PARLIAMENTARY SERVICE COMMISSION

PARLIAMENTARY BUDGET OFFICE

Unpacking the Estimates of Revenue and Expenditure for 2022/2023 and the medium term

MAY 2022

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I. THE 2022/2023 BUDGET IN CONTEXT

1. **The 2022/2023 budget will be implemented during a transition period hence the pressure of having to complete the on-going programs while creating fiscal space for implementation of the new policy discourse.** The budget not only coincides with the first year of the new government after the upcoming general elections, but also concludes implementation of the third Medium Term Plan and ushers in the fourth Medium Term Plan. The challenge of the 2022/2023 budget therefore, is to midwife the two processes smoothly. There is pressure to complete ongoing projects while at the same time ensuring that the budget provides a sound platform of operation for the next five years.

2. **The 2022/23 budget has been prepared against a background of significant internal and external economic shocks.** Internally, the country is experiencing the effects of a fourth consecutive below-average rainfall season which has adversely affected crop and livestock production. It is reported that since August 2021, there has been a 48 percent increase in food-insecure people (estimated at 3.1 million in February 2022)[1]. The persistence of drought conditions could potentially hamper agricultural production leading to lower economic growth and reduced export earnings. The budget should have therefore provided significant resources towards drought mitigation measures such as relief food as well as investing significantly in long term food security measures such as provision of quality inputs (seeds and fertilizers); and stocking up of the Strategic Food Reserve. This is however not observed to be the case in the budget proposals.

3. Externally, the Ukraine-Russia conflict portends significant risks to the economy. Kenya is the fourth largest trading partner with the Russian Federation in Sub-Saharan Africa and relies on Russia for import of wheat, fertilizers, iron and steel, and paper. On its part, Ukraine is a major exporter of grains in the world market and over the years, Kenya has imported cereals, oilseeds and seeds, animal/ vegetable fats and oils from Ukraine. The Russia-Ukraine conflict is likely to bring about significant trade and supply chain disruptions with adverse effects on both the global and domestic economy.

4. **In its agreements with development partners, Kenya has agreed to meet certain fiscal and monetary targets. In its agreement with IMF, performance benchmarks** 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. A review of the 2022/2023 budget indicates continued expansion of the fiscal deficit above the agreed levels over the medium term. It is further noted that the expenditure increase that has necessitated expansion of the deficit is mostly in recurrent rather than development expenditure. The status of rationalization of public investments as an agreed upon performance benchmark remains unclear even though a list of projects has been provided. The status of

[1] FEWSNET, Kenya Food Security outlook, February to September 2022

other proposed measures such as restructuring of state-owned enterprises and reforms under revenue administration also remains unclear.

II. CRITERIA FOR ASSESSING THE 2022/2023 BUDGET

5. To be able to determine the extent to which the budget has met its intended objective as well as highlight any fiscal and budgetary risks therein, the analysis adopted a **four-point judgement criteria** for assessing the budget. The aim of the criteria is to assess the prevalent strengths of the budget while highlighting gaps and inadequacies that need to be addressed in order to strengthen budget performance.

a) **Adherence to the legal provisions:** This criterion evaluates whether the budget documents submitted adhere to the provisions of the constitution, Public Finance Management Act, PFM regulations and National Assembly standing orders and any other relevant pieces of legislation.

6. The Estimates of Revenue and Expenditure for FY 2022/23 were submitted to parliament on 7th April 2022 in adherence to the requirements of Article 221 of the Constitution; sections 15, 25, 37(2) and 38 of PFM Act, 2012; Sections 26, 27,32 &59 of the PFM Regulations 2015; and National assembly Standing Order 235 that requires that the documents be tabled before 30th April of every year. The documents submitted met most of the legal requirements except for the following notable gaps: -

i. The variance in budget estimates for the Executive from the ceilings approved by Parliament in the 2022 BPS is contrary to section 25(8) of the PFM Act which provides that the budget ceilings approved in the BPS should form the basis for finalization of the budget estimates. It is however noted that the expenditure variance from the BPS ceilings is partly due to an increase in donor funding. The PFM also provides that the Outer years projection should be in line with the BPS and that is not the case.

ii. There is no explanation as to why the overall deficit has increased compared to the approved deficit level from the 2022 BPS. This contravenes section 38(a)(1) of PFM that requires the budget documents to provide a summary of budget policies on revenue, expenditure, debt, and deficit financing.

iii. Many of the National Assembly Resolutions made during the approval of the BPS have not been adhered to contrary to Section 38 (1)(f) of the PFM, Act, 2012.

b) **Comprehensiveness and credibility:** This criteria reviews whether the documents submitted to Parliament adheres to the set form and format and whether information provided is comprehensive and credible enough to inform policy.

Documentation submitted
The National Treasury tabled the following documents: ▪ The Budget Summary for FY 2022/23 and the supporting information ▪ The Estimates of Revenue, Grants and Loans for the FY ending 2023

Documentation submitted
▪ 2022/2023 Annex of estimates of revenue and expenditure for state corporations of the government of Kenya for FY ending June 2023 ▪ Financial statement of the National Government for the FY 2022/2023 ▪ List of Projects 2022/23 ▪ Recurrent expenditure vol. I and II ▪ Development expenditure vol. I, II and III ▪ The programme based budget 2022/2023 and the medium term
Observation
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. **Gaps:** ▪ Equalization fund estimates of expenditure for FY 2022/23 have not provided contrary to legal provisions (Constitution Article 216(4); PFM section 38(b)(ii). The National Treasury attributes this to the fact that projects to be financed under the second policy have not yet been identified. The Equalisation Fund Advisory Board was recently constituted and is expected to operationalize the fund. ▪ Non-adherence of the Executive budget estimates to BPS ceilings and widening of the fiscal deficit without concrete explanation.

c) **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.

7. The Budget Policy Statement sets out broad policy objectives for the government for a particular financial year and the medium term. Its therefore important to review the commitment of the government to the set objectives over the medium term including ensuring medium term fiscal targets are not just a moving target. A review of the projections of BPS 2020, BPS 2021 and 2022 BPS vs the FY2022/23 Budget Estimates indicates clearly indicates that the medium term projections provided in BPS for outer years keep on changing. This means that most of the medium-term goals continue to be moving targets.

8. The 2022/2023 budget is anchored on three key policy documents: The Medium Term Plan III which is also the anchor document for the Big Four Agenda; the Post-Covid Economic Recovery Strategy (ERS) and the Economic Stimulus Programme (ESP). This is broadly in line with the policy thrust of the 2022 Budget Policy Statement which was also anchored on these policy interventions. The post-Covid ERS was developed in August 2020 and was first introduced in the 2020/2021 budget as a key policy document to mitigate against the impact of the coved pandemic and set the economy back on a rapid growth trajectory consistent with the projection in Vision 2030 and its third Medium Term Plan. However, although reference to the document has become a recurring feature in subsequent budgets, it has never been submitted to Parliament for consideration and approval and its implementation is not monitored.

9. Further, the government is implementing the third Economic Stimulus Programme (ESP) which was first introduced in the first supplementary budget for 2021/2022. The strategic ESP interventions are anchored in the MTP III, to achieve a resilient and sustainable economic recovery. The ERS and the ESP thus appear to overlap and duplicate policy interventions. Ideally, focus should have been on implementing the economic recovery strategy which is a medium term document with long-term policy interventions rather than an ESP which by its nature should be targeted and time-bound. Indeed, most of the proposed ESP interventions are part of the MTP III/Big Four agenda and are therefore not new. For example, the e-voucher subsidy, the credit guarantee scheme (Kshs. 1B) and provision of finances to SMEs in manufacturing sector through KIE (Kshs. 604 million) are ESP as well as Big Four interventions

d) **Assessment of Allocative Efficiency:** This criterion evaluates whether development budget proposals are guided by the long term national developmental agenda. Have the available resources been optimally prioritized to finance development programmes that have the highest social and economic outcomes?

10. The allocation for development expenditure stands at 34 percent of the national government budget, this is in line with the fiscal responsibility principles in Section 15 of the PFM Act, 2012 requiring that development expenditure be at least 30 percent of the budget.

11. Currently, the National Government is implementing over 4,477 projects across various MDAs. Bulk of these projects are in the infrastructure sector. As of 30th June 2022, it is estimated that the total outstanding resource requirement for completion of these projects will be at least Kshs. 5,249 billion[2]. The planned development resources for the FY 2022/23 to FY 2024/25 is equal to Kshs 2,770 billion assuming that no new projects will be introduced in the period. This therefore means that over the medium term some projects may not be completed as prescribed.

12. In addition, despite the National Treasury having provided a list of projects to be undertaken in the FY 2022-23 and the medium term, a review of status of implementation has not been provided. There is no status report indicating projects that are either stalled or completely abandoned. As such the rate of completion of capital projects cannot be ascertained. This makes it difficult to justify the value for money in the development budget allocation.

III. REVIEW OF THE MACROECONOMIC FRAMEWORK UNDERPINNING THE 2022/23 BUDGET

a. Economic Growth Outlook

13. The National Treasury projects that the economy will grow by **6.0 percent in 2022**, supported by a stable macroeconomic environment; favourable weather conditions to support agricultural output and drive food processing; and the continued recovery in industry and services. From an expenditure perspective, private consumption is expected to support aggregate demand. Additionally, the growth outlook will be reinforced by the ongoing implementation of the strategic priorities of the government in the MTP III, the Big Four agenda, the Economic Recovery Strategy and the Economic Stimulus Programme.

[2] PBO compendium of Projects, 2022

14. It is noted however that there are inherent risks in each of these economic growth fundamentals. These are as follows:

   a. Erratic weather patterns will adversely affect agricultural production:

      a) The country is currently experiencing a fourth consecutive below-average rainy season which has exacerbated drought conditions and food insecurity across the country. As at February 2022, it was estimated that there are approximately 3.1 million food insecure people in pastoral and marginal agricultural areas. The late onset and poor distribution of the March-May long rains season is expected to result in below average crop production especially in the marginal agricultural areas thereby worsening the food security situation. Declining pasture and water sources has also led to loss of livestock and reduced dairy production.

   ii. Possible supply chain disruptions will adversely affect some economic activities:

      a) The Russia-Ukraine conflict could potentially disrupt supply of various products due to the role that the two countries play in the global economy and Kenya's trade linkages with the two countries. Kenya imports wheat, fertilizer, iron and steel, and paper from Russia. Equally, Kenya has imported cereals, oilseeds and seeds, animal/ vegetable fats and oils from Ukraine. The Russia-Ukraine conflict could disrupt the supply chain of these commodities leading to scarcity and higher commodity prices. Already, there is a reported global surge in steel prices and the Russia-Ukraine conflict is a contributing factor.

      b) Domestically, the construction sector has recently experienced a significant increase in the prices of cement, iron sheets and deformed steel bars. This cost is attributed to high taxation, high cost of electricity, high fuel cost and rising global costs of raw materials[3] such as clinker which is used in cement production and iron ore which is a key ingredient of steel. With the continued increase in global steel prices, the high construction costs may cause construction projects to stall. Additionally, there is a likelihood of scarcity of cereals (especially wheat), seeds, fats and oils in the country.

   iii. Increasing food and fuel prices could reduce purchasing power especially for middle to low income households thereby reducing private consumption:

      a) At the beginning of the year, Kenyans expressed concern at the perceived rising cost of living and prevailed upon the government to lower food prices. There has been a notable increase in the price of basic food commodities such as cooking oil, maize flour, milk, bread, fruits and vegetables. Food inflation has been on an exponential increase since the beginning of the year and is currently estimated at 9.92%, up from 8.89% in January 2022. The prices of food items in 2022 were relatively high compared to January 2021. Going forward, underperformance of the March-May long rains season will likely lead to food scarcity and even higher food prices.

