IPF KENYA

OXYGÈNE

SHADOW BUDGET

2021/2022: Kenya

Foreword

The Institute of public finance (IPF-K) in partnership with Oxygène Marketing and Communication Limited undertook independent pre-budget assessments that has resulted in publication of this Shadow Budget whose aim is to **promote policy changes and informed debate for efficient and transparent allocation and use of public resources.** The 2021/22 Shadow Budget for Kenya is the first of this kind in the country. It is prepared against a background of declining engagement between the state and non-state actors in the budget process, reduced access to budget information particularly on public debt contracting and service repayments and public procurement of goods and services. The International Monetary Fund (IMF) has downgraded Kenya's debt carrying capacity from strong to medium signaling increased liquidity risks due to the government spending a larger share of the country's taxes on debt repayment at the expense of provision of critical services such health care, education, electricity, agriculture, cash transfers to the people with disabilities, the elderly. **The country has also breached all the three public debt sustainability thresholds for overall debt and two out of four in external debt.** The 2021 Shadow Budget used the Government of Kenya publicly available budget documents for FY 2021/22 available as at March 2021 for the inaugural edition and intends to use the lessons learnt for subsequent editions.

Mr. James Muraguri
Chief Executive officer
Institute of Public Finance–Kenya

Editorial Preface

The layout of the Shadow Budget Report hopes to provide stakeholders with a resource that enables them to participate effectively in the national budget-making process. **Through the analyses provided herein, it is hoped, that a more conscientious approach would be adopted in engagement between state and non-state actors in the joint review and debate over national fiscal policy**. This, of course, is informed by the cognition of the critical role that the budget plays as an expression of public policy (in resource allocation and re-allocation; inequality reduction and wealth distribution; measurement of reducing/ managing public debt and reduction of regional disparities are expounded upon). In view of the legislative provisions, most notably the Constitution of Kenya (2010), which have provided for public participation, it is imperative that the citizenry is equipped adequately to engage in debate, hence this Report. The information provided is done so in cognition of the present socio-economic environment and as such includes emerging concerns while conceptualizing key recommendations for each of the budget sectors explored. The 2021 Shadow Budget covers three sections: (i) the Recent Macroeconomic Situation and Outlook, (ii) Fiscal Performance and Public Debt Situation and (iii) Sectoral Deep Dives. During this pilot phase, the Shadow Budget only covers five sectors of FY 2021/22 estimates and will cover all the ten sectors in the subsequent years. The five sectors covered are: Health sector, Energy, Infrastructure & ICT sector, General Economic and Commercial Affairs, Agriculture Rural and Urban Development and Social Protection, Culture, and Recreation.

Ms. Magdalene Kariuki
Head of Public Policy & Regulatory Affairs
Oxygène Marketing and Communication Ltd.

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Acknowledgement

The preparation of the 2021/22 Shadow Budget was a collaborative effort among staffs of IPF-K and Oxygène Marketing and Communication Limited. We are grateful for their inputs. We thank Oxygène Marketing and Communication Limited team led by Alfred Ng'ang'a and Magdalene Kariuki under the guidance of Mr. Nick Wachira and the IPFK team led by Nyangi John Juma under guidance of James Muraguri. The team include Daniel Ndirangu, Octaviah Wachira, Nashon Otieno, Maryanne Wanjiku, Reena Atuma and Mulwa Kasangya. Many thanks to go to our team of eternal reviewers from Oxford Policy Management led by Stephanie Allan, Dayna Connolly and Stevan Lee for their invaluable comments and guidance in developing this Shadow Budget.

Nyangi John Juma
Head of Research
Institute of Public Finance–Kenya

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List of Abbreviations

AGA	Autonomous Government Agency
ARUD	Agriculture, Rural, and Urban Development
ASAL	Arid and Semi-Arid Lands
BPS	Budget Policy Statement
CFS	Consolidated Fund Services
COVID-19	Coronavirus Disease 2019
CRA	Commission on Revenue Allocation
CT-OP	Cash Transfers to Older Persons
CT-OVC	Cash Transfers to Orphans and Vulnerable Children
CT-PWSD	Cash Transfers to Persons Living with Severe Disabilities
ERS	Economic Recovery Strategy
FY	Financial Year
GBP	Great Britain Pound
GDV	Gender Based Violence
GDP	Gross Domestic Product
GECA	General Economic and Commercial Affairs
HSNP	Hunger Safety Net Programme
ICT	Information Communication Technology
IMF	International Monetary Fund
KNSNP	Kenya National Safety Net Programme
MOH	Ministry of Health
MSME	Micro, Small & Medium Enterprises
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NHIF	National Hospital Insurance Fund
PAYE	Pay as You Earn
PFM	Public Financial Management
PV	Present Value
$Q_{1,2,3,4}$	Quarter
R&D	Research and Development
RMLF	Road Maintenance Levy Fund
RMNCAH	Reproductive, Maternal, Newborn, Child and Adolescent Health
SWG	Sector Working Group
UHC	Universal Health Coverage
USD	United States Dollar
VAT	Value Added Tax

Operational Definition of Terms

Annual Estimates: The whole annual proposals of expenditure and taxation presented to Parliament, for approval by the National Treasury as part of the annual budget.

Balance of payment: It is a statement of all transactions made between entities in one country and the rest of the world over a defined period, such as a quarter or a year.

Bilateral Lenders: A bilateral loan is one between two countries e.g., China loaning Kenya.

Budget Amendments: These are changes to the budget. Changes to the budget must be laid before Parliament. Amendments may seek to increase or decrease the amount proposed.

Budget: The Budget is the total annual expenditure comprising estimates of annual revenue receipts and expenditures as presented and approved by Parliament

Conditional Allocations: Conditional transfers are for a specific

purpose and there may be requirements that the county government needs to meet before receiving a transfer.

Consolidated Fund: This is the fund into which all government revenues paid, whether in form of loans, loan recoveries and tax receipts.

Consolidated Fund Services (CFS): These are services which are authorized, by the Constitution, to be charged direct into the Consolidated Fund. They include debt service, both principal and interest payments, payment of salaries and wages of constitutional offices holders.

Debt carrying capacity: Public debt carrying capacity is the maximum amount of debt that a country can owe beyond which the country's income or growths can no longer increase. A country's debt-carrying capacity depends on several factors—among them the quality of institutions and debt management capacity, policies, and macroeconomic fundamentals. A country's capacity to carry debt can change over time, as it is also influenced by the global economic environment.

Debt sustainability: A debt sustainability analysis (DSA) assesses how a country's current level of debt and prospective borrowing affect its present and future ability to meet debt service obligations. A country's public debt is considered sustainable if the government can meet all its current and future payment obligations without exceptional financial assistance or going into default.

Development Expenditure: These are expenditures that relate to long term investments such as roads, schools, and hospitals. It is also known as capital expenditure.

Domestic debt: The component of the total government debt in a country that is owed to lenders within the country. Sources of domestic debt include Treasury Bills and Bonds.

Exchequer: This is a bank account maintained for the government at Central Bank of Kenya from where all withdrawals and deposits in the name of the government are managed

External debt: External debt is the portion of a country's debt that is borrowed from foreign lenders through commercial banks, governments, or international financial institutions.

Financial Year: Also called fiscal year, it is a 12-month period covering government financial year. In Kenya, the financial year Starts from July 1 through the next June 30 (e.g., July 1, 2021 - June 30, 2022 is financial year 2021/22)

Fiscal deficit: A deficit is the excess annual expenditure over annual receipts of revenue. This means for that year; Government will spend more than what it expects to raise in revenues. This difference is financed through borrowing.

Inflation rate:

Medium Term Expenditure Framework (MTEF): A budgetary system that seeks to link policy making, planning, and budgeting to three years rolling plan.

Multilateral lenders: Multilateral lenders consist of member nations from developed and developing countries. They provide loans and grants to member nations to fund projects that support social and economic development, such as the building of new roads or providing clean water to communities. They include the World Bank, IMF, AFDB

Nominal GDP: Nominal GDP is the market value of goods and services produced in an economy, unadjusted for inflation. Real GDP is nominal GDP, adjusted for inflation to reflect changes in real output.

Ordinary revenue: Refers to taxes and other non-tax revenue excluding loans, grants, and appropriations in aid.

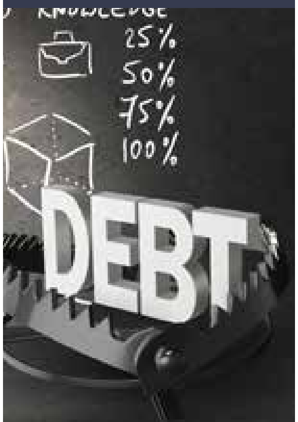
per capita income: Per capita income is a measure of the amount of money earned per person in a nation. Per capita income helps determine the average per-person income to evaluate the standard of living for a population.

Recurrent expenditure: These are expenditures that relate to operations of a ministry it includes expenditures such as compensation to employees in form of salaries, stationery, transport, and other related expenditures.

Supplementary or Revised Estimates: These Estimates reflect changes in the Budget previously approved by Parliament. These mainly comprise reallocation and adjustments in the Budget under implementation.

5.7%

Inflation rate was relatively stable in 2020 averaging 5.7% due to a reduction in food prices and muted demand pressures. The Kenyan shilling weakened against major currencies (USD, GBP), exchanged at Ksh 109.8 against the dollar in January 2021 compared to Ksh 101.1 in January 2020.



60%

Debt repayment (Principal and interest) is expected to reach 1.023 trillion by the end of FY 2021/22 and this represents about 60% of the taxes collected.

Key Messages

MACRO-FISCAL TRENDS

- The Kenyan economy is estimated to have slowed down to a growth of 0.6% due to adverse effects of the COVID-19 outbreak and its ensuing containment measures. The last time such a growth was recorded was in 2002 when the economy grew by 0.5% and improved to 2.9% in the next year. The National Treasury growth projection of 6.4% is ambitious given COVID-19 still poses a great threat to economy and healthcare.
- Inflation rate was relatively stable in 2020 averaging 5.7% due to a reduction in food prices and muted demand pressures. The Kenyan shilling weakened against major currencies (USD, GBP), exchanged at KSH 109.8 against the dollar in January 2021 compared to KSH 101.1 in January 2020.
- Considering the negative effects of Covid 19, the National Treasury ordinary revenue collection target of KSHs 1.78 trillion in FY 2021/22 which is higher compared to KSH 1.57 trillion collected in FY 2019/20 and 1.59 anticipated in FY2020/21 is overly ambitious. Pre-COVID-19 historical trends reveal gaps in how the government sets its projections and collects this revenue, while also showing declining tax-to-GDP ratios.
- The executive budget is set to increase by 145 billion or 5 % to 3 trillion in FY 2021/22 compared to 2.85 trillion in FY 2020/21 amid increasing debt repayments and declining revenue performance. This will most likely result in further widening of the fiscal balance and more accumulation of the public debt stock.
- The equitable share to the counties in FY2021/22 is projected to increase at KSH. 370 billion after having stagnated at 316.5 billion in 2019/20 and 2020/21. Conversion of conditional grants to equitable share does not have any effect on more resources to the counties.
- The National Treasury proposes to contract the fiscal deficit by KSH 36 billion to KSH 930 billion in 2021/22 compared with KSH 966 billion in 2020/21 to be financed up to 70% from the domestic sources and the balance from the external sources.
- Debt repayment (Principal and interest) is expected to reach 1.023 trillion by the end of FY 2021/22 and this represents about 60% of the taxes collected.
- Unless proper public debt restructuring is undertaken, the downgrade of Kenya's debt carrying capacity from strong to medium by IMF indicates possibility of default in later years.
- State Owned Enterprises in the energy sector of which have huge, guaranteed debts should be reviewed to avoid being a drain on the national purse.
- Despite existing possibility of accessing cheap concessional finance, FY 21/22 projections shows the government is still focused on expensive commercial borrowing both domestically and internationally. This has an effect of crowding out the private sector.
- To maintain predictable tax environment, government should publish comprehensive review of proposed tax measures.
- Overall budget data transparency is still a concern with minimal or tokenistic public participation by arms of government in the budget process.

SECTORAL TRENDS

- Spending for FY 21/22 will happen in extremely difficult circumstances due to Covid 19, IMF conditions and huge public debt obligations.
- The first supplementary budget for FY 2020/21 resulted into huge cuts especially for the development budget despite an increase in the overall budget.
- There are glaring inconsistencies between government stated priorities and allocated resources. The government intends to increase beneficiaries of the cash transfers by 584,371 individuals and households while reducing the budget allocation by KSHs.202 million in FY 21/22. Social Assistance Act enacted in 2013 which establishes the National Social Assistance Authority to provide for the implementation of social assistance programs to persons in need is yet to be operationalized.

- Despite huge investments in the energy sector, power is still an expensive component with a huge implication on the manufacturing agenda

- Pandemic response through the health sector has not been at par with unavailable data on how government intends to adequately procure vaccines and enhancing COVID-19 mass testing of its population.

- Preventive and promotive health care program, the main anchor for Universal Health Coverage (UHC), has the lowest budget absorption at 73 percent. The sector has KSH 50 billion on pending bills which is more than the sector's developmental budget. The sector has prioritized Universal Health coverage through establishment of UHC Scheme to support roll out of the programme in all counties and intends to require mandatory payment of KES6000 payment from each household.

- Absorption rates in the Tourism Development and Promotion programme have been declining from 82% in 2017-18, to 75% in 2018-19 and to 72% in 2019-20.

- Despite the significant role of the department for Crop Development in realization of the BIG FOUR, the department has funds absorption challenge at 74.23% in 2018/19 and 60.4% in FY 2019/20. The sector has not highlighted any measures for emergency response despite it being vulnerable to several emergencies such as locust inversion in the country.

Introduction

The current state of engagement between the state and the public on matters related to budget allocations, expenditures, and actual service delivery outcomes is mostly focused on printed and actual figures and narratives already approved for execution. There is limited engagement at drafting and editing phase which is majorly caused by lack of independent ex-ante analyses of government numbers and narratives to facilitate issue-based discussions to ensure final numbers and narratives are responsive to the needs of the people and the economy. The Institute of Public Finance (IPF-K) in partnership with Oxygène Marketing and Communication Limited (OMCL) undertook independent pre-budget assessments that has resulted in publication of this Shadow Budget Report whose aim is to **promote policy changes and informed debate for efficient and transparent allocation and use of public resources.**

The Shadow Budget contains issues on budget and economic forecasts that will be used to stir discussions between the public (individual budget champions, development partners, professional associations, civil society organizations, the private sector, and resident civic organizations) and the government. The 2021 Shadow budget is the first of this kind, it uses the budget estimates for FY 2021/22 for pilot and intends to use the lessons learnt for subsequent years. The 2021 Shadow Budget covers three sections: (i) the Recent Macroeconomic Situation and Outlook, (ii) Fiscal Performance and Public Debt Situation and (iii) Sectoral Deep Dives. During this pilot phase, the Shadow Budget Report only covers five sectors of FY 2021/22 estimates and will cover all the ten sectors in the subsequent years. The five sectors covered are: Health sector, Energy, infrastructure & ICT sector, General Economic and Commercial Affairs, Agriculture Rural and Urban Development and Social Protection, Culture, and Recreation.

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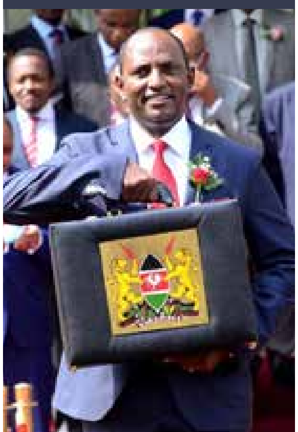
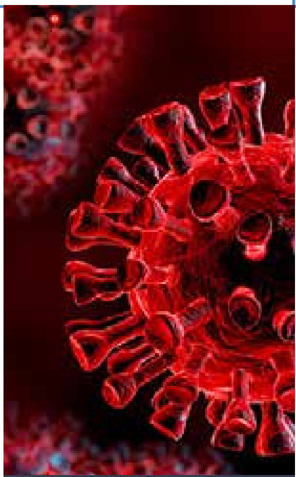


Methodology:

Document analysis of information contained in the preliminary statutory budget documents produced by the National Treasury during the budget making process[1] and own expert opinions. Documents analyzed include: the 2020 Budget Review and Outlook Paper, Sector Reports for FY 2021/22 and the medium term, Quarterly Budget Implementation Review Reports, the 2021 Budget Policy Statement, approved and revised budget for FY 2020/21, IMF World Economic Outlook, IMF Kenya Country Reports among others.

