REPUBLIC OF KENYA

Parliamentary Budget Office

# UNPACKING OF THE 2022 BUDGET POLICY STATEMENT

DECEMBER, 2021

**Disclaimer**

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# I. INTRODUCTION

1. The Budget Policy Statement (BPS) is a policy document that sets out the broad strategic priorities and policy goals that will guide the national and county governments in preparing their budgets for the financial year and over the medium term. The document contains the following:
    a) an assessment of the current state of the economy including macroeconomic forecasts;
    b) the financial outlook with respect to Government revenue, expenditures and borrowing for the next financial year and over the medium term;
    c) the proposed expenditure ceilings for the National Government, including those of Parliament and the Judiciary and indicative transfers to County Governments;
    d) the fiscal responsibility principles and financial objectives over the medium-term including limits on total annual debt; and
    e) Statement of Specific Fiscal Risks.

2. According to Section 25 of the Public Finance Management Act, 2012, the Budget Policy Statement for FY 2022/23 should be submitted to Parliament by the 15th February 2022. However, due to a revision of the budget calendar to accommodate the General Elections scheduled for August 2022, the 2022 BPS was submitted on 30th November 2021.

## II. SUBJECTING THE 2022 BUDGET POLICY STATEMENT TO THE FIVE (5) POINT CRITERIA EVALUATION

3. In evaluating the 2022 BPS, the document submitted was subjected to a 5-point criterion framework as shown below. The document has achieved a compliance rate of 74.28 percent. The Criteria is as follows:

    a) **Comprehensiveness, Clarity and Credibility:** The criterion assess whether the document adheres to the set down legal requirements; whether it provides all information that is required for the MPs to make an informed decision and whether this information can be clearly understood. A critical review of the document submitted has established that some information has not been provided as required by the law. This includes information on pending bills by the National Government; losses and outstanding payments of the State Corporations; and the budgetary expenditures by economic and functional classifications. In terms of clarity, some of the programmes and projects do not have clear targets on their Key Performance Indicators (KPIs). This makes it difficult to determine whether the resources allocated are adequate.

    b) **Alignment to Medium Term Priorities:** This criterion evaluates whether the policies underpinning the Budget Policy Statement are aligned with the medium term policy and strategic priorities of the government as provided for in the policy documents. The policy direction of the FY2022/23 budget is unclear. The general policy direction is to accelerate economic recovery through the implementation of the Economic Stimulus Programme (ESP) as well as the Big Four agenda. It is noted that the place and purpose of the third ESP remains unclear given that a post-COVID ERS is already in the process of being implemented. The stimulus response appears to be an afterthought rather than a well thought out strategic intervention to accelerate economic recovery. Indeed, there is no indication of why the proposed interventions are deemed the most critical to turn around the economy; the costing and implementation framework has not been provided; a critical analysis of impact of previous ESPs has not been provided; and the most in need areas, notably the MSMEs have not been adequately targeted. Furthermore, despite some reported achievements under the big four agenda, the overall targets for each of the pillars have largely been missed. This implies that so far, implementation of the big four projects has not translated into expected outcomes. Given that 2022 was supposed to be the final year of implementation of the big four, a critical review of the achievements vis-à-vis the failure to achieve the overall target should have been provided; including a plan of action to address the disconnect.

c) **Linking sector priorities to hard budget constraints:** This criterion considers whether the priority areas identified in the BPS have been reasonably funded within the hard budget constraints. Generally, budgetary allocations for most sectors appear to have followed previous trends meaning that the ceilings may not have taken into consideration the priority areas in the BPS including the ESP projects, the Big Four Agenda and the Medium-Term Plan III. Only two sectors, the National Security sector and the General Economic and Commercial Affairs sector, have significant budgetary increments while the agriculture, rural and urban development sector has a reduction in its budgetary allocations. In addition, there is no clear costing framework for the priority areas in the BPS making it difficult to adequately decipher whether the proposed interventions are over-funded or under-funded.

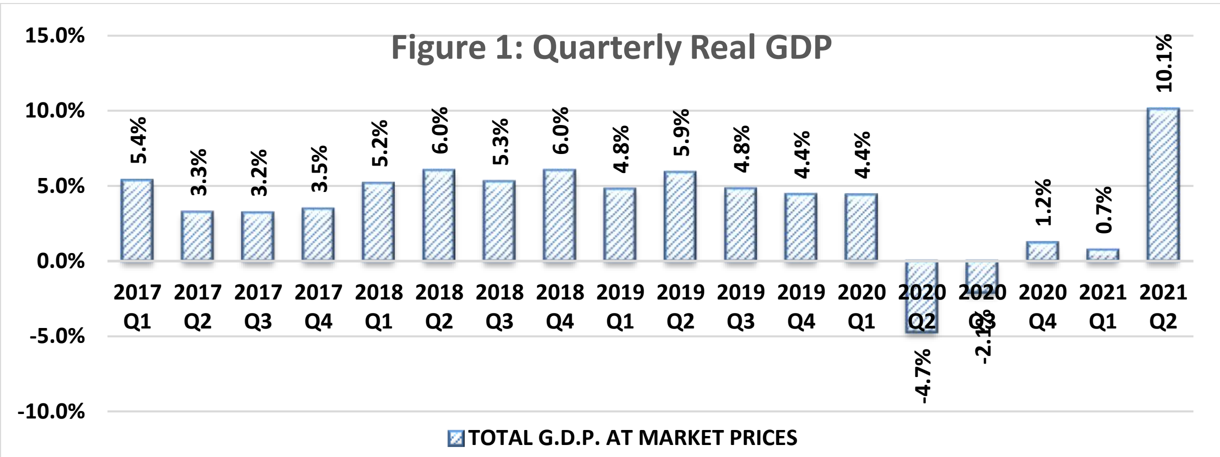
d) **Quality of forecasting models:** The criterion considers the quality of assumptions underpinning the macroeconomic outlook as well as revenue projections; and the credibility of the numbers for the economic growth and revenue estimations. The economic growth projection of the National Treasury **of 5.8 percent in 2022** is deemed ambitious due to the possibility of slower economic recovery from the Covid-19 pandemic coupled with the negative impact of the drought experienced in the better part of 2021 and possibly 2022, possible dampening of growth in private investment due to election-related activities, as well as the possibility of reinstatement of some coronavirus containment measures due to emergence of new coronavirus variants. Similarly, the projection that ordinary revenue as a share of GDP will increase from 13.8 percent in 2020/21 to over 16.1 percent by 2023/24 is not premised on specific interventions. There are no novel, specific and quantifiable revenue enhancement measures in the 2022 BPS that will support the assertion of expected faster growth in tax revenue relative to economic activity.

e) **Support to devolution.** This criterion evaluates the extent to which the proposed policy interventions support devolution and good intergovernmental relations. The 2022 BPS has provided information for both vertical and horizontal distribution of resources. There is an indicative equitable share of Kshs. 370 billion to counties as well as Kshs. 7.1 billion towards the Equalization fund. It is noted however, that the National Treasury is silent on the mechanisms for disbursing, accounting, and oversighting of conditional allocations. This may hinder implementation of ongoing programmes and projects at county level. Further, there are some key interventions proposed by the national government notably in Agriculture and Health which require extensive collaboration between the national and county government. However, the collaborative framework remains unclear and it appears that the national government is continuing to implement county functions without clear participation from the counties.

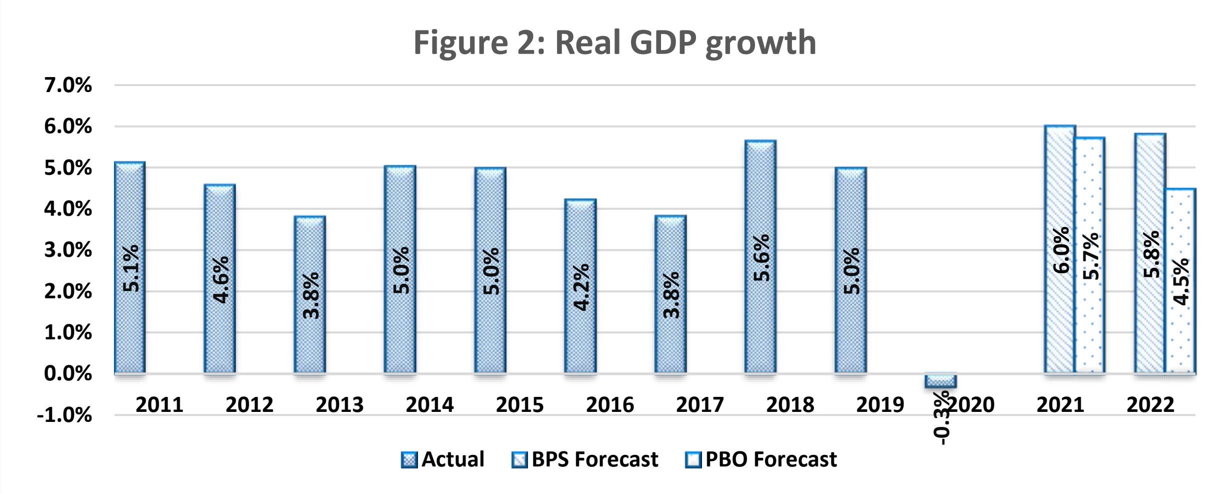
## III. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM-TERM OUTLOOK

