achieve the BETA priorities under the sector, the legislature should **keep an eye on:**

i. Construction of 1,917 KMs, rehabilitation of 352 KMs, and maintenance of, 42,931 KMs of roads in FY 2023/24. Special focus will need to be given on the delivery of the Low Volume Seal Roads as well as gravelling and murraming of rural roads,
ii. Containment of pending bills within the financial year,
iii. 50 % completion of Phase I of Nairobi Railway CITY and,
iv. 63 % completion of BRT stations.

4.2.2.4 Energy and Electricity

60. Kenya has made a concerted effort to improve grid connectivity, increasing electricity of households to 75 percent in 2022[5]. According to Energy and Petroleum Regulatory Authority, it has also improved its energy mix to over 90 percent dependency on renewable energy sources as at May 2023. Although Kenya has made significant advancement towards universal access to clean energy, there remains obstacles in fully realizing the transformational potential of 100 percent energy access by 2022 as envisioned in the 2018 Kenya National Electrification Strategy.

61. Some consumer segments such as rural areas, MSMEs and off-grid regions are still facing access issues to a reliable supply of power due to a myriad of reasons including high connection fees and high costs of supplying power to rural and peri-urban households. Therefore, to meet its goal of achieving Universal access to electricity while improving reliability and lowering the cost of electricity, the government has taken concerted action to address this in the BETA.

62. The FY 2023/24 budget allocated the State Department for Energy Kshs. 63.1 billion with bulk of the funds being channeled towards the power generation and power transmission programmes which are critical in enhancing generation as well as access to electricity for all the citizens. It targets to drill 15 geothermal wells, construct 289 km of transmission lines and 6 transmission substations; construct

5 https://www.trade.gov/country-commercial-guides/kenya-energy-electrical-power-systems

525 kms of distribution lines and 12 distribution substations; connect to electricity 800,000 new customers and 1,500 public facilities; installing 30,000 street lighting points; and finalizing KOSAP projects in off-grid areas. The completion of the priority projects will offer the country an opportunity to move closer towards the goal of achieving universal access to electricity as well as provision of clean, sustainable, affordable, competitive, reliable and secure energy.

63. However, a number of factors, including the challenges and delays in obtaining way leave consents and rights of way for energy projects, and the high compensation requirements, hinder their swift implementation and completion.

Table 4.4: Summary Of Key Projects For The FY 2023/24

Key Projects	Implementing MDA	% Completion as at 30th June 2023	KPIs/Targets	Allocation (Kshs. millions)
Last Mile Electricity Connectivity	KPLC	72	100,000 new customers connected to electricity	11,400
Kenya Off-Grid Solar Access Project (KOSAP)	SDE,KPLC& REREC	58	300 solar stand-alone systems and 60 mini grids constructed	5,995
National System Control Centre & Makindu Substation	KETRACO	0	100% completion	5,468
Bogoria Silali Geothermal Project	GDC	24	35 MW of Power Generated	4,623
Electrification of Public Facilities	REREC	65	1,500 public facilities connected to electricity	3,821
Installation of transformers in constituencies project	REREC	71	827 new transformers installed	2,794
Olkaria 1AU & IV Turbine Uprating	KENGEN	0	30% Completion	2,100
Ethiopia–Kenya Interconnector	KETRACO	99	100% completion	1,975
Electrification of Galana-Kulalu Irrigation Scheme	REREC	0	60% Completion	1,100
Rabai - Kilifi Transmission Line	KETRACO	60	75% completion	1,078

Source: National Treasury

64. Further, the legislature should **keep an eye on**:

i. **Fast tracking of the Last Mile Connectivity Project**- key to improve rural and slum areas access to electricity and contribute to achieving universal access by 2030. The project also intends to reduce the cost of power connection for low-income households.

ii. **Speedy Completion of Priority Transmission Lines and Associated Substations**-The completion of the priority lines which include the Sondu-Homabay-Ndhiwa Transmission line, Narok-Bomet Transmission line, Rabai-Kilifi Transmission Line and Mariakani Sub-station, Turkwel-Ortum-Kitale line and the Ethiopia-Kenya interconnector are key in provision of affordable and reliable electricity.

iii. **Successful Implementation of the KPLC and KETRACO Turnaround Plan**-The comprehensive implementation of the KPLC and KETRACO turnaround plan which will be essential in order to restore the project implementation capacity, profitability, and financial sustainability, particularly by addressing loan balances and the liquidity gap in KPLC and KETRACO.

4.2.3 Governance, Justice, Law and Order Sector

65. The sector supports the BETA enabler of governance with a target to strengthen the rule of law, increase access to justice, promote the respect of human rights, peace and zero tolerance to corruption. The total resources appropriated to the sector amounts to Kshs. 230.4 billion comprising of Kshs. 220.5 billion for recurrent expenditure and Kshs. 9.9 billion for development expenditure. The funds will be utilized by 16 MDAs with the largest shares being for: National Police Service of Kshs. 106.5 billion, Correctional Service of Kshs. 35.8 billion, National Government Administration of Kshs. 28.2 billion and Judiciary of Kshs. 23.2 billion.

66. Under the National Police Service, the BETA priority focuses on police reforms towards a more efficient and responsive Service. Police reforms encompasses a broad spectrum of strategies and activities that need to be undertaken to achieve the envisioned transformation of the National Police Service. They range from tooling and kitting, Police uniforms, training and police welfare issues.

67. To achieve the targets for the sector, the Legislature needs to **keep an eye on**:

i. **Operationalization of the NPS level IV Hospital, Mbagathi**. – Construction of phase was completed and Kshs. 100 million has been allocated in FY 2023/24 to operationalize the Hospital.

ii. **Police modernization**: - This is a Kshs. 143 billion programme whose completion rate remains low at 35 percent. The programme has been allocated Kshs. 1.5 billion this financial year.

iii. **Operationalization of 28 new administrative units** which were gazetted in the previous years but could not have been actualized due to budgetary shortfall. The FY 2023/24 budget has provided Kshs. 150 million towards such units which will accelerate service delivery and help in enhancing security operations.

iv. **Roll out of Unique Personal Identifier**: **-** The National Assembly has appropriated KSh. 150 million towards the national roll out of the Unique Personal Identifier framework with a target of 50 percent coverage**.**

4.2.4 Health Sector

68. The health sector was allocated Kshs. 141.2 billion comprising of Kshs. 80.6 billion for recurrent expenditure and Kshs. 60.6 billion for development expenditure. The State Department for Medical Services was allocated Kshs. 116.6 billion and the State Department for Public Health and Professional Standards, Kshs. 24.6 billion.

