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TWELFTH PARLIAMENT – FIFTH SESSION

REPORT OF THE STANDING COMMITTEE ON FINANCE AND BUDGET

ON

THE 2022 BUDGET POLICY STATEMENT AND THE MEDIUM TERM DEBT MANAGEMENT STRATEGY

PAPERS LAID	
DATE	21/12/21
TABLED BY	Sen. Kibiru - Chair Finance
COMMITTEE	Finance
CLERK AT THE TABLE	M. Adjibodo

CLERK CHAMBERS
THE SENATE
PARLIAMENT OF KENYA
<u>NAIROBI</u>

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20/12/2021

DECEMBER 2021

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PREFACE

The Standing Committee on Finance and Budget was constituted by the House on Thursday, 14th December, 2017 during the First Session of the Twelfth Parliament. The Committee was later reconstituted on Wednesday, 24th June, 2020, during the Fourth Session of the Twelfth (12th) Parliament. The Committee as currently constituted, comprises the following Members-

1. Sen. Charles Kibiru, MP - Chairperson
2. Sen. (Dr.) Ochillo Ayacko, EGH, MP - Vice Chairperson
3. Sen. Wetang'ula Moses Masika, EGH, MP - Member
4. Sen. Kimani Wamatangi, MP - Member
5. Sen. Mutula Kilonzo Junior, CBS, MP - Member
6. Sen. Aaron Cheruiyot, MP - Member
7. Sen. Rose Nyamunga, CBS, MP - Member
8. Sen. CPA Farhiya Haji, MBSMP - Member
9. Sen. Milicent Omanga, MP - Member

The Standing Committee on Finance and Budget is established pursuant to Section 8 of the Public Finance Management Act, 2012 and standing order 218(3) of the Senate Standing Orders and is mandated to -

a) Investigate, inquire into and report on all matters relating to coordination, control and monitoring of the county budgets and to examine -

i) the Budget Policy Statement presented to the Senate;

ii) report on the Budget allocated to Constitutional Commissions and independent offices;

iii) the Division of Revenue Bill, County Allocation of Revenue Bill, and cash disbursement schedule for county governments;

iv) Consider all matters related to resolutions and Bills for appropriations, share of national revenue amongst the counties and all matters concerning the National Budget, including public finance and monetary policies and public debt, planning and development policy.

b) Pursuant to Article 228 (6) of the Constitution, to examine the report of the Controller of Budget on the implementation of the budgets of county governments

Executive Summary

The 2022 Budget Policy Statement (BPS) and the Medium Term Debt Management Strategy (MTDMS) were tabled in the Senate on Wednesday, 1st December, 2021. Pursuant to standing order 180(4), of the Senate Standing Orders the Budget Policy Statement and the Medium Term Debt Management Strategy were committed to Standing Committee on Finance and Budget for consideration. The Committee is required to deliberate, and table a report containing its recommendations on the Budget Policy Statement within twelve (12) days.

Pursuant to standing order 180(5) of the Senate Standing Orders, the Committee invited the Cabinet Secretary, National Treasury and Planning, and Commission on Revenue Allocation (CRA). Further, the Committee invited Senate Standing Committees, which oversight different state departments, to consider respective sector proposals as provided in the BPS and forward their observations and recommendations. Other interested parties like the Institute of Certified Public Accountants of Kenya (ICPAK), International Budget Partnership (IBP- Kenya Chapter), and The Institute Social Accountability appeared before the Committee and submitted memorandum.

The Committee made significant observations on the BPS proposals for the Financial Year 2022/23 and the MTDMS, identifying broad policy issues with great impact on counties and proposals on revenue allocation. The Committee also considered all the views submitted by the stakeholders in making the recommendations contained in this report.

It is significant to mention that the purpose of the approval of this report on the BPS is to communicate the Senate's position on the preparation of all subsequent budget documents for the next financial year. These documents include Division of Revenue Bill, 2022, and County Allocation of Revenue Bill, 2022. It is also important to note that Section 25 of the Public Finance Management Act, 2012, stipulates that the resolutions of Parliament, on the BPS must inform the preparation of the Annual Estimates. Thus, by extension, this House's resolutions on this report will form the basis of preparing the FY 2022/23 estimates for the various spending agencies at both national and devolved level.

Examination of the 2022 Budget Policy Statement and the Medium Term Debt Management Strategy

Pursuant to Public Finance Management (PFM) Act, 2012 Section 25 (2), the National Treasury submitted to Parliament the 2022 BPS on Tuesday, 30th November, 2021 on account of the revised budget calendar for FY2022/23. Further, pursuant to PFM Act section 25 (7), and standing orders 180(4) and (5) of the Senate Standing Orders, the BPS was committed to the Standing Committee on Finance and Budget for consideration and recommendation.

The theme for the BPS 2022 and the medium term is "Accelerating Economic Recovery for improved livelihood". The policies in the BPS have also been anchored on the Medium-Term Plan III of the Vision 2030 as prioritized in the "Big Four" Agenda.

The BPS indicates that the total budget is expected to grow from Kshs. 3,030.33 billion in the FY 2021/22 to Kshs. 3,309.14 billion in the FY 2022/23 representing a growth of 9.2%.

The County Transfers is proposed to remain at Kshs. 370 billion, while the Consolidated Funds Service (CFS) is proposed to have the largest increment of 20.3% accounting for 26.1% of total budget and is slowly crowding out other expenditures. The National Government expenditure has a marginal increment of 6.8%.

The economy grew by 5.4 percent in the first half of 2021 boosted by recovery in sectors such as Education, Transport, manufacturing, accommodation, and restaurants. However, this growth is partially attributed to the base effect (Negative growth in 2020).

The National Treasury projects that Kenya's economy will grow by 6 percent in 2021 and 5.8 percent in 2022 strengthened by the ongoing implementation of the strategic priorities under the "Big Four" Agenda and initiatives under the Economic Recovery Strategy.

Ordinary revenue projections for FY 2022/23 is Kshs. 2,141.6 billion, this is however based on the planned reforms in tax administration and revenue collection. The projected ordinary revenue for the ongoing financial year is Kshs. 1,800 billion.

The National Treasury is targeting to reduce the fiscal deficit (including grants) from 8.2 percent in the FY 2021/22 to 6.0 percent in the FY 2022/23 and 3.2 percent in the medium term.

The overall inflation rate has remained modest and within the target range increasing from 5.3% in November 2020 to 5.8% in November 2021. Fuel inflation was on an upward trajectory in 2020 to stand at 11.1 percent in March 2021. It declined to 3.8 percent in November 2021, effect of lower international crude oil prices and partly due to the Energy Petroleum Regulatory Authority fuel subsidy. Food inflation was at 9.9 percent in November 2021 owing to increase in price of various food commodities. The Central Bank of Kenya Rate has remained at 7.0 percent since April 2020.

Exports as a share of GDP has steadily declined from around 12 percent in 2011 to 6 percent in 2020/21. The current account balance has remained steady at around 5 percent since 2018 partly due to declining imports as a share of GDP. Exports of agricultural products and diaspora remittances continue to be a major source of foreign reserves.

The Economic Stimulus Programme (ESP) is in the third phase of responses to the adverse effects of the covid-19 pandemic. The third phase of ESP is set to cost Kshs. 26.2 billion.

The proposed ceiling for this Agriculture, Rural and Urban Development Sector for the FY 2022/23 is Kshs. 63.9 billion which represents a decrease of 15.6 percent in allocation when compared to the allocation of the current FY of Kshs. 75.7 billion. The proposed health sector allocation has increased from Kshs. 121.1 billion in the FY 2021/22 to Kshs. 129.4 billion representing an increase of 8.3 percent.

In the FY 2022/23, out of the total projected shareable revenue of Kshs. 2,141.6 billion the National Treasury proposes an allocation of Kshs. 370 billion to the County Governments. County equitable share of revenue as a percentage of ordinary revenue would decrease from 22 percent in the FY 2017/18 to 17 percent in the FY 2022/23. This is projected to decrease further to 13 percent in the FY 2024/25.

Since FY 2017/18 -2020/21, counties have been allocated over Kshs. 200 billion as additional allocations from the National Government share of revenue and loans and grants from development partners. In FY 2022/23, the NT proposes to allocate Kshs. 37 billion additional conditional allocations from the National Government share of revenue raised nationally and conditional allocation from proceeds of external loans and grants.

Pending bills in the counties have been increased over the years. For instance, the FY 2018/19 the total pending bills reported was Kshs. 34.54 billion while in FY 2019/20 Kshs. 113.85 billion was reported. For the FY 2020/21 the total reported pending bills was Kshs. 102.69 billion in the. The County that reported the highest outstanding pending Bills is Nairobi City County with a pending bill of Kshs. 78.7 billion in the FY 2019/20 and Kshs. 54.32 billion in the FY 2020/21.

The total aggregate Own Source Revenue (OSR) collection by counties from FY 2013/14 to FY 2020/21 amounts to Kshs.270.7billion against a target of Kshs.442.6billion. It has risen sluggishly from Kshs.26.3billion in the FY 2013/2014 to Kshs.40.3billion in the FY 2018/19 (CRA, May 2021) which has led to overdependence on the national government share for funding.

The 2022 **Medium Term Debt Management Strategy** (MTDMS) aims at minimizing costs and risks of public debt through a net financing mix of 32% from external sources and 68% from domestic markets. The nominal stock of public debt was Kshs.7.7 billion as at end of June 2021, this is equivalent to 68.1 percent of the GDP and 86 percent of the statutory debt ceiling of Kshs. 9 trillion as per the PFM Regulations (2015).

As of the end of June 2021, the outstanding guaranteed debt to state enterprises amounted to Kshs. 157.2 billion compared to Kshs. 171.73 billion provided as at end of December 2020. Kenya's debt carrying capacity assessment was revised from strong in 2017 to medium in the World Economic Outlook of October 2020. On the external debt market, the strategy plans to optimize concessional borrowing and reduce commercial borrowing. The MTDS 2022, provides that the strategy supports initiatives to develop the domestic debt market.

The Committee made several observations including-

a) The ordinary revenue projection for the FY 2022/23 is Kshs. 2,141.6 billion, 19% growth, is quite an overestimation and unless there was policy change, these projections may not be achieved.

b) That the fiscal deficit increases within the financial year when revenue targets are not achieved and this leads to increased borrowing outside the targets approved in the BPS.

c) The proposed allocation to counties of Kshs. 370 billion, has not factored in inflation and therefore in real terms the allocation is lower than the allocation for the FY 2021/22.

The Committee proposes that the Senate approves the 2022 BPS and the MTDMS with various policy and financial recommendations among them-

a) The National Treasury should rationalize the National Government budgets for devolved functions such as for Health, Agriculture (crop, livestock and fisheries development), water, irrigation, sanitation and regional development and the funds be transferred to the County Governments.

b) To enhance revenue mobilization as well as improve predictability of the tax regimes to attract investments, the National Treasury should prioritize finalization of the National Tax Policy.

c) That the National Treasury should-

   i) adjusts for inflation the county equitable share and further ensures that the allocations to counties are not less than 35 percent of the most recent audited and approved accounts for the FY 2017/18 amounting to Kshs. 1,413.69 billion. Thus, the County Equitable share should be **Kshs. 495 billion;**

   ii) adjust the proposed allocation of **Kshs. 1,764.52 billion** shareable revenues to the National Government for FY 2022/23 in the 2022 BPS, by **reducing it by 7%**; and

   iii) ensure the budget deficit including grants does not exceed 6% of GDP while budget deficit excluding grants be pegged at 6.4% as projected in the BPS 2022.

Acknowledgement

The Committee is grateful to all the stakeholders who made contributions including the Senate Standing Committees, the National Treasury and Planning, the Commission on Revenue Allocation (CRA), International Budget Partnership (IBP) - Kenya Chapter, Institute of the Certified Public Accountants of Kenya (ICPAK), and The Institute of Social Accountability (TISA).

The Committee is also particularly grateful to the Offices of the Speaker, the Clerk of Senate and the Parliamentary Budget Office for the support received as it discharged its mandate of examining the 2022 BPS and MTDMS as well as to the Senators who participated in the process.

It is therefore my pleasant duty and privilege, on behalf of the Standing Committee Finance and Budget to table this Report on the 2022 Budget Policy Statement and the Medium Term Debt Management Strategy and recommend it to the House for adoption.

