



REPUBLIC OF KENYA
THE NATIONAL TREASURY AND PLANNING

Telegraphic Address: 22921
FINANCE – NAIROBI
Fax No. 315779
Telephone: 2252299

THE NATIONAL TREASURY
P.O. Box 30007 - 00100
NAIROBI
KENYA

When replying please quote

Ref. No. ES/03 'R' (10)

19th July 2021

TREASURY CIRCULAR NO.8/2021

TO: ALL CABINET SECRETARIES
ALL ACCOUNTING OFFICERS/PRINCIPAL SECRETARIES

RE: GUIDELINES FOR PREPARATION OF THE 2022/23 – 2024/25 MEDIUM-TERM BUDGET

I. INTRODUCTION

• *Purpose*

1. This Circular is issued in accordance with Section 36 of the Public Finance Management Act, 2012 which requires the Cabinet Secretary/National Treasury and Planning to issue to all National Government entities a circular outlining the guidelines on the budget process to be followed by Ministries, Departments and Agencies (MDAs) not later than the 30th August in each year.

2. The Circular therefore provides guidelines on the processes and procedures to be followed by MDAs when preparing the Medium-Term Budget for FY 2022/23 – 2024/25. Its purpose is to guide MDAs on the following:

- (i) Background to the Medium-Term Budget for 2022/23 – 2024/25;
- (ii) Policy framework supporting the Medium-Term Budget for 2022/23 – 2024/25;

- (iii) Constitutional timelines and requirements for key activities in the budget preparation process;
- (iv) Institutional framework to guide the budget preparation process;
- (v) Form and content of budget;
- (vi) Programme Performance Reviews (PPRs);
- (vii) Prioritization process for and costing of programmes, projects and activities; and
- (viii) Framework setting out procedures and the manner in which stakeholders and members of the public will participate in the budget process.

3. The Circular becomes effective from the date of issuance and applies to all National Government entities including MDAs, Commissions, Independent Offices, Parliament and the Judiciary. County Executive Members for Finance are required to customize and issue the circular to guide the process and procedures in their respective Counties.

- ***Background***

4. Following the emergence of COVID-19 as a global pandemic and a near collapse of most economies, the global economy will be experiencing an exceptionally strong but uneven recovery. While a rebound is expected in most economies, full recovery is not assured due to possible future COVID-19 waves, delays in vaccination programmes, increasing debt levels and rising inflationary pressures.

5. The medium-term budget for 2022/23 – 2024/25 will therefore be prepared against the background of strong but uneven economic recovery. The emergence of new COVID-19 variants could lead to reinstatement of containment measures thereby disrupting economic activities. Further, we expect 2022 being an election year, heightened political activities especially in the fourth quarter of 2021 which are likely to erode investor confidence and affect projected growth. The Government will however continue to monitor these developments and take appropriate measures to safeguard the economy and livelihoods.

6. The global economy is projected to grow by 6.0 percent in 2021, from a contraction of 3.3 percent in 2020. The economic growth in Sub-Saharan Africa region is

projected to expand by 3.4 percent in 2021 from a contraction of 1.9 percent in 2020. Kenya's economic growth is expected to rebound to 6.6 percent in 2021 from an estimated growth of 0.6% in 2020. The outlook for 2021 will be reinforced by the prevailing stable macroeconomic environment and the on-going implementation of the Medium-Term Plan III of Vision 2030, the "Big Four" Agenda and key projects to support Post COVID-Economic Recovery Strategy (PC-ERS).

