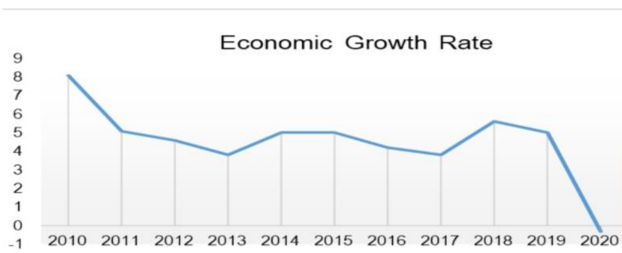
REPUBLIC OF KENYA

PARLIAMENTARY SERVICE COMMISSION

Parliamentary Budget Office

Harnessing Legislative Oversight to Buffer Economic Recovery

Budget Watch for 2021/2022 and the Medium Term



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14th Edition of the Budget Watch (2021/2022)

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The Budget Watch disseminates findings by the Parliamentary Budget Office on key issues regarding implementation of the budget estimates in a particular financial year. The 14th edition of the Budget Watch has been prepared to facilitate monitoring of the budget for the Financial Year 2021/2022 by the Legislature and other stakeholders. The findings, interpretations and conclusions expressed in this publication are entirely those of the authors. They do not necessarily represent the views of the Parliament of the Republic of Kenya.

Cover Page Photos Depict: i) Figure indicating 10 year real economic growth trend, ii) Maize plantation in Kajiado County, iii) ongoing construction of the Nairobi Express way, and iv) products of the artisanship industry found along Ngong Road (Art Studio).

This report is available for download at the Parliament of Kenya website (www.parliament.go.ke)

List of Acronyms and Abbreviations

AfCTFA	Africa Continental Free Trade Agreement
AIA	Appropriations in Aid
ASAL	Arid and Semi-Arid Area
ASTGS	Agriculture Sector Transformation and Growth Strategy
BPS	Budget Policy Statement
CBC	Competency Based Curriculum
CBD	Central Business District
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CRA	Commission on Revenue Allocation
DSPB	Debt Stabilizing Primary Balance
DST	Digital Service Tax
EFF	Extended Fund Facility
EPA	Economic Partnership Agreement
EPC	Engineering, procurement and construction
EPRA	Energy and Petroleum Regulatory Authority
ERS	Economic Recovery Strategy
ESF	Extended Credit Facility
ESP	Economic Stimulus Programme
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GLR	Government Land Registry
HSNP	Hunger Safety Net Program
IMF	International Monetary Fund
JKIA	Jomo Kenyatta International Airport
KEMP	Kenya Electricity Modernization Project
KETRACO	Kenya Electricity Transmission Company
KNBS	Kenya National Bureau of Statistics
KoTDA	Konza Technopolis Development Authority
KPIs	Key Performance Indicators
LAPSSET	Lamu Port-South Sudan-Ethiopia-Transport corridor project
LPG	Liquefied Petroleum Gas
MGR	Meter Gauge Railway
MPC	Monetary Policy Committee
MSMEs	Micro, Small and Medium Enterprises
NPLs	Non-Performing Loans
OPCT	Older Persons Cash Transfer
OPEC	Organization of Petroleum Exporting Countries

OTP	One Time Password
OVC	Orphans and Vulnerable Children
PBO	Parliamentary Budget Office
PDS	Public Debt Servicing
PFM	Public Finance Management
PPG	Public and Publicly Guaranteed
PPP	Public Private Partnership
PV	Present Value
PWSD	Persons with Severe Disabilities
RMLF	Road Maintenance Levy Fund
SAIDI	System Average Interruption Duration Index
SEZs	Special Economic Zones
SGR	Standard Gauge Railway
SoEs	State Owed Enterprises
TEU	Twenty-foot Equivalent unit
USD	United States Dollars
VAT	Value Added Tax
WHO	World Health Organization

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Chapter One:

Economic Context and Outlook for the Medium Term*

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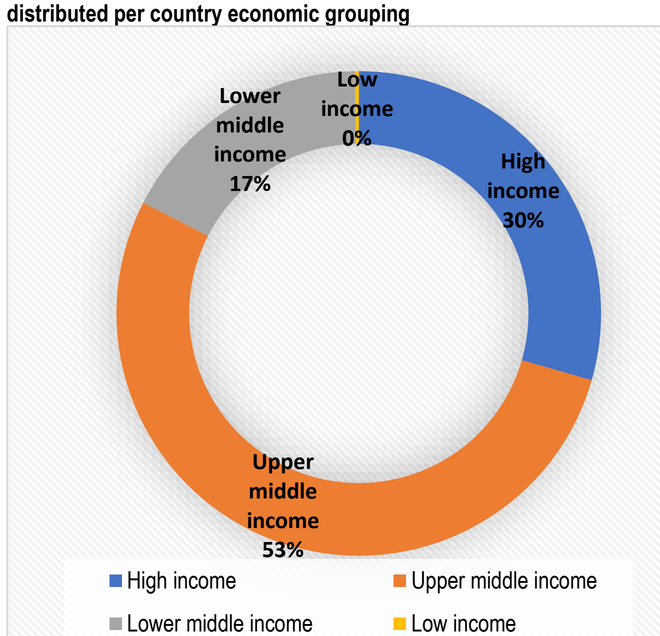
1.0. Can the 2021/2022 budget facilitate sustainable and inclusive economic recovery?

1) **The 2021/2022 budget is an economic recovery budget that is expected to spur economic activities in the country thereby enhancing growth prospects.** The budget has been prepared at a time when the global economy is experiencing a rebound in growth largely due to extensive vaccination efforts in a few large economies that has led to the lifting of most covid-19 containment restrictions. Domestically, the country is showing some signs of economic recovery even as it continues to deal with the covid-19 pandemic and its adverse effects. Notably, the Service sector which was the most adversely affected by the pandemic has shown significant improvement and is likely to post a much better performance this year compared to 2020. To illustrate, the education sub-sector which registered a significant decline in 2020 has fully resumed its activities. Significant recovery is also observed in the transportation sub-sector as well as wholesale and retail. On the other hand, the recovery in the accommodation and restaurant sub-sector has been slower due to slowdown in tourism and continuation of social distancing directives. It is largely expected that increasing the vaccination coverage coupled with implementation of the strategic priorities of the government under "the Big Four agenda" and the "Post covid-19 Economic Recovery Strategy (ERS)" will bring about economic recovery. The theme of the 2021/2022 budget is ***"Building back better: strategy for resilient and sustainable economic recovery and inclusive growth."***

   The health pandemic requires mass vaccination, but this is not a panacea for economic recovery in the country. Given the lagging vaccination rates in low income and lower middle-income economies compared to the high income and upper middle-income economies, there is concern that many developing economies may continue to be significantly constrained by the covid containment restrictions throughout the second half of 2021. However, mass vaccination by itself may not necessarily bring about full economic turn-around. A full reopening of the economy may increase economic activity, but significant economic transformation will only occur through policy choices that have been tailored specifically not only to lessen the impact of the covid-19 pandemic on livelihoods, but also to build resilient economic models that can better withstand adverse economic shocks in future. It is noted that the government is implementing the post-covid Economic Recovery Strategy (ERS) as part of its '*building back better*' strategy. How the ERS is implemented, will define the country's ability to achieve a sustained and inclusive economic growth trajectory.

Figure 1: Total global covid-19 vaccinations (as at July 27th 2021) distributed per country economic grouping



2) **The ERS 2021 is expected to provide fiscal support to the Kenyan economy but there are some challenges.** This strategy seeks to enhance investment in key economic sectors including development

of critical road, rail, energy and water infrastructure; agricultural transformation; growth in manufacturing; environmental conservation and water supply; stimulating tourism recovery as well as sustainable land use and management. Furthermore, the government is targeting to expand access to quality social services in health, education and appropriate social safety nets for the vulnerable population. This includes supporting the youth, women and persons living with disability through government funded empowerment programs that leverage on partnerships with private sector organizations. It is noted however that the ERS interventions as contained in the policy document have not been clearly linked to the 2021/2022 budget. This makes it difficult to monitor implementation.

3) **Measures prescribed by the IMF under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements are expected to facilitate the country in correcting its macroeconomic imbalances.** Notably**,** fiscal reforms include restructuring of some State-Owned Enterprises, rationalization of public investment projects, containment of the wage bill as well as reforms under revenue administration and government procurement processes. So far, the National Treasury has made some progress towards the restructuring efforts and has already identified 18 state corporations for the restructuring[1]. This process is expected to take place over the next few months in collaboration with the State corporations.

1.1. Macroeconomic context of the 2021/2022 budget

1.1.1. Global economic outlook

4) **The global economy is expected to experience a strong rebound in growth in 2021 as the COVID-19 pandemic is gradually brought under control.** Global economic activity has improved significantly in 2021 largely due to robust vaccination efforts which have set the stage for the lifting of most covid-19 containment restrictions and the subsequent reopening of economies. As at July 2021, it was reported that world merchandise trade and industrial production had increased to above the pre-pandemic levels. Furthermore, global commodity prices had also soared significantly due to improved global economic activity[2]. As a result, the global economy is projected to expand by approximately 5.6% in 2021. It is noted that this is the fastest recovery from a global recession in the past 80 years[3].

5) **Despite the promising global economic outlook, the recovery pace is highly uneven and many developing countries are at risk of falling behind economically.** The rebound in growth is mostly driven by the major advanced economies, notably the United States which has undertaken a large-scale fiscal stimulus.[4] Indeed, it is reported that the United States and China alone are expected to contribute a full percentage point[5] to the global growth forecast of 2021. On the other hand, many developing economies are progressing at a much slower pace due to low vaccination efforts, inability to undertake

[1] The National Treasury (2021), Update on Reforms of State Corporations, Press Statement

[2] World Economic Outlook Situation and Prospects: July 2021 Briefing, No. 151 – United Nations Department of Economic and Social Analysis

[3] World Bank Global Economic Prospects, June 2021

[4] World Bank Global Economic Prospects, June 2021

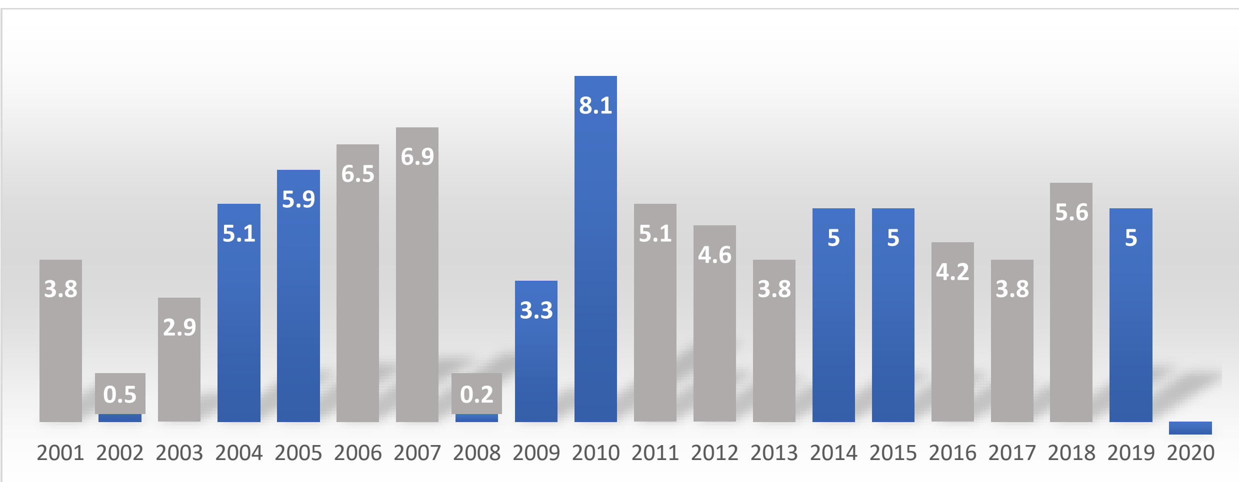
[5] United Nations (2021), World Economic Situation and Prospects: July 2021 Briefing, No. 151, Department of Economic and Social Affairs

a broad based fiscal stimulus, withdrawal of some macroeconomic policy interventions, as well as the production structure or main economic activity of the economy.

1.1.2. Domestic economic outlook

6) **The National Treasury projects that the Kenyan economy will grow by 6.3 percent in FY 2021/2022.** The key drivers of this growth are; a stable macroeconomic environment, improved domestic consumption and improved external demand as global vaccination gains traction. It is noted however that to some extent, this growth is due to a base effect given the 2020 dip in growth and does not necessarily reflect a significant increase in economic activity. The challenge then, is how to sustain this growth especially as the country enters an electioneering period which is, historically, a dampening factor on growth. Notably, given that the 2021 growth is likely to be more of a *'statistical'* than *'real'* growth, caution should be exercised when using it as a basis for projecting higher revenue collection as this may inadvertently expand the budget deficit. This growth is therefore unlikely to be reflected in improved living standards for Kenyans/growth in household incomes.

Figure 2: GDP growth in the past five election periods*



**Grey bars refer to election period which is a three-year period referring to the year before, during and after an election*

Data Source: KNBS

7) **A full rebound of the activities of the Service sector, will determine the pace of economic recovery.** The service sector – comprising accommodation and restaurant; wholesale and retail trade; transport and communication; as well as financial and insurance services – has been the biggest contributor to GDP growth since 2003. It is estimated that, on average, the sector accounts for 42.2% to GDP growth and for 39% of employment[6]. With the ongoing COVID-19 pandemic, the service sector has arguably been the most affected in terms of income and job losses. In particular, the accommodation

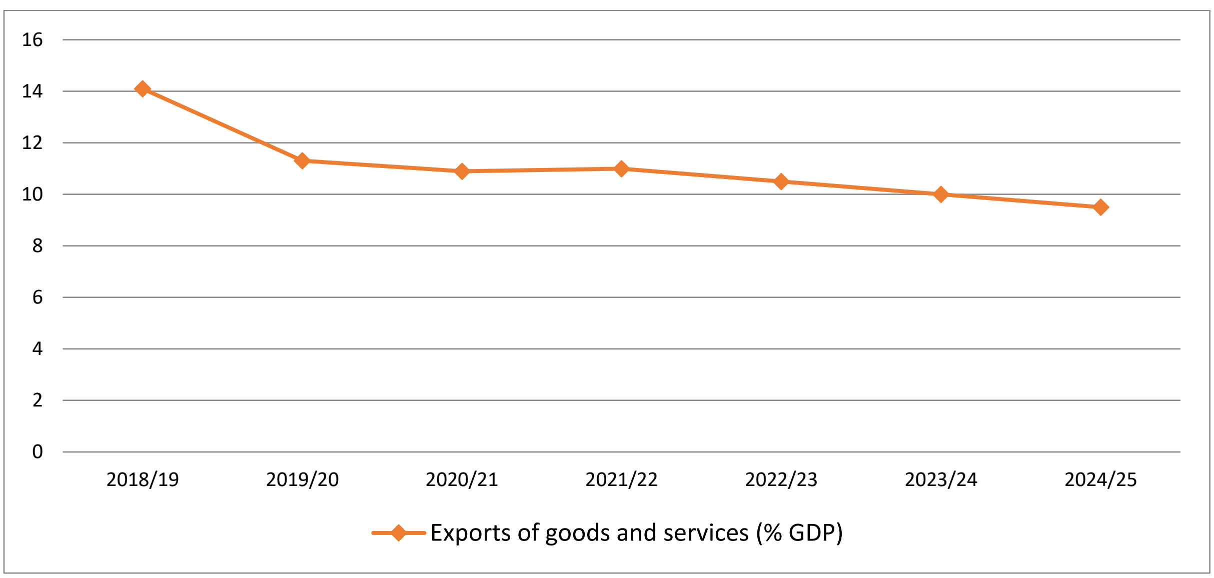
[6] Data retrieved from data.worldbank.org

and restaurants sub-sector has experienced significant loss due to social distancing guidelines that led to reduced demand for the sector's services. Notably, this sub-sector is tourism-dependent, and this has greatly hampered its performance due to perceived heightened risk of travel. Indeed, some tourist origin countries have issued travel advisories to their citizens against Kenya citing the low vaccination coverage as well as inadequate healthcare capacity. This does not augur well not just for the sub-sector's performance but also for the country's foreign exchange earnings.

8) **Given the uncertainty in outlook of the Service sector, domestic consumption may be a dampening factor on economic growth, contrary to the expectations of the National Treasury**. It is noted that the sector accounts for approximately 84% of businesses in the country. Given the likelihood of continued under-performance of this sector due to aforementioned factors, consumer spending is likely to remain somewhat subdued on account of eroded household incomes. Indeed, even where income has not been significantly eroded, the uncertainty in economic outlook may slow down consumption particularly of non-core items.

9) **The ongoing global economic recovery may benefit the country through improved external demand, but there are concerns that the budget has not adequately addressed supply side constraints pertaining to exports.** Indeed, as per the projections of the National Treasury, Exports as a share of GDP is expected to decline over the medium term as shown in figure3. This implies a 'business-as-usual' approach which may inhibit the external sector from fully benefiting from the reopening of the global economy. Further, the slowdown in tourism is likely to have a significant impact on export revenues. The key budgetary interventions and areas to keep an eye on under the Trade, Industry and Cooperatives Sector that are central to the improvement of exports, are discussed in chapter three.

Figure 3: Exports as a % of GDP, FY 2018/19 – 2024/25



Data Source; BPS, 2021

10) **The agricultural sector performed reasonably well and shored up an otherwise dull economic performance in 2020 - but its weather dependent nature continues to limit its potential.** Even though the sector accounts for slightly more than a third of the total value of the economy, its contribution to GDP growth is much lower and was estimated at 0.8% in 2019. Notably, agricultural investments in the budget have been prone to expenditure cuts during the supplementary budget process leading to slowdown in implementation of key interventions in this sector. For instance, in the first supplementary budget for FY 2020/2021, the e-voucher system underwent a 73% reduction in allocation despite being a critical factor for the distribution of agricultural inputs, that is, certified seeds and fertilizer. A critical analysis of the agriculture sector, is provided in chapter two.
11) **In 2021, it is expected that agricultural performance will be inadequate due to below-average rainfall.** Though the March to May long rains for 2021 were adequate in some areas, cumulatively, the long rains were established to have been below-average and this has a negative impact on crop production as well as livestock. This will adversely affect household agricultural incomes. According to the Famine Early Warning Systems Network, the late onset and poor distribution of the March to May long rains will likely result in below average crop production particularly in marginal agricultural areas. Indeed, it is reported that staple food in the country, notably maize, has been significantly supplemented by cross-border imports and this is why food prices have stabilized. It is projected however that if the 2021 October to December short rains are at least average, then they may support adequate crop production as well as increase forage for livestock for the rest of the year.
12) **The manufacturing sector is a critical pillar to economic recovery but despite continued investments in the sector, it is yet to achieve its potential.** In the 2021/2022 budget, the government is seeking to continue its transformation of the textile, leather and automobile industries; as well as full operationalization of the Special Economic Zones particularly in Dongo Kundu, Naivasha and Kisumu. With regard to the automobile industry, the government has provided tax incentives such as removal of excise duty on locally assembled motor vehicles, duty free importation of Completely Knocked Down kits and reduced corporate tax from 30 to 15 percent for the first five years of operation. The local assemblers have indeed been an avenue for employment creation. However, the main challenge facing the sector is mainly to do with really slow progress with regard to implementation of the major ongoing projects which then hinders unlocking of the sector's potential. Big Four interventions, particularly BT cotton farming, the Athi River Textile Hub, Machakos Leather Park and other attendant interventions have progressed really slowly but are targeted for completion between 2021/2022 and 2022/2023.
13) **In view of the foregoing, coupled with increasing political uncertainty in the electioneering period as the country edges closer to the 2022 general elections, it is likely that the country's economic growth rate for 2021 may be 4%.**

Keep an Eye On….

i. Expenditure adjustments in the supplementary budget

14) Expenditure cuts devoid of impact analysis has been a common feature of the supplementary budget process in previous years. This tends to distort the policy direction of the budget. It is critical therefore to keep an eye on the supplementary budget process which has become rather frequent; particularly monitoring the areas adversely affected by expenditure cuts and how these will impact on the general policy direction of the budget.

ii. **Implementation of the Economic Recovery Strategy, 2021**

15) **Tracking the ERS in the 2021/2022 budget may present a bit of a challenge.** Though the post-covid ERS document exists, it has not been clearly articulated in the budget. The KPIs and targets are not clearly spelt out and this makes it difficult to track performance. Nevertheless, evidence has been sought on the ERS projects and whether these are actually contained in the budget.

iii. Procurement, distribution and uptake of covid-19 vaccines

16) **Mass vaccination is a necessary though not sufficient factor for full economic turnaround.** Tourism recovery is still uncertain largely due to travel advisories issued against the country. Furthermore, there is restricted access to some countries for Kenyans on account of vaccination status. Indeed, even domestically some economic activities have not fully resumed due to the need to maintain covid containment restrictions. If this trend continues, then it will take very long to rebound from the effects of COVID-19. In the 2021/2022 budget, it is reported that Kshs.14.3 billion has been set aside for the roll-out of vaccines. There is need to monitor how many vaccines will procured on a quarterly basis and the rate of vaccination including how many Kenyans are fully vaccinated especially the 'at-risk' categories.

iv. Progress on restructuring of State Owned Enterprises (SoEs) and other IMF performance benchmarks

17) The restructuring of some state corporations is expected to enhance their efficiency thereby reducing the fiscal risks to the government.

