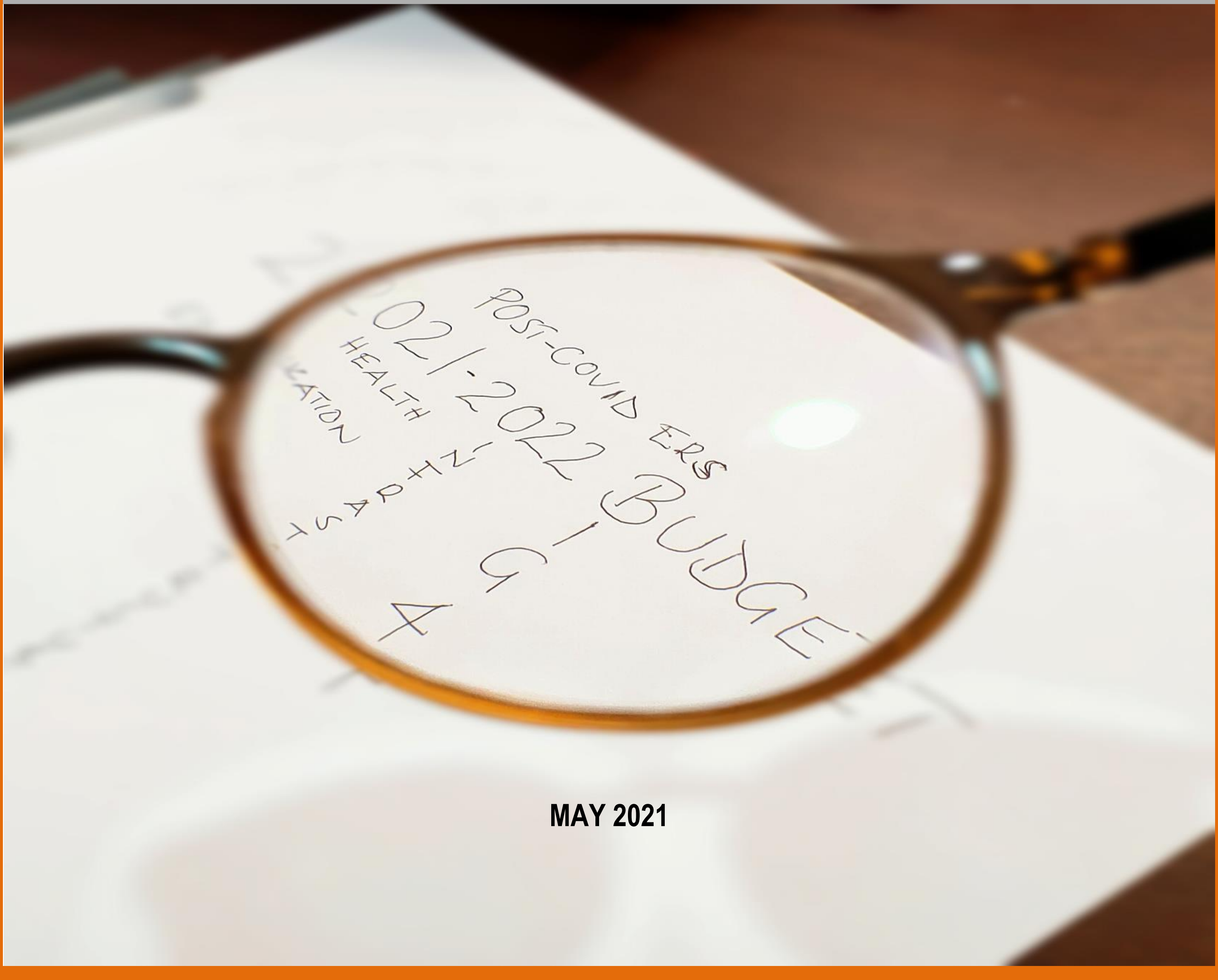
PARLIAMENTARY SERVICE COMMISSION

PARLIAMENTARY BUDGET OFFICE

Unpacking the Estimates of Revenue and Expenditure for 2021/2022 and the medium term



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I. THE 2021/2022 BUDGET CONTEXT

1. **The 2021/2022 budget has been prepared against the background of a precarious economic situation, as the country continues to address the challenges associated with the covid-19 pandemic and its adverse effects, one year on.** Between March and April 2021, because of a lethal third wave of the pandemic, the country had to once more contend with strict covid containment measures reminiscent of the first wave in March 2020. It is worth noting that the country entered this third wave in a more precarious position than the first wave due to higher unemployment and poverty levels. The distribution of vaccines is expected to significantly improve the situation by bringing the pandemic under control. However, in Kenya and indeed most countries in sub-saharan Africa, the distribution and uptake of the vaccines has been quite slow. This will have an impact on the duration of the pandemic and consequently, its effects on economic growth.

2. **Given the prevailing economic conditions, Kenya entered a 38-month IMF programme under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements for approximately US$ 2.4 billion.** As is the case with IMF programmes, the country has to contend with fiscal and monetary measures in order to correct its macroeconomic imbalances. These include target setting for the budget deficit, tax revenue, stock of central bank net international reserves and public debt targets. Furthermore, some reforms are expected under revenue administration, government procurement process, containment of the public wage bill, restructuring of State Owned Enterprises (SoEs) and rationalization of public investment projects. It should be noted that the **IMF does not directly finance projects, but rather, develops benchmarks that a country must adhere to and provides budget support**.

Is the 2021/2022 budget alive to IMF performance benchmarks? – a review of the budget indicates that recurrent expenditure has been reduced by Ksh. 20.86 billion from the BPS level; denoting some effort to limit the growth of this expenditure component. Revenue estimations are conservative and are in line with the revenue target indicated in the IMF programme. However, the link between the proposed budget and 'high impact' growth expenditures particularly under the Big Four agenda as well as the post-covid ERS is not very clear. The post-covid ERS has not received much prominence in the budget and is phrased in a manner that does not identify any KPIs and targets for the coming financial year. Also, the big four agenda appears to be very peripheral to the budget despite having been allocated approximately Ksh. 135 billion. 2021/2022 being the last 'full' financial year of implementation, it is apparent that many of the big four targets will not be met by the current administration.

II. CRITERIA FOR ASSESSING THE 2021/22 BUDGET

3. In analysing the 2021/2022 budget, a framework has been developed to assess the major strengths of the budget as well as highlight gaps and inadequacies which may hinder effective implementation of the budget. The criteria are as follows:

a) **Comprehensiveness, Clarity and credibility:** This is a review of whether the document adheres to the set down legal requirements; Whether it provides all information that is required for MPs to make an informed decision and whether this information can be clearly understood.

Documentation	Comment
The National Treasury tabled the following documents: ▪ **The Budget Summary for FY 2021/22 and the supporting information** ▪ **The Estimates of Revenue, Grants and Loans for the year ending 2022** ▪ **2021/2022 Annex of estimates of revenue and expenditure for state corporations of the government of Kenya for FY ending June 2022** ▪ **Financial statement of the National Government for the FY 2021/2022** ▪ **List of Projects 2021/22** ▪ **Recurrent expenditure vol. I and II** ▪ **Development expenditure vol. I, II and III** ▪ **The programme based budget 2021/2022 and the medium term**	The budget has been submitted in both programme based format and itemized format with information provided on key performance indicators, targets as well as expected output and outcome. All the supporting documents provided have enabled a critical analysis of the budget. However, there is no review of KPI performance in the previous year, making it difficult to determine the progress of budget implementation for the projects/programmes and therefore, whether the resource allocations are adequate or being effectively utilized. **Gaps:** Equalization fund estimates not provided contrary to legal provisions (Constitution Article 216(4); PFM section 38(b)(ii) Citizens budget not availed to facilitate citizen participation (Constitution Article 201(a); PFM regulation 6(2))

b) **Alignment with medium-term priorities:** This criterion assesses whether the policies in the budget are aligned with the medium-term strategic priorities of the government as provided for in the policy documents.

4. The overall budget framework as approved in the BPS has been largely been adhered to for the first time in many years. However with regard to policy resolutions, many of the National Assembly Resolutions made during the approval of the BPS have not been adhered to contrary to Section 38 (1)(a)(iii) and 38 (1) (f) of the PFM, Act, 2012. This is a recurring matter every financial year.

5. As earlier indicated, the policy direction of the 2021/22 budget is unclear. While it speaks to the Post Covid-19 Economic Recovery Strategy (ERS) and the 'Big Four' agenda, these have not been given much prominence in the budget in terms of key projects that are expected to turn around the economy given the prevailing situation. Indeed, there is no clear theme that has been identified as a general guide to budgetary allocations. Resources appear to have simply followed previous trends with bulk being allocated to education and infrastructure sectors as has often been the case.

c) **Capital budgeting framework:** This section evaluates whether outlined interventions in the development budget meet the national development needs.

6. The 2021/22 budget contains a comprehensive list of projects to be implemented by the various MDAs and the estimated costs. The information, however, does not include the status of ongoing projects thereby making it difficult to monitor projects. Some projects have become permanent in the budget. It is noted that the development budget has been allocated an additional Ksh. 5.4 billion from the BPS level and is now estimated at Ksh. 659.96 billion. Over the medium term, the development budget is poised to decline as a share of GDP from 5.8 percent of GDP in FY 2020/21 to 4.9 percent in FY 2021/22. It is not clear why this is the case.

7. Part of the structural reforms under the IMF programme is to rationalize public investment projects. However, the budget as presented does not show extraordinary effort to streamline and prioritize investment spending in order to improve effectiveness of development expenditure. There is no roadmap on how to deal with the huge stock of incomplete/stalled projects in the budget including which ones will be prioritized and which ones are not economically viable. Even though this is a long term target, the strategies should be put in place early on in order to minimize wastage on low projects. Indeed, some projects such as the Annuity low- volume seal roads have been found to be very costly and recommendations have been made by the National Assembly for termination of the program, but it continues to be allocated funds in the budget.

d) **Realism of forecasting models:** The intention is to assess if the credibility of the economic growth and revenue estimations provided

8. The National Treasury growth and revenue projections are within realistic parameters given the prevailing economic conditions and the IMF performance criterion. A critical concern will be why the share of revenue to GDP is falling whereas there is noticeable expansion of the economy. A further review of the macro-framework and the revenue projections is in section III and section V of this document.

III. REVIEW OF THE MACROECONOMIC FRAMEWORK UNDERPINNING THE 2021/22 BUDGET

9. **The National Treasury has made the following assumptions with regard to the macroeconomic framework:**

   i. **Economic Growth:** The economy is projected to grow by 6.3 percent in FY 2021/22 from 3.8 percent in FY 2020/21; rising to 6.1 percent over the medium term. The key drivers of this growth are: a stable macroeconomic environment; improved domestic consumption; and improved external demand. Further, export demand is expected to increase due to the reopening of economies globally as global vaccination continues to gain traction.

   ii. **Inflation is expected to remain within 5% (+or- 2.5%)**

   iii. **Exchange rate:** The shilling will be supported by narrowing of the current account deficit as export earnings increase including earnings from tourism as well as remittances

   iv. **Interest rates:** The Monetary Policy Committee to maintain an accommodative monetary policy stance in order to boost credit growth to the private sector.

10. **How strong are the economic growth fundamentals?**

i. **Given the current economic conditions, private consumption is likely to be a dampening factor and may not boost economic growth as expected.** Many households have suffered significant income losses since the onset of the pandemic and although there are signs of recovery in 2021, the situation remains uncertain. The Service sector, the biggest contributor to economic growth and accounting for the approximately 84% of businesses, is arguably the most affected in terms of income and job losses. Given higher employment and poverty levels; the withdrawal of covid tax relief measures; and the re-introduction of strict covid containment measures in 2021, consumer spending is likely to remain subdued at least for the first half of 2021 due to eroded household incomes. Going forward, widespread administration of the covid vaccines and improved management of the covid pandemic cases will improve the outlook. However, this is dependent on vaccine procurement and uptake as well as critical investment in health infrastructure.

ii. **External demand: Despite the ongoing global recovery, the risks to external demand are likely to emanate from prolonged subdued global demand given the ongoing covid restrictions.** This is particularly likely if there is continued economic underperformance for the country's key trading partners. A prolonged pandemic will affect tourism and foreign exchange remittances. Further, **there are concerns that budget allocations are not really addressing supply side constraints pertaining to exports.** Kenya's export quality has largely remained unchanged with the country exporting mostly raw, primary products as opposed to manufactured goods. Interventions such as dairy milk processing (powdered milk), new KCC equipment and machinery, modernization of cotton ginneries and investment in Constituency Industrial Development Centres (CIDCs) have not been adequately invested in as key growth drivers and continue to receive very minimal allocations.

iii. **Macro-economic stability:**

Inflation is likely to remain within the target range of 2.5% to 7.5% due to low food prices and muted consumer demand. Going forward, energy costs constitute the highest risk to inflation. Crude oil prices have been on an upward trajectory due to improved global demand outlook. By end of April 2021, Murban oil price increased to USD 65.68 per barrel up from USD 54.53 per barrel at the beginning of the year. This coupled with foreign exchange rate fluctuation as well as the numerous levies and taxes in Kenya is likely to drive energy costs upwards.

