DATE	24/02/2021
TABLED BY	CHAIRPERSON, FINANCE
COMMITTEE	AND BUDGET
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REPUBLIC OF KENYA

COS
Recommended for approval for tabling
24/02/21

PARLIAMENT

Rt. Hon. Speaker
You may approve for tabling
J. M. Nyegenye, C.B.S.,
Clerk of the senate/ secretary, PSC
Date: 24/02/21

THE SENATE

TWELFTH PARLIAMENT – FIFTH SESSION

24/2/2021

REPORT OF THE STANDING COMMITTEE ON FINANCE AND BUDGET

ON

THE 2021 BUDGET POLICY STATEMENT AND 2021 MEDIUM TERM DEBT MANAGEMENT STRATEGY

Report Tabled by Chairperson, Standing Committee
24/02/2021.

CLERK CHAMBERS
THE SENATE
PARLIAMENT OF KENYA
NAIROBI

FEBRUARY 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, 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, MP - Member
8. Sen. CPA Farhiya Haji, MP - 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 2021 Budget Policy Statement and 2021 Medium Term Debt Management Strategy was tabled in the Senate on 16th February, 2021. Pursuant to standing Order 180(4), of the Senate Standing Orders the Budget Policy Statement (BPS) was committed to Standing Committee on Finance and Budget for consideration. The Committee is required to table a report containing its recommendations on the Budget Policy Statement within twelve days.

The Finance and Budget Committee hereby tables the report containing its recommendations on the 2021 BPS and 2021 MTDMS to the House for consideration and approval.

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

The Committee made significant observations on the BPS policy proposals for the 2021/22 and the MTDMS, identifying broad policy issues with great impact on counties and proposals on revenue allocation. The Committee in making the recommendations, considered the views of all the stakeholders.

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 next financial year. These documents include Division of Revenue Bill, 2021 and County Allocation of Revenue Bill, 2021. It is also important to note that Section 25 of the Public Finance Management Act, 2012, stipulates that the resolutions of Parliament, comprising both Houses, 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 evaluating the 2021/22 estimates for the various spending agencies at both national and devolved level.

Examination of the 2021 Budget Policy Statement and Medium Term Debt Management Strategy

Pursuant to Public Finance Management (PFM) Act, 2012 Section 25 (2), the National Treasury submitted the 2021 BPS. Further, pursuant to PFM Act section 25 (7), and standing orders 180 of the Senate Standing Orders, the BPS was committed to the Standing Committee on Finance and Budget for consideration and recommendation. In considering the 2021 BPS, the Committee held six sittings.

The perspective of the Senate Committees and the role of Senate in protecting the interest of counties, the broad issues in the 2021 BPS can be categorized as follows:

(i) National policies and programmes that have a direct impact on economic performance of counties; and

(ii) Proposals on division of revenue between the two levels of government and among counties for the 2021/22 financial year.

The 2021 BPS mainly focuses on the 'Building Back Better'- Strategy for Resilient and Sustainable Economic Recovery. Below are the highlights on the 2021 BPS.

Economic Outlook

The economic growth was 0.6% in 2020 as per the 2021 BPS from 5.4% in 2019. This is due to the uncertainty associated with the Covid 19 Pandemic. The economic growth performance in the first quarter of 2020 was 4.9%, -5.7% in the second quarter and -1.1% in the third quarter. The improvement in economic activity in the fourth quarter following the relaxation of some COVID-19 containment measures resulted in some economy recovery.

Revenue Performance

The BPS reports that revenue collection as at December 2020 declined by 12.9% compared to a growth of 17.1% in December 2019. Revenue projections including appropriation in aid in FY 2021/2022 is expected to be Ksh. 2,033.9 billion (16.4 percent of GDP) as compared to Ksh. 1,849.2 billion (16.6 percent of GDP) in the 2020/21 financial year.

Fiscal Policy

Tax revenue collection has not kept pace with economic growth over the last decade. Tax revenue as a share of GDP steadily declined from 18% in 2013/14 to 15% in 2018/19. The 2021 BPS, Revenue including appropriation in aid in FY 2021/2022 is expected to 16.4 percent of GDP as compared to 16.6 percent of GDP in the current financial year. The revenue projection performance will be underpinned by ongoing reforms in tax policy and revenue administration.

The fiscal deficit target set by the National Treasury in the BPS for 2021/22 and the medium term is unrealistic. The National Treasury has projected that the fiscal deficit (excluding grants) as a share of GDP will decline from -9% in 2020/21 to -3.9 % in 2024/25.

Inflation Rate

Overall inflation is expected to remain within the Government's target band of between 2.5% and 7.5% in 2021. However, the risk of increased fuel and cereals prices in 2021 may push inflation towards the upper bound. The IMF (World Economic Outlook October 2020) projected that global fuel prices may rise by 12% in 2021 while the overall food prices and maize prices are expected to rise by 4% and 8% respectively.

Interest Rates and Credit

Monetary policy measures adopted by CBK during the pandemic such as the reduction in the cash reserve requirement from 5.25 to 4.25 and reduction of the CBK rate from 8.25% to 7% did not meet their objective of lowering the cost of borrowing for the private sector. The weighted average lending rate remained stable at around 12 per cent in 2020.

Exchange Rate and External Sector

The current account deficit as a share of GDP declined from -5 % in the first three quarters of 2019 to -4 % over a similar period in 2020

Diaspora remittances performed better than expected during the pandemic period. In the second and third quarter of 2020 diaspora remittances as a share of GDP was 3.2%, as compared to 3% over a similar period in 2019.

The foreign reserve holding remained above the 4 months' threshold throughout 2020. The contracting import bill, better than expected exports of some agricultural commodities such as tea, horticulture, fruits and vegetables during the pandemic, coupled with the growth in diaspora remittances are some of the factors that ensured that the country maintained adequate foreign reserves.

The Kenya Shilling depreciated significantly relative to other major reserve currencies in 2020. The Shilling depreciated by 9%, 14% and 21% against the US dollar, Sterling pound and Euro respectively between February 2020 and January 2021.

Medium Debt Management Strategy

The fiscal deficit (excluding grants) is projected at KShs -976.1. Billion in Financial year 2021/22 as compared to Ksh -1,015.3 billion in Financial Year 2020/21. The fiscal deficit will be financed from net external financing of Kshs 267.2 billion and net domestic borrowing of Kshs 662.8 billion.

County Equitable Share

The National Treasury proposes an allocation of Ksh 409,881 millions to the County Government for the 2021/22 Financial Year. The amount allocated in Kshs millions comprises of the following:

		In millions
1.	County Equitable share	370,000
2	Leasing of medical equipment	7,205
3	Supplement for construction of County HQs	332
4	Allocation from Loans and grants	32,344

The National Treasury and the Commission on Revenue Allocation have proposed to convert conditional grants to unconditional grants which form part of the county equitable share.

The Committee recommends that the Senate approves 2021 Budget Policy Statement (BPS) and Medium Term Debt Management Strategy (MTDMS) with recommendations. The recommendations include -

a) Allocation of **Ksh. 370 Billion** County governments' equitable share for Financial Year 2020/21.

b) Allocation of **Ksh. 32.3 Billion** Conditional Grants from proceeds of grants and loans from development partners.

c) The National Treasury should be submitting the Debt Register to Parliament as annexure to the Medium Term Debt Management Strategy.

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), Council of Governors, IBP, ICPAK, Kenya Paediatric Research Consortium (KEPRECON) and Oxfam in Kenya and Institute for Public Finance-Kenya. The Committee acknowledges the submission from IBP which was a memorandum on behalf of 17 Civil Society Organisations.

The Committee is also particularly grateful to the Offices of the Speaker and the Clerk of Senate for the support received as it discharged its mandate of examining the 2021 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 2021 Budget Policy Statement and 2021 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: 24/02/2021

I. REVIEW OF THE 2021 BUDGET POLICY STATEMENT AND MEDIUM TERM DEBT MANAGEMENT STRATEGY

Introduction

1. The Budget Policy Statement (BPS) is an annual policy document that is prepared by the National Government to guide in giving the financial year and the medium term policy direction. The policy document outlines 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. It is expected that County Governments will align their County Fiscal Strategy Paper to Budget Policy Statement.

2. According to the PFM Act, 2012, the policy direction of the BPS should be anchored on the existing government policy documents, which include; the Vision 2030, as operationalized by the Medium-Term Plan III (MTP III), Ministerial and Sectoral Strategic plans, the Covid economic growth recovery strategy. Further revenue and expenditure proposals for the coming financial year and the medium term must also be taken into consideration. The BPS should take cognizance of the current state of the global and domestic economy including the outlook of the various macroeconomic variables.

3. The review of the BPS, therefore considers the inter-linkages between the policies outlined in the BPS and broader policy documents as well as the realism of the macro framework and whether the expenditure proposals are adequately funded.

4. It is important to note that although the expectations of the BPS are very clear, the document as submitted by the National Treasury though they have complied with most of the requirement the document fell short of its objectives. For instance, the document has not adequately provided concrete information on tax assessment and revenue mobilization policies to aid the committee to properly assess the adequacy of projected resources relative to expenditure demands. Other missing information in the BPS include a list of liabilities as well as pending bills as required by section 26 of PFM regulations; level of budgetary expenditures by economic and functional classifications.

5. The theme of the Budget Policy Statement (BPS) 2021 is "*Building Back Better: Strategy for Resilient and Sustainable Economic Recovery*" The committee examined the Post Covid-19 Economic Recovery Strategy meant to mitigate the adverse impacts of the Pandemic on the economy to accelerate growth, employment creation and poverty reduction.

6. The vertical allocation of resources between the National and County Governments in the Budget Policy Statement give indicative allocations to guide the consideration of the County Fiscal Strategy Paper (CFSP) by the County Assemblies. The committee also considered the realism of the macroeconomic variables and whether the projected resources will be achieved to meet the expenditure proposals without relying on further borrowing.

A. Realism of the 2021/2022 Macro Fiscal Framework and the Medium Term

7. The projected economic growth is 0.6% in 2020 as per the 2021 BPS from 5.4% in 2019. This is due to the uncertainty associated with the Pandemic. The economic growth performance in the first quarter of 2020 was 4.9%, -5.7% in the second quarter and -1.1% in the third quarter. The improvement in economic activity in the fourth quarter following the relaxation of some Covid-19 containment measures resulted in some economy recovery. .

8. The economy is expected to recover and the projected growth for 2021 is 7% which is partly as a result of lower 2020 base. This growth might not therefore be as a result of sufficient jobs in all sectors or creation of wealth.

9. The Macro-fiscal framework for 2021/22 and the medium term is based on an economic growth projection of 7.0% in 2021/22 and 5.5% over the medium term. The 2021 BPS has indicated that the growth will be supported by a stable macroeconomic environment, favorable post Covid-19 global economic environment, expected favorable weather and on-going investment in strategic priorities of the government under the "Big Four" Agenda. The BPS also indicates that growth will be bolstered by ongoing public investments in infrastructure projects, the Economic Stimulus Programme and the implementation of the Post-Covid-19 Economic Recovery Strategy.

10. The committee were concerned that the growth as projected may not be met partly because of the Covid-19 pandemic effects that affects all the sectors of the economy and the recovery will depend on the relaxation of the containment measures and the use of the vaccine.

Fiscal Policy

11. Tax revenue collection has not kept pace with economic growth over the last decade. Tax revenue as a share of GDP steadily declined from 18% in 2013/14 to 15% in 2018/19. Over this period, the tax revenue enhancement policies that were proposed in various BPSs did not achieve their objective. Further, evaluation of success/failure of each of the proposed policy was hindered by the lack of quantification of the expected impact of each policy measure by the National Treasury.

12. As per the 2021 BPS, Revenue including appropriation in aid in FY 2021/2022 is expected to be Kshs. 2,033.9 billion (16.4 percent of GDP) as compared to Kshs. 1,849.2 billion (16.6 percent of GDP) in the current financial year. The revenue projection performance will be underpinned by ongoing reforms in tax policy and revenue administration; as well as economic recovery occasioned by the Economic Stimulus Programme and the planned Post Covid-19 Economic Recovery Strategy. Furthermore, the reversal of tax cut measures that had been implemented in April 2020 as one of the mitigation measures against the adverse effects of Covid-19 is expected to boost revenue collection.

13. The committee however noted that the revenue measures are similar to those made in previous BPSs and there is no quantification of the progress made on the same. The committee further observed, that the total revenue by the end of January 2021 was Ksh 937 Billion against a target of Ksh 1,059.3 billion representing a shortfall of Ksh 122.3 Billion, going by the reported shortfall the projected revenue might not be achieved.

14. The fiscal deficit target set by the National Treasury in the BPS for 2021/22 and the medium term is unrealistic. The National Treasury has projected that the fiscal

deficit (excluding grants) as a share of GDP will decline from -9% in 2020/21 to -3.9 % in 2024/25. However, given the public expenditure pressures recurrent in nature especially from the wage bill and security sector related and lower than targeted revenue collection, the projected fiscal deficit path is unlikely to be achieved

Outlook of key macroeconomic variables:

Inflation rate

15. Overall inflation is expected to remain within the Government's target band of between 2.5% and 7.5% in 2021. However, the risk of increased fuel and cereals prices in 2021 may push inflation towards the upper bound. The IMF (WEO October 2020) projected that global fuel prices may rise by 12% in 2021 while the overall food prices and maize prices are expected to rise by 4% and 8% respectively. Locally weather-related shocks, re-emergence of desert locusts and fall armyworms may drive up inflation through increased food prices.

Interest rates and credit

16. Monetary policy measures adopted by CBK during the pandemic such as the reduction in the cash reserve requirement from 5.25 to 4.25 and reduction of the CBK rate from 8.25% to 7% did not meet their objective of lowering the cost of borrowing for the private sector. The weighted average lending rate remained stable at around 12 per cent in 2020. Going forward, other policy measures addressing borrowing costs such as the proposed operationalization of the Credit Guarantee Scheme for Micro Small and Medium-sized Enterprises (MSMEs) may help address the cost of borrowing for small businesses.

17. Net credit to the private sector expanded by 8.2 per cent in the as at November 2020. The expansion in credit to the private sector was mainly driven by net credit to the agriculture sector, transport and communication sector, the manufacturing sector as well as consumer durables. However, the overall net credit growth of 17% over this period was mainly driven by a 42% growth in net credit to the public sector.

External sector

18. The current account deficit as a share of GDP declined from -5 % in the first three quarters of 2019 to -4 % over a similar period in 2020. However, the improvement in the current account deficit was a result of a significant drop in the value of import of petroleum products and industrial machinery and net growth in exports. The decline in imports in the second and third quarter of 2020, was as a result of a slump in economic activities as a result of the Covid-19 pandemic coupled with lower fuel import prices.

19. Diaspora remittances performed better than expected during the pandemic period. In the second and third quarter of 2020 diaspora remittances as a share of GDP was 3.2%, as compared to 3% over a similar period in 2019. Consequently, remittances contributed to the contracting current account deficit and served as a major source of foreign exchange. However, continued reliance on remittances rather than exports poses a risk due to their erratic nature and susceptibility to global shocks beyond Kenya's policy control.

20. The foreign reserve holding remained above the 4 months threshold throughout 2020. The contracting import bill, better than expected exports of some agricultural commodities such as tea, horticulture, fruits and vegetables during the pandemic, coupled with the growth in diaspora remittances are some of the factors that ensured that the country maintained adequate foreign reserves.

21. The Kenya Shilling depreciated significantly relative to other major reserve currencies in 2020. The Shilling depreciated by 9%, 14% and 21% against the US dollar, Sterling pound and Euro respectively between February 2020 and January 2021. Over a similar period in 2019, the shilling depreciated by below 1.5% against the three currencies. The uncertainty associated with the Covid-19 pandemic was one of the drivers of the sharp depreciation of the Kenya Shilling. Going forward, recovery in the demand for imports, low tourism arrivals and increased demand to service external commercial debt are expected to negatively affect the Shilling and foreign reserves. Further, the weakening of the Shilling is expected to increase the foreign debt service burden.

B. Budget Framework for 2021/22 and the Medium Term

Expenditure Projection

22. The expenditure ceilings for the National Government including the shareable revenue to the county government for the Financial Year 2021/22 are as follows:

		Kshs. (Millions)
1	Executive	1,894,576
2	Parliament	37,883
3	Judiciary	17,918
4	Consolidated Fund Services	697,623
5	County Equitable Share	370,000
6	Equalization Fund	6,800
7	Contingency Fund	5,000
8	Grand total	3,018,001

23. The committee observed that despite the 2021/22 and the medium term budget framework following a fiscal Consolidation Policy to strengthen the debt sustainability position the 2021/22 budget framework indicates a higher allocation than the overall total budget for the 2020/21 which is Kshs. 2,774,616 Million. The major increase is in Consolidated Fund Services which has a positive change of 19% due to mainly public debt service expenses.

24. The implementation of Fiscal Consolidation Policy which is well supported by the committee for 2021/22 Financial Year and the Medium Term will have a reduction in allocation to the development expenditure from 5.7% of GDP in 2020/21 to 5.2% in 2021/22 and 5% in 2022/21 in the medium term.

Revenue Projection

25. Revenue projections as earlier stated, including appropriation in aid in FY 2021/2022 is expected to be Kshs. 2,033.9 billion (16.4 percent of GDP) as compared to Kshs. 1,849.2 billion (16.6 percent of GDP) in the 2020/21 financial year. The revenue is further expected to improve in the medium term to Kshs. 3,099.8 billion.

26. The increase in revenue collection will mainly attributed to revamping Audit Function, enhanced debt programme, implementing initiatives to boost customs revenue, robust intelligence collection, utilization and collection as well as engaging the tax appeals tribunal and the judiciary to fast track conclusion of KRA cases among others.

27. The Committee noted that some of the measures have been on going however, there is no report for the committee to consider the outputs of those measures and how effective the same has been in the past to inform enhance implementation of the interventions or consider review of the same to increase revenue collection and meeting the set targets.

C. Deficit Financing and the Medium Term Debt Management Strategy

28. The fiscal deficit (excluding grants) is projected at Kshs. -976.1. Billion in Financial year 2021/22 as compared to Kshs. -1,015.3 billion in Financial Year 2020/21 the fiscal deficit will be financed from net external financing of Kshs 267.2 billion and net domestic borrowing of Kshs 662.8 billion.

29. The MTDS 2021 tabled in the Senate proposes an optimal strategy that minimizes costs and risks of public debt, which suggests a borrowing framework of 57 percent from net external borrowing and 43 percent in net domestic borrowing. The strategy is underpinned by the need to move away from high interest cost of domestic debt.

Public Debt Sustainability Analysis (DSA)

30. Public debt sustainability is the ability of a country to service its debt obligations as they fall due without disrupting budget implementation. Debt sustainability analysis compares debt burden indicators to thresholds over a 20 -year projection period. In case of any breach of any of the thresholds, it would mean there is a risk of experiencing some form of debt distress.

31. The DSA framework consists of two complementary assessments of the sustainability which are; Total public debt, and Total external debt

32. The overall DSA ratios indicated that Kenya's debt (Public & Publicly Guaranteed Debt) to GDP ratio is at 63.4 and is moving towards breaching the threshold of 70. However, Public and Publicly Guarantee (PPG) debt service as a percentage of revenue remains breached into the medium term. This indicates liquidity shocks from debt service, which is a first charge and takes up a large amount of the revenue collected. Table below shows the debt sustainability indicators and thresholds from the year 2020-2024.

Indicator	Threshold	2020	2021	2022	2023	2024
PV of debt to GDP ratio	70	61.3	63.4	63.9	63.6	62.2
PV of Public debt to revenue & grants ratio	300	338.1	356.6	357.4	351.3	341.2
Debt service to revenue & grants ratio	50	53.8	68	74.5	71.5	78.6
External Debt Sustainability	*Threshold*	*2020*	*2021*	*2022*	*2023*	*2024*
PV of debt –to-GDP ratio	55	26.8	27.9	27.8	27.6	
PV of Debt to exports ratio	240	288	260.6	258.5	255.2	249.2
PPG Debt service - to - exports ratio	21	27.5	25.9	25.5	24.4	36.1
PPG Debt Service - to - Revenue ratio	23	14.5	15.9	15.7	14.8	22.0

Source: National Treasury

33. Total national debt is at Kshs. 7.28 trillion, which is within the Kshs. 9 trillion ceiling approved by Parliament. However, projections indicate that given the current growth rate of the fiscal deficit, this threshold is likely to be breached by mid-2022/23.

34. To this end, fiscal policy measures ought to be put in place to maintain the debt levels within manageable limits. It is important to note that as of 2020/21, most of the debt sustainability indicators thresholds are beyond the set international standards.

External Debt DSA

35. Review of External debt sustainability indicates that Kenya faces a moderate risk of external debt distress due to breach of external debt service to Exports indicator. Without a proper export strategy then the volatility of exports could jeopardize the ratios which are already above the threshold.

D. Vertical Division of Revenue

36. Out of the total projected shareable revenue of Kshs. 1,775,624 Million the National Treasury proposes an allocation of Kshs. 409,881 to the County Government for the 2021/22 Financial Year. The amount allocated in Kshs. millions comprises of the following;

a) County Equitable share — Kshs.370,000 Million

b) Leasing of Medical Equipment — Kshs.7,205 Million

c) Supplement for construction of County HQs — Kshs.332 Million

d) Allocation from Loans and grants — Kshs.32,344 Million

37. In the FY 2021/22 the Government proposes Kshs. 32.34 billion as conditional allocations financed from loans and grants from development partners. This allocation has increased from the Kshs. 30.20 billion allocated in the FY 2020/21. Annex I shows the allocations towards these donor financed programs and compares the proposed allocations to the FY 2020/21 allocations.

38. It has been noted that the equitable share to county governments as a share of ordinary revenue has consistently dropped from a high of 22.5 percent in the FY 2015/16 to a projected low of 20.84 percent in the FY 2021/22 and it is further projected to down to 14.90 percent in the FY 2023/24.

Conversion of Conditional Grants to Unconditional

39. The National Treasury and the Commission on Revenue allocation have proposed to convert conditional grants to unconditional grants which form part of the county equitable share. The conditional grants which have been converted to unconditional grants include;

(i) **Level 5 Hospital:** These hospitals provide specialized health care services to citizens residing within and outside their host County, usually for complicated cases referred from lower-level health facilities. In order to compensate them for the costs incurred in rendering services to neighboring Counties.

(ii) **User Fees Forgone:** This Conditional grant was for the government to sustain its policy of not charging user fees in public health facilities. This additional conditional allocation was started in the FY 14/15 and is in its seventh year of implementation, and has been allocated a budget of **Kshs. 900 million** annually to compensate County governments for revenue forgone by not charging user fees in the County health facilities.

(iii) **Village Polytechnics Grants:** This additional conditional allocation was introduced in the FY 2015/16 and is in its sixth year of implementation. It has had an allocation of Kshs. 2 billion annually to support county governments in equipping Technical and Vocational Centers and capitation of student fees.

(iv) **Road Maintenance Levy Fund:** This conditional allocation was introduced in the FY 2014/15 and is in its seventh year of implementation. The grant is based on 15 per cent of the Road this allocation is meant to enhance and sustain county governments' capacity to repair and maintain county roads.

40. The conversion of these conditional grants pose some concerns. There is no evidence that the issues which made the grants conditional have been addressed and whether the counties can undertake the functions with their equitable share as well as whether the Counties will use the same disbursement criteria as was being used.

41. Evaluation of the performance and achievements of the conditional grants financed from the National Government share of revenue have not been done to determine whether the intended policy objective has been achieved

II. SUBMISSIONS FROM STAKEHOLDERS

SUBMISSION BY STAKEHOLDERS ON THE 2021 BUDGET POLICY STATEMENT

Pursuant to Standing Order 180 (5), the Commission for Revenue Allocation (CRA); the National Treasury and Planning and the Council of Govenors appeared before the Committee and made submissions. Further, the Institute of Certified Professional Accountants of Kenya (ICPAK) and International Budget Partnership (IBP- Kenya Chapter) appeared before the Committee and made submissions. The Kenya Paediatric Research Consortium (Keprecon) and Oxfam in Kenya and Institute for Public Finance-Kenya submitted written memorandum. The submissions are outlined herein:

Submission by the National Treasury and Planning

The National Treasury submitted that:

1. FY 2021/22 - FY 2023/24 medium term budget was set against outbreak and the rapid spread of the COVID-19 Pandemic. The Pandemic and the containment measures have not only disrupted our livelihoods, but to a greater extent business and reduction in government revenue. Nonetheless, there has been an improvement in economic activity in the third and fourth quarters of 2020, albeit at a slow pace, following reopening of the economy.

2021 BPS Highlights

2. The economic growth was projected to bounce back to 7.0 percent in 2021 reflecting recovery due to reopening after the closure associated with the Covid-19 Pandemic. That also in part reflected the lower base in 2020 when most service sectors especially accommodation and restaurant, education as well transport services contracted in second and third quarters of 2020 with huge margins.
3. The growth outlook would be supported by a stable macroeconomic environment, turn around in trade as economies recover from Covid-19 Pandemic, expected favorable weather and ongoing investments in strategic priorities of the Government under the "Big Four" Agenda, the ongoing public investments in infrastructure projects, the Economic Stimulus Programme and the implementation of the Post Covid-19 Economic Recovery Strategy.

4. In order to respond to current challenges related to COVID-19; the Government was implementing an Economic Stimulus Programme (ESP) whose objective was to return the economy to the pre Covid-19 growth trajectory. The ESP was boosting demand for local goods and services, cushioning vulnerable Kenyans, securing household food security for the poor, and creating employment and incomes for instance "kazi mtaani"
5. **Global Economic Highlights:** The outbreak and spread of the Covid-19 Pandemic devastated global economies. As a result, the global economy was estimated to have contracted by 3.5 percent in 2020 from a growth of 2.8 percent in 2019. However, the growth was projected to pick up to 5.5 percent in 2021 from 3.5% in 2020 reflecting expectations of a vaccine-powered strengthening of activity and additional policy support in a few large economies.
6. **Domestic Economic Highlights:** The economy contracted by 5.5 percent in the second quarter of 2020 from a growth of 5.2 percent in the first quarter of 2019 occasioned by the adverse effect of the pandemic. The economy demonstrated signs of recovery in the third quarter of 2020 following reopening of the economy, but the pickup was weak. The economy contracted by 1.1 percent in the third quarter of 2020, which was an improvement compared to the contraction of 5.5 percent in the second quarter of 2020.
7. Taking into account the contraction of 5.5% in Q2 of 2020 and 1.1% in Q3 of 2020 due to COVID-19 pandemic, economic growth was revised downwards to 0.6% in 2020 from 5.4% in 2019. Revisions during the year reflected uncertainty associated with the Pandemic. Economy was expected to recover to 7.0% in 2021 partly due the lower 2020 base effect.
8. **Inflation:** Year-on-year overall inflation rate remained low, stable and within the Government target range of 5+/-2.5 percent since end 2017 demonstrating prudent monetary policies. The inflation rate stood at 5.7 percent in January 2021 from 5.8 percent in January 2020.
9. **Interest rates** were fairly low and stable (below 10% from 2016), due to prudent monetary and fiscal stance. The CBR stood at **7.0%** to maintain lower lending rates that would support credit access by borrowers especially the SMEs distressed by

COVID-19 pandemic whereas the Interbank rate was generally low at 5.2 percent in January 2021 from 4.4 percent in January 2020

10. **Balance of Payments** - Overall Balance of Payments improved from a deficit of 1.1% of GDP in September 2019 to a surplus of 1.5% of GDP in the year to December 2020 mainly due to an improvement in the current account. The current account improved to a deficit of (4.9 percent of GDP) in December 2020 from (5.8 percent of GDP) in December 2019
11. **Foreign reserve** - Official foreign exchange reserves held by CBK remained at USD 8,297.3 million (5.1 months of import cover) in December 2020 compared with USD 9,115.8 million (5.5 months of import cover) in December 2019.
12. The foreign exchange market largely remained stable but was partly affected by a significant strengthening of the US Dollar in the global markets and uncertainty with regard to the Covid-19 Pandemic. Kenya Shilling to the dollar exchanged at Ksh 109.8 in January 2021 compared to Ksh 101.1 in January 2020
13. **Annual growth rates in total revenue**- declined by 11.7 percent by January 2021 down from 14.8 percent growth in January 2020 as a result of the impact of Covid-19.
14. **Ordinary Revenue**- Trend in ordinary revenue was similar to that of total revenue. By January 2021, annual decline rate was 14.2 percent from a growth of 15.5 percent in January 2020. All the main tax heads contracted in January 2021.
15. Total revenue by end of January 2021 was Ksh 937.0 billion against a target of Ksh 1,059.3 billion representing a shortfall of Ksh 122.3 billion. On the other hand, total expenditure by end January 2021 was Ksh 1,347.1 billion. This was below target of Ksh 1,522.7 billion by Ksh 175.6 billion which affected development expenditure (Ksh 72.7 billion) and recurrent expenditure (Ksh 80.0 billion).
16. **Medium Term Fiscal Framework FY 2021/22-2024/25 (% of GDP)**- In the FY 2021/22, total revenue inclusive grants as a percentage of GDP was projected at 16.8% of GDP and expenditures at 24.3% of GDP which gives a deficit of 7.5% of GDP. The deficit would decline to 3.6% over the medium term.
17. **Budget for FY 2021/22 and The Medium Term**- The FY2021/22 and the medium term budget framework would continue with the fiscal consolidation policy critical

to strengthen the debt sustainability position. Revenue collection including Appropriation-in-Aid (A.i.A) was projected to increase to Ksh 2,033.9 billion (16.4 percent of GDP) up from the estimated Ksh. 1,849.2 billion (16.6 percent of GDP) in the FY 2020/21. Revenue was projected to improve to Ksh 3099.8 billion in the medium term.

18. **Revenue enhancement measures-** Revenue performance would be supported by the on-going reforms in tax policy and revenue administration measures which includes; reversal of tax cut measures from January 2021 and in addition, in the FY 2020/21, the Government was implementing a number of tax policy measures through the Finance Act, 2020 including;
    a. Introduction of a minimum tax payable at 1 percent of gross turnover;
    b. introduction of a digital services tax on income from services provided through a digital marketplace in Kenya at the rate of 1.5 percent on the gross transactional value;
    c. increase of income threshold qualifying for residential rental income tax among others
19. To further boost revenue performance and mitigate revenue risks arising from the Covid-19 Pandemic, the Government would;
    i. Revamp Audit Function: Audit teams were set up in Large Taxpayers Office (LTO) and Medium Taxpayers Office (MTO) of KRA and would make use of data to enhance compliance
    ii. Enhance Debt Programme: KRA was focused on reducing the collectible debt by making use of the debt module in i-Tax, reconciliation of debt portfolio and reviewing of payment plans;
    iii. Implement initiatives to boost customs revenue including: continued implementation of Post Clearance Audits, review of the end-use of exempt products, comprehensive audit of exemptions, profiling and targeting, document processing centre, enhanced scanning, and conducting intelligence led verification of cargo;
    iv. Robust intelligence collection, utilization and investigation;

v. Aid the resolution of tax disputes through the Alternative dispute resolution (ADR) within the statutory timeline of 90 days;

vi. Independent Review of Objections (IRO) to issue objection decisions within the statutory timeline of 60 days;

vii. Engage the Tax Appeals Tribunal and the Judiciary to fast track conclusion of KRA cases.