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[3] **Nation (2022), why prices of cement, steel have doubled. Retrieved from https://nation.africa/kenya/business/why-prices-of-cement-steel-have-doubled--3770770**

b) Furthermore, the recent increase in price of petrol, diesel and cooking gas has contributed to higher fuel inflation leading to an increase in the transport index. Going forward, the rising global oil prices are likely to continue exerting upward pressure on domestic fuel inflation which will increase production costs and transportation costs.

c) **Inflation, especially food inflation, disproportionately affects low-income earners.** This is because they are likely to spend a bigger portion of their income on basic commodities. An increase in the prices of these commodities not only reduces the size and composition of their consumption basket but also erodes the value of their real wages and savings. On average, the rate of inflation in a low-income household is higher than in a high-income household. The erosion in purchasing power implies lower consumption which could potentially reduce economic activity and therefore lower economic growth.

iv. Increased cost of production due to increased input prices (fuel, commodity prices) will lead to higher cost of final goods thereby reducing aggregate demand:

a) An increase in commodity prices implies higher cost of raw materials, which translates to higher production costs. Furthermore, higher fuel prices typically push up production costs due to the use of fuel-operated machines, higher electricity prices (due to higher fuel cost adjustment charges) and higher transportation costs. If this price increase is sustained for an extended period and with the concurrent increase in food and basic commodity prices, the quantity demanded of other goods is likely to decrease leading to a decline in general economic activity.

v. Election related challenges could lead to a slowdown in private investment:

a) The 2022 election will bring about a change in regime with new policies and ideas to be implemented. This has an impact on investment decisions as investors are likely to wait for the outcome of the elections before making any major decisions. Thus foreign direct investment (FDI) may not increase significantly at least until after the elections. That is why Kenyans should invest in having a smooth election and peaceful handover to the new government.

b) Electoral related spending also tends to result in higher inflation levels due to an increase in money circulating in the economy. This combined with other aforementioned supply side inflationary pressures could have an adverse impact on economic growth.

iv. Likelihood of reduced export earnings:

a) Kenya exports cut flowers, tea, fruits and vegetables to Russia, Ukraine and the rest of Eastern Europe. Russia is among the top 5 importers of Kenya coffee while Ukraine, Poland

and Kazakhstan are emerging new markets. Should the conflict persist, therefore, it means that Kenya's exports in these potential markets will be substantially subdued leading to lower export earnings.

b) The risk also extends to likelihood of reduced earnings from the tourism sector. This being an election year, the country is likely to experience a slowdown in the arrival of tourists until after the elections. It is noted that the tourism sector was the hardest hit by the Covid-19 pandemic[4] with a decline in international visitor arrivals by 71.5 percent and a decline in export earnings by 43.9 percent. The sector has not yet fully recovered. It is further noted that Eastern Europe had been identified as a potential source of tourists with popularization initiatives undertaken in Russia, Ukraine, Poland, Belarus and Czech among others. Indeed, in the recent years, there has been an increase in tourist arrivals from these destinations. Thus, the Russia-Ukraine conflict could water down these efforts.

Taking all these factors into account, it is projected that the economy will grow by 4.9 percent[5] in 2022.

b. Outlook of key macroeconomic variables:

i. inflation

15. **Since the start of FY 2021/22, overall inflation has averaged 6 percent and was mainly driven by food inflation (see figure 1).** The contribution of food and non-alcoholic beverages to overall inflation has increased from 47.1 percent in July 2021 to 61.2 percent in April 2022 with food inflation recorded at a 5-year high of 12.2 percent in April 2022. This is attributed to seasonal weather changes that resulted in low food and forage production and consequently an increase in prices of cabbages, spinach, tomatoes, onions, Irish potatoes, oranges, and milk during this period. In addition, there was an increase in the prices of cooking oil and wheat flour due to higher import prices, reflecting reduced international supply of palm oil[6], edible oil from South-East Asia and wheat[7] from Russia and Ukraine. This has therefore made the food basket more expensive with increased retail prices of vegetables, milk, bread, and cooking oil.

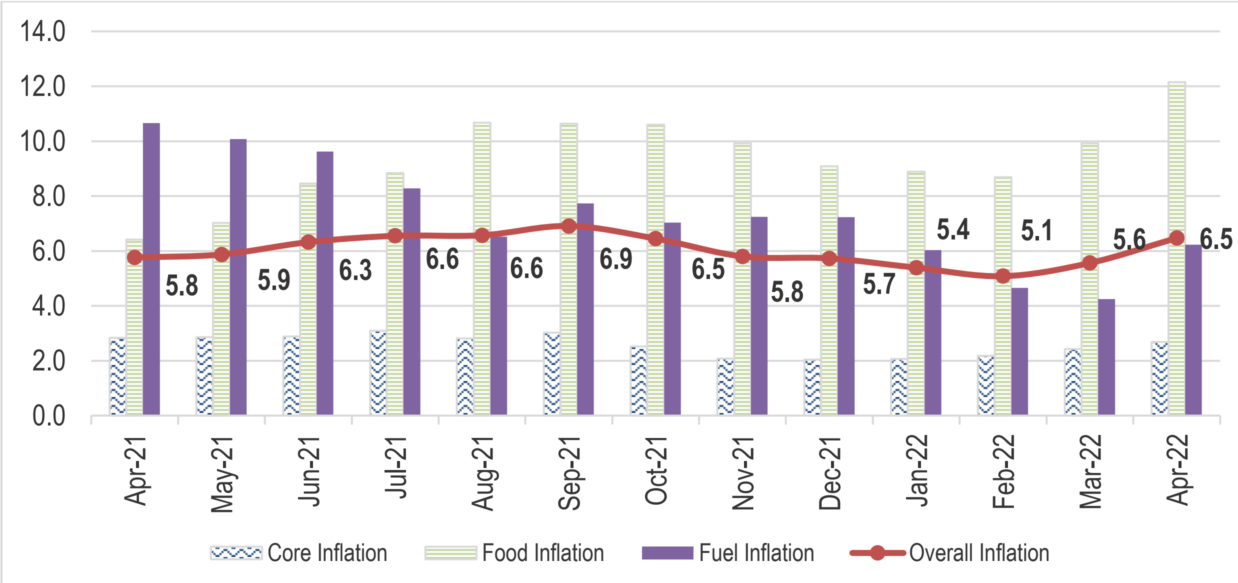
[4] **2021 Economic Survey**

[5] PBO projection

[6] Indonesia, one of the World's largest exporters of crude palm oil, banned its export in April 2022. Non-edible palm oil is used as an input in making soaps and detergents.

[7] Kenya imports an estimated 90 percent of its wheat from Russia and Ukraine

Figure 1: Trend in Inflation



Source: KNBS, PBO

16. **Fuel inflation declined during the 2021-22 financial year due to Government's fuel subsidy[8] but is likely to increase significantly, going forward.** Fuel inflation declined from 8.3 percent in July 2021 to 4.2 percent in March 2022 while the contribution of the transport category to overall inflation declined from 16.1 percent to 6.7 percent during the same period. The Murban ADNOC crude oil prices increased from USD 73.5 per barrel in July 2021 to USD 85.4 per barrel by January 2022 and this was reflected by higher landed costs of super petrol, diesel and kerosene. However, fuel prices were kept artificially low due to the government fuel subsidy which was a compensation out of the Petroleum Development Levy estimated between Kshs. 14 and Kshs. 28 per litre.

17. Going forward, higher international crude oil prices could render the fuel subsidy unsustainable leading to higher fuel inflation in the coming months. Already, in April 2022, fuel inflation rose to 6.2 percent with shortages in the retail supply of petrol and diesel which was attributed to delayed payment of the fuel subsidy.

18. **The overall inflation outlook is bleak and is projected to edge closer to the upper target bound of 7.5 percent.** The key risks emanate from higher fuel inflation as international crude oil prices are expected to increase in 2022[9] and may further be exacerbated by unsustainable fuel subsidy by Government. This is coupled with a higher food inflation resulting from high food prices due to expected below average long-rains that will affect food and livestock production; increased international commodity

[8] As at April 2022, the Government has disbursed Kshs. 49 million for the subsidy
[9] World Economic Outlook, April 2022

prices of imports such as wheat and cooking oil and the seep-through effects of high fuel prices to prices of food.

Table 1: Contribution to the Overall Inflation

Category	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22
Food & Nonalcoholic Beverages	47.1	56.5	53.3	56.6	56.5	54.6	57.0	58.6	61.7	61.2
Alcoholic Beverages, Tobacco & Narcotics	1.5	1.4	1.5	1.8	1.8	1.9	2.2	2.2	2.2	1.9
Clothing & Footwear	1.3	1.3	1.4	1.2	0.9	1.1	1.2	1.2	1.1	1.0
Housing, Water, Electricity, Gas and other Fuels	14.3	11.9	13.5	13.8	15.8	16.7	14.5	14.3	13.6	12.2
Furnishings, Household Equipment and Routine Household Maintenance	3.0	2.9	2.6	2.4	2.6	3.2	3.6	4.1	4.6	4.1
Health	1.8	1.5	1.7	1.1	0.7	0.5	0.5	0.5	0.6	0.5
Transport	16.1	12.3	13.5	12.8	13.6	14.3	12.8	9.0	6.7	10.2
Information & Communication	4.4	2.9	3.4	3.7	3.1	3.2	3.8	4.0	3.5	2.9
Recreation, Sports & Culture	0.3	0.3	0.3	0.3	0.4	0.3	0.2	0.3	0.4	0.3
Education Services	1.3	1.9	1.8	1.7	1.4	1.3	1.1	1.0	0.9	0.8
Restaurants & Accommodation Services	5.8	3.8	3.8	2.1	0.7	0.2	0.3	2.1	2.3	2.8
Personal Care, Social Protection and Miscellaneous Goods & Services	2.2	2.3	2.3	2.2	2.2	2.3	2.4	2.4	2.4	1.8
Insurance and Financial Services	0.7	0.7	0.8	0.4	0.4	0.4	0.3	0.2	0.2	0.2
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Inflation Rate	**6.6**	**6.6**	**6.9**	**6.5**	**5.8**	**5.7**	**5.4**	**5.1**	**5.6**	**6.5**

Source: PBO, KNBS

ii. Interest Rates and Private Sector Credit

19. **The Central Bank Rate (CBR) has been maintained at 7 percent since April 2020 as a monetary policy stance to signal cheaper credit availability from commercial banks, to support the domestic recovery.** In the 2021/2022 financial year, growth in private sector credit rose from 6.1 percent in July 2021 to 8.6 percent in December 2021. This reflects positive credit growth as most sectors recovered from the negative effect of the Covid-19 pandemic[10]. Strong credit growth was observed in the following sectors: Consumer durables (15.0 percent), Transport and Communication (14.3 percent), Manufacturing (13.1 percent), Business services (9.5 percent) and Trade (8.5 percent). In addition, the credit guarantee scheme that was put in place by the Government to support lending to MSMEs is reported to have enabled the commercial banks to lend at least Kshs. 12 billion as of a December 2021, resulting in the employment of 8,975 Kenyans[11].

[10] Central Bank of Kenya MPC Market Perceptions Survey, January 2022
[11] The Budget Summary for FY 2022/23

20. **The short-term interest rates are likely to be higher in 2022 as CBK tackles rising inflation amidst projected increase in domestic borrowing by Government which may crowd-out lending to the private sector.** The inter-bank rate increased to 4.8 percent in March 2022 compared to 4.2 percent in July 2021. The 91-day Treasury Bills rate increased from 6.6 percent in July 2021 to 7.4 percent in March 2022 while the 182-day Treasury Bills rate increased from 7.1 percent in July 2021 to 8.2 percent in March 2022. This increase may be attributed to an increased appetite for domestic borrowing by the Government as well as enhanced demand for private sector credit as businesses recover from the impact of the Covid-19 pandemic.

21. The net domestic financing is estimated at Kshs. 581.7 billion in the Budget for FY 2022/23 compared to Kshs. 570.2 billion in the approved BPS 2022, with the actual net domestic financing[12] expected to be higher given the tight room for external borrowing coupled with the delays in amendment to the debt ceiling which the domestic borrowing could be higher.. This may crowd-out lending by commercial banks to the private sector. In addition, the projected upward pressure on overall inflation may result to a possible review of the CBR and if this happens, commercial banks would be forced to increase the interest rates.

Figure 2: Trend in Interest Rates

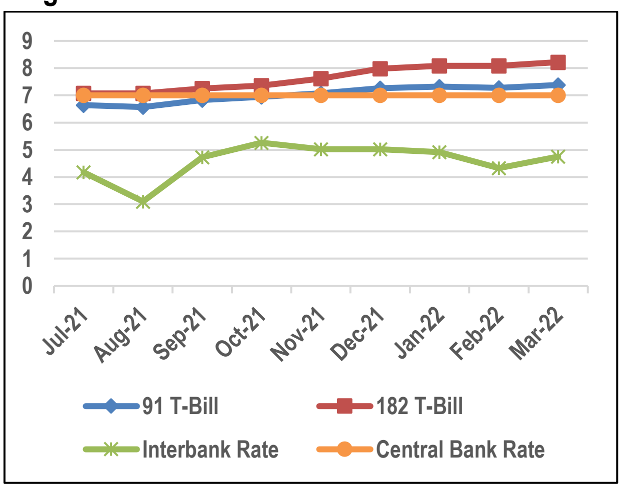
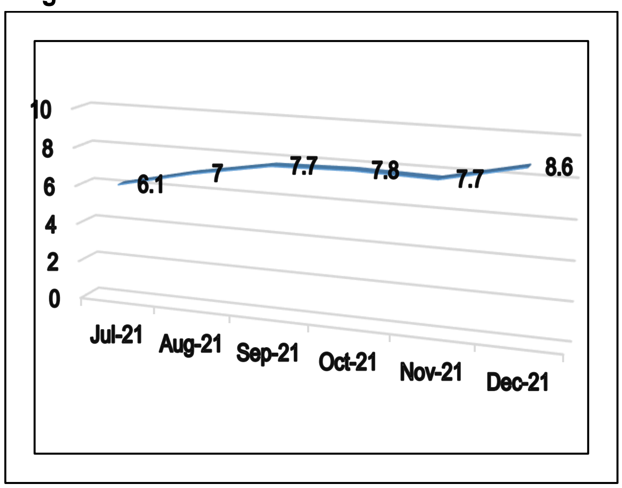


