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REPUBLIC OF KENYA

MINISTRY OF FINANCE

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BUDGET POLICY STATEMENT

APRIL 2012

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Foreword

The global economic recovery remains uncertain. Developments in the Euro zone and the US are likely to cause another round of economic crisis that could have major ramifications to the economies in the region including Kenya.

On the domestic front, our economy has shown signs of stabilizing following recent pressures occasioned by external shocks and strong domestic demand. The Shilling has recovered following a rapid depreciation in the third quarter of 2011, and inflation has declined since November 2011. The severe drought in the Horn of Africa and the combination of high international food and oil prices contributed to a marked widening of the current account deficit. Despite these, most sectors of the economy continued to expand in 2011, and we now estimate real GDP growth to be 4.5 percent in 2011 and to rebound to 5.2 percent this year. While our economic fundamentals remain sound, we need to build on this resilience to accelerate growth, create more jobs, and put a meaningful dent to poverty and inequality.

Going forward, we need to reinvigorate our economic and structural reform agenda coupled with up scaling investment in economic infrastructure so as to provide the private sector more latitude to grow and provide a firm platform for moving our economy to middle class status sooner than later. We are convinced it is private investment that creates the income and the resources that will see us conquer illiteracy, diseases, malnutrition, challenges of supply of clean water and all the other factors that stand in the way to poverty elimination.

The FY 2012/13 will witness the ushering of a new dawn as to how we will now govern ourselves and manage our political and socio-economic affairs. County governments will be operationalised after the next general election. Therefore, the fiscal framework presented in this 2012 Budget Policy Statement provides a strong basis for building our common future under the new constitutional dispensation. It provides the means for us to transit to a sustainable public finance path, continue spending on infrastructure and implementation of the new constitution, while protecting social spending for more inclusive growth.

With the coming on board of county governments, the FY 2012/13 budget is expected to be a transitional budget, one with expenditure pattern that forms the basis for equitable division of revenues before an equitable allocation based on a new formula is phased in. To achieve the aspirations of the Kenyan people of a better Kenya as envisaged under the Constitution calls for greater transparency and high quality management of public finances at both levels of government, that is, county and national governments. This is fundamentally necessary if we are to ensure fiscal discipline and safeguard the stability of our economy and our nation.

HON. ROBINSON N. GITHAE, EGH, MP.
MINISTER FOR FINANCE

Acknowledgement

This is the third Budget Policy Statement (BPS) to be tabled in Parliament in accordance with the requirements of the Fiscal Management Act, 2009. It outlines the broad strategic macroeconomic issues and fiscal framework, together with a summary of government's spending plans, as a basis of 2012/13 budget and the medium-term. This contributes to the improved understanding of Kenya's public finances and guide debate on economic and development matters.

Overall, Kenya's growth has slowed but the fundamentals remain favourable. While fiscal and monetary policy remains supportive of growth, current projected growth rates are not fast enough to support the employment gains and poverty reduction that the country requires. The overriding policy thrust of 2012 Budget Policy Statement, therefore, is to sustain economic growth by restoring and sustaining macroeconomic stability and focusing on economic policies and structural reforms aimed at facilitating private sector to expand, promote productivity and build the resilience necessary for employment creation and poverty reduction.

Year 2012/13 is an election year that will usher in a devolved system of governance. The need for continued fiscal discipline, therefore, cannot be overemphasized. The Government is committed to ensuring that we transit smoothly to the new governance system.

The preparation of the 2012 BPS was a cooperative effort. Much of the information in this report was obtained from the Ministries and various government departments and agencies. We also received valuable inputs from the public during budget consultations process. We are grateful for the inputs. We are also grateful for the collaboration and comments we received on the 2012 Budget Review and Outlook Paper (BROP) from the Accounting Officers, which provided inputs to this year's statement.

A core team in the Ministry of Finance spent a significant amount of time putting together this Statement. We are particularly grateful to the Economic Secretary, Dr. Geoffrey Mwau, Mr. Justus Nyamunga, Director, Economic Affairs, Mr. Paul Ngugi, Director of Budget and Dr. Kamau Thugge for their contribution and the leadership they provided in the execution of this task. Special thanks also to the principal contributors headed by Mr. Henry Rotich and assisted by Mr. John Njera, Mr. Peter Chacha and Mr. Dennis Muganga of Economic Affairs Department. In addition, valuable inputs were received from Mr. Francis Anyona, Mr. Samuel Kiiru, Ms Elizabeth Nzioka, and Ms Miriam Musyoki of Budgetary Supplies Department, and the entire team of the Working Committee on Fiscal Decentralization (WCFD) for which we are grateful. Since it would not be possible to thank everybody individually in this page, I would like to take this opportunity to commend the entire staff of the Treasury for their dedication and commitment to public service.

JOSEPH K. KINYUA, CBS
PERMANENT SECRETARY/TREASURY

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Annex Tables:

Abbreviations and Acronyms

ASALs	Arid and Semi Arid Lands
BOPA	Budget Outlook Paper
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
BSP	Budget Strategy Paper
CARB	County Allocation of Revenue Bill
CRA	Commission on Revenue Allocation
DoRB	Division of Revenue Bill
EAC	East African Community
ERS	Economic Recovery Strategy for Wealth and Employment Creation
FY	Financial Year
GDP	Gross Domestic Product
GoK	Government of Kenya
KNBS	Kenya National Bureau of Statistics
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NDA	Net Domestic Assets
NFA	Net Foreign Assets
PERs	Public Expenditure Review
PPP	Public Private Partnership
SWGs	Sector Working Groups
VAT	Value Added Tax
V 2030	Vision 2030
WEO	World Economic Outlook

Legal Basis for the Publication of the Budget Policy Statement

The Budget Policy Statement is published in accordance with Section 7 sub-sections (1), (2) and (3) of the Fiscal Management Act, 2009. The law states that:

1) The Minister shall prepare and lay before the National Assembly a paper to be referred to as a budget policy statement.

2) The budget policy statement shall be laid before the National Assembly **not later than 21st March each year or, in the event that the National Assembly is not in session on 21st March, within the first week upon the reconvening of the Assembly**.

3) The budget policy statement shall state the broad strategic macroeconomic issues that will be the basis of the budget of the succeeding financial year and the medium term and shall include –

   (a) An assessment of the current financial year and the projected state of the economy for the succeeding three years;

   (b) The macro economic and fiscal policies for the period specified under paragraph (*a*);

   (c) Targets for overall revenues, total aggregate expenditure and domestic and external borrowing for the succeeding financial year and the medium term;

   (d) The total resources to be allocated to individual programmes within a sector or Ministry for the period identified under paragraph (*a*) indicating the outputs expected from each such programme during that period;

   (e) The criteria used to allocate or apportion the available public resources among the various programmes;

   (f) The estimates of interest and debt servicing charges and loan repayments for the financial year to which the budget relates and the next two financial years;

   (g) Proposal for financing any deficits for the financial year;

   (h) Indication of the intention regarding borrowing and actions that may increase public debt for the financial year;

   (i) Budgeted and actual revenue levels for the two preceding financial years;

   (j) Budgeted and actual expenditure for the two preceding financial years by vote and main divisions;

   (k) Forecast financial position for the financial year to which the budget relates and the next two financial years;

   (l) Statement of specific fiscal risks and contingent liabilities including guaranteed loans, pending bills, uninsured risks, promissory notes and other internationally accepted instruments, as at the day on which the forecast financial statement are published and the rules that determine what constitutes current and future fiscal risks;

   (m) The policy objectives that will guide the Government's budget decisions during the financial year and the policy areas that the Government will focus on during the financial year.

I. ECONOMIC AND SOCIAL PROGRESS—BUILDING OUR COMMON FUTURE

Overview

1. The 2012/13 MTEF Budget will usher a new dawn in social compact. The new constitution requires the Government to progressively provide for a minimum basic standard of economic and social rights to its citizens within available resources. In particular, it requires us to make progress in ensuring that Kenyans enjoy better health care services, education, clean and safe water, housing, and social security. Meeting these developmental needs require sustaining high growth path during transition with benefits accruing equitably to all Kenyans.

2. Year 2012/13-2014/15 budgeting period will entail a transition to devolved system of governance. The MTEF budget will therefore continue prioritising expenditure, within the context of a prudent macroeconomic strategy, while continuing with reforms that are needed to accelerate social and economic progress as espoused in the Constitution.

3. At the same time, during this transition period, we need to sustain growth in the face of challenging external and domestic environment. According to the IMF latest World Economic Outlook update released in January 2012, global output is expected to weaken in the face of continuing sovereign debt crisis in the Euro area and sluggish recovery in the US and other advanced economies. Meanwhile, inflationary pressures have emerged in several emerging countries, including China thus slowing down their growth prospects. On the domestic front, while Kenya's economy has shown signs of stabilizing following recent pressures stemming from external shocks and strong domestic demand, high inflation is still hurting the welfare of our citizens and making business planning difficult.

4. In the face of these challenges, therefore, the overriding policy thrust of 2012 Budget Policy Statement is to consolidate and sustain inclusive economic growth by restoring and maintaining macroeconomic stability and focusing on economic policies and structural reforms aimed at removing hurdles to higher growth while facilitating private sector to expand its business, promote productivity and build resilience necessary for employment creation and poverty reduction.

Sustaining inclusive growth and meeting MDGs

5. The Government, with the support of development partners, has committed substantial resources in order to accelerate socio-economic development and achieve the MDGs. Over the recent past, increased spending on social sectors such as rural development, agriculture, education and health has supported inclusive growth.

6. The last survey on poverty indicated that the incidence of poverty stood at 45.9 percent in 2006 down from 52.3 percent in 1997. The survey also showed that Poverty was higher in the rural areas (49.1%) compared to urban areas (33.7%). Meanwhile, an assessment of Kenya's performance in meeting each of the eight goals has been ongoing with the last MDGs Status Report for Kenya being in 2009. According to the 2009 report, Kenya has made significant progress towards meeting four of the eight goals. Overall, with respect to meeting the MDGs by 2015, there is potential of meeting some and unlikely for others. However, the supportive environment is improving as summarized in Table 1.1 below.

Table 1.1: Supportive environment for meeting MDGs

Goal	2003 Progress Report		Current Status		Remarks
	Will it be met?	Supportive environment	Will it be met?	Supportive environment	
MDG 1: Eradicate Extreme Poverty and Hunger	Unlikely	Weak	Unlikely	Strong	Increased pro-poor spending in edc, health and agric.
MDG 2: Achieve Universal Primary Education	Potentially	Fair	Potentially	Strong	Free Primary/secondary schooling
MDG 3: Promote Gender Equality and Empower Women	Potentially	Fair	Potentially	Strong	New gender sensitive constitution, Women Enterprise Fund etc
MDG 4: Reduce Child Mortality	Unlikely	Fair	Unlikely	Fair	Continued increased funding to health sector
MDG 5: Improve Maternal Health	Unlikely	Weak	Unlikely	Fair	
MDG 6: Combat HIV/AIDS, Malaria and Other Diseases	Potentially	Strong	Potentially	Strong	
MDG 7: Ensure Environmental Sustainability	Potentially	Weak	Potentially	Fair	Protection of water towers including Mau forest, tree planting, etc
MDG 8: Develop a Global Partnership for Development	Unlikely	Weak	Potentially	Strong	Youth empowerment programs with donors, increased mobile subcribers with cooperation with private sector

7. Going forward, continued spending on priority sectors such as agriculture and rural development, health and education will accelerate attainment of better standards of economic and social development. These should be complemented by measures to address socio-economic inequities and inculcating national cohesion for long-term stability and prosperity.

8. Because of limited resources, rationalization and efficiency in allocation and use of public resources will be required to enable Government achieve its development goals. Similarly, fiscal prudence and strategic prioritization will be required in other public sector entities to assure overall fiscal sustainability and more productive use of resources consistent with financing public-policy priorities. Also, as we implement a devolved system of government we need to build transparent, responsive, accountable, efficient and effective national and county governments as key drivers of broad-based growth.

9. Meanwhile, to accelerate growth and expand the levels of employment and reduce poverty, Government's initiatives will focus on: (i) restoring and maintaining macroeconomic stability; (ii) continuing investment in infrastructure, in particular, roads, energy, rails, ports and ICT; (iii) deepening structural reforms, including improving governance with implementation of the Constitution; (iv) enhanced regional integration and accessing new and emerging markets; and (v) targeted support for small and medium enterprises, as well as initiatives to increase value addition in agriculture to increase job creation.

Fiscal discipline and continuing with productive spending

10. The Government intends to strike a balance between devoting resources for these priorities and gradual fiscal adjustment to ensure long-term debt sustainability. Thus, we expect a deficit (including grants) of 4.3 percent of gross domestic product (GDP) in 2012/13, moderating to about 3.5 percent by 2014/15. Over the medium term, fiscal adjustment will be accompanied by shifts in the composition of public expenditure towards investment and economic development, as well as implementation of measures to strengthen public financial management and modernize and simplify the tax system.

11. Prior to the crisis period of 2008-2009, Kenya enjoyed robust economic growth with buoyant revenue, improving public and private investment spending, and a declining public debt burden. For instance, between 2003/04 and 2007/08, government spending as a share of GDP rose from 23.0 percent to 27.1 percent, while public debt to GDP declined from over 70 percent to about 40 percent.

12. In response to the multiple shocks in 2008-09—post-election violence, drought, high commodity prices, and global financial crisis—Government adopted countercyclical fiscal stance to shore up growth, at a time when the private sector was adjusting to the changed economic circumstances. As a result, government spending rose further to about 30 percent by 2010/11 while public debt increased to 48.8 percent of GDP.

13. In the current budget 2011/12, public expenditure continued to expand, albeit at a slower rate, reaching 33.5 percent of GDP. Expenditure pressures reflected stepped-up infrastructure spending, implementation of the new Constitution, drought mitigation measures and food security, security intervention in Somalia, and pressure for salary awards.

14. Most of these expenditures are necessary for longer-term economic growth in light of the changing economic conditions. For instance, electricity generation capacity is being expanded with investment in geothermal power; efficiency in the public transport is set to improve with road, rail and ports expansion; expansion of irrigation programmes will ensure food security becomes a reality; and intervention in Somalia will enhance security and eliminate incidents of piracy that had increased the cost of shipping along the East African Coast line. Also, steps have been taken towards implementing a devolved system of governance and rural development programmes, in addition to continued spending in health and education, as well as strategic initiatives to cushion the poor with emerging challenges associated with high food and fuel prices.

15. However, over the medium term, Government's expenditure as a share of GDP and especially the share of recurrent expenditure will need to moderate so as to guard against accumulating large debt that will not only pose fiscal risk but also be burdensome to our future generation. In particular, every effort should be made to contain wages and salaries by central government and other public entities by limiting the size of public service. Pursuing a sustainable level of debt is also vital as a means to provide room for the private sector to expand business and create the much needed jobs within an environment of low inflation, and stable interest rates and exchange rate.

16. With these apparent fiscal constraints, tough choices are therefore required to ensure that available resources are directed towards those priority programs that have the highest socio-economic impact on our economic development. This is especially more urgent with respect to the public sector wage bill that, if not appropriately managed, will become the main macroeconomic challenge as we transition to a devolved system of Government.

17. This Budget Policy Statement articulates economic policies and structural reforms as well as sectoral expenditure programmes that the Government intends to implement over the next three financial years in order to achieve the broad goal of its development agenda as already indicated. In particular, it emphasizes continued shift of resources in favour of growth and job creation, and to support stronger private-sector investment in pursuit of new opportunities in a changing economic environment. The proposed fiscal framework ensures continued fiscal discipline and provides support for sustained growth, broad-based development and employment creation that benefits all Kenyans.

Outline of the 2012 budget policy statement

Recent economic developments and outlook

18. Section II of this BPS outlines the economic context in which the 2012/13 MTEF budget is prepared. It provides an overview of the recent economic developments and emerging challenges, as well as the outlook going forward. The updated economic outlook indicates growth will slow down from the forecast

in the last BPS, mainly due to the difficult global and domestic economic environment. Real GDP growth is forecast to increase to 5.2 per cent in 2012 from the estimated 4.5 percent in 2011. Over the medium-term, growth is expected to pick gradually to about 6 percent, as global conditions improve and macroeconomic stability takes hold. Inflation is expected to ease to single digit and be sustained around the target of 5 percent over the medium term.

19. The projected growth is cautious given the obtaining economic circumstances. However, it is still insufficient for Kenya to put a meaningful dent on unemployment and poverty in line with the objectives set out in the Vision 2030. Section II also provides priority initiatives aimed at accelerating economic growth and measures that are aimed at enhancing private sector competitiveness and increasing employment, especially for the youth.

Fiscal policy and budget framework

20. Section III outlines the fiscal framework that is supportive of growth over the medium to long term, while continuing to provide adequate resources for the implementation of the new Constitution and social programmes in health and education, as well as in infrastructure spending.

21. Due to revenue shortfalls and spending pressures from security intervention in Somalia and salary awards, the budget deficit in the revised budget is not expected to reduce in the current financial year. However, with improved revenue performance following tax reforms and moderation in spending, the fiscal position is expected to improve over the next three years with the budget deficit declining to about 3.5 percent. This will allow for that public debt to GDP to fall to well below the 45 percent benchmark by 2014/15.

Preparing for devolution—Intergovernmental fiscal relations

22. 2012/13 is an election year that will usher in a devolved system of governance. Section IV provides a framework for managing the transition to decentralised structure in line with the new Constitution. The proposed division of revenue between national and county government is set out in Table 4.3. National government accounts for an average of about 80 percent of equitable share of revenue over the 2012/13 MTEF period, while transfers to counties account for an average of 20 percent.

Expenditure priorities and resource allocation

23. Section V presents the resource envelope and spending priorities for the proposed 2012/13 MTEF budget. Sector achievements and priorities are also reviewed, along with indicative costing of the devolved functions for the 2012/13 MTEF period.

24. Overall, Government spending to GDP will remain at slightly below 30 percent over the MTEF period. Education, and Energy, Infrastructure and ICT

sectors account for the highest allocation, followed by Governance, Justice, Law and Order, Public Administration and International Relations, and Health sectors in that order. Defence expenditure has also risen recently with security intervention inside and along the border of Somalia. On the non-discretionary category, debt servicing has been the fastest growing component of expenditure.

Summary

25. This budget policy statement outlines the broad strategic macroeconomic objectives and fiscal framework, together with a summary of Government spending plans, as a basis of 2012/13 budget and medium-term. In this regard, it contributes to the improved understanding of the state of Kenya's public finances, thereby helping to guide public debate on economic and development matters. Of course, Vision 2030 Medium Term Plan and its update provide the longer-term perspective on Kenya's growth and development challenges.

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Overview of Recent Economic Performance

26. The economy has shown signs of stabilizing after recent pressures occasioned by external shocks and strong domestic demand. The Shilling has recovered following a rapid depreciation in the third quarter of 2011, and inflation has declined since November 2011. The severe drought in the Horn of Africa and the combination of high international food and oil prices contributed to a marked widening of the current account deficit. Despite these, most sectors of the economy continued to expand in 2011, and we now estimate real GDP growth to be 4.5 percent in 2011 and to rebound to 5.2 percent this year. While our economic fundamentals remain sound, we need to build on this resilience to accelerate growth, create more jobs, and put a meaningful dent to poverty and inequality.

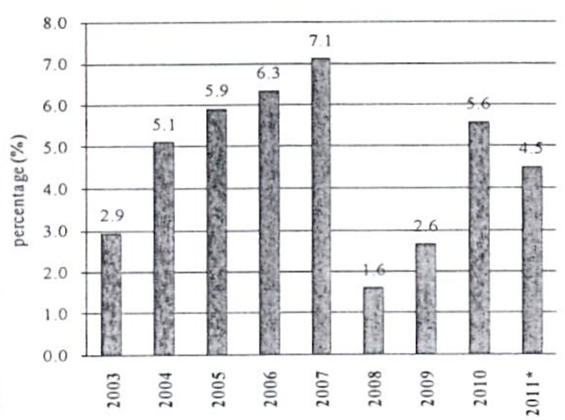
27. The recent economic developments are a clear indication that the policies that we implemented in response to the shocks are beginning to take effect. They also point to a more stable macroeconomic environment, going forward.

2011 growth update

28. Real GDP grew by 4.2 percent in the first nine months of 2011 compared with 4.9 percent in the same period in 2010. The growth was mainly attributed to continued expansion in building and construction, wholesale and retail, financial intermediation and agriculture and forestry as well as hotels and restaurants. Leading economic indicators for the fourth quarter of 2011 still point to continued growth, albeit at a slower rate.

29. On account of performance of the first three quarters, it is now estimated that overall growth for 2011 will average about 4.5 percent, down from 5.6 percent in 2010 (Chart 2.1). This growth indicates resilience considering that the year was characterized by delayed rains, high inflation, and weaker shilling, all of which combined to restrain growth.

Chart 2.1: Real GDP growth

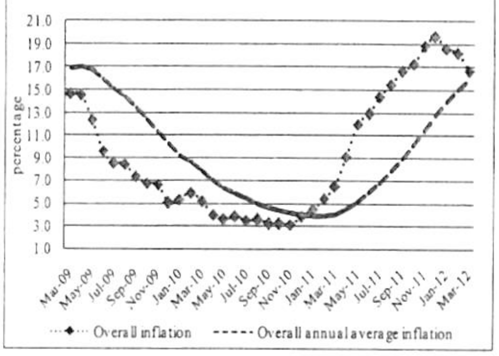


30. The pace of current growth is still well below the target of Vision 2030 of 10 percent necessary to draw more Kenyans into employment and reduce poverty. Recent budgets have been geared towards supporting growth to mitigate the adverse effects of domestic and external shocks. Accelerating growth further requires stepping up both public and private investment to raise Kenya's economic competitiveness and create more employment opportunities for all Kenyans.

Inflation has risen to double digits but has started easing lately

31. After remaining low and stable for the greater part in 2010, inflation picked to reach double digits level in 2011, mainly on account of high food, oil and energy prices. The weakening of the Kenya shilling against major currencies also exacerbated inflationary pressures. The annual average inflation for 2011 rose to 14 percent compared to 4.1 percent in 2010. The twelve-month year-on-year inflation peaked to 19.7 percent in November 2011 before easing to 18.7 percent in December 2011, 18.3 percent in January 2012, 16.7 percent in February 2012 and, more recently, to 15.6 percent in March 2012 (Chart 2.2).

Chart 2.2: Inflation



32. The Government has taken appropriate policy action to rein in on inflation. A combination of tight monetary policy and fiscal restraint, as well as easing food and oil prices and firming up of the shilling has worked to support the easing of inflation. The CBK raised the policy rate from 6.25 percent in August 2011 to 18 percent in December 2011, while the Government has instituted austerity measures and expenditure reprioritization to restrain domestic demand.

The balance of payments has come under pressure

33. Reflecting higher fuel and food prices, as well as a weaker than expected global output and strong private sector credit, the external payment position has come under pressure. As a result, the external current account deficit is expected to reach about 11 percent of GDP in 2011/12.

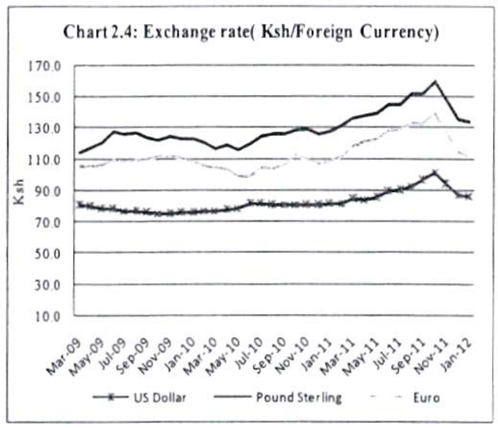
34. The official foreign exchange reserves in terms of months of imports cover declined from 3.9 in 2010 to 3.7 in 2011 (Chart 2.3). However,

Chart 2.3:Official Foreign Reserves

following disbursements from the IMF official foreign exchange reserves held by the Central Bank of Kenya rose to about US$ 4.2 billion by end-December 2011.

The shilling exchange rate weakened but has recently firmed up

35. Increased demand for foreign exchange to finance imports of machinery and capital goods, larger oil import bill due to a spike in the oil prices, increased maize imports occasioned by food shortages in 2011, and strong demand of imported consumer goods with strong bank credit expansion to the private sector, combined to exert pressure on the shilling exchange rate against major currencies.

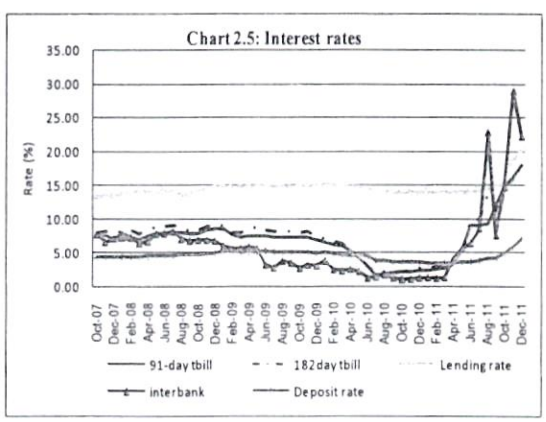


36. The Shilling weakened to exchange at a historic low of Ksh. 107 per US dollar in mid-October 2011 compared with an average of about Ksh. 80 per US dollar in October 2010. Partly due to the tightening of monetary policy, the exchange rate has firmed up to exchange at around Ksh.85 per US dollar from December 2011 through February 2012. Over the same period, the shilling exchanged at Ksh.114.0 and Ksh.135.0 respectively against the Euro and the Pound Sterling in December 2011 compared to Ksh.138.7 and Ksh.159.4 in October 2011 (Chart 2.4).

Tight liquidity has put upward pressure on interest rates

37. Reflecting the tightening of monetary policy stance, short-term interest rates have increased. At some point in late 2011, interbank interest rates had increased to about 30 percent. The 91-day Treasury bill rates have also risen to about 20 percent by the end of December 2011 from as low as 2 percent in some months in 2010. Consequently, most commercial banks adjusted their base lending rates upwards (Chart 2.5).

38. At the same time, uncertainty concerning the sovereign debt crisis in the Euro area, rising inflation and weakening of the exchange rate have all combined to weaken activity in the stock market. However, there are signs that these factors are reversing and as a result activity in the securities market has started improving.



Fiscal performance and emerging challenges

2011/12 Budget

39. The macroeconomic assumptions underlying the 2011/12 budget were detailed in the 2011 BPS. The budget assumed continued strong economic growth and stable macroeconomic environment. In addition, the financial objectives were aimed at containing non-priority and unproductive recurrent expenditure so as to bring the budget deficit down and ensure sustainable public debt.

40. Parliament approved the 2011/12 budget in August 2011. Expenditures amounted to Ksh. 1,159.5 billion, comprising of recurrent expenditure of Ksh. 762.4 billion, development expenditures of Ksh. 396.6 billion, and Ksh 0.5 billion for contingency fund following utilization of the Ksh 1.5 billion for drought mitigation measures by the time of approval.

41. The above expenditures were to be financed by total revenue (including A-I-A and after adjusting for LATF arrears) amounting to KSh. 793.3 billion, donor grants and project loans totalling KSh. 183.1 billion, domestic debt roll-over of Ksh 63.5 billion, and domestic borrowing of KSh. 119.5 billion.

Implementation progress and emerging fiscal challenges

42. Since the implementation of the 2011/12 Budget in July 2011, the economic environment has worsened. High inflation stemming from higher food and fuel prices and deteriorating global economic conditions, have weakened economic expansion. In addition, rising inflationary expectations placed pressures on the Shilling exchange rate. The tightening of monetary policy has resulted in rising domestic interest rates both in the money markets and in the auctions for government securities further putting pressure on the budget. As a result:

- ***Revenues have fallen short of target:*** As at end of February 2012, cumulative revenue receipts amounted to KSh. 440.3 billion, against a target of KSh. 488.3 billion. This reflected an underperformance of KSh. 48 billion. The underperformance was in respect of KSh. 32.2 billion in ordinary revenue and KSh. 15.8 billion in Appropriations–in–Aid (A-I-A). The underperformance in ordinary revenue was associated with various factors including VAT withholding challenges during the financial year, and weaker than envisaged economic growth, while the shortfall in A-i-A partly reflects underreporting by line ministries.

- ***Domestic borrowing has been constrained*** by the volatility in the money market interest rates and investor uncertainty brought about by high inflation and weakening of the Shilling. Consequently, there has been an under subscription of Treasury Bills and Bonds in the auction market for government securities. More recently, the situation has improved with increased demand for short-dated government securities.

- *Expenditure execution has also fallen behind:* By February 2012, total expenditure (based on disbursement) amounted to KSh. 586.6 billion against a target of KSh. 688.1 billion. This reflected an overall under-spending of KSh. 101.6 billion, of which KSh. 11.2 billion was in respect to recurrent expenditure, while KSh. 89.3 billion was in respect of development expenditure and net lending. Development expenditures financed with domestic resources were below target by KSh. 28.5 billion, and those financed with foreign resources were below target by KSh. 60.9 billion. The under-spending of the development budget reflected: poor procurement planning for government funded projects; low absorption of development project funds due to delays in processing and securing "No Objections" from donors; and under-reporting by line ministries of actual spending, including low coverage of expenditures incurred in the districts, as well as non-reporting by donors where government systems are not used.

- ***Additional spending pressures have emerged,*** mainly on salaries, implementation of the Constitution, as well as dealing with security operations along the border and in Somalia, among others. In addition, the weakening of the shilling exchange rate against major currencies has increased the servicing of external debt in shilling terms and government expenditure on import of goods and services. So far in the year, Treasury has received requests for additional funding amounting to over Ksh.175 billion. Table 2.1 provides the preliminary budget out-turn for the first eight months of the FY 2011/12.