20. **Fiscal Consolidation**: Fiscal deficit as percent of GDP was projected to decline from at 8.7% in FY2020/21 to 7.5% of GDP in FY 2021/22 and 3.6% of GDP in FY 2024/25

21. **Budget Allocations for the FY 2021/22 – 2023/24 (Ksh Million):** Total Budget allocation for FY 2021/22 was Ksh 3,018.0 billion comprising Ksh 1,950.4 billion (64.6%) for National Government, Ksh 697.6 billion (23.1%) for Consolidated Funds Services and Ksh 370.0 billion (12.3%) for the County Governments.

22. **Equitable revenue share** for FY 2021/22 would rise to Ksh 370.0 billion from Ksh 316.5 billion in the FY 2020/21 allocation. Conditional grants amount to Ksh 39.8, therefore, in FY 2021/22, the Counties would share an estimated Ksh 409.8 billion.

23. **Criteria for Resource Allocation**: allocation of resources would be guided by Linkage of Programmes to Post-Covid-19 Economic Stimulus Programme (PC-ESP), the Big four Plan either as drivers or enablers, objectives of Third Medium-Term Plan of Vision 2030; Degree to which the programme was addressing the core mandate of the MDAs; cost effectiveness and sustainability of the programme; requirements for furtherance and implementation of the Constitution and meeting debt service obligations as a first charge.

24. **Potential risks** to the macroeconomic outlook included surge of the covid 19 virus, policy measures being adopted by the new US administration, weaker external demand, reduced tourist arrivals, unfavourable weather among others.

Division of Revenue Bill (DoRB), 2021 and the County Allocation of Revenue Bill, 2021

The Division of Revenue Bill (DORB), 2021

25. The Division of Revenue Bill (DoRB), 2021 proposed to allocate to County Governments Ksh.409.88 billion in the financial year (FY) 2021/22, which relative to the financial year 2020/21 allocation, reflected an increase of Ksh.53.5 billion or 16.9 %. This allocation comprised; equitable share of Ksh.370 billion; additional conditional allocations from the share of National Government revenue amounting to Ksh.7.53 billion; and additional conditional allocations from proceeds of loans and grants by development partners amounting to Ksh.32.34 billion.

26. County Governments' Equitable Share- The bill proposed to allocate County Governments' an equitable share of revenue raised nationally for the financial year 2021/22 of Ksh.370 billion. This was premised on Parliament having approved the third basis for allocation of the share of national revenue among the County Governments in September, 2020 on condition that the formula's implementation would be preceded by a Ksh.53.5 billion increase in the Counties' equitable revenue share.

27. The proposed County Governments' equitable share of revenue raised nationally for the financial year 2021/22 was arrived at by:

i. adjusting the Counties' FY 2020/21 allocation (i.e., Ksh. 316.5 billion) by Ksh 36.1 billion or 11.4 percent. This growth derived from anticipated improvement in revenues raised nationally in FY 2021/22 when the effects of Covid-19 pandemic were expected to ease. This increase was expected to facilitate post covid-19 economic recovery at the counties as well as ensure sustained service delivery by the devolved governments; and,

ii. converting four existing conditional grants to County Governments into unconditional grants, and allocating the respective amounts totaling Ksh. 17.4 billion towards the Counties' FY 2021/22 equitable revenue share. The four conditional allocations are: Road Maintenance Levy Fund (RMLF); the level-5 hospital grant; the compensation for user fees foregone; and, the grant funding rehabilitation of village polytechnics grants. Among other benefits, the National Treasury anticipated that the proposed conversion of conditional grants will afford the Counties more autonomy to budget and prioritize allocation of resources.

28. Conversion of the four conditional allocations to Counties' equitable revenue share as proposed above had several advantages. Firstly, it would afford the Counties more autonomy to budget and prioritize allocation of resources. Secondly, it would achieve a more consolidated approach to funding of devolved functions, while also enabling better tracking of performance and attribution of outcomes. Thirdly, it would help to address a number of challenges that were experienced, including suboptimal absorption of conditional allocations (which arose primarily due to difficulties faced by many Counties in adhering to the underlying conditions); and failure by Counties to allocate sufficient resources in areas receiving supplemental funding by the National Government through conditional allocations.

29. Moreover, the fact that the approved third basis for allocation of the share of national revenue among the County Governments was now effectively linked to devolved functions (specifically with weighted parameters for health, roads and agriculture) meant that it was now possible to achieve policy objectives of some conditional grants directly through the equitable share. In health and agriculture, for instance, the new parameters to be used in distributing the equitable revenue share among Counties closely resemble those currently being used to distribute sectoral conditional allocations. In addition, the approved revenue distribution criteria contain a parameter, 'population' with a weight of 18% which was specifically designed to reflect costs of 'other County Services' including village polytechnics.

30. Currently, besides the composite of equal share, the allocation criteria for the rehabilitation of village polytechnics conditional grant is also based on total trainee enrolment in the respective county governments, which was similar to the use of population parameter in the Third Basis for Revenue Sharing among Counties. That meant that village polytechnics being a devolved function, and also a composite of the population parameter of the formula should be directly financed from each County's equitable share of revenue.

31. After making the above adjustment, County Governments' equitable share of revenue in the financial year 2021/22 was estimated to be Ksh. 370 billion as below

Table 1: Equitable Revenue Share Allocation to County Governments FY 2021/22

S/N	Budget Item	

		Amount in Ksh. Million
A	County Equitable Revenue Share for FY 2020/21 (Base)	316,500
	Add:	
B	Adjustment based on fiscal framework (Revenue Growth to county governments in FY 2021/22)	36,103
	Add:	
C	Converted Conditional allocations (previously financed from National Governments share of Equitable Revenue) to County Equitable share…of which: -	17,397
	a. User Fee	900
	b. Level 5	4,727
	c. Road Maintenance Levy Fund	9,770
	d. Village Polytechnics	2,000
D	**Equitable Revenue Share allocation for FY 2021/22; D=A+B+C**	**370,000**

Source of data: National Treasury

32. The above proposed Equitable Share for FY 2021/22 of Ksh.370 billion was equivalent to 27.3 percent of the last audited accounts (Ksh. 1,358 billion for FY 2016/17) and as approved by Parliament. The proposed allocation met the requirement of Article 203(2) of the Constitution that equitable share allocation to counties should not be less than 15 per cent of the last audited revenue raised nationally, as approved by the National Assembly.

The County Allocation of Revenue Bill, 2021

33. The County Allocation of Revenue Bill, 2020 was prepared based on the approved Third Basis for Revenue Allocation among county governments pursuant to Article 217 of the Constitution; whereby in September 2020, Parliament approved the Third Basis for allocation of the share of national revenue among the County Governments on condition that the formula's implementation would be preceded by a Ksh. 53.5 billion increase in the Counties' equitable revenue share.

34. The Third Basis formula which should be applicable from FY 2020/21 to FY 2024/25 took into account the following parameters; (i) Population (18%); (ii)

Health Index (17%); (iii) Agriculture Index (10%); (iii) Urban Index (5%); (iv) Poverty Index (14%); (v) Land Area Index (8%); (vi) Roads Index (8%), and; (vii) Basic Share index (20%). The horizontal distribution of County Governments' equitable revenue share allocation of Ksh.370 billion for FY 2021/22 should be based on the Third Basis Formula

35. Third Basis for sharing revenue raised nationally among county governments had two components namely: Allocation Ratio which relates to application of ratios used in FY 2019/20 to one-half of the equitable share allocated to county governments in FY 2019/20; and the Formula which relates to application of the difference between the determined equitable share and the amount allocated using the Allocation Ratio to the parameters approved in the basis.

36. Accordingly, horizontal distribution of the Ksh. 370 billion Equitable Share to County Governments for FY 2021/22 should be as follows: -Total Equitable Share or county Allocation = 0.5 (Allocation Ratio) + ((Equitable Share-(0.5 Allocation Ratio)) *(Formula) whereby: -

a) Allocation Ratio: - This refers to the Sharable Revenue allocated to counties in the financial year 2019/ 20 of Ksh. 316.5 billion. Thus, the allocation to county governments under this component was one half of the equitable share allocated to county governments in FY 2019/20 amounting to Ksh. 158, 25 billion;

b) **Equitable Share:** - This was the equitable share of revenues raised nationally allocated to county governments in FY 2021/22 amounting to Ksh. 370 billion. Once you net out one-half of the amounts of Allocation Ratio or Ksh.158.25 billion from the Equitable share of Ksh. 370 billion, the resulting balance of Ksh. 211.75 billion was allocated among county governments using the Formula; and

c) Formula= 0.18*Population Indexi+ 0.17*Health Indexi+0.10* Agriculture Indexi+0.05*Urban Indexi+0.14* Poverty Indexi+0.08*Land Area Indexi1+0.08*Roads Indexi +0.20* Basic Share Index

2021 Medium Term Debt Strategy

37. The 2021 debt strategy provided guidance on how to: -

- refinance maturing public debt; and

- finance fiscal deficit outlined in the 2021 Budget Policy Statement at the lowest cost and minimum risks while ensuring debt remained within sustainable level.

38. In addition, the 2021 debt strategy outlined some key reforms to promote the development of government debt securities market.

39. The strategy covered the period FY2021/22 to FY2023/24 over which the desired optimal debt portfolio was to be achieved.

40. The 2021 debt Strategy was prepared against the backdrop of the COVID 19 shock which led to slowdown in economic activity adversely affecting the fiscal position. The 2020 credit rating by major sovereign rating agencies *Standard and Poors* and *Fitch Ratings* placed Kenya at B+ with a negative outlook that signified the effects of the Covid-19 pandemic on the economy.

41. The following were taken into consideration in designing the debt strategy:
    i. the size and structure of the existing public debt;
    ii. non-performing guarantees;
    iii. the size of the fiscal deficit;
    iv. macro-economic assumptions in the 2021 BPS.

42. As at the end of December 2020, public debt stood at Kshs 7.28 trillion or US$ 65.6 billion, equivalent to 65.6 percent of GDP. The debt level was sustainable but classified as high risk.

43. Given the structure of public debt and the path of fiscal deficit over the medium term, the optimal strategy that minimized costs and risks of public debt was a mix ratio of 57:43 in external and domestic borrowing on a net basis.

44. The 2021 debt strategy was underpinned by the need to move away from the relatively high interest cost of domestic debt, safeguard credit flow to the private sector and rely more on long term external financing, preferably concessional loans. The strategy assumed continued access to the international financial market and diversification of debt financing instruments.

45. Further, the 2021 debt strategy entailed active debt management operations to lengthen the maturity structure of domestic debt by issuing more Treasury Bonds

and less Treasury Bills and replacing external commercial short-term debts with longer dated debt instruments to smoothen the debt service maturity structure.

46. While the domestic debt market was the major source of funding of the fiscal deficits providing about a half of the financing needs, the market remained shallow and dominated by commercial banks. The reforms to deepen the domestic debt market include the enhancement of market infrastructure through automation of processes at both the primary and secondary market, restructuring of interbank repo and setting up of Over-the-Counter (OTC) trading platform to complement the Nairobi Securities Exchange.

47. The office further stated that reporting on public debt and borrowing would continue to be enhanced in accordance with the Constitution of Kenya and international best practice. In addition, the capacity in the Public Debt Management Office would be strengthened.

48. The risk to the 2021 debt strategy included uncertainties related to the COVID pandemic with adverse effects on economic and financial environment that derailed fiscal and structural reforms to stabilize growth of debt to GDP. The strategy would be adjusted to align to any policy changes as and when they occur to ensure debt remains within sustainable levels.

Submission by the Commission on Revenue Allocation

The Chairperson, Commission on Revenue Allocation (CRA) submitted to the as follows-

Overview of 2021 BPS

49. **Recent Economic Development and Outlook-** Economy growth for 2020 was estimated at 0.6%. The 2021 BPS projected an economic growth of 3.8 percent in 2020/21 and about 6.1 percent over the medium term, on account of recovery of the services sector. This growth projection has not factored in expected shocks that would have an effect on economic performance such as contraction of the global economy, exchange rate variability, high debt, the prolonged effects of COVID-19, the BBI referendum and the 2022 general elections. All these factors are likely to slow down economic growth in the medium term.

50. Expected low economic growth rates would have an effect on other macro-economic variables such as inflation as well as revenue performance. In the last four years, revenues substantially performed below targets. This affected development expenditures at both levels of government. Projection of ordinary revenue of Ksh. 2,033.9 billion (16.4 percent of GDP) on account of on-going reforms in tax policy and revenue administration was at variance with the government policy to support business recovery post COVID-19 slump. The CRA therefore submitted that it was important that realistic revenue projections are made taking into account all the risks to the economic performance of the economy.

51. **Strategy for resilient and sustainable economic recovery**- The BPS 2021 noted that Implementation of the Big Four Agenda would unlock better growth, and positively impact on the lives of people through jobs creation and poverty reduction. Implementation of some of the Big Four agenda priority areas were commenced over the last three years and it was not clear what remained to be done during the next two years. The CRA therefore submitted that the BPS should provide an accountability matrix of the implementation status of projects and programmes under the Big Four Agenda: what needed to be achieved in the remaining two years, a breakdown of the resources needed, what had been achieved and its impact.

52. BPS 2021 only mentioned expenditure rationalization and revenue enhancement as a means to achieving fiscal consolidation. Specific policy measures were not outlined towards rationalizing expenditure and enhancing revenue.

53. Fiscal consolidation efforts seemed elusive as debt kept accumulating. The absolute debt threshold as approved by Parliament is Kshs. 9,000 billion by June 2024, however the threshold was likely to be met earlier by FY 2022/2023 as debt levels were projected to get to Kshs. 9,365 billion as shown in the table below **(Figure 1)**. There was therefore need for rationalisation of the public debt to ensure inter-generational equity.

Figure 1: Public debt stock for the FYs 2015/16 to 2024/25 –Kshs. Billion

Source of data: The National Treasury, 2021 BPS

54. **County Financial Management and Division of Revenue**- County disbursement for the FY 2020/2021 as at February 2021 was Kshs. 147.9 billion, the remaining balance of Kshs. 168.6 billion was likely to be disbursed to the counties during the remaining four months of the financial year. Although ordinary revenues were underperforming and therefore necessitated the slow disbursement of funds to the counties, too late disbursement of funds closer to the end of the financial year often led to over commitment towards the end of the financial year, in addition to opening loopholes for funds mismanagement.

55. The trend in county actual **county Own Source Revenue (OSR)** collections over the last six years showed sporadic high and low actual collection. This posed a risk in county budgeting and eventual service delivery as counties continued to accumulate pending bills. The Third Basis recommendation as submitted to Parliament by the CRA had provided for a fiscal effort incentive parameter to encourage revenue collection by counties. The parameter was subsequently dropped following approval of the formula. The CRA thus submitted that to encourage consistent revenue growth in the counties, Parliament needs to come up with a legislation for uniform automation of revenues at the county level to seal revenue leakages.

56. **Horizontal allocation of revenue among county governments**- Table 12 of the BPS provided information on the revenue allocation for each county government based on the third revenue sharing basis. Whereas:

57. **Equalisation Fund** - Following the court ruling on petition No. 272/2016 on 5th November 2019, the National Treasury in consultation with other stakeholders developed the draft Public Finance Management (Equalisation Fund) Regulations, 2020. The draft regulations were submitted to Cabinet for approval in November 2020. It was thus in the interest of Parliament that the marginalised areas accessed Equalisation Funds. Delayed disbursement of funds to marginalised areas on account of lack of legislation had delayed the realisation of the core objective of establishment of the Equalisation Fund of enhancing services in areas identified as marginalised.

58. **Budgets for the Medium Term/Details on Sector Priorities-** CRA provided details of the sector aachievement detailing some functions that could effectively and efficiently be undertaken by county governments. They also submitted that it was important that there was equity even where the MDAs were conducting projects and programmes on behalf of government.

Sector	Issue/Recommendation
Agriculture, rural and urban Development Sector	The Sector undertook the following activities which should have been undertaken by county governments: Installation of milk bulking and cooling equipment; development of small-scale irrigation infrastructure in counties; roll out of crop insurance in counties; provision of subsidized fertilizer benefiting farmers and enrolment of smallholder farmers under the e-voucher input access system. The budget of this activities should be transferred to county governments in FY 2021/22.
Health	The budget for the health sector was projected to increase to Ksh. 119.9 billion in FY 2021/22. Within the government policy on provision of UHC, that budget should be rationalised and shared between the national and county governments, especially now that the piloting of the UHC scheme in four counties at a cost of 3.9 billion was complete.
Environmental Protection. Water and Natural Resources	The sector had budgets to undertake several activities including the following that should be undertaken by county governments: Production of seedlings; provision of water to households; urban sewerage; construction of water pans and drilling of boreholes.

2021 Medium Term Debt Management Strategy

59. **Review of actual costs and risks characteristics against 2019 and 2020 Debt Management Strategies-** Table 2 on review of costs and risk indicators provided data on debt as a percentage of GDP. However, CRA noted that proportions hid a lot of information. There was therefore merit in presenting the absolute figures implied in Table 2, given that the revised debt ceiling of Ksh. 9,000 billion was an

absolute amount, before the presentation of the proportions. The Table was also inconsistent with paragraph 8 on the figure for nominal debt to GDP, which indicated that the debt to GDP was equivalent to 65.5 percent, whereas Table 2 presented the figure at 63.3 percent of GDP.

60. **Cost and Risk analysis of the existing Public Debt Portfolio-** Table 6 on domestic debt by maturity presented in US Dollar, should have been presented in Ksh. for ease of comparison to the debt ceiling.

61. **Debt Sustainability** -External debt sustainability relating to debt to exports ratio and debt service to exports ratio were breached, showing the pressure on external income (Table 1). Further the current weakening of the Kshs. against the US Dollar continued to put pressure on dollar denominated debt servicing. The MTDS did not address itself to expected shocks that would likely arise from currency depreciation, especially taking into account that 66 percent of Kenya debt was in Dollars.

Table 1: Kenya's External Debt Sustainability

Indicators	Thresholds	2019	2020	2021	2022	2023
PV of debt-to-exports ratio	240	225.2	288.1	260.2	258.5	255.2
PPG Debt Service-to-exports ratio	21	31.4	27.5	25.9	25.5	24.4

62. CRA stated that it was the government policy to contain the debt within the EAC thresholds. The 2021 DMS anticipated another revision of the debt ceiling beyond the Ksh. 9,000 billion. In effect, the DMS was at variance with the BPS 2021 statement on fiscal consolidation as it anticipated another review of the PFMA Act to expand the statutory debt limit

63. **Other concerns by CRA**-The MTDS presented various inconsistencies in the usage of calendar year and financial year. For consistency and ease of comparison the MTDS should harmonize and use either financial or calendar year.

Submission by the Council of Governors

The Governor, Laikipia County Gov. Ndiritu Muriithi appeared before the committee on behalf of the Council. He stated as follows:

64. **County Governments Proposal**- County Governments agreed to the proposed increase of Ksh 36.1 B by The National Treasury as a result of Revenue growth. The Council also agreed to the proposal by both The National Treasury and Commission on Revenue Allocation to convert four Conditional Grants to Equitable Share., that is Road Maintenance Levy Fund (Ksh 9.8b), Level 5 Hospitals (Ksh 4.32 B), Compensation for User fees foregone (Ksh 0.9B), and Rehabilitation of Village polytechnics-Ksh (2.0 B)
65. Further, the Council during the Intergovernmental Budget and Economic Council adopted the resolution of the pre-IBEC meeting with The National Treasury and Commission on Revenue Allocation for additional allocation to County Governments amounting to Ksh. 53B for the Fiscal Year 2021/2022.
66. County Governments agreed to the policy proposal by both the National Treasury and Commission on Revenue Allocation to convert conditional grants from GOK to equitable share for the following reasons:
    a. The architecture of Fiscal decentralization in Federalism theory envisage for allocation of funds to the level of Government to whom a function belongs to without condition.
    b. Increased autonomy for the counties and facilities to effectively plan, manage and set priorities for their funds, providing a great source of motivation.
    c. Guarantee that all funds will reach the Counties avoiding instances where such may be reallocated at national level or withheld to create fiscal space during emergencies as experienced in FY 2019/2020
    d. Funds would not be subjected to higher/further bureaucracy through line Ministries enabling smooth flow and/or very stringent conditionality's that reduces flexibilities in allocation and reallocation.

<u>**County Governments Compliance with Fiscal Responsibility**</u>

67. **Enhancement on Own Source Revenue**- The County Governments' actual Own Source Revenue (OSR) collection for FY 2019/20 was Ksh. 35.8 billion against a target of Ksh. 54.9 billion representing 65.2 percent of the annual target. This was a drop in absolute terms from Ksh. 40.3 billion collected in FY 2018/19 that was 74.8 percent of the annual OSR target by the Counties. This was attributable to Covid-19 pandemic.

68. Further, National Government remained to be the main defaulter on property taxes which was the major source of County revenue. There was therefore need for Legislation of enforcement mechanism where the defaulter of county taxes is a government agency. The National Government also continued to collect catering levy on food businesses essentially belonging to County Governments.

69. Pending Bills- A special audit by Office of the Auditor General (OAG) verified eligible pending bills by County Governments amounting to Ksh. 51.2 billion as at 30th June, 2018. Another Ksh. 37.7 billion worth of pending bills was found to be ineligible for payment. Of the eligible bills 76.6% (Ksh. 39.3 Billion) were settled and 23.45 (Ksh. 11.98 Billion) remained unsettled. 23 counties had cleared their eligible pending bills in full while 5 counties disputed a portion of the bills however and communicated to Office of the Auditor General for investigation and guidance.

70. As at 30th June 2020 County Governments reported pending bills amounting to Ksh. 113.6 Billion. Of this, Ksh. 78.8 Billion belonged to Nairobi City County. The Council proposed therefore that the Office of the Auditor General to conduct a special audit for verification of the pending bills before payment. Verification should be applicable to the following;

    i. Disputed eligible pending bills as per the Special Audit of OAG-2019
    ii. Ineligible pending bills as per the Special Audit of OAG
    iii. Reported pending bills as per Circular-AG.3/88/Vol.7(11)

71. Further, for a more efficient verification and to avoid re- audit (establishment of ineligible pending bills committee), it will be important for OAG to engage a reputable institution for the special audit and widen the scope of verification to incorporate forensic audit other than desktop analysis as earlier applied.

72. The county governments closed the Financial year with Ksh 26 B of equitable share not disbursed.

Intergovernmental Fiscal Transfer

73. **Borrowing framework-** Section 140 of the PFM, Act 2012 authorizes a County Executive Committee Member for finance to borrow on behalf of the County Government only if the terms and conditions for the loan are set out in writing and are in accordance to Article 212 of the Constitution and Sections 58 and 142 of the PFM, Act 2012 among other conditions.
74. The National Treasury vide Circular 1/2021 provided guidelines for County Government Borrowing.
75. The COG thus proposed that the twenty per cent (20%) of the total audited revenue baseline for County borrowing to be captured in Medium Term Debt Strategy and the nominal figure for County guarantee out of the total approved public debt of Ksh 9 Trillion ring-fenced (currently is Ksh 80B).
76. **Disbursement of Equitable Share allocation to County Governments** - County Government had not received funds for the Months of November, December, January and February 2020/2021 amounting to Ksh 81.8 B.
77. Balance outstanding consisted of Ksh.18.4 owed to 15 County Governments for the month of November; Ksh.9.6 B owed to 33 County Governments for the month of December; Ksh.26 B owed to 47 County Governments for the month of January and Ksh.26 B owed to 47 County Governments for February.
78. They therefore proposed that the National Treasury should fast-track equitable share disbursement to County Governments as delayed disbursement led to disruption in service delivery, budget absorption and delayed submission of statutory deductions.

Submission by the International Budget Partnership -Kenya (IBP)

Dr. Abraham Rugo, Country Manager IBP-Kenya presented a memorandum on behalf of 17 Civil Society Organizations working in different sectors at national and county levels. In their submission, they raised the following issues and recommendations:

79. **Unrealistic revenue targets contributed to the underperformance of revenue sources over the years.** Each year, the National Treasury revised the revenue projections downwards during the budget implementation stage (supplementary budgets). This was an indication that the government had continuously set targets that were too ambitious. There was need for a realistic way of projecting revenues based on historical performance. The projected growth should be within a set limit of the average revenue performance in the past three years.

80. **Kenya's budget deficit numbers remained very erratic, which was indicative of challenges with revenue and expenditure targets.** However, one consistent trend was the growth in the deficit between the final approved deficit ceiling in the BPS and the deficit in the final actual budget. This raises question on the deficit numbers provided in the BPS and whether they were a true reflection of the fiscal funding gap each year.

81. **Public debt remained a central but key determinant of our fiscal policy.** Although, significant transparency issues remained on Kenya's debt stock but also its repayment: For instance, Public debt annual reports for 2018/19 and 2019/20 were significantly different figures for the funds spent by government in settling debt obligations in 2018/19 going back to 2013/14. In addition, the Controller of Budget Report for 2019/20 had debt service figures that were different from the annual debt reports by National Treasury.

82. **There was no clear approach to guide the growth in revenue that was allocated to the county equitable share of revenue.** This made it difficult for counties to prepare multi-year budget projections as required under the medium-term expenditure framework used to prepared budgets in Kenya. This challenge was equally alive in the national government. The IBP thus recommended that there should be a constant growth factor for both levels of Government such that when there is an increase in the national government share of revenue, a similar growth factor was witnessed for county governments.

83. **The justifications to convert most conditional grants into the equitable share needed further interrogation.** Conversion of those grants into equitable share would not only disadvantage the services supported by those grants but also overall

counties 'share given the shift in allocation criteria. The IBP recommended that the grants to be converted into equitable share be retained as conditional grants and growth adjustments in allocation be increased.

Submission by the Kenya Paediatric Research Consortium (KEPRECON)

The KEPRECON submitted a memorandum indicating as follows-

84. **Budgetary Allocations-** In the BPS, Economic Recovery Strategy of 2020 pointed out the health sector as a key pillar towards enhancing the health care system. To effectively finance the budget priorities of the health sector, Ksh.195 billion was submitted as the sector requirement in the Sector Report, while the ceiling allocated only met 61 percent of that budget. The BPS reveals a Ksh. 42.6 billion gap in financing of the recurrent expenditure of the health sector and Ksh. 33.3 billion gap for development budget.
85. On that note therefore KEPRECON recommended that:
    a) The sector ought to adopt the resource allocation criteria outlined in the sector report to ensure that services directly linked to strengthening of health systems are allocated resources first. The Ministry of Health (MoH) could also consider rescheduling capital expenditure such as construction of a Kidney Institute to free-up resources that would revamp the health sector following the COVID-19 pandemic that has strained the health facilities and the human resource across the country.
    b) With the anticipated roll out of COVID-19 vaccine, the BPS ought to also outline the policy imperatives that the ministry would consider ensuring coordinated interventions with the county governments that provide immunization services to a larger extent.
    c) The Health Sector Report 2020 in addition, showed that the sector had Ksh49 billion on pending bills despite spending 114 percent of its overall budget allocation in 2019-20, seemingly illustrating the fiscal constraints facing the sector and the need for the MoH to consider more deliberate expenditure prioritization criteria for the sector and for Parliament to increase the ceiling for

the sector and expand budgetary allocations in real terms to reduce out of pocket spending by citizens.

86. **Management of Equipment Services-** The Leasing of Medical Equipment expenditure was expected to increase by Ksh1 billion to KES7.2 billion in 2021/22. The agreement that was shrouded in opaque agreements and debited on county governments allocation would see each county deducted Ksh153.3 million. And although the of the MES was to ease the burden to counties on provision of specialized services and ensure that the cost of health care for patients was kept low, the allocation criteria revealed that the project was not informed by the disease burden and health infrastructure needs of different counties. In some counties, the equipment remained unused due to lack of trained personnel or failure to replenish supplies to keep them functioning. The Senate Report on the 2019 BPS also called for suspension of further payment to the Leasing of Medical Equipment until there was full disclosure of its costs.

87. In that regard, the organization thus recommended that Parliament suspends further expenditure on the programme until the issues raised on its configuration and transparency, are addressed to ensure that citizens receive better health outcomes from expenditure incurred on this programme.

88. Further, the Health Committee in Parliament should task the ministry to provide a report on how this project sought to support the realization of UHC as currently structured, seeing that in most facilities, the equipment was underutilized but continued to consume the limited resources available.

89. **Universal Health Coverage Insurance Scheme and NHIF schemes-** NHIF reforms sought to ensure that as a social health insurer, it was responsive to the needs of the people. However, there have been inequalities in services and facilities access across different regions with statistics indicating that there are only 16 percent of the Kenyan population registered under the scheme. However, the details of the UHC scheme proposed in the BPS remained unclear on how it was linked to the current NHIF scheme

90. **They therefore recommended that**

a) More information should be provided by MoH with regard to establishment of the UHC insurance scheme. This include how vulnerable groups, who are key targets to this scheme shall be identified to guarantee equity and sustainability of the scheme.

b) It was also critical for the ministry to consider dissemination of clear and adequate communication of the benefits package across different citizens' groups before the scheme is rolled out.

c) The new UHC scheme and NHIF should align the design and implementation with strategic purchasing actions such as contributions and benefits package that strengthen the health system and increase citizens access to services.

d) It would also benefit the entire health system, if a report on the pilot phase of the UHC was availed to redesign the scaling up to other counties and identify the services that have been mostly sought in the increased hospital visits.

e) The current UHC model was more targeted on specialized curative services other than preventive and promotive health services and there was need to focus on level one health care service provision targeting households and communities.

91. **Multi sectoral dimension towards achievement of Universal Health Coverage-** Policy imperative under the UHC sought a Health approach including water, agriculture, education, housing, environment and infrastructure. The BPS however does not explicitly demonstrate this interconnectedness and as such its realization remains a burden to the health sector only. There is also no precise role of the private sector in UHC roll out mentioned in the document, that could play a big role in supporting delivery of health services through supply of health commodities and medical supplies.