### a. Economic Growth

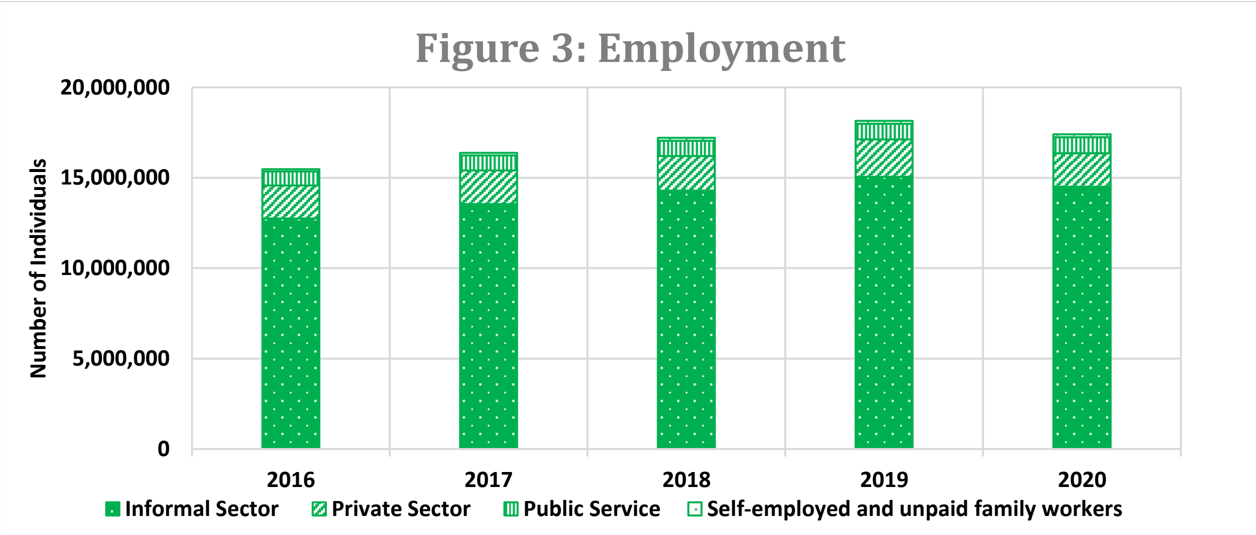
4. **Kenya's economy is on course to bounce back from the 0.3 percent contraction of real GDP recorded in 2020**. The economy grew by 5.4 percent in the first half of 2021 buoyed by the recovery in sectors such as Education, Transport, accommodation and restaurants which bore the brunt of the measures that were put in place to curb the spread of the coronavirus. However, it should be noted that the above-average growth rate for the second quarter of 2021 is partially attributed to the base effect (negative growth over a similar period in 2020).



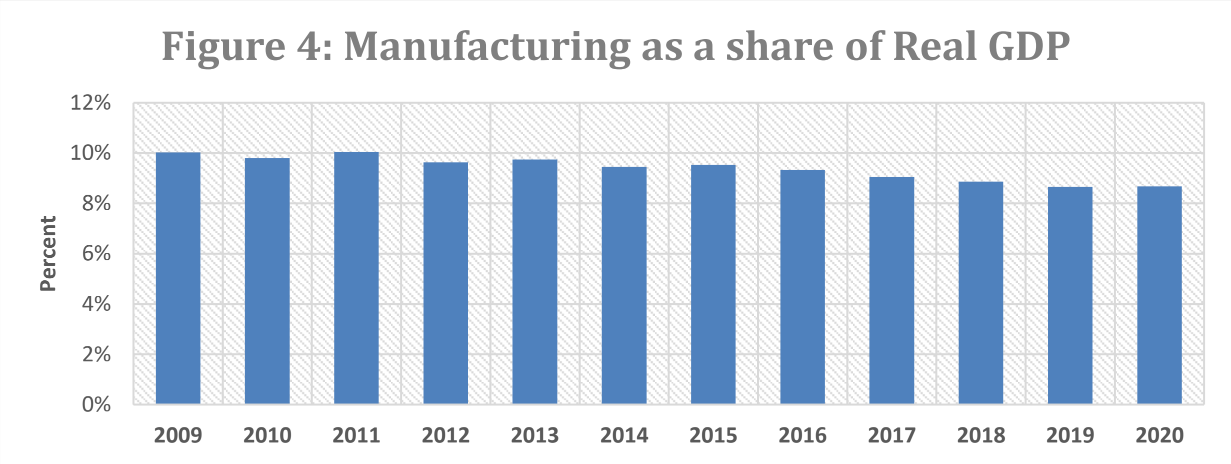

5. **The National Treasury projects that Kenya's economy will grow by 5.9 percent in 2021/22 and 5.8 percent in 2022/23 (6 percent in 2021 and 5.8 percent in 2022).** However, premised on the assumption of slower economic recovery from the Covid-19 pandemic coupled with the negative impact of the drought experienced in the better part of 2021, possible dampening of growth in private investment due to election-related activities, as well as the possibility of reinstatement of some coronavirus containment measures due to emergence of new coronavirus variants, it is projected that the economy will grow by 5.7 percent in 2021 and 4.8 percent in 2022.




6. **The aforementioned risks to the economic outlook may also hamper the recovery in a job market that lost over 700,000 jobs in 2020.** The bulk of the estimated 350,000 jobs lost in the informal sector were in the manufacturing, wholesale and retail trade, and hotels and restaurant sectors. Similarly, a majority of formal sector job losses occurred in the manufacturing, education, accommodation and restaurants sectors. Consequently, the National Treasury must ensure that the policies implemented in the next financial year spur job recovery/creation in critical sectors such as manufacturing and services that employ a majority of Kenyans engaged in the informal sector.

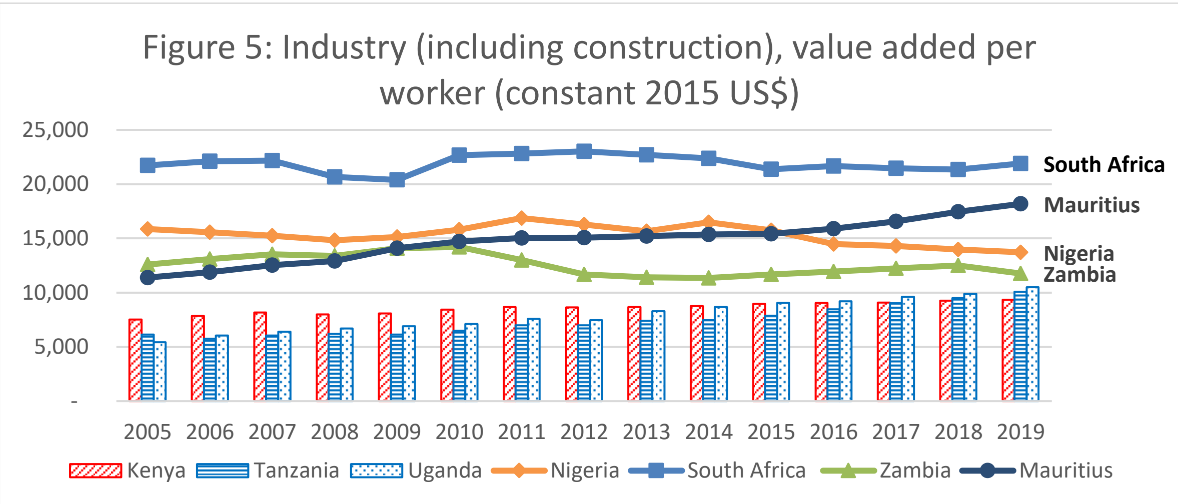



7. Manufacturing which accounts for over 20 percent of employment in the informal sector lost over 120,000 jobs in 2020. The sector has since recorded some modest recovery with a growth of 5.5 percent in the first half of 2021. However, accelerated growth in this sector over the medium term is needed in order to reverse the decline in manufacturing as a share of Kenya's GDP.




Source of Data: Kenya National Bureau of Statistics

8. Over the last decade, Kenya's overall labour productivity in the industry sector has grown at a slower pace relative to her East Africa Community peers such as Uganda and Tanzania. As of 2019, Kenya's estimated value-added per worker in the industry sector was US$ 9,354 whereas that of Tanzania and Uganda was US$ 10,076 and US$10,502 respectively. Further, labour productivity within EAC has consistently lagged behind other comparable African countries. **Consequently, a well-designed stimulus programme that enhances access to credit and provision of incubation facilities for MSMEs engaged in manufacturing coupled with public investments aimed at reducing operating costs is needed to enhance labour productivity, boost growth in the industry sector and create employment opportunities.**

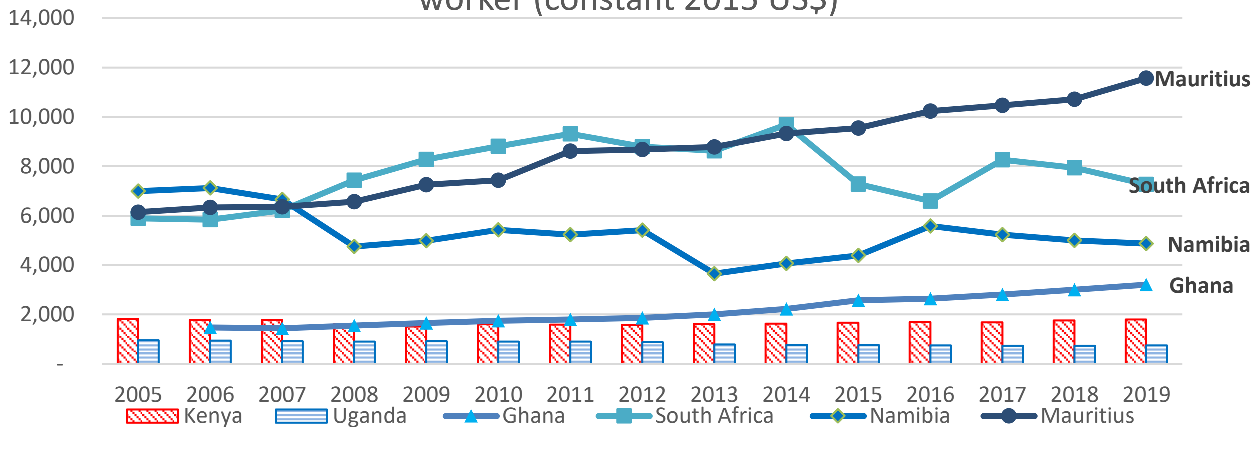



Source of data: World Development Indicators (November 2021 update)

9. **The agriculture sector remained resilient in 2020 growing at 4.9 percent surpassing the 2.7 percent growth recorded in 2019**. However, due to the lower-than-expected rainfall in the better part of 2021 coupled with a decline in the value of some agricultural exports the agriculture sector **contracted by 0.5 percent** in the first half of 2021. Further over the last decade, Kenya's labour

productivity in the agriculture sector which lags behind some of her African peers has remained relatively unchanged.