Table 2.1: Cummulative Budget Deficit, July 2011 to February 2012 (Ksh billion)

	Feb-12			Jun-12	
	Target 1	Act * 2	Deviation 3=2-1	Budget 4	Revised Budget 5
1.0 TOTAL REVENUE & GRANTS	**513.4**	**450.5**	**(62.9)**	**835.1**	**854.5**
1.1 Total Revenues	488.3	440.3	(48.0)	794.0	806.4
Ordinary Revenue	441.8	409.6	(32.2)	718.1	724.8
Ministerial Appropriation in Aid	46.5	30.7	(15.8)	75.9	81.6
1.2 Grants	25.1	10.3	(14.9)	41.1	48.2
2.0 TOTAL EXPENDITURE AND NET LENDING	**688.1**	**586.6**	**(101.6)**	**1,071.2**	**1,082.8**
2.1 Recurrent Expenditure	437.3	426.0	(11.2)	671.6	697.5
Domestic Interest	50.3	51.2	0.8	76.6	77.7
Foreign Interest	4.3	4.3	-	7.5	8.9
Pensions, etc	23.6	16.5	(7.1)	34.8	32.6
Wages & Salaries	148.4	144.1	(4.3)	222.6	229.4
Defense and NSIS	39.5	45.4	5.9	58.4	78.6
Other recurrent expenditures	171.1	164.6	(6.6)	271.8	270.5
2.2 Development	249.9	160.5	(89.3)	399.1	385.2
Domestically Financed (gross)	139.2	110.7	(28.5)	213.5	199.7
Foreign Financed	109.4	48.6	(60.9)	183.1	182.9
Net Lending	1.3	1.3	0.0	2.6	2.6
2.3 CCF	1.0	-	(1.0)	0.5	-
3.0 BALANCE INCLUSIVE OF GRANTS	**(174.7)**	**(136.0)**	**38.7**	**(236.1)**	**(228.3)**
4.0 TOTAL FINANCING	**174.7**	**119.5**	**(55.2)**	**236.1**	**228.3**
4.1 Net Foreign Financing**	67.3	21.3	(46.0)	116.7	166.2
4.2 Net Domestic Financing	107.5	98.2	(9.3)	119.4	62.1
Discrepancy***	-	(16.5)	(16.5)	-	0.0

Source: Ministry of Finance

** Preliminary based on Exchequer disbursements*

*** including proposed syndicated loan of US$ 600 million*

**** including adjustment to cash basis*

2011/12 Revised Budget

43. In view of the financing constraints from revenue and domestic borrowing and emerging expenditure pressures including recent agreement with respect to employment of teachers on permanent basis and additional recruitment, adjustments to the budget in the context of the Supplementary budget will be tabled to Parliament in April 2012.

44. In order to finance emerging additional expenditures in the face of financing constraints, austerity measures have been instituted. The austerity measures take into account performance of expenditure so far in the FY 2011/12 and absorption capacity in the remainder of the financial year. Specifically, the Government rationalized expenditures by cutting those that are non-priority, and deferring expenditures of some projects that are unlikely to start this financial year. In addition, there has been a reallocation of budgeted provisions, and utilization of existing contingencies and budget reserve to meet part of expenditure requirements.

45. Meanwhile, to continue implementing critical investment programme in infrastructure (roads, energy and rail) and social sectors (health, education, and cash transfers to the poor), as well as irrigation programmes (to achieve food security) and implementation of the new Constitution, the Government has sought alternative sources of funding by way of a syndicated loan of up to Ksh. 52 billion (equivalent of about US$ 600 million) to overcome the low uptake of Government securities by investors. In addition, the foreign currency inflows associated with the proposed borrowing will ease pressure on domestic interest rates, boost international reserves and reduce pressure on the Kenya shilling. Taking into account this external loan, the revised domestic borrowing is now Ksh 62.1 billion, down from Ksh 119.5 billion in the original budget.

Macroeconomic policies and outlook

Global context

46. The global economic environment continues to be fragile. According to the IMF latest World Economic Outlook update released in January 2012, world output is projected to expand by 3.3 percent in 2012 and 3.9 percent in 2013, down from 4 percent and 4.5 percent projected in September WEO (Table 2.2). The sovereign debt crisis in the Euro area and sluggish recovery in the US and other advanced economies pose significant risks to the global economic outlook.

Table 2.2: Annual percentage change in GDP and CPI for selected regions/countries, 2010 – 2013							
	2010	2011	2012	2013	2010	2011	2012
Region/Country Percentage	GDP Projection				CPI inflation forecast		
World	**5.2**	**3.8**	**3.3**	**3.9**	**3.8**	**5.0**	**3.7**
Advanced Economies	**3.2**	**1.6**	**1.2**	**1.9**	**1.6**	**2.6**	**1.4**
USA	3.0	1.8	1.8	2.2	1.6	3.0	1.2
Euro Area	1.9	1.6	-0.5	0.8	2.4	3.1	2.1
Japan	4.4	-0.9	1.7	1.6	-0.7	-0.4	-0.5
UK	2.1	0.9	0.6	2.0	3.3	4.5	2.4
Emerging and Developing Economies	**7.3**	**6.2**	**5.4**	**5.9**	**6.1**	**7.5**	**5.9**
Developing Asia	9.5	7.9	7.3	7.8	5.7	7.0	5.1
China	10.4	9.2	8.2	8.8	3.3	5.5	3.3
India	9.9	7.4	7.0	7.3	12.0	10.6	8.6
MENA	4.3	3.1	3.2	3.6	6.8	9.9	7.6
Sub-Saharan Africa	5.3	4.9	5.5	5.3	7.5	8.4	8.3
South Africa	2.9	3.1	2.5	3.4	4.3	5.9	5.0
Kenya*	5.6	4.5	5.2	5.7	4.1	14.0	12.1
Tanzania	6.4	6.1	6.1		10.5	7.0	9.4
Uganda	5.2	6.4	5.5		9.4	6.5	16.9

Source: IMF World Economic Outlook, January 2012

* Ministry of Finance Forecast

47. Advanced economies are only expected to grow by 1.2 per cent in 2012 and 1.9 per cent in 2013, with downside risks if decisive policy actions are not taken to deal with the Euro area debt crisis. At the same time, the Euro area economies are expected to go into a mild recession.

48. In the emerging and developing countries, growth is expected to slow down due to worsening external environment and weakening internal demand. Developing Asia comprising of China and India are expected to maintain a strong but slowing growth of 7.5 percent for 2012-2013, while the Sub-Saharan region is expected to expand by 5.5 percent in 2012 and 5.3 in 2013.

49. Meanwhile, the world inflation is expected to decline from 5 percent in 2011 to 3,7 percent in 2012, mainly in response to a weakening global demand. However, the geopolitical risks to oil prices have risen again due to the Iran related oil supply shock.

50. Kenya is well integrated with the world economy and any external shocks have a negative bearing on growth prospects. For instance, the global financial crisis of 2008/09 weakened our domestic demand and GDP growth. We responded to this shock with appropriate countercyclical economic policies and structural reforms, which played an important role in shoring growth that rebounded to 5.6 percent in 2010.

51. In recent years, Kenya's economy has become increasingly more integrated with the BRICs (Brazil, Russia, India, and China) in terms of trade and investment flows. Moreover, trade with our regional partners in the EAC and COMESA continues to be strong. As a result, the positive growth prospects in these countries will help cushion Kenya from the impact of the mild recession in Europe.

Growth prospects

52. The macroeconomic framework underpinning the 2012 BPS is cautious given the weaker-than-expected growth in global output and tighter domestic macroeconomic conditions. Nonetheless, with the improved weather conditions and completion of the on-going key infrastructure projects in roads and energy, the domestic economic prospects remain favourable, albeit with significant downside risks.

53. Real GDP is expected to grow by 5.2 percent in 2012, down from 5.7 percent forecast in 2011 BPS. Over the medium term, growth is expected to pick up to about 6.0 percent. In terms of fiscal years, the projections translate to 5.5 percent for 2012/13, 5.9 percent for 2013/14 and 6.3 percent for 2014/15 (Table 2.3).

54. Growth will be bolstered by continued expansion in agriculture (barring any adverse weather), tourism, construction, transport and communication, and ICT. While exports will continue to benefit from the relatively strong growth in the sub region, new measures will be introduced to diversify and promote Kenya's exports globally, especially export of services in the medium term. Overall, these favourable factors are expected to compensate for weakened public and private demand resulting from a tighter macroeconomic environment and somewhat weak global demand.

55. Consumption growth will moderate in the short term as rising inflation limits disposable income. Meanwhile, growth in gross fixed capital formation is expected to be modest with rising domestic interest rates.

Table 2.3: Main Macroeconomic indicators underlying the Medium Term Fiscal Framework, 2010/11-2014/15					
	2010/11	2011/12	2012/13	2013/14	2014/15
	Prov	Est	Proj	Proj	Proj
	Annual percentage change				
National account and prices					
Real GDP	5.0	4.8	5.5	5.9	6.3
GDP deflator	7.3	13.4	11.3	7.1	5.6
CPI Index (eop)	14.6	11.0	8.0	5.6	5.0
CPI Index (avg)	6.9	16.0	9.8	6.3	5.0
Terms of trade (-deterioration)	-5.4	-2.0	0.5	1.8	1.2
	In percentage of GDP				
Investment and saving					
Investment	21.3	22.6	23.6	24.4	25.2
Gross National Saving	10.6	11.5	14.9	17.1	19.1
Central government budget					
Total revenue	24.1	24.0	24.2	24.4	24.6
Total expenditure and net lending	29.3	30.3	29.8	29.3	29.2
Overall balance (commitment basis) excl. grants	-5.2	-6.3	-5.6	-4.9	-4.6
Overall balance (commitment basis) incl. grants	-4.5	-4.8	-4.3	-3.8	-3.5
Nominal public debt, net	48.8	45.9	44.1	41.9	41.5
External sector					
Current external balance, including official transfers	-10.8	-11.1	-8.7	-7.3	-6.1
Gross international reserve coverage in months of imports	3.0	3.6	3.7	3.9	4.0

Source: Ministry of Finance

56. Whereas the projected growth is still below the target envisioned in Vision 2030 needed to increase labour absorption and reduce poverty, the Government recognizes that further up-scaling would require mobilizing larger amounts of resources, raising factor productivity, and moving to a higher value-added and more efficient production structure to increase export growth.

57. Taking into account limited public resources, the Government will rely on the private sector to meet the economy's resource requirements while developing the appropriate market environment to promote efficiency. This call for faster implementation of the privatization program; provide for private sector participation in infrastructure development under a robust public-private partnership (PPP) agenda; promote appropriate regulation of private sector activity; and provide for greater private sector access to finance. All this will require sustaining macroeconomic stability, deeper structural reforms, and improvements in enabling legislations, especially under the new constitutional framework.

Restoring and sustaining macroeconomic stability

58. Prudent and sustainable macroeconomic policies that ensure low and stable inflation and affordable market interest rates as well as competitive exchange rate, forms the foundation for accelerated growth and development agenda set out in the Vision 2030.

59. Going forward, we anticipate that the current supply-side driven pressures on prices and the exchange rate will subside in line with the reduction in oil prices, and ample supply of food with normal weather conditions and expanded

irrigation. This should also reduce demand pressure on imports and the current account.

60. The CBKs' monetary policy will be geared towards bringing down inflation to single digit level within a year's time and thereafter keep it stable at around the 5 percent target over the medium term.

61. Stability in interest rates and exchange rates will be restored and sustained at low and stable rates over the medium term. The Government will access the international market by way of a syndicated loan of US$ 600 million to finance infrastructure projects in 2011/12 budget. This transaction is expected to be concluded in April 2012. The financing is expected to ease pressure on domestic interest rates and ease the current funding constraints to the budget. Moving forward, the government will also consider issuing a sovereign bond to enhance Kenya's visibility in the international capital market and set up a benchmark profile for the private sector to also borrow from the international capital markets.

Supporting domestic demand and increasing exports

62. The Government will continue with strategic interventions to accelerate growth, improve competitiveness and promote exports. Specifically, the following measures will be considered:

- ***Continuing investment in infrastructure***: Over the recent past, the Government has provided significant resources in energy, roads, rail, telecommunications and water to ease bottlenecks and reduce costs of doing business, while improving access to export markets. This will be continued as they are vital for achieving our national strategic objectives of higher growth, job creation and poverty reduction. With the new Public Private Partnerships legislation scheduled for introduction before Parliament for enactment, private-sector participation in provision of infrastructure is expected to increase further improving investment climate, factor productivity and competitiveness.

- ***Positioning export as a key driver of growth and employment:*** sustaining growth and development in the medium to long term requires that Government gives priority to expansion and diversification of exports. Measures will be put in place to promote export of industrial products and services, in particular where we have strategic and comparative advantage. Investments in infrastructure to facilitate export services in the oil sector from the region, attraction of petroleum related industries and establishment of transhipment will be given priority. Further, working with private sector, measures will be introduced to position Kenya as an ICT, medical and educational hub in Eastern Africa.

- ***Improving access to new markets***: strategic efforts will be made to diversify export markets by providing an environment conducive for business to expand beyond the sub region markets. This calls for increased presence in fast-growing regions, as well as improving logistics and institutional arrangements.

- ***Improving competition and removing regulatory burdens to small business***: Given its catalytic effect to sustained inclusive growth and huge potential for job creation and poverty reduction, the Government will deepen business regulatory reforms, enhance access to credit, facilitate capacity building and simplify and modernize regime for small and medium size businesses in order to amplify their multiplier effect on employment opportunities and accelerating growth.

- ***Deepening regional integration***: While significant progress in integration has been achieved under the East Africa Community, there is much potential for expanded trade and investment in the COMESA and the rest of Africa. The Government will continue with collaborative infrastructure investment, and removing inefficient customs procedures including complicated rules of origin and other non-tariff barriers, in line with the existing Protocols.

External current account

63. We expect the easing of public and private demand to put less pressure on the current account. Also, we expect continued flow of remittances which has recently played a key role in the economy. As such, the current account deficit is expected to decline gradually from about 11 percent of GDP in 2011/12 to 6.1 percent of GDP in 2014/15, and thereafter to about 5 percent of GDP in the outer years with measures to support export growth.

64. Meanwhile, the relatively higher interest rates and improved investor confidence with expected successful elections should enable the capital and financial account to be in surplus. This will allow the Central Bank of Kenya to gradually build up foreign exchange reserves.

Risks to the outlook

65. The risk to the outlook for 2012 and medium-term include further weakening in global economic growth and unfavourable weather conditions should there be another dry spell in 2012. Also, reversal in the current easing of international oil prices may fuel inflation and weaken growth. Finally, the outlook is premised on a smooth transition to a decentralized system of government following the general elections expected to be held in FY 2012/13. If this does not happen, it could weaken investor confidence and slow down growth. However, judging from the successful campaigns and peaceful referendum on the new Constitution in 2010, there is optimism that the general elections will be smooth. Overall, should the risks materialize the government will undertake appropriate measures to safeguard macroeconomic stability while at the same

time protecting critical development spending. Details of the other fiscal risks are provided in the **Statement of Specific Fiscal Risks** in Annex 1.

Summary

66. The current economic conditions call for caution in budgeting. While growth has slowed down, the economy remains resilient in the face of high inflation and weaker shilling. Current growth rates are not fast enough to support the employment gains and poverty reduction that the country requires to attain the Vision 2030 objectives and make progress towards the MDGs. Therefore, there is need to accelerate and deepen structural reforms particularly in the areas of public financial management and improving business environment to accelerate growth. This will continue to be supported by increased investments in infrastructure which is needed to fully exploit our growth potential.

67. Looking ahead, the global economic environment continues to be fragile. Kenya's growth has slowed but fundamentals remains sound, which should help growth to pick up momentum over the medium term. Restoring and safeguarding macroeconomic stability will support growth beyond the current projected growth rates necessary to reduce youth unemployment and poverty among our people. This should be complemented with deeper structural reforms to strengthen the economy's resilience and raise growth to a higher trajectory while ensuring that the benefits of growth are shared by all Kenyans.

III. FISCAL POLICY AND BUDGET FRAMEWORK

Overview

68. The 2012 Medium-Term Fiscal Framework continues to support growth and employment given the challenging economic environment. It also continues with prudent fiscal policy to reinforce Government's commitment to debt sustainability over the medium to long term. Specifically, the 2012 Budget Policy Statement:

- Continues with fiscal consolidation that started in 2010/11 budget, while at the same time ensuring that the level of expenditure continues to sustain growth through continued public investment in infrastructure. The overall budget deficit is expected to ease to 3.5 percent by 2014/15.

- Continues with efficiency enhancement and improving the productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance, and implementation of the new constitution.

- Continues with the measures to bring public finances to sustainable path such that by 2014/15 our public debt to GDP ratio declines to 41.5 percent, well below the benchmark of 45 percent. This path will be achieved through a moderation and efficiency in spending as well as improved tax performance following reforms in expenditure management and tax legislations. The sustained easing of debt to GDP ratio will provide the Government with room to conduct countercyclical fiscal policy should the economic situation worsen in the future.

Continuing with fiscal consolidation

69. The 2012 BPS sets out a fiscal framework that targets to narrow the gap between spending and revenue, while providing support to the economic activity, continued investments in infrastructure and implementation of the Constitution within a context of sustainable public financing. As such, the Government is committed to gradually reducing the overall fiscal deficit to 3.5 percent of GDP by 2014/15 (Table 3.1). This will help to bring down the debt-to-GDP ratio to a sustainable level and contribute to reducing the recent external imbalance.

Table 3.1: Central Government Fiscal Projections, 2009/10-2014/15

	2009/10		2010/11		2011/12		2012/13	2013/14	2014/15
	Budget	*Act*	*Budget*	*Act*	*Budget*	*Revised Budget*	*Projection*		
Revenue and Grants	604.1	568.8	730.1	686.3	833.2	854.5	984.7	1,119.5	1,265.6
% of GDP	*23.7%*	*23.1%*	*26.4%*	*24.7%*	*26.2%*	*25.9%*	*25.5%*	*25.5%*	*25.7%*
Revenue	568.8	548.1	689.7	667.5	792.1	806.3	936.5	1,071.2	1,209.2
% of GDP	*22.3%*	*22.3%*	*24.9%*	*24.1%*	*24.9%*	*24.5%*	*24.2%*	*24.4%*	*24.6%*
Tax Revenue	484.7	476.9	575.8	569.2	662.6	658.8	780.8	895.9	1,013.3
Non-Tax Revenue	84.1	71.2	113.9	98.3	129.5	147.5	155.6	175.3	195.9
Grants	35.3	20.7	40.4	18.8	41.1	48.2	48.3	48.4	56.4
Expenditure	772.4	725.3	916.9	811.9	1,071.3	1,082.8	1,152.1	1,286.2	1,437.3
% of GDP	*30.3%*	*29.5%*	*33.1%*	*29.3%*	*33.6%*	*32.9%*	*29.8%*	*29.3%*	*29.2%*
Recurrent	511.1	510.5	593.3	592.4	672.2	697.5	781.9	858.9	943.8
Development	261.3	214.7	323.6	219.4	399.1	385.2	370.2	427.3	493.5
Budget Balance (-Deficit, +surplus)	(168.3)	(156.5)	(186.8)	(125.5)	(238.1)	(228.3)	(167.4)	(166.6)	(171.7)
% of GDP	*-6.6%*	*-6.4%*	*-6.8%*	*-4.5%*	*-7.5%*	*-6.9%*	*-4.3%*	*-3.8%*	*-3.5%*
Net External Financing	51.2	20.2	82.7	28.1	116.7	166.1	60.7	(0.4)	96.9
Disbursements/loans	69.9	38.9	103.2	48.6	142.5	191.5	88.9	85.8	133.2
Repayment due	(18.7)	(18.7)	(20.5)	(20.5)	(25.8)	(25.4)	(28.2)	(86.2)	(36.3)
Domestic borrowing	109.5	133.5	82.1	82.1	119.5	62.1	106.7	114.1	74.8
% of GDP	*4.3%*	*5.4%*	*3.0%*	*3.0%*	*3.8%*	*1.9%*	*2.8%*	*2.6%*	*1.5%*
Public Debt to GDP (net of deposits)	*44.5%*	*45.1%*	*46.0%*	*48.8%*	*48.6%*	*45.9%*	*44.1%*	*41.9%*	*41.5%*
Nominal GDP (Ksh billion)	2,546.6	2,458.3	2,767.2	2,773.1	3,184.1	3,295.2	3,866.5	4,382.5	4,916.4

Source: Ministry of Finance

70. This policy will be achieved through the Government's commitment to ensure a strong revenue effort with measures to simplify the tax code in line with best practices, in order to help improve tax compliance, minimize delays, and raise revenue. In addition, the Government will rationalize existing tax incentives, expand the income tax base and remove tax exemptions as envisaged in the Constitution.

Exercising fiscal responsibility

71. The Government recognizes that the fiscal stance it takes today will have implications into the future. Therefore, and in line with the requirement of the new Constitution, the principle of sharing the burdens and benefits of the use of resources and public borrowing between the present and future generation implies that we have to make prudent policy decisions today so that we do not impose unwarranted debt burden to our future generations.

72. Fiscal responsibility has become even more important since the Constitution requires the Government to progressively provide for a minimum basic standard of economic and social rights to its citizens within available resources. In order for spending to increase on a sustainable basis to meet these basic needs, we should be prepared to match the increased expenditure demands with a corresponding increase in tax revenue yield through efficient collection, widening of tax bases, and reasonable tax rates. It is therefore imperative at this stage to reform and modernize the tax regimes to ensure stability, going forward.

Improving efficiency and productivity of expenditure

73. The Government will continue with rationalization of expenditure to improve efficiency and shift more resources toward productive development projects in support of growth and development. Expenditure management will be strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across Ministries and Departments and subsequently at the county level following decentralization.

74. In addition, a new legislation on public financial management will help accelerate reforms in expenditure management system.

Continuing with the path of debt sustainability

75. As noted earlier, the fiscal stimulus we undertook between 2008/09 and 2010/11 resulted in our public debt to GDP rising to 48.8 percent. We therefore need to continue bringing our debt level down by moderation spending at this time of a somewhat reasonable growth path in order to rebuild fiscal space in preparation of any economic downtown given that we are now living in a world of uncertainty. This together with improvement in our tax revenue will provide a path towards the reduction of the deficit and sustainable debt as a percentage of GDP.

76. Our fiscal policy, therefore, will continue aiming at reducing the overall public debt to GDP ratio from 45.9 percent in the FY 2011/12 to about 42 percent over the medium term. This will require reduction in the overall fiscal deficit from the current 6.9 percent of GDP to about 3.5 percent of GDP over the medium term.

Deficit financing policy

77. The medium-term fiscal stance envisages continued borrowing from domestic and external sources with the latter being largely on concessional terms. The Government will ensure that the level of domestic borrowing does not crowd out the private sector given the expected increase in private investment with accelerated economic expansion.

78. Non-concessional foreign borrowing will be limited to projects that guarantee revenue streams and support long-term growth. Borrowing from the international capital and loan markets has useful benefits, such as setting benchmarks for borrowing by private and public-sector institutions. It is in this regard that the Government will continue to diversify its sources of financing including maintaining the intentions to float a sovereign bond in the international capital markets over the medium term.

2012/13 Budget Framework

79. The 2012/13 budget framework is set against the background of the medium-term macro-fiscal framework set out above and the Government's national strategic objectives as outlined in the updated Vision 2030 MTP. Real GDP is expected to increase by 5.5 percent in FY 2012/13 underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern during the year. Inflation is expected to ease to single digit in a year's time and to the 5 percent target in the medium term, reflecting implementation of a prudent monetary policy and easing of both food and oil prices and stabilization of the shilling exchange rate.

Revenue Projections

80. The 2012/13 budget targets revenue collection including AiA of 24.2 percent of GDP. As noted above, this performance will be underpinned by on-going reforms in tax and customs administration. The modernization of VAT legislation is expected to simplify tax collection and enhance the revenue yield. As such, total revenues including AiA are expected to be KSh 936.5 billion.

Expenditure Forecasts

81. The key policy document guiding the Government's funding allocation decisions continues to be the first updated MTP (2008-2012) of Vision 2030, which provides the updated development priorities by the Government for 2011/12-2012/13. In 2012/13, overall expenditures are projected at 29.8 percent of GDP (or KSh 1,152.1 billion), down from 32.9 percent of GDP in the revised budget for 2011/12. The one-off items in 2011/12 such as security intervention in Somalia more than offset increased expenditure for implementation of the Constitution including expenditure on the upcoming general elections. Moreover, the recent decision to integrate Kenyan troops within the UN contingent will help minimize their impact on the budget.

Recurrent Expenditure

82. Recurrent expenditures are expected to decline slightly from about 20.5 percent of GDP in 2011/12 to 19.7 percent of GDP in 2012/13, on account of adjustment of one-off items and robust growth in nominal GDP. Transfers to parastatals and semi-autonomous government agencies will remain at the 2011/12

nominal value in order to provide fiscal space for priority expenditures. Any wage adjustments for these agencies is expected to be met within the ministerial ceilings.

83. With respect to goods and services, expenditure ceilings for sectors/ministries are determined by the funding allocation for goods and services in the previous year budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2011/12 and then an adjustment factor is applied to take into account the general increase in prices.

Development Expenditure

84. Consistent with the objective of allocating adequate resources towards development outlays and the need to ensure completion of critical infrastructure (roads, energy and railway), the ceiling for development expenditures including donor funded projects is KSh 370.2 billion or 9.6 percent of GDP in 2012/13, more or less the same level in 2011/12 in terms of percent of GDP. Most of the outlays are expected to support critical infrastructure that will crowd in private sector investment as well as critical interventions to remove binding constraints to accelerated growth.

85. About 40 percent of the development budget will be funded through project loans and grants not tied to conditionalities from development partners. This represents about 3.5 percent of GDP, more or less the same level as in 2011/12. With improvement in procurement planning, the absorption capacity of project funds is expected to increase resulting in a higher investment level in infrastructure activities.

86. In view of challenges of climate change and unforeseen shocks, a contingency provision of Ksh. 5 billion will be provided in the budget for 2012/13 to be applied in line with the new law on the utilization of these funds. We have also set aside Ksh 13.0 billion for the implementation of the new Constitution and Ksh. 6.7 billion for conditional grants to marginal areas by way of Equalization Fund covering the FY 2011/12 and 2012/13. Year 2012/13 being an election year, we have set aside Ksh 13.5 billion in the baseline ceilings for elections but the figure may increased after firm costing is provided during the finalization of the detailed budget.

Overall Deficit and Financing

87. The overall budget deficit (including grants) in 2012/13 is projected to be about KSh 167.4 billion (equivalent to 4.3 percent of GDP). About 36 percent of this budget deficit will be covered by net external financing amounting to KSh 60.7 billion (1.6 percent of GDP), leaving KSh 106.7 billion (2.8 percent of GDP) to be financed through domestic borrowing.

88. The Government is committed to lengthening the maturity structure of government debt. While we had achieved an 85:15 ratio in favour of long term

bond, the appetite for short-dated Treasury bills increased more recently due to rising inflationary expectations. Going forward, the government will gradually unwind short term debt and replace this with the long term ones in conformity with the policy target ratio of 75:25.

Summary

89. Fiscal policy will continue to support growth within a sustainable path of public spending by allowing the deficit to decline gradually so as to achieve a debt to GDP ratio of less than 45 percent in the medium-term. Therefore, moderation in government spending will help assure debt sustainability and intergenerational equity in line with the new Constitution. Meanwhile, efficiency and economical spending of government resources will be enhanced to create room for critical interventions and pro-poor spending.

IV. PREPARING FOR DEVOLUTION—INTERGOVERNMENTAL FISCAL RELATIONS

Introduction

90. Chapter 12 of the constitution provides for principles of public finance that will guide all aspects of public finance including in the preparation of the 2012/13 budget. In particular, Article 201 of the Constitution requires:

- Openness, accountability and public participation;
- Equitable sharing of tax burden;
- Equitable sharing of revenues;
- Expenditures shall promote equitable development;
- Equitable sharing of debt burden/benefits between current and future generations;
- Prudent and responsible use of public resources; and
- Responsible financial management and clear fiscal reporting.

91. The Constitution also provides for two levels of government, namely national and county governments, which according to Article 6 (2) are distinct and inter-dependent and which shall conduct their mutual relations on the basis of consultation and cooperation. In addition, Article 189 (1)(a) of the Constitution provides that government at either level shall perform its functions, and exercise its powers, in a manner that respects the functional and institutional integrity of government at the other level, and respects the constitutional status and institutions of government at the other level.

92. From the perspective of the budget process, the significance of Articles 6 and 189 is that both levels of Government should not interfere in the day-to-day management of finances in the other level of government. Specifically, each level of government should be able to formulate, plan, execute and report on their budgets without interference from the other level of government. The proposed Public Financial Management Bill, 2012 has reflected this letter and spirit of the constitution.

County Revenues

Equitable Sharing of National Revenue

93. According to Articles 201, 202 and 203 of the Constitution, revenue raised nationally shall be shared equitably among the two levels of governments and among county governments to enable them provide services and perform the

functions assigned to them under the Fourth Schedule of the Constitution. The equitable division of revenue between the two levels of government should take into account the criteria specified in Article 203 of the constitution. In addition, the Constitution requires that a minimum of 15 percent of all revenue collected by the national government shall be allocated to county government.

94. The Commission on Revenue Allocation (CRA) Act, 2011 defines revenue as follows:

> "...all taxes imposed by the national government under Article 209 of the constitution and any other revenue (including investment income) that may be authorised by an Act of parliament, but excludes revenues referred to under Articles 209 (4) and 206(1)(a)(b) of the constitution".

95. The definition of revenue, therefore, includes: income tax; value added tax; customs duties and other duties on imports and exports; excise tax; and any other tax or duty authorized by an Act of Parliament but excludes taxes which have been assigned exclusively to county governments by the Constitution. The definition also explicitly excludes: (i) charges imposed for the provision of a service (Article 209 (4)); (ii) money excluded by an Act of Parliament and payable into another public fund established for a specific purpose (Article 206(1)(a)); and (iii) money retained by a state organ that received it for the purpose of defraying the expenses of the State organ (Article 206(1)(b). Table 4.1 below shows the most recent audited revenues for 2009/10 and 2010/11 in line with the Constitution and the CRA Act, 2011.

Table 4.1: AUDITED GOVERNMENT REVENUES
(In Millions of KSh.)

	2009/10	**2010/11**
Total Income Tax 1/	209,098	258,651
Income Tax - PAYE	115,448	137,055
Income Tax - Corporations	93,650	121,596
VAT - Local Goods	78,859	90,211
VAT - Imported Goods	63,112	81,670
Excise Tax	74,112	80,567
Licence under Traffic Act	2,221	2,464
Customs Duties	41,271	46,072
Other Taxes from International Trade	15,935	20,599
Stamp Duty	5,356	6,800
Land Rent	1,111	1,073
Other Profits & Dividends	4,295	11,086
Profits & Dividends from CBK	4,059	-
Interest Received	382	759
Misc. Revenues	6,478	7,823
Fines, Penalties & Fortitures & Other Charges	229	290
Royalties	33	-
TOTAL	**506,518**	**608,063**

1/ Excludes Local Authority Transfer Fund (LATF)

96. The equitable share of revenue is an unconditional allocation to the county governments. County governments, being a distinct level of government, are fully responsible for these funds and are directly accountable to their respective County Assemblies for how they are spent.

Conditional and Unconditional Grants

97. In addition to the equitable share of revenues, Article 202 of the Constitution also provides that county governments may be given additional allocations from the national government's share of revenue in the form of conditional grants (i.e. subject to specific conditions) or unconditional grants (without any conditions) to augment their resources. It is expected, therefore, that the National Government will propose conditional and/or unconditional grants in future MTEF budgets, as part of the overall share of resources to be available to counties.

Own revenues

98. The constitution has given to counties the exclusive powers to impose taxes and charges. In particular, counties can impose (i) property taxes; and (ii) entertainment taxes; and (iii) any other tax they are authorised to impose by an Act of Parliament. Revenue raised by county government constitutes own-revenues and will not be part of the pool of revenues subject to sharing between the two levels of government. In exercising their revenue raising powers, the constitution (Article 209 (5)) prohibits counties from doing so in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour.