SIGNATURE: ______________________

SEN. CHARLES KIBIRU, MP.

(CHAIRPERSON, STANDING COMMITTEE ON FINANCE AND BUDGET)

DATE: **14th December, 2021**

I. 2022 BUDGET POLICY STATEMENT AND MEDIUM TERM DEBT MANAGEMENT STRATEGY

Introduction

1. The Budget Policy Statement (BPS) is a policy document that sets out the broad strategic priorities and policy goals that will guide the national and county governments in preparing their budgets for the financial year and over the medium term. The strategic priorities outlined in the 2022 BPS are anchored under Vision 2030, the Medium-Term Plan III, the Big Four agenda, and the third Economic Stimulus Programme (ESP).
2. The document contains an assessment of the current state of the economy including;

   (a) Macroeconomic forecasts;

   (b) The financial outlook with respect to Government revenue, expenditures and borrowing for the next financial year and over the medium term;

   (c) The proposed expenditure ceilings for the National Government, including those of Parliament and the Judiciary and indicative transfers to County Governments;

   (d) The fiscal responsibility principles and financial objectives over the medium-term including limits on total annual debt; and

   (e) Statement of Specific Fiscal Risks.

1.1. Adherence to legal framework

3. The legal framework underpinning the 2022 Budget Policy Statement is articulated in Section 25 of the Public Finance Management Act, 2012. It requires the National Treasury to submit the BPS to Parliament for approval by 15th February in each year.
4. The 2022 Budget Policy Statement was submitted to Parliament on Tuesday, 30th November 2021 on account of the revised budget calendar for FY2022/23 to accommodate the activities related to the General Elections scheduled for August 2022.
5. Although the expectations of the BPS are very clear, the document as submitted by the National Treasury has consistently fallen short of its objectives. The BPS 2022 has not adequately provided;
   a) Analysis and explanation of revenue policies as outlined under Section 29 of the Public Finance Management Regulations, 2015

b) Information on pending bills by the National Government as required by law;

c) Information on losses and outstanding payments of the State Corporations;

d) A project list that is reconcilable to the total proposed ceilings for development expenditure.

e) The total costs of various Public Private Partnerships (PPP) are expressed in US dollars. In addition, there is no adequate information provided regarding government support and risks involved in case of default by Government.

6. The Budget Policy Statement (BPS) is the most critical document in the budget process because it is the basis upon which the draft Division of Revenue Bill, County Allocation of Revenue Bill and the budget estimates for the subsequent year and over the medium term is prepared. The vertical allocation during the approval of the BPS further gives indicative allocations that guide the preparation and approval of the County Fiscal Strategy Paper (CFSP) by the County Assemblies.

Highlights of the Budget Policy Statement

1.2. Overall Expenditure Ceilings

7. The total budget has grown from Kshs. 3,030.33 billion in the FY 2021/22 to Kshs. 3,309.14 billion in the FY 2022/23 representing a growth of 9.2%. The National Government expenditures has a marginal increment of 6.8%.

8. The County Transfers has remained at Kshs. 370 billion, while the Consolidated Funds Service (CFS) has the largest increment of 20.3%. CFS now accounts for 26.1% of total budget and is slowly crowding out other expenditures. This can be attributed to high dependency on debt to fund expenditures over the past decade.

Table 1: Summary of proposed Budgetary Allocations for FY 2022/23 and over the medium term in Kshs. Millions

No.		Approved Budget	BPS Projections		
		FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
1	**National Government**	**1,942,008.90**	**2,075,014.60**	**2,192,370.00**	**2,306,421.90**
	Of which:				
	(i) Executive	1,886,207.90	2,017,653.30	2,132,412.30	2,242,698.80
	(ii) Judiciary	37,882.80	38,476.60	39,883.90	41,349.40
	(iii) Parliament	17,918.20	18,884.70	20,073.80	22,373.70

2	**Consolidated Fund Services***	**718,316.80**	**864,125.00**	**908,804.00**	**982,520.00**
3	**County Governments****	**370,000.00**	**370,000.00**	**375,000.00**	**380,220.00**
	Total	**3,030,325.70**	**3,309,139.60**	**3,476,174.00**	**3,669,161.90**

Source: The National Treasury

NB* *Consolidated Fund Services is composed of domestic interest, foreign interest and pension*

*NB** the allocation to counties is based on sharable revenue*

1.3. Recent economic developments and outlook of key macroeconomic variables over the medium term.

1.3.1. Economic growth in 2020:

9. The economy grew by 5.4 percent in the first half of 2021 boosted by recovery in sectors such as Education, Transport, manufacturing, accommodation and restaurants. The 2021 growth is partially attributed to the base effect (Negative growth in 2020). Economic growth is expressed as a year over year or quarter over quarter figure but a low growth in the previous year may produce a spike in the next year due to the low base.

10. The National Treasury projects that Kenya's economy will grow by 6 percent in 2021 and 5.8 percent in 2022 strengthened by the ongoing implementation of the strategic priorities of the Government under the "Big Four" Agenda and initiatives under the Economic Recovery Strategy.

11. Slower growth may hamper recovery in a job market that lost over 700,000 jobs in 2020. The bulk of the estimated 350,000 jobs lost in the informal sector were in the manufacturing, wholesale and retail trade, and hotels and restaurant sectors. Majority of formal sector job losses occurred in the manufacturing, education, accommodation and restaurants sectors.

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

13. The agriculture sector remained resilient in 2020 growing at 4.9 percent surpassing the 2.7 percent growth recorded in 2019. However, due to the lower-than-expected rainfall in the better part of 2021 the agriculture sector contracted by 0.5 percent in the first half of 2021.Increasing productivity in the agriculture sector is one of the strategies that is likely to contribute to enhanced economic growth over the medium term.

1.3.2. Fiscal Policy

14. Total revenue as a share of GDP is expected to remain at around 16 percent in 2021/22 and 2022/23 FYs if innovative policy measures that aim to expand the tax base and minimize revenue leakages are not implemented.
15. The ordinary revenue projection by the National Treasury for the 2022/23 FY is Kshs. 2,141.6 billion, this is however based on the planned reforms in tax administration and revenue collection. Assuming a no policy change scenario, the projected ordinary revenue collection for 2022/23 FY will be between Kshs. 1,775.4 billion and Kshs. 1,971.8 billion which will be lower than the National Treasury projection of Kshs. 2,141.6 billion.
16. The National Treasury is targeting to reduce the fiscal deficit (including grants) from 8.2 percent in the FY 2021/22 to 6.0 percent in the FY 2022/23 and 3.2 percent in the medium term. However, without concrete policies that are aimed at enhancing revenue collection as a share of GDP the fiscal deficit over the medium-term is projected to remain above 5 percent.

1.3.3. Inflation rate

17. The overall inflation rate has remained modest and within the target range increasing from 5.3% in November 2020 to 5.8% in November 2021. Fuel inflation was on an upward trajectory in 2020 to stand at 11.1 percent in March 2021 due to increasing crude oil prices in the international market. It declined to 3.8 percent in November 2021, effect of lower international crude oil prices and partly due to the Energy Petroleum Regulatory Authority (EPRA) fuel subsidy. Anticipated risks in the next FY and over the medium term include the end of the EPRA fuel subsidy and an increase in international crude oil prices.
18. Food inflation was 9.9 percent in November 2021 owing to increase in price of various food categories as the country is reported to have experienced below average rainfall during the long rains season of March to May 2021, resulting in lower-than-average crop production and feed for livestock.

1.3.4. Interest rates and credit

19. According to the 2022 BPS, the Central Bank Rate has remained at 7.0 percent since April 2020, this is aimed at supporting access to domestic credit to MSMEs as a cushion for the effects of the COVID-19 pandemic.

20. However, the share of private sector credit declined while that of the public sector increased. Private borrowers especially MSMEs may not have been able to benefit mainly due to the crowding-out effect by the Government. In addition, the lending rates increased from 11.9 percent in April 2020 to 12.1 percent in September 2021.

21. The highest private sector credit is mainly to trade, private households, manufacturing and real estate. The outlook for FY 2022/23 is that the share of credit to the private sector may decline if a larger portion of the Government budget is financed through domestic debt.

1.3.5. External sector

22. Exports as a share of GDP has steadily declined from around 12 percent in 2011 to 6 percent in 2020/21. The current account balance has remained steady at around 5 percent since 2018 partly due to declining imports as a share of GDP.

23. Exports of agricultural products and diaspora remittances continue to be a major source of foreign reserves. Enhanced exports are critical to improving incomes in the agriculture sector and as a source of foreign exchange required to meet external obligations. Enhancing credit to export oriented MSMEs may create employment and spur improvement in exports as a share of GDP.

1.4. Overall policies in the 2022 Budget Policy Statement (BPS)

24. The theme for the BPS 2022 and the medium term is "Accelerating Economic Recovery for improved livelihood".

25. The policies in the BPS have also been anchored on the Medium-Term Plan III of the Vision 2030 as prioritized in the "Big Four" Agenda. The focus of the policies is to continue providing an enabling environment for economic recovery to safeguard livelihoods, jobs, businesses and industrial recovery. In this respect, the Government plans to strengthen implementation of Programmes and measures that ensure a more inclusive growth, foster macroeconomic stability, and avail liquidity to the private sector including initiating innovative products to boost credit to Micro, Small and Medium Enterprises (MSMEs).

26. The broad strategic priorities and policy goals of the BPS 2022 are anchored on two main pillars of economic Stimulus Programme and Accelerating implementation of the Big Four agenda.

27. The Economic Stimulus Programme is the third phase of responses to the adverse effects of the covid-19 pandemic. In this phase the government has shifted focus and intends to target key productive and service sectors in thirteen strategic interventions that cover agriculture, health, education, drought response, infrastructure, financial inclusion, energy and environmental conservation. The interventions under the third phase of ESP are set to cost Kshs. 26.2 billion, the following are some of the interventions planned;

i.) Small scale fertilizer subsidy for tea farmers Kshs. 1 billion

ii.) Completion of ongoing targeted interventions in the coffee sub-sector Kshs. 1 billion

iii.) Communities affected by the ongoing drought especially in ASAL counties as part of National Livestock off-take programme Kshs. 1.5 billion

iv.)Reduction of prices of animal feeds

v.) Construction of additional 50 new level 3 hospitals in non-covered areas Kshs. 3.2 billion

vi.)Roll out of the third phase of the "kazi mtaani" programme to create employment for over 200,000 youths Kshs. 10billion

1.5. Sectoral Policy Priorities in the BPS 2022

1.5.1. Agriculture, Rural and Urban Development Sector

28. The proposed ceiling for this sector for the FY 2022/23 is Kshs. 63.9 billion which represents a decrease of 15.6 percent in allocation when compared to the allocation of the current FY of Kshs. 75.7 billion. The policy priorities highlighted in the BPS 2022 include; production of 149 million doses of assorted animal vaccines, establishment of livestock export zone in Lamu, provision of a 50% subsidy crop insurance cover to 1.45 million farmers. The government also plans to support 688,808 registered farmers in 40 counties to access assorted agricultural inputs through e-voucher system.

1.5.2. Health Sector

29. The proposed sector allocation has increased from Kshs. 121.1 billion in the FY 2021/22 to Kshs. 129.4 billion representing an increase of 8.3 percent. The key priority areas in the health sector outlined in the BPS 2022 include; a) Improvement of maternal, new-born and child health services b) Enhancement of early diagnosis and management of cancer through acquiring cyber knife radiotherapy equipment for Kenyatta University Teaching, Referral and Research Hospital c) Facilitate the establishment of cancer centers in Meru and Kakamega to reduce the burden of cancer treatment among Kenyans.

30. The increase in allocation to the health sector, is quite marginal considering there are emerging variants of COVID 19 and the Government plans to achieving universal Health care.

1.5.3. Social Protection, Culture and Recreation:

31. The proposed allocation for the sector for the FY 2022/23 is Kshs. 72.9 billion which represents a 1% increase in allocation. The sector policy priorities for the FY 2022/23 and over the medium term include provision of cash transfers to vulnerable persons, implementation of government affirmative Programmes, and improvement of youth employability. There is need for coordination framework between the National and County governments in regards to the cash transfer Programmes, to ensure there is no overlap in the Programmes and activities being undertaken.