92. They therefore recommended that Parliament should task the government to collaborate more with the private sector and alternative medical practitioners to strengthen provision of health services especially in hard-to-reach areas. They should also second critical public health staff to non-state facilities in specific cases, especially in under-served areas. Additionally, Parliament should ensure that the National Treasury and MoH, provide a multisectoral approach to realization of UHC in respect to social determinants of health in

Submission by Oxfam in Kenya and Institute for Public Finance-Kenya

The Institute for Public Finance – Kenya (IPFK) together with Oxfam in Kenya made the following submission on the Budget Policy Statement in relation to social protection:

93. The 2021/2022 BPS reported having supported 1,233,129 households and individuals annually with cash transfers (833,129 Older Persons 353,000, OVC & 47,000 Person with Severe Disabilities) in the previous financial year and proposed to support 1,817,500 individuals annually with cash transfers (1,183,000 Older Persons 540,500, Orphans and Vulnerable Children & 94,000 Person with Severe Disabilities) in the FY 2021/2022.

94. The baseline last year (2020/21) was Ksh 70,089.80 million for the whole sector (with an absorption rate of 96.24%) and the proposed resource requirement for 2021/2022 was Ksh. 127,104.06 million though only KES 71,316.8 million was designated as the resource ceiling.

95. The department for Social Protection, Pensions & Senior Citizens Affairs had its budget ceiling for FY2021/22 reduced by Ksh.331.7 million from Ksh 33,604.40 million in FY2020/21 to KES 33,272.7 million in FY2021/22

96. The stakeholders thus sought the following clarifications:

    a) How the Government proposed to provide for more cash transfers to beneficiaries (from 1,123,129 to 1,817,500) when the proposed allocation to the department for Social Protection, Pensions & Senior Citizens Affairs had been cut by Ksh. 331.7 million.

    b) As the identification of beneficiaries was problematic for the Ministry of Labour and Social Protection (MLSP), how did the MLSP propose to identify additional beneficiaries? And especially people living with disabilities (47,000) who had received much less than the elderly (833,129) and the OVCs (353,000).

97. Given that the sector did not get as much resources as it needed, they recommended that Social Protection (cash transfers) was prioritized and increased instead of reduced.

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

1) The Institute of Certified Public Accountants of Kenya (ICPAK) appeared before the Committee and gave their views and recommendations as follows:

PARAGRAPH	ICPAK Recommendation
Para 9 and 10: Domestic Economic Development	Although this projection is consistent with World Bank's data of 5.9% in 2020 and 6.0% in 2021, the challenge of this growth premise is that it doesn't seem to adequately incorporate the impact of the COVID crisis and the post COVID economic recovery strategy remains unclear. There was need to lower expectations based on impact of locust invasion, political environment, weather patterns among others. The Institute thus recommended that; a) Boost local production and manufacturing industries: for instance, many apparel manufacturers including SMEs in the Textiles and Apparel sector have taken to producing fabric masks and PPEs to deal with the pandemic. Notably, RIVATEX in Eldoret and KICOTEC in Kitui.
Para 11: value of Per Capita Income and Job creation	Since majority of Kenyans are employed in the informal sector, the Institute recommended: a) Improved regulatory environment for the informal sector to support stability and growth of MSMEs to overcome start-up challenges and contribute to economic development. b) Consider limiting cash-based transactions as a means to capture all business activities in the economy. c) KRA to device mechanism to capture data on informal sector for purposes of tax revenue given that so many jobs are created in this sector, yet it isn't considered in the expansion of tax base. d) Since the informal sector is growing at a rapidly faster rate than the formal sector, more research needs to be done to establish feasible data the sector's potential can be harnessed for economic growth. e) Need to address MSMEs(firms) liquidity pressures by continued efforts to accelerate VAT refunds f) Ensure prompt payment of pending bills by Ministries, Departments, Agencies and County Governments to MSMEs to boost growth.

Para 41-43 Revenue Performance	The Institute recommended the following: a) **Predictable Tax Regime through an overarching tax policy:** for sustained revenue collection b) **Revenue collection:** there was need for stronger strategies to enhance revenue collection such as sealing existing tax loss loopholes and widening the tax base. This may ensure that the country can comfortably be able to service its public debt as well as meet the revenue targets. c) **"Green" the Tax System:** Use the tax system to promote sustainable and equitable growth especially in the context of the COVID-19 crisis and increased impact of global warming and climate change
Para 47-55: Fiscal Policy	The Institute supported the proposals contained in the World Bank's Economic Update that: a) There was need to re-ignite private sector led growth and ensure that fiscal consolidation was growth friendly b) Fiscal consolidation needed to be recalibrated towards recurrent spending such as - lowering of transfers to state owned enterprises, cleaning and regular audit of the payroll register, keeping wages, salaries and allowance adjustments in line with recommendations from the Salaries and Remuneration Commission (SRC) c) There was need for Parliament to assess the uptake and impact of already established austerity measures by the National Treasury in 2019
Modernized Income Tax Bill	The Institute proposed the following: a) The Bill was at an advanced staged and therefore efforts should be made to expedite tabling of the Income Tax Bill to Parliament. b) Commence initiatives to finalize an overarching tax policy for Kenya.
Para 103: Food and Nutrition Security The Government will continue to implement measures in the	The Institute recommended that: a) The sector legal, policy and institutional capacity should be strengthened in realization of core mandates. b) Access to agricultural financing and affordable credit- Lack of finance for agriculture compromises increasing production and investment in value addition activities in agriculture.

agricultural sector in order to ensure food and nutrition security.	c) Continuous training and research in the field of agriculture- Facilitate Refresher training for extension officers/ CPD programmes for staff and farmers supervised by departments of agriculture and cooperatives. d) Diversification of Agricultural Production: Narrow base of agricultural products, especially exports lead to high vulnerability of incomes to the international market trends. Farmers should therefore be educated on urban farming and support services for agricultural exports. e) Specialization in areas of comparative and competitive advantage: County specialization in areas of comparative advantage for example Narok specializes on wheat production while Trans-Nzoia on maize farming. f) Improving rural infrastructure: Performance of the sector was affected right from production to marketing domestically and internationally by rural roads, markets and transport systems that result in high transaction costs for farmers and inaccessibility to input and output markets. g) Increase funding levels especially to the sectors that contribute to food security such as Agriculture and manufacturing. Exchequer releases should be within the prescribed timeline to facilitate implementation of development programs. Agriculture should be at least 10% as per Maputo Declaration
Para 115: Universal Health Coverage	a) The government needs to supplement the treatment of COVID-19 for all patients to ensure the most vulnerable members of societies such as slum dwellers and low-income earners were guaranteed treatment. The cost of treating COVID-19 was extremely expensive, furthermore, the economic disruption due to the lockdown measures had interfered with the incomes of many people. b) Ensuring that at least 70% of NHIF disbursements went to public health institutions and service providers; with 30% going to the private sector. This would help build capacity of public health institutions as opposed to utilizing public funds to support private entities. c) There was need to increase the health budgetary allocation to the recommended 15% of the total annual budget as recommended by the AU under the auspices of Abuja declaration. This would help recruitment of more personnel and address the frequent industrial actions as well as equip the medical workers. d) Strengthen accountability in the utilization of funds and resources allocated in the health sector. The perpetrators of mismanagement of healthcare funds should be brought to book and such funds recovered.

	e) Invest in Medical Research: Counties should support medical research such as Cancer research and studies on NCDs.
Para 208: Realism of revenue forecast - it is ambitious and leads to budget deficit	ICPAK proposed that a clear, consistent and standard forecasting model should be adopted by the country as a basis for determining revenue projections based on either inflationary adjustments or the average revenue performance over the years. In order to enhance tax administration and seal leakages, the Institute proposed the following: a) proper controls and monitoring of taxpayer activities through a single identifier would lead to enhanced efficiency in tax administration. b) Review of the penalty system on tax evasion c) Develop a change management strategy to address income tax matters d) Leverage on simplified technological solutions to enhance integration of taxpayer information systems.
Expenditure projections: Para 209	The Institute recommended that: a) While the COVID-19 crisis persisted, the Government of Kenya (GoK) should continue to provide an adequate but temporary expenditure surge to the health sector to meet increased demand for health services and to contain the spread of COVID-19 b) Wage Bill Management- Improved wage bill management and allowances could yield 0.2 percent of GDP in expenditure savings. This included regular cleaning of the payroll to eliminate ghost workers, a review and rationalization of the number of allowances, and improved functionality of government payroll management systems could make a significant contribution to reducing expenditure in this area. c) A review of numerous personal allowances, preventing over-use of travel related allowances, as well as discontinuation of unnecessary allowances formed the bulk of these savings. d) Framework agreements and centralized/consolidated procurement for homogeneous goods and services in government procurement could also deliver approximately 0.9 percent of GDP in fiscal savings. This strategy optimizes government's purchasing power and could deliver massive expenditure savings

Para 210 and 211 **Deficit financing**	The Institute proposed the following measures; a) Implementation of the budget taking into consideration financial and information requirements required for a successful medium-term fiscal policy implementation, b) Enhanced 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 reign in on corruption that threaten service delivery and could derail realization of the Big Four Agenda. c) Kenya should diversify its exports and the market for the same to increase its foreign exchange reserves and hence minimize on the exchange rate risk. d) Rely more on concessional loans and grants rather than on expensive bilateral loans that are non-concessional, thus reduce high interest rates payments, averting possibility of debt overhang. e) Implement government-to-government partnerships and other Public Private Partnerships (PPP) models based on independent cost-benefit, Cost-Effectiveness and value-for-money studies, to prevent expensive low priority bilateral, donor-led investments funded by debt. f) Diversifying the currency mix in which debt is denominated to reduce exposure to foreign exchange risks. g) Enhance debt transparency and accountability in order to enhance management of public debt in Kenya h) 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 i) The government should also consider the following measures to enhance public financial management. i. ***Expenditure Vs Revenue:*** public expenditure has been growing at a faster pace than revenue over the past few years. The major outcome has been huge budget deficits. There is need to cut wasteful expenditure, increase the efficiency of spending, and free up resources that could be redirected to where they are most needed to combat the crisis and protect livelihoods

	ii. *Implementation of budget monitoring reports:* Act on Auditor General and Controller of Budget recommendations in respect to public debt iii. *Audit of the Public Debt Register:* Establishing the authenticity of the public debt register including the true debt sustainability position was critical. Government sources and the world bank continued to give conflicting statistics of Kenya's debt situation. iv. *Accounting for debt:* The public was not sure of the accuracy and completeness of the debt register. National Treasury and Central Bank of Kenya presented conflicting statistics on national public debt. The Auditor General in its Report for the Financial Year 2017/18 pointed out misstatements and differences between the financial statements and the confirmed balances.
Paragraph 249. Education sector	The Institute recommended the following: a) increased capitation for ECDE teachers b) Employment of skilled and qualified instructors in polytechnics; c) put in place monitoring and assessment of performance (quality assurance) to ensure there was no laxity on the part of those employed to offer services to the learners.
Para 275: County Government's Own Source Revenue	The Institute recommended the following to support Own Source Revenue: a) **Revenue forecasting and mapping:** a clear, consistent and standard forecasting model need to be adopted by the country as a basis for determining revenue projections. There was further need for a comprehensive analysis and mapping of counties' revenue potential. b) **Revenue collection systems:** There was need to standardize revenue collection management systems across counties for uniformity and easy reporting. In addition, counties should strive to automate revenue collection systems to seal loopholes and leakages. The standardized ICT-based system prescribed should provide real time revenue information in a consistent manner to enable consolidation and analysis, as well as periodic reports for use by the National Treasury, the Controller of Budget, the CRA and the Office of the Auditor General, and also easily accessible by the auditor general.

	c) **Collaboration with KRA:** To enhance efficiency and effectiveness in revenue collection and administration, county units should consider engaging KRA for technical support. d) **Public Participation in Revenue collection:** Counties should empower citizens with revenue information through revenue clinics- for citizens to understand the importance of taxes and charges to county service delivery. e) County Treasuries should continuously review the performance of revenue collection vis-à vis targets and shall include a status report in the Quarterly and Annual reports which shall be published in various media.
Para 278: Pending Bills	The Institute recommended the following: a) The National Treasury should consider accrual accounting as opposed to cash accounting which presented challenges in terms of monthly and annual financial reporting on pending bills and other liabilities. b) There was need to develop a database of all owed dues to counties and MDAs, and assess the multiplier effect/impact to the economy c) The Institute supported recent efforts by the National Assembly to amend the Public Procurement and Assets Disposal Act 2015, compelling the National and County Governments to pay suppliers and contractors within 30 days. d) **Legislative Proposals** The Institute proposed Amendment to Section17 of Public Finance Management Act 2012. Amend 8(b) to read "by inserting the following new subsection immediately after subsection (7)--- *"(8) (a) six months prior to a general election, no procurement shall be carried out by the national and county governments, or their respective entities, in respect of their respective development votes unless with the approval of the National Treasury".* *(8) (b) All pending bills incurred by the national and county governments, or their respective entities, in respect of their respective development votes, shall be cleared not later six months prior to a general election*

	This amendment would help curb pilferage of public resources during an election year and increase pending bills during the same period.
Para 285: County governments Equitable Share	a) ICPAK urged parliament to consider amendment to Section 37 (9) of the PFM Act 2012 to enable prior enactment of DORA before Appropriations Bill. b) The National Assembly to consider, expedite scrutiny and adoption of reports from the Auditor General. This would enable not only the revenue share to rely on the most recent and approved financial statements, but also enhance accountability of public funds in a timely manner. c) The Institute recommended further amendment to Section 191 of the Public Finance Management Act **The National Assembly shall within three months after receiving an audit report adopt and approve the report;** **In the event that the audit report is not adopted and approved by the National Assembly within three months, it shall be deemed as the most recent audited accounts for purposes of determining sharable revenue.** Therefore, the National Assembly must expedite its process of considering the audited financial statements as submitted by the Auditor General

III. SENATE STANDING COMMITTEES' SUBMISSIONS ON THE 2021 BPS

	STANDING COMMITTEE ON NATIONAL SECURITY, DEFENSE AND FOREIGN RELATIONS	
	Observation	Recommendation
1.	**Resource Constraint in light of rising debt level:** - The proposed 2021/22 budget ceiling for the agencies in the national security sector and the other sub-sectors of International Relations and Regional Development Authorities was below their resource requirement.	The sub-sectors should restructure their operations to ensure the limited resources were used to achieve the set outputs and targets.
2.	Absence of a policy on asset acquisition- The Ministry of Foreign Affairs had acquired assets in foreign missions without a policy guide on acquisition of such assets. As such, there were wastages associated with inflated construction costs, putting the county's economic situation in a more precarious position. Further, the requirement for rent budget was increasing, accounting for 20 percent of the mission's budget, against the ministry's allocation for development which was below their requirement.	The Ministry of Foreign Affairs should develop a policy framework guiding the process of acquisition assets in foreign Missions and constructions.
4.	There was need to operationalize the newly gazetted Police Stations and sub-county headquarters to boost service delivery	The newly gazetted police stations and police posts should be operationalized in FY 2021/22 equitably in all the regions of the Country. Emphasis should be on opening up more police posts

		especially at the Country borders.
6.	Police Housing-The BPS 2021 promises to expand the housing units for the police under the affordable housing programme. it was not known however how many housing units the government targeted. It also emerged from Committee visits that the policy on payment of allowances for officers to get accommodation outside the police line was not effective given the nature of security operations and the economic realities vis a vis the house allowance entitlement	There was need for a review of housing policy of Police officers outside Police Stations with a view of constructing of more housing units in the Police Stations where officers will be housed rather than giving them the House Allowance.
7.	Only 30% of police officers are kitted with the new Police uniforms yet the BPS did not include budget allocation for the remaining 70% of officers	The BPS should have included a budgetary allocation for acquisition of Police Uniform to kit all Police officers in the service
	STANDING COMMITTEE ON ROADS AND TRANSPORTATION	
1.	The National Treasury proposed to convert four existing conditional grants totaling Ksh. 17.4 billion into equitable share to counties in FY 2021/22. Among the four conditional allocations to be converted into equitable share is the Road Maintenance Levy Fund (RMLF)	The policy to convert the conditional grant on Roads Maintenance Levy Fund (RMLF) be stopped to ensure that the RMLF was disbursed to counties as a conditional grant in order to achieve the objectives of the Fund
2.	The justification given for conversion of the four conditional allocations to Counties' equitable revenue share negates the purpose of creation of the Roads Maintenance Levy fund (RMLF) whose objective was maintenance	

	of road infrastructure since the allocation could be reallocated to other expenditure such as recurrent budget	
3.	There were huge pending bills due to local contractors who had undertaken infrastructure projects yet there was no budgetary provision for the same	Focus should be on completion of ongoing infrastructure projects before commencing new projects so as to reduce the pending bills accrued to contractors
4.	Compensation for land acquired for road and infrastructure projects was done years after acquisition and therefore contributed to huge government pending bills	The costing of infrastructure projects in budgets should include the cost of compensation for land and properties acquired so that just and prompt payment for private land acquired for road and infrastructure projects are done.
	STANDING COMMITTEE ON DEVOLUTION AND INTERGOVERNMENTAL RELATIONS	
1	The BPS-2021 presented "business as usual" policies and initiatives instead of robust economic recovery strategies aimed at steering the economy out of the effects of the pandemic. Some proposed post COVID-19 recovery strategies such as enhancing allocation to healthcare systems; supporting the recovery of Micro, Small and Medium Enterprises (MSMEs); investment in ICT infrastructure among others are what are deemed to be the usual.	While Treasury seems to make the assumption that this will be post COVID budget, global trends indicate that the pandemic will persist in the plan year and economic recession will continue. Therefore a more comprehensive economic recovery plan is urgently needed.
2.	Domestic borrowing projection of Ksh.662 billion would crowd out private sector access to credit and should be addressed.	Treasury should look into limiting amounts borrowed, in order to protect the Private Sector from being adversely affected.

		Further, the government should curb the growth of the already staggering debt that the Country is currently encumbered with.
3.	There seemed to be no genuine efforts in implementing the Equalization Fund. It was observed that the Statutory Instrument that was implementing the Fund was nullified by the High Court and the government seemed not to prioritize the enactment of new regulations. There was a danger of the Fund lapsing having never been implemented.	The National Treasury should fast-track the drafting of revised guidelines on implementation of equalization fund and submit to Parliament for approval.
4.	The proposed composition of the Ksh. 370 billion of the Equitable Share seem unrealistic and may pose a risk to budget implementation. For instance, the Ksh. 36.1 billion proposed on account of revenue growth seemed to be pegged on the revenue performance.	That the revenue growth factor of 36.1 billion be factored in the Division of Revenue without conditionality. Where there is a revenue shortfall, it has been the long held principle that the national government bears the loss.
5.	The proposed policy shift of converting conditional grants of Ksh. 17.4 billion (RMLF, level-5 grant, user fees and village polytechnics) to sharable revenue did not increase resources to counties, rather made it difficult to oversight the implementation of functions. Such a policy shift should have been undertaken upon an evaluation of the effectiveness of the transfers and accountability of fund utilization. For the RMLF, it was important that the Kenya Roads Board presented to Parliament an implementation report before the policy changes.	The classification of conditional grants as equitable share (for RMLF, Level 5 hospitals, user fees foregone and village polytechnics) be suspended until an evaluation is undertaken on the effectiveness of these grants in the prior years. Further, in the case of RMLF the Kenya Roads Board be required to provide a report to Parliament on how these funds will be accounted for when mixed up with equitable share.

5.	Counties' Own Source revenue was likely to continue being strained, considering that many counties approved tax waivers to cushion citizens against the debilitating effects of the COVID pandemic	In order to help counties enhance revenue collection, the multi-agency team comprising the CRA and National Treasury should fast track the policy on own source revenue as well as county revenue potential. The mapping of revenue potential coupled with collection efficiency would ultimately help ease pressure on demand for equitable share. Further, to remedy the strain on Own Source Revenue, there should be a balance between providing tax incentives to spur growth and fast tracking revenue efforts by county governments.
6.	The budget for the State Department for Devolution was proposed to be reduced by nearly half in the Supplementary Budget for 2020/21. The proposed ceiling in the 2021 Budget Policy Statement for the State Department for Devolution was Ksh. 2.647 billion down from the original 2020/21 baseline allocation of Ksh. 5.664 billion.	Care should be taken to ensure the downward trajectory of the budget for this State Department does not jeopardize the funding to key intergovernmental institutions such as the Intergovernmental Relations Technical Committee (IGRTC), the Council of Governors, among others.
	STANDING COMMITTEE ON AGRICULTURE, LIVESTOCK AND FISHERIES	
1.	The committee observed that the Agriculture sector had proven to be a very strategic sector in the Kenyan economy. The sector was the only one that registered a positive growth however low in 2020 despite the COVID-19 pandemic and thus an important sector in alleviating household's poverty	The County Governments to institute measures aimed at up scaling small scale fish farming in order to leverage on the proposed Fisheries Research & Development Fund and the Fish Levy Trust Fund also proposed in the Budget Policy Statement;

	The Agricultural sector being one of the Big four policies of the government was given priority. However, the resources towards the same were still inadequate and still below the requirement of 10% resource allocation as per the Maputo Declaration;	The County Governments should allocate resources in support of the National Government Policy of reducing post-harvest losses in the Agriculture Sector; and The County Governments to institute policies geared towards collaboration with the national government in promotion of the Kitchen garden initiative to boost the goal of achieving food security.
2.	The National government failed to complete ongoing projects despite introducing new ones along the way. For instance, the six Fishing landing sites project in Lake Victoria had taken too long due to low funding	The National Government should endeavor to complete ongoing projects in the Agriculture sector before introducing new projects;
3.	The Locust Menace continued to impact negatively on livestock pasture and other agricultural production and the efforts to contain were still not adequate	The County Governments in collaboration with the National government need to utilize modern technology in the fight against the locust menace.
	STANDING COMMITTEE ON TOURISM, TRADE AND INDUSTRIALIZATION	
1.	The National Government had not put in place enough measures aimed at promoting agro processing and manufacturing given the large number of	The Government should invest in the promotion and marketing of exports of agricultural products such as fruits, which have performed well during the pandemic. Promotion of access to new export markets and value addition by small and medium-sized

	agricultural goods exported in raw form. Produce exported in raw form fetch low prices as opposed to manufactured or processed ones. Low value addition could be attributed to lack of requisite skills, knowledge and expertise in addition to limited access to finance that has prevented the enterprises, both formal and informal, from expanding.	fruit farmers, through existing government agencies, will promote diversification of agricultural exports and contribute improvement of living standards in rural areas. In the medium-term, public investments in key enablers such as access to cheaper uninterrupted electricity supply, efficient and cheap transport system and creation of a favorable business environment will enhance the competitiveness of Kenya's exporters.
	STANDING COMMITTEE ON HEALTH	
1.	Despite health being a devolved function, as contained in the BPS 2021, monies for the health function have largely been retained at the national level with the proposed budgetary allocation of KShs. 112.5 Billion to the Ministry of Health representing almost a third of the total equitable share to counties. The Constitution requires functional assignment to be accompanied by the transfer of the requisite resources. In order to successfully implement UHC, there is a need to cost the health function, and ensure that counties are provided with the necessary resources to deliver devolved health services.	The costing of the health function, and the transfer of the requisite resources to counties with a view towards avoiding the retention of monies for health service delivery at the national level.
2.	**Fast-tracking of NHIF Reforms:** The BPS 2021 has emphasized social health insurance as the key delivery tool for UHC. To support the UHC	The fast-tracking of the implementation of NHIF reforms, and the adequate financing thereof;

	goal, the government intends to modernize NHIF systems and improve governance structures through legal and institutional reforms in order to transform it into a social health insurer. The BPS 2021 is silent on how the implementation of these much needed reforms will be financed	
3.	**Conversion of Exchequer-Supported Conditional grants into Equitable Share.** The BPS 2021 has proposed the conversion of exchequer supported conditional grants totaling KShs. 17.4 Billion in equitable share thus affecting Conditional Allocation to Level 5 hospitals and Compensation of User Fees Foregone. The conversion fails to take into consideration the significant cost burden the of the affected level 5 hospitals. Without the conditional funding, and without any mechanisms to ring-fence funding to the facilities, services at the Level 5 hospitals are likely to suffer owing to competing interests and priorities at the county level. In contrast, the BPS 2021 has prioritised the provision of national referral and specialised services which has been categorised as a key priority program and is set to receive a total of KShs. 47.2 Billion in the FY 2021/22.	The immediate reinstatement of conditional grants to the health sector amounting to KShs. 5,226 Billion, namely, the Conditional Allocation to Level 5 Hospitals and Compensation for User-Fees Foregone, without prejudice to the equitable share to counties
4.	***Conditional Grant for the Leasing of Medical Equipment:*** The conditional grant to counties for the Managed Equipment Services (MES)	

	has however been retained at KShs. 7.205 Billion compared to KShs. 6.2 Billion in the FY 2020/2021, translating to an increase of approx. KShs. 1 Billion. The Committee notes that the Senate recommended the removal of this conditional grant altogether in the 2020/2021 CARA. However, despite the fact that most of the equipment that was supplied under the MES remains non-functional in most counties, the allocation to this particular conditional grant has increased while other priority health issues have been ignored e.g. the roll-out of a COVID-19 vaccine, and the financing of collective bargaining agreements entered into by the MoH on behalf of the National Government and health worker unions.	
5.	**COVID-19 Vaccines:** There is a global rush to secure COVID-19 vaccines at present. However, there is no indication from the 2021 BPS that Kenya has prioritised the acquisition of COVID-19 vaccines from the 2021 BPS. This calls to question the governments' commitment to ensure access and availability of the COVID-19 vaccines in the FY 2021/22.	A budgetary allocation towards a nationwide rollout of the COVID 19 vaccine;
6.	**Investment in alternative medicine in dealing with COVID 19:** The BPS 2021 was silent on investments in alternative medicine solutions towards the COVID-19 response. There was need to invest in research and policy formulation on use of alternative (herbal) medicine as a complement to conventional drugs.	A budgetary allocation for enhanced research and development of alternative therapies for the treatment and management of COVID-19

7.	**Financing of Collective Bargaining Agreements with Health Workers:** The National Government through the MoH executed Collective Bargaining Agreements (CBAs) with various health worker unions. However, while the CBAs have significant financial implications to the government, especially at the county level, the BPS 2021 does not make any financial provision for their implementation. Without mechanisms to fund the agreements, the health sector can expect to see continued industrial action amongst health workers and the disruption of health services.	A budgetary allocation from the National Government for the implementation and financing of the Collective Bargaining Agreements that it entered into with health worker unions with a view towards mitigating the cost burden to counties
8.	**Non-Allocation of Conditional Grants for Emergency Treatment:** Article 43 of the Constitution guarantees every Kenyan the right to the highest attainable standard of health, including reproductive health care and emergency treatment. Section 7 of the Health Act 2017 further provides for every person to receive emergency medical treatment. The National Government through the Ministry of Health is further obligated through Section 15 of the same Act to develop policies, laws and procedures, in consultation with the county governments and other stakeholders for the realization of emergency care; to ensure that financial resources are mobilized for uninterrupted access to all health services; and, to establish an emergency medical treatment fund. However, as with the	The establishment of an Emergency Medical Treatment Fund in accordance with section 15 of the Health Act, 2017

	previous year, no budgetary allocation has been provided for emergency treatment in the BPS 2021.	
	STANDING COMMITTEE ON EDUCATION	
1.	There was no policy as well as accompanying resources outlined in the education sector to address the COVID 19 challenges especially at basic education level, for instance provision of facemasks to school going children	The National Treasury should increase the proposed resource ceiling at the State Department for Early Learning and Basic Education to Kshs. 105 Billion in order to allocate adequate fund to address the effects of Covid-19 Pandemic and enhance protective measures such as the provisions of hand washing facilities; basins, running water, soap dispensers and improvement of schools' infrastructure to ensure learners safety in public schools against Covid19 pandemic and increase the learners under the school feeding programme
2.	Infrastructure allocation though incremental, does not cater for infrastructural challenges paused by COVID 19 pandemic to learners. More resources should have been provided towards infrastructure support to ensure that COVID 19 protocols such as social distancing and frequent hand washing are observed in schools	
3.	The National Government had developed policies and Service Standard Guidelines on provision of Early Childhood Education. However, they had not been rolled out at the county governments.	The National Government through the Ministry of Education should fast track the rolling out of the ECD Policy and Service Standard Guidelines to the 47 county governments before the end of the 2021/22 financial year and create collaboration between the two level of government for the implementation of the policy
4.	Conversion of the grant funding rehabilitation of village polytechnics into Equitable shares would greatly affect provision of TVET at the counties as	The conversion of the grant funding rehabilitation of village polytechnics into equitable shares should be **reversed** to ensure

	there could be minimal or no support for the activities that were initially supported with conditional grants.	continued service delivery at the village polytechnics, continue incentivizing the provision of TVET and promote accountability for funding and tertiary education outcomes. Further, The Ministry of Education and National Treasury should strictly monitor the County Governments on the prioritization of the funding of the village polytechnics to ensure the institutions are adequately funded by the county government;
5.	Given the proposed ceiling to the State Department for Post Training and Skills Development in 2021/22 and given its historical budgetary allocation since establishment in 2018, the Department has not been able to deliver on its mandate. The allocations have only been towards salaries which is not its core mandate.	
6.	The Teachers Service Commission 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 replacement of teachers who exit service was done promptly to ensure learning was not interrupted	The Teachers Service Commission (TSC) should be allocated an extra Kshs 12 Billion to enable the Commission hire additional teachers during the FY 2021/22 in order to address teachers' resource gap and to improve the pupils' teachers' ratio in public primary schools.