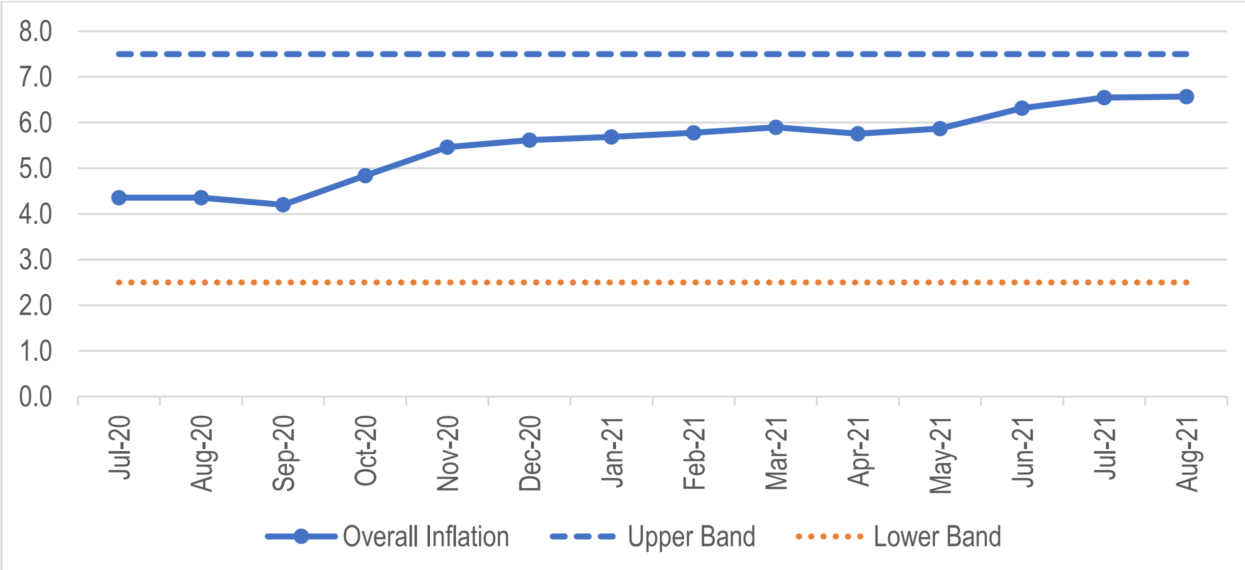
v. Investor flight

18) Heightened election uncertainty has been shown to limit investor confidence and this may further dampen economic activity. Keep an eye on investment activities particularly foreign direct investment.

1.2. Rising inflation, higher cost of living

19) **Inflation is edging closer to the upper band of the target range as it gradually increased from 4.2 percent in September 2020 to 6.6 percent in August 2021.** The increasing overall inflation is mainly due to cost-push factors on headline inflation such as increase in food prices due delays in imports as a result of Covid-19 related restrictions and weather-related shocks affecting crop production; and increase in fuel prices. A higher cost of living is being experienced not because the overall inflation is higher than in previous periods but because of reduced purchasing power as a majority of the population is struggling to make ends meet due to loss of income owing to the intricacies of the pandemic.

Figure 4: Trend in overall inflation



Source: KNBS

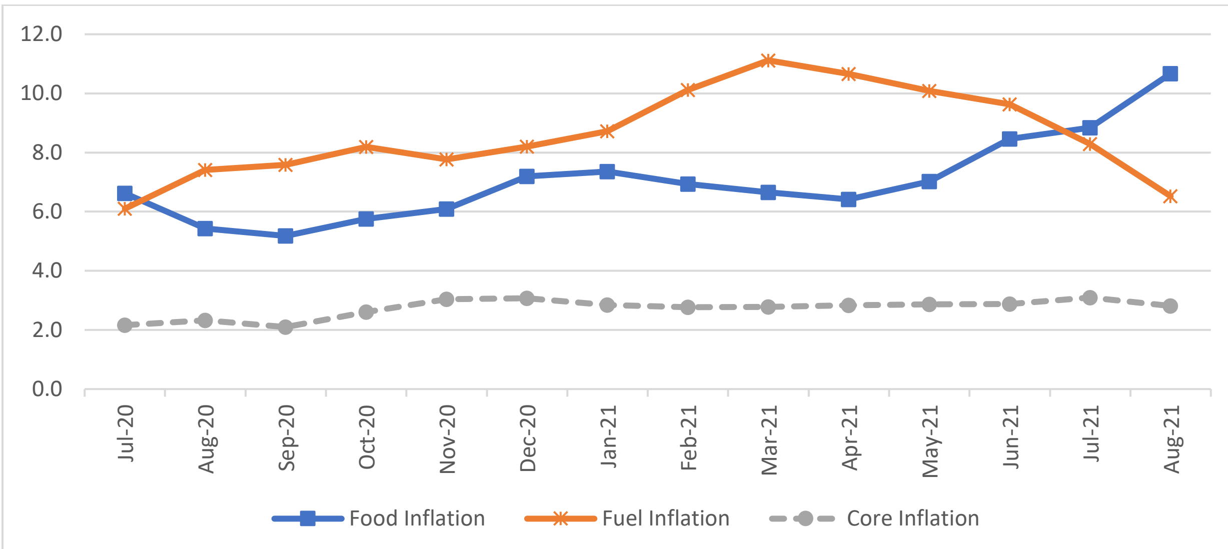
20) **The Central Bank's inflation targeting regime is likely to anchor inflation expectations within the target range amid risks to look out for.** The macroeconomic framework underpinning the budget for FY 2021/22 and the medium term assumes that inflation will remain stable and within the target range of 5 (±2.5) percent. The assumption is based on an accommodative monetary policy stance by the Central Bank aimed at targeting a stable-inflation regime, by mopping up of excess liquidity. In addition, the fact that Kenya is under an IMF programme is likely to keep the inflation expectations within the target range. However, a review of the past trend of inflation indicates that the upper target of 7.5 percent of overall inflation has been breached typically when the country has experienced double digit food inflation. Therefore, risks to food security may put pressure on inflation to breach the upper band in 2022.

21) **Food inflation is a main driver of overall inflation and was estimated at 10.7percent in August 2021 mainly due to increase in prices of various food categories[7].** The country is reported to have received below average rainfall during the long-rains period of March to May 2021, which has resulted to below-average crop production and forage for livestock. This will negatively affect food security for the rest of the year as the short rains during the period September to November 2021, are also expected to be below average.[8] In addition, production of staple crops such as maize continues to face the challenge of fall army worm infestation in counties such as Trans Nzoia, Kiambu, Uasin Gishu, Kirinyaga, Baringo, West Pokot and Nandi. On a positive outlook to food security, the below average rainfall reduced desert locust breeding while increased food imports reduced prices of food such as Maize. Further, the provision of cash transfers to support the vulnerable and food insecure households under the Hunger Safety Net Programme is likely to cushion these households from the rise in food inflation. Some of the budgetary provisions related to food security and cushioning vulnerable households include- Cash Transfers (Kshs. 26.16 billion) under the State Department for Social Protection, Pensions and Senior Citizens Affairs;

[7] Vegetables, fruits, Irish potatoes, Beef
[8] *Kenya Food Security Outlook June 2021 to January 2022,* Famine Early Warning Systems Network

Fall Army Worm Mitigation (Kshs. 150 million) and Emergency Locust Response (Kshs. 1.84 billion) under the State Department for Crop Development & Agricultural Research; Kenya Hunger Safety Net Programme (Kshs. 4.1 billion) under the State Department for Development of the ASAL.

Figure 5: Trends of Food, Fuel and Core inflation (July 2020 – August 2021)



Source: PBO, data from KNBS

22) **Fuel Inflation increased from 6.1 percent in July 2020 to 11.1 percent in March 2021 attributed to the steady increase in petrol and diesel prices. However, the energy subsidy by EPRA attributed to the reduction in fuel inflation to from April 2021 to stand at 6.5 percent in August 2021**.The subsidy policy by EPRA has been effective in lowering the fuel inflation as the prices remained relatively unchanged to avoid cost-push effects. Globally, oil demand is expected to increase in 2021 with countries such as China and India expected to exceed pre-pandemic levels for transport and industrial use. The crude oil prices rose from USD 66.91 per barrel in May 2021 to USD 73.53 per barrel in July 2021, the highest price since October 2018[9]. Conversely, oil supply is expected to reduce depending on the experience of the pandemic, the tendency has been to hold back on importation of crude oil during expected peak periods of the Covid-19 waves due to lockdown measures which constrain travel. Going forward, the global short-term inflation expectations are mainly anchored on vaccination of large populations in advanced and large emerging economies. Domestically, it would be prudent to keep an eye on the sustainability of the subsidy by EPRA to mitigate the external fuel price shocks.

23) **The effect of some tax measures approved in the Finance Act of 2021 on inflation have materialized as evidenced in the increase in contribution of various categories to the July 2021 inflation.** (Table xx). The effect of the increased VAT on cooking gas can be seen in the increase in contribution to inflation from the Housing, Water, Electricity, Gas and other Fuels category from 10.3 percent in June 2021 to 14.3 percent in July 2021. In addition, contribution to inflation from the Information and Communication category increased from 2.2 percent in June 2021 to 4.4 percent in July 2021

[9] OPEC Oil Market Report, August 2021

resulting from the increased Excise Duty on telephone and internet services. Going forward, the increase in prices of cooking gas, telephone and internet services is likely to influence consumer behaviour by either reduced demand or a shift to alternative cheaper options.

Table 1: Percentage Contribution to Overall Inflation from July 2020 to August 2021

Category	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021
Food & Non-alcoholic Beverages	52.9	42.6	42.5	41.0	41.3	44.4	44.7	41.6	38.9	38.7	41.5	46.1	47.3	56.8
Alcoholic Beverages, Tobacco & Narcotics	4.8	4.0	3.6	3.0	2.5	2.3	1.7	1.7	1.6	1.2	1.4	1.6	1.5	1.4
Clothing & Footwear	1.5	1.4	1.3	1.6	2.0	1.4	1.2	1.2	1.3	1.4	1.1	0.9	1.3	1.3
Housing, Water, Electricity, Gas and other Fuels	3.8	7.3	7.9	8.9	8.0	8.4	8.3	9.0	10.4	10.4	8.4	10.3	14.3	12.0
Furnishings, Household Equipment and Routine Household Maintenance	1.0	1.1	1.3	1.8	1.9	2.0	2.2	2.3	2.4	2.6	2.4	2.7	3.0	2.9
Health	1.3	1.6	1.3	1.9	2.5	2.5	2.4	2.3	2.1	2.2	2.2	2.2	1.8	1.5
Transport	26.1	30.1	31.2	28.3	25.6	23.9	25.4	29.5	31.1	30.4	29.0	23.5	16.2	12.4
Information & Communication	0.2	1.5	0.6	0.7	1.6	1.3	1.1	1.2	1.4	1.5	2.0	2.2	4.4	3.0
Recreation, Sports & Culture	1.2	1.2	1.2	1.1	1.1	1.0	0.9	0.9	0.8	0.9	0.7	0.2	0.3	0.3
Education Services	2.6	2.2	2.2	2.2	2.5	2.5	1.9	2.1	2.0	2.3	2.4	2.1	1.3	1.9
Restaurants & Accommodation Services	3.0	5.5	5.6	7.3	8.7	8.3	8.0	5.9	5.8	5.9	6.0	5.6	5.9	3.9
Personal Care, Social Protection and Miscellaneous Goods & Services	1.1	1.1	1.1	1.0	1.1	0.9	0.8	1.0	0.9	1.3	1.3	1.2	1.1	1.1
Insurance and Financial Services	0.6	0.4	0.2	1.1	1.3	1.1	1.2	1.3	1.4	1.4	1.5	1.4	1.5	1.5
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Inflation	**4.4**	**4.4**	**4.2**	**4.8**	**5.5**	**5.6**	**5.7**	**5.8**	**5.9**	**5.8**	**5.9**	**6.3**	**6.6**	**6.6**

Source: PBO, data from KNBS

1.3. Supporting the economy through Accommodative Monetary Policy

24) **The Monetary Policy Committee (MPC) has maintained the Central Bank Rate (CBR) at 7 percent since March 2020 to stimulate the economy through accommodative stance.** The CBR is used to signal monetary policy stance. Lowering of CBR rate by 125 basis points as compared to February 2020 signals easing of monetary policy. The monetary policy responses to the pandemic have had some positive impact to the economy namely: through supporting ample liquidity in the banking sector, stabilizing of interest rates and inflation rate which remains within target. Similarly, commercial banks have been able to restructure loans to accommodate weak businesses.

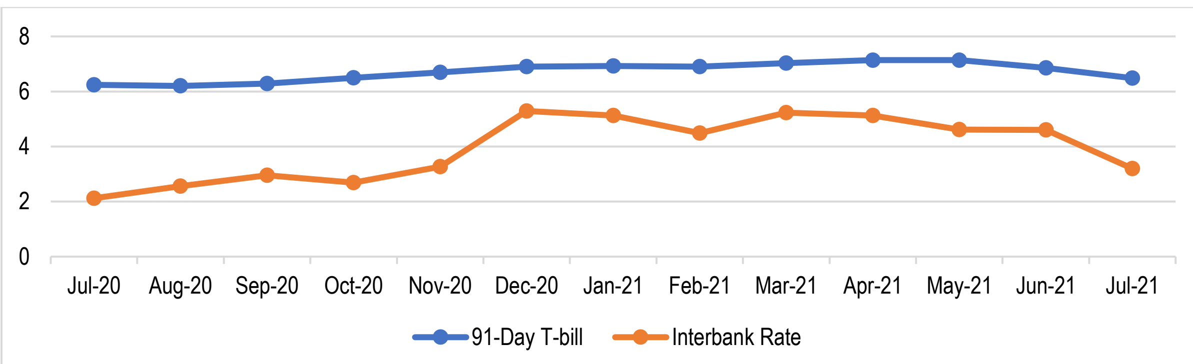
25) **Core inflation has remained stable during the pandemic and within target of 5 percent ± 2.5 percent.** At the beginning of the pandemic in March 2020, the underlying inflation stood at 1.6 percent but has steadily rising to 3.1 percent as at the end of July 2021. This may have been occasioned by reopening of the economy and increased economic activity. It is important to note that due to prevailing uncertainty in the economic environment, inflation risks continue to linger. Currently, Kenya is experiencing a resurgence of Corona virus infections which may result in government instituting

containment measures. If this happens, the underlying inflation could decrease due to decrease in economic activity but if the government is able to control the spread of virus through vaccination, then some upward inflationary movements are expected.

a) Interest rates and Credit

26) **Owing to stable CBR rates accompanied by high liquidity in the market, the interbank rates have steadily declined to 3.2 percent as at the end of July as shown in the figure below.** The interbank has had a mixed performance from October 2020 to December 2020, the rate was on an upward trend from 2.69 percent to 5.29 percent. The steep rise could indicate tight liquidity in the market occasioned by expenditure pressures towards the end of the year. At the beginning of the year, there has been steady decline of the interbank rates. Going forward, liquidity in the market is expected to be balanced as their no unforeseen expenditure pressures. At the end of July 2021, the 91- treasury bills rate fell to 6.48 percent. This decline is mainly occasioned by over- subscription in the domestic market as banks continue to prefer risk free treasury bills.

Figure 6: Short Term Interest Rates (Inter Bank Rates and 91 T-Bills) - June 2020 to June 2021

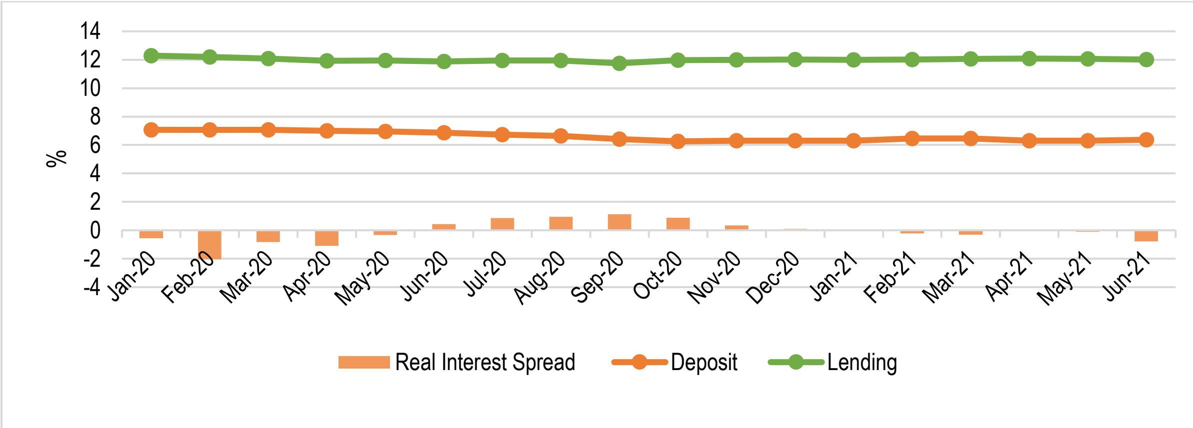


Source: CBK, 2021

27) **The interest spread stood at 5.65 percent in June 2021.This was occasioned by high lending rates which have remained above 12 percent while the deposit rates have declined to 6.37 percent.** High lending rates is occasioned by macroeconomic instability such as high levels of non- performing loans which increases the risk premium on loan rates. The ratio of gross non-performing loans (NPLs) to gross loans stood at 14 percent in June compared to 12 percent in December 2020. [10]The decline in deposit rate is a result of commercial banks having little incentive to accumulate more deposits from the public. Real interest rate spread (interest rate adjusted for inflation) is negative due to rising inflation.

[10] **MPC releases, May 26, 2021**

Figure 7: Trends in Lending Rate vs. Deposit Rate, Interest Spread



Source: CBK, 2021

b) Private sector credit

28) **Private Sector lending remains below CBK's set target of 10.2 percent[11]. The low limited private sector credit is due to other factors other than interest rates remaining low and stable.** These factors may be because of commercial bank stance on risks related private sector lending. The growth in the private credit sector has maintained almost at a constant growth throughout the period, with a slight increase in January and February in 2021.This paints a picture of commercial banks unwillingness to give credit due to the uncertainties of the pandemic.

29) Notably, there has been strong credit growth in the following sectors: Manufacturing, Transport & Communications, Finance &Insurance and Consumer Durables as result of improved economic activity. However, there has been a downward trend in credit uptake in Agriculture, Trade, Building and Construction, Real Estate as well as Mining and Quarrying sectors. The decrease in credit uptake is due to a high concentration of non- performing loans.

Table 2: The lending trends per Sector in the period of June 2020 to June 2021

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Credit to private sector	**7.7**	**7.9**	**8.3**	**7.6**	**7.7**	**8.1**	**8.4**	**9.3**	**9.7**	**7.7**	**6.7**	**7.1**	**7.7**
Agriculture	2.2	1.1	0.9	1.7	-17	19.3	15.3	15.6	13.4	12.3	10	4.3	3.7
Manufacturing	11.1	10	13.1	12.6	7.8	10	12	12.6	15.8	10.7	4	1.5	8.1
Trade	9.4	9.1	8.1	6.6	2.5	4	3.8	5.5	3.9	2.1	0.9	3.8	1.9
Building & Construction	4.6	5.5	5.2	4.1	8.2	7.4	3.4	2.5	5.2	2.9	3.4	4.5	2
Transport & Communication	14.9	20.7	19	20.6	21.1	17.5	13.6	14.4	19	15.2	13.3	16.3	11.8
Finance & Insurance	3.2	3.5	4.6	-3.3	-2.2	0.2	7.1	14	9	7.5	7.6	6.7	11.5
Real Estate	4.9	5	6.8	6.6	7.6	9.1	8.7	8.8	8.8	7.7	5.8	5.7	4
Mining and Quarrying	10	11.3	12	8.2	-14.2	-15.4	-12.9	-6.1	21.6	-3.6	-8.8	-18.1	-13
Private Households	3.6	5.4	5.1	3.5	7.3	6.2	4.3	5.2	4.6	4.4	4.9	3.1	3.2
Consumer Durables	15.2	13.8	13.7	15.6	15.7	18.8	18.1	18.7	20.3	17.6	19.3	22	23.4
Business Services	5.3	3.2	3.4	4.1	5.9	2.7	4	6.5	5	5.7	7.2	6.9	5.2
Other Activities	-3.7	-6.7	-7.6	-5.8	-10.4	-14.5	14	5.8	3.8	5.2	24.3	39.8	65.2

CBK, 2021

[11] 48th Monetary Policy Statement, June 2021

30) Over **90 percent of private sector constitutes Micro, Small and Medium Enterprises (MSMEs)[12]. However, the proportion of the MSME loan portfolio to the total banking sector loan book stands at 20.9 percent[13]**. As of December 2020, the Kenyan banking sector's gross loans and advances accounted for Ksh.3.1 trillion with only Ksh. 638.3 billion for Micro, Small and Medium Enterprises (MSMEs). During the period, Ksh. 234.7 billion worth of MSME loans were restructured largely due to the adverse impact of the COVID-19 pandemic. The sector plays a key segment of the economy and is a major source of employment in Kenya. In 2019, the sector produced 90 percent of the new jobs, approximately 768,000 thousand of the 846,000 thousand[14]. Nevertheless, commercial banks lend sparingly to MSMEs due to the fact they are considered high-risk as well as lack of collateral.