69. The BETA thematic area under the health sector seeks to promote access to quality and affordable healthcare for socioeconomic development of the country. Universal Health Coverage (UHC) seeks to ensure that all Kenyans have access to quality health care without facing financial burden. Further, UHC entails, in addition to health financing, the establishment of efficient healthcare delivery systems, adequate health facilities and human resources, information systems, strong governance, and enabling legislation. Despite the government's continuing efforts to protect households from catastrophic health related spending, it is estimated that Kenyans still spend Sh150 billion in out-of-pocket spending on health services each year.

70. In the financial year 2023/24, the of the health sector was allocated Kshs.141.2 billion comprising of Kshs.80.6 billion for recurrent expenditure and Kshs.60.6 billion for development expenditure. the resources have been allocated to two MDAs, with the State Department for Medical Services receiving Kshs.116.6 billion while the State Department for Public Health and Professional Standards was allocated Kshs.24.6 billion.

Table 4.5: Allocations to Affordable HealthCare.

Project	**Allocation 2023/24**	**Targets 2023/24 FY**
Roll-out of UHC-BETA	11.6 billion	2 million indigents access social insurance scheme and Recruitment of 500 Healthcare workers
Universal Health Coverage and Coordination & Management Unit	6 billion	44,444 CHVs recruited
Free Maternity (Strategic Intervention)	4.1 billion	1,285,720 women access Linda Mama services
Emergency Medical Treatment Fund - BETA	300 million	100% financial support provided for emergency treatments
Digital Health Platform - BETA	352 million	100% as the proportion of level 4,5,&6 public health facilities implementing the digital health platform
Human Vaccine Production - BETA	500 million	Local manufacturing of Human Vaccines
Emergency Medical Treatment Fund-BETA	300 million	100% financial support to emergency treatments

Source: National Treasury

71. To successfully achieve the BETA priorities under the sector, the legislature should **keep an eye** on the following**:**

i. The recruitment of 90,000 Community Health Volunteers to help revitalize primary health care by the National and County governments, . The national government has allocated Kshs 1billion to the programme.
ii. The implementation of the Human Vaccine project which is a BETA project. Kshs 500 million has been allocated to the project. The project enhance local manufacturing of vaccines and help reduce spending on health and pharmaceutical products.
iii. The planed support for 2 million indigents through payment of contributions to the NHIF for the financial year 2023/24 The fast-tracking of the recruitment process of the 2 million indigents will help in the progress towards universal access to healthcare services in the country.

4.2.5 Environment Protection, Water and Natural Resources Sector

72. The Sector has been identified as a key BETA enabler for water infrastructure, blue economy, environment and climate change. The key objectives is to intensify the provision of water infrastructure by strengthening of community structures in the participatory management of freshwater, coastal and marine resources and ecosystems and to enhance resilience, mitigation and adaptation to climate change. The sector has been allocated Kshs. 120.6 billion comprising of Kshs. 32.3 billion for recurrent expenditure and Kshs. 88.2 billion for development expenditure. The State Department for Water & Sanitation has been allocated Kshs. 61.5 billion; State Department for Irrigation of Kshs. 24.7 billion and State Department for Forestry of Kshs. 14.4 billion.

73. The key focus on environment and climate change is the provision of clean, healthy, safe, and sustainably managed environment that is consistent with Chapter Five of the Constitution of Kenya. In addition, the sector will seek to mainstream issues of environment conservation, climate change to reverse deforestation, biodiversity loss, and land degradation. In the FY 2023/24, the national government plans to support the environment and climate change enabler with the following interventions:

i. accelerating the planting of 15 billion trees nationwide by 2030, which will raise the country's tree cover from its current 12.13 percent to 30 percent. The Forests and Water Towers Conservation Programme was allocated Kshs. 14.3 billion in FY 2023/24, with Kshs. 4.3 billion for development expenditure.
ii. Conducting field work or ground truthing which will help confirm the extent of mineral deposits following the completion of the Nationwide Airborne Geophysical Survey. The Geological Survey and Geo-Information Programme will receive KES 1.2 billion in funding for the FY 2023/24, of which KES. 0.3 billion will go toward recurrent expenditure and KES 0.9 billion will go toward development expenditure.

74. To successfully achieve the BETA priorities under the Sector, the legislature should **keep an eye on:**

i. Tree Growing Campaign and Rangeland Restoration which targets to increase forest and tree cover by 14.5%, refurbishment of 60 tree nurseries, production of 80 million kgs of seedlings and 13,000 tree seedlings, rehabilitation of 600Ha of water towers and 70 Ha. of degraded natural forest areas.
ii. Green Zones Development Support Project Phase II which aims to rehabilitate 3,000Ha of forests, plant 400Ha of commercial forests, and maintain 55kms of forest roads.
iii. Plastic Waste Management and Pollution Control which targets to sensitize 4 counties on plastic waste management & train 50 curriculum developers on mainstreaming plastic waste management
iv. Implementation of National Climate Change Action Plan which targets to complete the National Climate Change Action Plan III(2023- 2027); and establish County Climate Change Funds (CCCFs) in 47 counties.
v. Kenya Gold Mercury Free ASGM Project which targets to train 985 small scale gold miners
vi. Geological Mapping and Mineral Exploration which targets to discover 2 critical and strategic minerals.