Exchange rate: good export performance cannot be guaranteed given the likelihood of subdued demand from the export destination countries as the adverse effects of the covid-19 pandemic continue to be felt. Furthermore, given the global economic downturn, the number of tourists has declined significantly thus foreign exchange earnings may be at risk. On the other hand, foreign remittances have defied negative predictions and performed exceptionally well during the pandemic period.. In April 2021, it is estimated that the country received an estimated 299.3 billion US dollars in form of foreign remittances, up from 208.2 billion US dollars in April 2020. Going forward, remittances are likely to continue providing a critical buffer to foreign exchange reserves and will continue to be a major support to the economy.

Interest rates: In the wake of the Covid-19 pandemic restrictions in March, 2020, the MPC lowered the CBR rate to 7% so as to enhance liquidity and mitigate any adverse effects of the pandemic. Credit to the private sector is gradually improving and was estimated at 9.7% in February 2021 compared to 7.7% in February of the previous year. Going forward, non-performing loans continue to be a key determining factor in private sector lending by commercial banks. Furthermore, government borrowing in the domestic market to plug the revenue shortfall is also likely to have a negative impact on credit availability to the private sector.

11. Other risks to the macroeconomic outlook include the following:

iv. **Political uncertainty** as the country approaches the general elections. Investment efforts are likely to be on hold as investors adopt a 'wait-and-see' attitude until after the general elections.

v. **Resumption of strict covid containment measures** in the second quarter of 2021 given the slow procurement and distribution of the covid vaccine. Should this materialize, economic growth for 2021 may decline further to 4%.

IV. KEY HIGHLIGHTS OF THE 2021/2022 BUDGET

Where is the money going?

12. **The overall budget for FY 2021/22 is estimated at Kshs. 3.66 Trillion.** The budget for the three arms of Government is estimated at- The Executive (Kshs. 1,895.14 Billion), Parliament (Kshs. 46.61 Billion) and the Judiciary (Kshs.17.92 Billion).

Table 1: Overall Budget Allocation for FY 2021/22 (Kshs. Billion)

		2019/20	2020/21	2021/22		Deviation (Kshs. Billions) BPS 2021 & Estimates	Deviation BPS 2021 and Estimates
		Actual	Revised Budget	BPS 2021	Estimates		
Executive	*Recurrent*	*1,068.59*	*1,226.16*	*1,256.05*	*1,235.19*	*-20.86*	*-1.7%*
	*Development**	*609.65*	*690.45*	*654.54*	*659.96*	*5.42*	*0.8%*
	Total	**1,678.24**	**1,916.61**	**1,910.59**	**1,895.14**	**-15.45**	**-0.8%**
Parliament	*Recurrent*	*28.03*	*33.74*	*35.82*	*42.39*	*6.57*	*18.3%*
	Development	*2.14*	*3.57*	*2.07*	*4.22*	*2.15*	*104.3%*
	Total	**30.17**	**37.31**	**37.88**	**46.61**	**8.73**	**23.0%**
Judiciary**	*Recurrent*	*14.11*	*15.21*	*15.58*	*15.59*	*0.00*	*0.0%*
	Development	*2.52*	*2.56*	*2.33*	*2.33*	*0.00*	*0.0%*
	Total	**16.63**	**17.77**	**17.92**	**17.92**	**0.00**	**0.0%**
CFS	*Public Debt related expenses****	*717.65*	*958.40*	*1,169.17*	*1,169.17*	*0.00*	*0.0%*
	Pensions, Salaries, Allowances & Others	*90.31*	*115.31*	*137.23*	*158.06*	*20.83*	*15.2%*
	Total	**807.96**	**1,073.71**	**1,306.39**	**1,327.22**	**20.83**	**1.6%**
Overall	*Recurrent*	*1,110.72*	*1,275.11*	*1,307.45*	*1,293.16*	*-14.29*	*-1.1%*
	Development	*614.32*	*696.58*	*658.94*	*666.51*	*7.57*	*1.1%*
	CFS	*807.96*	*1,073.71*	*1,306.39*	*1,327.22*	*20.83*	*1.6%*
	*County Governments*****	*316.50*	*316.50*	*370.00*	*370.00*	*0.00*	*0.0%*
	Total	**2,849.50**	**3,361.90**	**3,642.78**	**3,656.89**	**14.11**	**0.4%**

Source: National Treasury Estimates tabled in parliament.

***Includes Equalization Fund (Kshs. 6.825 B) and Contingency Fund (Kshs. 5.0 B) for FY 2021/22**
****Judiciary and Judicial Service Commission**

***Comprised of domestic and foreign interest payments and debt redemptions. Principle debt repayment is always shown below the line while interest payments are above the line in the budget out-turn.

****Equitable Share as enacted in the Division of Revenue Act

13. **The proposed budget estimates for FY 2021/2022 have increased by Kshs. 14.11 billion from the approved 2021/2022 BPS ceiling.** This ceiling is primarily attributed to an increase in the Consolidated Fund Services expenditures which has increased by Ksh. 20.83 billion and the Parliament budget which is higher by Ksh. 8.7 billion from the BPS ceiling. For most of the sectors however, the net changes do not differ significantly from the approved BPS ceilings (Table 2).

Table 2: Summary of the Budget Estimates for FY 2021/22 to MTEF Sectors (Kshs. Billion)

	SECTORS	2021/22 BPS ceilings	2021/22 Budget Estimates	Deviation (Kshs. Billion)	Deviation	Remarks on Deviation in Programmes
1	Agriculture, Rural and Urban Development	70.05	69.69	-0.35	-0.5%	▪ Reduction of Kshs. 1.56 B for Livestock Resource management
2	Energy, Infrastructure and ICT	334.78	332.86	-1.92	-0.6%	▪ Reduction of Kshs. 1.18 B for Power Generation ▪ Reduction of Kshs. 1.45 B for Power Transmission and Distribution ▪ Increase of Kshs. 1.41 B for ICT Infrastructure Development
3	General Economics and Commercial Affairs	23.39	21.54	-1.85	-7.9%	▪ Reduction of Kshs. 2.12 B for Tourism Development and Promotion
4	Health	112.57	121.09	8.52	7.6%	▪ Increase of Kshs. 6.49 B for Preventive, Promotive & RMNCAH
5	Education	508.59	509.20	0.61	0.1%	▪ Increase of Kshs. 1.16 B for Secondary Education
6	Governance, Justice, Law and Order	216.53	217.09	0.55	0.3%	▪ Increase of Kshs. 1.06 B for General Admin under the State Department for Interior
7	Public Administration and International Relation	356.62	350.41	-6.21	-1.7%	▪ Reduction of Kshs. 17.48 B for General admin and Kshs. 4.06 B for Marine Transport under the National Treasury ▪ Increase of Kshs. 5.98 B for Public Financial Management
8	National Security	170.01	162.29	-7.72	-4.5%	▪ Reduction of Kshs. 7.72 B for Defence
9	Social Protection, Culture and Recreation	71.32	71.97	0.66	0.9%	▪ Increase of Kshs. 314.82 M for Gender Empowerment Kshs. 284.67 M for Social Development & Children Services
10	Environmental Protection, Water and Natural Resources	102.84	103.52	0.69	0.7%	▪ Increase of Kshs. 2.55 B for Water Storage & Flood Control ▪ Reduction of Kshs. 1.23 B for Forests & Water Towers Conservation
	Grand Total	**1,966.70**	**1,959.67**	**-7.03**	**-0.4%**	

Source: Analysis of Treasury documents by PBO

Key highlights on Sectoral Spending

i) Infrastructure, Energy & ICT

14. This sector has been allocated Kshs. 332.86 Billion in the budget estimates for FY 2021/22. It is considered a key enabler for the country's economic growth and development agenda and has routinely received substantial funding over the past decade. However, there are some challenges that continue to hamper the realization of benefits from the investments in this sector. In the state department of infrastructure, it is estimated that there are pending bills valued at Ksh. 85 billion as well as 88 stalled projects. Given the prevailing funding challenges, this sector can benefit greatly from increasing the PPP funded projects as this may enable faster project completion. This should however be implemented in a manner that will contain underlying debt and contingent liability risks. The goal should be to ensure that new assets are created within a sustainable level of debt.

15. In the next financial year, the National Treasury will become an implementing agency for projects such as the Dongo-Kundu Special Economic Zone, SGR Nairobi- Naivasha Mombasa Port Development Project, LAPSSET Project and Kenya Mortgage Refinance Company (KMRC). This raises concerns about conflict of interest.

16. It is also observed that the KPLC which is a State Owned Enterprise (SoEs) in the sector, reportedly made a loss of Kshs. 15.9 Billion by June 2020. Such SoEs should be given prominence as part of the restructuring plan in the IMF programme with Kenya.

17. The following are the key areas of spending in the sector:

Key Areas of Spending in Infrastructure, Energy & ICT	Allocation FY 2021/22 (Kshs. Billion)
Construction of Roads and Bridges	94.65
Rehabilitation of Roads	3.20
Maintenance of Roads	54.08
Rail Development	27.16
Dongo-Kundu Special Economic Zone	8.25
Mombasa Port Development Project.	7.50
LAPSSET Project	4.46
Delivery of Affordable and Social Housing Units	1.70
Kenya Mortgage Refinance Company (KMRC)	11.50
Last Mile Electricity	6.47
Electrification of public facilities	6.18
Kenya electricity modernization project	5.72
Horizontal Infrastructure Phase I (Konza Technopolis project (EPCF)	12.00
Konza Data Centre & Smart City Facilities	5.20

ii. Health Sector

18. Health is a devolved function and as such, counties should take a lead role in terms of execution of health sector projects. The role of the national government is to provide policy direction. It was expected that devolution would bring health services closer to the people as well as address some of the challenges facing the sector. This has however not been the case and challenges persist particularly with regard to human resource constraints as well as equipping of hospitals with requisite equipment and medicine. The new policy that referral hospitals will only cater to referral cases requires county governments to rise to the occasion in terms of meeting healthcare demands which are likely to increase in the non-referral hospitals.

19. In the 2021/2022 budget, the sector has been allocated Kshs. 121.09 Billion. Notably, there is an increase from the BPS ceiling mainly due to increased allocations for preventive and promotive health care. Covid-19 interventions have been allocated Kshs. 15.4 Billion; of which, Ksh. 3.9 billion is for the procurement of covid vaccines whereas Ksh. 9.5 billion is for engagement of 650 COVID 19 specialists; carrying out 591,000 tests and supplying 28 hospitals with equipment. Given the gravity of the covid-19 pandemic, one would have expected a greater investment towards fighting the pandemic but this is not the case. The Ksh. 3.9 billion for the procurement of vaccines is hardly adequate given the estimation that the cost of vaccinating 30% of the population is Kshs 34 Billion. Furthermore, the target under this provision is indicated as percentage of health facilities with storage facilities and not the doses of vaccines or percentage of population vaccinated. Thus it is difficult to know the number of persons targeted to be vaccinated.

20. Overreliance on donors is partly to blame for the inadequate allocation towards covid vaccination. As indicated in the BPS analysis by PBO, this sector relies heavily on donor funding and this has rendered it vulnerable to external shocks. For instance, the cessation of PEPFAR funding for blood transfusion services led to a serious blood shortage in the country with the sector seemingly unable to absorb the costs of collecting and testing blood. Management of malaria, TB and HIV/AIDS are all largely dependent on donor funding and there have been challenges such as the recent shortage of ARVs due to a dispute between the US aid agency and the Kenyan government. The country was also expected to transition from its dependence on GAVI, the Vaccine Alliance and begin to fully fund its own domestic vaccine purchases but it has not been able to achieve this ostensibly due to the covid-19 pandemic but really due to unpreparedness and unwillingness.

21. Furthermore, mental health continues to be underfunded despite having been indicated as a priority during approval of the BPS.

22. The following are the key areas of spending in the health sector in financial year 2021/2022:

Key Areas of Spending in Health	Allocation FY 2021/22 (Kshs. Billion)
National Referral Facilities	32.48
Rollout of UHC	15.79

Linda Mama Programme	4.09
Global fund (TB, HIV and Malaria interventions)	17.31
Managed Equipment Service	7.21
COVID-19 Interventions	15.40

iii. Education Sector

23. The Education Sector has been one of the hardest hit by the covid pandemic. An entire school year was lost due to nationwide school closure leading to lost revenue streams, high rate of school drop-outs and increased inequality with regard to education access.