- ***Policy Framework Supporting the Medium-Term Budget for 2022/23 – 2024/25***

7. The preparation of the 2022/23 – 2024/25 Medium-Term Budget will focus on the theme "building back better" through targeted implementation of economic recovery programmes. Following the success of the initial PC-ERS, the Government is now set to implement a full scale recovery strategy that aims to reposition the economy on an inclusive and sustainable growth path. The PC-ERS will in the medium-term be gradually mainstreamed into the regular programmes of the Government to ensure continuous implementation of programmes aimed at safeguarding livelihoods and job creation.
8. The Medium-Term Fiscal Framework supporting the budget will in this regard, be anchored on the following assumptions:
 - (i) Real GDP is projected to grow at 6.6% in 2022 and 6.0% over the medium-term;
 - (ii) Inflation is expected to be maintained within the target range of $\pm 2.5\%$ of 5%;
 - (iii) Interest and exchange rates are expected to remain stable and this will be safeguarded over the medium term;
 - (iv) Total Revenue will be expected to improve gradually to reach 16.5% of the GDP in FY 2022/23 and 18.5% over the medium-term; and
 - (v) Total expenditures are expected to decrease to 24.5% of GDP in FY 2022/23 and further decline to about 22% of GDP over the Medium Term in line with the fiscal consolidation policy.

II. SPECIFIC GUIDELINES

9. The following will guide the preparation of 2022/23 – 2024/25 Medium-Term Budget proposals.

(i) Timelines and requirements for key activities in the budget process

10. As outlined in the Public Finance Management Act, 2012 and its attendant regulations, the budget process involves preparation of key policy documents for approval by Cabinet and Parliament. Given that 2022 will be a General Election year, preparation of the 2022/23 – 2024/25 Medium-Term Budget will require to be fast-tracked to ensure that the budget estimates are approved by Parliament before it proceeds on recess in preparation for the General Elections slated for August 2022. In this regard, the following policy documents will require to be prepared and approved within stipulated timeframes:

- The Budget Review and Outlook Paper (BROP);
- Sector Working Group Budget Proposals;
- The Budget Policy Statement (BPS);
- Division of Revenue Bill;
- County Allocation of Revenue Bill;
- Debt Management Strategy Paper;
- Pre-Election Report;
- Programme Based Budgets and supporting details;
- The Annual Appropriation Bill; and
- The Finance Bill.

11. To facilitate finalization and approval of the above policy documents and Bills within the stipulated timelines, Accounting Officers are required to strictly undertake the outlined activities in the Budget Calendar within the set timeframes. The timeframes for delivery of the Policy Documents, reports, and relevant Bills, and the Budget Calendar for the FY2022/23 is provided in Annex 1 of this Circular.

(ii) Institutional framework to guide the budget process

12. In line with the UN-Classification of the Functions of Government (COFOG), MDAs performing closely related functions have been mapped to form a Sector Working Group (SWG). The SWGs will remain as follows:

- (i) Agriculture, Rural and Urban Development (ARUD);

- (ii) Energy, Infrastructure and ICT (EI&ICT);
- (iii) General Economic and Commercial Affairs (GECA);
- (iv) Health;
- (v) Education;
- (vi) Governance, Justice, Law & Order (GJLO);
- (vii) Public Administration & International Relations (PAIR);
- (viii) National Security;
- (ix) Social Protection, Culture and Recreation; and
- (x) Environmental Protection, Water and Natural Resources

13. The mapping of MDAs into Sectors is provided in Annex 2 of this Circular. Respective Sector Working Groups (SWGs) shall be responsible for prioritization and formulation of sector budget proposals. The structure and composition of SWGs is provided in Annex 3(A) and the terms of reference are provided in Annex 3 (B) of this Circular.

(iii) Form and content of the Budget

- *Programme-Based Budget (PBB)*

14. The budget will continue to be presented by vote and programme in line with Section 38 (3) (b) of the Public Finance Management Act, 2012. SWGs are therefore required to review programmes and align them to the mandates of the respective MDAs. **Where a new programme is proposed, approval must be obtained from the National Treasury.**

15. In designing new programmes, the structure should match the main lines of service delivery in the MDAs. During the review of programmes, SWGs should ensure that:

- (i) Outcomes and Outputs, are Specific, Measurable, Achievable, Realistic, and Time bound and derived from Government Strategies;
- (ii) Performance indicators and targets are for outputs and outcomes and are results oriented, Clear, Relevant, Economic, Adequate, and Monitorable (CREAM);

- (iii) Programme targets are those that MDAs can reasonably influence their achievement;
- (iv) Delivery units with no clear outputs, performance indicators and targets are rationalized and funding reduced accordingly; and
- (v) Crosscutting functions are assigned to respective programmes.