4.2.6 Agriculture, Rural and Urban Development Sector

75. The sector supports the BETA thematic area of Agriculture Transformation and Inclusive Growth and manufacturing. The broad target is to improve agricultural productivity to guarantee food security in the country, create jobs and increase Kenya's exports. The sector has a total expenditure of Kshs. 87.9 billion comprising of Kshs. 33.0 billion for recurrent expenditure and Kshs. 55.0 billion for development expenditure, with the largest shares being allocated to State Department for Crop Development (Kshs. 46.7 billion) and State Department for Livestock (Kshs. 18.8 billion). In the FY 2023/24, the national government plans to support the Agriculture Transformation and Inclusive Growth thematic area with the following interventions:

i) **Fertilizer Subsidy Programme** – The subsidy programme was introduced back in the FY 2021/22 as an intervention to cushion farmers against high prices. With global fertilizers prices still high, the government has continued to provide subsidized assorted fertilizers across the country through the NCPB warehouses. In the FY 2023/24, the State Department for Crop Development and Agricultural Research has been allocated Kshs. 4,500 million to provide 90,000 MT of fertilizers and 2,750 MT of lime meant to benefit 225,000 farmers across the country. In the FY 2022/23, the programme utilized Kshs. 6,293 million and was able to benefit 500,436 farmers with 3,302,683 (50kg) bags of subsidized fertilizer.

ii) **Crop and Livestock Insurance**- the ravaging impact of climate change has seen extreme weather events including frequent occurrence of drought resulting in immense crop failure and livestock deaths. To mitigate against the risk and to build farmers resilience, the government allocated Ksh. 3,669 million under De-Risking, Inclusion & Value Enhancement of Pastoral Economies (DRIVE) Project to support pastoral livestock insurance and Ksh. 374 million to support crop insurances.

iii) **BETA priority value chain interventions**- the government identified nine key value chains for priority, six of which fall within the agriculture sector. The identified value chains have the largest impact on the economy in terms of job creation, import bill reductions, food security and support for the manufacturing pillar amongst others. Some of the key value chains include:

a. **Cotton**- the country has an unexploited capacity of textile manufacturers such as RIVATEX to manufacture clothing and to help reduce cloth imports. In the year 2022, Kenya imported textiles and clothing worth Kshs. 35.2 billion. In the FY 2023/24, the state department has allocated Ksh. 120 million under Cotton Industry Revitalization Project and Ksh. 592 million under Food Security and Crop Diversification Project to support the textile and apparel value chain. The allocation is meant to support the provision of 7,224 MT of cotton seed to expand the area under cotton by 26,000 acres.

b. **Edible Oil crop production value chain**- edible oil is one of the food items that have a huge weight in Kenya's food import bill. In the year 2022, Kenya imported edible oils worth Kshs.145.7 billion yet it can be produced domestically. To address this, the government introduced the Edible Oil crop production value chain with an allocation of: Kshs. 134 million under the National Edible Oil Crops Promotion Project; Kshs. 62 million under the Coconut Industry Revitalization Project; and Kshs. 592 million under Food Security and Crop Diversification Project. The allocation is meant to provide 720 MT of certified sunflower seeds, 200MT of assorted seeds (canola, sunflower, soya) and 10,000 coconut seedlings and provision of KSh.42million as loans to 840 farmers in Kwale, Mombasa, Taita Taveta Tana River and Kilifi Counties.

c. **Rice production value chain**- Kenya's annual production of rice is estimated at 186,000 MT against an estimated demand of 865,000 MT leaving a gap for imports of 678,000 MT. The imports were valued at Ksh. 34.4 billion in 2022. to boost rice production, the rice production value chain has been allocated Ksh. 35 million under Capacity Building for Enhancement of Rice Production; Ksh. 50 million under Quelea Quelea Management; Ksh. 592 million under Food Security and Crop Diversification Project; and Kshs. 500 million under National Value Chain Support Programme. The performance targets include: training 2,500 farmer groups in Mwea and Ahero irrigation on rice production technologies; procurement of 1,000 litres of avicide for the management of quelea quelea; and provision of 996 MT of high-quality seeds.

d. **Dairy and Leather** are among the nine value chains that goes directly to support the livestock sector. The total amount of resources that will go directly to the two value chains is Ksh. 2,900 million. Among the allocations towards the two value chains include: Ksh. 2,130 million for "Livestock Value Chain Support Project" for procurement of milk coolers; Ksh. 135 million for the establishment of liquid nitrogen Plants semen preservation; Ksh. 70 million for equipping of Milk Research & Processing Plant; Ksh. 166 million for embryo Transfer Project; Ksh. 350 million for the development of Leather Industrial Park- Kenanie; and ksh. 50 million for the Leather Value Chain Promotion Programme for training of leather value chain stakeholders.

76. To successfully achieve the BETA priorities under the sector, the legislature should **keep an eye on:**

i. The timely procurement and distribution of 90,000 MT of fertilizers and 2,750 MT of lime both for the short-rain season and long-rain season.
ii. Distribution of 7,224 MT of quality cotton seeds to farmers and expansion of acreage under cotton by 26,000 acres.
iii. Provision of 720 MT of certified sunflower seeds, 200MT of assorted seeds of canola, sunflower, soya and 10,000 coconut seedlings and provision of KSh.42 million as loans to 840 farmers in coastal Counties.
iv. The management of quelea invasion, training of 2,500 farmer groups in Mwea and Ahero irrigation on rice production technologies, and, provision of 996 MT of high-quality rice seeds.
v. Provision of 240 Milk coolers under the Livestock Value Chain Support Project.
vi. Provision of crop insurance service to 500,000 farmers across 42 counties and livestock insurance to 150,000 Tropical Livestock Units (TLUs) as a mitigation measure against crop failure and drought risk.

4.2.7 Social Protection, Culture and Recreation Sector

77. The sector supports the BETA thematic area of Digital Superhighway and Creative Economy of the women agenda, and sports culture and arts. The key target under the sports is to rebuild and monetize the sports and creative industry to provide jobs and help grow the country's economy. The sector was allocated Kshs. 70.6 billion comprising of Kshs. 45.7 billion for recurrent expenditure and Kshs. 25 billion for development expenditure. The key implementing agencies include the State Department for Social Protection and Senior Citizens Affairs which has been allocated Kshs. 36.2 billion and the State Department for Sports and Culture, with a Kshs. 17.7 billion allocation.

78. The National Social Safety-Net programme is a key element of BETA with the objective to cushion vulnerable groups to meet basic human needs and live a dignified life. In the FY 2023/24 the *Inua Jamii* programme was allocated Kshs. 27.5 billion through the cash transfer project with following targets as indicated in table 4.6

Table 4.6: Allocation to National Social Safety Net Programme (Ksh. millions)

Inua Jamii	No. of beneficiaries	Benefits per Person (Kshs)	Allocation FY 2023/24 (Kshs)
Cash transfers for Orphans and Vulnerable Children	503,000	2,000	7.9 billion
Cash transfer for Persons with Severe Disabilities	94,000	2,000	1.190 billion
Older Persons Cash Transfer	950,000	2,000	18 billion

Source: Budget Books 2023/24

79. Since its inception in 2016, the key challenges facing the National Social Safety-Net have included the stagnation of the monthly stipend, and limited entry of new deserving cases over time due to slow annual enrollment rates.