31) The government through amendment of the Public Finance Management Regulations, 2020 has set up a Ksh. 3 billion Credit Guarantee Scheme to enable commercial banks to extend credit to MSMEs. The facility acts as an insurance that gives Commercial Banks the confidence to extend credit to enterprises and reduce collateral requirements. The operationalization of the Credit Guarantee Scheme in October 2020 has resulted in disbursement of Ksh. 296.4 million loans as at the end of April 2021[15]. This clearly indicates that the disbursement under the Scheme has been slow.

c) Foreign Exchange Rate

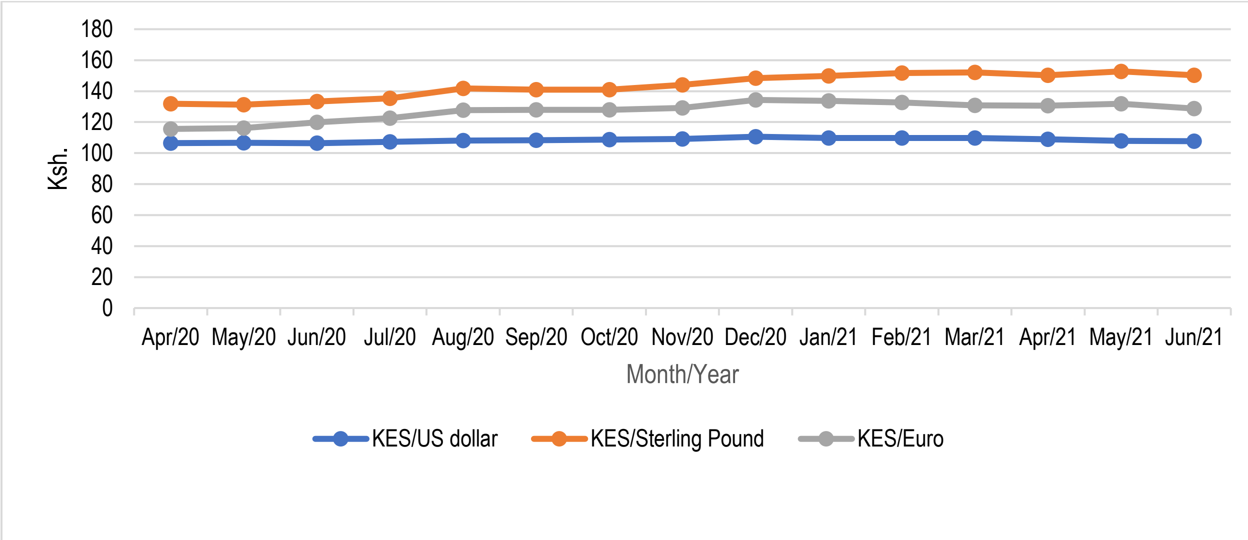
32) **The Kenya shilling has sharply depreciated against all major currencies in second half of 2020 however in the first half of the 2021 the Shilling appreciated against the US dollar to trade at Ksh107 from Ksh.110.** The strengthening of the Shilling to the US dollar is attributed to the dollar inflows from disbursements of IMF and World Bank, Eurobond issue and diaspora remittances that grew by 20 percent as compared to previous year to USD305.9 million in the first half of 2021[16]. The CBK foreign exchange reserves stood at USD 9,957 million (6.1 months of import cover) at the end of June 2021[17] and continue to provide buffer against short term shocks in the foreign exchange market.

33) The Shilling has depreciated against the British Pound and the Euro because of scarcity in the market due to decrease in exports as well as tourist arrivals. Receipts from tea and coffee declined in the first half of 2021 due to decreased production due to decreased rainfall as well as demand in the international market. Similarly, tourist arrivals have fallen. Between January to June 2021 tourist arrivals stood at 305,635 against an estimate of 700,000 arrivals pre-pandemic period.[18]

34) Going forward the Shilling will be under pressure arising from increased demand from importers because of rising prices of crude oil as well as heightening appeal of dollar denominated investments due to the resurgence of the Delta variant of coronavirus worldwide.

[12] 2021 FSDKENYA report, the value of (in) formality? A case study of MSEs in Nairobi CBD
[13] 2020 MSME FinAccess Business Survey Report
[14] 2020 Economic Survey
[15] MPC report, April 2021
[16] CBK, 2021
[17] CBK monthly bulletin, June 2021 issue
[18] 2021 International Tourism Report

Figure 8: Trends in the Foreign Exchange Rate Market



Source: CBK, 2021

Keep an Eye on:

- **Stable interest rates and growth of credit to the Private Sector: T**he growth of private sector credit has been below the desired CBK target of 10.2 percent despite efforts being made to ensure stable interest rates. In addition, the government has instituted other measures such as operationalisation of a public credit guarantee scheme to encourage commercial banks to increase their appetite for lending to boost credit uptake to Micro, Small and Medium Enterprises (MSMEs) which currently stands at 20.9 percent of the total commercial bank loans. The further overseeing of the implementation of measures in place will boost efforts in uptake of loans by the private sector more importantly the MSMEs.

- **Stability of the Exchange Rate:** Currently, there has been a resurgence of corona virus worldwide. This has heightened the appeal of dollar dominated investments due to uncertainty of the global economy. Its therefore expected that US dollar will strengthen against other major currencies which may cause the shilling to lose some ground. Further, OPEC countries have reduced their production resulting in rising crude oil prices. This has exerted pressure for demand for US dollars from energy importers resulting in weakening the Kenya Shilling. Going forward, the CBK should continue formulating and implementing monetary policies that ensure stability in exchange rate in order to provide buffer against short term shocks such as political uncertainty as a result of General Elections and investor flight.

Chapter Two:

The Fiscal Outlook*

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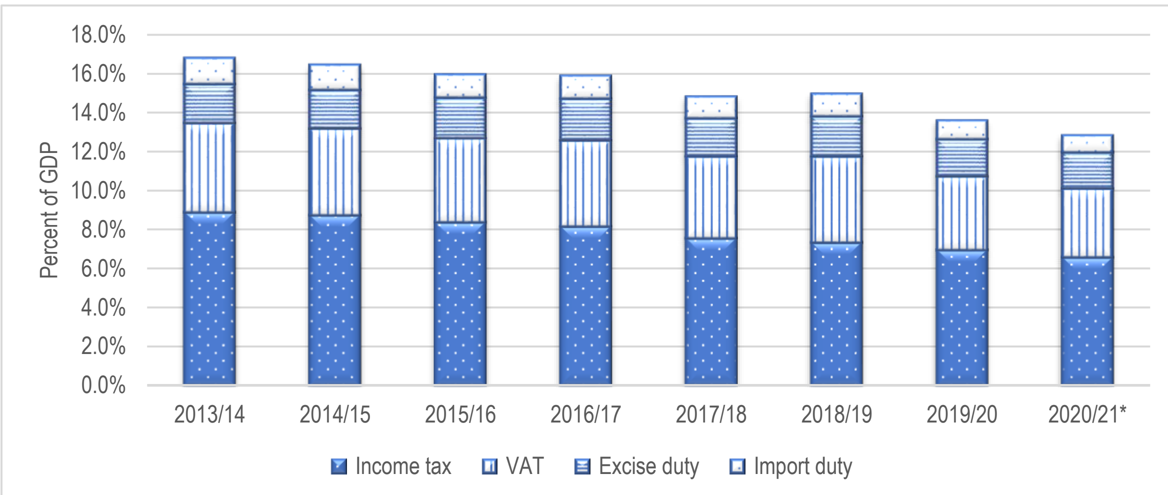
2.1. Fiscal Performance

35) **Tax collection as a share of economic activity has been on a steady decline over the past eight years.** Ordinary revenue as a share of GDP declined from about 18 percent in 2013/14 to about 14 percent in 202/21. Over this period, income tax and VAT which account for about 70 percent of ordinary revenue collection were the main drivers of the decrease in revenue collection as a share of economic activity. Income tax as a share of GDP declined by two percentage points while VAT collection as a share of GDP decreased by about one percentage point.

Figure 9: Tax Revenue as a Share of GDP



36) The persistent decline in revenue collection as a share of GDP is an indication that the revenue enhancement measures contained in the past Budget Policy Statements and finance Acts have been insufficient. Consequently, if the National Treasury does not come up with novel revenue enhancement measures that are aimed at expanding the tax base and collecting revenue from untaxed economic activities revenue will continue growing at a slower pace than GDP growth in the medium-term.

37) Total expenditure net lending as a share of GDP remained relatively unchanged at around 26 percent between 2013/14 and 2020/21. However, whereas total expenditure net lending as a share of GDP remained stable, recurrent expenditure as a share of GDP increased by close to two percentage points between 2013/14 and 202/21 while development expenditure as a share of GDP declined from over 8 percent in 2014/15 to about 6 percent in 2020/21.

38) The main item of concern and driver of the increase in recurrent expenditure as a share of GDP was the increase in interest payment on public debt as a share of GDP which increased from about 2.7 percent in 2013/14 to over 4 percent in 202/21. Consequently, over the medium-term expenditure on public debt repayment may crowd out development expenditure ceteris paribus.

39) **The underperformance of revenue relative to economic growth has been one of the main drivers of the expanding fiscal deficit.** The growth in the fiscal deficit including grants from about 6 percent in 2013/14 to close to 9 percent in 2020/21 was in tandem with decline revenue as a share of GDP. Therefore, without specific novel measures aimed at enhancing revenue collection, the fiscal deficit is expected to continue worsening over the medium term.

2.2. Revenue target for 2021/22 and the medium-term

40) Revenue collection as a share of GDP is projected to remain relatively low in the 2021/22 FY. The National Treasury projects a total revenue collection of **Ksh. 2,039 billion** (16.4% of GDP) in 2021/22 of which, ordinary revenue will be **Ksh. 1,776 billion** (14.3% of GDP). The targeted collection from income tax which accounts for over 40 percent of ordinary revenue is **Ksh. 835 billion**. The other main source of ordinary revenue will be **Ksh. 473 billion** from VAT, **Ksh. 241 billion** from Excise Duty and **Ksh. 119 billion** from import Duty.

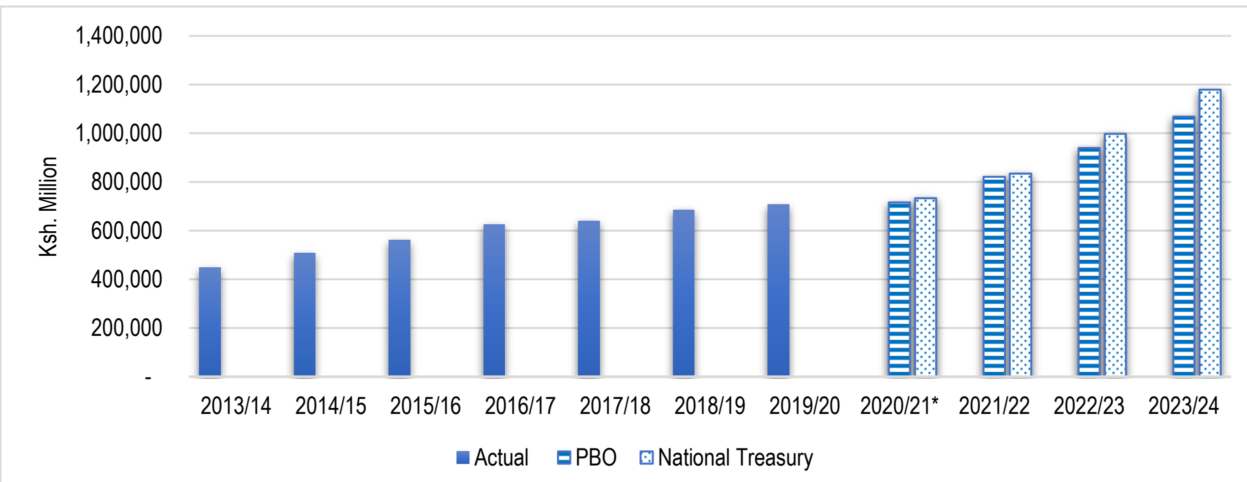
Table 3: National Treasury Revenue Projections (Ksh. Billion)

National Treasury Revenue Projections (KSH. Billion)							
	2018/19	2019/20	2020/21		2021/22	2022/23	2023/24
	Actual	Actual	Printed	Revised	Budget	Proj.	Proj.
Revenue & grants	1,721	1,757	1,949	1921	2,101	2,427	2,845
Total Revenue	1,704	1,737	1,893	1848	2,039	2,380	2,796
Ordinary Rev	1500	1,573	1,634	1594	1,776	2,142	2,516
Tax revenue	1,401	1,384	1,515	1433	1,667	2,024	2,388
Income tax	685	707	685	733	835	997	1,179
VAT	414	384	482	395	473	585	692
Import duty	107	98	107	96	119	145	170
Excise duty	194	195	241	209	241	297	347
Other	99	189	119	161	108	118	129
Appropriation-in-Aid	204	164	259	254	263	238	280
Grants	20	20	57	73	62	47	48
Expenditure & Net Lending	2,434	2,565	2,791	2,892	3,054	3,202	3,496
Deficit Excl Grants	(729)	(828)	(842)	(1,044)	(1,015)	(822)	(699)
Deficit Incl Grants	(709)	(809)	(899)	(971)	(952)	(775)	(651)
As a percent of GDP (%)							
	2018/19	2019/20	2020/21		2021/22	2022/23	2023/24
	Actual	Actual	Printed		Budget	Proj.	Proj.
Revenue & grants	18.4	17.3	17.2	16.9	16.9	17.6	18.5
Total Revenue	18.2	17.1	16.8	16.5	16.4	17.3	18.2
Ordinary Rev	16.0	15.5	14.5	14.3	14.3	15.6	16.4
Tax revenue	15.0	13.6	13.4	12.8	13.5	14.7	15.5
Income tax	7.3	6.9	6.1	6.6	6.7	7.2	7.7
VAT	4.4	3.8	4.3	3.5	3.8	4.2	4.5
Import duty	1.1	1.0	0.9	0.9	1.0	1.1	1.1
Excise duty	2.1	1.9	2.1	1.9	1.9	2.2	2.3
Other	1.1	1.9	1.1	1.4	0.9	0.9	0.8
Appropriation-in-Aid	2.2	1.6	2.1	2.3	2.1	1.7	1.8
Grants	0.2	0.2	0.5	0.7	0.5	0.3	0.3
Expenditure & Net Lending	26.0	25.2	24.7	25.9	24.6	23.3	22.7
Deficit Excl Grants	(7.8)	(8.1)	(8.0)	(9.3)	(8.2)	(6.0)	(4.5)
Deficit Incl Grants	(7.6)	(7.9)	(7.5)	(8.7)	(7.7)	(5.6)	(4.2)

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

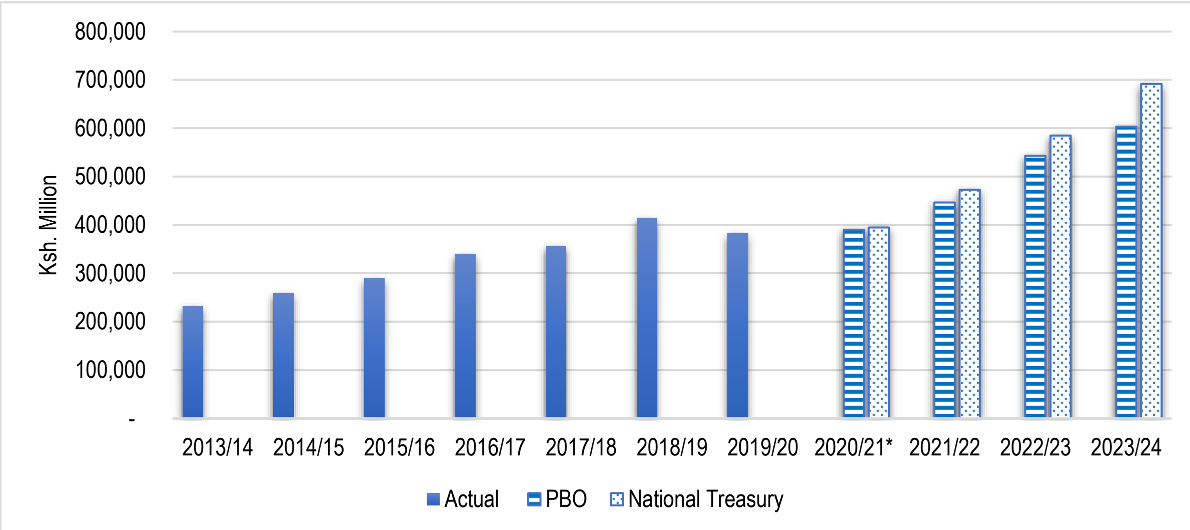
42) **The growth in revenue from income tax is expected to rebound in the 2021/22 FY.** The revenue growth is based on the expected recovery in economic growth and the assumption that more severe coronavirus mitigation measures will not be implemented in the coming financial year. Therefore, if Kenya does not successfully implement a comprehensive vaccination programme, there is a possibility that future lockdowns may lead to significantly lower income tax revenue collection in the 2021/22 FY. We project that income tax collection in 2021/22 will be between Kshs. 780 billion and Ksh. 859 billion against a target of Ksh 834 billion set by the National Treasury. However, it should also be noted that barring any unforeseen shocks to the economy, the National Treasury has the potential to collect up to Ksh. 875 billion from income tax.

Figure 10: Income Tax



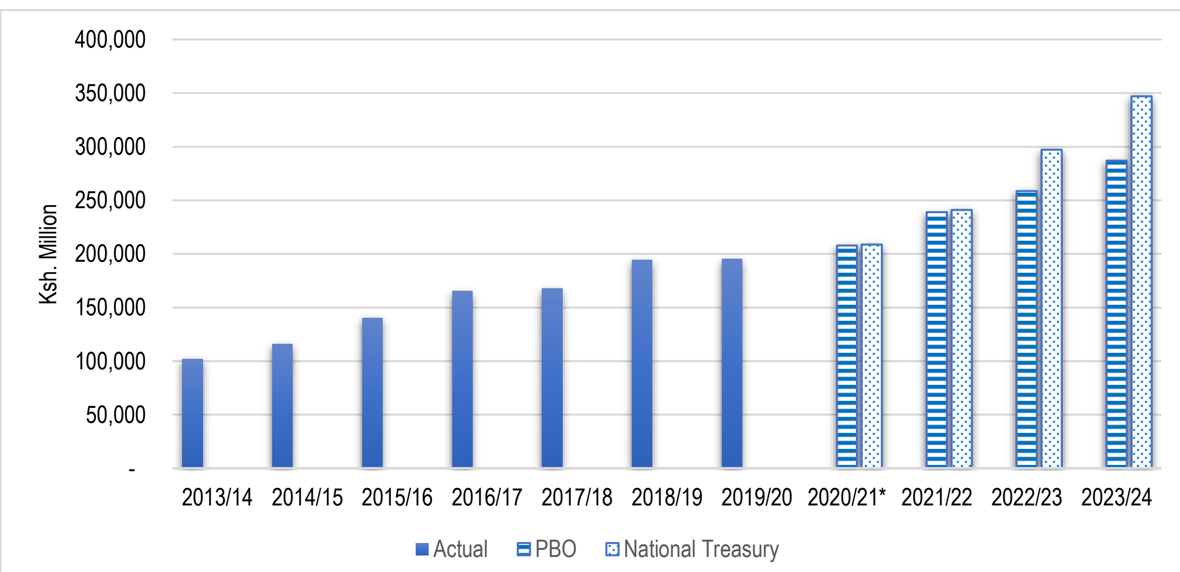
43) **Value-added tax revenue collection is expected to revert to its pre-covid 19 pandemic growth rate in 2021/22.** The growth of VAT collection will be spurred by the reinstatement of the VAT rate of 16 percent and the assumption that Kenya's economy will grow by over 5 percent in 2021/22. However, if there is a spike in coronavirus cases in the next financial year, a slump in incomes and by extension consumption will dampen the expected growth in VAT collection. The National Treasury projects VAT revenue collection of Ksh. 473 billion in 2021/22 however by sealing leakages in VAT collection, the National Treasury has the potential of collecting over Kshs. 490 billion. Ceteris paribus, we project VAT revenues of between Ksh. 443 billion and Ksh. 447 billion in 2021/22.

Figure 11: Value Added Tax (VAT)



44) **The National Treasury projects that excise duty collection will be Ksh. 241 billion in 2021/22.** Excise duty revenue as a share of GDP in FY 2021/22 is expected to remain at about 1.9 percent which is similar to its FY 2019/20 and FY 202/21 levels. Consequently, the projected revenue from excise duty both by the National Treasury and PBO are pegged on economic growth performance. We project that excise duty revenue in 2021/22 will be between Ksh. 227 billion and Ksh. 239 billion.