Figure 6: Agriculture, forestry, and fishing, value added per worker (constant 2015 US$)



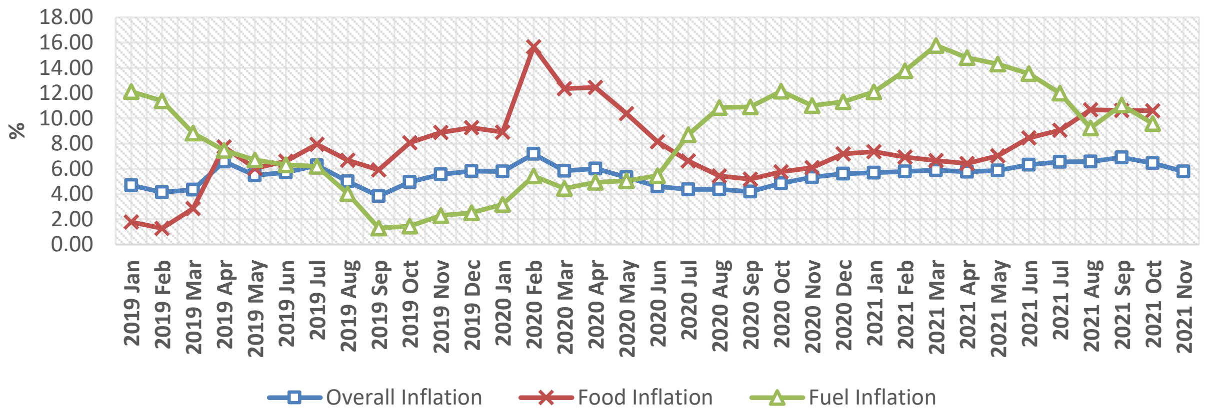

Source of data: World Development Indicators (November 2021 update)

10. **Increasing productivity in the agriculture sector is one of the strategies that is likely to contribute to enhanced economic growth over the medium term**. Interventions aimed at promoting mechanization, reducing post-harvest losses and access to high-quality fertilizer and seeds by small and medium scale farmers will improve rural incomes and accelerate economic growth. Further, there is a need to ensure that there is proper coordination between the national and county governments in the implementation of programmes in the agriculture sector.

## b. Inflation rate

11. **Food inflation was the main driver of the increase in overall inflation from 5.8 percent in April 2021 to 6.5 percent in October 2021.** Lower than expected rainfall between March and May 2021 coupled with the drought experienced in some parts of the country resulted in food inflation increasing from 6.4 percent in April 2021 to 10.6 percent in October 2021.

**Figure 7: Inflation**




Source of Data: Kenya National Bureau of Statistics and Central Bank of Kenya

12. **Overall inflation is expected to remain within the Government's target band of between 2.5% and 7.5% in 2021.** However, a possible rise in global food prices, coupled with weather-related shocks may push inflation towards the upper bound. The IMF (WEO October 2021) projected that overall food prices and cereal prices are expected to rise by 2% and 4% in 2022 respectively. In addition, the end of the EPRA fuel subsidy coupled by an increase in international crude oil prices may also fuel an uptick in inflation.

**Table 1: Contribution to Overall Inflation (%)**

| Category | Jan 2021 | Feb 2021 | Mar 2021 | Apr 2021 | May 2021 | Jun 2021 | Jul 2021 | Aug 2021 | Sep 2021 | Oct 2021 | Nov 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
| Food & Nonalcoholic Beverages | 44.7 | 41.6 | 38.9 | 38.7 | 41.5 | 46.1 | 47.3 | 56.8 | 53.5 | 57.1 | 59.9 |
| Alcoholic Beverages, Tobacco & Narcotics | 1.7 | 1.7 | 1.6 | 1.2 | 1.4 | 1.6 | 1.5 | 1.4 | 1.5 | 1.8 | 1.9 |
| Clothing & Footwear | 1.2 | 1.2 | 1.3 | 1.4 | 1.1 | 0.9 | 1.3 | 1.3 | 1.4 | 1.2 | 0.9 |
| Housing, Water, Electricity, Gas and other Fuels | 8.3 | 9.0 | 10.4 | 10.4 | 8.4 | 10.3 | 14.3 | 12.0 | 13.6 | 13.9 | 16.7 |
| Furnishings, Household Equipment and Routine Household Maintenance | 2.2 | 2.3 | 2.4 | 2.6 | 2.4 | 2.7 | 3.0 | 2.9 | 2.6 | 2.4 | 2.8 |
| Health | 2.4 | 2.3 | 2.1 | 2.2 | 2.2 | 2.2 | 1.8 | 1.5 | 1.7 | 1.1 | 0.7 |
| Transport | 25.4 | 29.5 | 31.1 | 30.4 | 29.0 | 23.5 | 16.2 | 12.4 | 13.6 | 12.9 | 2.7 |
| Information & Communication | 1.1 | 1.2 | 1.4 | 1.5 | 2.0 | 2.2 | 4.4 | 3.0 | 3.5 | 3.7 | 3.3 |
| Recreation, Sports & Culture | 0.9 | 0.9 | 0.8 | 0.9 | 0.7 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |
| Education Services | 1.9 | 2.1 | 2.0 | 2.3 | 2.4 | 2.1 | 1.3 | 1.9 | 1.9 | 1.7 | 1.5 |

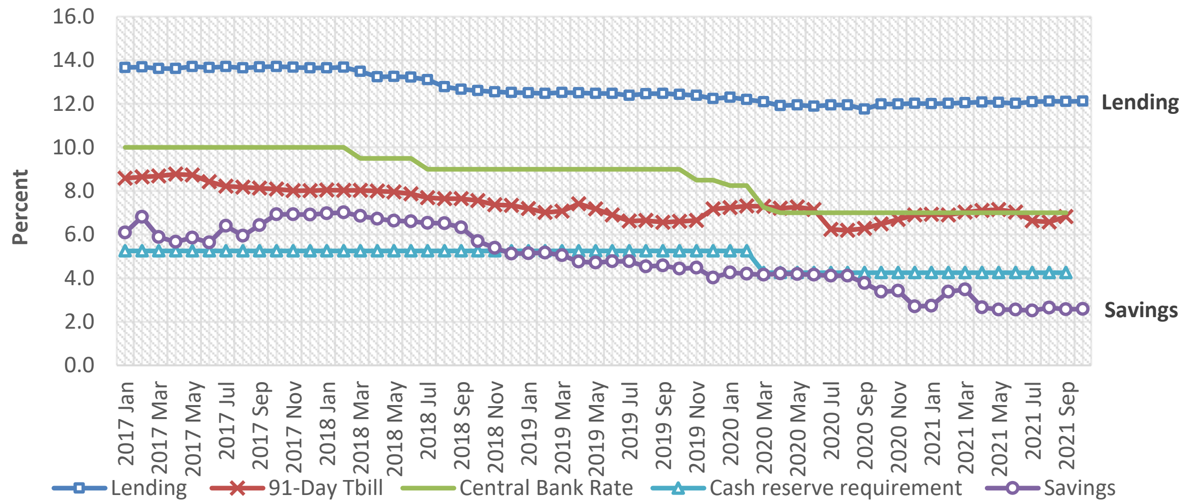
| Category | Jan 2021 | Feb 2021 | Mar 2021 | Apr 2021 | May 2021 | Jun 2021 | Jul 2021 | Aug 2021 | Sep 2021 | Oct 2021 | Nov 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Restaurants & Accommodation Services | 8.0 | 5.9 | 5.8 | 5.9 | 6.0 | 5.6 | 5.9 | 3.9 | 3.8 | 2.1 | 7.1 |
| Personal Care, Social Protection and Miscellaneous Goods & Services | 0.8 | 1.0 | 0.9 | 1.3 | 1.3 | 1.2 | 1.1 | 1.1 | 1.2 | 1.1 | 1.2 |
| Insurance and Financial Services | 1.2 | 1.3 | 1.4 | 1.4 | 1.5 | 1.4 | 1.5 | 1.5 | 1.5 | 0.7 | 0.8 |
| **TOTAL** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |
| **Overall Inflation** | **5.7** | **5.8** | **5.9** | **5.8** | **5.9** | **6.3** | **6.6** | **6.6** | **6.9** | **6.5** | **5.8** |

Table 1: Contribution to Overall Inflation (%)

## c. Interest rates and credit

13. The CBK has maintained measures put in place at the onset of the Covid-19 pandemic such as lowering the CBK rate and the cash reserve requirement. One of the main goals of these monetary policy measures coupled with the launch of the credit guarantee scheme for MSMEs in October 2020 was to lower the cost of borrowing for the private sector. However, the weighted average lending rate remained unchanged at about 12 percent between January 2021 and October 2021.

**Figure 8: Interest rates**




Source of Data: Central Bank of Kenya

14. Overall net credit growth of 13 percent for the period to September 2021 was mainly driven by net credit to the public sector which grew by 25 percent. Net credit to the private sector of the period grew by 7.7 percent compared to 7.5 percent over a similar period in 2020. The main driver of the net credit growth in the private was credit to the finance and insurance sector, transport and communication sector, and consumer durables. Relative to 2020, growth in net credit to some key sectors such as

manufacturing, construction, and trade was lower in the first three quarters of 2021. Consequently, it is evident that the launch of the credit guarantee scheme is yet to spur credit uptake in key sectors that account for the bulk of employment in the informal and formal sectors.