80. To support the youth, the Government has launched the Talanta Hela programme, with components such as: improving the Digital Space; establishing and coordinating Bottom-Up football tournament; promoting talent identification, nurturing and marketing; recalibrating the Kenya Academy of Sports and the Arts; creating a masterplan for upgrading infrastructure for sports and the arts such as stadia, studios, arenas and theater halls; and streamlining the collection and distribution of royalties to artists.

81. The State Department for Sports has been allocated Kshs. 17.72 billion in FY 2023/24 of which 90% of the allocation is revenue collected by Sports, Arts and Social Development Fund (SASDF) estimated at Kshs. 16 billion while the Arts, in the State Department for Youth Affairs and the Arts, has an allocation of Kshs. 1.48 billion. The Government is targeting to enroll 1,600 athletes for training in sports academies, present 60 teams in international sports competitions and host 9 international sports competitions. In order to harness, develop and promote the creative arts industry, the Government is planning to issue 5,300 film licenses to Film Distributors and Exhibitors and 900 licenses to film makers. Through the State Department the Government is planning to train 100 youth in the film industry which is a BETA programme that is aimed at strengthening the film industry in Kenya.

82. To successfully achieve the BETA priorities under the sector, the legislature should **keep an eye on**:

i. Sports and arts infrastructure development – 100% Completion of all ongoing stadia.
ii. 100% Implementation of the Talanta Hela Programme – identification, nurturing and monetization of talents in the sports and the creative industry.
iii. Growth in the creative industry – 100% distribution of royalties to owners of copyright works, and accessibility of film licenses issued to film distributors, exhibitors and film makers.

4.2.8 General Economic and Commercial Affairs Sector

83. The sector is central in the delivery of BETA, primarily through supporting Micro Small and Medium Enterprise (MSME) economy pillar and the manufacturing sector. The total allocation to the sector in FY 2023/24 amount to Kshs. 61.4 billion distributed across several departments. The State Department for ASALs and Regional Development was allocated Kshs. 15.9 billion; State Department for MSME Development, Kshs. 13.1 billion; State Department for Tourism, Kshs. 9.2 billion, and State Department for Investment Promotion, Kshs. 8 billion.

84. The national government plans to support the tourism sector through diversifying Kenya's tourism by promoting niche market products such as adventure tourism, sports and cultural tourism, and digitization of services**.** To support these programs, the State Department for Tourism has been allocated Kshs. 9,219.9 million of which recurrent allocation is Kshs. 9,071.8 million and development allocation is Kshs. 147.2 million with a target of Kshs. 204 billion in tourism earnings for the country in the FY 2023/24. For FY 2023/24, the Tourism Regulatory Authority has been allocated Kshs. 382.8 million with the target of accrediting 500 enterprises.

85. To successfully support the BETA priorities under tourism sub-sector, the legislature should keep an eye on the impact of the accreditation of enterprises on revenue generation, and the number of jobs created through the diversification of the niche market products such as adventure tourism, sports and cultural tourism.

86. In the FY 2023/24, the national government plans to support the Micro Small and Medium Enterprise (MSME) Economy through the sector. MSMEs offer huge prospects for Kenya's employment creation and development. According to Kenya's Micro and Small companies (MSEs) Policy (2020), the MSEs sector accounts for 24% of GDP, over 90% of private sector companies, and 93% of the economy's total labor force.

87. Major challenges facing the MSME sector include inadequate access to finance, market access, and burdensome regulatory environment. Consequently, provision of affordable finance is one of the primary interventions identified by the government in supporting the MSMEs. In the FY 2023/24, the State Department for MSME Development was allocated Ksh.13.1 billion with key areas of funding being access to financing of MSMEs. Main projects funded under the State Department with links to supporting MSMEs and the youth include.

    i. Financial Inclusion Fund (Hustler Fund) with an allocation of Ksh. 10 billion.
    ii. support to 2,200 MSMEs in the manufacturing sector with an allocation of Ksh.0.8 billion.
    iii. Kenya Youth Employment and Opportunities Project with an allocation of Ksh 300 million targets to issue credit and create about 60,000 jobs.

88. In the FY 2023/24, the national government plans to support the manufacturing with the eventual goal of raising its contribution to GDP from 7.2 percent in 2021 to 15 per cent by 2027. Key value chains identified under the BETA include: leather, textiles, dairy, edible oils, building, and construction materials.

89. Despite the ambitious projection by the government of increasing the contribution of GDP to 15% by 2027, there are various challenges affecting the sector. According to Kenya Association of Manufactures 2023 report, some of the challenges include, high cost of electricity, trade in counterfeit products, transport and storage issues, unpredictable taxation, weak access to credit financing, and rising non-performing loans from the sector. During the FY 2023/24 the State Department for Industry has an allocation of Ksh 10 billion, and State Department Investment Promotion has been allocated Ksh. 8 billion.

Table 4.7: Allocation to Manufacturing sector (Kshs. millions)

S/No.	MDA	Project	Allocation FY2023/24	Key Targets
1	State Department for Industry	Kenya Industry and Entrepreneurship Project	1,456	80, SMEs/ Incubators receiving disbursement for upgrading and 312, Start-ups connected to international investors, mentors, markets
2	State Department for Industry	Establishment of County Integrated Agro-Industrial Parks	4,700	100% disbursement of allocated funds and 18, parks constructed in counties
3	State department Investment promotion	Development of Special Economic Zones	550	completion of the Naivasha SEZ and Dongo Kundu SEZ at 60% and 50% respectively
4	State department Investment promotion	Development of Athi River Textile Hub - EPZA-BETA	2,880	85%,67% and 54% completion of Athi River Textile Hub, railway siding and industrial sheds, respectively
5	State department Investment promotion	Flagship Export Processing Zone Hubs (EPZA)-BETA	3,000	Completion of six EPZ flagship hubs

Source: National Treasury

90. To successfully achieve the BETA priorities under the sector, the Legislature should **keep an eye** on the following**:**

i. The performance of the Financial and Inclusion Fund, and other funds within the MSMEs sub-sector including thecredit guarantee schemes .
ii. The rate of completion of the 18 County Integrated Agro-Industrial Parks in the FY 2023/24.
iii. Completion of ongoing Special Economic Zones at Naivasha and Ndongo Kundu, and the completion of six Export Processing Zones hubs.
iv. The completion of the Athi-River Textile Hub.