1.5.4. Environment Protection, Water and Natural Resources:

32. The proposed ceiling for the sector is Kshs. 110.7 billion which represents a 10 percent increase allocation from the current allocation of Kshs. 100.6 billion. The proposed priorities under this sector include, settling all pending human wildlife conflict compensation claims, enhancing waste management in 47 counties, protect 142,000 HA of forest plantations against poaching and protect 350,000 Ha of water towers.

1.5.5. Transport, Public Works And Housing

33. The State Department for Infrastructure has a proposed ceiling of Kshs. 211.40 billion for the FY 2022/23 against the Kshs. 195.20 billion approved for the FY 2021/22. The recurrent expenditure which is largely composed of the fuel levy has a ceiling of Kshs. 69.48 billion against the Kshs. 57.17 billion approved in the FY 2021/22.

County Financial Management and Vertical Distribution of Resources

3.1. Vertical Distribution of Nationally Raised Revenue between the two levels of Government

1.5.6. Equitable share

34. The counties have received equitable share of over Kshs. 2 trillion from the FY 2013/14 to FY 2020/21. In the FY 2022/23, out of the total projected shareable revenue of Kshs. 2,141.6 billion the National Treasury proposes an allocation of Kshs. 370 billion to the County Governments.

35. The county governments' allocation of Kshs. 370 billion is equivalent to 26.2% of the most recent audited and approved accounts for the financial year 2017/18 amounting to Kshs. 1,413.69 billion.

36. The allocation to county government's shareable revenue has remained at Kshs. 370 billion despite the counties increased needs for post-COVID 19 recovery and drought situation in the Counties. The allocation for the counties has remained the same due to the government's fiscal consolidation strategy.

37. In addition, inflation which currently stands at 5.8%, has not been factored in the Kshs. 370 billion allocations to counties. This affects the level of service delivery the counties can deliver as the cost of goods continue to rise while resources allocated remain stagnant.

38. Ordinary revenue raised each year must be shared between debt repayment, recurrent expenditure, and county allocations. A bigger share of ordinary revenue is taken up by debt repayment reducing the share that goes to counties as equitable share. Table 2 shows equitable share and interest payments as a share of ordinary revenue.

Table 2: Equitable share & Interest payments as a share of Ordinary Revenue

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

% of ordinary revenue								

SOURCE: PBO

39. County equitable share of revenue as a percentage of ordinary revenue has decreased from 22 percent in the FY 2017/18 to 17 percent in the FY 2022/23. This is projected to decrease further to 13 percent in the FY 2024/25.

40. However, the interest payments as a percentage of ordinary revenue have increased from 24 percent in the FY 2017/18 to 30 percent in the FY 2022/23. This means that any additional revenue raised by the government goes to servicing debt.

1.5.7. Conditional Grants

41. Since FY 2017/18 -2020/21, counties have been allocated over Kshs. 200 billion as additional allocations from the National Government share of revenue and loans and grants from development partners. The National Treasury has however, not reported on the utilization of the grants and status of whether they have achieved the intended purpose.

42. In FY 2022/23, the NT proposes to allocate Kshs. 37 billion additional conditional allocations from the National Government share of revenue raised nationally and conditional allocation from proceeds of external loans and grants.

43. Previously conditional grants were allocated through the Division of Revenue Act However, the High court Ruling on petition 252 of 2016 held that conditional or unconditional grants can be issued to the county level of government under Article 190 of the Constitution or through an agreement between the two levels of government that respects the institutional and functional integrity of both levels of government but not in the Annual Division of Revenue Act.

44. The court directed the development of an alternative mechanism for disbursement of conditional grants to counties, in which the Senate developed and approved the County Governments Grants Bill, 2021. The Bill was sent to National Assembly where it was approved with an amendment and a message sent to Senate on the same for consideration.

3.2. County Financial Management

3.2.1. Fiscal Responsibility

45. Section 107 (2) (b) of the Public Finance Management Act, 2012 stipulates a minimum of thirty percent of the budget over the medium term should be spent on development expenditure. Counties comply with this requirement at the approval of the budget level, however actual expenditures reported by the Controller of Budget (COB) indicate that this principle is not complied with by many counties during budget implementation.

46. Another fiscal responsibility principle is the compliance to Regulation 25 (1) (b) of the PFM (Count Governments), Regulations, 2015 to ensure wage bill does not exceed 35 percent of each County Governments total revenue. The County Budget implementation reports indicate that for the FY 2020/21 only 13 county governments were within the legal threshold while 34 county governments spent beyond the threshold. It is also important to note that there are counties whose wage bill spending is over fifty percent of their total revenue, this is likely to hamper service delivery as allocations to social, economic and productive sectors are minimal.

3.2.2. Pending Bills

47. Pending Bills in the counties increased from Kshs. 34.54 billion in the FY 2018/19, Kshs. 113.85 billion in the FY 2019/20 to Kshs. 102.69 billion in the FY 2020/21. This is however based on reporting by county governments and not verified information by the Auditor General. Counties that reported the highest outstanding pending Bills is Nairobi County with a pending bill of Kshs. 78.7 billion in the FY 2019/20 and Kshs. 54.32 billion in the FY 2020/21.

48. Pending bills are mainly as a result of weak internal control mechanisms, over commitment of budgets, underperformance of Own Source Revenue, and failure to adhere to approved work plans.

3.2.3. Weak Budgetary Control and Use of Revenue at Source

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

3.2.4. Statutory Remittances

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

3.2.5. Counties Own Source Revenue

51. The total aggregate Own Source Revenue (OSR) collection by counties from FY 2013/14 to FY 2020/21 amounts to Kshs.270.7 billion against a target of Kshs.442.6billion. It has risen sluggishly from Kshs.26.3 billion in the FY 2013/2014 to Kshs.40.3billion in the FY 2018/19 (CRA, May 2021). The low Own source revenue (OSR) collection by counties has led to overdependence on the national government share for funding of their operations.

52. Actual collection of OSR for the period FY 2013/14 to 2018/19 shows that Embu, Bungoma, and Garissa tripled their OSR collection in the six years. However, Homa-Bay, Busia, Wajir, and Mandera OSR collection in the six years was worse than their revenue collection in the first year of fiscal decentralization.

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

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

II.MEDIUM-TERM DEBT MANAGEMENT STRATEGY 2022

55. Section 33 and 64(2) of the Public Finance Management Act, 2012 and National Government Regulations 184 & 185 requires National Treasury to annually submit the Medium-Term Debt Management Strategy to Parliament on or before 15th February for consideration and approval. However, due to the August 2022 general elections, the budget calendar for the FY 2022/23 was revised and the MTDS 2022 was submitted on 30th November 2021.

56. Each year the Cabinet Secretary submits a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability and potential liability in respect of loans and guarantees and its plans for dealing with those liabilities. The statement further includes;

- **a)** the total stock of debt as at the date of the statement,
- **b)** the sources of loans made to the national government and the nature of guarantees given by the national government,
- **c)** the principal risks associated with those loans and guarantees,
- **d)** the assumptions underlying the debt management strategy; and,
- **e)** Analysis of the sustainability of the amount of debt, both actual and potential.

1.6. Highlights of the Medium-Term Debt Strategy 2022

57. The MTDS highlights government debt management plans over the medium term with a view to reduce the cost and risk associated with public debt. The MTDS informs the optimal strategy for funding of the fiscal deficit taking into account the cost and risk implication of the borrowing mix.

58. The 2022 MTDS aims at minimizing costs and risks of public debt through a net financing mix of 32 percent from external sources and 68 percent from domestic markets. In terms of gross borrowing, the strategy seeks to achieve 25 percent external borrowing and 75 percent domestic borrowing.

1.6.1. Stock of public debt

59. The nominal stock of public debt was Kshs.7.7 billion as at end of June 2021, this is equivalent to 68.1 percent of the GDP and 86 percent of the statutory debt ceiling of Kshs. 9 trillion as per the PFM Regulations (2015).

60. Out of the total debt, external debt was Kshs. 3,999.5 billion (35.4 percent of GDP) while total domestic debt was Kshs. 3,697.1 billion (32.7 percent of GDP). The main sources of external public debt are multilateral, bilateral and commercial creditors. As a proportion of GDP multilateral, bilateral and commercial debt accounted for 14.8 percent, 9.4 percent and 9.8 percent respectively.

61. As at end of June 2021 domestic debt comprised of Treasury Bills in tenors of 91, 182 and 364 days as well as Treasury bonds accounting for Kshs. 765.4 billion and Kshs. 2,849.9 billion respectively. This is as shown in table 3 below

Table 3: Public and Publicly Guaranteed Debt in the MTDS as at of June 2021

		Kshs. Million	% GDP
A	**Domestic Debt (included in MTDS)**		
	Treasury Bills	765,374.80	6.8
	Treasury Bonds	2,849,935.60	25.2
	Pre-1997 Government Debt	20,008.80	0.2
	Sub Total	**3,635,319.20**	**32.20**
B	**External Debt (included in MTDS)**		
	IDA	1,126,130.20	10
	ADF	322,293.10	2.9
	Bilateral	1,064,272.20	9.4
	Multilateral	210,988.00	1.9
	Commercial Banks	340,031.30	3
	International Sovereign Bond	766,445.00	6.8
	Sub Total	**3,830,159.80**	**34.00**
C	**Excluded from MTDS**		
	Suppliers Credit	12,162.10	0.1
	CBK Overdraft	59,279.40	0.5
	Performing Guarantees	157,219.70	1.4
	Bank advances	2,455.00	0.0
	Sub Total	**231,116.20**	**2.00**
	Total Debt included in MTDS (A+B)	**7,465,479.00**	**66**
	TOTAL DEBT (I+II+III)	**7,696,595.20**	**68.1**

Source: MTDS 2022

62. The World Bank and IMF composite indicator for economic and institutional performance classifies Kenya as a medium performer with sustainable debt with rising risks.

1.6.2. Guaranteed Debt

63. The national debt of stock, also comprises of debt guarantees pursuant to Article 213 of the Constitution and Section 58 of the PFM Act, 2012. As at the end of June 2021, the outstanding guaranteed debt to state enterprises amounts to Kshs. 157.2 billion compared to Kshs. 171.73 billion provided as at end of December 2020. Table 4.0 shows the outstanding government guaranteed debt as at June 2021.

Table 4.0: Outstanding Government Guaranteed Debt as at June 2021	
	Ksh. Millions
Entity	**As at June. 2021**
Kenya Power Company	11,779.10
Kenya Electricity Generating Company	26,577.20
Kenya Ports Authority	37,900.90
Kenya Airways	80,962.50
Sub-Total Uncalled Guarantees	**157,219.70**

Source: MTDS 2022

64. Outstanding government guaranteed debt to state owned enterprises creates exposure to fiscal risks and contingent liabilities and materialization of these liabilities may pose several fiscal strains in the budget year.

1.7. Costs and Risks Analysis of the Existing Public Debt

1.7.1. Interest Rate Risk

65. Risk indicators show that the debt portfolio has a marginal exposure to interest rate risk i.e. the susceptibility of the debt stock to interest rate movement. The interest payments as a proportion of GDP as at end June 2021, was 4.6 percent composed of 3.6 percent for domestic debt, and 1.0 percent for external debt. The interest payment on external debt as a percentage of GDP remained at the same level (1.0 percent) as was in December 2020, this is largely attributed to deferment of debt service under the debt service suspension Initiative. On the domestic debt, interest payments remained high due to the prevailing high rates in the domestic market.

1.7.2. Exchange Rate Risk

66. The exposure to foreign exchange rate risk remains real with external debt accounting for 51.3 percent of the total public debt in 2021 while the major currency risk comprises of 66 percent in US dollars, 19.4 percent in Euro, 6.3 percent in Japanese Yen; 5.6 percent in Chinese Yuan, 2.5 percent in Great Britain Pound while other currencies account for only 0.2 percent.

67. To ensure the stability of the exchange rate, there is need to implement prudent fiscal and monetary policies to stabilize prices.

1.7.3. Debt Sustainability Analysis

68. Public debt sustainability is the ability of a country to service its debt obligations as they fall due without disrupting budget implementation.

69. Kenya debt carrying capacity assessment was revised from strong in 2017 to medium in the World Economic Outlook of October 2020. The risk of debt distress has however increased from low in previous years to moderate in 2018 and 2019 and further rising to high in 2020 and 2021.

70. The subdued growth in exports would increase debt vulnerability. There is heightened vulnerability in 2024 which coincides with Eurobond maturities, however there are measures in place to refinance the Eurobond under favorable market conditions.