7.	The pupil's teachers' ratio in public primary schools which stood at 40:1 during the FY 2019/20 was still too high especially with the implementation of the Competency Based Curriculum (CBC)	
8.	There was inadequate information on the resources set aside to provide facilities for education and training for learners with special needs and disabilities. Further, it was not clear if there were any budgetary allocations to provide tools and skills for assessing and identifying learners with special needs and provide appropriate assistive resources	The Ministry of Education and National Treasury should set aside and ring fence Kshs 1 Billion to establish Education Assessment and Resource Centres (EARC) in every county, provide physical access for learners with special needs and disabilities to learning institutions, provide adequate tools and appropriate assistive devices such as rails and other equipment used by learners with physical disability
	STANDING COMMITTEE ON LABOUR AND SOCIAL WELFARE	
1.	The budgetary allocation to Social Safety Net programmes under the State Department of Social Protection have been increasing steadily. There was however need for the Committee to be briefed on allocations for each program in each county.	The was need to have an institutional framework to guide the implementation of the Social Safety Net programs
2.	There seemed to be duplication of programs between various National government departments and also between the national government and the county governments; for example, there were bursaries issued by both	There was need to streamline social welfare and social protection programs between National and County governments for accountability purposes

	the Ministry of Education as well as by Ministry of Labour and Social Protection. The County Governments also had their own bursary programs.	
3.	The Public Service faced a crisis in human resource due to the policy on freeze on employment	The need for Government to hire crucial staff in some departments like the Archives sector under the State Department of Culture and Heritage where 70% of the workforce was almost retiring
4.	The Kshs. 2,000 OPCT was not adequate	The need to fast-track the issuance of NHIF cards to beneficiaries of the Older People Cash Transfer Programs (OPCT) for their medical insurance
5.	The National Employment Authority was not well funded	An enhancement of the budget of the National Employment Authority given the impact it has had despite being understaffed and underfunded
6.	That school going children were adversely affected by the economic effects of COVID19 pandemic on their families and household incomes and thus the need for food support in schools;	The need to introduce and budget for holistic school feeding programs to cater for children in Public Primary Schools;
7.	There was no budgetary provision on the policy statement for former councilors; despite the Resolution of the Senate	A policy and budgetary provision for former councilors as resolved by the Senate should be provided;
8.	Most Social Protection programs are devolved functions	The need for National Government to work hand in hand with county governments to implement social protection programs –

		for example building of satellite academies, OPCT Programs, Libraries among others.
	STANDING COMMITTEE ON JUSTICE, LEGAL AFFAIRS AND HUMAN RIGHTS	
1.	**Resource Constraint**- the proposed budget ceiling for the sector for FY 2021/22 (Kshs 46.9 Billion) was less compared to the resource requirement for the sector that stood at Kshs 89.1 Billion. That was a significant resource gap for the sector considering the Judiciary has ongoing projects.	It is important that the National Treasury considers additional funding for key agencies such as the Judiciary.
2.	**Court Building Designs** –the Judiciary planned to undertake a number of new projects in FY 2020/21 such as the construction of appeal court complex in Nairobi and High court stations in Eldoret, Meru and Kisii. However, there was concern about the mismatch between the huge court buildings built by the Judiciary *vis a vis* the traffic at the courts.	There should be a correlation between the traffic to the court and the design of the court as it undertakes new projects to avoid wastage of resources.
3.	The Committee was concerned that the judiciary was initiating new projects such as the court of appeal complex in Nairobi yet it had 76 ongoing projects which were yet to be concluded. It was therefore important for the Judiciary to fast-track and complete the ongoing projects before embarking on new projects.	Freezing of new projects by Judiciary until the department completes the ongoing projects which were at various stages of completion.
4.	The judiciary collected a considerably large amount of funds every year in terms of court fees and fines that the department surrendered to the	The National Treasury should consider investing back some of the resources raised by the Judiciary in terms of court fees and

2.	Focus should be directed towards the resettlement of internally displaced persons (IDPs) some of who have never been compensated to date. The half year report from the ministry of lands and physical planning indicate that there was a variance of 2990 people out of the 5,000 that were to be settled within the first half of the financial year in order to meet the annual target of 10,000 per year.	The Ministry be adequately facilitated with necessary resources such as funds, human capital and tools to meet the annual target of settling the landless annually.
3.	Need for collaboration between the National and County Governments in achieving policy priorities outlined in the BPS.	Collaboration between the National and County Governments in the implementation of projects.

IV. COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

Observations

The Committee observed the following-

1. The BPS 2021 projects that economic growth will bounce back to 7% in 2021 due to recovery after reopening of the economy. The significant jump in growth partly reflects the lower base in 2020 when most service sectors especially accommodation and restaurant, education as well as transport services contracted in the second and third quarters of 2020 with huge margins.
2. That key revenue administration initiatives to bolster revenue collection that have been proposed which include strengthening the audit function in the Domestic Tax Department, enhanced scanning, resolution of tax disputes through alternative dispute resolution and fast-tracking the conclusion of cases before the Tax Appeal Tribunal. The measures are similar to what was previously proposed in the previous BPSs; which begs the question as to whether the National Treasury has thought through in determining a realistic revenue forecast.
3. Diaspora remittances performed better than expected during the Covid-19 pandemic. The remittances contributed to the contracting current account deficit and served as a major source of foreign exchange. However, the continued reliance on remittances rather than exports poses a risk due to their erratic nature and susceptibility to global shocks beyond Kenya's policy control.
4. County governments' OSR collection has substantially fallen below targets since the start of devolution. The under-performance of County OSR can be attributed to inadequate capacity in counties to forecast revenue, lack of a budget challenge function, and the utilizing of revenue at source contrary to Section 109 (2) of the PFM.
5. Despite the Senate approving a cash disbursement schedule, the National Treasury seldom complies with the schedule and the disbursement of county equitable share and conditional grants have fallen short of the approved allocations which hinder service delivery.

6. The National Treasury in compliance with the high court ruling of developing a new statutory instrument on administration of the Equalization Fund, constituted a multi-agency committee, which has developed the draft public finance management (equalization fund) regulations, 2020 which have been submitted to the Cabinet for approval and will subsequently be submitted to the Parliament for approval. The National Treasury has recommended an allocation of Kshs. 6.83 billion for the FY 2021/22.
7. County Governments' only comply to fiscal responsibility principle of allocating a minimum of thirty percent of their budget over the medium term to development expenditure during budget approvals, however, actual expenditures reported by the Controller of Budget (CoB) indicate that this principle is not complied with by all the counties during budget implementation.
8. That there is non compliance by Counties to the requirement for expenditure on wages- some counties who did not inherit a large workforce from the defunct local authorities are still not complying with Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015 that requires that County Governments' wage bill shall not exceed 35 percent of their total revenue.
9. As at 31st December 2020, County Governments owed Kshs. 26.02 billion to the various pension funds (LAPTRUST, LAPFUND and CPF). These funds have accumulated over the years. Non-remittance of pension contributions would likely lead to expending the funds on other uses and when they are required the funds may not be available thereby adversely affecting the retired county staff.
10. That the equitable share to county governments as a share of ordinary revenue has consistently dropped and it is further projected to go down in the FY 2023/24. The overall resource scarcity as well as the rise of non-discretionary expenditures have created inflexibility in the overall resource envelope and the concern is that there is no clear approach to guide the growth in revenue allocated to the county governments, which makes the counties unable to prepare multi-year budget projections
11. That since the beginning of devolution, the national government has continued to perform functions that are devolved in accordance with the fourth schedule

12. In the conversion of conditional grants to unconditional grants, there is no evidence that the objectives of the conditional grants have been achieved and whether the Counties will allocate the same disbursement criteria which was being used.

13. As at November 2020, the counties had settled Kshs. 39.07 billion (76.2% of the eligible pending bills) leaving an outstanding balance of Kshs. 12.22 billion. Pending Bills result in the collapse of the small and medium enterprises that offer services in the counties, late settlement of debt attracts more interest and payments, and constrained liquidity in the economy among others.

14. The conditional grant for leasing of medical equipment has been maintained as a conditional grant in the budget for FY 2021/22 in which it has been allocated an additional allocation of Kshs. 1 billion. There is no adequate justification for the annual changes in allocation for a project which is on contract.

Medium-Term Debt Management Strategy

15. As at the end of December 2020, guarantees worth Kshs. 171.73 billion had been provided to five institutions, compared to Kshs. 158.1 provided as at end of December 2019.

16. Total national debt is at Kshs. 7.28 trillion, which is within the Kshs. 9 trillion ceiling approved by Parliament however, projections indicate that given the current growth rate of the fiscal deficit, this threshold is likely to be breached by mid- 2022/23.

17. Most of the debt sustainability indicators indicate that there is inherent risk that may plunge the country in to a fiscal crisis.

Recommendations

A. Policy Recommendations

1) The National Treasury should not use the base effect economic growth to project high revenue collection and the resultant increased spending neither should it be interpreted to mean an improvement in the living standards of Kenyans.

2) The National Treasury should develop realistic ways of projecting revenues based on historical performance and using an average of the past three years revenue performance.
3) In order to curb the potential effects of reliance on diaspora remittances to sustain the country's current account balance, the National Treasury should invest in the promotion and marketing of exports of agricultural products, and creating access to new export markets and value addition by small and medium-sized farmers to promote diversification of agricultural exports and improve living standards in rural areas.
4) That in order to help counties enhance revenue collection, the multi-agency team comprising the CRA, KRA and National Treasury should carry out capacity building to enforce the policy on own source revenue as well as work with counties to harness county revenue potential. The mapping of revenue potential coupled with collection efficiency would ultimately help boost the collection of OSR and eventually ease pressure on demand for equitable share.
5) The National Treasury should adhere to the cash disbursement schedule approved by the Senate.
6) The National Treasury should ensure that a statement of actual disbursements of conditional grants from GOK and loans and grants from donors is published on a monthly basis.
7) The National Treasury should fast-track processing and submission of the Public Finance Management (equalization fund) regulations, 2020 to Parliament for approval to ensure that the marginalized areas access equalization funds as there is a danger of the fund lapsing having not achieved its objective.
8) Lack of compliance to the requirement for development spending allocations should be an indicator which qualifies as serious or persistent breach which can result in stoppage of funds to the entity under section 94 of the PFM Act. The National Treasury should consider implementing the same.
9) Each County Governments should take stock of all the pension liabilities and ensure proper recording in the stock of County pending bills for consideration in allocation of resources subsequent financial years.

10) The Commission on Revenue Allocation should map out projects and Programmes in the national budget which are devolved functions as stated in the fourth schedule.

11) The National Treasury should further come up with a plan to transfer the functions and their resources to the County Governments.

12) The National Treasury should carry out an evaluation in 2021/2022 FY of the performance and achievements of the conditional grants financed from the National Government share of revenue to determine whether the intended policy objective has been achieved.

13) In order to ensure there is no further accumulation of pending Bills, CoB should provide updates in quarterly reports on the progress made by counties on settlement of pending bills in order to take action on counties not prioritizing payments of pending bills. The county governments should also provide monthly payment plans which aim at settling the pending bills on a First-In First-Out basis.

14) The allocation to Managed Equipment Service (MES) Project should be Kshs.6.2 billion since this is a contract with fixed terms and therefore, the costs should not be fluctuating annually.

15) The Ministry of Foreign Affairs should establish a fully-fledged department/ division which will have a facilitative role for Kenyans living/ working in the diaspora.

Medium Term Debt Management Strategy- Recommendations

16) The Auditor General should conduct a performance audit on debt to establish the economy efficiency and effectiveness of the public debt including the true debt sustainability position since there is conflicting statistics of Kenya's debt situation.

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

B. Financial Recommendations

The Committee recommends the following financial recommendations: -

(i) That the proposed allocation of shareable revenue to County Governments for FY 2021/22 be as follows–

Total County Allocation be **Kshs. 408.88 Billion** of which;

- County Equitable share be **Kshs. 370 Billion**
- County Conditional Grants be **Kshs. 38.88 Billion** which comprises of the following-

✓ Supplement for Construction of County HQs- **Kshs. 0. 33 billion**

✓ Leasing of Medical Equipment- **Kshs. 6.21 billion**

✓ Allocation from Development Partners as Loans and Grants-**Kshs. 32.34 Billion**

(ii) The National Treasury should adhere to the cash disbursement schedule approved by the Senate in disbursing funds to the counties.

(iii) The **Kshs. 1billion** saving from the allocation to Managed Equipment Service (MES) should be redirected to reduce the fiscal deficit.

(iv) That the Fiscal Deficit (on commitment basis excluding grants) for the FY 2021/22 be binding at **Kshs. 970 billion.**

(v) That Net Domestic borrowing and Net Foreign Financing be set at **Kshs. 661 billion** and **Kshs. 267.3 billion,** respectively.

(vi) That the allocation to the Equalization Fund of **Kshs. 6.83 billion** be approved as provided in the Budget Policy Statement.

(vii) To achieve the optimal composition of debt portfolio, the strategy proposed in the Medium Term Debt Management Strategy of external debt at 51 percent and domestic debt at 49 percent should be adopted and be binding as it minimizes the refinancing and the interest rate risk.

APPENDIXES

1. Minutes of the Committee
2. Submission from stakeholders

Annex I: Changes in allocation of conditional grants from loans and grants from development partners

No.	Conditional Grant	FY 2020/21	FY 2021/22	change	Remarks
		Kshs. Millions			
1	Transforming Health Systems for Universal Care Project (WB)	4,345,375,741	2,234,664,075	-2,110,711,666	Financing agreements state that FY 2021/22 marks the final year of implementation and the proposed allocation is the final tranche for disbursement.
2	IDA (World Bank) credit (National Agricultural and Rural Inclusive Growth Project (NARIGP)	4,261,646,438	6,394,997,407	2,133,350,969	No explanation given
3	IDA (World Bank) - Kenya Climate Smart Agriculture Project (KCSAP)	7,119,726,782	7,838,338,490	718,611,708	No explanation given
4	IDA (World Bank) credit: Kenya Devolution Support Project (KDSP) " Level 1 grant"	2,115,000,000		-2,115,000,000	Project completed
5	IDA (World Bank) credit: Kenya Urban Support Project(KUSP) - Urban Development Grant (UDG)	6,366,000,000		-6,366,000,000	
6	DANIDA Grant (Universal Healthcare in Devolved System Program)*	900,000,000	701,250,000	-198,750,000	Provisions in of the financing agreement which envisages gradual decrease of the amounts allocated in the project in each FY for sustainability before the donor exits- the decline is to be financed by the respective county governments
7	EU Grant (Instruments for Devolution Advice and Support IDEAS)	216,014,391	230,730,934	14,716,543	Support ntl and county governments' capacities for the management of the devolution process, responsible transfer and use of resources for achievement of local economic development at county level. No explanation given on the increase
8	IDA (World Bank) credit: Water & Sanitation Development Project (WSDP)	3,400,000,000	5,000,000,000	1,600,000,000	increase attributed to finalisation of preparatory activities and the project implementation being at advanced stages in the six counties
9	IDA (World Bank) credit: Kenya Devolution Support Project (KDSP) " Level 2 grant"	0	4,600,000,000.00	4,600,000,000	balance carried forward from 2019/20 which was deducted in supplementary to create fiscal space to fund priority interventions to mitigate Covid 19
10	Sweden- Agricultural Sector Development Support Programme (ASDSP) II	652,584,158	1,300,042,902	647,458,744	increase attributed to balance carried forward of Kshs. 725 million for disbursement to county governments that had previously not met conditions set and which have since been fulfilled.
11	EU- Water Tower Protection and Climate Change Mitigation and Adaptation Programme (WaTER)	528,000,000	0	-528,000,000	
12	German Development Bank (KfW)- Drought Resilience Programme in Northern Kenya (DRPNK)	300,000,000	370,000,000	70,000,000	Increase attributed to the successful procurement of the project consultant who will support the identification and implementation of projects in the 2 beneficiary counties (Turkana and Marsabit)

13	World Bank- Kenya Informal Settlement Improvement Project II (KISIP II)	0	2,800,000,000	2,800,000,000	New allocation to improve access to basic services and security of residents in participating informal settlements.- not very clear
14	Emergency Locust Response Project (ELRP)	0	800,000,000	800,000,000	New allocation to respond to the threat to livelihoods posed by Locust outbreak through surveillance and control measures and livelihoods protection and rehabilitation- W.B credit
15	UNFPA-9th Country Programme Implementation	0	73,866,704	73,866,704	
	Total Loans and Grants	30,204,347,510	32,343,890,512	2,139,543,002	

Annex II: Equitable share Allocation for each county for the FY 2021/22 Kshs. millions

No	County	Actual Allocations 2019/20	Allocation Ratio	0.5% county allocation	formula	Proposed Allocation 2021/22
1	Baringo	5,095.65	0.016	2,547.83	3,821.57	6,369.40
2	Bomet	5,507.10	0.017	2,753.55	3,937.55	6,691.10
3	Bungoma	8,893.65	0.028	4,446 83	6,212.61	10,659.44
4	Busia	6,013.50	0.019	3,006.75	4,165.41	7,172.16
5	Elgeyo-Marakwet	3,861.30	0.012	1,930.65	2,675.88	4,606.53
6	Embu	4,304.40	0.014	2,152.20	2,973.04	5,125.24
7	Garissa	7,026.30	0.022	3,513.15	4,414.06	7,927.21
8	Homa-Bay	6,741.45	0.021	3,370.73	4,434.63	7,805.36
9	Isiolo	4,241.10	0.013	2,120.55	2,589.84	4,710.39
10	Kajiado	6,424.95	0.020	3,212.48	4,742.29	7,954.77
11	Kakamega	10,412.85	0.033	5,206.43	7,182.99	12,389.42

12	Kericho	5,380.50	0.017	2,690.25	3,740.41	6,430.66
13	Kiambu	9,431.70	0.030	4,715.85	7,001.68	11,717.53
14	Kilifi	10,444.50	0.033	5,222.25	6,419.34	11,641.59
15	Kirinyaga	4,241.10	0.013	2,120.55	3,075.63	5,196.18
16	Kisii	7,785.90	0.025	3,892.95	5,001.32	8,894.27
17	Kisumu	6,836.40	0.022	3,418.20	4,607.94	8,026.14
18	Kitui	8,830.35	0.028	4,415.18	5,978.80	10,393.98
19	Kwale	7,785.90	0.025	3,892.95	4,372.64	8,265.59
20	Laikipia	4,177.80	0.013	2,088.90	3,047.37	5,136.27
21	Lamu	2,595.30	0.008	1,297.65	1,808.00	3,105.65
22	Machakos	7,754.25	0.025	3,877.13	5,285.18	9,162.31
23	Makueni	7,406.10	0.023	3,703.05	4,429.73	8,132.78
24	Mandera	10,222.95	0.032	5,111.48	6,078.91	11,190.39
25	Marsabit	6,773.10	0.021	3,386.55	3,890.45	7,277.00
26	Meru	8,039.10	0.025	4,019.55	5,474.31	9,493.86
27	Migori	6,773.10	0.021	3,386.55	4,618.47	8,005.02
28	Mombasa	7,057.95	0.022	3,528.98	4,038.38	7,567.36
29	Murang'a	6,298.35	0.020	3,149.18	4,030.98	7,180.16
30	Nairobi City	15,919.95	0.050	7,959.98	11,289.70	19,249.68

31	Nakuru	10,476.15	0.033	5,238.08	7,788.04	13,026.12
32	Nandi	5,348.85	0.017	2,674.43	4,316.44	6,990.87
33	Narok	8,039.10	0.025	4,019.55	4,825.24	8,844.79
34	Nyamira	4,810.80	0.015	2,405.40	2,729.94	5,135.34
35	Nyandarua	4,874.10	0.015	2,437.05	3,233.39	5,670.44
36	Nyeri	5,412.16	0.017	2,706.08	3,522.65	6,228.73
37	Samburu	4,620.90	0.015	2,310.45	3,060.90	5,371.35
38	Siaya	5,791.95	0.018	2,895.98	4,070.53	6,966.51
39	Taita-Taveta	4,241.10	0.013	2,120.55	2,721.62	4,842.17
40	Tana-River	5,855.25	0.019	2,927.63	3,600.78	6,528.41
41	Tharaka-Nithi	3,924.60	0.012	1,962.30	2,251.90	4,214.20
42	Trans-Nzoia	5,760.30	0.018	2,880.15	4,306.01	7,186.16
43	Turkana	10,539.45	0.033	5,269.73	7,339.58	12,609.31
44	Uasin-Gishu	6,330.00	0.020	3,165.00	4,903.86	8,068.86
45	Vihiga	4,652.55	0.015	2,326.28	2,741.08	5,067.36
46	Wajir	8,545.50	0.027	4,272.75	5,201.98	9,474.73
47	West Pokot	5,000.70	0.016	2,500.35	3,796.93	6,297.28
	Total	316,500.00	1.00	158,250.00	211,750	370,000

MINUTES OF THE 191ST MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON THURSDAY, 18TH FEBRUARY, 2021 AT 9:00 AM VIA ZOOM ONLINE PLATFORM.

PRESENT

1. Sen. Charles Kibiru, MP - Chairperson
2. Sen. Mutula Kilonzo Junior, CBS, MP - Member
3. Sen. Rose Nyamunga, MP - Member
4. Sen. Wetang'ula Moses Masika, EGH, MP - Member
5. Sen. CPA Farhiya Haji, MP - Member

ABSENT WITH APOLOGY

6. Sen. (Dr.) Ochillo Ayacko, MP - Vice- Chairperson
7. Sen. Aaron Cheruiyot, MP - Member
8. Sen. Kimani Wamatangi, MP - Member
9. Sen. Millicent Omanga, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Lucy Radoli - Legal Counsel
3. Ms. Yunis Amran - Fiscal Analyst
4. Mr. Ian Otieno - Audio Officer

IN ATTENDANCE

COMMISSION ON REVENUE ALLOCATION (CRA)

1. Dr. Jane Kiringai - Chairperson
2. Dr. Moses Sichei - Commission Secretary
3. Ms. Linet Oyugi
4. Ms. Keziah Njeri
5. Ms. Jecinter Hezron

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA (ICPAK)

1. CPA Edwin Makori –
2. CPA Hilary Onami
3. CPA Elias Wakhisi

INTERNATIONAL BUDGET PARTNERSHIP – KENYA CHAPTER

1. Dr. Abrahams Rugo
2. Mr. John Kinuthia

MIN. NO. 1003/02/2021: PRELIMINARIES

The Chairperson called the meeting to order at 9.13 am and thereafter followed a word of prayer. The Chairperson welcomed the Members and stakeholders to the meeting and noted importance of the business before the Committee.

MIN. NO. 1004/02/2021: ADOPTION OF THE AGENDA

The agenda of the meeting was adopted with amendments as indicated below after it was proposed by Sen. CPA Farhiya Haji, MP and seconded by Sen. Rose Nyamunga, MP.

MIN. NO. 1005/02/2021: MEETING WITH STAKEHOLDERS TO DELIBERATE ON THE 2021 BUDGET POLICY STATEMENT AND 2021 MEDIUM TERM DEBT STRATEGY

The Chairperson made remarks regarding the need to expedite the deliberations on the BPS to ensure adherence to timelines provided in the Public Finance Management Act, 2012. Thereafter, he welcomed the stakeholders to make their submissions.

1. **Institute of Certified Public Accountants of Kenya (ICPAK)**

Upon invitation, the representative made their submission as follows-

a) **Domestic Economic Development- the** economy is expected to recover from the effects of Covid 19 and grow by about 6%. There is need to lower the expected growth due to- Impact of locust invasion to food security, Continued charged political climate, unpredictable weather patterns and global financial conditions and a plunge in commodity demand and prices. Recommended the need to boost local production and manufacturing.

b) **Value of Per Capita Income and Job creation**- there was evidence that informal sector is the greatest employer. However, there was no clear regulatory framework to govern this sector. Recommended- Improve the regulatory environment for the informal sector to support stability and growth of MSMEs. KRA to device mechanism to capture data on informal sector for purposes of tax revenue. There was need for research to be done to establish feasible data so the sector's potential can be harnessed for economic growth.

c) **Revenue Performance**- This was greatly affected by the Covid-19 pandemic. Lower corporate profits, declining consumption & increases in unemployment will cause declines in revenue from corporate income taxes, goods and services taxes and personal income taxes. Recommended- Predictable Tax Regime through an overarching tax policy for sustained revenue collection, strategies to widen tax base and seal existing tax loss loopholes.

d) **Fiscal Policy** - noted that reduction in the fiscal deficit will reduce the pace of growth of the public debt. However, efforts towards fiscal consolidation should be growth friendly (should be recalibrated towards recurrent spending). There was need to assess the uptake and impact of already established austerity measures in 2019.

e) **Modernized Income Tax Bill- review** of the Income Tax Act should be predicated on an overarching Tax policy. The current policy was developed in 1975. There was need to review it since the economy had diversified. Recommended that initiatives be put in place to finalize an overarching tax policy for Kenya.

f) **Food and Nutrition Security-** to achieve these the institute recommended strengthening of agricultural institutions' capacity, continuous training and research, diversification of agricultural production, specialization in areas of comparative and competitive advantage, Improving rural infrastructure, Increase funding levels

g) **Universal Health Coverage-** government has plausible steps towards Universal healthcare (UHC). However, it's at nascent stage since only 11% of Kenyans are covered by the NHIF insurance program. Recommended- increase the health budgetary allocation to the recommended 15%, strengthen accountability in the utilization of funds and resources that are allocated in the health sector, invest in medical research.

h) **Realism of revenue forecast** -it is ambitious and leads to budget deficit hence leading to huge debts. Recommended enhanced tax administration and sealing of leakages through - proper controls and monitoring of taxpayer activities through a single identifier will lead to enhanced efficiency in tax administration, review the penalty system on tax evasion, develop a change management strategy to address income tax matters and leverage on simplified technological solutions to enhance integration of taxpayer information systems.

i) **Expenditure projections-** the overall nominal expenditure and net lending is projected at Ksh 3,010.0 billion from an estimated Ksh 2,864.5 billion in FY 2020/21. There is need to improve on expenditure efficiency measures, complemented by additional revenue mobilization and strengthened debt management.

j) **Deficit financing-** is projected at Ksh 930.0 billion (7.5% of GDP) in FY 2021/22 against the estimated overall fiscal balance of Ksh 966.6 billion (8.7%t of GDP) in FY 2020/21. Recommended- enhance accountability, diversification of exports, reliance on concessional loans and grants in case of financing deficit, diversifying the currency mix in case of debts and enhance debt transparency and accountability. Efforts should be put in place to ensure expenditure is matching the revenues.

k) **Education sector-** ECD and polytechnics have suffered from inadequate infrastructure to support the learning of children living with disability, high turnover rates of teachers, inadequate number of trained instructors in most polytechnics. Recommended- increasing capitation for ECDE teachers, Employment of skilled and qualified instructors in polytechnics, putting in place monitoring and assessment of performance (quality assurance).

l) **County Government's Own Source Revenue-** Counties collect much less revenue than the estimated revenue base giving them less resources to deliver on required services. Recommended- clear, consistent and standard forecasting model for revenue forecasting and mapping. Establishment of standardize revenue collection systems, involvement of public in revenue collection and continuous review of revenue targets.

m) **Pending Bills-** this formed a significant bottleneck facing various sectors of the economy especially SMEs. There is need for the government to continue with the efforts of clearing the legitimate pending bills that were accrued over the years. The government should consider adopting accrual accounting reporting as opposed to cash accounting which presents challenges in terms of monthly and annual financial reporting on pending bills and other liabilities.

n) **County governments Equitable Share** - The Third Basis for the allocation of the National Revenue to the County Government was approved by Parliament in September 2020 on condition that its implementation would only be for counties' equitable share of Kshs. 370 billion. Noted that all involved parties had unanimously agreed with the Parliament resolution.

2. International Budget Partnership (IBP)

Upon invitation, the representatives informed the Committee that the submission had been prepared by IBP and 17 other partners. The submission was made as follows-

a) **Unrealistic revenue projections-** this has contributed to the underperformance of revenue sources over the years. The National Treasury has been revising the revenue projections downwards during the budget implementation stage. This is an evidence that the government has continuously set targets that are too ambitious. There is need for a realistic way of projecting revenues based on historical performance. The projected growth should be within a set limit of the average revenue performance in the past three years.

b) **Budget deficit** - the numbers presented remain very erratic indicating challenges in revenue and expenditure targets. However, one consistent trend has been the growth in the deficit between the final approved deficit ceiling in the BPS and the deficit in the final actual budget. This raises question on the deficit numbers provided in the BPS and whether they are a true reflection of the fiscal funding gap each year.

c) **Public debt remains a central but key determinant of our fiscal policy.** Significant transparency issues remain on Kenya's debt stock as well as its repayment. For instance, Public debt annual reports for 2018/19 and 2019/20 have significantly different figures for the funds spent by government in settling debt obligations in 2018/19 going back to 2013/14. In addition, the Controller of Budget Report for 2019/20 has debt service figures that are different from the annual debt reports by National Treasury.

d) **Growth factor in county equitable share**- There is still no clear approach to guide the increment/ growth on the county equitable share of revenue. This makes it difficult for counties to prepare multi-year budget projections as required under the medium-term expenditure framework that is used to prepare budgets in Kenya.

e) **Conversion of conditional grants into the equitable share** - The justifications for this approach needs further interrogation. Conversion of these grants into equitable share will not only disadvantage the services supported by these grants but also overall counties 'share given the shift in allocation criteria.

f) **Pension obligation** - The total payments from the pensions account as part of the Consolidated Fund Services has been growing over the last six years and progressively taking up a larger share of ordinary revenue. Therefore, taken together with public debt, pensions are a significant budget line in government expenditure each year.

Made the following recommendations-

a) Parliament must reduce the deficit approved in the 2021 BPS and hence tame the increment in debt in the medium term.
b) Government should implement balanced budgets with very well-defined budget deficit limits if necessary, to achieve a lower deficit.
c) Government should slow down investment in expensive large infrastructure projects.
d) Work with realistic economic scenarios that do not underestimate the negative impact of Kenya's debt, and of the COVID-19 crisis.
e) Merge resource-consuming parastatals and state corporations to reduce excessive spending.

