REPUBLIC OF KENYA

THE NATIONAL TREASURY

~~MEDIUM TERM~~

2017 BUDGET POLICY STATEMENT

CONSOLIDATING ECONOMIC GAINS IN AN ENVIRONMENT OF SUBDUED GLOBAL DEMAND

November 2016

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Foreword

The 2017 Budget Policy Statement (BPS) is prepared against a backdrop of slow global economic growth owing to a more subdued outlook for advanced economies following the UK vote in favour of leaving the European Union (Brexit), weaker than expected growth in the United States, and a sharp slowdown among Sub-Saharan African economies especially commodity exporters. However, the Kenyan economy remains resilient registering strong economic growth of 5.6 percent in 2015 compared to the average growth of 3.4 percent for Sub Saharan Africa and 3.2 percent for global economy. Further, our macroeconomic performance remains broadly stable with overall inflation within target, Kenya Shilling exchange rate to the US dollar remaining stable and low short term interest rates, a reflection of ample liquidity in the money market. The economy is projected to grow at 6.0 percent in 2016 and over 6.5 percent in the medium term.

This BPS also comes at the brink of completion of the Second Medium Term Plan (MTP II) (2013-2017). The preparation of the third Medium Term Plan (MTP III) of the Kenya Vision 2030 for the period 2018-2022 has commenced with a mid-term review of MTP II by taking stock of the milestones achieved so far and transiting to MTP III. As such, the policy goals, priority programs and fiscal framework in this BPS are revised to reflect emerging realities and priorities in the MTP. The fiscal framework will ensure sustainable debt and improvement in expenditure management. In particular, we plan to gradually lower our fiscal deficit (by closing the gap between revenue and expenditure), over the medium term, while at the same time providing sufficient room to finance productive expenditure so as to sustain equitable growth. Further, expenditures will be scrutinized carefully to ensure quality and alignment to the government economic transformation agenda as outlined in the MTP and strategic interventions of national interest. The MTP III will mainstream the Sustainable Development Goals (SDGs) based on key thematic areas that include advocacy and awareness creation; domestication and localizing SDGs; capacity building; stakeholder mapping and engagement; monitoring and reporting, and resource mobilization.

This being the fourth BPS since the onset of the economic transformation agenda, tremendous achievements have been realized from the past investments. These include among others: improved infrastructure particularly construction of Standard Gauge Railway which is nearly complete, construction of 1,194km of new roads, rehabilitation of 523km of existing roads, completion of the first phase of second container terminal at the Mombasa port, an addition of 615MW of electricity to the national grid and an enhanced electricity connection. We have also greatly improved the business environment for investment opportunities, enhanced security through modernizing police equipment and improving police mobility, and heightened the fight against corruption.

Going forward, spending on infrastructure, education, health and social safety net and preparations for the elections remains a priority. Implementation of priority programs will be monitored closely so as to realise benefits and maintain positive growth momentum, create jobs, reduce poverty and inequality.

The policy intentions outlined in this BPS have benefited from wide consultations. I would like to thank the President and the Deputy President for the effective leadership in putting together this document. To my cabinet colleagues, staff of the National Treasury and other government officials, Asante Sana for your contributions and understanding as we build a united and prosperous Kenya.

HENRY K. ROTICH, EGH
CABINET SECRETARY/THE NATIONAL TREASURY

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Acknowledgement

The 2017 Budget Policy Statement (BPS) is prepared in accordance with the Public Finance Management (PFM) Act, 2012. It outlines the current state of the economy and outlook over the medium term, broad macroeconomic issues and medium term fiscal framework, the set strategic priorities and policy goals together with a summary of Government spending plans, as a basis of the FY 2017/18 budget. The document is expected to improve the public's understanding of Kenya's public finances and guide public debate on economic and development matters.

Over the 2013/14-2015/16 Medium Term Expenditure Framework (MTEF), the government has funded priority programs that are supportive of accelerated inclusive growth and development. The programs are carefully assessed before funding to ensure they are in line with the broad economic transformation agenda. The key programs implemented are aimed at creating conducive business environment, developing infrastructure to support manufacturing and industrialization, transforming agriculture, provision of better social services and rural development through devolution.

The key achievements realised under the prioritized programs include: improved security infrastructure and police capacity in the country in order to secure citizens, investors, investments and boost investor's confidence; development of road network, rail and ports to decongest major cities and open up Kenya for trade at home and with our neighbours. To this end, implementation of phase one of the SGR project is progressing on well and H.E The President recently launched phase two which will link the planned special industrial zone in Naivasha to Nairobi and Mombasa.

In addition, the government is on course to provide quality and affordable energy through exploiting the vast potential in geothermal, wind and solar energy and transformation of the Agricultural sector towards mechanization to ensure food security is ongoing. On social services, the government has made great progress in improving welfare of all Kenyans through improved services in health care and education and caring for the vulnerable groups through cash transfers.

Our financial sector has attained notable achievements in increasing financial access among Kenyans. We are ranked number 50 out of 138 countries for financial market development and our capital market was voted the most innovative in Africa in 2015. Devolution has led to distribution of resources and development to all corners of the country. The national government is committed to build capacity in the counties to enhance resource management, raise own source revenue and entrench good governance in all institutions and fight against economic crimes. The government will continue to implement priority programs to raise productivity and economy-wide efficiency for sustainable and inclusive growth.

The preparation of the 2017 BPS was a collaborative effort among various Government Agencies. We are grateful for their inputs. We thank all the spending units, the Ministries, Government Departments and Agencies for timely provision

of information. We are also grateful for the comments from the Macro Working Group and Public Sector Hearings of October 2016 which provided inputs to this 2017 BPS, in addition to comments from the public.

A core team in the National Treasury spent substantial amount of time putting together this BPS. We are particularly grateful to them for their tireless efforts in ensuring that this document was produced in time and is of high quality.

DR. KAMAU THUGGE. CBS
PRINCIPAL SECRETARY/THE NATIONAL TREASURY

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About the Budget Policy Statement

The budget policy statement (BPS) is a government policy document that sets out the broad strategic priorities and policy goals that will guide the national government and the county governments in preparing their budgets both for the following financial year and over the medium term.

In the document, adherence to the fiscal responsibility principles is explained to demonstrate prudent and transparent management of public resources in line with the Constitution and the Public Finance Management (PFM) Act, 2012.

Section 25 of the Public Finance Management Act, 2012, provides that the National Treasury shall prepare and submit to Cabinet the Budget Policy Statement for approval. Subsequently, the approved BPS is submitted to Parliament, by the 15th February in each year. Parliament shall, not later than 14 days after the BPS is submitted, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The Cabinet Secretary shall take into account resolutions passed by Parliament in finalizing the budget for the relevant financial year. The budget calendar for the FY 2017/18 has been adjusted to take into account the general elections to be conducted in 2017.

The Budget Policy Statement contains:

(a) an assessment of the current state of the economy and the financial outlook over the medium term, including macroeconomic forecasts;
(b) the financial outlook with respect to Government revenue, expenditures and borrowing for the next financial year and over the medium term;
(c) the proposed expenditure limits for the national government, including those of Parliament and the Judiciary and indicative transfers to county governments;
(d) the fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt; and
(e) Statement of Specific Risks.

The preparation of the BPS is a consultative process that involves seeking and taking into account the views of: the Commission on Revenue Allocation; County governments; Controller of Budget; Parliamentary Service Commission; Judicial Service Commission; the public and any other interested persons or groups.

I. CONSOLIDATING ECONOMIC GAINS IN AN ENVIRONMENT OF SUBDUED GLOBAL DEMAND

1.1 Overview

1. The global economy is experiencing a period of growth slowdown in the volume of international trade mainly driven by subdued demand, particularly in investment, which is necessary for generating international trade flows in the form of capital goods and intermediate inputs.

2. Domestically, despite the improvements in growth over the last few years, we are yet to reach our optimal levels and hence the need to tackle the challenges that hinder us from operating optimally. Some of the constraints as identified in the previous budget policy statements include: business environment; infrastructure; agriculture; devolution and social services. The government therefore, requires focused measures aimed at tackling the constraints and advancing structural reforms to substantially unlock the growth potential and reduce unemployment and poverty.

3. In this regard, implementation of the Vision 2030, and in particular the five pillars of the economic transformation agenda, namely: creating conducive business environment; developing infrastructure for growth of industries; transforming agriculture to sustain growth; supporting manufacturing to create employment; investing in quality, accessible and relevant social services; and enhancing rural economic development through consolidating gains made in devolution will ensure that Kenya makes social progress and build a competitive economy.

4. This Budget Policy Statement therefore builds on the commitments made by the government in the last BPS of implementing programs to raise productivity and economy-wide efficiency, thereby sustaining high and inclusive growth in line with aspirations of Vision 2030.

5. The preparation of the third Medium Term Plan (MTP III) of the Kenya Vision 2030 for the period 2018-2022 has commenced with a concept note that will be finalized after incorporating stakeholder comments both at the national and county levels.

6. On the Post-2015 development agenda, the 17 Sustainable Development Goals (SDGs) and respective 169 targets and 230 indicators will be mainstreamed into the MTP III and County Integrated Development Plans (CIDPs). The SDGs will be mainstreamed based on key thematic areas that include advocacy and awareness creation; domestication and localizing SDGs; capacity building; stakeholder mapping and engagement; monitoring and reporting and resource mobilization.

1.2 Sustaining Conducive Business Environment for Investment Opportunities

7. This thematic area continues to focus on sustaining conducive business environment by maintaining macroeconomic stability and enhancing security so as

to promote sustainable growth and encourage investment opportunities in the country.

Macroeconomic Stability for Sustained Growth and Development

8. The Government has established a strong track record of macroeconomic stability for sustained and inclusive development. In order to sustain this effort going forward, the Government will continue to implement prudent fiscal and monetary policies that are supportive of accelerated inclusive growth and development.

9. To anchor macroeconomic stability, the fiscal policy strategy recognizes the need to efficiently apply the limited resources on priority programs with the highest impact on the stated objectives, but within a medium term framework of sustainable debt and strong financial position. As outlined in 2016 BPS, this will be achieved by further rationalization and alignment of programs and resources to the priorities undertaken by the spending Ministries, Departments/Agencies to deliver desired outcomes economically and efficiently.

10. Monetary policy stance will aim to maintain overall month-on-month inflation rate within the Government's target range of 2.5 percent on either side of 5.0 percent target and ensure that movements in the short-term interest rates support the objective of price stability. The level of foreign exchange reserves together with the Precautionary Arrangements with the IMF will continue to provide an adequate buffer against short-term shocks. The annual growth in credit to the private sector is projected to pick up gradually in the year to June 2017.

11. Overall macroeconomic stability and sustainability of public debt will be supported by continued coordination of fiscal and monetary policies. The National Treasury will continue to work closely with the Central Bank of Kenya and Kenya Revenue Authority to strengthen the coordination between fiscal and monetary policies.

Enhancing Security for Sustained Growth and Employment

12. Kenya is part of the global community and is susceptible to various security challenges including terrorism and the radicalization of young men and women. Recognizing the importance of security in sustaining economic growth and attracting investments, the Government remains committed to reducing incidences of crime and insecurity.

13. Some of the achievements realised in this sector include: enhanced surveillance system especially in urban areas, investment in street lighting in major cities and towns, establishment of command and control centre, expansion of police training facilities, acquisition of police patrol vehicles and motorbikes and vehicles for National Government officers and motorbikes for chiefs and assistant chiefs, enhanced connection of the Integrated Population Registration System (IPRS) to agencies and launch of e-passport. In addition, the government has improved police welfare through provision of comprehensive life and medical insurance cover and construction of housing units, recruitment of more police

officers hence improving on police to population ratio. Further the Government has restructured the National Government Administration (NGA) thereby improving efficiency and service delivery to the people.

14. Going forward, the Government will continue focusing on the following areas; scaling-up investments towards modernization of security systems aimed at strengthening security of our borders and throughout the country, enhanced security operations, especially of areas prone to crimes; building capacity for effective and faster investigation, and strengthening coordination among security agencies with stronger partnership with communities. The Government will further invest in ICT to facilitate timely access to crime scenes through comprehensive mapping of crime and its incidences over time. This database would then be applied to facilitate improved planning, deployment of assets and performance management as it would be possible to understand why and how crime occurs.

15. In addition to the above, the government will further implement the following reforms over the medium term to enhance security: capacity enhancement of NGA to improve coordination of National Government functions, acquisition of vehicles and motorbikes for the newly recruited assistant county commissioners and assistant chiefs, creation of infrastructure Security Unit to safeguard the numerous Government projects such as roads, dams and ports, continued and sustained public sector reforms, increase public awareness, partnerships and stakeholder's engagements.

1.3 Continued spending in Infrastructure to Unlock Constraints to Growth

16. In order to support a rapidly-growing economy as envisaged in the Kenya Vision 2030, the Government will continue to sustain and expand the on-going public investments in road, rail, energy and water supplies.

Further Expanding Road Network

17. Great strides have been made in the road construction and rehabilitation which include construction of new roads, rehabilitation and maintenance of existing roads. The major achievements include the construction of 1,194km of new roads, rehabilitation of 523km of existing roads, and maintenance of 149,604km of roads.

18. Over the medium term, the strategy is to expand, modernize and maintain the road transport in order to have an effective, efficient and secure road network. Further, we aim to, strengthen the institutional framework for road development and accelerate the speed of completion of road construction projects, and step up road transport safety and regulations.

19. To this effect, in the FY 2017/18 the Government has earmarked to construct 1,138km of low volume seal roads to enhance rural connectivity, 1,768km of new roads and 41 footbridges, rehabilitate 224km of roads, and maintain an additional 36,225km of roads to facilitate efficient movement of goods and people.

20. The Government is committed to decongest major urban centres through the expansion of major roads in urban areas, such as the Outering road in Nairobi City and Mombasa road section dual carriage way. To further decongest the City of Nairobi and improve traffic flow, the Government will fast track the construction of Ngong Road, the improvement of road junctions and construction of missing-link roads and non-motorised transport facilities.

21. In order to boost regional trade, the Government will prioritize the advancement of the LAPSSET project implementation on the first three berths at the port of Lamu and the construction of major roads under the East African and Transport Facilitation Programs and the South Sudan – East African Regional Transport, Trade and Development Facilitation Program.

Rail, Marine and Air Transport

Standard Gauge Railway

22. The Government's commitment to develop and manage efficient and safe railway transport is clearly demonstrated by the pace of the construction of the Standard Gauge Railway (SGR) from Mombasa to Nairobi which is nearly complete and is expected to be completed by mid-2017. Construction works for the second phase (Nairobi – Naivasha section of 120kms) of the SGR project was officially launched by the President on October 19, 2016. This extension will link special industrial zones that would be established in Naivasha, home to the Olkaria geothermal power plants, to Nairobi and Mombasa.

Sea Ports

23. The Government has made good progress on reforms and modernization of the port of Mombasa, especially in expansion of the container terminals and cargo handling and storage, which has reduced significantly time to clear cargo. The first phase of the second container terminal has been completed which is capable of handling fourth generation vessels of 60,000 twenty foot equivalent units (TEUs) capacity. Moreover, the Kipevu Oil Terminal will be relocated to a more suitable location to allow for expansion. The multi-billion shilling project will involve the decommissioning of the existing Kipevu Oil Terminal and the construction of an off-shore jetty near Dongo Kundu. In addition, a framework has been developed to encourage private investments and participation in port expansion and port operations.

24. These developments, together with the integration of the single window system with other related systems to facilitate faster, efficient and competitive clearance of cargo, will ultimately position the port of Mombasa as a preferred hub in Eastern and Central Africa. The Government will continue to develop several commercial ports within the next 5 years, including the Lamu Mega Port, Kisumu Port as well as other smaller but highly developed ports along the coastline.

Airports

25. Kenya aims to entrench her position as undisputable regional aviation hub by expanding, modernizing and managing the aviation sector. The screening yard and security toll gate at Jomo Kenyatta International Airport (JKIA) has been completed while rehabilitation work at the five airstrips (Nanyuki, Ikanga, Lodwar, Embu and Malindi) and expansion and modernization of Isiolo and Kisumu airports are ongoing. Going forward, the Government will further scale up the on-going airports expansion and modernization; commence work on the JKIA Second runway for completion by end of the year 2018. The Government also plans to commence the expansion of the Eldoret International Airport to enable large cargo planes to land and position it as a transport hub.

Access to Adequate, Affordable and Reliable Energy Supply

26. The realisation of the development objectives set out in the Government's economic transformation agenda and Vision 2030 will be feasible if quality energy services are availed in a sustainable, competitive, cost effective and affordable manner to all sectors of the economy.

27. The Government's commitment to provide affordable and competitive electrical energy remains on course. Significant progress has been made towards generation of 5000 MW of power. Already, a program to add adequate power generation is on-going, and since March 2013, more than 615 MW of electricity have been added to the national grid; of which, 371 MW are from geothermal. With this additional power, total power available on the national grid is 2,282MW and this has significantly reduced the cost of power.

28. The Government has also continued to raise its power production by further exploiting the vast geothermal, wind and solar resources that Kenya is endowed with. These resources are expected to increase the clean energy mix cementing Kenya's position as a world leader in renewable energy.

29. Going forward, the Government will continue to invest in the construction of more electricity substations, transmission lines, and distribution transformers to boost the availability of electricity and to sustain demand. To date, the Government has constructed and upgraded more than 81 power substations between 2013 and June 2016. The additional power supply has significantly widened access to power, reduced the cost of doing business, and spurred growth of enterprises, and expanded the consumer base from 2.2 million households in March 2013 to 4.9 million households in June 2016. In addition, more than 22,245 primary schools have been connected to the power grid to facilitate the digital literacy programme and 810 public institutions have been connected to alternative (solar) power.

30. To conserve the environment and encourage value addition, the Government will continue to improve access to clean alternative energy through connection of more public institutions with solar energy, installation and maintenance of wind masts and data loggers. The Government will also connect an additional 52 towns under the street lighting program which aims at lighting towns and cities into 24-hour economy.

1.4 Sustaining Sectoral Spending for Employment Creation

Agricultural Transformation to Sustain Growth

31. Agriculture is indeed a key sector in the economy of our nation, contributing 23 percent to the country's GDP and 27 percent indirectly through forward and backward linkages. It is worth noting that the sector is not only a key player in our economy as a nation but that it also provides employment and is a means of livelihood for the majority of the Kenyan people.

32. Recognizing the importance of the sector, the Government has remained committed to ensuring that the sector is cushioned through development of policies, measures and interventions to enable transformation of agriculture from subsistence to commercial farming and agribusiness, and to ensure sustainable food security in the country.

33. As a result, tremendous achievements have been realized, which include among others; availed 521,047 MT of subsidized fertilizer and established a fertilizer blending facility; enhanced Strategic Grain Reserve (SGR); procurement and distribution of 72 tractors, 16 rice combine harvesters, 72 rice reapers and 100 motorized rice threshers; production and distribution of 880,880 straws of semen; production of 135 million doses of assorted vaccines; insurance of 66,085 tropical livestock units (TLUs) under the Livestock Insurance Programme ; establishment of mini fish processing facilities ; and development of National Residue Monitoring Plan (RMP) for farmed fish that was approved by the European Union. Government has commissioned two fertiliser plants in Eldoret and Nakuru with a capacity of 500,000 tonnes in total. Once fully operational, the plants will enable local blending of fertilisers and hence lower cost of fertilizers.

34. Land is a key resource in growing the agricultural sector. The government has developed a draft National Spatial Plan and physical planning manual (standards and guidelines); formulated National Land Use Policy and digitized 13 land registries; registered 2.4 million title deeds; enhanced administration and management of public land; and procured and installation of Enterprise Resource Plan (ERP) comprising of Land Information Management System (NLIMS).

35. During the FY 2017/18- 2019/20 Medium Term Expenditure Framework (MTEF) period, the government has prioritized among others the following programs: development of Agriculture Technology Centres; strengthening agricultural mechanization; development of Soil and water conservation national strategy; enhancement of Kenya Cereal Program and Climate Resilience Agriculture; Aflatoxin management; National Accelerated Agricultural Inputs Access Programme; improve access to market information and Eastern African Agriculture Productivity Project for commercialization of technology.

Supporting Growth of Manufacturing for Employment Creation

36. Manufacturing sector is among priority sectors identified by the Vision 2030, earmarked to catalyze Kenya's leap to a higher middle income economy. Despite the difficult times due to weak exports and loss of flagship investors, the sector's notable contributions include 10.3 percent share of Gross Domestic Product (GDP) in 2015, and increased employment creation to 2.8 million persons in 2015 up from 2.4 million in 2013.

37. The sector has also made great strides in the development of industrial infrastructure such as Special Economic Zones, Free Trade Zones, and Industrial Parks. The SEZs, and the subsequent boost in manufacturing, is intended to create jobs and expand after it starts. In effect, the SEZ Act 2015 has been enacted and the master plan, feasibility study and strategic environmental assessment for Special Economic Zones (SEZ) at Dongo Kundu Mombasa have been completed. The construction of the textile and apparel industrial buildings and worksites at the Export Processing Zones (EPZ) Athi River are at 65 percent.

38. As a result, the Sector has realized growth in both foreign direct investment and exports; total foreign direct investment doubled from Ksh101 billion in FY 2013/14 to Ksh 224 billion in FY 2015/16. The country's total exports to AGOA markets rose from Ksh 47 billion to Ksh 67 billion during the same period, out of which exports of apparels increased by 14.4 percent from Ksh 30.2 billion to Ksh 34.6 billion.

39. To promote the development of industries and extractive sectors of the economy, the Government continues to promote the ease of doing business by re-engineering processes and cost reduction. To this end, the country's competitiveness in Ease of Doing Business ranking index improved by 21 points to position 92 from position 113 previously out of 190 countries according to the 2016 World Bank Doing Business report. The Government has also continued to allocate national resources towards the leather industrial park development, textile development, modernizing both Rivatex and the new Kenya Cooperative Creameries.

40. Going forward, the Government will prioritize the development of regional specific industrial clusters in Mombasa, Kisumu and Garissa, operationalization of the SEZ Act 2015, development of the basic infrastructure in Dongo Kundu/Mombasa, development of integrated industrial database, development of basic infrastructure for leather industrial park in Kenanie, development of a common manufacturing facility for leather in Kariokor, and training SMEs on business management and value addition in counties, development of industrial parks and establishment of small and medium industries (SMI).

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Tourism Recovery, Sports, Culture, and Arts

41. The role of tourism, sports, culture and arts in the country's transformation and economic development is diverse. These sectors play this role by promotion and exploitation of Kenya's diverse culture and arts; enhancing Kenya's reading culture; regulation, development and promotion of sports, film industry and music; and preservation of Kenya's heritage. In cognizance of this, the Government has continued to undertake several initiatives to spur recovery of the tourism sector and create an enabling environment for tourism businesses, sports and culture, including encouraging joint partnerships between individuals, citizen companies and non-citizens.

42. Other achievements in the tourism sector include: increased bed-nights by Kenyans, increased conference activity in the country, operationalization of the Tourism Regulatory Authority, which has enabled the tourism sector to classify and rate 122 hotels and restaurants and assessment of 54 pre-qualified tourism establishments in Nyanza, Western and North Rift regions and classification of 25 establishments (1-4 star rating).

43. In sports, culture and art, over the last medium term period, government trained and nurtured 73,700 talented youth in various sports disciplines against the target of 55,490, sensitized 694 persons and tested 231 athletes on anti-doping against a target of 200 set in both cases; enhanced film monitoring and enforcement by issuing 1,043 film regulatory licenses; and conducted 5,753 random inspections against a set target of 5000 to ensure inappropriate content is not distributed to the public, and heightened the construction of the National Library in Nairobi.

44. Going forward, the Government working in partnership with key stakeholders aims to increase tourism earnings, international and domestic tourist arrivals, and conference tourism; develop and diversify niche tourism products; facilitate concessional loans to tourism and tourism related facilities; and complete the construction of Ronald Ngala Utalii College. Further, government will continue to upgrade 5 regional stadia (Kamariny, Chuka, Karatu-Ndarugu, Marsabit and Wote); completion of the Ultra-modern National library, full operationalization of the Kenya Film School, improve compliance with sports regulations, increase awareness on the fight against doping, and disseminate heritage knowledge.

Promoting Mining Sector for Job Creation

45. The mining sector has been identified by the Medium Term Plan II of the Vision 2030 as one of the key drivers for economic growth and transformation currently contributing 0.9 percent to GDP but this is expected to rise to at least 10 percent by 2030 with the discovery and exploitation of new minerals. In addition to contributing to GDP, the sector employs more than 13,800 and 6,000 Kenyans in private and public sectors respectively. In order, to spur growth in the sector and

attract investors, the Government has over the years continued to initiate measures to transform the sector.

46. These initiatives have paid off, as evidenced by the significant achievements of the sector. Kenya is one of the world's leading producers of natural carbon dioxide, fluorspar, soda ash and titanium. Twenty other minerals have been identified and confirmed, including a unique type of ruby. In the year 2015, 0.6M metric tonnes of titanium, 340kg gold, 64,000 metric tonnes of Fluorspar, 0.5M metric tonnes of Soda Ash, and 3,700 M metric tonnes were mined. Overall, mineral output value rose by 14.7 percent from Ksh 21.1 billion to Ksh 24.2 billion in 2015, while in terms of current prices, the contribution of mining and quarrying activities rose from Ksh 23.0 billion in 2011 to Ksh 53.8 billion in 2015.

47. The Government recognizes that the mining sector can only become a core driver of Kenya's economy, to the extent that the conditions are put in place to support an attractive climate for investors. To this effect, the Government has enacted a new Mining Act, 2016, in order to make the sector stable, predictable and transparent. In addition, the Government has developed a set of 16 regulations to fill in the gaps in the new law and help operationalize it. The Government has also strengthened the licensing process through the Online Transactional Mining Cadastre Portal (OTMCP), which has enhanced transparency and accountability. Further, in a bid to attract investment in the sector, the Government is in the process of finalizing the process of conducting a nationwide Airborne Geophysical Survey and establishing a Geological Data Bank to provide data on mineralized areas in the country and act as repository centre for all geological data and information respectively. These developments will ease access to geological data and information thus reduce exploration risk. Going forward, the Government will prioritize on the implementation of the new Mining Act, 2016 and the development of an overarching National Extractive Policy and a 20- year Mining Strategy.

1.5 Sustained Investment in Social Services for the Welfare of Kenyans

48. To foster inclusive growth, reduce poverty and inequality, the Government will continue investing in quality and accessible healthcare, relevant education and strengthen the social safety net.

Health Care

49. The health sector aims to achieve the highest possible health standards in line with the population needs through supporting provision of equitable, affordable and quality health and related services to all Kenyans.

50. Spending in the health sector recorded improvements in communicable disease control, maternal and child health as well as access to ARVs. The government will continue to implement programs and projects aimed at promoting health promotion and prevention; addressing the health needs of children, mothers and adolescents; improving the health infrastructure; enhancing social health protection and

achievement of universal health coverage and the strengthening of adherence to norms and standards as well as health regulation.