24. In FY 2021/2022, the sector has been allocated Kshs. 509.2 Billion. Even though, this sectors accounts for a significant portion of the budget, some funding gaps still exist. For instance, the Free-day secondary school programme is underfunded with an allocation of Kshs.62.4 Billion against a requirement of Kshs. 74.5 Billion. The TVETs are also underfunded with an allocation of Kshs. 5.2 Billion for capitation which is not adequate to cater for the enrolled students.

25. Under the IMF programme, there is a proposed restructuring of the three main universities, namely; the University of Nairobi, Kenyatta University and Moi University. It is noted that these universities have numerous pending bills and stalled projects. Furthermore, there are some governance concerns particularly with regard to management of students which may need to be addressed.

26. It is noted also that there isn't much effort to conclude the construction of Mitihani House which has not been allocated any funds in FY 2021/2022 and is likely to continue being a permanent project in the budget.

27. The following are the key areas of spending in the sector:

Key Areas of Spending in Education	Allocation FY 2021/22 (Kshs. Billion)
Capitation to both public primary and secondary school learners	74.42
Recruitment of Teachers	2.50
Public primary and secondary school infrastructure	4.24
Examination waiver (KCPE and KCSE)	4.02
Capitation to TVET students	5.20
Allocation to Public Universities	76.15
Construction and equipping of TTI's	1.81
Higher Education Loans Board (HELB) Funding	15.80

iv. Agriculture, Water and Environment

28. The Agriculture, Water and Environment sector is central to the achievement of food security. However, it is one of the least funded sectors in the budget and is prone to budget cuts during the supplementary budget process. Perhaps due to these expenditure cuts, the sector has numerous stalled projects and pending bills. Indeed, it is estimated that the water, irrigation and environment sectors account for the highest number of stalled projects (216 in total).

29. Like the health sector, the agriculture sector is heavily reliant on donor funding. It is estimated that 83% of its development budget is externally financed. Indeed, many of the conditional grants in the sector are from donors. This points to a lack of prioritization of the agriculture sector.

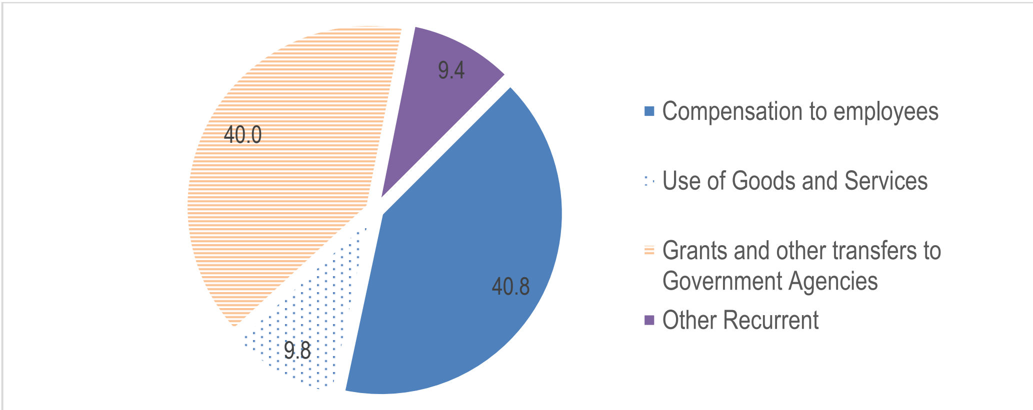
30. For Financial Year 2021/2022, this sector has been allocated Kshs. 173.21 Billion. The following are the key proposed areas of spending:

Key Areas of Spending in Agriculture, Water & Environment	Allocation FY 2021/22 (Kshs. Billion)
Kenya Climate Smart Agriculture Project (KCSAP)	8.969
National Agricultural and Rural Inclusivity Project (NARIGP)	7.058
Aquaculture Business Development Project (ABDP)	3.222
Kenya Marine Fisheries & Social -Economic Development Project	3,403
National Value Chain Support Programme	1.50
Thwake Multi-Purpose Water Development Program Phase I	9.62
Water and Sanitation Development Project (WSDP)	7.13
Karimenu II Dam Water Supply Project	5.40
Water Security and Climate Resilience (Project Advanced)	4.82
Kenya Towns Sustainable Water Supply and Sanitation Programme- Rift	3.67
Mwea Irrigation Development project (Thiba Dam and Irrigation Area)	3.30
National Expanded Irrigation Programme – ESP	3.11
Nairobi Metro Area Bulk Water Sources- Ruiru II Dam	2.60

31. In terms of economic classification of the budget, the recurrent budget is driven by compensation to employees and grants and other transfers to government agencies. Compensation to employees is estimated at Kshs. 528.15 Billion and Kshs. 480.5 Billion is for Semi-Autonomous Government Agencies (SAGAs). Containment of the government wage bill is a key component of the fiscal reforms being pursued by the government under the IMF programme. Proposed measures to achieve this include restraint in hiring and wage awards; rationalization of allowances; and complete automation of personnel expenditure including a common payroll system across all MDAs, Counties and SAGAs linked to IFMIS.

There is need to balance wage bill containment vs. motivation of public service workers. Focus should also be on enhancing productivity of the labour force in order to achieve value for money for every shilling spent on personnel expenditure.

Figure 1: Recurrent Economic Classification as a share of Total Recurrent expenditure (%)



Source: National Treasury

Conditional Allocations to County Governments included in the FY 2021/22 Budget

32. **There are conditional allocations meant for County Governments with a total allocation of Kshs. 43.75 Billion in the FY 2021/22 budget estimates.** The Division of Revenue Act, 2021 and subsequently the County Allocation of Revenue Bill, 2021 excludes these conditional allocations to County Governments in adherence to a court ruling. These allocations are spread across six votes, namely: the Ministry of Health; the Ministry of Water, Sanitation & Irrigation; the State department for Public Works; the State Department for Devolution; the State Department for Crop Development & Agricultural Research; and the State Department for Housing and Urban Development. They are as follows:
    (i). Managed Equipment Service-Hire of Medical Equipment **(Kshs. 7.205 B)**
    (ii). Construction of County Headquarters **(Kshs. 341 M)**
    (iii). Transforming Health Systems for Universal Care Project **(Kshs. 3.46 B)**
    (iv). Kenya Climate Smart Agriculture Project **(Kshs. 8.97 B)**
    (v). National Agricultural & Rural Inclusivity Project **(Kshs. 7.06 B)**
    (vi). IDEAS-Instrument for Devolution Advice and support **(Kshs. 280.73M)**
    (vii). Water & Sanitation Development Project (WSDP) **(Kshs. 7.13 B)**
    (viii). Primary Health Care in the Devolved Context **(Kshs. 802.197 M)**
    (ix). Agricultural Sector Development Support Programme II (ASDSP II) (**Kshs. 1.525 B**)
    (x). Drought Resilience Programme in Northern Kenya **(Kshs.415 M)**
    (xi). Emergency Locust Response Project **(Kshs. 1.842 B)**
    (xii). Kenya Informal Settlement Improvement Project Phase II **(Kshs. 3.52 B)**
    (xiii). UNFPA- 9th Country Programme Implementation **(Kshs. 1.2 B)**

Status of the Big Four Agenda

2021/2022 is the last full financial year for implementation of the big four and it has become apparent that many of the big four targets may not be achieved by 2022. Given the fact that this is the flagship agenda for the government and the role that it is expected to play in economic growth, a review of projects status and plan of action is necessary to ensure that at least some of the targets are achieved by 2022.

It is observed however that the big four agenda does not appear to have much prominence in the budget. Other than an indication that it has been allocated Ksh. 135 billion in the next financial year, there is no further discussion or how the government will ensure that at least a certain percentage of the targets are met. It is worth noting that budgetary allocations towards big four projects tend to be adjusted downwards during the supplementary budget. There hasn't been any real commitment towards implementation of the big four agenda.

This section reviews the status of some of the critical interventions under the big four agenda:

Pillar 1: Supporting value addition and raising share of manufacturing to GDP to 15% by 2022

Under this pillar, the most critical interventions were as follows:

i. **Textile/apparel/cotton-** This includes planting of bt cotton, modernization of cotton ginneries and the completion of the athi-river textile hub. Progress has been slow. It is only in 2020 that a BT cotton taskforce was set up and at least 1000 farmers identified to receive the GM cotton seeds. It is not clear who the beneficiaries are and so far, there have been no reports on the yields. With regard to modernization of cotton ginneries, it is reported that Luanda cotton cooperative ginnery in Busia has been modernized and there is a target to modernize one more ginnery in 2021/22. Hopefully, there is a connection between the location of bt cotton farmers and the cotton ginnery. Athi river textile hub is reported to be 85% complete by FY 2021/2022.

ii. **Leather sub-sector –** the main intervention was the completion of Machakos Leather Park along with other interventions in leather quality control. The most critical part of the leather park, the effluent treatment plant, is reportedly targeted for completion in 2022/2023. This remains to be seen. Other critical infrastructure that are missing in the Kenanie leather park include roads, water supply and energy. As such, it has been difficult to attract the private sector to invest there.

Pillar 2: Enhancing Food and Nutrition Security to all Kenyans by 2022

Under this pillar, the most critical interventions were as follows:

i. **large scale production by putting 700,000 acres under food production –** over the years, there have been attempts to increase areas under irrigation and currently there are numerous irrigation projects such as in the National expanded Irrigation Programme which targets 572 irrigation projects. However, large scale irrigation schemes notably Galana Kulalu have largely not been successful.

ii. **boosting smallholder productivity –** there are several incentives in the 2021/22 budget to boost smallholder productivity such as e-voucher financing, horticulture empowerment project, training on modern farming technologies (Kimira Oluch), aqua culture business development project and smallholder irrigation schemes. However, the status of implementation and impact of these interventions remains unclear.

iii. **Reduce cost of food through input subsidy model, harvest post-handling, rehabilitation of fish landing sites –** the e-voucher which is expected to facilitate provision of seeds and fertilizer to farmers has faced a lot of challenges in implementation and is one of the most underfunded areas of the budget. Furthermore, the programme is routinely subjected to extensive budget cuts during the supplementary budget process. Nevertheless, in the 2021/22 budget, there is a proposed allocation of Ksh. 1.5 billion to this project. On post-harvest handling, there are attempts to set up facilities and other mechanisms but status of implementation is not clear and post-harvest losses still remain a challenge. Fish landing sites continue to receive allocations from the budget but status and impact remains unclear.

Pillar 3: Providing Universal Health Coverage

There are issues of governance and structure at the NHIF which have not been addressed over the last three years in order for the NHIF to fully transition into a social insurer as envisaged. Furthermore, support initiatives towards the UHC such as the equipping of hospitals with specialized equipment has encountered challenges in implementation of the MES programme such as inefficient procurement processes, lack of specialized personnel to manage the equipment, lack of a project sustainability strategy beyond the leasing period, lack of requisite infrastructure to facilitate running of the equipment in some counties and high operational costs. These challenges are yet to be addressed.

Pillar 4: Provision of Affordable and Decent Housing for all Kenyans

The target was to deliver 500,000 housing units by 2022. However, so far, only 1,370 housing units (Park road project) have been achieved under this programme; representing an achievement of 0.3% of target. In the budget estimates for FY 2021/22, there is an allocation of Kshs. 14.85 Billion (Ksh. 11 billion in the National Treasury and Ksh. 1.7 billion in the State Department for Housing & Urban Development) to deliver 3,336 units by the end of FY 2021/22.