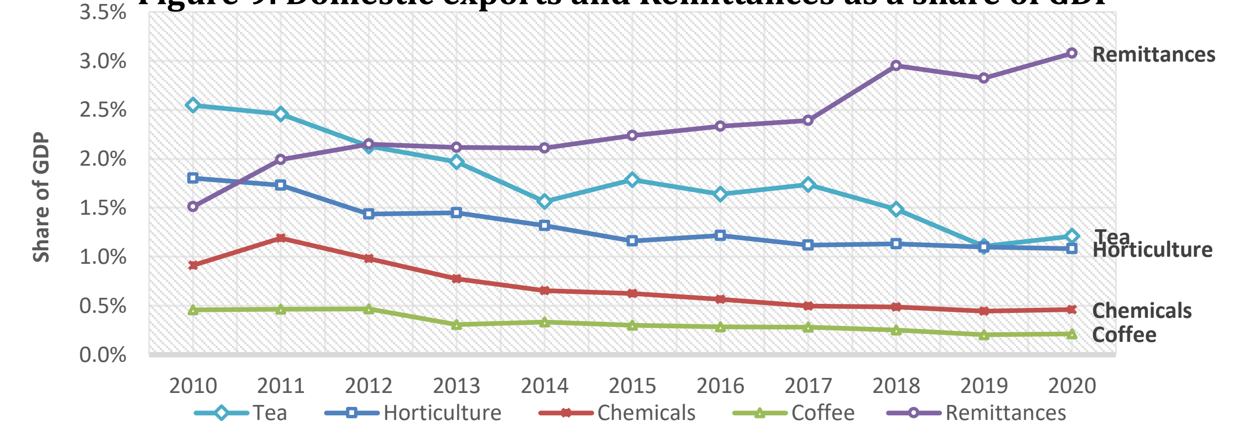
**Table 2: Credit to the private sector and public sector**

| | Annual growth rate Percent | | |
|---|---|---|---|
| | **Sept 2019** | **Sept 2020** | **Sept 2021** |
| **Net Credit to Public Sector** | **13.1%** | **29.2%** | **25.4%** |
| **Net credit to private sector** | **7.0%** | **7.5%** | **7.7%** |
| Agriculture | 5.5% | 1.7% | 3.3% |
| Manufacturing | 7.5% | 12.6% | 9.8% |
| Trade | 7.5% | 6.6% | 4.6% |
| Building and construction | -5.3% | 4.1% | 0.5% |
| Transport and communication | 5.1% | 20.6% | 10.9% |
| Finance and insurance | 14.5% | -3.4% | 11.7% |
| Real Estate | 2.2% | 6.6% | 2.8% |
| Mining and quarrying | -5.0% | 8.3% | -8.3% |
| Private households | 8.8% | 3.1% | 2.6% |
| Consumer durables | 28.4% | 15.6% | 17.5% |
| Business services | 3.2% | 4.0% | 7.6% |
| Other activities | -13.5% | -5.8% | 59.5% |
| **Total Net Credit Growth** | **8.7%** | **13.6%** | **13.3%** |
| Source: Central Bank of Kenya | | | |

## d. External sector

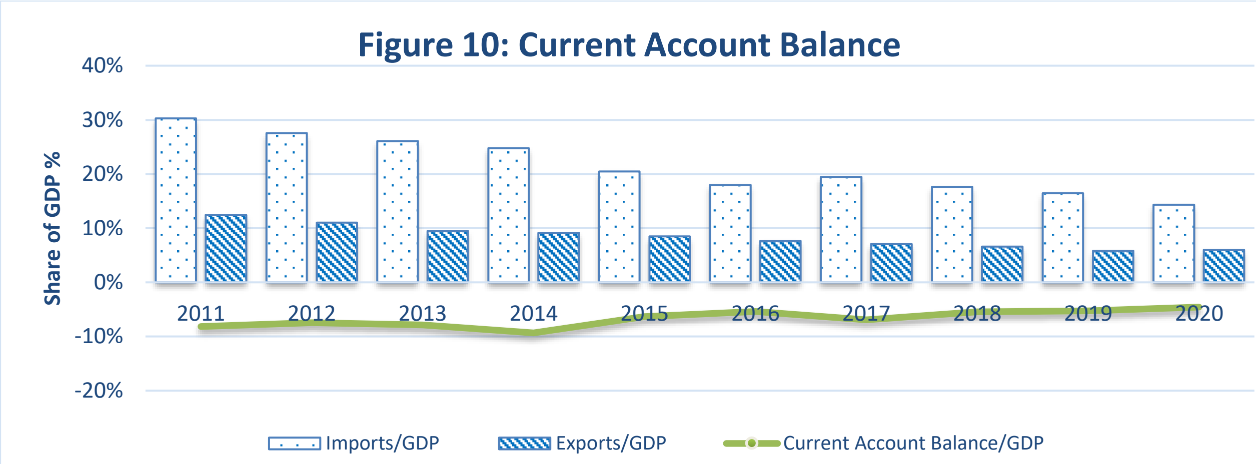
15. **Exports as a share of GDP have steadily declined from around 12 percent in 2011 to 6 percent in 2021/22.** However, over the same period, the current account deficit improved from 8 percent to around 5 percent mainly on account of declining imports as a share of GDP. Gradually, remittances have become a key source of foreign exchange replacing traditional agricultural exports such as tea and horticulture.

**Figure 9: Domestic exports and Remittances as a share of GDP**



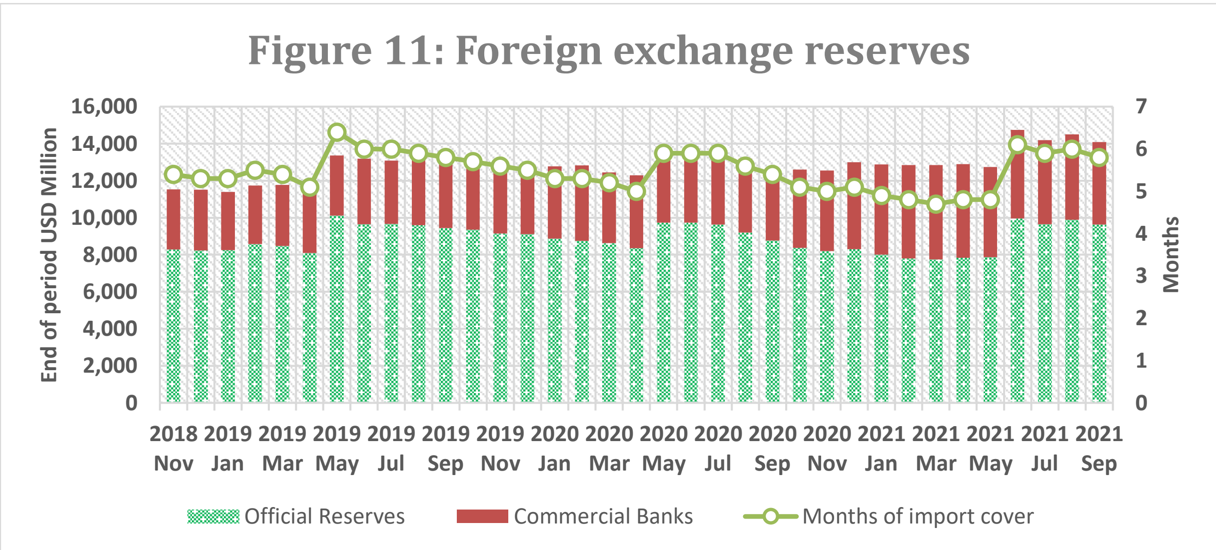

Source of Data: Kenya National Bureau of Statistics and Central Bank of Kenya

16. The current account deficit expanded to 4.3 percent in the first half of 2021 from 3.8 percent over a similar period in 2022. The current account deficit is expected to increase further as global trade recovers from the Covid-19 pandemic and imports of industrial supplies fuel and machinery expand to the pre-pandemic levels and exports as a share of GDP remain subdued. However, through public investments geared towards reducing operating costs, provision of incubation opportunities and enhancement of access to credit for export-oriented MSMEs Kenya can reverse the trend of declining exports as a share of GDP and avoid reliance on remittances which poses a risk due to their erratic nature and susceptibility to global shocks beyond Kenya's policy control.



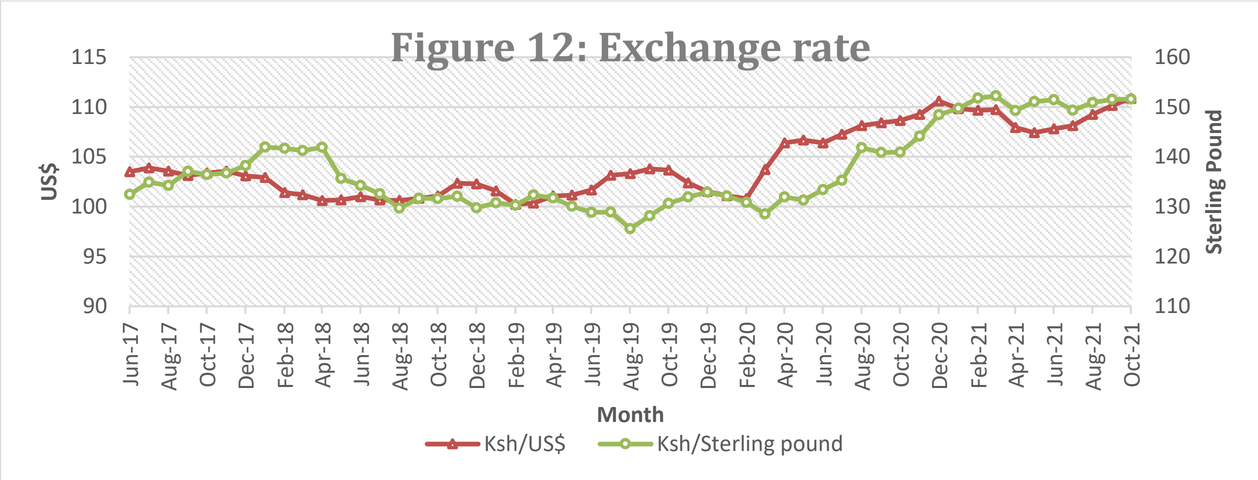

Source of Data: Kenya National Bureau of Statistics

17. **The foreign reserve holding remained above the 4 months threshold between January and September 2021.** The contracting import bill, growth in value of some agricultural exports such as coffee and vegetables coupled with the growth in diaspora remittances are some of the factors that ensured that the country maintained adequate foreign reserves.