Loans

99. In addition to the above-mentioned resources available to counties, the Constitution provides for the county government to borrow only if the national government guarantees the loan, and with the approval of the county government's assembly. The National Government Loans Guarantee Act, 2011, provides for the Cabinet Secretary responsible for Finance to guarantee loans to counties on behalf of the National Government in a transparent, prudent and equitable manner, consistent with Article 213 of the Constitution. The law set out the criteria to be applied in considering guarantees and include usage of proceeds for a capital project and ability of repaying the loan, and paying any interest or other amount payable in respect of it, among other criteria.

The Equalization Fund

100. Article 204 of the Constitution provides for an equalization fund, which the national government shall use to provide basic services including water,

roads, health facilities and electricity to marginalised areas in order to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible. In line with this constitutional provision, the national government will operationalise the Equalization Fund into which, every year, 0.5 percent of collected revenue, calculated on the basis of the most recent audited accounts of revenue received as approved by the National Assembly will be paid.

101. The Commission on Revenue Allocation (CRA) has the constitutional mandate to determine, publish and regularly review a policy in which it sets out the criteria by which to identify the marginalised areas for purposes of allocating the Equalization Fund. The determination and criteria for allocation is currently being developed by CRA and it is expected to be published soon. However, Article 221(2) of the Constitution requires that the budget estimates submitted to Parliament "Shall" include estimates for expenditure from the Equalization Fund. Moreover, mindful of the need to provide basic services to Kenyans the proposed budget for 2012/13 has provided for Ksh. 6.7 billion to fund projects that provide basic services including water, roads, health facilities, and electricity. The figure of Ksh. 6.7 billion covers the two years 2011/12 and 2012/13 and is calculated using the most recent audited revenues for 2010/11 amounting to Ksh. 608.1 billion (see Table 4.1) and estimated revenues for 2011/12 amounting to Ksh. 725.8 billion.[1]

Costing of Functions Assigned to County Governments

102. The Fourth Schedule of the constitution has assigned functions to both levels of government. The functions are either exclusive to each level of governments, shared or are residually assigned to the national government (Article 186). The constitution under Article 187 provides that financing must follow functions. Therefore, it is important to cost the assigned functions in order to determine the amount of resources to be transferred to county governments. Since the constitution requires that at least 15 percent of audited revenues should go to county government, this would mean that at the very least Ksh.91.2 billion must be transferred to the counties based on the latest audited revenues of Ksh. 608.1 billion for 2010/11, as indicated in Table 4.1 above.

103. To determine whether the minimum amount of Ksh. 91.2 billion is adequate to finance the devolved functions, the Treasury working closely with the line ministries conducted an exercise to assess the budgetary costs of the

[1] The use of estimated revenues for 2011/12 rather than the audited revenues for 2010/11 is in order to get a more accurate approximation of the amounts that will go into the Equalization Fund.

functions that would be transferred to county governments.[2] This required discussing and agreeing with each line ministry the current functions to be devolved and those that would remain with the national government based on the Fourth Schedule of the Constitution. In addition, line ministries were required to give a breakdown of expenditures between recurrent and development expenditure for each of the 47 counties. This exercise, therefore, provides a basis for both the vertical (i.e. between the national and county government) and horizontal (among the counties) division of revenue.

104. The total cost of funding the devolved functions based on the existing level of services, including allocations for the Constituency Development Fund (CDF), was estimated at Ksh. 154 billion for 2012/13. Additional expenditures related to new administrative structures, such as wages for County Executive and County Assembly are estimated at about Ksh. 6 billion bringing the total cost to Ksh. 160 billion (Table 4.2). This represents 26.3 percent of the most recent audited revenues. The estimated expenditures do not include the one-off expenditures for setting up the necessary infrastructure in counties in preparation of the new devolved system of government.

Table 4.2: Cost of Devolved Functions by Sector

Sector	In Ksh billion			Share of total		
	2010/11 Prov.	2011/12 Prov.	2012/13 Ceiling	2010/11 Prov.	2011/12 Prov.	2012/13 Ceiling
Agriculture and Rural Development	10.5	11.2	10.8	1.3%	1.2%	1.1%
Education	0.4	0.4	0.5	0.0%	0.0%	0.0%
Energy, Infrastructure and ICT	45.7	53.5	59.4	5.7%	5.6%	6.0%
Environmental protection, Water and Sanitation	8.0	8.8	9.8	1.0%	0.9%	1.0%
General Economic, Commercial and Labour Affairs	8.7	6.0	4.9	1.1%	0.6%	0.5%
Governance, Justice Law and Order	0.3	0.3	0.3	0.0%	0.0%	0.0%
Health	21.8	31.4	32.9	2.7%	3.3%	3.3%
Public Administration and International Relations	14.9	17.6	28.1	1.9%	1.8%	2.8%
Social Protection, Culture and Recreation	6.2	10.1	13.4	0.8%	1.1%	1.4%
TOTAL	**116.6**	**139.3**	**160.0**	**14.6%**	**14.5%**	**16.2%**
SECTOR TOTAL	**799.5**	**959.1**	**989.7**	**100.0%**	**100.0%**	**100.0%**

105. Pending agreement on a revenue sharing formula which would allocate the county equitable share between the 47 counties, the cost of delivering assigned functions in each county can serve as a basis for the initial distribution of revenue. However, going forward, a larger percentage of resources will need to be allocated to those counties that have been left behind, either in terms of development or in terms of county per-capita allocation of revenues. This will be

[2] The Treasury invited all the line ministries affected by the devolution of functions under the Fourth Schedule, and jointly agreed on what functions of each ministry would be devolved to counties and what would remain at the national level. Based on that understanding, the line ministries were then requested to cost these functions on the basis of budgetary allocations for 2010/11 to 2012/13. Therefore, these costings do not reflect the expenditure requirements necessary to achieve a certain level or baseline of desired services delivery.

done in a manner that ensures that the principle of "holding harmless" is respected so that no county should suffer deterioration in service delivery because of devolution.

Projected shares of Sharable Revenues

106. The resources available to be shared by the national and county governments over the coming three financial years are estimated on the basis of projections of the economy's performance over the medium term. The underlying assumptions are set out in Section II and III of this Statement.

Table 4.3: Revenue Sharing, 2011/12 - 2014/15 (Ksh billion)

	2011/12 *Proj.*	2012/13 *Proj.*	2013/14 *Proj.*	2014/15 *Proj.*
1.0 National Government (3.0-2.0)	**684.1**	**701.4**	**806.2**	**909.5**
of which:				
Conditional grants (CDF)	17.8	21.2	24.4	27.6
Equalization fund	-	6.7	4.3	5.0
Contigency fund	-	5.0	5.0	5.0
National obligations	144.5	177.8	253.0	208.1
Pension and Constitutional offices	*32.6*	*52.5*	*60.0*	*66.2*
Interest payments	*86.6*	*97.2*	*106.8*	*105.6*
Amortization	*25.4*	*28.2*	*86.2*	*36.3*
National interest	96.3	99.0	96.7	103.2
Implementation of new Constitution	-	13.0	7.0	5.0
Other	*96.3*	*86.0*	*89.7*	*98.2*
Defense	*78.6*	*64.1*	*65.6*	*73.2*
Judiciary	*7.5*	*9.8*	*10.0*	*10.4*
Parliament	*10.2*	*12.1*	*14.1*	*14.6*
Net	425.5	391.7	422.8	560.5
2.0 Devolved Government (2.1+2.2)	**41.7**	**166.7**	**193.2**	**221.1**
2.1 Transfer to County governments 1/	41.7	160.0	188.9	216.1
of which: CDF	*17.8*	*21.2*	*24.4*	*27.6*
2.2 Equalization Fund (0.5% of Revenue)	-	6.7	4.3	5.0
3.0 Shareable revenue (1.0+2.1.1) 2/	**725.8**	**868.1**	**999.4**	**1,130.5**
Memo items:				
RMLF	8.6	9.2	10.4	11.7
Own-Revenue 3/	19.6	23.0	26.1	29.3
Percentage share				
Shareable revenue	*100.0%*	*100.0%*	*100.0%*	*100.0%*
NationalGovernment (Excl. CDF)	*94.2%*	*80.8%*	*80.7%*	*80.4%*
County Governments	*5.8%*	*19.2%*	*19.3%*	*19.6%*
Equatable share (including CDF)	*5.8%*	*18.4%*	*18.9%*	*19.1%*
o.w CDF	*2.4%*	*2.4%*	*2.4%*	*2.4%*
Other	*3.3%*	*16.0%*	*16.5%*	*16.7%*
Equalization Fund	*0.0%*	*0.9%*	*0.5%*	*0.5%*
Latest Audited Revenue (Ksh 608.1 billion, 2010/11)				
Equatable share, incl. CDF (% of latest audited revenue)		26.3%		
Equatable share, excl. CDF (% of latest audited revenue)		22.8%		
Constitutional minimum		15.0%		

Source: Ministry of Finance

Notes:
LATF = Local Authority Transfer Fund
CDF = Constituency Development Fund
RMLF=Road Maintenance Levy Fund
1/ The amount in 2012/13 is based on cost of providing the devolved functions.
This is line with the constitutional provision that finance should following functions

2/ As defined in CRA Act (Income taxes, import duty, VAT, excise taxes, and non-tax revenues). This is approximated by ordinary revenues
3/ Own sources of revenue -- include CILOR, property rates, SBP, vehicle parking, market fees, plot rents, water & sewerage, cess receipts, house rents, and other

107. The projected vertical division of revenue for the 2012/13-2014/15 period is outlined in Table 4.3. This division may change depending on the extent of the application of the criteria set out in Article 203 of the Constitution with respect to vertical sharing of revenue. For 2012/13-2014/15, the national government average share is about 80.5 percent of collected revenue, while that to counties is 19.5 percent.[3] The county government's share includes various amounts that will be transferred to county government such as Local Authority Transfer Funds (LATF), and the Constituency Development Funds (CDF).

108. In nominal terms, the projected total revenues transferred to counties are estimated at KSh 166.7 billion for 2012/13, and are expected to rise to KSh. 221.1 billion in 2014/15. As for the Equalization Fund, the 2012/13 fiscal framework has provided resources amounting to Ksh. 6.7 billion to cover the first two years of 2011/12 and 2012/13. Subsequently, after an initial dip from the elevated level of 2012/13 reflecting the combined payments for two years, available resources to the Equalization Fund would rise gradually to Ksh. 5 billion by 2014/15.

New Formula for Allocating Revenue

109. The CRA has proposed a revenue sharing formula which is currently under discussion. The formula proposes to take into account population, land area, poverty, a basic equal share and fiscal discipline.[4] Once the vertical division of revenue is established, the formula can then be used to allocate revenue among the 47 counties. It is expected that the allocation of revenue based on the costing of devolved functions as captured in the 2012/13 budget will differ from the allocation based on the proposed formula. This reflects the fact that the parameters in the formula were not the only determinants of resource allocation to the sub-national level in the past.

110. For instance, there are counties that may get more resources than suggested by the formula because they host institutions that provide services to more than one county e.g. provincial hospitals which provide services to several counties and whose functions have now been assigned to county governments. Since the formula will not pick up such subtleties, it will be important that the results of the two methods (allocation based on existing expenditure patterns and the formula) be harmonized in order to avoid adversely affecting services delivery but also to ensure equitable distribution of resources.

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[3] Taking the following into account: debt service, wages for civil servants and Teachers service commission, pension payments, and other needs of the national government (such as contingency fund, drought, and expenditures to fund the elections), the national government's share of sharable revenues is estimated to decline to below 30 percent.

[4] The respective weights in the formula, in percent, are as follows; Population (60 percent); land area (6 percent); poverty (12 percent); basic equal share (20 percent); and fiscal discipline (2 percent).

111. It is expected that once the new basis for sharing revenue among the counties is approved by Parliament, the process of achieving equitable allocation of resources will be phased in over the next three years in line with the phased transfer of functions as provided for in Section 15 of the Sixth Schedule of the Constitution. Indeed international experience suggests that resources should not be reduced for counties with a larger allocation of resources in order to hold 'harmless' but also to facilitate counties deliver on the assigned functions. This will provide county governments with a lead time to restructure and rationalise their budgets and operations while at the same time guaranteeing the requisite resources to perform their assigned functions. On the other hand, resource increases to county governments that are supposed to receive higher allocations should be phased so that county governments can build the capacity and develop priorities with a view to using the funds efficiently and effectively.

112. In sum, attaining equitable distribution of resources while ensuring responsible and prudent public financial management in line with Article 201 cannot be achieved in one year, but over a period of time. In this context, timely approval by Parliament of the basis for the allocation of the sharable revenue among the counties is critical. It is expected that the new revenue sharing formula will represent a break with past funding patterns and result in more equitable distribution of resources.

County Budgets and the Transfer of Functions

113. The financial year 2012/13 will, for the first time, see the establishment of county governments after the general elections. Therefore, the budget for 2012/13 is a transition one with current expenditure patterns forming the basis for equitable vertical and horizontal division of revenues. Although extensive work has gone into costing the devolved functions, for purpose of determining expenditure patterns in the counties based on the assigned functions, it is anticipated that the Transition Authority will build on this as its functions include: (i) facilitating the analysis and the phased transfer of the functions provided under the Fourth Schedule; and (ii) determining the resources required for each of the functions.

114. Before the County Governments can formulate and implement their own budgets, the necessary administrative and political structures will have to be in place. These structures include the County Executive Committees to oversee budget formulation, the County Assemblies to approve budgets, and of-course the County public service which will implement and report on the budget. The County Governments will come into operation well into the FY 2012/13, at a time when the preparation for the 2013/14 budget will be well underway with the expectation of submitting budget estimates at both levels of government by end April 2013. This means that the earliest that County Governments can take full charge of the formulation, approval and implementation of their budgets would be June 2013.

115. To avoid the disruption of service delivery to counties, the national government is expected to continue performing the functions that have been assigned to the counties until such a time, not exceeding three years, when the county governments are able to take over their functions based on objective criteria established in line with Article 262 (15) of the Constitution. The procedure and criteria for the phased transfer of functions, which will be carried out by the Transitional Authority are spelled out in Sections 23 and 24 of the Transition to Devolved Government Act, 2012.

116. This implies that over the three year transition period after the first general elections, the transfer of functions will be determined by the readiness of counties to perform assigned functions effectively. Some counties may take over their assigned functions earlier than others depending on whether they have the necessary capacity to meet the established criteria for the transfer of functions in line with Article 262 (15) of the Constitution.

117. Although this asymmetric transfer of functions is provided for in the Constitution, it will be critical that the national government rapidly builds up capacity at the county level,[5] especially for public financial management, so that counties are empowered to take over their assigned functions as soon as possible. This will avoid a situation where-by some counties have more functions transferred to them because of their stronger capacities while other counties have less functions transferred owing to lack of capacity.

The Division of Revenue Bill and the County Allocation of Revenue Bill

118. Once the Counties begin to perform their functions, it is expected that the proposal for the equitable vertical-and-horizontal division of revenue will be presented to Parliament through a Division of Revenue Bill (DoRB) and the County Allocation of Revenue Bill (CARB), respectively. The DoRB will specify the equitable share for national and county governments, and any other conditional and/or unconditional grants from the national government's share of revenue while the CARB will specify the allocations among the 47 county governments.[6] The two bills will be expected to take into account the constitutional provisions under Article 203.

[5] In the Fourth Schedule of the Constitution, capacity building and technical assistance to the counties has been assigned to the National Government.

[6] According to Articles 95 and 96 of the Constitution, the National Assembly determines the vertical division of revenue, while the Senate determines the horizontal division. However, since the DoRB is a "Special Bill", the National Assembly may amend or veto it only but by a resolution supported by at least two-thirds of the members of the Assembly.

Decentralised Funds

119. The Local Authority Transfer Fund (LATF) and the Constituency Development Fund (CDF) constitute a part of decentralized public funds that the government has been spending at the sub-national level. In addition, part of the Road Maintenance Levy Fund (RMLF) comprise of spending at local level. The government is committed to ensuring that the equivalent of the funds earmarked for the LATF, CDF and RMLF are provided for financing programmes and projects at the county level. This is consistent with the principle of financing following functions as these funds largely finance functions that have been assigned to county governments (perhaps with the exception of education in the case of the CDF).

120. As regards the LATF, since these were funds going to the 175 local authorities, given there is only 47 counties, these funds will simply be folded into the county governments' equitable share and any allocation of resources to the decentralized units within the county will be the responsibility of the County Executive Committee and the County Assembly. In the case of the CDF, the existing management structure, especially the participation of Members of Parliament in the allocation of resources, may be inconsistent with the Constitution where the County Governor and the Deputy County Governor are the Chief Executive and Deputy Chief Executive, respectively (Article 179 (4)).

121. Therefore, the management structure of the CDF will have to be changed to conform to the Constitution. Once there is agreement on the management framework a decision will be required stating whether the equivalent of these funds will be provided to counties as conditional or unconditional grants. If they are to be conditional grants, the conditions will have to be set by the national government and a monitoring framework would need to be put in place to assess compliance with the conditions. On the other hand, if they are unconditional grants, they would be part of the sharable revenues and the County Executive Committee member responsible for finance together with the County Executive Committee would decide on the usage of those funds in line with county priorities.

Summary

122. 2012/13 is an election year that will usher in a devolved system of government. Under the proposed framework of managing the transition to decentralised structure that is in line with the new Constitution, the division of revenue between national and county government is set out with national government accounting for an average of about 80 percent of equitable share of revenues over the 2012/13 MTEF period, while county governments will account for 20 percent.

123. The costing of the devolved functions forms the initial basis for sharing of revenue among counties before the new formula is phased in. For existing

devolved funds such as LATF and CDF, there is need to determinate how they will be managed in line with the new Constitution. It is proposed that LATF will be folded to become part of county government unconditional equitable share, while the CDF will be made either conditional or unconditional transfer to counties.

V. EXPENDITURE PRIORITIES AND RESOURCE ALLOCATION

Resource Envelope

124. The resource envelope available for allocation among the spending agencies is based on the medium term fiscal framework outlined in Section III:

- Domestically mobilized budget resources finances about 90 percent of the budget. Of this, tax revenue (income tax, customs duties, value added taxes, and excise taxes) accounts for over 80 percent of total budget resources. However, due to slower than anticipated growth for 2012/13 and changes in VAT withholding mechanism, revenues are now expected to increase by 0.2 percentage points in 2012/13 to stand at 24.2 percent of GDP compared to 24.0 percent of GDP in 2011/12;
- Committed external financing in the form of grants and concessional borrowing tied to specific programmes/projects are expected to be about 3.5 percent of GDP in 2012/13; and
- Domestic borrowing at 2.8 percent of GDP is expected to finance 64 percent of the deficit in 2012/13, and is expected to decline steadily to finance about 40 percent of the budget deficit in the medium term. This is consistent with the objective of gradually reducing the debt stock as a percentage of GDP.

125. Ordinary revenue is projected to broadly cover funding required for recurrent expenditure, leaving the entire development budget to be financed mainly through external project grants and loans, as well as domestic borrowing including infrastructure bonds. This approach bodes well for long-term sustainability of our public finances.

Spending Priorities

126. In view of the changed macroeconomic circumstances since the start of implementing Vision 2030 first Medium Term Plan in 2008, the Government has updated its main priorities going forward in the context of first MTP update. The Government will, in this regard, prioritize resource allocation to achieve updated MTP priority goals as well as cater for priorities identified during the countrywide budget consultative meetings held in October – November 2011.

127. In addition, the new Constitution requires national and county governments to promote budgetary transparency, accountability and effective financial management of the economy and the public sector. Therefore, inefficient and wasteful public expenditure will be eliminated at all costs in order to promote public trust on Government officials.

128. In finalizing the preparation of the 2012 MTEF budget, spending proposals will undergo rigorous scrutiny to identify areas of inefficient and non-priority expenditure in the areas indicated in the table below. These areas were targeted in 2011/12 during the budget approval by Parliament. During scrutiny of 2012/13 budget proposals, more effective use of resources will be sought across spending agencies and any identified savings will be redirected to deserving priority expenditures.

Targeted expenditures for scrutiny to create savings
Recurrent
Telephone, Telex, Facsimile and Mobile Phone Services
Courier and Postal Services
Domestic Travel and Subsistence, and Other Transportation Costs
Foreign Travel and Subsistence, and other transportation costs
Printing , Advertising and Information Supplies and Services
Training Expenses
Hospitality Supplies and Services
Office and General Supplies and Services
Contracted Professional Services
Contracted Technical Services
Minor Alterations to Buildings and Civil Works
Purchase of Office Furniture and General Equipment
Refurbishment of Buildings
Purchase of Motor Vehicles
Pre-feasibility, Feasibility and Appraisal Studies
Development
Contracted Professional Services
Contracted Technical Services
Minor Alterations to Buildings and Civil Works
Refurbishment of Buildings
Pre-feasibility, Feasibility and Appraisal Studies

129. Overall, given limited resources, the MTEF budgeting will focus on the following:

- The priority social sectors, education and health, will continue to receive adequate resources. It should be noted that both sectors (education and health) are already receiving a significant share of resources in the budget. These sectors, however, will be required to utilize the allocated resources more efficiently to generate fiscal space to accommodate strategic interventions in their sectors including funding HIV/AIDS interventions, healthcare infrastructure, affordable drugs, as well as recruitment and training of staff as identified during the budget consultations. In particular, it is expected that the health sector will strengthen its infrastructure and administrative control, while the education sub-sector will revisit its staffing norms in order to create fiscal space for key interventions which include provision for learning infrastructure, teaching and learning materials, and recruitment of teaching staff.

- The economic sectors including agriculture and livestock will receive increased share of resources to boost agricultural productivity with a view to dealing with the recurrent food security problems in the country.

- With the Government committed to improving infrastructure countrywide, the share of resources going to priority physical infrastructure sector, such as roads, energy and water and irrigation, will continue to rise over the medium term. This will help the sector provide reliable and affordable energy, as well as increased access to water and development of irrigation projects countrywide.

- Other priority sectors including security, rule of law, youth and development of arid regions, which has received a significant boost in resources over the past two years. Resources to these sectors will be maintained at adequate level over the medium-term to enable these sectors to implement governance reforms as well as deal with security, youth unemployment and provide opportunities for the vulnerable members of our society in the arid and semi arid regions.

Medium-Term Expenditure Estimates

130. Table 5.0 below provides the projected baseline ceilings for the 2012 MTEF, classified by sector.

Table 5.0: Medium-Term Sector Ceilings, 2012/13 - 2014/15

		TOTAL EXPENDITURE (KSh. Million)							% SHARE OF TOTAL EXPENDITURE			
		2010/11		2011/12		Ceiling			2011/12	Projection		
		Printed	Revised	Printed	Revised	2012/13	2013/14	2014/15	Revised	2012/13	2013/14	2014/15
EXPENDITURE BY SECTOR												
AGRICULTURE AND RURAL DEVELOPMENT	Gross	42,885	47,341	47,849	52,955	52,013	55,316	60,141	5.5%	5.3%	5.3%	5.5%
ENERGY, INFRASTRUCTURE & ICT	Gross	189,093	168,650	226,595	219,002	230,783	247,831	262,856	22.8%	23.3%	23.9%	24.2%
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	Gross	21,344	21,802	20,949	19,469	22,957	23,910	24,113	2.0%	2.3%	2.3%	2.2%
HEALTH	Gross	55,156	57,377	64,314	72,751	77,002	81,059	85,364	7.6%	7.8%	7.8%	7.8%
EDUCATION	Gross	190,224	193,109	202,338	213,677	229,015	240,866	251,314	22.3%	23.1%	23.2%	23.1%
GOVERNANCE, JUSTICE, LAW & ORDER	Gross	78,606	90,019	110,646	106,133	120,911	115,761	119,834	11.1%	12.2%	11.2%	11.0%
PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	Gross	95,697	89,176	124,075	110,531	107,334	109,949	114,471	11.5%	10.8%	10.6%	10.5%
SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	31,651	34,170	35,625	38,091	36,968	42,636	47,102	4.0%	3.7%	4.1%	4.3%
ENVIRONMENTAL PROTECTION, WATER AND HOUSING	Gross	48,501	47,418	54,453	47,707	48,478	51,140	54,475	5.0%	4.9%	4.9%	5.0%
NATIONAL SECURITY	Gross	56,686	50,394	65,163	78,560	64,283	67,601	68,041	8.2%	6.5%	6.5%	6.3%
TOTAL		809,842	799,455	952,008	959,074	989,744	1,036,069	1,087,710	100.0%	100.0%	100.0%	100.0%

Resource sharing criteria for baseline ceilings

131. The baseline estimates reflects current spending priorities in social programmes (health and education) and infrastructure as well as Vision 2030 projects receiving large shares. Water supply, police services, judiciary and Parliament also receive large shares.

132. Overall, the resources available are shared in accordance with the following guidelines:

(i) *Non discretionary expenditures*: this takes first charge and includes payment of statutory obligations such as loan amortization and interest payments, salaries for constitutional offices and pension and salaries for line ministries and public entities that are financed by the National Exchequer. These expenditures are projected to account for about 51.3 percent of the expected ordinary revenue receipts.

(ii) *Operations and maintenance*: Ministries/Departments are allocated funds for basic operations and maintenance. This accounts for 43.5 percent of the projected ordinary revenue, of which Defense and NSIS account for 7.6 percent. Thus, after taking into account expenditure on non-discretionary and operations and maintenance the available balance of 5.2 percent from total ordinary revenue is the current budget surplus to be shared among other ministries/government departments to fund their planned development projects/programmes.

(iii) *Development expenditure*: As already indicated, it is only 5.2 percent of the ordinary revenue that will be available to finance part of the planned development expenditure. The rest of the development expenditure will be funded through borrowing from the domestic and foreign sources, as well as grants tied to projects. Development expenditures are shared out on the basis of the Vision 2030 and MTP priorities as well as other strategic intervention to deal with unemployment and remove constraints to faster growth. The following guidelines are used:

- *On-going projects*: emphasis is given to completion of on-going projects and in particular infrastructure projects, flagship projects and projects with high impact on poverty reduction and equity, employment and wealth creation.

- *Statutory requirements*: priority is also given to programmes that must be funded in accordance with the law such as Constituency Development Fund (CDF).

- *Counterpart funds*: priority is also given to adequate allocations for donor counterpart funds. This is the portion the Government must fund in support of the projects financed by development partners. Usually it accounts for between a quarter to a third of the cost of the project.

- *Strategic policy interventions*: priority is also given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation. The implementation of the new constitution is now a key national objective, thus more resources will be set aside for this purpose over the medium term.

Finalization of spending plans

133. As indicated earlier, the finalization of the preparation of the ministerial budgets will entail thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. As line ministries/department budgets are scrutinized and the resource envelope firmed up, it is likely that additional resources may become available. Government will utilize these resources to accommodate key national strategic priorities with sound business plans. Specifically, the following will receive priority:

	Priority Areas of Consideration for Additional Resources
1.	Intervention identified during the county stakeholders consultation for 2012 MTEF budget. A summary of issues identified by Sector Working Groups during the consultations are summarised in Annex 9.
2.	Implementation of the new Constitution covering proposals not accommodated within the baseline ceilings issued to Ministries.
3.	Strategic intervention in the area of education, health, infrastructure (especially rural/feeder roads), tourism, security and agriculture (especially irrigation programmes and other food security enhancing programmes), as well as policy interventions covering the entire nation to enhance regional integration and social equity. A list of additional requests that are potential sources of fiscal risks on expenditure is provided in Annex 10.
4.	Specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation (Annex 9 and 10).

Details of Sector Priorities

134. The medium term spending estimates for 2012/13 – 2014/15 ensures continuity in resource allocation based on prioritized programmes aligned to the updated first Vision 2030 MTP and policy initiatives to accelerate growth,

employment creation and poverty reduction. The recent achievements and key priority targets for each sector are based on the reports from the Sector Working Groups (SWG) after taking into account recommendations of the Ministerial Public Expenditure Reviews (MPERs) and views from the budget consultations and Public Sector Hearings in January 2012.

Agriculture and Rural Development

135. The Agricultural and Rural Development (ARD) sector is critical to economic growth, employment and poverty reduction. The sector is the mainstay of the Kenyan economy, directly contributing 26 percent of the GDP with linkages in manufacturing, distribution and other service-related sectors.

136. The sector aims at raising agricultural productivity, exploiting irrigation potential, increasing commercialization of agriculture, improving the legal and policy framework for agriculture, improving governance of agricultural institutions, and land development as well as promotion of sustainable management of fisheries, forestry and wildlife resources.

137. The challenges facing the sector include unfavourable climatic changes, poor planning and inadequate warning systems, low production and productivity, poor marketing strategy and infrastructure, low value addition and competitiveness, inadequate physical infrastructure, unfavourable legal and policy frameworks, and low access to financial services as well as affordable credit.

138. To address these challenges, a total of Ksh. 167.5 billion has been provided for the 2012 MTEF period covering 2012/13 to 2014/15 (Table 5.1). For FY 2012/13, Ksh 52 billion has been set aside for the sector. This is projected to increase to KSh 60.1 billion by 2014/15, bringing the total resources for the entire MTEF period to KSh 167.5 billion.

Table 5.1: Agriculture and Rural Development 1/

	2011/12	2012/13	2013/14	2014/15	2012 MTEF
Ksh billion	**Revised**	**Medium-Term estimates**			**Total**
National	41.8	41.2	42.1	46.3	129.5
of which: Transfer to Public Entities	*9.1*	*11.3*	*12.1*	*12.7*	*36.1*
Counties	11.2	10.8	13.2	13.9	37.9
Total	**53.0**	**52.0**	**55.3**	**60.1**	**167.5**
of which: salaries	*10.1*	*10.4*	*10.7*	*11.0*	*32.0*

1/ The sector comprise of Agriculture, Livestock Development, Fisheries Development, Land, Cooperative Development and Marketing, Forestry and Wildlife, National Land commission

139. Under the new Constitution, a number of functions in the sector have been assigned to the counties. These include crop and animal husbandry, livestock sale yards, abattoirs, plant and animal disease control, fisheries and cooperative societies. Together, these functions are estimated to cost about Ksh. 38 billion over the MTEF period. The national departments will need to be reorganized and rationalized to ensure efficient delivery of services in a decentralized system.

Energy, Infrastructure & ICT Sector

140. Energy, Infrastructure and Information Communications Technology (EI&ICT) Sector continues to be an enabler for sustained development of the economy. Despite major achievements over the recent past, there are still challenges, including: delayed uptake of donor funds, roads maintenance backlog, lack of adequate local construction capacity; inadequate power supply capacity; over-reliance on hydro-power generation; low investment in power generation by private sector; inadequate capacity for research in ICT and film industry; and inefficient and congested Port of Mombasa.