CHAPTER FIVE: SUPPORTING BETA THROUGH COUNTIES

5.1 Transfers to County Governments for FY 2023/24

5.1.1 The County Government Additional Allocations (CGAA)

91. The County Government Additional Allocation Bill (2023) provides a framework for the disbursement of conditional, unconditional, and additional allocations appropriated for the financial year 2023/24 to county governments. Kshs. **56.2 billion** will be disbursed on account of this Bill as contained in four schedules. The first schedule contains Conditional Allocations to County Governments from National Government Revenue in Financial Year 2023/2024 totaling **Kshs. 15.8 billion.** There are four additional allocations from the national government's share of revenue. These are:

i. Supplement for Construction of County Headquarters - Kshs. 454 million towards five Counties: Nyandarua, Tana River, Tharaka Nithi, Isiolo, and Lamu.
ii. Leasing of medical equipment - Kshs. 5.86 billion.
iii. Aggregated Industrial Parks Programme- Kshs. 4.5 billion:
iv. Provision of Fertilizer Subsidy Programme- Ksh 5 billion: - This is allocated to all counties as per the number of households undertaking crop production as per the 2019 Kenya Population and Housing Census.

92. The Second Schedule contains unconditional allocations to County Governments from court fines and minerals royalties in financial year 2023/2024 totaling **Kshs. 3.043 billion**.

i. **Court Fines totaling Kshs.108.660 million:** Section 5 of the County Governments Additional Allocations Act 2023, states that Court fines emanating from contravention of County Government legislation are excluded from the Consolidated Fund and shall be payable to the respective County Revenue Funds.

ii. **Minerals Royalties totaling Kshs 2,934,923,147 -** Allocation to County Governments from the National Government Share of Revenue emanating from the 20% share of Mineral Royalties as per the Mining Act, 2016.

93. The third schedule contains conditional allocations to County Governments from Loans and Grants from Development Partners in Financial Year 2023/2024 totaling **Kshs. 33.2 billion**. The disbursement criteria of these additional allocations from loans and grants vary according to the financing agreements. The fourth schedule contains the national government's expenditure on devolved functions which have been converted to additional conditional grants to the county governments for Financial Year 2023/2024 totaling **Kshs**. **4.1 billion.**

94. With respect to the implementation of the provisions of the County Government Additional Allocations (CGAA), **Legislators should keep an eye on:**

i. **Supplement for Construction of County Headquarters: -** Given the targeted counties namely, Nyandarua, Tana River, Tharaka Nithi, Isiolo and Lamu are required to provide 30 percent funding towards the project there is need to ensure the counties provide their respective funding for completion of the headquarters.

ii. **Fertilizer Subsidy Programme:** - One of the issues raised by the farmers concerning the programme during the public hearings on the FY 2023/24 budget was the accessibility of the fertilizer. The government may reconsider accessibility of fertilizer to farmers by availing it to the nearest centers through partnerships with local shops. There is need for monitoring farmer registration and uptake of fertilizers by farmers to inform future adjustment and design of the subsidy programme.

iii. **County Aggregated Industrial Parks Programme:** - Counties are required to set aside 10 hectares of land ahead of the implementation of the programme. The process of land acquisition and installation of basic infrastructure might delay the implementation of the programme by counties.

5.1.2 The Equalization Fund

95. Article 204 (1) of the Constitution requires the National Treasury to pay into an Equalization Fund one-half percent (0.5%) of all the revenue collected by the National Government each year, calculated based on the most recent audited revenue received, as approved by the National Assembly.

96. Equalization fund is used only to provide basic services including water, roads, health facilities, and electricity to marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible. The Commission on Revenue Allocation (CRA) determines, publishes, and regularly reviews a policy in which it sets out the criteria by which to identify marginalized areas.

97. The Equalization Fund Appropriation Act for 2023 provides a total appropriation of Kshs. 10.3 billion including cumulative amounts for previous financial years: Kshs. 7.1 billion for FY 2022/23 and Kshs. 3.3 billion in the approved 2022/2023 Supplementary No. 1 estimates.

98. This is the third Equalization Appropriation Act, after the Equalization Fund Appropriation Act, of 2018, which faced various legal challenges and a lack of agreed implementation institutional framework. The projects identified for implementation under the Act are based on the Second Marginalization policy that shifted from the identification of marginalized counties to the identification of marginalized areas. The amount allocated will benefit marginalized areas in 34 counties as per the Second Policy on Marginalization. The allocation distributed by county are shown in Table 5.1.

Table 5.1 Equalization Fund Allocations by County

No	County	Amount (Ksh.)
1	Baringo	595,027,100
2	Bomet	19,215,175
3	Bungoma	58,779,836
4	Busia	17,979,656
5	Elgeyo Marakwet	65,114,751
6	Garissa	630,912,260
7	Homa Bay	131,603,304
8	Isiolo	166,157,751
9	Kajiado	414,765,595
10	Kericho	60,882,122
11	Kilifi	539,901,714
12	Kisumu	24,333,610
13	Kitui	397,477,349
14	Kwale	292,590,513
15	Laikipia	119,303,227
16	Lamu	57,614,460
17	Machakos	12,923,347
18	Mandera	753,408,998
19	Marsabit	469,644,478
20	Meru	29,927,013
21	Migori	177,764,414
22	Murang'a	5,679,579
23	Nakuru	6,435,119
24	Nandi	116,745,012
25	Narok	771,670,228

No	County	Amount (Ksh.)
26	Samburu	649,686,536
27	Siaya	31,973,185
28	Taita Taveta	13,335,187
29	Tana River	442,122,368
30	Tharaka Nithi	44,005,716
31	Trans Nzoia	7,478,246
32	Turkana	1,144,091,494
33	Wajir	730,167,615
34	West Pokot	1,021,690,952
	Development Expenditure	**10,020,407,910**
	Recurrent-Expenditure:(Board Expenses)	**309,909,523**
	Total Equalization Fund	**10,330,317,433**

99. On the Equalization Fund, Legislators should **keep an eye on**:

i. Full disbursement of the allocated amounts for the benefit of the marginalized areas.

ii. Ensure the allocation of pending entitlements to the fund amounting to Ksh. 31.3 billion are disbursed over the medium term given that only Kshs. 22.7 billion has been disbursed against total entitlement to the Fund of Kshs. 54 billion.