Figure 3: Trend in Private Sector Credit Growth



Source: Central Bank

[12] FY 2019/20 Kshs. 450.3 billion; FY 2020/21 Kshs. 626.9 billion; revised FY 2021/22 Kshs. 664.4 billion

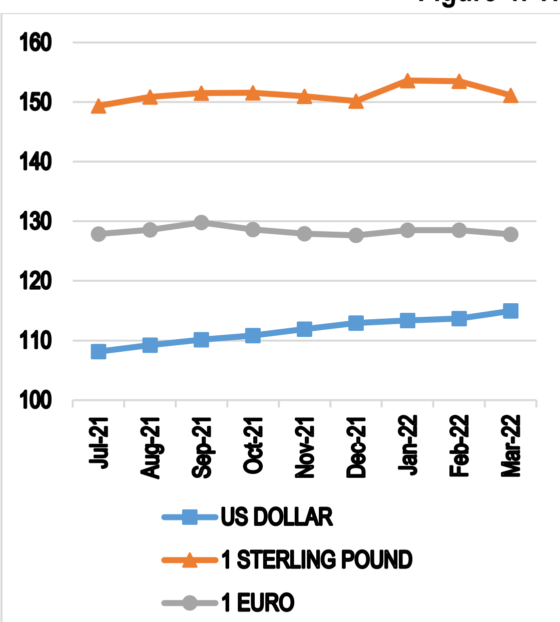
iii. Exchange Rate

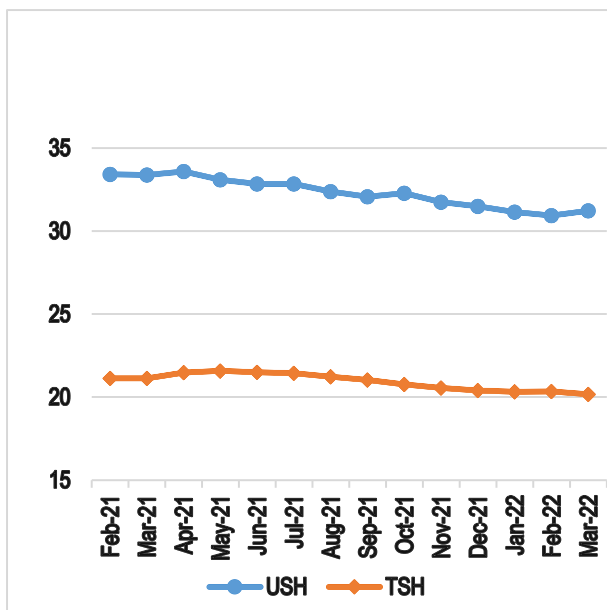
22. **The Kenyan Shilling depreciated against the United States dollar and the Pound Sterling in the 2021-22 financial year.** The exchange rate to the USA dollar increased from 108.14 in July 2021 to 114.95 in March 2022. This depreciation is attributable to an international rise in demand for dollars from the energy sector. It also depreciated against the Pound Sterling from 149.37 in July 2021 to 151.13 in March 2022. However, it remained stable compared to the Euro from 127.89 in July 2021 to 127.80 in March 2022. Further, in comparison to selected East African countries the Kenyan Shilling remained relatively stable and exchanged at 31.23 to the Ugandan Shilling in March 2022, compared to 32.84 in July 2021; and the Tanzanian Shilling from 21.44 to 20.18 to during the same period.

23. Going forward, the Kenyan Shilling to the USD may be grasping at straws not to depreciate further as the demand for the USD outweighs supply due to higher import bills especially of petroleum products; capital outflows mostly from the Nairobi Stock Exchange (NSE) following the hike in the US interest rate which raises the demand for USD denominated assets; USD restrictions by CBK and worsened by declining foreign exchange reserves that act as a buffer to cushion exchange rate shocks.

24. Remittances inflows decreased by -4.5 percent in February 2022 to USD 321.5 million, compared to USD 336.7 million in July 2021, with a spike in December 2021 of USD 350.6 Million which can be attributed to enhanced remittances during the Christmas festivities. This was also reflected in the decline in foreign exchange reserves from USD 9,341 million (5.7 months of import cover) in July 2021 to USD 8,284 million (4.9 months of import cover) by April 2022.

Figure 4: Trend in Exchange Rate





Source: Central Bank

IV. KEY HIGHLIGHTS OF THE 2022/2023 BUDGET

Where is the money going?

25. The total budget for the FY 2022/23 financial year is **Kshs 4,045.21 billion.** This comprises of **Kshs. 1,387.9 billion** recurrent expenditures, **Kshs 715.5 billion** development expenditure, **Kshs 869 billion** Consolidated Fund Services and **Kshs 370 billion** county equitable share and principal **debt redemptions amounting to Kshs 702.5 billion.**

Table 2: Overall Outlook of Budget Estimates for FY 2022/23

		2020/21	% Share of total	2021/22	% Share of total	2022 BPS (indicative ceilings)	% Share of total	2022/23 Estimates	% Share of total
Executive	Recurrent	1,208.86	36.1%	1,346.37	35.8%	1,279.9	31.9%	1,322.9	32.7%
	Development*	700.16	20.9%	677.89	18.0%	726.0	18.1%	711.4	17.6%
	Total	**1,909.02**	**57.0%**	**2,024.26**	**53.8%**	**2,005.9**	**49.9%**	**2,034.3**	**50.3%**
Parliament	Recurrent	33.49	1.0%	36.01	1.0%	48.2	1.2%	48.2	1.2%
	Development	2.87	0.1%	2.40	0.1%	2.1	0.1%	2.1	0.1%
	Total	**36.35**	**1.1%**	**38.41**	**1.0%**	**50.2**	**1.3%**	**50.2**	**1.2%**
Judiciary**	Recurrent	15.11	0.5%	16.48	0.4%	16.9	0.4%	16.9	0.4%
	Development	2.56	0.1%	2.59	0.1%	2.0	0.0%	2.0	0.0%
	Total	**17.66**	**0.5%**	**19.07**	**0.5%**	**18.9**	**0.5%**	**18.9**	**0.5%**
CFS	Public Debt related expenses ***	954.87	28.5%	1,151.29	30.6%	1,393.1	34.7%	1,393.1	34.4%
	Pensions, Salaries &Others	115.31	3.4%	158.19	4.2%	178.7	4.4%	178.7	4.4%
	Total	**1,070.18**	**31.9%**	**1,309.48**	**34.8%**	**1,571.8**	**39.1%**	**1,571.8**	**38.9%**
Overall	Recurrent	1,257.45	37.5%	1,398.85	37.2%	1,344.9	33.5%	1,387.9	34.3%
	Development	705.58	21.1%	682.89	18.2%	730.1	18.2%	715.5	17.7%
	CFS	1,070.18	31.9%	1,309.48	34.8%	1,571.8	39.1%	1,571.8	38.9%
	County Governments****	316.50	9.4%	370.00	9.8%	370.0	9.2%	370.0	9.1%
	Total	**3,349.71**		**3,761.23**		**4,016.8**		**4,045.2**	

***Includes Equalization Fund (Kshs. 7.1 B) and Contingency Fund (Kshs. 4.0 B)**
****Judiciary and Judicial Service Commission**
*****Comprised of domestic and foreign interest payments and debt redemptions.**
******Equitable Share as enacted in the Division of Revenue Act**

SECTORAL ALLOCATION IN THE 2022-23 FY BUDGET ESTIMATES

26. Analysis of the sectoral allocation of resources over the last three years indicates that there has been no major shift in government expenditure policy as allocations as a share of ministerial allocations has remained within the same range with very minor changes. Three sectors account for 61.5 percent of the total ministerial expenditure for the FY 2022/23. These are Education sector (25.9 percent), Energy, Infrastructure and ICT sector (18.5 percent) and Public Administration and International relations (17.1 percent).

27. The variations in allocations to the Energy, Infrastructure and ICT sector from the BPS ceilings is necessitated by an additional Ksh. 10 billion to the State Department for Energy to connect electricity to 750,000 new customers and 869 public facilities to the grid and generate 85.7MW from geothermal. Further, Ksh. 8 billion to State Department of Infrastructure ministry is to construct approximately 6,107 km of roads and rehabilitate 300 km of roads. The additional allocation to the Education sector is for enhancing Competency Based Curriculum (CBC) preparedness, recruitment of additional teachers, construction of additional classrooms and related infrastructure as well as to support ongoing reforms in the Education sector.

Table 3: Analysis of Sectoral Allocations, FY 2020/21- FY 2022/23(Ksh. Billions)

	SECTORS	2020/21 Approved Estimates	% Share in Total Ministerial Expenditure	2021/22 Approved Estimates	% Share in Total Ministerial Expenditure	2022/23 Estimates	% Share in Total Ministerial Expenditure
1	Agriculture, Rural and Urban Development	67.1	**3.4%**	74.0	**3.8%**	69.0	**3.3%**
2	Energy, Infrastructure, and ICT	425.0	**21.6%**	340.5	**17.5%**	389.8	**18.5%**
3	General Economics and Commercial Affairs	25.4	**1.3%**	22.3	**1.1%**	25.6	**1.2%**
4	Health	121.8	**6.2%**	121.1	**6.2%**	122.6	**5.8%**
5	Education	489.4	**24.9%**	504.0	**26.0%**	544.4	**25.9%**
6	Governance, Justice, Law, and Order	199.1	**10.1%**	217.3	**11.2%**	234.6	**11.2%**
	Of which Judiciary	17.7	**0.9%**	19.1	**1.0%**	18.9	**0.9%**
7	Public Admin and International Relation	302.7	**15.4%**	327.9	**16.9%**	359.8	**17.1%**
	Of Which Parliament*	36.4	**1.9%**	38.4	**2.0%**	50.2	**2.4%**
8	National Security	167.8	**8.5%**	162.2	**8.4%**	177.8	**8.5%**
9	Social Protection, Culture and Recreation	60.0	**3.1%**	72.2	**3.7%**	73.1	**3.5%**
10	Environmental Protection, Water and Natural Resources	106.2	**5.4%**	100.6	**5.2%**	106.7	**5.1%**
	Grand Total	**1,964.4**		**1,942**		**2,103.4**	

**** The parliament share includes Kshs 11 billion for 2022/23 hence its share net of the one offs is lesser than last year.**

The allocation share for infrastructure is substantially falling despite the sector having most of development projects.

EXPENDITURE UNDER THE ECONOMIC STIMULUS PROGRAMME III

28. The Government is rolling out the third phase of the Economic Stimulus Programme (ESP) at **Kshs 20.6 billion**. The ESP is expected to accelerate the pace of economic growth by putting in place strategic interventions under agriculture, health, education, drought response, infrastructure, financial inclusion, energy, and environmental conservation.

29. An Economic Stimulus Program is a short term, targeted and time bound intervention to correct effects of macroeconomic shocks. In other words, it's a designed positive and timely shock to the economy to correct imbalances brought about by a downside risk. The proposed ESP defeats the need and the meaning of an Economic Stimulus Programme. Was it really necessary to design a stimulus program to realize CBC classrooms and recruitment of additional teachers, rather than the same being realized under the ongoing education sector reforms dilutes. Other interventions such as recruitment of additional healthcare interns and sanitation improvement could equally be realized under the Universal Health Coverage while subsidy of farm inputs could be streamlined within the food and nutrition security of the Big Four Agenda. There are concerns on whether the Kazi Mtaani Programme is a sustainable job creation strategy or a form of government handout to the youth. Indeed, the actual contribution of this programme to the economy and its overall impact upon completion is not well defined. Below is a breakdown of the ESP priority areas and allocations in the 2022/23 budget estimates.