16. Each programme should be confined to a single MDA and all functions should fall within respective programmes. There should be no duplication of programme or programme names across MDAs. In situations where an MDA has more than one programme, an additional programme should be created for the purpose of covering the costs associated with management, administration, planning and support services which cannot be attributed to a single programme. The format for presentation of the Programme Based Budget is provided in Annex 5A of this Circular.

- ***Estimates for the 2022/23 – 2024/25 Medium-Term Budget***

17. The Government will continue to pursue a fiscal consolidation policy which aims at reducing the overall fiscal deficit and debt accumulation. The consolidation policy will be supported by enhanced revenue mobilization and rationalization of recurrent expenditure, while enhancing financing for priority capital projects. This will ultimately reduce public debt and create fiscal space over the medium term. SWGs are required to prepare Medium-Term Budgets that are consistent with the Medium-Term Fiscal Framework provided in the BRP 2021.

- ***Developing ‘Rolling’ Three-Year Medium-Term Budget Estimates***

16. In a “Rolling” Medium-Term Budget Plan, the first year estimate forms the starting point for the next financial year’s budget estimates. Under this approach, budget resources will continue to be appropriated on an annual basis but the budget planning process will include estimates of expenditure and revenue for the two forward/outer years. Accounting Officers should note that the ceilings for Personnel Emolument and Development in the outer years will remain binding in accordance to the Public Finance Management Regulations, 2015. SWGs should therefore align the FY 2022/23 and Medium Term resource allocation to this requirement.

- ***Medium-Term Development Strategy***

17. The 2022/23 – 2024/25 Medium-Term Budget will be based on MTP III and the PC-ERS and will build on the progress made in the previous financial years. The

Government will continue to address the policy, legal, regulatory, and governance issues as a matter of priority to ensure that we attain our full potential.

- ***The 'Big Four' Plan***

18. In preparing the 2022/23 – 2024/25 Medium-Term Budget, MDAs will be required to prioritize allocations towards the achievement of the 'Big Four' Plan. This will build on the progress made in the previous financial years as we confront the challenges posed by COVID-19 pandemic.

19. To create fiscal space and guarantee appropriate phasing out of expenditure programmes, SWGs are required to undertake a thorough review of proposed MDAs Budgets for FY2022/23 and the Medium Term. SWGs should ensure that Budgets are directed towards improving productivity and aligned to the achievement of the objectives of the "Big Four" Plan and PC – ERS directly as 'drivers' or indirectly as 'enablers'. The exercise should involve the following:

- Prioritizing the PC – ERS and the "Big Four" 'drivers' and 'enablers' in the Sector Budget proposals;
- Establishing the resources required for individual programmes and projects and the level of provision within the ceilings provided; and
- Justifying each proposed programme funding with supporting documentation.

(iv) Programme Performance Reviews (PPRs)

20. Accounting Officers are required to undertake PPRs in line with the guidelines. In undertaking PPRs, MDAs are expected to undertake a detailed assessment of the progress achieved towards realization of the targeted outcomes and outputs after the implementation of the Medium-Term Budgets for FY 2018/19 to FY 2020/21. The assessment should entail analysing the previous budgetary allocations, actual expenditure and achievement of actual outputs and outcomes.

21. The PPRs reports should indicate both financial and non-financial indicators of performance for each programme. The report should provide progress of both domestically and externally financed projects within a programme, see Annex 4C. In addition, the review should focus on efficiency and effectiveness towards the achievement of programme outcomes. Previous Programme Performance,

outstanding commitment, implementation experiences and lessons learnt should form the basis for guiding expenditure allocations in the Medium-Term Budget.

22. MDAs will only be allowed to bid for resources in their respective sectors after finalization of the PPRs. MDAs will be required to present PPR reports prior to discussing the funding requirements with the Resource Allocation Panel (RAP). The guidelines and formats for undertaking Programme Performance Reviews are provided in Annex 4 (A-E) of this Circular.