51. To this effect, the FY 2017/18-2019/20 budget will prioritize scaling up of policy interventions aimed at enhancing equitable access to high impact healthcare services, addressing challenges associated with devolution of health care and high turnover rate among health workers, controlling non-communicable diseases, and improving health service delivery in the country. The emphasis will therefore, be addressing these challenges in order to ease the burden to the households and attainment of the highest standards and care for sustained long-term growth and development.

Quality and Relevant Education for all Kenyans

52. The Government's overall goal in the education sector is to increase access to education and training; improve quality and relevance of education; reduce inequality as well as leverage on knowledge and skills in science, technology, and innovation for global competitiveness. To achieve this goal, the Government is committed to further entrenching universal and compulsory basic education and expanding tertiary education.

53. The education sector achievements have been significant in the FY 2015/16. They include; increase in the number of Early Childhood Development and Education (ECDE) centres, Free Primary Education which continues to be implemented with enrolment stabilizing at 8.8m over and the number of Primary schools increasing from 21,302 in FY 2013/14 to 21,877 in FY 2015/16. Despite these achievements, a number of challenges still remain. They include high poverty incidence, high education costs to households and government, unsatisfactory access levels especially at post primary education, low progression and regional and gender disparities in educational attainment.

54. The medium term strategy will therefore, focus on:

- Construction and improvement of infrastructure in all learning institutions and county offices for teacher management services.
- Enhancing capitation and grants to institutions, support for education and curriculum reforms and enhancement and support for examination, competence assessment and certification.
- Expansion of education and training opportunities in marginalized and underserved areas. Promotion of education and TVET activities by development of policies, licensing, accreditation and quality assurance of all institutions.
- Increasing provisions for loans, bursaries and scholarships to meet the increased demands of education and training.
- Enhancement of ICT integration in education at all levels and promotion of science, technology and innovation activities by development of policies, research licensing, and accreditation of research and quality assurance of research institutes.

- Mainstreaming, monitoring and evaluation of programmes and empowering the Central Planning and Project Monitoring Unit (CPPMU) to conduct effective monitoring of institutions.

Scaling up Social Safety Nets

55. The Government continues to build resilience and promote affirmative action for addressing challenges facing vulnerable groups. Between the year 2013 and 2016, the sector realized a number of achievements, including: 40,520 Orphans and Vulnerable Children (OVC) who have been supported with scholarships; 792,815 children in distress assisted through the child help line 116; 13,679 persons with disabilities provided with assistive and supportive devices and 3,026 supported with sun screen lotion while 133,000 Self Help Groups/Community Based Organizations that have been registered.

56. On the National Safety Net Programs, the achievements include: increased number of older persons receiving cash transfers from 164,000 to 310,000; increased number of households with OVCs receiving cash transfers from 253,000 to 353,000; and increased number of Persons with Severe Disabilities receiving cash transfers from 27,000 to 46,414.

57. The first phase of the Single Registry has already been set up; this phase entailed its establishment where all the information on the five Cash Transfer Programs is kept. These programs include: Cash Transfer to Orphans and Vulnerable Children (CT- OVC), Older Persons Cash Transfer (OP-CT), Cash Transfer to Persons with Severe Disability (CT- PWSD), Hunger Safety Net Program (HSNP) and Cash for Asset programme of the World Food Programme. The Government is now embarking on the second phase of the Single Registry where it will ensure that the Single Registry is secure and expand it to accommodate as many as beneficiaries as possible.

58. Over the medium term, the Government is targeting to carry out the following measures in order to ensure the success of the National Safety Net Programme:

- To build capacities of communities and register Self Help Groups and Beneficiaries Welfare Committees (BWCs) providing them with formal recognition and opportunities to link with Micro Finance Institutions (MIF) and non-state actors.
- Infrastructure Development of 12 Vocational Rehabilitation Centres(VRCs) in order to provide trainees who are Persons With Disabilities with proper learning environment and equip them with skills for self-reliance and also enable them to participate in socio economic activities.
- Establish National Development Fund for Persons with Disabilities (PWDs) which is aimed at improving livelihoods of PWDs, improving physical accessibility in learning institutions, increasing enrolment, retention and completion of PWDs in schools, improving literacy and

transition to higher levels of education and improving participation of PWDs in development activities.

- Single registry for the National Safety Net Programme will be decentralized to the remaining 18 Counties by the end of FY 2016/17.
- Integrate the existing Management Information Systems for the CT-OVC, OPCT and PWSD-CT programs into a one-stop system. The integrated system will enhance automation of key program components such as targeting, enrolment, payroll preparation, bank reconciliation, change management and management of complaints and grievances. It will be designed to be compatible with the electronic targeting tool which is being piloted and finalized in the current (2016/17) financial year.

Empowering Youth, Women and Persons with Disabilities

59. Kenya is among the countries with large proportion of youthful population. Demographic dividend is reaped when this youthful population is utilized to accelerate economic development. To reap the benefits of the demographic dividend, the government recognizes that it is important to empower youth, women and persons with disabilities and remove all obstacles to ensure their full participation in social economic development of the country.

60. During the FY 2013/14 – FY 2015/16 MTEF, 46,699 and 58,549 groups were supported through Women Enterprise Fund and Uwezo Fund against a target of 40,000 and 55,000 respectively. Further, Anti FGM campaign forums aimed at reducing FGM prevalence in the country were held in 20 counties against a target of 17 counties.

61. The government will continue to promote gender and youth empowerment, livelihoods for the vulnerable groups and marginalized areas through the National Youth Service (NYS) program, the social transformation program, and SACCOs in order to attain sustainable youth led enterprises and promote employment creation services. Further, the Government will expand opportunities for the youth in procurement through the Access to Government Procurement Opportunities (AGPO) platform, and ensure that the youth suppliers under the platform are paid in time. The Government will also designate resources for the establishment of youth empowerment centers which will help facilitate mentoring of youth on leadership, national values, entrepreneurship skills and further entrench digital literacy.

Environmental Conservation and Making Water Accessible

62. The national policy blue print envisions the country to be a nation that prides in a clean, secure and sustainable environment and targets universal access to clean water and basic sanitation for all by the year 2030. To date, about 56

percent of Kenyans have access to reliable clean water, while 70 percent have access to clean sanitation.

63. Noting that Kenya is a water-scarce country with less than 1,000 cubic metres per capita of renewable freshwater resources, the Government working with devolved units of government will continue to invest in clean water supply and put in place measures to control floods and harvest rain water as well as to protect and conserve the environment thus connecting over one million additional Kenyans to safe drinking water.

64. The Government remains committed on its bid to mitigate the impact of climate change, having signed the Protocol on Climate Change following the adoption of the Paris Agreement. Prior to the signing, the Government adopted a Green Economy Strategy and Implementation Plan as a guideline for its environmental sustainability efforts. Critical part of the Government's environmental conservation efforts is the stand against poaching and the illegal trade in wildlife and wildlife products. In addition, the Government will continue to mainstream climate change measures into all its projects and programmes.

65. Going forward, the Government will prioritize on sustainable water, wildlife and natural resources management, the governance of land and water utilities, the promotion of information technology, the reduction of non-revenue water, together with reliable water distribution; prudent infrastructure development and adoption of best practices in operation and maintenance. Moreover, the Government will strengthen the uptake of Environmental Impact Assessment for every project.

1.6 Enhancing Service Delivery through Devolution

66. The three years that devolution has been in existence, despite its many challenges, shows that it's one of the greatest successes of our new constitutional architecture. The decentralization has led to distribution of resources to all corners of our country and spread development to previously marginalized villages. Further, it has devolved leadership hence reducing political and social risks that come with systems where leadership is centralised hence some communities/people feel left out.

67. A challenge of low performance of own-source revenue against respective target has been witnessed since the establishment of County Governments (CGs) in 2013. A survey by the National Treasury of eight County Governments revealed, among other findings, that: revenue forecasting in CGs is not underpinned by macroeconomic assumptions or a credible methodology; revenue forecasts once included in the budget are hardly updated since there is no in-year monitoring that is done; and, there is an ambiguity of roles within County Governments in the own-source revenue forecasting process. In a number of instances, County Executives prepare revenue forecasts which are later raised by County Assemblies.

68. The National Government has adhered to the principles of devolution by providing resources to the county governments to run their affairs.

69. To strengthen accountability and fiscal discipline, the National Government will continue building capacity in the counties and assist them develop a strategy to enhance revenue management by identifying strong revenue raising measures and correct duplication and distortions in local taxes and fees that hurt the business environment and reduce revenue streams when investors shy away from such counties.

70. With regard to cash management, the National Government will continue disbursing funds to county governments in accordance with the approved disbursement Schedule. In disbursing the funds, however, the National Government will prioritize disbursements to county governments with least fund balances at the Central Bank of Kenya in order to ensure prudent cash management as required under Article 201(d) of the Constitution.

1.7 Structural Reforms

Governance

71. The Government continues the fight against corruption and its adverse effects to the economy which include inefficiency, low productivity and high costs of doing business. The Government will continue with the implementation of the measures articulated in National Call to Action against corruption which include continuous and objective lifestyle audits for all Accounting Officers as well as Authority to Incur Expenditure (AIE) holders. The Government is also committed to strengthen expenditure control and improve the efficiency of public spending through public financial management reforms aimed at upgrading efficiency, transparency and accountability in order to free fiscal space for priority social and investment projects and to improve governance in the public sector.

72. Further during the State House Summit on Governance and Accountability, held in October 2016 in Nairobi, the Government reiterated its commitment to fight corruption and challenged the agencies charged with combating graft, especially the courts to fast-track their mandate. The Government further warned against politicization of corruption and integrity issues, promised swift action against procurement offenders and highlighted the need for strengthening of investigations and improvements to the anti-corruption cases in order to enhance their effectiveness.

73. Some of the achievements in the fight against economic crimes in the FY2015/16 include: 167 corruption and economic crime cases investigated while 358 case files were still at various stages of investigations; Ksh 2.6 billion loss averted by disruption of corruption networks; 17 corruptly acquired assets traced, recovered and/or restituted worth Ksh 701 million; and 3 systems reviewed and examinations to seal corruption loopholes conducted. In addition, 6.3 million persons were sensitized/enlisted to combat corruption, 4 cases comprising of 147 case files on ethical breaches were investigated and 2350 Integrity Assurance officers and corruption prevention committees were trained.

74. The Government has allocated adequate resources to the Independent Electoral and Boundary Commission towards the management of the voter registration and electoral operations for the 2017 General Elections and its

aftermath. This will ensure voice and accountability as well as stability and lack of violence which are crucial for development of our country.

75. Further, the Government continues to strengthen various institutions that are mandated to fight corruption in the country in order to instill good governance and to enhance capacity to vigorously combat corruption and recover corruptly acquired assets. Already progress has been made in the coordinated investigations among the agencies. The Multi-Agency Team (MAT), which brings together the Kenya Police Service (Directorate of Criminal Investigations), the Ethics and Anti-corruption Commission, the Financial Reporting Centre, the Directorate of Public Prosecutions, the Kenya Revenue Authority and the Asset Recovery Agency, have taken to courts more than 360 corruption cases.

76. The parliament, in FY 2017/18, will continue to fast-track consideration of reports on budget implementation, audited accounts of the National Government, County Governments and State Corporations. In addition, they will introduce bills; consider motions, statements and petitions; and carry out vetting of state officers presented to them as required by law. These activities will go a long way in entrenching good governance in our institutions and ensuring accountability of public resources.

Financial Sector Developments and Reforms

77. Kenya's financial sector development continues to support economic growth and transformation. The banking sector has been expanding locally and across the Sub Saharan region with innovations driving financial inclusion. With the Banking (Amendment) Act 2015 that capped lending rates at four percentage points above the Central Bank's benchmark rate and deposit rate at at-least 70 percent of the benchmark rate, the sector is expected to continue with its growth based on the ability to respond to the needs of Kenyans for convenience and efficiency riding on Kenya's position as a world leader in mobile money technology.

78. The Kenya Deposit Insurance Corporation (KDIC) was voted the deposit insurer of the year 2016 by the International Association of Deposit Insurance (IADI). In FY 2016/17, the World Economic Forum Global Competiveness Report ranked Kenya number 50 in the world out of 138 countries for Financial Market Development. In the 2016 FinAccess survey, Kenyans access to financial services improved to 75.3 percent, up from 66.7 percent in 2013.

79. Building on the progress made thus far, the Government will implement additional measures to further deepen and strengthen the financial sector, including:

- The policy framework to establish the Nairobi International Financial Centre (NIFC) and the NIFC Bill which are already before the Cabinet will be forwarded to the National Assembly;
- The Financial Services Authority (FSA) Bill which consolidates existing non bank financial sector regulators and creates a new market conduct framework

for the entire non-bank financial sector is already before the Cabinet will be forwarded to the National Assembly;

- The Moveable Property Security Rights Bill which facilitates lenders to provide credit using moveable properties as collateral and also creates an online electronic collateral registry and is already before the Cabinet will be forwarded to the National Assembly;
- The Kenya Credit Guarantee Scheme Bill to further support access to credit by Small and Medium Enterprises will be finalised and forwarded to Cabinet and thereafter the National Assembly;
- Other reforms to address the high cost of credit include reforms to facilitate leasing and factoring, further extending the credit reporting framework to include credit providers from outside the financial sector, digitization of land registries and other legal reforms to facilitate the expansion of mortgage finance;
- Enhancing Kenya's position as an Islamic Finance Hub by putting in place an Islamic Finance Regulatory Framework through the recently launched Islamic Finance Steering Committee (IFSC) chaired by the Cabinet Secretary/National Treasury and Islamic Finance Consultative Committee (IFCC);
- Strengthening, by the Central Bank of Kenya, of the bank supervision legal and regulatory framework. This will include enhancing the macro- and micro-prudential Stress Testing Framework and cross border supervision framework;
- Strengthening the independence and capacity of the Kenya Deposit Insurance Corporation (KDIC) to ensure it is able to expeditiously undertake bank resolution and protect the interests of depositors; and,
- Launching the M-Akiba Government Bond which will be the world's first purely mobile phone based Government security.

II. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM TERM OUTLOOK

2.1 Overview

80. Kenya's macroeconomic performance remains broadly stable despite the global economic slowdown. The economy's growth momentum has been strong supported by significant investment in infrastructure, construction and mining sectors, strong recovery in tourism, lower energy prices, and improved agricultural production following improved weather conditions. Inflation is within the target band due to prudent monetary policy management while interest rates are low and stable.

81. Improved export earnings from tea and horticulture, reduced import bill of petroleum products due to lower oil prices, resilient diaspora remittances and improved tourism performance led to a narrower current account deficit. The narrowing of the current account deficit together with strong capital inflows led to a stabilization of the shilling in the foreign exchange market, and also allowed the accumulation of international reserves.

82. Going forward, the economy is projected to expand further by 6.0 percent in 2016 and above 6.5 percent in the medium term supported by strong output in agriculture with a stable weather outlook, continued recovery of tourism and completion of key public projects in roads, rail and energy generation. In addition, strong consumer demand and private sector investment as well as stable macroeconomic environment will help reinforce this growth.

2.2 Recent Economic Developments

Global Economic developments

83. The global economic growth outlook remains subdued in 2016, though expected to recover gradually in 2017 and beyond. The new shocks to the outlook include: Britain's referendum result in favor of leaving the European Union; ongoing realignments among emerging and developing economies, such as adjustment of commodity exporters to a protracted decline in the terms of trade; slow-moving trends, such as demographics and the evolution of productivity growth; as well as noneconomic factors, such as geopolitical and political uncertainty.

84. Global growth is estimated at 2.9 percent in the first half of 2016, slightly weaker than in the second half of 2015 and lower than the projected growth in the April 2016 World Economic Outlook. The forecasts for 2016 and 2017 are 3.1 percent and 3.4 percent, respectively.

85. The Kenyan economy has sustained its robust growth in the past decade supported by significant structural and economic reforms. The economy grew by 5.6 percent in 2015 compared to 5.3 percent growth in 2014. The economy further improved and grew at 6.2 percent in quarter two of 2016 up from 5.9 percent growth registered in quarter one of 2016 **(Table 2.1).** This strong growth was supported by improved performance in agriculture, forestry and fishing (5.5 percent), mining and quarrying (11.5 percent), transport and storage (8.8 percent), electricity and water supply (10.8 percent), wholesale and retail trade (6.1 percent), accommodation and restaurant (15.3 percent) and information and communication (8.6 percent). Growth in other sectors, particularly manufacturing, construction, financial and insurance and real estate, though slightly lower compared to quarter two of 2015, remained robust.

Table 2.1: Economic Performance by Sectors (Percent Growth Rate)

Percetage Changes (growth)							
Gross Domestic Product by Activity	**2011**	**2012**	**2013**	**2014**	**2015**	**2015 Q2**	**2016 Q2**
Agriculture, forestry and fishing	2.4	2.9	5.4	3.5	5.6	4.0	5.5
Mining and quarrying	19.0	19.0	-4.3	14.5	11.0	8.6	11.5
Manufacturing	7.2	-0.6	5.6	3.2	3.5	5.1	3.2
Electricity and water supply	9.4	9.5	6.6	6.2	7.1	9.2	10.8
Construction	4.0	11.3	6.0	13.1	13.6	11.2	8.2
Wholesale and retail trade; repairs	8.3	7.0	7.8	7.5	6.0	5.2	6.1
Accomodation and restaurants	4.1	3.1	-4.6	-16.7	-1.3	-5.0	15.3
Transport and storage	7.1	2.7	1.5	4.6	7.1	6.8	8.8
Information and communication	22.1	2.4	12.6	14.6	7.3	7.0	8.6
Financial and insurance activities	4.6	6.0	8.2	8.3	8.7	7.7	7.5
Public administration	2.4	4.0	2.8	5.3	5.4	6.3	6.7
Professional, admin and support services	2.0	4.0	3.6	3.0	2.6	5.1	4.8
Real estate	5.1	4.0	4.1	5.6	6.2	10.2	8.7
Education	7.5	11.1	6.4	6.3	4.7	4.5	4.1
Human health and social work activities	-2.6	-2.8	7.7	8.1	6.6	6.4	5.3
Other service activities	1.5	2.3	4.6	4.2	3.8	2.8	3.3
FISIM	9.1	10.1	5.2	11.3	15.0	9.6	8.6
All economic activities	**5.3**	**4.1**	**5.4**	**5.3**	**5.8**	**5.9**	**6.3**
Taxes on products	12.6	7.7	8.1	5.3	4.2	5.8	5.1
GDP at market prices	**6.1**	**4.6**	**5.7**	**5.3**	**5.6**	**5.9**	**6.2**

Source of data: Kenya National Bureau of Statistics

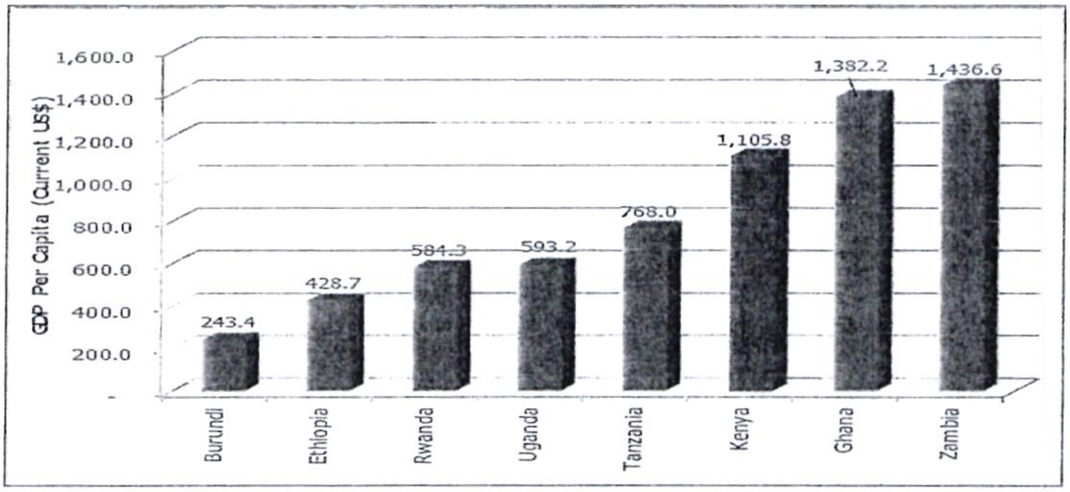
86. The favourable weather conditions experienced during the second quarter enhanced agricultural production and as such, the sector expanded by 5.5 percent compared to 4.0 percent growth in quarter two of 2015. Similarly, electricity and water sector remained strong recording a growth of 10.8 percent compared to 9.2 percent in same quarter in 2015 owing to continued expansion of power generation from relatively cheaper sources.

87. The advantageous oil prices and continued improvement in the road network buoyed the transport and storage sector to a growth of 8.8 percent in the second quarter of 2016 compared to 6.8 percent during the same quarter of 2015.

The accommodation and restaurants sector recorded an impressive growth of 15.3 percent in quarter two of 2016 from a contraction of 5 percent in the same quarter of 2015. The growth was on account of improved security and rigorous marketing initiatives that boosted conference tourism as well as the general tourism.

88. On average, GDP per capita for Kenya at US$ 1,105.8 is the highest in the East African Community sub region **(Chart 1).** The high and resilient GDP per capita is due to the diversified nature of the Kenyan economy.

Chart 1: Average GDP per Capita for Various Countries (2006-2015)

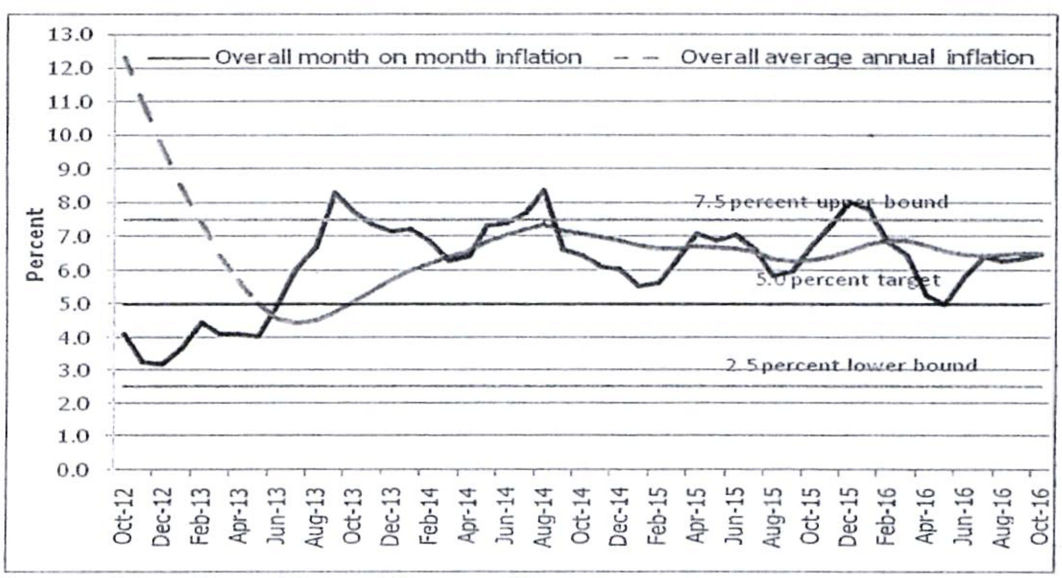


Source of data: International Monetary Fund

Inflation Rate

89. Overall month on month inflation rose slightly to 6.47 percent in October 2016 from 6.34 percent in September 2016 due to increase in food prices. The annual average inflation rate at 6.5 percent in the year to October 2016 was within the target range of 2.5 percent on either side of the 5.0 percent target **(Chart 2).**

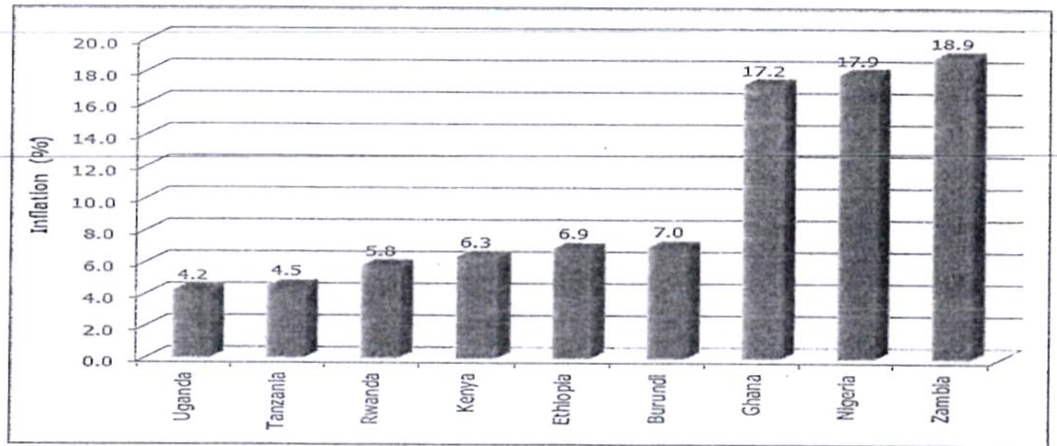
Chart 2: Inflation Rate



Source of data: Kenya National Bureau of Statistics

90. Inflation rates within the EAC region have remained low due to prudent monetary and fiscal policy management and lower oil and commodity prices **(Chart 3).** High inflation rates in Ghana, Nigeria and Zambia reflects difficult economic conditions as a result of foreign currency shortages resulting from lower commodity revenues and slow policy adjustment.

Chart 3: Inflation Rates in selected African Countries (September 2016)



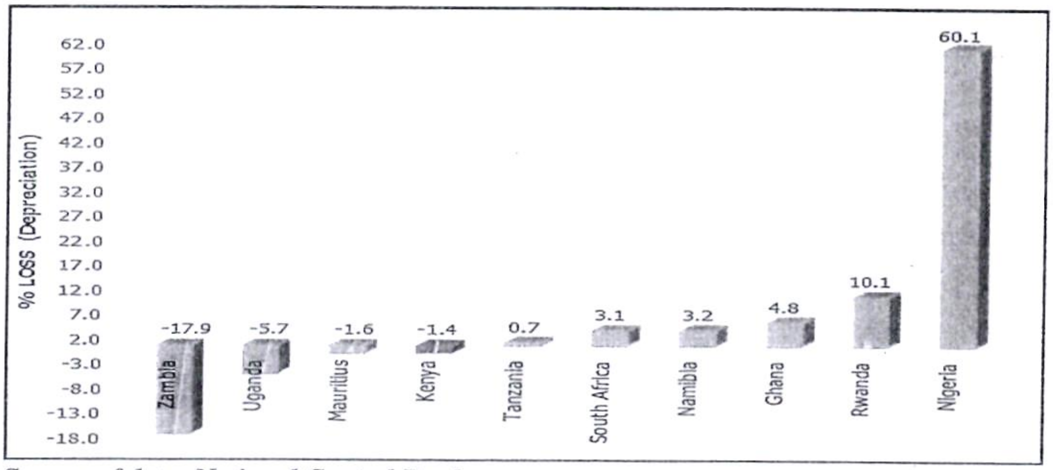
Source of data: National Central Banks

Kenya Shilling Exchange Rate

91. The Kenya Shilling exchange rate has continued to display relatively less volatility compared with the major regional currencies and strengthened by 1.4 percent for the period October 2015 to October 2016 **(Chart 4)**. The stability of the Kenya shilling exchange rate reflects improved export earnings from tea and horticulture, a reduction in the imports of petroleum products due to lower oil prices, resilient Diaspora remittances and improved tourism performance.