141. Over the medium-term, the sector's priorities include: accelerating on-going infrastructure development, improving efficiency and effectiveness of the infrastructure development process at all levels of planning, contracting, and construction; modernizing provision of electricity, developing modern national ICT infrastructure, and reforming ports and rail.

142. Total MTEF estimate for the sector is KSh 741.5 billion (Table 5.2). For FY 2012/13, KSh 230.8 billion has been set aside, increasing to Ksh 262.9 billion by 2014/15.

Table 5.2: Energy, Infrastructure & ICT Sector 1/

Ksh billion	2011/12 Revised	2012/13	2013/14	2014/15	2012 MTEF Total
		Medium-Term estimates			
National	165.5	171.4	187.5	199.5	558.4
of which: Transfer to Public Entities	*48.6*	*54.3*	*57.9*	*62.0*	*174.2*
Counties	53.5	59.4	60.3	63.3	183.1
Total	**219.0**	**230.8**	**247.8**	**262.9**	**741.5**
of which: salaries	*3.5*	*3.6*	*3.7*	*3.9*	*11.2*

1/ Includes roads, public works, transport, energy, local government, Nairobi metropolitan development, and Information & Communications Technology

143. Assigned functions to the counties include county roads, street lighting, traffic and parking, public road transport and ferries and harbours, and housing. These are estimated to cost Ksh 183.1 billion over the MTEF period.

General Economic, Commercial and Labor Affairs

144. Despite impressive performance over the recent past, the sector still faces a number of challenges ranging from inadequate legal, regulatory and institutional challenges, limited access to credit, high cost of production, stiff competition from access to international markets, low awareness of benefits of regional integration, influx of sub-standard, counterfeits and contra-band goods, and low technology, innovation, research and development.

145. Over the medium-term, the sector plans to create an enabling business environment for trade and investment; deepen regional integration, promote best labour practices, manpower planning, development and utilization, tourism development and marketing, undertake policy, legal and institutional reforms for

the development of the sector; support entrepreneurship and industrial development; and promote exports and sustainable tourism.

146. Total MTEF estimate for the sector is KSh 71 billion (Table 5.3). For FY 2012/13, KSh 23 billion has been set aside, representing an 18 percent increase from FY 2011/12 funding level. This is projected to increase to KSh 24.1 billion in 2014/15.

Table 5.3: General Economics, Commercial and Labour Affairs 1/

Ksh billion	2011/12 Revised	2012/13	2013/14	2014/15	2012 MTEF Total
		Medium-Term estimates			
National	13.4	18.1	14.7	14.5	47.3
of which: Transfer to Public Entities	*4.1*	*4.3*	*4.4*	*4.4*	*13.1*
Counties	6.0	4.9	9.2	9.6	23.6
Total	**19.5**	**23.0**	**23.9**	**24.1**	**71.0**
of which: salaries	*1.8*	*1.9*	*1.9*	*2.0*	5.8

1/ The sector comprise of trade, east Africa community, national heritage and culture, tourism, industrialization, labour, and Regional Development Authorities.

147. Assigned functions to the counties include markets, trade license, and local tourism. These are estimated to cost Ksh 23.7 billion over the MTEF period.

Health

148. The sector's goal is to provide equitable and affordable health care to the Kenyan citizens. While remarkable achievements have been made over the years in terms of improvement in mortality rates, the sector still faces challenges, which include inadequate infrastructure, qualified health personnel, and medicines and medical supplies.

149. In the medium term, the Government will seek to address these challenges through continued investment in training of health professionals, medical services, health, and sanitation infrastructure. The 2012 MTEF estimate for the sector is Ksh. 243.4 billion, of which Ksh 77 billion has been set aside for FY 2012/13, representing a 6 percent increase from FY 2011/12 funding level (Table 5.4). This is projected to increase to KSh 85.4 billion by 2014/15.

Table 5.4: Health Sector 1/					
	2011/12	2012/13	2013/14	2014/15	2012 MTEF
Ksh billion	Revised	Medium-Term estimates			Total
National	41.4	44.1	49.0	51.7	144.9
of which: Transfer to Public Entities	*13.9*	*14.0*	*14.3*	*14.6*	*42.9*
Counties	31.4	32.9	32.0	33.6	98.5
Total	**72.8**	**77.0**	**81.1**	**85.4**	**243.4**
of which: salaries	*23.7*	*27.1*	*28.9*	*29.8*	*85.9*

1/ Includes medical services, public health and sanitation, Research and Development sub-Sectors

150. Assigned functions to the counties under this sector include county health facilities and pharmacies, ambulance services, promotion of primary health care, licensing and control of undertaking that sell food to the public and pre-primary education. Preliminary costing of these functions is Ksh 98.5 billion over the MTEF period, of which Ksh 77 billion is earmarked for FY 2012/13.

Education

151. The sector's overall goal is to increase access to education, raise the quality and relevance of education, reduce inequality, and exploit knowledge and skills in science, technology and innovation to achieve global competitiveness.

152. Previous achievements include free primary education which has improved admission into primary level education from 5.9 million in 2003 to 9.4 million children in 2010. Other achievements include: improved gender parity at primary school level; increased number of secondary schools from 6,405 in 2007 to 7,308 in 2010 with free tuition for secondary schools, increased accredited TIVET centres from 288 in 2007/08 to 487 in 2010/11, and increased enrolment into the public universities from 16,134 students in 2008/09 to 24,216 students in 2010/11.

153. The sector's challenges include inadequate infrastructure and staffing, slow pace to ICT integration, and dealing with accelerated admissions to university. In the medium term, the Government will seek to address these challenges by providing enhanced education and training opportunities, building capacity in industrial training, and reforming university education system.

154. The 2012 MTEF estimate for the sector totals Ksh 721.2 billion, of which KSh 229 billion has been set aside for FY 2012/13, a 7 percent increase from FY 2011/12 funding level (Table 5.5). This is projected to increase to KSh 251.3 billion by 2014/15.

Table 5.5: Education Sector 1/					
	2011/12	2012/13	2013/14	2014/15	2012 MTEF
Ksh billion	Revised	Medium-Term estimates			Total
National	213.5	228.6	240.4	250.8	719.8
of which: Transfer to Public Entities	*51.2*	*57.4*	*61.6*	*64.9*	*183.8*
Counties	0.4	0.5	0.5	0.5	1.4
Total	**213.9**	**229.0**	**240.9**	**251.3**	**721.2**
of which: salaries	*115.2*	*119.5*	*123.4*	*127.1*	*369.9*

1/ Includes education, and higher education sub-Sectors

155. Assigned functions to the counties under this sector are limited with an estimated MTEF budget of Ksh 1.4 billion, mainly to cater for pre-primary education, village polytechnics, home craft centres and children facilities.

Governance, Justice, Law and Order Sector (GJLOS)

156. The Sector plays an important role in providing a stable environment for the political, social and economic activities to thrive. Following the promulgation of the new Constitution in August 2010, a number of institutions were established within the Sector while some existing ones were restructured. The newly established institutions are the National Police Service Commission (NPSC), the Constitution Implementation Commission (CIC), and the Office of the Director of Public Prosecutions (ODPP). The Judicial Service Commission was revamped and reconstituted; the IIEC and IEBRC were merged to become the Independent Electoral and Boundaries Commission. The Kenya Anti-Corruption Commission became the Ethics and Anti- Corruption Commission (EACC).

157. Over the last three years, the sector has achieved significant milestones in execution of its programs, including enhancing governance, rule of law, and preventing corruption among others.

158. Funding over the 2012 MTEF period will facilitate the implementation of the new Constitution; improve access to judicial and legal services for all Kenyans; enhance the security of identification, registration and travel documents;; prevent and combat the occurrence of corruption and economic crimes including tracing, recovering and restitution of corruptly acquired assets and ensure public safety and security; reform and modernization of the electoral processes to deliver free, fair and credible elections; promotion of national values and ethics; and registration and funding of political parties.

159. For FY 2012/13, KSh 120.9 billion has been set aside, representing about 14 percent increase from FY 2011/12 funding level (Table 5.6). This is projected to remain more or less the same level by 2014/15. Total funding level for the MTEF period is KSh 356.5 billion.

Table 5.6: Governance, Justice, Law and Order Sector 1/					
	2011/12	2012/13	2013/14	2014/15	2012 MTEF
Ksh billion	Revised	Medium-Term estimates			Total
National	105.8	120.6	115.4	119.4	355.4
of which: Transfer to Public Entities	*4.0*	*4.2*	*4.3*	*4.4*	*12.8*
Judiciary	7.5	9.8	10.0	10.4	30.2
Counties	0.3	0.3	0.4	0.4	1.1
Total	**106.1**	**120.9**	**115.8**	**119.8**	**356.5**
of which: salaries	*55.4*	*60.1*	*60.4*	*62.3*	*182.9*

1/ Includes Ministry of State for Provincial Administration and Internal Security, Office of the Vice President and Ministry of Home Affairs, Ministry of Justice, National Cohesion and Constitutional Affairs, State Law Office, Judiciary, Kenya Anti-Corruption Commission, Kenya National Audit Office, Ministry of State for Immigration and Registration of Persons, Interim Independent Electoral Commission and the Directorate of Public Prosecution.

Assigned functions to the counties include ensuring and coordinating the participation of communities and locations in governance at the local level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local level. These are estimated to cost Ksh 1.1 billion over the MTEF period. However, this may increase depending on the scope of restructured functions of the provincial administration in line with the Constitution.

Judiciary

160. The GJLOS sector includes the MTEF budget for the Judiciary that is expected to be submitted directly to the National Assembly in line with the new Constitution. The challenges facing the Judiciary include case backlog, case delay and inaccessibility to justice in many parts of the country. This is attributed to lack of adequate facilities in most of the existing 120 court stations in the country; inadequate numbers of judicial officers and other support staff; and slow adaptation and institutionalization of ICT technology and other facilities.

161. During this MTEF period, the Judiciary will prioritize the implementation of the new Constitution and continue to implement strategies that will lead to reduced case backlog, improved access to justice and modernize the court system. The MTEF funding level is estimated at Ksh 30.2 billion, of which Ksh. 9.8 billion is for FY 2012/13. This has been arrived following consultations with the Judiciary.

Public Administration and International Relations

162. The sector plays a key role in enhancing public service delivery, organization and coordination of Government business through planning, mobilization of financial and human resources in the public sector. In addition, the sector links all other sectors with the rest of the world on matters of international treaties, agreements, cooperation and resource mobilization. The Constitution established Constitutional commissions and Independent offices

some of which are members of the sector. These include: Office of the Controller of Budget, Kenya National Audit Office, Salaries and Remuneration Commission and Commission on Revenue Allocation. Further, Kenya National Assembly previously falling under the Governance Justice Law and Order Sector was incorporated in this sector.

163. Funding over the 2012 MTEF period will enable the sector to oversee the implementation of the new Constitution; provide leadership and policy direction in the governance of the country; coordinate and supervise government affairs; promote sound public financial and economic management for socioeconomic development; articulate and implement Kenya's foreign policy for national development; promote macroeconomic stability, mainstream MDGs into the nation's policy, planning and budgetary process, implementation, monitoring and evaluation; promote efficient and effective human resource management and development for improved public service delivery; and promote public service integrity.

164. For FY 2012/13, Ksh. 107.3 billion has been set aside to fund the sector's programmes (Table 5.7). This is projected to increase to Ksh. 114.5 by FY 2014/15, bringing the total MTEF estimate to Ksh. 331.8 billion.

Table 5.7: Public Administration and International Relations 1/

	2011/12	2012/13	2013/14	2014/15	2012 MTEF
Ksh billion	Revised	Medium-Term estimates			Total
National	92.9	79.3	90.2	93.7	263.2
of which: Transfer to Public Entities	*20.2*	*21.0*	*20.0*	*20.3*	*61.3*
Parliament	*10.2*	*12.1*	*14.1*	*14.6*	*40.9*
Counties	17.6	28.1	19.8	20.8	68.6
Total	**110.5**	**107.3**	**109.9**	**114.5**	**331.8**
of which: salaries	*13.2*	*14.6*	*14.7*	*15.1*	*44.4*

1/ Includes state house, public service, foreign affairs, planning and national development, finance, cabinet office, public service commission and prime minister, Controller of Budget, Parliament, Commission of Revenue Allocation, KENAO, Salaries and Renumeration Commission

165. Assigned functions to the counties include office of the governor, county assemblies, and county planning and development including statistics. These are estimated at Ksh. 68.6 billion over the MTEF period, of which Ksh. 28.1 billion is earmarked for FY 2012/13.

Parliament

166. This sector includes the MTEF budget for the Parliament that is expected to be submitted directly to the National Assembly in line with the new Constitution. Parliament plays a crucial role in strengthening the democratic space and good governance in the country. Under the new constitutional order, parliament will consist of the National Assembly and the Senate. This is expected to increase the resource requirement to cater for the increased membership of

Parliament from the current 224 to 418 and for additional physical facilities and infrastructure.

167. Total MTEF estimate for the Parliament is Ksh 40.9 billion. For FY 2012/13, Ksh. 12.1 billion has been set aside as baseline ceiling. However, consultations with Parliamentary Service Commission are ongoing ahead of finalization of detailed budget to firm up the resource requirement to cater for the 10th Parliament and initial requirements for the expanded Parliament during the second half of the financial year.

Social Protection, Culture and Recreation

168. The sector's strategic objectives include formulating and implementing national and cultural heritage policies; youth empowerment; gender, children and social development; disaster management and coordination of development activities in arid and semi arid areas which cuts across all the three pillars of the Kenya Vision 2030. Key achievements for the 2011 MTEF include: resettlement of IDPs; disaster mitigation; increased coverage of cash transfers for the vulnerable groups in the country; development of cultural and heritage infrastructure; improvement and construction of water and sanitation infrastructure in the ASALs; construction, rehabilitation and equipping of Youth Polytechnics and empowerment centres.

169. Funding over the 2012 MTEF period will continue to enhance delivery of the sector priorities. For FY 2012/13, Ksh 37 billion has been set aside to support the sector' activities (Table 5.8). This is projected to increase steadily to KSh 47.1 billion in 2014/15, bringing the total MTEF estimate to KSh 126.7 billion.

Table 5.8: Social Protection, Culture and Recreation 1/

	2011/12	2012/13	2013/14	2014/15	2012 MTEF
Ksh billion	**Revised**	**Medium-Term estimates**			**Total**
National	28.0	23.5	32.8	36.8	93.2
of which: Transfer to Public Entities	*9.8*	*7.2*	*8.5*	*10.5*	*26.2*
Counties	10.1	13.4	9.8	10.3	33.5
Total	**38.1**	**37.0**	**42.6**	**47.1**	**126.7**
of which: salaries	*3.3*	*3.4*	*3.5*	*3.6*	*10.4*

1/ Includes National Heritage and Cultures, Gender and Children Development, Special Programmes, youth affairs and sports, development of northern Kenya and arid lands.

170. Assigned functions to the counties include sports and cultural activities and facilities, among others, which are expected to cost Ksh 33.5 billion. The sector will benefit from additional funding from the equalization fund as some of the activities covered under the sector benefit the marginalized categories.

Environmental Protection, Water, and Housing

171. The sector plays a key role in ensuring that every Kenyan has access to decent and affordable housing with access to portable water in a clean and secure environment.

172. Over the MTEF period the sector aims to achieve expansion of water coverage and sewerage facilities; scaling up water storage to improve water security; scaling up irrigation to reduce dependence of rain fed agriculture; protection, conservation and management of catchment areas; mitigation and adaptation measures on climate change; enforcement of sector laws and regulations; restoration of Nairobi Rivers; modernization of meteorological services; mineral exploration and mining cadastre system; enhancing housing development through various initiatives; up-scaling slum upgrading and redevelopment; and lowering the cost of building material to increase access to housing.

173. The 2012 MTEF estimate of KSh 154.1 billion has been allocated for the sector. For FY 2012/13, Ksh. 48.5 billion has been set aside, increasing to Ksh. 54.5 billion by FY 2014/15 (Table 5.9).

Table 5.9: Environmental Protection, Water and Irrigation and Housing 1/

Ksh billion	2011/12 Revised	2012/13 Medium-Term estimates	2013/14	2014/15	2012 MTEF Total
National	38.9	38.7	40.9	43.7	123.3
of which: Transfer to Public Entities	4.5	4.5	4.5	4.5	13.6
Counties	8.8	9.8	10.2	10.7	30.8
Total	**47.7**	**48.5**	**51.1**	**54.5**	**154.1**
of which: salaries	3.4	3.5	3.6	3.7	10.7

1/ Includes water and irrigation, environment and Mineral resources, and housing

174. Under this sector, assigned functions to the counties include soil and water conservation, forestry, storm water management, and water and sanitation services, as well as control of air pollution, noise pollution, other public nuisance and outdoor advertising. Preliminary costing of these functions amounts to Ksh 30.8 billion for the MTEF period.

National Security

175. The national security sector comprises of defence and national security intelligence services. The 2012 MTEF estimate of KSh 199.9 billion has been allocated for the sector, of which Ksh. 64.3 billion has been set aside for FY 2012/13, rising to Ksh. 68 billion by FY 2014/15 (Table 5.10).

Table 5.10: National Security					
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2012 MTEF**
Ksh billion	**Revised**	**Medium-Term estimates**			**Total**
National	78.6	64.3	67.6	68.0	199.9
of which: Transfer to Public Entities/1	*77.8*	*63.4*	*66.6*	*66.9*	*196.9*
Counties	-	-	-	-	-
Total	**78.6**	**64.3**	**67.6**	**68.0**	**199.9**
of which: salaries (excl. DoD & NSIS)	*0.6*	*0.7*	*0.6*	*0.7*	*2.0*

1/ Defense and national inteligence services (include salaries)

Conclusion

176. The 2012 MTEF is marked by moderate growth in overall expenditure, taking into account the weaker economic outlook and the need to maintain fiscal disciple during the implementation of the new Constitution. Expanding infrastructure investment, while maintaining reasonable growth on social development priorities remain a priority. Preliminary allocations to counties reflect a transition arrangement while ensuring continued provision of basic services to Kenyans.

177. Overall, the set of policies outlined in this BPS are consistent with the national strategic objectives pursued by the Government as a basis of allocation of public resources. Details of the strategic objectives are provided in the first updated Vision 2030 MTP released in December 2011. The policies and sector ceilings annexed herewith will be the basis for the preparation of the 2012/13 MTEF budget.

ANNEX 1: STATEMENT OF SPECIFIC FISCAL RISK

I. OVERVIEW

1. The Kenyan economy is highly susceptible to various domestic and external shocks. These shocks include: (i) drought which puts additional demand for budgetary resources for intervention measures in the dry part of the country mainly in need of food assistance, water, and health care; (ii) increase in international oil prices which raises the cost of transportation and energy; and (iii) insecurity in the porous border along Somalia, piracy in the high seas, and threat of terrorism, which together combine to limit trade and tourism. More recently, the economic and financial turmoil in advanced economies which have slowed global growth continue to pose challenges to our economy. To this end, maintaining fiscal stability is critical for safeguarding against these adverse shocks and ensuring that growth is sustained despite challenging circumstances.

2. As part of requirement under the Fiscal Management Act, 2009, this Annexure presents the **Statement of Specific Fiscal Risks (SSFR)**. Specifically, it outlines Kenya's exposure to fiscal risks that are associated with assumptions used for fiscal projections, public debt dynamics, operations of state corporations, public-private partnerships and contingent liabilities, vulnerabilities of the financial sector, as well as risks posed by drought.

3. Overall, the Statement highlights the following:

- Macroeconomic assumptions have been broadly accurate, although economic growth and under-spending by Line Ministries remains a key concern;

- Based on the latest (November 2011) debt sustainability analysis, our public debt is projected to be sustainable;

- Contingent liabilities from key State Corporation present minimal fiscal risks. Most of the sources of contingent liabilities are being addressed. And recent restructuring and privatization of key institutions have, to a large extent, transferred various risks of state corporations to the private sector, save for those relating to shareholder's obligations in the new-look corporations.

- The financial sector remains generally resilient even with the recent interest rate and exchange rate shock; and

- Steps are being taken to ensure food security with ongoing irrigation programmes and robust early warning system, but significant investments will be required to meaningfully reduce the country's vulnerability to repeated droughts and mitigate the effects of climate change.

4. Going forward, there are ongoing measures to mitigate these risks but more needs to be done to guarantee fiscal viability in case of unfavorable fiscal developments.

II. FINANCIAL OBJECTIVES

5. **The Government will pursue prudent fiscal policy which is critical for macroeconomic stability**. As such, the Government's fiscal stance will continue to strengthen debt sustainability over the medium to long term, while supporting growth and employment in the face of challenging economic environment. It also continues with efficiency and improvement in the productivity of expenditure. Given the limited resources, expenditures are targeted on:

- Poverty reduction and empowerment of the poor and vulnerable through adequate allocation of resources to priority social sectors, such as education and health;
- Sustained economic growth through improvement in physical infrastructure sector, such as roads, rail, ports, water and irrigation, and reliable and affordable energy;
- Expansion and diversification of exports, and boosting agricultural productivity;
- Enhancing food security and protecting the livelihoods of the poor and the most vulnerable members of our society;
- Transparent, accountable, and participatory governance through setting up the essential frameworks for implementing the new constitutional order;
- Strategic interventions through programmes targeted for job creation for the youth; and
- Strengthening internal security and rule of law.

6. **The Government will manage the budget deficit to ensure sustainable debt levels over the medium term.** Fiscal consolidation will enable us to rebuild fiscal space in preparation of any economic downturn given that we are now leaving in a world full of uncertainty. In addition, fiscal structural reforms are expected to reduce the country's sources of fiscal risks as policies will center on reforms in tax policy and administration, non-tax revenue, expenditure management, privatization of government entities, and debt management.

III. SPECIFIC FINANCIAL RISKS

Changes in Underlying Macroeconomic Assumptions

7. **Macroeconomic assumptions play a key role in the formulation of the budget.** Changes in these macroeconomic variables create risks to both revenue and expenditure projections in this BPS and the budget estimates and expenditure to be submitted to Parliament for approval by end of April 2012. In particular, the budget is sensitive to the following key macroeconomic variables:

- ***Economic growth***: this mainly affects tax revenue. A slower-than-projected growth in real GDP lowers tax collection, especially income taxes and VAT collections.

- ***Macro prices:***

  - ***Inflation:*** An increase in inflation may result in higher tax revenues through increases in the base for income taxes and VAT. However, certain levels of very high inflation may constrain consumption and lower VAT collections.

  - ***Exchange rate:*** This impacts both revenues and expenditures. For instance, a weakening of the shilling vis-à-vis the US dollar improves revenue collection, mostly through customs duties and VAT on imported goods. On the expenditure side, foreign interest rate payments and foreign expenditure-related maintenance and operating expenditures will be negatively affected.

  - ***Interest rates:*** An increase in Treasury bill rates will increase expenditures through an increase in domestic interest payments. On the revenue side, the 10-25 percent withholding tax on income on financial instruments also increases revenue.

- ***Imports of goods:*** A growth in merchandise imports (excluding government imports and oil imports) positively impacts revenues given the higher tax base for import duties.

8. Table A1.1 presents the magnitude of first round impacts of the above macroeconomic variables on fiscal aggregates. Note the net positive impact of a rise in real GDP and a shilling depreciation and a net negative impact of increase in inflation and Treasury bill rate.

Table A1.1 Fiscal Sensitivity to Key Macroeconomic Variables, 2012/13 (Ksh billion per year)	Revenue	Expenditure	Budget balance
One percentage point increase in real GDP (%)	8.6	0.0	8.6
One percentage point increase in inflation rate (%)	7.7	11.9	-4.2
One percentage point increase in Treasury Bill rate (%)	4.0	8.2	-4.2
10% depreciation in exchange rate (Ksh/US$)	5.8	1.1	4.7
One percentage point increase in US$ value of goods imports (%)	0.6	0.0	0.6

Source: Estimates from Ministry of Finance

Forecast Accuracy of Underlying Assumptions and Budgetary Aggregates

9. **Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with fairly minimal deviations** (see Table A.1.2). Over the period 2009/10-2011/12, the average deviation between the assumed and provisional actual real GDP growth rates was only 0.1 percentage point. With respect to inflation assumption, the large deviation in 2009/10 and the current financial year 2011/12 reflect the methodological revision of the CPI series by the Kenya National Bureau of Statistics (KNBS) from arithmetic mean to geometric mean and the inherent volatility of international oil prices, respectively. Also, inflation was volatile in 2011/12 due to the adverse impact of drought which increased food prices. The sharp depreciation of the shilling exchange rate against major international currencies occasioned by monetary shocks also increased deviation between the previous BPS and 2012 BPS. Meanwhile, the average deviation on export and import growth was minimal.

Annex A1.2: Deviations between Macroeconomic Assumptions/Fiscal Aggregates projections and Actual *(In percentage points; unless specified)*

	2009/10			2010/11			2011/12			2009/10-2011-12
	Proj.	Act.	*Dev*	Proj	Act	*Dev*	BPS'11 [1/]	BPS'12	Dev.	Average Deviation
I. Key Macroeconomic Assumptions										
Real GDP	3.1%	4.1%	*1.0%*	5.1%	5.0%	*-0.1%*	5.5%	4.8%	*-0.7%*	0.1%
Inflation rate (avg)	13.4%	5.5%	*-7.9%*	5.0%	6.9%	*1.9%*	5.1%	16.0%	*10.9%*	1.6%
Domestic borrowing (average rate)							9.9%	9.4%	*-0.5%*	-0.5%
Exchange rate (Ksh/USD), avg	77.9	76.7	*-1.2*	81.1	82.5	*1.4*	81.1	86.9	*5.8*	2.0
Export growth	3.4%	1.8%	*-1.6%*	11.8%	12.6%	*0.8%*	11.8%	8.8%	*-3.0%*	-1.2%
Import growth	7.0%	3.8%	*-3.2%*	14.2%	20.7%	*6.5%*	14.2%	11.1%	*-3.1%*	0.1%
II. Fiscal Aggregates (in Ksh billion)										
Total Revenue	604.8	568.8	*-36.0*	730.0	686.3	*-43.7*	823.2	838.2	*15.0*	-21.6
Tax and non-tax	569.5	548.1	*-21.4*	689.6	667.5	*-22.1*	774.4	790.0	*15.6*	-9.3
Ordinary, incl. LATF	533.8	517.9	*-15.9*	623.0	621.3	*-1.7*	703.0	725.8	*22.8*	1.7
AiA	35.7	30.2	*-5.5*	66.6	46.2	*-20.4*	71.4	64.3	*-7.1*	-11.0
Grants	35.3	20.7	*-14.6*	40.4	18.8	*-21.6*	48.8	48.1	*-0.7*	-12.3
Total Expenditure	772.4	719.1	*-53.3*	916.9	804.1	*-112.8*	975.7	998.4	*22.7*	-47.8
Recurrent	511.1	504.4	*-6.7*	593.3	584.7	*-8.6*	644.6	683.2	*38.6*	7.8
Development	261.3	214.7	*-46.6*	323.6	219.4	*-104.2*	331.1	315.2	*-15.9*	-55.6
Domestic	155.1	151.9	*-3.2*	178.1	150.1	*-28.0*	206.5	194.7	*-11.8*	-14.3
External	103.8	60.5	*-43.3*	143.1	67.0	*-76.1*	121.9	117.8	*-4.1*	-41.1
Net Lending	2.4	2.3	*-0.1*	2.4	2.3	*-0.1*	2.7	2.6	*-0.1*	-0.1
Balance	-167.6	-150.3	*17.3*	-186.9	-117.8	*69.1*	-152.5	-160.2	*-7.7*	26.2
Financing [2/]	168.2	156.4	*-11.8*	188.0	110.5	*-77.5*	152.6	160.2	*7.6*	-27.2
Net Foreign	50.2	22.9	*-27.3*	82.7	28.4	*-54.3*	47.4	98.1	*50.7*	-10.3
Net Domestic	109.5	133.5	*24.0*	105.3	82.1	*-23.2*	105.2	62.1	*-43.1*	-14.1
Other	8.5	0.0	*-8.5*	0.0	0.0	*0.0*	0.0	0.0	*0.0*	-2.8
Memo items:										
Nominal GDP (Ksh billion)	2546.6	2,458.3	*-88.3*	2767.2	2,773.1	*5.9*	2767.2	3,295.2	*528.0*	148.6

Source: Ministry of Finance

1/ As submitted to Parliament in March 2011

2/ Excludes adjustment to cash

10. **The actual performance of fiscal aggregates vis-à-vis target was generally mixed.** The projection for ordinary revenues was broadly accurate with average deviation over 2009/10-2011/12 estimated at Ksh 1.7 billion. The large deviation in 2011/12 between 2011 BPS and 2012 BPS reflected the change in VAT withholding mechanism which was not anticipated at the time of preparation of the current financial year budget. On AiA performance, the deviation was mainly attributed to under-reporting by line ministries. It is expected that these deviations will narrow when audited accounts are used as opposed to actual returns. Also, the policy of converting A-i-A into ordinary revenue collected by KRA will help improve collection and reporting of this item.

11. Execution of recurrent expenditure was generally satisfactory for 2009/10-2010/11 with minimal deviation between projected and actual. However, the large deviation in 2011/12 between previous year's BPS and this 2012 BPS reflect the unexpected expenditure associated with drought intervention measures, salary awards, and security intervention in Somalia. On development expenditure, the average deviation is large, mainly reflecting low absorption of foreign financed expenditure. Absorption of donor grants averaged 70 percent while that of project loans was around 50 percent.

12. The slower-than-programmed spending on development budget poses a risk to the fiscal program, going forward. In order to prevent this risk from materializing, the government has been pressing its line ministries to increase absorption to at least 80-90 percent as part of performance contracting. Also, key infrastructure ministries and departments have been asked to submit monthly implementation reports. Donors have also been asked to speed up the issuance of "No Objection" to improve absorptive capacity of implementing agencies. Other measures include asking ministries to improve procurement planning and implementation capacity in managing procurement process.

13. Overall, the actual fiscal deficit turned out lower than budgeted over the period 2009/10-2010/11. Going by the slow execution rate so far, partly associated with tight domestic financing constraints, the current financial year may also register a lower-than-budgeted deficit. While this may indicate a somewhat strong fiscal position, it happens against a backdrop of lower execution of the budget which does not bode well for growth and poverty reduction.

14. Going forward, there are risks associated with expenditure proposals that cannot be accommodated within the baseline ceilings. Some specific key additional requests are summarized in Annex 10. These expenditures are disclosed because they could have a material effect on the fiscal outlook given the limited budgetary resources. Some high priority expenditure proposals from these list could be taken on board during finalization of detailed ministerial spending plans if savings are identified and resource envelope firmed up.

Vulnerability of Public Debt to Shocks

15. The Government recognizes the importance of managing debt prudently to avoid unwarranted debt burden to the future generation and reduce the risk of macroeconomic instability. Significant effort has been made to improve the institutional arrangement for debt management as well as capacity to assessment of risks.