(v) Prioritization and Allocation of Resources

23. The Government will continue to pursue the “Big Four” agenda and PC-ERS which are aimed at safeguarding livelihoods, creating jobs, reviving businesses and economic recovery. In addition, provision of core services, ensuring equity and minimizing costs through the elimination of duplication and inefficiencies will be prioritized. Realization of these objectives will have implications in the budget ceilings to be provided in the BROP 2021. The following will serve as the criteria to guide prioritization and final allocation of resources:

- (i) Linkage of programmes to PC-ERS;
- (ii) Linkage of programmes to the ‘Big Four’ agenda either as drivers or enablers;
- (iii) Linkage of the programme with the priorities of Medium-Term Plan III of the Vision 2030;
- (iv) Degree to which a programme addresses job creation and poverty reduction;
- (v) Degree to which a programme addresses the core mandate of the MDAs,
- (vi) Expected outputs and outcomes from a programme;
- (vii) Cost effectiveness and sustainability of the programme;
- (viii) Extent to which the Programme seeks to address the viable stalled projects and verified pending bills; and
- (ix) Requirements for furtherance and implementation of the Constitution.

24. Based on the above broad guidelines, Sector Working Groups are expected to develop and document criteria for resource allocation and undertake prioritization within the ceilings provided.

(vi) Costing of Programmes

25. Accounting Officers are required to ensure that costing of activities in their respective programmes is accurate and takes into account the ceilings provided to avoid exaggerated resource wish list. The various costing methodologies to be used are provided in Annex 5B of this circular.

(a) Recurrent Budget Estimates

• Personnel Emolument

26. The National Government expenditure on compensation to employees is not expected to exceed 35 percent of the National Government share of revenue in line with fiscal responsibility principles. To ensure the wage bill remains within the medium-term targets, ***SWGs should not allocate resources for new recruitment, interns, casuals or upgrading unless there is prior approval from the National Treasury.*** MDAs should however provide adequate resources to cater for movement from one salary scale to another. Allocation for personnel emolument must be supported by Integrated Personnel Payroll Data (IPPD). Each MDA will therefore be required to provide this information to support personnel cost.

27. SWGs should also note that adjustments of remuneration and benefits for staff in MDAs, including SAGAs, should only be done after receiving advice from the Salaries and Remuneration Commission (SRC). MDAs are reminded to first obtain written approval on availability of funds for any proposed adjustment, from the National Treasury before seeking SRC's advice. This approval should be provided to the SWGs as supporting documentation.

• Use of Goods and Services

28. SWGs are required to critically review MDAs requirements to curtail growth of recurrent budget especially in respect of use of goods and services. All requirements for use of goods and services should be accurately costed. Each allocation should be supported by service providers' agreements, demand notes, and any documentary evidence of past trends. In addition, SWGs are also required to make adequate budgetary provision for the payment of utilities under respective MDAs.

- ***Budgeting for Subscriptions/Contributions***

29. All subscriptions to international organizations shall remain consolidated under the National Treasury. MDAs are however expected to review and justify both current and proposed requirements for international subscriptions/payments. The National Treasury shall spearhead the rationalization of the subscriptions/contributions and seek Cabinet's approval for inclusion of the viable ones in the National Treasury's Budget.

- ***Transfers to Semi-Autonomous Government Agencies (SAGAs)***

30. Transfers to SAGAs must be critically reviewed and justified. Where no sufficient documentation or evidence is provided, the earmarked provision should be scaled down or eliminated and any savings realized redirected to other priority programmes within or across MDAs within the Sector. Any additional requirement by a SAGA should be critically reviewed and determined after a thorough scrutiny of the budget and the rationale for the additional funding, while taking into account its revenue base.

31. In this regard, SAGAs are required to present their audited accounts and clearly indicate the projected revenue levels, and planned revenue raising measures to enable the SWGs to determine the required Exchequer support. Any revenue over and above what is agreed upon during the SWGs and confirmed by the National Treasury will require fresh review and approval before spending.

