



SUBMISSION OF THE DRAFT BUDGET POLICY STATEMENT PAPER, 2023 TO THE CLERK, NATIONAL ASSEMBLY.

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1.0. Introduction

Section 25 of the Public Finance Management Act, 2012, requires the National Treasury to prepare and submit to the cabinet a Budget Policy Statement (BPS) for approval. The BPS sets out broad strategic priorities and policy goals to guide the National Government and the County Governments in preparing their budgets for the subsequent fiscal year and over the medium term.

Following the call for public comments, The Coast Regional Budget Hub is Pleased to submit, their views on the draft BPS 2023. The Coast Regional Budget Hub (CRBH) is pleased to share its insights through this submission. The Coast Regional Budget Hub is a platform for Public Finance Management (PFM) practitioners that brings together regional voices for collective efforts and synergy to enhance public budgets and services across the Coast Region of Kenya. The Coast Regional Budget Hub operates in the six Coastal counties: Mombasa, Kwale, Kilifi, Lamu, Taita-Taveta, and Tana River Counties.

The Hub comprises budget coordinators, facilitators, and champions from various organizations/ institutions, informal groups, academia, and individuals across the Coast. The Coast Regional Hub builds communities' collective capacity to engage effectively and mobilizes participation in the budget-making processes at the county, regional, and national levels. The CRBH achieves this through continuous capacity building of budget champions and communities in budget processes, research, and budget analysis for evidence-based advocacy engagement and network building with stakeholders. The Hub has over 15 budget facilitators and over 300 budget champions across the Coast.

2.0. Economic Development and Outlook

The BPS 2023 draft on page 28 provides economic assumptions underpinning the macroeconomic outlook. The Kenyan economy is expected to grow to 6.1% in 2023 from the projected 5.5% in 2022. Globally, the economy is expected to slow down to 2.9% in 2023 from 3.2% in 2022. This slow growth is attributed to the Russia-Ukraine conflict, elevated global inflation, the effects of the COVID-19 pandemic and persistent supply chain interruptions. See figure 1, below.



Table 2.1: Global Economic Growth, Percent

Economy	2020	2021	2022*	2023**
	Actual		Jan. WEO	Jan. WEO
World	(3.1)	6.2	3.4	2.9
Advanced Economies	(4.5)	5.4	2.7	1.2
Of which: USA	(3.4)	5.9	2.0	1.4
Euro Area	(6.1)	5.3	3.5	0.7
Emerging and Developing Economies	(2.0)	6.7	3.9	4.0
Of which: China	2.2	8.4	3.0	5.2
India	(6.6)	8.7	6.8	6.1
Sub-Saharan Africa	(1.6)	4.7	3.8	3.8
Of which: South Africa	(6.3)	4.9	2.6	1.2
Nigeria	(1.8)	3.6	3.0	3.2
EAC-5	0.9	6.6	4.7	5.4
Of which: Kenya***	(0.3)	7.5	5.5	6.1

* Estimate ** Projected *** budget estimate
EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda

Source of Data: January 2023 WEO

Comments: Weighing Kenya's economic growth projection against the global and regional economy, which is projected to slow down, seems ambitious, also considering the prevailing economic developments including the high inflation rate.

3.0. Projections

a. Revenue Projections

The BPS 2023 projects the growth of total revenue as a percentage of Gross Domestic Product (GDP) from 17.4% in 2022/23 (as per the supplementary budget 1 2022/23) to 17.8% in 2023/24 representing a 0.5% growth. Total revenue, including A.I.A, is estimated at Kshs. 2,897.7 billion in 2023/24 compared to Ksh.2,512.7 billion projected in 2022/23 and Kshs. 2,199.8 billion preliminarily collected in 2021/22. The ordinary revenue in 2023/24 is estimated at Kshs.2,566.0 billion compared to Kshs. 1,917.9 billion collected in 2021/22. (BPS 2023, pages 46-47, tables 3.1,).