Figure 12: Excise Duty

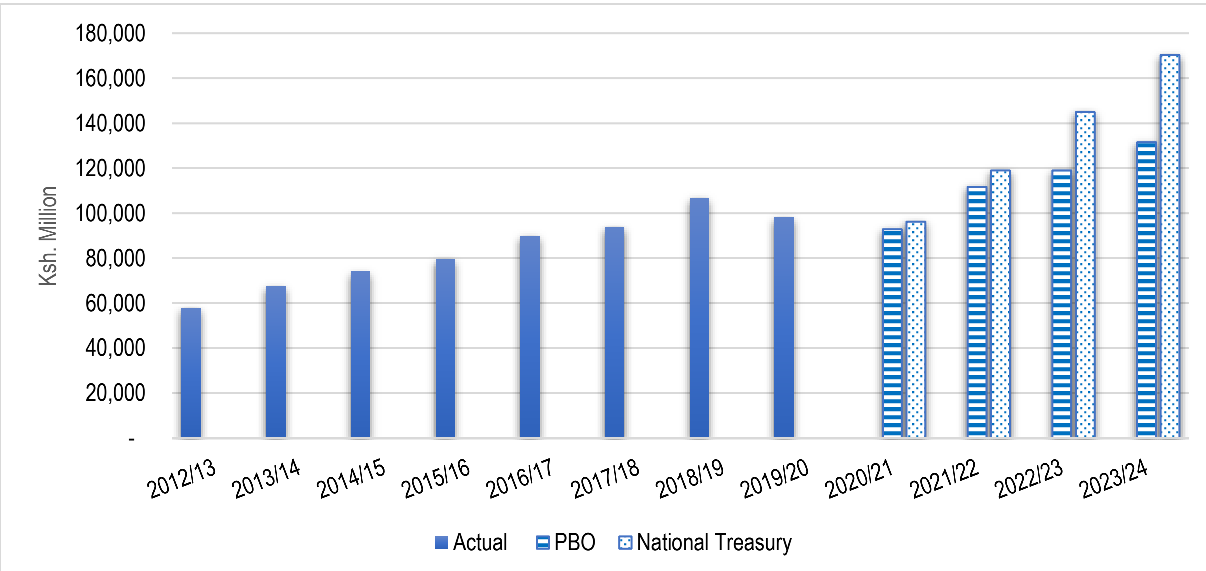


45) There was a slump in Kenya's value of imports in 2019 due to low fuel import prices and a slowdown in domestic economic activities which resulted in a drop in the importation of industrial machinery. Due to the depressed value of imports, revenue from import duty declined in 2019/20 FY and the impact is

expected to filter through in 2020/21. However, as domestic economic growth recovers and crude oil prices rise, the value of imports is expected to increase in 2021/22.

46) We project that the import duty revenue in 2021/22 will be between Ksh. 111 billion and Ksh. 117 billion. The projection is based on the assumption of domestic growth of over 5 percent, over 7 percent increase in global oil prices, and modest growth in export prices of industrial countries. Our import duty collection projection is slightly lower than the National Treasury's projection of Ksh. 119 billion in FY 2021/22.

Figure 13: Import Duty



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

2.2.1. Impact of Tax measures to raise additional revenue (Finance Act 2021)

48) The Finance Act 2021 outlines a raft of changes to the country's tax regime including but not limited to the Income Tax Act, Value Added Tax Act and Excise Duty Tax Act. The main objectives are to achieve revenue growth and expand the tax base.

49) Some of the new measures contained in the Finance Act 2021 are summarized as below;

i. Expansion of the scope of the Digital Service Tax: In the 2020 Finance Bill, DST was introduced at the rate of 1.5% of the gross transaction value in the provision of services in the digital marketplace. In the Finance Act 2021, the definition of digital marketplace has been expanded and entails the provision that all the income generated by businesses over the internet or electronic networks will be chargeable to income tax. This, therefore, widens the scope of online services tax income to both goods and services. With the transactions in the modern world shifting to the digital platform, the DST targeted on non-residents will lead to expansion of tax base and enhance revenue collection.

ii. The levy on liquefied petroleum gas (LPG) will take effect in the current financial year after the introduction of 16% VAT on the supply of liquefied petroleum gas. It is expected that the tax policy will enhance the growth of the revenue in the current FY and the medium term. However, the imposition of taxes on cooking gas is extremely a frail balance where improving revenue is at the heavy expense of households' income. The tax may reverse gains from the objective promoting the use of clean energy in Kenya consequently households might revert to the use of firewood and charcoal which will negatively impact their health as well as the environment.

iii. Expansion of the excise duty tax base by amending the betting tax by reducing it from 20% to 7.5%. The reduction implies that more betting firms will get back to the market hence improving the excise duty tax from the sector. Reduced betting taxes are aimed at raising additional revenue; however, it is weighed against the negative impact of betting especially among the youth.

Keep an eye on:

i. Revenue collection as a share of economic activity (GDP). The target of reducing the fiscal deficit as a share of GDP and expanding the fiscal space to address challenges faced by poor Kenyans cannot be attained if the efficiency of collecting revenue within the existing tax structure is not improved.

ii. Fiscal deficit as share of GDP. The National Treasury has committed to reducing the fiscal deficit as a share of GDP excluding grants (including grants) from -8.2 percent (-7.7 percent) in 2021/22 to -4.5 percent (-4.2 percent) in 2023/24. However, without fiscal consolidation efforts, targeted expenditures aimed at spurring economic growth and improved efficiency in revenue collection, the fiscal deficit target may be unattainable.

iii. The revenue that will be raised from implementing the new Digital Service Tax and its impact on the commercial activities of non-residents in the online marketplace.

iv. The reduction of the betting tax from 20 percent to 7.5 percent is meant to incentivize the betting firms to return to the market thus expand the excise tax from the sector. It is also imperative to keep an eye on the change in revenue from taxes on betting, the impact of the tax changes on the number of people who are engaged in gambling as well as the average share of income that is spent on gambling.

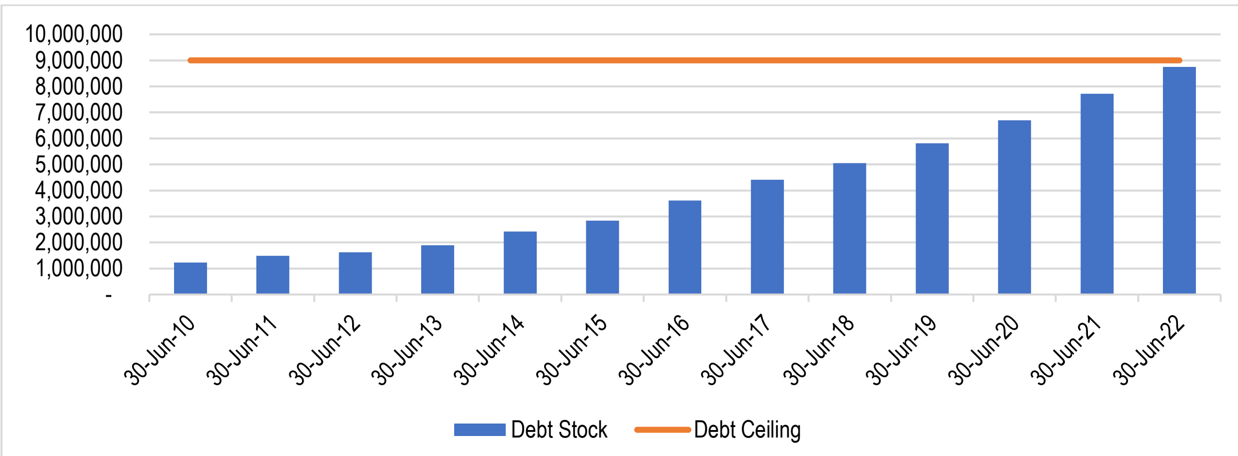
v. The impact on sales of LPG resulting from the imposition of the 16 percent VAT levy. This tax may hamper the rate of transition to the use of clean energy for cooking in Kenya especially among low-income households.

vi. Court cases challenging the implementation of some of the tax measures contained in the Finance Act 2021.

2.3. Public Debt Outlook and Risk Analysis

50) **Kenya's Public debt stock will continue to increase and with it, increased risk exposure and a reducing fiscal space.** The stock of debt has grown annually at a rate of 18% for the past 10 years to reach Kshs. 7.71 trillion[19] by June 2021 and accounts for 69% of GDP[20]. It is projected to reach Ksh. 8.7 trillion in FY 2021/22, due to the forecasted fiscal deficit of Kshs. 1.014 trillion. This brings it to Kshs. 300 billion short of the Kshs. 9 trillion debt ceiling indicating lack of borrowing space for the medium to long term expenditures, if appropriate measures are not taken. The current economic conditions i.e. subdued growth in some key sectors e.g. tourism, increased unemployment and poverty levels, increased uncertainty (election and COVID related), are unfavourable for maintenance of such a high debt stock and increasing debt servicing expenditures are likely to result in liquidity constraints that could impact fiscal policy implementation.

Figure 14: National Debt Stock, June 2010 – June 2022 (Kshs. Millions)



Source: Annual Debt Management Report

51) **What is the role of a debt ceiling in Kenyan fiscal sustainability strategy?** Despite the existence of debt ceiling(s), the debt stock has risen unabated, partly encouraged by ceiling readjustments[21]. Debt ceiling readjustments only affect debt stock from a solvency (Debt/GDP) perspective with no consideration for liquidity consequences (impact of debt servicing expenditure on revenues (ordinary and exports)). If the level of debt ceiling permits the debt stock to reach levels upon which liquidity insufficiency becomes a frequent factor, solvency concerns materialize. As such, the ceiling by itself, if not properly evaluated, can promote fiscal instability. These factors should be taken into consideration when the viability of the remaining borrowing space (Kshs. 300 billion) in meeting medium term expenditures and control of debt risks, elicits discussion as to whether to retain, reduce or expand the current ceiling.

[19] CBK, June 2021. Comprising of 52% and 48% External debt and Domestic debt, respectively.
[20] Based on Budget Summary GDP forecast for June 2021 of Kshs. 11.17 trillion
[21] 2014 through Sessional Paper No. 14 (Prior to the enforcement of PFM regulations, the external debt ceiling of USD 14 billion was increased to USD 28 billion) and 2019 (amendment of PFM regulations debt limit of 50% of GDP in Net Present Value terms to Kshs. 9 trillion)

52) **The fiscal deficit is likely to persist over the medium term, delaying debt stabilization efforts.** The fiscal path estimations indicate that the fiscal deficit will structurally improve in FY 2022/23 and persistently decline towards 4% within the medium-term. However, this strategy does not achieve the Debt Stabilizing Primary Balance[22] (DSPB) estimated to range between 1.23%[23] and 1,83%[24] of GDP. As such, an upward debt trajectory is expected. Furthermore, there are realism concerns behind assumptions that would create such a reduction in the fiscal deficit path in FY 2022/23. These relate to factors such as: upcoming election financing requirements, economic uncertainty, economic growth rapid economic rebound, post-2022 fiscal policy uncertainty.

Figure 15: Fiscal Deficit (Incl. Grants)

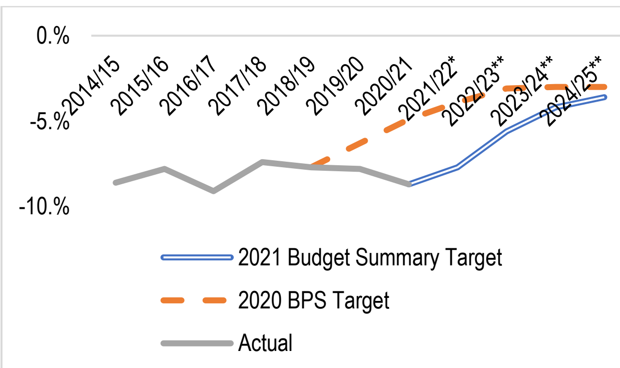
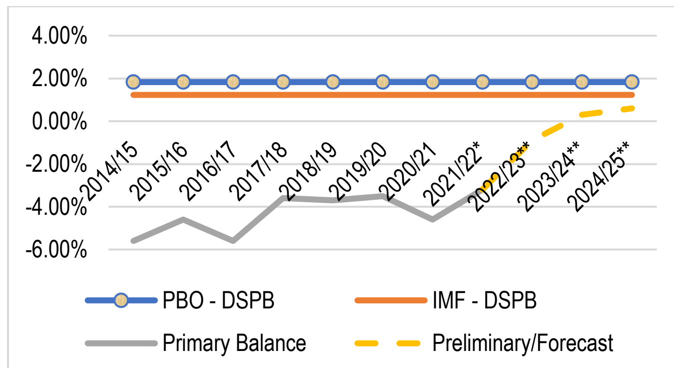


Figure 16: Primary Balance (share of GDP)



Source: Parliamentary Budget Office Estimates, Budget Policy Statements, IMF 2021

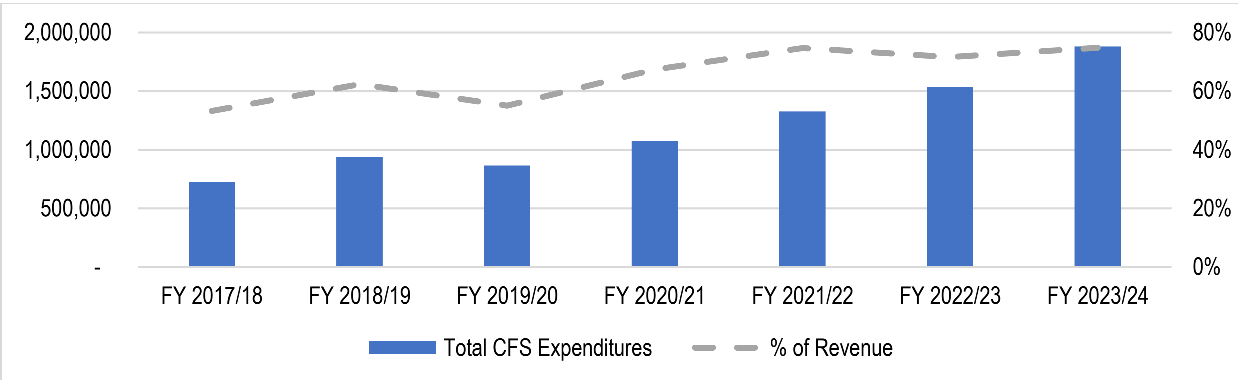
53) **Weak link between fiscal deficit, revenue growth and GDP could jeopardize fiscal consolidation effort.** For Kenya, the fiscal deficit to GDP ratio is a weak indicator for fiscal consolidation. This is because; i) GDP is a large and a constantly increasing value - as such, the absolute amount of fiscal deficit may continue to increase (as well as the underlying financing requirements) even when the fiscal deficit/GDP ratio declines, ii) The sector composition of GDP growth is not linked to sector composition of revenue growth (which finances the fiscal deficit) i.e. large component of Kenya's GDP is agricultural based, a sector that does not contribute substantially to revenue generation. As such this directs that fiscal consolidation at high deficits levels is also critical of economic transformation measures i.e. shifting production from low skill/productivity sectors to high skill/high productivity sectors.

54) **Increase in mandatory expenditures will affect flexibility of cash flow management.** Consolidated Fund Services[25] will amount to Kshs. 1.33 trillion in FY 2021/22 are estimated to account for 75% of ordinary revenues. As they are a first charge to the Consolidated Fund, their increase creates fiscal inflexibility from both the expenditure and revenue perspectives (creating increased risk of disruption) and is therefore a key concern to budget implementation. As these mandatory expenditures increase they put pressure on liquidity parameters and affect exchequer releases to national and county

[22] Primary balance required to stabilize the Debt/GDP ratio
[23] IMF April 2021
24 PBO estimates
[25] These are mandatory expenditures that are a direct charge to the Consolidated Fund composed of debt servicing expenditures, pension payments and salaries for constitutional and independent offices.

governments. A careful cash flow management framework will therefore be critical in meeting short term liquidity requirements during the fiscal year.

Figure 17: CFS expenditures and share of Ordinary Revenues



Source: FY 2021/22 Approved Budget, Budget Summary & Annual BPS publications

55) **Pension reforms will likely increase pension liability but increased public sector pension efficiency.** Forming part of the CFS expenditures have increased from Kshs. 32.4 billion in FY 2021/22 to reach Ksh. 153.6 billion in FY 2021/22, a 375% increase. In FY 2021/22 these have increased primarily as a result of pension reforms related to Public Service Superannuation Scheme leading to increase by Kshs. 20.8 billion. Whilst this increases mandatory expenditures, it will facilitate efficiency of pension access, assessment and disbursement, for the largest social welfare support system in the country.

56) **Public Debt servicing (PDS) is expected to be a major course of constrain to the availability of budgetary finance.** Amounting to Kshs. 1.17 trillion (or 9% of GDP), PDS contributes 88% of CFS expenditures and accounts for over 66% of ordinary revenues (rising from 44% in FY 2019/20), and will make a substantial contribution to the fiscal deficit. Concurrently, the increase in debt servicing expenses has outpaced allocations for development expenditure (for which debt is meant to finance) by up to 189%. This point to an over leveraged fiscal framework where borrowing is no longer productive. The reduction of debt servicing would yield higher benefits to the fiscal framework than reduction of any other expenditure item, but this would require abroad/multiple approach to debt reorganization i.e. a mix of debt suspension, conversion, forgiveness.

Figure 18: PDS and Ordinary Revenues Share

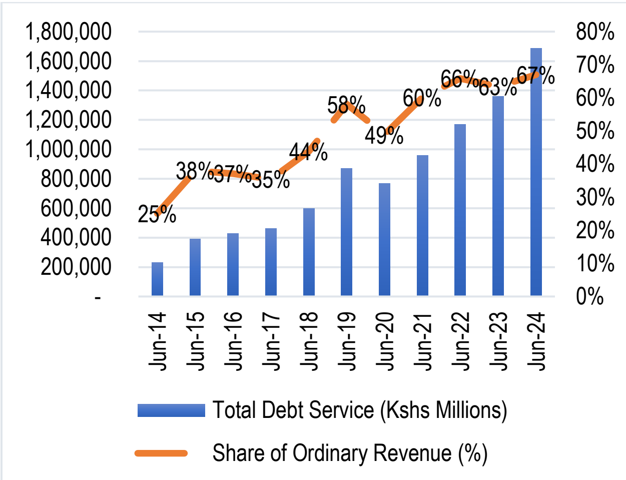
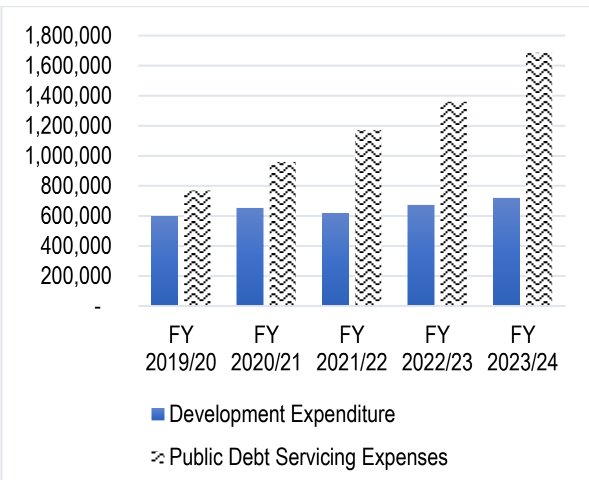


Figure 19: PDS vs Development Expenditures



Source: FY 2021/22 CFS Expenditures & BPS 2021

57) **Increased resource oversight will have direct positive impact on enhancing efficiency of resource utilization during a period of constrained fiscal space.** At a high constrained fiscal level, risks and consequences of fiscal wastage and leakages are likely to be higher. Efficiency of resource utilization with a focus on improving the incremental capital output ratio, would yield a high return for public investment. This can be achieved through proactive oversight mechanism, transparency of reporting, assessment of outcomes and timely implementation of response measures required to mitigate fiduciary risk.

58) **A close follow-up of targets set under the on-going IMF program will have an added advantage.** The ongoing IMF program creates an opportunity for to undertake structural reforms that would increase efficiency and sustainability of the public finance framework. This should lead to policy formulation that can be applied to both national and devolved governments in order to ensure the applicable and beneficial aspects of the program are sustainable. The indicative targets, among others, include:

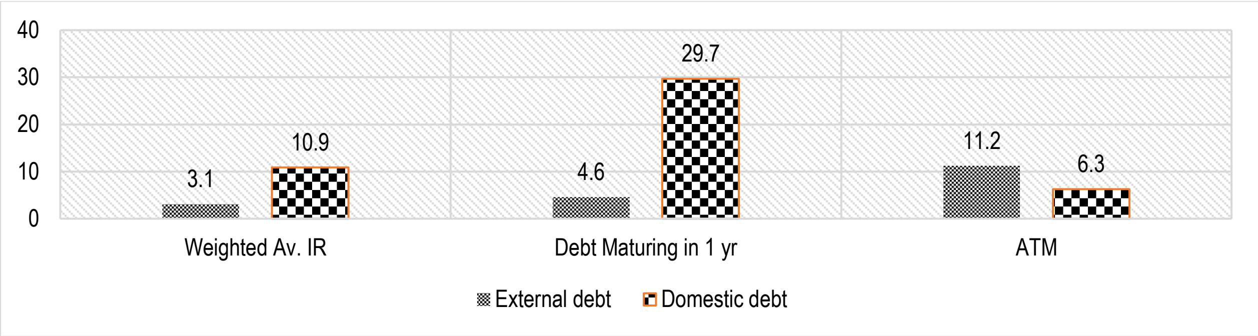
i. Preparation of in-depth forward looking financial evaluation of top 15-20 SOEs
ii. Completion of a blue print for identification of necessary actions and legal reforms to enhance governance
iii. Developing an integrated monitoring and reporting system
iv. Establishing performance management monitoring and evaluation framework
v. Initiating review of institutional structures
vi. Expanded fiscal risk analysis that quantifies contingent liabilities from SOEs and PPPs
vii. Promotion of fiscal transparency via publishing of procurement information i.e. beneficial ownership data of companies awarded contracts, operationalization of Access to information Act.