[1] https://www.treasury.go.ke/budget-process/



RECENT MACROECONOMIC SITUATION AND OUTLOOK

Global economy is estimated to have contracted by 3.3 percent in 2020 from a growth of 2.8 percent in due to negative impacts of COVID-19 pandemic and is projected to grow at 6 percent in 2021, moderating to 4.4 percent in 2022. All advanced, emerging economies, and developing economies experienced negative economic contractions except in 2020 except China, Ethiopia, and Tanzania whose economies expanded by 2.3, 6.1 and 1.0 percentage points, respectively. Ethiopia has the fastest growing economy in Sub-Saharan Africa averaging 9.4% for the period 2013 – 2019. However, the IMF projections show that its economy will plunge from 6.1% in 2020 to 2.0% in 2021 before rebounding to 8.7% in 2021[2].

Prior to the COVID-19 pandemic, Kenya too had been experiencing stable and moderately strong growth since 2008, averaging a solid 5.6% per year, driven by a broad-based economy and was projected to expand by 6% in 2020 up from 5.4% in 2019. The outbreak of Covid-19 Pandemic in the country on March 13th, 2020 and the swift containment measures the government enforced adversely affected economic activities throughout the year which slowed down the economic growth significantly. The national Treasury shows that the economy expanded by to 0.6 percent in 2020 while the IMF numbers shows a contraction of -0.1 percent over the same period. The National treasury further projects the economy to rebound to 6 percent in 2021 while the IMF's projection puts it at 7.6 percent. Both projections are rather unlikely due to the confirmation of the third wave of the pandemic and the strict adherence measures put in place to contain it such as the lock down of five counties (Nairobi City, Kiambu, Nakuru, Kajiado and Machakos) which constitute about one quarter of the country's population will have an adverse effect to these forecasts.

The outbreak of Covid-19 Pandemic in the country on March 13th, 2020 and the swift containment measures the government enforced adversely affected economic activities throughout the year which slowed down the economic growth significantly.

Table 1:Real economic growth and outlook in percentage

Economy	Actual	Projections	
	2020	2021	2022
World Output	**–3.3**	**6.0**	**4.4**
Advanced Economies	–4.7	5.1	3.6
United States	–3.5	6.4	3.5
Germany	–4.9	3.6	3.4
France	–8.2	5.8	4.2
Italy	–8.9	4.2	3.6
Japan	–4.8	3.3	2.5
United Kingdom	–9.9	5.3	5.1
Canada	–5.4	5.0	4.7
Emerging Market and Developing Economies	**–2.2**	**6.7**	**5.0**
China	2.3	8.4	5.6
India	–8.0	12.5	6.9
Russia	–3.1	3.8	3.8
Brazil	–4.1	3.7	2.6
Mexico	–8.2	5.0	3.0
Saudi Arabia	–4.1	2.9	4.0
Sub-Saharan Africa	–1.9	3.4	4.0
Nigeria	–1.8	2.5	2.3
South Africa	–7.0	3.1	2.0
Kenya	–0.1	7.6	5.7
Ethiopia	6.1	2.0	8.7
Tanzania	1.0	2.7	4.6
Uganda	–2.1	6.3	5.0
Rwanda	–0.2	5.7	6.8

Source of Data: April 2021 WEO

[2] https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021

6.9%

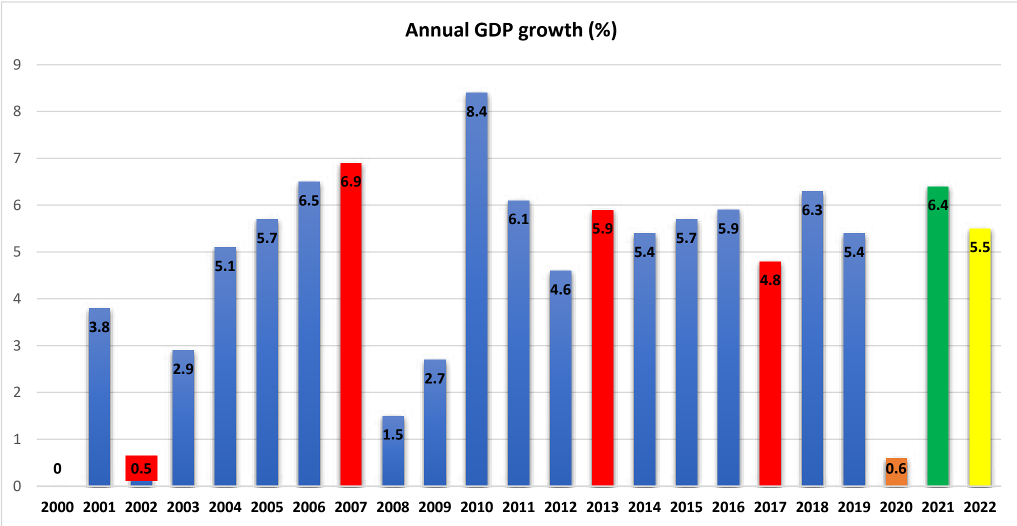
It is only in 2002 that the Kenyan economy registered growth closer to the one observed in 2020 which later registered a sustained growth taking five years to reach the peak of 6.9% in 2007 before a sharp decline to 1.5% due to the postelection violence which preceded the 2007 general elections

1.1%

The agricultural sector contributed 1.1 percent to the GDP in the third quarter of 2020 compared to 0.9 percent in 2019 same period.

It is only in 2002 that the Kenyan economy registered growth closer to the one observed in 2020 which later registered a sustained growth taking five years to reach the peak of 6.9% in 2007 before a sharp decline to 1.5% due to the postelection violence which preceded the 2007 general elections[3]. With a possible referendum to amend the constitution in 2021 and general election in 2022, coupled with the current COVID-19 pandemic, the economy is likely to register a less than expected growth.

Figure 1: Trends in Kenya's Economic Growth Rates amazing

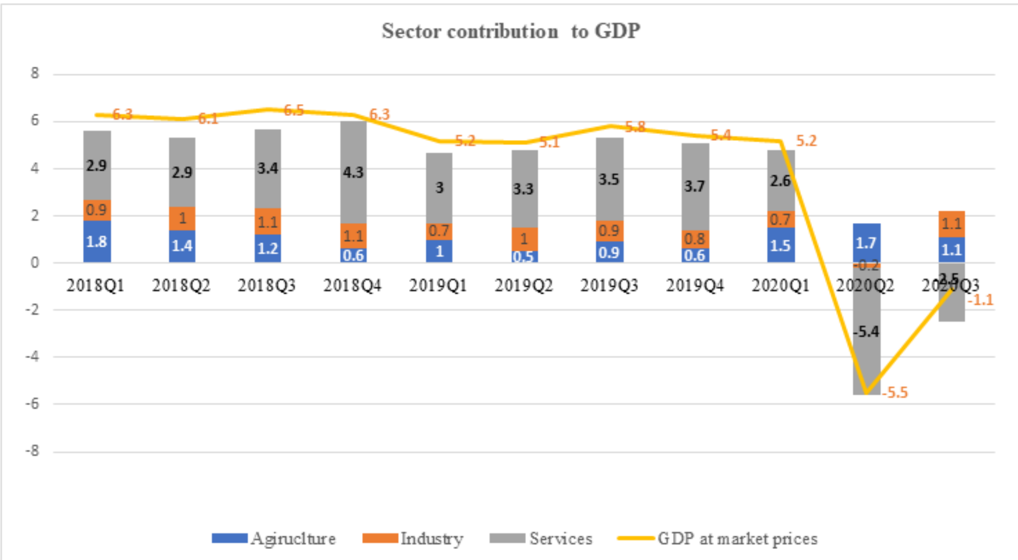


Source: Kenya National Bureau of Statistics and the Central Bank of Kenya, various years

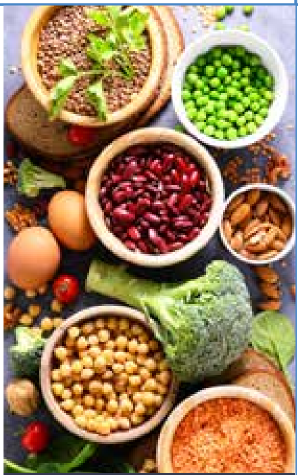
Sector Contribution to GDP

The agricultural sector contributed 1.1 percent to the GDP in the third quarter of 2020 compared to 0.9 percent in 2019 same period. Industry sector contribution in 2020 Q2 declined by 0.2 percent from 0.7 percent in 2020 Q1, however, in 2020 Q3, there was an improvement to 1.1 percent higher than 0.9 percent in 2019 same period. Service sector was the hardest hit by the pandemic, registering a decline in contribution to GDP of 5.4 percent in 2020 Q2 before a slight improvement to 2.5% in Q3, similar trends are expected in 2021Q2 following the emergence of the third wave of the pandemic an escalation in it containment measures (National Treasury , 2021).

Figure 2: Sector Contribution to GDP between 2018 to 2020



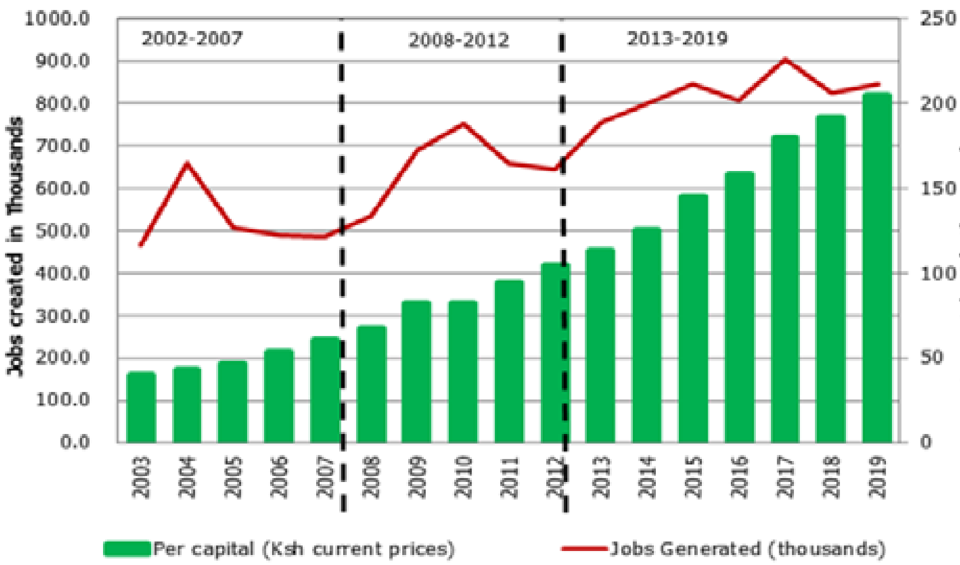
[3] https://www.centralbank.go.ke/annual-gdp/



Trends in Income per capita and Jobs Created 2003 - 2019

Per capita income rose from KSH 113,539 in 2013 to KSH 204,783 in 2019, translating to a compounded annual growth rate of 11.5 percent. This enabled generation of around 827,000 new jobs per year in the period 2013 - 2019 up from 656,500 new jobs per year in the period 2008 -2012

Figure 3: Trends in Income per capita and Jobs Created (2003 – 2019)



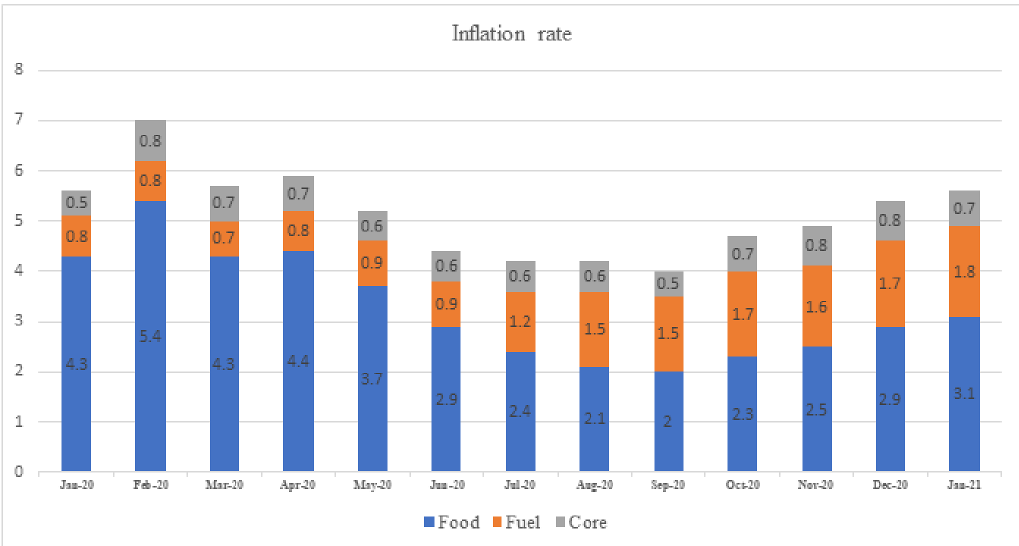
Source of Data: Kenya National Bureau of Statistics various years

> **The major driver of the overall inflation has been food inflation, but its contribution to overall inflation declined from 4.3 percentage points in January 2020 to 3.0 percentage points in January 2021 on account of a reduction in food prices particularly tomatoes and fortified maize flour**

Inflation rate.

Year-on-year overall inflation rate remained low, stable and within the Government target range of 5+/-2.5 percent since end 2017 demonstrating effective monetary policies. The inflation rate stood at 5.7 percent in January 2021 from 5.8 percent in January 2020. The low inflation was supported by a reduction in food prices and muted demand pressures. The major driver of the overall inflation has been food inflation, but its contribution to overall inflation declined from 4.3 percentage points in January 2020 to 3.0 percentage points in January 2021 on account of a reduction in food prices particularly tomatoes and fortified maize flour (National Treasury , 2021). However, the contribution of fuel inflation to overall year-on-year inflation rose to 1.8 percentage points in January 2021 compared to 0.8 percentage points in January 2020 on account of increasing electricity prices.

Figure 4: Contribution to overall inflation in percentage



Source: KNBS, 2021

The exchange rates against the dollars, pounds as well as the Euros is increasing in January 2021 implying that Kenyan shillings is depreciating and therefore becoming weaker against world mostly used trading currencies.

Exchange Rates: The foreign exchange market has largely remained unstable prior to shocks in world market but was partly affected by a significant strengthening of the US Dollar in the global markets and uncertainty with regard to the Covid-19 Pandemic (National Treasury , 2021). The exchange rates against the dollars, pounds as well as the Euros is increasing in January 2021 implying that Kenyan shillings is depreciating and therefore becoming weaker against world mostly used trading currencies.

Figure 5: Exchange Trend

Source: KNBS, 2021

Despite the pandemic, the Kenyan shillings has remained stable due to remittances and adequate foreign exchange reserves (National Treasury , 2021).

Interest Rates: Short-term interest rates remained fairly low and stable. The Central Bank Rate was retained at 7.00 percent on January 27, 2021 same as in April 2020 to signal lower lending rates to support credit access by borrowers especially the Small and Medium Enterprises, distressed by Covid-19 Pandemic. The interbank rate remained low at 5.2 percent in January 2021 from 4.4 percent in January 2020 in line with the easing of the monetary policy and adequate liquidity in the money market. (National Treasury , 2021).

Balance of Payments: The overall BOP shows a reduction in current account deficit from 1.1% of GDP in 2019 to 1.5 % of GDP in 2020. Per capita has fallen, and also, foreign financing has fallen, meaning that consumption and investment have fallen even more than GDP per capita (National Treasury , 2021).