3. Commission on Revenue Allocation (CRA)

Upon invitation, the representative made their submission as follows-

a) Economic Development & Outlook

i. The estimated economy growth for 2020 was estimated at 0.6%, in 2020/21 at 3.8% and at about 6.1 percent over the medium term. This growth projection had not factored in expected shocks which may include- contraction of the global economy, exchange rate variability, high debt, the prolonged effects of COVID-19, the BBI referendum and the 2022 general elections.

ii. Low economic growth rate effects other macro-economic variables such as inflation and revenue performance. Over the years revenues have substantially performed below targets and this has affected development expenditures at both levels of government. It is important that realistic revenue projections are made taking into account all the risk to the economic performance of the economy.

b) Strategy for resilient and sustainable economic recovery

i. The BPS 2021 notes that Implementation of the Big Four Agenda will unlock better growth, and positively impact on the lives of people through jobs creation and poverty reduction. Implementation of the Big Four agenda has been ongoing over the last three years, however, the BPS does not provide an accountability matrix of the implementation status of projects and programmes.

ii. BPS 2021 only mentions expenditure rationalization and revenue enhancement as a means to achieving fiscal consolidation. Specific policy measures have not been outlined towards rationalizing expenditure and enhancing revenue.

iii. Fiscal consolidation efforts seem to be elusive as debt keeps accumulating. The absolute debt threshold as approved by Parliament is Kshs. 9,000 billion by June 2024, however the threshold is likely to be met earlier by FY 2022/2023 as debt levels are projected to get to Kshs. 9,365 billion in the same FY..

c) Budgets for the Medium Term/Details on Sector Priorities

It is notable that some of the sub-sectors undertake functions that should be effectively and efficiently undertaken by county governments as provided under the Constitution. These sub-sectors are in Agriculture, rural and urban Development Sector, Health, Environmental Protection, Water and Natural Resources.

d) County Financial Management and Division of Revenue

i. Delayed disbursement of funds to the county government- for the FY 2020/2021 as at February 2021 Kshs. 147.9 billion had been disbursed. The remaining balance of Kshs. 168.6 billion is likely to be disbursed to the counties during the remaining period of the financial year. Too late disbursement of funds closer to the end of the financial year often leads to over commitment towards the end of the financial year, further, opening loopholes for funds mismanagement.

ii. The trend in county actual county Own Source Revenue (OSR) collections over the last six years shows sporadic high and low actual collection. To encourage consistent revenue growth in the counties, Parliament should enact a law for uniform automation of revenues system to seal revenue leakages.

iii. The Commission was in agreement with the National Treasury that the County Equitable share be Kshs. 370 billion. this is obtained by adjusting the baseline of Kshs. 316. 5 by an increase of KSh. 53.5 billion. This additional allocation is obtained by converting conditional grant from National government revenues amounting to Kshs. 17.4 billion to equitable share. The Commission proposed that the additional Ksh 36.1 billion be a reallocation from the MDAs which perform devolved functions. This would reduce the fiscal deficit proposed in BPS.

e) Equalisation Fund

The fund had an accumulation of about Ksh 50 Billion with only Kshs 8 billion having been spent. Following the court ruling on Petition No. 272/2016 on 5th November 2019, the National Treasury in consultation with other stakeholders developed the draft Public Finance Management (Equalisation Fund) Regulations, 2020 which were submitted to Cabinet for approval in November 2020. It is in the interest of Parliament that the marginalised areas access Equalisation Funds. Delayed disbursement of funds to marginalised areas on account of lack of legislation has delayed the realisation of the core objective of establishment of the Fund.

f) DEBT SUSTAINABILITY

External debt sustainability relating to debt to exports ratio and debt service to exports ratio have been breached, showing the pressure on external income.

Indicators	Thresholds	2019	2020	2021	2022	2023
PV of debt-to-exports ratio	240	225.2	288.1	260.2	258.5	255.2
PPG Debt Service-to-exports ratio	21	31.4	27.5	25.9	25.5	24.4

Further the current weakening of the Kshs. against the US Dollar continues to put pressure on dollar denominated debt servicing. The MTDS does not address the expected shocks that are likely to arise from currency depreciation, especially taking into account that 66 percent of Kenya debt is in Dollars. It is the government policy to contain the debt within the EAC thresholds.

The Committee noted the following concerns-

a) Debt servicing and payment of pension (non-discretionary payment) were taking huge percentage of ordinary revenue.
b) The was no implementation matrix for "Big Four Agenda". It was difficult to indicate the success/milestone made or the proportion of the project which is yet to be done.
c) There was still duplication of roles between national and county level of government. Some ministries and MDAs like Agriculture, Health Environmental Protection, Water and Natural Resources were performing devolved functions.
d) Delayed disbursement to counties due to poor revenue performance and also huge balances in CRF.

e) The expected increase in inflation may affect fuel and consumer goods thus making life more difficult for common *Mwananchi*.

f) There was need to fast-track the automation of integrated revenue management system for the counties. This would greatly improve on own source revenue performance.

MIN. NO. 1006/02/2021 ANY OTHER BUSINESS AND ADJOURNMENT

There being no other business the Chairperson adjourned the meeting at 11.45 am.

SIGNATURE:

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 24/02/2021

MINUTES OF THE 192ND MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON FRIDAY, 19TH FEBRUARY, 2021 AT 9:00 AM VIA ZOOM ONLINE PLATFORM.

PRESENT

1. Sen. Charles Kibiru, MP - Chairperson
2. Sen. (Dr.) Ochillo Ayacko, MP - Vice- Chairperson
3. Sen. Mutula Kilonzo Junior, CBS, MP - Member
4. Sen. Rose Nyamunga, MP - Member
5. Sen. Aaron Cheruiyot, MP - Member
6. Sen. Millicent Omanga, MP - Member

ABSENT WITH APOLOGY

7. Sen. Wetang'ula Moses Masika, EGH, MP - Member
8. Sen. CPA Farhiya Haji, MP - Member
9. Sen. Kimani Wamatangi, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Sharon Rotino - Research Officer
3. Ms. Yunis Amran - Fiscal Analyst

IN ATTENDANCE: COUNCIL OF GOVERNORS

1. Hon. Muriithi Ndiritu - Chairperson COG Technical Committee on Finance and Economic Affairs
2. Ms. Mercy Wangui - Secretariat
3. Mr. Stephen Momanyi - Secretariat
4. Mr. Eugene Lawi - Secretariat

MIN. NO. 1007/02/2021: PRELIMINARIES

The Chairperson called the meeting to order at 9.07 am and thereafter followed a word of prayer. The Chairperson welcomed the Members and the representatives from the Council of Governors to the meeting.

MIN. NO. 1008/02/2021: ADOPTION OF THE AGENDA

The agenda of the meeting was adopted with amendments as indicated below after it was proposed by Sen. Rose Nyamunga, MP and seconded by Sen. Mutula Kilonzo Junior, CBS, MP.

MIN. NO. 1009/02/2021: MEETING WITH THE COUNCIL OF GOVERNORS TO DELIBERATE ON THE 2021 BUDGET POLICY STATEMENT AND 2021 MEDIUM TERM DEBT STRATEGY

The Chairperson welcomed the representatives from COG and noted that the Committee was receiving submissions from stakeholders in regards to the 2021 Budget Policy Statement and 2021 Medium Term Debt Management Strategy.

Upon invitation, the COG representative informed the Committee as follows-

1) The Council was in agreement with the proposed county equitable share of Kshs. 370 billion as proposed by CRA, the National Treasury and the IBEC. The Council was in agreement with the policy provision that the Conditional grant from National Government be converted to equitable share. This is because conditional grants are for a limited time frame. Secondly, equitable share is more preferred because of the autonomy in budgeting and implementation of projects.
2) The performance of the Own Source Revenue has been very low. The key reason leading to decrease in Own Source Revenue is the Covid-19 pandemic, in which the National Government through Ministry of Health in effort to contain the spread of the virus instituted measures which included; closure of social places, social distancing, dawn to dusk curfew and closure of inter-county movements. Further, National Government remained the main defaulter on property taxes which is the major source of County revenue. Secondly, the National Government continue to collect catering levy on food businesses essentially belonging to County Governments. The Council proposed a legislation for enforcement mechanism where the defaulter of county taxes is a government agency.
3) Pending Bills- As at 30th June 2020 County Governments reported pending bills amounting to Ksh. 113.6 Billion of this, Ksh. 78.8 Billion belong to Nairobi City County. During the special audit of the pending bills there was a proposal for creation of Ineligible pending bills Committee- these committees were formed but were not effective. The Council proposed that the Office of the Auditor General should conduct a special audit for verification- disputed eligible pending bills as per the Special Audit of OAG-2019, ineligible pending bills as per the Special Audit and Reported pending bills. Further, for a more efficient verification and to avoid re- audit the OAG should widen the scope of verification to incorporate forensic audit.
4) Borrowing framework- Section 140 of the PFM, Act 2012 authorizes a County Executive Committee Member for finance to borrow on behalf of the County Government only if the terms and conditions for the loan are set out in writing and are in accordance to Article 212 of the Constitution and Sections 58 and 142 of the PFM, Act 2012 among other conditions. The Council proposed that in the Medium

term Debt Strategy, the twenty per cent (20%) of the total audited revenue baseline for County borrowing should be ring-fenced. The nominal figure allowed for Counties should be guaranteed out of the total approved public debt of Ksh 9 Trillion.

5) Disbursement of equitable share- County Government were yet to receive funds for the Month of November, December, January and February 2020/2021 amounting to Ksh 81.8 B. Proposed that National Treasury should fast-track equitable share disbursement to County Governments as delayed disbursement leads to disruption in service delivery, budget absorption and delays submission of statutory deductions.
6) Disbursement of conditional grants- the was delay in disbarment of Conditional grants on KDSP- level 2 and Kenya Urban Support programme. The benefiting Counties had fulfilled all the conditions and the World Bank released the funding, however, the National treasury has failed to disburse the funds to the Counties.
7) Revenue collection system- there were ongoing consultation between the National Treasury and the Counties to ensure the system being developed would incorporate the investments that counties had done in revenue collection and management.

After deliberations, it was resolved as follows-

a) The Committee would engage the National Treasury for way forward on the issues that had been raised by the Council.
b) It was resolved that in the month of March, the Committee will hold a retreat with the COG Technical Committee on Finance and Economic Affairs.

MIN. NO. 1010/02/2021: SUBMISSION BY STANDING COMMITTEES REPORTS ON 2021 BUDGET POLICY STATEMENT AND 2021 MEDIUM TERM DEBT MANAGEMENT STRATEGY

After deliberations, it was resolved that the secretariat compiles all reports from Standing Committees for presentation in the next meeting.

MIN. NO. 1011/02/2021 ANY OTHER BUSINESS AND ADJOURNMENT

There being no other business the Chairperson adjourned the meeting at 9.59 am.

SIGNATURE: ____________

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 24/02/2021

MINUTES OF THE 193RD MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON MONDAY, 22ND FEBRUARY, 2021 AT 9:00 AM VIA ZOOM ONLINE PLATFORM.

PRESENT

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

ABSENT WITH APOLOGY

8. Sen. Aaron Cheruiyot, MP - Member
9. Sen. Kimani Wamatangi, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Lucy Makara - Deputy Director, PBO
3. Ms. Lucy Radoli - Legal Counsel
4. Ms. Sharon Rotino - Research Officer
5. Ms. Yunis Amran - Fiscal Analyst

IN ATTENDANCE: THE NATIONAL TREASURY

1. Hon. Nelson Gaichuhie - Chief Administrative Secretary
2. Mr. Albert Mwenda
3. Dr. Haron Sirma
4. Mr. Musa Kathanje
5. Ms. Josephine Kanyi
6. Mr. John Njera

MIN. NO. 1012/02/2021: PRELIMINARIES

The Chairperson called the meeting to order at 9.12 am and thereafter followed a word of prayer. The Chairperson welcomed the Members and the representatives from the National Treasury to the meeting.

MIN. NO. 1013/02/2021: ADOPTION OF THE AGENDA

The agenda of the meeting was adopted with amendments as indicated below after it was proposed by Sen. CPA Farhiya Haji, MP and seconded by Sen. (Dr.) Ochillo Ayacko, MP.

MIN. NO. 1014/02/2021: MEETING WITH THE NATIONAL TREASURY TO DELIBERATE ON THE 2021 BUDGET POLICY STATEMENT AND 2021 MEDIUM TERM DEBT STRATEGY

The Chairperson welcomed the representatives from the National Treasury. He noted that the purpose of the meeting was for the National Treasury to brief the Committee on the 2021 Budget Policy Statement and 2021 Medium Term Debt Management Strategy which had been submitted to Parliament for consideration.

The Committee noted that the Cabinet Secretary has not been honoring most of its invitations. Instead he has been sending representatives which is contrary to the provisions Article 153 of the Constitution.
After the CAS conveyed the apology of the CS, the Committee allowed the meeting to proceed but noted that the its disappointment must be conveyed to the CS.

Upon invitation, the representative informed the Committee as follows-

1. The 2021 BPS for FY 2021/22 and medium term budget was set against outbreak and effects COVID-19 Pandemic. The effects have been enormous however, there has been an improvement in economic activity in the third and fourth quarters of 2020, albeit at a slow pace, following reopening of the economy.
2. The economic growth was projected to grow by 7.0% in 2021 reflecting recovery due to reopening after the closure associated with the Covid-19 Pandemic. That also in part reflected the lower base in 2020 when most service sectors especially.
3. The growth outlook would be supported by a stable macroeconomic environment, turn around in trade as economies recover from Covid-19 Pandemic, expected favorable weather and ongoing investments in strategic priorities of the Government.
4. **Global Economic Highlights:** The global economy was estimated to have contracted by 3.5% in 2020 from a growth of 2.8% in 2019. However, the growth was projected to pick up to 5.5% in 2021.
5. **Domestic Economic Highlights:** The economy contracted by 5.5% in the second quarter of 2020 from a growth of 5.2% in the first quarter of 2019. The economy contracted by 1.1 % in the third quarter of 2020, which was an improvement compared to the contraction of 5.5 % in the second quarter of 2020.
6. Taking into account the contraction of 5.5% in Q2 of 2020 and 1.1% in Q3 of 2020 economic growth was revised downwards to 0.6% in 2020 from 5.4% in 2019. Economy was expected to recover to 7.0% in 2021 partly due the lower 2020 base effect.

7. **Inflation:** Year-on-year overall inflation rate remained low, stable and within the Government target range of 5+/-2.5 % since end 2017 demonstrating prudent monetary policies. The inflation rate stood at 5.7 % in January 2021 from 5.8 % in January 2020.
8. **Interest rates** were fairly low and stable (below 10% from 2016), due to prudent monetary and fiscal stance. The CBR stood at 7.0% to maintain lower lending rates that would support credit access by borrowers especially the SMEs distressed by COVID-19 pandemic whereas the Interbank rate was generally low at 5.2 % in January 2021 from 4.4 % in January 2020.
9. **Balance of Payments** - Overall Balance of Payments improved from a deficit of 1.1% of GDP in September 2019 to a surplus of 1.5% of GDP in the year to December 2020 mainly due to an improvement in the current account. The current account improved to a deficit of (4.9 % of GDP) in December 2020 from (5.8 % of GDP) in December 2019
10. **Foreign reserve** - Official foreign exchange reserves held by CBK remained at USD 8,297.3 million (5.1 months of import cover) in December 2020 compared with USD 9,115.8 million (5.5 months of import cover) in December 2019.
11. The foreign exchange market largely remained stable but was partly affected by a significant strengthening of the US Dollar in the global markets and uncertainty.
12. **Annual growth rates in total revenue**- declined by 11.7 % by January 2021 down from 14.8 % growth in January 2020 as a result of the impact of Covid-19.
13. **Ordinary Revenue**- Trend in ordinary revenue was similar to that of total revenue. By January 2021, annual decline rate was 14.2 % from a growth of 15.5 % in January 2020. All the main tax heads contracted in January 2021. Total revenue by end of January 2021 was Ksh 937.0 billion against a target of Ksh 1,059.3 billion representing a shortfall of Ksh 122.3 billion. On the other hand, total expenditure by end January 2021 was Ksh 1,347.1 billion. This was below target of Ksh 1,522.7 billion by Ksh 175.6 billion which affected development expenditure (Ksh 72.7 billion) and recurrent expenditure (Ksh 80.0 billion).
14. **Medium Term Fiscal Framework FY 2021/22-2024/25 (% of GDP)**- In the FY 2021/22, total revenue inclusive of grants as a % of GDP was projected at 16.8% and expenditures at 24.3% of GDP which gives a deficit of 7.5%. The deficit would decline to 3.6% over the medium term.
15. **Budget for FY 2021/22 and The Medium Term**- The FY2021/22 and the medium term budget framework would continue with the fiscal consolidation policy critical to strengthening the debt sustainability. Revenue collection including Appropriation-in-Aid (A.i.A) was projected to increase to Ksh 2,033.9 billion (16.4 % of GDP) up from the estimated Ksh. 1,849.2 billion (16.6 % of GDP) in the FY

2020/21. Revenue was projected to improve to Ksh 3,099.8 billion in the medium term.

16. **Revenue enhancement measures**- Revenue performance would be supported by the on-going reforms in tax policy and revenue administration measures which includes; reversal of tax cut measures from January 2021 and in addition, in the FY 2020/21, the Government was implementing a number of tax policy measures through the Finance Act, 2020 including;
    a. Introduction of a minimum tax payable at 1 % of gross turnover;
    b. introduction of a digital services tax on income from services provided through a digital marketplace in Kenya at the rate of 1.5 % on the gross transactional value;
    c. increase of income threshold qualifying for residential rental income tax among others.
    d. Revamp Audit Function: Audit teams were set up in Large Taxpayers Office (LTO) and Medium Taxpayers Office (MTO) of KRA and would make use of data to enhance compliance.
    e. Robust intelligence collection, utilization and investigation;
    f. Aid the resolution of tax disputes through the Alternative dispute resolution (ADR) within the statutory timeline of 90 days;
17. **Fiscal Consolidation**: Fiscal deficit as % of GDP was projected to decline from at 8.7% in FY2020/21 to 7.5% of GDP in FY 2021/22 and 3.6% of GDP in FY 2024/25.
18. Criteria for Resource Allocation: allocation of resources would be guided by Linkage of Programmes to Post-Covid-19 Economic Stimulus Programme (PC-ESP), the Big four Plan either as drivers or enablers, objectives of Third Medium-Term Plan of Vision 2030; Degree to which the programme was addressing the core mandate of the MDAs; cost effectiveness and sustainability of the programme; requirements for furtherance and implementation of the Constitution and meeting debt service obligations as a first charge.
19. Potential risks to the macroeconomic outlook included surge of the covid 19 virus, policy measures being adopted by the new US administration, weaker external demand, reduced tourist arrivals, unfavourable weather among others.

DIVISION OF REVENUE BILL (DoRB), 2021 AND THE COUNTY ALLOCATION OF REVENUE BILL, 2021

20. The Division of Revenue Bill (DoRB), 2021 proposed an allocation to County Governments amounting to Ksh.409.88 billion in the financial year (FY) 2021/22. Equitable share amounting to Kshs. 370 billion, reflecting an increase of Ksh.53.5 billion or 16.9 % and additional conditional allocations from proceeds of loans and

grants by development partners amounting to Ksh.32.34 billion. This allocation was premised on Parliament having approved the third basis for allocation of the share of national revenue among the County Governments on condition that the formula's implementation is subject to Ksh.53.5 billion increase in the Counties' equitable share.

21. The proposed County Governments' equitable share of revenue raised nationally for the financial year 2021/22 was arrived at by:-
    i. adjusting the Counties' FY 2020/21 allocation (i.e., Ksh. 316.5 billion) by Ksh 36.1 billion or 11.4 %,
    ii. converting four existing conditional grants to County Governments into unconditional grants, and allocating the respective amounts totaling Ksh. 17.4 billion. The four conditional allocations are: Road Maintenance Levy Fund (RMLF); the level-5 hospital grant; the compensation for user fees foregone; and, the grant funding rehabilitation of village polytechnics grants.

22. The above proposed Equitable Share for FY 2021/22 of Ksh.370 billion was equivalent to 27.3 % of the last audited accounts (Ksh. 1,358 billion for FY 2016/17) and as approved by Parliament.

2021 Medium Term Debt Strategy

23. The 2021 debt strategy provided guidance on how to: -
    - refinance maturing public debt; and
    - finance fiscal deficit outlined in the 2021 Budget Policy Statement at the lowest cost and minimum risks while ensuring debt remained within sustainable level.

24. In addition, the 2021 debt strategy outlined some key reforms to promote the development of government debt securities market.

25. The strategy covered the period FY2021/22 to FY2023/24 over which the desired optimal debt portfolio was to be achieved.

26. The 2021 debt Strategy was prepared against the backdrop of the COVID 19 shock which led to slowdown in economic activity adversely affecting the fiscal position. The 2020 credit rating by major sovereign-rating agencies *Standard and Poors* and *Fitch Ratings* placed Kenya at B+ with a negative outlook that signified the effects of the Covid-19 pandemic on the economy.

27. The following were taken into consideration in designing the debt strategy:
    i. the size and structure of the existing public debt;
    ii. non-performing guarantees;
    iii. the size of the fiscal deficit;
    iv. macro-economic assumptions in the 2021 BPS.

28. As at the end of December 2020, public debt stood at Kshs 7.28 trillion or US$ 65.6 billion, equivalent to 65.6 % of GDP. The debt level was sustainable but classified as high risk.
29. Given the structure of public debt and the path of fiscal deficit over the medium term, the optimal strategy that minimized costs and risks of public debt was a mix ratio of 57:43 in external and domestic borrowing on a net basis.
30. The 2021 debt strategy was underpinned by the need to move away from the relatively high interest cost of domestic debt, safeguard credit flow to the private sector and rely more on long term external financing, preferably concessional loans. The strategy assumed continued access to the international financial market and diversification of debt financing instruments.
31. Further, the 2021 debt strategy entailed active debt management operations to lengthen the maturity structure of domestic debt by issuing more Treasury Bonds and less Treasury Bills and replacing external commercial short-term debts with longer dated debt instruments to smoothen the debt service maturity structure.
32. While the domestic debt market was the major source of funding of the fiscal deficits providing about a half of the financing needs, the market remained shallow and dominated by commercial banks. The reforms to deepen the domestic debt market include: the enhancement of market infrastructure through automation of processes at both the primary and secondary market, restructuring of interbank repo and setting up of Over-the-Counter (OTC) trading platform to complement the Nairobi Securities Exchange.
33. The office further stated that reporting on public debt and borrowing would continue to be enhanced in accordance with the Constitution of Kenya and international best practice. In addition, the capacity in the Public Debt Management Office would be strengthened.
34. The risk to the 2021 debt strategy included uncertainties related to the COVID pandemic with adverse effects on economic and financial environment that derailed fiscal and structural reforms to stabilize growth of debt to GDP. The strategy would be adjusted to align to any policy changes as and when they occur to ensure debt remains within sustainable levels.

The Committee noted the presentations by the National Treasury and raised the following concerns-

a) There was need to establish possible mechanism which would enable improvement of debt standings (debt stabilisation) and sustainability.

b) The debt register is critical for the information of public. The National Treasury should be submitting the updated register to Parliament as annexure to the Medium Term Debt Strategy.
c) The mechanism been proposed for improvement on revenue performance were inadequate. Similar proposals have been earlier made and the revenue target was not achieved.
d) Government should endeavour and promote PPP for major infrastructural projects these would significantly reduce the expenditures.
e) In spirit of fiscal consolidation, the additional allocation to the county equitable share should have been a reallocation of resources from the ministries and MDAs which are still performing devolved function. This would enable reduce fiscal deficit.
f) Disbursements of funds to the counties was not in adherence to the cash disbursement schedule. The tendency of disbursing funds depending on CRF balances was not right. Most of the balances in CRF were for conditional grants yet they may not be utilised for any other purposes.

MIN. NO. 1015/02/2021 ANY OTHER BUSINESS AND ADJOURNMENT

There being no other business the Chairperson adjourned the meeting at 12.15 pm.

SIGNATURE: ____________

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 24/02/2021

MINUTES OF THE 194TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON TUESDAY, 23RD FEBRUARY, 2021 AT 9:00 AM VIA ZOOM ONLINE PLATFORM.

PRESENT

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

ABSENT WITH APOLOGY

8. Sen. Aaron Cheruiyot, MP	- Member
9. Sen. Kimani Wamatangi, MP	- Member

SECRETARIAT

1. Mr. Christopher Gitonga	- Clerk Assistant
2. Ms. Lucy Makara	- Deputy Director, PBO
3. Ms. Lucy Radoli	- Legal Counsel
4. Ms. Sharon Rotino	- Research Officer
5. Ms. Yunis Amran	- Fiscal Analyst

MIN. NO. 1016/02/2021: PRELIMINARIES

The Chairperson called the meeting to order at 9.17 am and thereafter followed a word of prayer.

MIN. NO. 1017/02/2021: ADOPTION OF THE AGENDA

The agenda of the meeting was adopted with amendments as indicated below after it was proposed by Sen. CPA Farhiya Haji, MP and seconded by Sen. Mutula Kilonzo Junior, CBS, MP.

MIN. NO. 1018/02/2021: CONSIDERATION OF STAKEHOLDERS' SUBMISSIONS ON THE 2021 BUDGET POLICY STATEMENT AND MEDIUM TERM DEBT STRATEGY

The Committee considered-

a) various provisions proposals on the 2021 Budget Policy Statement and Medium Term Debt Management Strategy.

b) Standing Committees' submissions on the 2021 Budget Policy Statement and Medium Term Debt Management Strategy.

Some of the issues highlighted include-

i) Overreliance on diaspora remittances for improvement on current account balances.
ii) Agricultural sector contributing a major percentage to GDP but very little on revenues. There was need for further investment in agriculture sector specially to boost value addition and improve on exports.
iii) The approved debt ceiling may need review if national government expenditure is implemented as proposed in the BPS.
iv) The projected economic growth was very ambitious noting the spill over effects of Covid 19 and invasion of locusts.
v) On global economic outlook, the projected inflation rate would affect the costs of fuel and basic commodities.
vi) There is a tendency for the government to commence new projects whereas the ongoing ones are far from completion.
vii) The allocation on conditional grant on Managed Equipment Service (MES) was increased annually yet the project ought to be a contract with fixed terms and costings.

The Committee resolved to consider and adopt the report during the next meeting.

MIN. NO. 1019/02/2021 ANY OTHER BUSINESS AND ADJOURNMENT

There being no other business the Chairperson adjourned the meeting at 10.24 am.

SIGNATURE: ______________

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 24/02/2021

MINUTES OF THE 195TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 24TH FEBRUARY, 2021 AT 9:00 AM VIA ZOOM ONLINE PLATFORM.

PRESENT

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

ABSENT WITH APOLOGY

9. Sen. Kimani Wamatangi, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Lucy Makara - Deputy Director, PBO
3. Ms. Lucy Radoli - Legal Counsel
4. Ms. Sharon Rotino - Research Officer
5. Ms. Yunis Amran - Fiscal Analyst
6. Mr. Ian Otieno - Audio Officer

MIN. NO. 1020/02/2021: PRELIMINARIES

The Chairperson called the meeting to order at 9.07 am and thereafter followed a word of prayer.

MIN. NO. 1021/02/2021: ADOPTION OF THE AGENDA

The agenda of the meeting was adopted with amendments as indicated below after it was proposed by Sen. Mutula Kilonzo Junior, CBS, MP and seconded by Sen. Rose Nyamunga, MP.

MIN. NO. 1022/02/2021: CONFIRMATION OF MINUTES

The minutes of the 191st meeting held on Thursday, 18th February, 2021 at 9:00 am were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. CPA Farhiya Haji, MP and seconded by Sen. Mutula Kilonzo Junior, CBS, MP.

The minutes of the 192nd meeting held on Friday, 19th February, 2021 at 9:00 am were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Mutula Kilonzo Junior, CBS, MP and seconded by Sen. Rose Nyamunga, MP.

The minutes of the 193rd meeting held on Monday, 22nd February, 2021 at 9:00 am were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Mutula Kilonzo Junior, CBS, MP and seconded by Sen. CPA Farhiya Haji, MP.

The minutes of the 194th meeting held on Tuesday, 23rd February, 2021 at 9:00 am were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. (Dr.) Ochillo Ayacko, MP and seconded by Sen. Mutula Kilonzo Junior, CBS, MP.

MIN. NO. 1023/02/2021: CONSIDERATION AND ADOPTION OF THE REPORT ON THE 2021 BUDGET POLICY STATEMENT AND MEDIUM TERM DEBT STRATEGY

The Committee considered the report and made the following financial recommendation-

(i) That the proposed allocation of shareable revenue to County Governments for FY 2021/22 be as follows–

Total County Allocation be **Kshs. 408.88 Billion** of which;

- County Equitable share be **Kshs. 370 Billion**
- County Conditional Grants be **Kshs. 38.88 Billion** which comprises of the following-

✓ Supplement for Construction of County HQs- **Kshs. 0. 33 billion**

✓ Leasing of Medical Equipment- **Kshs. 6.21 billion**

✓ Allocation from Development Partners as Loans and Grants-**Kshs. 32.34 Billion**

(ii) The National Treasury should adhere to the cash disbursement schedule approved by the Senate in disbursing funds to the counties.

(iii) The **Kshs. 1billion** saving from the allocation to Managed Equipment Service (MES) should be redirected to reduce the fiscal deficit.

(iv) That the Fiscal Deficit (on commitment basis excluding grants) for the FY 2021/22 be binding at **Kshs. 970 billion.**

(v) That Net Domestic borrowing and Net Foreign Financing be set at **Kshs. 661 billion** and **Kshs. 267.3 billion**, respectively.

(vi) That the allocation to the Equalization Fund of **Kshs. 6.83 billion** be approved as provided in the Budget Policy Statement.

(vii) To achieve the optimal composition of debt portfolio, the strategy proposed in the Medium Term Debt Management Strategy of external debt at 51 percent and domestic debt at 49 percent should be adopted and be binding as it minimizes the refinancing and the interest rate risk.

The Committee unanimously adopted its report on the 2021 Budget Policy Statement and Medium Term Debt Strategy having been proposed by Sen. (Dr.) Ochillo Ayacko, MP and seconded by Sen. Wetang'ula Moses Masika, EGH, MP.

MIN. NO. 1024/02/2021 ANY OTHER BUSINESS

a) The Committee noted that some county governments were requesting to be allowed to borrow funds with aim of financing development projects. However, there was no clear borrowing framework for the counties. It was resolved that the National Treasury should furnish the Committee with the measure put in place to ensure the opportunity was utilised appropriately.

b) The Committee note that some counties were hiring more staff whereas their wage bill is above the recommended threshold in PFM (County Government Regulations). The Committee resolved to enquire from the COB on the progress made in implementing Senate resolution on rationalisation of staffing levels in counties in adherence to the provision of the regulations.

c) The Committee noted the request for a meeting by SOCATT. The Committee resolved to hold a virtual meeting on Wednesday, 3rd March, 2021 at 9.00am.

MIN. NO. 1025/02/2021 ADJOURNMENT

The Chairperson adjourned the meeting at 10.45 am.

SIGNATURE: ______________________

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 24/02/2021

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COMMISSION ON REVENUE ALLOCATION

OUR REF. CRA/P&S/04/VOL.II (25)   DATE: 17th February 2021

Mr. J. M. Nyegenye,
Clerk of the Senate,
Clerk's Chambers
Parliament Buildings
NAIROBI

Dear Mr. Nyegenye,

RE: COMMISSION COMMENTS ON THE 2021 BUDGET POLICY STATEMENT AND THE MEDIUM TERM DEBT STRATEGY

Reference is made to the Senate Letter, Ref: SEN/DCS/SCF&B/2021/004, dated 16TH February 2021 on the above captioned matter.

The Commission has considered the contents of the BPS 2021 and the 2021 Medium Term Debt Strategy (DMS). The Commission submits the attached memoranda on the BPS (attachment/ 01) and the DMS (attachment /02) for Committee consideration. The Commission is available for any further engagement should you need any further clarifications on the comments provided.