33. Taking into account the observed effects of COVID-19 Pandemic on the operational performance of SAGAs, there is urgent need for consideration and implementation of measures that would improve financial performance and efficiency. In this regard, SAGAs will be required to develop and implement measures that will allow diversification and increase in internally generated revenue, rationalization of payroll, operational and administrative costs and leveraging on ICT in delivery of services among other measures with a view to minimizing or eliminating dependence on Exchequer.

- ***Decentralization of ICT Equipment and Services***

32. In the recent past, ICT services were consolidated under the Ministry of Information, Communication and Technology. Accounting Officers should note that

this policy was reversed with effect from FY2021/22. In this regard, each MDA will be required to budget for ICT Services. These include but not limited to purchase of computers, printers and other ICT equipment; purchase of ICT networking and other communication equipment; purchase of software; contracted ICT professional services; purchase of photocopiers; and purchase of specialized ICT equipment.

(b) Development Budget Estimates

• *Preparation, Appraisal and Approval of New Projects*

33. Following the directive that no new projects should be started without the approval of the Executive Office of the President, SWGs are advised to only consider new projects approved by the Executive Office of the President.

34. Further, the National Treasury has developed a Public Investment Management (PIM) Framework and adopted the Public Investment Management Guidelines to guide on matters of projects. These guidelines should be applied in the preparation, appraisal and approval of all projects before they are included in the budget. **Accounting Officers are required to ensure that all new projects are adequately prepared, appraised and approved by the National Treasury before they seek approval from the Executive Office of the President.**

35. Specifically, SWGs should ensure that before a new project is considered for budget allocation for its implementation, the relevant Accounting Officer has fulfilled the following minimum prerequisites;

- (i) All conditions precedent are fulfilled, including land acquisition, compensation, stakeholder management and other development partners' requirements;
- (ii) Detailed designs are completed and relevant approvals obtained where applicable;
- (iii) Project has received necessary regulatory approvals;
- (iv) Detailed resource requirements including funding sources and personnel to operationalize the project are planned for; and
- (v) Project details are captured in the relevant Public Investment Management Information System.

36. SWGs should ensure that projects that have fully met the conditions above are allocated adequate funding in that financial year within the ceilings provided. Where the above preliminaries have not been met, the MDA shall only request for resources to meet these prerequisites in that financial year. Financing Agreements with development partners shall only be executed for projects that have been approved and processed through the Public Investment Management Information System. For any new project to be considered for funding, it must have been appraised and approved and pipelined by 30th June of the preceding financial year.

37. MDAs should submit information on new projects as provided in the Project Concept Note indicated in Annex 6 of this Circular for approval by the National Treasury.

- ***Ongoing and Stalled Projects***

38. The FY 2022/23 Budget will put more emphasis on completion of ongoing and stalled projects. In particular, projects nearing completion should be funded adequately to ensure that citizens benefit from such public investments. Capital projects to be factored in the budget should include both domestically and foreign financed projects. Further, projects that seek to implement/facilitate the realization of the PC-ERS and the 'Big Four' agenda should receive the highest priority.

39. SWGs are however reminded to critically review the ongoing/stalled projects to justify continued existence and resource allocation. MDAs should in this regard be required to provide adequate information to support allocation of funds to ongoing or stalled projects. This should include details on total cost, start and end date, cumulative expenditure to date, balance to completion, and amount required over the medium term, among others.

40. Accounting Officers are required to ensure that all ongoing multi-year projects are allocated adequate funds in accordance with the contract signed between Government and third parties within the projected ceilings before a new project is allocated budgetary resources.

41. In order to have uniform and comparable information on projects, SWGs are required to adopt the following operational definition of projects as per the PIM Guidelines:

- (i) **On-going project** - A project whose implementation is underway with implementation works having commenced or contractual commitments entered into;
- (ii) **Stalled project** – a project which has stopped being implemented for whatever reason or has been receiving inadequate budget allocations which cannot facilitate meaningful progress over the medium term;
- (iii) **New project** – a pipeline project that has been prioritised for financing, but implementation works are yet to commence and no commitments entered into; and
- (iv) **Pipeline Project**; a project that has been appraised and granted necessary approvals and uploaded in the Public Investment Management System ready for prioritisation and budget allocation.