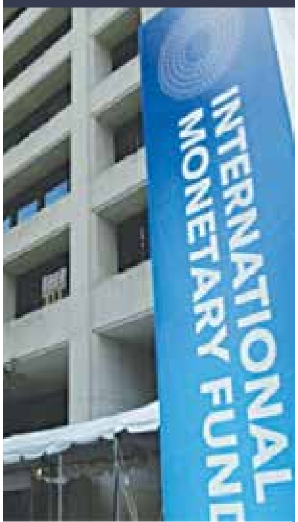
Table 2:Balance of Payment (USD million)

	Year to December 2020		Percentage GDP	
	Change	Percentage Change	Dec-19	Dec-20
Overall Balance	2,493.40	-235.40	-1.10	1.50
A) Current Account	797.20	-14.40	-5.80	-4.90
Merchandise Account (a-b)	2,302.40	-21.60	-11.10	-8.60
a) Goods: Exports	162.90	2.80	6.10	6.20
b) Goods: Imports	-2,139.50	-12.90	17.20	14.70
Net Services (c-d)	-1,528.80	-86.50	1.80	0.20
c) Services: credit	-1,787.50	-31.80	5.80	3.90
d) Services: debit	-258.60	-6.70	4.00	3.70
Net Primary Income (e-f)	335.60	-17.50	-2.00	-1.60
e) Primary Income: credit	-232.10	-101.10	0.20	0.00
f) Primary Income: debit	-567.70	-26.50	2.20	1.60
Net Secondary Income	-312.00	-5.90	5.50	5.10
g) Secondary income: credit	-315.20	-5.90	5.60	5.10
h) Secondary income: debit	-3.20	-5.90	0.10	0.10
B) Capital Account	-77.30	-37.20	0.20	0.10
C) Financial Account	2,703.80	-43.30	-6.50	-3.60

Source: CBK, 2021

6.4%

In 2021 the economic growth projections is 6.4% as compared to the growth rate of 2.9% in 2003, the year preceding elections. Moreover, the economy is projected to grow by 6.4% in 2021 and 5.4% in 2022.



6.0%

However, IMF projected a growth of 6.0 percent in 2021 and 5.8 percent in 2022. This decline in economic growth in 2020 is attributed to emergence of COVID-19 pandemic.

Key observations and recommendations

Table 3: Summary of key messages and recommendations

Key findings	Recommendations
• In 2020 the economy grew by 0.6% which is very low, this can be compared to 2002 when the economy grew by 0.5%, however, in 2021 the economic growth projections is 6.4% as compared to the growth rate of 2.9% in 2003, the year preceding elections. Moreover, the economy is projected to grow by 6.4% in 2021 and 5.4% in 2022. However, IMF projected a growth of 6.0 percent in 2021 and 5.8 percent in 2022. This decline in economic growth in 2020 is attributed to emergence of COVID-19 pandemic that affected the world economies that mostly affected the service sector of the world	• Government should increase pre-arranged financing for emergencies to cushion the economy during future pandemics and other emergencies to ensure liquidity is readily available. Debt instruments should be further considered.
• The annual GDP growth rate in 2008 was 1.5% from 6.9% in 2007, this was due to post election violence experienced disrupting economic activities in the country, however, the GDP growth increased to 8.4% in 2010, this was majorly attributed by political stability experienced in after post-election violence. Similarly, in 2017 GDP growth was 4.8% a decline from 5.9% in 2016 due to general election disrupting economic activities	• Government should maintain peace and stability to avoid disrupting economic activities to realize steady growth over time especially during electioneering periods. Government can achieve this by banning violent political gatherings and prosecuting the orchestrators of these violence.
• Among the key sectors contributed to GDP growth, service sector greatly contributed to GDP growth than industry and agriculture sectors. Additionally, in 2020 quarter two, the contribution of service sector was -5.4 while the industrial sector was -0.2. This decline was to COVID-19 pandemic that led to closure of business activities and industrial activities. However, in 2020 quarter three the service sector improved to -2.5 due to relaxation of covid-19 measures leading resumption of economic activities.	• Government should encourage investment in the service sector to spur economic growth. Key sectors to focus on are the hotel and tourism through public-private partnership by offering affordable loans to facilitate investment and growth of the sector which eventually lead to overall economic growth of the country. Government should also train and capacity build the private entrepreneurs on the importance of credit advanced by the government at lower rate to cushion businesses during crisis. Examples is the coast hoteliers who deliberately refuse to access government credit ended up shutting down businesses.
• Per capita income increased over the period from 2003 to 2019, due to increase in economic growth over the period. Similarly, new jobs created has increased from 656,500 jobs per year between 2008-2012 to 827,000 per year between 2013-2019 due to expansion of the service sector attributing to economic growth of 5.4% in 2019	• Increase investment in service sector to create more new jobs in order to reduce unemployment and spur economic growth.
• Exchange rate remains unstable over the period. However, as at January or February 2021 it increased to 109.8 from 101.1 in 2020. This increase was due increased in demand for dollars resulting from decline in export occasioned by COVID-19 pandemic.	• Government needs to encourage exports of secondary and finished products in the foreign markets that fetch high prices hence maintaining exchange rates. Key sectors that contribute to dollar inflow should receive government support such as agriculture and service sectors. The diaspora remittances should also continue to be a key focus of government with government providing assurance to the Kenyans on increased transparency and accountability of taxes on remittances. Although depreciation of the domestic currency encourages exports and remittance, Exchange rate stability should be maintain to ensure BOP surplus rather than a deficit
• BOP improved to 1.5 percent in 2020 from 1.1 percent in 2019 due to improvement in current account attributed to improvement in merchandised account.	• Government needs to discourage imports as much as possible and encourage local consumption to improve BOP. The buy Kenya build Kenya initiative should receive unwavering support from the government and we call upon the Ministry of Trade and industrialization to ensure that local products meet quality threshold while promoting the campaign

FISCAL PERFORMANCE AND PUBLIC DEBT SITUATION

Budget execution in the first half of FY 2020/21 was hampered by revenue shortfalls of KSH 97.1 billion and rising expenditure pressures. The shortfalls in revenues reflect the weak business environment and the impact of the tax reliefs implemented in April 2020 to support individuals and businesses from the adverse effect of Covid-19 pandemic. These measures were temporary and will be reviewed once the economy opens. Revenues are expected to progressively improve in the second half of the fiscal year following the gradual reopening of the economy and the increased demand for imports as well as improved domestic sales. Revenue performance is also expected to get a boost from reversal of tax reliefs, introduced in April 2020,effective January 2021. For instance, the corporate and individual income rates were revised from 25 percent to 30 percent with the Value Added Tax (VAT) rates reverting to 16 percent from 14 percent. However, with the third wave of the pandemic and fresh containment measures implemented including lockdown of the capital city and surrounding four counties deals a blow this hope.

Table 4: Fiscal Framework (KSH million)

	FY 2019/20	FY 2020/21			FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
		Approved Budget	Rev. Budget I	Deviation	BPS projections			
TOTAL REVENUE	**1,736,982**	**1,892,647**	**1,849,213**	**-43,434**	**2,033,930**	**2,379,720**	**2,796,351**	**3,099,808**
Ordinary revenue	1,573,418	1,633,767	1,594,009	-39,758	1,775,624	2,141,597	2,516,259	2,807,370
Ministerial Appropriation in Aid	163,564	258,880	255,204	-3,676	258,305	238,123	280,092	292,438
TOTAL EXPENDITURE AND NET LENDING	**2,565,444**	**2,774,711**	**2,864,529**	**89,818**	**3,010,035**	**3,201,990**	**3,495,624**	**3,762,898**
Recurrent Expenditure	1,645,222	1,826,718	1,838,005	11,287	1,986,040	2,119,982	2,318,597	2,506,048
Development	594,944	589,705	638,520	48,815	609,146	670,465	759,760	834,364
County Transfer	325,278	353,288	383,004	29,716	409,849	406,542	412,267	417,486
Contingency Fund	-	5,000	5,000	-	5,000	5,000	5,000	5,000
BALANCE EXCLUSIVE OF GRANTS	-828,461	-882,064	-1,015,316	-133,252	-976,106	-822,270	-699,273	-663,090
Grants	19,820	40,921	48,737	7,817	46,057	46,929	48,102	49,304
BALANCE INCLUSIVE OF GRANTS	-808,642	-841,143	-966,579	-125,436	-930,048	-775,341	-651,171	-613,785
Balance Inclusive of Grants (Cash Basis)	-796,841	-841,143	-966,579	-125,436	-930,048	-775,341	-651,171	-613,785
TOTAL FINANCING (Fiscal Deficit inclusive of Grants)	790,804	841,143	966,579	125,436	930,048	775,341	651,171	613,785
Net Foreign Financing	340,431	346,793	426,491	79,698	267,276	263,147	173,779	154,265
Net Domestic Financing	450,373	494,350	540,088	45,738	662,773	512,195	477,392	459,520
Nominal GDP (Fiscal Year)	10,175,226	11,275,797	11,168,511	-107,286	12,393,063	13,759,945	15,373,117	17,128,374
Tax to GDP Ratio	15%	14%	14%	-	14%	16%	16%	16%

Source: BPS, 2021

The revenue shortfall, 10.7% below target as of the end of December 2020, attributed to the underperformance of major tax sources such as the PAYE, VAT, excise and import duty, is a relatively normal trend in Kenya due to over-optimistic forecasting (see Table 1). Yet magnitudes are larger this year, linked to the impacts of the pandemic. The total revenues collected in the first half of the current financial year contracted by 12.9 percent, compared to growth of 17.1 percent registered by the end December 2019. The government revised the ordinary revenue targets downwards by KSH 39.7 billion (see Figure 1), as has been the trend in recent years (see Table 1). Despite revising the ordinary revenues downwards several times across the year, the national government is yet to achieve its revenue targets. These over-optimistic targets have important knock-on effects for expenditure levels. 2021/22 is no different; the revenue target is 11% higher than revised 2020/21 budget target. The share of development budget in the FY 2021/22 budget declines -5% from KSHs. 638.50 billion in FY 2020/21 to KSHs. 609.10 billion in FY 2021/22 despite an overall increase in the budget

Ordinary Revenue Target trends and performance from FY 2016/17 to FY 2019/20

Overambitious revenue targets during budget preparation have contributed to numerous in-year revisions of expenditure plans, which result in unrealistic fiscal policy objectives. This captures the inability of realistically forecasting future revenues and fiscal deficits and implies that the decisions in the overall budget are not being guided by reality but rather by the need to indicate a favorable fiscal position.

Table 5: Ordinary Revenue Target trends and performance from FY 2016/17 to FY 2019/20

Ordinary Revenue Target trends (Kshs Billion)					
Financial Year	**Approved targets in the BPS**	**Approved targets in the Budget**	**Approved targets in the Final Supplementary budget**	**Actual Revenue collected**	**% of Actual Revenue to Final Revised Target**
2016/17	1380.2	1376.4	1311.3	1,306.6	99.6
2017/18	1549.4	1549.4	1489.6	1,365.1	92
2018/19	1688.5	1769.2	1588.1	1,499.8	94
2019/20	1877.2	1877.2	1615.4	1,573.4	97

Expenditure performance

Overall government expenditure has been on the increase in recent years, especially so with the onset of the pandemic and the investments required to control the spread of the disease. As shown in Table 6, the national government and the Consolidated Fund Services budgets are growing in the coming financial year and over the medium, as is the total budget. The allocations to the devolved units on the other hand increase by 17 percent in the coming financial year, but then remain unchanged in FY 2022/23 and grows very slightly (1.4 percent) in FY 2023/24. As shown in Table 3, recurrent expenditure receives a higher allocation as compared to development budget, with development expenditure set to decrease in 2021/22 by 4.6% against high recurrent growth of 8%.

Table 6: Budgetary Allocations for the FY2021/22 and the Medium-Term (Amounts in KSH Millions)

Details	Financial Years						
	Revised Budget	BPS Projections					
	2020/21	2021/22	% change	2022/23	% change	2023/24	% change
Executive	1,816,342.20	1,894,576.80	4.31	1,989,844.90	5.03	2,112,557.90	6.17
Parliament	37,306	37,882.70	1.55	38,535.70	1.72	39,207.60	1.74
Judiciary	17,999.80	17,918.30	-0.45	19,006.70	6.07	19,640.50	3.33
Consolidated Fund Services	586,468.70	697,623.50	18.95	796,892.90	14.23	863,577.00	8.40
County Governments	316,500	370,000	17	370,000	0	375,000	1.40
TOTAL	**2,774,616.60**	**3,018,001.30**	**8.77**	**3,214,280.10**	**6.50**	**3,409,982.90**	**6.08**

Table 7: Recurrent Expenditure vs Development Expenditure

Details	Financial Years						
	Approved Budget	BPS Projections					
	2020/21 (Ksh Billion)	2021/22 (Ksh Billion)	% growth	2022/23 (Ksh Billion)	% growth	2023/24 (Ksh Billion)	% growth
Recurrent Expenditure	1,838.00	1,986.00	8.05	2,120.00	6.75	2,318.60	9.30
Development Expenditure	638.50	609.10	-4.60	670.00	10.00	759.80	13.40

County Allocations

The total equitable share to the Counties in FY2021/22 is projected at KSH. 370 billion, a growth of KSH 53.5 billion (or 16.9 percent) against an allocation of KSH 316.5 billion in FY 2020/21. In FY 2022/23 however, the total budget will grow by 6.5 percent while the allocation to the Counties will remain unchanged. The increase as determined in the FY2021/22 fiscal framework, is intended to facilitate Post Covid-19 economic recovery at the Counties as well as ensure sustained service delivery by the devolved governments. However, in the past two financial years, we have witnessed a stalemate around the division of revenue. This has been a result of

propositions from the Commission on Revenue Allocation (CRA) and Senate on one hand and the National Assembly on the other not matching. This led to the delays in passing the Division of Revenue Bill and ultimately in the disbursement of funds to the Counties. Noting that at least 70 percent of the County budgets is financed by the equitable share, any delays from Treasury has a great impact on the services offered such as health. In the coming financial year, CRA, Senate and the National Assembly agree on the allocation to Counties and this remains to be seen if the case will be the same in FY 2022/23 where this allocation will grow by zero percent.

Table 8 : County Government Allocations for FY 2017/18 to FY 2021/22

Budget item	2017/18	2018/19	2019/20	2020/21	2021/22
Baseline (i.e., allocation in the previous FY)	280,300	302,000	314,000	316,500	316,500
Adjustment for revenue growth (check CRA)	21,700	12,000	2,500	-	36,100
Revenue share (RMLF, level-5 hospital grant, compensation for foregone user fees and rehabilitation of village polytechnics)					17,400
Total County Equitable Share	**302,000**	**314,000**	**316,500**	**316,500**	**370,000**
Additional conditional allocations, of which:					
Free maternal healthcare	-	-	-	-	-
Leasing of medical equipment	4,500	9,400	7,000	6,205	7,205
Supplement for construction of county headquarters	605	605	300	300	332
Allocations from loans and grants	12,541	33,242	39,090	30,204	32,344
Total County Allocations	319,646	357,247	362,890	353,209	409,881
Equitable share year to year growth		3.97%	0.80%	0%	17%

During the FY 2021/22, the national government intends to convert four existing conditional grants to County Governments into unconditional grants, allocating the respective amounts totaling KSH. 17.4 billion towards the Counties' FY 2021/22 equitable revenue share. The four conditional allocations are: Road Maintenance Levy Fund (RMLF); the level- 5 hospital grant; the compensation for user fees foregone; and the grant funding rehabilitation of village polytechnics. This follows recommendations from CRA just to give the counties more flexibility in allocation of the funds to what is their priorities.

Kenya's Public Debt Situation

Fiscal Deficits

Persistent fiscal deficits in the government budget due to excessive expenditure pressures coupled with falling revenue to GDP levels have been the key driver of growth of public debt stock, as the government continues to borrow to finance the fiscal deficit. The actual fiscal deficit including grants averaged 8.0 % in the period FY 2016/17 to FY 2019/20 compared to an average target of 7.0 % during the same period. This points to the inability of the National Treasury to realistically forecast future revenues and fiscal deficits, implying that the decisions in the overall budget are not being fully guided by reality but rather by the need to indicate a favorable fiscal position. The tax to GDP ratio has been falling in recent years, meaning Kenya is becoming increasingly reliant on debt.

Table 9: Fiscal deficits trends from FY 2016/17 to FY 2024/25

Fiscal year	Fiscal Deficit Inc. Grants as share of GDP (%)		
	Target	Actual	Deviation
2016/17	6.9	9.1	-2.2
2017/18	6.4	7	-0.6
2018/19	5.7	7.8	-2.1
2019/20	9	7.9	1.1
Average	7.0	8.0	-1.0
2020/21	8.7		
2021/22	7.5		
2022/23	5.6		
2023/24	4.5		
2024/25	3.6		

Source: BPS, QEBR various years

Persistent fiscal deficits in the government budget due to excessive expenditure pressures coupled with falling revenue to GDP levels have been the key driver of growth of public debt stock, as the government continues to borrow to finance the fiscal deficit.