V. FINANCING OF THE 2021/2022 BUDGET

Tax Revenue performance

33. **The National Treasury has consistently set overambitious revenue targets during the budget-making process.** Actual tax revenue collection in 2019/20 was Ksh. 1,584 billion against the printed estimates target of Ksh. 1,758 billion. The 21 percent shortfall in tax revenue during the 2019/20 FY was partially attributed to the Covid-19 pandemic. However, from table 3 below, it is evident the widening gap between printed and actual tax revenue persisted before the onset of the coronavirus pandemic. On

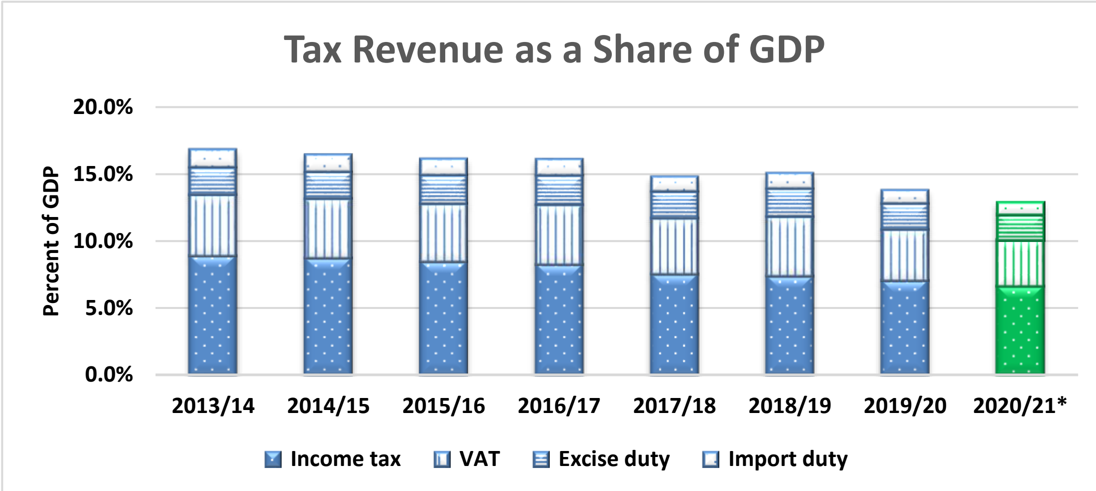
average, between 2015/16 and 2018/19 actual income tax collected was 13 percent below the target set in the printed estimates. Similarly, the actual tax collection from VAT, import duty and Excise taxes were on average about 7 percent below the target set.

Table 3: Revenue Performance (Ksh. Billion)

Revenue Performance (Ksh. Billion)												
	2017/18			2018/19			2019/20			2020/21		
	Printed	Actual	Dev %	Printed	Actual	Dev %	Printed	Actual	Dev %	Printed	Revised	Dev %
Revenue & grants	**1,763**	**1,551**	**(12.1)**	**1,998**	**1721**	**(13.8)**	**2,155**	**1,753**	**(18.6)**	**1,950**	**1,898**	**(2.6)**
Total Revenue	**1,705**	**1,523**	**(10.7)**	**1,949**	**1702**	**(12.7)**	**2,116**	**1,734**	**(18.1)**	**1,893**	**1,849**	**(2.3)**
Ordinary Rev	**1,549**	**1,365**	**(11.9)**	**1,769**	**1500**	**(15.2)**	**1,877**	**1,573**	**(16.2)**	**1,634**	**1,594**	**(2.4)**
Tax revenue	**1,449**	**1,259**	**(13.1)**	**1,639**	**1,401**	**(14.5)**	**1,758**	**1,384**	**(21.3)**	**1,515**	**1,433**	**(5.4)**
Income tax	766	641	(16.3)	837	685	(18.1)	884	707	(20.1)	685	733	7.0
VAT	384	357	(6.9)	464	414	(10.8)	496	384	(22.6)	482	395	(17.9)
Import duty	102	94	(8.5)	119	107	(10.5)	135	98	(27.6)	107	96	(9.8)
Excise duty	197	168	(15.0)	219	194	(11.3)	242	195	(19.4)	241	209	(13.5)
Other	100	106	5.5	130	99	(23.8)	119	189	59.0	119	160	35.1
Appropriation-in-Aid	155	158	1.7	180	202	12.2	239	160	(32.9)	232	255	10.1
Grants	**59**	**28**	**(53.1)**	**48**	**20**	**(59.4)**	**39**	**20**	**(48.9)**	57	**49**	**(14.3)**
Expenditure & Net Lending	**2,299**	**2,147**	**(6.6)**	**2,557**	**2,434**	**(4.8)**	**2,796**	**2,565**	**(8.2)**	**2,791**	**2,892**	**(3.6)**
Deficit Including Grants	**(536)**	**(596)**		**(560)**	**(712)**		**(641)**	**(809)**		**(841)**	**(970)**	
As a percent of GDP												
			Dev PP			Dev PP			Dev PP			Dev PP
Deficit Including Grants	**-6.3%**	**-7.0%**	**(0.7)**	**-6.0%**	**-7.6%**	**(1.6)**	**-6.3%**	**-8.1%**	**(1.8)**	**-7.5%**	**-8.7%**	**(1.2)**

34. **The shortfall in revenue can partially be attributed to the decline in tax revenue as a share of economic activity.** Ordinary revenue as a share of GDP declined from 18 percent in 2013/14 to about 15.5 percent in 2019/20. Dwindling income tax and VAT collection were the main drivers of the decline in tax revenue as a share of GDP. Between 2013/14 and 2019/20, income tax as a share of GDP declined by about two percentage points whereas VAT as a share of GDP declined by about one percentage point. Therefore, it is evident that the National Treasury needs to move away from the usual revenue collection enhancement measures which have proved to be ineffective in increasing revenue as a share of GDP over the last couple of years.

Figure 2: Tax Revenue as a share of GDP



*Revised estimates I

35. The underperformance of revenue relative to economic growth has been one of the main drivers of the expanding fiscal deficit**.** Whereas expenditures as a share of GDP remained relatively unchanged between 2013 and 2019 the fiscal deficit as a share of GDP expanded in tandem with the decline in revenues as a share of GDP. Consequently, the implementation of a comprehensive strategy to enhance efficiency in revenue collection over the medium-term will contribute to lowering the fiscal deficit and by extension curb the growth in public debt.

36. Revenue collection as a share of GDP is projected to remain relatively low in the 2021/22 FY. The National Treasury projects a total revenue collection of **Ksh. 2,039 billion** (16.4% of GDP) in 2021/22 of which, ordinary revenue will be **Ksh. 1,776 billion** (14.3% of GDP). The targeted collection from income tax which accounts for about 50 percent of tax revenue is **Ksh. 835 billion**. The other main sources of ordinary revenue will be **Ksh. 473 billion** from VAT, **Ksh. 241 billion** from Excise Duty and **Ksh. 119** billion from import Duty.

Table 4: Revenue Projections (Ksh. Billion)

National Treasury Revenue Projections (KSH. Billion)									
	2018/19	2019/20	2020/21		2021/22			2022/23	2023/24
	Actual	**Actual**	**Printed**	**Revised**	**BPS**	**Budget**	**Dev %**	**Proj**	**Proj**
Revenue & grants	**1721**	**1,753**	**1,950**	**1,878**	**2,080**	**2,101**	**1.0**	**2,427**	**2,845**
Total Revenue	**1702**	**1,734**	**1,893**	**1,829**	**2,034**	**2,039**	**0.2**	**2,380**	**2,796**
Ordinary Rev	**1500**	**1,573**	**1,634**	**1,574**	**1,776**	**1,776**	**-**	**2,142**	**2,516**
Tax revenue	**1,401**	**1,384**	**1,515**	**1,433**	**1,667**	**1,667**	**-**	**2,024**	**2,388**
Income tax	685	707	685	733	835	835	-	997	1,179
VAT	414	384	482	395	473	473	-	585	692
Import duty	107	98	107	96	119	119	-	145	170
Excise duty	194	195	241	209	241	241	-	297	347
Other	99	189	119	141	108	108	-	118	129

National Treasury Revenue Projections (KSH. Billion)									
	2018/19	2019/20	2020/21		2021/22			2022/23	2023/24
Appropriation-in-Aid	202	160	232	255	258	263	1.8	238	280
Grants	**20**	**20**	**57**	**49**	**46**	**62**		**47**	**48**
Expenditure & Net Lending	**2,434**	**2,565**	**2,791**	**2,878**	**3,010**	**3,054**	**1.4**	**3,202**	**3,496**
Deficit Excl Grants	**(732)**	**(832)**	**(842)**	**(1,049)**	**(976)**	**(1,015)**		**(822)**	**(699)**
Deficit Incl Grants	**(712)**	**(812)**	**(899)**	**(1,000)**	**(930)**	**(952)**		**(775)**	**(651)**
As a percent of GDP (%)									
	2018/19	**2019/20**	**2020/21**		**2021/22**			**2022/23**	**2023/24**
	Actual	**Actual**	**Printed**		**BPS**	**Budget**	**Dev PP**	**Proj**	**Proj**
Revenue & grants	**18.5**	**17.2**	**17.3**	**16.9**	**16.8**	**16.9**	**0.1**	**17.6**	**18.5**
Total Revenue	**18.3**	**17.0**	**16.8**	**16.4**	**16.4**	**16.4**	**-**	**17.3**	**18.2**
Ordinary Rev	**16.1**	**15.4**	**14.5**	**14.1**	**14.3**	**14.3**	**-**	**15.6**	**16.4**
Tax revenue	**15.0**	**13.6**	**13.4**	**12.9**	**13.5**	**13.5**	**-**	**14.7**	**15.5**
Income tax	7.4	6.9	6.1	6.6	6.7	6.7	-	7.2	7.7
VAT	4.4	3.8	4.3	3.6	3.8	3.8	-	4.2	4.5
Import duty	1.1	1.0	0.9	0.9	1.0	1.0	-	1.1	1.1
Excise duty	2.1	1.9	2.1	1.9	1.9	1.9	-	2.2	2.3
Other	1.1	1.9	1.1	1.3	0.9	0.9	-	0.9	0.8
Appropriation-in-Aid	2.2	1.6	2.1	2.3	2.1	2.1	-	1.7	1.8
Grants	**0.2**	**0.2**	**0.5**	**0.4**	**0.4**	**0.5**	**0.1**	**0.3**	**0.3**
Expenditure & Net Lending	**26.1**	**25.5**	**24.8**	**25.9**	**24.3**	**24.6**	**0.3**	**23.3**	**22.7**
Deficit Excl Grants	**(7.9)**	**(8.3)**	**(8.0)**	**(9.4)**	**(7.9)**	**(8.2)**	**(0.3)**	**(6.0)**	**(4.5)**
Deficit Incl Grants	**(7.6)**	**(8.1)**	**(7.5)**	**(9.0)**	**(7.5)**	**(7.7)**	**(0.2)**	**(5.6)**	**(4.2)**

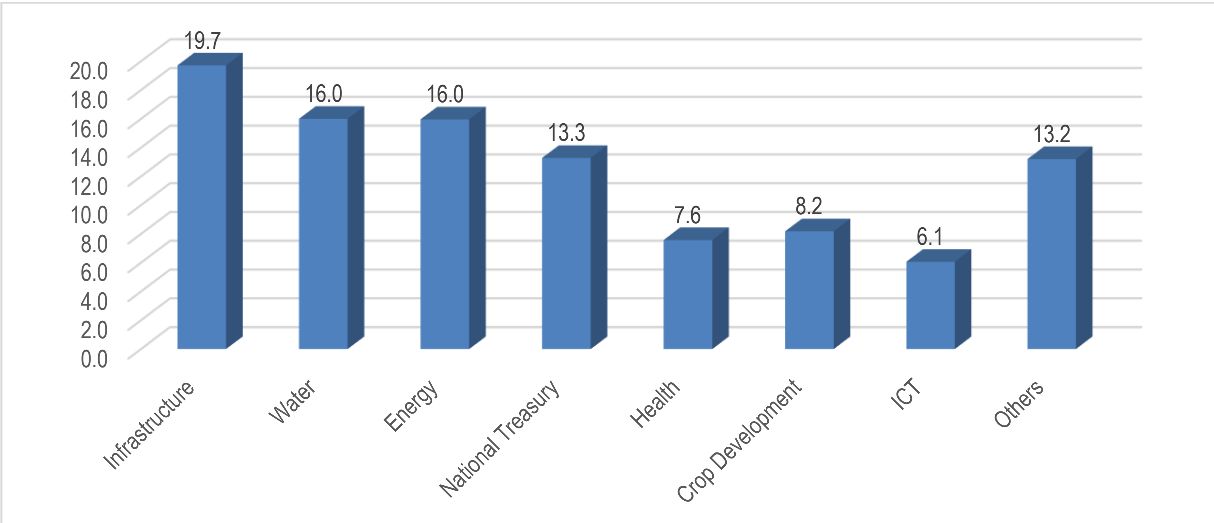
37. Over the medium term, ordinary revenue as a share of GDP is projected to increase to 16.4 percent. However, the tax enhancement measures contained in the BPS 2021 such as strengthening the audit function in the Domestic Tax Department, enhanced scanning, resolution of tax disputes through alternative dispute resolution and fast-tracking the conclusion of cases before the Tax Appeal Tribunal do not address the structural issues that have contributed to the decline in revenue as a share of economic activity. Further, the proposals contained in the finance bill (see highlights below) are unlikely to contribute to a significant increase in revenue as a share of GDP.

Foreign Financing

38. Foreign financed development projects will be mainly in Infrastructure, Water and Energy in the FY 2021/22 budget estimates (Figure 2). Some of the projects with a significant amount of foreign financing in these sectors include- Infrastructure (Mombasa Port Area Roads Development Project-MPARD Package 2 Mwache-Tsunza-Mteza Road -Kshs. 5.65 B); Water (Thwake Water Development Project -Kshs. 9.12 B) and in Energy (Eastern Electricity Highway Project -Kshs. 7.22 B). Other sectors such as ICT will receive major foreign financing in projects such as the Konza Horizontal Infrastructure Phase 1 (Kshs. 12 B) and Konza Data Centre and Smart Facilities (Kshs. 5 B); and under the National Treasury, there will be a foreign financing of Kshs. 8 B for the Kenya Affordable Housing Project.