Yours sincerely,

Dr. Moses Sichei
COMMISSION SECRETARY/CEO

Attach//01 BPS
Attach//02 DMS

Attachment 01

Promoting an Equitable Society

COMMENTS ON THE 2021 BUDGET POLICY STATEMENT

Section I: Recent Economic Development & Outlook

i. Economy growth for 2020 is estimated at 0.6%. The 2021 BPS projects an economic growth of 3.8 percent in 2020/21 and about 6.1 percent over the medium term, on account of recovery of the services sector. This growth projection has not factored in expected shocks that will have an effect on economic performance. This will include: contraction of the global economy, exchange rate variability, high debt, the prolonged effects of COVID-19, the BBI referendum and the 2022 general elections. All these factors are likely to slow down economic growth in the medium term.

ii. Expected low economic growth rates will have an effect on other macro-economic variables such as inflation as well revenue performance. In the last four years, revenues have substantially performed below targets. This affects development expenditures at both levels of government. Projection of ordinary revenue of Ksh. 2,033.9 billion (16.4 percent of GDP) on account of on-going reforms in tax policy and revenue administration is at variance with the government policy to support business recovery post COVID-19 slump. It is important that realistic revenue projections are made taking into account all the risk to the economic performance of the economy.

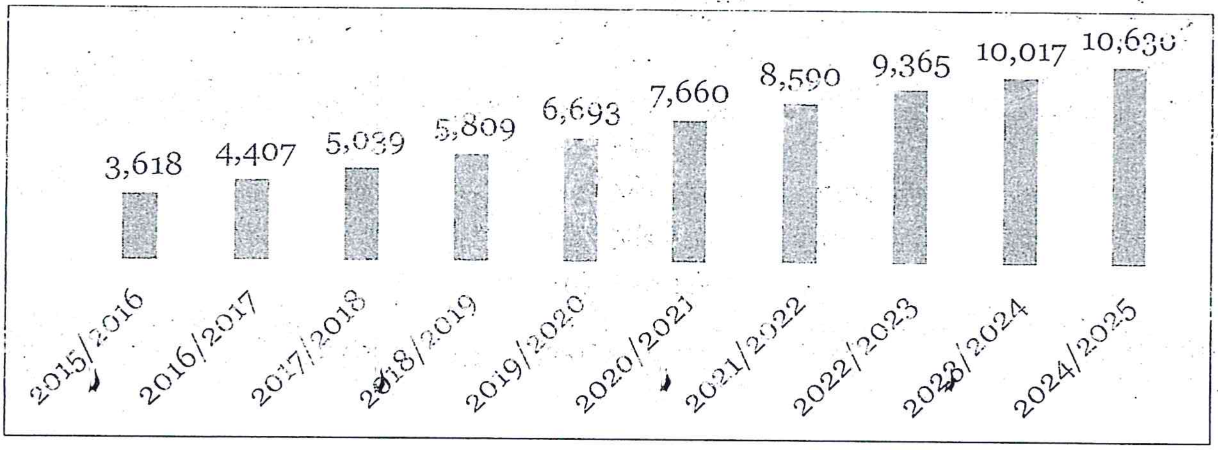
Section II: Strategy for resilient and sustainable economic recovery

i. The BPS 2021 notes that Implementation of the Big Four Agenda will unlock better growth, and positively impact on the lives of people through jobs creation and poverty reduction. Implementation of some of the Big Four agenda priority areas were commenced over the last three years and it's not clear what remains to be done during the next two years. The BPS should provide an accountability matrix of the implementation status of projects and programmes under the Big Four Agenda: what needs to be achieved for the remaining two years, a breakdown of the resources need, what has been achieved and the impact of what has already been achieved under the Big Four.

ii. BPS 2021 only mentions expenditure rationalization and revenue enhancement as a means to achieving fiscal consolidation. Specific policy measures have not been outlined towards rationalizing expenditure and enhancing revenue.

iii. Fiscal consolidation efforts seem to be elusive as debt keeps accumulating. The absolute debt threshold as approved by Parliament is Kshs. 9,000 billion by June 2024, however the threshold is likely to be met earlier by FY 2022/2023 as debt levels are projected to get to Kshs. 9,365 billion as shown in Figure 1. There is need for rationalisation of the public debt to ensure inter-generational equity.

Figure 1: Public debt stock for the FYs 2015/16 to 2024/25 – Kshs. Billion



Source of data: The National Treasury, 2021 BPS

Section III: Budgets for the Medium Term/Details on Sector Priorities

This section provides details on of sector achievement. Some of the sector, as can been seen from the examples below, undertake functions that should be effectively and efficiently undertaken by county governments. It is important that there be equity even where the MDAs are conducting projects and programmes on behalf of government.

i. Agriculture, rural and urban Development Sector:

a. The Sector undertook the following activities which should be undertaken by county governments: Installation of milk bulking and cooling equipments; development of small-scale irrigation infrastructure counties; roll out of crop insurance in counties; provision of subsidized fertilizer benefiting farmers and enrolment of smallholder farmers under the e-voucher input access system. The budget of this activities should be transferred to county governments in FY 2021/22

ii. Health

a. The budget for the health sector is projected to increase to Ksh. 119.9 billion in FY 2021/22. Within the government policy on provision of UHC, this budget should be rationalised and shared between the national government and the county government, especially now that the piloting of the UHC scheme in four counties at a cost of 3.9 billion has been completed.

iii. Environmental Protection, Water and Natural Resources

a. The sector has budgets to undertakes several activities to include the following that should be undertaken by county governments: Production of seedlings; provision of water to households; urban sewerage; construction of water pans; drilling of boreholes

Section IV: County Financial Management and Division of Revenue

i. County disbursement for the FY 2020/2021 as at February 2021 was Kshs. 147.9 billion, the remaining balance of Kshs. 168.6 billion is likely to be disbursed to the counties during the remaining four months of the financial year. Although ordinary revenues have been underperforming and therefore necessitating the slow disbursement of funds to the counties, too late disbursement of funds closer to the end of the financial year often leads to over commitment towards the end of the financial year, in addition to opening loopholes for funds mismanagement.

ii. The trend in county actual county Own Source Revenue (OSR) collections over the last six years shows sporadic high and low actual collection. This poses a risk in county budgeting and eventual service delivery as counties continue to accumulate pending bills. The Third Basis recommendation as submitted to Parliament by the CRA had provided for a fiscal effort incentive parameter to encourage revenue collection by counties. The parameter was subsequently dropped following approval of the formula. To encourage consistent revenue growth in the counties, Parliament need to come up with a legislation for uniform automation of revenues at the county level to seal revenue leakages.

iii. Horizontal allocation of revenue among county governments

Table 12 of the BPS provides information on the revenue allocation for each county government that is based on the third revenue sharing basis. Whereas:

CRA interpreted the approved basis as "**County Allocation= (50%*Equitable Share to counties*Allocation Ratio) +(50%*equitable share to counties *Formula),**

the National Treasury has interpreted the approved basis as County Allocation = ((50%(2019/20 equitable share) * 2019/20 allocation Index) + Third Formula Index*(Equitable share 2021/22- (50%(2019/20 equitable share))

The Senate should provide clarity on the interpretation of the approved basis.

iv. Equalisation Fund

Following the court ruling on petition No. 272/2016 on 5th November 2019, the National Treasury in consultation with other stakeholders developed the draft Public Finance Management (Equalisation Fund) Regulations, 2020. The draft regulations were submitted to Cabinet for approval in November 2020. It is in the interest of Parliament that the marginalised areas access Equalisation Funds. Delayed disbursement of funds to marginalised areas on account of lack of legislation has delayed the realisation of the core objective of establishment of the Equalisation Fund of enhancing services in areas identified as marginalised.

Attachment 02

Promoting an Equitable Society

COMMENTS ON THE 2021 MEDIUM TERM DEBT MANAGEMENT STRATEGY

SECTION II: REVIEW OF ACTUAL COSTS AND RISKS CHARACTERISTICS AGAINST 2019 AND 2020 DEBT MANAGEMENT STRATEGIES

Table 2 on review of costs and risk indicators provides data on debt as a percentage of GDP. Proportions hide a lot of information. There is merit in presenting the absolute figures implied in Table 2, given that the revised debt ceiling of Ksh. 9,000 billion is an absolute amount, before the presentation of the proportions. The Table is also inconsistent with the paragraph 8 on the figure for nominal debt to GDP, which indicate that the debt to GDP was equivalent to 65.5 percent, whereas Table 2 presents the figure at 63.3 percent of GDP.

SECTION IV: COST AND RISK ANALYSIS OF THE EXISTING PUBLIC DEBT PORTFOLIO

Table 6 on domestic debt by maturity should be presented in Ksh. for ease of comparison to the debt ceiling. Currently the Table presents the amount in US Dollar.

SECTION VIII: DEBT SUSTAINABILITY

External debt sustainability relating to debt to exports ratio and debt service to exports ratio have been breached, showing the pressure on external income (Table 1). Further the current weakening of the Kshs against the US Dollar continues to put pressure on dollar denominated debt servicing. The MTDS does not address itself to expected shocks that are likely to arise from currency depreciation, especially taking into account that 66 percent of Kenya debt is in Dollars.

Table 1: Kenya's External Debt Sustainability

Indicators	Thresholds	2019	2020	2021	2022	2023
PV of debt-to-exports ratio	**240**	225.2	288.1	260.2	258.5	255.2
PPG Debt Service-to-exports ratio	**21**	31.4	27.5	25.9	25.5	24.4

It is the government policy to contain the debt within the EAC thresholds. The 2021 DMS anticipates another revision of the debt ceiling beyond the Ksh. 9,000 billion. In effect, the DMS is at variance with the BPS 2021 statement on fiscal consolidation as it anticipates another review of the PFMA Act to expand the statutory debt limit.

OTHER CONCERNS

The MTDS presents various inconsistencies in the usage of calendar year and financial year. For consistency and ease of comparison the MTDS should harmonise and use either financial year or calendar year.

International Budget Partnership Kenya

SUBMISSION TO THE SENATE BUDGET AND FINANCE COMMITTEE ON THE BUDGET POLICY STATEMENT 2021

Thursday, 18022021

Introduction

This memorandum was prepared by the International Budget Partnership together with 17 of its' partners and their full list is provided in the annex. The submission is primarily focused matters related to Division of Revenue and national revenue performance and projections.

Submission Summary

1. **Unrealistic revenue targets have contributed to the underperformance of revenue sources over the years.** Each year, the National Treasury revises the revenue projections downwards during the budget implementation stage (supplementary budgets). This is an indication that the government has continuously set targets that are too ambitious. There is need for a realistic way of projecting revenues based on historical performance. The projected growth should be within a set limit of the average revenue performance in the past three years.
2. **Kenya's budget deficit numbers remain very erratic and that is indicative of challenges with revenue and expenditure targets.** However, one consistent trend has been the growth in the deficit between the final approved deficit ceiling in the BPS and the deficit in the final actual budget. This raises question on the deficit numbers provided in the BPS and whether they are a true reflection of the fiscal funding gap each year.
3. **Public debt remains a central but key determinant of our fiscal policy.** Although, significant transparency issues remain on Kenya's debt stock but also its repayment. For instance, Public debt annual reports for 2018/19 and 2019/20 have significantly different figures for the funds spent by government in settling debt obligations in 2018/19 going back to 2013/14. In addition, the Controller of Budget Report for 2019/20 has debt service figures that are different from the annual debt reports by National Treasury.
4. **There is still no clear approach to guide the growth in revenue that is allocated to the county equitable share of revenue.** This makes it difficult for counties to prepare multi-year budget projections as required under the medium-term expenditure framework that is used to prepared budgets in Kenya. This challenge is equally alive in the national government. There should be a constant growth factor for both levels of Government such that when there is an increase in the national government share of revenue, a similar growth factor is witnessed for county governments.
5. **The justifications to convert most conditional grants into the equitable share needs further interrogation.** Conversion of these grants into equitable share will not only disadvantage the services supported by these grants but also overall counties 'share given the shift in allocation criteria. The grants to be converted into equitable share to be retained as conditional grants and growth adjustments in allocation to be increased.

DETAILED ANALYSIS

REVENUE PERFORMANCE

Unrealistic revenue targets have been contributing towards the poor revenue performance experienced over the years. Revenue targeting seems to be inconsistent with historical performance and therefore, too ambitious. As seen in the table below, revenue performance has consistently fallen short in terms of the actual revenue achieved compared to the targets set.

Table 1: Revenue Performance

Financial Year	Revenue Performance								
	Import Duty	Excise Duty	Income Tax	Value Added Tax (VAT)	Total Tax Revenue	Non-Tax Revenue	Ordinary Revenue	A-I-A	Total Revenue
2015/16	95%	102%	97%	96%	97%	98%	97%	69%	95%
2016/17	101%	97%	100%	100%	100%	96%	100%	92%	99%
2017/18	96%	91%	90%	94%	92%	88%	92%	92%	92%
2018/19	99%	98%	92%	100%	96%	89%	95%	98%	96%
2019/20* (Source: BPS 2021	102%	97%	98%	96%	98%	95%	97%	66%	93%

Source: Budget Review and Outlook Papers

Revenue underperformance is evident even with the targets being revised within-year, case in point, ordinary revenue performance as shown in Table 2 below. What informs these seemingly high targets? These revisions show the inability of the country to achieve its ordinary revenues targets and the likelihood of achieving the target projected might be far-fetched.

Table 2: Ordinary revenue targets are constantly changing with the various budget decisions within a financial year and even then, targets are still not attained.

ORDINARY REVENUE PERFORMANCE (Kshs Billion)								
Target/Estimate								
Proposed Target in the BPS	Approved Target in the Approved Budget	Revised Target - BROP	Revised Target - BPS	Revised Target Final Supplementary Budget	Actual	% of Actual Revenue to Final Revised Target	% change from target in budget to final target	% change from target in BPS to final target
2015/16								
BPS '15	Budget 15	BROP '15	BPS '16	BROP '16	(BPS '18)			
-	1,254.9	-	1,202.0	1,184.4	1,153.0	97%	-6%	
2016/17								
BPS '16	Budget '16	BROP '16	BPS '17	BROP '17	(BPS '19)			
1,380.2	1,376.4	1,318.0	1,374.5	1,311.3	1,306.6	99.6%	-5%	-5%
2017/18								
BPS '17	Budget '17	BROP '17	BPS '18	BROP '18	(BPS '20)			
1,549.4	1,549.4	1,490.4	1,486.3	1,489.6	1,365.1	92%	-4%	-4%
2018/19								
BPS '18	Budget 18	BROP '18	BPS '19	BROP '19	(BPS '21)			
1,688.5	1,769.2	1,672.6	1,651.5	1,588.1	1,499.0	94%	-10%	-6%
2019/20								
BPS '19	Budget 19	BROP '19	BPS '20	BROP '20	(BROP '20)			
1,877.2	1,877.2	1,851.8	1,843.8	1,615.4	1,573.4	97%	-14%	-14%
2020/21								
BPS '20	Budget '20	BROP '20	BPS '21	BROP '21				
1,856.7	1,633.8	1,601.4	1,574.0					
2021/22								
BPS '21								
1,764.7								

Source: BROP and BPS, 2015 - 2021

The BPS shows a significant drop in Revenue collection performance by 4.2% between December 2019 and December 2020 from 17.1% in 2019 to 12.9% in 2020. The report further provides that the country did not achieve its revenue targets with a shortfall of up to 97.1 billion. The BPS acknowledges that the drop in the revenue collection was majorly attributed to Covid-19 pandemic that attributed to the difficult operations environment. Now that COVID-19 pandemic is still with us, the revenues projections by the BPS should put into consideration the possible underlying effects of COVID-19 moving forward. This however is not the case as the proposed revenue has been projected upwards.

Revenue Performance

41. Revenue collection to December 2020 declined by 12.9 percent compared to a growth of 17.1 percent in December 2019. This decline is attributed to the difficult operating environment due to the Covid-19 pandemic which has adversely affected revenue performance from March 2020. As at end December 2020, the cumulative total revenue - inclusive of Ministerial Appropriation in Aid (AiA) amounted to Ksh 810.6 billion against a target of Ksh 907.7 billion, with shortfalls recorded in both ordinary revenues (Ksh 75.8 billion) and Ministerial A-I-A (Ksh 21.3 billion).

Recommendations: The trends of non-attainment of the revenue targets before covid-19 period show a gap in. With all factors put into considerations, there is need for a realistic way of projecting revenues to avoid instances of borrowing to finance budget deficits. The BPS proposes the following as measures to improve revenue performance.

Recovery Strategy. In particular, the reversal of tax cut measures which took effect from January 2021, will enhance revenue collection. In addition, in the FY 2020/21, the Government is implementing a raft of tax policy measures through the Finance Act, 2020 that will boost revenue performance. The measures include: introduction of a minimum tax payable at 1 percent of gross turnover; introduction of a digital services tax on income from services provided through a digital marketplace in Kenya at the rate of 1.5 percent on the gross transactional value; increase of income threshold qualifying for residential rental income tax; and abolishment of incentives under Home Ownership Savings Plans (HOSP).

The government taxation plan of 1% will affect businesses especially those operating in the SMEs. The taxation be revised to 0.5%. The introduction of digital services tax on income from services provided through a digital marketplace in Kenya at the rate of 1,5 percent on the gross transactional value. The move will affect the youths who are mostly unemployed and dependent on the social market for their livelihoods. The 1.5 % to be revised down to at least between 0.5-1%. This will help to cushion the youth from the high taxations and at the same time keep them in job.

With the economic challenges faced due to the impact of COVID-19, introduction of more/higher taxation is not a sustainable measure to raise revenue. Majority of business have closed shops already as well as the unemployment levels increased where the majority affected are youths. A more sustainable measure needs to be taken to realize a win-win situation.

DEFICIT AND PUBLIC DEBT

Deficit

> 55. Given the expenditure rationalization and the revenue recovery measures put in place, fiscal deficit inclusive of grants is projected to decline from Ksh 966.6 billion (8.7 percent of GDP) in the FY 2020/21 to Ksh 930.0 billion (7.5 percent of GDP) in the FY 2021/22 and further to Ksh 613.8 billion (3.6 percent of GDP) in the FY 2024/25 (Table 5). In the medium term, debt is projected to remain sustainable.

The above projection in the BPS is not realistic given that **deficit numbers have been growing over the years.** In addition to this **there has also been substantial deviations between the final approved deficit ceiling in the BPS and actual budget that incline towards widening the budget deficit.** It may, therefore, take longer for the government to achieve a lower deficit due to this trend of the actual deficit being higher than the estimated amount in the BPS.

Table 3: Deficit growth over the years and within-year increase

Year (Billions)	Deficit in the Proposed Budget in the BPS	Deficit in the Approved Budget	Deficit in the Revised Budget	Increase in the deficit within the year	Deficit in the Actual Budget
2014/15	-367	-417	-732	76%	-533.9
2015/16	-533.2	-646.5	-732.6	14%	-544.1
2016/17	-555.4	-775	-871.6	12%	-709.4
2017/18	-582.4	-594.3	-670.4	13%	-624.2
2018/19	-638.2	-608.1	-760.6	25%	-734.9
2019/20	-629.9	-673.6	-789.9	17%	-828.5
2020/21 (Current FY)	-614.1	-898	-1048.9	17%	
2021/22	-983.7				

The BPS 2021 speaks to expenditure rationalization measures, however, this has been highlighted in previous Budget Policy Statements, since 2018, with the aim of getting fiscal deficit to 3 percent of the GDP over the medium term. Even then, the 2020/21 fiscal deficit projection according to the BPS is 9 percent of the GDP.

Recommendation

a. Parliament must reduce the deficit approved in the 2021 BPS and hence tame the increment in debt in the medium term.

b. Government should implement balanced budgets with very well-defined budget deficit limits if necessary, to achieve a lower deficit.

c. Government should slow down investment in expensive large infrastructure projects.

d. Work with realistic economic scenarios that do not underestimate the negative impact of Kenya's debt, and of the COVID-19 crisis.

e. Merge resource-consuming parastatals and state corporations to reduce excessive spending.

Public Debt

Kenya's public debt stock (which amounted to Kshs. 7.2 Trillion as of December 2020[1]) will continue to rise as long as the government runs a deficit, worsening the unsustainable public debt situation.

Public debt annual reports for 2018/19 and 2019/20 have significantly different figures for the funds spent by government in settling debt obligations. The main difference between the two reports is related to a new line added under domestic debt on treasury bonds redemption. This has more than doubled the size of domestic debt service and also affects the percentage share of revenue taken up by debt repayment. What is more confusing is that the annual budget implementation report from the Office of Controller of Budget for the year 2019/20 has a debt repayment figure that is different from what is presented by National Treasury in the Annual Debt Report for the same year.

This is an example of the transparency challenge in the presentation of public debt numbers and even the amount spent to service debt is not spared. Why would two official government agencies have different debt service figure when the source is the same. This then raises the question on what are the right numbers that the public and National Assembly should rely on when interrogating public debt?

As such Parliament should demand for clarity on the funds spent on public debt service and also ask the Public Debt Office to provide a clear register that is publicly available on the debt repayment obligations that is then approved together with the BPS and the Debt Management Strategy Paper.

Pension Obligation

The total payments from the pensions account as part of the Consolidated Fund Services has been growing over the last six years and progressively taking up a larger share of ordinary revenue. Therefore, taken together with public debt, pensions are a significant budget line in government expenditure each year.

Year. Amount (Billions)	Pension	Ordinary Revenue	% Share of Pension to Ordinary Revenue
2014/15	37.50	1,031.82	3.6%
2015/16	53.40	1,152.54	4.6%
2016/17	64.00	1,306.57	4.9%
2017/18	65.10	1,362.06	4.8%
2018/19	66.40	1,499.76	4.4%
2019/20	87.00	1,573.42	5.5%
2020/21*	111.10	1,594.00	7.0%
2021/22**	132.80	1,775.60	7.5%

Source: Budget Policy Statements 2017-2021, National Treasury

*Revised Estimate Figure

** Projected Estimates

The projected expenditure on pensions will be Ksh 132.8 billion. however, there is no information on the spread and detail of that spending. Parliament should ask the National Treasury to provide details of the main recipients of pensions in terms of MDAs, the numbers of beneficiaries under each and the allocations. This should go further than the current pension detail provided in the National Treasury website.

There is need for justifications for strategies on managing public debt. The BPS is once again short on providing adequate reasons for the deficit and borrowing proposals. In addition, the government seems to have reversed a policy on reducing the proportion of its domestic borrowing. The projected financing of the deficit in 2021/22 is heavily made up of domestic debt. However, this is not explained and the implication of this change in approach is not provided.

Lastly, the BPS still carries a language that Kenya's public debt remains sustainable even when some indicators have breached the set benchmark. For example, debt service to ordinary revenue has been over the 30 percent benchmark for number of years now. However, as shown in the snippet below, the language in the BPS does not recognize that problem nor provide a clear strategy to ensure there is a move to change the upward trajectory in debt repayment to revenue.

> d) The PFM Act also requires that public debt and obligations remain at sustainable levels. The Government is committed to adhering to this at all times. Kenya's overall debt ratios compared with internationally recognized threshold continues to show that debt level remains sustainable.
>
> e) Kenya's risk remains high in the context of the ongoing global Covid-19 shock. However, this is expected to be temporary as implementation of fiscal consolidation reforms continue and also the debt indicators are expected to improve when the global economy rebounds from the Covid-19 crisis.

DIVISION OF REVENUE

Vertical sharing of revenue: Lack of predictability and revenue shortfalls

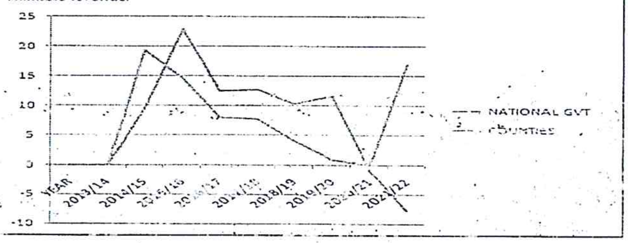
Paragraph 288 of the BPS proposes to allocate counties Ksh.370 billion in 2021/22 from 316.5 in 2020/21, representing **Ksh.53.5 billion or 16.9 percent.** The amount is arrived at, by adjusting the 316.5 in 2019/20, equitable share to a growth rate of Ksh.36.1 representing 11.4 percent revenue growth and converting four (4) conditional grants amounting to Ksh.17.02 billion, into equitable share.

There is a clear **lack of predictability** in the amount allocated to the county governments from the total sharable revenue. This challenge is equally alive in the national government. The following table illustrates the revenue growth rate at the national and county governments.

Table 1: National Vs. County Government absolute growth of total sharable revenue from 2013-2021

YEAR	billions NATIONAL GVT	ABSOLUTE GROWTH	% GROWTH	billions COUNTIES	ABSOLUTE GROWTH	% GROWTH
2013/14	730.38	0	0	190	0	0
2014/15	799.65	69.27	9.5	226.66	36.66	19.3
2015/16	982.93	183.28	22.9	259.77	33.11	14.6
2016/17	1105.3	[illegible]	12.5	280.3	20.53	7.9
2017/18	1246.07	[illegible]	12.67	302	21.7	7.7
2018/19	1374.5	128.43	10.3	314	12	4
2019/20	1554.92	180.42	11.6	316.5	2.5	0.8
2020/21	1540.2	-14.72	-0.96	316.5	0	0
2021/22	1420.8	-119.4	-7.8	370	53.5	16.9

Graphical presentation on national vs. County Governments absolute growth rate of sharable revenue.



Source:

The graph and table 1 show a consistent decline in revenue growth from year to year for counties starting from 2014/15. However, for the National government, there is a general decline but with small spikes in some years. **This shows that for example in 2015/16 revenue growth for the national government was from 9.5% to 22.9% whereas in counties the growth was from 19.3% to 14.6% in the same period.**

There should be a **constant growth factor** for both levels of Government such that when there is an increase in the national government share of revenue, a similar growth factor is witnessed for county governments.

Conversion of conditional grants to equitable share

On Conditional grants, the BPS proposes to convert four (4) conditional grants, (Level 5 hospital grants, User fee foregone, RMLF and Rehabilitation of Village polytechnics), into equitable share, amounting to Ksh.17.04 billion.

The allocation trend of the grants indicates a stagnant growth or minimal growth of these grants. For instance, the allocation of user fee forgone grant has been constant averaging to Ksh.0.9 billion from 2015/16 to 2020/21. Similarly, the level 5 hospital grant's allocation grew with 2.4 percent between 2017/18 and 2018/19, and a constant allocation of Ksh.4.3 billion from 2018/19. Stagnated growth and or minimal growth of conditional grants disadvantages the services supported by these grants, whose demand is usually on rise from one year to the other.

The justifications that the parameters in the distribution of equitable share are more aligned to the devolved functions, does not satisfactorily capture equity in distribution of these grants. For instance, only 13 counties with level 5 hospitals receive the Level 5 grant which is allocated based on bed occupancy rate and the number of referrals, and again to note the criteria is not fair. Conversion of these grants into equitable share will not only disadvantage the services supported by these grants but also overall counties 'share given the shift in allocation criteria.

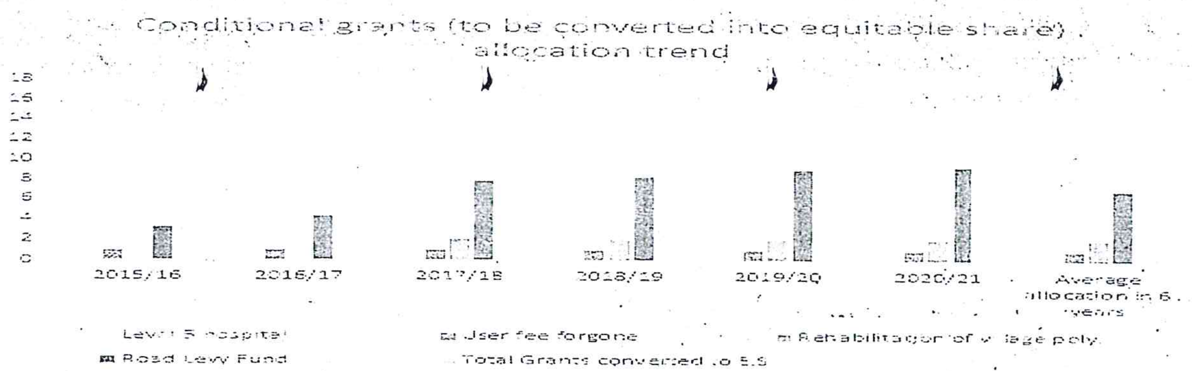
Recommendation: The grants to be converted into equitable share to be retained as conditional grants and growth adjustments in allocation to be increased.