The request by the national treasury to raise the debt ceiling from the 50 percent of the country's GDP to 9 trillion was approved by the National Assembly in November 2019 when the public debt was 5.8 trillion, two years later the national treasury wants this ceiling raised again.

The fiscal deficit (including grants) is projected at 9 percent of GDP in the FY 2020/21 budget, 1.1 percentage points higher than FY 2019/20 figure and 0.3 percentage points above target. The BPS 2021 projects a fairly steep decline to 7.5 percent of GDP in FY 2021/22 to 4.5% and 3.6% in 2023/2024 and 2024/25 respectively.

The National Treasury proposes to finance slightly more than two thirds of the 2021/22 fiscal deficit through domestic borrowing and about on third through external borrowing. Excessive domestic borrowing has a potential to crowd out the private sector through pushing up the interest rates, creating unmatched competition and ultimately discourages private investment as it reduces the loanable funds to the businesses. As a result, the businesses that require funds to continue their operations may not have access to credit as the banks would find it more ideal to lend to the government.

Table 10: Financing the fiscal deficits

Financial Year	Fiscal Deficit	Financing (Ksh Million)			
	(Ksh Million)	Domestic	% share	External	% share
2020/21	-966,600	426,500	44%	540,100	56%
2021/22 (Projections)	-930.048	662,773	71%	266,276	29%

Gross public debt

The public debt is set to exceed the statutory limit of KSHs. 9 trillion in FY 2022/23. The National treasury through the 2021 medium term debt strategy has indicated the need to raise this ceiling to create room for more debt. The request by the national treasury to raise the debt ceiling from the 50 percent of the country's GDP to 9 trillion was approved by the National Assembly in November 2019 when the public debt was 5.8 trillion, two years later the national treasury wants this ceiling raised again. The National treasury approved the increase in debt ceiling on condition that the 9 trillion should take the National treasury up to 2024/25 which seems not to have worked.

Table 11: Gross Public Debt Stock in nominal terms (KSHs. Billion)

FY	2018/19	2019/20	2020/2 Rev. Budget 1	2021 BPS Ceiling			
				2021/22	2022/23	2023/24	2024/25
Total Debt	5,808.60	6,693.30	7,659.90	8,590.00	9,365.30	10,016.50	10,630.30
External	3,023.10	3,515.80	3,942.30	4,209.60	4,472.70	4,646.50	4,800.80
Domestic	2,785.50	3,177.50	3,717.60	4,380.40	4,892.60	5,370.00	5,829.50
Nominal GDP	9,303.10	10,175.20	11,168.50	12,393.10	13,759.90	15,373.10	17,128.40
% of GDP	62	66	69	69	68	65	62

Source: BPS, 2021 (Red shading indicated a breach of the debt ceiling).

Changes in structure of Kenya's external debt

The structure of external debt has significantly changed over the past ten years as shown. While the multilateral debt still dominates the existing external debt sources, its share of external debt has declined by 25 percentage points between 2010 and 2020. Bilateral portion has generally remained the same while multilateral has decreased by 25 percentage points in favor of commercial loans. This raises the cost of debt servicing since interest rates are generally higher for commercial loans compared to loans from multilateral.

Table 12: Changes in structure of Kenya's external debt

Source	2010	2020
Multilateral	66%	41%
Bilateral	30%	30%
Commercial	4%	29%

Source: Public Debt Management Office, 2020, MTDS, 2021

34%

As such, debt repayment expenditure in FY 2020/21 has been revised upwards and is expected to reach 1.023 trillion by the end of FY 2021/22, equivalent to 34% of overall expenditure.

51%

The increase in debt service budget is also driven by persistent weakening of the Kenya Shilling given that about 51 percent of the total public debt is held in external currencies.

Public Debt Service, Revenue and Expenditure

Public debt service is now very high in Kenya, consuming over half of all taxes to be collected between 2020/21 to 2023/24, constituting about one third of overall government spending.

Table 13: Public Debt Service, Revenue and Expenditure

FY	2020/21			2021/22**	2022/23**	2023/24 **
	Approved budget	Revised budget 1	Deviation			
Interest - Internal	308,424	339,992	31,568	370,430	382,588	385,662
Interest- External	154,684	118,748	-35,936	166,821	173,950	183,692
Sub - Total	**463,108**	**458,740**	**-4,368**	**537,251**	**556,538**	**569,354**
Principal - Internal	261,955	361,955	100,000	246,810	336,623	357,165
Principal - External	179,640	137,707	-41,933	239,393	257,612	504,457
Sub - Total	**441,595**	**499,662**	**58,067**	**486,203**	**594,235**	**861,622**
Total Debt service (principal + interest)	**904,704**	**958,402**	**53,698**	**1,023,454**	**1,150,773**	**1,430,976**
Ordinary Revenue	1,633,767	1,594,009	-39,758	1,775,624	2,141,597	2,516,259
Overall expenditure	2,774,711	2,864,529	89,818	3,010,035	3,201,990	3,495,624
Total Debt service as share of ordinary revenue	55%	60%		58%	54%	57%
Total Debt service as share of overall expenditure	33%	33%		34%	36%	41%

Source: Supplementary budget 1 for FY 2020/21, 2021 BPS, 2021 MTDS

As such, debt repayment expenditure in FY 2020/21 has been revised upwards and is expected to reach 1.023 trillion by the end of FY 2021/22, equivalent to 34% of overall expenditure. The government should be cautious about expanding non-concessional debt even during the current COVID-19 crisis. To manage this situation, concessional borrowing and lengthening the maturity of existing securities may be necessary, even though this will transfer debt to future generations.

Kenya got a six-month debt repayment break from the Paris Club creditors for debt service due 1st January to 30th June 2021. The deferred repayment gives Kenya around Sh32.9 billion in potential savings for the six-month period. The government committed to channel the cash freed by the initiative to mitigate the health, economic, and social impact of the Covid-19 crisis, however the increase in internal debt repayments as appears to defeat this commitment. The increase in debt service budget is also driven by persistent weakening of the Kenya Shilling given that about 51 percent of the total public debt is held in external currencies.

Kenya's total public Debt and external debt Sustainability analysis

In April 2021, the International Monetary Fund (IMF) reported that it had downgraded Kenya's debt carrying capacity from strong to medium signaling increased liquidity risks due to the government spending a larger share of the country's taxes on debt repayment at expense of provision of critical services such health care, education, electricity, agriculture, cash transfers to the people with disabilities, the elderly. Given the assessment of debt-carrying capacity as medium, the projections indicate **sustained breaches of solvency and liquidity indicators under the baseline scenario — the PV of external debt-to-exports and external debt service-to-exports ratios as well as PV of public debt-to-GDP.** The larger breach of liquidity indicators in 2024 under the baseline is mainly attributed to a Eurobond repayment which the Kenyan authorities intend to roll its maturity over. Therefore, Kenya is highly susceptible to export and exchange rate depreciation shocks.

High risk of debt distress means that Kenya is likely to default or face difficulties in servicing debt while meeting other priorities such as implementation of the Post-Covid-19 Economic Recovery Strategy, the Big Four Agenda among others.

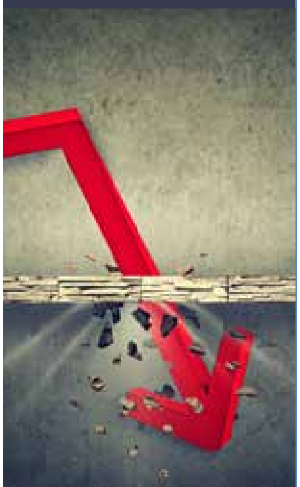


Table 14: Kenya's total public Debt and external debt Sustainability analysis

	Indicators	Thresholds (Medium debt carrying Capacity)	Actual	Projections			
			2020	2021	2022	2023	2024
External Debt Sustainability Analysis	PV of debt–to-GDP ratio	40	28.7	28.7	28.3	27.3	26.3
	PV of debt– to- exports ratio	180	288.3	255.8	239.2	219.8	204.2
	PPG debt service-to-exports ratio	15	26.5	19.1	22.7	20.1	29.7
	PPG debt service-to-revenue ratio	18	15.5	13.0	15.8	14.0	21.0
Total Public Debt Sustainability Analysis	PV of public debt-to-GPD ratio	55	62.4	63.0	64.2	63.4	62.9
	PV of public debt-to revenue & grants ratio	250	360.0	372.6	370.8	348.7	339.2
	Debt service-to-revenue and grants ratio	30	52.2	47.6	61.9	68.3	79.3

Source: IMF, 2020a. (red indicates a breach of IMF sustainability thresholds)

The IMF raised Kenya's risk of debt distress from moderate to high in May 2020. This downgrade will persist due to the impact of COVID-19 crisis which has exacerbated existing vulnerabilities. Further, the pandemic continues to dampen exports and economic growth. High risk of debt distress means that Kenya is likely to default or face difficulties in servicing debt while meeting other priorities such as implementation of the Post-Covid-19 Economic Recovery Strategy, the Big Four Agenda among others. Other countries in region in high risk of debt distress include Zambia, Ethiopia, and Burundi. Zimbabwe, Sudan, and Mozambique are already in debt distress while Rwanda and Uganda are in moderate and low risk debt distress, respectively.

Key observations and recommendations

Table 15: Key observations and recommendations

	Key observation	Recommendation
1	The proposed revenue target set for FY 2021/22 is unrealistic (10% higher than last year) and cannot be justified given the historical performance of revenue even before the pandemic hit, where the government was yet to achieve its projections. Pre-COVID-19 historical trends reveal gaps in how the government sets its projections and collects this revenue.	More realistic revenue projections are required. The government should maintain its total revenue projections at KSH 1.8 trillion as contained in the FY 2020/21 revised budget. Further, there should be revenue reforms for a more realistic method of projecting revenues to avoid the persistent fiscal deficits.
2	The executive budget is set to increase in the coming financial year and over medium and the recurrent expenditure will receive a greater share of the allocation. This can lead to widening fiscal deficits because the total revenue is not growing at the same rate as the expenditures. In the coming financial year, the spending is projected to increase by 8.77 percent as compared to the current financial year. The largest beneficiaries of this increase include the CFS at 18.95 percent and the Counties at 17 percent. Over the medium term, the spending for the Executive will grow by 5.03 percent.	Expenditure reductions are too necessary in order to bring down the deficit. The national government should cut any excessive and non-core spending such as hospitality, training, travel (both domestic and international) and costs associated with advertising and purchase of office furniture and office supplies. The National Government should work to bring down the public sector wage bill that continues to be above the threshold of 35% provided for in the Public Finance Management (PFM) Act. Further we recommend that the government should keep its expenditure as is provided for in the FY 2020/21 budget. Reduced public expenditure will help control the fiscal deficits that have been persistent (provided performance on revenue does not deteriorate faster).
3	Conversation of conditional to unconditional allocations to counties.	The conversation of these conditional to unconditional grants should be treated as a pilot thereby monitoring how the counties will allocate the extra funds in the coming financial year. The lessons learnt here will give a clear indication on whether there is need to revert back to the conditional grants. The evidence will also be used to measure the extent to which service delivery in the counties has been impacted positively or otherwise.

Reduce costly commercial borrowing and increase revenue: GDP to improve the medium-term debt dynamics and maintain the current domestic financing mix of 57% external and 43% domestic.

4	Increasing spending and interest payments at a time when revenues are underperforming, and the economy's ability to incur more debt is narrowing will render the economy vulnerable to fiscal unsustainability.	**No new projects** - defer all projects by one year especially where no commitments have been entered **Reschedule debt to free more money to finance expenditure in the budget:** This will likely reduce the domestic borrowing and lead to less crowding out of the private sector. More credit available for local businesses.
5	**Financing over 70% of the fiscal deficit from domestic sources with high interest rates** Increased the internal repayment of interest while the external interest was revised downwards. Downgrade of debt-carrying capacity from strong medium indicates sustained breaches of solvency and liquidity indicators under the baseline scenario —the PV of external debt-to-exports and external debt service-to-exports ratios as well as PV of public debt-to-GDP. The larger breach of liquidity indicators in 2024 under the baseline is mainly attributed to a Eurobond repayment. Kenya is highly susceptible to export and exchange rate depreciation shocks.	Reduce costly commercial borrowing and increase revenue: GDP to improve the medium-term debt dynamics and maintain the current domestic financing mix of 57% external and 43% domestic. Prioritize to expand the revenue base by bringing in the informal sector through incentives that deliver benefits to MSMEs. The government should work with other countries to press for a greater level of concessional, Multilateral finance during the COVID recovery. Pursue debt restructuring,
6	**Delays in approval and enactment of County Allocation of Revenue Act**	To ensure that the stalemate does not occur again, there is need for the CRA, the Senate and the National Assembly to have a more harmonized approach on the division of revenue. Further, the counties should boost their own revenue collection to reduce their dependence on the national government.

SECTORAL DIVES IN SELECT AREAS; SPENDING REVIEW FOR FY 21/22

This section presents an analysis of Social Protection, Health, General Economic and Social Affairs, Energy Infrastructure, and ICT and Agriculture Rural and Urban Development Sectors as some of the key pillars that supports achievement of the government Big Four Agenda, to Provide Universal Health Coverage, Food Security, support for expansion of Industries and Manufacturing, and provision of Affordable Housing. Following the outbreak of the COVID-19 pandemic, the government plan to support these services was interrupted by subsequent limitations to movement of people and goods and scaling down operations across all sectors that constrained the fiscal space and shifted the focus to other priorities geared towards containing the spread and impact of the pandemic on the economy**.** Consequently, the government priorities in the 2021-22 financial year and beyond as contained in the Post Covid-19 Economic Recovery Strategy ,2020 seeks to mitigate the adverse socio-economic effects of the pandemic and reposition the economy to a growth trajectory. Similarly, the 2021 Budget Policy Statement lays more emphasis on economic recovery and pursuit to realization of the Big Four Agenda. In this section of sectoral reviews, the analysis looks at the budget performance trends in the selected sectors, the resource requirements submitted to National Treasury by sectors, budget ceilings allocated in the 2021 BPS against key priority areas as highlighted in those documents. The analysis then draws key messages from this review and provides recommendations for each sector.

Table 16: Sectoral Estimates, 2020/21 Approved Estimates vs 2021/22 BPS Ceilings

	Approved Budget Estimates	BPS Ceiling	% Share in Total Ministerial Expenditure	
	2020/21	2021/22	2020/21	2021/22
Agriculture, Rural& Urban Development	63,236.4	70,046.7	3%	4%
Energy, Infrastructure, and ICT	362,769.1	401,264.0	19%	20%
General Economic and Commercial Affairs	27,906.2	23,391.7	1%	1%
Social Protection, Water and Natural Resources	70,089.7	71,316.7	4%	4%
Health	111,702.7	119,855.5	6%	6%
Others	1,251,957.9	1,292,578.2	66%	65%
Total Ministerial Expenditure	1,887,662.0	1,978,452.8	100%	100%

Source: BPS 2021

All sector shares are remarkably stagnant with a one percentage point exception of Agriculture, Rural& Urban Development and Energy, Infrastructure, and ICT sectors. Analysis of budget performance for agriculture reveals that the sector fails to absorb about one third of the allocated budget therefore even the increase in sector allocation may not translate into improved service delivery due to low absorption. The allocations do not demonstrate a decisive shift in funding in line with the stated government priorities in implementation of the post-covid-19 economic recovery strategy and the big Four agenda. The share for health and agriculture are far below the Abuja and Maputo declarations on commitment to allocation of at least 15 percent and 10 percent of national budgetary resources to health and agriculture and rural development.

The outbreak of COVID-19 and the ensuing containment measures have resulted to increased demand for social protection services by orphans, elderly, persons with disabilities and other vulnerable groups, increased cases of Gender Based Violence and teenage pregnancies.

SOCIAL PROTECTION, CULTURE AND RECREATION SECTOR

Introduction

Social Protection, Culture and Recreation Sector comprises six Sub Sectors namely: Development of the Arid and Semi-Arid Lands (ASALs); Sports; Culture and Heritage; Labour; Social Protection, and Gender and 19 semi-autonomous agencies and one Autonomous government agency(AGA). The sector's vision is a globally competitive workforce, sports, culture and recreation industry, and a resilient, equitable and informed society. It aims to achieve this vision through promotion of sustainable employment, best labour practices, sports, gender equality and equity, empowerment of communities and vulnerable groups, diverse cultures, heritage and arts.