59) **Debt related risks are on the upside.** As of May 2020 Kenya was assessed as being at high risk of debt distress[26] and the impact of the Covid-19 shock (and related response measures) on the fiscal framework, GDP growth rate and related uncertainty, exacerbated this fiscal position as indicated by deteriorating debt sustainability indicators. As such, Kenya's debt carrying capacity has been revised from strong to medium and the Public debt benchmark (PV of Debt to GDP ratio) reduced from 70% to 55% indicating that the public debt to GDP (at 62.4%) is above indicative sustainability threshold and expected to remain so into the medium term[27].

60) **While domestic debt risk remains elevated, increase in external debt risk will be of concern.** As of December 2020, external debt maintained a low risk profile compared to internal debt stock i.e. lower Average Term to Maturity, lower rate of debt maturing in within one year and lower Weighted Average Interest Rate. However, for the medium to long-term external debt management will be critical. Refinancing risk is likely to increase over the medium-term owing to: i) Eurobond debt servicing in 2024 (Kshs. 265.68 billion) and 2028 and ii) Debt Servicing Suspension Initiative whose aim is to reduce the debt servicing burden in the medium-term, might pile up debt servicing expenses in the long-term, approximately Kshs. 25 billion to Kshs. 35 billion annually. DSSI concern is that it requires frequent and lengthy renegotiations and could be costly if not matched with improvement in macroeconomic-indicators.

[26] IMF Country Report No. 20.20/156
[27] IMF April 2021

Figure 20: External debt and domestic debt risk comparison, Dec 2020



Source: Medium Term Debt Strategy (MTDS) 2021

Keep an eye on:

i. Due to the constrained fiscal space, the implementation of cash flow management will be critical in ensuring that exchequer releases are uninterrupted and exchequer requirements are met on a timely basis.

ii. Enhanced oversight over during the budget implementation process in order to increase efficiency of resource utilization.

iii. The implementation of targets set under the IMF program in order to ensure that public finance framework is enhanced and that structural transformation objectives are met and sustained.

iv. Reconsideration of the debt ceiling that is expected to take place in the course of FY 2021/22. The reconsideration should factor both borrowing requirements, fiscal objectives and its impact on macroeconomic variables.

v. While there are pros and cons to use of debt for budget financing, it should be noted that it is a limited resource and should be applied appropriately:

   a. As such commercial debt should be limited to projects with both high economic and financial returns.

   b. The use of commercial borrowing utilized for budgetary support should limited to projects that have undergone in-depth project feasibility and appraisal.

   c. As from FY 2021/22, finances meant for budgetary support should have enhanced transparency provisions, detailed and frequent reporting, and added oversight requirements.

2.4. Re- Engineering County Expenditure for Economic Recovery

61) **County governments are in the process of implementing a County Covid-19 Socio-economic Recovery and Re-engineering Strategy.** This Ksh. 132 billion recovery plan was launched in December 2020 to help counties in the socio-economic recovery process to safeguard against the adverse impact of the covid-19 pandemic. The plan identifies key priorities in various anchor sectors such as agriculture, water and sanitization, health, education, social protection, urban development and housing, gender and youth, transport and tourism sectors. It is not clear however, whether the counties have successfully incorporated or linked the policies contained in this overarching policy document with their specific policy documents, notably the County Fiscal Strategy Paper (CFSP).

62) **County budget documents are facing significant delays in review and approval and this can greatly hamper policy implementation.** For instance, it is noted that as at March, 2021 only 22 counties out of the 47 counties had submitted their CFSP to the Controller of Budget as required by law, which is 46% compliance. Further, as at 28th February 2021, only 6 counties had submitted the CFSP to CRA as per section 117 5 (a) of the PFM, Act, 2012. The approval of County Budget Estimates has also delayed significantly in some counties due to delayed submission to the County Assemblies as well as delayed processing in the Assemblies. As at July 2021, it is noted that out of the 47 counties only 28 counties had approved their 2021/2022 budgets. This indicates that approximately 40% of the counties are still in the process of review and consideration of their budgets despite the financial year having already begun.

63) **Even though the direction of a county budget is dependent upon its needs, plans and priorities, there is concern that counties may not be allocating enough resources towards the critical sectors of Agriculture and Health.** A critical review on some sampled county budgets for 2021/22 Financial year as shown in table 4 indicates that, while there are some counties who have made some good provisions to sectors that are fully devolved such as agriculture and health there are others who have made minimal provision for the sectors which may affect service delivery.

Table 4: Percentage Allocation to select sectors by sampled counties (FY 2021-22)

	County 1	County 2	county 3	county 4	county 5	Average
Health	7	33	18	31	14	21
water	4	5	4	4	2	4
Agriculture	9	7	9	7	10	8
Roads	4	11	7	9	6	7
County Assembly	7	10	11	8	12	10
Others	69	34	51	42	56	50
Total	100	100	100	101	100	100

Source: Sampled County Government Budget Estimates.

64) **There is concern that budget reallocations through the supplementary budget are a significant impediment to service delivery in other critical sectors.** During the supplementary budget process in counties, there has been a tendency to re-allocate funds to infrastructure development at the expense of water and agriculture sectors which are also critical. As indicated in

Table 5, between 2014 – 2018, the allocation to agriculture was reduced from 5.9% to 5.3% - a reduction of Kshs 7,084 million. These resources were mainly reallocated to the administration work of the County Executive and the County Assembly. Overall, during this period, counties prioritized functions were scaled down by about Kshs 20 billion.

Table 5: Sector share of the total budget

	Budget			Expenditure		
SECTOR	**Sector share of Recurrent Budget**	**Sector share of Development Budget**	**Total Sector Share of Total Budget**	**Sector share of total Recurrent Expenditure**	**Sector share of total development Expenditure**	**Total Sector Share of total Expenditure**
Health	30.10	14.00	23.50	30.20	13.70	25.10
water	3.80	12.60	7.40	3.40	13.70	6.60
Agriculture	4.90	7.50	5.90	4.40	7.20	5.30
Roads	3.70	25.10	12.50	3.10	31.40	11.90
County Assembly	13.60	3.90	9.60	12.90	2.50	9.70
County Executive	11.4	3.90	8.30	12.80	3.60	9.90
Sector Total	67.40	66.90	67.20	66..7	72.20	68.40
Total Budget	867,936	604,571	1,472,506	814,503.18	366,181.39	1,180,684.57
Share of recurrent and Development Expenditure	59%	41%	100%	69%	31%	100%

Source: COB Report 2014-2018, Budget credibility in Kenya counties; international budget organisation

65) **The framework for disbursement of conditional funds to county governments is still under consideration.** Following the court ruling in the High Court Petition No. 252 of 2016 that it is not permissible to provide for conditional grants in the Division of Revenue Act; Parliament, in consultation with relevant stakeholders, formulated the County Governments Grants Bill 2021. The Bill provides a legal mechanism for the allocation of conditional grants from the national government to the county governments and provides a framework for the management, control of, and accounting for both conditional and unconditional grants allocated to counties.

66) The conditional transfer in FY 2021/2022 of Kshs. 32.343 billion as conditional allocations financed from loans and grants from development partners will therefore require Inter-Fiscal Agreements and Ratification. It is proposed that the National Treasury will enter into an agreement with the respective county governments on approval by the County Assembly for each county's conditional allocation. Inter-fiscal agreements will be undertaken to approve the withdrawal of funds from the Consolidated Fund to the County Revenue Fund, or from the County Revenue Fund to the Special Purpose Account. This however remains a proposal and the framework for the same will be finalised in the proposed bill.

67) **There are major accountability issues reported in the Auditor General reports with regard to both the National Government and County Government expenditure.** With regard to county governments, these concerns include the following: unbudgeted expenditure where expenditures are incurred on goods and services which were not included in the budget; uncompleted or stalled projects where projects are started but abandoned before completion resulting to wastage of public resources; and inefficiency and inadequate capacity of oversight committees of the County Assemblies.

68) **Pending bills continue to be a major concern in counties.** As at 30th June, 2020, as per the Controller of Budget report for the 1st three months of financial year 2020/21, it has been observed that some counties failed to budget for pending bills in the 2020/21 and therefore could not settle them within the budget during that period. A report from the Commission on Revenue Allocation in April, 2021 indicates that County Assemblies had pending bills totalling Kshs 980 million. The bills should be verified and paid as per the law.

69) It is noted that the 2021/22 financial year is the first year of implementation of the third basis criteria of revenue distribution. The basis for revenue sharing to counties approved by Parliament in 2020 was based on four objectives: to enhance service delivery; to promote balance development; to incentivize counties to optimize capacity to raise revenue; and to incentivize prudent use of public resources.

Keep an eye on.

i) Approved development expenditure to ensure incomplete projects are completed and planned projects are implemented as per the budget
ii) Reduction of pending bills in County Assemblies and County Executive.
iii) The framework for disbursement of the conditional funds to county government and utilisation of the same.
iv) The status of the projects that have been under implementation from the conditional grants in the counties.
v) Services in level 5 hospitals given the change in disbursement of conditional grants

Chapter Three:

The FY 2021/2022 Sectoral Expenditure*

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3.1. Introduction

70) The approved allocation for Ministries, Departments and Agencies (MDAs) in the FY 2021/2022 amounts to Kshs. 1.94 trillion. This comprises of Kshs. 1.89 trillion for the executive, Kshs. 37.88 billion for the legislature and Kshs. 17.92 billion for the Judiciary. A breakdown of the total allocations indicates that 65.6 percent is utilized for recurrent expenditure while 34.4 percent is for capital expenditure. The recurrent expenditure is largely funded through government exchequer while the capital expenditure gets bulk of its funding from the project loans and government exchequer. Table 6 gives a summary of the approved budget for MDAs.

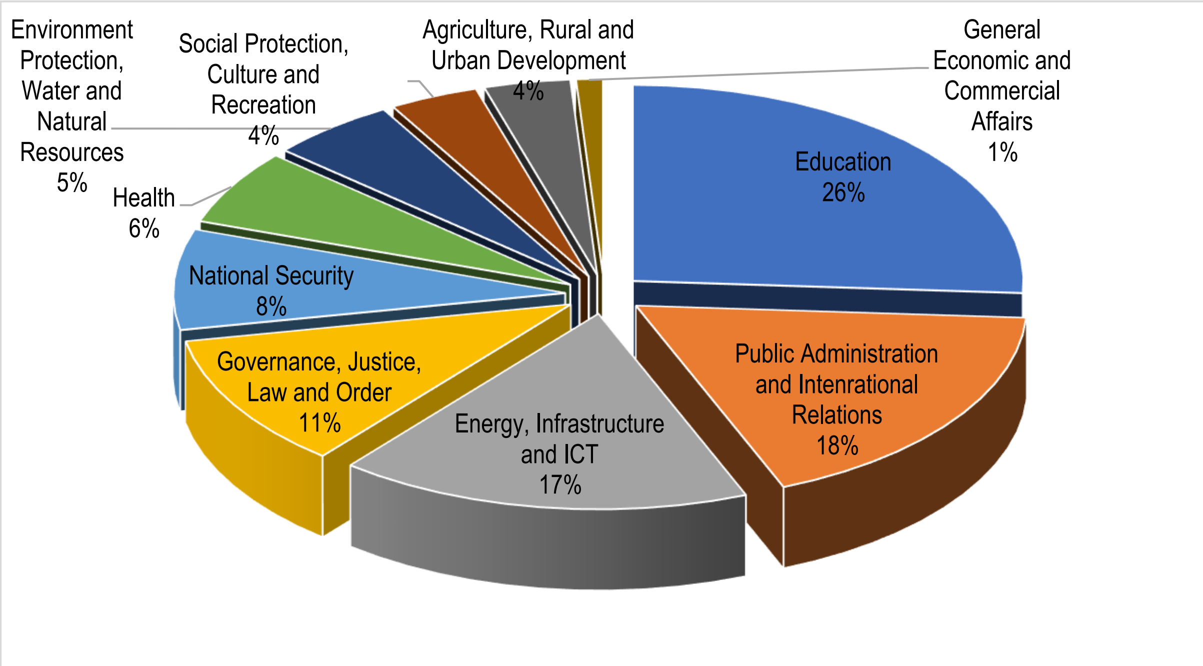
Table 6: Summary of the Total MDA Budget for FY 2021/2022 (Ksh. Billion)

	Executive	Legislature	Judiciary	Total
Recurrent	**1,222.23**	**35.82**	**15.58**	**1,273.63**
o/w GoK Exchequer	1,055.17	35.80	15.58	1,106.56
o/w AIA	167.06	0.01	-	167.07
Capital	**663.98**	**2.07**	**2.33**	**668.38**
o/w GoK Exchequer	268.15	2.07	1.60	271.81
o/w Local AIA	82.78	-	-	82.81
o/w Loans	272.79	-	0.74	273.53
o/w Grants	40.25	-	-	40.25
Total	**1,886.21**	**37.88**	**17.92**	**1,942.01**

Source: Approved FY 2021/22 budget estimates

71) The approved allocation for MDAs is heavily inclined to a few sectors and programmes. The breakdown of the MDAs allocation provided in figure __ indicates that the three largest sectors account for more 60 percent of the funds. The largest is the education sector which takes up more than a quarter of the funds and its main programmes include the teacher resource management, university education and secondary education. It is followed by the public administration and international relations sector which accounts for 18 percent and its key programmes are the National Treasury's general administration, planning and support services and the Public Finance Management. The Energy, Infrastructure and ICT is the third largest sector accounting for 17 percent with its major programmes being the road transport and power transmission and distribution.

Figure 21: MDAs budget by Sector



Source: Approved FY 2021/22 budget estimates

3.2. Key Expenditures To Watch

3.2.1. Education Sector

72) The total allocation for the education sector amounts to Kshs. 504 billion. This comprises of Kshs. 281.7 billion for the Teachers Service Commission (TSC), Kshs. 103.3 billion for the State Department for Early Learning & Basic Education, Kshs. 95.4 billion for the State Department for University Education, Kshs. 23.3 billion for the State Department for Vocational and Technical Training and Kshs. 0.3 billion for the State Department for Post Training and Skills Development. More than 95 percent of the funds allocated to the sector is utilized for recurrent expenditure. Table __ gives a summary of the approved budget for the education sector.

Table 7: Summary of the Education Sector budget for FY 2021/2022 (Ksh. billions)

MDA	Recurrent	Capital	Total
Teachers Service Commission	281.1	0.6	281.7
State Department for Early Learning & Basic Education	91.6	11.7	103.3
State Department for University Education	91.1	4.4	95.4
State Department for Vocational and Technical Training	18.6	4.6	23.3
State Department for Post Training and Skills Development	0.3	-	0.3
Total	**482.6**	**21.4**	**504.0**

Source: Approved FY 2021/22 Budget Estimates

73) The sector implements 16 programmes across the five MDAs. Some of the key programmes for the sector include the 'Teacher Resource Management' programme which is implemented by the TSC and has been allocated Kshs. 273.2 billion; the 'University Education' programme which is implemented by the State Department for University Education and has been allocated Kshs. 94.2 billion; the 'Secondary Education' programme which is implemented by the State Department for Early Learning & Basic Education and has been allocated Kshs. 75.2 billion; the 'Technical Vocational and Education' programme which is implemented by the State Department for Vocational and Technical Training and has been allocated Kshs. 23.1 billion; and the 'Primary Education" programme which is implemented by the State Department for Early Learning & Basic Education and has been allocated Kshs. 19 billion.

74) Among the projects/programmes being implemented by the education sector, the key areas of focus in the FY 2021/2022 is the support towards implementation of the 100% transition policy and the rollout of the competency based curriculum. These are jointly being implemented by the Teachers Service Commission and the State Department for Early Learning & Basic Education.

3.2.1.1. Support towards the implementation of the 100% transition policy and the Competency Based Curriculum (CBC)

75) In the effort to expand access to education and provide quality education at the basic level, the government introduced the 100% transition policy as well as introduced curriculum reforms. Under the 100% transition policy, the goal is to ensure that all learners upon completion of learning at primary school level automatically transit to secondary school. To support this policy, the government embarked on a plan to expand both physical as well as the teaching resources which are key in terms of actualizing this policy goal. However, a key challenge as enrolment levels continue to increase is the expected constrained infrastructure to in public secondary schools.

76) The government is also implementing of the Competency Based Curriculum (CBC) whose aim is to move away from over emphasis of examination excellence and giving more attention to competency and skills. Under the CBC, the learners will follow the 2-6-3-3-3 structure (two years in pre-primary school, six years in primary school, six years in secondary school and three years in a tertiary institution). Since it was launched in 2017, its implementation is currently at the grade five level of primary school. Despite its appeal and successful implementation in the last few years, it has a myriad of challenges one being the preparedness of the government in terms of providing adequate learning amenities as well as the need to have adequate number of teaching resources to deliver on the curriculum.

77) The need to expand the learning amenities is critical especially in 2023 where double enrolment is expected in secondary school as a concurrent implementation of both the 8-4-4 and the CBC curriculums. In 2023, the current standard six learners under the 8-4-4 curriculum will be joining form 1 (secondary school) whereas the current grade five learners under the CBC curriculum will be joining grade 8 (junior secondary). Thus, the success of the CBC will largely depend on provision of adequate infrastructural facilities at both primary and secondary level, expanding the teacher resources as well as retraining of teachers to handle the new curriculum.

78) Thus, the success of the 100% transition policy as well as successful implementation of the new curriculum largely depend on the country's preparedness in two critical aspects which pose the biggest challenge, that is, investment in infrastructural expansion and rehabilitation as well as expanding the teachers resources. The attainment of the two policy goals are also compounded with the outbreak of the COVID 19 pandemic where with it came the need to address infrastructural gaps. These revolves around the expansion of infrastructure including water, sanitation and hygiene (WASH) facilities as well as increasing learning amenities such as desks.

79) The 2021/22 approved budget for the basic education sub-sector has an allocation of Kshs 8.4 billion towards infrastructure support to learning institutions including provision of desks as well as recruitment of teachers where key targets which require close monitoring have been set. This are the key areas for intervention in support of the 100% transition policy, the implementation of the new curriculum as well as continue with efforts to ensure basic institutions of respond to challenges posed by the COVID 19 pandemic. Thus, focus should be given on the utilization of resources allocated in 2021/22 for infrastructural support and allied interventions in the primary and secondary school levels, recruitment of teachers as well as training of teachers on the new curriculum.

Keep an eye on….

80) For the successful implementation of the CBC and the 100% transition policy, the key areas to watch in the FY 2021/22 are:

i. Primary schools infrastructure – Construction of 250 new classrooms, provision of 380,000 desks, renovation of infrastructure in 500 schools and construction of 50 administration blocks in schools.

ii. Secondary schools infrastructure – construction of 1,380 new classrooms, provision of 300,000 desks and construction of 416 laboratories in schools.

iii. Recruitment of teachers – recruitment of 2,000 intern teachers for primary schools, recruitment of 5,000 intern teachers for secondary schools and recruitment of 5,000 secondary school teachers.

iv. Training of teachers on CBC – training of 180,000 teachers on CBC.

3.2.2. Health Sector

81) The total allocation for the health sector amounts to Kshs. 121.1 billion comprising of Kshs. 64.9 billion for recurrent expenditure and Kshs. 56.2 billion for capital expenditure. The sector has only one MDA, the Ministry of Health, which implements 5 programmes. The 'National Referral & Specialized Services' programme takes the lion's share of the budget for the sector followed by the 'Health Policy, Standards and Regulations' programme. Table __ gives a summary of the approved budget for the health sector.

Table 8: Summary of the Health Sector budget for FY 2021/2022 (Kshs. billions)

Programme	Recurrent	Capital	Total
Preventive, Promotive & Reproductive Health	3.0	22.5	25.5
National Referral & Specialized Services	36.1	11.6	47.7
Health Research and Development	9.7	0.8	10.5
General Administration, Planning & Support Services	5.9	1.1	7.0
Health Policy, Standards and Regulations	10.1	20.3	30.4
Total	**64.9**	**56.2**	**121.1**

Source: Approved FY 2021/22 budget estimates

82) Among the projects/programmes being implemented by the health sector, one of the key areas of focus in the FY 2021/2022 is the rollout of the Covid-19 vaccination campaign. It is implemented under the 'National Referral & Specialized Services' programme.

3.2.2.1. The rollout of the Covid-19 Vaccination Campaign

83) The world is still in the midst of a Covid-19 pandemic which has ravaged world economies. Since its outbreak in 2020, Kenya has endeavored to put in place various interventions to mitigate against the pandemic. The initial intervention revolved around massive testing, putting in place various health protocols, recruitment of health personnel, distribution of medical supplies and protective gears as well as undertaking Covid-19 awareness campaigns. After successful development of Covid-19 vaccines in late 2020, the government interventions expanded to include deployment of vaccines in the country. The deployment of vaccines is expected to augment the existing preventive measures put in place to contain the virus.