Conditional allocations to counties in Billion shillings from 2015/16 to 2021/22

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	CRA allocation 2021/22	BPS allocation 2021/22
Grants from National Government E.S	13.3	13.7	15.6	29.9	27.4	27.4	23.6	24.9
Free Maternal Healthcare	4.3	4.1		4.3	4.3	4.3		
Leasing of medical equipment	4.5	4.5	4.5	9.4	6.2	6.2	6.1	7.2
Level 5 hospital	3.6	4	4.2	4.3	[illegible]	4.3	4.3	
User fee forgone	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
Special grant for emergency health services		0.2						
Construction of county hqs.			0.6	[illegible]	0.6	0.5	0.5	0.3
Rehabilitation of village poly.			[illegible]	2	2	2	[illegible]	
Road Levy Fund	3.3	4.3	11.09	8.3	9	9.4	[illegible]	
Total Grants converted to E.S							17.02	17.4

Source: BPS 2021,CRA 2021, Respective DORA

Graphical presentation of L5H, RMLF, User fee forgone, and rehabilitation of village polytechnics grants allocations and growth trend from 2015/16 to 2020/21



Annex

	Contributing Organizations
1	Caritas Meru
2	CEDC
3	CEDGG
4	Declares Kenya
6	IBP Kenya
9	Institute of Public Finance Kenya
10	Justice and Peace Centre
11	Justice, Advocacy and Empowerment Center
12	Kenya FIA

13	Mandera county human rights network
14	Mothers of tomorrow
15	NRG
16	NYERI CBEF
17	Open Governance Institute
18	Slums Information Development and Resource Centers (SIDAREC)
19	Team
20	TISA
21	Violet Mbiti Foundation
22	PATH

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ICPAK

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ICPAK SUBMISSIONS

ON

THE DRAFT BUDGET POLICY STATEMENT 2021

PARAGRAPH OF BPS 2020	ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
Para 9 and 10: Domestic Economic Development	The outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures have devastated both global and local economies alike. The effect as demonstrated by the data from the Kenya National Bureau of Statistics is as follows; • The global economy is projected to contract by 4.4 percent in 2020 from a growth of 2.8 percent in 2019 • The Sub-Saharan African region has not been spared the negative impact of the pandemic with the region projected to contract by 3.0 percent in 2020 from a growth of 3.2 percent in 2019 • Growth in the East African Community (EAC) region is estimated to slow down to 1.0 percent in 2020 compared to a growth of 6.2 percent in 2019. • In Kenya, the economy is estimated to slow down to around 0.6 percent in 2020 from a growth of 5.4 percent in 2019. It is further projected to recover and grow by about 6.0 percent in the medium term. The BPS further outlined the following risks: **a. Inflation** Inflation rate expected at 5.0 percent which is within the Government target range. The economy is expected to remain competitive in the external market with the exchange rate against major currencies remaining stable even amid COVID-19 pandemic. Overall average monthly inflation between March and December 2020 remained stable at 4.9 percent due to favourable weather	Although this projection is consistent with World Bank's data of to 5.0% in 2020 and 6.0% in 2021, the challenge of this growth premise is that it doesn't seem to adequately incorporate the impact of the COVID crisis and the post COVID economic recovery strategy remains unclear. There is need to lower our expectations due to the following factors • Impact of locust invasion to food security in the medium term is yet to subside • Continued charged political climate as a result of ongoing campaigns for Building bridges Initiative (BBI) and early 2022 political campaigns • Changing and unpredictable weather patterns given that Kenya still relies heavily on rainfed agriculture. • The recovery of Kenya's economy from the effects of the COVID-19 pandemic is predicated on normal weather supportive of agricultural output and a swift and well targeted policy response to COVID-19. • According to the Kenya Economic Update by the World Bank, the pandemic increased poverty by 4% or an additional 2 million poor) while the unemployment rate increased sharply, approximately doubling to 10.4 % as measured by the KNBS Quarterly Labor Force Survey. • Emerging and developing markets face a health crisis from the pandemic in addition to severe demand shock, tightening in global financial conditions and a plunge in commodity prices Falling demand and revenues, reduced input supply, tightening of credit conditions, and increased uncertainty. The damage is aggravated

	conditions and lower international oil prices. With the revision of the tax measures instituted by the government during the COVID-19 period, inflation is likely to increase, but is expected to remain within the target range. **b. Interest Rates** The uncapping of interest rates in 2019 was expected to expand the private sector and stimulate business growth and overall performance of the economy. The growth in credit to the private sector, however, slowed down in 2020 due to measures undertaken by global and the national governments to contain the spread of COVID-19 pandemic. Private sector credit grew by 8.1 percent in the 12 months to November 2020 compared to a growth of 7.3 percent in the year to November 2019 **c. Exchange Rates** Exchange rate fluctuations have an effect on current account balance and the amount of debt service repayable on foreign denominated loans. The Kenya shilling weakened against major currencies in 2020. An increasing current account deficit occasioned by a reduction in exports and increased imports will lead to further depreciation of the Kenya Shilling. This is expected to lead to costly foreign debt repayment obligations in servicing of foreign denominated loans in the medium term.	by the presence of a large informal sector, high poverty rate and unemployed youth population ▪ IMF estimates show that the level of estimated GDP at the end of 2021 in both advanced and emerging markets is expected to remain below the pre-virus baseline, highlighting the long-term effects of the pandemic. ▪ For Kenya, according to the World Economic Outlook, IMF, 2020, it is estimated that economic growth could contract to 1.0% comparable to the 0.2% of post-election violence, drought and global financial crisis. ▪ Decline in international trade, travel and domestic consumption is further projected to suppress revenue from consumption taxes on which the majority of low- and middle-income countries rely ▪ Further outlined risks with regard to Inflation, interest and exchange rates coupled with increase in fuel prices is expected to have a negative tall on the economy Recommendations The Institute recommends as follows; a) Boost local production and manufacturing: The country has an opportunity to boost local manufacturing industries. PPEs for the protection of frontline healthcare workers as well as the general public, many apparel manufacturers including SMEs in the Textiles and Apparel sector have taken to producing fabric masks and protective gowns to deal with the pandemic. b) Notably, RIVATEX in Eldoret and KICOTEC in Kitui have stepped up production of face masks and are receiving support from the government through the COVID-19 fund to enable continued production
Para 11: value of Per Capita	According to the Draft BPS 2021, Per capita income rose from Ksh 113,539 in 2013 to Ksh 204,783 in 2019, a compounded annual	Since majority of Kenyans are employed in the informal sector, the Institute recommends as follows;

Income and Job creation	growth rate of 11.5 percent. This enabled generation of around 827,000 new jobs per year in the period 2013 - 2019 up from 656,500 new jobs per year in the period 2008 -2012 This demonstrates that the informal sector is the greatest employer in Kenya. This brings to the fore the problem of shadow economy whereby taxes are not paid, and regulations not strictly followed for cash transactions. A report by Financial Sector Deepening (FSD) shows that 96% of businesses in Kenya receive their payments in cash. This could be alluded to two things: One, the fact that 95% of the country's businesses and entrepreneurs operate within the informal sector and only 34.4% of them owning a bank account to run the business. The result, only 19% of registered trade is transacted digitally. Second, the preference for cash transactions with no receipts as a way of increasing profit margins through tax evasion and competitive edge over formal sector, supported by low detection rates of such violations. Data from KRA also shows that only 4 million Kenyans are registered taxpayers against a working population of 31 million. There is need to lessen the tax burden placed on a small proportion of the population to run this economy for profitability, wealth creation and poverty alleviation.	a) Improve the regulatory environment for the informal sector to support stability and growth of MSMEs to overcome start-up challenges and contribute to economic development. b) Consider limiting cash-based transactions as a means to capture all business activities in the economy. c) KRA to device mechanism to capture data on informal sector for purposes of tax revenue given that so many jobs are created in this sector, yet it isn't considered in the expansion of tax base. d) Since the informal sector is growing at a rapidly faster rate than the formal sector, more research needs to be done to establish feasible data the sector's potential can be harnessed for economic growth. e) There's need to address MSMEs(firms) liquidity pressures by continued efforts to accelerate VAT refunds f) Ensure prompt payment of pending bills by Ministries, Departments, Agencies and County Governments to MSMEs to boost growth.
Para 41-43 Revenue Performance	According to the BPS 2021, revenue collection to December 2020 declined by 12.9 percent compared to a growth of 17.1 percent in December 2019. This decline is attributed to the difficult operating environment due to the Covid-19 pandemic which has adversely affected revenue performance from March 2020. As at end December 2020, the cumulative total revenue - inclusive of Ministerial Appropriation in Aid (AiA) amounted to Ksh 810.6 billion against a target of Ksh 907.7 billion, with shortfalls recorded in both ordinary	The Institute recommends the following: a) **Predictable Tax Regime through an overarching tax policy:** for sustained revenue collection b) **Revenue collection:** there is need for stronger strategies to enhance revenue collection such as sealing existing tax loss loopholes and widening the

revenues (Ksh 75.8 billion) and Ministerial A-I-A (Ksh 21.3 billion).

Further analysis of performance per tax head, indicated a drop in corporate tax confirming sluggish economic growth. Over the years, contribution of corporation tax to total tax revenue has been on a decline as highlighted below:

Contribution to total tax revenue

FY	Estimated Ordinary Revenue (in KES billion)	Actual Ordinary Revenue (in KES billion)	Deviation (in KES billion)	% Deviation of actual ordinary revenue from original estimates
2015/16	1,184.37	1,152.54	31.83	2.7%
2016/17	1,311.32	1,306.57	4.75	0.4%
2017/18	1,489.63	1,365.06	124.57	8.4%
2018/19	1,588.13	1,499.76	88.37	5.6%
2019/20	1,615.38	1,573.42	41.96	2.6%
2020/21	1,523.50	NA	NA	NA
Average				3.9%

Source: Quarterly Economic and Budget Review 4th quarter 2020 and BROP 2020

Lower, corporate profits, declining consumption & increases in unemployment will cause declines in revenue from corporate income taxes, goods and services taxes and personal income taxes

The measures taken in response to the Covid-19 pandemic are expected to contribute further to a decline in taxes on income, profits and capital gains (income tax).

tax base. This may ensure that the country can comfortably be able to service its public debt as well as meet the revenue targets.

c) **Green" the Tax System:** Use the tax system to promote sustainable & equitable growth esp.in the context of the COVID-19 crisis & increased impact of global warming and climate change

Para 47-55: Fiscal Policy	The reduction in the fiscal deficit will reduce the pace of growth of the public debt. In FY 2020/21, The BPS 2021 projects fiscal deficit to decline from 7.8 percent of GDP in FY 2019/20 to around 3.6 percent of GDP by FY 2024/25. It is worth noting that the Draft BPS 2021 projects expenditures as a share of GDP to decline from 25.2 percent in the FY 2019/20 to 25.9 percent in the FY 2020/21 and further to 21.6 percent in the FY 2024/25. On the other hand, revenues as a share of GDP are projected at 17.0 percent in FY 2019/20, 16.4 percent in FY 2020/21 and 17.7 percent in FY 2024/25.	The Institute supports the proposals contained in the World Bank's Economic Update: a) There is need to re-ignite private sector led growth and ensure that fiscal consolidation is growth friendly b) Fiscal consolidation needs to be recalibrated towards recurrent spending such as - lowering of transfers to state owned enterprises, cleaning and regular audit of the payroll register, keeping wages, salaries and allowance adjustments in line with recommendations from the Salaries and Remuneration Commission (SRC) c) There is need for Parliament to assess the uptake and impact of already established austerity measures by the National Treasury in 2019
Modernized Income Tax Bill	This matter was captured in the previous Budget Policy Statements for FY 2019/20 and FY 2020/21. However, it has been omitted in the current Budget Policy Statement The Institute is concerned with the delay in the enactment of the Income Tax legislation. This has been pending for the last three years. ICPAK recognizes that legislation, including subsidiary legislation, traces its foundation on an agreed policy framework, to establish the most appropriate approach to resolve a problem. As such, the review of the Income Tax Act should be predicated on an overarching Tax policy as a precursor to the review of the law. The Institute is of the opinion that enactment of a modernized income Tax Legislation is critical due to the following: a) The Kenyan Economy has diversified and grown since 1975	The Institute proposes the following: a) The Bill was at an advanced staged and therefore efforts should be made to expedite tabling of the Income Tax Bill to Parliament. b) Commence initiatives to finalize an overarching tax policy for Kenya.

	when the current Act was enacted b) Emergence of digital economy and its implication to tax revenue c) International taxation issues -such BEPS and transfer pricing Kenya has a new Constitution and attendant laws that require modernization of income tax	
Para 103: Food and Nutrition Security The Government will continue to implement measures in the agricultural sector in order to ensure food and nutrition security.	According to Global Hunger Index (GHI) 2020, Kenya is classified as a food deficit country. The report ranks Kenya at number 84 out of 107 countries with a score of 23.7. This means that Kenya has a level oof hunger which is serious (Alarming 35.0–49.9, Serious 20.0–34.9, Moderate 10.0–19.9, Low ≤ 9.9) Currently, close to 1 in every 3 Kenyans (14.5 million) suffer from chronic food insecurity and poor nutrition annually. In addition, about 30% of the children countrywide are stunted, 13% moderately wasted, while 7% are moderately underweight. Approximately 20% of the population does not attain the minimum dietary requirements to sustain a healthy and productive life. The Government has been implementing various measures such as the Agricultural Sector Transformation and Growth Strategy, the successful reforming of the Agricultural Inputs Subsidy Programme, expansion of irrigation schemes, supporting large-scale production of staples, implementing programmes to support smallholder farmers and promoting the use of appropriate farming techniques. Agricultural sector has faced numerous challenges lowering its productivity in the recent years. Stagnation in productivity has been largely due to frequent droughts in parts of the country, high costs of domestic food production due to high costs of inputs especially fertilizers and farming equipment, rural-urban migration of young energetic population, low purchasing power for large proportions of the population due to high poverty levels, lack of incentives and lack	The Institute recommends the following: a) The sector legal, policy and institutional capacity should be strengthened in realization of core mandates. b) Access to agricultural financing and affordable credit- Lack of finance for agriculture compromises increasing production and investment in value addition activities in agriculture.. c) Continuous training and research in the field of agriculture- Facilitate Refresher training for extension officers/ CPD programmes for staff and farmers supervised by departments of agriculture and cooperatives. d) Diversification of Agricultural Production: Narrow base of agricultural products, especially exports lead to high vulnerability of incomes to the international market trends. Farmers should be educated on urban farming and support services for agricultural exports. e) Specialization in areas of comparative and competitive advantage: County specialization in areas of comparative advantage for example Narok specializes on wheat production while Trans-Nzoia on maize farming.

	of diversified agricultural activities.	f) ***Improving rural infrastructure***: Performance of the sector is affected right from production to marketing domestically and internationally. Rural roads, markets and transport systems that result in high transaction costs for farmers and inaccessibility to input and output markets should be fixed for food security. g) Increase funding levels especially to the sectors that contribute to food security such as Agriculture and manufacturing. Exchequer releases should be within the prescribed timeline to facilitate implementation of development programs. Agriculture should be at least 10% as per Maputo Declaration
Para 115: Universal Health Coverage	The government has made plausible steps in Universal healthcare. It has rolled out the UHC insurance scheme which will consolidate all the state sponsored schemes into UHC scheme (HISP OVC, Elderly, PWD, Linda Mama, Edu-Afya). As part of the International Health Regulations to contain COVID-19 pandemic, the health sector increased diagnostic capacity for COVID-19Pandemic in twelve counties. At the same time 24,282 complete Personal Protective Equipment (PPEs) were distributed, 7,411 Isolation beds and 319 ICU beds were setup across 47 counties to contribute towards achievement of UHC and medical tourism beyond the COVID-19 pandemic. For the FY 2020/21, the prioritized programs and projects aim at achieving improved accessibility, affordability of health services, and reduction of health inequalities and optimal utilization of health services across the sector. During the MTEF period FY 2021/22-2023/24, the sector has been allocated Ksh 119.9 billion, Kshs.110.3billion and Kshs. 121.1billion in the FY 2021/22, 2022/23 and 2023/24 respectively. The recurrent	a) The government needs to supplement the treatment of COVID-19 for all patients. Such a measure will ensure that some of the most vulnerable members of societies such as slum dwellers and low-income earners are guaranteed treatment. The cost of treating COVID-19 is extremely expensive, furthermore, the economic disruption due to the lockdown measures has interfered with the incomes of many people. b) Ensuring that at least 70% of NHIF disbursements go to public health institutions and service providers; with 30% going to the private sector. This will help build capacity of public health institutions as opposed to utilizing public funds to support private entities. According to the 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.

	expenditure allocation for the same period is Kshs. 70.7 billion, Kshs. 72.6 billion and Kshs. 75.1 billion for recurrent expenditure for financial years 2021/22, 2022/23 and 2023/24 respectively. The development expenditure allocation for the same period is Kshs 49.2 billion, Kshs. 37.6 billion and Kshs 46.0 billion respectively. ***Key concerns*** ▪ According to the Ministry of Health (MoH Kenya) (2019), only 11% of Kenyans are covered by the NHIF insurance program leaving most of the population (89%) without the government-subsidized health plan. With over 70% of the Kenyan workforce working in the informal sector, most of them are either not eligible or cannot be able to afford the premiums set by the government to maintain health insurance provision. ▪ Financing management of communicable and non-communicable diseases such as Malaria, TB, and HIV/AIDS in Kenya is largely dependent on donor funds from international organizations, non-governmental entities, and contributions from other countries. This has led to under-investment of the health sector, weakening health systems and structures, and raising concern as to whether the public health infrastructure can withstand a potential overburden in the wake of the COVID-19 pandemic with the majority of Kenyans facing uncertainty due to lack of health coverage. ▪ The cost of COVID-19 testing in Kenya has not yet been included in the NHIF with only a few people living in hotspots areas receiving free COVID-19 testing with the rest having to pay an estimated cost of US$100 (Ksh 10 825.00) ▪ Kenya's budgetary allocation to health has averagely stood at 9% despite signing the Abuja declaration, which requires signatories to allocate 15% budgetary allocation for health. Most of this is	c) There is need to increase the health budgetary allocation to the recommended 15% of the total annual budget as recommended by the AU under the auspices of Abuja declaration. This will go a long way in increasing recruitment and welfare of health personnel to enable efficiency in the health sector. It will also solve the problem of periodic strikes and brain drain that has become a new normal in the health sector by ensuring health workers are well paid, offered proper protective gear that they need to work in a safe environment d) Strengthen accountability in the utilization of funds and resources that are allocated in the health sector. The perpetrators of mismanagement of healthcare provision funds should be brought to book and such funds recovered. e) Invest in Medical Research: Counties should support medical research such as Cancer research and studies on NCDs.

absorbed as recurrent expenditure leaving little room for the development of health facilities and the acquisition of medicine and equipment.

The greatest challenge is corruption. The most recent case is the mismanagement of Covid-19 funds that produced Covid billionaires including the disappearance of donation from the Chinese Philanthropist, Jack Ma.

Para 208: Realism of revenue forecast --- it is ambitious and leads to budget deficit

In the FY 2021/22 revenue collection including Appropriation-in-Aid (A.i.A) is projected to increase to Ksh 2,033.9 billion (16.4 percent of GDP) up from the estimated Ksh 1,849.2 billion (16.6 percent of GDP) in the FY 2020/21.

The Institute is concerned with the accuracy and the ambitious nature of National Treasury's revenue projections. This exacerbated by failure by the Tax Authority to meet the set targets over the years.

TABLE 1: Comparison In Budgeted And Actual National Government Revenue Between *FY 2015/16 AND FY2020/21*

FY	Estimated Ordinary Revenue (in KES billion)	Actual Ordinary Revenue (in KES billion)	Deviation (in KES billion)	% Deviation of actual ordinary revenue from original estimates
2015/16	1,184.37	1,152.54	31.83	2.7%
2016/17	1,311.32	1,306.57	4.75	0.4%
2017/18	1,489.63	1,365.06	124.57	8.4%
2018/19	1,588.13	1,499.76	88.37	5.6%
2019/20	1,615.38	1,573.42	41.96	2.6%
2020/21	1,523.50	NA	NA	NA

According to ICPAK's, "Kenya Revenue Analysis Report, 2015". The role of Parliament is critical in providing oversight over the revenue projections. According to the Parliamentary report on the Budget Policy Statement, the Budget and Appropriations' Committee expressed concerns over the revenue projections provided by the executive in the FY 2014/2015 which the Committee thought of as ambitious and not backed by economic fundamentals.

This calls for a holistic approach and a review of economic data and macroeconomic trends when setting revenue targets.

ICPAK proposes that a clear, consistent and standard forecasting model should be adopted by the country as a basis for determining revenue projections based on either inflationary adjustments or the average revenue performance over the years.

In order to enhance tax administration and seal leakages, the Institute proposes the following:

a) proper controls and monitoring of taxpayer activities through a single identifier will lead to enhanced efficiency in tax administration.
b) Review the penalty system on tax evasion
c) Develop a change management strategy to address

	<table><tr><td>Average</td><td></td><td></td><td></td><td>3.9%</td></tr></table>*Source: Quarterly Economic and Budget Review 4th quarter 2020 and BROP 2020* The table above indicates that the Kenya Revenue Authority has persistently failed to meet its revenue targets, with an average deviation of 3.9%. The highest deviation was experienced in the FY 2017/18 at (8.4%) with the least deviation growth of 0.4% being registered in 2016/17. The implication of the failure to meet revenue targets is that the national government would either forego offering the services equal to the deviation or incur an unplanned public borrowing hence altering the original plans contained in the annual budgets.	income tax matters d) Leverage on simplified technological solutions to enhance integration of taxpayer information systems.
Expenditure projections: Para 209	While the Government expenditure as a share of GDP for FY 2021/22 is projected to decline to 24.3 percent, the overall nominal expenditure and net lending is projected at Ksh 3,010.0 billion from an estimated Ksh 2,864.5 billion (25.6 percent of GDP) in the FY 2020/21 budget. The expenditures comprise of recurrent of Ksh 1,986.0 billion (16.0 **Key issues of concern** The pandemic has led to a significant fiscal financing gap as revenue collections drops and expenditure pressures increase The government has stepped up spending to strengthen the capacity of its healthcare system to cope with COVID-19 infections and to contain the spread of the epidemic. Overall, this has resulted in a large financing gap, estimated at about 1.5 percent of GDP in FY2019/20, and public debt has increased to about 63.2 percent of GDP (from about 62.1 percent of GDP in FY2018/19) There is need to support these efforts by further expenditure	The Institute recommends the following: a) While the COVID-19 crisis persists, the Government of Kenya (GoK) should continue to provide an adequate but temporary expenditure surge to the health sector to meet increased demand for health services and to contain the spread of COVID-19 b) Wage Bill Management; Improved wage bill management and allowances could yield 0.2 percent of GDP in expenditure savings. This includes regular cleaning of the payroll to eliminate ghost workers, a review and rationalization of the number of allowances, and improved functionality of government payroll management systems could make a significant contribution to reducing expenditure in this area. c) A review of numerous personal allowances, preventing over-use of travel related allowances, as well as discontinuation of unnecessary allowances forms the bulk of these savings.

<table>
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<td>efficiency measures, complemented by additional revenue mobilization and strengthened debt management.</td>
<td>d) Framework agreements and centralized/consolidated procurement for homogeneous goods and services in government procurement could also deliver approximately 0.9 percent of GDP in fiscal savings. This strategy optimizes government's purchasing power and could deliver massive expenditure savings</td>
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<td>Para 210 and 211

Deficit financing</td>
<td>The fiscal deficit (including grants), is projected at Ksh 930.0 billion (7.5% of GDP) in FY 2021/22 against the estimated overall fiscal balance of Ksh 966.6 billion (8.7%t of GDP) in FY 2020/21.

The fiscal deficit in FY 2021/22, will be financed by net external financing of Ksh 267.2 billion (2.2% of GDP), and net domestic borrowing of Ksh 662.8 billion (5.3% of GDP).

The Institute is concerned that the debt portfolio continues to balloon and the current borrowing strategy, as indicated under the approved Medium Term Debt Management Strategy 2021, is pegged on the assumption that fiscal consolidation will reduce the overall cost of debt and safeguard debt sustainability.

However, given the impact of Covid-19 pandemic on revenue mobilization, exports, production and other contingent liabilities vis-à-vis increasing expenditure demands, there is a high likelihood that fiscal consolidation measures will be hard to adhere to. Thus the country's debt distress levels could move from moderate to high.

Kenya's net external and domestic borrowing
<table>
<tr><td>Fiscal Year</td><td>FY 2018/2019</td><td>FY 2019/2020</td><td>FY 2020/2021</td><td>FY 2021/2022</td></tr>
<tr><td>Net External financing</td><td>214.7 billion</td><td>306.5billion</td><td>247.3 billion</td><td>Ksh 345.5 billion (2.8 percent of GDP)</td></tr>
</table>
</td>
<td>The Institute proposes the following measures;
a) Implementing the budget taking into consideration financial and information requirements required for a successful medium-term fiscal policy implementation,
b) 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. We must also reign in on corruption that threaten service delivery and could derail realization of the Big Four Agenda.
c) Kenya should diversify its exports and the market for the same to increase its foreign exchange reserves and hence minimize on the exchange rate risk.
d) Rely more on concessional loans and grants rather than on expensive bilateral loans that are non-concessional, thus reduce high interest rates payments, averting possibility of debt overhang.
e) Implement government-to-government partnerships and other Public Private Partnerships (PPP) models based on independent cost-benefit, Cost-Effectiveness and value-for-money studies, to prevent expensive low priority bilateral, donor-led investments funded by debt.
f) Diversifying the currency mix in which debt is denominated to reduce exposure to foreign exchange risks.
g) Enhance debt transparency and accountability in order to enhance management of public debt in Kenya.
h) An audit of current projects is critical to wipe out white</td>
</tr>
</table>

Net Domestic Borrowing	368.8 billion	277.5 billion	318.9 billion	592.2 billion (4.7 percent of GDP).

BPS 2018/2019/2020/21

Kenya's public and publicly guarantee debt stock is projected to increase over the medium term owing to the impact of low generation of domestic revenue and pressure from expenditure on ongoing programs

Data from the Public Debt Office and the National Treasury indicates that As at June 2020, the national debt stock had reached Kshs. 6.6 trillion (Kshs. 873 billion or 15% increase) and is projected to reach Kshs. 7.5 trillion by June 2021.

Debt servicing expenditures are estimated to utilize up to 49% of ordinary revenues in FY 2020/21. This implies that at best, only approximately 51% of nationally raised revenues will be available for FY 2020/2021 budget implementation.

The Institute is concerned that the current public finance management framework has capped the national debt stock at Kshs. 9 trillion. This means that with the current borrowing rate, it is anticipated that there will be little borrowing space beyond three years.

Public Debt Servicing as a Percentage of Ordinary Revenue For The Period Between *FY 2015/ & FY 2020/21*

FY	Total Public Debt Service (in KES	Ordinary Revenue (in KES billion)	(Public debt service/ordinary revenue) in %

elephant projects. A clear framework for tracing and auditing debt financed projects is needed for equity.

i) **The government should also consider the following measures to enhance public financial management.**

(i) ***Expenditure Vs Revenue:*** In the past few years, public expenditure has been growing at a faster pace than revenue. The major outcome has been huge budget deficits. We should cut wasteful expenditure, increase the efficiency of spending, and free up resources that can be redirected to where they are most needed to combat the crisis and protect livelihoods

(ii) ***Implementation of budget monitoring reports:*** Act on Auditor General and Controller of Budget recommendations in respect to public debt .

(iii) ***Audit of the Public Debt Register:*** Establishing the authenticity of the public debt register including the true debt sustainability position is critical. Government sources and the world bank continue to give conflicting statistics of Kenya's debt situation.

(iv) ***Accounting for debt:*** The public is not sure on the accuracy and completeness of the debt register. National Treasury and Central Bank of Kenya have conflicting statistics on national public debt. The Auditor General in its Report for the Financial Year 2017/18 pointed out

	billion)		
2015/16	397.03	1,184.37	33.5%
2016/17	466.51	1,311.32	35.6%
2017/18	621.76	1,489.63	41.7%
2018/19	870.62	1,588.13	54.8%
2019/20	696.55	1,615.38	43.1%
2020/21	904.70	1,523.50	59.4%

Source: Programme Based Budgets 2015/16 -2020/21 and Quarterly Economic and Budget Review 4th quarter 2020

The table above indicates a growing rate of public debt servicing as a percentage of ordinary revenue. It is expected that in the current FY 2020/21, for every KES 100 collected as tax, KES 59 will be used to repay public debt leaving only KES 41 for other national government functions. This indicates that the country is in a vulnerable position due to the high debt repayment.

misstatements and differences between the financial statements and the confirmed balances. Further, Further, a comparison of the statement of receipts and payments and the ledger for the period under review reflected different account balances as indicated below:

Item Description	Financial Statement Balance KSh.	Ledger Balance KSh.	Variance KSh.
Interest Payments on Foreign Borrowings	84,357,487,111	84,725,600,971	368,113,860
Principal Repayment on Domestic Loans	111,700,845,296	294,836,376,343	183,135,531,047
CBK -Pre-1997 Loans	1,110,000,000	2,220,000,000	1,110,000,000
Repayment of Principal from Foreign Lending and On-Lending	141,532,524,729	141,360,882,[illegible]66	[illegible]41,763
Exchequer Releases	517,161,876,534	-	517,161,876,534

Source: Auditor General Report for National Government-FY 2017-2018

Paragraph 249. Education sector	The Sector has been allocated Ksh 487.7 billion, Ksh 503.9 billion and Ksh 517.4 billion for recurrent expenditure for financial years 2021/22, 2022/23 and 2023/24 respectively. The development expenditure allocation for the same period is Ksh 20.9 billion, Ksh 17.8 billion and Ksh 19.8 billion, respectively. ▪ In a Devolution Survey 2020 conducted by the Institute, several challenges were documented that are impeding the successful delivery of educational services, especially at the county level: ▪ high turnover rates for Early Child Development Education (ECDE) teachers ▪ low funding for ECDE, inadequate investment in succession planning within departments, low and unclear scheme of service for ECDE teachers, ▪ Inadequate infrastructure to support the learning of children living with disability ▪ inadequate number of trained instructors in most polytechnics.	The Institute recommends the following: a) increasing capitation for ECDE teachers b) Employment of skilled and qualified instructors in polytechnics; c) putting in place monitoring and assessment of performance (quality assurance) to ensure there is no laxity on the part of those employed to offer services to the learners
Para 275: County Government's Own Source Revenue	According to the BPS 2021, the County Governments' actual Own Source Revenue (OSR) collection for FY 2019/20 was Ksh. 35.8 billion against a target of Ksh. 54.9 billion representing 65.2 percent of the annual target. This was a drop in absolute terms from Ksh. 40.3 billion collected in FY 2018/19 that was 74.8 percent of the annual OSR target by the Counties. The County Governments Budget Implementation Review Report for FY 2019/20 by the Controller of Budget indicates that only five Counties surpassed their revenue targets in the FY 2019/20. (Homa	The Institute recommends the following to support Own Source Revenue: a) **Revenue forecasting and mapping**: a clear, consistent and standard forecasting model needs to be adopted by the country as a basis for determining revenue projections. There is further need for a comprehensive analysis and mapping of counties' revenue potential. b) **Revenue collection systems**: There is need to standardize revenue collection management systems

Bay, Taita Taveta, Lamu, Machakos and Bomet)

Key Concerns

- Counties collect much less revenue than the estimated revenue base giving them less resources to deliver on required services.
- The shortfall in equitable resources from the National Government and low collection of own source revenue is a major constraint to delivery of services at the county level.
- Devolution has not yet translated to the envisioned equitable overall development in the country and this is partly due to the wastage brought about by inadequate accountability and lack of transparency in the management of resources.
- Over the years, counties have not been meeting their targets in terms of revenue collection. A study by World Bank demonstrates that counties have been collecting way below their potential. There is need to optimize on OSR potential to avoid overreliance on the National Government equitable share allocation.

Counties revenue targets, actual and potential from 2013/14- 2019/20

	Revenue		Potential	
FY	Revenue targets	Actual revenue collection	At 35%	At 94%
2013/14	54,207,798,427	26,296,089,510	35,499,720,838.50	51,014,413,649.4
2014/15	50,376,859,951	34,468,720,354	46,532,772,477.90	66,569,317,486.7
2015/16	50,539,746,840	36,905,771,161	49,822,791,067.35	71,597,196,052.3
2016/17	57,664,858,199	32,522,875,093	43,905,881,375.55	63,094,377,680.4

across counties for uniformity and easy reporting. In addition, counties should strive to automate revenue collection systems to seal loopholes and leakages. This standardized ICT-based system prescribed should provide real time revenue information in a consistent manner to enable consolidation and analysis, as well as periodic reports for use by the National Treasury, the Controller of Budget, the CRA and the Office of the Auditor General, and also easily accessible by the general

c) **Collaboration with KRA**: To enhance efficiency and effectiveness in revenue collection and administration, county units should consider engaging KRA for technical support.

d) **Public Participation in Revenue collection:** Counties should empower citizens with revenue information through revenue clinics- for citizens to understand the importance of taxes and charges to county service delivery.

e) County Treasuries should continuously review the performance of revenue collection vis-à vis targets and shall include a status report in the Quarterly and Annual reports which shall be published in various media.