39. A review of the source of foreign financing for development projects indicates that a significant amount in infrastructure and energy will be from the World Bank, African Development Bank, Japan and China. While in the water sector it will be mainly from the Governments of China, Germany, France and Japan.

Figure 2: Foreign Financing according to key sectors (%)



Source: National Treasury

Table 5: Major foreign financed development projects

	Foreign Financing Component		
	Vote	**Kshs. Billion**	**Key Projects/Programmes with major allocation***
1	State Department for Infrastructure	62.93	Mombasa Port Area Roads Development Project MPARD Package 2 Mwache-Tsunza-Mteza (Kshs. 5.65 B); Likoni Bridge (Kshs. 4.85 B); Loichangarnatak-Lokichar Road (Kshs. 3.15 B); Isebania-Ahero Road (Kshs. 3.15 B)
2	Ministry of Water, Sanitation & Irrigation	51.07	Thwake Water Development Project (Kshs. 9.12 B); Water and Sanitation Development Project (Kshs. 7 B); Karimenu II Dam Water Supply Project (Kshs. 5 B); Water Security and Climate Resilience project (Kshs. 4.22 B); Kenya Towns Sustainable Water Supply and Sanitation Programme (Kshs. 3.52 B)
3	Ministry of Energy	50.95	Eastern Electricity Highway Project (Kshs. 7.22 B); Kenya Electricity Modernization Project (Kshs. 5.71 B); Last Mile Connectivity (Kshs. 5.06B); National System Control Centre & Makindu SS (Kshs. 3.258 B)

	Foreign Financing Component		
	Vote	**Kshs. Billion**	**Key Projects/Programmes with major allocation***
4	The National Treasury	42.40	Kenya Affordable Housing Project Kshs. 8 B); Mombasa Port Development (Kshs. 7.5B); Dongo Kundu SEZ (Kshs. 7.3 B); Special Global Fund HIV-AIDS (Kshs. 5.03 B)
5	Ministry of Health	24.20	Kenya Covid Emergency Response Project (Kshs. 5.63 B); Transforming Health Systems for Universal Care Project (Kshs. 3.46 B); Vaccines and immunization (Kshs. 2.6 B)
6	State Department for Crop Development & Agriculture Research	26.12	Kenya Climate Smart Agriculture Project (Kshs. 8.9 B); National Agricultural & Rural Inclusivity Project (Kshs. 7.027 B)
7	State Department for ICT	19.36	Horizontal Infrastructure Phase 1 (Kshs. 12 B); Konza Data Centre and Smart Facilities (Kshs. 5 B);
8	Others	42.15	
	Total	**319.18**	

Source: National Treasury

***The amount is the foreign financed component only and does not represent the total cost of the project/programme**

Highlights of the Finance Bill, 2021

Tax revenue from the "digital marketplace"

One of the possible causes of dwindling revenue collections from the tertiary sector is the continued migration of businesses and service providers to the "digital marketplace". Consequently, the finance bill 2021 has proposed a raft of measures that are aimed at expanding revenue collection from online economic activity, by non-residents who carryout business through digital platforms. This includes amendments to the definition of what constitutes the "digital marketplace" in the Income tax Act and the VAT Act. Further, proposed amendments to the income tax Act seek to provide a better definition of taxable income accrued from businesses carried out online and a clarification on the date by which returns and payment of digital service tax are to be made. Similarly, the proposed amendments to the VAT Act include the addition of supplies made over the internet or electronic network to items on which VAT is chargeable.

The Finance Bill 2020, proposes the introduction of an exemption from digital service tax for activities that are applicable for the tax but are carried out by entities that have a permanent establishment in Kenya and are already paying relevant taxes.

Some of the proposed amendment to tax procedures such as allowing the commissioner to seek intervention from relevant authorities in the collection of tax where a person provides services over the internet, the requirement of non-residents who carry out business the "digital marketplace" to keep records in convertible foreign currency, as well as the addition of online trading to the list of transactions for which a KRA PIN is required are also aimed at enhancing revenue collection from the digital marketplace.

Improved efficiency in revenue collection from economic activities carried out electronically is a possible remedy to the declining tax revenues as a share of GDP. The implementation of the digital service tax resulted in the collection of **Ksh. 252 million** in February and March 2021. Consequently, the digital service tax is expected to raise around Ksh. 1.5 billion in 2021/22 FY *ceteris paribus*. However, it should be noted that tax revenue from the "digital marketplace" is expected to increase gradually as the laws and procedures slowly catch up with novel ways of carrying out economic activities electronically.

Income tax

40. The definition of a permanent establishment in relation to income tax is to be expanded to include, warehouses for persons providing storage facilities to others, farms, plantations and sales outlets. This is expected to enhance income tax revenue collection from storage businesses and the agricultural sector. Taxation of income from the agriculture sector and the informal sector has been a challenge for Kenya and other developing countries. Major changes to the tax code such as the implementation of presumptive tax in the past have unsuccessfully attempted to formalize part of the informal agricultural sector. Further, attempts such as the introduction of advance tax have not been successful in enhancing revenue collection from the informal sector. Therefore, revenue enhancement policies that do not incorporate a solution to taxation of the informal sector and the agriculture sector are unlikely to significantly expand the tax base.

41. The finance bill 2021 also contains income tax measures that are aimed at enhancing the uptake of health insurance and helping recent graduates gain practical experience. This will be achieved through the proposed addition of NHIF contributions, to insurance relief applicable to income tax. Further, students from TVETs are set to be included in the programme that allows employers who engage at least ten graduates as apprentices for a period of six to twelve months in a year to be eligible for a tax rebate in the subsequent year.

42. Some of the applicable income tax rates that are to be amended include, the increase of withholding tax for a non-resident subcontractor who derives a fee for the provision of services to a licensee or contractor in respect of mining or petroleum operations from **5.625% to 10%** and the reduction the rate of withholding tax deducted by a contractor in case of management fees, training fees, or professional fees from **12.5% to 10%**.

VAT

43. To promote the uptake of renewable energy, the National Treasury has proposed the addition of specialized equipment for the development and generation of solar and wind energy, including photovoltaic modules, direct current charge controllers, direct current inverters and deep cycle batteries that use or store solar power to the list of exempt goods.

44. In response to the Covid-19 pandemic, the list of goods exempt from VAT has been expanded to include healthcare supplies such as Medical ventilators and the inputs for the manufacture of medical ventilators, Diagnostic or laboratory reagents, Electro-diagnostic apparatus and Ozone therapy, oxygen therapy, aerosol therapy, artificial respiration or other therapeutic respiration apparatus as well as Other breathing appliances and gas masks, excluding protective masks having neither mechanical parts nor replaceable filters. However, the removal of syringes from VAT exempt goods and the reversal of zero-rating of VAT on the supply of ordinary bread is likely to negatively impact the welfare of low-income households.

45. The National Treasury and IMF identified tax expenditures associated with exemptions as one of the contributors to tax inefficiency and the decline in revenue as a share of GDP. Consequently, the National Treasury agreed to commence the publication of an annual report on tax expenditures and their implication on the budget in September 2021. This report will enhance oversight and provide some basis for a better understanding of why revenues have not grown in line with economic output. In addition, IMF noted that there was a potential revenue gain of up to 2.6 percent of GDP within VAT that could be realised by further removal of exemptions outside agriculture and limiting of zero-rating.

46. Other amendments to the VAT Act include withdrawal of the authority of the Cabinet Secretary to, provide for the registration of a group of companies as one registered person for the purposes of the VAT Act. **Further, the Finance bill 2021 proposes the deletion of the requirement for regulations made under section 67 of the VAT ACT to be tabled before the National Assembly for approval before they take effect.**

Excise Duty

47. The National Treasury is seeking to reintroduce Excise Duty on betting at a rate of 20 percent of the amount wagered. This tax was introduced in FY 2019/20 before being scrapped by the finance bill 2020. The proponents of the tax have argued that in addition to enhancing revenue collection, the tax may contribute to a reduction in gambling activities among the youth. In 2019/20 excise duty on betting services raised over **Ksh. 2 billion**. However, as was the case in 2020, opposition to the reintroduction of this tax is expected from industry players.

48. The finance bill 2021 proposes the introduction of 25 percent excise duty on imported glass, 10 percent duty on jewellery and a duty of Ksh. 5,000 per Kg for products containing nicotine or nicotine substitutes intended for inhalation without combustion or oral application. Further, the duty on motorcycles other than motorcycle ambulances and locally assembled motorcycles is to be amended by replacing the amount of Ksh. 11,608.23 per unit with a 15 percent rate.

Miscellaneous amendments

49. In order to encourage the provision of information leading to the identification or recovery of unassessed taxes or duties, the National Treasury has proposed that the KRA Act be amended to increase payable rewards. The reward for information leading to the identification of unassessed taxes has been increased from Ksh. 100,000 to Ksh. 500,000 while the reward for information leading to the recovery of unassessed taxes and duties is to be increased from Ksh. 2,000,000 to Ksh. 5,000,000.

The realism of revenue estimates

50. Kenya has signed up for a 38-month IMF programme under the ECF and EFF arrangements. As part of the programme, the tax revenue targets for 2020/21 were agreed upon by both the National Treasury and IMF. As a result, unlike in the past where the National Treasury set unrealistic revenue targets during the budget-making process, the targets set for 2021/22 are in line with our expectations. However, it should be noted that revenue targets are based on the expected recovery in economic growth and the assumption that more severe coronavirus mitigation measures will not be implemented in the coming financial year. However, if Kenya does not successfully implement a comprehensive vaccination programme, there is a possibility that future lockdowns may lead to significantly lower tax revenue collection in the 2021/22 FY.

51. The National Treasury projects a significantly higher growth in all the major revenue categories in 2022/23 and the medium-term. As a result of the more optimistic revenue projections, the fiscal deficit as a share of GDP excluding grant (including grants) is expected to improve from -8.2 percent (-7.7 percent) in 2021/22 to -4.5 percent (-4.2 percent) in 2023/24. However, due to the lack of a comprehensive strategy by the National Treasury to enhance revenue collection, it is unlikely that ceteris paribus, the fiscal deficit target for the medium-term will be attained.

VI. CONSOLIDATED FUND SERVICES (CFS)

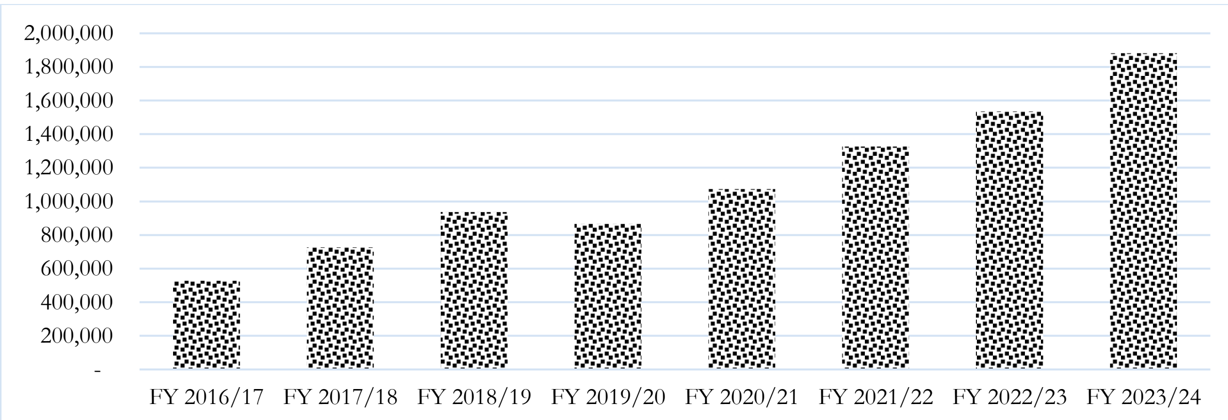
i. Overview

52. CFS[1] expenditures will amount to Kshs. 1.33 trillion in FY 2021/22. This is an increase by Kshs. 253.5 billion (24%) from the FY 2020/21 level and is projected to reach Kshs. 1.89 trillion by FY 2023/24. The increase is on account of public debt servicing (PDS) expenses and pension obligations, which will increase by Kshs. 210.8 billion (22%) and Kshs. 42.5 billion (38%), respectively. A five-year review indicates that by FY 2021/22, the CFS will have increased by over 150%, in absolute terms, since FY 2016/17. The annualized growth rate is 20%, which is much higher than the nominal GDP growth rate for the same period.