84) As of July 2021, the World Health Organization (WHO) had approved the emergency use of several different Covid-19 vaccines including the Pfizer/BioNTech Comirnaty vaccine, the AstraZeneca-Oxford vaccine, the Janssen vaccine, the Moderna COVID-19 vaccine, the Sinopharma vaccine and the Sinovac-CoronaVac vaccine. For effective distribution of these vaccines, the WHO partnered with the UNICEF, CEPI and Gavi to setup the Covid-19 Vaccine Global Access (COVAX) facility which guarantees rapid, fair and equitable access for people in all countries. The goal of COVAX is to provide vaccination to up to 30 percent of the population in each country in the world. However, most African countries have faced challenges to secure vaccines for its citizens through the COVAX facility due to the huge demand across the world leading to a recurring breakdown in its vaccine supply. Therefore, the African Union (AU) in partnership with the World Bank, set up the African Vaccine Acquisition Task Team (AVATT) initiative where AU members states are allocated vaccines according to the size of their populations for purchase through a pooled procurement mechanism. Therefore, complementing the two facilities will ensure African countries to meet their vaccination targets.

85) Through COVAX facility, Kenya has been allocated 3.56 million doses of which 1.73 million doses of the AstraZeneca-Oxford vaccine had been disbursed to the country as at July 2021[28]. The AstraZeneca-Oxford vaccine requires two doses, four weeks apart, to prime the immune system to fight the Covid-19 virus. The rollout of the first dose vaccination began in March 2021 while that of the second dose vaccinations began in May 2021. Currently, 1.67 million doses have been administered of which 1.05 million were first doses while 625,332 were second doses. This indicates that only 2.3 percent of adult Kenyans have so far been fully vaccinated. An analysis of the priority groups being vaccinated indicates that only 20 percent have been fully vaccinated.

86) Despite the remarkable uptake of available vaccines, the government is still lagging behind its planned target of vaccinating 22 million people by the end of 2022. To this effect, the government intends to increase its purchase of vaccines by accessing the AVATT initiative in addition to the COVAX facility. Through the AVATT initiative, the country intends to purchase 13 million Janssen vaccines from Johnson & Johnson. The Janssen vaccine is administered as a single shot thus it is expected to hasten the vaccination process compared to the rollout of the AstraZeneca-Oxford

[28] Covid-19 Immunization Status Report 25th July 2021 https://www.health.go.ke/wp-content/uploads/2021/07/MINISTRY-OF-HEALTH-KENYA-COVID-19-IMMUNIZATION-STATUS-REPORT-25TH-JULY-2021.pdf

vaccine which was a double shot. Kenya intends to administer 150,000 doses of the Janssen vaccine daily as from August 2021[29].

87) Another key challenge to the rollout of vaccines is the apathy by citizens due to lack of awareness on its importance. Poor public health campaigns on Covid-19 vaccinations by the government may be the leading cause of the apathy. During the rollout of the first dose, demand for Covid-19 vaccines spiked after senior government officials led public vaccination exercise. However, the lack of their leadership in the drive for the second vaccination may have contributed to the lower participation. The successful vaccination of over 59 percent of the population in Israel is attributed to using of culturally adapted outreaches to overcome the vaccine apathy. Community and religious leaders were included in the discussion of vaccine efficacy and the rollout of the programme by endorsing some vaccines. The United Kingdom has also vaccinated more than 55 percent of its population. To increase the vaccination awareness, it funded local authorities to tailor public health campaigns with the help of community groups to help counter misinformation. The government intends to rollout a Covid-19 awareness campaign in the FY 2021/22 as it increases its available doses of vaccines.

88) Storage and distribution has also been another bottleneck in the successful rollout of the Covid-19 vaccine. Kenya has a central vaccine store in Kitengela, Kajiado County which has the capacity to store more than 6 months of vaccines stock for the country. It can store 130,000 litres under negative -2 to -8 degrees temperatures and 14,000 litres under -20 Celsius. Covid-19 vaccines are moved from the central vaccine store to nine regional cold chain facilities from where the counties collect and distribute the vaccines to local hospitals at the county and sub-county level. In the FY 2021/22, the government intends to increase the cold-chain storage facilities by establishing more regional cold chain stores and equip more healthcare facilities with vaccine storage equipment.

Keep an eye on….

89) For the successful rollout of the Covid-19 vaccination programme, the key areas to watch in the implementation of the budget of the FY 2021/22 are:

i. Covid-19 vaccination – the government targets to vaccinating 40 percent of the country's adult population by end of 2022. Since there have been shortages across different types covid-19 vaccines, the government should consider having a flexible approach to procuring a variety of covid-19 vaccines that will best suit the country's demand. Using the African Union facility, Kenya may consider not only the Janssen vaccine but also other WHO approved vaccines like the Pfizer/BioNTech, Moderna, Sinopharma and Sinovac-CoronaVac.

ii. Covid-19 storage equipment – the government targets to supply of Covid-19 equipment to 28 hospitals and equipping these healthcare facilities with functional cold storage equipment. The government should ensure that the vaccines and the equipment are evenly distributed in the country to ensure fair access by all citizens.

iii. Covid-19 testing and awareness campaign – the government targets to engage healthcare specialists across the country in the Covid-19 campaign and enhance testing and awareness campaign programmes. At this stage of the pandemic, it will be essential for the campaigns to focus more on Covid-19 vaccination drives over Covid-19 virus awareness. In its campaigns, the

[29] Covid-19 Immunization Status Report 25th July 2021 https://www.health.go.ke/wp-content/uploads/2021/07/MINISTRY-OF-HEALTH-KENYA-COVID-19-IMMUNIZATION-STATUS-REPORT-25TH-JULY-2021.pdf

Ministry of Health should tailor their campaigns based on various communities and demographic groups in the country to increase its reach. It may consider incorporating various community leaders who will help in building the trust with vaccination target groups.

3.2.3. Social Protection, Culture and Recreation Sector

90) The total allocation for the sector amounts to Kshs. 72.2 billion. This comprises of Kshs. 33.6 billion for the State Department for Social Protection, Pensions & Senior Citizen Affairs; Kshs. 16.5 billion for the State Department for Sports; Kshs. 10.1 billion for the State Department for Development of the ASAL; Kshs. 5.3 billion for the State Department for Labour; Kshs. 3.7 billion for the State Department for Gender; and Kshs. 3 billion for the State Department for Culture and Heritage. Table __ gives a summary of the approved budget for the sector.

Table 9: Summary of the sector's budget for FY 2021/2022 (Kshs. billions)

MDA	Recurrent	Capital	Total
State Department for Social Protection, Pensions & Senior Citizens Affairs	30.5	3.1	33.6
State Department for Sports	1.3	15.1	16.5
State Department for Development of the ASAL	1.1	9.1	10.1
State Department for Labour	2.8	2.6	5.3
State Department for Gender	1.0	2.6	3.7
State Department for Culture and Heritage	2.9	0.1	3.0
Total	**39.6**	**32.6**	**72.2**

Source: Approved FY 2021/22 budget estimates

91) The sector implements 15 programmes across the 6 MDAs. Some of the key programmes for the sector include the 'National Social Safety Net' programme which is implemented by the State State Department for Social Protection, Pensions & Senior Citizen Affairs and has been allocated Kshs. 29.2 billion; the 'Sports' programme which is implemented by the State Department for Sports and has been allocated Kshs. 16.5 billion; and the 'Accelerated ASAL Development' programme which is implemented by the State Department for Development of ASAL and has been allocated Kshs. 10.1 billion.

92) Among the projects/programmes being implemented by the social protection, culture and recreation sector, one of the key areas of focus in the FY 2021/2022 is to improve the efficiency in disbursement of the social safety net cash transfers. This is implemented under the State Department for Social Protection, Pensions & Senior Citizens Affairs.

3.2.3.1. Efficiency in disbursement of social safety net cash transfers

93) The government operates a National Safety Net Programme (NSNP) that provides social security to persons who are unable to support themselves and their dependents. The programme, dubbed Inua Jamii, incorporates four cash transfer programmes: the cash transfer to orphans and vulnerable children (CT-OVC), the older persons cash transfer (OPCT), the persons with severe disabilities cash transfer (PWSD-CT) and the Hunger Safety Net Program (HSNP). The beneficiaries of the CT-OVC are extremely poor Kenyan households with one of more OVCs as a permanent member. The beneficiary of the OPCT is a Kenyan citizen over 70 years old who is not receiving any pension. The beneficiary of PWSD-CT is a Kenyan citizen with severe disability. The beneficiaries of the HSNP are vulnerable and poor Kenyan households residing in the poorest arid counties in Kenya. The objective of Inua Jamii is to uplift the lives of the poor and vulnerable citizens through regular and reliable monthly and bi-monthly cash transfers[30].

94) The CT-OVC, OPCT and PWSD-CT are managed by the State Department for Social Protection, Pensions and Senior Citizen Affairs with the beneficiaries being paid Kshs. 4,000 bi-monthly. On the other hand, the HSNP is managed by the State Department for Development of the ASAL and the beneficiary households are paid Kshs. 5,400 bi-monthly. The Inua Jamii cash payments are delivered to the beneficiaries using the banking system. The beneficiaries are required to open a bank account in one of the four banks which are the contracted payment service providers (PSPs): Co-operative Bank, Equity Bank, KCB bank or Post Bank. The beneficiaries then collect their money from the bank's ATM, an authorized bank agent or over-the-counter at the bank's branch.

95) An emerging challenge in the implementation of Inua Jamii has been the efficiently in access of the money by the beneficiaries. A recent study focused on the accessibility of Inua Jamii cash transfer program in Matungulu Sub-County, Machakos County found that there were inadequate pay points in the area (Odera, Mavole, & Muhingi, 2020). This made most beneficiaries to commute for between 1 km and 6 kms to access their pay points, increasing the cost and time spend on withdrawal of the funds. The commute also poses as a security risk due to the increase in the chance of a beneficiary being hijacked when they go to get their money. This challenge is also aggravated by the Covid-19 pandemic where government protocols require the citizens to adhere to social distancing rules. Inclusion of a different payment method, such as a mobile-based cash transfer, as a complement to the current payment systems may adequately address this emerging challenge.

96) During the Covid-19 pandemic, both the government and humanitarian organizations collaborated to provide emergency support to households affected by the pandemic with the money being distributed to the beneficiaries using a mobile-based cash transfer system. Give Directly, FSD Kenya and other NGOs also distributed Kshs. 500 million to 200,000 beneficiaries through Safaricom's m-pesa (Gitobu, 2021). A post-cash transfer audit of these funds showed that the mobile-based cash assistance was 88 percent effective in the Covid-19 repsonse. Oxfarm Kenya, European Union, Danish Government, German Government and other NGOs implemented the 'safety nets' programme where they transferred Kshs. 447 million to 80,000 vulnerable households through Safaricom's m-pesa by end of October 2020 (Gikandi, 2020). The Kenyan government also supported 669,000 vulnerable households in 2020 with a weekly stipend of Kshs. 1,000 through m-pesa[31]. Mobile-based system for payment was also used by the government for payment of 200,000 youths employed under the GoK Kazi Mtaani public works programme.

97) It is also noted that whereas the main motivation for using mobile-based cash transfer system was to avoid the handling of hard currencies in a bid to reduce the spread of the pandemic, it equally brought out a key lesson that such payment systems can be effectively used to implement other cash transfer programmes under the Inua Jamii. The impactful outcomes of the mobile-based cash

[30] https://www.socialprotection.go.ke/wp-content/uploads/2019/10/SOCIAL-ASSISTANCE-UNIT-SAU-FREQUENTLY-ASKED-QUESTIONS-converted.pdf

[31] https://www.fsdkenya.org/wp-content/uploads/2021/aws/Archive%20data%20FSD/20-08-31_Cash-Transfers_COVID_response_TABLE.pdf?_t=1610970310

transfers during the Covid-19 emergency response shows that they are easy to use, have a far wider reach and are auditable.

Keep an eye on….

98) To improve the effectiveness of the social safety net programme, key areas to watch in the implementation of the budget of the FY 2021/22 will be:

i. Incorporation of mobile-based systems in Inua Jamii - The mobile-based cash transfer system has been successfully utilized in other cash transfer programme and proved to be a much more effective system compared to other PSPs. This may improve the efficiency in disbursement of cash under the Inua Jamii. programme.

ii. Expansion in coverage of the HSNP programme - the number of counties being supported in the FY 2021/22 is expected to increase from 4 to 8 while the number of beneficiary households is also expected to increase from 101,800 to 133,800. The original four counties were Turkana, Marsabit, Mandera and Wajir while the new 4 counties are Garissa, Tana River, Isiolo and Samburu. The rollout of the HSNP programme in these counties should be critically watched to ensure all vulnerable households are registered and there are no overlapping beneficiaries across the social safety net programmes.

3.2.4. Agriculture, Rural and Urban Development Sector

99) The total allocation for the sector amounts to Kshs. 75.7 billion. This comprises of Kshs. 44.9 billion for the State Department for Crop Development and Agriculture Research; Kshs. 13.0 billion for the State Department for Fisheries, Aquaculture & the Blue Economy; Kshs. 9.1 billion for the State Department for Livestock; Kshs. 5.5 billion for the Ministry of Lands and Physical Planning; Kshs. 1.8 billion for the State Department for Cooperatives; and Kshs. 1.5 billion for the National Land Commission (NLC). Table 10 gives a summary of the approved budget for the sector.

Table 10: Summary of the sector's budget for FY 2021/2022 (Kshs. billions)

MDA	Recurrent	Capital	Total
State Department for Crop Development & Agricultural Research	13.4	31.5	44.9
State Department for Fisheries, Aquaculture & the Blue Economy	2.3	10.7	13.0
State Department for Livestock	3.4	5.7	9.1
Ministry of Lands and Physical Planning	3.0	2.4	5.5
State Department for Cooperatives	1.2	0.5	1.8
National Land Commission	1.4	-	1.5
Total	**24.8**	**50.9**	**75.7**

Source: Approved FY 2021/22 budget estimates

100) The sector implements 11 programmes across the 6 MDAs. Some of the key programmes for the sector include the 'Crop Development and Management' programme which is implemented by the State Department for Crop Development and Agriculture Research and has been allocated Kshs. 30.2 billion; the 'Fisheries Development and Management' programme which is implemented by the State Department for Fisheries, Aquaculture & the Blue Economy and has been allocated Kshs. 9.3 billion; and the 'Livestock Resources Management and Development' programme which is implemented by the State Department for Livestock and has been allocated Kshs. 9.1 billion.

101) Among the projects/programmes being implemented by the agriculture, rural and urban development sector, two of the key areas of focus in the FY 2021/2022 are the implementation of the e-voucher subsidy management system and digitalization of land registries. The e-voucher system is implemented under the State Department for Crop Development & Agricultural Research while the digitalization of land registries is undertaken by the Ministry of Lands and Physical Planning.

3.2.5. Implementation of the e-voucher subsidy management system

102) Each government in the world has a twin responsibility of ensuring that food prices remain affordable for the majority of its citizens while also guaranteeing good prices for agricultural outputs of its farmers. The Kenyan government has addressed this by using input subsidies to keep the cost of production low so as ensure consumer access affordable prices. The subsidy programme focused on increasing maize production in the country by providing small-scale farmers with subsidized seeds and fertilizers that were distributed through 180 National Cereals and Produce Board (NCPB) stores across the country.

103) Despite an average allocation of Kshs. 5 billion annually for the subsidy programme, it did not always produce the desired effects. There was also low investment in retail outlets by agro-dealers since they could not compete with subsidized fertilizer prices thus driving up commercial fertilizer prices. The small scale farmers also faced huge transportation costs since most on average travelled 40 km to get to the nearest NCPB store. Since the quantities used by the small-scale farmers was not large, most were not incentivized enough to access the subsidized fertilizers. There were also leakages in the system with approximately one third of the subsidized fertilizer being purchased in bulk by unscrupulous middlemen and then resold at prevailing market rates thereby depriving the small-scale farmers of the intended benefits. Further, the country witnessed decline in average maize years despite an increase in the uptake of fertilizers and certified seeds. This may partly be attributed to the decline in soil quality in the grain basket areas due to overuse of incorrect subsidized fertilizers. Most small-scale farmers in the grain basket areas lacked awareness on the importance of soil testing when choosing the type of fertilizer.

104) To address these challenges, the government replaced the seed and fertilizer subsidy programme with an e-voucher input management system. The main objective is to provide approximately 1.4 million high needs farming households with access to a wide range of inputs from multiple providers through a national wide e-voucher subsidy programme as envisaged in the Agriculture Sector Transformation and Growth Strategy (ASTGS)[32]. The system was successfully piloted in 12 counties[33] under the Kenya Cereals Enhancement Programme (KCEP)[34]. It was set up to support and train small-scale farmers majority of who lived below the poverty line. The participating farmers were subsidized for three consecutive farming season where they paid 10 percent, 40 percent and 70 percent of the total costs of the inputs for the first, second and third years respectively. At the same time, they were offered financial literacy training sessions. So far, the programme has covered 82,723 small-scale farmers who have benefited from the Kshs. 1.5 billion that was transacted through the e-voucher system. The utilization of the subsidized farms inputs by the small-scale farmers increased in the 12 counties increased and the agro-dealers reported two-fold to three-fold increases in their sales. The pilot study showed that the e-voucher system was a success in improving the adoption of high quality inputs by the beneficiaries and strengthened linkages between the farmers and agro-dealers.

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32 http://kilimodata.developlocal.org/dataset/3ed81f6d-3b3d-4494-b14e-382ab59c59f6/resource/a46e7a7c-78f6-4fea-b3a0-5d91764a8c86/download/moai-astgs-abridged-v.4.pdf

33 Bungoma, Elgeyo Marakwet, Embu, Kericho, Kirinyaga, Kisumu, Meru, Nandi, Nyandarua, Nyeri, Trans Nzoia, and Uasin Gishu

34 https://ruralsolutionsportal.org/en/-/e-finance-vouchers-support-growth-for-kenyan-smallholders

105) Based on the findings, the Kenyan government proposed scaling up the e-voucher system to cover an additional 25 counties[35] (bringing the total number of counties covered to 37) and target a total of 200,000 small scale farmers with not more than five acres. In the first three years, it will focus on coffee, green grams, Irish potatoes, maize, rice and sorghum farmers. Thereafter, it is then expected to expand to cover more small-scale farmers, a wider variety of farm inputs and also cover commercial farmers.

106) Under this e-voucher system, registered farmers are issued with a voucher to buy inputs from registered and licensed agro-dealers. The inputs that will be covered are soil testing services, certified seeds, basal and top-dressing fertilizers, lime, agro-chemicals and post-harvest equipment. The e-voucher scheme will give farmers a 40 percent subsidy so each farmer will only pay 60 percent of the cost of whatever input they are purchasing. The voucher will only be redeemable at pre-qualified and registered agro-dealers around the country. After purchase, the agro-dealers will then claim payment from the government with the voucher thereby guaranteeing traceability of funds. A mandatory requirement for certification of the agro-dealer is that they should be physically located not more than 3 kms from the catchment area of the farmers being served so as to create a fair distribution system with a good farmer to agro-dealer ratio.

Keep an eye on….

107) For successful implementation of the e-voucher subsidy management system, the key areas to watch in the implementation of the budget of the FY 2021/22 will be:

i. Delays in operationalization of the e-voucher programme - It is also noted that the operationalization of the e-voucher programme has been delayed for the last 2 financial year with funding being removed during supplementary budget. Thus a lot of focus should be given to the preliminary steps needed to commence the programme.

ii. Implementation of the National Value Chain Support Programme – It targets 200,000 small scale farmers in 37 counties. The inputs targeted for distribution include 50,000 MT of subsidized fertilizers, 40,000 MT of lime, 2,360 MT of high yielding seeds, and 315 litres of assorted agro-chemicals. Based on the lessons learnt from the pilot study, focus should be given on creating awareness of the programme to the beneficiaries, accurate data capture of the targeted farmers and agro-dealers, efficient coordination of the e-voucher system, regular monitoring and evaluation of the system and timely delivery of the inputs. Extension services should also be integrated into the system to ensure small-scale farmers understand the correct fertilizers to use and proper post-harvest handling of farm produces.

iii. Implementation of the Kenya Cereals Enhancement Programme – It targets 36,000 small scale farmers in 13 counties. Its focus to support food-insecure small scale farmers in ASAL areas through the e-voucher system and financial literacy. It targets to support these farmers to graduate from recurring food insecurity and climate vulnerability to a level of food security and then further to market oriented commercial farming. Since the lessons from the project will be essential to expand the NVCSP, the overall implementation for this project should be closely monitored.