71. The 2022 MTDS has provided for the following borrowing strategy which is expected to minimize the costs and risks of public debt;

a) Gross Financing mix of 25 percent external and 75 percent Domestic
b) Net Financing mix of 32 percent external and 68 percent Domestic

72. On the external debt market, the strategy plans to optimize concessional borrowing and reduce commercial borrowing. On the domestic debt, the strategy seeks to reduce refinancing risk through maintaining the existing stock of Treasury Bills at the current levels while issuing medium to long term debt securities.

73. The MTDS 2022 further aims to achieve the following;

a) Reduce the cost of debt by lowering interest payment to GDP and implied interest rate;
b) Minimize refinancing risk by lengthening the Average Time to Maturity for domestic and total debt, and maintain the stock of Treasury Bills constant;
c) Minimize interest rate risk in terms of average time to refixing and
d) Enhance the benchmark Treasury bond programme through medium to long term instruments as the main source of domestic financing.

74. The MTDS 2022, provides that the strategy supports initiatives to develop the domestic debt market. The reforms to deepen the domestic debt market include; the enhancement of the market infrastructure through automation of processes deployment of a new central securities depository system by the CBK, and enhancement of the Treasury bonds benchmark programme.

75. The MTDS over the years has always planned for these reforms however, little information has been provided on the progress of their implementation

III. SUBMISSIONS FROM STAKEHOLDERS

Pursuant to Standing Order 180 (5), the Commission for Revenue Allocation (CRA); the National Treasury and Planning, the Institute of Certified Professional Accountants of Kenya (ICPAK), The Institute of Social Accountability (TISA) and International Budget Partnership (IBP- Kenya Chapter) appeared before the Committee and made submissions. This section contains summary of memoranda on the 2022 BPS and MTDMS as received from-

i. The National Treasury
ii. The Commission on Revenue Allocation (CRA)
iii. Institute of Certified Public Accountants of Kenya (ICPAK)
iv. International Budget Partnership, Kenya (IBP-K)
v. The Institute of Social Accountability (TISA)

2.1 Submission by the National Treasury

The Cabinet Secretary for National Treasury and Planning appeared before the committee and submitted as follows:

Basis for preparing the 2022 Budget Policy Statement

76. The 2022 BPS was prepared in accordance with Section 25 of the Public Finance Management Act, 2012 that among others required the National Treasury to submit the BPS to Parliament by the 15th of February each year. Considering that the General Election was scheduled in August 2022, the preparation of the FY 2022/23 budget was fast-tracked to ensure that the budget estimates were approved by parliament before it proceeded on recess. The BPS was thus submitted to parliament for approval on 30th November, 2021 in line with revised budget calendar.

77. Some of the highlights of the revised budget calendar include:

- Submission of the 2022 BPS to parliament for approval by 30th November, 2021;
- Preparation of pre-election report by 31st January, 2022
- Submission of the budget estimates and 2022 finance Bill to Cabinet for approval by 26th January, 2022 before their submission to Parliament o 31st January, 2022;

- Presentation of the budget statement to parliament by the Cabinet Secretary, National Treasury and Planning on 10th March, 2022; and
- Approval of appropriation Bill and Finance Bill by parliament by 31st March, 2022.

78. As required by the PFM Act, 2012, the 2022 BPS had benefitted from comments from the public and other broad stakeholders.

Theme and focus of the 2022 Budget Policy Statement

79. The theme for the 2022 Budget Policy Statement was *Accelerating Economic Recovery for Improved Livelihood.* In the regard, the focus of the policies therein was to provide an enabling environment critical for accelerating economic recovery and improving livelihoods of Kenyans. To that end, the government would strengthen implementation of programmes and measures that ensure a more inclusive growth that fostered macroeconomic stability.

80. The policies in the BPS were anchored in the Medium-Term Plan III of the Vision 2030 and further prioritized the "Big Four" Agenda of universal health, food and nutrition, housing and expanding manufacturing. The government would continue to implement the Economic Recovery Strategy to mitigate the adverse impact of the COVID-19 pandemic on the economy and reposition the economy on a steady and sustainable growth trajectory.

81. The government was rolling out the third phase of the Economic Stimulus Programme building on the gains made under the first and second phase. The third phase was designed to accelerate the pace of economic growth by allocating additional resources to implement thirteen (13) strategic interventions in key productive and service sectors including:

- The roll out of the third phase of Kazi Mtaani programme to create employment for over 200,000 youths across the county;
- Adequate preparation of the education sector for the next phase of curriculum reforms where approximately one million students would transition to junior secondary schools in January 2023;
- Construction of additional 50 new Level 3 Hospitals in non-covered densely populated areas across the country to enhance access to medical coverage;

- Support of livelihoods of farmers within the sugar belt;
- Support to communities affected by the ongoing drought especially in ASAL counties
- Provision of fertilizer subsidy to small scale tea farmers; and
- Completion of ongoing interventions in the coffee sub-sector

82. The government fiscal policy continued to focus on enhanced revenue mobilization, expenditure prioritization and reduction of the fiscal deficit. The National Treasury was also developing the National Tax Policy which would strengthen revenue mobilization and reinforce the fiscal consolidation plan. That coupled with expenditure prioritization would ensure that fiscal deficit remained at debt stabilizing levels.

Recent Macroeconomic Developments

83. The 2022 BPS was prepared against a background of expected global recovery after a contraction in 2020 occasioned by the adverse effects of the COVID 19 pandemic.

84. The global economy was projected to grow by 5.9 percent in 2021 from a contraction of 3.1 percent in 2020. The projected recovery in advanced economies reflected the additional fiscal support in the second half of 2021 and broader vaccinations coverage.

85. On the domestic scene, Kenya's economy rebounded in the second quarter of 2021, with real GDP growing at 10.1 percent supported by easing of COVID-19 containment measures. Economic growth was projected to stabilize at 6.0 percent in 2021 from the contraction of 0.3 percent in 2020. In terms of fiscal years, economic growth was projected to recover to 5.9 percent in FY 2021/22 from 2.9 percent in FY 2020/21. Recovery was supported by the prevailing stable macroeconomic environment, ongoing implementation of the strategic priorities of the Government under the "Big Four" agenda and the interventions under the third Economic Stimulus Programme.

86. Year-on-year inflation remained low, stable and within the policy target range of 5+/-2.5 percent since the end of 2017. The year-on-year inflation rate increased to 5.80 percent in November 2021 from 5.3 percent in November 2020 mainly driven by food and fuel prices.

87. The foreign exchange market had largely remained stable despite the tight global financial conditions attributed to uncertainty with regard to the COVID-19 pandemic.

The Kenya shilling to the US Dollar exchanged at Kshs.111.9 in November 2021 compared to Kshs.109.3 in November 2020.

88. In comparison to most Sub-Saharan African currencies, the Kenya Shilling had remained relatively stable, weakening by only 2.4 percent against the dollar in the year to November 2021 compared with large volatility noted in most currencies for Sub-Saharan region. That stability was supported by increased inflow of remittances, adequate foreign exchange reserves and favourable horticultural exports.

89. The official foreign exchange reserves held by the Central Bank increased to USD 9,632.2 million (5.8 months of import cover) in September 2021 compared to USD 8,765.1 million (5.4 months of import cover) in September 2020.

90. The current account balance weakened in the year to September 2021 with a deficit of USD 5,989.3 million (5.5 percent of GDP) compared to USD 4,938.2 million (5.0 percent of GDP) in September 2020.

91. The short-term interest rates remained fairly low and stable supported by sufficient liquidity in the money market following continued government payments. The Central Bank rate was 7.0 percent in November 2021, an increase from 3.3 percent in November 2020 while the 91-day Treasury Bills rate was at 7.1 percent in November 2021 compared to 6.7 percent in November 2020.

92. The private sector credit improved to a growth of 7.7 percent in the 12 months to September 2021 compared to a growth of 7.6 percent in the year to September 2020.

93. Activity in the capital markets continued to improve in October 2020, with equity share prices increasing. The NSE 20 Share Index stood at 1,871 points by end of November 2021, an increase compared to 1,760 points by the end of November 2020. Market capitalization also increased to KShs. 2,553 billion from Kshs. 2,229 billion over the same period, indicating increased trading activities and economic recovery.

FY 2021/22 Budget Execution

94. Budget execution in the first four months of the FY 2021/22 progressed well greatly supported by improved business environment following full reopening of the economy.

95. Revenue collection to October 2021 grew by 29.3 percent compared to a contraction of 9.6 percent in October 2020. As at end October 2021, the cumulative total revenue inclusive of ministerial appropriation in Aid (AIA) was Kshs.653.6 billion against a target of Kshs.635.0 billion. That performance was Kshs.18.6 billion above target.

96. Ordinary revenue to October 2021 recorded a growth of 25.8 percent compared to a contraction of 10.8 percent in October 2020. In nominal terms, ordinary revenue collection to October 2021 was Kshs.576.6 billion against a target of Kshs.560.0 billion, an over performance of Kshs.16.6 billion. That growth was recorded in all broad categories of ordinary revenue. Income tax grew by 27.8 percent, Value Added Tax (VAT) by 39.9percent, Excise tax by 22.2 percent and Import Duty by 11.9 percent.

97. Total expenditure and net lending for the period ending October 2021 was Kshs.854.2 billion, which was below the target of Kshs.904.2 billion by Kshs.50.0 billion.

98. Recurrent spending amounted to Kshs.612.8 billion while development expenditure amounted to Kshs.148.9 billion. Transfer to county governments amounted to Kshs.92.5 billion.

99. Fiscal operations of the Government by end of October 2021 resulted in an overall fiscal deficit including grants of Kshs.193.7 billion against a projected deficit of Kshs.253.7 billion. The deficit was financed through a net domestic borrowing of Kshs.214.9 billion and net foreign repayment of Kshs.33.5 billion.

100. Over the medium term, under the economic recovery programme, the government targeted to:

- Ensure an effective COVID-19 response that supported the health sector and those most impacted by the COVID-19 shock;
- Reduction in debt vulnerabilities through revenue driven fiscal consolidation to stabilize the ratio of public debt to GDP;
- Address weakness in state-owned enterprises (SOEs) that were adversely affected by the COVID-19 pandemic;
- Strengthen the monetary policy framework and support financial stability.

101. Revenue mobilization remained key and would see the fiscal deficit decline from 8.2 percent of GDP in FY 2021/22 to 6.0 percent of GDP in FY 2022/23 and further 3.9 percent of GDP by FY 2024/25.

102. To achieve this target, the government would continue to restrict growth in recurrent spending. Expenditures as a share of GDP was projected to decline from 25.0 percent in the FY 2021/22 to 23.7 percent in the FY 2022/23 and further to 22.2 percent in the

FY 2024/25. On the other hand, revenues as a share of GDP was projected to increase from 16.3 percent in the FY 2021/22 to 17.4 percent in the FY 2022/23 and further to 18.1 percent in the FY 2024/25.

103. Reforms in tax policy and revenue administration would continue to be scaled up. The government would continue to minimize tax expenditures and increase predictability in the tax system to boost revenue performance.

104. Development of the National Tax Policy was ongoing. It was anticipated that it would enhance administrative efficiency of the tax system, provide consistency and certainty in tax legislation and management of tax expenditure.

105. The reforms were geared towards tax base expansion, strengthening compliance and enforcement functions, smart intelligence and investigation and integrated border management.

106. The government also intended to develop a Medium Term Revenue Strategy that was expected to address declining revenue trends, entrench predictability on tax rates and increase funding to support the fiscal consolidation.

Budget for the FY 2022/23 and Medium Term

107. Revenue projections in the FY 2022/23 including Appropriations-in-Aid was projected to increase to Ksh.2,431.4 billion (17.4 percent of GDP) up from the projected Kshs.2,063.1 billion (16.3 percent of GDP) in the FY 2021/22. Ordinary revenues would amount to Ksh.2,141.6 billion (15.3 percent of GDP) in FY 2022/23 from the estimated Ksh.1,800.0 billion (14.3 percent of GDP) in FY 2021/22.

108. Expenditure projections: the government expenditure as a share of GDP for FY 2022/23 was projected to decline to 23.7 percent. The overall nominal expenditure and net lending was projected at Ksh.3,324.4 billion from the projected Ksh.3,154.3 billion (25.0 percent of GDP) in the FY 2021/22 budget.