Comments: Whereas the BPS provides some of the tax administration and policy reforms to attain revenue growth, the projected amount remains over-ambitious. These risks increase budget deficit in the event the projected revenue is not realized, leading to borrowing, which in turn increases the debt levels, which has been categorized as considerable risk for debt distress. There is a need for the government to operate and spend within means.

Further, while the governments undertake reforms in tax policy and revenue administration, there is a need for revenue measures to take **into consideration principles of equity**. The measures should be distributed equitably, and the burden should not unfairly affect some section of the population compared to others.



b. Expenditure Projections

Government expenditure as a share of GDP for FY 2023/24 is projected to decline to 22.5 per cent, the overall nominal expenditure and net lending are projected at Kshs 3,663.1 billion from the projected Kshs 3,394.1 billion (23.4 per cent of GDP) in the FY 2022/23 budget. The expenditures comprise recurrent of Kshs 2,459.3 billion (15.1 per cent of GDP) and development of Kshs 769.3 billion (4.7 per cent of GDP).

Comments:

The government needs to show how it is planning to cut government spending and the efforts should be demonstrated in the implementation of the current budget.

The government should adhere to its proposal to cap spending at 75% of the revenue growth rate to improve the exchequer's chances of fiscal consolidation.

4.0. Sector Priorities

The Draft Budget Policy Statement (BPS) 2023/2024 has mentioned that the Kenya Kwanza Agenda is geared towards economic turn-around and inclusive growth which is anchored on the Bottom - Approach. The priority programmes will be implemented through a value chain approach under five clusters: i) Finance and Production Economy; ii) Infrastructure; iii) Land and Natural Resources; iv) Social Sectors; and v) Governance and Public Administration. The Core thematic areas are Agriculture, Micro, Small, and Medium Enterprise (MSME), Housing and Settlement, Healthcare and Digital Superhighway and Creative economy which are sectors with the highest impact that will help achieve the envisaged agenda.

The Government will implement strategic interventions under the following key enablers: Infrastructure, Manufacturing, Blue Economy; the Services Economy, Environment and Climate Change; Education and Training; Women's Agenda; Social Protection; Sports, Culture and Arts; Governance and Security.

Comments: *There is a need for the government to investigate the prioritization of the sectors and increase allocation for National Security because of the rising insecurity in the country. For the government to be able to achieve and realize its objectives there is also a need to review allocations of environmental protection, water and Natural Resources since it is an enabler for priority sectors like Agriculture and Energy*

5.0. Division of Revenue

The Draft BPS 2023/2024 has indicated the strategies that are geared towards enhancing devolution, will be to complete the transfer of all functions constitutionally earmarked to counties within six months; and develop a framework for ensuring that state-owned firms carrying out devolved or shared functions adhere to the principles of governance and ensure that the principle of funding-follows-functions is adhered to concerning all devolved functions.

The Government will also improve County Governments' capacity to generate their own income and reduce over-reliance on transfers from the National government; and ensure that shareable revenue is transferred to counties in a timely and



predictable manner and per the law. The snippet below shows the vertical allocation of revenue between the national and county governments.

Use of old approved audited accounts the proposal to increase the equitable share to Kshs 385.4 billion in FY 2023/24 is equivalent to 24.5 per cent of the last audited accounts (Kshs. 1,573.42 billion for FY 2019/20) and as approved by Parliament. Although the BPS holds that the allocation is in line with Article 203 (2) of the Constitution of Kenya, 2010, the government should strive to ensure the most recent audited accounts are current.

Comments: *There is a need for the Office of the Auditor General to speed up the audit process and also for the parliament to speed up the approval of audited accounts to enable counties to get their fair share of sharable revenue-equitable share.*

Allocation to sectors that are that are devolved.

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Comments: *Draft BPS has indicated that the Government is committed to enhancing devolution by ensuring the transfer of functions earmarked for counties in six months, there should be a notable change in decrease of allocation by the National Government to functions that are fully devolved.*

6.0. Public participation

The public provided invaluable inputs to the 2023 BPS, and we commend the government for ensuring that the public inputs were affected in the Draft Budget.