92. In the Sub Saharan Africa region, large currency depreciations especially in Nigeria reflects challenging macroeconomic conditions as the countries adjust to lower commodity revenues.

Chart 4: Selected Currencies Performance against the US Dollar (Oct 2015 - Oct 2016)



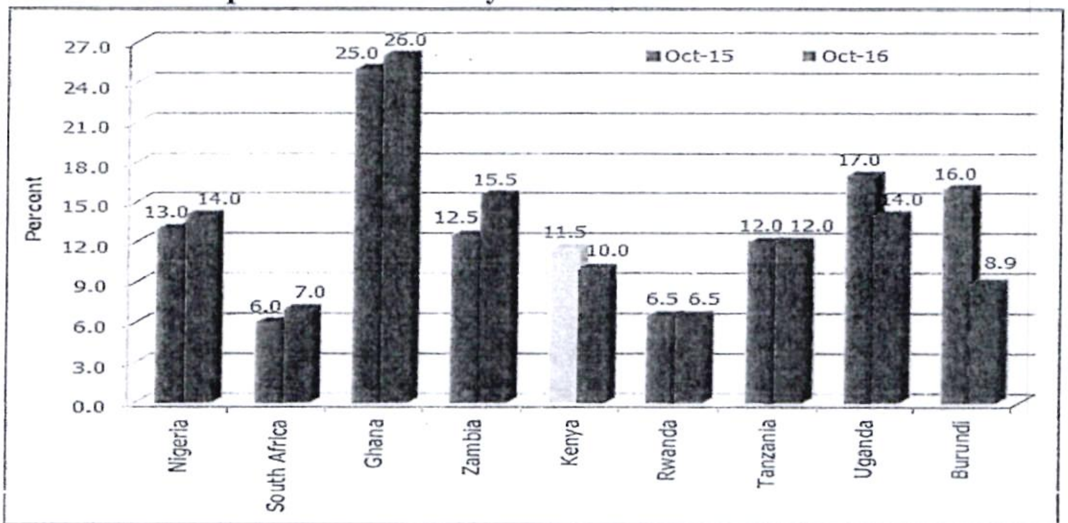
Source of data: National Central Banks

93. The Kenya Shilling exchange rate strengthened in October 2016 against major international currencies. The currency traded at Ksh 101.3 against the US dollar, Ksh 111.9 against the Euro and Ksh 125.4 against the Sterling Pound in October 2016 compared to Ksh 102.8, Ksh 115.4 and Ksh 157.4 respectively, in October 2015.

Interest Rates

94. The moderate demand pressures on the overall inflation in the recent months, have led to the easing of the monetary policy stance in the East African countries, conversely, tight monetary policy has been adopted in commodity-exporting countries due to the substantial depreciation of the currency that has translated into high inflation **(Chart 5).**

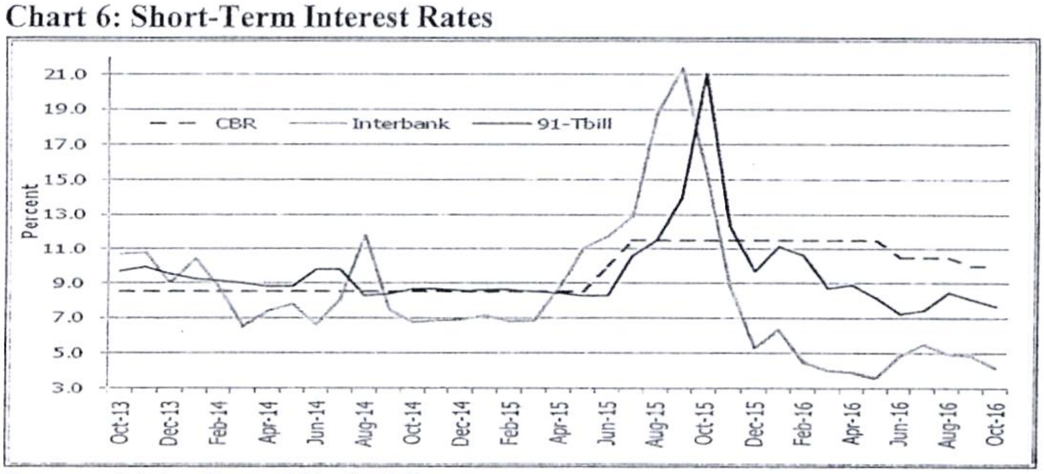
Chart 5: Developments of the Policy Rate in selected Countries



Source of data: National Central Banks

95. In Kenya, short term interest rates remained low due to the improvement of liquidity conditions in the money market. The interbank rate declined to 4.1 percent in October 2016 from 4.9 percent in September 2016 and 21.3 percent in September 2015, while the 91-day Treasury bill rate declined to 7.8 percent from 8.1 percent and 14.0 percent over the same period **(Chart 6).**

Chart 6: Short-Term Interest Rates

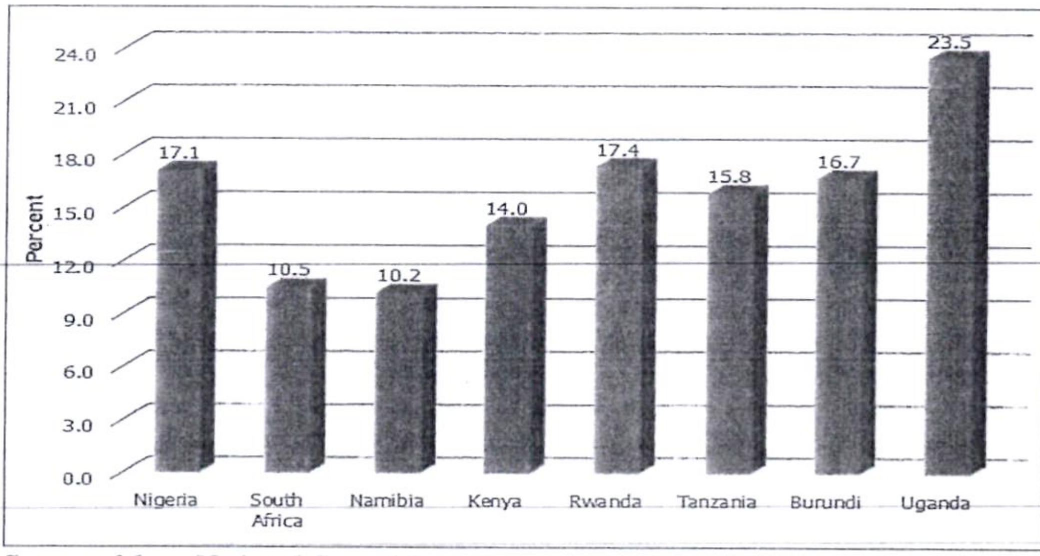


Source of data: Central Bank of Kenya

96. The implementation of the Banking (Amendment) Act, 2015 effective September 14, 2016, that capped interest rates on banks' loans at 4.0 percent above the base rate (currently at 10.0 percent) and sets the minimum interest paid for a saving product at 70.0 percent of the same base rate has led to the narrowing of the interest rate spread from 11.3 percent in August 2016 to 7.0 percent by September 14, 2016 **(Chart 7).** As a result of the new Act, Kenya has the lowest lending rate among the East African Countries.

97. The average lending rates which had increased to 17.7 percent in August 2016 from 15.7 percent in August 2015 have declined to 14.0 percent. Similarly, the deposit rate which had decreased to 6.4 percent in August 2016 from 6.9 percent in August 2015 have risen to 7.0 percent from September 14, 2016 as provided in the Banking (Amendment) Act, 2015.

Chart 7: Commercial Banks Lending Rates of Selected Countries (Sept 2016)



Source of data: National Central Banks

Money and Credit

98. Growth of broad money supply, M3, slowed to 8.1 percent in the year to September 2016 compared to a growth of 13.5 percent in the year to September 2015 (**Table 2.2**). The slowdown in the growth was largely on account of a decline in the uptake of domestic credit.

99. Net Foreign Assets (NFA) of the banking system grew by 52.0 percent in the year to September 2016 from a contraction of 12.8 percent over a similar period in 2015 following increased accumulation of foreign assets of the Central Bank. Meanwhile, the Net Domestic Assets (NDA) of the banking system increased by 0.1 percent in the year to September 2016 from the growth of 20.0 percent over a similar period in 2015. The slowdown of NDA was occasioned by decline in domestic credit and other assets net of the banking system.

Table 2.2: Money and Credit Developments, Ksh billion

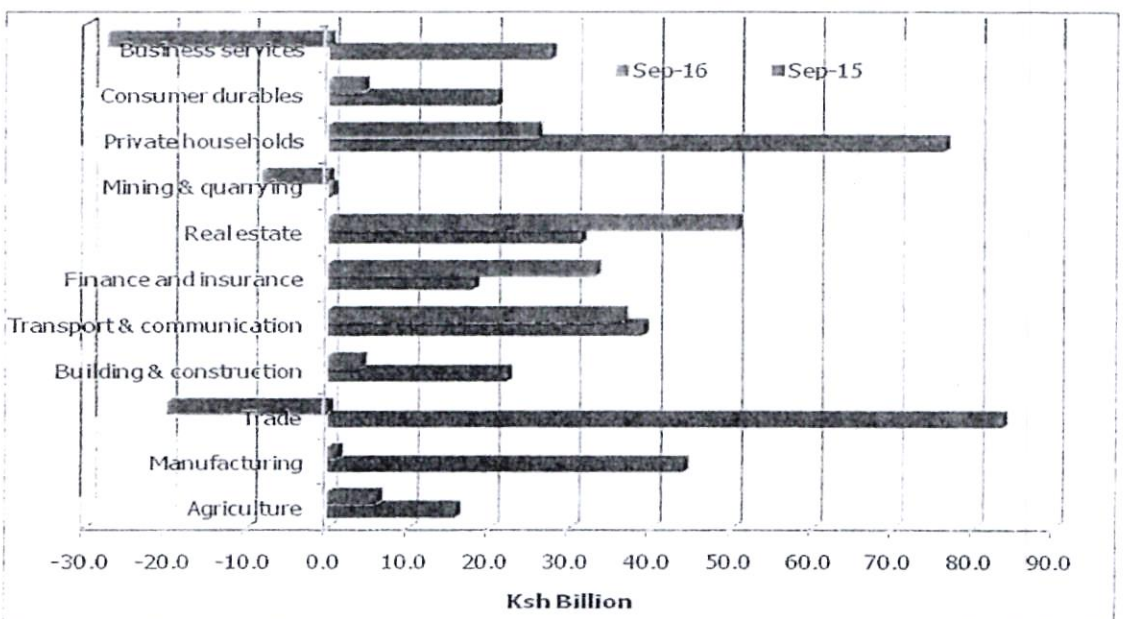
	2014 SEPT	2015 SEPT	2016 SEPT	Absolute Change 2014-2015 SEPT	Absolute Change 2015-2016 SEPT	percent change 12 months to Sep-15	percent change 12 months to Sep-16
Money supply, M3 (1+2)	2,251.8	2,556.0	2,761.8	304.3	205.8	13.5	8.1
1. Net foreign assets (1.1+1.2)	446.5	389.3	591.9	-57.2	202.6	-12.8	52.0
1.1 Central Bank	552.2	529.3	687.2	-23.0	157.9	-4.2	29.8
1.2 Banking Institutions	-105.7	-139.9	-95.3	-34.2	44.7	32.4	-31.9
2. Net domestic assets (2.1+2.2)	1,805.3	2,166.7	2,169.9	361.5	3.2	20.0	0.1
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	2,259.4	2,785.3	2,851.8	526.0	66.4	23.3	2.4
2.1.1 Government (net)	400.0	553.3	517.3	153.3	-36.0	38.3	-6.5
2.1.2 Other public sector	51.0	51.8	50.6	0.7	-1.2	1.4	-2.2
2.1.3 Private sector	1,808.3	2,180.3	2,283.9	372.0	103.6	20.6	4.8
2.2 Other assets net	-454.1	-618.6	-681.8	-164.5	-63.2	36.2	10.2

Source of data: Central Bank of Kenya

100. Domestic credit slowed to an annual growth of Ksh 66.4 billion (2.4 percent) in the year to September 2016 compared with a growth of Ksh 526.0 billion (23.3 percent) in September 2015. The slowdown was mainly attributed to a decline in lending to the Government of Ksh 36.0 billion, the private sector of Ksh 103.6 billion and the other public sectors by Ksh 1.2 billion.

101. Bank credit to the private sector slowed to a growth of 4.8 percent in the year to September 2016 from a 20.6 percent growth in the same period in 2015. Except for the finance & insurance, real estate and transport & communication, all the other sectors experienced a slowdown in credit uptake compared to the same period in 2015 due to tight credit conditions (**Chart 8**). A contraction in credit flows was experienced in the trade, mining and business services sectors.

Chart 8: Private Sector Credit to Sectors, Ksh Billion

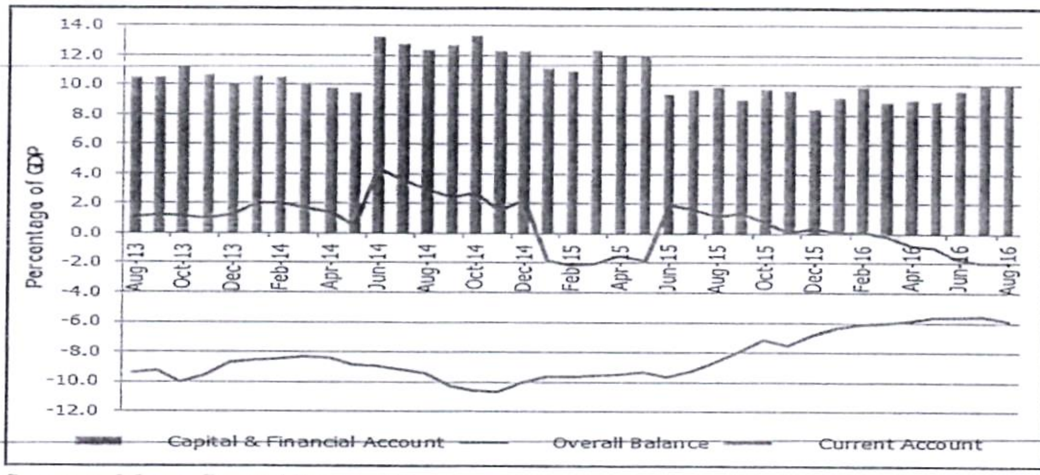


Source of data: Central Bank of Kenya

External Sector Developments

102. The overall balance of payments position recorded a deficit of US$ 1,225 million in the year to August 2016 from a surplus of US$ 716 million in the year to August 2015. As a share to GDP, the current account deficit improved to 5.9 percent in August 2016 from 7.9 percent in August 2015. This is attributed to a 22.5 percent improvement in the value of the merchandise account reflecting a decline in payments for merchandise imports **(Chart 9).**

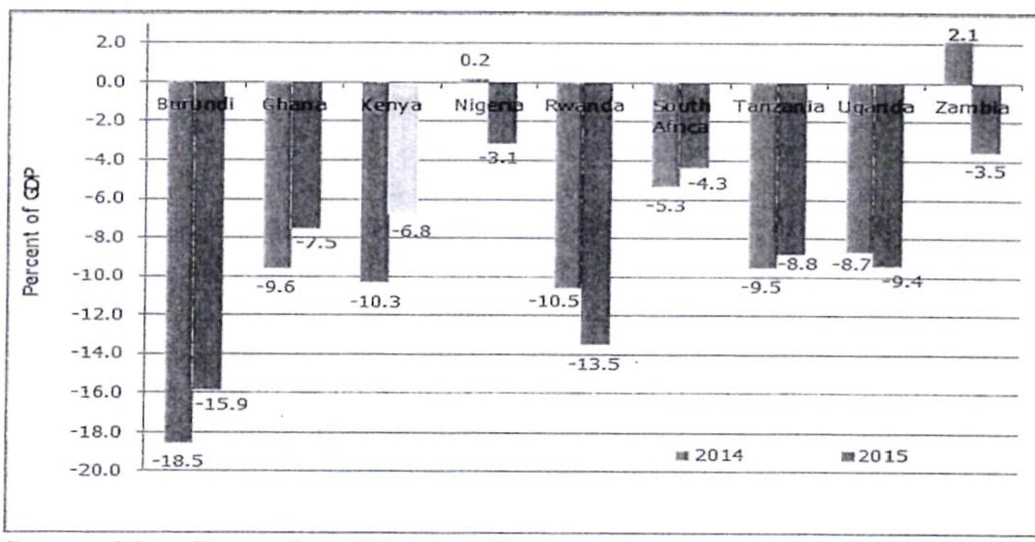
Chart 9: Balance of Payments



Source of data: Central Bank of Kenya

103. The decline in commodity prices has adversely impacted the exports of Africa's major exporters of non-oil, non-renewable resources. In some cases, this has more than offset the improvement in the oil trade balance resulting to the widening of the current account balance **(Chart 10).** In some of the oil rich countries, the current account balances tend to swing from large surpluses to large deficits and these swings are typically accompanied by declines in international reserves.

Chart 10: Current Account Balance (Percent of GDP) for Selected Countries

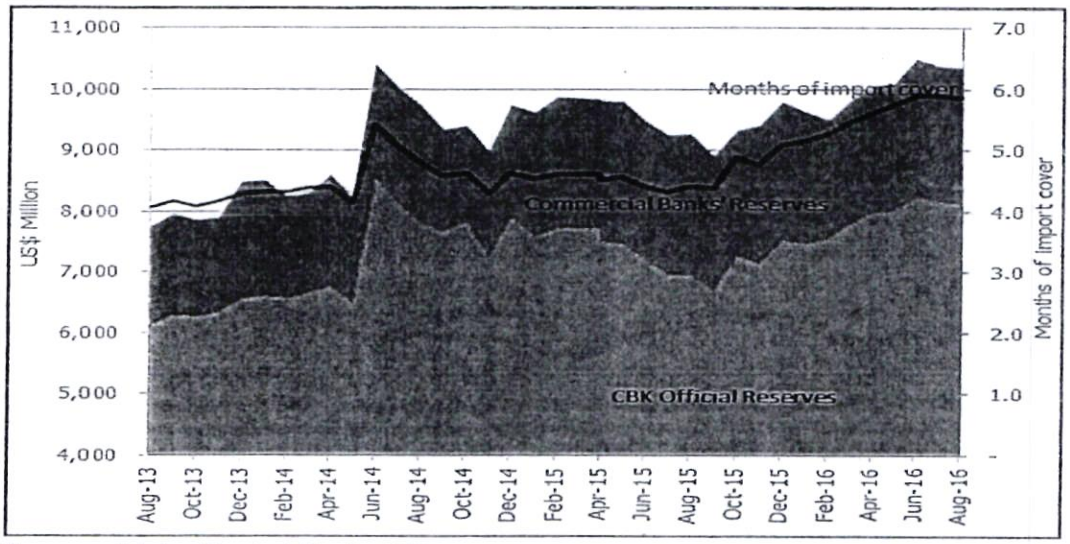


Source of data: International Monetary Fund

Foreign Exchange Reserves

104. The banking system's total foreign exchange holdings increased by 11.8 percent to US$ 10,355 million in August 2016 from US$ 9,265 million in August 2015 **(Chart 11).** This was due to the increase of the Official reserves held by the Central Bank (constituting the bulk of the gross reserves) to US$ 8,144 million (5.5 months of import cover) in August 2016 from US$ 6,963 million (4.4 months of import cover) in August 2015. However, reserves held by commercial banks decreased slightly to US$ 2,211 million in 2016 from US$ 2,303 million in 2015.

Chart 11: Official Foreign Exchange Reserves (US$ million)



Source of data: Central Bank of Kenya

Capital Markets

105. The capital market recorded mixed performance in both equities and bonds market segments in the year to October 2016. Activities at the stock market slowed down with the Nairobi Securities Exchange (NSE) 20 share index recording 3,202 points in October 2016 compared to 3,869 points in October 2015. Market capitalization was at Ksh 1,982 billion in October 2016 compared to Ksh 2,046 billion in September 2015. The drop in market capitalization is as a result of an increase in share supply which depressed the overall share prices.

106. There has been a gradual recovery of the NSE reflecting restoration of market stability and improved confidence in the economy. The NSE index had been weighed down by the prolonged uncertainty in the global financial markets, and capital outflows from emerging and frontier market economies.

2.3 Fiscal Performance in FY 2016/17

107. The implementation of the budget for FY 2016/17 has progressed well. Revenue collection has improved in the first quarter with high receipts of VAT and excise revenues reflecting improvements in revenue administration from the i-Tax system, new excise tax measures and the re-introduction of withholding VAT. Expenditures lagged behind their respective targets during the first quarter but are

expected to pick up in the next quarter as implementation of development programmes and the general activity of Government gain pace.

108. By the end of September 2016, total cumulative revenue including A-I-A collected amounted to Ksh 313.6 billion against a target of Ksh 328.0, representing a shortfall of Ksh 14.4 billion. The shortfall was as a result of the below target collection of the ordinary revenue by Ksh 3.8 billion and the ministerial A-I-A by Ksh 10.6 billion. The shortfall in ordinary revenue was mainly on account of underperformance in import related revenues namely; import duty, VAT imports and IDF fees.

109. The total expenditure and net lending for the first quarter of FY 2016/17 amounted to Ksh 387.6 billion, against a target of Ksh 526.9 billion. The shortfall of Ksh 139.2 billion was attributed to lower absorption recorded in both recurrent and development expenditures by the National Government and lower than projected disbursement to County Governments. Recurrent expenditure for National Government amounted to Ksh 237.7 billion , against a target of Ksh 298.1 billion, with underperformance recorded in wages and salaries, and Operation and Maintenance which accounted for Ksh 15.1 billion, and Ksh 38.8 billion, respectively.

110. The combined effect of the revenue and expenditure performance in the first quarter of FY 2016/17 resulted to an overall fiscal deficit, on a commitment basis (including grants) of Ksh 72.5 billion (equivalent to 1.0 percent of GDP) against a targeted deficit of Ksh 182.3 billion (equivalent to 2.5 percent of GDP). On cash basis the overall deficit was Ksh.88.8 billion (equivalent to 1.2 percent of GDP).This deficit was financed through foreign borrowing amounting to Ksh 39.2 billion and net domestic financing amounting to Ksh 49.7 billion.

111. Net domestic financing amounted to Ksh 49.7 billion against a target of Ksh 97.1 billion by end September 2016, an under performance of Ksh 47.4 billion. The net domestic borrowing of Ksh 49.7 billion comprised borrowing through government securities of Ksh 76.3 billion and net repayment of other domestic borrowing of Ksh 40.7, less accumulation of government deposits of Ksh 13.8 billion and receipts from government on lent loans of Ksh.0.2 billion.

2.4 FY 2016/17 Revised Fiscal Estimates

112. In view of the fiscal developments to end September 2016, 2015/16 base adjustment and weaker than expected performance to September 2016 especially on import related taxes the Government has revised downwards its tax revenue projections for the financial year, However this downward reduction is offset by higher investment income than in the original budget estimates.

113. Overall revenue inclusive of A-I-A are projected to rise by Ksh.18.2 billion above the previous estimates, reflecting projected reduction in ordinary revenues by Ksh 1.9 billion and increase in A-I-A by Ksh 20.1 billion. The downward revision in ordinary revenues is on account of projected shortfalls in Import duty (Ksh 5.9 billion), Income tax (Ksh 11.3 billion) largely on account of PAYE and VAT by Ksh 6.9 billion on account of VAT on imported goods. However, the

shortfalls in these taxes are significantly offset by upward revision in excise revenues (Ksh.9.1 billion) due to the positive outlook of the new excise tax measures, and Investment income (11.7 billion) and other revenue (Ksh.1'5 billion)..