109. Fiscal deficit: reflecting the projected expenditures and revenues, fiscal deficit (including grants) was projected at Ksh.846.1 billion (6.0 percent of GDP) in FY 2022/23 against the estimated overall fiscal balance of Kshs.1,029.3 billion (8.2 percent of GDP) in FY 2021/22.

110. Deficit financing: the fiscal deficit would be financed by net external borrowing of Kshs.275.9 billion (2.0 percent of GDP) and net domestic borrowing of Ksh. 570.2 billion (4.0 percent of GDP).

Budgetary allocations for the FY 2022/23 and the Medium-Term

111. The budgetary allocations for FY 2022/23 to the three arms of Government including sharable revenues to the county government are summarized below-

Summary of budget allocations for FY 2022/23-2024/25 (Ksh Million)

S/No	**Details**	**Financial years**			
		Approved original budget	**BPS Projection**		
		2021/22	2022/23	2023/24	2024/25
1.0	National Government	1,942,008.8	2,075,014.6	2,192,370.0	2,306,421.9
	Executive	1,886,207.9	2,017,653.3	2,132,412.3	2,242,698.8
	Parliament	37,882.8	38,476.6	39,883.9	41,349.4
	Judiciary	17,918.2	18,884.7	20,073.8	22,373.7
2.0	Consolidated Fund Services	718,316.8	864,125.0	908,804.0	982,520
3.0	County government	370,000	370,000.0	375,000.0	380,220.0
	Total Kshs.	**3,030,325.6**	**3,309,139.6**	**3,476,174.0**	**3,669,161.9**

112. In the allocation of resources within the three arms of government and among MDAs for FY 2022/23 and over the medium term the following criteria would be adopted:

i. Linkage of the programmes to post-COVID-19 Economic Stimulus Programme (PC-ESP);

ii. Linkage of programs to the "Big Four" Plan either as drivers or enables;

iii. Linkage of the programme with the objectives of Third Medium-Term Plan of Vision 2030;

iv. Degree to which the programme was addressing the core mandate of the MDAs;

v. Cost effectiveness and sustainability of the programme; and

vi. Requirements for furtherance and implementation of the Constitution.

113. The BPS sector ceilings were enhanced on account of additional programmes, completion of ongoing projects and additional expenditures tied to A-I-A revenue collection.

Division of revenue between National and county governments

114. Based on the revenue projection of Ksh.2,141.6 billion in FY 2022/23, Ksh.1,764.5 billion was allocated to National Government, Ksh.370.0 billion to county governments as equitable revenue shares and Ksh.7.1 billion to the Equalization Fund. The KSh.370.0 billion to county governments was agreed on at IBEC.

115. In addition to the proposed equitable share of revenue, county Governments would receive the following additional conditional allocations:

i. From the National Government's equitable revenue share, conditional allocations amounting to Ksh.5.7 billion for leasing of medical equipment and construction of county headquarters;

ii. Equalization fund to the marginalized areas amounting to Ksh. 7.1 billion; and

iii. Ksh.31.4 billion from proceeds of external loans and grants

116. In effect, from the equitable share allocation and conditional grants, the county governments would receive a total of Ksh.407.0 billion in FY2022/23.

The Medium-Term Debt Management Strategy (MTDS), 2022

117. In selecting the optimal deficit funding strategy, the costs, risks and liquidity indicators considered were: Present value of debt as a percentage of GDP, nominal debt as a percentage of GDP, interest payment as percentage of GDP, implied interest rate (percent), Foreign Exchange (FX) debt as a percentage of total debt, average time to re-fixing, debt maturing in one year as a percentage of total debt, debt maturing in one year as a percentage of GDP, fixed rate debt including T-bills (percent of total), average time to maturity for domestic debt portfolio and average time maturity of total portfolio and average time maturity of total portfolio.

118. The 2022 MTDS proposed a net financing mix of 32 percent from external sources and 68 percent from domestic market to fund the 2022/23 fiscal deficit as the optimal debt strategy aimed at minimizing costs and risks of public debt.

119. The optimal strategy sought to maximize use of concessional funding sources and reduce reliance on commercial borrowing, with the intention to reduce the cost of funding fiscal deficits.

120. On the domestic market, the strategy sought to reduce refinancing risks by avoiding expansion in the stock of Treasury bills and issuing medium to long term Treasury bonds. The strategy involved modest exposure to foreign exchange rate risks in the medium term as the government expected to maintain presence in the international debt capital markets to fund a small portion of the budget deficits.

121. The deficit financing mix of 32 percent from external sources and 68 percent from domestic market aimed to achieve the following benefits:

i. Minimize the cost of debt as reflected in lower interest payment to GDP ratio and implied interest rate;

ii. Minimize refinancing risk by lengthening the average time to maturity (ATM) for domestic and total debt, and maintain the stock of treasury bills constant;

iii. Minimize market interest rate risk in terms of average time to refixing;

iv. Enhance the benchmark bond programme through issuing medium to long term instruments as the main source of domestic financing.

2.2 Submission by the Commission on Revenue Allocation

The Chairperson, Commission of Revenue Allocations submitted as follows –

Fiscal Policy

122. The understanding of what constituted the budget and total expenditure and net lending needed clarification in the 2022 BPS. From the BPS, table 1.6 and annex table 2 presented the total expenditure and net lending for the financial years 2021/22 as Kshs.3,154.3 billion and Kshs.3,324.3 billion for 2022/23. Table 3.1 however presented the total budget for the financial years 2021/22 as Kshs.3,030.3 billion and 3,309.1 billion for 2022/23.

Accelerating economic recovery for improved livelihood

123. The summary of budget allocations for the financial year 2022/23 to 2024/25 (presented in Table 2.3) revealed a drastic reduction in the budget for the Agriculture, Rural and Urban Development (ARUD) from Ksh.75.7 billion in the financial year 2021/22 to Kshs.63.9 billion in 2022/23 and Kshs.56.7 billion in 2023/24. CRA noted that ARUD sector was key in implementation of the 100% food and nutrition security, Big Four Agenda priority programme and the various initiatives under the Economic Stimulus Programme. There was therefore need for clarity on the budgetary reduction given the importance of the sector towards food and nutrition security.

124. Accelerating Implementation **of the Big Four Agenda; Food and Nutrition Security to all Kenyans (Section 2.3.2 of BPS 2022):** CRA noted that the aim of the government under the pillar was to achieve food and nutrition security for all Kenyans. In order to achieve that, the government targeted to support largescale production of staple food, expand irrigation schemes, increase access to agricultural inputs and implement programmes to support smallholder farmers to sustainably produce and market various commodities. The sector priorities in section 3.4 under agriculture in the MTEF period 2022/23-2024/25 and in the previous MTEF period did not elaborate how the sector supported largescale production of staple food. The focus of the BPS 2022 was only on programmes that supported agriculture production sustainably, marketing and provision of agriculture inputs. Although implementation of the Big Four agenda ends in 2022, there was no sufficient information on what had been done to promote food production yet it was a direct output of the 100% food and nutrition security.

County Financial management and Division of Revenue

125. Paragraph 222 revealed that from the actual development expenditure for FY 2020/21, only 21 counties utilized at least 30 percent on development. CRA recommended that the Senate should propose measures to address the shortfall of actual development expenditure. It would also be important to propose measures to address non-adherence to fiscal responsibility principles.

126. Pending bills (Section 4.3.1)- although county governments were making efforts to settle outstanding pending bills, it was important to note that majority of the counties with high ineligible pending bills had a change of government in previous general elections. In light of the upcoming general elections in 2022, it was important that the National Treasury and Senate put in place specific control measures during the change in leadership following the elections to ensure that all counties adhere to procurement and financial processes and current county administrations clear all pending bills incurred during their term in office.

Cost and risk characteristics of Public Debt

127. Article 203 (1)(b) of the Constitution provides that debt payment was a first charge when determining the shareable revenue between the two levels of government. A consideration should be given to provide the interest payments as a percentage of ordinary revenue in Table 7 on cost and risk indicators for existing debt.

Debt Sustainability Analysis

128. CRA recommended that the MTDS should provide other debt sustainability analysis thresholds for instance for external debt. They noted that external debts accounted for 51.3 percent of the total debt in 2021. Given the exposure to foreign exchange risk, it was important to know how the country was performing and measures being put in place to avoid susceptibility in medium term to foreign exchange variations.

Cost-Risk Analysis of Alternative Debt Management Strategies

129. On Paragraph 93, table 5 presents data on public debt service, revenue and expenditure. There was no consistency in the public debt service figures reported by different publications produced by the National Treasury. For instance, the 2022 Budget Policy Statement reported that the total debt service/interest payments for the financial year 2020/21 was Kshs.495.1 billion while the MTDS gave the debt service for the same year as kshs.780.6 billion. The inconsistencies in the reporting of debt service between the MTDS and BPS were also observed in the financial years 2021/22 to 2024/25. There was need for provision of consistent figures and or reasons given for the inconsistencies from different publications produced by the National Treasury at the same time.

130. Further, there was need for harmonization of currency of debt to Kenya shillings. CRA recommended that Table 8 on maturity profile should be presented in Kenya Shillings and not in USD as was presented for ease of comparability with other tables.

2.3 Submission by the Institute of Certified Public Accountants of Kenya (ICPAK)

The Institute appeared before the committee and submitted as follows-

131. Recent economic developments and medium economic outlook- Although the available statistics projected favourable economic outlook, it remained uncertain and contingent on the course of the pandemic. The institute thus recommended:

i. The government should intensify mass Covid-19 vaccination exercise to ensure the population reaches herd immunity by the end of 2022. That would inspire confidence towards accelerated economic recovery and growth.

ii. There was need to lay the foundation for green, resilient, and inclusive development, while reducing macro-financial vulnerabilities.

iii. Fiscal Consolidation, through revenue mobilization and expenditure rationalization should be heightened to curb wastage of resources and further accumulation of debt that had hit a disturbing high of Kshs. 8 trillion.

iv. The National Treasury should propose a clear roadmap for preparation of the Medium-Term Revenue Strategy (MTRS). The MTRS will make sure tax administration kept up with the rapid changes taking place in society, the economy and technology to deliver a flexible, resilient and responsive tax system.

132. **Sectoral GDP Performance-** Different sectors, including agriculture, manufacturing, construction, health, education and transport experienced mixed results over the years. For the sectors to perform better and contribute significantly to the growth of the GDP, ICPAK recommended that-

i. The government should invest in the MSME sector by encouraging the banking sector to avail affordable credit to the entrepreneurs in the sector to boost their enterprises.

ii. There was need to enhance agriculture-led economic growth, improve nutrition outcomes, strengthen county government capacity, and build sustainable market systems through private sector engagement with self-reliant rural households for improved food security.

133. **Fiscal Performance**: In line with the austerity measures by the National Treasury in 2019, the Institute noted that there was no monitoring and evaluation tool to assess the uptake and impact of the same. Therefore, to enhance fiscal performance, the institute recommended that:

i. There was need to develop a monitoring tool and publicize a report of the uptake and impact of established austerity measures by the National Treasury in 2019

ii. There should be more investment in financial capability in local governments, specifically to strengthen them to help meet the transparency in reconciliation of pending bills, develop capacity to meet own-source revenue collection targets among other measures.