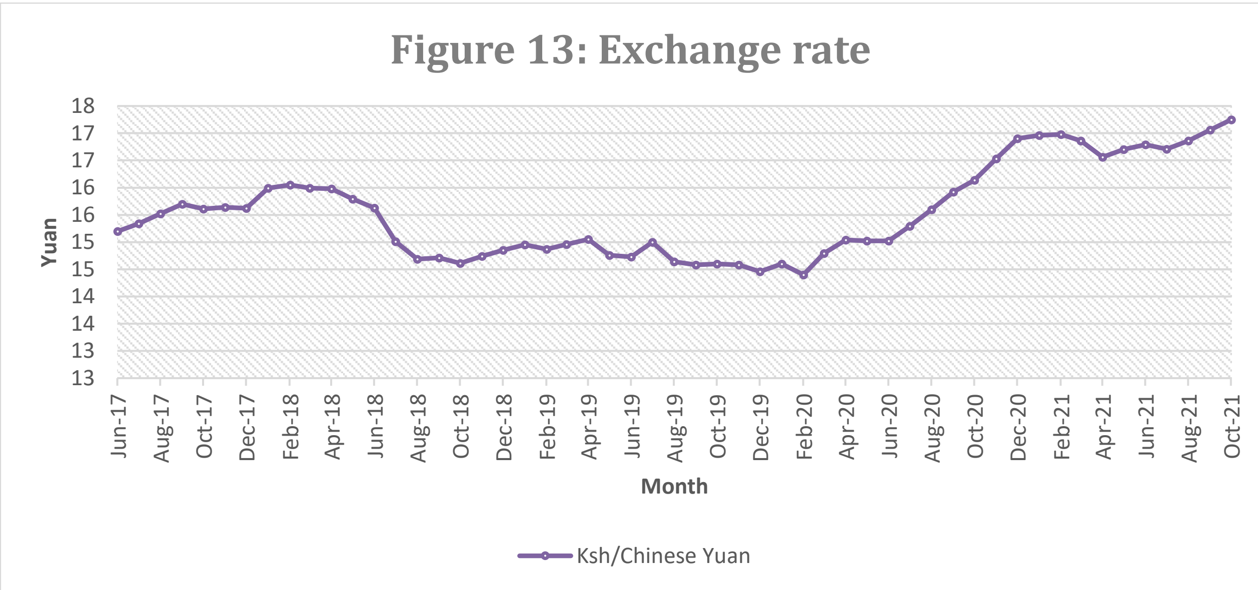



Source of data: Central Bank of Kenya

18. **The Kenya Shilling depreciated relative to other major reserve currencies between October 2020 to October 2021.** The shilling depreciated by 2 percent, 7.5 percent and 6.9 percent against the US dollar, Sterling pound and Chinese yuan. Going forward, enhanced demand for imports, relatively weak exports of some agricultural products, slow recovery of the tourism sector, continued servicing of external debt coupled with a wait and see approach by international investors during the election period may contribute to further depreciation of the shilling. The weakening of the Shilling may make servicing of external debt more expensive over the medium term.




Source of data: Central Bank of Kenya

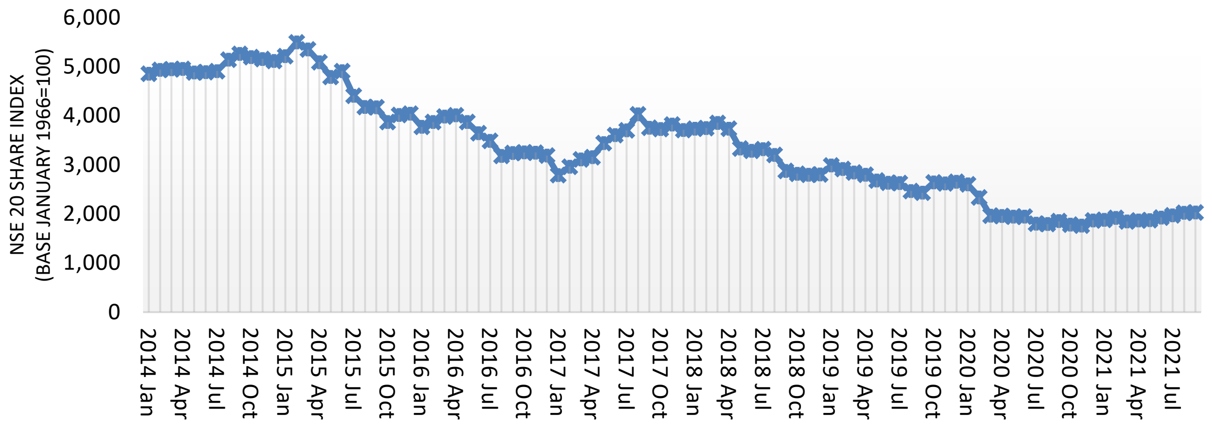



Source of data: Central Bank of Kenya

## e. Nairobi Securities Exchange

19. **The capital market recorded a slight upward swing in the third quarter of 2021**. The NSE 20 share index increased from 1,852 points in September, 2020 to 2,031 points in September 2021 as the economy partially recovered from the impact of the covid-19 pandemic. However, the capital market is yet to reverse the historical downward trend that persisted before the covid-19 pandemic.

**Figure 14: Performance of the Nairobi Securities Exchange**




Source of Data: Kenya National Bureau of Statistics & NSE

20. **Foreign investor participation has been on a downwards trend in 2021, declining from an average of over 60 percent between July 2020 and March 2021 to 52 percent in the third quarter of 2021**. The downward trend in foreign investor participation is expected to persist into 2022 as they implement a wait and see approach due to heightened political activities. Further, market concentration continues to be a major risk with the top five companies still accounting for more than 80 percent of the total market share at the NSE. This is an indication that strategies pursued by the Capital Market Authority to attract other big companies to list at the NSE have not been successful.

## f. Fiscal Policy

21. Ordinary revenue collection for the first quarter of 2021/22FY was Ksh. 442 billion, which amounted to around 25 percent of the ordinary revenue target set in 2021/22 FY printed estimates. Buoyed by the above-average revenue collection, the National Treasury has revised its ordinary revenue target upwards **by Ksh. 24.5 billion to Ksh. 1,800 billion**. However, given the expected slower economic recovery from the covid-19 pandemic and the impact of the lower than expected rainfall/drought experienced in the better part of 2021 on the performance of the economy, it is expected that ordinary revenue collection for the 2021/22 FY will be between Ksh. 1,668.8 billion and Ksh. 1,749.0 billion.

| Table 3: Fiscal Operations (Ksh. billion) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018/19 | | | 2019/20 | | | 2020/21 | | | 21/22 | 22/23 | 23/24 |
| | Printed | Actual | Dev % | Printed | Actual | Dev % | Printed | Prel Actual | Dev% | BPS | BPS | BPS |
| **Revenue & grants** | **1,998** | **1,725** | (13.7) | **2,155** | **1,816** | (15.7) | **1,950** | 1,815 | (6.9) | **2,125** | **2,478** | **2,869** |
| **Total Revenue** | **1,949** | **1,705** | (12.5) | **2,116** | **1,796** | (15.1) | **1,893** | 1,784 | (5.8) | **2,063** | **2,431** | **2,821** |
| **Ordinary Rev** | **1,769** | **1,500** | (15.2) | **1,877** | **1,574** | (16.2) | **1,634** | 1,562 | (4.4) | **1,800** | **2,142** | **2,516** |
| **Income tax** | 837 | 1,401 | (18.1) | 884 | 1,384 | (20.1) | 685 | 694 | 1.3 | 818 | 997 | 1,179 |
| **VAT** | 464 | 685 | (10.8) | 496 | 707 | (22.6) | 482 | 411 | (14.7) | 477 | 585 | 692 |
| **Import duty** | 119 | 414 | (10.5) | 135 | 384 | (27.6) | 107 | 108 | 1.5 | 119 | 145 | 170 |
| **Excise duty** | 219 | 107 | (11.3) | 242 | 98 | (19.4) | 241 | 216 | (10.4) | 260 | 297 | 347 |
| **Other** | 130 | 194 | (23.3) | 119 | 195 | 59.3 | 119 | 133 | 11.3 | 127 | 118 | 129 |
| **Appropriation-in-Aid** | 180 | 100 | 13.7 | 239 | 190 | (6.9) | 232 | 222 | (14.3) | 263 | 290 | 305 |
| **Grants** | **48** | **20** | (59.4) | **39** | **20** | (48.9) | 57 | **31** | (44.9) | **62** | **47** | **48** |
| **Expenditure & Net Lending** | **2,557** | **2,434** | (4.8) | **2,796** | **2,627** | (6.0) | **2,791** | **2,750** | (1.5) | **3,154** | **3,324** | **3,551** |
| **Deficit Excl Grants** | **(608)** | **(729)** | | **(680)** | **(831)** | | **(842)** | **(966)** | | **(937)** | **(879)** | **(592)** |
| **Deficit Incl Grants** | **(560)** | **(709)** | | **(641)** | **(812)** | | **(899)** | **(934)** | | **(1,029)** | **(846)** | **(682)** |
| As a percent of GDP | | | | | | | | | | | | |
| | Printed | Actual | | Printed | Actual | | Printed | Prel Actual | | BPS | BPS | BPS |
| **Revenue & grants** | **21.4** | **18.5** | | **21.1** | 17.3 | | **17.3** | **16.1** | | **16.8** | **17.7** | **18.4** |
| **Total Revenue** | **20.9** | **18.3** | | **20.8** | 17.1 | | **16.8** | **15.8** | | **16.3** | **17.4** | **18.1** |
| **Ordinary Rev** | **19.0** | **16.1** | | **18.4** | 15.0 | | **14.5** | **13.8** | | **14.3** | **15.3** | **16.1** |
| **Income tax** | 9.0 | 7.4 | | 8.7 | 13.2 | | 6.1 | 6.1 | | 6.5 | 7.1 | 7.6 |
| **VAT** | 5.0 | 4.4 | | 4.9 | 6.7 | | 4.3 | 3.6 | | 3.8 | 4.2 | 4.4 |
| **Import duty** | 1.3 | 1.1 | | 1.3 | 3.7 | | 0.9 | 1.0 | | 0.9 | 1.0 | 1.1 |
| **Excise duty** | 2.4 | 2.1 | | 2.4 | 0.9 | | 2.1 | 1.9 | | 2.1 | 2.1 | 2.2 |
| **Other** | 1.4 | 1.1 | | 1.2 | 1.9 | | 1.1 | 1.2 | | 1.0 | 0.8 | 0.8 |
| **Appropriation-in-Aid** | 1.9 | 2.2 | | 2.3 | 1.8 | | 2.1 | 2.0 | | 2.1 | 2.1 | 2.0 |
| **Grants** | **0.5** | **0.2** | | **0.4** | **2.1** | | **0.5** | **0.3** | | **0.5** | **0.3** | **0.3** |
| **Expenditure & Net Lending** | **27.5** | **26.1** | | **27.4** | **25.5%** | | **24.8** | **24.3** | | **25.0** | **23.7** | **22.8** |
| **Deficit Excl Grants** | **(6.5)** | **(7.9)** | | **(6.7)** | **(8.3)** | | **(8.0)** | **-8.5** | | **-8.6** | **-6.4** | **-4.7** |
| **Deficit Incl Grants** | **(6.0)** | **(7.6)** | | **(6.3)** | **(8.1)** | | **(7.5)** | **-8.3** | | **-8.2** | **-6.0** | **-4.4** |