Allocation	Intervention
Kshs 2.1 billion	Under the Kazi Mtaani programme
Kshs 4.0 billion	Construction of classrooms to support CBC
Kshs 2.75 billion	Improve Infrastructure for Primary and Secondary schools
Kshs 1.5 billion	Recruitment of contract teachers and ICT interns
Kshs 1.35 billion	Recruitment of additional diploma and certificate level Health interns
Kshs 5.8 billion	Improving environment, water, and sanitation facilities
Kshs 1.5 billion	Subsidize supply of farm inputs through E-voucher system
Kshs 1.0 billion	Credit Guarantee Scheme
Kshs 604 million	Credit to SMEs in the manufacturing sector (KIE)

INTERVENTIONS UNDER BIG FOUR AGENDA

30. **Kshs 146.8 billion** has been allocated in the FY 2022/23 to support implementation of priority programmes under the "Big Four" Agenda in various Ministries. These are distributed as follows:

a) Food and Nutrition Security

31. The Food and Nutrition Security pillar of the Big Four Agenda is conceptualized to achieve food and nutrition security by 2022 through reducing overreliance on rain fed agriculture, availing locally blended fertilizer, enhancing production as well as productivity of both large scale and smallholder agriculture and putting an additional 700,000 under sustainable agricultural production. To support programmes under the Food and Nutrition security Kshs 46.8 billion has been allocated to support the following interventions:

Allocation	Intervention
Kshs 4.2 billion	National Agricultural and Rural Inclusivity project
Kshs 1.5 billion	Small Scale Irrigation and Value Addition Project;
Kshs 1.7 billion	Kenya Cereal Enhancement Programme
Kshs 1.9 billion	Emergency Locusts Response
Kshs 1.6 billion	National Value Chain Support Project;
Kshs 690 million	Food Security and Crop Diversification Project;
Kshs 7.0 billion	Kenya Climate Smart Agriculture Project
Kshs 1.1 billion	Agricultural Sector Development Support Programme II
Kshs 2.6 billion	Aquaculture Business Development Project;
Kshs 2.8 billion	Kenya Marine Fisheries and Socio-Economic Development Project
Kshs 1.3 billion	Exploitation of Living Resources under the Blue Economy
Kshs 1.65 billion	Kenya Livestock Commercialization programme (KeLCoP)

32. It is noted that at the sunset period of the programme, the country is facing severe food insecurity in at least 24 counties as well as high fertilizer prices. In FY 2022/23, the government intends to double the E-voucher for fertilizer subsidy to 29,380 MT of assorted fertilizers. This is expected to benefit 100,000 farmers. However, as compared to the previous year, the budgetary allocation has increased by Ksh. 320 million to Ksh. 1.35 billion. This may imply that the allocation may not be adequate to subsidize the targeted assorted fertilizers annually. It is also noted that the e-voucher subsidy programme has been routinely subjected to budget cuts in the supplementary budget.

b) Affordable Housing Pillar

33. In FY 2022/23, the Affordable Housing Pillar targets provision of 500,000 units of decent and affordable houses by the government. The pillar further seeks to establish a Contributory Social Housing Development Fund and a Mortgage Refinancing Programme, among others. The budget estimates provide for Kshs 4.6 billion for operationalization of the Kenya Mortgage and Refinancing Company.

34. The performance indicators given in the programme-based budget do not clearly indicate the milestones to be realized by the Kenya Mortgage and Refinancing Company but only notes 100 percent transfer of resources but not what these resources are supposed to achieve. To promote access to affordable housing, the government has allocated Kshs 27.7 billion for the following interventions:

Allocation	Intervention
Kshs 4.6 billion	Operationalization of Kenya Mortgage and Refinance Company (KMRC);
Kshs 7.7 billion	Kenya Affordable Housing Project (Kenya Mortgage Refinance Company) ;
Kshs 1.0 billion	Construction of affordable Housing Units;
Kshs 5.9 billion	Kenya Informal Settlement Improvement Project – Phase II;
Kshs 1.05 billion	Housing Units for National Police and Kenya Prisons;
Kshs 2.3 billion	Kenyan Urban programme
Kshs 1.2 billion	Construction of Social Housing units

c) Universal Health Coverage

35. This strategic pillar of the Big Four Agenda is aimed at providing access to affordable and universal healthcare services to 100 percent of the population by 2022. This is to be realized through upgrading of existing healthcare facilities, equipping through managed equipment services, construction of new facilities, enrolment under National Hospital Insurance Fund, training, and recruitment of additional healthcare workers, among others.

36. The programme was initially piloted in four counties and later scaled up to cover the entire country. However, only about 2.5 million households to date have been covered out of about twelve million households. Existence of numerous interventions, some duplicating each other has hampered delivery of a seamless UHC to promote universal health coverage in the country. In FY 2022/23, Kshs 62.3 billion has been allocated to universal health care in the 2022/23 financial year aimed at the following interventions:

Allocation	Intervention
Kshs 5.2 billion	Managed Equipment Services
Kshs 4.1 billion	Free Maternity Health Care
Kshs 1.9 billion	Medical cover for the elderly and severely disabled in our society
Kshs 9.3 billion	Roll out of Universal Health Coverage
Kshs 18.1 billion	Kenyatta National Hospital
Kshs 11.7 billion	Moi Referral and Teaching Hospital
Kshs 7.7 billion	Kenya Medical Training Centre
Kshs 7.7 billion	Universal Health Coverage Coordination and Management Unit
Kshs 5.2 billion	Vaccines and Immunizations
Kshs 1.2 billion	Procurement of Family Planning and Reproductive health commodities
Kshs 900 million	Transforming Health systems for UHC
Kshs 619 million	Procurement of equipment at the National Blood Transfusion Services
Kshs 1.1 billion	Kenya National Hospital Burns and Pediatrics Centre
Kshs 300 million	Procurement of Cyber Knife Radiotherapy Equipment for KUTTRH
Kshs 2.0 billion	Construction and strengthening of Cancer Centers
Kshs 16.2 billion	Global Fund (HIV, Malaria, TB)

d) Support to Manufacturing

37. This pillar is designed to catalyze performance of the manufacturing sector and targeted to increase the contribution of the manufacturing sector to Gross Domestic Product from 9.8% in 2018 to 15% by 2022. This is to be realized through revitalization of textile, leather; agro-processing and construction sector. Despite several interventions in the sector, the actual contribution of manufacturing to GDP has been declining over time to about 7.6% in 2020. There is lack of a well-coordinated strategy in streamlining interventions under the manufacturing sector. In the FY 2022/23, the government has set aside Kshs 10.1 billion to promote local industries under the manufacturing pillar targeting the following areas:

Allocation	Intervention
Kshs 2.6 billion	Development of a Freeport and Industrial parks-SEZ Mombasa
Kshs 1.0 billion	Credit Guarantee Scheme
Kshs 3.0 billion	Supporting Access to Finance and Enterprise Recovery (SAFER)
Kshs 1.3 billion	Kenya Industry and Entrepreneurship project
Kshs 626.0 million	Provision of finances to SMEs in manufacturing sector KIE
Kshs 200.0 million	Constituency Industrial Development Centre
Kshs 85.0 million	Development of SEZ Textile Park in Naivasha
Kshs 142.8 million	Cotton development (RIVATEX)-subsidy and extension support
Kshs 410.4 million	Modernization of RIVATEX

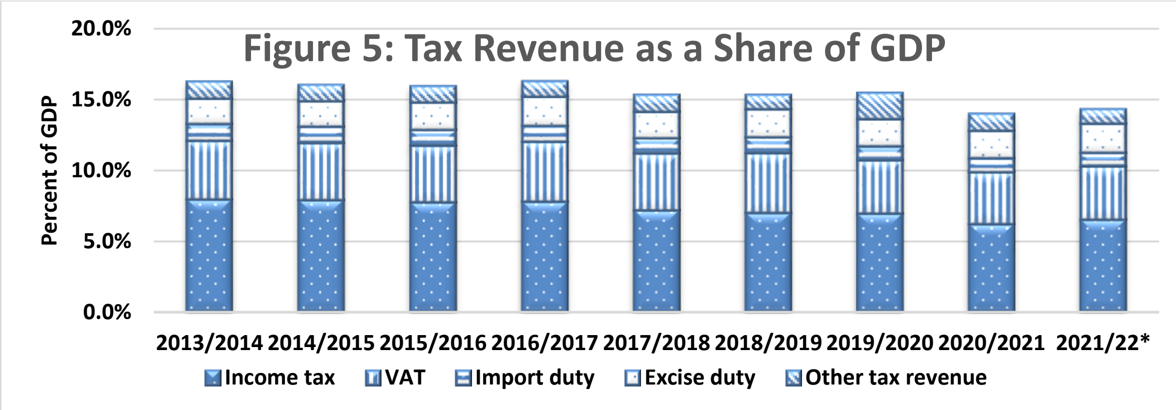
V. FINANCING OF THE 2022/2023 BUDGET

38. Over the past six years, the revenue target set in the budget estimates has on average been over Ksh. 150 billion above actual collection. Despite setting relatively more credible tax revenue targets in 2020/21 FY, which can be partially attributed to the arrangements under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for Kenya with the International Monetary Fund, preliminary actual ordinary revenue collection was still over Ksh. 70 billion below the target set. Further, since 2019/20 the collection from Appropriation in Aid has been below the target set.

Table 4: Revenue in Ksh. Billion

	2018/19			2019/20			2020/21			2021/22*		
	Budget Est	Actual	Dev	Budget Est	Actual	Dev	Budget Est	Prel Actual	Dev	Budget Est	Approved Revised Est 1	Dev
Revenue & grants	**1,998**	**1,724**	**(274)**	**2,155**	**1,757**	**(398)**	**1,949**	**1,815**	**(134)**	**2,101**	**2,191**	**90**
Total Revenue	**1,949**	**1,704**	**(245)**	**2,116**	**1,737**	**(379)**	**1,893**	**1,784**	**(109)**	**2,039**	**2,125**	**86**
Ordinary Rev	**1,769**	**1,500**	**(269)**	**1,877**	**1,573**	**(304)**	**1,634**	**1,562**	**(72)**	**1,776**	**1,808**	**33**
Income tax	837	685	(151)	884	707	(177)	685	694	9	834	824	(11)
VAT	464	414	(50)	496	384	(112)	482	411	(71)	473	477	4
Import duty	119	107	(12)	135	98	(37)	107	108	2	119	119	(0.2)
Excise duty	219	194	(25)	242	195	(47)	241	216	(25)	241	260	19
Other	130	99	(31)	119	189	70	119	133	14	108	129	21
Appropriation-in-Aid	180	205	25	239	164	(75)	259	222	(37)	263	316	53
Grants	**48**	**20**	**(29)**	**39**	**20**	**(19)**	**57**	**31**	**(26)**	**62**	**66**	**53**
Expenditure & Net Lending	**2,557**	**2,434**	**(124)**	**2,796**	**2,565**	**(231)**	**2,791**	**2,749**	**(42)**	**3,030**	**3,215**	**4**
Deficit Including Grants	**(560)**	**(710)**		**(641)**	**(809)**		**(842)**	**(934)**		**(930)**	**(1,024)**	

39. **Tax policy measures proposed each financial year by the National Treasury during the budget-making process have not enhanced revenue collection.** Consequently, income tax and Value Added Tax (VAT) collection have not grown in tandem with the economy over the last nine years. 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, without a medium-term plan with quantifiable policy measures aimed at reversing the decline in tax collection as a share of GDP the trend is expected to persist.



*Approved Revised Estimates I

40. The National Treasury projects a total revenue collection of **Ksh. 2,480 billion (17.5% of GDP**) in 2022/23 FY of which, ordinary revenue will be **Ksh. 2,142 billion (15.3% of GDP**). Over the medium term, ordinary revenue as a share of GDP is projected to increase to 16.2 percent. However, given the lack of a Medium-Term Revenue Strategy with specific proposals aimed at enhancing revenue collection, the medium-term revenue targets are unlikely to be achieved.

Table 5: National Treasury Revenue Projections (KSH. Billion)

	2019/20	2020/21	2021/22		2022/23			2023/24	2024/25
	Actual	Prel Actual	Budget Est	Approved Revised Est 1	BPS '22	Budget Est	Dev	Proj	Proj
Revenue & grants	1,757	1,815	2,101	2,191	2,478	2,480	2	2,869	3,195
Total Revenue	1,737	1,784	2,039	2,125	2,431	2,447	16	2,821	3,146
Ordinary Rev	1,573	1,562	1,776	1,808	2,142	2,142	-	2,516	2,823
Income tax	707	694	834	824	997	997	-	1,179	1,286
VAT	384	411	473	477	585	585	-	692	793
Import duty	98	108	119	119	145	145	-	170	181
Excise duty	195	216	241	260	297	297	-	347	395
Other	189	133	108	129	118	118	-	129	168
Appropriation-in-Aid	164	222	263	316	290	305	16	305	323
Grants	20	31	62	66	47	33	(14)	48	49
Expenditure & Net Lending	2,434	2,749	3,030	3,215	3,324	3,343	18	2,366	2,578
Deficit Incl Grants					(846)	(862)		(693)	(680)
Deficit Excl Grants					(893)	(896)		(741)	(730)
As a percent of GDP (%)									
	2019/20	2020/21	2021/22		2022/23			2023/24	2024/25
	Actual	Prel Actual	Budget Est	Approved Revised Est 1	BPS '22	Budget Est	Dev PP	Proj	Proj
Revenue & grants	16.7%	16.0%	16.6%	17.3%	17.7%	17.7%	-	18.4%	18.3%
Total Revenue	16.5%	15.7%	16.1%	16.8%	17.4%	17.5%	0.1	18.1%	18.1%
Ordinary Rev	15.0%	13.8%	14.0%	14.3%	15.3%	15.3%	-	16.1%	16.2%
Income tax	6.7%	6.1%	6.6%	6.5%	7.1%	7.1%	-	7.5%	7.4%
VAT	3.7%	3.6%	3.7%	3.8%	4.2%	4.2%	-	4.4%	4.6%
Import duty	0.9%	1.0%	0.9%	0.9%	1.0%	1.0%	-	1.1%	1.0%
Excise duty	1.9%	1.9%	1.9%	2.1%	2.1%	2.1%	-	2.2%	2.3%