134. **Public debt management-** ICPAK observed that Kenya was considered to be at a high risk of defaulting her external debt repayments and was classified as a medium performing economy from a strong one; over 60% of the country's external debt was US Dollar-denominated which exposed the country to exchange rate risk; the average terms of new loans was deteriorating in that the average maturity in years had decreased from 33.7 in 2013 to 15.3 years in 2019, while the grace period had decreased from 8 years to 5.6 years within the same period, subsequently exposing the country to refinancing risk. Further, Paragraph 21: Contingent liabilities were not recorded directly

in the budget and thus were not subjected to budgetary oversight. The Institute thus recommended the following measures;

i. Implementing the budget taking into consideration financial and information requirements required for a successful medium-term fiscal policy implementation,
ii. The Ministry of Foreign Affairs, agriculture, trade and industrialization should identify areas of collaboration and effectively work together to diversify exports and the market for the same to increase the country's foreign exchange reserves and hence minimize exchange rate risk.
iii. The National Treasury should focus on borrowing from multilateral lenders and pursue concessional loans and grants to reduce the reliance on commercial loans.
iv. The National Treasury should consider renegotiating the terms of current external loans, especially those acquired from commercial creditors.
v. Going forward, the National treasury should conduct a thorough cost-benefit analysis of new loans to determine the best alternative to contract that would yield maximum benefit and minimum cost for both current and future generations.
vi. The National treasury should provide training and capacity strengthening sessions to personnel in the Public Debt Management Directorate and continuously appraise them on emerging trends in the global markets.
vii. The National Treasury should consider the option of public-private-partnership (PPP) in financing future development projects to reduce over-reliance on loans.
viii. The Central Bank of Kenya through the Nairobi Securities Exchange should adopt climate-friendly financing such as the issuance of green and blue bonds. This will serve to build back a better, robust and sustainable economy.
ix. The National Treasury should adopt a balanced budget in the medium-term to bring down the high budget deficit and hence reduce the current debt vulnerabilities.
x. Enhance accountability in public and private sectors to free more resources to development. The government must decisively deal with wastages in utilization of public resources and corruption.

xi. Diversifying the currency mix in which debt is denominated to reduce exposure to foreign exchange risks.

xii. Enhance debt transparency and accountability in order to enhance management of public debt in Kenya.

xiii. An audit of current projects was critical to wipe out white elephant projects. A clear framework for tracing and auditing debt financed projects was needed for equity.

135. **Risks to the Economy (Corona virus)** - The resurgence of Covid-19 had heightened the appeal of dollar dominated investments due to uncertainty of the global economy. It was therefore expected that US dollar would strengthen against other major currencies that could cause the shilling to lose some ground. ICPAK thus recommended that-

   i. To stabilize the interest rates, the government should ensure there was implementation of the public credit guarantee scheme to encourage commercial banks to increase their appetite for lending to boost efforts in uptake of loans by the private sector especially the MSMEs.

   ii. The government should implement comprehensive vaccination programmes to avoid future lockdowns that could lead to decrease in economic activity and reduce the underlying inflation.

   iii. COVID-19 spending pressures remained intense thus many departments should find cuts in specific areas if they are to meet demands on public services and catch up on backlogs built up during the pandemic.

136. **Food security-** although the government had put measures to address food security, Long Rain Assessment (LRA) report indicated that 2.1 million Kenyans still faced the risk of food insecurity. To enhance food security, ICPAK recommended that the government should-

   i. Enhance the resilience of food systems to simultaneously address the impacts of conflict and climate change and to ensure food and nutrition security.

   ii. Enhance access to agricultural financing and affordable credit. Lack of finance for agriculture compromises increasing production and investment in value addition activities in agriculture.

iii. Continuous training and research in the field of agriculture was required to foster opportunities for innovations that would offer long term solutions that were adaptable to climate change.

137. **Universal Health Coverage (UHC)** - The Health Sector was allocated Ksh 126.3Billion with recurrent expenditure allocation being Ksh. 70.3B and development expenditure allocation being Ksh. 55.9B. In the past, the allocations to the health sector were well below the 15% of total annual budget as stipulated in the Abuja Declaration. Further, according to Health Financing Reforms Expert Panel (HEFREP) Report, private hospitals received KES 22 billion from NHIF while government and mission hospitals received KES 7 Billion and KES 8 Billion respectively out of the KES 37.7 billion expenditure in FY 2018/19. This implies that government health facilities received only 18.6% allocation of NHIF disbursement in that year, which was too low. To attain UHC, ICPAK recommended that-

i. There was need to increase the health budgetary allocation to the recommended 15% of the total annual budget as recommended by the African Union under the auspices of Abuja declaration. That would go a long way in increasing recruitment and welfare of health personnel to enable efficiency in the health sector.

ii. With discovery of new Covid-19 variants, it was vital for the Ministry of Health to further increase vaccination efforts around the country to prevent other lockdown measures being put in place and enhance economic recovery.

iii. Ensuring that at least 70% of NHIF disbursements went to public health institutions and service providers; with 30% going to the private sector would help build capacity of public health institutions as opposed to utilizing public funds to support private entities.

138. **Public Financial Management Reforms** -The government planned to strengthen the institutional capacity of the PFM oversight agencies by reviewing legal and regulatory frameworks governing public procurement and promoting accountability in the use of public resources. One of the targeted reforms was rolling out of IFMIS module to various counties. Thus to enhance public financial reforms with regard to IFMIS, ICPAK recommended that there was need to-

i. Identify the users of IFMIS system and continuously improve their level of knowledge on the system and train them from time to time on how to get the best from the system.
ii. Standardize the level of ICT infrastructure in the respective state agencies and county governments receiving the funds
iii. Outsource the systems technical maintenance and operation to specialized firms. Countries with a developed market for services and firms that regularly cater to these needs (such as the United States) mainly use this option.
iv. Develop the remaining modules such as revenue collection, payroll (IPPD) and the direct procurement module
v. Synchronize imprest management and centralize payments through the IFMIS system
vi. Strengthen the approval role of the Controller of Budget and the oversight role of the internal audit function, audit committees, and the County Assembly in the implementation of IFMIS.
vii. Senate should push for implementation of the Controller of Budget and Auditor General's recommendations on IFMIS.

2.4 Submission by International Budget Partnership, Kenya (IBP-K)

139. **Revenue projection needed a clear basis for the optimism-** The ordinary revenue projections was KShs. 2.14 trillion up from actual collection of KShs. 1.56 trillion in 2020/21. The increase of about Ksh. 600 billion in two years was not realistic with the challenges of Covid-19 and the downturn in economic activity that happen with each election cycle in Kenya. As shown in Figure 4.5 in the BPS, actual revenue growth had been modest and therefore there was need to set a more realistic target for 2022/23 to avoid an implicit deficit. Going by the fact that revenue challenges affect cash flow in the counties such projection would continue to pose a risk of slower than expected disbursement to counties.

140. **There was need to provide a predictable criteria and growth factor for equitable sharing of national revenue.** The BPS proposed to maintain the allocation to counties at Ksh 370 billion. That as the ceiling to the national government was projected to grow

by 3.3 percent. As shown in Table 4.2 of the BPS (Page 61), the revenue growth factor for counties was very arbitrary which was against the principle of predictability as counties also prepared their budget over a medium-term budgeting framework.

141. In the medium-term debt repayment be restructured to create less pressure on available tax revenues. It was clear that in the medium term there would be limited fiscal space if the current Consolidated Fund Services (CFS) spending was sustained. The available windows should be utilized and the public informed of what measures taken.

142. There was need for a clear distinction between the functions of the national government and those of the county governments in line with the Fourth Schedule of the Constitution of Kenya, 2010. IBP observed that water-related functions were a shared responsibility between the national and county governments. They recommended that for projects that the national government intended to implement in counties and were within the functions devolved to counties be delegated to county governments, for instance water service provision. That should be visible on the policies implemented that should guide for instance the Nairobi Metropolitan Services so as not to affect the delivery of services on the transferred functions specifically water and health services. Further, there was need for clarity on what happens to services that were supported by conditional grants especially the one for level 5 hospitals.

143. Budget performance and financing remained a challenge in most sectors. According to the Controller of Budget annual budget implementation report for FY 2020/21, the average absorption rate was 87.2%, even worse for the development budget which was 79.5%. The challenges provided in the sector reports showed many ongoing capital projects with worrying stagnating performances and had not been funded for some years even though the Budget Policy Statement laid emphasis on the completion of ongoing projects, with particular emphasis placed on projects nearing completion. For some capital projects that were co-funded by the government of Kenya and donors, the donors had already withdrawn their commitments and the BPS did not indicate how the government would handle such issues in the drive to complete ongoing projects.

144. Increase the budget allocated to the health sector from 6.2% to 7% by reducing an allocation equal to 0.8 percentage points from Energy, Infrastructure, and ICT sector. The Big Four would require a considerable amount of funding. The BPS listed a wide raft of programmes to be implemented under the Universal Health Coverage that required significant amount of funds. However, the sector allocation to health as a share of the budget was declining and that would affect key priorities over the medium term. For example, there was need for more investments towards operationalization of the established health facilities through provision of medicines and commodities as well as upgrading Embu, Kisumu, Kakamega, Nyeri, Bomet Machakos and Meru regional cancer treatment centers.

145. The Senate should compel the National Treasury to include objectives for gender equality with clear **targets and measurable indicators for guidance to the national and county governments**. That should be reflected in the criteria for resource allocation. The BPS 2022 should have an indication on how sectors and MDAs would contribute to gender equity and equality goals. In addition, the BPS should provide details of the state of gender inequality especially on key issues such as the Big Four and the Covid-19.

2.5 Submission by the Institute of Social Accountability (TISA)

The Institute of Social Accountability submitted the following recommendations on the BPS-

146. Whereas the BPS indicated that borrowing needs would be met through external and domestic funding sources, where foreign debt was a must, the government should go for concessional rather than commercial loans to avoid exposing the country to risk. The loans should also be targeted at development projects with high financial and economic returns.

147. Public debt limit should be pegged to real economic performance to ensure that the public debt limits were maintained at sustainable levels. They noted that the rebasing of the economy and subsequent revenue forecasts were overstated and as such, BPS was informed by overambitious projections.

148. The Debt Management Strategy Paper (DMSP) was not published alongside the BPS and so it was not possible to quantify those policy statements. Parliament should ensure DMSP and proposed debt mix strategy were published and subjected to public participation prior to approval of the BPS.

149. Parliament should ensure Treasury fully complied with the Budget and Appropriations Committee recommendations of publishing information on all debt-financed projects.

150. Parliament needs to strengthen monitoring of the debt-strategy and its impacts.

151. The monetary policy needed to be reviewed to move Kenya's exchange rate closer to its equilibrium. The BPS 2022 retained the same monetary stance as stipulated in the IMF-Kenya program fiscal consolidation conditionalities.

152. Fiscal stimulus should be directed to high labour sectors such as agriculture to respond to bottlenecks identified in the 2020/21 stimulus by increasing bottom up targeting and stakeholder engagement in the program.

153. Tax measures should respect ability to pay. Under present tax measures, the employed were subsidizing the rich. TISA further recommended that there was need to remove punitive taxes on basic goods, reduce VAT and excise tax measures. There was need to seal revenue loopholes at both national and county level, curb corruption and unproductive, politically motivated exemptions. For instance, there was lack of transparency on EPZ's, SEZ's. Treasury needs to publish exemptions as required by law.

154. A review of the Economic Recovery Strategy to assess its responsiveness and suitability in Kenya's economic situation.

IV. SENATE STANDING COMMITTEES' SUBMISSIONS ON THE 2021 BPS

155. The standing Committees deliberated on the proposals pertaining their respective sectors and submitted the following observations and recommendations-

	STANDING COMMITTEE ON EDUCATION	
	Committee Observation	**Recommendation**
1.	The BPS highlighted a provision of Kshs. 8 Billion for CBC infrastructure expansion programme under the Economic Stimulus Package (ESP) with the expectation of double transition in 2023. However, the proposed capital budget ceiling had decreased by Kshs. 224 Million compared to 2021/22 FY putting in doubt the readiness for the anticipated double transition to secondary schools.	The National Treasury should increase the proposed resource ceiling at the State Department for Early Learning and Basic Education to Kshs 110 Billion in order to allocate adequate fund to address the effects of Covid-19 Pandemic and develop critical CBC infrastructure.
		The National Government through the Ministry of Education should fast track the rolling out and implementation of the ECD Policies and Service Standard Guidelines to the county governments and create collaboration between the two level of government for the full implementation of the legal and policy frameworks
		The National Treasury should publish and present to the Senate on a quarterly basis a report on capitation funds disbursed to the