22. **The National Treasury projects that ordinary revenue as a share of GDP will increase from 13.8 percent in 2020/21 to over 16.1 percent by 2023/24.** However, there are no novel, specific and quantifiable revenue enhancement measures in the 2022 BPS that support the assertion of expected faster growth in tax revenue relative to economic activity. Consequently, in a no policy change scenario (baseline scenario), it is projected that ordinary revenue collection for 2022/23 FY will be between Ksh1,775.4 billion and Ksh. 1,971.8 billion.

| Table 4: Baseline scenario Revenue projections Ksh. million | | | | |
|---|---|---|---|---|
| | | **2020/21** | **2021/22** | **2022/23** |
| | | **Preliminary Actual** | **Projection** | **Projection** |
| **Total Revenue** | BPS | **1,783,747** | **2,063,100** | **2,431,400** |
| | PBO | **1,783,747** | **1,979,827** | **2,235,371** |
| **Ordinary Revenue** | BPS | **1,562,015** | **1,800,000** | **2,141,600** |
| | PBO | **1,562,015** | **1,749,028** | **1,971,815** |
| Income Tax | BPS | 694,053 | 817,900 | 997,300 |
| | PBO | 694,053 | 805,567 | 905,565 |
| VAT | BPS | 410,758 | 477,100 | 584,700 |
| | PBO | 410,758 | 468,593 | 541,085 |
| Import duty | BPS | 108,375 | 118,800 | 144,900 |
| | PBO | 108,375 | 118,400 | 137,224 |
| Excise duty | BPS | 216,325 | 259,600 | 297,200 |
| | PBO | 216,325 | 239,349 | 263,997 |
| Other Revenue | BPS | 132,504 | 126,700 | 117,500 |
| | PBO | 132,504 | 117,119 | 123,945 |
| Appropriation-in-Aid | BPS | 221,732 | 263,000 | 289,800 |
| | PBO | 221,732 | 230,799 | 263,556 |

23. The proposal in the 2022 Budget Policy Statement to have a medium-term revenue strategy (MTRS) for a period of 4 to 6 years is a welcome policy step that may enhance revenue collection in the future. However, it is not possible to evaluate/quantify the details of the specific policies contained in the MTRS since it is yet to be made public.

24. The second strategy aimed at fiscal consolidation proposed in the BPS involves reducing expenditures as a share of GDP. However, the proposals aimed at curbing the growth of expenditure through reduction of non-priority expenditures such as hospitality, training, travel and freezing of employment in non-priority sectors, coupled with implementation of Public Investment Management (PIM) Unit regulation for efficient management of public projects are similar to those proposed in past BPSs. Consequently, it is unlikely the National Treasury's target of reducing the fiscal deficit to deficit (including grants) to 3.5 percent (3.2 percent) in the medium term will be met.

| Table 5: Fiscal Projections as a share of GDP | | | | |
|---|---|---|---|---|
| | | 2020/21 | 2021/22 | 2022/23 |
| | | Preliminary Actual | Projection | Projection |
| **Total Revenue** | BPS | 15.8% | 16.3% | 17.4% |
| | PBO | 15.7% | 15.8% | 16.2% |
| **Ordinary Revenue** | BPS | 13.8% | 14.3% | 15.3% |
| | PBO | 13.7% | 13.9% | 14.3% |
| **Expenditure net lending** | BPS | 24.3% | 25.0% | 23.7% |
| | PBO | 24.2% | 24.1% | 23.4% |
| **Deficit excl grants** | BROP | -8.5% | -7.9% | -6.0% |
| | BPS | -8.5% | -8.6% | -6.4% |
| | PBO | -8.5% | -8.3% | -7.2% |
| **Nominal GDP Ksh. Billion** | BPS | 11,304.1 | 12,628.1 | 14,002.1 |
| | PBO | 11,366.6 | 12,551.7 | 13,799.9 |
| | WEO | 11,364.3 | 12,652.0 | 14,059.5 |

## Risks to the economic outlook

25. The following are the risks to the fiscal economic outlook:

i. **The emergence of new coronavirus variants:** The emergence of new coronavirus variants has resulted in some countries reintroducing travel restrictions, working from home directives as well as social distancing measures in public places. The possible reintroduction of measures aimed at containing the spread of new coronavirus variants in Kenya may contribute to job losses in the industry and service sector as well as slower than expected economic growth.

ii. **Investor confidence:** Over the past two decades, uncertainty associated with general elections has had a negative impact on economic growth. Further, investors both foreign and domestic have tended to adopt a wait and see attitude before general elections. Therefore, over the next financial year, there may be a possible dampening of growth in private investment due to election-related activities.

iii. **Weather-related shocks:** Below average rains for the better part of 2021 coupled with the drought in some parts of the country is expected to hamper growth in the agriculture and livestock sector in the coming year. Further, a possible rise in global food prices, coupled with weather-related shocks may push inflation towards the upper bound. The IMF (WEO October 2021) projected that overall food prices and cereal prices are expected to rise by 2% and 4% in 2022 respectively.

iv. **Governance issues:** During election years, the pressure to facilitate election related spending and tax exemption poses a risk to the realization of the medium-term fiscal consolidation goals contained in the BPS.

## IV. ACCELERATING ECONOMIC RECOVERY FOR IMPROVED LIVELIHOOD

26. The policy thrust of the 2022 Budget Policy Statement is captured in two broad categories: the Economic Stimulus Programme and the Big Four Agenda. The primary objective is to accelerate economic recovery through some select priority economic policies and structural reforms to be implemented in the 2022/23 – 2024/25 MTEF period. The theme of the 2022 BPS is, *"accelerating economic recovery for improved livelihood."*

### a. The Economic Stimulus Programme

27. The proposed Economic Stimulus Programme (ESP) is the third in a series of stimulus responses to alleviate the adverse effects on the economy, brought about by the COVID-19 pandemic. The total cost is estimated at Ksh. 26.2 billion. It is indicated that the ESP will target key productive and service sectors. These include agriculture, health, education, drought response, policy, infrastructure, financial inclusion, energy and environmental conservation.

28. An effective ESP should be developed through consultation and should be timely, targeted and with a finite date. It is noted that ESP implementation in the country typically starts with a lot of interest and vigour but quickly loses steam after the initial stage as funds are removed from these projects and business as usual kicks in until another challenge comes along. As a result, many ESP projects never live long enough for the target to be achieved and are not followed through with an analysis of impact to determine their success or lack thereof.

29. With regard to timeliness, there is concern that implementing an ESP while a post-COVID ERS which is supposed to address the same concerns is already in the process of being implemented is simply a duplication of efforts. Given that the economy has been in recovery for some time now and that the post-COVID Economic Recovery Strategy (ERS) was expected to facilitate long term economic recovery through 2022; It is not clear why a third ESP is necessary at this juncture. Indeed, the implementation of several ESPs and an ERS in quick succession points to a tendency to continue such interventions in perpetuity even when they are no longer necessary or required. Most of these interventions do not have completion dates. Furthermore, their *targetedness* is debatable given that – even though addressing existing needs – they do not effectively cover the most in need, notably the MSMEs.

30. In reviewing the ESP, the following are some salient issues that have been observed:

i. **Inadequate drought mitigation measures:** There is an allocation of Ksh. 1.5 billion for livestock off-take programme as a key drought mitigation response**.** Given the intensity of the prevailing drought crisis - one of the driest season recorded in eastern pastoral and coastal districts; 20 counties in stress or crisis categories; completely failed season in marginal agricultural households; and projected below average rainfall in 2022 long rains season – the BPS should have included more critical, well thought out and clear drought intervention measures extending to 2022. These could include provision of food aid, cash transfer payments, livestock feeds and supplements, provision of water; food redistribution channels. It is noted however that the government has launched an emergency relief cash transfer programme through the Ministry of Public Service, Gender, Senior Citizen Affairs and Special Programmes to households affected by drought. This has however not been highlighted in the BPS.

ii. **Lack of clarity in intergovernmental relations and targeting of interventions:** there are several interventions in the BPS that require collaboration with counties but the framework of collaboration is unclear. These include Fertilizer subsidy for small scale tea farmers (Ksh. 1 billion); factory maintenance in the sugar belt (Ksh. 1.5 billion); reduction of prices for animal feeds; and construction of 50 new level 3 hospitals (Ksh. 3.2 billion). Additionally, some critical information is missing, notably a costing and implementation framework for the ESP projects. With regard to the level 3 hospitals, Information is required on the cost of building one level 3 hospital, equipping and staffing of the hospitals and the distribution across counties so as to ensure equity. For the factory maintenance in the sugar belt, all factories to benefit should be clearly mentioned, their location and the specifics of the maintenance to be carried out. With regard to ESP interventions in the coffee sub-sector, these have just been broadly stated without clear programmes / projects. This makes it difficult to track them in the budget.

iii. **Kazi Mtaani: employment creation vs. value creation?**
The Kazi Mtaani initiative is reported to have gainfully engaged 750,000 youth during the second stimulus. As a result, a further Ksh. 10 billion has been allocated for this intervention. The initiative typically entails menial temporary jobs for youth between 18 and 35 years. The third phase will focus on equipping youth with certifiable technical and vocational skills. There are concerns with regard to sustainability of the employment created through this channel. To create job opportunities, focus should be on value creation in the economy. As the economy continues to grow and innovate, jobs are automatically created.

## b. Accelerating implementation of the Big Four Agenda

31. The Big Four Agenda policies and priority programmes were designed to be implemented from 2018 to 2022. Ideally, this should therefore be the final year of implementing the Big Four Agenda. The 2022 BPS has taken stock of what has been achieved over the five year implementation period. However, some gaps are still evident under the four key strategic areas of focus. These are as follows:

### (i) Supporting value addition and raising the share of Manufacturing Sector to GDP to 15 percent by 2022

32. Though the target of the government was to increase the share of the manufacturing sector to GDP to 15 percent, it is observed that the trend has actually been on the decline from 9.2% in 2018 to an estimated 7.6 percent as at 2020. This raises the question as to why the reported achievements have not translated into an increase of the manufacturing share in GDP even if not to 15 percent.