Institutional arrangements

16. The Debt Management Department (DMD) at the Ministry of finance is responsible for formulating debt strategy and ensures prudent debt management. Under the new Constitution, a new legislation governing the operations of public borrowing and guarantees needs to be in place on or before the new devolved government is in place. The proposed Public Financial Management law provides for a new institutional and legal framework of managing public debt in a devolved system of government.

17. Under the current Medium-Term Debt Strategy (MTDS), 2011, the principal objective of Government's debt management is to meet the Central

Government financing requirements at the least cost with a prudent degree of risk. The secondary objective is to facilitate Government's access to financial markets and support development of a well functioning vibrant domestic debt market.

Assessment of Risks

18. The latest (November 2011) debt sustainability analysis (DSA) for Kenya based on the International Monetary Fund (IMF) DSA framework indicate that Kenya faces a low risk of external debt distress. This reflects the limited reliance on external borrowing and an expected improvement in macroeconomic performance. All external public debt indicators remain below the relevant country-specific debt burden thresholds. For instance, external debt as a percentage of GDP broadly remains stable at 17-19 percent range from 2011 to 2016 (see Table below).

Summary: External Debt Sustainability Assessment
(in percent of GDP)

	2011	2012	2013	2014	2015	2016
NPV of PPG External Debt						
In percent of GDP (threshold=40)						
Baseline	17.5	19.0	18.9	18.7	18.4	17.6
Combined shocks	17.5	21.8	26.2	25.6	24.9	23.8
In percent of exports (threshold=150)						
Baseline	57.0	65.3	68.9	73.4	76.4	78.2
Combined shocks	57.0	69.0	80.8	85.2	87.7	89.3
PPG External Debt Service						
In percent of exports (threshold=20)						
Baseline	3.8	4.2	4.2	4.7	4.8	4.9
Combined shocks	3.8	4.1	4.2	4.9	5.0	5.2

19. Under a combination of shocks—lower GDP growth, weaker exports, a lower GDP deflator, and a fall in FDI—the DSA reflects that public debt is generally resilient. Even though debt indicators worsen (NPV of public external debt rises from 18 percent to 26 percent), they do not result in a breach of the thresholds during the projection period, 2011-2016.

20. The sustainability of Kenya's debt depends on macroeconomic performance and a prudent borrowing strategy. The projected investment in infrastructure and the assumed improvement in the investment climate would be crucial to sustaining strong exports and GDP growth. Additionally, Kenya's success in avoiding unsustainable debt to date reflects good management, but also limited willingness on the part of creditors to provide financing, at times due to governance concerns.

21. Overall, the Government will continue to build on the recent medium-term debt strategy to help maintain a prudent borrowing strategy. Strategies to guard against shocks will include a build up in international reserves as envisaged in the current Government's economic programme supported by the IMF under the Extended Credit Facility arrangement.

22. In addition, securing timely information on new disbursements under external loans remains a challenge, with Debt Management Department continuing to rely on information from creditors, which creates a lag in recording. The Government hopes this will improve once the electronic Project Monitoring Information System (ePROMIS) is linked to the Commonwealth Secretariat Debt Recording Management System (CS-DRMS). A process to establish the level of contingent liabilities is ongoing, while the disputed commercial contracts have been managed prudently. The anticipated implementation of devolved governance system is likely to result in increased level of contingent liabilities as county liabilities are taken into account.

Contingent liabilities of State-Owned Corporations

23. While liabilities of state-owned enterprises constitute a potential source of fiscal risk, they are currently not a major cause of concern. A study that was conducted four years ago of 25 state corporations that the Government perceived to account for the majority of the contingent liabilities revealed that out of Ksh 57.6 billion total liabilities, about half or Ksh 28.2 billion constituted potential contingent liabilities. Of the contingent liabilities, about 80 percent were accounted for by two corporations—TARDA (Ksh.13 billion) and NSSF (Ksh.9.8 billion). Contingent liabilities relating to TARDA arose from under-insurance of the power generation assets whose financial benefits were enjoyed by KenGen, given that the assets had not been fully vested. NSSF's contingent liabilities relate to court cases and possible penalties for non-compliance with tax regulations.

24. Given that the causes of contingent liabilities are fairly generic, the broad policy recommendations emerging from the study of 25 state corporations are relevant to other state corporations. Thus, the Government will continue to: (i) closely monitor and evaluate state corporations based on performance contracting as well as strengthen their governance; (ii) ensure state corporations' pension schemes convert from defined benefit to defined contribution schemes to limit Government exposure to unfunded liabilities; (iii) review the mandates of some state corporations and conclusively vest assets and liabilities; (iv) and speed up the privatization programme.

25. Significant progress has been made in eliminating exposure to risks. For instance: (i) the process of vesting of assets & liabilities in respect of the relevant state corporations is progressing well, with the completion of vesting of TARDA's electricity-generating assets in KenGen and the on-going vesting in roads authorities (KeNNHA, KeRRA and KURA) and the Water Services

Boards; (ii) virtually all state corporations have now converted their pension schemes from Defined Benefits Schemes to Defined Contribution Schemes, effectively extinguishing the related contingent liabilities falling on the corporations themselves and, by extension, the Exchequer; (iii) privatization of state corporations is on-going with 26 investments/transactions at various stages of implementation under the current privatization programme as approved by the Government; and (iv) a policy and the related draft Bill on the Management/Governance of State Corporations is currently at advanced stages of development.

26. Overall, following reforms in sectors such as telecommunication, transportation, and energy, the fiscal risks have reduced. Privatization and the off-loading of some operations to private entities through various forms such as concession arrangement have, to a large extent, transferred various risks of state corporations in these sectors to the private sector. However, there are some risks relating to shareholder's role/obligation in the operations of the corporation with Government still remaining as strategic partners in some of key institutions. Examples include shareholder's contribution in financing expansion plans such as in Telkom, and Government cover for liability, loss or damage resulting from the use of weapons of mass destruction, which the Government has been offering to Kenya Airways since the events of September 11, 2001. This is renewed annually based on advice that the cover is not available in the market.

27. A number of other non-commercial government agencies receive budgetary allocations through transfers and constitute the central government budget deficit. In addition, investment income mainly through dividends have helped fund the government budget. For instance in 2010/11 inflows in the form of dividends and other fees reached about Ksh 10 billion. Vigorous actions have been undertaken in pursuing the collection of these dividends.

28. Guaranteed debt to state corporations that were rescheduled under the Paris Club framework are being repaid by the Government. Those state corporations that are able to repay their rescheduled debt are repaying to the Government and are part of receipts financing the budget.

Public Private Partnership and Contingent Liabilities

29. The Government recognizes the need to explore Public Private Partnership (PPP) option in the delivery of public infrastructure and social services. Public investments in energy, roads, railroad network, ports, water and wastewater treatment, irrigation, solid waste management, information and communication technology (ICT), among others, are therefore expected to be complemented by private sector investment under the PPP framework. This is in line with Government's goal of infrastructure modernization, efficiency in public service delivery, development of wealth creation opportunities, competitiveness of the country, and shared growth strategy.

30. The Government is aware that the PPP arrangements may expose the country to a variety of complex fiscal risks, including right-of-way, political/regulatory risk and change in law, currency convertibility, events of termination, material adverse effect, among others. To ensure prudent management of contingent liabilities, the Government is at the final stage of developing an appropriate legal and regulatory framework to guide the PPP agenda. In addition, the Government will continue introducing administrative arrangements and processes that will help guide the selection and implementation of projects. Scrutiny of PPP projects will be done carefully to preserve fiscal discipline and safeguard the interest of tax payers. All guarantees and other security instruments provided under the PPP agenda, together with all other contingent liabilities will be integrated into the debt management process.

Resilience of the Financial Sector

31. According to the Central Bank of Kenya (CBK), the banking sector remains adequately capitalized as total capital adequacy ratio (CAR) of the banking system as of end-December 2011 stood at 19.4 percent compared to the statutory minimum of 12 percent. The non-performing loan (NPL) ratio of the banking system dropped to 4.4 percent as of end-December 2011 from 6.3 percent in December 2010. Stress tests conducted by CBK taking into account the prevailing high interest rates regime indicate that the banking sector remains sound.

32. Commercial banks partially owned by the Government pose minimal risk after the Ksh 20 billion restructuring of the National Bank of Kenya in 2008. The other large banks are broadly on sound footing and have limited risks. Privatization of Consolidated Bank and Development Bank of Kenya is ongoing under the privatization programme that is managed by the Privatization Commission. The envisaged privatization of Consolidated Bank and Development Bank of Kenya will further reduce the exposure of the Government to the banking sector.

33. To strengthen the banking sector, the Government will step up the efforts to strengthen the financial infrastructure to adapt to the new challenges associated with the modernization of the banking system, including cross-border operations and mobile banking. Measures conducive to that goal are the following:

- Implementing consolidated supervision to enhance oversight of banks with cross border operations. This will be hinged on information sharing and co-ordination between the CBK and other supervisors particularly in the East African Community where Kenyan banks are expanding their footprint.

- Reviewing capital and liquidity standards for banks to strengthen them to be able to withstand periodic shocks.

- Upgrading the crisis management frameworks (CMF) to deal with the challenges of cross-border banking activities.

- Reinforcing prompt corrective action by the CBK, following the amending of the Banking Act.

- Strengthening risk-based supervision including adopting a time-bound program to put in place an assessment of conglomeration risk of relevant local groups.

- Expanding the credit information sharing mechanism to include various credit providers beyond banks such as microfinance institutions and SACCOs. This will enhance credit risk management in banks and other credit providers.

- Expanding supervisory procedures to ensure full monitoring of financial business driven by bank agents under the newly introduced bank agency model and through the use of mobile banking.

34. Overall, fiscal risks in other sub-sectors of the financial system are minimal:

- The Government is not currently guaranteeing loans to the Development Finance Institution (DFIs) until these institutions are restructured and a robust legal framework for their supervision is in place. A DFI Bill is currently being developed to facilitate reforms in this sub-sector.

- Restructuring of the National Social Security Fund (NSSF) is ongoing and it is now in compliance with the Retirement Benefit Authority (RBA) rules. RBA rules have helped ensure stability in the pension sector as a whole.

- Insurance and capital markets industry is reforming with strengthened regulations from the regulators—Insurance Regulatory Authority (IRA) and Capital Markets Authority (CMA)—to safeguard stability and increase efficiency. Risks in the insurance industry are those related to coverage of the Public Service Vehicle (PSV) sector. To further strengthening capital markets, legislation to allow the demutualization of the Nairobi Stock Exchange will be introduced shortly.

- The Government has launched the Anti-Money Laundering Advisory Board, which will shortly appoint a director to manage the Financial Reporting Center (FRC) as provided for under the Proceeds of Crime and Anti-Money Laundering Act of 2009.

Drought Mitigation and Management

35. Kenya is a drought-prone country due to its location in the Horn of Africa and recent climate changes. More recently, the recurrences of drought and dry spell have increased. Financing of drought intervention measures have consumed significant budgetary resources, far much more than the Ksh 2 billion set aside for drought relief and another Ksh 2 billion for civil contingency fund. For instance, at the beginning of the current financial year 2011/12, drought interventions measures consumed over Ksh 10 billion.

36. Due to the risks posted by drought, the Government has invested in various water and irrigation programmes and initiatives to reduce the country's vulnerability to repeated droughts, including strengthening the capacity to respond to the disaster. Some of these initiaves include early warning systems managed by the Kenya Security Steering Group (KFSSG), and upgrading the infrastructure used for providing timely weather forecasting. To strengthen these initiatives, the Government is in the process of developing a legal and institutional framework that will provide for risk assessment and early warning, knowledge building and awareness raising, as well as effective early response and recovery preparation.

37. Looking ahead, significant investments will be required to reduce the country's vulnerability to repeated droughts. This includes stepped up support of improving domestic agricultural productivity in a sustainable manner, in line with the Government's action to ensure food security by investing in irrigation and agribusiness activities.

Annex Table 1: Main Macroeconomic Indicators, 2009/10-2014/15

	2009/10	2010/11	2011/12			2012/13			2013/14			2014/15	
	Prov	*Prov*	*Budget*[1/]	*BROP'12*	*BPS'12*	*BPS'11*[1/]	*BROP'12*	*BPS'12*	*BPS'11*[1/]	*BROP'12*	*BPS'12*	*BROP'12*	*BPS'12*
		Annual percentage change, unless otherwise indicated											
National account and prices													
Real GDP	4.1	5.0	5.7	4.9	4.8	6.3	5.5	5.5	6.5	5.8	5.9	6.3	6.3
GDP deflator	5.7	7.3	9.1	13.1	13.4	6.0	10.5	11.3	5.0	6.5	7.1	5.4	5.6
CPI Index (eop)	3.5	14.6	7.8	8.9	11.0	5.7	7.9	8.0	5.0	5.6	5.6	5.0	5.0
CPI Index (avg)	5.5	6.9	9.3	15.1	16.0	6.4	9.5	9.8	5.0	6.3	6.3	5.0	5.0
Terms of trade (-deterioration)	5.9	-5.4	-2.5	-1.1	-2.0	-2.8	-0.3	0.5	-1.3	-0.2	1.8	0.7	1.2
Exchange Rate(Ksh/US$, average)	76.7	82.5	81.1	87.0	86.9								
Money and credit (end of period)													
Net domestic assets	34.6	19.6	16.2	12.4	8.2	14.1	15.5	18.2	16.2	13.8	15.2	9.2	13.4
Net domestic credit to the Government	59.7	-0.4	18.3	11.2	5.6	5.2	11.4	16.5	4.7	6.4	15.1	6.9	8.6
Credit to the rest of the economy	16.8	31.6	17.6	21.7	18.9	17.8	18.3	19.7	17.5	17.5	16.9	14.0	17.7
Broad Money, M3 (percent change)	26.2	15.1	16.5	17.0	17.2	17.4	16.5	17.3	17.7	15.5	16.3	14.8	15.1
Reserve money (percent change)	31.5	4.3	13.6	12.3	17.2	17.4	16.5	17.3	17.7	15.5	16.3	14.8	15.1
		In percentage of GDP, unless otherwise indicated											
Investment and saving													
Investment	19.5	21.3	23.4	21.2	22.6	24.8	22.5	23.6	25.3	24.4	24.4	25.1	25.2
Central Government	8.6	7.8	12.5	9.7	9.5	11.0	9.4	9.5	10.5	9.6	9.7	10.2	10.0
Other	10.9	13.5	10.9	11.5	13.1	13.8	13.0	14.1	14.7	14.8	14.7	14.9	15.2
Gross National Saving	12.1	10.6	15.5	12.2	11.5	17.6	15.6	14.9	19.0	18.9	17.1	20.8	19.1
Central Government	1.5	2.7	3.9	3.8	3.3	5.5	4.1	4.5	6.1	4.9	5.3	5.6	5.9
Other	10.6	7.9	11.6	8.4	8.2	12.1	11.5	10.4	12.9	13.9	11.7	15.2	13.2
Central government budget													
Total revenue	22.3	24.1	24.7	23.5	24.0	24.9	24.0	24.2	25.2	24.2	24.4	24.5	24.6
Total expenditure and net lending	29.5	29.3	33.5	29.6	30.3	31.0	29.9	29.8	30.2	29.5	29.3	29.6	29.2
Overall balance (commitment basis) excl. grants	-7.2	-5.2	-8.8	-6.1	-6.3	-6.1	-5.9	-5.6	-5.0	-5.2	-4.9	-5.1	-4.6
Overall balance (commitment basis) incl. grants	-6.4	-4.5	-7.4	-4.7	-4.8	-4.7	-4.6	-4.3	-3.7	-3.9	-3.8	-3.7	-3.5
Primary budget balance	-3.8	-1.8	-4.8	-2.2	-2.2	-1.9	-1.4	-1.8	-1.4	-1.4	-1.4	-1.4	-1.3
Net domestic borrowing	5.4	3.0	3.8	1.7	1.9	1.4	2.0	2.8	1.2	1.1	2.6	1.2	1.5
Total external support (grant & loans)	2.5	2.4	5.7	3.6	3.6	4.3	4.6	3.5	4.0	3.8	3.3	4.2	3.3
External sector													
Exports value, goods and services	25.4	27.8	28.2	27.8	27.0	27.2	26.2	24.9	26.8	26.3	24.7	26.4	24.5
Imports value, goods and services	38.8	44.3	41.4	42.0	43.2	39.3	37.7	37.8	37.7	36.2	35.9	34.9	34.1
Current external balance, including official transfers	-7.4	-10.8	-7.9	-8.9	-11.1	-7.2	-6.8	-8.7	-6.3	-5.5	-7.3	-4.3	-6.1
Current external balance, excluding official transfers	-7.4	-10.7	-7.9	-8.9	-11.1	-7.1	-6.8	-8.6	-6.2	-5.5	-7.3	-4.3	-6.1
Gross international reserve coverage in months of next year imports (end of period)	3.1	3.0	3.2	3.1	3.6	3.6	3.3	3.7	3.8	3.5	3.9	4.0	4.0
Public debt													
Nominal central government debt (eop), gross	50.0	53.6	52.3	49.8	50.0	51.2	47.8	47.5	49.7	46.7	44.9	45.5	44.2
Nominal central government debt (eop), net of deposits	45.1	48.8	48.6	45.8	45.9	47.9	44.3	44.1	46.7	43.6	41.9	42.7	41.5
Domestic (gross)	26.9	27.6	28.4	24.9	25.1	26.6	23.4	24.1	24.9	21.9	23.9	20.7	22.8
Domestic (net)	22.0	22.7	24.7	20.9	21.0	23.2	19.9	20.7	22.0	18.8	20.8	18.0	20.1
External	23.2	26.1	23.9	24.9	24.9	24.6	24.4	23.4	24.7	24.8	21.0	24.7	21.4
<u>**Memorandum items:**</u>													
Nominal GDP (in Ksh billions)	2,458	2,773	3,184	3,292	3,295	3,589	3,836	3,866	4,011	4,321	4,383	4,837	4,916
Nominal GDP (in US$ millions)	32,051	33,627	38,316	37,844	37,917	43,056	44,386	44,735	47,812	48,947	49,642	54,267	55,159

Source: Ministry of Finance

BPS = Budget Policy Statement

BROP = Budget Review & Outlook Paper

1/ Updated in June 2011

Annex Table 2: Central Government Operations 2010/11 - 2014/15 (in billions of Kenya Shillings)	2009/10	2010/11	2011/12			2012/13			2013/14			2014/15	
	Prov	Prov	Budget[1]	Rev. Bgt	BSP'12	BPS'11[1]	BROP'12	BPS'12	BPS'11*	BROP'12	BPS'12	BROP'12	BPS'12
					Est								
TOTAL REVENUE	546.1	667.5	792.1	804.3	790.0	894.4	922.6	936.5	1,009.9	1,047.8	1,071.2	1,183.5	1,209.2
Ordinary Revenue (excl. LATF)	507.5	609.2	718.1	724.7	710.4	814.5	837.9	849.3	920.6	953.8	977.2	1,078.2	1,107.8
Income tax	209.1	258.7	293.1	311.3	308.4	333.9	355.9	368.3	377.1	402.9	422.3	452.0	474.9
Import duty (net)	41.3	46.1	55.6	56.6	56.3	61.0	65.3	64.1	67.3	74.4	72.3	84.4	81.1
Excise duty	74.1	80.6	93.3	81.8	81.4	106.7	97.1	96.3	120.6	110.4	110.5	124.4	124.6
Value Added Tax	142.0	171.9	205.3	193.8	192.0	236.5	238.8	232.8	270.1	275.1	268.4	315.2	307.7
Investment income	8.4	11.1	13.3	13.6	13.6	15.0	13.7	15.9	16.7	15.4	18.1	17.3	20.3
Other	32.7	41.0	57.6	67.7	58.7	61.5	67.1	71.9	68.8	75.6	85.5	84.8	99.2
LATF	10.4	12.1	15.3	15.3	15.3	17.6	18.7	19.4	19.8	21.2	22.2	23.8	25.0
Ministerial and Departmental fees (A-A)	30.2	46.2	58.6	64.3	64.3	62.3	66.0	67.8	69.4	72.8	71.7	81.5	76.4
EXPENDITURE AND NET LENDING	725.3	811.9	1,071.3	1,082.8	998.4	1,112.3	1,147.5	1,152.1	1,210.6	1,272.9	1,286.2	1,429.8	1,437.3
Recurrent expenditure	504.4	584.7	664.0	690.7	676.4	702.0	759.1	760.3	771.3	831.6	842.5	912.6	928.8
Interest payments	63.5	76.2	84.1	86.6	86.6	98.9	122.3	97.2	91.4	107.6	106.8	108.9	105.6
Domestic interest	57.4	69.2	76.6	77.7	77.7	91.1	110.3	85.5	82.7	94.3	93.0	87.1	90.8
Foreign interest	6.1	7.0	7.5	8.9	8.9	7.8	12.0	11.6	8.6	13.3	13.8	21.7	14.7
Wages and benefits(civil service)	172.6	198.5	222.6	229.4	229.4	249.1	253.6	262.9	278.5	285.1	295.7	318.1	329.9
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	0.0	14.4	14.6	15.2	16.1	16.5	17.1	18.4	19.1
Civil service Reform	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Pensions etc	29.0	25.7	34.8	32.6	32.6	36.2	38.2	37.3	44.5	42.1	42.9	46.3	47.2
Other	182.3	224.2	257.5	263.6	249.3	243.1	266.2	283.6	279.5	314.8	314.5	347.9	354.0
Defense and NSIS	56.9	60.0	65.2	78.6	78.6	60.1	64.1	64.1	61.1	65.6	65.6	73.1	73.2
Development and Net lending	214.7	219.4	399.1	385.2	315.2	396.6	364.8	370.2	425.6	418.0	427.3	495.3	493.5
Domestically financed	151.9	150.1	213.5	199.7	194.7	199.3	186.6	230.8	242.2	249.1	281.8	288.8	325.9
Foreign financed	60.5	67.0	183.1	182.9	117.8	194.6	175.4	136.6	180.7	166.0	142.5	203.5	164.6
Net lending	2.3	2.3	2.6	2.6	2.6	2.7	2.7	2.8	2.8	2.9	2.9	3.0	3.1
Drought Expenditures	6.1	3.2	3.6	6.8	6.8	2.0	2.0	0.0	2.0	2.0	0.0	2.0	0.0
Contingencies	0.0	0.0	0.5	0.0	0.0	5.6	10.0	5.0	6.1	10.0	5.0	10.0	5.0
Constitution Reform	0.0	4.6	1.4	0.0	0.0	3.0	8.0	13.0	2.0	7.0	7.0	5.0	5.0
Conditional grants to marginal areas ("Equalization Fund")	...	...	2.7	...	0.0	3.1	3.6	3.6	3.6	4.3	4.3	4.9	5.0
Balance *(commitment basis excl. grants)*	-177.2	-144.3	-279.2	-278.4	-208.3	-217.8	-224.9	-215.7	-200.8	-225.1	-215.0	-246.3	-228.1
Adjustment to cash basis	0.0	-0.4	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	20.7	18.8	41.1	47.0	47.0	50.4	47.2	48.3	52.9	58.3	48.4	68.0	56.4
Programmme grants	0.0	0.0	0.0	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance *(cash basis including grants)*	-156.5	-125.9	-236.2	-228.3	-160.2	-167.5	-177.7	-167.4	-147.9	-166.8	-166.6	-178.2	-171.7
Statistical discrepancy	-0.1	-15.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	156.4	110.2	236.2	228.2	160.2	167.5	177.7	167.4	147.9	166.8	166.6	178.2	171.7
Net foreign financing	22.9	28.1	116.7	166.1	98.1	118.7	100.1	60.7	100.9	117.8	52.6	122.2	96.9
Project loans	39.8	48.2	142.0	135.9	70.8	102.6	128.2	88.4	107.7	107.7	94.1	135.4	108.2
IDA counterpart refinancing	0.0	0.0	0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Programme loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Fin./Sovereign bond	0.0	0.0	0.0	52.1	52.1	41.7	0.0	0.0	20.1	44.1	44.1	24.2	24.6
Repayments due	-18.7	-20.5	-25.8	-25.4	-25.4	-26.0	-28.6	-28.2	-27.3	-34.5	-86.2	-37.9	-36.3
Change in arears	1.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling/Debt swap	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic borrowing	133.5	82.1	119.5	62.1	62.1	48.8	77.6	106.7	46.9	48.9	114.1	56.0	74.8
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items													
External Debt	569.1	722.9	792.7	...	819.8	883.7	936.2	904.9	991.7	1,069.9	922.4	1,196.4	1,051.7
Domestic Debt (gross)	660.3	764.2	883.6	...	826.3	953.5	898.1	933.1	1,000.5	947.0	1,047.1	1,003.0	1,122.0
Domestic Debt (net)	540.5	630.5	748.6	734.0	692.6	833.7	764.3	799.3	880.7	813.2	913.3	869.3	988.2
Primary budget balance	-93.0	-49.7	-152.1	-141.7	-73.6	-68.5	-55.4	-70.2	-56.5	-59.1	-59.8	-69.4	-66.2
Devolved funds:													
County Revenue Fund (15% of previous year's revenues)	...	...	...	...	...	109.4	107.4	108.9	122.2	125.7	130.3	143.1	149.9
Equalization Fund (0.5% of previous year's revenues)	...	...	...	...	...	3.6	3.6	3.6	4.1	4.3	4.3	4.9	5.0
Nominal GDP	2,458.3	2,773.1	3,184.1	3,295.2	3,295.2	3,588.7	3,836.3	3,866.5	4,011.5	4,321.2	4,382.5	4,836.9	4,916.4

Source: Ministry of Finance

Notes:

BPS = Budget Policy Statement

BROP = Budget Review & Outlook Paper

1/ Updated in June 2011

Annex Table 3: Central Government Financial Operations, 2010/11 - 2014/15 (in percent of GDP)

	2009/10	2010/11	2011/12			2012/13			2013/14			2014/15	
	Prov	Prov	Budget 1/	Rev. Bdgt	BPS'12	BPS'11 1/	BROP'12	BPS'12	BPS'11*	BROP'12	BPS'12	BROP'12	BPS'12
TOTAL REVENUE	22.3%	24.1%	24.9%	24.4%	24.0%	24.9%	24.0%	24.2%	25.2%	24.2%	24.4%	24.5%	24.6%
Ordinary Revenue (excl. LATF)	20.6%	22.0%	22.6%	22.0%	21.6%	22.7%	21.8%	22.0%	23.0%	22.1%	22.3%	22.3%	22.5%
Income tax	8.5%	9.3%	9.2%	9.4%	9.4%	9.3%	9.3%	9.5%	9.4%	9.3%	9.6%	9.3%	9.7%
Import duty (net)	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%	1.7%	1.7%
Excise duty	3.0%	2.9%	2.9%	2.5%	2.5%	3.0%	2.5%	2.5%	3.0%	2.6%	2.5%	2.6%	2.5%
Value Added Tax	5.8%	6.2%	6.4%	5.9%	5.8%	6.6%	6.2%	6.0%	6.7%	6.4%	6.1%	6.5%	6.3%
Investment income	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Other	1.3%	1.5%	1.8%	2.1%	1.8%	1.7%	1.7%	1.9%	1.7%	1.7%	2.0%	1.8%	2.0%
LATF	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Ministerial and Departmental fees (AiA)	1.2%	1.7%	1.8%	2.0%	2.0%	1.7%	1.7%	1.8%	1.7%	1.7%	1.6%	1.7%	1.6%
EXPENDITURE AND NET LENDING	29.5%	29.3%	33.6%	32.9%	30.3%	31.0%	29.9%	29.8%	30.2%	29.5%	29.3%	29.6%	29.2%
Recurrent expenditure	20.5%	21.1%	20.9%	21.0%	20.5%	19.6%	19.8%	19.7%	19.2%	19.2%	19.2%	18.9%	18.9%
Interest payments	2.6%	2.7%	2.6%	2.6%	2.6%	2.8%	3.2%	2.5%	2.3%	2.5%	2.4%	2.3%	2.1%
Domestic interest	2.3%	2.5%	2.4%	2.4%	2.4%	2.5%	2.9%	2.2%	2.1%	2.2%	2.1%	1.8%	1.8%
Foreign interest	0.2%	0.3%	0.2%	0.3%	0.3%	0.2%	0.3%	0.3%	0.2%	0.3%	0.3%	0.4%	0.3%
Wages and benefits (civil service)	7.0%	7.2%	7.0%	7.0%	7.0%	6.9%	6.6%	6.8%	6.9%	6.6%	6.7%	6.6%	6.7%
Contribution to civil service pension fund	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Civil service Reform	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pensions etc	1.2%	0.9%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.1%	1.0%	1.0%	1.0%	1.0%
Other	7.4%	8.1%	8.1%	8.0%	7.6%	6.8%	6.9%	7.3%	7.0%	7.3%	7.2%	7.2%	7.2%
Defense and NSIS	2.3%	2.2%	2.0%	2.4%	2.4%	1.7%	1.7%	1.7%	1.5%	1.5%	1.5%	1.5%	1.5%
Development and Net lending	8.7%	7.9%	12.5%	11.7%	9.6%	11.1%	9.5%	9.6%	10.6%	9.7%	9.7%	10.2%	10.0%
Domestically financed	6.2%	5.4%	6.7%	6.1%	5.9%	5.6%	4.9%	6.0%	6.0%	5.8%	6.4%	6.0%	6.6%
Foreign financed	2.5%	2.4%	5.7%	5.6%	3.6%	5.4%	4.6%	3.5%	4.5%	3.8%	3.3%	4.2%	3.3%
Net lending	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Drought Expenditures	0.2%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Contingencies	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.3%	0.1%	0.2%	0.2%	0.1%	0.2%	0.1%
Constitution Reform	0.0%	0.2%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.0%	0.2%	0.2%	0.1%	0.1%
***Balance** (commitment basis excl. grants)*	-7.2%	-5.2%	-8.8%	-8.4%	-6.3%	-6.1%	-5.9%	-5.6%	-5.0%	-5.2%	-4.9%	-5.1%	-4.6%
Adjustment to cash basis	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	0.8%	0.7%	1.3%	1.4%	1.4%	1.4%	1.2%	1.2%	1.3%	1.4%	1.1%	1.4%	1.1%
Programmme grants	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
***Balance** (cash basis including grants)*	-6.4%	-4.5%	-7.4%	-6.9%	-4.9%	-4.7%	-4.6%	-4.3%	-3.7%	-3.9%	-3.8%	-3.7%	-3.5%
Statistical discrepancy	0.0%	-0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCING	6.4%	4.0%	7.4%	6.9%	4.9%	4.7%	4.6%	4.3%	3.7%	3.9%	3.8%	3.7%	3.5%
Net foreign financing	0.9%	1.0%	3.7%	5.0%	3.0%	3.3%	2.6%	1.6%	2.5%	2.7%	1.2%	2.5%	2.0%
Project loans	1.6%	1.7%	4.5%	4.1%	2.1%	2.9%	3.3%	2.3%	2.7%	2.5%	2.1%	2.8%	2.2%
IDA counterpart refinancing	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Programme loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial Fin./Sovereign bond	0.0%	0.0%	0.0%	1.6%	1.6%	1.2%	0.0%	0.0%	0.5%	1.0%	1.0%	0.5%	0.5%
Repayments due	-0.8%	-0.7%	-0.8%	-0.8%	-0.8%	-0.7%	-0.7%	-0.7%	-0.7%	-0.8%	-2.0%	-0.8%	-0.7%
Change in arears	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rescheduling/Debt swap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Privatization proceeds	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Refinancing - Telkom	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net domestic borrowing	5.4%	3.0%	3.8%	1.9%	1.9%	1.4%	2.0%	2.8%	1.2%	1.1%	2.6%	1.2%	1.5%
Financing gap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Memo items													
Total public debt (net)	36.2%	48.8%	45.9%	43.1%	43.1%	47.9%	44.3%	44.1%	46.7%	43.6%	41.9%	42.7%	41.5%
Domestic Debt (gross)	26.9%	27.6%	27.8%	...	25.1%	26.6%	23.4%	24.1%	24.9%	21.9%	23.9%	20.7%	22.8%
Domestic Debt (net)	22.0%	22.7%	23.5%	22.3%	21.0%	23.2%	19.9%	20.7%	22.0%	18.8%	20.8%	18.0%	20.1%
Primary budget balance	-3.8%	-1.8%	-4.8%	-4.3%	-2.2%	-1.9%	-1.4%	-1.8%	-1.4%	-1.4%	-1.4%	-1.4%	-1.3%
Devolved funds:	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
County Revenue Fund	...	...	...	...	...	3.0%	2.8%	2.8%	3.0%	2.9%	3.0%	3.0%	3.0%
Equalization Fund	...	...	...	...	...	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Judiciary Budget	...	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%
Parliament Budget	...	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%
Nominal GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Ministry of Finance