The Sector plays a critical role towards the achievement of the Third Medium Term Plan (MTP III) of the Kenya Vision 2030, whose theme is "Transforming Lives: Advancing Socio-economic Development through the "Big Four", the Sustainable Development Goals (SDGs), Africa Union Agenda 2063 among others. In addition, the sector plays a strategic role in the country's transformation and socio-economic development through implementation of special programmes for the development of the ASALs. Furthermore, the sector undertakes promotion of sustainable employment, harmonious industrial relations, productive workforce and gender equity and equality. Other key roles include empowerment of communities and vulnerable groups, safeguarding children's rights and promotion of diverse cultures, arts and sports to enhance cohesiveness and Kenya's regional and international competitiveness.

The outbreak of COVID-19 and the ensuing containment measures have resulted to increased demand for social protection services by orphans, elderly, persons with disabilities and other vulnerable groups, increased cases of Gender Based Violence and teenage pregnancies. In addition, the sector faces challenges of unfavorable climatic conditions, erratic weather patterns leading to frequent floods, landslides, and prolonged drought as well as inadequate policy and legal framework in response to the challenges. For example, the four cash transfers under Kenya National Safety Nets Program (KNSNP) which includes Cash Transfer for Persons with Severe Disabilities (CT-PWSD), Cash Transfer for Orphans and Vulnerable Children, (CT-OVC) Cash Transfer for Older Persons (CT-OP) and Cash Transfer through Hunger Safety Net Programme (CT-HSNP) continues to operate without a substantive act of parliament. The government is yet to operationalize the Social Assistance Act of 2013 which establishes the National Social Assistance Authority; to provide for the rendering of social assistance to persons in need.

Expenditure Review (2017/18- 2019/20)

Table 17: Expenditure Review (2017/18- 2019/20)

DEPARTMENT	APPROVED BUDGET (Million)		Absorption Rate (%)	
	2018/19	2019/20	2018/19	2019/20
Development of ASAL	6,418.50	6,646.70	98	87
Sports Development	11,280.20	14,962.30	37	73
Culture and Heritage	4,088.50	3,770.00	96	95
Labour	2,931.10	3,523.30	93	92
Social Protection, Pensions & Senior Citizens Affairs	31,416.90	43,138.40	99	94
Gender	3,995.00	4,012.00	92	93
General Administration, Planning and Support Services	1,381.40	1,235.70	90	96
Grand Total	**61,512**	**77,288**	**86**	**90**

Sports development has the least absorption rate and highest beneficiary of additional funds in the sector. The trends show an inverse relationship between absorption rate and level of budget allocation.

Analysis of the baseline allocation FY 2020/21

Table 18: Analysis of the baseline allocation FY 2020/21

Department	Approved Budget (Ksh. Million)			Revised Budget (Ksh. Million)			Change in Budget. (Ksh. Million)	% Change
	Total	Recurrent	Development	Total	Recurrent	Development		
Development ASALs	9,804.7	980.4	8,824.3	7,667.0	662.6	7,004.4	(2,137.8)	(22)
Sports Development	15,397.1	1,241.5	14,155.6	4,273.8	980.9	3,292.9	(11,123.3)	(72)
Culture and Heritage	2,722.8	2,679.7	43.1	1,756.1	1,723.7	32.4	(966.7)	(36)
Labor	5,208.7	2,764.3	2,444.4	3,967.7	2,505.7	1,462.0	(1,241.0)	(24)
Social Protection, Pensions & Senior Citizens Affairs	33,604.5	31,056.2	2,548.2	32,517.6	30,437.6	2,080.0	(1,086.8)	(3)
Gender	3,352.0	978.0	2,374.0	3,876.5	978.5	2,898.0	524.5	16
Sector Total	70,089.8	39,700.2	30,389.6	54,058.7	37,289.1	16,769.6	(16,031.1)	(23)

The sector's approved budget for the current year (2020/21) is below the previous year (2019/20) allocation by 9%, (KSH. 77,228 million in 2019/20 vs KSH. 70,090 million in 2020/21). This was reduced by a further 23% to KSH. 54,058.7 million through the first supplementary budget, even though the overall government budget grew by 3%. All departments faced cuts apart from gender whose budget increased by 16% due to grant revenue from the Government of Finland for strengthening prevention and response to Gender Based Violence (GBV). The sector cuts were most profound in the Sports department and Culture which the National Treasury attributed to budget rationalization and low absorption of donor funds. The department of sports has a number of uncompleted regional projects such as Wote and Kamariny Stadia whose completion hangs in balance following such cuts. Such a significant cut in the overall sector budget indicates government's shifting priority despite the sector being a critical pillar to the attainment of the big 4 agenda and full implementation of Post-Covid-19 Economic Recovery Strategy (ERS)

Sector Medium Term Priorities 2021/22-2023/24

In the FY 2021/22 and the MTEF period, the Sector aims to implement policies, programmes and projects outlined in the MTP III; 2018 -2022 of the Kenyan Vision 2030 and contribute to the achievement of the "Big Four" agenda. The projected key programmes for implementation include: Manpower development; Employment and productivity management; Promotion of best labour practices; Sports promotion; Social development; National Safety Net; Children services; Community development; Gender empowerment; Arts; Culture development; Accelerated ASALs development; and Library services.

Table 19: Resource Allocation vs. Requirement

	Baseline Resource allocation	Resource Requirement			Proposed Resource Ceilings			Av.	Resource gap		
FY	2020/21	2021/22	2022/23	2023/24	2021/22	2022/23	2023/24		2021/22	2022/23	2023/24
(Ksh. Millions)	54,058.78	127,104.06	122,240.94	120,149.02	71,316.8 (56%)	73,450.9 (60%)	75,718.4 (63%)	60%	(55,787.26)	(48,790.04)	(44,430.62)

Source: Sector Budget Proposal Report, 2021/22

The sector's resource allocation is slightly more than half of its needs, a significant constraint to credible delivery of the sectors stated strategic priorities.

Sector budget ceilings FY 2021/22 - FY 2023/24

Table 20: Sector budget ceilings FY 2021/22 - FY 2023/24(KSH in Millions)

Department	FY 2021/22			FY 2022/23			FY 2023/24		
	Total	Recurrent	Develop-ment	Total	Recurrent	Develop-ment	Total	Recur-rent	Develop-ment
Development ASALs	10,065.7	1,029.5	9,036.2	12,258.4	1,047.4	11,211.0	13,359.8	1,087.5	12,272.3
Sports Development	16,483.2	1,338.6	15,144.6	17,243.0	1,279.0	15,964.0	17,616.5	1,312.0	16,304.5
Culture and Heritage	2,803.8	2,749.2	54.6	2,810.5	2,729.7	80.8	2,925.7	2,810.7	115.0
Labor	5,337.1	2,750.6	2,586.5	5,502.2	2,820.3	2,681.9	5,688.6	2,882.9	2,805.7
Social Protection, Pensions & Senior Citizens Affairs	33,272.7	30,236.1	3,036.6	32,484.0	30,193.5	2,290.5	32,489.9	30,257.5	2,232.4
Gender	3,354.3	1,030.3	2,324.0	3,152.1	1,038.1	2,114.0	3,638.0	1,067.2	2,570.8
Sector Total	71,316.8	39,134.3	32,182.5	73,450.2	39,108.0	34,342.2	75,718.5	39,417.8	36,300.7

Source: 2021 Budget Policy Statement

Following a significant cut in the 2020/21 budget, the 2021 BPS is promising to restore the sector's budget, although it remains below the sector allocation in 2019/20 and represents just slightly more than half of the sector resource needs; a substantial mismatch between government stated strategic priorities and committed resources. The credibility of this allocation is also questionable given the recent in year cuts in the sector budget which if reoccurring, would result in further reductions in the proposed resource allocations. The government seeks to nearly quadruple the budget for the sports department; from the revised budget of KSH. 4,273.8 million in 2020/21 to KSH.16,483.2 million in the 2021/22 which is ambitious.

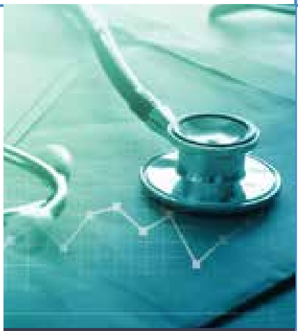
The department of culture and heritage is faced with inadequate human capital due to slow pace in succession management coupled with ageing workforce. For example, over 70% of the National Archives' employees have attained the statutory retirement age of 60 years. The department indicates that it a budget gap of about KSH. 300 million to recruit additional staff for Kenya National Archives. This is more than double the 2021/22 allocation for the department.

The department for Social Protection, Pensions & Senior Citizens Affairs stated priorities in 2021/22 is expansion of the cash transfer program by 47%; from 1,233,129 beneficiaries in 2020/21 to 1,817,500 beneficiaries in 2021/22. This increase translates to about 584,371 more beneficiaries being brought into the program. This priority however does not seem to be consistent with allocated resources, the recurrent budget which is supposed to fund this increase has been reduced by KSH.202 million; from 30,437.60 million in 2020/21 revised budget to KSH.30,236.1 in 2021/22 budget ceiling.

Key Findings and recommendations

Table 21: Key Findings and recommendations

Key findings	Recommendations
The baseline sector allocation for FY 2020/21 was revised downwards by 23%; the development budget was the greatest casualty where its budget reduced by 45% with budget for recurrent expenditure reduced by only 6%.	The National treasury should guarantee budget credibility by ensuring that budgets implemented as approved and if budget revision is invetible, the change should not exceed 10% Further, more scrutiny should be done to the directorates to investigate the issues causing low budget absorption.
Only the gender department's budget that increased by a modest KSH. 0.5 million due to grant revenue from the Government of Finland for strengthening prevention and response to GBV. Sector resources allocation for FY 2022/22 is about 56% of the requirement	The department should Fast-track absorption to ensure the additional budget is all spent
The Sector get slightly more than half of the required budget. Proposed resource requirement for FY 2021/2022 is KSH.127, 104.06 million; but only KSH. 71,316.8 million has been allocated which is less than the FY2019/20 allocation of KSH.77,288 million.	The government should match resources with the stated priority of the sector in realization of the big 4, Post COVID-19 ERS and vision 2030, especially when there is an overall increase in government spending. The National Treasury to maintain the budget for FY 2019/20 at KSH. 77.3Bn and adjusted for inflation.
The overall sector budget cuts indicate government's shifting priority despite the sector being a critical pillar to the attainment of the big 4 agenda and full implementation of Post-Covid-19 ERS	The Sector should ensure that announcement of new priorities ought to feed into inter-sectoral resource allocation decisions in a meaningful way so that priorities are reflected in gradual shifts in sectoral distributions.
Sports development department has the lowest absorption rate; 37% and 73% in FY 2018/19 and 2019/20 respectively. It is also the highest beneficiary whenever there's additional funds in the sector and the greatest looser whenever there's budget rationalization. This has led to great uncertainty for the department and results in unfinished projects such as Wote and Kamariny regional Stadia which will be subject to deterioration and potential penalty costs.	The National treasury should adopt a joint approach with key stakeholders to addressing the problem of low absorption of donor funds in the budget. Increase the proposed ceiling to avail resources for completion of incomplete projects among them the regional stadia.
Under Social Protection, Pensions & Senior Citizens Affairs there are inconsistencies between stated priorities and allocated resources, government intends to increase beneficiaries of the cash transfers by 584,371 individuals and households while reducing the budget allocation by KSH.202 million.	Increase departmental budget ceiling to match the stated priorities and respective budget ceilings. Ensure greater consistency with strategic plans and resource allocations.
The national Safety nets program continues to operate without a substantive act of parliament.	Develop policy and legal framework for operation of the National Safety Nets program. Operationalization of the Social Assistance Act of 2013 Fast-track operationalization of Social Assistance Act of 2013.
The department of culture and heritage is faced with inadequate human capital due to slow pace in succession management coupled with ageing workforce. The department requires KSH300 million to recruit additional staff.	Develop and fiscally and operationally sustainable means of increasing the department's budget to allow for the replacement of staff.



The sector delivers its mandate through five programmes, Preventive and Promotive Health National Referral and specialized Services Health Research and Development, General Administration & Support Services, and Health Policy, Standards and Regulations.

10%

The National Level budget allocation to the health sector was KSH119.9 billion, bringing the total health budget to KSH248.5 billion out of the overall national budget of KSH2.5 trillion equivalent to 10 percent of the total budget.

HEALTH SECTOR

Introduction

The vision of the sector is "A healthy, productive and globally competitive nation", underpinned in eight (8) policy orientation areas, six (6) strategic objectives under the principles of equity, efficiency, and people centered with a multi sectoral approach. The Sector has twelve (12) Semi-Autonomous government agencies, a collection of national and training hospitals, research bodies, and regulatory bodies. The sector seeks to advance Universal Health Coverage as national priority under the Big 4 Agenda. The BPS highlights the commitment by the health sector to expand the activities in the medium-term plan III to promote dynamic, inclusive and sustainable development. The sector delivers its mandate through five programmes, Preventive and Promotive Health National Referral and specialized Services Health Research and Development, General Administration & Support Services, and Health Policy, Standards and Regulations.

Expenditure Review

Analysis of the previously approved national government budget since 2014-15 financial year to 2021-20 reveals that the allocation to the health sector has on average been receiving a share of five (5) percent relative to the overall national budget. While health is largely a devolved function, the sub-national allocation to the health sector in 2019-20 for all the counties is KSH128 billion (County Budget Review Implementation Report, 2019). In addition, the National Level budget allocation to the health sector was KSH119.9 Billion, bringing the total health budget to KSH248.5 billion out of the overall national budget of KSH 2.5 Trillion, equivalent to 10 percent of the total budget. The Health Sector Report of 2020 shows that the budget expenditure performance has been improving from 68 percent in 2017/ 2018, to 92 percent in 2018-19, and to 94 percent in 2019-20. Comparatively, this is slightly higher than the overall budget absorption, which averages at 86 percent for the three financial years. However, there is still low absorption rates in the preventive and promotive health services whose absorption in 2018-19 was 75 percent of the budget allocated. This absorption is equally reflected in the programme indicators showing missed targets in communicable diseases, non-communicable diseases and Reproductive and Maternal Health, sub-programmes. Health Research and Development Programme is also the second lowest in absorption at 83 percent in 2019-20 up from 70 percent in 2018-19. County health research support targets under this programme were subsequently not realized, with only 4 counties supported to conduct health research out of a targeted 47 counties in 2019-20. Beyond absorption rates, poor performance is also attributed to poor targeting where targets set fails to consider performance trends in previous periods sighting inadequate funding as a major cause of missed targets. Further, some programmes are donor funded and subsequent withdrawal of this sponsorship and declining support occasioned this performance. The Health Sector Report, 2020 also reveals resource gaps by 40 percent between the required amount and the allocation between 2016-17 and 2019-20.

Table 22: Programme Level Budget Absorption

Expenditure Classification	Approved Budget		Actual Expenditure		Absorption Rates	
	2018/19	2019/20	2018/19	2019/20	Absorption 2018-19	Absorption 2019-20
Programme 1: Preventive and Promotive Health	10,943	9,780	8,249	9,078	75%	93%
Programme 2: National Referral and specialized Services	36,464	41,060	33,878	38,091	93%	93%
Programme 3: Health Research and Development	8,243	10,570	8,141	8,814	70%	83%
Programme 4: General Administration & Support Services	6,696	8,213	6,762	7,622	101%	93%
Programme 5: Health Policy, Standards and Regulations	22,797	49,671	17,504	44,900	77%	90%
Total	**85,143**	**119,294**	**74,534**	**108,505**	**88%**	**91%**

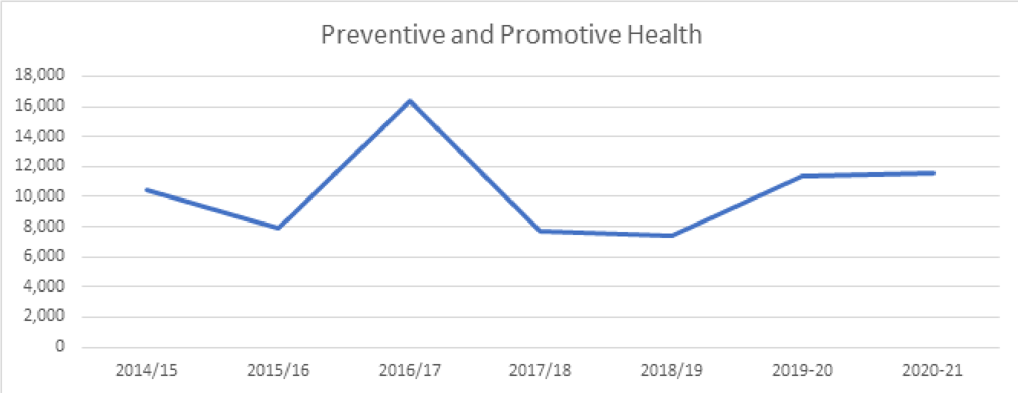
Source: Health Sector Report 2020

The health sector points out that the population is growing at a rate of 3 percent, and as result leading to increased demand of health services. Over the medium term, the sector seeks to expand maternal and child health services. In addition, the sector seeks to prioritize preventive and promotive health care to reduce disease burden. A trend analysis shows that the sector allocates an average KSH10.4 billion in the preventive and promotive health care which is 14 percent of the overall sector budget allocation.