[1] These are mandatory expenditures that are a direct charge to the Consolidated Fund

53. This CFS growth rate is attributed to debt servicing for the growing Public and Publicly Guaranteed Stock of debt, which, by end of March 2021, amounted to Ksh. 7.34 trillion[2] (82% of the Ksh. 9 trillion national debt ceiling). This comprised of Ksh. 3.57 trillion (49%) in domestic debt and Ksh. 3.77 trillion (51%) in external debt.

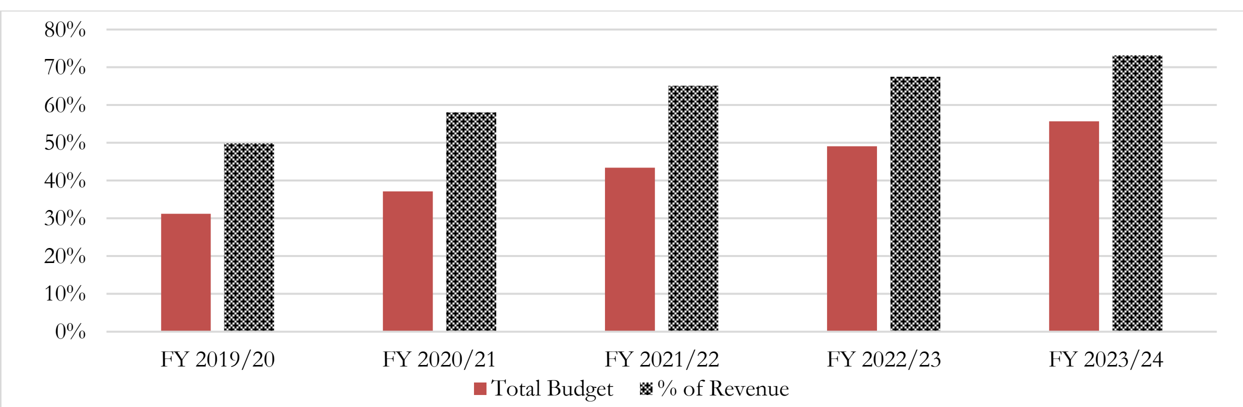
Figure 3: CFS expenditures, FY 2016/17 – FY 2023/24



Source: FY 2021/22 Budget Estimates

54. Increases in CFS expenditure are a significant contributor to growing budget inflexibility. In FY 2021/22, it is estimated that the CFS will account for 43% of the total annual budget and 65% of total revenue (up from 31% and 50%, respectively, in FY 2019/20). A rise in these mandatory expenditures could constrain the fiscal capacity to implement priority programs. The fiscal framework is expected to be increasingly constrained into the outer years.

Figure 4: CFS Expenditures as a ratio of Total Budget & Revenue (FY 2019/20 - FY 2023/24)



Source: FY 2021/22 Budget Estimates

[2] The Central Bank of Kenya (30th April 2021 Weekly Economic Bulletin). When adjusted for the FY 2021/22 fiscal deficit, total debt stock will amount to Kshs. 8.4 trillion (94% of the ceiling) by June 2022.

ii. Public Debt Servicing (PDS) Expenses

55. Amounting to Kshs. 1.17 trillion, the debt stock servicing expenses constitute 88% of CFS expenses. Both interest payments and debt redemption are estimated to increase by 22% in the next financial year. Domestic debt servicing (Kshs. 768.7 billion) accounts for bulk (73%) of the debt servicing expenditures illustrating that domestic borrowing bears a higher refinancing and interest rate risk profile and forming the basis for continued use of external debt instruments. Despite the risk characteristic, domestic borrowing remains critical to budget financing due to ease of access, above average market response and low interest rate regime. However, it is important to note that critical liquidity related debt sustainability thresholds have been breached and any increase of PDS expenses will worsen the current position.

56. Debt servicing is expected to be a major constraint to budget financing. Accounting for over 66% of domestic revenues (from 44% in FY 2019/20), it will put pressure on the fiscal deficit. It is also observed that the increase in debt servicing expenses has outpaced the allocations for development expenditure (for which debt is meant to finance) by over 200%, implying that borrowing for development expenditure financing might no longer be a viable fiscal principle. The government should put in place mechanisms to substitute this with alternative financing such as Public Private Partnerships, particularly for large infrastructure expenditure.

Figure 5: PDS ratio of total budget & Revenue

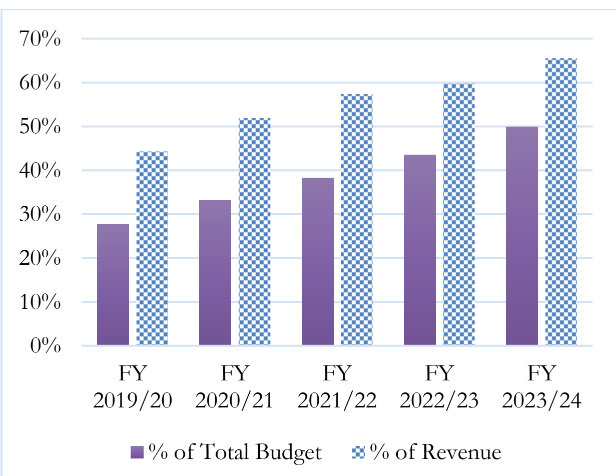
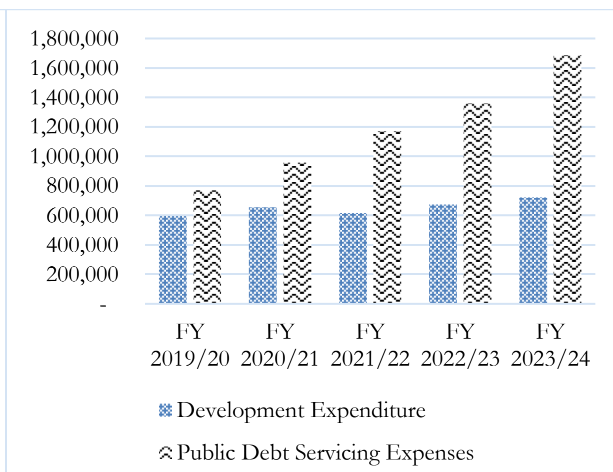


Figure 6: PDS vs Development Expenditures



Source: FY 2021/22 Budget Estimates

57. Domestic debt interest payments (Kshs. 361 billion or 75% of total interest payments) increased by Kshs. 88 billion due to interest cost for new infrastructure and other bonds issued as well as interest rate for new loans. However, these amounts are usually reduced during subsequent supplementary estimates. For external debt, interest payments are projected to increase by Kshs. 22 billion, on account of estimated interest payments for new loans to be acquired. It is also important to note that interest payments for 5 commercial debt instruments (Kshs. 66.9 billion) account for 48% of total external interest payments (see Annex 1). Despite this, commercial borrowing is projected to amount to Kshs. 475 billion in FY 2021/22.

58. Domestic debt redemptions are estimated to decline by Kshs. 15.5 billion to amount to Kshs. 346 billion. This is on account of reduced amount of domestic debt maturing during the fiscal year. External debt on the other hand, is estimated to increase by Kshs. 124.4 billion, to amount to Kshs. 262.1 billion. This increase could be as result of a pile up of debt repayment deferred in FY 2020/21 by Creditors under the Debt Servicing Suspension Initiative.

iii. Pension Obligation Expenses

59. Pension obligations will increase by Kshs. 42.5 Billion (or 38%) to reach Kshs. 153.6 billion (1.1% of GDP). The increase is on account of Kshs. 20.8 billion new allocation for the Public Service Superannuation Scheme [3] (PSSS), alongside Kshs. 8.9 billion and Kshs. 12.8 billion increased allocations for Ordinary and commuted pensions, respectively. Items (Gratuity and Monthly pensions) payable to the civil servants and military comprise the largest obligations, that is, 67% for the former and 19% for the latter. It is observed that there are allocations of over Kshs. 400 million to the gratuity and monthly pension for Retired Deputy Presidents & other State Officers, details of which are not provided.

Table 6: Pension Obligation Expenses, FY 2019/20 – FY 2023/24

Item	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
Total Ordinary Pensions	48,171	55,240	64,099	69,549	82,934
Total Commuted Pensions	44,056	55,710	68,469	76,160	80,354
Sub-Total other Pension Schemes	262	192	242	242	242
Public Service Superannuation Scheme	-	-	20,830	25,877	28,465
TOTAL PENSIONS	92,489	111,142	153,640	171,828	191,994

Source: FY 2021/22 Budget Estimates

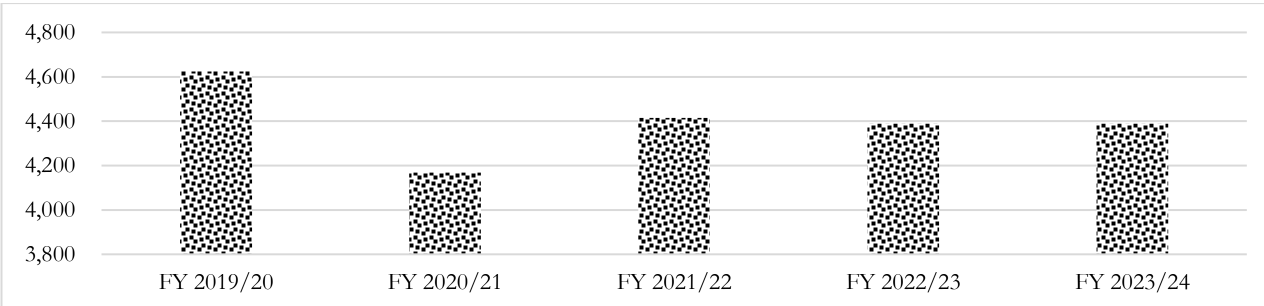
iv. Salaries, Allowances, Miscellaneous Services, & Subscriptions to International Organizations

60. The Salaries and Allowances (for Constitutional commissions and independent offices) and other expenditures such as Miscellaneous Services, Subscriptions to international organizations etc. account for approximately 0.3% of total CFS expenditures. In FY 2021/22, these expenditures will have increased by Kshs. 248 million to amount to Kshs. 4.4 billion, from Kshs. 4.17 billion. This increase is due to a 4%

[3] Part of pension reforms based on the Public Service Superannuation Scheme Act, 2012, in line with retirement industry best practice. The objective is to move from Current Pension Scheme (non-contributory) to Superannuation Scheme and converted all Defined Benefit Schemes to Defined Contributory Schemes. The PSSS commenced on 1st January 2021, affecting; P&P employees under 45 years or those above who opt to join, those entering P&P public service after January 2021, and staff transferred to counties.

factor increment on salary and allowances for key persons in institutions such as: the Judicial Department (Kshs. 207 million), Kenya National Commission on Human Rights (Kshs. 9.2 million), National Land Commission (Kshs. 5.4 million), Independent Electoral and Boundaries Commission (Kshs. 3.9 million), Commission on Revenue Allocation (Kshs. 3.2 million), among others.

Figure 7: Salaries, allowances & other expenses



Source: FY 2021/22 Budget Estimates

61. This category of expenditures declined in FY 2020/21 (From Kshs. 4.6 billion to Kshs. Kshs. 4.2 billion) due to the completion of settlement of debt guarantees for defaulting institutions[4]. However, it should be noted that there is a substantial amount of guaranteed stock of debt[5] and therefore the risk of contingent liability remains real.

62. In view of the foregoing, the following are the key issues:

i. There are indications that unless action to contain the fiscal deficit is taken, the current debt ceiling (Kshs. 9 trillion) is likely to be breached within the medium.

ii. Increasing CFS expenditure indicate a growing level of fiscal inflexibility and therefore increased exposure to fiscal risks or debt default, in absence of debt restructuring. That is, in FY 2021/22, CFS is estimated to account for 43% of the total annual budget and 65% of total revenue, up from 31% and 50%, respectively, in FY 2019/20.

iii. Debt repayment will likely pile up in absence of extension of the DSSI and further debt service suspension initiatives.

iv. There is need to increase provision of information on debt stock (including commitments not yet disbursed) and debt servicing.

[4] Tana-Athi Development Authority, East African Portland Cement and Kenya Broadcasting Corporation

[5] By December 2020, amounted to of Ksh. 171.7 billion against a ceiling of Kshs. 200 billion.