33. Key interventions under this pillar were in the following industries: textile; leather; agro-processing; construction materials; oil, mining and gas; iron and steel; ICT; and fish processing.

34. In the textile industry, it is reported that there have been significant progress in developing the Athi River Textile hub. Key achievements include provision of industrial warehouses, sheds and basic infrastructure facilities. As a result, it is reported that the sector has provided direct employment to

57,158 people with a cumulative investment value of Ksh. 116 billion. The level of exports is reported to have increased. However, despite reports of Kenya being among the biggest exporters under AGOA, 'made in Kenya' brands are yet to make it big globally. Indeed, in 2020, apparel accounted for ** percent of all exports (KEPROBA, KNBS). According to the Kenya Association of Manufacturers, product competitiveness is one of the main challenges, with Kenya ranked at position 115 out of 152 countries. Thus to achieve higher apparel exports, product competitiveness has to be addressed.

35. Additionally, modernization of Rivatex as well as other integrated textile mills such as Thika Clothing Mills and Sunflag was expected to lead to increased textile and apparel production. The local production of BT cotton was expected to drive the process. However, the cultivation of BT cotton faced a significant delay and commercial farming was initiated in late 2020. However, recent reports indicate that the yield has been very good though there may be challenges with regard to distribution of farm inputs (seeds and fertilizer).

36. With regard to leather, the Kenanie Leather Industrial Park was the flagship project. The park was to have 15 tanneries, a training centre, common manufacturing facilities and a common effluent treatment plant. So far, it is reported that infrastructure has been improved in the park but activities are yet to fully pick up. A key challenge is the raw materials, the leather quality given the state of the livestock sector. The health of livestock has not been adequately invested in. Most who keep cows do so for prestige rather than livestock farming so many of these animals are weather hardened and hardly useful for meat or leather.

## (ii) Enhancing food and nutrition security to all Kenyans by 2022

37. The target of the government was to achieve food and nutrition security by 2022 through supporting large scale production of staple food, expansion of irrigation schemes, increasing access to agricultural inputs and implementing smallholder farmer support programmes. Specifically, the target was to increase production of maize annually from 40 million 90 kg bags to 67 million bags by 2022; rice from 125,000 MT to 400,000 MT by 2022; and potatoes from 1.6 million MT to 2.5 million MT by 2022. This was to be achieved by placing an additional 700,000 acres under maize, potato, rice, cotton, aquaculture and feeds production; use locally blended fertilizer on a 50/50 basis and implement liming eg Maize; and avail incentives to reduce post-harvest losses from 20% to 15%.

38. Despite the 700,000 target, it is observed that land under irrigation has not increased significantly with flagship project Galana Kulalu only expanding farm acreage from 52,000 to 100,000. Nevertheless, the BPS reports that the government has increased food production through the national expanded irrigation programme that has constructed and rehabilitated irrigation schemes and waterpans across counties and especially in Arid areas. It is observed however that as we approach 2022, the country is facing one of the worst food crises on account of cumulative failed rainy seasons and is far from being food secure. The pinch of the drought in more than 20 counties points to significant gaps in implementation of big four interventions.

39. Notably, the target to increase access to agricultural inputs is facing delays due to challenges in implementation of the e-voucher subsidy programme. The programme was expected to ease access of inputs (seeds and fertilizer) by farmers but is yet to properly kick off. As a result, farmers tend to experience delays in accessing quality seeds which then delays the planting thereby affecting the produce.

### (iii) Providing Universal Health Coverage

40. Under this pillar, the target was to achieve 100% Universal Health Coverage. It was envisaged that by 2022, approximately 51.5 million people would have access to healthcare. The government carried out a UHC programme pilot in 4 counties which was deemed a success with some critical learning points. However, so far, the government is yet to scale this up to the entire country.

41. The supportive enablers towards achievement of UHC included expanding the number of health facilities, provision of specialized medical equipment and expansion of Linda Mama to bring on board mission and private hospitals. With regard to expanding the number of health facilities, the government is only just planning to build 50 new level 3 hospitals across counties through its third ESP. However, there are concerns with regard to distribution, total cost and timeline of implementation. It is noted that the government operationalized the Kenyatta University Teaching Research and Referral Hospital and the Othaya National Teaching and referral hospital and these have enhanced referral services. The original target under the UHC was to establish 10 referral hospitals.

42. On the equipping of hospitals with specialized equipment, it is observed that some hospitals have never been able to fully put in use the MES equipment provided due to lack of skilled personnel to operate the machinery. Furthermore, theatre equipment contract will expire in December 2022.

43. The Linda Mama programme is also facing challenges in implementation due to low uptake by private and faith based facilities on account of low reimbursement rates; inadequate emergency services; referral protocols.

### (iv) Provision of affordable and decent housing for all Kenyans

44. Under this pillar, the target of the government was to provide 500,000 affordable new houses by year 2022 with the aim of improving living standards for all in major cities across the country. Further, the government was to implement policy and administrative reforms targeted at lowering construction costs and improving accessibility of low cost mortgages. These include reduction of corporate tax for developers who construct at least 400 units a year, establishment of National Social Housing Development Fund and establishment of Kenya Mortgages Refinance Company (KMRC).

45. So far, though still far from the 500,000 target, the government has been able to support construction of a number of affordable housing units, social housing units, national police and prisons services housing units and civil servants houses. Furthermore, the incorporation and capitalization of the KMRC has provided long terms funds to primary house mortgage providers and a number of civil servants have benefited from mortgage.

## V. BUDGET FOR FY 2021/2022 AND THE MEDIUM TERM

46. The 2022 BPS projects total expenditure of Kshs. 3.309 billion in the 2021/2022 financial year which represents an increase of 9.2 percent from the approved budget of previous year. Bulk of the increase is on account of increase in Consolidated Fund Services expenditures, which is majorly driven by interest payments on public debt.

**Table 6: The distribution of resources between the arms of government and devolved units**

| | Approved Budget FY2021/22 | 2022 BPS Ceiling for FY 2022/23 | % Change |
|---|---|---|---|
| National Government | 1,942,008.80 | 2,075,014.60 | 6.85 |
| Executive | 1,886,207.90 | 2,017,653.30 | 6.97 |
| Parliament | 37,882.80 | 38,476.60 | 1.57 |
| Judiciary | 17,918.20 | 18,884.70 | 5.39 |
| Consolidated Fund Services | 718,316.80 | 864,125.00 | 20.30 |
| County Equitable Share | 370,000 | 370,000 | 0.00 |
| Grand Total | 3,030,325.60 | 3,309,139.60 | 9.20 |

Source: The National Treasury and PBO, 2021

47. The sectors that will witness the highest increment will be National Security sector which is set to increase from Kshs. 162.2 billion to Kshs.203 billion, Energy, Infrastructure, and ICT from Kshs. 335.8 billion to Kshs.368.3 billion and Education sector from Kshs.503.9 billion to Ksh.525.9 billion.

48. The Agriculture and Rural Development sector, despite being outlined as one of the key intervention sectors both under the ERS and the Big Four Agenda, its budget allocation ceilings have been reduced by Ksh.11.8 billion. The ceiling also does not have a linkage to proposed government interventions for the sector e.g., Kshs. 3.5 billion for interventions in the tea, sugar and coffee sub-sectors; and Kshs. 1.5 billion for the National Livestock Off-take programme.

49. The National Security Sector has been allocated an additional ceiling of Kshs. 40.8 billion compared to approved estimates of the previous year. Most of the new projects are donor funded under the Ministry of Defense. The Education sector ceilings does not have a linkage to proposed government interventions for the sector e.g., the Kshs. 8 billion for CBC infrastructure expansion, and recruitment of additional teachers.

50. The General Economic and Commercial Affairs sector has recorded Kshs. 4.2 billion in efforts to scale up the Economic Recovery Stimulus, the Big four Agenda, promote exports, deepen EAC integration and basin-based development. However, it’s worth noting that allocations do have a clear linkage to proposed government interventions for the sector e.g., supporting growth of manufacturing through targeted investments in agro-processing industries and industrial parks, promotion of exports and promotion of sustainable tourism.

**Table 7: the summary of Expenditure ceilings by sector.**

| | SECTORS | Approved Budget Estimates for FY 2021/22 (in millions) | 2022/23 ceilings (in millions) | % Share in Total Ministerial Expenditure | Difference 2022/23 ceilings vs. approved budget ceilings for FY 2021/22 (in millions) |
|---|---|---|---|---|---|
| 1 | Agriculture, Rural and Urban Development | 75,735.90 | 63,897.90 | 3.08 | (11,838) |
| 2 | Energy, Infrastructure, and ICT | 335,812.30 | 368,300.00 | 17.75 | 32,488 |
| 3 | General Economics and Commercial Affairs | 20,583.10 | 24,870.00 | 1.2 | 4,287 |
| 4 | Health | 121,090.30 | 126,352.00 | 6.09 | 5,262 |
| 5 | Education | 503,971.10 | 525,949.50 | 25.35 | 21,978 |
| 6 | Governance, Justice, Law and Order | 217,318.90 | 231,930.40 | 11.18 | 14,612 |
| 7 | Public Admin and International Relation | 332,521.40 | 346,998.10 | 16.72 | 14,477 |
| 8 | National Security | 162,202.70 | 203,097.00 | 9.79 | 40,894 |
| 9 | Social Protection, Culture and Recreation | 72,194.30 | 72,891.50 | 3.51 | 697 |
| 10 | Environmental Protection, Water and Natural Resources | 100,585.90 | 110,728.00 | 5.34 | 10,142 |
| | Grand Total | 1,942,008.50 | 2,075,014.40 | 100 | 133,005.9 |

**Source: The National Treasury and PBO, 2021**

## VI. COUNTY FINANCIAL MANAGEMENT AND VERTICAL DISTRIBUTION OF RESOURCES

## I. Vertical Distribution of Nationally Raised Revenue

### a) Equitable Share

51. **The County Governments have received Equitable Share of over Kshs. 2 trillion from the FY 2013/14 to FY 2020/21.** In the FY 2022/23, out of the total projected shareable revenue of Kshs. 2,141.6 billion, the National Treasury proposes an allocation of Kshs. 370 billion to the County Governments. This is equivalent to 26.2 per cent of the most recent audited and approved accounts for the financial year 2017/18 of Kshs. 1,413.69 billion.