		Ministry of Education and ensure timely release and disbursement of funds to the Ministry, its agencies and the Teachers Service Commission as per their procurement plans
2.	The BPS did not make provisions to support school meals programmes and address the challenges related to the current food situation and drought in Arid and Semi-Arid Lands (ASALs) areas which may affect school attendance and health of learners in those areas	The Ministry of Education should fast-track development and finalization of the School Meals Policy and engage the National Treasury to set aside and ring fence Kshs 1 Billion to supplement school meals programme in the ASAL areas.
3.	The BPS had not outlined any policy as well as accompanying resources to address myriad of challenges currently facing higher education in the country which may affect the quality of education being offered in the public universities.	The National Treasury should increase the proposed resource ceiling at the State Department for University Education and Research to Kshs 110 Billion to facilitate completion of stalled projects, clearing pending bills and generally allowing investment in infrastructure and other projects that enhance the quality of teaching and learning such as research
4.	The Teachers Service Commission (TSC) allocation for the Teacher Resource Management was inadequate considering that the Commission had consistently requested for increased budgetary provisions to recruit more teachers and also ensure that	The Teachers Service Commission (TSC) should be allocated an extra Kshs 15 Billion to enable the Commission hire additional teachers and develop capacities of existing teachers during the FY 2022/23 in order to address teachers' resource gap, improve the

	replacement of teachers who exited the service was done promptly to ensure learning was not interrupted.	pupils' teachers' ratio in public primary schools and build capacities for CBC implementation.
	STANDING COMMITTEE ON LABOUR AND SOCIAL WELFARE	
5.	Most of the state departments under the purview of the Committee (Sports Development, Culture and Heritage, Labour, Social Protection, Pensions & Senior Citizens Affairs and Gender) had significant deficits. That was likely to affect the implementation of key Programmes and particularly the concerns raised by the Committee and were to be implemented in the next financial year.	The National Treasury reviews the 2022 BPS celling for State Departments particularly the State Department of Labour, Social Protection, Pensions & Senior Citizens Affairs and Sports Development to marginally bridge the deficit

6.	The Ksh. 18 billion deficit under the State Department for Social Protection, Pensions & Senior Citizens Affairs and further a resource allocation BPS celling of Ksh 34,271billion against a baseline in 2021/22 of 33,568 billion would impact on the following; (a) The Inua Jamii program management information system (MIS) enhancement exercise expected to consolidate and streamline all cash transfer programmes for their effective management; (b) The 93,565 registered beneficiaries not in the payroll and 29,153 beneficiaries who expected to have their registration issues addressed and benefits disbursed following the upgrading of the MIS; (c) The registration of fresh cohort of older persons which had never been undertaken since August 2017 and was pegged on adequate funding; and (d) The implementation of the National Hospital Insurance Fund (NHIF) for persons above 70 years	• State Department of Social Protection, Pensions & Senior Citizens Affairs to prioritize funding to Children welfare programmes to improve the safeguards put in place to protect the rights and welfare of children. • State Department of Social Protection, Pensions & Senior Citizens Affairs to reorganise expenditures and prioritise programs such as the Inua Jamii program Management Information System (MIS) enhancement exercise so as to consolidate and streamline all the cash transfer programmes for their effective management.

7.	The BPS celling of Ksh 3,373billion against a resource requirement of Ksh 12,558 billion would impact the programs of the State Department of Labour as it would not have the capacity to address the persisting issues being experienced by especially unskilled migrant workers to the Middle East for instance establishment of Reintegration Centres; establishment of safe houses, streamlining pre-departure trainings and operationalization of the migrant workers fund among others.	State Department of Labour to reorganise its budget policy in regards to labour migration which is a large economic frontier in a bid to increase number of safe houses and the capacity of labour officers/attachés in big labour destination countries like Qatar, Saudi Arabia and other Gulf Cooperation Council (GCC) Countries.
	STANDING COMMITTEE ON ENERGY	
8.	Implementation of the Report by the Presidential Taskforce on Review of Power Purchase Agreements.	Implementation on Report on Presidential Taskforce on Review of Power Purchase Agreements within stipulated timelines as promised by H.E. President Uhuru Kenyatta and no later than 31st December 2021.
9.	Contingent Liabilities emanating from contracts with Independent Power Producers (IPPs) - The 2022 BPS provides a list of 38 IPPs. In line with the presidential taskforce report, the ministry would need to prioritize review of the existing contracts to reflect favorable tariffs to support cost effective consumption of power.	Review of contracts should be agreeable to both parties to prevent/avert litigations and fines imposed for breaking of contractual agreement and to prevent any decision that might impair the cordial relationship between Kenya and her development partners.

10.	Reduction in recurrent expenditure for State Department for Petroleum was likely to affect the operations of the department.	The committee commended the State Department for reducing recurrent expenditure and increasing development expenditure.
11.	Reprioritization of the Resources in the Ministry of Energy especially towards the Power Transmission and Distribution Programme due to budget gaps. The proposed ceilings could only cover 56% of the Programme's total resource needs and as low as 55% of the Programme's development resources needs thus leaving a shortfall of Ksh.49.4 billion.	Priority should be on completion of existing projects prior to starting new projects.
12.	Low expenditure utilization in Alternative energy technologies programme despite the growing trend by most countries of moving towards renewable energy in order to mitigate on the effects of climate change.	Kenya should invest and focus on the Geothermal as a source of renewable Energy and the Ministry to scale up its absorption to around 90% in an effort to come up with renewable and sustainable energy solutions in order to mitigate the effects of climate change.
	STANDING COMMITTEE ON AGRICULTURE	
13.	In the stimulus programme outlined in the BPS, no additional allocation has been provided to support the provision of	The National Treasury to provide additional Ksh. 1.5 billion for subsidization of agricultural inputs through the e-voucher system in 2022/23.

	subsidized inputs for farmers growing maize, beans, potatoes and others crops.	
14.	Conditional Grants to Counties- 5 projects under the State Department for Crop Development and Agricultural Research have been affected as conditional grants have not been disbursed. These conditional grants have not been dispersed to date.	Parliament should hasten the implementation of the County Governments Grants bill
15.	The 2022 BPS does not have a proposed allocation for strategic food reserve. The National Cereals and Produce Board sought to form the National Food Reserve (NRF) and required Ksh. 10.875 billion for stocking NFR commodities.	The National Treasury to allocate Ksh. 10,875 million to the State Department for Crop Development and Agricultural Research for strategic food reserve.
16.	Historical Pending Bills- there seemed to be no effort or commitment to settle long-outstanding pending bills within the Ministry. State Department for Livestock had historical pending bills of Ksh. 4,025 million while the State Department for Crop Development and Agricultural Research had historical pending bill of Ksh. 8,008.55 million	The National Treasury to provide funds for the settlement of the pending bills in the FY 2022/23.

	STANDING COMMITTEE ON TOURISM, TRADE AND INDUSTRIALIZATION	
17.	Trade, Manufacturing and Industrialization- the sector faced significant resource constraints. The sector was routinely underfunded with significant expenditure cuts during the supplementary budget process. Most industries in Kenya are agro-processing, thus the need for deliberate efforts to support agriculture.	• The government should prioritize allocations towards the sector, promote export trade and significant effort towards improving performance in the agriculture sector. • Continued Implementation of the duty remission scheme under Tax Remission for Export Office (TREO) will enhance the value of exports for Kenyan manufacturers
18.	COVID 19 Pandemic-The temporary closure of international borders, the imposition of curfews, and the restriction of movement had an impact on both international and domestic trade, tourism, and international travel. As a result, international trade decreased during the year, with the largest drop occurring in the second quarter of 2020.	National government to provide for a Post Covid -19 stimulus package for the sector for at least three years to allow recovery in MSMEs, Tourism, Regional Trade and development.
	STANDING COMMITTEE ON DEFENCE	
19.	From the sector reports, MFA had a total of Kshs. 49.6 million court awards while SDRNCD had Kshs. 386.7 million. That does	There was need for monitoring, planning, and some provision in the budget of those liabilities in order to avoid fiscal difficulties in budget implementation in subsequent FY.

	not constitute contingent liabilities that do pose a risk of large unplanned expenditures in the event they do crystallize.	
20.	The proposed ceilings in the BPS were less than the resource requirements for the agencies under the National Security Sector and Foreign Relations Sub-sector. With insufficient funding for the programmes and projects, the agencies would need to restructure their programmes within available limited resources as proposed in the BPS.	The budgetary allocation be relooked into with a view of enhancing budgetary allocation to the sector
21.	The BPS 2022 had not provided a list of pending bills. However, from the Sector reports for the FY 2020/21, the SDEAC had a total pending bill of Kshs. 8.22 million, SDRNCD Kshs. 4,986 million and MFA Kshs. 290.67 million. Since the bills are the first charge they impact on budget implementation as resources from some programmes/projects will have to be diverted for payment of the bills. This will result in postponement or non-completion of planned programs and initiatives, as well as further accumulation of pending bills that continue to have a detrimental impact on the MDA's service delivery.	The budget allocation for the pending bills in the sector be accorded for settlement of pending bills.

22.	Budgetary allocation for establishment of Forensic Laboratory for IPOA - IPOA is charged with oversighting the operation of the Police force, previously it relied on the Police Forensic Laboratory to perform analysis on issues before it, which at times caused delays finalizing various cases owing to non-cooperation between the two bodies.	The Committee recommends budgetary allocation to IPOA to facilitate establishment of its own Forensic Laboratory
23.	There was a proposed change of policy for the leasing of police vehicle to acquisition. That would pose challenges on the availability of vehicles for use at the police station.	The policy of leasing should be maintained with the appropriate budgetary allocation.
24.	Criminal Investigation training target of 11,000 officers was not achieved	Budget allocation be accorded to training the target of 11,000 Criminal Investigation officers to assist in maintenance of security in the country.
	STANDING COMMITTEE ON HEALTH	
25.	The BPS 2022 did not propose criteria for the identification and distribution of an allocation of KShs. 3.2B for the construction of 50 new level 3 hospitals in non-covered and densely populated areas across the country as an economic stimulus intervention	The National Treasury and the Ministry of Health should develop a clear criteria/ framework for the identification and distribution of the proposed 50 new health centers.

26.	2022 BPS did not make a provision for payment of 4000 interns and 55000 health workers employed on contract under the UHC Scheme. Further, it did not address what their fate would be once their contract period lapses. That would pose a serious challenge for County Governments in the near future as they will either have to absorb the costs of their emoluments, or risk losing 5500 at a go thus compromising health service delivery.	The Ministry of Health, Public Service Commission, National Treasury and County Governments should take action to ensure that a framework is developed to provide 5500 health workers who were employed on contract under the UHC program.
27.	Non-Linkage of the BPS 2022 with the proposed Government Intervention to establish Cancer Centers in Meru and Kakamega - The BPS 2022 outlined key priority areas for health sector including the establishment of cancer centers in Meru and Kakamega to reduce the burden of cancer treatment among Kenyans. However, no provision had been made for the same under the proposed sector ceilings.	Specific funds should be allocated for the establishment of cancer centers in Meru and Kakamega as proposed in the BPS 2022.
	STANDING COMMITTEE ON DEVOLUTION AND INTERGOVERNMENTAL RELATIONS	
28.	The FY 2022/23 proposed budget for the State Department for Devolution was Kshs. 1.89 billion which was a reduction from the current FY 2021/22 budget of Kshs. 3.24 billion. The major reduction was under the devolution services programme that was	The National Treasury needs to increase allocations to the State Department for Devolution, in particular the Intergovernmental technical committee to carry out its functions to enhance

	proposed to decrease from Kshs. 2.69 billion to Kshs. 706 million. The reduction in allocation could hamper service delivery and the management and facilitation of devolution.	harmonious inter and intra governmental relations and enhance apportionment of devolved functions.
29.	Pending Bills reported by counties increased from Kshs. 34.54 billion in the FY 2018/19 to Kshs. 113.85 billion in the FY 2019/20 and Kshs. 102.69 billion in the FY 2020/21. Nairobi County reported the highest pending bill of Kshs.78.7 billion in the FY 2019/20 and Kshs. 54.32 billion in the FY 2020/21.	The National Treasury invokes Article 225(3) of the Constitution which provides for stoppage of funds to county governments on grounds of pending bills which constitutes material breach under Section 94 of the PFM act 2012.
30.	Pending bills have adverse effects on businesses especially the Small and Medium Enterprises (SMEs) that depend on borrowed funds to finance their operations.	Procurement and financial processes are adhered to and that the current county governments clear all pending bills incurred during their term in office before the General Elections which are set for August 2022.
31.	Nairobi Metropolitan Services had an allocation of Kshs. 26.96 billion. However, in the BPS there was no projected allocation for the FY 2022/23 as a result of the lapse in the deed of transfer in March 2022.	Before the lapse of the deed of transfer time period, the Nairobi County Government and Nairobi Metropolitan Service need to put measures in place to ensure seamless transition in the transfer of functions which were transferred to the National Government back to the county Government. The framework for a financing

		framework needs to be expedited to facilitate the financing of transferred functions between the two levels of government.
32.	Construction of additional 50 new level 3 hospitals in non-covered areas had a proposed allocation of Kshs. 3.2 billion under the Economic Stimulus Programme Strategy. This allocation is a health function which is a devolved function.	The National Treasury should provide funding for the devolved projects/functions under the economic stimulus programme to the counties as conditional grants. Therefore, the funding for the distribution of the 50 New Level 3 hospitals across counties with an allocation of Kshs. 3.2 billion in 2022 BPS should be allocated to counties as conditional grants.
33.	There was a great concern in the current framework of the disbursement, implementation and oversight of the conditional grants.	Parliament should expedite the approval of the county conditional grants bill and strengthen the framework for oversight of conditional grants to county governments.
34.	Funding for the Implementation of the Transfer of the Library Function to the county governments was not provided in the FY 2021/22. That was despite the Legal Notice No. 142 of August 2019 delineating the functions and distribution of 59 libraries across 33 counties with effect from 1st July 2020.	Funding should be provided in the FY 2022/23 for the implementation of the transfer of the library function to the respective counties to comply with the legal notice No. 142 of August 2019.