The 2021 Budget Policy Statement evidently demonstrates increased priority in specialized treatment under the National Referral Hospital Programme with a projected budget allocation increase from KSH41 billion in 2019-20 to KSH42 billion in 2020-21 and KSH47 billion in 2021-22 which is an 11 percent growth relative the 7 percent overall sector budget growth.

On the other hand, the National Referral and Specialized services consumes an average of 39 percent of the overall sector budget. Consistently, the Economic Recovery Strategy of November 2020, projects to expand and upgrade the existing level 4 and level 5 hospitals to provide specialized treatment and ease the pressure in the existing facilities that provide similar services. The 2021 Budget Policy Statement evidently demonstrates increased priority in specialized treatment under the National Referral Hospital Programme with a projected budget allocation increase from KSH41 billion in 2019-20 to KSH42 billion in 2020-21 and KSH47 billion in 2021-22 which is an 11 percent growth relative the 7 percent overall sector budget growth.

Figure 6: Trends in Budget Allocation on Preventive and Promotive Health Programme.



Source Sector Report 2015-2020

Sector Priorities/Sector Ceilings

The 2021 Budget Policy Statement indicates that the government seeks to.

- Establish a mandatory UHC scheme to be managed by NHIF and regulated by the Ministry of Health and act as the national scheme for all person's resident in Kenya, notwithstanding one's social status to roll out universal health coverage. Accordingly, the sector has drafted a UHC Policy 2020-2030 to guide realization of UHC. ,

- Adoption of the completed Essential Health Benefits Package to increase access to health services at a lower cost. The package covers outpatient and inpatient services, communicable and non-communicable disease management, maternity, dialysis, radiology, mental health, minor and major surgery, substance abuse rehabilitation, emergency services and cancer treatment, among others at cost of KSH6,000 per household per annum. Contributions to the NHIF scheme increased from KSH30 billion to KSH31 billion between 2018-19 and 2019-20. This is however a 6 percent from the KSH33 billion raised in 2017-18. Part of the reforms under NHIF involved reduction of administrative expenses pay-out ratio from 22 percent in 2016-17 to 11 percent in 2019-20.

- Provision of health insurance cover to initially one million households who are vulnerable and unable to meet even that low-cost premium. The sector also admits to the strain on NHIF caused by chronic illnesses such as cancer due to inadequate infrastructure and skewed distribution across different regions. This is evident as more resources are committed to specialized services at 42 percent of the overall sector budget in 2021-22.

- Fostering partnerships with the County Governments to realize the aspirations of UHC establishment of a UHC fund to ensure seamless operations of the UHC agenda.

- Improve maternal, newborn and child health services; reduce malaria related mortality in Kenya.

- Enhance early diagnosis and management options for cancer and renal diseases through the recently launched oncology center at Kenyatta University Teaching, Research and Referral Hospital.

- Establishing an ultra-modern National Mental Health Hospital by elevating Mathari National Teaching and Referral Hospital as a semi-autonomous specialized hospital to deal with mental health and offer training and research in psychiatry, specialized psychiatric services, forensic psychiatric services, child and adolescent mental services and substance abuse related and addictive disorders treatment and rehabilitation services.

Community health is a critical driver of UHC and without prevention interventions UHC is not attainable as there will be increased disease burden thus overwhelming the health care system.

Table 23: Health Sector Budget Allocation Growth

HEALTH	2020-21	2021-22	Growth	% Growth
Preventive, Promotive and RMNCAH	11,586.20	19032	7,445.80	64%
National Referral Hospital	42,409.20	47249	4,839.80	11%
Health Research and Development	9,927.70	10272.5	344.80	3%
General Administration, Planning and Support Services	8,532.80	7977	(555.80)	-7%
Health Policy, Standards and Regulation	39,246.70	35324	(3,922.70)	-10%
	111,702.60	**119,854.50**	**8,151.90**	7%

Source: 2021 Budget Policy Statement

Table 24: Analysis Health Sector Programmes Allocation against Resource Requirement KSH in millions)

	Allocation	Requirement	Resource Financing Gap	Budget Allocated as a % of resources required
Preventive, Promotive and RMNCAH	19,032.00	30,046.00	(11,014.00)	63%
National Referral Hospital	47,249.00	81,476.00	(34,227.00)	58%
Health Research and Development	10,272.50	24,623.00	(14,350.50)	42%
General Administration, Planning and Support Services	7,977.00	9,340.00	(1,363.00)	85%
Health Policy, Standards and Regulation	35,324.00	50,191.00	(14,867.00)	70%
	119,854.50	195,676.00	(75,821.50)	61%

Source: Health Sector Working Group Report 2020, Budget Policy Statement 2021

To effectively finance the budget priorities of the health sector, KSH195 billion was submitted as the sector requirement in the Sector Report, while the ceiling allocated only meets 61 percent of that budget. The analysis above reveals a KSH42.6 billion gap in financing of the recurrent expenditure of the sector and KSH33.3 billion gap for development budget.

Key Findings on Expenditure Review/Sector Priorities

Table 25: KEY FINDINGS ON EXPENDITURE REVIEW/SECTOR PRIORITIES.

Key Findings	Recommendations
The overall budget performance falls below the allocated budget for 2019-20 standing at 93 percent of the overall budget. The average budget performance for the preventive and promotive health care, records the lowest absorption at 73 percent of the budget allocated. The Health Sector Report 2020 in addition, shows that the sector has KSH50 billion on pending bills.	This illustrates fiscal constraints facing the sector and the need for the MoH to consider more deliberate expenditure prioritization criteria for the sector and for the Parliament to increase the budget ceiling to expand budgetary allocations in real terms towards reducing out of pocket spending by citizens.
The low absorption rates within preventive and promotive program raises an alarm considering the country's young population that would benefit from the program service. Community health is a critical driver of UHC and without prevention interventions UHC is not attainable as there will be increased disease burden thus overwhelming the health care system.	The Health Sector should prioritize investment to preventive and promotive health care and shifted focus to level one health care service provision targeting households and communities. This will reduce pressure on spending for curative services. This analysis shows that 39 percent of the sector budget will be directed to specialized services in 2021-22 up from 38 percent in 2021-22, indicating a 11 percent budget growth as the preventive programme allocation grows significantly by 64 percent but still low in absolute terms receiving KSH7.5 billion. However, this growth in the preventive programmes budget is KSH34 billion less the amount required by the sector.

7%

The overall sector budget grows by 7 percent with recurrent and development budgets growing by 10 percent and 4 percent, respectively.

Key Findings	Recommendations
The overall sector budget grows by 7 percent with recurrent and development budgets growing by 10 percent and 4 percent, respectively.	The sector ought to adopt the resource allocation criteria outlined in the sector report to ensure that services that are directly linked to strengthening of health systems are prioritized. The Ministry of Health (MoH) could also consider rescheduling capital expenditure such as construction of a Kidney Institute to free-up resources that will revamp the health sector following the COVID-19 pandemic that has strained the health facilities and the human resource across the country.
The sector has prioritized Universal Health coverage through establishment of UHC Scheme to support roll out of the programme in the other 43 counties following the pilot in Isiolo, Nyeri, Machakos, and Kisumu counties.	The health sector in collaboration with the county governments ought to address service delivery and infrastructural gaps in public health facilities through adequate human resources and equipment in the existing facilities to ensure that the scheme not only covers specialized treatment but equally preventive and promotive health care.
The government seeks to introduce a KSH6000 mandatory payment for each household as a contribution to the UHC scheme, beyond the contributions that are already remitted to NHIF.	While the intention is to extend health coverage to the poor and vulnerable households, the reforms should be aligned with strategic purchasing actions and health system reforms that guarantee equitable distribution across different groups. The ability of a household to pay should be considered as a key consideration in deciding the remittances for the annual UHC scheme. As the sector continues to seek an expanded service coverage, it is important to consider how this shift is communicated, given the current challenges with the NHIF on providers' payment methods and rates that compromise the ability to provide incentives to facilities that provide health care indemnified by the scheme.
The sector has accrued KSH50 billion in pending bills by the end of 2019-20 financial year 98 percent of which are accrued due to lack of budgetary provisions. 54 percent of these pending bills are accrued by the ministry of health with KSH25 billion out the KSH 26 billion pending bills being outstanding court awards and legal fees. The pending bills exceeds the total capital allocation to the sector by KSH3 billion.	KSH49 billion in pending bills accrued in the sector emanates from lack of budgetary provisions. The sector should consider allocating resources to cover legal fees and court awards as the highest. In addition, it could be prudent to consider settling the current capital related pending bills before incurring further capital investments.

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The General Economic and Commercial Affairs (GECA) sector is a significant player in the delivery of the 'Big Four' Agenda in terms of manufacturing, universal health coverage, food and nutrition, security, and affordable housing.

92%

The GECA Sector Report of 2020 shows that the overall budget expenditure performance has been improving from 82 percent in 2018-19, and to 92 percent in 2019-20.

GENERAL ECONOMIC AND COMMERCIAL AFFAIRS SECTOR

Introduction

The General Economic and Commercial Affairs (GECA) sector is a significant player in the delivery of the 'Big Four' Agenda in terms of manufacturing, universal health coverage, food and nutrition, security, and affordable housing. During the 2021/22 to 2023/24 Medium Term Expenditure Framework (MTEF) period, the sector will continue to play a key role in delivery of the 'Big Four' Agenda. This will include increasing manufacturing contribution to Gross Domestic Product (GDP) from 9.2% in 2017 to 15% by 2022, Contribution to the achievement of the targeted 500,000 decent and affordable housing. Under food security, GECA will undertake targeted investments in manufacturing and agro-processing industry. The sector will also create an enabling environment for business, mobilization of resources for investments and industrial development, promotion of exports, promotion of sustainable tourism, deepen the East African Community (EAC) integration, and promote equitable regional socio-economic basin- based development.

The sector comprises of five sub-sectors namely, Trade & Enterprise Development, Industrialization, Tourism, East African Community, and Regional & Northern Corridor Development.

Table 26: Sector Strategic Goals and Objectives

Strategic Goals	Strategic Objectives
• Sustainable growth and development of trade. • Sustainable industrial and entrepreneurship development. • A vibrant and sustainable tourism industry. • Deepen Kenya's participation and engagement in an integrated EAC regional cooperation and integration. • Enhance basin based and northern corridor development. • Create wealth and employment. • Build capacity for development of the Sector.	• To promote value addition, standardization, product diversification and productivity improvement. • To broaden and deepen export markets and facilitate market access. • To promote Research and Development (R&D) and adoption of innovation and technology to support growth and development of domestic, regional, and international trade. • To promote sustainable tourism development. • To promote regional co-operation and integration. • To enhance coordination and implementation of integrated basin-based development and northern corridor integrated projects. • To undertake policy, legal and institutional reforms for the development of the sector. • To build capacity for development of the Sector.

Source: The National Treasury, Sector Report- GECA

Expenditure Review-Financial

Analysis of the previously approved national government budget since 2015-16 financial year to 2021-20 reveals that the allocation to the General Economic and Commercial Affairs (GECA) sector has on average been receiving a share of one (1) percent relative to the overall national budget. The sector receives additional funding from the counties as some of the programmes like trade and tourism are decentralized.

The GECA Sector Report of 2020 shows that the overall budget expenditure performance has been improving from 82 percent in 2018-19, and to 92 percent in 2019-20. However, there is still low absorption rates in the Tourism Development and Promotion programme whose absorption in 2019-20 was 72 percent of the budget allocated.

16.18%

The General Economic and affairs sector has been allocated KSH. 23.4 Billion in financial year 2021/22, a decline of KSH 4.5 Billion or 16.18% from the previous financial year 2020/21 which had an allocation of KSH. 27.91 Billion.

Table 27: Analysis of Expenditure by Programmes (Amount In KSH. Millions) Period 2017/18 – 2019/20

Economic Classification	Approved Budget		Actual Expenditure		Absorption Rate	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
1: Co-operative Development and Management	972.08	5,221.58	918.34	5,163.84	94%	99%
2: Trade Development And Promotion	1,916.30	2,797.00	1,730.50	2,608.80	90%	93%
3: General Administration and Planning, and Support Services	1,216.77	661.1	860.3	520.23	71%	79%
4: Industrial Development and Investment	3,345.98	4,455.67	3,140.53	4,080.06	94%	92%
5: Standardization, Business Incubation and Research	6,620.01	11,178.68	5,835.09	10,397.94	88%	93%
6: Tourism Development And Promotion	3,250.19	2,948.50	2,423.45	2,126.60	75%	72%
7: East African Affairs and Regional Integration	912.15	514.6	899.24	507.4	99%	99%
8: Integrated Regional Development	9,837.00	5,885.00	8,737.00	5,610.00	89%	95%
Total	28,070.48	33,662.13	24,544.45	31,014.87	87%	92%

Sector Priorities

Sectoral allocation for the sector has been on a declining trend from 2019/20 and this is set to continue into 2021/22. Additionally, allocation for recurrent expenditure is higher than the development expenditure. The allocations to the sector has been declining yet the sector is expected to play a key role in delivery of the 'Big Four' Agenda.

Table 28: Sector Allocation in the medium term in KSH Billions; BPS 2021, 2020,2019

	2019/20	2020/21	2021/22	2022/23	2023/24
Recurrent Expenditure	14.6	16.1	16.8	17.1	17.3
Development Expenditure	18.1	11.8	6.6	5.6	6.0
Total Expenditure	32.7	27.9	23.4	22.7	23.3

The General Economic and affairs sector has been allocated KSH. 23.4 Billion in financial year 2021/22, a decline of KSH 4.5 Billion or 16.18% from the previous financial year 2020/21 which had an allocation of KSH. 27.91 Billion. The state department for Tourism has the biggest decline of 27% (KSH 3.7 billion) in the financial year 2021/22 from KSH 12.81 billion in financial year 2020/21 to KSH 9.01 billion in financial year 2021/22. This decline in allocation comes at a time when tourism sector- which is usually a major contributor to the economic growth in Kenya- has been hit hard by the Pandemic due to the lockdowns and restriction of movements. The State department for Trade and Enterprise Development saw a 5.05% increase in allocation to KSH 3.2 billion in Financial year 2021/22 from KSH 3.01 Billion in financial year 2020/21.

Table 29: Sector Allocation in the medium term in KSH Millions; BPS 2021

	2020/21	2021/22	Change	% Change
State Department for Trade and Enterprise Development	3,017.40	3,169.80	152.40	5.05%
State Department for Industrialization	8,120.00	6,767.90	(1,352.10)	-16.65%
State Department for Tourism	12,806.60	9,094.00	(3,712.60)	-28.99%
State Department for East African Community	608.00	609.00	1.00	0.16%
State Department for Regional and Northern Corridor Development	3,354.20	3,751.00	396.80	11.83%
	27,906.20	23,391.70	(4,514.50)	-16.18%

In the Post-Covid-19 Economic Recovery Strategy the government rolled out the following key priorities for the GECA sector are to Implement the "Big Four" Agenda for job creation, Foster a secure and conducive business environment by maintaining macroeconomic stability, enhancing security, and improving business regulations, Fast track development of critical infrastructure in the country such as roads, rail, energy, and water, among others, to reduce the cost of doing business as well as promote

While the sector is a big contributor to the achievement of the big 4 agenda and the realization of the economic recovery strategy 2020-2022, the declining allocations in the sector do not reflect these plans.

80%

The EAC subsector was allocated 26% of its sector requirement while tourism subsector gets the highest allocation in relation to requirement at 80%.

competitiveness, Transform economic sectors for broad based sustainable economic growth, Improve access to education, strengthen health care systems and enhance cash transfers to Support youth, women, and persons with disability to enable them actively to contribute to the economic recovery agenda.