Note

BPS = Budget Policy Statement

BROP = Budget Review & Outlook Paper

1/ Updated in June 2011

Annex Table 4: Recurrent Sectoral Ceilings for the MTEF Period 2012/13 - 2014/15 (KShs. Million)

	NAME OF SECTOR		2010/11 Estimates		Printed	Revised	Baseline	Ceiling	Projections	
			Printed	Approved	2011/12	2011/12	2012/13	2012/13	2013/14	2014/15
S01	AGRICULTURE AND RURAL DEVELOPMENT	Gross	20,626	21,686	22,747	22,861	24,138	25,954	27,403	30,460
		A-I-A	1,508	1,763	1,616	1,751	1,972	2,762	2,822	2,911
		Net	19,118	19,922	21,728	21,110	22,566	25,019	26,342	28,918
	Of Which:	Salaries	8,164	8,822	9,037	10,065	9,308	10,367	10,678	10,998
		Grants & Transfers	8,660	9,001	9,885	9,131	9,510	11,320	12,145	12,668
		Others	3,802	3,863	3,825	3,665	5,320	4,268	4,580	6,794
S02	ENERGY, INFRASTRUCTURE & ICT	Gross	49,031	47,105	56,111	55,601	58,270	64,680	68,856	74,116
		A-I-A	39,492	36,580	42,742	45,262	44,124	50,833	53,192	55,638
		Net	9,538	10,525	13,369	10,339	14,145	13,847	15,664	18,478
	Of Which:	Salaries	3,144	3,220	3,339	3,505	3,439	3,637	3,692	3,915
		Grants & Transfers	40,140	38,725	48,638	48,555	49,315	54,302	57,874	62,015
		Others	5,747	5,159	4,134	3,541	5,515	6,740	7,290	8,186
S03	GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS (GECLA)	Gross	7,496	8,021	8,816	9,029	9,848	10,062	10,706	10,673
		A-I-A	348	437	422	542	315	519	540	532
		Net	7,148	7,584	8,394	8,487	9,533	9,543	10,166	10,141
	Of Which:	Salaries	1,568	1,613	1,663	1,828	1,711	1,883	1,939	1,997
		Grants & Transfers	3,734	3,805	4,123	4,137	4,137	4,310	4,395	4,422
		Others	2,194	2,603	3,030	3,064	4,001	3,869	4,372	4,253
S04	HEALTH	Gross	35,224	37,208	38,599	43,829	46,684	47,800	50,185	53,266
		A-I-A	3,883	3,883	3,882	3,882	3,882	3,882	4,530	4,983
		Net	31,341	33,325	34,717	39,947	42,802	43,919	45,655	48,283
	Of Which:	Salaries	17,463	19,247	19,924	23,743	24,682	27,128	28,932	29,837
		Grants & Transfers	12,482	12,583	12,596	13,898	14,654	14,017	14,254	14,592
		Others	5,279	5,379	6,079	6,188	7,348	6,656	6,999	8,837
S05	EDUCATION	Gross	172,909	175,014	184,719	190,728	197,063	204,202	214,504	223,472
		A-I-A	18,288	18,539	18,699	18,530	18,483	19,831	19,831	20,294
		Net	154,621	156,475	166,020	172,198	178,580	184,372	194,673	203,178
	Of Which:	Salaries	99,911	102,101	108,924	115,173	115,800	119,479	123,354	127,055
		Grants & Transfers	50,614	49,887	51,454	51,172	54,119	57,357	61,572	64,920
		Others	22,384	23,026	24,340	24,383	27,144	27,366	29,578	31,498
S06	GOVERNANCE, JUSTICE, LAW & ORDER	Gross	69,153	81,720	97,772	95,417	102,847	104,352	97,382	100,099
		A-I-A	4,550	4,872	331	228	375	375	351	359
		Net	64,604	76,847	97,441	95,189	102,472	103,977	97,030	99,740
	Of Which:	Salaries	43,142	50,582	59,787	55,397	60,007	60,148	60,437	62,346
		Grants & Transfers	4,240	4,847	4,230	3,992	4,208	4,159	4,261	4,419
		Others	21,771	26,291	33,755	35,966	38,632	40,045	32,684	33,334
S07	PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	Gross	54,549	50,200	49,856	51,341	52,571	56,966	58,132	60,135
		A-I-A	888	930	967	1,220	811	1,210	1,152	1,155
		Net	53,661	49,269	48,889	50,121	51,843	53,919	57,111	59,115
	Of Which:	Salaries	13,601	11,691	16,130	13,199	13,738	14,620	14,652	15,108
		Grants & Transfers	19,078	20,646	19,756	20,216	18,292	21,001	20,005	20,271
		Others	21,270	17,246	17,191	17,926	20,624	21,428	23,605	24,891
S08	NATIONAL SECURITY	Gross	56,686	50,394	65,163	78,560	64,082	64,283	67,601	68,041
		A-I-A	423	432	-	-	-	-	-	-
		Net	56,263	49,962	65,163	78,560	64,082	64,283	67,601	68,041
	Of Which:	Salaries	575	601	606	634	624	653	643	729
		Grants & Transfers	54,782	48,664	64,421	77,781	63,330	63,403	66,630	66,914
		Others	1,328	1,128	135	145	127	227	328	397
S09	SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	14,156	16,209	19,906	21,002	18,192	18,681	20,907	24,095
		A-I-A	103	185	105	114	120	119	140	154
		Net	14,054	16,024	19,801	20,888	18,072	18,562	20,766	23,940
	Of Which:	Salaries	2,619	2,753	2,854	3,263	2,932	3,360	3,454	3,570
		Grants & Transfers	4,425	6,049	9,988	9,793	7,988	7,185	8,452	10,535
		Others	7,113	7,407	7,065	7,951	7,272	8,137	9,001	9,991
S10	ENVIRONMENTAL PROTECTION, WATER AND HOUSING (EPW&H)	Gross	9,045	9,998	10,110	10,671	10,615	11,637	12,173	12,775
		A-I-A	2,477	3,054	2,612	2,923	2,569	3,429	3,429	3,429
		Net	6,568	6,944	7,498	7,747	8,046	8,207	8,744	9,346
	Of Which:	Salaries	2,787	2,973	3,119	3,366	3,212	3,469	3,571	3,685
		Grants & Transfers	3,396	4,168	3,988	4,523	4,096	4,509	4,524	4,524
		Others	2,861	2,857	3,003	2,781	3,307	3,660	4,079	4,566
	TOTAL RECURRENT	Gross	488,875	497,553	553,799	579,038	584,309	608,617	627,847	657,131
		A-I-A	71,959	70,675	71,376	74,452	72,651	82,959	85,987	89,457
		Net	416,916	426,878	483,020	504,586	512,141	525,647	543,752	569,179
	Of Which:	Salaries	192,975	203,603	225,384	230,173	235,454	244,742	251,352	259,241
		Grants & Transfers	201,552	198,374	229,079	243,198	229,648	241,563	254,111	265,279
		Others	93,748	94,959	102,557	105,611	119,290	122,395	122,515	132,746

	Annex Table 5: Development Sectoral Ceilings for the MTEF Period 2012/13 - 2014/15 (KShs. Million)									
	NAME OF SECTOR		2010/11 Estimates		Printed	Revised	Baseline	Ceiling	Projections	
			Printed	Approved	2011/12	2012/13	2012/13	2012/13	2013/14	2014/15
S01	AGRICULTURE AND RURAL DEVELOPMENT	Gross	**22,259**	**25,655**	**25,102**	**30,094**	**23,434**	**26,059**	**27,913**	**29,681**
		GOK	11,762	14,912	14,156	15,619	13,792	13,792	15,956	17,361
		Loans	5,296	5,223	6,705	6,352	3,824	5,755	5,511	5,534
		Grants	5,201	5,520	4,241	6,973	5,818	6,512	6,447	6,786
S02	ENERGY, INFRASTRUCTURE & ICT	Gross	**140,062**	**121,545**	**170,484**	**163,401**	**152,939**	**166,103**	**178,976**	**188,740**
		GOK	68,568	66,249	74,176	71,601	74,516	74,830	87,556	96,579
		Loans	60,516	42,154	86,397	80,768	65,371	80,768	80,768	80,768
		Grants	3,831	5,718	4,973	5,353	8,080	5,453	5,448	5,481
		Local A-I-A	7,147	7,424	4,938	5,679	4,972	5,052	5,204	5,912
S03	GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS (GECLA)	Gross	**13,848**	**13,781**	**12,133**	**10,440**	**12,442**	**12,895**	**13,204**	**13,440**
		GOK	9,390	9,086	7,981	7,044	8,715	8,745	9,054	9,290
		Loans	2,948	3,035	3,207	2,422	2,517	3,237	3,237	3,237
		Grants	1,255	1,405	690	720	956	658	658	658
		Local A-I-A	255	255	255	255	255	255	255	255
S04	HEALTH	Gross	**19,931**	**20,169**	**25,715**	**28,923**	**21,465**	**29,202**	**30,874**	**32,099**
		GOK	6,879	8,832	7,372	7,384	7,664	7,664	9,336	10,560
		Loans	4,375	3,886	6,020	8,131	6,020	8,131	8,131	8,131
		Grants	8,677	7,450	12,323	13,407	7,782	13,407	13,407	13,407
S05	EDUCATION	Gross	**17,315**	**18,095**	**17,620**	**23,149**	**22,979**	**24,812**	**26,362**	**27,841**
		GOK	12,299	12,154	9,520	9,229	10,392	10,892	12,442	13,921
		Loans	2,268	2,703	6,047	10,892	8,782	10,892	10,892	10,892
		Grants	2,748	3,238	2,052	3,028	3,805	3,028	3,028	3,028
S06	GOVERNANCE, JUSTICE, LAW & ORDER	Gross	**9,453**	**8,300**	**12,874**	**10,716**	**15,311**	**16,559**	**18,379**	**19,734**
		GOK	8,617	7,407	11,640	9,392	14,463	15,673	17,560	18,780
		Loans	31	31	-	60	-	-	-	-
		Grants	805	862	1,234	1,264	848	886	819	954
S07	PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	Gross	**41,148**	**38,976**	**74,219**	**59,189**	**47,609**	**50,368**	**51,817**	**54,336**
		GOK	28,336	25,506	56,983	42,030	32,773	32,134	36,938	39,106
		Loans	3,552	3,414	7,855	8,397	6,240	8,966	6,161	6,350
		Grants	9,261	10,056	9,357	8,739	8,573	9,245	8,695	8,855
S09	SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	**17,494**	**17,961**	**15,718**	**17,089**	**21,164**	**18,287**	**21,730**	**23,007**
		GOK	6,843	7,684	7,555	7,357	7,660	7,660	10,951	11,548
		Loans	6,586	6,444	5,827	6,390	6,733	6,969	6,485	6,864
		Grants	4,065	3,834	2,336	3,342	6,771	3,657	4,294	4,596
S10	ENVIRONMENTAL PROTECTION, WATER AND HOUSING (EPW&H)	Gross	**39,456**	**37,419**	**44,344**	**37,036**	**34,889**	**36,841**	**38,967**	**41,700**
		GOK	17,658	15,783	19,389	17,935	17,272	17,728	19,855	22,464
		Loans	17,151	15,992	20,353	13,545	13,331	13,572	13,524	13,627
		Grants	4,648	5,644	4,602	5,556	4,286	5,542	5,588	5,610
	TOTAL DEVELOPMENT	Gross	**320,967**	**301,902**	**398,208**	**380,036**	**352,234**	**381,127**	**408,222**	**430,578**
		GOK	**170,352**	**167,613**	**208,772**	**187,590**	**187,246**	**189,117**	**219,648**	**239,609**
		Loans	**102,722**	**82,882**	**142,412**	**136,956**	**112,817**	**138,290**	**134,708**	**135,403**
		Grants	**40,491**	**43,728**	**41,808**	**48,382**	**46,920**	**48,389**	**48,383**	**49,374**
		Local A-I-A	**7,402**	**7,679**	**5,193**	**5,934**	**5,227**	**5,307**	**5,459**	**6,167**

Annex Table 6: Total Expenditure Ceilings for the MTEF Period 2011/12 - 2013/14										
	NAME OF SECTOR		2010/11		2011/12		2011/13		2013/14	2014/15
			Printed	Revised	Printed	Revised	Baseline	Ceiling	Projection	
S01	AGRICULTURE AND RURAL DEVELOPMENT	Gross	42,885	47,341	47,849	52,955	47,572	52,013	55,316	60,141
S02	ENERGY, INFRASTRUCTURE & ICT	Gross	189,093	168,650	226,595	219,002	211,208	230,783	247,831	262,856
S03	GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	Gross	21,344	21,802	20,949	19,469	22,291	22,957	23,910	24,113
S04	HEALTH	Gross	55,156	57,377	64,314	72,751	68,149	77,002	81,059	85,364
S05	EDUCATION	Gross	190,224	193,109	202,338	213,877	220,042	229,015	240,866	251,314
S06	GOVERNANCE, JUSTICE, LAW & ORDER	Gross	78,606	90,019	110,646	106,133	118,158	120,911	115,761	119,834
S07	PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	Gross	95,697	89,176	124,075	110,531	100,181	107,334	109,949	114,471
S08	NATIONAL SECURITY	Gross	56,686	50,394	65,163	78,560	64,082	64,283	67,601	68,041
S09	SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	31,651	34,170	35,625	38,091	39,356	36,968	42,636	47,102
S10	ENVIRONMENTAL PROTECTION, WATER AND HOUSING	Gross	48,501	47,418	54,453	47,707	45,505	48,478	51,140	54,475
	TOTAL		809,842	799,455	952,008	959,074	936,543	989,744	1,036,069	1,087,710

	Annex Table 7: SECTOR PROGRAMMES AND BUDGETARY ALLOCATIONS, 2012/13-2014/15			
		2012/13	2012/13	2013/14
	Programme	ceiling	Projection	
	AGRICULTURE AND RURAL DEVELOPMENT	**52,013**	**55,316**	**60,141**
0101	Policy, Strategy and Management of Agriculture	3,229	3,152	3,406
0102	Crop Development and Management	19,371	18,619	19,962
0103	Agribusiness and Information Management	2,128	2,219	2,812
0104	Livestock Resources Management and Development	8,444	9,015	9,230
0105	Cooperative Administrative and Support Services	485	205	211
0106	Cooperative Development & Management	1,240	1,299	1,409
0107	Land Policy and Planning	4,233	4,738	5,471
0108	Forestry and Wildlife Policy regulation and co-ordination	513	528	576
0109	Forestry Development, research and Management	2,635	3,651	3,321
0110	Wildlife Conservation and Management	2,247	1,608	2,398
0111	Fisheries Development	3,029	5,005	5,759
0112	Research & Development	4,459	5,276	5,586
	ENERGY, INFRASTRUCTURE & ICT	**230,783**	**247,831**	**262,856**
0201	Local Authority Management and Development	27,489	29,483	32,083
0202	Road Development, Maintenance and Management	107,463	114,027	119,971
0203	Transport Management and Safety	5,147	4,843	4,845
0204	Transport Infrastructure Development	13,775	13,389	14,111
0205	National Electrification	56,876	62,183	65,264
0206	Renewable Energy Resources	698	712	742
0207	Petroleum Exploration and Distribution	1,820	1,811	2,293
0208	Centralized Support Services	983	1,126	1,152
0209	Information and Communication Services	2,358	1,814	2,017
0210	ICT Infrastructure Development	3,723	5,107	5,429
0211	General Admnistration services	630	476	481
0212	Metropolitan Infrastructure and Services	2,369	2,862	3,313
0213	Government Buildings Services	4,215	5,682	6,447
0214	Coastline Infrastructure and Pedestrian Access	1,119	1,697	1,905
0215	Procurement, warehousing and supply	77	71	53
0216	Construction Standards and Research	90	200	300
0217	General Admnistration services	801	1,200	1,299
0218	Research & Development (ICT)	1,150	1,150	1,150
	GENERAL ECONOMIC, COMMERCIAL & LABOR AFFAIRS	**22,957**	**23,910**	**24,113**
0301	Integrated Regional Development	6,858	7,057	7,157
0302	Promotion of Best Labour Practices	1,303	1,355	1,375
0303	Manpower Planning, Development andUtilization.	1,500	1,650	1,750
0304	Policy, Planning and Administration	403	409	425
0305	Productivity Improvement, Measurement and Promotion	87	87	87
0306	Trade Development and Investment	2,997	3,077	3,077
0307	Co-ordination of East African Community Affairs in Kenya	1,341	1,662	1,629
0308	Tourism Development and Marketing	3,108	3,257	3,257
0309	Industrial development and Investment	4,055	3,906	3,906
0310	Industrial Research & Development	1,306	1,450	1,450
	HEALTH	**77,002**	**81,059**	**85,364**
0401	Curative Health	38,155	40,504	43,430
0402	Preventive and Promotive Health Care Services	37,324	38,949	40,255
0403	Heath Research & Development	1,523	1,607	1,679
	EDUCATION	**229,015**	**240,866**	**251,314**
0501	General Administration & Planning Services	7,867	8,316	8,632
0502	Basic Education	17,481	19,542	20,687
0503	Quality Assurance & Standards	4,213	4,151	7,275
0504	Secondary & Tertiary Education	19,950	24,647	24,978
0505	General Administration & Planning Services	1,805	1,793	1,822
0506	University/Tertiary Education	59,234	60,133	61,874
0507	Research, Science, Technology and Innovation	2,027	2,053	2,081
0508	General Administration & Planning Services	2,204	2,239	2,786
0509	Teachers Services	114,233	117,992	121,179

	GOVERNANCE JUSTICE LAW AND ORDER	**120,911**	**115,761**	**119,834**
0601	Policing Services	48,447	50,205	51,331
0602	Administration and Field Services	13,332	13,539	14,013
0603	National Campaign against Drug and Substance Abuse	350	366	384
0604	Government Printing Services	696	633	639
0605	Policy, Management and Support Services to the Office of the Vice Presidency	1,185	1,510	1,548
0606	Correctional Services	15,069	15,530	16,333
0607	Betting Control and Lottery Services	214	219	364
0608	Legal, ethics, Integrity ,National cohesion and constitutional reforms	1,128	1,140	1,352
0609	Policy, Planning and Management services	1,609	1,365	1,313
0610	Legal Education Programme	389	339	354
0611	Legal Services to Government and Public	1,906	1,702	1,794
0612	Anti-Corruption Programme	1,889	2,014	2,117
0613	Population Registration Services	6,433	6,887	7,141
0614	Immigration Services	2,120	2,200	2,261
0615	Policy Formulation and Coordination for Immigration and Population Services	388	396	514
0616	Public Prosecutions Services	791	1,128	1,172
0617	Implementation of the Constitution	532	556	573
0618	Registration, regulation and funding of political parties	335	335	335
0619	Human Rights Programme	264	344	354
0620	Management of Electoral Process in Kenya	13,634	4,853	5,001
0621	Professionalism and Accountability in Police Services	300	350	400
0622	Dispensation of Justice	9,775	10,025	10,418
0623	Promotion of Gender and equality	125	125	125
	PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**107,334**	**109,949**	**114,471**
0701	Management of State Affairs	1,750	1,824	1,881
0702	Human Resource Management and Development	6,198	6,235	6,579
0703	Coordination and implementation of Kenya's foreign policy	8,686	8,208	8,203
0704	Rural Planning and Community Development	22,602	21,915	22,529
0705	Coordination of Policy Formulation and Implementation of Vision 2030	1,248	1,353	1,530
0706	Data collection and national statistical information services	1,286	1,430	1,649
0707	General Administration and Support Services for Planning	517	502	746
0708	Monitoring and Evaluation Services	179	210	221
0709	Administration, Planning and Support Services	12,891	16,787	19,957
0710	Public Financial Management	21,537	23,012	21,762
0711	Economic and financial policy formulation and management	1,418	1,453	1,491
0712	Fair Trade practices and creation of an enabling business environment	1,446	1,481	1,263
0713	Cabinet Services	803	770	796
0714	Public Sector Advisory Services	5,153	2,586	2,619
0715	Administration of Human Resources in Public Service	865	861	880
0716	Audit Services	1,672	1,755	1,820
0717	Legislation and Oversight	12,100	14,129	14,638
0718	Coordination and Supervisory Services	2,214	721	731
0719	Control and management of public finances	531	363	381
0720	Policy on Revenue Allocation	445	402	422
0721	Salaries and remuneration management in the public service	445	402	422
0722	Diplomatic Support and Management Services	3,267	3,420	3,812
0723	Ombudsman Services	83	130	135
	NATIONAL SECURITY	**64,283**	**67,601**	**68,041**
0801	Maintenaining and Safeguarding of National Security	64,283	67,601	68,041
	SOCIAL PROTECTION, CULTURE & RECREATION	**36,968**	**42,636**	**47,102**
0901	Policy and General administrative services	1,347	1,474	1,608
0902	Gender and Social Development	2,964	3,125	3,444
0903	Children Services	5,185	5,401	5,403
0904	Disaster Management	11,232	12,345	14,930
0905	National Heritage and Culture	2,538	2,926	3,168
0901	Policy and General administrative services	968	979	1,007
0906	Youth Development and Empowerment Services	8,079	9,154	9,943
0907	Management and development of Sport and Sport facilities	1,685	1,745	1,827
0908	Special Development Initiatives For Northern Kenya And Other Arid Lands	2,970	5,486	5,772
	ENVIRONMENTAL PROTECTION, WATER AND HOUSING	**48,478**	**51,140**	**54,474**
1001	Water Policy and Management	1,130	1,193	1,285
1002	Water Supply Services	19,633	21,692	22,911
1003	Sewerage Services	232	369	401
1004	Water Resources Management and Storage	6,030	6,759	7,666
1005	Irrigation and Drainage Infrustructure	8,949	7,521	7,345
1006	Administration and Suport Services	201	207	214
1007	Environmental Policy Development and Coordination	555	520	588
1008	Environment Management and Protection	4,721	4,892	4,984
1009	Mineral Resources Management	622	599	599
1010	Meteorological Services and Climate Change	1,322	1,510	1,821
1011	Housing Development and Human Settlement	4,537	5,299	6,037
1012	Research & Development	545	577	623
	TOTAL	**989,744**	**1,036,070**	**1,087,709**

ANNEX 8: SECTOR PROGRAMMES, OUTPUTS, AND PERFROMANCE INDICATORS

PROGRAMME	PROGRAMME OBJECTIVE	PROGRAMME OUTPUT	MEDIUM TERM PERFORMANCE INDICATORS AND TARGETS
AGRICULTURE AND RURAL DEVELOPMENT SECTOR			
Policy, Strategy and Management of Agriculture	To create an enabling environment through appropriate policy, legal and regulatory frameworks	Development of policies, legal notices and revision of bills	• No. of legal notices and policies developed
Crop Development and Management	To increase productivity and management by promoting competitive agriculture through improved extension advisory services, appropriate technology, and management of pests & diseases	Soil Maps developed	• No. of Soil maps developed
		Training of farmers on environment conservation	• No. of farmers trained
		Construct Water pans	• No. of water pans constructed
		Groups Supported on Community Driven Food Security Improvement Initiatives under NMK	• Project Reports on no. of communities supported
		New crop varieties released	• Types of varieties released
Agribusiness and Information Management	To promote sustained growth in agriculture based on market and product development and information	Agro Processing Technologies developed and promoted	• No. of technologies released
		Bulk procurement of Fertilizer	• Metric tonnes of fertilizer procured
		Market prices Published in daily newspapers	• information on agricultural commodity prices
Cooperative Development & Management	To improve governance and management of cooperative society.	Enhanced corporate governance	• Reduction in pending cases by 30%
Cooperative Marketing	To enhance capacity building for value addition and market access in cooperatives	No of societies doing value addition	• 5 value chains developed
Fisheries Development	To maximize the contribution of fisheries to the achievement of national development goals especially poverty reduction, food security and creation of employment and wealth	Increased mariculture production	• Per capita consumption of mari cultured fish and fish products
		Increased acreage of land under aquaculture production	• Hectare of land under aquaculture production
		Increased fish production from aquaculture	• Metric tons of annual aquaculture production increased by 2012/13
		Increased fingerlings supply to farmers	• No. of fingerlings supplied to farmers
		Farmers trained in fish farming husbandry	• No. of fish farmers trained
Management and	To maximize the contribution of fisheries	Compliance with fisheries management	• Compliance levels

Development of Capture Fisheries	to the achievement of national development goals	standards	
		Conservation and restoration of fisheries stock and critical habitats	• Number of fisheries critical habitats gazette
		Ecosystem based fisheries management plans	• Number of species specific management plans implemented
		Fish safety and quality assured	• 2000 samples of fish collected and submitted to the laboratory for analysis • Six national inspections and twenty seven spot check inspections conducted
		Reduced post harvest loses	• 3 laboratories made operational • 12 fish auction centers established • 6 solar driers established • 480 fish handlers and farmers trained
Land Policy and Planning	To create a conducive environment for land administration and management	Comprehensive National Land Policy and Kenya Constitution 2010 implemented	• 60% of National Land Policy and Kenya Constitution 2010 recommendations implemented • No. of land legislations enacted
		National Land Information System developed	• 60% of National Land Information System developed • 80% of Land records safeguarded and digitized
		Kenya National Spatial Data Infrastructure Framework	• 60% of Kenya National Spatial Data framework Developed
		Deed plans prepared	• 30,000 deed plans prepared
		National topographical and thematic maps updated	• 30 National topographical and thematic maps updated
		Students trained on surveying and mapping	• 390 regular students trained on surveying and mapping
		Landless families settled	• 36,000 families settled
		Adjudication sections finalized	• 90 Adjudication sections finalized
		Land adjudication and boundary disputes resolved	• 39,000 Land adjudication and boundary disputes resolved
		Issuance of title deed	• 510,000 title deeds registered and issued
		Assets valued for stamp duty purposes	• 60,000 Stamp duty cases valued
Livestock Resources Management and	To create a favourable policy and legal framework for the sustainable	livestock vaccinated against notifiable diseases	• No. of livestock vaccinated against notifiable diseases

Development	development of the livestock industry.	Epidemiological Surveillance Systems (ESS) established	• 47 Epidemiological Surveillance Systems (ESS) established in the counties
		Farmers Trained on Sanitary and Phyto-sanitary measure	• No. of Farmers Trained on Sanitary and Phyto-sanitary measures of honey to enhance access to market
		Farmers and Pastoralists reached during field days, Shows and Exhibitions	• No. of Farmers and Pastoralists reached during field days, Shows and Exhibitions
		Quality breeding animals for farmers produced	• No. of Quality breeding animals for farmers produced
		Artificial Insemination Service providers in the Country licensed	• No. of Artificial Insemination Service providers in the Country licensed.
			• No. of Genetic importers in the country licensed
		Range lands rehabilitated	• Acreage of Denuded rangelands rehabilitated
		Slaughter houses countrywide categorized and graded.	• No. of Local slaughter houses countrywide categorized and graded
Forestry and Wildlife Policy regulation and Coordination	To coordinate and provide policy guidance to the technical agencies in the forestry and wildlife development and management	Forestry policy and regulations	• Approved Forest policy and regulations
Forestry Development & Management	To generate knowledge and technologies for forest development, management and utilization.	No. of ha of gazetted forest	• Gazette additional 25,500 ha
		Uniformed forest rangers trained	• 2,500 rangers have undergone Paramilitary training.
		Developed partnerships with international orgs and development partners	• No of partnerships developed
		Rehabilitate degraded natural forest	• 100,000 ha rehabilitated to improve the environment
		soil, water and biodiversity conservation	• Enrichment planting of 12,500 ha of indigenous forest
		Policy in natural forests conservation and management analyzed	• 1 Analysis report adopted
		forest plantation	• Establishment of 15,000 ha industrial forest plantation

		Dry lands forest products developed	• At least 3 products developed certified and deployed each year
		Drought tolerant trees for adaptation to climate change developed	• Drought tolerant trees of 3 species identified
		Biomass energy species developed	• At least 5 demonstrations with various species established
		Improved road network	• Rehabilitate 1,500 km of forest roads
Wildlife Conservation & Management	To coordinate and provide policy guidance to technical agencies.	Incidence of human wildlife conflict reduced	• 80% Response rate to human wildlife conflict issues
		Visibility of KWS parks, Number of parks branded	• Parks branded
		Number of kilometres done within the parks	• 2600 km of road routinely maintained
		No of ranger houses constructed/rehabilitated	• 2 airstrip upgraded to bitumen standard (Voi, Ruma)
		Schools attending the ecology programme	• Ecology outings conducted for school, groups- 400
		Schools attending regional rallies	• Mainstreamed materials on ecological aspects of produced 30,000
		Youths trained in tourism and wildlife management courses	**300** Youths trained
ENERGY, INFRASTRUCTURE & ICT			
Local Authority management and development	Improve service delivery in LAs by providing support in infrastructure and physical facilities development, and reforms in financial administration and management	No. of slums upgraded	• 2 Slums upgraded in Kilifi and Mtwapa
		Integrated Urban Development Plans	• 28 Integrated Urban Development Plans for ongoing Towns developed, 11 new towns established
		LAs provided with fire fighting, search and rescue equipment	• 10 LAs provided with fire fighting, search and rescue equipment
		No. of Landfills constructed	• 3 Landfills constructed
		No. of Bus Parks and storm water drainage projects completed	• 7 Bus Parks completed, 2 storm water drainage projects completed
		Beneficiaries provided with Vocational Training and Education	• 300 beneficiaries provided with Vocational Training and Education in 20 Counties
		No. of Market Hubs completed and in operation	• 3 Market Hubs completed and in operation • 8 Wholesale & 20 Retail Markets completed and in operation
Road Development,	To expand, rehabilitate and maintain the	No. of bridges new paths constructed	• 7 bridges constructed & 14 new paths