2017/18	49,219,014,037	32,491,694,261	43,863,787,252.35	63,033,886,866.34
2018/19	53,863,582,921	40,304,833,142	54,411,524,741.70	78,191,376,295.48
2019/20	57,824,660,000	37,380,440,000	50,463,594,000.00	72,518,053,600.00

Source: COB various issues and estimate for 2019/20, World Bank Study

<table>
<tr>
<td>Para 278: Pending Bills</td>
<td>A special audit by Office of the Auditor General (OAG) verified eligible pending bills by County Governments amounting to Ksh. 51.2 billion as at 30th June 2018. Another Ksh. 37.7 billion worth of pending bills was found to be ineligible for payment due to lack of documentation to support services rendered or work done.

A report by the Controller of Budget (CoB) indicates that by 10th November 2020, the Counties had settled Ksh. 39.07 billion (76.2% of the eligible pending bills) leaving an outstanding balance of Kshs. 12.22 billion.

According to the Kenya Enterprise Survey 2018, approximately 12 percent of the 1,001 firms surveyed have had a contract with government that was in arrears. Pending bills if allowed to persist, could reduce firm liquidity and cause postponement of new investments. It could also increase firms' default rate (in business to business transactions), which can be associated with a rise in non-performing loans for the banking sector.

As at 24th November 2020, the National Treasury had cumulatively released to County Governments Ksh 71.85 billion as their equitable share of revenue raised nationally and Ksh 5.55 billion as conditional grants for FY 2020/21.

The issue of pending bills is a significant bottleneck facing various sectors of the economy. There is need for the government to continue with the efforts of clearing the legitimate pending bills that were</td>
<td>The Institute recommends the following:

a) The National Treasury should consider accrual accounting as opposed to cash accounting which presents challenges in terms of monthly and annual financial reporting on pending bills and other liabilities.
b) There is need to develop a database of all owed dues to counties and MDAs, and assess the multiplier effect/impact to the economy
c) The Institute supports recent efforts by the National Assembly to amend the Public Procurement and Assets Disposal Act 2015, compelling the National and County Governments to pay suppliers and contractors within 30 days.

d) Legislative Proposals

The Institute proposes Amendment to 17 of Public Finance Management Act 2012.

Amend 8(b) to read "by inserting the following new subsection immediately after subsection (7)—

"(8) (a) six months prior to a general election, no procurement shall be carried out by the national and county governments, or their respective entities, in respect of their</td>
</tr>
</table>

	accrued.	*respective development votes unless with the approval of the National Treasury".* *(8) (b) All pending bills incurred by the national and county governments, or their respective entities, in respect of their respective development votes, shall be cleared not later six months prior to a general election* This amendment will help curb pilferage of public resources during an election year and increase of pending bills during the same period.
Para 285: County governments Equitable Share	The Third Basis for the allocation of the National Revenue to the County Government was approved by Parliament in September 2020 on condition that its implementation would be preceded by 53.5 billion increase in counties' equitable revenue share. The National Treasury however proposes moderate adjustment of 10 billion to yield a new baseline allocation of Ksh 326.5 billion. Sustained underperformance in ordinary revenue and economic and fiscal repercussions of the Covid-19 pandemic have been cited for this proposal. In addition, four conditional grants have been converted to unconditional allocations to be disbursed to the counties as part of their equitable share. The Commission on Revenue Allocation recommends that for the financial year 2021/22, out of a projected shareable revenue of Kshs. 1,813.7 billion, and the Road Maintenance Levy Fund revenue projection of Kshs. 65.13 billion, national government be allocated Kshs. 1,443.7 billion and County governments Kshs.370 billion. The Institute commends National Treasury, Commission on Revenue Allocation and Council of Governors for unanimously agreeing on equitable share of Ksh. 370Billion FY2021/222 at the 14th Intergovernmental Budget and Economic Council (IBEC) meeting.	Parliament should consider the following: a) Consider amending Section 37 (9) of the PFM Act 2012 to enable prior enactment of DORA before Appropriations Bill. b) National Assembly to consider, expedite scrutiny and adoption of these reports from the Auditor General. This will enable not only the revenue share to rely on the most recent and approved financial statements, but also enhance accountability of public funds on a timely manner. c) The Institute recommends further amendment to Section 191 of the Public Finance Management Act **The National Assembly shall within three months after receiving an audit report adopt and approve the report;** **In the event that the audit report is not adopted and approved by the National Assembly within three months, it shall be deemed as the most recent audited accounts for purposes of determining**

	This will be the first time in many years where we'll not have a contested division of revenue process	**sharable revenue.** Therefore, the National Assembly must expedite its process of considering the audited financial statements as submitted by the Auditor General

KENYA PAEDIATRIC RESEARCH CONSORTIUM (KEPRECON)

2021 Budget Policy Statement Analysis of the Health Sector

1. Budgetary Allocations

Economic Recovery Strategy of 2020 points out the health sector as a key pillar towards enhancing the health care system. It projects increased budgetary allocation for recruitment of 5000 health workers and expansion of bed capacity in hospitals; at a total cost of KES1.7 billion. In addition, the ERS targeted to expand and upgrade the existing level 4 and level 5 hospitals to provide specialized treatment and ease the pressure in the existing facilities that provide similar services. In addition, the BPS expresses the intention of the government to roll out Universal Health Coverage (UHC) drawing from lessons learnt from the pilot counties.

	2020-21	2021-22	Growth	% growth'
Sub Total	111,702.70	119,855.50	8,152.80	7%
Rec Gross	64,450.70	70,686.50	6,235.80	10%
Dev Gross	47,252.00	49,169.00	1,917.00	4%

Source: 2021, BPS

With the inflation estimated at 5 percent as indicated in the BPS, it is unlikely that the plans outlined in the ERS and the BPS will be realized and equally maintain the same level of basic services in the sector. The overall budget grows by 7 percent as indicated the table above, with recurrent and development budgets growing by 10 percent and 4 percent, respectively.

	Allocation	Resource Requirement	Financing Gap
Sub Total	119,855.50	195,718	(75,862.50)
Rec Gross	70,686.50	113,257	(42,570.50)
Dev Gross	49,169.00	82,461	(33,292.00)

Source: Health Sector Report 2020, BPS 2021

To effectively finance the budget priorities of the health sector, KES195 billion was submitted as the sector requirement in the Sector Report, while the ceiling allocated only meets 61 percent of that budget. The analysis above reveals a KES42.6 billion gap in financing of the recurrent expenditure of the sector and KES33.3 billion gap for development budget.

Recommendations

- The sector ought to come adopt the resource allocation criteria outlined in the sector report to ensure that services that are directly linked to strengthening of health systems are allocated resources first. The Ministry of Health (MoH) could also consider rescheduling capital expenditure such as construction of a Kidney Institute to free-up resources that will revamp the health sector following the COVID-19 pandemic that has strained the health facilities and the human resource across the country.

- With the anticipated roll out of COVID-19 vaccine, the Budget Policy Statement ought to also outline the policy imperatives that the ministry will consider ensuring coordinated interventions with the county governments that provides immunization services to a larger extent.
- The Health Sector Report 2020 in addition, shows that the sector has KES49 billion on pending bills despite spending 114 percent of its overall budget allocation in 2019-20, seemingly illustrating the fiscal constraints facing the sector and the need for the MoH to consider more deliberate expenditure prioritization criteria for the sector and for the Parliament to increase the ceiling for the sector and expand budgetary allocations in real terms to reduce out of pocket spending by citizens.

2. Management of Equipment Services

Table 10: Division of Revenue Raised Nationally FY 2017/18 - 2021/22 (Ksh Million)

Type/level of allocation	2017/18	2018/19	2019/20	2020/21	2021/22
National Government	1,247,412	1,367,069	1,524,916.5	1,553,668	1,398,799
Of which:					
Free maternal healthcare					
Leasing of Medical Equipment	4,500	9,400	7,000	6,205	7,205
Supplement for construction of county headquarters	605	605	300	300	332
Equalization Fund	7,727	4,700	5,760	6,532	6,825
County equitable share	302,000	314,000	316,500	316,500	370,000
Total shareable revenue	1,549,412	1,681,069	1,877,176	1,856,700	1,775,624

Source: 2021, BPS

The Leasing of Medical Equipment expenditure is expected to increase by KES1 billion to KES7.2 billion in 2021-22. The agreement that is shrouded in opaque agreements and debited on county governments allocation will see each county deducted KES153.3 million. The intention of the MES was to ease the burden to counties on provision of specialized services and ensure that the cost of health care for patients was kept low. The allocation pattern to MES however reveals that the design of this project is not informed on the disease burden and health infrastructure needs of different counties. It is further noted, that while MES was supposed to install, train users and provide maintenance, in some counties this equipment is unused due to lack of trained personnel to operate them or someone to replenish supplies needed to keep them functioning. The Senate Report on the 2019 BPS had also called for suspension of further payment to the Leasing of Medical Equipment until there is full disclosure of its costs.

Recommendations

Parliament should move to suspend further expenditure on this programme until the issues raised on its configuration and transparency, are addressed to ensure that citizens receive better health outcomes from expenditure incurred on this programme.

The Health Committee in Parliament should task the ministry to provide a report on how this project seeks to support the realization of UHC as currently structured, seeing that in most facilities, the equipment is underutilized but continues to consume the limited resources available.

3. Universal Health Coverage Insurance Scheme and NHIF schemes

NHIF reforms sought to ensure that as a social health insurer, it is responsive to the needs of the people. However there have been inequalities in services and facilities access across different regions with statistics indicating that there are only 16 percent of the Kenyan population registered under the scheme. The details of the UHC scheme proposed in the BPS remain unclear on how it is linked to the current NHIF scheme. As studied have shown, the reforms of NHIF towards achieving UHC are well intentioned but the design attributes of how the reforms are structure could compromise the achievement of providing universal financing risk protection to citizens.

Recommendations

- More information should be provided by the MoH regarding establishment of the UHC insurance scheme. This includes how vulnerable groups, who are key targets to this scheme shall be identified to guarantee equity and sustainability of the scheme.
- It is also critical for the ministry to consider dissemination of clear and adequate communication of the benefits package across different citizens groups before this scheme is rolled out.
- The new UHC scheme and NHIF should align the design and implementation with strategic purchasing actions such as contributions and benefits package that strengthen the health system and increase citizens access to services.
- It would also benefit the entire health system, if a report on the pilot phase of the UHC is availed to redesign the scaling up to other counties and identify the services that have been mostly sought in the increased hospital visits.
- The current UHC model is more targeted on specialized curative services other than preventive and promotive health services and there is need to focus on level one health care service provision targeting households and communities. Community health is a critical driver of UHC and without prevention interventions UHC is not attainable as there will be increased disease burden thus overwhelming the health care system.

4. Multi sectoral dimension towards achievement of Universal Health Coverage

Policy imperative under the UHC seeks a Health approach including water, agriculture education, housing, environment and infrastructure. The BPS however does not explicitly demonstrate this interconnectedness and as such its realization remains a burden to the health sector only. There is also no precise role of the private sector in UHC roll out mentioned in the document, that could play a big role in supporting delivery of health services through supply of health commodities and medical supplies.

Recommendations

- Parliament should task the MoH government to collaborate more with the private sector and alternative medical practitioners to strengthen provision of health services especially in hard-to-reach areas. also seconds critical public health staff to nonstate facilities in specific cases, especially in under-served areas.
- Parliament should also ensure that the National Treasury and the MoH, provide a multisectoral approach to realization of UHC in respect social determinants of health in attaining the overall health goals.

SUBMISSION TO THE BUDGET AND APPROPRIATION ON THE 2021 BUDGET POLICY STATEMENT: SOCIAL PROTECTION, CULTURE, AND RECREATION SECTOR

Introduction

The Institute for Public Finance – Kenya (IPFK) together with Oxfam in Kenya wish to make the following submission on the Budget Policy Statement in relation to social protection.

Facts in Summary

- The 2021/2022 BPS reports having supported 1,233,129 households and individuals annually with cash transfers (833,129 Older Persons 353,000, OVC & 47,000 Person with Severe Disabilities) in the previous financial year and proposes to support 1,817,500 individuals annually with cash transfers (1,183,000 Older Persons 540,500, Orphans and Vulnerable Children & 94,000 Person with Severe Disabilities) in the FY 2021/2022.
- The baseline last year (2020/21) was KES 70,089.80 million for the whole sector (with an absorption rate of 96.24%) and the proposed resource requirement for 2021/2022 is KES 127,104.06 million though only **KES 71,316.8 million** has been designated as the resource ceiling.
- The department for Social Protection, Pensions & Senior Citizens Affairs has its budget ceiling for FY2021/22 reduced by KES 331.7 million from KES 33,604.40 million in FY2020/21 to KES 33,272.7 million in FY2021/22 as shown in Table 1.

Table 1: Budget Ceiling Social Protection, Culture and Recreation Sector

	2020/21			2021/22			2022/23			2023/24		
Vote/Program Details	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
Department for Development of the ASA	980.4	8,824.3	9,804.7	1,029.5	9,036.2	10,065.7	1,047.4	11,211.0	12,258.4	1,087.5	12,272.3	13,359.8
Department for Sports Development	1,241.5	14,155.6	15,397.1	1,338.6	15,144.6	16,483.2	1,279.0	15,964.0	17,243.0	1,312.0	16,304.5	17,616.5
Department for Culture and Heritage	2,679.7	43.1	2,722.8	2,749.2	54.6	2,803.8	2,729.7	80.8	2,810.5	2,810.7	115.0	2,925.7
Department for Labor	2,764.4	2,444.4	5,208.7	2,750.6	2,586.5	5,337.1	2,820.3	2,681.9	5,502.2	2,882.9	2,805.7	5,688.6
Department for Social Protection, Pensions & Senior Citizens Affairs	31,056.3	2,548.2	33,604.4	30,236.1	3,036.6	33,272.7	30,193.5	2,290.5	32,484.0	30,257.5	2,232.4	32,489.9
Department for Gender	978.0	2,374.0	3,352.0	1,030.3	2,324.0	3,354.5	1,038.1	2,114.0	3,152.1	1,067.2	2,570.8	3,638.0
Sector Total	39,700.3	30,389.6	70,089.7	39,134.3	32,182.5	71,316.8	39,108.0	34,342.2	73,450.2	39,417.8	36,300.7	75,718.5

Source: 2021 Budget Policy Statement

Our asks

- We seek clarification on how the Government proposes to provide for more cash transfers to beneficiaries (from 1,123,129 to 1,817,500) when the proposed allocation to the concerned department; the department for Social Protection, Pensions & Senior Citizens Affairs has been cut by KES 331.7 million.
- As the identification of beneficiaries, has been problematic for the Ministry of Labour and Social Protection (MLSP), we also seek clarification on how the MLSP proposes to identify additional beneficiaries? And especially people living with disabilities (47,000) who have received much less than the elderly (833,129) and the OVCs (353,000).
- Given that the sector does not get as much resources as it needs, we recommend that Social Protection (cash transfers) is prioritized and increased instead of reduced.

REPUBLIC OF KENYA
THE NATIONAL TREASURY & PLANNING

BRIEF BY THE CABINET SECRETARY TO THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET MONDAY 22ND FEBRUARY 2021

THE DIVISION OF REVENUE BILL (DoRB), 2021 AND THE COUNTY ALLOCATION OF REVENUE BILL, 2021

THE DIVISION OF REVENUE BILL, 2021

1. The Division of Revenue Bill (DoRB), 2021 proposes to allocate to County Governments Ksh.409.88 billion in the financial year (FY) 2021/22, which relative to the financial year 2020/21 allocation, reflects an increase of Ksh.53.5 billion or 16.9 %. This allocation comprises; equitable share of Ksh.370 billion; additional conditional allocations from the share of National Government revenue amounting to Ksh.7.53 billion; and additional conditional allocations from proceeds of loans and grants by development partners amounting to Ksh.32.34 billion.

County Governments' Equitable Share

2. The bill proposes to allocate County Governments' an equitable share of revenue raised nationally for the financial year 2021/22 of Ksh.370 billion. This is premised on Parliament having approved the third basis for allocation of the share of national revenue among the County Governments in September, 2020 on condition that the formula's implementation would be preceded by a Ksh.53.5 billion increase in the Counties' equitable revenue share.

3. The proposed County Governments' equitable share of revenue raised nationally for the financial year 2021/22 is arrived at by:

   i. adjusting the Counties' FY 2020/21 allocation (i.e., Ksh. 316.5 billion) by Ksh 36.1 billion or 11.4 percent. This growth derived from anticipated improvement in revenues raised nationally in FY 2021/22 when the effects of Covid-19 pandemic are expected to ease. This increase is expected to facilitate post covid-19 economic recovery at the counties as well as ensure sustained service delivery by the devolved governments; and,

   ii. converting four existing conditional grants to County Governments into unconditional grants, and allocating the respective amounts totaling Ksh. 17.4 billion towards the Counties' FY 2021/22 equitable revenue share. The four conditional allocations are: Road Maintenance Levy Fund (RMLF); the level-5 hospital grant; the compensation for user fees foregone; and, the grant funding rehabilitation of village polytechnics grants. Among other benefits, the National Treasury anticipates that the proposed conversion of conditional grants will afford the Counties more autonomy to budget and prioritize allocation of resources.

4. Conversion of the four conditional allocations to Counties' equitable revenue share as proposed above has several advantages. Firstly, it will afford the Counties more autonomy to budget and prioritize allocation of resources. Secondly, it will achieve a more consolidated approach to funding of devolved functions, while also enabling better tracking of performance and attribution of outcomes. Thirdly, it will help to address a number of challenges which are currently being experienced including suboptimal absorption of conditional allocations (which arises due primarily to difficulties faced by many Counties in adhering to the underlying conditions); and failure by Counties to allocate sufficient resources in areas receiving supplemental funding by the National Government through conditional allocations.

5. Moreover, the fact that the approved third basis for allocation of the share of national revenue among the County Governments is now effectively linked to devolved functions (specifically with weighted parameters for health, roads and agriculture) means that it is now possible to achieve policy objectives of some conditional grants directly through the equitable share. In health and agriculture, for instance, the new parameters to be used in distributing the equitable revenue share among Counties closely resemble those currently being used to distribute sectoral conditional allocations. In addition, the approved revenue distribution criteria contain a parameter, 'population' with a weight of 18% which is specifically designed to reflect costs of 'other County Services' including village polytechnics.

6. Currently, besides the composite of equal share, the allocation criteria for the rehabilitation of village polytechnics conditional grant is also based on total trainee enrolment in the respective county governments, which is similar to the use of population parameter in the Third Basis for Revenue Sharing among Counties. This means that village polytechnics being a devolved function, and also a composite of the population parameter of the formula should be directly financed from each County's equitable share of revenue.

7. After making the above adjustment, County Governments' equitable share of revenue in the financial year 2021/22 is estimated to be Ksh. 370 billion (see Table 1).

Table 1: Equitable Revenue Share Allocation to County Governments FY 2021/22

S/N	Budget Item	Amount in Ksh. Million
A	County Equitable Revenue Share for FY 2020/21 (Base)	316,500
	Add:	
B	Adjustment based on fiscal framework (Revenue Growth to county governments in FY 2021/22)	36,103
	Add:	
C	*Converted Conditional allocations (previously financed from National Governments share of Equitable Revenue) to County Equitable share...of which: -*	17,397
	a. User Fee	900
	b. Level 5	4,727
	c. Road Maintenance Levy Fund	9,770
	d. Village Polytechnics	2,000
D	Equitable Revenue Share allocation for FY 2021/22; D=A+B+C	370,000

Source of data: National Treasury

8. The above proposed Equitable Share for FY 2021/22 of Ksh.370 billion is equivalent to 27.3 percent of the last audited accounts (Ksh. 1,358 billion for FY 2016/17) and as approved by Parliament. The proposed allocation meets the requirement of Article 203(2) of the Constitution that equitable share allocation to counties should not be less than 15 per cent of the last audited revenue raised nationally, as approved by the National Assembly.

THE COUNTY ALLOCATION OF REVENUE BILL, 2021

1. The County Allocation of Revenue Bill, 2020 is prepared based on the approved Third Basis for Revenue Allocation among county governments pursuant to Article 217 of the Constitution; whereby in September 2020, Parliament approved the third basis for allocation of the share of national revenue among the County Governments on condition that the formula's implementation would be preceded by a Ksh. 53.5 billion increase in the Counties' equitable revenue share.

2. The Third Basis formula which should be applicable from FY 2020/21 to FY 2024/25 has taken into account the following parameters; (i) Population (18%); (ii) Health Index (17%); (iii) Agriculture Index (10%); (iii) Urban Index (5%); (iv) Poverty Index (14%); (v) Land Area Index (8%); (vi) Roads Index (8%), and; (vii) Basic Share index (20%). The horizontal distribution of County Governments' equitable revenue share allocation of Ksh.370 billion for FY 2021/22 shall be based on the Third Basis Formula

3. Third Basis for sharing revenue raised nationally among county governments has two components namely: i) Allocation Ratio which relates to application of ratios used in FY 2019/20 to one-half of the equitable share allocated to county governments in FY 2019/20; and ii) the Formula which relates to application of the difference between the determined equitable share and the amount allocated using the Allocation Ratio to the parameters approved in the basis.

4. Accordingly, horizontal distribution of the Ksh. 370 billion Equitable Share to County Governments for FY 2021/22 Shall be as follows: -*Total Equitable Share or county Allocation = 0.5 (Allocation Ratio) + ((Equitable Share-(0.5 Allocation Ratio))* *(Formula) whereby: -

a) **Allocation Ratio:** - This refers to the Sharable Revenue allocated to counties in the financial year **2019/ 20** of **Ksh. 316.5 billion**. Thus, the allocation to county governments under this component is one half of the equitable share allocated to county governments in FY 2019/20 amounting to Ksh. **158. 25 billion;**

b) Equitable Share: - This is the equitable share of revenues raised nationally allocated to county governments in FY 2021/22 amounting to **Ksh. 370 billion.** Once you net out one-half of the amounts of Allocation Ratio or **Ksh.158.25** billion from the Equitable share of Ksh. 370 billion, the resulting balance of **Ksh. 211.75 billion** shall be allocated among county governments using the Formula; and

c) **Formula**= 0.18*Population Indexi+ 0.17*Health Indexi+0.10* Agriculture Indexi+0.05*Urban Indexi+0.14* Poverty Indexi+0.08*Land Area Indexi1+0.08*Roads Indexi +0.20* Basic Share Index.

See Table 2 on what each County Government is expected to be allocated as Equitable share in FY 2021/22 using the Third Basis as approved by Parliament on 20th September, 2020, pursuant to Article 217 of the Constitution.

Table 2.- Allocation of Each County Governments' Equitable Share of Revenue Raised Nationally in the Financial year 2021/22

S/No.	County	2020/2021		2021/2022				
		Allocation ratio	Equitable Share	0.5 (Allocation Ratio*)		(Equitable Share**-0.5 Allocation Ratio *(Formula***)		Total Equitable Share****
				Allocation ratio	Equitable Share	Allocation ratio	Equitable Share	
		Column A	column B	column C	column D	column E	column F	column G = D+F
1	Baringo	1.61	5,095,650,000	1.61	2,547,825,000	1.80	3,821,569,592	6,369,394,592
2	Bomet	1.74	5,507,100,000	1.74	2,753,550,000	1.86	3,937,549,118	6,691,099,118
3	Bungoma	2.81	8,893,650,000	2.81	4,446,825,000	2.93	6,212,610,192	10,659,435,192
4	Busia	1.9	6,013,500,000	1.9	3,006,750,000	1.97	4,165,412,009	7,172,162,009
5	Elgeyo Marakwet	1.22	3,861,300,000	1.22	1,930,650,000	1.26	2,675,882,480	4,606,532,480
6	Embu	1.36	4,304,400,000	1.36	2,152,200,000	1.40	2,973,043,762	5,125,243,762
7	Garissa	2.22	7,026,300,000	2.22	3,513,150,000	2.08	4,414,062,254	7,927,212,254
8	Homa bay	2.13	6,741,450,000	2.13	3,370,725,000	2.09	4,434,628,300	7,805,353,300
9	Isiolo	1.34	4,241,100,000	1.34	2,120,550,000	1.22	2,589,838,265	4,710,388,265
10	Kajiado	2.03	6,424,950,000	2.03	3,212,475,000	2.24	4,742,293,229	7,954,768,229
11	Kakamega	3.29	10,412,850,000	3.29	5,206,425,000	3.39	7,182,987,168	12,389,412,168
12	Kericho	1.7	5,380,500,000	1.7	2,690,250,000	1.77	3,740,414,924	6,430,664,924
13	Kiambu	2.98	9,431,700,000	2.98	4,715,850,000	3.31	7,001,675,720	11,717,525,720
14	Kilifi	3.3	10,444,500,000	3.3	5,222,250,000	3.03	6,419,342,941	11,641,592,941
15	Kirinyaga	1.34	4,241,100,000	1.34	2,120,550,000	1.45	3,075,627,952	5,196,177,952
16	Kisii	2.46	7,785,900,000	2.46	3,892,950,000	2.36	5,001,324,509	8,894,274,509
17	Kisumu	2.16	6,836,400,000	2.16	3,418,200,000	2.18	4,607,939,240	8,026,139,240
18	Kitui	2.79	8,830,350,000	2.79	4,415,175,000	2.82	5,978,795,413	10,393,970,413
19	Kwale	2.46	7,785,900,000	2.46	3,892,950,000	2.06	4,372,635,516	8,265,585,516
20	Laikipia	1.32	4,177,800,000	1.32	2,088,900,000	1.44	3,047,365,679	5,136,265,679
21	Lamu	0.82	2,595,300,000	0.82	1,297,650,000	0.85	1,807,999,643	3,105,649,643
22	Machakos	2.45	7,754,250,000	2.45	3,877,125,000	2.50	5,285,179,232	9,162,304,232
23	Makueni	2.34	7,406,100,000	2.34	3,703,050,000	2.09	4,429,733,562	8,132,783,562
24	Mandera	3.23	10,222,950,000	3.23	5,111,475,000	2.87	6,078,907,598	11,190,382,598
25	Marsabit	2.14	6,773,100,000	2.14	3,386,550,000	1.84	3,890,454,032	7,277,004,032
26	Meru	2.54	8,039,100,000	2.54	4,019,550,000	2.59	5,474,307,338	9,493,857,338
27	Migori	2.14	6,773,100,000	2.14	3,386,550,000	2.18	4,618,470,448	8,005,020,448
28	Mombasa	2.23	7,057,950,000	2.23	3,528,975,000	1.91	4,038,379,061	7,567,354,061
29	Murang'a	1.99	6,298,350,000	1.99	3,149,175,000	1.90	4,030,980,855	7,180,155,855
30	Nairobi	5.03	15,919,950,000	5.03	7,959,975,000	5.33	11,289,702,414	19,249,677,414
31	Nakuru	3.31	10,476,150,000	3.31	5,238,075,000	3.68	7,788,041,323	13,026,116,323
32	Nandi	1.69	5,348,850,000	1.69	2,674,425,000	2.04	4,316,444,041	6,990,869,041
33	Narok	2.54	8,039,100,000	2.54	4,019,550,000	2.28	4,825,239,456	8,844,789,456
34	Nyamira	1.52	4,810,800,000	1.52	2,405,400,000	1.29	2,729,940,036	5,135,340,036
35	Nyandarua	1.54	4,374,100,000	1.54	2,437,050,000	1.53	3,233,394,228	5,670,444,228

S/No.	County	2020/2021		2021/2022				
		Allocation ratio	Equitable Share	0.5 (Allocation Ratio*)		(Equitable Share**-0.5 Allocation Ratio) *(Formula***)		Total Equitable Share****
				Allocation ratio	Equitable Share	Allocation ratio	Equitable Share	
		Column A	column B	column C	column D	column E	column F	column G = D+F
36	Nyeri	1.71	5,412,150,000	1.71	2,706,075,000	1.66	3,522,653,555	6,228,728,555
37	Samburu	1.46	4,620,900,000	1.46	2,310,450,000	1.45	3,060,896,037	5,371,346,037
38	Siaya	1.83	5,791,950,000	1.83	2,895,975,000	1.92	4,070,532,531	6,966,507,531
39	Taita taveta	1.34	4,241,100,000	1.34	2,120,550,000	1.29	2,721,624,698	4,842,174,698
40	Tana River	1.85	5,855,250,000	1.85	2,927,625,000	1.70	3,600,783,765	6,528,408,765
41	Tharaka Nithi	1.24	3,924,600,000	1.24	1,962,300,000	1.06	2,251,898,593	4,214,198,593
42	Trans Nzoia	1.82	5,760,300,000	1.82	2,880,150,000	2.03	4,306,007,670	7,186,157,670
43	Turkana	3.33	10,539,450,000	3.33	5,269,725,000	3.47	7,339,580,994	12,609,305,994
44	Uasin Gishu	2	6,330,000,000	2	3,165,000,000	2.32	4,903,858,318	8,068,858,318
45	Vihiga	1.47	4,652,550,000	1.47	2,326,275,000	1.29	2,741,081,827	5,067,356,827
46	Wajir	2.7	8,545,500,000	2.7	4,272,750,000	2.46	5,201,976,151	9,474,726,151
47	West Pokot	1.58	5,000,700,000	1.58	2,500,350,000	1.79	3,796,934,329	6,297,284,329
	Total	100	316,500,000,000	100	158,250,000,000	100.	211,750,000,000	370,000,000,000

*This refers to the Sharable Revenue allocated to counties in the financial year 2019/20 of Ksh. 316.5 billion. Thus, the allocation to county governments under this component is one half of the equitable share allocated to county governments in FY 2019/20 amounting to Ksh. 158. 25 billion.

** This is the equitable share of revenues raised nationally allocated to county governments in FY 2021/22 amounting to Ksh. 370 billion. Once you net out one-half of the amounts of Allocation Ratio or Ksh.158.25 billion from the Equitable share of Ksh. 370 billion, the resulting balance of Ksh. 211.75 billion shall be allocated among county governments using the Formula.

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**** Total Equitable Share or county Allocation = 0.5 (Allocation Ratio) + ((Equitable Share-(0.5 Allocation Ratio)) *(Formula).

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22ND FEBRUARY 2021