	STANDING COMMITTEE ON NATIONAL COHESION, EQUAL OPPORTUNITY AND REGIONAL INTEGRATION	
35.	**Resources shortfall-** The ceiling for the sectors as proposed by the BPS 2022 was less compared to their resource requirement for 2022/23 to 2024/25. This will affect the implementation of programs under the relevant sectors. For instance, the development vote for SDEAC had a 96% shortfall.	
	STANDING COMMITTEE ON LANDS, ENVIRONMENT AND NATURAL RESOURCES	
36.	**Enhance the pace of digitalization of Land Registries** – This is a flagship project for the government with a target of digitalizing all land records countrywide by 2024. However, the goal was unlikely to be met due to the slow pace of project implementation as a result of technical and financial reasons.	The National Treasury should ensure that the implementation phase of the project was supervised to ensure timelines were being met.
37.	**Funding of Final Survey and Vesting** – This is the final step when government acquires land from private and communities for construction of critical infrastructure. However, no funding had been provided over the years making acquired public lands unprotected from illegal occupation and repossession after compensation. That was evidenced by the increasing number of	Consideration for funding of Government acquired land be prioritized.

	Petitions where the Government had not compensated persons who had surrendered their land for public use and projects.	
38.	**Funding for Human Wildlife Conflict (HWC) Claims** – With the reduction in budget for State Department for Wildlife, it was unlikely that there was adequate funding for HWC claims. Current approved claims were in excess of KShs. 10 billion and exponentially increasing yet less than Kshs. 1 billion had been allocated annually to settle claims.	More funding be channeled to Human Wildlife Conflict claims especially given that claims are continually increasing yet KWS is not able to generate enough money to support the payments.
39.	**Funding for KWS** – with the reduction in the budget for State Department for Wildlife and the COVID-19 Pandemic, KWS may not collect enough resources from the gate collections	Consideration be made for KWS to get more allocation given its recovery efforts from the Pandemic and the various programs they have introduced in various parks.
40.	**Funding for the 10% forest cover project** – The ceiling for the Ministry of Environment and Forestry was not able to accommodate the resource requirement to implement it. The forest and water towers programme had a resource requirement of Kshs. 9 billion but the BPS had only allocated KShs. 2.5 billion	The National Treasury allocates more resources towards the aforementioned project as what is allocated is very little to achieve the 10% forest cover. With Climate Change and its effects the Ministry of Environment and Forestry was critical and thus the enhanced appeal for more allocation.

V. COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

Observations

156. The Committee considered the 2022 BPS, MTDMS, submissions from the Standing Committees and stakeholders and made the following observations-

2022 Budget Policy Statement

(a) The ordinary revenue projection by the National Treasury for the 2022/23 FY is Kshs. 2,141.6 billion. Assuming a no policy change scenario, the projected ordinary revenue collection for 2022/23 FY will be between Kshs. 1,775.4 billion and Kshs. 1,971.8 billion. This means that the National Treasury has overestimated the expected revenue collection with respect to the FY 2022/23.

(b) That the fiscal deficit increases within the financial year when revenue targets are not met. Consequently, this leads to increased borrowing outside the targets approved in the BPS.

(c) During the review of the debt ceiling in October 2019, the National Treasury indicated that the increased borrowing space would be utilized to restructure the expensive commercial debt and bring it to sustainable level. This has however, not been undertaken and raises concerns on commitment by the National Treasury to statements made before Parliament.

(d) That there is no national Big Four implementation framework to clearly outline the overall national goals and outcomes as well as a breakdown of county-specific goals, outcomes, targets, timelines and deliverables. The Committee further observes that there is no accountability matrix of the implementation status of projects and Programmes under the Big Four Agenda

(e) There is no collaboration framework with counties regarding some of the budgetary interventions under the proposed economic stimulus programme for example distribution of the 50 New Level 3 hospitals across counties with an allocation of Kshs. 3.2 billion in 2022 BPS.

(f) The proposed allocation to counties of Kshs. 370 billion, has not factored in inflation and therefore in real terms the allocation is lower than the allocation for the FY 2021/22.

(g) The National Government has been carrying out devolved functions since the beginning of devolution. These functions include the livestock, fisheries and agriculture sector, water, sanitation and Irrigation sector among others.

(h) There is a reduction in allocation for the agriculture sector from Kshs. 75.7 billion to Kshs. 63.9 billion representing a decrease of 15.6%. This will affect some of the ongoing Programmes and projects despite the sector being critical for achieving food and nutrition security to all Kenyans. The County Government should continually allocate more to the sector.

(i) The recurrent ceiling for the State Department of infrastructure has increased from Kshs. 57.16 billion to Kshs. 69.47 billion representing an increase of Kshs. 12.31 billion. The recurrent expenditure is mainly composed of the road maintenance levy which its increase should have an impact in the allocation to Counties.

(j) There are no measures put in place to ensure that the funds from the road maintenance levy are used for the intended purpose at the county level

(k) The 2022 BPS highlighted a provision of Kshs. 8 billion for CBC infrastructure expansion programme under the Economic Stimulus Programme (ESP) with the expectation of double transition in 2023. However, the proposed capital budget ceiling had decreased by Kshs. 224 million compared to 2021/22 FY casting doubt on the government's preparedness for the anticipated double transition to secondary schools.

(l) The BPS did not make provisions to support school meal Programmes and address the challenges related to the current food situation and drought in Arid and Semi-Arid Lands (ASALs) areas which could affect school attendance and health of learners in those areas.

(m) The Teachers Service Commission (TSC) allocation for the Teacher Resource Management is inadequate to facilitate recruitment of more teachers as well as ensure replacement of teachers who exited the service.

(n) The 2022 BPS did not make a provision for payment of 4,000 interns and 55,000 health workers employed on contract under the UHC Scheme. Further, it did not address what their fate would be once their contract period lapses. That would pose a serious challenge for County Governments in the near future as they will either have to absorb the costs of their emoluments, or risk losing 5500 at a go thus compromising health services delivery.

(o) The 2022 BPS did not have a projected allocation for the FY 2022/23 for the Nairobi Metropolitan Services as a result of the lapse in the deed of transfer in March 2022.

Medium-Term Debt Management Strategy (MTDS)

(p) The 2022 MTDS indicates the debt stock as at June 2021 was Kshs.7.7 trillion. This is against the requirement under PFM (Section 33) which requires the National Treasury to provide the total stock of debt as at the date of the statement.

(q) The public debt as at September 2021 stood at Kshs. 7.99 trillion against the Kshs. 9 trillion debt ceiling leaving only Kshs. 1.01 trillion debt space. The MTDS 2022 under-estimates the debt stock and risks which therefore allows a projected fiscal deficit (incl. grants) of Kshs. 846 billion for the FY 2022/23.

(r) The optimal strategy of the 2022MTDS aims at minimizing costs and risks through a net financing mix of 32 percent from external sources and 68 per cent from domestic market.

(s) The total commitments fees for loans signed but not utilized between June 2016 and June 2021 cumulatively amounted to Kshs. 14.3 billion (of which Kshs. 1.66 billion was incurred in FY 2020/21)

Recommendations

157. The Committee made the following recommendations-

A. Policy Recommendations

(a) For the FY 2022/23 fiscal deficit to be fully financed, the National Treasury should provide the actual stock of debt as at December 2021 and projections for the remaining 6 months of the FY 2021/22 and review against the debt ceiling, before processing of the budget estimates for the FY 2022/23.

(b) That the National Treasury adjusts, for inflation the county equitable share and further ensures that the allocations to counties are not less than 35 percent of the most recent audited and approved accounts for the FY 2017/18 amounting to Kshs. 1,413.69 billion.

(c) The National Treasury should rationalize the National Government budgets for devolved functions such as for Health, Agriculture (crop, livestock and fisheries development), water, irrigation, sanitation and regional development and the funds be transferred to the County Governments.

(d) Restructure the public debt stock by undertaking refinancing operations by retiring or replacing expensive debt with debt that have more favorable borrowing terms such as concessional loans.

(e) To unlock counties revenue potential estimated at Kshs.173 billion (World Bank, 2018), each County to enact a County (Taxes, Fees, and Charges) Act that provides for all the revenue streams charged by the county and specify the relevant tax rates, fees or charges in line with Article 209 (3) (c) of the Constitution.

(f) Pursuant to Section 62 of the PFM Act 2012, the CS National Treasury puts in place mechanisms of ensuring that the Public Debt Management Office (PDMO) is fully operational with clear delegated powers.

(g) To reduce pending bills, County governments should ensure compliance with Article 207 of the Constitution regarding banking own source revenue receipts in the County Revenue Fund account, and internal control mechanisms are put in place to ensure expenditure is within the approved budget and in line with approved work plans.

(h) To accelerate economic growth and job creation, the National Treasury should develop a well-designed stimulus package for MSMEs and Interventions aimed at promoting mechanization, reducing post-harvest losses and access to high-quality fertilizer and seeds by small and medium scale farmers for the FY 2022/23.

(i) To enhance revenue mobilization as well as improve predictability of the tax regimes to attract investments, the National Treasury should prioritize finalization of the National Tax Policy.

(j) The National Treasury and the Ministry of Health should develop a framework for the identification and distribution of the proposed 50 new health centers. The funding should also be allocated to counties as conditional grants.

(k) The Ministry of Health, Public Service Commission, National Treasury and County Governments should come up with a way forward for the 5,500 health workers who were employed on contract under the UHC program.

(l) Before the lapse of the period of pendency of the deed of transfer of the functions, the Nairobi City County Government and the National Government should put in place measures to ensure seamless transition in the transfer of functions back to the Nairobi City County Government from the National Government.

(m) National Treasury should expedite the development of the framework to operationalize Articles 187 and 189 to facilitate the financing of transferred functions between the two levels of government.

Medium-Term Debt Management Strategy (MTDS)

(n) The National Treasury should submit an updated Debt Register as an annex when submitting the Medium Term Debt Strategy to Parliament.

(o) The National Treasury should fast track the planned domestic market reforms such as the enhancement of the Treasury bonds benchmark programme, setting up of over the counter trading platform to compliment the Nairobi Stock Exchange, deployment of a new Central Securities Depository system by the Central Bank among others to expand the capacity of the domestic debt market to take up higher share of the public debt.

B. Financial Recommendations

The Committee recommends the following financial recommendations-

I. That the proposed allocation of shareable revenue to County Governments for FY 2022/23 in the 2022 BPS, be **Kshs. 539.1 billion** of which;

- County Equitable share be **Kshs. 495 billion.**
- Equalization Fund- **Kshs. 7.07 billion.**
- County Conditional Grants be **Kshs. 37.03 billion** which comprises of the following-

  a) Supplement for Construction of County HQs- **Kshs. 0. 45 billion,**

  b) Leasing of Medical Equipment- **Kshs. 5.20 billion,**

  c) Allocation from Development Partners as Loans and Grants- **Kshs. 31.38 billion.**

II. That the proposed allocation of **Kshs. 1,764.52 billion** shareable revenues to the National Government for FY 2022/23 in the 2022 BPS, be **reduced by 7 percent**;

III. That the budget deficit including grants be pegged at 6 percent of GDP while budget deficit excluding grants be pegged at 6.4 percent as projected in the BPS 2022.

APPENDIXES

1. Minutes of the Committee
2. Submission from stakeholders