Other	1.8%	1.2%	0.9%	1.0%	0.8%	0.8%	-	0.8%	1.0%
Appropriation-in-Aid	1.6%	2.0%	2.1%	2.5%	2.1%	2.2%	0.1	1.9%	1.9%
Grants	0.2%	0.3%	**0.5%**	**0.5%**	**0.3%**	**0.2%**	**(0.1)**	0.3%	0.3%
Expenditure & Net Lending	24.4%	24.2%	**24.0%**	**25.4%**	**23.7%**	**23.9%**	**0.1**	22.8%	22.2%
Deficit Incl Grants	**(7.7%)**	**(8.2%)**	**(7.4%)**	**(8.1%)**	**(6.0%)**	**(6.2%)**		**(4.4%)**	**(3.9%)**
Deficit Excl Grants	**(7.9%)**	**(8.5%)**	**(7.8%)**	**(8.6%)**	**(6.4%)**	**(6.4%)**		**(4.7%)**	**(4.2%)**
Nominal GDP	**10,504**	**11,351**	**12,646**	**12,646**	**14,002**	**14,002**		**15,617**	**17,420**

41. **Revenue raised from Appropriation in Aid is expected to increase to Ksh. 305 billion in 2022/23.** The expected revenue from Appropriations in Aid is significantly higher than the actual receipts of Ksh. 164 billion in 2019/20 and Ksh. 222 billion in 2020/21. Some of the main drivers of the increased A in A projection for 2022/23 relative to actual receipts in 2020/21 include a significant increase in the collection from the Road Maintenance Levy (RML), fees charged by Universities, the Petroleum Development Levy (PDL) and Betting. However, given the inaccuracy in previous projections of A in A, the target set for 2022/23 may not be achieved. A comparison of A in A estimates from the fiscal framework, Budget Estimate books and Estimates of Revenues Grants and Loans book is provided in figure xx below for a detailed breakdown of A in A see Annex 3

Budget Estimate Books 2022/23 A in A 2022/23 Appropriations in Aid Estimates			
	Budget Estimate Books 2022/23 A in A	**Estimates of Revenue, Grants, and Loans Books AIA 2022/23**	**Fiscal Framework AIA 2022/23**
Recurrent AIA	210,120,901,114	240,187,116,807	210,120,901,114
Development AIA	85,187,570,000	114,260,486,707	85,187,570,000
RML to Counties	10,088,000,000		10,088,000,000
Grants		(20,838,827,972)	
Total	**305,396,471,114**	**333,608,775,542**	**305,396,471,114**

Notes:

1) The fiscal framework provides a projected A in A of Ksh. 305 billion while the budget books indicated that the total A in A is Kshs.295 billion. The Ksh. 10 billion difference between the two figures is the Road Maintenance Levy (RML) to Counties.
2) The difference between the total A in A recorded in the budget estimate books and the Estimates of Revenue, Grants, and Loans book reflects the fact that the Estimates of Revenue, Grants, and Loans book presents the expected revenue collection from the Railway Development Levy (RDL), Petroleum Development Levy (PDL) and RML rather than the expected expenditure by the respective MDAs.

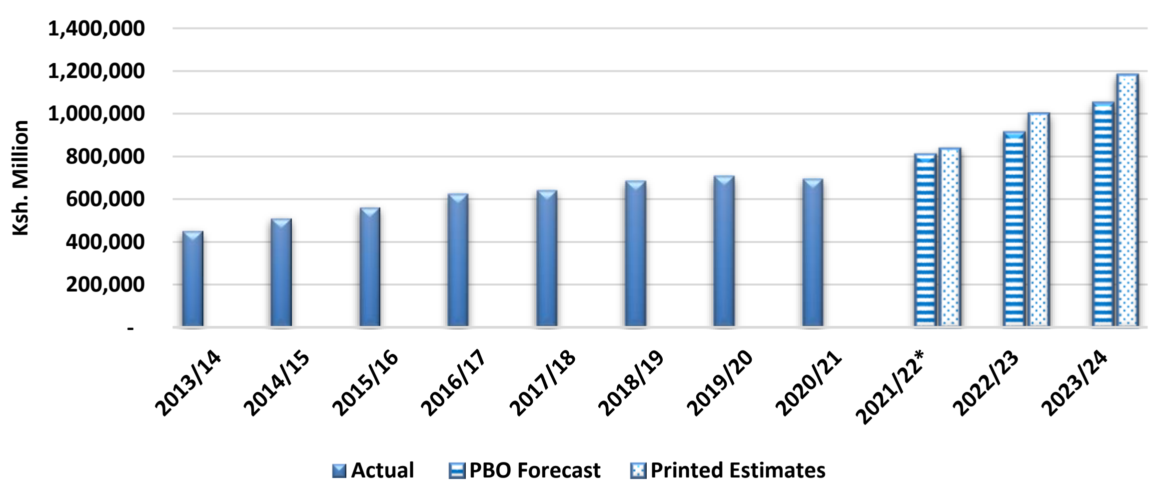
42. **The National Treasury projects that ordinary revenue as a share of GDP will increase to 16.3 percent over the medium term.** However, the 2022/23 budget estimates were not accompanied by the medium-term revenue strategy that was expected to provide quantifiable revenue enhancement measures, therefore it is expected that ordinary revenue as a share of GDP will remain below 15 percent

over the medium-term. Further, PBO estimates that ordinary revenue collection for 2022/23 will be around Ksh. 1,981 billion.

Table 6: PBO Baseline scenario Ksh. Million				
	2020/21	2021/22	2022/23	2023/24
	Prel Actual	Proj	Proj	Proj
Total Revenue	**1,783,747**	1,969,724	2,231,265	2,515,038
Ordinary Revenue	**1,562,015**	**1,750,428**	**1,981,472**	**2,235,001**
Income tax	694,053	806,241	910,037	1,047,819
VAT	410,758	468,985	543,757	600,360
Import duty	108,375	118,499	137,901	159,235
Excise duty	216,325	239,549	265,300	296,227
Other revenue	132,504	117,154	124,477	131,360
Appropriation-in-Aid	221,732	219,295	249,793	280,037

43. **Income tax collection has underperformed relative to expectation over the first three quarters of the 2021/22 FY.** Slower than expected recovery by some companies from the impact of the Covid-19 pandemic coupled with the collection of withholding tax on dividends based on the performance of companies at the height of the pandemic in 2020/21 resulted in the Kenya Revenue Service missing its target for collection of other income tax over the first three quarters of 2021/22 FY by Ksh. 17 billion. Consequently, it is unlikely that the National Treasury will meet its 2021/22 target for income tax collection. PBO projects that income tax collection in 2022/23 will be about Ksh. 910 billion based on the assumption of relatively slower economic growth in 2022.

Figure 6: Income Tax



44. **Over the medium-term, the National Treasury expects to increase VAT collection as a share of GDP from 3.6 percent to over 4.6 percent.** However, the expected increase in VAT as a share of GDP is unlikely to be realized without renewed enforcement in the use of ETR or a reduction in the category of goods that are VAT exempt or zero-rated. Consequently, it is expected that VAT as a share of GDP will remain around 4 percent with PBO projecting a collection of between Ksh. 543 billion and Ksh. 564 billion.
45. **The National Treasury projects that excise duty collection will be Ksh. 297 billion in the 2022/23 FY.** Unlike VAT and income tax whose collection as a share of GDP has been on a downward trend, excise duty collection as a share of GDP has remained relatively consistent. It is expected that excise duty collection as a share of GDP will remain around 2 percent with the collection for 2022/23 expected to be around Ksh. 265 billion.
46. **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 grants (including grants) is expected to improve from -8.5 percent (-8.2 percent) in 2020/21 to -4.7 percent (-4.4 percent) in 2023/24. However, due to our more conservative revenue projections in the outer years, and the lack of a comprehensive strategy by the National Treasury to enhance revenue collection, PBO projects that ceteris paribus, the fiscal deficit target for the medium-term will be unattainable.
47. The fiscal deficit inclusive of grants for 2022/23 has been adjusted upwards by Ksh. 16.38 billion from the BPS 2022 estimate of Ksh. 846.1 billion to Ksh. 862.5 billion. The expanded deficit is expected to be financed mainly by additional domestic borrowing. However, it should be noted that in the past, due to the setting of overambitious revenue targets during the budget-making process, the actual deficit has tended to be higher than what is captured in the printed estimates therefore it is likely that the actual deficit for 2022/23 will exceed the estimated Ksh. 862.5 billion. The financing of the fiscal deficit is presented in the table below.

Table 7: Financing of the Fiscal Deficit (in Ksh. Billion)

	2020/21	2021/22	2022/2023		
	Prel Actual	Approved Revised	BPS	Budget Est	Dev
Fiscal Balance (incl. grants) Cash Basis	**(929.3)**	**(1,024.3)**	**(846.1)**	**(862.5)**	**(16.38)**
TOTAL FINANCING	**950.2**	**1,024.3**	**846.1**	**862.5**	**16.38**
NET FOREIGN FINANCING	**323.3**	**360.0**	275.9	280.7	4.83
Disbursements	451.6	562.0	518.4	521.8	3.44
Commercial Financing	114.3	124.3	105.6	105.6	-
o/w Export Credit- Commercial Financing	6.7	-			
Sovereign Bond other Commercial Financing	107.6	124.3	105.6	105.6	-
External Debt Operations - Refinancing	-	-			
Semi concessional Loans	-	-			
Project Loans AIA	104.8	148.7	204.3	184.9	(19.39)
Project Loans Revenue	52.4	85.7	97.7	101.6	3.89
Project Loans SGR _Phase I_ AIA	4.6	-			

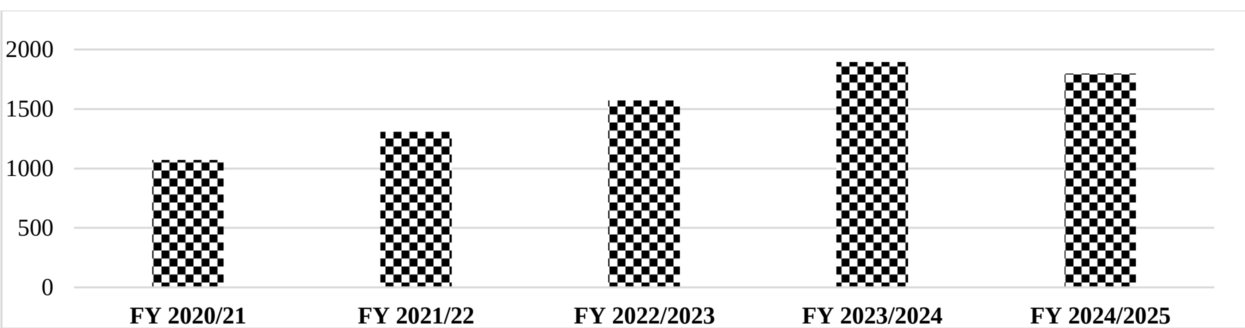
Project Loans SGR _ PHASE 2A_AIA	6.9	-			
Use of IMF SDR Allocation	-	40.3			
Programme Loans	168.6	163.8	110.7	129.7	18.93
O/W P for R Programme Loans	11.0	3.5	3.5	3.5	-
IMF - RCF/ECF/EFF	76.9	57.5	63.2	63.2	-
Development Policy Operations - WB	80.8	82.5	44.0	44.0	-
Support for COVID-19 Vaccine Purchase	-	8.1	-	6.2	6.22
Development Policy Operations - ADB	-	11.7	-	12.7	12.71
Debt repayment - Principal	**(128.3)**	**(202.1)**	**(242.5)**	**(241.1)**	**1.40**
NET DOMESTIC FINANCING	**626.9**	**664.4**	**570.2**	**581.7**	**11.55**
Government Securities	556.3	664.4	566.8	578.6	11.75
Government Overdraft & Others	13.6	-	-	-	-
Government Deposits	(77.6)	129.4	-	-	-
Domestic Loan Repayments (Receipts)	6.3	1.5	4.5	4.3	(0.20)
Domestic Loan Repayments CBK	(1.1)	(1.1)	(1.1)	(1.1)	-
Increase in Other Accounts Payable	129.4	(129.4)	-	-	-
Financing gap	20.9				

VI. CONSOLIDATED FUND SERVICES (CFS)

a) Introduction

48. Consolidated Fund Service (CFS) expenditures comprise of mandatory expenditures and are therefore a first charge on the Consolidated Fund. These expenses primarily consist of public debt servicing expenditures, pension payments, salaries and allowances for constitutional and independent office holders, among other expenditures. Overall CFS expenditures for the FY 2022/23 are projected to amount to **Kshs. 1.57 trillion.** This is an increase of Kshs. 262.3 Billion (20%) from the 2021/22 CFS budget of Kshs. 1.31 trillion. In FY 2023/24, these expenditures are projected to reach Kshs. 1.8 trillion due to external debt servicing.