Maintenance and Management	road network in addition to building capacity for road construction		constructed
		Kilometres of roads rehabilitated & maintained	• 482 km rehabilitated & 1600 km maintained • 133,710 routinely maintained • 930.2 km maintained under Roads 2000
		Kilometres new roads constructed	• 572 km of new roads constructed
Transport Management and Safety	To develop and review policies and regulatory guidelines that guarantee provision of efficient, safe and reliable transport services	Number of Transport Policies, guidelines and legislations	• Transport Policies, guidelines developed and legislations initiated.
		Functional Integrated Transport System	• . Developed Transport Integrated Management System
		Maritime convention ratified and domesticated	• 4 Maritime Conventions Ratified and domesticated • Updated and modernized Maritime Laws
		% Reduction in number of roads accidents and incidences	• Reduced road accidents and incidences by 50%
		Improved Efficient in Railway Transport Services	• % Increase of tonnes of Cargo transported by rail • % Increase of people using railway transport annually
		Maintained secure and safe airspace	• Number of International Airlines using our airports/airspace
		No. of airstrips rehabilitated	• 6 Airstrips Rehabilitated
Transport Infrastructure Development	To develop, expand and modernize transport infrastructure system to facilitates efficient trade and mobility	Number of metres dredged Docking of post panamax vessels	• Dredged Mombasa Port to 16 Metres
		Number of Kilometres of existing Railway Line upgraded to Standard Gauge	• Upgraded existing Railway Line to Standard Gauge (Mombasa to Malaba 1200 km)
		Number of berths developed in Lamu Port	• 3 Berths developed in Lamu Port
		Improved and modernized Jomo Kenyatta International Airport	• % Increase in annual handling capacity from the current 2.5 million passengers
		Number of TEUS in million handling capacity	• Expanded Mombasa Container Terminal facilities to a capacity of 1.2 million TEUs per annum
National Electrification	To increase access to electricity and power supply	Length (Km) of electricity transmission lines constructed and sub stations constructed	• Kilimambogo - Thika - Githambo Line 27km , Loiyangalani 400kV and Suswa, Thika - Kiganjo (Gatundu) Line 40km,

			Olkaria - Lessos - Kisumu Line-300 km,
		Additional geothermal power	• 30 MW at Menengai Wellheads
		Delineated coal blocks and wells drilled	• Delineation of coal blocks in Karoo belt in coast region • Six coal exploratory wells in block A and B
		No. of Rural public institutions connected with electricity	• 1,095 public institutions connected
Renewable Energy Resources	To develop renewable sources of energy	No. of public buildings on efficient lighting system.	• Implementation of efficient lighting system in 10 selected public buildings
		Updated Wind Atlas Program	• Wind Resource Atlas Program
		Research on Alternative Energy Technologies including Mini Hydro	• Feasibility report completed
Petroleum Exploration and Distribution	Security of Fossil Fuel Resources	No. of geological survey and technical reports completed	• Geological survey in unlicensed blocks in Lamu Basin.
		Gravity survey and technical reports completed	• Geophysical survey in unlicensed blocks of Lamu Basin
Metropolitan Infrastructure and Services	To enhance infrastructure connectivity and accessibility, safety and security within the metropolitan area	*Metropolitan infrastructure and amenities*	• Construct 11 kms. of bitumen road with the width of 3.5 meters • Provision of 10 Km Non-Motorized transport facility • Install 500 street lights • 20 floodlights constructed • Metro LAS equipped with fire fighting equipment • Installation of CCTV cameras • Fire fighting equipment procured • Solid waste management program • Constructing modern markets parks
Government Buildings	To provide a better Working Environment and ensure efficient use of Government Investment.	Number of projects completed/handed over	• 40 District Head Quarters to be completed
		Number of DWOs' constructed	• 30 District Works offices to be constructed
		Number of units to be electrified	• 40 units electrified to be electrified
		Number of arrestors installed	• 4 lightening arrestors to be installed
Coastline Infrastructure and	To protect land from sea encroachment and provide an alternative transport to supplement road transport.	Meters of sea wall completed	• 1,300 meters of seawall to be completed
		Number of jetties Completed	• One jetty to be completed (Customs Jetty Lamu)

Pedestrian Access		Number of footbridges Completed	• 420 foot bridges to be completed
Procurement, Warehousing and Supply	To ensure efficient utilization of common user items	Number of Term Contracts Procured	• 45 Term contracts procured
Construction Standards and Research	To ensure provision of improved building materials and methods in construction	Number of research topics completed	• 3 areas of buildings research to be undertaken
Information and Communication Services	To promote knowledge based society	No. of Business Process Outsourcing (BPO) jobs created	• 1,000BPO jobs created
		No of institutions supported with IT applications	• 24 institutions supported with IT applications
		No. of BPO Centers developed	• 12 BPO Centres developed
		No of MDAs Branded	• 50MDAs Branded
		No. of films material digitized	• 300film material digitized
		%of registered Film and Video establishments	• 100% registered Film and Video establishments
		No. of films classified	• 2,800 films classified
		No. KNA stories disseminated and news features produced	• 120,870 KNA stories disseminated and 980 news features produced
ICT infrastructure development	To ensure the availability of accessible, efficient, reliable and affordable ICT services in Kenya	Modernization and renovation of Facilities and Equipment	• 5 Information offices refurbished and various modernized mass media equipment's
		Establishment of film archive	• Operation of the film archive
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS			
Integrated Regional Development	Promote balanced, equitable, and sustainable integrated basin based development.	Regional development master plans developed	• 6 Regional development master plans developed
		Regional Data and Information Centres established	• 6 Regional Data and Information Centre established
		Multipurpose dams	• 5 multipurpose dams
		Area planted with trees	• 1,000 acres planted with trees
		No. of tree seedlings produced and planted	• 6 Million tree seedlings produced & planted
		Water pans	• 20 water pans

Promotion of Best Labour Practices	Promote harmonious industrial relations and safety at work.	Reported labour disputes resolved	• An average of 3 months/time taken to resolve reported industrial disputes
		Policy on Child Labour developed and implemented	• Policy on Child Labour
		Work places inspected	• 13,000 workplaces inspected
		Arbitrated reported trade disputes	• 1350 trade disputes arbitrated
		Work injury benefits claims settled	• 73%age of work injury benefits claims settled
Manpower Planning and Development	Enhance competitiveness of the country's workforce.	MSEs exposed to local and international trade exhibitions	• 1,800 MSEs exposed to local and international trade exhibitions
		Industrial Training Centres refurbished and upgraded	• 5 existing Industrial Training Centres refurbished and upgraded
		Individuals trained in relevant industrial skills	• 6,500 individuals trained in relevant industrial skills
		Productivity Technical Service Providers trained	• 250 productivity Technical Service Providers trained
		Productivity improvement conducted	• 80 firms/ enterprises in which productivity improvement is conducted
		Job seekers placed through the Public Employment System	• 10,000 job seekers placed in employment
Trade Development and Investment	To facilitate private sector led economic growth and a globally competitive trade and investment climate for transformation of Kenya into a regional service hub and expansion of Kenya exports	Master plans and Designs of Special Economic Zones (SEZ)	• Master plans and designs developed for Special Economic Zones of Mombasa, Lamu & Kisumu
		Exports to COMESA Region	• Value of exports to COMESA increased to Kshs164.5 billion
		Exports to EU markets	• Value of export earnings to EU Markets increased to KSh 119.5 billion
		Exports under AGOA framework	• Value of export earnings increased KSh 27.3 billion
		Exports earnings to EAC markets	• Value of export earnings to EAC markets increased to KSh 122.6 billion
		Outreach programme to exporters	• 90 Outreach visits to exporters conducted
		Designed and developed new products for exports	• 30 exporters assisted to design and develop new product for export.
		Cases Investigated and prosecuted	• 600 cases of trade malpractices investigated and prosecuted
		Jobs created in EPZs	• 73,000 jobs created in EPZs

		Enterprises established in EPZs	• 161 enterprises operating in EPZs
		Exports from EPZs	• Value of exports earnings from EPZs increased to 44 billions
Coordination of the East African Community Affairs in Kenya	Coordinate and monitor the implementation of the East African Community Council decision on all programmes.	Customs Union Protocol and Customs Management Act implemented	• Volume of cross border trade 80% towards zero tariff by 2015 • Common Market Protocol operationalized
		Joint implementation of programmes on the Political Pillar of EAC integration	• Number of Protocols on Political Affairs negotiated and adopted
		Macro-Economic Convergence Criteria developed	• Agreed Macro Economic Convergence Criteria, harmonized exchange rates, fiscal and monetary policies.
Tourism Development and Marketing	Coordinate the implementation of activities that ensure sustainable tourism development.	Increase in number of international tourist arrivals	• Tourists arrivals increased to 1.8 Million
		Increase in tourism earnings	• Earnings from tourism to increase to KSh 85 billion
		Increase in average spending per visitor	• Ksh.70,000 Average expenditure per tourist
		Increased bed-nights by domestic tourist	• 2.6 million bed-nights occupied by domestic tourists
		Re-choreography of songs	• 8 songs choreographed
		Capacity building and Human resource development	• 1,325 graduates in hospitality industry
		Tourist establishments, hotels and restaurants inspected	• 2,000 Hotels and Restaurants inspected, licensed.
		Improved Tourism and hospitality standards	• 90 hotels and restaurants classified
Industrial Development and Investment	Stimulate industrial technological activities that will enhance product value addition and diversification to ensure product competitiveness and create enabling environment for investment.	Processing projects started.	• Promote development of Kisumu Inland Fisheries , Garissa Beef and Mombasa Fruit Processing Cluster
		One Village One Product (OVOP) in all counties	• 3 project supported under OVOP per County
		Increased conformity of products to standards in the market	• 7,500 products certified under large firms
		Construction and equipping of two	• 2 regional laboratories constructed and

		Regional Laboratories and Offices	equipped
		Credit disbursed to MSMEs	• KSh. 1.1 Billion Amount of credit disbursed to MSME's
		MSMIs linked with large enterprises	• 100 MSMIs linked with large enterprises
		Increased in production of engineering materials & alloy steels	• KSh. 15 million worth non-ferrous & ferrous engineering materials produced
		Increased in production of agricultural & irrigation equipment	• 100 5-Horse Power Pumps produced
Promotion of Industrial Research and Development	To promote creation and development of manufacturing Micro, Small and Medium Enterprises through Technology development and Transfer.	Increase SMEs incubated	• No. of Increase SMEs incubated
		Technologies protected	• 50 Technologies protected
		Increased technology transferred	• 10 technologies transferred
		Technologies commercialized	• 5 Technologies commercialized
		Prototypes developed	• 10 Prototypes developed
Productivity Improvement, Measurement and Promotion	To develop and implement targeted and research based productivity interventions.	National Productivity Policy & Bill approved	• Approved National Productivity Policy & Bill
		Productivity and Competitiveness Commission Decree	• Productivity Centre of Kenya transformed into a Productivity and Competitive Commission
		Productivity Technical Service Providers trained	• No. of productivity Technical Service Providers trained
HEALTH			
Preventive and Promotive health care services	To increase access to quality and effective promotive and preventive health care services in the country	New Health Policy	• Health Policy developed and finalized
		Increased access to quality health care services	• Immunization coverage for 1 year olds increased to 80% • Ante Natal Care coverage (4 Visits) increased to 50% • Awareness on preventable diseases increased by 20% • Pregnant women receiving LLITN's increased • TB cases reduced by 20% • Eligible HIV clients on ARV's increased by 20%
Curative Health	Improve the health status of the individual, family and community by ensuring affordable health care services	Kenya National Health policy framework	• Health Policy developed and finalize
		No. of women delivered by skilled	• Deliveries by skilled health personnel

		health personnel	increased to 47%
		No. of eligible patients on ARVs	• Eligible patients on ARVs increased to 20%
		Morbidity due to malaria reduced	• Percentage of morbidity due to Malaria reduced to 13%
Research and Development	To conduct and disseminate health research findings for reduction of infectious and non-infectious diseases and other causes of ill health.	Scientific Publications	• No. of products patented/ commercialized • No. of innovations, publications and partnerships
EDUCATION			
General Administration and Planning	To provide effective and efficient linkages between the programs of the sector.	Operational structures for Education to achieve efficient and effective service delivery	• Strengthened educational management agencies
			• 47 county education offices fully equipped and provided with transport
		Increased integration of ICT in education	• National ICT Innovation and Integration Centre established
Basic Education	To enhance access, quality , equity and relevance of Education at all levels	Schools provided with funds to cater for learning materials, operational costs and other school improvement activities	• GER stabilized to 100% and NER 97% respectively by 2015
			• Pupil Text book ratio of 1:1 in primary schools by 2015
		Special schools, special units & regular schools with special needs children provided with specialized teaching learning materials and assistive devices.	• Improved completion and transitional rates for SNE learners at all levels.
			• Increased percentage of special needs children displaying knowledge and skills stipulated in the curriculum
			• 21,000 regular Primary schools modified/improved to receive children with special needs
		Establishment of model inclusive schools in every county	• At least model disability friendly schools in every county.
		Registration of Non Formal Schools	• Increased enrolment for the Non Formal

		and Non Formal Education centers within NFE policy guidelines	pupils
		Improved quality complementary education in NFSs/NFECs for children & youth who are not able to enroll in formal primary schools	• 1.7 Million hard to reach & un-reached children & youth especially girls who are out of school access quality education
Early Childhood Development and Education	To enhance access, quality , equity and relevance of ECDE	Mainstreamed ECDE into basic education and the nutritional & health status of children attending ECDE enhanced	• Enrolment trends(increase from current 56% to 65% by 2015) • 23,100 ECDE teachers employed (one teachers per centre) • 4000 schools including ECDE targeted for immunization, de-worming, elimination of trachoma, malaria and hygiene promotion • Mobile schools established and operational in ASAL
		Teachers equipped with skills to handle reviewed curriculum and special needs pupils	• 18,000 teachers in-serviced annually
Quality Assurance and Standards	To establish, maintain and improve education quality and standards at Primary, Secondary schools and PTTCs	Curriculum review to address the provisions of the new constitution, Vision 2030 and issues related to the labour market.	• A new curriculum developed and implemented.
		Development of Education Resource Center	• Improved facility for research, design and development of curriculum
		Quality, monitoring and teacher support enhanced.	• Mean score increased from 245 to 250 in 35 selected districts
Secondary and Tertiary Education	To provide, promote and improve secondary education and learning in Tertiary institutions.	Improved access to secondary education for all including disadvantaged students, (the poor, orphans and vulnerable children)	• 5% of the total national enrolment in public secondary schools targeted for bursary support • Improved secondary gross enrolment from the current 53% to 60% in 2015 • Student: textbook ratio in core subjects improved towards 1:1 • Transition rate for secondary education growing at an average of 5 percent per year from the current 72.5%. • ICT in secondary education enhanced
		Upgraded and rehabilitated of	• 100 schools upgraded (30 schools

		secondary schools to national status	annually)
			• 18 existing national schools rehabilitated by 2015
Teachers Services	To provide teachers to public primary schools, secondary schools, PTTC, polytechnics and technical institutions	Improved quality teaching services	• Percentage of institutions with improved examination grades • Number of institutions with well-functioning internal quality assurance mechanism • Number of functioning TSC county units • Number of TSC district units
University and Tertiary Education	To Develop and promote access and equity; Quality and Relevance in university and Tertiary	Improved access to university and tertially education including disadvantaged students (the poor, orphans and vulnerable students)	• Increase annual admission to Public University from the current level of 32,143 to 40,000 in 2013 • Provide loans to 100,000 and bursaries to 25,867 students.
Research, Science ,Technology and innovation	To develop promote Research, Science, Innovation and Technology for high value products and services	Number of research proposals financed in various field of research national technology skills and needs assessment	• Complete R&D data base, conference and exhibition for dissemination of research results and innovation, • To finance eighty three research proposals in various field of research
GOVERNANCE JUSTICE LAW & ORDER SECTOR			
Policing Services	To provide a more secure living and working environment and reduce the cost of doing business that is associated with insecurity	Enhanced crime detection and prevention	• Number of surveillance cameras/streets installed /covered
		Strengthened patrols to deter crime	• Number of offences reported and detected
		Support to judicial process resulting in successful prosecution	• Number of criminal cases investigated
		Improved physical infrastructure and equipment	• Number of modernized physical infrastructure and equipment
		Improved collaboration in community policing	• Number of community policing units operational
Administration and Field Services	To promote and maintain peace, coordinate government business, and inculcate attitudinal and value change in the country	Enhanced awareness of Government policies in the field	• Number of public barazas held
		Strengthened Peace building and conflict management	• Number of District Peace Committees established and functional
		Strengthened disaster response and coordination.	• Number of disaster preparedness and response committees
Government Printing	To improve quality and printing service to	printed government documents	• Reduced throughput time

Services	the government	Increased capacity of government press	• Number of documents printed
National Campaign Against Drug Abuse Authority	To provide leadership for an all-inclusive innovative collaboration in the coordinated prevention, control and mitigation of drug and alcohol abuse	Suppressed alcohol and drug supply chain	• Annual reports on status of alcohol and drug s supply chain
		Reduced demand of drug and substances in Kenya	• Annual reports on status of drug and substance demand in Kenya
		Drug addicts rehabilitated , treated and counseled	• Number of drug addicts rehabilitated , treated and counselled
Management and Development of Police Services	To build an efficient, professional and well-motivated national police service	Adequate police service establishment	• Police to population ratio
		Motivated National Police Service	• National Police service members' satisfaction level
Anti-Corruption	To investigate cases of corruption and economic crime, restitute corruptly acquired assets, and educate public on corruption prevention and promote ethical practices.	Corruption and economic crimes cases investigated	• No. of Corruption and economic crimes cases investigated
		Corruptly acquired assets recovered and/or restituted	• Value of Corruptly acquired assets recovered and/or restituted
		Kenyans sensitized, trained, educated and or enlisted to combat corruption	• No. of Kenyans sensitized, trained, educated and or enlisted to combat corruption
		Broad based examinations targeting MDAs carried out to seal corruption loopholes	• No. of Broad based Examinations targeting various MDAs to seal corruption loopholes
		Institution/persons advised and assisted on ways to eliminate corrupt practices and promote ethical practices	• No. of Institution/persons advised and assisted on ways to eliminate corrupt practices and promote ethical practices
		Disruptive interventions on corruption networks accomplished	• No. of disruptive interventions on corruption networks accomplished
Protection and Promotion of Human Rights	To reduce systemic human rights violations	Increased practice and knowledge of human rights principles and standards in public and private spheres	• Increase application of human rights principles and standards in the implementation of the new Constitution;
Vice Presidential Services	Effective fulfillment of all the delegated tasks by the President at all levels.	Fulfillment of all the delegated tasks by the President	• Number of fulfilled tasks delegated by the President.
Correctional Services	To contain and rehabilitate offenders in humane and safe conditions in order to facilitate responsive administration of justice, rehabilitation, and social re-	Identified offenders contained in safe custody	• Number of offenders contained in save custody
		Identified offenders resettled and reintegrated back to the community	• Number of offenders resettled back in the community

	integration, resettlement and community protection	Identified offenders rehabilitated	• Number of offenders rehabilitated
		Probationers empowered with tools and other programs	• probationers empowered with tools and other programs
		Formally and vocationally trained inmates	• Number of inmates trained on agricultural production and afforestation
		Needy school going probationers supported with formal education	• Number of needy school going probationers supported with formal education
Betting And Lottery Services	To ensure a well regulated gaming industry	Betting, lotteries and gaming activities supervised	• Number of gaming activities supervised • Elimination of all identified cases of illegal gambling • Database for all permit and license holders developed • Annual permits and licenses renewed
Population Registration Services	To ensure timely and secure Population Registration while maintaining a comprehensive population database	Identification cards	Number of Identification cards issued
		3rd Generation ID card issuance system	• 3rd generation identity card issuance system procured and installed
		% of birth and deaths registration coverage	• 62%births registration coverage targeted (67.5%deaths registration coverage targeted
		Counties installed with CRD System	• CRD System installed in eight Counties
		Number of Refugees identified and registered	• Identify and register 100% eligible refugees • Relocate 54,000 Refugees to the camps
Immigration Services	To facilitate safe travel of Kenyan citizens and foreigners through an improved Immigration service.	Work permits and special passes	• 3360 work permits and special passes issued
		Passports and visas processed and issued	• 192,000 passports are processed and issued • 1,236,000 Kenyan visas issued
		E- Visa Issuing and E-Border Management System	• Install E- Visa Issuing and E-Border Management System
Immigration Policy Formulation and Coordination	To coordinate and facilitate policy formulation and implementation	Review immigration, Population Registration and Refugee policies	• Number of policies and Acts reviewed • Monitoring and Evaluation Reports • Number of IT systems installed and computers distributed to staff
Judicial Services	To improve the legal environment under which good governance, administration of justice and the rule of law will flourish for	Supreme court services provided	• No. of petitions concluded. • Number of constitutional rulings.
		Appeal services provided	• Number of appeals finalized.

	the protection of human rights democracy and property	High court services provided	• Number of civil and criminal cases concluded.
		Minor civil disputes, fined traffic and petty criminal offences resolved.	• No. of cases concluded, backlog cases cleared, and offenders committed to communal services.
Public Prosecution Services	To provide efficient, effective and fair prosecutions	Improved access to prosecution services	• Prosecution offices opened in the 47 Counties
		Increase public confidence in criminal justice system	• % of customers satisfied with ODPP services
		Reduction of time taken to finalize cases	• % increase of cases completed • Reduction in time taken to handle cases
		Establish a resource centre and a Prosecutors Training Institute	• Operational Resource centre & Prosecutors Training Institute
Oversight in the Implementation of the Constitution	To ensure that necessary legislations and administrative procedures are developed and adhered to, to realize the letter and spirit of the constitution	Review of legislations	• No. of legislations reviewed • No. of legislation enacted
		Auditing policies, legislations & administrative procedures	• No. of policies, legislation and administrative procedure audited
Legal, Ethics, Integrity, National Cohesion and Constitutional Reform	To provide a new constitutional order, foster national Cohesion and enhance access to justice to all.	Review of various laws on corruption, human rights	• 9 draft anti-corruption related amendment bills
		Review of 5 family related & 5 commercial laws	• 5 draft family related amendment bills, 5 draft commercial related amendment bills
		Cohesion mainstreamed in school curriculum	• Including cohesion in the school Curriculum
		Periodic progress reports on Kenya's implementation of the AUCPCC.	• No. of implementation progress report AUCPCC prepared
		Public enlightened on matters of anticorruption	• No. of ant-corruption trainings and awareness campaigns conducted
		Legal aid and awareness workshops, clinics and trainings	• No. of legal aid/awareness workshops/ clinics / trainings conducted
Kenya National Integrated Civic Education	To enhances citizens' participation and engagement in governance and responsive governance	Civic participation and accountability mechanisms created and mainstreamed in public policy and governance processes	• Status report on civic awareness and public engagement in governance • Civic engagement mechanisms established at the national, county and constituency levels
		Public dialogue forums created and facilitated at national, county, constituency and community levels	• No. of Public dialogue forums created and facilitated at national, county, constituency and community levels

		National Civic Education Curriculum	• National Civic Education Curriculum developed and implemented in Primary and Secondary Schools
Legal Education and Policy programme	To provide quality legal education in Kenya	Legal education legislation implemented	• Council of Legal Education (CLE) Bill drafted. • Kenya School of Law (KSL) Bill drafted.
		Legal research projects	• No. of legal research projects conducted
		Continuing professional development programmes for lawyers	• No. of lawyers benefiting from continuing professional development programme for lawyers
Management of Electoral Process in Kenya	To deliver free, fair and credible elections	Status report on electoral process status	• Voters sensitized on electoral process and Increased voters awareness by 30% • Free, fair and peaceful elections • Number of eligible voters registered • Electronic collation, transmission and tallying of electoral data developed
		Delimitation, surveying and mapping of electoral and administrative boundaries	• Number of electoral and administrative boundaries delimitated, surveyed and mapped
Registration, Regulation and Funding of Political Parties	To promote competitive and issue based political parties	Registration certificates issued	• No. of political parties registered
		Funding of political parties	• No. of Political Parties funded and amount received.
Legal Services to Government and Public	To provide legal services to Government and public	Fewer ex-parte Judgments	• No. of cases handled/concluded
		Execution of Government contracts/ Arbitration conducted/attended	• No. of arbitrations conducted/attended
		Enhanced Alternate Dispute Resolution (ADR) mechanism	• No. of complaints settled via ADR •
		Reduced backlog of complaints against Advocates	• No. of charges drafted and referred to the Disciplinary Committee
		Bills, Subsidiary legislation, Gazette notices,	• No. of bills drafted and Gazette notices and subsidiary legislations
		Registration certificates issued on companies/business /adoptions, marriages	• No. of certificates issued
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS SECTOR			

Management of State Affairs.	To provide timely and quality services to the Presidency through efficient utilization of resources to enable the President fulfill His constitutional mandate.	Improved service delivery	• Number of state facilities and equipments procured, refurbished and maintained. • Number of compliments/complaints about the services from the public. • Timely communication • Government Policies
Cabinet Services	To provide overall strategic leadership and policy direction for optimal public service delivery, harmonious operations of the Government and social integration for national development	Improved understanding of Government policy and implementation	• Public awareness on policy and implementation
Public Sector Management Services	To provide continuous evidence based policy advice for promoting efficient public service delivery, expansion of the economy and its competitiveness.	Improved performance and management of public services	• Evidence based Social Economic policies • Return on Public Investment sustainability of State Corporations
		Improved Kenya –South Sudan Strategic relations and cooperation	• Co-operation on strategic projects/ programmes with Government of Southern Sudan.
Coordination and Supervisory Services	To ensure that the government has best possible capacity for policy development, coordination and service delivery within and between ministries and across sectors.	GOK Policies and programmes implemented	• Supervise implementation of Cabinet Decisions • Efficient use of public resources • National and Communications Policy and Strategy
Public Financial Management Support Services	To ensure maintenance of a working environment conducive to operational efficiency while coordinating planning, financial and human capital management.	Technical departments supported	• Percentage implementation of work plans
Public Financial Management	To ensure formulation and implementation of policies relating to the mobilization, allocation and management of public financial resources.	Revenue collected	• Revenue collected as a percentage of GDP
		MTEF budget published	• Budget Policy Statement • Printed Estimates • Tax policies formulated
		County and sub-county district treasuries and internal audit offices operationalized	• Number of offices
		Timely processing and payment of pensions claims	• Number of processed claims and time taken to process
		Non-contributory pensions schemes converted to contributory schemes	• Public Service Superannuation Scheme Bill

		Government divestiture programme	• Number of divestitures undertaken
		Performance based management entrenched	• Performance ratings
Economic and Financial Policy Formulation and Management	To provide framework for the formulation, analysis and management of fiscal and monetary policy for the maintenance of macroeconomic stability and acceleration of economic growth.	Public finances prioritized	• Proportion of budget allocated to priority sectors
Fair Trade Practices and Creation of an Enabling Business Environment	To facilitate increased investment and enforces legislation governing restrictive trade practices.	Restrictive trade practices minimized	• Concentration ratios •
		Investment increased	• Value of investment
Coordination and Implementation of Kenya's Foreign Policy	To strengthen Kenya's international engagements	Diplomatic representation expanded	• Number of New Missions/Consulates opened • Number of MOUs either initiated or concluded • Number of positions lobbied for Kenyans in major international organizations • Number of positions lobbied for Kenya at policy organs level in major international organizations • Number of visa applications processed • Number of passport applications/renewals handled
District Planning and Community Development	To enhance the standard of living for the rural population in Kenya	Improvements in delivery of social services;	• Construction/Rehabilitation Expansion of 108 District Planning Units;
		Mainstream MDGs in Planning and Policy Formulation;	• Level of Participation in the preparation of the 2008-2012 National/District development plans;
		Sustainable development in rural communities;	• No. of Sustainable agricultural and environmental projects completed and operational; • Reduced environmental degradation;
Coordination of Policy Formulation and Implementation of Vision 2030	To enhance capacity in policy formulation and implementation of Vision 2030 so as to make Kenya a competitive and a prosperous country of middle income	African Peer Review Mechanism in Kenya	• Annual Progress Report for Kenya tabled before the African Union Heads of State and Government Implementation Committee Summit;

	status by 2030.	South-South Centre in Kenya	• South-South center of establishment
		Enhanced skills in research and macroeconomic modeling;	• 25 officers trained on System Dynamics Modeling; • Kenya T21 macro model • 10 Young professional from public and private sector trained
		Promotion of service delivery innovations in public service.	• E-promis – Electronic Project Management Information System
		Population issues mainstreamed in national policy and planning	• Policy guidelines developed
		Enhanced Reproductive Health information	• Data bank for RP providers
Statistical Data Management	To Provide and disseminate comprehensive, integrated, accurate and timely national statistics for planning and monitoring national development	Up to date data and information on current socio-economic environment	• Annual Economic Survey, Annual Statistical Abstract, Monthly CPI reports • Monthly and quarterly leading economic Indicators
		Improved management of the national data and information	• Level of National statistical systems
National Monitoring & Evaluation Systems	To provide a tool for monitoring progress in implementation of the Kenya Vision 2030 and other key programmes/policies	Informed Planning, Policy and Budgeting;	• Public Expenditure Review 2010 Published and disseminated
		Strengthen National and Devolved levels M&E capacities	• The annual and bi-annual district M&E synthesis reports Prepared. • Community Based Monitoring System (CBMS) model prepared • CBMS model in 3 local authorities namely-Garissa, Kisumu and Bungoma piloted
Administrative and Support Services for Planning	To provide effective and efficient coordination and support services to the attainment of the ministry's strategic objectives	Undertake integrity tests	• No. of Integrity tests training conducted
		Implement corruption prevention strategies	• No. of Senior Managers and CPC members
		Establish mechanism to reduce corruption related audit queries	• Anti-corruption policy produced
Human Management and Development	To spearhead management and development of human Resource in the Public Service to support effective and efficient service delivery	Number of Good performers rewarded and poor performers sanctioned.	• Rewards and Sanctions Scheme implemented
		Automation of Human Resource data	• Number of Ministries on Government Human Resource Information System (GHRIS)
		Medical insurance Scheme for Civil	• Civil servants on the medical insurance