ANNEX 1: CFS EXPENDITURE TABLES

Table 1: CFS Summary Table (FY 2019/20 – FY 2023/24)

	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
Interest					
Internal debt interest	301,812	339,992	421,897	482,442	508,028
External Debt interest	131,868	118,748	138,365	161,022	187,057
Sub-total	433,680	458,741	560,262	643,463	695,085
Redemption					
Internal Debt redemption	213,691	361,955	346,810	436,623	457,165
External debt redemption	121,477	137,707	262,093	279,043	533,527
Sub-total	335,168	499,662	608,903	715,666	990,692
Pensions, Salaries, Allowances & Others	768,848	958,403	1,169,165	1,359,129	1,685,777
Pension	92,489	111,142	153,640	171,828	191,994
Salaries & Allowances	3,965	4,152	4,399	4,373	4,373
Miscellaneous Services	16	16	16	16	16
Guaranteed Debt	644	-	-	-	-
Subscriptions to international organizations	1	1	1	1	1
Sub-total	97,113	115,310	158,055	176,217	196,383
Total CFS Expenditures	865,961	1,073,713	1,327,220	1,535,346	1,882,160

Source: FY 2021/22 Budget Estimates

Table 2: Summary External Debt Redemption & Interest Payments - FY 2021/22 (Kshs. Millions)

External Debt Redemption			External Debt Interest Payments		
Creditor	Amount	% of Total	Creditor	Amount	% of Total
Germany	6,125	2%	Italy	2,704	2%
Italy	16,737	6%	Japan	1,029	1%
Japan	10,109	4%	IDA	13,184	10%
IDA	24,015	9%	ADB/ADF	3,836	3%
ADB/ADF	5,189	2%	New Loans	19,836	14%
France	12,880	5%	France	1,991	1%
Belgium	2,605	1%	Exim Bank of China	23,277	17%
EXIM Bank of China	73,423	28%	China Development Bank	3,166	2%
China Development Bank	19,515	7%	SPAIN	3,166	2%
Spain	2,396	1%	Debut International SVRNG Bond (USD 2.75 BN)	15,176	11%
TDB SYND	53,139	20%	2018 International SVRNG Bond (USD 2.0 BN)	17,389	13%
Others	35,960	14%	2019 International SVRNG Bond (USD 1.2 BN)	7,232	5%
Total	262,093		2019 International SVRNG Bond (USD 900 MN)	11,020	8%
			TDB SYND	16,091	12%
			Others	733	1%
			Total	138,365	

Table 3: Pension Expenses FY 2019/20 – FY 2023/24

Item	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
Monthly Pension - Civil Servants	30,725	36,054	40,260	43,214	51,424
Monthly Pension - Members of Parliament	947	1,221	1,488	1,737	3,257
Monthly Pension - Military	10,345	10,803	13,219	14,541	16,304
Monthly Pension - Retired Presidents	74	34	34	42	43
Monthly Pension -Retired Deputy Presidents & other State Officers	-	50	50	64	64
Pensions - Dependents	1,669	2,046	3,411	3,752	4,465
Quarterly Injury - Military	38	43	49	53	64
Refund Exgratia and Other Service Gratuities	-	0	0	0	0
Widows and Children - Military	1,402	1,600	1,792	1,971	2,346
Widows and Children's Pensions -Civil Servants	2,970	3,388	3,795	4,175	4,968
Total Ordinary Pensions	**48,171**	**55,240**	**64,099**	**69,549**	**82,934**
Gratuity - Civil Servants	29,495	43,598	50,541	55,621	55,927
Gratuity - Members of Parliament	1,300	983	983	1,827	2,174
Gratuity - Military	13,261	10,729	16,495	18,039	21,331
Gratuity - Retired Presidents	-	-	-	72	72
Gratuity - Retired Deputy Presidents & Designated State Officers	-	400	450	600	850
Total Commuted Pensions	**44,056**	**55,710**	**68,469**	**76,160**	**80,354**
Refund of Pension to UK Government	150	100	150	150	150
Refund of Contributions to WCPS and other Ex-Gratia	112	92	92	92	92
Sub-Total other Pension Schemes	262	192	242	242	242
Total Pensions Expenses	**92,489**	**111,142**	**153,640**	**171,828**	**191,994**

Source: FY 2021/22 Budget Estimates

ANNEX 2: LEGAL COMPLIANCE OF THE 2021/22 BUDGET

ITEM	CONSTITUTION	PFM ACT, 2012	PFM REGULATIONS, 2015	NATIONAL ASSEMBLY STANDING ORDERS	SCORE (OUT OF 2)	COMMENTS
1. Submission of estimates of revenue and expenditure of the national government, Parliament and Judiciary for the next financial year by 30th April	221(1), (3)	37(2)		235 (1)	2 out of 2	Submitted to Parliament on Thursday 29th April 2021
2. The ceilings approved in the report on 2021 Budget Policy Statement, shall serve as the basis of the expenditure ceilings for 2021/22 and medium term		25(8)	27(4)		1 out of 2	The expenditure estimates provided in the 2021/22 budget estimates, for the Executive development is 659.95 billion does not adhere with the ceiling in the adopted BAC report on 2021 BPS, which is 654.53 billion. In addition, the fiscal deficit including grants is at Ksh. 952.9 billion as compared to Ksh. 930 billion as approved by Parliament.
	DOCUMENTS SUPPORTING THE BUDGET ESTIMATES (BUDGET SUMMARY)					
3. The preparation and submission of estimates shall be done exclusively through prescribed automated integrated financial management systems (Itemized Budget).			32(6)		2 out of 2	Information provided
4. Submission of Budget Summary that includes a summary of budget policies on revenue, expenditure, debt and deficit financing		38(a)(i)			1 out of 2	Information provided. However, there is scanty information as to why the fiscal deficit has increased.

ITEM	CONSTITUTION	PFM ACT, 2012	PFM REGULATIONS, 2015	NATIONAL ASSEMBLY STANDING ORDERS	SCORE (OUT OF 2)	COMMENTS
5. Submission of Budget Summary that includes an explanation of how the budget relates to the fiscal responsibility principles and financial objectives		15,38(a)(i)(ii)	26(1)		1 out of 2	There is no information provided on tax policy initiatives to address areas where the tax base has been eroded to strengthen revenue mobilization.
6. Submission of Budget Summary that includes a memorandum by the cabinet secretary explaining resolutions adopted by National Assembly on the BPS under section 25(7) have been taken account		25 (8), 38(a)(iii)			2 out of 2	Information Provided
7. A list of all entities that receive funds appropriated from the budget of the national government		38(b)(i)			2 out of 2	Information provided
8. Estimates of revenue allocated to and expenditures projected from equalization fund guided by the CRA policy on marginalized areas	216(4)	38(b)(ii)			0 out of 2	Estimates of revenue allocated to and expenditures for 2021/22 not submitted to Parliament as required.
9. Revenue allocations to county governments including conditional and unconditional grants	202(2)	38(b)(iii)			2 out of 2	Information provided
10. Estimated revenue by broad economic classification and format		38(b)(iv)	59(1)		2 out of 2	Information provided
11. Estimated expenditure by vote & programme identifying both recurrent and development expenditures		38(b)(v)	32(4)		2 out of 2	Information provided
12. An estimate of budget deficit or Surplus and the medium term		38(b)(vi)			2 out of 2	Information provided
13. Information regarding loans made by the national government including principal interest and other charges to be received by		38(c)			2 out of 2	Information provided

ITEM	CONSTITUTION	PFM ACT, 2012	PFM REGULATIONS, 2015	NATIONAL ASSEMBLY STANDING ORDERS	SCORE (OUT OF 2)	COMMENTS
the national government in respect to those loans						
14. Loans and guarantees to be paid by national government in the financial year respect to those loans		38(d)			2 out of 2	Information provided
15. Information regarding payments to be made and liabilities to be incurred that need constitutional approval or legislative authority for such payments		38(e)			0 out of 2	No information provided
16. A statement showing measures taken by the national government to implement any recommendations made by the national assembly with respect to budget for the previous years		38 (f)			1 out of 2	Information provided is limited. Some of the recommendations made by the national assembly seem to be moving targets for National Treasury
	PUBLIC PARTICIPATION					
17. Public participation on all public matters including the publication of the Citizen's budget	201(a)		6(2)		0 out of 2	No citizen's budget uploaded on National Treasury's Website
Total					**70.6 percent**	

ANNEX 3: COMPLIANCE TO HOUSE RESOLUTIONS ON THE 2021 BUDGET POLICY STATEMENT AND PAST BUDGET ESTIMATES

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
No.	2021 BUDGET POLICY STATEMENT	
1	**THAT**, the National Treasury develops a policy to enable the reduction of unproductive and non-targeted tax waivers and tax breaks in order to protect revenue. This should be submitted to the National Assembly alongside the 2021/2022 budget estimates by 30th April 2021.	**Partly Complied.** **The National Treasury is developing a draft policy that will be submitted to the Cabinet for approval before it's submission to Parliament.**
2	**THAT**, the National Treasury reviews the compendium of government projects and considers deferment of new projects by one financial year while ensuring adequate counterpart funding and provision of funds for stalled projects before finalization of the budget estimates for the FY 2021/2022.	**Partly Complied.**
3	**THAT**, during finalization of the budget estimates for the FY 2021/2022, the National Treasury should take into account the pending bills and ensure that these are adequately provided for within the approved expenditure ceilings.	**Partly Complied.**
4	**THAT**, the National Treasury restructures State-Owned Enterprises (SoEs) especially the highly indebted ones which are unable to meet their operational costs with a view to privatizing them by end of the FY 2021/2022 in order to put them on a sound economic footing.	**Not Complied.**
5	**THAT**, during the finalization of the FY 2021/2022 budget estimates, the resources allocated for all international trade functions under the Ministry of Foreign Affairs be transferred to the State Department of Trade and Enterprise Development in order to be in line with assignment of functions as per the Executive Order No. 1 of 2020.	**Complied.**
	THAT, for the avoidance of doubt and after consultations with the National Treasury, the Committee has approved the debt mix ratio of 57:43 of external to domestic borrowing as provided for in the MTDS. This strategy provides the optimal debt and is also consistent with key provisions of Section 50 of the PFM Act, 2012. Specifically, the law requires that, the National Government shall ensure that its financing needs and payment obligations are met at the lowest possible cost in the market which is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable.	**Not Complied.**
6	**THAT**, the National Treasury should stick to its plan to reduce the stock of Treasury bills by Kshs. 200 billion. In the next 30 days following the adoption of this Report, the National Treasury should report to the National Assembly how this has been achieved and also on the progress on average time to maturity on domestic debt. Further, the National Treasury should ensure the retirement of overdraft facility at the Central Bank of Kenya at the end of any Fiscal Year.	**Partly Complied.**
7	**THAT**, in future, the National Treasury ensures that the borrowing strategies contained in the BPS and the MTDS are aligned in accordance with the provisions of section 33 of the PFM Act, 2012.	**Not complied.**

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
8	**THAT**, the sectoral policy recommendations annexed as annex 1 to the Report, being a compendium of the policy observations and recommendations of the fifteen Departmental Committees, forms part of the recommendations of this House.	**No information provided to the extent of compliance with Parliament Resolution.**
	FINANCIAL RESOLUTIONS ON THE 2021 BUDGET POLICY STATEMENT	
10	**THAT,** the revenue target for the FY 2021/22 be set at no less than Kshs. 2,034 billion, with ordinary revenue target being set at Kshs. 1,775.6 billion.	**Complied**
11	**THAT,** the fiscal deficit (including grants) approved by Parliament for the FY 2021/22 is pegged at Kshs. 930.0 billion or 7.5% of GDP, whichever is lower. Any increase of the fiscal deficit beyond what has been approved in the BPS for FY 2021/22 will **NOT** be approved by Parliament.	**Not Complied.**
12	**THAT,** consistent with the debt mix that ensures there is low cost and minimizes risk, Net Foreign Financing be limited to Kshs. 530 billion, while Net Domestic Financing be set at Kshs. 399.9 billion.	**Not Complied.** **Net foreign financing = Ksh. 291.3 billion.** **Net Domestic Financing =661.6 billion.**
13	**THAT,** the ceiling for Parliament and the Judiciary be set at Kshs. 37,882.7 million and Kshs. 17,918.3 million, respectively.	**Not Complied.** **Parliament budget submitted is Ksh. 46.6 billion.**
14	**THAT,** having considered the unfunded requests from the Departmental Committees amounting to Kshs. 240 billion, the Committee has identified critical expenditure needs that require urgent funding amounting to Kshs. 46.8 billion as set out in Schedule 1 of the Report. More importantly, any revenue-raising measures contained in the Finance Bill, 2021 **SHALL** be earmarked to fund the aforementioned priority areas.	**Not Complied.**
15	**THAT,** the allocation to the Equalization Fund of Kshs. 6.825 billion be approved as provided in the Budget Policy Statement.	**Partly Complied.**
16	**THAT**, county governments be allocated Kshs. 409.88 billion for FY 2021/2022 of which, the County Government Equitable share shall amount to Kshs. 370 billion.	**Complied**
17	**THAT,** the expenditure ceilings for the FY 2021/2022 budget be approved as set out in Schedule 2 of the Report. For the avoidance of doubt, these ceilings shall be binding and the National Treasury should prepare the budget estimates within these binding constraints.	**Partly Complied.**
	SECTORAL POLICY RESOLUTIONS	