Figure 7: CFS Expenditures, FY 202021 – FY 2024/25 (Kshs. billions)



Source: Budget Estimates 2022/23

49. Given that the CFS expenditures are a first charge to the consolidated fund, their management is critical for creation of fiscal space to successfully implement other budgetary activities. The ratio of CFS expenditures relative to ordinary revenues presents a worrying trend. For FY 2022/23, CFS expenditures are expected to account for 64% of Ordinary revenue, up from 60% in FY 2020/21. In FY 2023/24, the proportion of CFS expenditure to ordinary revenue is expected to reach 67%. This therefore implies limited room to freely undertake fiscal policy in the short-term and medium term, without incurring further debt or encountering liquidity constraints that could impede smooth implementation of projects.

50. The largest components of CFS expenditure include:

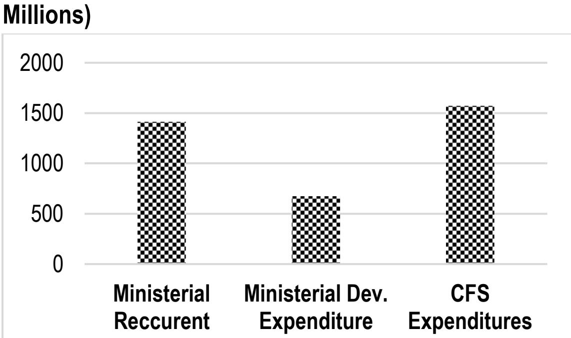
a) Public debt servicing expenditures which constitute 89% of the total expenditure. This component has increased by 21% from Kshs 1.15 trillion in FY 2021/22 to Kshs 1.39 trillion in FY 2022/23.

b) Pensions expenditures, which account for 11% of total CFS expenditures. In FY 2022/23, this component will amount to Kshs. 171.8 billion. The increase in pensions is largely due to an increase in commuted pensions by 11% and an increase in Public Service Superannuation Scheme (a contributory pension scheme for public servants in the year 2021 which is expected to ease expenditure pressure for payment of retirees in the long-term from the consolidated fund) by 24%.

c) Kshs 2.26 Billion payment of Kenya Airways guaranteed debt. This will increase to Kshs. 28.26 Billion in FY 2023/24. In total, Kshs. 52.7 Billion will be spent over the medium term.

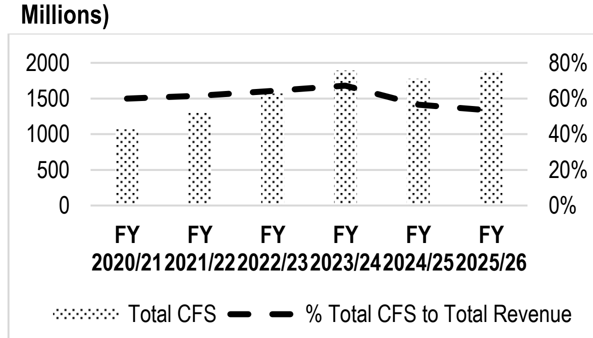
51. CFS expenditures have become the largest expenditure head in FY 2022/23. At Kshs. 1.57 trillion, this expenditure will equate 112% of recurrent expenditure and 233% of development expenditure. This indicates that a larger share of the budget goes to these mandatory expenditures. However, despite being the largest component of expenditure, detailed information or appropriate explanatory notes are not availed to enhance transparency and scrutiny as required for mainstream government expenditures.

Figure 9: National Expenditure, FY 2022/21 (Kshs. Millions)



Source: Budget Estimates FY 2022/23

Figure 10: CFS Expenditure & Share of Revenue (Kshs. Millions)



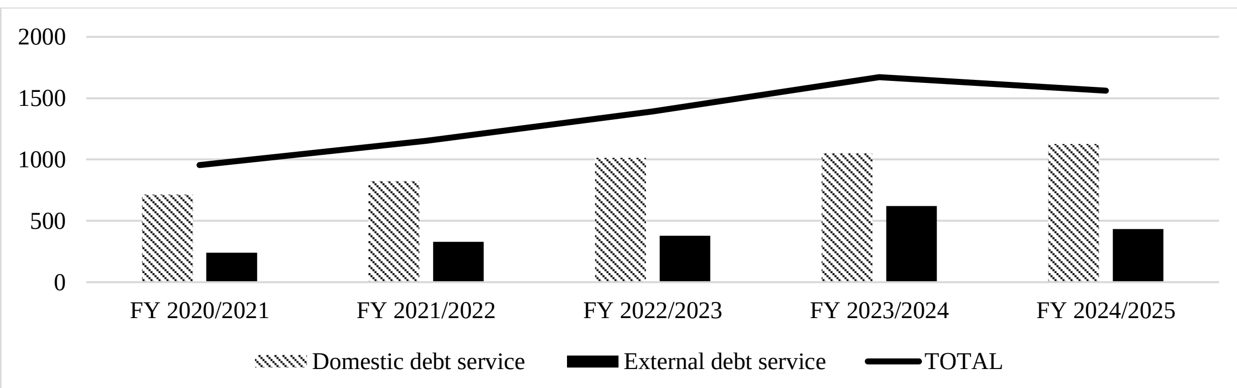
Source: Budget Estimates FY 2022/23

b) Public Debt Servicing Expenditure

52. Public Debt Servicing expenditures (interest payments and redemptions), required to finance the repayment of Kshs. 8.2 trillion[13] public stock of debt, will constitute the largest share of CFS expenditures - at 89%. The total public debt is projected to reach Kshs. 11.5 trillion[14] by June 2025 on account of expanding fiscal deficit. Without subsequent restructuring of public debt, Public Debt Service expenditures will continue to increase over the medium term. Notably, Domestic debt which accounts for 49% of total debt stock, 73% of total debt servicing expenditures, carries with it the highest cost and risk characteristic.

53. In FY 2022/23, these expenditures are to increase by Kshs. 241.8 billion (21%); from Kshs. 1,151.3 Billion in FY 2020/21 to Kshs 1,393.1 Billion in the FY 2022/23. The increase in public debt is as a result of: a) 15% increase in domestic debt interest, and 34% in domestic debt redemption. Debt service is on an upward trend and over the medium term and is projected to peak at Kshs 1,671.48 Billion in FY 2023/24 due to the payment of 2018 International Sovereign Bond (USD 2.0 BN) worth Kshs 241.75 Billion, and spiking in external debt Service expenses.

Figure 11: Comparison of Domestic & External Debt Service Expenditures (Ksh. Billions)



Source: FY 2022/23 Budget Estimates

i) Domestic Debt Service

54. Domestic debt accounts for 49% of total debt stock. Thus domestic debt service is not only the largest component of public debt service expenditures but also the largest CFS expenditure item. Total domestic debt service will amount to Kshs. 1.015 trillion in FY 2022/23, accounting for 73% of public debt servicing expenditure and 52% of total CFS Expenditures. This indicates the high cost of domestic borrowing (domestic debt interest expenditure accounts for 80% of total interest expenses). Domestic debt service is largely driven by interest expenditure (Kshs. 553 billion) which will account for over 50% of domestic debt servicing over the medium term.

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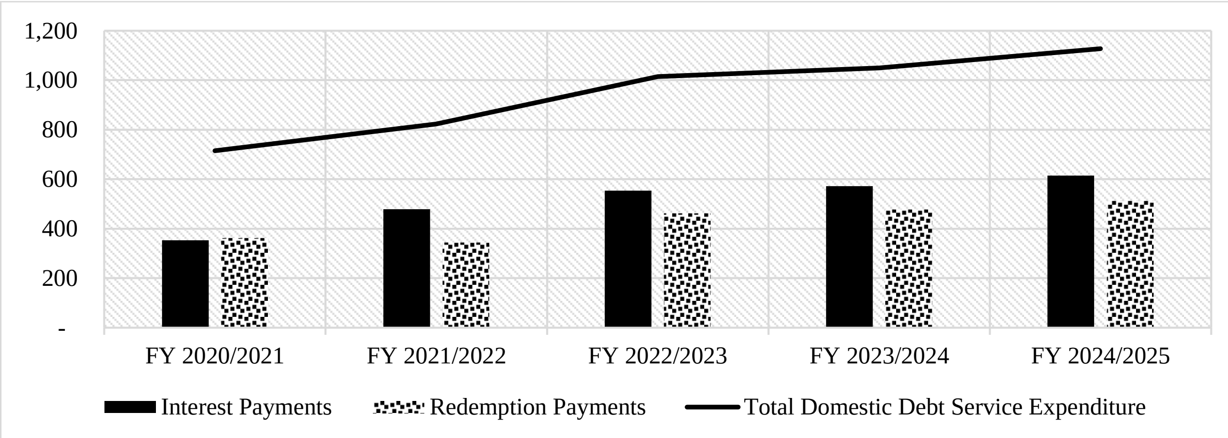
[13] Central Bank of Kenya Weekly Bulletin.
[14] Budget Summary April 2022

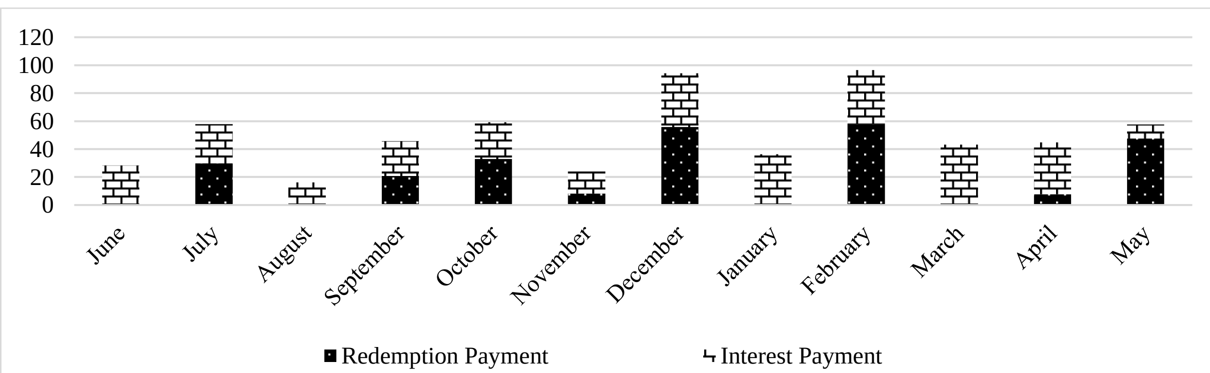
Figure. 12: Domestic debt servicing expenditures, FY 2020/21 – FY 2024/25 (Kshs. Billions)



Source: FY 2022/23 Budget Estimates

55. A review of the domestic debt repayment profile indicates that interest payments will accrue every month while redemption expenditures will occur only in certain months, leading to in-year repayment shocks. As such, it is anticipated that the months of December 2022 and February 2023 will have the highest debt servicing expenditures. It is further noted that approximately 51% of domestic debt service will occur between November 2022 and April 2023. This may bring about liquidity constraints during this period. Appropriate cash flow management measures should therefore take this into consideration.

Figure 13: Estimated FY 2022/23 Domestic Debt Servicing Expenditure Profile

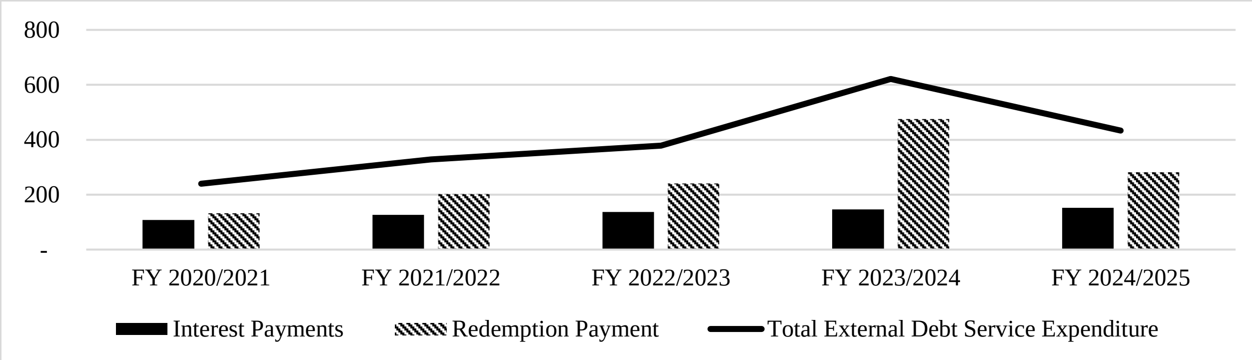


Source: FY 2022/23 Budget Estimates

ii) External Debt Service

56. External debt service will amount to Kshs. 378.3 billion in FY 2022/23; an increase of 15%. This increase is driven by external debt redemptions (19% increase) and interest payments that account for 9% of the increase. It will account for 27% of the total debt service expenditures in FY 2022/23, which is a slight decline from 29% in FY 2021/22 on account of Debt Service Suspension Initiative (DSSI). External debt (which accounts for 51% of total debt) and related debt servicing, is exposed to exchange rate volatility - primarily movements of the USD and Euro - which account for 66% and 19% of the currency composition of the external debt portfolio.

Figure 14: External Debt Redemption (Ksh. Billions).