		Servants	scheme.
		Automation of Registries	• Number of Ministries/Departments/ Agencies on Registry Management Information System.(RMIS)
		Rewards and Sanctions Scheme implemented	• Number of Good performers rewarded and poor performers sanctioned.
		Public Servants Training revolving fund.	• Number of public servants benefitting from the Training Revolving Fund.
		Training and Capacity Building	• Number of civil servants trained
		Business Process Re-engineering (BPR) in the Public Service implemented.	• Number of BPR projects implemented
		Increased capacity utilization at the Government Training Institutes(GTIs)	• Capacity utilization in the GTIs increased from 85% to 90%
Administration of Human Resources in Public Service	To ensure an efficient and effective public service to facilitate the implementation of the Kenya vision 2030	Increase in number of institutions and individuals complying with the Public Officers Ethics Act	• No. of Public Institutions Sensitized on Public Officers Ethics Act 2003 and the new regulations guidelines as per legal notice no 76 of 2009.
		Timely release of examination results within months of sitting	• Number of days taken to release the results
		Ministries and local authorities sensitized, audited and inspected to ensure compliance to set standards in exercise of delegated authorities	• Number of ministries and local authorities sensitized, audited and inspected
Control and Management of Public Finances	To ensure public funds are withdrawn in accordance with the provisions of the Constitution and utilized prudently creating value for citizens.	Timely approval of withdrawals from Public Funds	• Level of Approved requisitions from national and county governments.
		Budget Implementation reports	• Quarterly, Annual and Ad hoc reports submitted to Parliament and Senate
		Management Information System, website for the office, e-mail system, Computerized processes	• No. of computerized systems in place and in use
		Policy and operations manual in place	• The policy, enacted laws and published manual of procedures
Audit Services	To provide the assurance that there is accountability and transparency in the use and management of public resources	Central Government Audit Reports	• No. of Central Government Audit reports produced
		Local Government Audit Reports	• No. of Local Government Audit reports produced

		State Corporations Audit Reports	• No. of State Corporations Audit Reports produced
		County audit reports	• 47 County Audit reports produced
Research and Policy Development on Revenue Allocation	To ensure equitable sharing of revenue between National & County governments and among county governments	Formula of revenue sharing between National & County governments and among county governments	• Division of Revenue & County Allocation of Revenue Bills
		Criteria for revenue allocation to disadvantaged areas and groups	• Policy/criteria on revenue allocation to marginal areas
County Coordination Services	To ensure fiscal discipline among national and county governments	Enhanced revenue sources for national & county governments.	• Report on prudent use of allocated revenue & enhancement of revenue sources
Legislation and Oversight	Legislation and Good Governance	Laws, Motions	Laws enacted.
		PAC & PIC Reports	Oversight reports produced
		Good Governance environment	No. of policy documents adopted
		Budgets approved	Enactment of the Financial tools
SOCIAL PROTECTION, CULTURE & RECREATION			
National Heritage and Culture	Harness, develop, preserve and promote Kenya's cultural and natural heritage and provide appropriate reading and information materials to all communities in Kenya	Heritage sites	• Heroes corner at Uhuru Gardens, bandas for campsite, landscaping and mount exhibitions for Jomo Kenya House in Maralal • Completion of works at the Jaramogi Oginga Mausoleum
		Museums and exhibitions	• Build and develop a museum in Garissa, Kisumu, • Develop and mount exhibitions in the third gallery in Kisumu Museum, National Museums of Kenya Headquarters, and Kabarnet
		Heritage research infrastructure	• Design collection conservation centre for the Research Directorate at NMK • Rehabilitation of the existing buildings at RISSEA, Natural Science building, and develop research facilities at Institute of Primate Research

		Additional records and archives storage space	• Construction of purpose built Archives Building • Archives Building refurbished • Installation of Mobile shelves in all the records storage areas • Records Centre's in 4 counties • Off- site storage for archival materials microfilm and digitized copies for security.
		Enhanced preservation of records and retrieval of Migrated Archives	• Acquire archival materials from 1500 public offices • Digitize 4.5 million pages of documents. • 150,000 microfilms produced and 4,500 old documents restored • 300 rolls of microfilm retrieved from UK
		Adopt records management best practices in public offices	• Records Management Policy disseminated
		Access of archival materials to researchers and members of the public.	• 6,000 users served at the Kenya National Archives.
		Cultural / creative industries promoted.	• 1000 visual arts practitioners trained and facilitated to participate in foreign cultural programmes • 20 community cultural centres built. • Register 600 cultural practitioners and update the Cultural databank • Hold 47 visual arts exhibitions
		Promotion and preservation of positive cultural practices promoted and preserved	• Coordinate 60 community cultural festivals and 35 cultural exchange programmes • 5 Intangible Cultural elements identified & nominated for safeguarding by UNESCO • 47 Traditional Medicine exhibitions held • Organize 3 Traditional foods cooking competitions Kenyans sensitized on the importance of using indigenous foods. • Kenyan music and dance developed and

			promoted.
		Database on all Kenyan Authors and their works	• National bibliography information collected, maintained and ISBN issued • Digitization of Kenya National Bibliography
		Library network expanded and upgraded	• Upgrading the National Library of Kenya Headquarters • Extension Services provided in marginalized areas through mobile library services • Automation and integration of all library services to improve access
Gender and Social Development	Empower and provide welfare services to the vulnerable members of society.	Number of group leaders trained on leadership capacity building for community groups	• 10,000 group Leaders trained on leadership capacity building for community groups
		Improvement of the social-economic well-being of the older persons	• 66,000 households accessing Older Persons Cash Transfer Programme • 5,440 vulnerable households assisted through food rations

		Empowered People With Disabilities (PWDs)	• Increase the number of PWDs trained in sign language from 30 to 60 • 12 vocational rehabilitation centres assorted infrastructure refurbished. • Increase cash transfer to Persons with Severe Disabilities under social protection programme beneficiaries from 14,700 to 21,000. • Increase number of institutions receiving funds to serve persons with disabilities from 500 to 700 • Increase number of assistive devices provided to PWDs from 12,000 to 14,000 • Increase number of scholarship given to needy PWDs from 300 to 450
		Framework to guide gender mainstreaming interventions	• Development of the gender audit tool • Develop Affirmative Action Policy • Establish a national Gender Research and Documentation Centre • 50 Gender and Finance officers trained in Gender Responsive Budgeting (GRB)
		Alternative financial support to promote economic empowerment of women	• 130,000 women accessing the Women Enterprise Fund (WEF) and 23,500 trained in entrepreneurship • Increase repayment of WEF under CWES loans from 72% to 75% • Maintain repayment of WEF through MFIs at 100%
Children's Services	Safeguard the rights and welfare of all children in Kenya in order to promote child development.	Beneficiary households covered under the CT-OVC	Increased number of beneficiary households covered under the CT-OVC from 84,000 to 104,000
		Infrastructure for child protection and care	• System to track children in need of care and protection developed • 220 local and international adoptions finalized

Disaster Management.	Mitigate socio economic impact of disasters on the society and coordinating humanitarian intervention for disaster victims.	Policies and strategies approved and institutional framework in place	• Policies and strategies formulated
		Coordinated national response to HIV and AIDS	• Stakeholders/ implementers reporting to NACC through the COBPAR Tool
		Community micro projects supported	• 180 communities on participatory integrated community development • 180 community micro projects
		Check dams and dykes constructed	• No. of check dams and dykes constructed
		Establish monitoring tools for community early warning and response	• No. of community early warning tools established
Youth Development and Empowerment Services	Equip youth with knowledge, relevant skills, and right attitudes for the labour market	Youth trained on paramilitary skills	• No. of recruits trained in paramilitary skills
		Graduates trained in skilled fields	• No. of Skilled youth in engineering artisan trades, catering, business management
		Orphans and Vulnerable Youths rehabilitated	• No. of disadvantaged and orphaned youths rehabilitated
		Rehabilitated Youth Polytechnics through KIDDP support.	• *No. of* rehabilitated youth Polytechnics through KIDDP support.
		Youth sensitized on Crime, Drugs and Substance abuse.	• 48,914 youth sensitized on Crime, Drugs and Substance abuse.
		Youth trained in volunteerism & entrepreneurship skills	• No. of youth trained in entrepreneurship skills
Management and Development of Sports and Sports facilities	Provide an enabling environment for sports development	Youths identified and trained in sports skills	• No. of youths identified and trained in sports skills
		National sports championships	• No. of national sports championships organized.
		Community sports grounds developed/rehabilitated.	• No. of community sports grounds developed/rehabilitated.
Development Initiative for Northern Kenya and other Arid Lands	Improve the standards of living of communities in arid areas.	Local communities assisted to access amenities, livestock facilities and breeding stock.	• 11 water pans in 7 counties and provision of improved breed in 4 counties • 70 boreholes, 130 small dams and pans constructed in local communities for water harvesting • 4 livestock facilities rehabilitated in 4 counties • 3 sewerage projects undertaken to improve sanitation services

		ASAL communities provided with certified seeds and animals	• 10 communities provided with certified seeds and animals
		Education facilities expanded in the ASAL region and Health facilities developed	• 3 schools & classrooms constructed, 2 science laboratories constructed & equipped.
ENVIRONMENT PROTECTION, WATER AND HOUSING			
Environment Management and Protection	To protect, conserve and sustainably manage the environment	Reduce Illegal dumpsites in Nairobi	• Illegal dumpsites in Nairobi reduced by 15% • Monitor Implementation of waste management systems in Nairobi and 5 major municipalities
		Develop awareness on climate change Adaptation programmes and Create Clean mechanism projects at community level and at counties respectively	• 5 climate change Adaptation programmes at community level funded • 5 clean development mechanisms projects approved and registered
		Enforcement of environmental law	• 100 prosecutions (Successful prosecution of environmental cases). • 1000 licenses issued on gazetted regulations • Increased level of compliance • Finalized chemical -management regulations • Wildlife corridors secured through development control
		Establish Land use / cover database	• 3 databases established With their corresponding maps and reports
		Establish Wildlife/livestock database	• One report on Human/wildlife conflict map, satellite imagery
		Establish Vegetation database	• Ecological map
		Rehabilitate of wastewater treatment facilities	• Wastewater treatment facilities Rehabilitated at Kisumu and Bomet • Sanitation toilets constructed in public places and schools
		Area of catchment rehabilitated.	• 600Ha catchment rehabilitated.
		Tree planting along Nairobi river	• 5 Million tree seedlings planted
		Clean rivers	• 30km Cleaned in Nairobi and Sosiani

			rivers
Water Resources Management and Water Storage	To increase availability of sustainable water resources through effective management and protection of water sources	water resource monitoring stations rehabilitated and operationalized	• 300 monitoring stations rehabilitated
		Large, small and medium sized dams	• 5 large dams constructed • 22 medium size dams constructed • 100 small dams and water pans constructed
Housing Development and Human Settlement	To facilitate access to decent and affordable housing	Promotion and dissemination of appropriate low cost building technology	• 75 constituency Appropriate Building Technologies (ABTs) Centres established • 5,500 new trainees trained in use of ABTs
		Comprehensive national housing survey done	• National housing Survey report
		Construction of housing units	• Develop 8,400 housing units under the civil servant scheme • Completion of 382 housing units under and construction of 1482 housing units by NHC • 300 acres of land for housing development opened up • 12,950 housing units and social infrastructure facilities under slum upgrading programme developed
		Disbursement of loans for civil servants' housing	• KSh. 1.5 billion loans granted to Civil Servants to purchase or develop houses
Meteorological Services and Climate Change	To provide accurate and timely weather and climate information and services for the safety of life, protection of property and conservation of the natural environment	Improve data observation systems and networks	• Establish new observatories and renovate/relocate existing ones • Rehabilitate 300 rainfall stations 10 temperature stations
		Data telecommunication system and networks	• Acquire Second Generation of Meteorological Satellite ground (MSG) receiving equipment for JKIA • Acquire Pilot Information and Pre-flight Briefing System
Water Supply and Sewerage	To increase access to adequate and reliable water supply and sewerage services to the nation	medium size towns urban water supplies infrastructure expanded	• 26 urban water supplies infrastructure expanded
		new water and sanitation projects constructed	• 180 water and sanitation projects constructed
		new boreholes drilled and equipped	• 160 boreholes drilled and equipped
Mineral Resources	Development of geological and mineral	Area geologically mapped	• Increase geologic map coverage by

Management	resources databases and formulation, implementation and review of the existing mining policies and legislation		3,000km2
		Mineral prospects investigated	• 4 minerals assessed
		Geological sites documented	• 2 geological sites documented
		Geo-hazard areas mapped	• 4 geo-hazard sites mapped
		Number of explorations and mining concessions inspected	• 150 inspections of exploration and mining concessions/operations
		Number of quarries and explosives magazines inspections	• 60 inspections of quarries • 130 inspections of explosives magazines
Environment Policy Development and Coordination	To provide policy and legal guidance for efficient and effective management for the environment and mineral resources sub-sector	Environmental education and awareness	• 8 Exhibitions in National and Regional agriculture shows, 1 environmental expo, 8 Mazingira runs
Water Policy and Management	To ensure the water sector is well managed and coordinated	Water Management Policies	• Water policies formulated
Irrigation Infrastructure and Land Reclamation	To increase utilization of land through irrigation, drainage and land reclamation	Area developed for irrigation night storage pans constructed	• 5000 Ha developed • 50 night storage pans constructed
		water conservation and rain water harvesting structures constructed in ASALs and area of land reclaimed	• 3500 of water conservation and rain water harvesting structures constructed and 7000Ha of land reclaimed
NATIONAL SECURITY			
Maintaining and Safeguarding National Security	To prevent, deter and defend the Nation against internal and external threats	▪ Secure national boundaries	▪ Improved investor confidence,
		▪ Actionable intelligence.	▪ Protected citizenry.
		▪ Improve security and accessibility of remote, hostile and harsh areas by construction of road.	▪ Recovery/collection of illegal fire arms and ammunitions. ▪ Restoration of law and order

ANNEX 9:SUMMARY OF ISSUES IDENTIFIED DURING BUDGET CONSULTATIONS		
PRIORITY	KEY ISSUES/STRATEGIC INTERVENTIONS	REMARKS
I. SOCIAL PROTECTION,CULTURE AND RECREATION SECTOR		
1	Construction, refurbishment, staffing and equipping of Youth Empowerment Centres and Youth Polytechnics	
2	Up scaling cash transfer to the vulnerable groups (children, aged and PWDS)	Cash transfer to urban poor, older persons, older persons with severe disabilities, orphans and vulnerable children and Albinos provided
3	Set up fully equipped disaster response and educational centres	
4	Establish dams and Irrigation Schemes In ASAL Counties	Provided within the Ministry's and National irrigation Board
5	Development Of Cultural Centres	Funds provided for Isiolo and South Coast Resort Cities
6	Infrastructure Support For Rehabilitation Institutions	Considered within the Ministry's budget
7	Construction/Refurbishment of Stadia and establishment of Talent Academies	Partially funded within the budget
8	Establishment and modernisation of existing libraries in Counties	Funding for Kenya National Library Headquarters provided
9	Establishment of Disaster Contingency Fund	This will be established within the Context of Civil Contingency ACT 2011
10	Create A Drought Contingency Fund	
II. PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS SECTOR		
1	Construction of Centralized County Office Environment preferably ***1 Stop Block*** for all public services	To be considered within the overall requirements of County infrastructure
2	Enhance ICT capacity and infrastructure	Funding for extending the fibre optic to the Counties has been provided
3	Strengthen the capacity of Counties to plan and budget	Funding for planning and monitoring done. Staff to be seconded in the interim
4	Resource allocation for staff training and provision of career development	

6	Construction and operationalization of County (Districts) Information and Documentation Centers	
7	Salary harmonization, and enhanced hardship allowance for civil servants	To be considered once the salaries and remuneration commission advises
8	Pilot demonstrative small community to alleviate poverty at the grassroots and reduce unemployment.	Funding provided within the Poverty Eradication Commission
III.	**HEALTH SECTOR**	
1	Inadequate Human Resources In Health Sector (nurses, doctors etc)	Funding for recruitment of additional health workers has been provided (915 doctors and 3000 nurses)
2	Health Infrastructure DevelopmentConstruction and equipping hospitals country wide with amenity wards and equipment e.g. MRI Machines, CT Scans and other diagnostic equipment	Funding for CT scans, cancer screening machines provided, and rehabilitation of hospitals and dispensaries
3	Supply Of Essential Medicines And Medical Supplies	Funding partially provided
4	High Disease Burden - Health education and promotion; disease screening and control; management and research on non-communicable and communicable diseases.	Funding partially done
IV.	**ENVIRONMENT WATER AND PROTECTION**	
1	Environmental Degradation and Protection of Wetlands	Funds provided for conservation of the 5 water towers, afforestation, and reforestation, and promotion of carbon credit, and NEMA
2.	Inadequate access to clean and safe water-Rehabilitate, expand and develop rural and urban water supplies	Funding for rural and urban water supplies, water service boards
3.	Pollution control and Waste Management	
4.	Management and Protection of water resources and sharing	
5.	Inadequate decent housing - Development of low cost housing material; Slum upgrading and prevention	Funding for slum upgrading and low cost technology provided
6.	Availability and dissemination of weather/climate information for early warning systems and disaster preparedness	

7.	Inadequate irrigation infrastructure	Funds provided under NIB, Regional Development Authorities
8.	Poor sanitation and sewerage system	
9.	Exploitation and exploration of minerals and associated impacts	
V.	**ENERGY, PHYSICAL INFRASTRUCTURE AND ICT**	
1	Development and expansion of roads network and bridges	Funds provided in the Ministries of Roads, Public Works and Local Government
2	Expansion of rural electrification programme	Funds provided for rural electrification
3	Exploitation of alternative sources of energy such as solar, wind and biogas, and Geothermal exploration	Funds provided for Geo thermal development, wind and solar
4	Development and expansion of ICT infrastructure	Funds for laying fibre optic to counties provided
5	Rehabilitation and expansion of airstrips and rail services	Funds provided for Aerodromes and commuter rail service
6	Waste management - Construct and expand sewerage systems in the counties	
7	Building plans and supervision	
8	Construction of markets and bus parks - Construct Livestock markets , Stalls and open Air Markets, construct modern markets, retail and wholesale hubs	Funds provided for retail markets and completion of the ESP Markets
9	Construction of 2 foot bridges in each county, seawalls and jetties	
10	Street and security lighting - Installation and upgrading of street lighting in the 35 counties	
VI.	**EDUCATION SECTOR**	
1	Inadequate teaching staff - Employ/recruit more teachers at ECDE, Primary, Secondary levels	Funds provided for recruitment of 10,000 teachers, and ECD
2	Inadequate learning infrastructure (classrooms, library)	Funds provided for school upgrading
3	Inadequate teaching & learning materials & equipment - Increase FPE and FDSE grant per student	Grants for FPE and FDSE is provided
4	Low research - Provide funding for research	Funding for research is provided
5	Low usage of ICT - Provision of ICT infrastructure to	Funds for computer for schools

	all levels	provided
6	Inadequate/lack of Special education schools - Construct and equip special schools in every constituency	
7	Poor health & nutrition among learners - Enhance school feeding programme	Funds for school feeding programme have been provided
8	Inadequate funding for co- curriculum activities	
9	Poor cultural practices - Construct rescue centers, low-cost boarding school & mobile schools.	Funds for low cost boarding and mobile schools in ASAL areas is provided
10	Lack/Inadequate TTC/TTI/and universitiesestablish colleges	Funding of 9 new universities partially done
VII.	**GENERAL ECONOMIC,CULTURE ANS LABOUR AFFAIRS SECTOR**	
1	Investment Research and feasibility studies	
2	Prepare County Master Development Master plans	
3	Lack of adequate skilled labour - Upgrade and equip industrial training centers with modern and appropriate technology; Establish employment centers to provide labour market information	
4	Inadequate physical infrastructure(Jua kali sheds) andmodern tools and poor access to credit by MSEs - Establish MSEs centers of excellence to transfer technology to the MSEs(Jua Kali) Tailor made credit schemes(MSEs associations)	Funding for Jua Kali sheds and Constituency Industrial Development Centres, Joint loans board and SME provided
5	Lack of Market access, infrastructure and business information - Construct stalls and modern retail markets in designated areas	
6	Lack of Industrial parks - setup Industrial parks in all Counties	
7	Inadequate information on EAC market - Establish Regional Business Solution/Information	
VIII.	**GOVERNANCE,JUSTICE LAW AND ORDER SECTOR**	
1	Insecurity and crime - Strengthen policing capacity and law enforcement institutions	Funding for recruitment, and operations has been provided
2	Ignorance & lack of information- Civic education - Civic education-K-NICE programme implementation	

3	Delayed/Access justice - Strengthen implementation of court services programme	Funds for recruitment of magistrates, judges, and computerization provided
4	Registration Services - Devolve registration services to counties	
5	Corruption in the public Service/Slow response	Funds to fight corruption provided under various institutions
6	Cohesion Challenges/conflict resolution	Funds for civic education provided
7	Inadequate/Ineffective Rehabilitation measures for prisoners	
8	Election/Boundary/political issues -Delineation of constituency and administrative boundaries	
9	Human rights - decentralize human rights services to counties, civic education	Funds provided f
10	Field administration services - strengthen coordination and monitoring of national government business at the grassroots	
11	Drug and substance abuse and HIV Aids	Funds provided for eenforcement of drug trafficking laws, behaviour change communication on matters of HIV/AIDs
12	Decentralization of the offices e-g IEBC, EACC, DPP & State Law Office, Female prisons, Registration	
13	Lack of disaster preparedness e.g during fires outbreaks and floods	
14	Retrogressive cultural practices e-g Cattle rustling, FGM, witchcraft – undertake civic education	
IX.	**AGRICULTURE AND RURAL DEVELOPMENT**	
1	Lack of affordable quality farm inputs and poor access to credit facilities and establishing fish fingerling hatcheries	Funds for setting up the seed and fertilizer funds, fingerlings hatcheries provided
2	Inadequate Extension Services - Strengthening delivery of extension services and research liaison	Funding for extension services enhanced
3	Lack of markets - Improve market infrastructure, and Increase access to international markets	

4	Low Productivity for crops and animals	Funds provided for extension services, field surveillance for pests and diseases, and control
5	Poor governance of cooperative societies - Strengthening governance and management of cooperatives societies	Funds to enhance audit and capacity building of SACCOs provided
6	Poor Land management - Promote sustainable land and natural resource management	
7	Forest encroachment and poor conservation of water catchment areas and water harvesting	Funds for water pans and water harvesting provided
8	Inadequate post-harvest handling and storage - Enhance capacity for post-harvest storage and preservation	Funding for grain driers and storage, mini-processers provided
9	Minimal investment in value addition - Promote agro processing and strengthen existing institutions	
10	Human wildlife conflict - Fence the park with electric fence to avoid conflict with humans	Funding for fencing of major parks provided

ANNEX 10: SUMMARY OF SPECIFIC FISCAL RISKS - PENDING EXPENDITURES

		VALUE KShs. Million
1	**AGRICULTURE AND RURAL DEVELOPMENT**	**8,883**
1.1	Water harvesting	800
1.2	Special Support to Farmers	200
1.3	Grain drying and storage construction of community based stores	1,000
1.4	Veterinary Services Development fund	1,264
1.5	Development of infrastructure to eradicate foot and mouth disease	370
1.6	Emergency Control & Eradication of Tsetse Flies and Human African Trypanosomiasis	360
1.7	Grant to Kenya Animal Genetic Resource Centre	234
1.8	Land for IDPs	1,300
1.9	Offshore patrol vessel for marine and coastal services	500
1.10	Fire fighting equipment	879
1.11	Security operations	200
1.12	Beach management programme	450
1.13	Housing for rangers	400
1.14	Repair of rangers houses	21
1.15	Procurement of aircraft	605
1.16	Fencing Mt. Kenya/Eburu	300
2	**ENERGY, INFRASTRUCTURE & ICT**	**76,796**
2.1	Way leave	3,600
2.2	Contribution in Lieu of Rates	2,300
2.3	Construction of markets	2,700
2.4	Roads (various)	5,250
2.5	Roads (Counterpart funds)	9,700
2.6	KPA- Mombasa port development(2nd Terminal)	4,800
2.7	Lamu port	16,100
2.8	KBC- Migration for from medium wave technology to frequency modulation	1,400
2.9	Kenya Railways corporation	4,890
2.10	Geothermal Development Company	1,600
2.11	Rural Electrification Authority	12,021
2.12	Nuclear electricity project	250
2.13	KETRACO	137
2.14	Kenya Institute of Mass Communication	122
2.15	Brand Kenya	80
2.16	Enhancement of O&M	60
2.17	Pending bill for Huawei- NOFBI project	150
2.18	KIMC- Hostel construction	177
2.19	Purchase of Film Equipment	50
2.20	Konza ICT Techno Polis - Construction and civil works	400
2.21	Installation of urban surveillance system(CCTV)	4,154
2.22	Purchase of fire fighting equipment	494
2.23	Metropolitan planning & environment	341
2.24	Social Investment	20
2.25	Completion of stalled projects	6,000
3	**GENERAL ECONOMIC, COMMERCIAL & LABOR AFFAIRS**	**13,097**
3.1	Trade - Operations & Maintenance	416
3.2	Export Processing Zones Authority	85
3.3	Subscription to International Organization	185
3.4	East Africa Inter- university Council	108
3.5	Incentives conference and exhibitions	100
3.6	Development of an integrated incomes and wages policy	20
3.7	High Grand Falls Multi-Purpose Dam - RDAs	10,320
3.8	Kenya Tourist Board - Marketing and promotion activities	500
3.9	Kenya Utalii College (Mombasa) - construction	300
3.10	Resort Cities	500
3.11	Development of Iron and Steel Industry	100
3.12	Anti Counterfeit Agency	463
4	**HEALTH**	**35,246**
4.1	Salary Shortfalls - Ministries	15,271
4.2	Salary Shortfalls - SAGAs	3,527
4.3	Recruitment of Health Workers	5,066
4.4	Medical drugs & ARVs	2,544
4.5	Hospital Infrastructure	3,569
4.6	Other O&M	5,269
5	**EDUCATION**	**57,348**
5.1	Fast Track Initiative (KESSP)	2,200
5.2	Short fall in FPE funding	984
5.3	Shortfall in FSE funding	8,014
5.4	Infrastructural Development	6,300
5.5	Employment of teachers 40,000	13,600
5.6	Construction of University of Nairobi Tower block	1,000
5.7	Additional Requirements for Accelerated Admissions	2,400
5.8	Loans to University students	1,500
5.9	Training of teaching personnel	3,500
5.10	Equipments	6,500
5.11	Salaries award for excellent performance by UON	250
5.12	Technology and Innovation	1,500
5.13	Research Fund	1,500
5.14	Development New University Colleges	5,800
5.15	Pan Africa University	750
5.16	Subscriptions to International Organizations	800
5.17	Open University	750

6	**GOVERNANCE JUSTICE LAW AND ORDER**	**70,203**
6.1	Internal Security Operations	4,972
6.2	Recruitment of Police Officers	5,069
6.3	Review of Police Salaries	4,080
6.4	Security Equipment & Infrastructure Development	3,768
6.5	Construction of Prisons Staff Houses (14,000 units)	33,500
6.6	State Law Office - Operations & Maintenance	520
6.7	IIEBC - Election Operations	12,000
6.8	DPP - Salaries, Capacity Building, Infrastructure Dev. & Operations	2,952
6.9	Registrar of Political Parties - Capacity Building, Infrastructure Dev. & Operations	2,773
6.10	Witness Protection Agency - Salaries and Operations	569
7	**PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS**	**28,296**
7.1	Hardship allowance harmonization to be back dated as from July 1, 2009	3,210
7.2	Business process re-engineering	50
7.3	Records management officers for various ministries	151
7.4	Capacity building in Counties	60
7.5	Diplomatic Offices in Somalia	164
7.6	Foreign Service Allowance	470
7.7	Capitalization of consolidated bank	1,000
7.8	Coffee debt write off	1,678
7.9	ADB-Subscription of shares	320
7.10	EADB- Increase of shares and arrears	880
7.11	PTA- Subscription of shares	210
7.12	Shelter Afrique	236
7.13	National Cereals and Produce Board - compensation for losses emanating from Cabinet directive	2,200
7.14	Ken trade - Purchase of software	380
7.15	NOCK - GOK capital injection for trading and for expansion of the retail network	1,500
7.16	Loan to KPCU -Restructuring and receivership cost	750
7.17	STABEX- loans to coffee SACCOs through cooperative bank	1,700
7.18	Loan to Telkom Kenya- shareholder loan	5,000
7.19	Loan to IDB - on lending to small and medium size Enterprise	500
7.20	De la Rue	700
7.21	Cabinet - Infrastructural development & ICT	518
7.22	Enhancement of the budgetary allocation	700
7.23	OPM - Operational Expenses	715
7.24	Controller of Budget - Salaries & Operations	150
7.25	Parliamentary Service Commission - Salaries, Operations and Infrastructure Development	4,754
7.26	Salaries & Remuneration Commission - Operations	300
8	**NATIONAL SECURITY**	**37,168**
8.1	Security Operations, Modernization & Related Expenditures	37,168
9	**SOCIAL PROTECTION, CULTURE & RECREATION**	**39,104**
9.1	Enhancement of cash transfer for older persons	1,000
9.2	Enhancement of cash transfer for persons with severe disabilities	385
9.3	Enhancement of National Development Fund for Persons with disabilities	218
9.4	Enhancement of O&M	44
9.5	Grants to community groups	100
9.6	Enhancement of OVC	485
9.7	Counterpart funding for urban food subsidy cash transfer	198
9.8	Commuter allowance - KNLS & NMK	150
9.9	NYS - Operations & Infrastructure Development	1,510
9.10	Sports Activities and International Competitions	1,966
9.11	Construction of Hola- Garsen Road by NYS	1,755
9.12	Construction & Equipping of youth Empowerment Centres	100
9.13	National Youth Talent Academy	250
9.14	International Academy Sports	429
9.15	Subsidized Youth Polytechnic Tuition	674
9.16	Youth Affairs & Sports - Other O&M	1,298
9.17	National Humanitarian Fund- resettle of IDPs	3,500
9.18	Relief and rehabilitation	5,000
9.19	Purchase of 5.7 million bags of maize	17,000
9.20	Operationalization of disaster management in Counties	2,000
9.21	Special Programmes - Other Operations	631
9.22	National Drought Management Authority - Operations	412
10	**ENVIRONMENTAL PROTECTION, WATER AND HOUSING**	**13,240**
10.1	NIB Irrigation Programmes	11,600
10.2	Kulan water dam - Dadaab	50
10.3	Kagaari, Kyeni and Gaturi irrigation development project	250
10.4	Improvement of Water supply in Wajir West	140
10.5	Accommodation of Bi-Cameral House	1,200
	TOTAL	**379,381**