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
18.	**THAT,** with regard to property acquisition in foreign missions and especially where renting is more expensive than ownership of the property, the National Treasury should allocate funds progressively to acquire the property in a cost-effective manner. In addition, the Ministry of Foreign Affairs should develop an asset acquisition, maintenance and management policy, which provides for uniform design and standards for its mission buildings, not later than 31st July 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
20.	**THAT,** the CS National Treasury should exempt the Ministry of Foreign Affairs from the centralization policy on ICT funding as it is impossible to implement it in foreign missions. This should be effected from the 1st July, 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
21.	**THAT,** by December 2021, Parliament should approve legislation to streamline functions that are currently carried out by Regional Development Authorities and to define which ones should be devolved and which ones should remain at the National Government. This will reduce the budget for the Regional Development Authorities.	**No information provided to the extent of compliance with Parliament Resolution.**
22.	**THAT**, the Cabinet Secretary for the State Department for Interior and the Inspector General of Police should take a phased approach to operationalization of sub-county headquarters and police stations, taking into consideration the security concerns of the area and the level of service delivery across the country.	**No information provided to the extent of compliance with Parliament Resolution.**
23.	**THAT**, the Cabinet Secretary for Interior should develop policy guidelines on the distribution of leased vehicles between the sub-counties with a view of enhancing efficiency in service delivery before finalizing the budget estimates for FY 2021/22.	**No information provided to the extent of compliance with Parliament Resolution.**
24	**THAT,** the policy on recruitment in Public Service and internship programme should be decentralized by 31st December, 2021, to make it cost effective for interviewees who reside outside Nairobi.	**No information provided to the extent of compliance with Parliament Resolution.**
25	**THAT,** in line with the House resolution in the Budget for FY 2020/21, the Judiciary should be allowed to collect AIA. Further, the National Treasury should operationalize the Judiciary Fund by 1st July, 2021, in line with Article 173 of the Constitution.	**No information provided to the extent of compliance with Parliament Resolution.**
26	**THAT,** the Cabinet Secretary, Ministry of Lands and Physical Planning should develop a Land value index in the 18 Counties (Nairobi, Tana River, Kwale, Murang'a, Laikipia, Uasin Gishu, Trans Nzoia, Nyeri, Embu, Kirinyaga, Makueni, Kitui, Tharaka Nithi, Nakuru, Kiambu, Meru, Machakos and Nyandarua) to reduce the cost of acquisition of land by the Government for the development of infrastructural projects by July 2022.	**No information provided to the extent of compliance with Parliament Resolution.**
27	**THAT,** the Cabinet Secretary, Ministry of Lands and Physical Planning should complete the development of an integrated digital revenue collection system by July 1st 2021, to eliminate revenue collection leakages and ensure that the Ministry meets its revenue collection targets.	**No information provided to the extent of compliance with Parliament Resolution.**

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
28	**THAT,** the State Department of Trade and Enterprise Development budgetary vote be restructured to include the following 3 programmes; General Administration, Support Services and Planning; International Trade Promotion and Development; and Domestic Trade and Enterprise Development before finalization of the budget estimates 2021/22. This will ensure efficiency and effectiveness in achieving the State department's targets and mandate.	**No information provided to the extent of compliance with Parliament Resolution.**
29	**THAT,** the State Department of Trade and Enterprise Development should restructure the model of the foreign trade representatives (FTRs) network in order to improve the country's commercial/trade presence in commercial centers in existing and potential export markets with an aim to provide for a more responsive foreign trade representation. The proposal should include and not limited to terms of engagements for the FTR's. The State Department should submit the proposals for approval to the National Assembly on or before 30th April, 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
30	**THAT,** the State Department for Social Protection should fast track the ongoing effort to develop a policy and legal framework for the operation of the National Safety Net Program and ensure that it is finalized by 1st July 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
31	**THAT**, the State Department for Labour needs to streamline the The *Kazi Mtaani* project and align it to the national agenda, with the aim of creating skilled youth and ensure the vulnerable youth benefit from it.	**No information provided to the extent of compliance with Parliament Resolution.**
32	**THAT,** the National Treasury should ensure immediate implementation of the Equalization Fund by expediting the process of publishing the requisite Statutory Instrument. The outstanding balances should be factored in the Estimates for the FY 2021/22 budget by 30th April, 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
33	**THAT,** by 31st December 2021, the State Department for Crop Development and Agricultural Research should have fully implemented the e-voucher system in order to allow farmers to access the subsidized agricultural inputs.	**No information provided to the extent of compliance with Parliament Resolution.**
34	**THAT,** the prioritization of the blue economy should incorporate projects within the inland waters and not just along the ocean.	**No information provided to the extent of compliance with Parliament Resolution.**
35	**THAT,** the Ministry of Education and the Teachers Service Commission should, within the next three months, submit to the National Assembly their plan of action and proposed strategy on provision of both teaching and infrastructure resources given the anticipated double intake in in secondary school in 2023 as a result of concurrent implementation of the CBC and the 8-4-4 curriculum.	**No information provided to the extent of compliance with Parliament Resolution.**
36	**THAT,** the Ministry of Education should submit to the National Assembly quarterly reports on the distribution of school infrastructure funds. The report should include, among other things, the criteria used to identify the schools, the facility supported and the allocation provided. Further, the Ministry should quarterly publish in their website the names of the schools per county which have benefited for public scrutiny. Similarly, quarterly reports should be provided on the distribution of desks in learning institutions. Notably, there should be equity in distribution of school Infrastructure.	**No information provided to the extent of compliance with Parliament Resolution.**
37	**THAT,** the Ministry of Education should prioritize soft issues notably those brought about by the covid pandemic such as the high rate of girls dropping out of school, mental health challenges and drug abuse among students due to the pandemic.	**No information provided to the extent of compliance with Parliament Resolution.**

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
38	**THAT,** the functions of the Curriculum Development Assessment and Certification Council (CDACC) should not be transferred to the Kenya Institute of Curriculum Development (KICD) and Kenya National Examination Council (KNEC) before the relevant law is amended.	**No information provided to the extent of compliance with Parliament Resolution.**
39	**THAT,** the higher education sub sector should establish and implement the university education data management information system, by December, 2021, to promote accountability and improve management of disbursed funds. This university data management system should also be linked to the National Education Management information systems (NEMIS) to create a pool of credible data for the whole education sector.	**No information provided to the extent of compliance with Parliament Resolution.**
40	**THAT,** the Ministry of Education should align the university capacities with industrial needs in addition to developing a rightsizing policy by December, 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
41	**THAT,** to leverage ICT in the place of work as an overarching policy in the public sector, the State Department for ICT & Innovation should develop a Post Covid-19 ICT strategy by end of 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
42	**THAT**, the regulatory framework and policies on data protection and processing should be developed by the Office of Data Protection Commissioner for full operationalization of the office. The enactment of supportive legislations and policies should be fast tracked by the Committee for subsequent institutionalization and enactment before the end of 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
43	**THAT,** the Ministry of Energy should review the Independent Power Producers Agreements and come up with a plan to exit expensive contracts that do not meet the USD 5 cent/Kilowatt requirement in order to ensure cheaper energy by December, 2021. The legal implication of exiting these agreements should however be considered.	**No information provided to the extent of compliance with Parliament Resolution.**
44	**THAT,** the National Government should develop measures to aid KPLC in debt collection related to accrued power charges owed to the institution in order to safeguard the financial integrity of the KPLC. These measures should be developed by June 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
45	**THAT,** the government should explore ways of procuring of transformers and other equipment in an efficient manner in order to reduce the cost of energy, with a view of increasing connectivity to public institutions in the Constituencies. This policy should be designed by December 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
46	**THAT,** the Energy Power Regulatory Authority (EPRA) should regularly review the lifeline charges of electricity in order to lower the cost of power.	**No information provided to the extent of compliance with Parliament Resolution.**
47.	**THAT,** within FY 2021/2022, the State Department of Mining should conclude the formalization of artisanal mining operations in the country to minimize haphazard operations that lead to conflicts among local communities. Additionally, during the finalization of the Budget Estimates 2021/2022, the Ministry should provide clear activities to be carried for the operationalization of the Mining Act 2016.	**No information provided to the extent of compliance with Parliament Resolution.**

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
48.	**THAT,** the State Department for Mining, in conjunction with relevant government agencies, should fast-track the National Airborne Geophysical Survey project and establishment of a Geological Data Bank in order to update geological and mineral data to foster the potential of the sub-sector to contribute to the GDP and employment creation.	**No information provided to the extent of compliance with Parliament Resolution.**
49.	**THAT,** the Kenya Forest Service (KFS) should consider lifting the moratorium on forest logging within the 2021/22 FY in order to harvest mature trees which would help raise much needed revenues. Further, the KFS should withdraw from commercial plantations and gradually convert the 134,000 hectares of commercial plantation into natural forest by restoring the cleared land with indigenous trees.	**No information provided to the extent of compliance with Parliament Resolution.**
50.	**THAT,** within the FY 2021/2022, the State Department for Wildlife should adopt a prompt payment policy with regard to compensation on claims arising from human wildlife conflict which have increased recently due to the effects of climate change.	**No information provided to the extent of compliance with Parliament Resolution.**
52.	**THAT,** the Ministry of Health submits a report to the National Assembly on the progress made in undertaking reforms in the NHIF to transform it into a social health insurer for smooth implementation of UHC. This should be undertaken by 30th April 2021.	**No information provided to the extent of compliance with Parliament Resolution.**
53.	**THAT,** by 31st December 2021, the Ministry of Health should develop a policy on alternative medicine with a view to promoting the use of natural products for medicinal purposes.	**No information provided to the extent of compliance with Parliament Resolution.**
	THE ESTIMATES OF REVENUE AND EXPENDITURE FOR 2020/21 AND THE MEDIUM TERM	
54.	**THAT,** all future requests for expenditure approval under Article 223 of the Constitution must be accompanied by proof of payment;	**Not Complied**
55.	**THAT,** resources being expended under the COVID-19 Emergency Response Fund be appropriated through the National Assembly in order to be subject to legislative scrutiny and oversight;	**Not Complied**
56.	**THAT,** all donor financing which may have been left out when the budget was submitted be included as the Appropriation Bill is finalized;	**Complied**
57.	**THAT,** resources allocated to projects arising from public participation and other critical road interventions be ring fenced and the Ministry concerned to engage with the relevant Members of Parliament for proper implementation;	**Complied**
58	**THAT,** the project on the rehabilitation of wells, water pans, underground tanks in ASAL using locally available labour under the Kenya Post Covid 19 Stimulus Programme be taken to the agency that has the technical expertise, that is; the project be moved from the State Department for Regional and Northern Corridor Development to the Ministry of Water & Sanitation and Irrigation. This will also enhance efficiency in resource utilization and remove duplication of projects by many agencies; and	**Complied**
59.	**THAT,** the small allocations under National Expanded Irrigation programme and Community Based Irrigation Programme to be listed as block figures in the printed estimates for efficiency in projects implementation under the two respective programmes;	**Complied**

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
60.	**THAT,** the Program Based Budget (PBB) budget be revised accordingly to reflect the changes made by the House. In addition, all the budget books and the attendant documents for budget implementation be submitted to the National Assembly 7 days after enactment of the Appropriation Bill.	**Partly complied. The budget books were submitted more than 7 days after the enactment of the Appropriation Bill.**
	SUPPLEMENTARY ESTIMATES NO. 1 FOR THE FINANCIAL YEAR 2020/21	
61.	**THAT**, within the next six months, the National Treasury should provide funds and a clear road map for the completion of all stalled projects and present this information to Parliament.	**Not Complied.**
62.	**THAT**, to avert incomplete projects, the National Treasury should request the Office of the Auditor General to carry out an audit of ongoing projects that have been affected with budget cuts by April 2021, with a view of funding these projects in FY 2021/22 budget.	**Not Complied.**
63.	**THAT**, the new projects in the Supplementary budget 1 FY 2020-21 should be deferred to FY 2022/23.	**Not Complied**
64.	**THAT**, during the finalization of the budget estimates for 2021/2022, the National Treasury should set aside funds for the settlement of all pending bills and court awards.	**Not Complied.**
65.	**THAT**, upon approval of the Supplementary budget 1 FY 2020-21, the MDAs and National Treasury should revise the outputs and performance targets to realign with the increase or decrease in budgetary allocations for various programmes.	**Not Complied.**
66.	**THAT**, for the next supplementary budget, the National Treasury should ensure adequate consultations with the MDAs before supplementary changes are effected on the budget.	**Complied.**