Source: 2022/23 Budget Estimates

57. The increase in external debt redemption was mainly due to increase in external debt redemptions to Poland, Nordic Development Fund, Kuwait, Saudi Fund EIB, China and China Development Bank. External debt redemption is further expected to spike in FY 2023/24 as the payment for the 2018 International Sovereign Bond (USD 2.0 BN) worth Kshs 241.75 Billion falls due. This will increase debt service expense from Kshs 241.06 Billion to Kshs 475.6 billion. Over the medium term, a total of Kshs. 998.12 Billion will be incurred to meet external debt redemption.

58. External debt interest payment is expected to increase by 9% from Kshs 126.06 billion in FY 2021/22 to Kshs 137.24 Billon in FY 2022/23. The increases in external debt interest is mainly due to debt owed to Germany, ADB/ ADF, Austria and Exim Bank of South Korea. The slight increase on the external interest repayment is influenced by the fact that a large part of the external debt stock is composed of concessional loans which attract low interest rate as well as the Debt Service Suspension Initiative (DSSI) that suspended repayment for low income countries to enable them fight the effects of the Covid-19 pandemic.

c) Pensions Payments

59. The total pension's bill is expected to increase by 12% from Kshs 153.64 Billion to Kshs 171.83 Billion between FY 2021/22 to FY 2022/23. The increase in pension expenditure is attributed to i) 9% increase in ordinary pension from Kshs 64.10 Billion to Kshs 69.55 Billon, ii) 11% increase in commuted pension from Kshs 68.47 Billion to Kshs 76.16 Billion and iii) 24% increase in Public Service Superannuation Scheme (PSSS) from Kshs. 20.83 Billion to Kshs. 25.88 Billion.

Table 8: Summary of Pension Expenses (Kshs. Billions)

Summary	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Ordinary Pension	55.24	64.10	69.55	82.93	91.23	100.35
Commuted Pension	55.71	68.47	76.16	80.35	88.39	97.23
Other Pension Schemes	0.19	0.24	0.24	0.24	0.24	0.24
Public Servants Superannuation Scheme (PSSS)	-	20.83	25.88	28.46	31.31	34.44
TOTAL	**111.14**	**153.64**	**171.83**	**191.98**	**211.17**	**232.26**

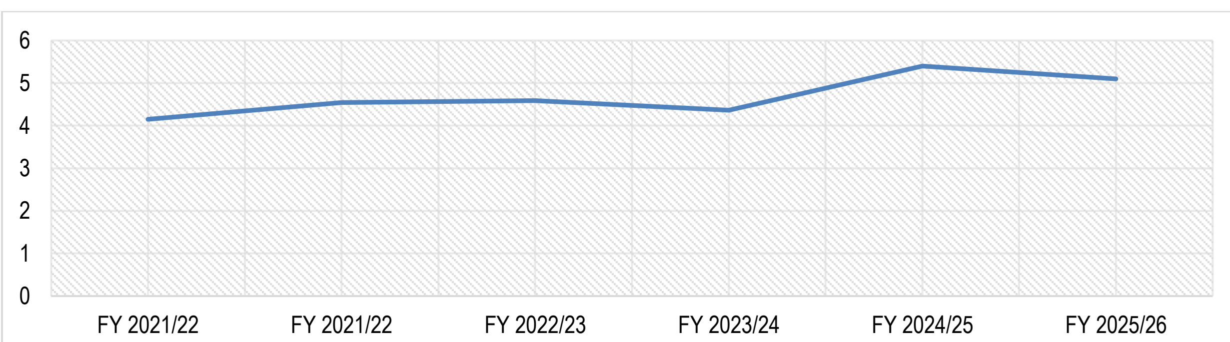
Source: Budget Estimates FY 2022/23

60. The increase in ordinary pension in the next financial year is due to a 23% increase in Monthly pension to retired Presidents (from Kshs 34.4 Million to Kshs 42.4 Million), 17% increase to Members of Parliament (from Kshs 1.49 Billion to Kshs 1.74 Billion), and 24% increase in Public Servants Superannuation Scheme (from Kshs 20.83 Billon to Kshs 25.88 Billion). Similarly, increase in the commuted pension is due to an increase of 33% in Gratuity to Retired President and other designated officers and 86% increase in gratuity to Members of Parliament from Kshs 0.98 Billion to Kshs 1.83 Billion.
61. These increases in pension and gratuity to the President, Deputy president and other designated officers as well as Members of Parliament is due to the upcoming general election in which the President, Deputy president and other state officers will be retiring and therefore eligible for Pension. Similarly, Members of Parliament who will not be re-elected but have served more than two terms will be eligible for monthly pension.
62. The Public Servants Superannuation Scheme commenced on 1st January 2021 as a contributory pension scheme for workers in public service. Under the scheme, an employee contributes 7.5% of their basic salary and the employer matches with 15%. The allocations to the PSSS which is equivalent to employer contribution to scheme will increase over the medium term to reach Kshs 34.44 Billion by Financial year 2025/26. The contribution pension scheme is expected to ease payment pressure from the exchequer in the long–term.

d) Salaries & Allowances

63. Salaries and allowances for holders of constitutional and independent offices will amount to Kshs. 4.59 billion; a marginal increase from Kshs 4.54 Billon in FY 2021/22. This expenditure component is estimated to reach Kshs 5.40 Billion in FY 2024/25 possibly due to end of terms of service for commissioners. In FY 2022/23, the major increases will include; Salaries and Personal allowances for i) Controller of Budget, ii) Public service commission and iii) Kenya National Commission on Human Rights.

Figure 15: Summary of Salaries, Allowances and Miscellaneous (Kshs. Billions)



Source: Budget Estimates 2022/23

e) Guaranteed debt

64. Article 213 of the Constitution and Section 58 of the PFM Act allow the government to provide loan guarantees upon approval by Parliament. As at June 2021, the total outstanding guaranteed debt

amounted to Kshs. 157.2 Billion[15], comprising of Kshs 80.9 Billion and Kshs 76.2 Billion for commercial and bilateral loans, respectively. This is a 215% increase from Kshs. 49.9 billion in FY 2014/15; indicating increased risk of contingent liabilities. If more guaranteed loans become callable, a heavier burden of repayment is transferred to the government thereby exacerbating fiscal sustainability concerns.

65. In FY 2022/23, Kshs. 2.26 Billion will be incurred to meet interest payment for guaranteed loan for Kenya Airways (this is in addition to the Kshs. 36.6 billion cash bailout offered under Vote 1071 – The National Treasury). This guarantee is based on Sessional Paper No. 3 of 2017, through which the National Government undertook to guarantee loan facilities to the Kenya Airways PLC as follows: i) Guarantee of $525 million (Long Term Loan) to US Exim bank (Export Import Bank of the US) in order to deliver liquidity savings to KQ over five (5) years, and ii) Guarantee of $225 million (Short Term Loan) to local Kenya banks, primary to support working capital requirements.

66. There is a change of financing strategy to support the Kenya airways company. There will be a shift from providing financial support/cash injection, to meeting debt servicing repayment only. It is estimated that between FY 2020/21 and FY 2022/23, the company will have received Kshs. 83.1 Billion in cash bailouts, to keep it operational during a loss incurring period. By FY 2025/26, a total of Kshs. 72.2 billion will be incurred to meet payment of called up guaranteed debt. It is therefore critical that a review of the composition of the portfolio, and the financial status of institutions whose loans have been guaranteed to establish imbedded risks and whether remedial measures can be taken to avoid further materialization of the guarantee liability.

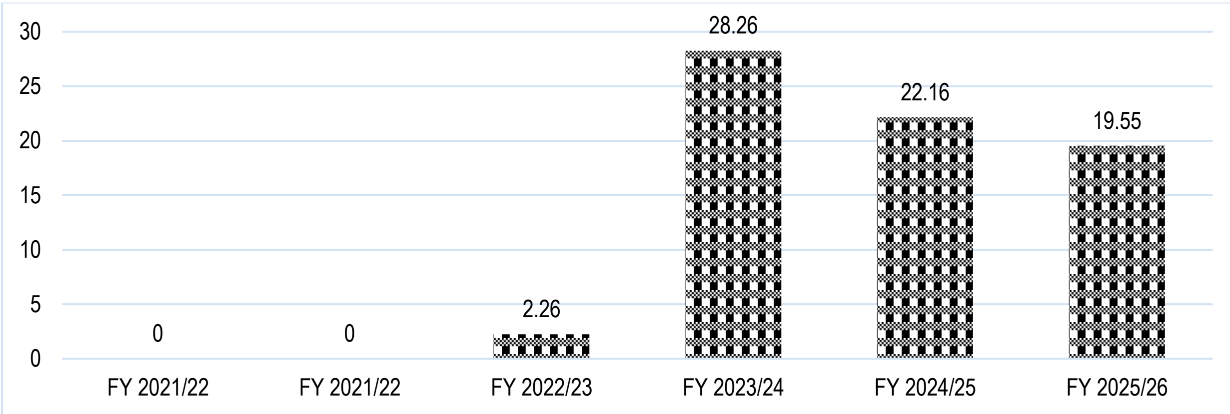
Table 8: Kenya Airways Financial Support, FY 2020/21 – FY 2025/26 (Kshs. Billions)

	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	Total
Cash Bailouts	20.0	26.5	36.6	-	-	-	83.1
Guaranteed Payments	-	-	2.3	28.3	22.2	19.6	72.2
Total Annual Financing	**20.0**	**26.5**	**38.9**	**28.3**	**22.2**	**19.6**	**155.3**

Source: Budget Estimates FY 2022/23

Figure 16: Guaranteed debt payments, FY 2021/22 – FY 2025/26 (Kshs. Billions)

[15] Annual Debt Management Report as at June 2021



Source: Budget Estimates FY 2022/23

f) Observations

i. Overall CFS expenditures for the FY 2022/23 are projected to amount to Kshs. 1.57 trillion, and will reach Kshs. 1.8 trillion in FY 2023/24 due to increase in external debt service.
ii. Given that the CFS expenditures are a first charge to the consolidated fund, their management is critical for cash management and creation of fiscal space to successfully implement other budgetary activities.
iii. The ratio of CFS expenditures relative to ordinary revenues will increase from 60% in FY 2020/21 to 64% in FY 2022/23. This indicates an increasingly constrained fiscal space and liquidity constraints that could impede smooth implementation of the budget.
iv. Domestic debt service is not only the largest component of Public debt service expenditures but also the largest CFS expenditure item. Total domestic debt service will accounting for 73% of public debt servicing expenditure, 80% of total interest expenses and 52% of total CFS Expenditures. This indicates the high cost of domestic debt stock.
v. December 2022 and February 2023 will have the highest domestic debt serving expenditures and approximately 51% of domestic debt service will occur between November 2022 and April 2021.
vi. The slight increase in external interest repayment is influenced by large concessional composition of external debt stock and a positive impact of the Debt Service Suspension Initiative (DSSI).
vii. Since FY 2014/15, debt guarantees have increased by 215% indicating increased exposure to contingent liability and if more guaranteed loans become callable, a heavier burden of repayment is transferred to the government thereby exacerbating fiscal sustainability concerns.
viii. There is need for Pension statistics to deeply understand factors driving the pension bill and project future expenditures. These statistics may include, but not limited to; the number of retirees in the next 5 years, and the characteristics of the existing public sector workforce / demographic factors.
ix. Status of implementation of House resolutions have not been discussed. The resolutions included the following:
    a) That, by April 2021 when the national budget is tabled, a full quantification of Kenya's Public debt stock as defined under Article 214 of the Constitution be undertaken. This should include debt disbursed and debt commitments already incurred.
    b) That, a debt register should be submitted on quarterly basis to Parliament for Scrutiny.

c) That, by April 2021 when the national budget is tabled, a progress report on all debt funded projects be provided in order to enhance transparency and accountability.

ANNEX 1: LEGAL COMPLIANCE OF THE 2022/23 BUDGET

Item	Constitution	PFM Act 2012	PFM Regul-ations 2015	Standing Orders	Score (Out of 5)	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)	4 out of 5	Submitted to Parliament on 7th April 2022.
2. The ceilings approved in the report on 2022 Budget Policy Statement, shall serve as the basis of the expenditure ceilings for the financial year and medium term.		25(8)	27(4)		3 out of 5	Ceilings for Executive have been revised upwards from 2,005B to 2,034B while Deficit from 846.1B to 862.5B.
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)		5 out of 5	Information provided
4. Submission of Budget Summary that includes a summary of budget policies on revenue, expenditure, debt, and deficit financing.		38(a)(i)			3 out of 5	Some information provided, however, there is no justification as to why the fiscal deficit has been revised upwards.
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)		3 out of 5	Although provided information on borrowing indicates it's for development funding, it's not clear for instance why deficit of 862.5B is greater than development expenditure at 711.4B.
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 5	Although the memorandum is provided, no demonstrable practical steps have been made to actualize the same as most of the timelines indicated by the house have not been adhered to.