114. In addition, the Government has instituted various measures aimed at aligning the expenditures within the revised resource envelope. These include measures to curb non priority expenditures and to free resources for more productive purposes as well as expenditures cuts on slow and delayed projects. Similarly, foreign financed development expenditures has been revised downwards to reflect realistic absorption capacity

115. In summary, the revised fiscal framework reflects overall increase in revenues by Ksh 18.2 billion from Ksh 1,500.5 billion to Ksh 1,518.7 billion; and a reduction in total expenditures and net lending by Ksh 203.9 billion, from Ksh 2,275.6 billion to Ksh 2,071.7 billion. The deficit, inclusive of grants, is, therefore, projected to decline from Ksh 702.3 billion to Ksh 516.7 billion (equivalent to 6.9 percent of GDP). Borrowing from the domestic market has been revised downwards to Ksh 227.0 billion from Ksh 236.1 billion in the budget. The overall impact of these developments is reflected in **Table 2.3.**

Table 2.3 Revised Fiscal Framework (Ksh Million)

	FY 2015/16		FY 2016/17		Deviation	FY 2015/16	FY 2016/17	
	Preliminary Actual*	Revised Estimates	Printed Estimates	Revised Estimates I		Preliminary Actual*	Printed Estimates	Revised Estimates I
	Ksh Million					% share of GDP		
A. TOTAL REVENUE AND GRANTS	**1,267,479**	**1,365,885**	**1,573,228**	**1,550,462**	**(22,766)**	**19.5**	**21.7**	**20.9**
1. Revenue	**1,237,883**	**1,299,912**	**1,500,509**	**1,518,717**	**18,208**	**19.0**	**20.7**	**20.4**
Ordinary revenue	1,158,211	1,184,368	1,376,424	1,374,547	(1,877.5)	17.8	19.0	18.5
Import Duty	79,188	83,628	96,281	90,398	(5,883.6)	1.2	1.3	1.2
Excise Duty	139,540	137,175	169,310	178,367	9,056.5	2.1	2.3	2.4
Income Tax	566,001	577,985	671,099	659,803	(11,296.2)	8.7	9.2	8.9
VAT	289,213	300,025	345,582	338,680	(6,902.0)	4.4	4.8	4.6
Investment Income - Others	19,250	21,580	19,665	31,351	11,686.0	0.3	0.3	0.4
Others	65,019	63,975	74,486	75,947	1,461.8	1.0	1.0	1.0
Appropriation in Aid	79,671	115,544	124,085	144,171	20,085.8	1.2	1.7	1.9
2. GRANTS	**29,597**	**65,973**	**72,719**	**31,744**	**(40,975)**	**0.5**	**1.0**	**0.4**
AMISOM Receipts	4,293	6,440	6,440	6,440	-	0.1	0.1	0.1
Projects Grants(Revenue)	7,866	17,025	16,787	7,944	(8,842.8)	0.1	0.2	0.1
Projects Grants(AIA)	16,275	41,165	48,569	16,438	(32,131.8)	0.3	0.7	0.2
Italian Debt Swap	499	500	500	500	-	0.0	0.0	0.0
County Health Facilities - DANIDA	664	844	422	422	-	0.0	0.0	0.0
B. TOTAL EXPENDITURE AND NET LENDING	**1,781,945**	**2,032,509**	**2,275,556**	**2,066,969**	**(208,586)**	**27.4**	**31.3**	**27.8**
1. Recurrent	**1,027,543**	**1,085,307**	**1,168,483**	**1,186,604**	**18,122**	**15.8**	**16.1**	**16.0**
Domestic Interest	172,857	174,120	197,267	172,554	(24,713.0)	2.7	2.7	2.3
Foreign Interest	42,471	41,387	53,520	58,439	4,918.3	0.7	0.7	0.8
Pensions & Other CFS	53,401	56,129	60,169	60,169	-	0.8	0.8	0.8
Wages & Salaries	307,421	333,527	360,776	360,776	-	4.7	5.0	4.9
Defense and NSIS	113,666	112,498	124,000	124,000	-	1.7	1.7	1.7
O&M/Others	337,726	367,646	372,750	410,666	37,916.7	5.2	5.1	5.5
2. Development and Net Lending	**478,964**	**671,583**	**811,289**	**584,580**	**(226,708)**	**7.4**	**11.2**	**7.9**
3. Equalization Fund	6,400	6,400	6,000	6,000	-	0.1	0.1	0.1
4. County Governments' Allocation	264,039	264,219	284,785	284,785	-	4.1	3.9	3.8
5. Contingencies Fund	5,000	5,000	5,000	5,000	-	0.1	0.1	0.1
C. DEFICIT EXCL. OF GRANTS (Commitment basis)	**(544,062)**	**(732,597)**	**(775,047)**	**(548,252)**	**226,795**	**(8.4)**	**(10.7)**	**(7.4)**
D. DEFICIT INCL. OF GRANTS (Commitment basis)	**(514,466)**	**(666,624)**	**(702,328)**	**(516,508)**	**185,820**	**(7.9)**	**(9.7)**	**(6.9)**
						-	-	-
E. Adjustments to cash basis	22,387	0	-	-	-	0.3	-	-
F. DEFICIT INCL. OF GRANTS (Cash basis)	**(492,079)**	**(666,624)**	**(702,328)**	**(516,508)**	**185,820**	**(7.6)**	**(9.7)**	**(6.9)**
						-	-	-
G. TOTAL FINANCING	**474,570**	**666,624**	**702,328**	**516,508**	**(185,820)**	**7.3**	**9.7**	**6.9**
Net Foreign Financing	269,924	419,010	462,267	287,099	(175,168.2)	4.1	6.4	3.9
Disbursements	304,986	457,389	505,889	330,721	(175,168.2)	4.7	7.0	4.4
Commercial Financing	145,031	154,332	153,778	153,778	-	2.2	2.1	2.1
Project Loans AIA	55,369	115,499	179,584	52,923	(126,661.4)	0.9	2.5	0.7
Project Loans Revenue	43,654	61,119	50,446	43,091	(7,355.1)	0.7	0.7	0.6
Project Loans SGR AIA	52,357	118,226	118,226	73,574	(44,651.7)	0.8	1.6	1.0
Programme Loans	8,574	8,213	3,855	7,355	3,500.0	0.1	0.1	0.1
Debt repayment - Principal	(35,062)	(38,379)	(43,623)	(43,623)	-	(0.5)	(0.6)	(0.6)
Other Domestic Financing	2,389	2,579	3,956	2,629	(1,327.5)	0.0	0.1	0.0
NET DOMESTIC FINANCING	202,257	245,035	236,105	226,780	(9,324.4)	3.1	3.3	3.1
Nominal GDP (Fiscal Year)	6,508,084	6,444,000	7,259,000	7,435,211	176,211	100.0	100.0	100.0

Source: National Treasury

2.5 Adherence to Fiscal Responsibility Principles

116. The Government recognizes that the fiscal stance it takes today will have implications into the future. Therefore, and in line with the Constitution and the Public Finance Management (PFM) Act of 2012, 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 an unwarranted debt burden on future generations. Also to ensure that development portfolio is not crowded out by both

the National and County Governments, we shall ensure adherence to the ratio of development to recurrent expenditures of at least 30:70 over the medium term, as set out in the PFM Act.

117. The National Government will observe strictly regulation 26 (1) (a) of the PFM Act, which requires that the national government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35 percent of the national government's equitable share of the revenue. It is expected that county governments will also strictly adhere to this requirement as stipulated in the PFM regulations 25 (1) (b) (County Regulations) and those that are already in breach to take remedial measures as provided in the regulations.

118. In addition, the national and county governments will through implementation of the e-procurement module of the IFMIS apply prudent expenditure management on items such as office supplies and their pricing that should, as much as possible, reflect actual market prices. Time for paying for goods and services should be reduced to enable Government get competitive prices in the market.

119. The respect and observance of these fiscal rules set out in the PFM law and its regulations is important and necessary to entrench fiscal discipline. Observance of the principles of public finance and fiscal responsibility principles, as stipulated by the Constitution and the PFM Act, 2012, has been as follows:

a) The National Government's development as a percent of total budget was 32.1 percent in FY 2015/16 as shown in **Table 2.4**. It is expected at 33.2 percent in FY 2016/17 and projected at 32.6 percent in the FY 2017/18 and 34.4 percent in FY 2018/19. These resources for development are above the 30 percent minimum threshold set out in the PFM law.

Table 2.4: Revenues and Expenditures, (Ksh billion)

	FY 2014/15	FY 2015/16	FY 2016/17			FY 2017/18			FY 2018/19		FY 2019/20	
Ksh. billions	Actual	Prel. Actual	Budget	Revised	Revised Final	BROP'16	BPS'17	Budget	BROP'16	BPS'17	BROP'16	BPS'17
1.0 Total Expenditure & Net Lending	1,640.0	1,781.9	2,275.6	2,048.8	2,067.0	2,236.7	2,259.9	2,288.4	2,401.5	2,428.5	2,628.5	2,642.3
1.1 Total National Govt Expenses	1,405.7	1,512.9	1,985.8	1,759.0	1,777.2	1,923.9	1,932.8	1,961.5	2,064.0	2,072.1	2,264.0	2,258.5
Total Recurrent	895.2	1,027.5	1,168.5	1,163.7	1,186.6	1,250.7	1,272.8	1,321.1	1,337.1	1,363.1	1,450.4	1,480.5
CFS (Interest & Pensions)	209.4	268.7	311.0	291.2	291.2	342.0	361.2	361.2	359.7	382.0	397.9	423.4
Total Ministerial Recurrent	685.8	758.8	857.5	872.5	895.4	908.7	911.6	959.9	977.4	981.1	1,052.5	1,057.1
o/w Wages & Salaries	298.0	307.4	360.8	360.8	360.8	378.8	398.8	398.8	397.8	434.7	417.6	456.4
Wages as % National Government Revenues/1	*33.9%*	*31.6%*	*29.7%*	*29.4%*	*29.2%*	*28.4%*	*29.0%*	*28.5%*	*26.1%*	*27.6%*	*23.3%*	*25.3%*
Development	510.5	485.4	817.3	595.3	590.6	673.2	659.9	640.4	726.9	709.0	813.6	778.0
Development as % NG expenditures	*36.3%*	*32.1%*	*41.2%*	*33.8%*	*33.2%*	*35.0%*	*34.1%*	*32.6%*	*35.2%*	*34.2%*	*35.9%*	*34.4%*
Domestic	269.4	309.8	403.7	401.3	396.6	414.8	401.5	381.9	441.1	423.2	486.3	445.5
External	241.2	175.5	413.6	194.0	194.0	258.5	258.5	258.5	285.8	285.8	327.3	332.5
Contingencies	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.7	5.0	5.0	5.0	5.0
1.2 County Allocation	229.3	264.0	284.8	284.8	284.8	307.9	304.2	304.2	332.4	328.5	359.5	354.9
2.0 Total Revenues	1,107.8	1,237.9	1,500.5	1,512.3	1,518.7	1,640.9	1,678.6	1,706.0	1,856.2	1,903.1	2,154.3	2,157.5
3.0 Total National Government Revenues (Incl. A-I-A)	878.4	973.8	1,215.7	1,227.5	1,233.9	1,333.0	1,374.3	1,401.8	1,523.7	1,574.6	1,794.8	1,802.6
4.0 National Government Domestic Borrowing (net)	251.1	202.3	236.1	215.0	226.8	323.4	319.7	320.7	274.2	340.1	207.7	209.0
of which Sovereign Bond Proceeds	140.5	-	-	-	-	-	-	-	-	-	-	-
Others	110.6	202.3	236.1	215.0	226.8	323.4	319.7	320.7	274.2	340.1	207.7	209.0

Source: National Treasury

b) On *compensation of employees*, the share to National Government revenues was 31.6 percent in FY 2015/16, and is projected at 29.7 percent in FY 2016/17 and at 29.0 percent in the FY 2017/18. These ratios demonstrate the commitment to the fiscal responsibility principle of ensuring that the national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations 26(1)(a).

c) Another fiscal responsibility principle requires that the national government's borrowings be used only for the purpose of financing development expenditure and not for recurrent expenditure. This principle continues to be adhered to by the government ensuring that its policy as set out in the Medium Term Debt Management Strategy and other policy documents requires that external financing is done only for development purposes.

d) The National government is required to maintain Public debt and obligations at a sustainable level as approved by Parliament. The Government borrowing level is set in the Medium Term Debt Strategy approved by the National Assembly. The strategy aims at ensuring public debt sustainability and minimizing the level of contingent liabilities. The Government is committed to adherence to this principle at all times. Our debt ratios compared with internationally recognized threshold continues to show that our debt level remains sustainable (**Tables 2.5a and 2.5b**). The baseline public debt path remains consistent with the EAC convergence criteria (deficit and debt) and below the relevant public debt benchmark.

Table 2.5a: Kenya's Public Debt Sustainability Indicators

Indicator	Threshold	position							
		2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2025**
PV of Public Sector Debt to GDP ratio	74	42.9	45.8	48.3	48.5	48.5	47.9	47.0	40.9
PV of Public Sector Debt to Revenue ratio	300	221.1	231.8	237.8	232.0	228.1	224.5	218.0	187.6
Debt Service to Rrevenue ratio	30	41.0	30.4	30.0	34.7	28.8	32.2	26.4	22.0

Source: IMF Staff report for Kenya, March 2016

Table 2.5b: Kenya's External Debt Sustainability Indicators

Indicator	Threshold	position							
		2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2025**
PV of External Debt to GDP ratio	50	30.9	35.7	38.3	39.6	40.1	41.6	42.6	47.6
PV of External Debt to Export ratio	200	97.0	118.5	140.9	138.8	138.0	134.3	134.6	130.3
PV of External Debt to Revenue ratio	300	91.1	109.5	122.2	118.6	116.5	114.5	114.4	109.3
Debt Service to Export ratio	25	16.6	6.4	9.0	14.8	9.1	13.9	8.7	9.7
Debt Service to Revenue ratio	22	15.6	5.9	6.9	12.7	7.7	11.9	7.4	8.1

Source: IMF Staff report for Kenya, March 2016

e) To manage fiscal risks prudently as required, the Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications on the budget. A detailed Annex on the Specific Fiscal Risks is prepared as part of the Budget Policy Statement. The Government also takes into account the fiscal risks arising from contingent liabilities, impact of the Public Private Partnership and Financial Sector Stability. Further, every year a contingency provision of Ksh 5.0 billion is factored in the budget to cater for urgent and unforeseen expenditure.

f) On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, in the FY 2014/15 Government simplified and modernized the VAT legislation and consolidated all the appeals in the tax legislation to a single legislation. Similarly in the FY 2015/16, modern and simplified Excise Duty and Tax Procedure legislations were enacted. A review of the Income Tax Act will commence shortly. These reforms are intended to lock in predictability and enhance compliance with the tax system and ensure stability in tax revenue flows.

2.6 Economic Outlook

2.6.1 External Environment

120. The global growth for 2016 is estimated to expand by 3.1 percent, a slowdown from a growth of 3.2 percent recorded in 2015 (**Table 2.6**). The recovery is expected to gather some pace in 2017 and beyond, driven primarily by developments in emerging market and developing economies, as conditions in stressed economies gradually normalize.

121. Economic growth in advanced economies is expected to decline slightly in 2016 compared to 2015 and then rise gradually. The decline is due to: weak current demand and a lower equilibrium real interest rate; the slowdown and rebalancing in China, weakening global trade; decline in commodity prices, a windfall gains for most advanced economies but sizable losses in disposable income for commodity exporters.

122. A few emerging market and developing economies have experienced deep recessions that have dragged global activity over 2015 and 2016. They have been affected by generalized slowdown in advanced economies; rebalancing in China; the adjustment to lower commodity prices; an uncertain external environment; and geopolitical tension and conflict in some countries and regions. To avert this, the emerging market economies require demographic transition and export diversification.

123. However, with declining commodity prices, depreciating currencies of some emerging market economies, and increasing financial market volatility, downside risks to the global outlook have risen, particularly for emerging market and developing economies.

Table 2.6: Growth Projections for Selected Regions/Countries

REGION/COUNTRY	WEO GDP OCTOBER 2016				
	Actual			Projected	
	2013	2014	2015	2016	2017
World	**3.3**	**3.4**	3.2	**3.1**	**3.4**
Advanced Economies	**1.1**	**1.9**	**2.1**	**1.6**	**1.8**
USA	1.5	2.4	2.6	1.6	2.2
Euro Area	-0.3	1.1	2.0	1.7	1.5
Japan	1.6	0.0	0.5	0.5	0.6
UK	1.7	3.1	2.2	1.8	1.1
Canada	2.0	2.5	1.1	1.2	1.9
Emerging and Developing Economies	**5.0**	**4.6**	**4.0**	**4.2**	**4.6**
Emerging and Developing Asia	***7.0***	***6.8***	***6.6***	***6.5***	***6.2***
China	7.7	7.3	6.9	6.6	6.0
India	6.9	7.2	7.6	7.6	7.6
MENA	***2.3***	***2.7***	***2.3***	***3.4***	***3.4***
Sub-Saharan Africa	***5.2***	***5.1***	***3.4***	***1.4***	2.9
South Africa	2.2	1.6	1.3	0.1	0.8
Nigeria	5.4	6.3	2.7	-1.7	0.6

Source: October 2016 World Economic Outlook

124. Growth in Sub-Saharan Africa is expected to weaken from 3.4 percent in 2015 to 1.4 percent in 2016, occasioned by the repercussions of declining commodity prices, particularly those for oil, as well as lower demand from China, the largest single trading partner of sub-Saharan Africa, and the tightening of global financial conditions for the region's frontier market economies. Among the region's oil importers, a majority will continue to experience solid growth, especially low-income countries, where investment in infrastructure continues and private consumption remains strong. The growth will pick up in 2017 to 2.9 percent, driven by sustained infrastructure investment; buoyant services sectors, and strong agricultural production, even as oil-related activities provide less support.

2.6.2 Kenya's Macroeconomic Prospects

125. Kenya's economic growth prospects for the FY 2017/18 and the medium term takes into account the global slower growth in demand, particularly investment, which is especially pertinent to generate international trade flows in the form of capital goods and intermediate inputs. Further, it takes cognizance of the domestic environment including the general election to be held in August 2017. The growth profile accommodates the strategic objectives of the Government as outlined in the second Medium Term Plan (MTP) of Vision 2030, considering progress made in implementation of key projects.

126. The outlook, therefore points to a continued robust growth, lower fiscal deficits, contained inflation within the target range and a gradual improvement in the external current account balance.

127. Real GDP is projected to expand by 6.0 percent in FY 2016/2017, 6.2 percent in FY 2017/2018, 6.5 percent in FY 2018/2019 and. 6.6 percent by FY 2019/20 **(Table 2.7 and Annex Table 1).** This high growth will be supported by ongoing investments in infrastructural development, resilient domestic demand, continued recovery in the tourism sector and growth of exports in the sub region. In addition, the growth will be supported by structural reforms aimed at improving competitiveness of the private sector and promoting overall productivity in the economy.

128. Inflation is currently within set target and is expected to remain so in the medium term underpinned by prudent monetary policy by the Central Bank of Kenya. Interest rates have declined under the new interest rate regime following assent to the Banking (Amendment) Act, 2015. The interest rates are expected to remain low over the projection period. At the same time, the Kenya Shilling exchange rate is expected to remain stable and competitive.

129. Kenya's external position is projected to strengthen over the medium term supported by a narrower current account deficit due to low international oil prices, a slowdown in consumer imports, improved earnings from tea and horticulture exports, and the resilient diaspora remittances

130. The fiscal policy aims at supporting rapid and inclusive economic growth, ensuring sustainable debt position and at the same time supporting the devolved system of Government for effective delivery of services. Consistent with this objective, the policy is set to gradually reducing fiscal deficits, with a focus on

higher revenues to protect growth enhancing public investments and social spending. Fiscal deficit, as a percent to GDP, is projected to decline to 6.9 percent in FY 2016/17 and 6.4 percent in FY 2017/18 which takes into account one off 2017 General election related expenditures. Thereafter the deficit is projected to decline to 4.1 percent of GDP in 2019/20.

131. The revenue performance will be underpinned by on-going reforms in tax policy and revenue administration while in expenditure side austerity measures will be taken to reduce current spending and improve resource absorption for development purposes especially infrastructure development.

Table 2.7: Macroeconomic Indicators Underlying the Macroeconomic Policy Framework

	2014/15	2015/16		2016/17			2017/18			2018/19			2019/20	
	Act.	Rev. Budget	Prel.	Budget'16	BROP'16	BPS'17	BPS'16	BROP'16	BPS'17	BPS'16	BROP'16	BPS'17	BROP'16	BPS'17
	Annual percentage change													
National Account and Prices														
Real GDP	5.5	5.8	5.8	6.1	6.1	6.0	6.3	6.3	6.2	6.5	6.6	6.5	6.7	6.6
GDP Deflator	8.6	6.8	7.6	6.2	5.3	6.1	5.6	5.8	5.5	5.4	5.9	5.4	4.8	5.6
CPI Index (eop)	6.5	5.3	6.0	5.0	5.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	6.6	5.6	6.4	5.0	5.6	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of Trade (-deterioration)	-0.2	0.3	0.7	-0.9	1.0	2.1	0.9	0.6	1.5	-1.0	0.8	1.0	0.0	-0.5
	in percentage of GDP													
Investment and saving														
Investment	22.5	23.5	23.3	22.8	24.6	23.9	24.5	25.1	24.4	23.8	26.4	25.9	27.2	26.5
Gross National SavingS	14.4	16.4	16.8	17.4	19.4	17.8	19.2	19.8	18.3	18.2	21.2	19.9	22.1	20.9
Central government budget														
Total revenue	19.1	20.3	18.8	20.7	20.1	20.4	21.1	20.1	20.6	21.3	20.3	20.6	21.9	21.5
Total expenditure and net lending	28.2	29.6	27.1	31.3	28.6	27.8	27.6	27.4	27.6	26.3	26.2	26.2	26.8	26.4
Overall balance (commitment basis) excl. grants	-9.2	0.0	-8.3	-10.7	-8.5	-7.4	-6.2	-7.3	-7.0	0.0	-6.0	-5.7	-4.8	-4.8
Overall balance (commitment basis) incl. grants	-8.4	0.0	-7.5	-9.7	-8.1	-6.9	-5.4	-6.7	-6.4	0.0	-5.3	-5.0	-4.0	-4.0
Nominal public debt, net	44.8	46.5	48.7	49.1	47.4	45.3	45.8	49.1	47.4	45.6	49.3	48.7	50.0	49.1
External sector														
Current external balance, including official transfers	-8.1	-7.2	-6.6	-5.4	-5.3	-6.1	-5.2	-5.3	-6.1	-5.6	-5.1	-6.0	-5.0	-5.6
Gross international reserve coverage in months of imports	4.6	4.8	4.8	5.1	5.1	5.1	5.3	5.3	5.3	5.4	5.4	5.4	5.5	5.5

Source: National Treasury

2.6.3 Risks to the Economic Outlook

132. Risks to the outlook for FY 2017/18 and the medium term emanate from both external and domestic sources. They include weaker than expected growth in the global economy, continued low demand in advanced and emerging market economies as well as the low commodity prices that may impact negatively on our exports and tourism activities.

133. Further, the uncertainty in the global markets due to potential tightening of US monetary policy and consequent increase in the US interest rates, Britain's vote

to exit the European Union and persistent geopolitical uncertainty in the international oil markets may have an impact on our economy.

134. Domestically, the economy is exposed to risks including any occurrence of adverse weather conditions, public expenditure pressures especially recurrent expenditures pose a fiscal risk, and potential uncertainties associated general, thereby dampening short-term growth prospects.

135. The government will, however, continue to monitor the above risks and will undertake appropriate measures to safeguard macroeconomic stability wherever necessary.

2.7 Fiscal Policy and Outlook

136. The 2017 Medium-Term Fiscal Policy aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position and at the same time supporting the devolved system of Government for effective delivery of services. Our fiscal policy also indicates our deliberate convergence path towards the East African Community Monetary Union protocol's fiscal targets. Specifically, the Fiscal policy underpinning the FY 2017/18 Budget and MTEF aims at raising revenue from an estimated 20.4 percent of GDP in FY 2016/17 to 20.6 percent of GDP in FY 2017/18 and 21.5 percent of GDP over the medium term while containing growth of total expenditure. Total expenditures and net lending is projected to decrease from 27.8 percent of GDP in FY 2016/17 to 27.6 percent of GDP in FY 2017/18 and 26.4 percent of GDP over the medium term.

137. The overall fiscal deficit inclusive of grants is therefore projected to decrease from 6.9 percent of GDP in FY 2016/17 to 6.4 percent in FY 2017/18 and then decline to 4.0 percent of GDP over the medium term. The higher deficit continues to reflect the implementation of the one off SGR project and general election expenses. Including grants and excluding expenditures related to the SGR, the deficit declines from 5.5 percent of GDP in FY 2017/18 to 3.6 percent of GDP over the medium term.

138. This consolidation process will ensure smoother transition towards the EAC convergence criterion on the deficit inclusive of grants of 3.0 percent of GDP by FY 2020/21. Embedded in this policy is the aim to continue containing the growth of recurrent expenditures in favour of capital investment so as to promote sustainable and inclusive growth.

2.8 Deficit Financing Policy

139. The government will continue borrowing from domestic and external sources mainly on concessional terms. Non-concessional external borrowing will be limited to projects with viable expected returns and the ceiling stated in the Medium-Term Debt Strategy paper. The Government will also continue diversifying its sources of funds through accessing international capital markets. Other alternative sources of financing the government may explore over the

medium term include; the Islamic financing instruments, the Samurai market, Panda bonds and Diaspora bonds.

140. The Government's borrowing plans remain anchored in the medium term debt management strategy which aims at ensuring public debt sustainability. The Government will ensure that the private sector is not crowded out through high domestic borrowing levels. This is to ensure that their participation in the development agenda is guaranteed in order to accelerate economic activities. This will be achieved by ensuring transparency in the market through issuance of the borrowing calendar and introduction of various products/initiatives aimed at widening the investor base and increasing the retail participation in the government securities market.

141. On the external financing front, the Government will minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by adopting a deliberate approach in diversifying currency structure so as to hedge against exchange rate risks especially to new loan commitments. A cautious approach will be adopted in the issuance of external Government loan guarantees and provision of government support to minimize the risk exposure to contingent liabilities.

III. FY 2017/18 BUDGET AND THE MEDIUM TERM

142. The resource envelope available for allocation among the programmes is based on the fiscal policy and medium term fiscal framework which is explained as follows:

Revenue Projections

143. The fiscal framework for the FY 2017/18 Budget is set based on macroeconomic policy framework set out in Chapter II.

144. The FY 2017/18 budget targets revenue collection including Appropriation-in-Aid (AIA) of Ksh 1,706.0 billion (20.6 percent of GDP) from Ksh 1,518.7 billion (20.4 percent of GDP) in FY 2016/17**(Annex Tables 2 and 3)**. This performance will be underpinned by on-going reforms in tax policy and revenue administration, through automation and inter agency collaboration and connectivity. The Government will also complete the review the Income Tax law so as to modernize it and align it to international practice. Ordinary revenues for the budget year is projected at Ksh 1,549.4 billion (18.7 percent of GDP) in FY 2017/18 up from the projected Ksh 1,374.5 billion (18.5 percent of GDP) in FY 2016/17.

Expenditure Projections

145. In the FY 2017/18, total expenditure and net lending are projected at Ksh 2,288.4 billion (or 27.6 percent of GDP) from the estimated Ksh 2,067.0 billion (27.8 percent of GDP) in the FY 2016/17 budget. Recurrent expenditures will amount to Ksh 1,339.1 billion (16.2 percent of GDP) compared with Ksh 1,186.6 billion (16.0 percent of GDP) in FY 2016/17.

146. The wages and salaries for the National Government (excluding MDAs whose budget is captured as current grants/transfer) in FY 2017/18 is projected at 4.8 percent of GDP.

147. Expenditure ceilings on goods and services for sectors/ministries are based on funding allocation in the FY 2016/17 budget as the starting point. The ceilings are then adjusted to take into account one-off expenditures in FY 2017/18.

148. The ceiling for development expenditures including foreign financed projects (including net lending) in nominal terms amounts to Ksh 640.4 billion in the FY 2017/18. Most of the outlays are expected to support critical infrastructure. Part of the development budget will be funded by project loans and grants from development partners, while the balance will be financed through domestic resources.

149. A contingency of Ksh 5.0 billion is provided for in FY 2017/18. In addition, Ksh 7.7 billion is provided for the Equalization Fund.

Deficit Financing

150. Reflecting the projected expenditures and revenues, the fiscal deficit (excluding grants), is projected at Ksh 582.4 billion (equivalent to 7.0 percent of GDP) in FY 2017/18 against the estimated fiscal deficit of Ksh 548.3 billion (7.4 percent of GDP) in FY 2016/17. Including grants, the fiscal deficit is projected at Ksh 530.9 billion (6.4 percent of GDP) in FY 2017/18 against the estimated fiscal deficit of Ksh 516.5 billion (6.9 percent of GDP) in FY 2016/17.

151. Excluding expenditures related to the Standard Gauge Railway (SGR) which is a one off expenditure, the deficit for the FY 2017/18 amounts to Ksh 458.9 billion or 5.5 percent of GDP.

152. The fiscal deficit in FY 2017/18, will be financed by net external financing of Ksh 221.1 billion (2.7 percent of GDP), Ksh -10.9 billion or -0.1 percent of GDP (repayment to Central Bank of Kenya) and Ksh 320.7 billion (3.9 percent of GDP) from net domestic borrowing.