While the sector is a big contributor to the achievement of the big 4 agenda and the realization of the economic recovery strategy 2020-2022, the declining allocations in the sector do not reflect these plans. The Budget Policy Statement 2021 also does not indicate the clear action plan on the implementation of these key priorities.

Sub-sectors Resource Requirement/Allocations

The sector resource requirement for recurrent expenditure is expected to increase over the period. However, the resource allocation does not match the resource requirement for all the subsectors. In financial year 2021-22. For instance, the EAC subsector was allocated 26% of its sector requirement while tourism subsector gets the highest allocation in relation to requirement at 80%. Development resource requirement for industry is projected to increase in 2021/22 to KSH 17,210.06 million and then decline to KSH13,832.85 million then rise in 2023/24. The low resource requirement in 2020/21 is due to covid-19 that disrupted economic activities hence slowing production processes. Resource allocation is projected to decline to 2023/24. Resource requirement and allocation in tourism sector is projected to decline over the same period to 302 million Kenyan shillings.

Table 30: Sub-sectors Recurrent Resource Requirement/Allocations (Amount KSH. Million)

	2020-21	2021-22			
	Baseline	Requirement	Allocation	Gap	Allocation % of Requirement
TRADE	3,018.00	11,802.31	3,215.00	-8,587.31	27%
INDUSTRY	8,120.00	21,694.63	6,988.00	-14,706.63	32%
TOURISM	12,807.00	23,484.74	9,394.00	-14,090.74	40%
EAC	608.00	2,376.00	609.00	-1,767.00	26%
REGIONAL&NORTHERN CORRIDOR DEVELOPMENT	3,355.00	15,140.00	4,251.00	-10,889.00	28%
TOTAL	27,908.00	74,497.26	24,457.00	-50,040.26	33%

Source: National Treasury: GECA Sector Report

Key Observations and Recommendations

Table 31: Key Observations and Recommendations

Key observations/finding	Recommendations
The overall budget expenditure performance (absorption rates) has been improving from 66 percent in 2017-18, to 82 percent in 2018-19, and to 92 percent in 2019-20. However, the absorption rates in the Tourism Development and Promotion programme have been declining from 82% in 2017-18, to 75% in 2018-19 and to 72% in 2019-20.	The tourism sector is one of the worst hit sectors by the Covid-19 Pandemic and the ensuing containment measures. To stimulate recovery of the tourism sector, the Government should scale up efforts to promote aggressive post Covid-19 tourism. The government should put in place measures to ensure full budget utilization.
The allocations to the sector have been declining. In 2019-20 the sector had an approved allocation of KSH 32.7 billion, which reduced to KSH 27.9 billion in 2020/21 and KSH 23.4 billion in 2021/22.	Bearing in mind that the sector contributes more than 22% to the GDP (Kenya Economic Survey, 2020); the allocations to the sector should not be cut to support more continuous economic growth
There are major gaps between the resource requirements and corresponding resource allocation for both recurrent and development programmes. In financial year 2021-22 the recurrent resource allocation is 61% of the resource requirement while the development resource allocation is 16% of the resource requirement.	• The government should prioritize in line with the Big four agenda and the Post Covid Economic Recovery Strategy to support the MSMEs and strengthen economic management through enacting policies that ensures the sector gets adequate funding. • Government should ensure adequate funding to the sector to avoid delays and non-completion of planned programmes and projects. Additionally, adequate funding will encourage investment and revenue generation that ultimately lead to overall economic growth of the country hence of the region. Government should priorities the sector in line with post-covid-19 recovery strategies, Vision 2030, The Big Four Agenda as well as Africa Agenda 2063 policies.

The sector consists of the following 9 sub-sectors: Infrastructure, Transport, Shipping and Maritime, Housing and Urban Development, Public Works, ICT & Innovation, Broadcasting and Telecommunications, Energy; and Petroleum.

80%

In the period 2017/18 to 2019/20 the sector allocation increased from Ksh 382,764 million to Ksh 471,056 in 2019/20 representing a 23% increase for the three financial years

ENERGY, INFRASTRUCTURE, AND ICT SECTOR

Introduction

The sector aims at providing efficient, affordable, and reliable infrastructure which is critical for socio-economic transformation underscored in the Third Medium Term Plan (MTP III) 2018-2022 of the Kenya Vision 2030. It plays a significant role, as a **driver** and an **enabler** in the implementation of the ***'Big Four' Agenda*** where the Housing Sub Sector targets 500,000 affordable houses over the Medium-Term in line with the 'Big Four' Agenda. The rest of the sub sectors provide the requisite infrastructure for the realization of the 'Big Four' Agenda as well as supports growth of the other sectors of the economy. The sector consists of the following 9 sub-sectors: Infrastructure, Transport, Shipping and Maritime, Housing and Urban Development, Public Works, ICT & Innovation, Broadcasting and Telecommunications, Energy; and Petroleum.

Objectives

- Formulate/review policies, legal and institutional framework.
- Expand, modernize, and maintain integrated, safe and efficient transport network.
- Promote maritime and shipping services.
- Develop and manage decent and affordable housing.
- Develop and maintain cost effective public buildings.
- Undertake research and innovation in infrastructure development.
- Develop ICT infrastructure and provide strategic government communication services and systems.
- Develop and expand the energy infrastructure.
- Commercialize oil and gas discoveries.

Performance review

In the period 2017/18 to 2019/20 the sector allocation increased from KSH 382,764 million to KSH 471,056 in 2019/20 representing a 23% increase for the three financial years. Notably the country spent close to 93% of the allocated budget in the three period under review the highest expenditure in the sector was on development at 80% while the remainder was for recurrent this could be attributed to the cost of development projects within the sector. The highest expenditure was on infrastructure subsector, transport and the energy sector which are also the largest beneficiaries of the allocation within the sector. The table below shows the approved budget and actual expenditure for the period 2017/18 to 2019/20 allocations in KSH millions.

Table 32: Energy, Infrastructure and Ict Sector Working Group (Swg) Mtef Period 2021/22-2023/24

Subsector	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
	Allocations			Absorption		
Infrastructure	53,821	58,585	61,160	93	92	97
Transport	112,449	131,933	103,966	95	98	93
Shipping & maritime	2,835	1,914	1,955	66	83	64
Housing & Urban Development	16,149	33,816	27,814	88	93	91
Public works	1,530	2,409	2,340	80	75	90
Information Communication Technology and Innovation	13,104	25,111	21,527	89	87	78
Broadcasting & Telecommunication	3,743	6,127	5,370	81	89	88
Energy	77,104	61,863	62,469	89	88	90
Petroleum	4,145	3,491	3,276	73	81	72

Resource requirement vs. allocation

The Energy, Infrastructure and ICT sector report indicates that for the upcoming financial year the sector requirement was twice higher than the actual allocation a trend that the sector has maintained over the years. The subsequent budget documents lack clarity on the differences between sector requirements and actual allocation. In subsequent budget documents that precede the SWG reports there is not provision of clarity on the material difference between requirements and the actual allocations to help the public understand the dynamics of the changes. The table below shows the resource requirement and the actual allocations in the medium term for the period 2020/21 to 2022/23 allocations in KSH millions.

The sector consists of the following 9 sub-sectors: Infrastructure, Transport, Shipping and Maritime, Housing and Urban Development, Public Works, ICT & Innovation, Broadcasting and Telecommunications, Energy; and Petroleum.

Table 33: Resource requirement vs. allocation

	Approved Estimates 2020/21	2021/22	2022/23	2023/24	2021/22	2022/23	2023/24
		Resource requirement			% of allocation as per required resources		
Infrastructure	189,522	420,593	344,472	282,467	59	58	81
Transport	73,971	99,272	97,062	73,297	68	73	97
Maritime	2,518	4,608	4,269	3,988	49	63	75
Housing	17,737	158,571	161,038	115,629	9	11	15
Public works	3,500	9,404	9,502	10,207	46	47	51
Information Communication Technology and Innovation	20,008	41,273	34,676	25,386	58	46	47
Broadcasting & Telecommunication	6,227	12,194	11,327	11,514	52	53	68
Energy	72,495	164,469	126,639	110,255	47	58	93
Petroleum	3,889	4,165	4,186	4,995	72	62	61
Total	**389,867**	**914,549**	**793,171**	**637,738**	**44**	**53**	**71**

ENERGY, INFRASTRUCTURE AND ICT SECTOR WORKING GROUP (SWG) MTEF PERIOD 2021/22-2023/24

Sector priorities 2021/22

The Sector's Major Planned outputs during 2021/22-2023/24 MTEF Period include as reported in the Budget Policy Statement 2021/22

- Construction of 6,462 Kms of new roads and maintenance of 108,146 kms, rehabilitation of airstrips; construction and operationalization of the First Three Berths at Lamu Port.
- Development of Dongo Kundu Special Economic Zone; development of the Ship building/repair yard in Kisumu.
- Maritime Education and Training (MET) Support Programme; develop and maintain Maritime Information System.
- Under affordable housing, the sector targets to construct 725,965 affordable homes.
- Complete construction of 2,032 housing units for National Police and Prisons Services
- Complete construction of 1,770 housing under Civil Servants Housing Scheme.
- Complete 16 stalled government buildings; construction of 13 modern markets across the country; design, document and supervise to completion Big Four projects; construction of 76 kilometers BRT lanes, 50 stations and 2 park and ride facilities; complete 5 County Government Headquarters, construct 200 footbridges across the country, construct 7,700 meters of Seawall.
- Implement the Presidential Digital talent initiative and Konza Data Centre and Smart City Project; maintain and rehabilitate NOFBI cable; construct KIMC Eldoret Campus; generate 62.82MW from geothermal resources; drill 15 geothermal and 20 coal exploration wells; test 45,000 samples of petroleum products for adulteration; promote LPG uptake through Mwananchi Gas Project, among others.

50%

The sector allocation for 2021/22 is at 50% of what the sector required to effectively implement its projects.

Allocation by subsectors for the FY 2021/22

Perceptively, there is a huge difference between the demand from the sector and actual allocation in the medium term. The sector estimation during the sector working group is based on expert opinion however there is lack of review of the available resources towards making a realistic estimation. The sector allocation for 2021/22 is at 50% of what the sector required to effectively implement its projects. The table below shows the distribution of allocation by subsector in the BPS 2021/22

Table 34: Allocation by subsectors for the FY 2021/22

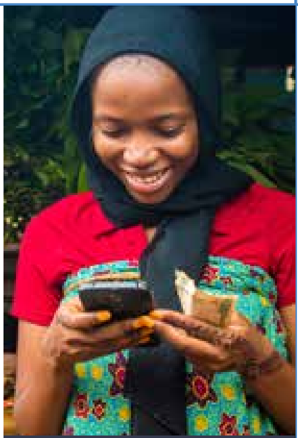
	2021/22	2022/23	2023/24
	Resource allocation		
Sub sectors	**2021/22**	**2022/23**	**2023/24**
Infrastructure	201,746	200,699	229,797
Transport	67,892	72,279	70,732
Maritime	2,269	2,903	2,992
Housing	13,189	15,868	17,684
Public works	4,293	4,459	5,157
Information Communication Technology and Innovation	23,813	19,064	12,040
Broadcasting & Telecommunication	6,367	6,491	7,792
Energy	78,048	94,966	102,815
Petroleum	2,985	2,564	3,028
Total	**400,602**	**419,293**	**452,037**

Source: Budget Policy Statement 2021/22

Key Observations and Recommendation

Table 35: Key Observations and Recommendation

Key observation	Recommendation
In the 2017/18 to 2019/20 the national government reports that under the affordable housing the national governments constructed 488 units in Park Road, 462 units were constructed under Sustainable Neighborhood Programme and 240 housing units for National Police and Kenya Prison Services were completed. The Big Four agenda on affordable housing targets the construction of 500,000 affordable houses over the medium term. One of the priorities of 2021/22 was construction of 725,965 houses which surpasses the plans in the Big Four without a clear justification of this overestimation.	The sector should provide a baseline of the number of houses constructed in the previous financial year so that to provide a clear allocation for the upcoming financial year. This will aid in tracking of the budgetary allocation for housing as well as enable the sector set realistic targets in the coming financial year currently data on number of houses constructed is missing.
Under the Housing and Urban Development sub sector we notice an increase in the allocation for the Housing Development and Human Settlements programme with a decrease in the Urban and Metropolitan Development programme. The Sector Working Group Report indicates that the projects funded under this programme that is; Construction of Githurai Market, Construction of Kangari Market and the Nairobi Metropolitan Services Improvement Project were financed due to the Presidential Directive on creation of the Nairobi Metropolitan Services.	To avoid duplication of roles there is need to provide a transparent channel for financing of the Nairobi Metropolitan Services, the Nairobi City County, and the national level projects under the affordable housing project.
In the FY 2019/20 the Kenya Power and Lighting Company (KPLC) out of a target of 800,000 new customers connected to electricity the company was able to reach 500,397 new customers under the Rural Electrification Programme. The shortfall in the target is attributed to budget cuts, delays in processing tax exemptions and clearance of materials at the port, government ban on logging, litigations, and COVID 19 containment measures among other challenges.	In the FY 2021 there needs to be a restructuring of the programme to ensure these challenges are considered and factored in the preparation of the budget estimates to avoid reversal of the gains made in the programme



The Budget Policy Statement 2021/22 indicates that ICT remains a key driver in achievement of the Big Four Agenda and the Vision 2030. During the peak of the COVID 19 pandemic digital transaction was highly utilized especially financial platforms such as MPESA, Mula, Pesalink and Pesapal.

Key observation	Recommendation
The sector had pending bills amounting to Ksh 57,117.8 million in 2019/20 from 106,962.8 in 2017/18 showing a reduction in accumulation of pending bills due to insufficient budget provision. The table below shows the pending bills in the sector for the period 2017/18 to 2018/19.	The budget adjustments should factor in the pending bills which impacts on service delivery and contributes to the growth of debt. The highest pending bills are on Infrastructure at Ksh 40,925.0 million and Energy at Ksh 12,226 million. To curb the growing debt the sector should rationalize the infrastructural projects and focus on projects with a high return on investment to manage our debt financing. An audit should be conducted on the nature pending bills as well as a clear, transparent, and rational means of payment should be established within the sector on how to clear the bills in the medium terms in order of prioritization. Good practice is the sector pending bill have been reducing over the years as indicated in the analysis on pending bills above however the reports have failed to show case the interest incurred
The Budget Policy Statement 2021/22 indicates that ICT remains a key driver in achievement of the Big Four Agenda and the Vision 2030. During the peak of the COVID 19 pandemic digital transaction was highly utilized especially financial platforms such as MPESA, Mula, Pesalink and Pesapal. The total value of mobile transactions remained at 3.078T despite the income effects of the pandemic.	The Energy, Infrastructure, and ICT Sector therefore aids in catalyzing production and lowering the cost of financial intermediation, e-commerce and governance hence being a vital in helping the government attain a knowledge-based society.

	Due to lack of exchequer			Due to insufficient provision		
	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Recurrent in Ksh millions	489.52	583.68	360.93	241.3	431	3,463.28
Development in Ksh millions	8,230.90	5,203.50	7,107.05	106,721.50	74,269.33	53,654.52
Total in Ksh millions	**8,720.42**	**5,787.18**	**7,467.98**	**106,962.80**	**74,700.33**	**57,117.80**

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The sector seeks to ensure national food and nutrition security, create an enabling environment for sector development, and increase agricultural productivity and outputs.

58%

Of the sub-sectors, the sector State Department for Crop Development has been highly prioritized, with an allocation representing 58% of the total sector budget

AGRICULTURE, RURAL AND URBAN DEVELOPMENT (ARUD) SECTOR

Introduction

AGRICULTURE, RURAL AND URBAN DEVELOPMENT (ARUD) Sector consists of Six Sub-sectors, namely, Ministry of Lands and Physical Planning; State Department for Livestock; State Department for Fisheries, Aquaculture and the Blue Economy; State Department for Crop Development and Agricultural Research; State Department for Co-operatives; and National Land Commission. ARUD has 42 Autonomous and Semi-Autonomous Government Agencies; 14 Training Institutions; and 4 Professional Boards. The sector seeks to ensure national food and nutrition security, create an enabling environment for sector development, and increase agricultural productivity and outputs. Besides, the sector seeks to enhance investment in the blue economy, promote value addition, manufacturing, market access, and trade by co-operatives. Lastly, the sector seeks to ensure accessibility, equity, and sustainable management of land resources for socio-economic development and environmental sustainability.