5.2 Alignment of County Expenditures to BETA Strategic Interventions

5.2.1 County Health Services for BETA

100. Universal Health Coverage is one of the BETA strategic pillars. The total County Government expenditure on health services declined marginally from Ksh 108.8 billion in FY 2020/2021 to Ksh 108.3 billion in FY 2021/2022 and increased marginally to approximately Ksh 109.8 billion in 2022/2023. In FY 2021/22, the share of counties expenditure on health to total counties expenditure was 24.2 percent and declined to 23.3 per cent in 2022/2023. Table 5.3 provides a summary of health budget allocation for sampled counties in the FY 2023/2024.

Table 5.3: Summary of sampled county governments health budget

	County	Allocation to health 2023/24 Ksh.
1	Busia	2,100,271,011
2	Elgeyo Marakwet	1,828,541,513
3	Isiolo	1,509,197,581
4	Kajiado	2,809,025,328
5	Kisumu	3,616,238,371
6	Mandera	2,195,391,986
7	Mombasa	3,528,000,000
8	Nairobi City	8,200,303,336

	County	Allocation to health 2023/24 Ksh.
9	Nakuru	6,924,554,389
10	Nyamira	1,898,008,439
11	Nyeri	2,808,500,389
12	Samburu	1,633,621,381
13	Taita Taveta	372,682,445
14	Tana River	1,332,005,401
15	Tharaka Nithi	2,016,475,961
16	Trans Nzoia	2,422,320,112
	Total	**45,195,137,643**

101. UHC aims at ensuring access to healthcare without any financial strain and counties are the key players in the implementation and the success of UHC. The lowest levels of healthcare facilities should be accessible and able to offer quality services when required to. Some key county governments intervention on UHC focuses on the following areas:

i. Improving health infrastructure to provide the counties with the capacity to prevent disease and promote health. This includes the construction and renovation of health facilities, equipping and maintaining of the hospitals with new technology machines.

ii. Prioritizing primary healthcare through the rollout of primary health care networks (PCNs) as envisaged under the Universal Health Coverage (UHC).

iii. Promoting the Community Health Strategy through provision of incentives to community health volunteers to match with the national government efforts.

iv. Provision of health Products and Technologies (HPTs) that are of high quality to contribute immensely to health outcomes.

v. Continued rollout and implementation of UHC focusing on social health insurance. The county government through NHIF are enrolling the indigents in their respective counties to ensure the vulnerable persons in the community are able to access the healthcare services.

Table 5.4: Conditional Allocations Towards UHC

Financial Year	World Bank Loan for Transforming Health Systems for Universal Care Project	DANIDA Grant for Universal Healthcare in Devolved System Program
2017/18	2,750,000,200	762,979,758
2018/19	3,636,589,840	1,012,500,001
2019/20	2,994,247,736	986,583,544
2020/21	4,345,375,738	900,000,000
2021/22	2,234,664,077	701,250,000
2022/23	-	667,000,000
2023/24	-	577,500,000

Source: National Treasury, 2023 (CARA & CGAAA

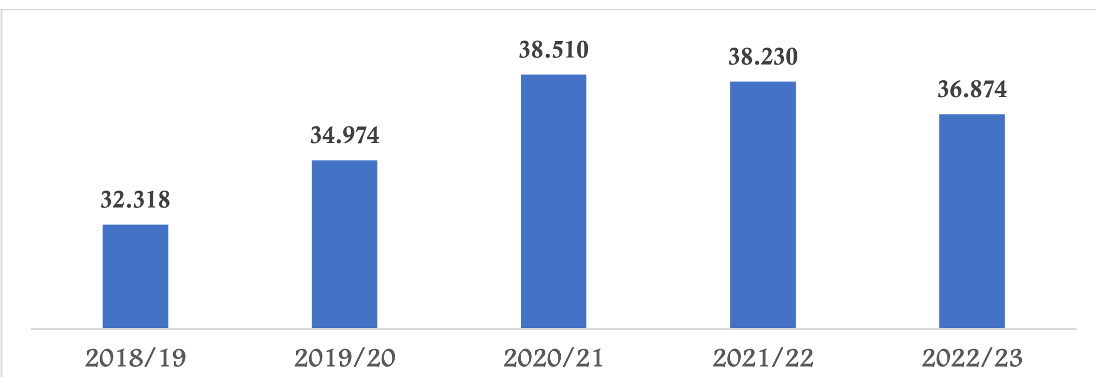
5.2.2 Food Security Through Counties

102. The government is currently seeking to ensure food security in the country through investing in Agricultural Transformation and Inclusive Growth in line with the BETA. The National government adopted a value chain approach to budgeting and has committed to support key value chains in Agriculture including dairy products, Edible oils and Crop oils and Tea value chains, among others.

103. At the National level, the total allocations to the Agriculture sector in the FY 2023/24 is Kshs.64.66 billion. The National level mainly focusses on Livestock (Ksh. 18.35 billion) and Crop Development and Agricultural Research (Ksh. 46.303 billion). In contrast, the total allocations to the agriculture sector at the county level in the FY 2022/23 was Ksh. 36.87 billion including Kshs. 19.1 billion in additional allocations from the National government and development partners. This represents 7.3 % of the total county government's budgets of Ksh. 508.2 billion for the FY 2022/23.

104. At the county level, agriculture sector for most counties mainly focusses on Crop development, Livestock and Fisheries sub-sectors. Fig. 1 shows trends of allocation to Agriculture sector by counties for the past five years. The allocations to agriculture have majorly been on an upward trend except from FY 2021/22 where there was a marginal decline in the allocations. The total cumulative actual spending on agriculture by counties has also been increasing slightly from Kshs. 16.43 billion in FY 2017/2018 to Kshs. 21.65 billion in FY 2018/2019; Kshs. 24.25billion in FY 2019/2020 and dipped slightly to Kshs. 23.69 billion in FY 2020/2021

Fig.1: Trends of allocations to Agriculture sector by counties in Kshs. billions



Source: *CoB Reports*

105. Table 5.5 provides agriculture and food security related budget allocation for select counties for FY 2023/2024. On average the allocations increased by 8% in FY 2023/24 as compared to FY 2022/23 with allocations to development expenditure for agriculture and food security related interventions having increased by 15% while recurrent allocations decreased by 5%.