3.1 Budgetary Allocations for the FY 2017/18 - 2019/20 MTEF

153. The budgetary allocations to the three arms of Government as well as sharable revenues to the Counties is summarised in **Table 3.1** as follows:

Table 3.1: Summary Budget Allocations for the FY 2017/18 - 2019/20 MTEF (Ksh Million)

	Details	2016/2017	2017/2018	2018/2019	2019/2020
1	National Government	1,628,448.9	1,551,057.1	1,676,069.2	1,735,731.4
2	Parliament	31,480.0	30,915.1	31,693.5	32,646.1
3	The Judiciary	17,758.5	18,006.6	19,372.9	20,430.3
4	The County Government	284,784.6	304,236.2	328,512.1	354,875.8
	Total	**1,962,472.0**	**1,904,215.0**	**2,055,647.7**	**2,143,683.7**

Source: National Treasury

Key Priorities for the 2017/18 Medium Term Budget

154. The budget submissions by MDAs will critically be reviewed with a view to remove any non-priority expenditures and shift the savings to the priority programmes. The Second MTP (2013-2017) and the priorities of the Jubilee Administration will guide resource allocation.

155. The Government is committed to improving the implementation and absorption capacity of projects. In this regard, we shall continue to reflect specific projects planned for implementation in the development budget. This will help in monitoring and reporting on project implementation.

156. The budget for FY 2017/18 will focus on the following:

- Capital investments in Energy, Infrastructure, ICT sector and other development expenditure in general. This reflects the priority assigned to capital investments in our growth objectives. The Energy, Infrastructure and ICT Sector will receive 26.7 percent of total discretionary expenditures. This reflects Government's commitment in improving infrastructure countrywide for faster growth.

- Enhancing support to social sectors (Social Protection, Health and Education). These will continue to receive the bulk of budgetary resources especially in education and health sectors. The Social Sectors will receive 29.2 percent of total discretionary expenditures.

157. Other priority areas including security, governance, justice, and agriculture will be given priority in the allocation of resources.

Medium-Term Expenditure Estimates

158. **Table 3.2** provides the projected baseline ceilings for the FY 2017/18 and the medium term, classified by sector.

Table 3.2: Medium Term Sector Ceilings, 2017/18 - 2019/20 (Ksh Million)

SECTOR		Printed Estimates	BPS Ceiling	Projection		% Share of the Total Expenditure			
						Estimates	BPS Ceiling	Projections	
		2016/17	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Agriculture, Rural & Urban Development	Sub_Total	46,544.2	42,057.1	51,225.0	52,629.0	2.8%	2.6%	3.0%	2.9%
	Rec. Gross	15,752.4	17,017.0	17,429.0	17,853.0	0.9%	1.1%	1.0%	1.0%
	Dev. Gross	30,791.9	25,040.1	33,796.0	34,776.0	1.8%	1.6%	2.0%	1.9%
Energy, Infrastructure & ICT	Sub_Total	529,162.9	426,957.8	491,344.4	507,931.0	31.5%	26.7%	28.4%	28.4%
	Rec. Gross	41,945.7	66,465.6	70,077.3	70,555.6	2.5%	4.2%	4.1%	3.9%
	Dev. Gross	487,217.1	360,492.2	421,267.1	437,375.4	29.0%	22.5%	24.4%	24.5%
General Economic & Commercial Affairs	Sub_Total	23,666.2	18,971.0	19,991.0	20,788.0	1.4%	1.2%	1.2%	1.2%
	Rec. Gross	12,604.4	9,617.0	9,800.0	9,948.0	0.8%	0.6%	0.6%	0.6%
	Dev. Gross	11,061.8	9,354.0	10,191.0	10,840.0	0.7%	0.6%	0.6%	0.6%
Health	Sub_Total	60,269.9	54,906.1	61,969.7	62,751.9	3.6%	3.4%	3.6%	3.5%
	Rec. Gross	28,990.1	29,609.1	30,107.9	30,383.1	1.7%	1.9%	1.7%	1.7%
	Dev. Gross	31,279.8	25,297.0	31,861.8	32,368.8	1.9%	1.6%	1.8%	1.8%
Education	Sub_Total	339,924.4	372,553.6	388,949.4	398,397.7	20.3%	23.3%	22.5%	22.3%
	Rec. Gross	315,749.1	350,251.5	363,937.1	373,033.1	18.8%	21.9%	21.1%	20.9%
	Dev. Gross	24,175.3	22,302.1	25,012.3	25,364.7	1.4%	1.4%	1.4%	1.4%
Governance, Justice, Law & Order	Sub_Total	195,518.0	193,598.4	189,292.3	195,135.2	11.7%	12.1%	11.0%	10.9%
	Rec. Gross	165,821.4	172,222.0	162,317.9	166,481.8	9.9%	10.8%	9.4%	9.3%
	Dev. Gross	29,696.6	21,376.4	26,974.4	28,653.4	1.8%	1.3%	1.6%	1.6%
Public Administration & International Relations	Sub_Total	224,909.7	247,440.0	259,996.5	269,084.5	13.4%	15.5%	15.1%	15.0%
	Rec. Gross	114,907.0	144,042.3	140,012.5	141,890.5	6.8%	9.0%	8.1%	7.9%
	Dev. Gross	110,002.8	103,397.7	119,984.0	127,194.0	6.6%	6.5%	6.9%	7.1%
National Security	Sub_Total	124,045.2	130,205.1	134,501.0	138,954.0	7.4%	8.1%	7.8%	7.8%
	Rec. Gross	124,000.2	130,160.1	134,456.0	138,909.0	7.4%	8.1%	7.8%	7.8%
	Dev. Gross	45.0	45.0	45.0	45.0	0.0%	0.0%	0.0%	0.0%
Social Protection, Culture & Recreation	Sub_Total	44,647.5	43,367.7	48,330.3	49,575.6	2.7%	2.7%	2.8%	2.8%
	Rec. Gross	18,199.2	18,782.4	20,219.2	20,904.5	1.1%	1.2%	1.2%	1.2%
	Dev. Gross	26,448.2	24,585.3	28,111.1	28,671.1	1.6%	1.5%	1.6%	1.6%
Environment Protection, Water & Natural Resources	Sub_Total	88,999.4	69,922.4	81,536.8	93,560.5	5.3%	4.4%	4.7%	5.2%
	Rec. Gross	19,556.4	21,739.2	21,831.2	22,008.2	1.2%	1.4%	1.3%	1.2%
	Dev. Gross	69,442.9	48,183.2	59,705.6	71,552.3	4.1%	3.0%	3.5%	4.0%
TOTAL	TOTAL	1,677,687.4	1,599,979.2	1,727,136.4	1,788,807.4	100.0%	100.0%	100.0%	100.0%
	Rec. Gross	857,526.0	959,906.2	970,188.1	991,966.7	51.1%	60.0%	56.2%	55.5%
	Dev. Gross	820,161.4	640,073.0	756,948.3	796,840.7	48.9%	40.0%	43.8%	44.5%

Source: National Treasury

Allocation of the Baseline Ceilings

159. The baseline estimates reflects the current ministerial spending levels in sector programmes. In the recurrent expenditure category, non-discretionary

expenditures take first charge. These include payment of statutory obligations such as interest payments, salaries for Constitutional offices and pensions.

160. Compensation of employees covering staff in the line ministries providing services for National Government functions accounts for about 4.8 percent of the GDP. Other recurrent expenditures that include operations and maintenance account for 4.7 percent of GDP.

161. Development expenditures have been shared out on the basis of the MTP priorities and strategic interventions. The following criteria was used in apportioning capital budget:

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

- *Counterpart funds:* priority was also given to adequate allocations for donor counterpart funds. Donor counterpart funds are the portion that the Government must finance in support of the projects financed by development partners.

- *Strategic policy interventions:* priority was also given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation.

Finalization of Spending Plans

162. The finalization of the preparation of the detailed budgets will entail thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. As detailed budgets are scrutinized and the resource envelope firmed up, in the event that additional resources become available, government will utilize them to accommodate key national strategic priorities. Specifically, the following will receive priority:

- Intervention identified during the stakeholders consultation for 2017/18 MTEF budget;
- Strategic intervention in food security enhancing programmes, expansion of energy connection to rural areas and public facilities and other policy interventions to enhance regional integration and social equity; and
- Specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

3.2 Details of Sector Priorities

163. The medium term expenditure framework for 2017/18 – 2019/20 ensures continuity in resource allocation based on prioritized programmes aligned to the Second MTP (2013-2017) of Vision 2030. It also focuses on strategic policy initiatives of the Jubilee Administration to accelerate growth, employment creation

and poverty reduction. The recent achievements and key priority targets for each sector are based on the sector reports that can be accessed on the National Treasury website **www.treasury.go.ke.**

Agriculture, Rural & Urban Development Sector

164. The overall goal of the sector is to attain national food security and sustainable management of land and the blue economy.

165. During the FY 2017/18-2019/20 MTEF period, focus will be to increase productivity and outputs in the sector; improve market access and trade; enhance national food security; sustainably exploit the Blue Economy; strengthen institutional capacity for improved service delivery; enhance the role of youth and women in the sector; enhance accessibility, equity and sustainable management of land resource; and improve storage, access and retrieval of land and land resource data and information.

166. In order to implement the prioritized programmes, the Sector has been allocated Ksh 42.1 billion, Ksh 51.2 billion and Ksh 52.6 billion for the financial years 2017/2018, 2018/2019 and 2019/2020 respectively. Recurrent expenditure allocation is Ksh 17.0 billion, Ksh 17.4 billion and Ksh 17.9 billion for FY 2017/18, FY 2018/19 and FY 2019/20 respectively, whereas Development expenditure for the same period is Ksh 25.0 billion, Ksh 33.8 billion, and Ksh 34.8 billion.

Energy, Infrastructure and Information, Communication and Technology Sector

167. The sector aims at promoting and sustaining cost-effective public utility infrastructural facilities and services in the areas of energy, transport, housing, urban and ICT and telecommunications.

168. Some of the major projects prioritized in the MTEF period FY 2017/18 – 2019/20 include: 5,538MW of additional installed electricity generation capacity; Northern Corridor Transport Improvement Project; Lamu Port Southern Sudan and Ethiopia Transport corridor (LAPSSET); Standard Gauge Railway; Slum improvement projects, completion of Economic Stimulus Projects (retail and market hubs), construction of civil servant Houses, Improvement of services within Nairobi Metropolitan region, Konza Technopolis; National Optic Fiber Backborne Infrastructure (NoFBI) Phase II, promotion and development of the maritime sector, Digital Literacy Programme and County Connectivity; Construction of houses for Police and Prisons services, exploration and appraisals in oil blocks and Early Oil Pilot Scheme (EOPS) to enhance early commercialization of the crude oil discoveries; Kenya Petroleum Technical Assistance Project (KEPTAP).

169. In order to implement the prioritized programs, the Sector has been allocated Ksh 427.0 billion, Ksh 491.3 billion and Ksh 507.9 billion for the financial years 2017/18, 2018/19 and 2019/20 respectively. Recurrent expenditure for the medium-term is Ksh 66.5 billion, Ksh 70.1 billion and Ksh 70.6 billion

respectively. The development expenditure for the same period is Ksh 360.5 billion, Ksh 421.3 billion, and Ksh 437.4 billion respectively.

General Economic and Commerce Affairs Sector

170. The strategic objectives of the sector, include; Improvement of the business environment; Mobilizing savings and investment resources for national development; Improving governance and accountability in the cooperative movement; Promoting regional integration and cooperation; and, Supporting growth and development of domestic and international trade.

171. During the FY 2017/18 – 2019/20 MTEF period the sector focus will be, among others, to: Operationalize the Special Economic Zones (SEZ) Act 2015; develop new standards by KEBS; Increase KIE credit disbursed; install new milk processing machinery and equipment at New KCC; Develop Risk Based Supervision system (RBS) for Sacco Societies Regulatory Authority (SASRA); Develop an Integrated information management system for co-operatives; Improve accessibility of agricultural products/commodities to markets; equip Weights & Measures laboratories; Investigate and prosecute contraband and counterfeit cases; Facilitate potential and existing enterprises including youth and women in export business to increase exports; Comply with harmonized EAC tariffs and Common External Tariff; Reduce Non-Tariff Barriers; Commission One Stop Border Posts (OSBP) and establish a Monetary Institute for the East African Community; tourist establishments; Hold cultural tourism festivals and promote tourism to increase earnings

172. To implement the prioritized programmes, the Sector has been allocated Ksh 19.0 billion, Ksh 20.0 billion and Ksh 20.8 billion for the financial years 2017/2018, 2018/2019 and 2019/2020 respectively. Recurrent expenditure allocation for FY2017/18, FY2018/19 and FY2019/20 is Ksh 9.6 billion, Ksh 9.8 billion and Ksh 9.9 billion respectively. The Development expenditure for the same is Ksh 9.4 billion, Ksh 10.2 billion, and Ksh 10.8 billion respectively.

Health

173. The general health sector goal is to attain the highest possible health standards in a manner responsive to the population needs; it aims to achieve this goal through supporting provision of equitable, affordable and quality health and related services at the highest attainable standards to all Kenyans.

174. Key projects to be implemented in the FY2017/18 MTEF period include: undertaking provision of water and sanitation activities in the counties in order to improve health and hygiene to the citizens, construction of a radiation waste management facility that is aimed at reducing radiation and radioactive substance away from the environment and people, rehabilitation of hospitals across the country, free maternity services for the deliveries in public hospitals and accredited private hospitals and low cost private hospitals under new expanded free maternity program and roll out of Universal Health Coverage in order to improve efficiency

in the provision of the essential health services for Kenyans while also ensuring financial risk protection particularly for the poor and vulnerable groups.

175. In order to implement the prioritized programmes, the Sector has been allocated Ksh 54.9 billion, Ksh 62.0billion and Ksh 62.8 billion for the financial years 2017/2018, 2018/2019 and 2019/2020 respectively. The recurrent expenditure allocation for FY2017/18, 2018/19 and 2019/20 is Ksh 29.6 billion, Ksh 30.1 billion and Ksh 30.4 billion, while development expenditure allocation for the same period is Ksh 25.3 billion, Ksh 31.9 billion, and Ksh 32.3 billion respectively.

Education Sector

176. The sector's overall goal is to increase access to education and training; improve quality and relevance of education; reduce inequality as well as leverage on knowledge and skills in science, technology, and innovation for global competitiveness.

177. To meet its goal as well as contribute to economic growth, the sector has prioritized the following programmes for the 2017/18 to 2019/20 MTEF Period: Teacher resource management with recruitment of 5,000 additional teachers and promotion of the existing establishment; free primary education; free day secondary education; University Education; Technical and Vocational Education and Training (TVET) infrastructure and Research Science, curriculum reform and deepening technology (ICT). An additional allocation has been provided for the establishment of seven additional universities i.e Koitalel samoei, Bomet, Alupe, Gatundu, Tom Mboya; Kaimosi and Turkana.

178. In order to implement the prioritized programmes, the Sector has been allocated Ksh 372.5 billion, Ksh 388.9 billion and Ksh 398.4 billion for the financial years 2017/2018, 2018/2019 and 2019/2020 respectively. The recurrent expenditure allocation for FY2017/18, 2018/19 and 2019/20 is Ksh 350.3 billion, Ksh 363.9 billion and Ksh 373.0 billion, while development expenditure allocation for the same period is Ksh 22.3 billion, Ksh 25.0 billion, and Ksh 25.4 billion respectively.

Governance, Justice, Law and Order Sector

179. The sector plays a key role by creating an enabling environment for economic, social and political development of the country. It is responsible for providing security, correctional services, legal advice to Government agencies and administration of justice. It is also responsible for promoting integrity and the fight against corruption, providing prosecution services, regulating political parties, protecting witnesses and protecting human rights. Further, the Sector is charged with delimitation of electoral boundaries and management of electoral process, promotion of gender equality and inclusion of marginalized groups and communities. Additionally, the Sector plays a role in peace building and conflict management, registration services, regulation of gaming industry, provision of population management services, eradication of drugs and substance abuse, crime research and government printing services.

180. Some of the Sector's critical and priority areas in the 2017/18 to 2019/20 MTEF period include: modernization of policing services; preparation and management of the 2017 general elections; scaling-up issuance of third generation IDs; registration, regulation and funding of political parties; securitization of Somali border; national cohesion and integration initiatives; decentralization of prosecution services; modernization, automation and decentralization of key sub-sector's programmes to all the Counties; entrenchment of democracy and promotion and mainstreaming of human rights; gender equality and non-discrimination across all sub-sectors.

181. In order to implement the prioritized programmes, the Sector has been allocated Ksh 193.6 billion, Ksh 191.3 billion and Ksh 195.1 billion for the financial years 2017/2018, 2018/2019 and 2019/2020 respectively. The recurrent expenditure allocation for FY2017/18, FY2018/19 and FY2019/20 is Ksh 172.2 billion, Ksh 162.3 billion and Ksh 166.5 billion, while development expenditure allocation for the same period is Ksh 21.4 billion, Ksh 27.0 billion, and Ksh 28.7 billion respectively.

Judiciary

182. The overriding goal for the Judiciary is to provide equitable access to and expeditious delivery of justice.

183. During the MTEF period 2017/18 – 2019/20, the Judiciary will continue to implement the Dispensation of Justice programme. The objective of this programme is to implement Judiciary's Constitutional mandate which includes inter alia; dispensing justice expeditiously to all irrespective of status, promote alternative dispute mechanisms, administer justice without undue regard to procedural technicalities and promote the purpose and principles of the Constitution.

184. In order to implement the prioritized programmes, the sub-sector has been allocated Ksh 18.0 billion for FY 2017/18, Ksh 19.4 billion for FY 2018/19, and Ksh 20.4 billion for the FY 2019/20.

Public Administration and International Relations Sector

185. The Sector provides overall policy, planning, coordination and leadership for national prosperity; enhance intergovernmental relations; articulates Kenya's Foreign Policy, protect Kenya's sovereignty and enhance territorial integrity; promote prudent financial and fiscal management; oversees national legislation, public service delivery. Further, the sector promotes harmony, equity and fairness in public service remuneration and administrative justice in the public sector.

186. In the FY 2017-18 – 2019/20 MTEF period, the Sector intends to implement thirty six programmes which are aimed at fulfilling constitutional mandates; providing leadership for national unity, growth and prosperity; supporting devolution; implementing affirmative initiatives towards empowerment of youth, women and persons with disabilities; coordinating public benefits

organizations; ensuring prudent financial management in the public sector; promoting economic and commercial diplomacy; and ensuring macro-economic stability for sustainable development.

187. To implement the prioritized programmes, the Sector has been allocated Ksh 247.4 billion, Ksh 260.0 billion and Ksh 269.1 billion for the financial years 2017/18, 2018/19 and 2019/20 respectively. Recurrent expenditure for the medium-term is Ksh 144.0 billion, Ksh 140.0 billion and Ksh 141.8 billion respectively. The development expenditure for the same period is Ksh 103.4 billion, Ksh 120.0 billion, and Ksh 127.2 billion respectively.

Parliament

188. Parliament plays a crucial role in strengthening the democratic space and good governance in the country. It approves overall policy and provides leadership to National Legislation and oversight with respect to public expenditures. It also vets and approves appointment of state officers as per the provisions of the Constitution.

189. During the 2017/18-2019/20 MTEF period, the sub-sector will introduce bills to parliament; consider motions, statements, and petitions; and provide oversight over usage of public resources. It will also carry out other activities including vetting of State Officers, conduct public hearings, and prepare working policy documents on all Government sectors and conduct trainings and induction for new members after the August 2017 general elections.

190. In order to implement the prioritized programmes, the sub-sector has been allocated Ksh 30.9 billion for FY 2017/18, Ksh 31.7 billion for FY 2018/19, and Ksh 32.6 billion for the FY 2019/20.

National Security

191. The Sector is mandated with the mission of deterring aggression, defending the Republic of Kenya and providing support to civilians in maintaining peace and order. The Sector will continue to defend and protect the territorial integrity and sovereignty of Kenya and modernize its operations during the FY 2017/18 and the medium term.

192. In order to implement the prioritized programmes, sector has been allocated Ksh 130.2 billion for FY 2017/18, Ksh 134.4 billion for FY 2018/19, and Ksh 138.9 billion for the FY 2019/20.

Social Protection, Culture and Recreation Sector

193. The sector is mandated to address the issues on promotion and exploitation of Kenya's diverse culture for peaceful co-existence; enhancing Kenya's reading culture; development and promotion of sports; preservation of Kenya's heritage; promotion of cultural and sports tourism; regulation, development and promotion of the film industry; and development, research and preservation of music in the

country. The sector is also mandated with the enhancement and promotion of harmonious industrial relations; safety and health at workplaces; employment, industrial training, regulation of sports organizations and trade unions, productivity management, national human resource planning and development, social security, social assistance, children welfare and social development.

194. In order to implement the prioritized programmes, the Sector has been allocated Ksh 43.4 billion, Ksh 48.3 billion and Ksh 49.6 billion for the financial years 2017/2018, 2018/2019 and 2019/2020 respectively. The recurrent expenditure allocation for FY2017/18, 2018/19 and 2019/20 is Ksh 18.9 billion, Ksh 20.2 billion and Ksh 20.9 billion, while development expenditure allocation for the same period is Ksh 24.5 billion, Ksh 28.1billion, and Ksh 28.7 billion respectively.

Environment Protection, Water and Natural Resources

195. The overall goal of the Sector is to ensure sustainable development in a clean and secure environment. The specific objectives are to: enhance sustainable management of environment, water, irrigation and natural resources; ensure access to water and natural resources benefits for socio-economic development; enhance capacity building for environment, water and natural resources management; increase utilization of land through irrigation, drainage and land reclamation; enhance research on environment, water and natural resources for sustainable development and protect and reclaim the environment in order to establish a durable and sustainable system of development and resilience to climate change.

196. For the 2017/18 – 2019/20 MTEF period the sector has prioritized programmes intended to promote sustainable utilization and management of the environment and natural resources for socio-economic development. These programmes include: environmental management and protection, metrological services, natural resource management programme, water harvesting, irrigation, integrated regional development, mineral resource management, general administration, planning and support services.

197. In order to implement the prioritized programmes, the Sector has been allocated Ksh 69.9 billion, Ksh 81.5 billion and Ksh 93.6 billion for the financial years 2017/2018, 2018/2019 and 2019/2020 respectively. The recurrent expenditure allocation for FY2017/18, 2018/19 and 2019/20 is Ksh 21.7 billion, Ksh 21.8 billion and Ksh 22.0 billion, while development expenditure allocation for the same period is Ksh 48.2 billion, Ksh 59.7 billion, and Ksh 71.6 billion respectively.

3.3 Public Participation/ Sector Hearings and Involvement of Stakeholders

198. The Sector Working Groups (SWG) provide an all-inclusive process for identifying and prioritizing Government Projects and activities by stakeholders.

The involvement of stakeholders is a Constitutional requirement. The process is commenced early in the budget preparation process with the launch of SWGs.

199. The Constitution provides that the public should be involved in the budget making process through public participation. Further, the Public Finance Management (PFM) Act, 2012 section 25 (5) requires the National Treasury while preparing the Budget Policy Statement to seek views of various institutions and the public. In this regard, the sector priorities were subjected to public sector hearings in October 2016. All the sectors incorporated views arising from the Public during the sector hearings.

200. Specific issues raised during the public sector hearings under the various Sector Working Groups included:

Agriculture, Rural and Urban Development Sector

201. There was concern about the deficit budget and the public felt that the budget of the sector needs to be reviewed upwards due to the importance and contribution of the sector to the economy. Strategic partnerships with donors and other stakeholders could be enhanced as a way of also addressing the deficit. The sector noted this and agreed on the importance of strengthening the linkages.

202. The public stated that post-harvest equipment faces a number of taxes like import duty and VAT, and wanted these taxes be removed as for the other agricultural production implements to boost and curb post-harvest losses. The sector stated that they are in talks with National Treasury to zero rate these equipment.

Energy, Infrastructure and ICT Sector

203. The public was pleased with the progress in catering for people with disability in terms of infrastructure through having universal design in construction of roads and houses. The sector noted this and offered assurance that they would keep enforcing these in the various infrastructure put up to ensure the various groups of people are catered for.

204. There were also calls by the public to have affordable housing to the masses in addition to providing affordable safe energy. The sector stated that they are liaising with the private sector to provide housing to the public through using affordable building technologies. They are also improving access to electricity which is now at 57-58 percent and they target to increase to 70 percent in 2017.

General Economic and Commercial Affairs Sector

205. With regards to tourism, the public noted that arrivals in tourism in MTEF figures in the presentation figures were a reduction even from the strategic plan/Vision 2030. It was explained that the figures were revised downwards especially owing to the security challenges that affected tourism and also the budgetary provisions.

206. Emphasis was given on linkages with the social protection sector in giving innovations to cash transfers. Especially in skills training and households budgeting and investment to ensure the transfers sustain and improve livelihoods. It was also recommended that priority areas should include robust interaction with the civil society in addition to linking the report not only to the MTP II but also to the Kenya industrial transformation programme. The sector welcomed the recommendation.

Health

207. The public commended the sector on the transformation KNH has had in terms of service delivery, equipment, infrastructure and quality of service and hoped this will be up scaled and maintained.

208. As regards disability, the sector was asked to take not of cerebral palsy whose prevalence was on the rise. In addition they are to conduct training and specialised services for staff to deal with the various kinds of disabilities.

209. The public sought to understand the relationship between ministry and county governments in the provision of health services. The sector informed the public that the ministry's role is to set norms, standards and regulation and they do work in collaboration and cooperation with county government through the inter-governmental forum up to the higher levels of IBEC and the Summit.

Education

210. On teacher training institutions the public wanted to know what the sector is doing to ensure quality. The sector said they achieve this by ensuring capitation and they have set aside funds to improve infrastructure, also evaluating the minimum entry level for their teachers in training institutions.

211. There was also concern that TVET allocation in HELB being too low to cater for the fees charged by institutions. The HELB said that it is working with the ministry to ensure that the amounts provided go to the needy students and they are increasing their loan recovery in order to increase loan for funding. They are also working with other bodies that fund education to administer the funds. The sector was also urged to starting a campaign on TVET loans to ask student to apply for the loan through TVET to create awareness and increase the uptake of this new product.

212. Further the public wanted to know how the sector compensates counties that fund school activities. It was clarified that primary education is a national government function funded at the national level but if counties fund education related activities then it is a complementary activity unless it is Early Childhood Development (ECD) which is a clearly stipulated function.

213. The relocation of KTTC was also questioned and it was explained to be government strategic decision due to its interaction with other stakeholders and it is of national importance.

Governance, Justice, Law and Order Sector

214. The public wished to know IEBCs state of preparedness for 2017 election. They were informed that this is informed by the IEBC election preparedness plan and also the strategic plan and they will endeavour to carry out the elections within the approved budget and timelines.

215. The sector was also asked to capture commitments from donor funding to indicate the counterpart funding to facilitate funding. The sector responded that donor commitments are still being firmed up and once this is done the counterpart will be given and indicated in the BPS.

216. The public also called for the need to open the space of engagement between police, citizens and CSOs to dispense the fears, create a cordial relationship and address pertinent issues rather than having reactive tendencies after something displeasing has happened.