52. **The allocation to county government's shareable revenue has remained at Kshs. 370 billion despite the counties increased needs for post-COVID 19 recovery and drought situation in the Counties**. This is attributed to the government's fiscal consolidation strategy. In addition, the

allocation to counties has not factored in inflation, which currently stands at 5.8 per cent. This is likely to affect the level of service delivery by counties as the cost of goods continue to rise while resources allocated remain stagnant.

53. **Ordinary revenue raised each year must be shared between debt repayment, recurrent expenditure, and county allocations. A higher proportion of ordinary revenue is taken up by debt repayment, thereby reducing the share that goes to counties as equitable share.** County equitable share of revenue as a percentage of ordinary revenue has decreased from 22 percent in the FY 2017/18 to 17 percent in the FY 2022/23. This is projected to decrease further to 13 percent in the FY 2024/25. However, the interest payments as a percentage of ordinary revenue have increased from 24 percent in the FY 2017/18 to 30 percent in the FY 2022/23. This means that any additional revenue raised by the government goes towards servicing debt.

**Table 8: Equitable Share and Interest Payments (Kshs. Billions)**

| Item | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| Ordinary Revenue | 1,365.00 | 1,499.80 | 1,573.40 | 1,562.00 | 1,775.60 | 2,141.60 | 2,516.30 | 2,807.40 |
| Equitable Share | 302 | 314 | 316.5 | 316.5 | 370 | 370 | 375 | 380.2 |
| Equitable share as % of ordinary revenue | 22.12 | 20.94 | 20.12 | 20.26 | 20.84 | 17.28 | 14.9 | 13.54 |
| Interest Payments | 323.9 | 375.7 | 437.2 | 495.1 | 560.3 | 644 | 695.6 | 713.8 |
| Interest Payments as a % of ordinary revenue | 23.7 | 25.05 | 27.79 | 31.7 | 34.56 | 30.07 | 27.6 | 25.43 |

**Source: National Treasury**

## b) Conditional Allocations

54. County Governments received over Kshs. 200 billion as Conditional Allocations between FY 2017/18 and FY 2020/21. These additional allocations accrue from the National Government share of revenue as well as loans and grants from development partners and were allocated through the Division of Revenue Acts. However, the High Court Ruling on petition 252 of 2016 held that conditional or unconditional grants can be issued to the county level of government under Article 190 of the Constitution or through an agreement between the two levels of government but not in the Annual Division of Revenue Act. The Court directed the development of an alternative mechanism for disbursement of conditional grants to counties, in which the Senate developed and approved the County Governments Grants Bill, 2021. The Bill was sent to National Assembly where it was approved with an amendment and a message sent to Senate on the same for consideration. In FY 2022/23, the National Treasury proposes to allocate Kshs. 37 billion as additional conditional allocations to Counties.

## II. County Financial Management

### a) Fiscal Responsibility

55. **Most County Governments have been able to meet the fiscal responsibility principle of at least 30 percent of development expenditure during budget approval but not on actual spending.** Section 107(2)(b) of the PFM Act provides that the County Governments should allocate at least 30 percent of their budget to development. Counties usually comply with this requirement during the approval of the budget. However, actual expenditures reported by the Controller of Budget (COB) indicate that during budget implementation, many counties depart from this principle.

56. **The COB reports indicate that for the FY 2020/21, 34 county governments were not able to meet the wage bill legal threshold.** Regulation 25 (1) (b) of the PFM (Count Governments), Regulations, 2015, provides for the wage bill to not exceed 35 percent of each County Government's total revenue. It is also important to note that there are counties whose wage bill spending is over fifty percent of their total revenue. This is likely to hamper service delivery as allocations to social, economic and productive sectors are minimal.

### b) Pending Bills

57. **Pending Bills in the counties increased from Kshs. 34.54 billion in the FY 2018/19, Kshs. 113.85 billion in the FY 2019/20 to Kshs. 102.69 billion in the FY 2020/21**. This is however based on reporting by county governments and not verified information by the Auditor General. The county with the highest outstanding pending bills is Nairobi City with a pending bill of Kshs. 78.7 billion in the FY 2019/20 and Kshs. 54.32 billion in the FY 2020/21. Pending bills are mainly because of weak internal control mechanisms, over commitment of budgets, underperformance of Own Source Revenue, and failure to adhere to approved work plans.

### c) Weak Budgetary Control and Use of Revenue at Source

58. The Controller of Budget reports indicate that county government expenditures exceed the approved exchequer issues and budget ceilings. This is as a result of weak budgetary control, possible use of revenue at source and cases of misappropriation of funds.

### d) Statutory Remittances

59. Unremitted retirement contributions at the county governments stood at Kshs. 52.5 billion in December 2020. The county governments have not been remitting retirement contributions to the various retirement schemes. This will inconvenience exiting employees of County Governments when accessing their benefits.

## e) Counties Own Source Revenue

60. The Own Source Revenue (OSR) collection by counties from FY 2013/14 to FY 2020/21 was Kshs. 270.7 billion against a target of Kshs. 442.6 billion. The low own source revenue (OSR) collection by counties has led to overdependence on the national government share for funding their operations. Actual collection of OSR for the period FY 2013/14 to FY 2018/19 indicates that Embu, Bungoma, and Garissa tripled their OSR collection in the six years. However, Homa-Bay, Busia, Wajir, and Mandera OSR collection in the six years was worse than their revenue collection in the first year of fiscal decentralization.

61. The National Policy to support Enhancement of County Governments OSR addressed areas of collaboration between the National Treasury and County governments to ensure that counties actualize their revenue potential, one of the areas of collaboration include working with the Ministry of Lands and Physical Planning to develop a National Rating Legislation to replace the outdated Valuation for Rating Act (Cap.266) and (Cap. 267). The second area of collaboration includes the Ministry of Industrialization, Trade, and Enterprise Development through the development of a Trade Bill which would harmonize business licensing across county borders.

62. According to a study by World Bank in 2018 on Own Source Revenue potential and tax gap in Kenya County Governments, the county revenue potential ranges between Kshs 55 billion and Kshs 173 billion compared to an average of Kshs 35 billion which is currently collected each year. Majority of the counties show gaps ranging from 35% to 94% between actual and potential revenue collection. This means that counties can actually fund a higher share of local service delivery from OSR if the potential is realized.

## ANNEX 1: COMPLIANCE CHECK FRAMEWORK

| LEGAL FRAMEWORK | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **CONSTITUTION** | **PFM, ACT, 2012** | **PFM REGULATIONS, 2015** | **STANDING ORDERS** | **COMMENTS** | **COMPLIANCE LEVEL** |
| **1. Timeliness** | | | | | | | |
| 1.1 | Submission of the budget policy statement by 15th February each year | | 25(2) | | 232(1) | Submitted on 30th November 2021 | 5 out of 5 |
| **2. Comprehensiveness** | | | | | | | |
| 2.1 | Provide an assessment of the impacts of regional and international economy on the medium macroeconomic framework and its outlook. | | 25(4)(a) | 27(1)(a) | 232 (2) (a) | Information provided | 5 out of 5 |
| 2.2 | Providing a macroeconomic framework underlying the budgetary and fiscal policy over the medium term | | 25(4)(a) | 27(1)(c), 28 | | Information provided | 5 out of 5 |
| 2.3 | Providing a medium-term fiscal framework in respect to revenues, expenditure and borrowing. | | 25(4)(b) | 27(1)(d), 29 | 232(2) (b) | Some information provided | 3 out of 5 |
| 2.4 | Providing a summary of programmes that are of national interest for the forthcoming year | | | 27(1)(f) | | Information provided | 5 out of 5 |
| 2.5 | Proposed expenditure limits for the national | | 25(4)(c) | 34 | 232(2) (c) | Information provided | 5 out of 5 |

| LEGAL FRAMEWORK | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **CONSTITUTION** | **PFM, ACT, 2012** | **PFM REGULATIONS, 2015** | **STANDING ORDERS** | **COMMENTS** | **COMPLIANCE LEVEL** |
| | government, Parliament and Judiciary and indicative transfers to county governments | | | | | | |
| 2.6 | The total resources to be allocated to individual programmes and projects within a sector, Ministry or department, the outputs expected from each such programme or project during the period. | | 25(4) | | 232(2)(e) | Information provided | 5 out of 5 |
| 2.7 | A list of proposed projects for the period identified indicating their respective expenditure ceilings, reconcilable to the total proposed ceilings for development expenditure. | | | | 232(2)(f) | No information provided | 0 out of 5 |
| 2.8 | The BPS shall detail the criteria used to allocate or apportion the available public resources among the various programmes and projects. | | | | | Criteria provided | 5 out of 5 |

| LEGAL FRAMEWORK | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **CONSTITUTION** | **PFM, ACT, 2012** | **PFM REGULATIONS, 2015** | **STANDING ORDERS** | **COMMENTS** | **COMPLIANCE LEVEL** |
| 2.9 | The National Treasury taking into account the resolutions passed by Parliament in finalizing the budget for a given financial year | | 25(8) and 38(1)(iii) | | | Some of the information has been provided | 3 out of 5 |
| **3. Fiscal Framework and Responsibility** | | | | | | | |
| 3.1 | Provide a statement of fiscal responsibility principles, indicating whether the fiscal strategy adheres to these principles. | | 15 | 26 | 232(2)(d) | Some information provided | 3 out of 5 |
| 3.2 | Fiscal risk statement, including, any commitment and contingent liabilities not included in the fiscal forecasts, as well as information on the losses and outstanding payments of the State Corporations. | | | 27(2) | | Information provided | 3 out of 5 |
| 3.3 | The ceiling for the development expenditure and personnel spending of the national government budget approved by Parliament and be binding for | | | 27(5) | | Not conformed to as per previous Budget Policy Statements | 0 out of 5 |

| LEGAL FRAMEWORK | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **CONSTITUTION** | **PFM, ACT, 2012** | **PFM REGULATIONS, 2015** | **STANDING ORDERS** | **COMMENTS** | **COMPLIANCE LEVEL** |
| | the next two budget years. | | | | | | |
| | **4. 0. The extent of stakeholders during preparation of the BPS** | | | | | | |
| 4.1 | The principle of public participation and other stakeholders is a requirement in the Constitution. | 201(1 a) | 25 (9) | | | Information provided | 5 out of 5 |
| | **Total Score** | | | | | | **52/70=74.28 %** |