Table 5.5: Allocation to Agriculture sector for sampled counties for FY 2023/24 in Kshs. Millions

No	County	2022/23			2023/24			% Change		
		Recc.	Dev.	Total	Recc.	Dev.	Total	Recc.	Dev.	Total
1	Busia	258.2	381.3	639.5	234.6	217.9	452.5	-9%	-43%	-29%
2	Elgeyo Marakwet	194.6	541.4	736.0	150.2	165.8	316.0	-23%	-69%	-57%
3	Isiolo	181.7	895.1	1,076.8	173.0	219.3	392.2	-5%	-76%	-64%
4	Kajiado	303.1	440.3	743.4	285.9	534.3	820.2	-6%	21%	10%
5	Kisumu	205.8	498.8	704.6	284.8	648.7	933.6	38%	30%	32%
6	Mandera	163.1	236.0	399.1	221.4	300.8	522.2	36%	27%	31%
7	Mombasa	235.0	250.0	485.0	209.0	250.0	459.0	-11%	0%	-5%
8	Nairobi City	287.0	38.0	325.0	293.9	124.0	417.9	2%	226%	29%
9	Nakuru	514.7	432.9	947.6	475.1	991.5	1,466.6	-8%	129%	55%
10	Nyamira	159.9	354.0	513.9	161.6	390.7	552.3	1%	10%	7%
11	Nyeri	240.4	355.2	595.6	241.5	471.3	712.9	0%	33%	20%
12	Samburu	321.5	315.7	637.2	182.3	884.4	1,066.7	-43%	180%	67%
13	Taita Taveta	23.2	382.8	406.0	34.4	81.4	115.8	48%	-79%	-71%
14	Tana River	155.2	304.9	460.0	176.3	243.3	419.6	14%	-20%	-9%
15	Tharaka Nithi	223.3	510.2	733.5	211.1	535.4	746.5	-5%	5%	2%
16	Trans Nzoia	260.4	667.9	928.3	255.4	392.5	647.9	-2%	-41%	-30%
17	Machakos	374.6	552.2	926.8	379.6	830.6	1,210.2	1%	50%	31%
18	Garissa	172.0	245.4	417.4	122.4	572.8	695.2	-29%	133%	67%
19	Kericho	175.7	401.1	576.8	172.8	518.5	691.3	-2%	29%	20%
20	Kiambu	463.2	887.8	1,350.9	501.8	1,340.3	1,842.0	8%	51%	36%
21	Kitui	536.1	920.4	1,456.4	356.7	650.4	1,007.1	-33%	-29%	-31%
22	Muranga	239.8	668.6	908.4	263.1	1,014.1	1,277.2	10%	52%	41%
23	Siaya	286.6	345.8	632.4	323.4	808.5	1,131.9	13%	134%	79%
24	Vihiga	211.3	547.0	758.2	171.1	299.2	470.3	-19%	-45%	-38%
25	West Pokot	203.7	458.2	661.8	205.0	593.1	798.1	1%	29%	21%
26	Turkana	151.4	1,210.2	1,361.6	115.5	1,477.0	1,592.5	-24%	22%	17%
27	Nyandarua	152.6	396.9	549.4	170.0	613.6	783.6	11%	55%	43%
Totals		**6,693.6**	**13,238.0**	**19,931.6**	**6,372.0**	**15,169.2**	**21,541.2**	**-5%**	**15%**	**8%**

106. In the FY 2023/24, significant share of the allocation to Agriculture goes towards general administration and support services as well as other initiatives such as Crop Development, Livestock Development, Irrigation Development, and Veterinary Services. Agricultural extension and advisory services play a critical role in transforming and modernizing the agriculture sector and consequently increasing food production. It offers technical advice on agriculture to farmers as well as supplying them with the

necessary inputs and services to support agricultural production6. Further, it provides information to farmers and passes to the farmers new ideas developed by agricultural research institutions. Most counties have not embraced the use of Agricultural extension services as a way to enhance food production with only 16 out of the 47 counties having allocated resources to Agricultural extension (and training/research) services in the financial year 2022/23.

107. Despite the allocation by the few counties, budget utilization for agricultural extension services remains low in most and stands at an average of 35 % absorption for the 16 counties as at March 2023 (only two months to the end of the FY). Table 2 provides a list of counties which have allocated resources to Agricultural extension services in the FY 2022/23.

Table 5.6: Allocations to Agricultural Extension Services by counties in FY 2022/23

S/No	County	2022/23 Allocation	Actual as at March 2023	Absorption (%)
		21.57	-	-
2	Busia	52.9	27.04	52%
3	Elgeyo/Marakwet	384.44	205.41	53%
4	Garissa	11.2	-	-
5	Kakamega	507.53	121.95	24%
6	Kericho	466.32	79.50	17%
7	Kirinyaga	1.81	0. 364	20%
8	Kwale	4.525	0.516	11%
9	Laikipia	27.03	19.12	71%
10	Lamu	126.29	72.3	57%
11	Nakuru	18.58	4.43	24%
12	Nyeri	8.59	3.19	37%
13	Samburu	272.06	149.6	55%
14	Tana River	3.52	2.66	76%
15	Turkana	36.15	6.95	19%
16	Vihiga	35.25	0.666	-
Totals		**1,976.86**	**693.706**	**35%**

Source: *Controller of Budget reports, County PBBs*

108. Analysis of sampled county budgets for FY 2023/24, indicates that some counties are undertaking interventions aimed at enhancing provision of extension service to farmers. These include; recruitment of additional technical staff to enhance delivery of agricultural extension services as well as training of agricultural officers and training of farmers. Moreover, a number of counties (e.g., Tana River, Tharaka Nithi, Mandera, Kisumu) cite insufficient number of extension personnel to deliver robust agricultural extension services to the farmers as well as inadequate means of mobility during extension services (Samburu and Busia) as some of the challenges in the provision of agricultural extension services

[6]https://www.fao.org/3/t0060e/T0060E03.htm#:~:text=An%20agricultural%20extension%20service%20offers,developed%20by%20agricultural%20research%20stations.