Public Administration and International Relations Sector

217. Regarding the initial tensions between national and county government the public was pleased and commended efforts of working together for the developmental agenda of the country. This relationship was as a result of a robust intergovernmental relations body put in place that engages with the 2 levels of government to bring out a more cordial relationship.

218. The public also reiterated the need to cascade intergovernmental relations to the county levels and lower levels e.g. public participation and civic education. This is together with strengthening capacities for counties to improve own revenue generation and diversify the revenue sources. The sector stated that there is a public participation guideline and they will put effort to cascade it to the counties and that the structures are operationalized. Further the National Treasury is working with governors on how counties can diversify their revenue base and there is progress being done.

Social Protection Culture and Recreation Sector

219. The public raised concern over the many strikes especially in the counties which are attributed to challenges in the Ministry of labour on staff shortage in labour offices and wanted to know the mechanisms in place to fill the voids. The sector responded that there are plans to hire 56 labour officers and approvals are in place and together with the succession issues which will be addressed by the sector.

220. Regarding the cash transfers to older persons, there was concern that the data on the number of people getting the transfer and their location isn't publicly available. The sector clarified that the data is available on the social protection website and on the single window platform where information about the recipients can be traced up to the ward level.

221. There was a call to have more investment in the arts in order to capture the high population of youth and provide employment in areas such as fashion, performing arts, film and music etc. Further there is need to lower the high taxation on imports for software for film creation and reduce multiple taxation on royalties for artistes, which make the country uncompetitive. The sector appreciated these

recommendations and on the issue of taxation they stated that they are in talks with the National Treasury to harmonise the taxes.

Programme Performance Information for 2017/18 - 2019/20 MTEF Period

222. Information on programmes outputs, key performance indicators, and the set targets for the 2017/18 – 2019/20 MTEF period is contained in **Annex Table 6**, annexed separately to this 2017 BPS.

IV. COUNTY FINANCIAL MANAGEMENT AND DIVISION OF REVENUE

4.1 Performance of County Governments in FY 2015/16

223. County Governments' budget allocations for FY 2015/16 amounted to Ksh. 367.4 billion, a 12 percent growth from FY 2014/15 (**Table 4.1**). Development budget allocations grew by 10 percent, while recurrent budget allocations grew by 15 percent. The counties' aggregate expenditure in FY 2015/16 amounted to Ksh 295.3 billion, or 80 percent of allocations. Development spending was 35 percent of the total actual expenditure, growing by 14.5 percent in the FY2015/16 compared to the actual spending in the FY2014/15.

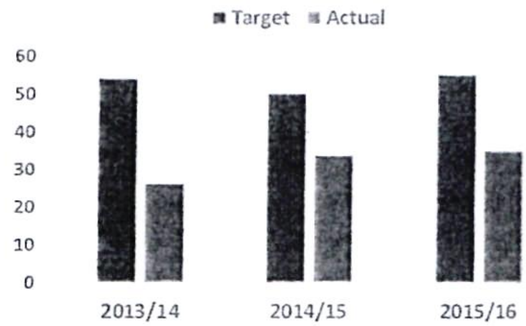
Table 4.1: County Governments' Aggregate Budgets and Expenditures (Ksh billions)

Financial Year	Budget Allocations			Expenditure		
	Development	Recurrent	Total	Development	Recurrent	Total
2013/14	100.4	160.6	**261.0**	36.6	132.8	**169.4**
2014/15	144.9	181.4	**326.3**	90.4	167.6	**258.0**
2015/16	158.6	208.8	**367.4**	103.5	191.8	**295.3**

Source of data: Controller of Budget

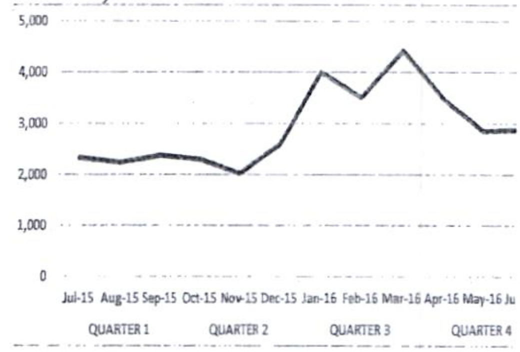
224. In FY 2015/16, County Governments collected an aggregate of Ksh 35 billion from local revenue sources, equivalent to 63.4 percent of the targeted Ksh 55.2 billion. Three key observations can be made from this performance. Firstly, counties' own-source revenue (OSR) is growing significantly slower. The counties' OSR grew by about Ksh 7.6 billion (28.9 percent growth) from Ksh 26.3 billion in the FY 2013/14 to Ksh 33.9 billion in the FY2014/15. In contrast, between 2014/15 and 2015/16, the increase was 3.2 percent, equivalent to only Ksh 1.1 billion. ***(Figure 4.1a)***. This underscores the need for counties to apply more fiscal effort, while also improving efficiency in revenue collection. Secondly, actual OSR collection as a proportion of target has dropped from 67.3 percent in FY 2014/15 to 63.4 percent in FY 2015/16. Collections in FY 2015/16 remained below even the 2014/15 target, which was itself downgraded due to poor performance in the previous year. In general, the escalating misalignment between target and actual OSR collection highlights the difficulty counties continue to face in preparing realistic forecasts. Thirdly, quarter three (i.e. January-March) is the most productive for County Governments revenue-wise ***(Figure 4.1b)***. This is when property rates and business licenses -- the two decentralized tax bases with greatest potential -- become due for collection. Counties would do well therefore to develop and maximize the scope for collecting these two charges.

Figure 4.1a: Counties' annual OSR performance (Ksh billion)



Source of data: Controller of Budget

Figure 4.1b: Counties' quarterly OSR performance in FY 2015/16 (Ksh million)

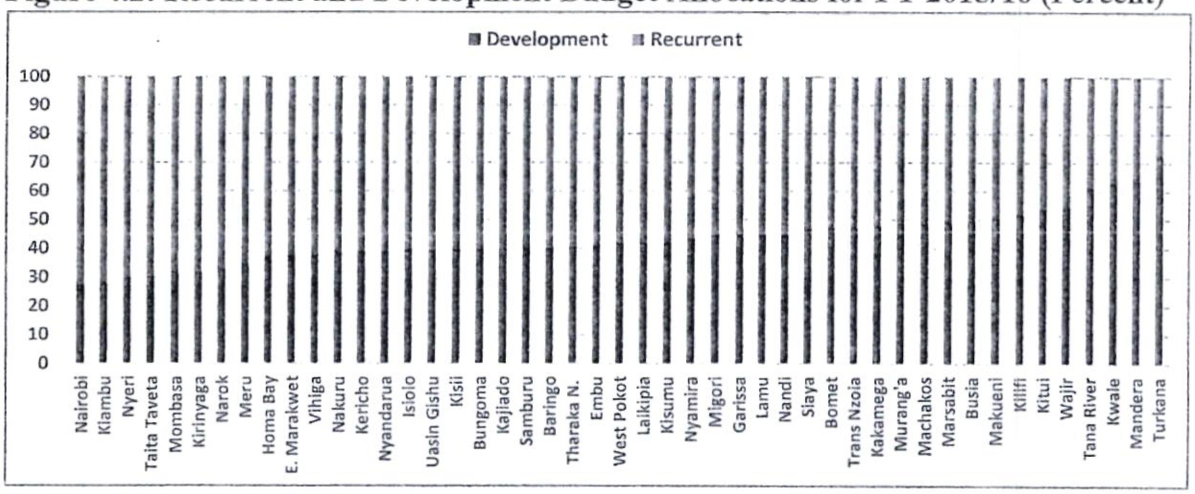


4.2 County Governments' compliance with fiscal responsibility principles

4.2.1 Compliance with the requirement for development spending allocations

225. In FY 2015/16, forty-five (45) counties complied with the requirement in the PFM Act, 2012 that at least 30 percent of budgets be allocated to the development expenditure **(Figure 4.2)**. Eight counties managed to allocate more than half of their budgets to development. The eight are Turkana, Mandera, Kwale, Tana River, Wajir, Kilifi, Kitui and Makueni. All except the last two feature in the list of marginalized counties as per the Marginalization Policy developed by the Commission on Revenue Allocation (CRA). Nairobi and Kiambu counties were below the 30 percent budget allocation to development spending marginally.

Figure 4.2: Recurrent and Development Budget Allocations for FY 2015/16 (Percent)



Source of data: Controller of Budget

226. However, compliance with this principle does not always translate into actual development spending of similar proportion. In Taita Taveta for instance, development was allocated 30 percent of budget, but only15 percent was spent on development. In fact, this trend is true for all counties, with the exception of

Mombasa, which allocated 31.6 percent of its budget to development but spent a slightly higher proportion (32.5 percent). In general, variances between budget allocations and actual spending are of concern, more so when they are significant as was the case in Makueni and Machakos (-23 percent and -18 percent, respectively). It is critical for the counties to narrow such variances by striving to meet their development spending targets, as per approved County Integrated Development Plans (CIDPs) and County Fiscal Strategy Papers (CFSPs).

4.2.2 Compliance with requirements on recurrent spending and salary costs

227. Personnel emoluments by the County Governments remains at 40 percent of overall expenditure, although as a proportion of recurrent spending, salary costs exceed 60 percent. (***Table 4.2***). Since their establishment, the counties' aggregate personnel-related spending has grown by more than 53 percent, which hints at a rapid increase in new recruitments in the counties. The Public Finance Management (County Governments) Regulations, 2015, requires that counties' wage bill be set at 35 percent of total revenue i.e. National Government transfers and local revenues. In FY 2015/16, aggregate personnel emoluments represented 40.2 percent of combined county revenues, a 10 percentage-point increase from FY 2014/15. For a number of County Governments, personnel costs dominate their budgets, leaving little fiscal space for Operations and Maintenance (O&M) or capital spending. The need for counties to contain their wage bill is now urgent, as is the need to expand development spending.

Table 4.2: Summary of County Governments' Expenditure

Figures in KSh billions, except where indicated otherwise	2013/14	2014/15	2015/16
Aggregate Recurrent Expenditure, of which:	**129.1**	**162.6**	**191.8**
Personnel Emoluments	77.4	103.1	118.6
Operations & Maintenance	51.7	59.5	73.2
Aggregate Development Expenditure	**36.6**	**90.4**	**103.5**
Overall Expenditure	**165.7**	**253.1**	**295.3**
Personnel emoluments:			
as % of total recurrent expenditure	60	63.4	61.8
as % of overall expenditure	46.7	40.7	40.2

Source of data: Controller of Budget

4.2.3 Prudent management of fiscal risks

228. The legal framework for Public Finance Management requires County Governments to disclose specific fiscal risks with potentially significant impact on the county economic environment, and to prudently manage such risks. In this context, it is important that among other measures, the counties: i) implement efforts to enhance own-source revenues to minimize overreliance on Exchequer transfers; ii) accurately forecast own-source revenue to avoid negative impacts on their budgets; and, iii) adhere more strictly to expenditure ceilings set out in County Fiscal Strategy Papers. In addition, efforts should be taken to avoid duplication of

functions between the two levels of Government, as this carries the risk of generating intergovernmental conflicts, wasteful spending and financing gaps that could adversely affect implementation of the fiscal framework.

4.2.4 Enhancement of counties' own-source revenues and ensuring predictability in taxes

229. As indicated in the BPS 2016, an Interagency Working Committee -- under the Intergovernmental Budget and Economic Council (IBEC) -- has been preparing a policy framework and a National Framework Legislation to support County Governments' own-source revenue (OSR) efforts. A draft National Policy on County Government's OSR is ready, and is being subjected to stakeholder consultations. The draft Policy proposes measures to broaden County Governments' tax bases, while strengthening their revenue administrative capacity. The draft Policy focuses on four distinct but interrelated themes as follows:

(i) Legal and institutional framework for own source revenues: This aims to provide direction towards a more unified and coherent legal framework underpinning County Governments' taxation efforts.

(ii) Revenue potential: This aims to guide assessment of the counties' revenue potential, by examining efficiency improvements. In this context, the National Treasury will undertake a County revenue potential study. The study will establish the current base for each county's local revenue, and articulate each county's tax potential and tax effort. It is expected that the Study's findings will help the counties improve their revenue forecasting. Preliminary outputs of the Study are expected in December 2016, with subsequent deliverables being spread over FY 2016/17 and FY 2017/18.

(iii) Revenue assignments: This aims to clearly delineate revenue mandates both between the two levels of Government and among the counties to eliminate disputes.

(iv) Capacity for revenue administration: This aims to assess counties' existing capacity to manage revenue-related responsibilities, including collection and administration of taxes, fees and service charges and make recommendations on how to strengthen counties' institutional capacity for better tax administration.

230. Further, the Interagency Working Committee has drafted a Bill to regulate the process to be followed by County Governments in imposing, varying or waiving taxes, fees, levies and other charges. The draft County Governments' (Tax Regulation Process) Bill establishes the process whereby the counties may exercise their taxation authority -- in accordance with Articles 209 and 210 of the Constitution -- while the National Government, through the National Treasury exercises its policy oversight role. Like the draft Policy, the draft Bill is being

subjected to broad stakeholder consultations before introduction in Parliament following Cabinet approval.

4.2.5 Short term borrowing by County Governments for management of cash flows

231. Pursuant to an Intergovernmental Budget and Economic Council (IBEC) agreement, the National Government will develop guidelines to regulate short-term borrowing by County Governments from the Central Bank of Kenya (CBK). Access to short-term borrowing will enable the counties to better manage their cash flow, while eliminating need for high-interest commercial bank loans.

232. The above guidelines will mitigate fiscal risks, which could arise from short-term lending or implicit guarantees to County Governments. One obvious risk is the realization of contingent liabilities. According to the 2016 Medium Term Debt Strategy (MTDS), contingent liabilities arising from the portfolio of lending and guarantees to counties can increase the National Government's debt stocks and servicing costs. Another risk is that of County Governments lowering their fiscal effort and focusing less on maximization of local revenue, due to the ability to access short-term borrowing. Apart from dealing with the above risks, there is need to enforce more strictly expenditure measures aimed at minimizing wastage and enhancing productivity of public spending. In addition, the National Treasury will sustain the efforts to end delays in disbursement of equitable share transfers and other factors which might lead to escalation of demand for short-term finance by the counties.

233. The National Treasury, through the Public Debt Management Office (PDMO) will pursue a number of strategic interventions aimed at supporting County Governments to plan for and manage their debt in a more sustainable manner. Among the interventions are: i) strengthening the institutional arrangement for public debt management at the county level; ii) providing technical assistance to County Treasuries in the preparation of Medium Term Debt Strategies as required by the PFMA; iii) upgrading of the debt recording system within IFMIS to correctly capture, analyze and report on any county borrowing; and, iv) ensuring comprehensive, accurate and timely information on any borrowing by the counties, including regular publication of public debt information to enhance transparency on debt management.

4.3 Finalizing the transfer of assets and liabilities to the counties

234. To finalize the transfer of assets and liabilities from the defunct Local Authorities (LAs) to the County Governments, a draft Legal Notice has been prepared to facilitate this transfer process. The transfer is expected to be concluded by March 31st, 2017. Among assets and liabilities of the defunct LAs to be covered in this process are: i) pending bills; ii) tax arrears; and, iii) statutory deductions relating to the National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF), Pension Funds, VAT and PAYE. Preparation of the draft Legal Notice to enable the transfer has been done by the Intergovernmental Relations Technical Committee (IGRTC), which succeeded the defunct Transition Authority

(TA). The IGRTC will also coordinate the actual auditing of assets and liabilities. As part of the institutional arrangement to facilitate this transfer process, multi-agency committees are to be set up in the counties, and the Auditor-General will audit the final outcome.

4.4 Vertical Division of Revenue

235. County Governments' equitable share of revenue raised nationally for FY 2017/18 is arrived at by adjusting the counties' equitable share for 2016/17 (i.e. Ksh 280.3 billion) by a factor of 6.72 percent, which is the average month-on-month inflation for FYs 2013/14, 2014/15 & 2015/16, as reported by the Kenya National Bureau of Statistics (KNBS). The rationale for this adjustment factor is to ensure that counties are adequately compensated for escalation in costs related to the delivery of devolved functions. Based on this adjustment, County Governments' equitable share in FY 2017/18 is estimated to be Ksh 299.1 billion (***Table 4.3***).

Table 4.3: County Governments' Equitable Revenue Share Allocation (Ksh Million)

Budget item	2015/16	2016/17	2017/18
Baseline *(i.e. allocation in the previous FY)*	**226,660.0**	**259,774.5**	**280,300.0**
Baseline adjustments:			
1. Baseline adjustments (Due to additional county functions)	2,946.0		
Adjusted baseline:	**229,606.0**	**259,774.5**	**280,300.0**
Additional revenue measures			
1. Adjustment for revenue growth	23,902.0	20,525.2	18,836.2
2. Other adjustments	4,500.0		
3. Adjustments negotiated in Parliament post-BPS	1,766.5		
Computed equitable revenue share allocation	**259,774.5**	**280,300.0**	**299,136.2**

236. In addition to the above equitable share allocation, County Governments will in FY 2017/18 receive Ksh 34.0 billion through various financing streams as follows (***Tables 4.4 and 4.5***):

- From the National Governments' equitable revenue share, Ksh 13 billion conditional allocations for: i) level-5 hospitals; ii) free maternal healthcare; iii) leasing of medical equipment; and, iv) compensation for foregone user fees.
- Ksh 605 million as a supplement for construction of offices in five county headquarters that did not inherit adequate office space.
- Ksh 7.9 billion from the Road Maintenance Fuel Levy Fund (RMLF). As in previous years, this is calculated at 15 percent of projected FY 2017/18 collections by the Kenya Roads Board (KRB).
- Ksh 12.5 billion from proceeds of external loans/grants to be transferred to County Governments as conditional allocations, and which will finance devolved functions in accordance with signed financing agreements for the loans/grants. The loans/grants to be distributed to counties in FY 2017/18 are as follows: i) a World Bank loan financing the Health Support Project (also known as Result Based Financing) in 21 Arid- and Semi-Arid counties (Ksh 873.4 billion); ii) a World Bank loan supporting the Kenya Devolution Support

Programme (KDSP), which is facilitating capacity building and performance grants to all counties (Ksh 5.5 billion); iii) a World Bank loan financing the National Urban Transport Improvement Project (NUTRIP) in two counties (Ksh 6.02 billion); and, iv) financing under the Kenya-Italy Debt for Development Programme (KIDDP) financing rehabilitation of youth polytechnics (Ksh 97 million) and rehabilitation of sub-county hospitals (Ksh 51 million). For all the loans/grants above, release of funds to counties will be based on Guidelines for Management of Intergovernmental Fiscal Transfers, which was developed by an interagency committee under the auspices of the National Treasury, pursuant to a directive from The Summit. However, management of loans/grants from NUTRIP and KIDDP is to be undertaken by the National Government with involvement of County Governments through Project Steering Committees and Project Implementation Units for each programme/project. Proceeds from the above-mentioned World Bank loan for KDSP will be distributed to counties via two grants: i) a capacity building ("level 1") grant of Ksh 1.5 billion, to be distributed using two equally-weighted parameters i.e. equal share and the revenue sharing formula approved by Parliament; and, ii) a performance ("level 2") grant of Ksh 4.0 billion, to be distributed on the basis of counties' attainment as determined through an annual independent performance assessment. Whereas the 'level 2' grant is included in County Governments' FY 2017/18 allocations from loans/grants, in Table 4.5, its distribution is not reflected in **Table 4.6,** because distribution will be determined upon completion of the performance assessment in early 2017.

Table 4.4: Vertical Division of Revenue (Ksh Million)

Type/level of allocation	2015/16	2016/17	2017/18
National Government	991,892.0	1,099,899.0	1,250,275.8
Of which:			
Free maternal healthcare	4,298.0	4,121.0	3,369.2
Leasing of Medical Equipment	4,500.0	4,500.0	4,500.0
Compensation for user fees forgone	900.0	900.0	900.0
Level 5 hospitals	3,600.5	4,000.0	4,200.0
Special Purpose Grant (Emergency Med. Serv.)		200.0	
Supplement for construction of county headquarters			605.0
Equalization Fund	6,000.0	6,000.0	7,727.0
County equitable share	259,774.5	280,300.0	299,136.2
Total shareable revenue	**1,251,666.5**	**1,380,199.0**	**1,549,412.0**

237. As highlighted in **Table 4.4,** more than Ksh 7.7 billion is also allocated in FY 2017/18 through Equalization Fund. The National Treasury appointed Fund's Administrator, and the Fund's newly-constituted Board commenced operations. Moreover, an Equalization Fund account has been opened at the Central Bank of Kenya (CBK) with a balance of Ksh 6.4 billion as at 30th June, 2016, being undisbursed allocations from previous years. In the financial year 2016/17, a further amount of Ksh 6.0 billion was budgeted for distribution to 14 Counties identified in the *Policy on Marginalized Areas*, which was developed by the CRA.

Table 4.5: Disaggregation of County Governments' Allocation (Ksh Million)

	2015/16	2016/17	2017/18
County equitable share	259,774.5	280,300.0	299,136.2
Additional conditional allocations, of which:			
Free maternal healthcare	4,298.0	4,121.0	3,369.2
Leasing of medical equipment	4,500.0	4,500.0	4,500.0
Compensation for user fees forgone	900.0	900.0	900.0
Level 5 hospitals	3,600.5	4,000.0	4,200.0
Special Purpose Grant (Emergency Med. Serv.)	-	200.0	-
Supplement for construction of county headquarters			605.0
Allocation from Fuel Levy Fund (15% of collections)	3,300.0	4,306.8	7,875.0
Allocations from loans and grants	10,671.2	3,870.7	12,541.4
Total County Allocations	**287,044.2**	**302,198.5**	**333,126.8**

4.5 Horizontal allocation of revenue

238. Horizontal distribution of County Governments' equitable revenue share allocation for FY 2017/18 is based on the revised revenue sharing (second generation) criteria recommended by the Commission on Revenue Allocation (CRA) and approved by the Senate and the National Assembly respectively, on 20th April and 22nd June, 2016. The criteria takes into account population (45 percent), basic equal share (26 percent), poverty (18 percent), land area (8 percent), fiscal responsibility (2 percent) and development factor (1 percent). The population data used in the above criteria is based on the 2009 census, as adjusted by the Kenya National Bureau of Statistics (KNBS) following the Court of Appeal (Civil Appeal) Ruling No. 64 of 2012. It is worth noting that application of the adjusted population data has intense implications particularly for Mandera, Wajir and Garissa counties. **Table 4.6** shows the projected transfer to each county.

4.6 Conclusion

239. In order to enhance performance of County Governments, the National Treasury will implement wide-ranging reforms under the Revised Public Finance Management Reform Strategy (2016-2018). Among other areas, the reforms are aimed at strengthening counties' own-source revenue (OSR) systems, improving their capacity to formulate realistic and credible budgets and supporting County Assembly oversight committees. It should also be noted that the National Treasury has received comments from the Commission on Revenue Allocation (CRA) which have been incorporated in the foregoing sections of this chapter.