[35] Bomet, Busia, Homa Bay, Isiolo, Kajiado, Kakamega, Kiambu, Kisii, Kitui, Kwale, Laikipia, Machakos, Makueni, Migori, Murang'a, Nakuru, Narok, Nyamira, Siaya, Taita Taveta, Tharaka Nithi, Turkana, Vihiga, Wajir, West Pokot

3.2.6. Digitization of Land Registries

108) The National Land Information Management System (Ardhisasa), is a digital land resources management platform that aims to improve land record security, speed up transactions, and reduce fraud in land transactions. Once fully operational, the system will offer a one stop shop for all Government services and information on land, by replacing Manual land transactions with digital transactions and therefore drastically reducing human interactions, delays, and other inconveniences previously experienced at land registries. The Platform currently covers properties registered under the Nairobi Registry with plans to incorporate the Central registry (the Government Lands and Land titles Registry) and all other registries in other Counties in the Country by the end of 2022.

109) Ardhisasa was launched in April 2021 and by June 2021, the platforms' Central repository had received a total of 416 single transaction applications for processing as on-demand ingestions. Going forward, the Ministry targets updating the platform to include properties registered under the Government Land Registry (GLR) and Central Registry, which are currently still processed manually. However, its implementation may be hampered by a few operational challenges.

110) The critical need for document security and the integrity of land transactions is one of the primary concerns expected to hamper the effective roll out and efficient use of the platform. This has been highlighted in the Land (Electronic Transactions) Regulations 2020, which state that as an added security element, an OTP (one-time password) would be delivered directly to the user's phone number to validate every log-in into the system. Once implemented will solve the user Information security challenge.

111) Another challenge is to do with data gaps noted due to the platform's stringent procedures, which ensure that only genuine and full data with flawless integrity is fed into the system and the platforms sluggish integration with banks and professional organizations such as the Law Society of Kenya. According to a recent publication on the Ministry of Lands and Physical Planning website, these issues have caused some properties on the platform to become unavailable. This does not, however, invalidate the platforms' anticipated benefit of increased revenue generation because of fair valuation, payment of land rentals, and enhanced urban planning and infrastructure development among others.

112) Concerns have also been raised by users of the National Lands Information System (Ardhisasa) since its official launch. This includes the platforms sluggish integration with banks and professional organizations such as the Law Society of Kenya.

Keep an eye on…

113) To achieve the benefits of a digitalized land registry, the key areas to watch in the implementation of the budget of the FY 2021/22 are:

i. Digitization of Land Registries – the ministry intends to digitize 20 land registries. Since it has only been able to implemented one land registry so far, achieving this target may prove to be a challenge. In addition, the current land registry has a number of operational challenges that need to be addressed. Therefore, implementation of this project should be closely monitored.

3.2.7. Energy, Infrastructure and ICT Sector

114) The total allocation for the sector amounts to Kshs. 335.8 billion. This includes Kshs. 195.2 billion for the State Department for Infrastructure; Kshs. 73.9 billion for the Ministry of Energy; Kshs. 22.8 billion for the State Department for Information, Communication and Technology and Kshs. 15.3 billion for the State Department for Housing and Urban Development. These 4 MDAs account for more than 90 percent of the funds for the sector. The other MDAs in the sector include the State Department for Transport (Kshs. 10.8 billion), the State Department for Broadcasting and Telecommunications (Kshs. 7 billion), the State Department for Public Works (Kshs. 4.2 billion), the Ministry of Petroleum and Mining (Kshs. 3.9 billion) and the State Department for Shipping and Maritime (Kshs. 2.8 billion). Table 11 gives a summary of the approved budget for the sector.

Table 11: Summary of the sector's budget for FY 2021/2022 (Kshs. billions)

MDA	Recurrent	Capital	Total
State Department for Infrastructure	57.2	138.0	195.2
Ministry of Energy	6.6	67.2	73.9
State Department for Information Communication Technology	1.6	21.2	22.8
State Department for Housing & Urban Development	1.2	14.1	15.3
State Department for Transport	9.4	1.3	10.8
State Department for Broadcasting & Telecommunications	6.5	0.5	7.0
State Department for Public Works	3.1	1.1	4.2
Ministry of Petroleum and Mining	1.0	2.9	3.9
State Department for Shipping and Maritime	2.0	0.8	2.8
Total	**88.6**	**247.2**	**335.8**

Source: Approved FY 2021/22 budget estimates

115) The sector implements 28 programmes across the 9 MDAs. Some of the key programmes implemented by the MDAs in the sector include the 'Road Transport' programme which has been allocated Kshs. 195.2 billion with the objective of developing and managing an efficient, effective and secure road network; the 'Power Transmission and Distribution' programme which has been allocated Kshs. 58.4 billion with the objective of increasing access to electricity; the 'ICT Infrastructure Development' programme which has been allocated Kshs. 20.5 billion with the objective of developing a world class ICT infrastructure that ensures access to efficient, reliable and affordable ICT services; and the 'Housing Development and Human Settlement' programme which has been allocated Kshs. 8.8 billion with the objective of facilitating the production of decent, safe and affordable housing and enhanced estates management services.

116) Among the projects/programmes being implemented by the energy, infrastructure and ICT sector, some of the key areas of focus in the FY 2021/2022 include addressing the funding bottlenecks in road infrastructure projects, bridging the shortfall in housing, achieving the promise of the ICT hub and addressing the power transmission inefficiencies. The road infrastructure projects are implemented by the State Department for Infrastructure, the housing project are implemented by the State Department for Housing & Urban Development, the ICT hub is implemented by the State Department for Information Communication Technology and the power transmission project is undertaken by the Ministry of Energy.

3.2.8. Addressing the funding bottlenecks of Road Infrastructure

117) In the financial year 2021/22, the subsector of roads plans to construct 1, 887 kilometres of roads and bridges, rehabilitate 900 Kilometres of roads and maintain 35,122 kilometres of roads in the country through the various road agencies. A total of over 2, 000 projects, including the public participation projects, were approved for implementation. Currently, majority of these roads are funded through the traditional model of engineering, procurement and construction (EPC). Under this model, the resources are sourced from tax revenues, loans and the road maintenance levy fund (RMLF). However, the funds available annually for roads infrastructure has always less than 50 percent of the resource requirements thus leading to an accumulation of pending bills owed to contractors. As of July 2021, the State Department for infrastructure owed road contractors approximately Kshs. 84 billion for outstanding payment for projects that are at different stages of completion. Table 12 is a summary of a selected key EPC projects financed in the financial year 2021/22 which have huge pending bills that are likely to hinder their implementation.

Table 12: Some key projects funded in the 2021/22 financial year and their Pending bills as at 30th April 2021 Kshs. Millions

Key Projects	Targets in kilometers	FY 2021/22 Allocations (Kshs. billions)	Pending Bills (Kshs. billions)
South Sudan Eastern Africa Transport, Trade & Development facilitation project	30	11.07	0.81
Mombasa Mariakani Highway Project	10	4.50	0.33
Isebania - Mukuyu - Kisii - Ahero Road (A1) Lot 1 & 2	9	3.35	1.59
MPARD Package 2 - Mwache – Tsunza – Mteza	15	5.78	0.11
EXIM: Nairobi Western Bypass	9	3.75	0.31
Horn of Africa Gateway Development Project	98	11.87	0.43
Multiple batches of Low volume seal roads	573	36.10	45.24

Source: National Treasury & State Department for Infrastructure

118) Following the huge funding pressure and increased demand for road development to enhance mobility and address the challenges with the EPC model, the government has leveraged on the capacity of the private sector through Public Private Partnership (PPP) models like the annuity model and the Build Operate and Transfer (Toll) model.

119) The annuity model involves engagement of a private contractor to source funding, design, construct and maintain the road. The contractor will then be required to complete the work within a stipulated time not exceeding 3 years and maintain the road for a maximum of 8 years. A payment modality will then be agreed upon between the government, the contractor and the bank. The government gives guarantees to local banks in the form of letters of comfort and certifying the works upon completion. Despite its appeal as faster method of road construction, the annuity model has had its fair share of challenges including inflated costs and slow pace of approvals because banks doubted the balance sheets and credit worthiness of contractors. Due to these challenges, only one road, the Ngong – Kiserian – Isinya – Imaroro road, was undertaken and completed out of the many projects that had been proposed for funding under the annuity model. The project took more than a year to negotiate and was completed at a cost of Kshs. 240 million per kilometre against an average of Kshs. 40 million a kilometre for a low volume seal road. Though the model did address the challenges of delayed payments to the contractor, it did not reduce the pressure on the mounting public debt. Based on these challenges, the government opted to scale down road construction under the annuity model as it relooks into these bottlenecks with a view to apply the proceeds from the annuity for projects outside the model.

120) The toll model involves private sector taking full control and responsibility for delivery of the road i.e. financing, designing, construction, maintenance and operation of the road. The contractor wills the recover the constructions costs by collection of toll from the road users over a specified period of time. The Nairobi Express Way (Mlolongo – JKIA – James Gichuru section of the A8 road) is the only road in Kenya currently being built using the toll model. The developers will operate and maintain the road for period 30 years to recoup their investment. The project is ongoing and expected to be completed by December, 2021 at an estimated cost of Kshs. 67 billion.

121) The toll model has been hailed as a solution to the road financing problem since it will take the pressure off accumulation of the country's public debt. Many countries have adopted the toll model to fund their road infrastructure including the Canada, France, UK, India, South Africa and Nigeria. However not all roads are suitable for the toll model since heavy traffic is required for the generation enough revenue through tolls to meet the construction and maintenance costs. According to the a study by the Inter-America Development Bank, a road is likely to be a viable candidate for construction through the toll model if it has a flow exceeding 5,000 vehicles per day unless the government offers a substantial subsidy to the contractor (Queiroz, Uribe, & Blumenfeld, 2016). This limits the number of roads that can be undertaken by the model in Kenya to a few sections of the main transport corridors. Along the A8 (Malaba – Eldoret – Nakuru – Nairobi – Voi – Mombasa) road, the Nairobi Expressway has so far proved to be a viable section for tolling while the Mombasa – Nairobi Expressway has proved difficult. The contractor has indicating that the country will get better value for money if the road is construction under an EPC model rather than a toll model.

122) In addition, the experiences from countries that have implemented toll road funding indicate that it is always associated with serious public acceptance issues. In Nigeria, the tolling collection was cancelled on the Lekki Toll Road after the continued community riots against paying of tolls (Ofedele, 2012). In Kenya, there is extensive evidence of lack of public support for tolling with a proposal to introduce tolling in 2016 on the Nairobi Southern Bypass receiving a huge public outcry. The Nairobi Expressway project has also not won full support of the public since the project is shrouded with lack of proper and comprehensive information disclosure and other ambiguities especially on assumptions behind the 30 years' period given to the investor and the risk mitigation measures if the assumptions fail to hold. To the public, there is a concern that tolls will be a double tax on many motorists who currently are paying for road maintenance through the fuel levy.

Keep an eye on…

123) To guarantee value for money in road construction, the key areas to watch in the implementation of the budget of the FY 2021/22 are:

i. Implementation of projects under the EPC model - Construction of 1,887 kilometres of roads and bridges, rehabilitation 900 Kilometres of roads and maintenance of 35,122 kilometres of roads in the country through the various road agencies. Strides should also be made towards addressing the challenge of pending bills
ii. Utilization of the annuity fund – 30 kms of low volume seal roads are targeted to be completed using annuity financing model. However, there is a likelihood that the target may not be achieved due to the current challenges facing the financing model. As the procedures of the model are being reviewed, the proceeds from the annuity fund should be used on development of road projects outside the PPP framework.
iii. Addressing challenges in operationalizing the Nairobi Expressway - the project is set for completion by December 2021. An extensive sensitization and public participation exercise should be undertaken to consider the views of the myriad of stakeholders on the value for money of the project, the pricing model for the tolls and the toll collection systems among other issues.

3.2.9. Bridging the shortfall in Housing

124) According to the State Department for Housing and Urban Development, the housing deficit in Kenya remains high with an estimated shortfall of approximately two million homes. Affordability is the Key constraint to access to formal housing for the low-income segment of the population compounded by lack of access to formal sources of financing for home ownership. Major drivers of the affordability constraint are the cost of land, construction cost, and prolonged, costly and tedious processes including payment of duties, approvals from multiple Authorities and other land and construction process that hinder both buyers and developers.

125) The Governments embarked on ambitious Programme to meet the constitutional right enshrined in Article 43 of the constitution on the right to accessible and affordable housing. The Programme aimed at delivering 500,000 affordable housing units to Kenyans by 2022. To achieve this, the Government pursues to reduce the cost of delivering affordable housing by provision of land to the private sector, reduction in cost of building materials, streamlining approval processes and reducing financing costs for buyers and developers. In terms implementation status, only 1,370 units (Park road project) have been achieved under this programme since its inception. Therefore, the programme is way behind achieving its targets within the set timelines.

Keep an eye on...

126) To guarantee success in the housing project, the key areas to watch in the implementation of the budget of the FY 2021/22 are:

i. Construction of affordable housing – target the construction of 3,336 affordable housing units and the construction of 4,435 social housing units.

3.2.10. Achieving the promise of a digital hub

127) The world is moving towards being a knowledge-based economy in which science, technology and innovations are the key drivers thanks to the rapid advancement in information, communication and technology (ICT). The Covid-19 pandemic has also exemplified the importance of a knowledge-based economy by proving that digital solutions are a necessity and that the world needs a robust and inclusive digital economy with reliable broadband services. In a bid to keep abreast with the emerging digital technologies which are supporting countries to transform into digital economy, Kenya has implemented various ICT infrastructures while putting in place supportive legal framework ostensibly to unlock the opportunities for economic growth and development. Key among the these infrastructures include the establishment and maintenance of the 6,400 kms of National Optic Fibre Backbone Infrastructure project linking various towns and the infrastructural developments at Konza Technopolis.

128) The Konza Technopolis is Kenya's premier smart city whose aim is to be a sustainable, world class technology hub and a major economic driver for the country. It targets to host state of the art facilities that will help attract, facilitate and retain investors, both national and international. The investors being targeted include those offering business process outsourcing, software development, data centres, disaster recovery centres, call centres and light assembly manufacturing industries. It also aims at attracting support services including a university campus focused on research and technology as well as hotels, residential areas, schools and hospitals. The ultimate goal of Konza Technopolis is to create a foundation for Kenya's startups and SMEs to grow into multinationals.

129) The completion of the Konza City shall indeed be a huge ICT milestone in Kenya and is envisaged to create approximately 200,000 direct employment opportunities with notable spillover effects in almost every sector of the economy. When the multiplier effects of the benefits projected from the services of Konza city are factored in areas such as Foreign Direct Investment (FDI), its projected to ultimately contribute at least 10 percent growth in the country's Gross Domestic Product (GDP).

130) To achieve its dream, Konza Technopolis plans to have a reliable infrastructure and necessary legal framework. Through the Konza Technopolis Development Authority (KoTDA), the government has embarked on development of horizontal infrastructure including roads, utility corridor and the water reclamation facility. According to recent progress report by KoTDA, 50 percent of horizontal infrastructural have already been developed with key components nearing completion include the National Data Centre, offices, virtual desktop infrastructures, disaster recovery data centre, and smart city facilities. However, the progress has been slow and this has created a poor public perception and high reputational risk of Konza Technopolis.

131) Realising the promise of a Kenyan digital hub also requires putting in place necessary legal framework to guarantee a favourable environment for investments. Two legislations, the Konza Technopolis Development Authority Bill and the Startup Bill, 2020 are at different stages of approval. These legislations will focus on stimulating investments by lowering taxed and de-risking investments in the country. However, enactment of the supportive legislations has been delayed causing anxiety among potential investors. Due to these delays, Kenya has potentially lost several investors who have opted for other African countries that have fast tracked the development of their smart cities.

Keep an eye on.....

132) To achieve the promise of a digital hub, the key areas to watch in the implementation of the budget of the FY 2021/22 are:

i. Konza infrastructure projects – 50 percent completion of the conference facility and hotel, 92 percent completion of the data center, 80 percent installation of the smart city facilities, 100 percent broadband connectivity and construction of streetscape and waste water reclamation facilities

ii. Konza Technopolis Masterplan – 92 percent completion of the deliverables in the second phase of the masterplan.

3.2.11. Power Transmission Inefficiencies

133) The power transmission segment of Kenya's energy sector is managed by Kenya Electric Transmission Company (KETRACO), for the high voltage transmission lines above 66KV, and Kenya Power and Lighting Company (KPLC), for the low voltage transmission lines below 66KV. Significant progress has been made over the years in expansion of the infrastructure with KETRACO increasing the high voltage lines from 757 kms in FY 2013/2014 to 2,364 kms in FY 2018/2019 while KPLC increased the low voltage lines to 3,930 kms over the same period. Due to the expansion, Kenya's electricity access has experienced an average annual growth of 5.6 percent between 2010 and 2019 and currently stands at more than 70 percent according to the Energy Progress Report 2021[36]. The number of Kenyans connected to electricity has also increased from 2.3 million in 2013 to 6.1 million as of 2017.

134) Despite the significant progress in access to power, the country still faces relatively high levels of power outages. In 2018, the country faced 420 hours of power outages with an average of 6.3 power outages per month lasting from between a few seconds to more than a day. Based on the System Average Interruption Duration Index (SAIDI), the average duration of outage in Kenya was calculated as 11.5 hours compared to 1.50 hours in North America. This has forced many households and businesses to continue depending on other expensive alternative energy sources including diesel generators as a backup power source or investment in solar power. The power outages are caused by several factors including extreme weather (high winds, lightning, flooding and droughts), wild animals, trees, vandalism, vehicle accidents and transmission inefficiencies. In Kenya, the largest contributor to power outages transmission inefficiencies is largely due to aging and poor maintenance of the electricity infrastructure.

135) Over the years, the government has invested heavily in expansion and rehabilitation of the national electricity grid to reduce transmission losses. These investments include construction of new high and low voltage transmission lines and construction of new high voltage and distribution substations. Despite the progress, the Ministry and SAGAs encountered several challenges in completion of the various projects which include; effects of the Covid-19 pandemic on the economy resulting in exchequer constraints to the various SAGAs; complexity in acquisition of way leaves and land as in the case of the Kenya-TZ Power Interconnection Project; litigations affecting works progress in some projects like the high voltage Olkaria-Lessos-Kisumu 400/220/132KV transmission line; damage of underground network by other utilities especially during construction of mega projects like the Nairobi Expressway and vandalism of energy infrastructure such as transformers especially in the informal sectors. To address these challenges, the relevant agencies will look to: enhance power transmission and distribution network upgrade and expansion as well as improved electricity access.

Keep an eye on.....

136) In order for power transmission efficiencies to be minimized, the key areas to watch in the implementation of the budget of the FY 2021/22 are:

[36] https://www.irena.org/publications/2021/Jun/Tracking-SDG-7-2021

i. The Kenya Electricity Modernization Project (KEMP) – It targets to operationalize the smart meter project as part of an Advanced Metering Infrastructure meant to facilitate prompt resolution in case of power outages and enhances efficiency. It also aims at digitization of the remaining 30 percent of Kenya Power's network and provide the grid automation framework. This exercise will help the company improve its technical and operational efficiency, identify overloaded, under-utilized and imbalanced transformers in order to take corrective measures/actions while also improving on billing as well as revenue collection.
ii. KETRACO projects – 100 percent completion of the 213km 400kV double circuit Olkaria Lessos Kisumu Power Lines Project, 100 percent completion of the 106km 132kV single circuit Sondu - Homabay-Ndhiwa- Awendo Electrification Project, 100 percent completion of the 105km 132kV Nanyuki-Isiolo-Meru Electrification Project, 100 percent completion of the Nairobi Ring Energy Project, 100 percent completion of the Mariakani substation, 50 percent completion of the Nairobi City Centre E.H.V. 66kV network upgrade and reinforcement, 100 percent completion of the 240km 220kv transmission line and associated substations under the Kenya Power Distribution System Modernization & Strengthening Project and 85 percent completion of the 120km 132kv transmission line and associated substations under the Kenya Power Transmission Expansion Project.

3.2.12. Environmental Protection, Water and Natural Resources Sector

137) The total allocation for the sector amounts to Kshs. 100.6 billion. This comprises of Kshs. 77.6 billion for the Ministry of Water, Sanitation and Irrigation; Kshs. 14.7 billion for the Ministry of Environment and Forestry; and Kshs. 8.2 billion for the State Department for Wildlife. Table 13 gives a summary of the approved budget for the sector.

Table 13: Summary of the sector's budget for FY 2021/2022 (Kshs. billions)

MDA	Recurrent	Capital	Total
Ministry of Water, Sanitation & Irrigation	6.4	71.2	77.6
Ministry of Environment and Forestry	10.5	4.2	14.7
State Department for Wildlife	7.6	0.6	8.2
Total	**24.5**	**76.1**	**100.6**

Source: Approved FY 2021/22 budget estimates

138) The sector implements 11 programmes across the 3 MDAs. The key programmes under the Ministry of Water, Sanitation and Irrigation include the 'Water Sewerage Infrastructure Development' programme which has been allocated Kshs. 36.8 billion with the objective of enhancing the accessibility of water and sewerage services; and the 'Water Resource Management' programme which has been allocated Kshs. 16.3 billion with the objective of increasing the availability of safe and adequate water. The key programme under the under the Ministry of Environment and Forestry is the 'Forest and Water Towers Conservation' programme which has been allocated Kshs. 9.6 billion with the objective of increasing the forest and tree cover or improved livelihood. The State Department for Wildlife implements one programme, the 'Wildlife Conservation and Management' which has been allocated Kshs. 8.2 billion with the objective to sustainably conserve and manage Kenya's wildlife.