42. SWGs are required to provide details of the approved new projects, ongoing projects and stalled projects as indicated in Annex 7 of this Circular. Projects should be evaluated in the context of the following:

- i) Priority should be given to Post-Covid-19 Economic Recovery Strategy (PC-ERS) and ‘Big Four’ Interventions and completion of on-going projects;
- ii) MDAs should indicate how the proposed projects will contribute to the PC - ERS and ‘Big Four’ Plan of enhancing economic growth, job creation and increased citizen’s welfare;
- iii) Preference for financing should be given to those projects which are in full compliance with Government priorities;
- iv) Resources to projects should largely reflect the actual financial requirement over the medium term; and
- v) MDAs should review the project concept notes to reflect the actual allocations, which should be submitted with the 2022/23 – 2024/25 Medium-Term Budget Proposals.

- ***Projects with GoK Counterpart Requirement***

43. SWGs should ensure that externally financed projects are in line with overall MDAs priorities, and have adequate provision for GOK counterpart funding in accordance with the financing agreement. The SWGs should also ensure that performance for results projects as well as programmes with Disbursement Linked Indicators (DLIs) are properly identified with supporting financing agreement. MDAs are required to provide supporting documents for allocation of counterpart

funding. The requirement and the supporting documentation for counterpart funding for each planned project in the FY 2022/23 and the Medium Term Budget should be forwarded to the National Treasury by **27th August, 2021**.

- ***Conditional Grants to Counties***

44. Conditional grants to Counties in respect of devolved functions must be reflected and accounted for within the appropriate programme and sub-programme structure under the MDAs Budget. This applies to both locally and externally-funded programmes from which the activities to be undertaken in the Counties are targeted to be funded from.

(vii) Public Participation and Stakeholder Involvement

45. Public participation and involvement of other stakeholders in the medium term budget process is essential and a constitutional requirement. SWGs should identify their critical stakeholders including development partners, private sector, community-based organization, local community leaders, among others and engage them in programme prioritization. All engagements of stakeholders should be documented. SWGs should confirm the extent to which MDAs Budget Proposals have inputs from stakeholders.

46. Following the COVID-19 Mitigation Protocols issued by the Ministry of Health the SWGs are encouraged to use virtual meetings in situations where physical meetings are not possible in engaging the Stakeholders.

47. Accounting Officers are reminded that the SWGs remain central in guiding the prioritization and resource allocation for planned programmes/projects. MDAs are therefore required to fully participate in the relevant Sector Working Group and bid for resources within the available ceilings.

III. COUNTY BUDGETING PROCESS

48. Taking into account the guidance provided in this Circular, County Executive Committee Members for Finance are expected to customize and develop Medium-Term Budget Preparation Guidelines that meet the requirements of their respective County Budget Processes. The National Treasury will provide assistance to individual Counties, including capacity building of County Officials upon request.

IV. PREPARATION AND SUBMISSION OF BUDGET PROPOSALS

Sector Chairpersons are requested to ensure that all activities of SWGs including the drafting of Sector Budget Proposals are completed on scheduled timelines. The proposals should be ready for submission to the National Treasury not later than **15th October 2021** in line with the format indicated in Annex 8.

V. CONCLUSION

Finally, Accounting Officers are required to ensure strict adherence to the 2022/23 – 2024/25 MTEF Budget Guidelines and to bring the content of this Circular to the attention of all Officers working under them, including the Heads of Parastatals and other Semi-Autonomous Government Agencies (SAGAs).



HON. (AMB) UKUR K. YATANI, EGH
CABINET SECRETARY/NATIONAL TREASURY & PLANNING

Copy to: Dr. Joseph K. Kinyua, EGH
Head of the Public Service
State House
NAIROBI.

Justice (Rtd.) Paul Kihara Kariuki, EGH
Attorney General
State Law Office and Department of Justice
NAIROBI.

Dr. Jane Kiringai
Chairperson
Commission on Revenue Allocation
NAIROBI.

Mrs. Jacqueline Mogeni
Chief Executive Officer
Council of Governors
NAIROBI.

All County Executive Committee Members for Finance