Table 4.6: Revenue Allocation for Each County Government

County	2016/17 Allocation Ratio	2016/17 Total Allocations	2017/18 Allocation Ratio	Equitable Share	Level-5 Hospitals	Compensation for user fees foregone	Free Maternal Healthcare	Road Maintenance Levy Fund	Leasing of Medical Equipment	Supplement for construction of county headquarters	Loans & Grants	Total Allocations	Per capita allocation (Kshs)
Baringo	1.71%	5,129,582,699	1.66%	4,965,660,256	-	13,191,000	51,951,613	130,725,000	95,744,681	-	122,617,447	5,379,889,996	9,686
Bomet	1.81%	5,336,838,163	1.76%	5,264,796,416	-	16,713,356	59,038,258	138,600,000	95,744,681	-	29,157,447	5,604,050,158	7,679
Bungoma	2.95%	8,735,435,297	2.94%	8,794,603,104	-	32,837,307	59,038,258	231,525,000	95,744,681	-	38,007,447	9,251,755,796	6,731
Busia	2.09%	6,171,913,241	1.95%	5,833,155,120	-	16,934,085	165,389,285	153,562,500	95,744,681	-	30,582,447	6,295,368,118	8,466
Elgeyo/Marakwet	1.26%	3,805,329,685	1.21%	3,619,547,536	-	8,788,919	40,106,303	95,287,500	95,744,681	-	73,022,447	3,932,497,385	10,631
Embu	1.48%	4,659,902,222	1.37%	4,098,165,392	301,040,462	10,724,225	39,763,953	107,887,500	95,744,681	-	26,232,447	4,679,558,660	9,070
Garissa	2.22%	6,864,515,065	1.94%	5,803,241,504	344,739,884	12,964,636	42,211,755	152,775,000	95,744,681	-	69,152,447	6,520,829,907	17,344
Homa Bay	2.17%	6,433,098,836	2.18%	6,521,168,288	-	22,185,346	112,153,860	171,675,000	95,744,681	-	72,807,447	6,995,734,622	7,261
Isiolo	1.18%	3,496,421,481	1.26%	3,769,115,616	-	3,472,461	20,318,473	99,225,000	95,744,681	121,000,000	38,014,947	4,146,891,178	28,957
Kajiado	1.70%	5,150,776,771	1.93%	5,773,327,888	-	16,955,365	43,855,035	151,987,500	95,744,681	-	68,077,447	6,149,947,916	8,952
Kakamega	3.43%	10,530,015,389	3.38%	10,110,802,208	427,283,237	37,789,290	162,205,430	266,175,000	95,744,681	-	41,307,447	11,141,307,292	6,559
Kericho	1.73%	5,149,062,299	1.75%	5,234,882,800	-	18,048,789	71,927,735	137,812,500	95,744,681	-	29,082,447	5,587,498,951	7,430
Kiambu	2.87%	8,932,697,756	3.24%	9,692,011,584	412,716,763	34,671,542	197,604,420	255,150,000	95,744,681	-	40,257,447	10,728,156,417	6,613
Kilifi	2.86%	8,578,765,509	3.33%	9,961,234,128	-	25,969,864	124,461,343	262,237,500	95,744,681	-	157,772,447	10,627,419,963	9,585
Kirinyanga	1.36%	4,035,586,671	1.48%	4,427,215,168	-	11,282,570	38,274,730	116,550,000	95,744,681	-	27,057,447	4,716,124,596	8,934
Kisii	2.73%	8,471,708,029	2.49%	7,448,490,384	417,572,254	26,138,997	141,013,965	196,087,500	95,744,681	-	34,632,447	8,359,680,228	7,257
Kisumu	2.19%	6,849,697,625	2.19%	6,551,081,904	369,017,341	21,299,489	109,962,820	172,462,500	95,744,681	-	32,382,447	7,351,951,182	7,591
Kitui	2.80%	8,285,242,008	2.90%	8,674,948,640	-	22,499,906	64,481,623	228,375,000	95,744,681	-	95,917,447	9,181,967,297	9,071
Kwale	1.97%	5,935,176,374	2.42%	7,239,095,072	-	15,209,593	119,154,918	190,575,000	95,744,681	-	71,182,447	7,730,961,711	11,901
Laikipia	1.33%	4,012,138,985	1.50%	4,487,042,400	-	9,968,208	52,054,318	118,125,000	95,744,681	-	52,462,447	4,815,397,053	12,069
Lamu	0.79%	2,479,974,659	0.82%	2,452,916,512	-	2,451,034	8,815,513	64,575,000	95,744,681	121,000,000	33,892,447	2,779,395,187	27,388
Machakos	2.61%	8,020,334,685	2.48%	7,418,576,768	383,583,815	24,129,039	71,551,150	195,300,000	95,744,681	-	34,557,447	8,223,442,899	7,491
Makueni	2.30%	6,751,278,862	2.28%	6,820,304,448	-	19,435,760	68,298,825	179,550,000	95,744,681	-	33,057,447	7,216,391,160	8,161
Mandera	3.45%	10,028,184,872	2.77%	8,286,071,632	-	25,474,920	51,729,085	218,137,500	95,744,681	-	65,037,447	8,742,195,265	14,124
Marsabit	2.00%	5,855,548,000	2.19%	6,551,081,904	-	6,643,714	19,137,365	172,462,500	95,744,681	-	69,182,447	6,914,252,611	23,754
Meru	2.50%	9,423,247,567	2.59%	7,747,626,544	373,872,832	31,648,428	88,035,303	203,962,500	95,744,681	-	3,955,382,447	12,496,272,735	9,220
Migori	2.25%	6,833,223,154	2.16%	6,461,341,056	-	21,655,884	117,699,930	170,100,000	95,744,681	-	72,782,447	6,939,323,997	7,570
Mombasa	2.00%	6,328,843,626	2.73%	8,166,417,168	388,439,306	23,385,934	79,921,608	214,987,500	95,744,681	-	36,432,447	9,005,328,644	9,595
Muranga	2.06%	6,075,714,168	2.07%	6,192,118,512	-	20,138,691	64,789,738	163,012,500	95,744,681	-	55,482,447	6,591,286,569	6,996
Nairobi	5.00%	14,988,400,877	5.18%	15,495,253,088	-	79,423,251	202,791,023	407,925,000	95,744,681	-	2,154,807,447	18,435,944,490	5,882
Nakuru	3.12%	9,611,129,327	3.11%	9,303,134,576	373,872,832	38,723,265	145,995,158	244,912,500	95,744,681	-	39,282,447	10,241,665,459	6,391
Nandi	1.83%	5,400,805,811	1.71%	5,115,228,336	-	18,086,363	51,814,673	134,662,500	95,744,681	-	28,782,447	5,444,319,000	7,233
Narok	2.04%	6,069,533,014	2.18%	6,521,168,288	-	20,595,297	58,353,558	171,675,000	95,744,681	-	74,087,447	6,941,624,271	8,164
Nyamira	1.60%	4,753,135,780	1.54%	4,606,696,864	-	13,175,221	68,795,233	121,275,000	95,744,681	-	27,507,447	4,933,194,446	8,249
Nyandarua	1.66%	4,883,603,211	1.60%	4,786,178,560	-	12,735,922	36,271,983	126,000,000	95,744,681	121,000,000	36,957,447	5,214,888,593	8,749
Nyeri	1.71%	5,453,740,722	1.66%	4,965,660,256	407,861,272	13,701,379	39,866,658	130,725,000	95,744,681	-	28,407,447	5,681,966,692	8,195
Samburu	1.37%	4,045,213,041	1.26%	3,769,115,616	-	5,235,578	14,875,108	99,225,000	95,744,681	-	78,532,447	4,062,728,430	18,146
Siaya	1.92%	5,713,934,349	1.86%	5,563,932,576	-	18,194,808	97,963,453	146,475,000	95,744,681	-	67,907,447	5,990,217,964	7,116
Taita Taveta	1.27%	3,809,410,333	1.30%	3,888,770,080	-	5,296,305	29,579,040	102,375,000	95,744,681	-	57,504,947	4,179,270,052	14,689
Tana River	1.53%	4,620,956,536	1.77%	5,294,710,032	-	5,682,537	19,120,248	139,387,500	95,744,681	121,000,000	53,957,447	5,729,602,445	23,873
Tharaka Nithi	1.21%	3,622,329,182	1.23%	3,679,374,768	-	8,218,119	24,272,615	96,862,500	95,744,681	121,000,000	43,949,947	4,069,422,629	11,145
Trans Nzoia	1.96%	5,785,005,400	1.89%	5,653,673,424	-	21,304,915	57,685,975	148,837,500	95,744,681	-	30,132,447	6,007,378,941	7,339
Turkana	4.03%	11,707,868,339	3.36%	10,050,974,976	-	25,634,941	49,657,868	264,600,000	95,744,681	-	65,352,447	10,551,964,913	12,342
Uasin Gishu	2.00%	5,854,438,019	1.91%	5,713,500,656	-	20,813,065	35,826,928	150,412,500	95,744,681	-	30,282,447	6,046,580,277	6,766
Vihiga	1.49%	4,423,789,388	1.49%	4,457,128,784	-	12,657,201	55,597,640	117,337,500	95,744,681	-	43,632,447	4,782,098,253	8,428
Wajir	2.78%	8,147,672,519	2.40%	7,179,267,840	-	15,784,997	52,379,550	189,000,000	95,744,681	-	78,997,447	7,611,174,514	19,055
West Pokot	1.66%	4,947,297,179	1.58%	4,726,351,328	-	12,128,484	43,444,215	124,425,000	95,744,681	-	95,792,447	5,097,886,154	9,946
GRAND TOTAL	100.00%	302,198,516,718	100.00%	299,136,160,000	4,200,000,000	900,000,000	3,369,237,538	7,875,000,000	4,500,000,000	605,000,000	12,541,407,500	329,126,805,038	10,804

ANNEX 1: STATEMENT OF SPECIFIC FISCAL RISKS

Introduction

1. Kenya's recent growth performance remains robust and the outlook is positive. Despite positive economic policies and structural reforms undertaken under the Economic Transformation Agenda program, the economy remains vulnerable to shocks, reflecting less favourable global financial market conditions, as well as security threats and extreme weather events. To this end, maintaining fiscal stability is critical for safeguarding against these adverse shocks and ensuring that growth is sustained despite challenging circumstances.

2. The "Statement of Specific Fiscal Risks" is part of the requirement under the Public Finance Management Act, 2012 for prudent management of risks. It outlines Kenya's exposure to fiscal risks that are associated with assumptions used for fiscal projections, public debt dynamics, operations of state corporations, contingent liabilities, vulnerabilities of the financial sector, as well as risks posed by nature.

3. The Statement is intended to inform the parliament and the public about the country's exposure to these various sources of risk, and what more can be done to ensure fiscal viability in the event of the occurrence of the stated risks.

4. Overall, the Statement highlights the following: spending at current levels and low absorption of development funding, combined with low revenue collections, makes it more difficult for the government to achieve its fiscal targets; Shocks to the exchange rate could impact the size of debt servicing, the terms of trade, and inflation; the financial sector remains sound and is adequately capitalized despite global financial crisis; Contingent liabilities from key State Corporations present minimal fiscal risks; and Risks from the devolved system of government remain a key concern.

Macroeconomic Assumptions Changes

5. Changes in macroeconomic assumptions create risks to both revenue and expenditure projections as they play a key role in the formulation of the budget. This section reviews past macroeconomic and fiscal performance in Kenya and then assesses four important sources of fiscal risk to the budget namely:

- Reduction in real GDP.
- Inflation instability;
- Exchange rate volatility, and
- Volatility of commodity prices on imports;

6. **Table 1** presents the magnitude of first round impacts of various macroeconomic variables mentioned above on fiscal aggregates.

Table 1: Fiscal Sensitivity to Key Macroeconomic Variables, 2017/18 (Ksh bn)

	Revenue	Expenditure	Budget Balance
One percentage point reduction in real GDP (%)	-15.4	-6.8	-8.6
One percentage point increase in inflation rate (%)	12.6	3.3	9.3
10% depreciation in exchange rate (Ksh/US$)	10.2	0.0	10.2
10 percentage increase in value of imported goods (US$)	5.0	0.0	5.0
All shocks Combined	12.1	-0.1	12.2

Source: Estimates from National Treasury

7. The reduction in real GDP and depreciation of the exchange rate results in reduction of revenue against expenditures while an increase in inflation and value of imports in dollar terms results in higher revenue against expenditures. Overall, when all the shocks are applied at the same time, revenues increase more than expenditures.

Assessment of Past Forecast Accuracy of Underlying Assumptions and Budgetary Aggregates

8. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations as shown in **Table 2**. Over the period 2013/14-2016/17, 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 largest deviation was in FY 2014/15 by only 1.0 percentage point which reflects the stability of inflation rates. The depreciation of the shilling exchange rate against major international currencies since the FY 2015/2016 was due to the strengthening of the US dollar.

Table 2: Deviations in Macroeconomic and Fiscal Aggregates

	2013/14			2014/15			2015/16			2016/17			2013/14-2016/17
(In percentage points; unless specified)	Proj.	Act.	Dev.	Proj.	Prel.	Dev.	Proj.	Rev.	Dev.	Proj.	Rev.	Dev.	Average Deviation
I. Key Macroeconomic Assumptions													
Real GDP	5.9%	5.6%	-0.3%	6.1%	5.5%	-0.6%	5.8%	5.8%	0.1%	5.5%	6.2%	0.7%	-0.1%
Inflation rate (avg)	6.7%	7.1%	0.4%	5.7%	6.6%	1.0%	5.7%	6.4%	0.7%	6.6%	5.0%	-1.6%	-1.4%
Exchange rate (Ksh/USD), Avg		86.7	86.7		91.4	91.4		101.1	101.1		101.9	101.9	
Export growth		0.9%	0.9%		12.6%	12.6%		-4.6%	-4.6%		26.4%	26.4%	
Import growth		7.5%	7.5%		3.4%	3.4%		-7.9%	-7.9%		21.3%	21.3%	
II. Fiscal Aggregates (in Ksh billion)													
Total Revenue	987.3	1001.4	14.0	1239.3	1135.9	-103.4	1460.1	1437.1	-23.0	1431.5	1267.5	-164.0	-77.0
Tax and non-tax	987.3	974.4	-12.9	1180.5	1107.8	-72.8	1375.0	1363.7	-11.3	1358.0	1237.9	-120.2	-51.5
Ordinary Revenue	920.4	919.0	-1.4	1086.4	1031.8	-54.6	1265.4	1250.9	-14.5	1254.9	1158.2	-96.7	-43.5
AiA	67.0	55.4	-11.5	94.1	76.0	-18.2	109.6	112.8	3.2	103.2	79.7	-23.5	-8.0
Grants	0.0	27.0	27.0	58.7	28.1	-30.6	85.1	73.4	-11.7	73.4	29.6	-43.8	-25.5
Total Expenditure	1458.2	1300.6	-157.6	1597.8	1640.0	42.2	1742.6	2014.8	272.2	2000.6	1781.9	-218.7	-97.2
Recurrent	854.6	787.9	-66.7	871.5	895.2	23.7	990.2	1017.5	27.3	1013.0	1027.5	14.6	-19.0
Development	388.6	319.3	-69.4	492.0	510.5	18.5	504.3	728.1	223.8	718.5	485.4	-233.1	-73.9
Domestic	249.7	198.5	-51.2	298.7	266.8	-31.8	256.8	370.6	113.8	361.0	301.3	-59.7	-43.8
External	133.1	118.6	-14.5	187.8	241.2	53.4	238.6	349.3	110.7	349.3	175.5	-173.8	-27.8
Net Lending	2.4	2.2	-0.2	2.1	2.1	0.0	2.6	2.2	-0.4	2.2	2.2	0.0	-0.1
Equalization Fund	3.4	0.0	-3.4	3.4	0.4	-3.0	6.3	6.0	-0.3	6.0	6.4	0.4	-2.3
Others	5.0	0.0	-5.0	5.0	5.0	0.0	5.0	5.0	0.0	5.0	5.0	0.0	-2.5
County Allocation	210.0	193.4	-16.6	229.3	229.3	0.1	243.1	264.2	21.1	264.2	264.0	-0.2	-1.7
Balance	-470.9	-299.2	171.6	-358.6	-504.1	-145.6	-282.5	-577.7	-295.2	-569.2	-514.5	54.7	20.2
Financing	197.5	307.0	109.6	358.6	471.5	112.9	285.6	577.7	292.1	557.7	474.6	-83.1	52.6
Net Foreign Financing	90.8	104.0	13.3	165.8	217.5	51.7	122.7	340.5	217.8	329.0	269.9	-59.1	18.5
Other	0.0	1.3	1.3	2.0	2.9	0.9	0.0	7.3	7.3	7.2	2.4	-4.8	-0.1
Net Domestic Financing	106.7	201.7	95.0	190.8	251.1	60.3	162.9	229.9	67.0	221.5	202.3	-19.2	34.2
Of which: Sovereign Bond Proceeds	0.0	0.0	0.0	0.0	140.5	140.5	0.0	0.0	0.0	0.0	0.0	0.0	35.1
Others	106.7	201.7	95.0	190.8	110.6	-80.2	162.9	229.9	67.0	221.5	202.3	-19.2	-1.0
Memo items:													
Nominal GDP (Ksh billion)	5,042.4	5,071.7	29.3	5,633.2	5,811.2	178.0	5,480.5	6,457.9	977.4	6,520.5	6,586.0	65.5	68.2

Source: National Treasury

Source: National Treasury

9. The actual performance of fiscal aggregates vis-à-vis target was largely as per target. Ordinary revenue collection performance was broadly on target with all the tax revenue categories recording slight positive variances except income tax. The underperformance in A-i-A largely reflects the under reporting from the relevant ministries/departments.

10. The average deviation of total expenditure and net lending between FY 2013/14 and FY 2016/17 represented an underspending of Ksh 97.2 billion. This shortfall was attributed to lower absorption in development expenditures in FY 2016/17. The recurrent expenditure had an overspending of Ksh 14.6 billion in FY 2016/17.

11. Execution of development expenditure was generally below target which reflects low absorption of domestically financed development by MDAs, delays in procurement and low absorption of external donor funds.

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 National Treasury is preparing guidelines on how capital projects should be planned, appraised and evaluated before funds are finally committed in the budget. The National Treasury will engage Development Partners and execute financial agreements when the project has fulfilled all preliminary conditions for execution.

13. Going forward, there are risks associated with expenditure proposals that cannot be accommodated within the baseline ceilings.

SPECIFIC FISCAL RISKS

14. This section addresses areas of specific fiscal risk faced by Kenya. Each of these risks has a linkage to the expansion of infrastructure in the country, a key government priority, which makes effective risk management all the more important:

- The sustainability of public debt;
- Explicit Contingent Liabilities
- Implicit Contingent Liabilities
- Devolved System of Government

Sustainability of Public Debt

15. The sustainability of Kenya's debt depends on macroeconomic performance and prudence debt management. Significant uptake of domestic debt could lead to refinancing risk and expected increase in the US interest rates could also exert pressure on the debt sustainability position due to expected rise in interest rates in the global markets. In addition, increased external financing on both concessional and non-concessional terms pose an inherent foreign exchange risk which may worsen the PV of debt and therefore increases the risk of debt distress. Increased use of longer-term domestic debt instruments would help mitigate exposure of the government debt portfolio to foreign currency risk and contribute to reducing domestic rollover risk.

16. The government recognizes the importance of managing debt in a prudent way to ensure the debt burden is shared equally between the current and future generation. The latest debt sustainability analysis (DSA) for Kenya (March 2016)

indicates that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress.

17. The World Bank`s Country Policy and Institutional Assessment (CPIA) Index. classifies countries into three performance categories i.e. Strong, Medium and Poor and each category has different indicative thresholds for debt burdens depending on the country`s policies and institutions. Kenya is rated as a strong policy performer and a low middle income country and thus is subject to the threshold of 74 percent on the Present Value of Debt/ GDP, Kenya's debt ratios compared with internationally recognized threshold continues to show that our debt level remains sustainable.

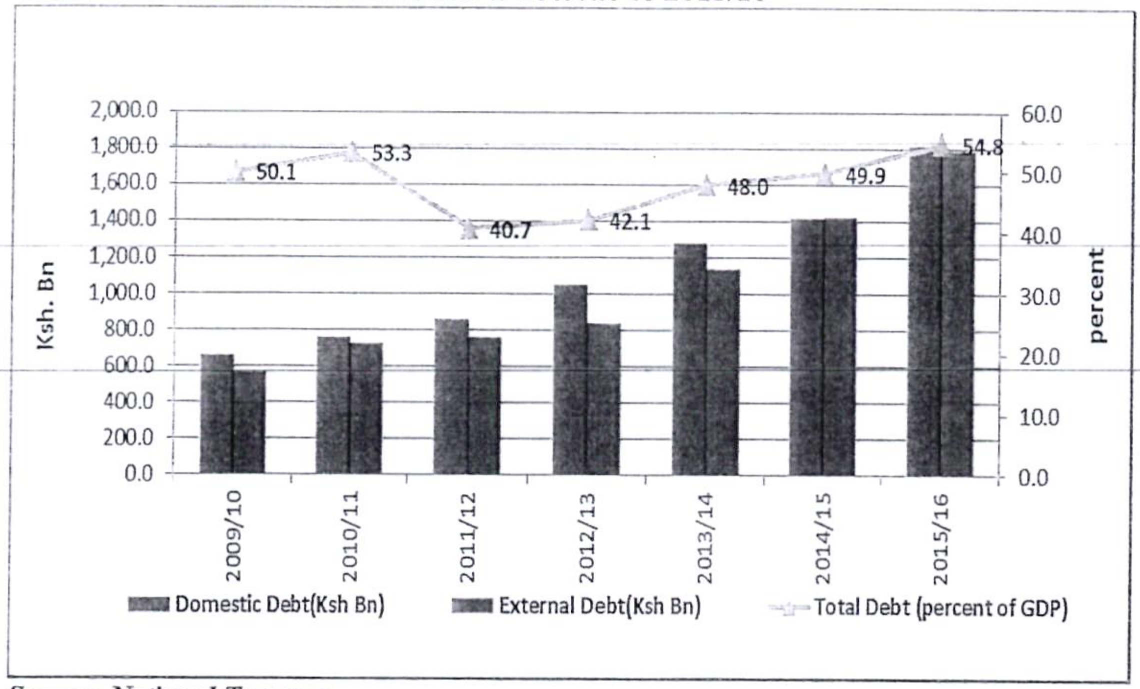
Table 3: Public Debt Indicators

Indicator	Threshold	position							
		2014	2015	2016	2017	2018	2019	2020	2025
PV of Public Sector Debt to GDP ratio	74	42.9	45.8	48.3	48.5	48.5	47.9	47.0	40.9
PV of Public Sector Debt to Revenue ratio	300	221.1	231.8	237.8	232.0	228.1	224.5	218.0	187.6
Debt Service to Rrevenue ratio	30	41.0	30.4	30.0	34.7	28.8	32.2	26.4	22.0

Source: IMF Country Report No. 16/85, March 2016 and National Treasury

18. Public debt has been on a rising trend, increasing at an average annual rate of 19.8 percent, and reaching a nominal value of approximately Ksh 3,603.3 billion in 2015/16. As a proportion of GDP, public debt has risen from 40.7 percent in 2011/12 to 54.8 percent in 2015/16 **(Chart 1).** However, there is increase in government support in the funding of heavy capital projects through the public private partnership arrangement. This will help in reducing the rate of debt accumulation and thus maintain the net present value of public debt to GDP ratio at below 50 percent.

Chart 1: Evolution of Debt Stock FY 2009/10 to 2015/16



Source: National Treasury

Explicit Contingent Liabilities

State Corporations/State Owned Enterprises

19. While liabilities of state-owned enterprises constitute a potential source of fiscal risk, they are currently not a major cause of concern. The government is cautious in issuance of guarantees and other support measures to the state owned enterprises.

20. A study that conducted few years ago identified some sources of liabilities in state corporations including on-going court cases, penalties for non-compliance with statutory deductions, poor and non-performance of state corporations leading to calls on government guarantees, under insurance of assets, and liabilities associated with defined-benefit pension schemes.

21. Some of the recommendations of the study which have been implemented include conversion of pension schemes from defined-benefit pension schemes to defined-contribution pension schemes and conclusive vesting of assets and liabilities in respect of some state corporations. Respective state corporations have come up with remedial plan to ensure compliance with the requirements of Retirement Benefits Authority including providing for budgetary resources to make good any actuarial deficit arising from the conversion. Other on-going

initiatives include review of governance frameworks of state corporations and privatization of state-owned enterprises.

22. Contingent liabilities are frequently not recorded directly in the budget and thus are not subjected to budgetary oversight. These could lead to poor quantification of Contingent Liabilities and the possibility of large unplanned expenditures if the guarantee materializes. There is need for monitoring of these contingent liabilities to avoid fiscal difficulties in the budget year in case they happen.

Failure of State Owned Enterprises

23. While Government at times has a stake in state owned enterprises and other Government investments in public companies, its contractual obligations may be limited. However, due to the strategic nature of those state owned enterprises and public companies in view of the national interest and the overall impact of their failure to the economy, the Government may be morally obligated to bail out those state owned enterprises and public companies in financial distress. This may pose serious fiscal risk and challenge to budget implementation as The National Treasury has to provide budgetary resources to bail out those state owned enterprises and public companies in the course of the budget year.

Unfunded Pension Liabilities

24. Under current pension arrangements, the government funds its pension liabilities from the current budget based on projections of those entering retirement from the public service. The legal retirement window ranges from 50 years to 60 years, where 50 years is the voluntary retirement age while 60 years is mandatory. Unfunded pension liabilities arise as a fiscal risk as the projected voluntary retirees pension liabilities have yet to be quantified and the government has not set aside a fund or scheme to cover for these. Were the proportion of voluntary retirees to all claim pension, the government would face a larger pension liability putting a burden on the current budget.

Public Private Partnership (PPP) Projects

25. Since 1996 and as a result of progressive legal, regulatory and institutional reforms of the economy, Kenya has attracted private investments into the country's economic infrastructure sectors including telecommunications, energy, transport, water and sewerage. The frontrunner sector to lock in private participation in public infrastructure development is the energy sector – which witnessed its first Independent Power Producers (IPPs) in electricity generation starting from 1996.

Currently, all of the country's generated electricity is private sector-led, with thirteen (13) active IPPs. In most of the IPPs, Government has provided some forms of government support measures, mainly a Letter of Support. **(Annex Table 5).**

26. There are twenty-one (21) new generation projects that are at an advanced stage of planning –three (3) being large projects using coal and geothermal technologies, and eighteen (18) renewable energy projects that will use wind, solar and other renewable energy technologies. Other ongoing and planned PPPs in the other sector are shown in the **table below**.

Infrastructure	**Ongoing (USD Mn)**	**Planned 2015-2018(USD Mn)**
Road sector (PPP Toll Road Projects: 2nd Nyali Bridge, Nairobi-Nakuru-Mau Summit Dualling; Nairobi-Mombasa Dualling, O&M of Nairobi Southern Bypass; O&M of Nairobi-Thika Highway)		2500
Ports (CT2, Kisumu, Shimoni, IMTS)		150
Rail sector		
• RVR	404	120
• Nairobi Commuter Rail		600
Education sector (KU, 1st Umbrella students hostels, other universities)	52.5	
Water and Environment (multi-purpose dams, water supply projects, solid waste mgmt.)		2000
Health sector (300 bed private wing, cancer mgmt centres)		100
Accommodation (civil servants housing, police and prisons housing)		600
Tourism (MICC, BICEC, Marina)		500
Export Quarantine Station & Livestock Export Zone		10
Multi-storey car park in Nairobi and Mombasa		100
Likoni Cable Car		43
Totals	**456.5**	**6,723**
Percentage of GDP	**0.65%**	**11.1%**

Other Planned Infrastructure PPP Projects – Kenya (Value in USD Million)

27. Following the adoption of the PPP Policy in 2011, and the enactment of the PPP Act in 2013, as well as the establishment and operationalization of critical PPP institutions (the PPP Committee, the PPP Unit and the Petition Committee), there has been a steady growth in the quality and size of the PPP pipeline of projects, drawn from diverse economic sectors and county governments. A total of 64 projects are in the National Priority List of PPP projects. These projects are in the transport and infrastructure, energy, tourism, education, environment, health among others **(Table below).**

PPP Pipeline, August 2016

	TRANSPORT & INFRASTRUCTURE
1	2nd Nyali Bridge – FS
2	Nairobi Southern Bypass – FS
3	Nairobi - Thika Road - FS
4	Nairobi - Nakuru Road - FS
5	Mombasa - Nairobi Highway - FS
6	Phase 1 - Road Annuity Program - Contract Negotiations
7	Kisumu Sea Port - FS
8	Likoni Cable Car - Negotiations
9	Mombasa 2nd Container Terminal Phase 1 – Tender cancelled
10	Development of Shimoni Port - TA Procurement
11	Lamu Port Development project – Project proposal
12	Multi Storey [illegible] - FS
13	Nairobi Commuter Rail Services – FS
14	Nairobi multi-storey car park & commercial facility – Tender
15	Mombasa Multi-level car park facility - Concept
16	Integrated Marine Transport System - FS
	ENERGY SECTOR
17	100MW Menengai Phase 1 (105MW) - Commercial Close
18	[illegible]MW Menengai Ph 2 - Preliminary FS
	Cont. ENERGY SECTOR
19	800MW Bogoria-Silali Phase 1 - Prelim FS
20	[illegible]MW LNG, Dongo Kundu – Tender Cancelled
21	500MW Geothermal Project at Olkaria - FS
22	[illegible]MW Coal Plant in Lamu - Negotiations
23	300MW Geothermal Suswa - Prelim FS
24	40MW Solar at Muhoroni - Concept
25	[illegible]MW Kitui Coal - FS
26	100MW Wind Plant at Meru - Concept
27	Off Shore Jetty – TA Procurement
	EAST AFRICAN AFFAIRS, COMMERCE & TOURISM
28	Development of the Bomas International Convention and Exhibition Centre (BICEC) - FS
29	Mombasa International Convention Centre - FS
30	Development of Marina in Shimoni - Concept
	ICT
31	National Data Centre - Concept
32.	National Land Information Management & National Spatial Data Base - Concept

ENVIRONMENT, WATER & NATURAL RESOURCES	
33	Nairobi Solid Waste Management – Project Proposal
34	Mombasa Solid Waste Management – Concept
35	Nakuru Solid Waste Management – TA Procurement
36.	Nairobi Bulk Water Supply – TA EOI Evaluation
37.	Mukuyu Water Supply, Murang'a County – TA Proc
38	Turkwel Downstream Irrigation - FS
39	Munyu Multipurpose & Greater Kibwezi irrigation - FS
40	Tana Delta Irrigation - FS
41	Tana Delta Irrigation Sugar project - FS
42	Nandi Forest Multipurpose Dam – TA TOR
42.	Magwagwa Multipurpose Dam – TA TOR
HEALTH SECTOR	
43	ICT Services at Kenyatta National Hospital - FS
44	300 Bed Hospital at KNH – TA TOR
45	Oxygen Plant – Project Proposal
46	Kenya Medical Training College (KMTC) projects - Concept
47	Medical Equipment Lease - Concept

EDUCATION SECTOR	
48	KJ Hostels – Contract Executed
49	Moi University Students Hostels - FS
50	Embu University Students Hostels - FS
51	Egerton University Students Hostels - FS
52	SEKU University Students Hostels - FS
53	Maseno University Students Hostels – Project Proposal
54	JKUAT University Projects **(6No.)** – TA TOR
55	Kenya School of Government, Embu – Project Proposal
56	University of Nairobi Student Hostels – Project Proposal
57	Machakos Uni. College Projects **(5No.)** – Project proposal
58	Pwani University projects – project Proposal
59	Kenya Technical Teachers College (KTTC) - FS
INTERIOR & COORDINATION OF NATIONAL GOVT	
60	National Police Housing - FS
61	Prison Housing - FS
INDUSTRIALIZATION AND ENTERPRISE DEVP	
62	Dongo Kundu SEZ – Contract Negotiations
LAND, HOUSING & URBAN DEVP.	
63	Civil Servants Housing Project – Contract Negotiation
AGRICULTURE, LIVESTOCK & FISHERIES	
64	Export Quarantine Station & Livestock Export Zone – TA Procurement

Note: *"FS" stands for feasibility study stage. "TA Proc" stands for transaction advisory procurement. "Commercial Close" stands for signing of the PPP project agreement. "TA TOR" stands for preparation of terms of reference for the recruitment of a transaction advisor. "Prelm FS" stands for Preliminary Feasibility Study. These acronyms serve to indicate the current stage of each project's development.*

28. The GOK understands that any PPP project comprises roles and responsibilities for both the public and private sector. In particular and based on specific project needs, the public sector's contributions to the "partnership" of PPPs would typically include the use of multiple instruments of support and credit enhancement measures such as project development funding, availability payments, upfront capital grants, operational grants, revenue guarantees, Partial Risk Guarantees (PRG), etc.