139) Of the projects/programmes being implemented in the sector in the FY 2021/2022, one of the key areas of focus is the achievement of the 10 percent forest cover. The Government of Kenya has set a goal of increasing and maintaining the national tree cover to at least 10 percent by 2022 which is the recommended global minimum standard. This goal is in line with the Africa Forest Landscape Initiative (AFR100), the Nationally Determined Contribution (NDC) to climate change which aims at a 50% reduction of greenhouse gases from the forest sector by 2030, and the commitment to the United Nations Convention to Combat Desertification (UNCCD) of achieving land degradation neutrality by 2030.

140) As of March 2021, the country's forest cover was estimated at 5 million hectares, which is 7.4 percent of the total land area in the country. To achieve its goal, the government needs to invest in production of 2 billion quality tree seedlings and plant them on about 2 million hectares of land. The government through the Kenya Forest Research Institute (KEFRI) has invested heavily in seed production while it intends to undertake afforestation and reforestation in cooperation with other stakeholders. This includes County Governments, commercial tree farmers and the private sector institutions. To achieve the target of 10 percent forest cover, the key areas to watch in the FY 2021/22 Budget will be various programmes and projects for tree planting under the Ministry of Environment and Forestry and the State Department for Regional and Northern Corridor Development.

Keep an eye on…

141) To achieve the target of 10 percent forest cover, the key areas to watch in the FY 2021/22 budget will be:

i. The Green Zones Development Support project which targets to rehabilitate 2,200 hectares of current forests and 3,800 hectares of commercial farm forests
ii. The National Tree Planting Campaign Project which aims at producing 76,600 kgs of seedlings and planting of 64 million trees
iii. The Development of Drought Tolerant trees for adaptation to climate change project targets to rehabilitate 2,500 acres of mangrove ecosystem
iv. KEFRI targets to produce 75,000 kgs of seedlings
v. The Kenya Water Towers and Climate Change Programme targets to plant 200,000 indigenous trees in current forests
vi. The Natural Forestry Programme targets to rehabilitate 5,300 hectares of degraded forests
vii. The Farm and Dryland Forest Development Project targets to establish 5,000 hectares of commercial forests.

3.2.13. Governance, Justice Law and Order Sector

142) The total allocation for the sector amounts to Kshs. 217.3 billion. This comprises of Kshs. 138.6 billion for the State Department for Interior and Citizen Services; Kshs. 29.7 billion for the State Department for Correctional Services; Kshs. 17.3 billion for the Judiciary; Kshs. 14.4 billion for the Independent Electoral and Boundaries Commission (IEBC), and Kshs. 17.4 billion for other Independent Offices and Constitutional Commissions. Table 14 gives a summary of the approved budget for the sector.

Table 14: Summary of the sector's budget for FY 2021/2022 (Kshs. billions)

MDA	Recurrent	Capital	Total
State Department for Interior and Citizen Services	131.4	7.2	138.6
State Department for Correctional Services	28.7	0.9	29.7
The Judiciary	15.0	2.3	17.3
Independent Electoral and Boundaries Commission	14.2	0.1	14.4
State Law Office and Department of Justice	5.0	0.2	5.2
Ethics and Anti-Corruption Commission	3.3	0.1	3.3
Office of the Director of Public Prosecutions	3.1	0.2	3.3
Office of the Registrar of Political Parties	2.0	-	2.0
Independent Policing Oversight Authority	0.9	-	0.9
National Police Service Commission	0.8	-	0.8
Judicial Service Commission	0.6	-	0.6
Witness Protection Agency	0.5	-	0.5
Kenya National Commission on Human Rights	0.4	-	0.4
National Gender and Equality Commission	0.4	-	0.4
Total	**206.3**	**11.0**	**217.3**

Source: Approved FY 2021/22 budget estimates

143) The sector implements 28 programmes across the 14 MDAs. Some of the key programmes for the sector include the 'Policing Services' programme which is implemented by the State Department for Interior and Citizen Services and has been allocated Kshs. 100.6 billion; the 'Prison Services' programme which is implemented by the State Department for Correctional Services and has been allocated Kshs. 27.2 billion; the 'General Administration and Support Services' programme which is implemented by the State Department for Interior and Citizen Services and has been allocated Kshs. 25.8 billion; the 'Dispensation of Justice' programme which is implemented by the Judiciary and has been allocated Kshs. 17.3 billion; and the 'Management of Electoral Processes' programme which is implemented by the IEBC and has been allocated Kshs. 14.2 billion.

3.2.14. Fast-tracking Police reforms for effective Service delivery

144) The police reforms picked momentum immediately after the 2007/2008 post elections violence. Paramount in the reforms was acquisition of enough operational resources and enactment of various laws (Ransley, 2010). The creation of the legislative framework for police reforms, followed by the establishment of the three core institutions - IPOA, NPSC and the IGP - are important milestones towards a reformed police service as was envisaged in the police reforms post 2010.

145) Despite the progress in the reforms, some bottlenecks still persist in reforming the Service fully. There has been slow progress in implementing key vision 2030 projects to enable the police service be equipped. The key projects under this include police modernisation where various equipment was envisaged to be acquired by the National Police Service. While the forensic laboratory has been completed, the returns on the investment have not been realised due to the insufficient equipment and inadequate forensic investigation skills that have greatly hampered the ability of the investigative agencies to investigate complex and emerging crimes. The slow pace of fully equipping the laboratory and other modernisation programmes has been partly attributed to budgetary cuts through supplementaries in the course of the budget implementation. Both Modernisation programme and equipping of the forensic laboratory have been allocated KSh. 1 billion and KSh. 337 million respectively.

146) For essential services such as security, logistics support holds key to success in their operations. Mobility of police officers over the years has been hampered by shortage of vehicles. To optimally attain efficiency effectiveness, outsourcing as emerged as a hallmark of improved operational performance. The policy shift in acquisition of vehicles changed with the reforms where leasing of police vehicles has been ongoing for a while. Notwithstanding the improved operational performance, the leasing programmes has faced challenges. First, the procurement for such vehicles has been a subject of court cases leading to inordinate delays. In addition, the targets set sometimes at the beginning of the financial year sometimes is not met due to in year revision of budget during budget implementation. Further, the fuelling of such vehicles has not been cost effective in far flung areas with specific fuelling points far away from the operation areas. Moreover, the distribution of such vehicles has often been challenged.

147) A preliminary investigation by the Departmental Committee on Administration and National Security reveals that while the leasing programme has led to operational efficiency, their distribution shows that needy areas faced with insecurity do not have sufficient vehicles in comparison to other areas. Once the vehicles are acquired, there is need for the vehicles to be distributed based on needs assessment of each station. In the next medium term, the leased security vehicles is targeted to increase from 2,440 to 3,280 with an allocation of KSh. 10.7 billion in the FY 2021/22.

148) Various policy interventions have been adopted to address police welfare including housing, medical insurance and enhanced renumeration. However, mental health issues affecting the police have not received sufficient attention. The National Police Service Commission in the period 2018 to 2022 targeted to establish a counselling and wellness centres in 8 regions before handing the command of such centres to the independent command of the Inspector General of Police.

149) The policy reforms have also targeted recruiting ore police to boost personnel in the service. Despite the policy initiative, the police to population ratio has been on the decline over the period 2017/18 to 2019/20. The ratio has reduced from 1:450 in 2017 to 1:456 by 2020 which is below the UN recommended ratio of 1:450 due to delayed recruitment. The challenge is likely to persist given that the additional recruitment will not be additional personnel but replacement of officers who have exited the service through natural attrition[37]. In the FY 2021/22, the Police Service will recruit additional 5,000 officers to boost security.

Keep an Eye on…

i. Leasing and Maintaining 3,280 security vehicles. The target involves maintaining the already acquired, 2,440 vehicles and acquiring additional 840 vehicles with approved budget of KSh. 10.7 billion.
ii. Establishing and Operationalization of 2 counselling centres.

[37] https://www.treasury.go.ke/sector-budget-proposal-reports/

iii. Recruitment of additional 5,000 police officers.
iv. 60 percent completion in equipping the forensic laboratory

3.2.15. General Economic and Commercial Affairs Sector

150) The total allocation for the financial year 2021/22 to the State departments for Cooperatives, Trade and Enterprise Development and Industrialization are Kshs. 1.75 billion, Kshs. 4.03 billion and Kshs. 6.39 billion respectively. The State Departments implement 5 key budgetary programmes as illustrated in the table below.

Table 15: Summary of the Cooperatives, Trade and Enterprise Development, and Industrialization budget for FY 2021/22 (Kshs. Millions)

State Department	Programme	Capital	Current	Total
Cooperatives	**Total**	**0.52**	**1.23**	**1.75**
	Cooperative Development and Management	0.52	1.23	1.75
Trade and Enterprise Development	**Total**	**1.74**	**2.29**	**4.03**
	Trade Development and Promotion	1.74	2.29	4.023
Industrialization	**Total**	**3.27**	**3.11**	**6.389**
	General Administration Planning and Support Services	-	0.43	0.43
	Industrial Development and Investments	0.84	1.44	2.28
	Standards and Business Incubation	2.43	1.25	3.68

Supporting Export led growth in FY 2021/22: Strengthening the growth linkage between Agriculture, Industry and Trade

151) Over the years, Kenya has been seeking to improve economic growth through promotion of exports. However, despite the country putting in place economic policies and strategies to achieve export growth, the growth has been sluggish and its contribution to economic growth has been limited. The economy has thus remained an imported oriented one. Kenya exports agricultural products mainly Tea, Coffee and Horticulture (Cut Flowers, Fruits and Vegetables).

152) One of the key focus areas in the cooperatives, trade and industrialization in the FY 2021/22 budget is to create a growth linkage between Agriculture and Cooperative, Industry and Trade. To this end, the FY 2021/22 budget has allocated resources for the following activities that if implemented will be key in strengthening the growth linkage.

153) Under the cooperatives, key areas to focus on are the roll out of the Kshs. 2.8 Billion Coffee Cherry Fund which is to be advanced to Coffee farmers as credit with an aim to improve productivity. In addition, in order to ensure accessibility and affordability of farm inputs and stabilization of commodity prices the state department plans to refurbish key warehouses under the Kenya National Trading Cooperation (KNTC).

154) Under the industrialization, key areas in the FY 2021/22 is the completion of ongoing projects that are nearing completion like the Export Processing Zone Authority (EPZA) –Athi River (Textile Hub) and Kenya Industrial Research and Development Institute (KIRDI), as well as gazettement of new economic zones under EPZA and SEZ's, support to SME's through training on value addition, technological transfers and industrial credit to be advanced to the SME's. The State Department has a target to attract Kshs. 200 Billion of foreign and domestic investments.

155) Under the Trade and Enterprise Development, key areas in the FY 2021/22 are the completion of the 2009 economic stimulus programme (ESP) of the Constituency Industrial Development Centers, export promotion through creating new product lines/export diversification , in order to improve market access of the Country's products , completion of negotiations and bilateral agreements/protocols , support to MMSE's through access to affordable finances , training on exporting and participating in trade promotion events. The State Department targets that the export of goods and services will reach Kshs. 700 Billion.

Keep an Eye on…

i. Completion of key projects that are nearing completion like the Export Processing Zone Authority –Athi River Textile Hub, Kenya Industrial Research and Development Institute (KIRDI).
ii. Trade negotiations and agreements: Completion of bilateral trade agreement (FTAs) with the United States, the implementation of the Economic Partnership Agreement (EPA) with UK as well as the Africa Continental Free Trade Agreement (AfCTFA)
iii. Financing, Training and support of Micro and Medium and Small Enterprises (MMSEs) under State Departments for Trade and Industrialization

3.2.16. Planning and Finance

156) Planning and budgeting forms integral elements of the economy by organizing constrained on priority projects and programmes in order to achieve optimized benefits to the populace. Indeed, in 2021/22, the National Treasury and the state Department for Planning are expected to implement over 60 capital projects with a total budget of over Kshs 100.3 billion.

157) On the National Treasury part, it worth noting that the an Executive Order was issued in August 2020 which among other things, merged the operations of the Kenya Ports Authority (KPA), the Kenya Railways Corporation (KRC) and the Kenya Pipeline Corporation (KPC). In this regard, the National Treasury was given the mandate to oversee some of the key projects under marine and rail transport segment comprise of the following:

- Dongo Kundu Special Economic Zone with an allocation of Kshs 8.25 billion,
- SGR phase II with an allocation of Kshs 27.16 billion
- Mombasa Port Development Project with an allocation of Kshs 7.5 billion.
- Lamu Port-South Sudan-Ethiopia-Transport corridor project (LAPSSET) with an allocation of Kshs 4.46 billion

Table 16: Projects under marine and rail transport

Programme	Key Programs	Targets / KPIs	Allocation (Kshs. billions)
Marine Transport	Big Four Functional ports at Dongo Kundu Projects	70% completion of port at Dongo Kundu	9.8
	LAPSSET Increased port capacity Project	100% completion of the first 3 berths in Lamu port	4.5
	Mombasa Port completion of construction development project	100% completion of construction development project	7.5
	Lamu - Ijara - Increased port connectivity Garissa Road	30% completion of road	3.0
Rail Transport	Development of Nairobi to Naivasha SGR	To transport 2 million long distance passengers and 7.5 tonnes of freight	27.2
	Big Four Projects	50 Kms of railway rehabilitated/extended and 10km of railway stations constructed and operationalized	9.8
	Rehabilitation of the Nairobi - Nanyuki MGR Branch Line	50Kms of railway rehabilitated/extended and 10km of railway stations constructed and operationalized	1.1
	Rehabilitation of Nakuru-Kisumu MGR	50Kms of railway rehabilitated/ extended 10kms of railway stations constructed and operationalized	0.7
	Construction of NVS ICD-Long. Railway Link & Rehab. of Long.-MLB Line	50Kms of railway Rehabilitate and 10kms of railway stations	2.0
	Riruta - Lenana -Ngong Railway Line	10Kms of railway line rehabilitation	2.0

i. **Mombasa Port Completion of Construction Development Project: -** The project has an allocation of KSh. 7.5 billion in the fiscal year 2021/22 and on completion, it aims to meet the demand for increased capacity by expanding the container terminal at Mombasa port, will be extremely beneficial to the country as a trading partner. The port's expansion will help the country meet its 2030 vision by meeting increased global demand. By 2023, it is expected that about 1.732 million Twenty-foot equivalent unitare expected to be completed, up from the current 1.42 million Twenty-foot Equivalent unit (TEU). The project entails the construction of a new container with a capacity of 1.05 million TEUs per year in three stages. In March 2016, Phase I, with a capacity of 550,000 TEUs, was completed and commissioned. Berth No. 22 (250 meters long and 15 meters deep) was scheduled to begin construction in 2018 and be completed in 2021.

ii. **Increased port capacity through LAPSSET project: -** The projects which has an allocation of about KSh. 4.46 billion in 2021/22 is expected to be the focal point of the country's position as a gateway and a transport and logistics hub to the East African sub-region and the Great Lakes region to facilitate trade, promote regional economic integration and interconnectivity between African count. Construction began in December 2016 with the dredging works on the first three berths. The first berth was completed in August 2019, while completion of the second and third berths was scheduled for December 2020. Total cargo capacity at the Lamu Port is expected to reach 23.5 million tonnes by 2030. The project's total estimated investment is Ksh.544.25 billion. The Kenyan government has funded the first three berths of the port, which are being built under a short-term plan at a cost of Ksh.74.997 billion.

iii. **Nairobi to Naivasha Standard Gauge: -** Has the primary goal of providing a dependable, efficient railway network, resulting in a 15% to 20% reduction in transportation and logistics costs. Transport cost reductions can lead to sustained rapid industrialization and economic growth in Kenya. The Nairobi-Naivasha Standard Gauge Railway, the second phase of a 120-kilometer standard-gauge railway line from Nairobi to Naivasha, was set to begin construction after the government allocated $500 million for the project in the FY2016/2017 budget. According to Kenya Railway Corporation, the government plans to spend Shillings 32 billion in the FY2021/22 budget to upgrade the country's railway network in order to attract more passengers and freight to rail. Nairobi – Naivasha standard gauge railway (SGR) has been allocated Kshs from the aforementioned budget. 27.2 billion in the National Treasury FY2021/22 budget, with the goal of transporting 2 million long-distance passengers and 7.5 tonnes of freight, with the remainder going toward upgrading the country's Metre Gauge Railway (MGR) network.

158) In the planning arena, the National Government Constituency Development Fund (NG-CDF) has a gross allocation of KSh. 41,714,800,000 which is 90.7% of the gross allocation to this State Department for Planning. The Fund is utilized to implement various projects and programmes at the Constituencies level. The current formula entails sharing the allocated quantum amount equally to all constituencies. However, it is worth noting that there are proposals to change the formula to mimic the revenue sharing basis among Counties, so as to capture key socio-economic features of constituencies such as the poverty index among others. This is because the needs of individual counties may be similar but the level of needs vary.

Keep an eye on….

i. Seamless implementation and effective oversight of the projects under Marine and rail transport given that the budget has been shifted from Transport to the National Treasury.
ii. Timely completion of the targeted projects, such as the construction of Berths 2 and 3, to ensure completion by the end of 2021/22, as well as value for money in project implementation.
iii. Implementation of the Nairobi-Naivasha project, as well as monitoring the planned upgrade of the Meter Gauge Rail (MGR) from Naivasha to Kisumu and the fate of the remaining two phases of the SGR (2B and 2C).

iv. The speedy completion of security, education and other infrastructure in constituencies to prevent any potential stalling, which is usually expected at a transition period. The security infrastructure funded through the National Government Constituencies Development Fund (NG-CDF) include the police posts, chief's camps and installation of street lights with the aim of reducing crime rates at the constituency levels. Further, timely completion roads grading and construction of classrooms would be of paramount importance to address the local insatiable demand.

ANNEX 1: Completed Projects With Allocations In The Financial Year 2021/22 To Defray Pending Bills

		Estimated cost			Project life				
	Title	Total	GoK funded	Foreign funded	start date	End date	Project Completion % as at 30th April,2021	Gok Pending Bills as at 30th April,2021 (Inclusive of Land Compensation)	2021/22 Financial Year Allocations
1	Nuno - Modogashe Road Project	8,047,042,158	2,297,731,525	5,749,310,633	11/20/2015	5/19/2020	100%	81,563,660	50,000,000
2	MPARD Package 1: Miritini- Mwache Road including Kipevu Link Road	20,170,533,368	9,741,201,797	10,429,331,571	18/5/2015	18/5/2018	100%	151,624,186	50,000,000
3	EATTFP: One Stop Border Post at Malaba Border Crossing	1,468,164,951	662,544,683	805,620,268	4-Jul-12	3/30/2018	100%		200,000,000
4	EATTFP: Busia OBP busia border crossing	948,252,076	289,567,863	658,684,213	7/10/2012	7/30/2015	100%		113,900,000
5	EATTFP: One Stop Border Post at Lungalunga Border Crossing	656,281,701	248,172,282	408,109,419	5-Jul-12	30-Apr-15	100%	13,997,518	10,000,000
6	KTSSP: Rehabilitation Kisumu - Kakamega Road	9,371,186,754	1,602,238,580	7,768,948,174	5-Jan-13	6/12/2019	100%	159,710,747	80,000,000
7	KTSSP: Rehabilitation Maji ya Chumvi - Bachuma Gate Road	5,623,302,639	191,613,272	5,431,689,367	3-Nov-14	11/18/2019	100%	48,301,617	30,000,000
8	Rumuruti - Mararal Road (phase I)	4,044,692,186	4,044,692,186	-	6/11/2013	6/1/2018	100%	82,651,856	200,000,000
9	Kehancha-Suna - Masara Road	6,239,640,601	6,239,640,601	-	5/15/2013	7/30/2017	100%	22,723,885	30,000,000
10	Narok - Sekenani Road (C12)	2,209,817,030	2,209,817,030	-	27/10/2016	26/4/2019	100%	210,243,035	100,000,000

		Estimated cost			Project life				
	Title	Total	GoK funded	Foreign funded	start date	End date	Project Completion % as at 30th April,2021	Gok Pending Bills as at 30th April,2021 (Inclusive of Land Compensation)	2021/22 Financial Year Allocations
11	Nairobi - Thika Highway Improvement Project Lot 3	10,582,860,127	1,139,283,727	9,443,576,400	7/2/2007	7/20/2012	100%	566,274,109	330,000,000
12	Jn. A109 (Changamwe round about) - Moi International Airport Access Road & Port Reitz Road	5,421,362,742	3,611,684,742	1,809,678,000	4/9/2015	10/27/2018	100%	94,170,698	30,000,000
13	Muranga-Sagana - Marua (A2)	573,136,123	573,136,123	-	8/13/2010	1/31/2016	100%	897,669,285	100,000,000
14	Ugunja-Ukwala-Ruambwa (C92)	1,851,170,128	1,851,170,128	-	10/17/2020	4/20/2020	100%	214,489,359	120,000,000
15	Ejinja - Bumala Road	2,826,030,039	2,826,030,039	-	21-Oct-11	19-Jun-16	100%	123,691,145	100,000,000
	Total	**80,033,472,623**	**37,528,524,578**	**42,504,948,045**				**2,667,111,100**	**1,543,900,000**