Performance Review

The table below depicts the sub-sector budget performance for the financial years 2018/19 and 2019/20.

Table 36: sub-sector budget performance for the financial years 2018/19 and 2019/20

Sub-Sector	2018-19				2019/20			
	Approved Budget (Ksh. Millions)	% Allocation	Actual Expenditure (Ksh. Millions)	Absorption	Approved Budget (Ksh. Millions)	% Allocation	Actual Expenditure (Ksh. Millions)	Absorption
Lands and Physical Planning	5,546.0	10	4,604.0	83	7,196.0	11	6,282.0	87
Livestock	6,926.3	12	6,520.0	94	6,677.7	10	6,161.4	92
Crop Development	32,198.0	58	23,900.0	74	37,155.0	54	22,457.0	60
Fisheries, Aquaculture and the Blue Economy	2,201.0	4	1,341.0	61	4,775.0	7	4,008.5	84
Agricultural Research	6,751.0	12	6,560.0	97	5,961.0	9	5,634.0	95
Co-operatives	972.1	2	918.3	95	5221.6	8	5,163.8	99
National Land Commission	1,239.0	2	1,165.1	94	1,663.8	2	1,619.9	97
Total for ARUD Sector	**55,833.4**	100	**45,008.4**	**81**	**68,650.1**	**100**	**51,326.6**	**75**

Source: Agriculture, rural and urban development (ARUD) 2021 sector report

Table 1 above illustrates that the sector received an increase in the overall allocation of 23% between 2018/19 and 2019/20. Of the sub-sectors, the sector State Department for Crop Development has been highly prioritized, with an allocation representing 58% of the total sector budget; the State Department for Co-operatives receives the smallest share at 2% in both years. In terms of absorption, State Department for Cooperatives posted the highest absorption rates in both 2018/19 and 2019/20 by registering 95% and 99% respectively. With the highest allocation, State Department for Crop Development had the lowest absorption rates in the same period by having an absorption rate of 74% and 60% respectively. In addition, the Crop Development sub-sector absorption rates have been declining across the years from 82% in 2017/18 to 60% in FY 2019/20.

Sector Priorities for FY 2021/22 and the medium term

The sector has prioritized to avail crop production inputs to 1million farmers in 38 counties through e-voucher input management system; provide a 50% subsidy crop insurance cover to 1.5 million farmers in 38 counties. On accessibility, equity, and sustainable management of land resources for socio-economic development and environmental sustainability the sector seeks to issue 1,350,000 titles, settle 39,000 landless households, and digitize land records in 68 land offices. The national land

Livestock sub-sector budget as percentage of the total sector budget, is targeted to grow from 9 percent in 2020-21 to 11 percent in 2021-22, while the Fisheries sub-sector grows even more significantly from 11 percent to 14 percent.

14%

The overall budget to the sector is set to grow by 14 percent from Ksh63 billion in 2020-21 to Ksh72 billion in 2021-22.

commission subprogram which is responsible for issuing of tittle deeds maintained the allocations as a percentage allocation of the total sector at 2% while the crop production subprogram responsible for subsidies dropped from 66% to 63%, raising key queries on the commitment towards the set priorities. The sector has cited Covid-19 and locust inversion as emerging issues affecting the operations.

Requirements versus Ceilings

The table below illustrates the allocation versus the resource gap for the medium term to achieve the set allocations.

Table 37: Overall Expenditure Review

Sub-Sector	Baseline	Requirement	Allocation	Resource allocation as a percentage Resource Requirement	Growth	%Growth
	2020/21	2021/22	2021/22			
Crop Development & Agricultural Research	41,808.50	58,094.00	45,451.00	78%	3,642.50	9%
Livestock	5,991.80	11,501.30	7,877.10	69%	1,885.30	31%
Fisheries, Aquaculture and the Blue Economy	6,958.90	17,454.00	10,272.30	59%	3,313.40	48%
Lands & Physical Planning	5,617.40	8,269.00	5,602.80	68%	(14.60)	0%
Co-operatives	1,626.50	5,409.30	1,608.70	30%	(17.80)	-1%
National Land Commission	1,233.30	5,853.00	1,437.30	25%	204.00	17%
Total	63,236.40	106,580.60	72,249.20	68%	9,012.80	14%

Source: Agriculture, rural and urban development (ARUD) 2021 sector report

The overall budget to the sector is set to grow by 14 percent from KSH63 billion in 2020-21 to KSH72 billion in 2021-22. The highest budget growth is observed in Livestock and Fisheries sub-sectors at 31 percent and 48 percent, respectively. Similarly, the analysis reveals increasing priority to the two sub-sectors, whose relative share of the total sector budget has increased between the 2020-21 and 2021-22 periods. Livestock sub-sector budget as percentage of the total sector budget, is targeted to grow from 9 percent in 2020-21 to 11 percent in 2021-22, while the Fisheries sub-sector grows even more significantly from 11 percent to 14 percent. The other sub sectors share of the budget relative to the overall sector budget either stagnated or reduced. The National Land Commission follows with a growth of 17 percent which is 3 percentage points higher than the overall sector budget growth. All subsectors aggregated resource gap totals to KSH34,331.40 million with the Co-operatives and National Land Commission being receiving the list allocation against the resources required that is 30 percent and 25 percent, respectively. Land and Physical Planning and Cooperatives have a much lower budget ceiling in 2021-22 financial year than the allocation in the current year 2020-21 as shown above. This resource gap raises key credibility issues and what informs the resource requirement and how realistic they are. In addition, projections in the medium term show a projected decline in the allocations towards crop development and agricultural research from KSH.36, 953.30 million to KSH.27, 696.70 between 2022/23 and 2023/24.

There is no 100% budget absorption and most of absorption is driven by recurrent expenditure. The need to meet recurrent expenditure is leading to overbudgeting and subsequently increasing the fiscal deficit.

Key Findings and Recommendations

Table 38: Key Findings and Recommendations

Key observations/finding	Recommendations
The country has highly prioritized the State Department for Crop Development. However, the department has been posting the lowest absorption rates with 74.23% in 2018/19 and 60.4% in FY 2019/20 raising key budget credibility issues.	The sector should give justifications for the low absorption rates. Crop Development for instance recorded an absorption of 60.4% in 2019/20. In addition, we recommend that, the sector to reflect set the priorities with the projected allocations. For instance, increasing the allocation as a percentage of the total sector requirement in the subprograms with priorities.
The sector has not captured the mitigation measures to mitigate occurrence of future pandemics in their priorities. The sector should come up with a budget item to cater subsequent pandemics like the recent locust inversion in the country.	The sector should prioritize mitigation measures to current and future pandemics considering the negative effect it caused on the sector by coming up with realistic, achievable, and comprehensive economic recovery strategy on crop development for instance the locust inversion which affected various crops. This will cushion the sector from the shocks in the current and future pandemics.
Increased budget allocation resulted to a drop in the absorption rate which raises key concerns in the relationship between the allocations versus the absorptions. In addition to the Crop Development & Agricultural Research sub-sector receiving 78.2% budget allocation raises key queries on whether the sub-sector will achieve the priorities.	The sector should realign the non-financial targets in line with the set budget allocation not the sector requirements. For instance, National Land Commission is likely to get an allocation of 25% of the sector. Will this 25% deliver 1,350,000 titles, settle 39,000 landless in the medium term? Harmonized financial and non-financial targets will boost budget accountability and budget credibility. Sector priorities are usually set based on the subsector requirements which implies that the sector is likely to deliver a quarter of the title deeds. Besides, this this under allocation is likely to affect the equity considering.

CONCLUSION

- There is no 100% budget absorption and most of absorption is driven by recurrent expenditure. The need to meet recurrent expenditure is leading to over-budgeting and subsequently increasing the fiscal deficit.
- In times of Covid, we notice that allocation to tourism and industrialisation is declining and only at 28% and 16% allocation. This has potential of job creation.
- Debt policy should be fully operationalised with the independence of debt authority a key consideration.
- Given the huge economic uncertainty, the Cabinet Secretary, National Treasury should limit introduction of new projects even as we head to an election year.

IPF KENYA
INSTITUTE OF PUBLIC FINANCE

About IPFK:

The Institute of Public Finance (IPF-Kenya) is an independent nonprofit think tank based in Nairobi, that aspires to further ideas of open Public Finance Management systems through research, trainings and capacity strengthening. IPF-Kenya areas of focus are PFM and Health, PFM and Education, PFM and Agriculture PFM and Trade and overall transparency and accountability of the PFM sector.

IPF-Kenya is keen to establish successful partnerships with PFM stakeholders both on the demand and supply side by focusing on fairness and equity at the County and National levels of government. The institute continues to generate evidence through research to inform its advocacy work.

Meet the Authors:

JAMESMURAGURI
Chief Executive Officer
Institute of Public Finance - Kenya

James Muraguri is a public finance practitioner with over 15 years of experience in the non-profit sector. He is founder and CEO of the Institute of Public Finance Kenya (IPFK), a nonprofit

think-tank that pursues the ideals of open public finance through training, research and capacity strengthening. He is also a member of the International advisory group of Public Finance by Women, a nonprofit foundation working to promote true gender equality and equal career opportunities for women working in public finance and a founding board member of People Powered, a global hub for participatory democracy.

In addition to leading IPFK, James is part of its technical team, where he works to support communities to engage meaningfully with elected officials and civil servants on public expenditure and equity. An accountant by training and currently pursuing his Masters education in Public Finance, he is lead consultant for Kenya on the Open Budget Survey (OBS), the world's only independent, comparable measure of budget transparency, participation, and oversight.

As an Atlantic Fellow for Social and Economic Equity, he is part of a global cohort of social- change leaders, policy-makers and researchers housed at the International Inequalities Institute in the London School of Economics and Political Science in the UK.

He can be reached at: jmuraguri@ipfkenya.or.ke

DANIEL WANJOHI NDIRANGU
Head of Programmes
Institute of Public Finance - Kenya

Daniel Ndirangu has extensive knowledge in public finance policies and advocacy on equity, citizen participation, and accountability. He has fast-paced 5 years working experience in county and national level public finance management systems; in capacity strengthening and training for community groups, civil society organizations, members of county assemblies and county executives in various counties in the country. He has developed policy proposals to relevant institutions for policy change geared towards addressing gaps in public finance management.

He can be reached at: dndirangu@ipfkenya.or.ke

JOHN JUMA NYANGI
Head of Research
Institute of Public Finance - Kenya

An economist and Public Finance Management specialist with over seven years' experience teaching and conducting research in Public Financial Management and service delivery in social sectors particularly in health, Agriculture, Social Protection and Gender development. He leads preparation of IPFK's flagship analytic products, such as the annual Shadow Budget and the annual Macro-Fiscal Analytic Briefs. He has deep understanding and professional experience in designing and administering data instruments as well as using both quantitative and qualitative data analysis packages such as R, STATA, SPSS and NVivo to classify, summarize, organize, analyze, visualize, present, interpret and manage data.

He can be reached at: jnyangi@ipfkenya.or.ke

REENA KHAIYA ATUMA
Assistant Programme Officer Institute of Public Finance - Kenya

Reena Atuma has over three years' experience in budget and policy analysis. Currently, she is an Assistant Programme Officer at the Institute of Public Finance Kenya and spearheads the gender responsive budgeting programme. Her work revolves around gender analysis of county and

national level budget documents and its related policies. She has also trained government and non-government officials on gender responsive budgeting. She spearheads the analysis of the health budget and has interest in analysis for RMNCAH, immunization financing and overall health financing at the national and county level. She holds a bachelor's degree in Sociology with Information Technology from Maseno University, Certificate in Capacity Development from Diplo Foundation and a Certificate in Public Finance Management from International Monetary Fund. In addition, she is a YALI RLCEA fellow.

She can be reached at: ratuma@ipfkenya.or.ke

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About Oxygène:

Oxygène Marketing and Communication Ltd. Is an independent integrated communications agency that works to earn attention for our clients and incite action by championing integration and placing people, culture and relationships at the very heart of everything we do.

As a multidisciplinary agency, Oxygéne provides inter alia policy and legislative advisory services to a cross sector of national and multi-national corporates operating in Kenya. The main objective of the company is to offer services that allows its clients to enhance their competitiveness for economic growth.

Meet the Co-Authors and Editors:

NICK WACHIRA
Managing Director
Oxygène Marketing and Communication Ltd.

Nick Wachira, has vast experience in media and corporate communications. He has worked as the Managing Director of Ogilvy & Mather as well as holding senior roles at the Nation Media Group in East Africa.

He has also provided senior level strategic counsel to leading firms in Africa at C-Suite level. He has advised companies and brands such as Safaricom, KCB Group, Equity Bank, Kenya Airways, Deloitte, IBM, Al Futtaim, Unilever, and Diageo brands. Nick was the founder editor of The Business Daily and was Managing Editor of *The EastAfrican*.

He holds a Bachelors of Arts degree from Kenyatta University, and Master of Arts in International Affairs and a Master of International Business from Fletcher School of Law and Diplomacy, Tufts University in Boston, Massachusetts.

He can be reached at: nick.wachira@oxygene.co.ke

ALFRED NG'ANG'A
Partner, Public Relations
Oxygène Marketing and Communication Ltd.

Mr Alfred Ng'ang'a is a passionate public communication champion who takes pride in client success. Trained at the Moi University (B.Sc. Communications &PR) and the Kenya Institute of Mass Communication (Diploma in Mass Communication), he has enjoyed a successful career working on almost all leading corporate accounts in the East Africa Region.

He is a Board member of the Association of Public Relations and Communication Management Firms (APReCoM). He has previously served as a member of the Government of Kenya Taskforce for the Improvement of Government Information and Public Communications Functions to Align Them with Emerging Public Sector Dynamics and Expectations.

Alfred has previously served at Gina Din Corporate Communications, Ogilvy PR, Media Edge PR and Simba Corporation. He continues to work/has previously handled key accounts such as Kakuzi PLC, Africa Economic Research Consortium, Carbacid Investments PLC, Sanlam Kenya, Savannah Cement, East African Cables, Kenyatta National Hospital, Samsung Electronics East Africa, Safaricom Limited, TPS Serena Hotels, Nakumatt Holdings, Tusker Mattresses Ltd, Bavaria Auto (BMW), Equity Bank Group, Simba Colt Motors, Reckitt Benckiser East Africa and James Finlay/Swire Group, Janus Continental Group, Idemia Group among others.

On public affairs, Alfred has handled key clients including the Kenya Revenue Authority (KRA), President's Delivery Unit, Office of the Director of Public Prosecutions (ODPP), National Social Security Fund (NSSF), Kenyatta National Hospital, Kenya Power and Lighting Company, Vision 2030 Delivery Secretariat, Kenya Tourist Board, Tourism Finance Corporation, among others.

An Ogilvy Professional Awards winner, Alfred's interdisciplinary experience covers public affairs counsel, strategic corporate communications, media liaison and relations.

Born and brought up in Nanyuki, Laikipia County, Alfred is proficient in specialised public affairs assignments such as Executive/Board level communication, corporate alliances building, political affairs management and navigation, brand engineering, message development and media training. Besides a superb grasp of public affairs and communications dynamics, Alfred enjoys extensive media and Public Affairs contacts across East Africa.

He can be reached at: alfred.nganga@oxygene.co.ke

MAGDALENE KARIUKI
Head of Public Policy and Regulatory Affairs
Oxygène Marketing and Communication Ltd.

A veteran and highly skilled public policy analyst, Magdalene is known for delivering public affairs strategies which deliver remarkable value for organizations. She is also respected for empowering organizations to succeed through strategic partnership development, public policy review, legislative strengthening, greater proliferation of political affairs reports, and active engagement of shareholders. Ms. Kariuki is adept at demystifying complicated concepts and tailoring policies while utilizing technologies to achieve ambitious goals while combining spot on standards of efficiency, competence and integrity with careful research and insightful analysis.

Magdalene has over 10 years of progressive knowledge and expertise developing and driving aggressive growth strategies in public policy & administration, regulatory affairs, data privacy, resource mobilization, human rights, taxation, fundraising and events management.

An Advocate of the High Court of Kenya, she is also well versed in policy engagement and development across multi- national corporations coupled with a passion and drive for demystifying complicated concepts and tailoring policies. Committed to conceptualizing, planning and executing strategies while displaying understanding of political systems, regulations and relevant policy and civil society institutions across East Africa.

She can be reached at: magdalene.kariuki@oxygene.co.ke

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