Item	Constitution	PFM Act 2012	PFM Regul-ations 2015	Standing Orders	Score (Out of 5)	Comments
						There is a loop on the recommendations touching on other government agencies other than treasury and who takes lead in ensuring that they are properly reported to the house as some raise weighty budget related matters.
7. A list of all entities that receive funds appropriated from the budget of the national government		38(b)(i)			3 out of 5	Information provided. However, the anchorage for continued operation of Nairobi Metropolitan Service has not been elaborated.
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)			4 out of 5	No information on Estimates of Expenditure for FY 2022/23 from the Equalization fund. This is a result of the projects to be financed under the second policy have not been identified.
9. Revenue allocations to county governments including conditional and unconditional grants	202(2)	38(b)(iii)			5 out of 5	Information provided
10. Estimated revenue by broad economic classification and format		38(b)(iv)	59(1)		5 out of 5	Information provided
11. Estimated expenditure by vote & programme identifying both recurrent and development expenditures		38(b)(v)	32(4)		5 out of 5	Information provided
12. An estimate of budget deficit or Surplus and the medium term		38(b)(vi)			5 out of 5	Information provided
13. Information regarding loans made by the national government including principal interest and other charges to be received by		38(c)			5 out of 5	Information provided

Item	Constitution	PFM Act 2012	PFM Regul-ations 2015	Standing Orders	Score (Out of 5)	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)			5 out of 5	Information provided
15. 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 5	Information provided is insufficient. Some of the recommendations made by the national assembly seem to be moving targets for National Treasury
PUBLIC PARTICIPATION						
16. Public participation on all public matters including the publication of the Citizen's budget	201(a)		6(2)		2 out of 5	Citizen's budget uploaded on National Treasury's Website. However, no indication on the extent to which views of the public were incorporated into the finalization of the estimates.
Total					**75 %**	

ANNEX 2: COMPLIANCE TO HOUSE RESOLUTIONS ON THE 2021 BUDGET POLICY STATEMENT AND PAST BUDGET ESTIMATES

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
No.	**2022 BUDGET POLICY STATEMENT**	
1	That, by 31st of March,2022 the National Treasury submits a report to the National Assembly on: a. the implementation status of the Big Four Agenda. The report should include information on key milestones achieved, missed targets and a list of development projects to be completed in FY 2022/23 as prioritized under the Public Investment Management. b. Status report on the Credit Guarantee Scheme detailing amounts released and number of beneficiaries.	**Not Partly as the timelines have elapsed.** **Complied**
2	That, the National Treasury should in future prepare the Budget Policy Statement in line with the public debt ceiling.	**Noted for future Compliance.**
3	That, the National Treasury should expedite the finalization of the proposed Medium Term Revenue Strategy (MTRS) and submit it to the National Assembly by 30th April 2022.	**Partly Complied but within set timelines**
4	That, the National Treasury spearheads an evaluation of the emergency relief cash-transfer programme to households affected by drought under the Ministry of Public Service, Gender, Senior Citizen Affairs and Special Programmes. The evaluation report be submitted to Parliament within the next three months	**Not Complied but within timeliness**
5	That, a framework on the pre-approvals under Article 223 of the Constitution on Supplementary Budget be developed by the National Treasury, Controller of Budget and Office of the Auditor General and a report be submitted to Parliament within two months.	**Not Complied but within timelines**
6	That, the State Department for ICT, and Innovation to spearhead the establishment of a multi-agency committee that should come up with a strategy on the rollout of the Digital Learning Programme and a report be submitted to Parliament within six months upon approval of the 2022 BPS. The multi-agency committee should be made up of representatives from the State Departments for Energy, State Department for Interior and Co-ordination of National Government, Ministry of Education Research and Technology, and the State Department for ICT and Innovation. Further, the strategy should incorporate modalities of addressing challenges in settling of electricity bills in public learning schools.	**Not Complied but within timelines**
7	That, the relocation to Konza Techno Polis of the relevant agencies domiciled in the State Department for ICT and Innovation such as the Kenya Film School, Kenya Film Classification Board and the Kenya Film Commission to be effected by 31st December 2022 and the budget savings from this be utilized to reduce the fiscal deficit.	**Not Complied but within timelines.**
8	That, the Ministry of Education through stakeholders' engagements should spearhead the review of the capitation amount provided for public primary school learners and realign it to support the implementation of the new curriculum without compromising the quality of education. This report should be submitted to the National Assembly within two months.	**Not Complied but within timelines.**
9	That, within the next three months, the higher education sub sector should through the University Funding Board (UFB) establish and implement the university education data management information system to promote accountability and improve management of disbursed funds. This university data management system should also be linked to National Education Management information systems (NEMIS) to create a pool of credible data for the whole education sector.	**Not Complied but within timelines.**

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
10	That, within the next two months, the State Department for Early Learning and Basic Education to submit a report to the National Assembly on the re-mapping of areas to benefit from the school feeding programme and the new re-mapping when approved should form the basis of implementing programme in 2022/23 financial year. Further, for effective and smooth implementation and management of this programme it should be fully transferred and be domiciled in the National Council for Nomadic Education in Kenya (NACONEK).	**Partly Complied. The school feeding programme fully transferred to NACONEK. Remapping of needy areas yet to be made.**
11	That, in the next financial year 2022/23 the One Village One Product (OVOP) initiative which will cost Kshs. 505 million should be implemented and be domiciled under the Kenya Industrial Estate (KIE). The National Treasury should provide for the required resources.	**Not Complied**
12	That, the State Department for Labour should submit to Parliament the Labour Migration Bill within two months after the approval of the 2022 BPS, to address the matter of mistreatment of Kenyan migrant workers in the Gulf Region. Cases of Kenyan migrant workers being mistreated in the Gulf region have been on the rise yet there is no policy or targeted interventions to address the same.	**Not Complied but within timelines.**
13	That, the police housing audit be fast-tracked by the Cabinet Secretaries for the State Department for Interior and State Department for Housing and Urban Development. The report should be submitted to the National Assembly by 1st June 2022.	**Not Complied but within timelines.**
14	That, the Cabinet Secretary Ministry of Lands and Physical Planning should complete the development of an interim digital revenue collection system by 30th June 2022 and report be submitted to Parliament. This is to ensure collection leakages are eliminated for the Ministry to meet its revenue collection targets.	**Not Complied but within timelines.**
15	That, the State Department for Petroleum should review the Petroleum Development Fund Act, 1991 to provide for a Board to administer the funds and ring-fence the allocations/appropriations for use in fuel stabilization by the end of FY 2022/2023.	**Not Complied but within timelines.**
16	That, the National Treasury, Kenya Revenue Authority (KRA), Commission on Revenue Allocation (CRA) and the Council of Governors should fast-track the development of an integrated County Revenue Management system for a unified revenue collection system for all counties. The CRA should fast track the development of model tariffs and pricing policy to guide counties to develop their own.	**Partly complied as process is ongoing**
17	That, within the next one month, the Ministry of Health should submit an exit report for the leasing of the medical equipment programme. The report should contain among other things the successes, challenges, and value for money of the programme and more particularly detailing the Ministry's option as regards the equipment when the contract comes to an end later this year. It is critical that the persistent and pertinent issues surrounding this project are addressed to guarantee smooth transition.	**Not Complied**
18	That, the Ministry of Health should ensure by 1st May 2022 the fragmented government sponsored social health covers such as Linda mama, insurance for Elderly and PWDs, Edu Afya are harmonized into one single pool of resources for UHC. The savings from the implementation of this policy should be used to reduce the fiscal deficit.	**Not Complied but within timelines.**
19	That, the Ministry of Health should by 1st September 2022 submit to Parliament a clear policy and criteria of classifying health facilities across the country. This will facilitate smooth and seamless transfer of health facilities between the two levels of government.	**Not Complied but within timelines.**
	FINANCIAL RESOLUTIONS ON THE 2022 BUDGET POLICY STATEMENT	
20	**THAT,** the house approves the National Government Budget Ceiling for the 2022-2023 financial year at 2,075.011 billion of which Executive Kshs. 2,005.910 B Of which Auditor General Kshs 6.378 B Parliament Kshs. 50.220 B Judiciary Kshs. 18.885 B	**Not Complied**

	NATIONAL ASSEMBLY POLICY RESOLUTIONS	Remarks
21	**THAT,** the Committee is concerned that the BPS had proposed an overall deficit of 846 billion which has a potential to breach the approved debt ceiling of Kshs. 9 trillion. The committee therefore urges the National Treasury to amend the debt ceiling to enable them implement the budget as proposed, rationalize expenditure or implement revenue enhancing measures.	**Complied. The National Treasury has submitted a debt ceiling review instrument.**
22	**THAT,** the allocation to the Equalization Fund of Kshs. 7.068 billion be approved as provided in the Budget Policy Statement.	**Complied.**
23	**THAT,** the County Government Equitable share shall amount to Kshs. 370 billion.	**Complied**
24	**THAT**, county governments be allocated conditional grants of Kshs. 37 billion for FY 2022/2023 to be disbursed in accordance with schedule 4A & B of the report of BAC	**Complied**
25	**THAT,** the resolutions form the basis for the preparation of the 2022-2023 budget estimates	**Partly Complied.**

Annex 3

Recurrent /Current Appropriation in Aid			
Votes	**Recurrent Books2022/23 AIA**	**Estimates of Revenue, Grants, and Loans Books AIA 2022/23**	**Fiscal Framework AIA 2022/23**
1011 Executive Office of the President	9,079,127,990	9,079,127,990	
1021 State Department for Interior and Citizen Services	2,099,670,000	2,099,670,000	
1064 State Department for Vocational and Technical Training	4,693,000,000	4,693,000,000	
1065 State Department for University Education	42,379,478,998	42,379,478,998	
1066 State Department for Early Learning & Basic Education	1,433,000,000	1,433,000,000	
1071 The National Treasury	**7,436,814,306**	**8,173,829,042**	
1081 Ministry of Health	19,665,000,000	19,665,000,000	
1091 State Department for Infrastructure	**67,821,000,000**	**84,762,700,957**	
1092 State Department for Transport	8,677,000,000	8,677,000,000	
1093 State Department for Shipping and Maritime	1,606,000,000	1,606,000,000	
1095 State Department for Public Works	912,000,000	912,000,000	
1108 Ministry of Environment and Forestry	1,268,900,000	1,268,900,000	
1109 Ministry of Water & Sanitation and Irrigation	2,388,500,000	2,388,500,000	
1123 State Department for Broadcasting & Telecommunications	2,668,500,000	2,668,500,000	
1152 Ministry of Energy	5,856,000,000	5,856,000,000	
1162 State Department for Livestock.	1,084,000,000	1,084,000,000	
1169 State Department for Crop Development & Agricultural	6,328,700,000	6,328,700,000	
1173 State Department for Cooperatives	1,326,000,000	1,326,000,000	
1175 State Department for Industrialization	972,000,000	972,000,000	
1184 Ministry of Labour	913,420,000	913,420,000	
1194 Ministry of Petroleum and Mining	5,257,000,000	5,257,000,000	
1202 State Department for Tourism	7,232,380,000	7,232,380,000	
1203 State Department for Wildlife	3,219,000,000	3,219,000,000	
1213 State Department for Public Service	2,638,740,000	2,638,740,000	
1252 State Law Office and Department of Justice	565,580,000	565,580,000	
2091 Teachers Service Commission	547,000,000	547,000,000	
Others	2,053,089,820	14,440,589,820	
Total	**210,120,901,114**	**240,187,116,807**	**210,121,000,000**

Note: The difference between the total A in A recorded in the budget estimate books and Estimates of Revenue, Grants, and Loans books reflects the fact that the Estimates of Revenue, Grants, and Loans book records the expected revenue collection from the Railway Development Levy (RDL), Petroleum Development Levy (PDL) and Road Maintenance Levy (RML) rather than the expected expenditure by the respective MDAs.

Development Appropriations in Aid			
Votes	**Development Books 2022/23 A in A**	**Estimates of Revenue, Grants, and Loans Books AIA 2022/23**	**Fiscal Framework AIA 2022/23**
1011 Executive Office of the President	5,348,570,000	5,348,570,000	
1071 The National Treasury	**27,822,000,000**	**35,119,348,544**	
1091 State Department for Infrastructure	23,690,000,000	23,690,000,000	
1093 State Department for Shipping and Maritime	689,000,000	689,000,000	
1094 State Department for Housing & Urban Development	1,055,000,000	1,055,000,000	
1095 State Department for Public Works	250,000,000	250,000,000	
ICT& Innovation	330,000,000	330,000,000	
1132 State Department for Sports	15,750,000,000	15,750,000,000	
1152 Ministry of Energy	**7,553,000,000**	**8,778,855,000**	
1194 Ministry of Petroleum and Mining	2,700,000,000	2,700,000,000	
Others		20,549,713,163	
Grants		(20,838,827,972)	
TOTAL AIA DEVELOPMENT	**85,187,570,000**	**93,421,658,735**	**85,188,000,000**

Note: The difference between the total A in A recorded in the budget estimate books and Estimates of Revenue, Grants, and Loans books reflects the fact that the Estimates of Revenue, Grants, and Loans book records the expected revenue collection from the Railway Development Levy (RDL), Petroleum Development Levy (PDL) and Road Maintenance Levy (RML) rather than the expected expenditure by the respective MDAs.