109. Additionally, some counties have targets which relates to provision of Agricultural extension services in their programme-based budgets for 2023/24 but no budgetary allocation attached to the same (these include; Tharaka Nithi, Kajiado, Samburu among others).

Legislators should keep an eye on:

i. Provision of adequate technical personnel by counties for agricultural extension services to farmers to enhance productivity and reduce losses. There is need for enhanced agriculture budgets.

ii. Ensuring that counties allocate resources to enable achievement of set targets in the medium term, notably agricultural extension related activities, which have no allocations in FY 2023/24 but have set targets and expected outputs.

iii. Ensuring that counties prioritize allocating resources to key and strategic interventions aimed at achieving food security.

5.3 County Spending Risks

110. Over the decade of devolution, county spending priorities have created some form of risks that affects services delivery, value for money and other form of fiduciary risks. Some of the risks associated with county spending includes:

i. **Stalled County Projects: -**The Auditor General has reported various county projects that have stalled while at the same time substantial amounts of public resources are tired to such projects. In terms of sectors, the county health sector had the highest number of projects that have stalled, in the FY 2019/2020 followed by roads and infrastructure.

ii. **Non-Remittances of Statutory deductions**: - County governments have over the years failed to remit employees deductions such as PAYE, NSSF, NHIF, Pension contributions and withholding taxes to receiving institutions contrary to the stipulated timelines. A review of Auditor General report for the FY 2021/22 indicates an amount of Ksh.11.1 billion remain unremitted to various statutory bodies such as Kenya Revenue Authority, LAPFUND, LAPTRUST, NSSF, NHIF and various SACCOS. The Auditor General report indicated that interest and penalties charged on non-remittances of statutory deductions amounts to Ksh.43.7 billion leading to loss of funds due to nugatory expenses

Table 5.7: Stalled Counties Projects per sector for the period FY 2019/20-FY 2021/22

Sector	2019/20	2020/21	2021/22
General Public Service	18	4	17
Education	9	6	2
Health and Sanitation	27	24	29
Agriculture	7	5	
Sports Management	5	5	3
Infrastructure	16	3	9
Environment and Natural Resources	1	4	2
Trade and Cooperatives Development	1	2	4
Others	231	197	1813
Total	315	250	1,879

Source: Auditor General Report-Various issues

111. **Legislators should keep an eye on:**

i. The completion of the stalled county projects especially those under the health sector and stalled county stadiums.

ii. County government's commitment on projects counter-funding conditions on projects financed through grants that requires County Government funding.

iii. The growing interest and penalties charged on non-remittances of statutory deductions amounts to Ksh.43.7 billion.

5.4 County Public Funds and Investments

112. Over the years, county investments have been coupled with a number of challenges and risks that hinder their viability and sustainability. Some of the associated risks include:

i. Non-Recovery of loans (Car loans) especially those advanced to Members of County Assemblies.
ii. Poor conceptualization and feasibility study, where previously started corporations failed to kick-off, after ingesting a lot of funds into such projects.
iii. Failure by the Fund Administrators to submit quarterly financial and non-financial reports to the Controller of Budget, contrary to Section 168 of the PFM Act, 2012.
iv. Irregular Award of loans and Mortgages
v. High Number Revenue Water as registered by Water Companies, despite huge amount of grants given by the County Governments.
vi. Procedural funding of county government projects.
vii. Poor monitoring of the County government corporations/ investments in regards to their financial performance as required by Section 184 of PFM Act, 2012.

113. A review of a sample of the County Government Budgets for the Financial Year 2023/2024 reveals that huge amount of resources has been set aside and approved for the various county funds aimed at achieving the County Blue Print of Economic vibrancy and prosperity as shown in table 1.0 below.

114. **Legislators should keep an eye on:**

i. Proper Utilization of the approved funds so that intended objectives can be achieved, so that citizens can derive value for money.

ii. Fund Administrators should adhere to the requirements of the law, by ensuring that quarterly financial returns are submitted to the controller of Budget.

Table 5.7: Allocations to County Funds-FY 2023/2024

S/ No	COUNTY	Type of Investment	Approved Budget Allocation in FY 2022/23 (Kshs.)
1	Nyamira	Education Support Fund	133,218,112
		Car and Mortgage Fund	50,000,000
		Co-operative Enterprise Development Fund	700,000
		Emergency Fund	25,000,000
		Health Facility Improvement Fund	69,000,000
		Inuka Fund	10,000,000
2	Nakuru	Education Support Fund-Scholarships	2,000,000
		Car Loan	2,500,000
		Emergency Relief Fund	70,000,000
3	Nairobi	Emergency Fund	200,000,000
		Biashara Ward Revolving Fund	100,000,000
		Car Grant for County Assembly	100,000,000
4	Mombasa	Elimu Fund	547,683,915
		County Emergency Fund	44,000,000
		Car Loan and Mortgage	94,440,344
5	Mandera	Emergency Fund	239,205,486
		County Climate Change Fund	950,000,000
6	Kisumu	Education Support Fund-Scholarships	205,000,000
		Kisumu county Industrial Park-matching Fund	200,000,000
7	Kajiado	Car Loan and Mortgage Fund	50,000,000
		Micro-Finance Disability Fund	10,000,000
		Kajiado County Health Improvement Fund	215,702,515
		Climate Change Fund	22,000,000
		Micro Finance, Youth and Women Enterprise Fund	10,000,000

S/ No	COUNTY	Type of Investment	Approved Budget Allocation in FY 2022/23 (Kshs.)
		Kajiado County Emergency Fund	100,000,000
8	Elgeyo-Marakwet	Emergency Fund	1,000,000
		Education Support Fund-Scholarships, and other educational benefits	97,983,894
9	Taita Taveta	County Emergency Fund	30,000,000
		Education Fund	268,000,000
		Facility Improvement Fund	176,682,445
		Liquor Control and Licensing Fund	2,400,000
		County Executive-Mortgage and Car loan	20,000,000
10	Busia	Busia County Health Services Fund	20,000,000
		Co-operative Enterprise Development Fund	20,000,000
		Education Revolving Fund	5,000,000
		Scholarships and other educational benefits	40,000,000
		TOTAL	**4,131,516,711**