29. In accordance with section 7(1) of the PPP Act, the PPP Committee has adopted a Fiscal Commitment and Contingent Liability (FCCL) Management Framework to ensure approval of, and fiscal accountability in the management of, financial and any other form of Government support granted in the implementation of the country's PPP program. To oversee the institutionalisation and operationalization of this Management Framework, the Government in collaboration with the World Bank (WB) and the PPP Unit, has established an FCCL Unit within the Directorate of Public Debt Management Office of the National Treasury.

30. The unit is responsible for: mandatory evaluation of all proposed PPP projects for financial risks and contingent liabilities as a condition of project approval; confirmation of this initial approval at feasibility stage based on preferred bidder

submission and final negotiated project structure; regular monitoring of all support measures for any amendment(s) or variation(s) to a project agreement's terms and conditions, project outputs or any waivers in the project agreement; and, the ongoing development of a policy framework to govern the issuance of any and all types of letters of support requested across Government. The policy will provide a clear structure and process as a primary means of managing financial risks to government by ensuring robust and rigorous analysis and review before the Government takes on such commitments.

31. 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. The FCCL Unit now routinely assesses and is establishing systems for monitoring these projects with a view to ensuring continuous risk management and the scheduled disclosure and reporting of all fiscal risks associated with PPPs.

32. To mitigate the risks, operationalization of the PPP Project Facilitation Fund (PFF) (a multi-purpose revolving fund) and establishment of a good Governance Framework to manage Direct (or explicit) Liabilities and Contingent Liabilities is critical. A useful component of the good governance framework is the below qualitative risk assessment tool that is currently under implementation, while the Unit researches and practices on quantitative approaches of valuing CLs and calculating estimated payments.

Contingent Liability Risk Assessment Tool for Operational and Planned PPP Projects

PPP Projects	Type of Explicit CL	Probability/Impact
	Energy	
300MW L. Turkana Wind 80.32MW Gulf Power 150MW Olkaria III 82MW Triumph Power	GoK Letter of Support covering Political Risk events: • Total project cost depreciated at 5% per annum • Expenses incurred by the Seller as a result of termination • NPV of 5 years profits at 10% discount rate • Indemnity Agreement covering PRG payments (WB and AfDB, as appropriate)	Probability, Low. Impact, High. Reason**
90MW Rabai HFO 74MW Kipevu II HFO	Indemnity Agreement covering PRG payments	Probability, Low. Impact, High. Reason**

PPP Projects	Type of Explicit CL	Probability/Impact
140MW Longonot Geothermal 60MW Kinangop Wind Power	GoK Letter of Support covering political risk events: • Total Project Cost depreciated at 5% p.a. • Expenses incurred by the Seller as a result of termination • NPV of 5 years profits at 10% discount rate	Probability, Low. Impact, High. Reason**
	Transport	
Rift Valley Railway (RVR)	IDA PRG to the concession company	Probability, Low. Impact, High.
	Education	
Kenyatta University Student Hostels	GoK Letter of Support covering political risk events: • Total cost of the project depreciated at 5% p.a. • NPV of 5 years profits at 10% discount rate	
	• 100% occupancy guarantee provided by KU	

***These probabilities are deemed low based on Kenya's sovereign credit rating. According to Standard & Poor's, the current credit rating of Kenya is B+, implying that the probability of default of GoK within one year is 0.4% (estimated by Standard & Poor's using historical data of defaults of the last 20 years).*

33. To entrench better outcomes in fiscal risk management, the PPP Unit is also placing a lot of emphasis in project financial models, with the view to ensuring that project debt repayment is front-loaded, while equity pay-out is back-loaded. This way, overall fiscal exposure is potentially lowered.

34. Overall, the foregoing disclosures establish the case that Kenya's PPP programme remains affordable, sustainable and generally responsive to the demands of public finance: transparency, fairness, equality of opportunity and fiscal responsibility.

Environment

35. Natural disasters often lead to lower economic growth and a worsening in fiscal and external balances. They can also have a significant impact on poverty and social welfare. For instance, flood depending on its magnitude could impact agriculture, infrastructure such as electricity poles and transformers, roads, bridges and therefore affect households both directly and indirectly. Due to the impact a natural disaster on social welfare and its effects on essential amenities, the

government may feel obligated to prevent social welfare reduction by incurring cost of returning normalcy after an occurrence.

36. The government being privy to some past occurrences has been providing a contingency fund to cushion the fiscal framework from the risks, among others. However, the impact of such likely unforeseen events could be of greater magnitude than the provision and hence pose fiscal risk to the government.

Climate Change related fiscal risks to the economy

37. Temperature will continue to increase over the next century by 2.8°C, with a possibility of rising above 3°C or more. The physical consequences of such a rise include: changed precipitation patterns, sea level rise (amplified by storm surges), more intense and perhaps frequent extreme weather events, and increased prevalence of vector-borne diseases as well as catastrophic events, such as prolonged droughts and flooding in many counties.

38. The potential economic consequences of climate change include:- productivity changes in agriculture and other climate sensitive sectors, damage to coastal areas, stresses on health, biodiversity, fragile ecosystems, water systems, changes in trading patterns and international investment flows, financial market disruption, increased vulnerability to sudden adverse shocks, and altered migration patterns—all with potential implications for external stability.

39. The fiscal implications of climate change could be among its most powerful and immediate, affecting many countries including Kenya. Climate developments will directly affect fiscal positions, through their impact on tax bases and spending programs and use of fiscal instruments in *mitigating* the extent of CC and adapting so as to limit the damage that remains.

40. Over the last three years, the National Treasury has been leading the process of developing fiscal instruments for climate proofing vulnerable sectors of the economy through enhancing mitigation and adaption. These include: Climate Finance Policy, Climate Public Expenditure review and climate change budget coding for tracking climate change related expenditure. However, climate change will continue to pose significant fiscal risk especially through potential flooding and drought incidences.

Terrorist Attack

41. Potential terrorist attacks would affect the tourism sector and may also impact market confidence. Tourism contributes 0.5% of GDP and brings in a substantial

amount of foreign earnings. In the recent past, Kenya faced terror attacks including in: Westgate Shopping Mall in Nairobi (September 2013), Eastleigh in Nairobi (April 2014), Thika Highway attack (May 2014), Gikomba Market attack (May 2014), Mpeketoni attack in Lamu (June 2014), Mandera bus attack (November 2014), Mandera quarry workers attack (December 2014) and Garissa University College attack (April 2015). These attacks have resulted in loss of lives, destruction of property, loss of businesses, disruption of families, restriction of movement of people, religious animosity and profiling of certain communities.

42. These direct and other indirect costs including loss of jobs have a negative impact on government revenue from tax, increased government spending on security and peace restoration as well as redeeming country's image hence risk to the government's fiscal framework.

43. The Governmnt has undertaken a lot of reforms over the last two financial years to mitigate the adverse effects of this risk under the Economic Transformation Agenda particularly on the creation of a conducive business environment.

Technological Disaster

44. Information technology accounts for about 0.9 percent of GDP (2015) driven by financial innovation in mobile money transfer services. 1.1 billion transactions amounting to Ksh.2.8 trillion were transacted through this system in 2015. The main telecommunication company driving this channel constitutes a significant share of the market as well as a significant proportion of corporate tax paid to the government. Various financial products have been leveraged on this payment channel increasing the inter linkages between this technology and the banking sector. If this system was to be compromised, the impact would be substantial considering the linkages and the corporate tax revenue for government. The financial and other institutions liked to this system would be susceptible possibly amounting to the value transacted through the channel, were this risk to materialize, the impact on government including loss of deposits, loss of potential revenue and market confidence would put pressure on the government to compensate the losses.

45. Technological innovation via the mobile money transfer services and its pivotal role in the economy should therefore be given due consideration as a plausible fiscal risk.

Liabilities of the financial sector via systemically important Banks

46. The Kenya Deposit Insurance Corporation (KDIC) was established under Section 36 of the Banking Act as a deposit protection scheme to cover depositors and act as a liquidator of failed member institution. As at December 2015, Ksh 244.6 billion were insured by KDIC. 30 million accounts out of 31 million accounts were covered, translating to 96 percent coverage of accounts. As KDIC was established to protect small depositors, deposits are insured only up to Ksh 100,000, which may be low as the economic mobility increases and the Kenya middle class grows changing the average value of deposits and the definition of small depositors. Simulation analysis indicates that the KDIC is adequately funded to be able to pay at a higher cap level, However, deposits held by Systemically Important Bank's may be held by a large proportion of the population that the government may feel compelled to pay depositors the gap between the value of their deposits and the maximum covered amount even if this is at an enhanced level.

Devolved System of Government

47. The constitution of Kenya provides for two level of government i.e. National and County governments which are both independent and inter-dependent. This system of governance which came into place in March 2013 gives County governments powers under Article 209 to collect assigned revenues, budgets and spend. Counties spend as per the functions assigned to them under Schedule 4 of the constitution (Devolved functions). They are financed through Central Government Transfers, Own Source Revenues and Conditional Allocations.

48. However, major risks have emerged from Kenya's fiscal decentralization, and which require prudent management especially by the County Governments: These include:

(i) Overreliance on national government transfers and the need to increase own source revenues.

(ii) Dependence by some counties on one major own-source revenue hence exposing them to fiscal shocks occasioned by a dip in their main revenue source.

(iii) Unrealistic own-source revenue projections which results to unrealistic expenditure estimates inevitably generating pending bills and causing general cash flow problems. This could engender undue demand for borrowing.

(iv) Duplication of functions that risk generating intergovernmental conflicts, wasteful spending and financing gaps that could adversely affect implementation of the fiscal framework.

(v) Illegal borrowing by some County Governments: Constitution allows County Governments to raise revenue by way of borrowing subject to guarantee by the National Government. A borrowing framework to operationalize this has been prepared and embedded in the Public Finance (County Governments') Regulations, 2015. However, some counties have borrowed from commercial banks without the requisite guarantee. Such unlawful borrowing is a potential source of fiscal risks.

ANNEX TABLES

Annex Table 1: Macroeconomic Indicators, 2014/15-2019/20

	2014/15	2015/16		2016/17			2017/18			2018/19			2019/20	
	Act.	Rev. Budget'16	Prel.	*Budget'16*	*BROP'16*	*BPS'17*	*BPS'16*	*BROP'16*	*BPS'17*	*BPS'16*	*BROP'16*	*BPS'17*	*BROP'16*	*BPS'17*
	annual percentage change, unless otherwise indicated													
National Account and Prices														
Real GDP	5.5	5.8	5.8	6.1	6.1	6.0	6.3	6.3	6.2	6.5	6.6	6.5	6.7	6.6
GDP deflator	8.6	6.8	7.6	6.2	5.3	6.1	5.6	5.8	5.5	5.4	5.9	5.4	4.8	5.6
CPI Index (eop)	6.5	5.3	6.0	5.0	5.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	6.6	5.6	6.4	5.0	5.6	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-0.2	0.3	0.7	-0.9	1.0	2.1	0.9	0.6	1.5	-1.0	0.8	1.0	0.0	-0.5
Money and Credit (end of period)														
Net domestic assets	19.6	12.3	10.1	7.3	-4.0	-6.0	6.0	5.1	2.5	6.9	7.0	8.4	10.9	13.7
Net domestic credit to the Government	72.9	22.3	14.4	18.2	25.0	19.3	15.4	22.0	22.9	9.9	15.3	19.7	10.0	10.1
Credit to the rest of the economy	20.3	16.8	8.4	14.8	17.1	8.5	13.5	14.6	8.7	12.7	15.1	15.0	21.6	18.7
Broad Money, M3 (percent change)	18.6	13.0	7.9	12.6	11.5	12.9	12.3	12.3	11.4	12.4	12.4	11.8	14.2	15.0
Reserve money (percent change)	14.9		4.9	10.4	14.8	15.8	11.2	11.2	10.8	11.3	11.3	11.1	13.1	14.3
	in percentage of GDP, unless otherwise indicated													
Investment and Saving														
Investment	22.5	23.5	23.3	22.8	24.6	23.9	24.5	25.1	24.4	23.8	26.4	25.9	27.2	26.5
Central Government	8.7	10.4	7.2	11.1	8.2	7.8	9.0	8.1	7.6	8.5	7.8	7.5	8.1	7.6
Other	13.8	13.1	16.1	11.7	16.5	16.1	15.5	17.0	16.9	15.3	18.5	18.4	19.0	18.8
Gross National Saving	14.4	16.4	16.8	17.4	19.4	17.8	19.2	19.8	18.3	18.2	21.2	19.9	22.1	20.9
Central Government	3.6	3.3	3.2	4.7	3.8	4.5	6.7	5.0	4.7	7.4	5.7	5.6	7.2	6.5
Other	10.8	13.0	13.6	12.7	15.6	13.3	12.6	14.8	13.6	10.7	15.6	14.4	15.0	14.4
Central Government Budget														
Total revenue	19.1	20.2	18.8	20.7	20.1	20.4	21.1	20.1	20.6	21.3	20.3	20.6	21.9	21.5
Total expenditure and net lending	28.2	31.5	27.1	31.3	28.6	27.8	27.6	27.4	27.6	26.3	26.2	26.2	26.8	26.4
Overall balance (commitment basis) excl. grants	-9.2	-11.4	-8.3	-10.7	-8.5	-7.4	-6.2	-7.3	-7.0	-4.9	-6.0	-5.7	-4.8	-4.8
Overall balance (commitment basis) incl. grants	-8.4	-10.3	-7.5	-9.7	-8.1	-6.9	-5.4	-6.7	-6.4	-4.1	-5.3	-5.0	-4.0	-4.0
Overall balance (commitment basis) incl. grants excl SGR	-6.3	-10.3	-6.7	-8.0	-7.1	-6.0	-5.7	-5.8	-5.5	-4.2	-4.7	-4.5	-3.5	-3.6
Primary budget balance	-5.4	-7.0	-4.2	-6.2	-4.6	-3.8	-2.9	-3.3	-3.0	-1.6	-2.2	-1.8	-2.6	-2.6
Net domestic borrowing	4.3	0.0	3.1	3.3	4.1	3.1	-0.2	4.0	3.9	-0.2	3.0	3.7	2.8	2.8
Total external support (grant & loans)	4.3	5.6	2.7	5.8	2.8	2.7	3.9	3.2	3.2	3.4	3.2	3.2	3.4	3.4
External Sector														
Exports value, goods and services	19.6	21.7	18.9	22.8	22.5	19.2	23.7	23.6	21.7	24.1	24.4	21.5	25.6	21.8
Imports value, goods and services	32.2	33.2	29.7	32.1	31.7	29.1	32.6	32.6	31.5	33.1	32.9	30.8	33.9	30.6
Current external balance, including official transfers	-8.1	-7.2	-6.6	-5.4	-5.3	-6.1	-5.2	-5.3	-6.1	-5.6	-5.1	-6.0	-5.0	-5.6
Gross international reserve coverage in months of next year imports (end of period)	4.9	4.5	4.3	4.5	4.5	4.3	4.7	4.7	4.9	5.1	4.9	5.1	5.0	4.8
Gross international reserve coverage in months of this year's imports (end of period)	4.6	4.8	4.8	5.1	5.1	5.1	5.3	5.3	5.3	5.4	5.4	5.4	5.5	5.5
Public debt														
Nominal central government debt (eop), net of deposits	44.8	48.8	48.7	49.1	47.4	45.3	45.8	49.1	47.4	45.6	49.3	48.7	50.0	49.1
Domestic (gross)	24.4	25.1	27.6	24.9	28.3	26.7	23.4	29.2	27.8	22.6	28.9	28.6	29.1	28.5
Domestic (net)	20.3	21.4	21.4	21.5	22.7	21.2	20.4	24.2	22.9	20.0	24.5	24.2	24.9	24.4
External	24.5	27.4	27.4	27.6	24.7	24.1	25.4	24.9	24.5	25.6	24.9	24.5	25.1	24.7
Memorandum Items:														
Nominal GDP (in Ksh Billion)	5,811	6,444	6,586	7,259	7,259	7,435	8,151	8,151	8,284	9,159	9,159	9,259	9,838	10,022
Nominal GDP (in US$ Million)	63,600	64,843	65,143	72,348	71,909	73,655	80,462	79,973	81,284	89,551	89,007	89,981	94,699	96,468

Source: National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway

Annex Table 2: Government Fiscal Operations, Ksh Billions

	2014/15	2015/16		2016/17			2017/18			2018/19			2019/20	
	Act	Rev. Budget	Prel	Budget'16	BROP'16	BPS'17	BPS'16	BROP'16	BPS'17	BPS'16	BROP'16	BPS'17	BROP'16	BPS'17
TOTAL REVENUE	1,107.8	1,299.9	1,237.9	1,500.5	1,456.3	1,518.7	1,702.2	1,640.9	1,706.0	1,933.7	1,856.2	1,903.1	2,154.3	2,157.5
Ordinary Revenue	1,031.8	1,184.4	1,158.2	1,376.4	1,318.0	1,374.5	1,575.9	1,495.6	1,549.4	1,797.7	1,703.3	1,767.0	1,971.3	2,013.5
Income Tax	508.6	578.0	566.0	671.1	653.5	659.8	766.6	742.5	762.1	881.4	855.4	877.2	997.9	1,008.8
Import duty (net)	74.0	83.6	79.2	96.3	89.8	90.4	107.1	100.8	102.4	120.3	113.3	115.0	127.2	129.2
Excise duty	115.9	137.2	139.5	169.3	154.0	178.4	204.9	175.3	197.4	231.8	194.2	223.9	222.2	252.8
Value Added Tax	259.7	300.0	289.2	345.6	329.3	338.7	377.2	375.4	383.5	429.5	428.2	435.1	485.5	494.4
Investment income	14.0	21.6	19.3	19.7	17.7	31.4	25.4	18.7	17.7	27.1	19.8	18.7	22.3	19.8
Other	59.6	64.0	65.0	74.5	73.8	75.9	94.6	82.9	86.4	107.6	92.3	97.1	116.1	108.4
Railway Development Levy	19.2	18.0	17.3	20.2	19.5	18.9	31.3	21.9	21.3	35.5	24.5	23.9	31.0	26.8
Ministerial and Departmental fees (AiA)	56.7	97.6	62.4	103.9	118.9	125.3	95.0	123.4	135.3	100.5	128.4	112.2	152.0	117.2
EXPENDITURE AND NET LENDING	1,640.0	2,032.5	1,781.9	2,275.6	2,074.1	2,067.0	2,207.5	2,236.7	2,288.4	2,379.0	2,401.5	2,428.5	2,628.5	2,642.3
Recurrent expenditure	895.2	1,085.3	1,027.5	1,168.5	1,183.5	1,186.6	1,193.8	1,250.6	1,339.1	1,278.4	1,337.2	1,385.9	1,450.4	1,504.5
Interest payments	171.9	215.5	215.3	250.8	250.8	231.0	228.1	273.3	284.7	236.7	284.1	295.6	316.6	324.0
Domestic interest	139.6	174.1	172.9	197.3	197.3	172.6	170.1	215.2	215.2	178.6	226.0	226.0	257.6	257.6
Foreign Interest /1	32.3	41.4	42.5	53.5	53.5	58.4	58.0	58.0	69.4	58.2	58.2	69.6	59.0	66.4
Wages and Salaries/2	298.0	333.5	307.4	360.8	360.8	360.8	396.9	378.8	398.8	436.5	397.8	434.7	417.6	456.4
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	0.0	0.0	17.7	17.0	17.9	18.8	17.9	22.8	18.8	24.0
Civil service Reform	1.0	1.0	0.0	1.5	1.5	1.5	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Pensions etc	37.5	56.1	53.4	60.2	60.2	60.2	64.0	68.7	76.6	70.4	75.6	86.4	81.2	99.4
Other	293.1	366.6	337.7	371.2	386.2	409.2	359.4	386.2	429.9	382.9	431.9	416.6	481.8	466.3
Defense and NSIS	93.7	112.5	113.7	124.0	124.0	124.0	126.7	125.6	130.2	133.1	129.9	129.9	134.3	134.3
Development and Net lending	510.5	678.0	485.4	817.3	600.9	590.6	706.5	673.2	640.4	772.2	726.9	709.0	813.6	778.0
Domestically financed	266.8	316.5	301.3	395.5	394.8	388.5	408.6	405.3	368.6	460.8	429.8	412.0	474.0	433.8
o/w Domestically Financed (Net)/3	241.5	280.1	280.2	338.2	338.2	332.4	355.1	345.0	324.4	401.3	365.3	364.2	382.8	381.7
o/w Exchequer Issues/4	228.1	280.1	280.2	338.2	338.2	332.4	355.1	345.0	324.4	401.3	365.3	364.2	382.8	381.7
Ministerial Development AIA	25.4	36.4	21.1	57.4	56.6	56.1	53.4	60.3	44.2	59.5	64.5	47.7	91.1	52.1
Foreign financed/5	241.2	353.0	175.5	413.6	198.0	194.0	290.4	258.5	258.5	300.8	285.8	285.8	327.3	332.5
Net lending	2.1	2.1	2.2	2.1	2.1	2.1	2.0	2.0	5.6	2.0	2.7	2.4	2.5	1.6
Contingencies/4	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.7	5.0	5.0	5.0	5.0	5.0
County Allocation	229.3	264.2	264.0	284.8	284.8	284.8	302.3	307.9	304.2	323.4	332.4	328.5	359.5	354.9
Of which: sharable	228.6	259.8	259.8	280.4	280.4	280.4	297.6	303.2	300.0	318.4	327.5	324.0	353.6	350.0
Conditional Level Five Hospitals	0.0	3.6	3.6	4.0	4.0	4.0	4.3	4.3	4.2	4.5	4.5	4.5	5.0	4.9
County Health Facilities - DANIDA	0.7	0.8	0.7	0.4	0.4	0.4	0.4	0.4	0.0	0.4	0.4	0.0	0.8	0.0
Health Care Facilities Compensation														
Other conditional transfer														
Equalization Fund for Marginal areas /7	0.4	6.4	6.4	6.0	6.0	6.0	5.5	7.5	7.7	8.7	8.5	8.8	9.9	10.1
Fiscal Balance *(commitment basis excl. grants)*	-532.3	-732.6	-544.1	-775.0	-617.9	-548.3	-505.3	-595.8	-582.4	-445.3	-545.3	-525.3	-474.1	-484.9
Adjustment to cash basis	16.9	0.0	22.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	28.1	66.0	29.6	72.7	31.7	31.7	64.5	51.9	51.5	72.6	60.9	60.5	80.8	81.4
Of which: Project grants	23.0	58.2	24.1	65.4	24.4	24.4	57.5	44.9	44.9	65.5	53.9	53.9	75.0	76.4
Debt Swap	0.53	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.0	0.0
Programmme grants	3.84	6.4	4.3	6.4	6.4	6.4	6.1	6.1	6.1	6.1	6.1	6.1	5.0	5.0
County Health Facilities - DANIDA	0.7	0.8	0.7	0.4	0.4	0.4	0.4	0.4	0.0	0.4	0.4	0.0	0.8	0.0
Fiscal Balance *(cash basis incl. grants)*	-487.2	-666.6	-492.1	-702.3	-586.1	-516.5	-440.8	-543.8	-530.9	-372.7	-484.4	-464.8	-393.3	-403.5
Fiscal Balance *(cash basis incl. grants) Exl. SGR*	-363.7	-548.4	-439.7	-584.1	-512.5	-442.9	-421.0	-471.9	-458.9	-328.3	-434.4	-414.8	-347.6	-357.8
Statistical discrepancy	-15.7	0.0	-17.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	471.5	666.6	474.6	702.3	586.1	516.5	440.8	543.8	530.9	372.7	484.4	464.8	393.3	403.5
Net Foreign Financing	217.5	419.0	269.9	462.3	287.6	287.1	225.7	231.4	221.1	224.4	221.0	130.5	196.4	200.2
Project loans	218.2	294.8	151.4	348.3	173.6	169.6	232.8	213.5	213.5	235.2	231.9	231.9	252.3	256.2
Programme loans	3.5	8.2	8.6	3.9	3.9	7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Financing/6	75.0	154.3	145.0	153.8	153.8	153.8	125.0	150.0	150.0	125.0	125.0	125.0	53.2	53.2
of which: Syndicated Loan	0.0	0.0	0.0											
Repayments due	-79.1	-38.4	-35.1	-43.6	-43.6	-43.6	-132.2	-132.2	-142.5	-135.9	-135.9	-226.4	-109.2	-109.2
O/W syndicated Loan repayments	-52.8	-	-	-	-	-	-77.0	-77.0	0.0	-	-	-		
Other Domestic Financing	2.9	2.6	2.4	4.0	4.0	2.6	-12.8	-10.9	-10.9	-12.9	-10.8	-5.8	-10.7	-5.7
Of which: NBK Rights	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	0.0
Domestic Loan Repayments (Receipts)	2.9	2.6	2.4	4.0	4.0	2.6	2.7	4.1	4.1	2.8	4.2	4.2	4.3	4.3
Domestic Loan Repayments CBK	0.0	0.0	0.0	0.0	0.0	0.0	-15.6	-15.0	-15.0	-15.7	-15.0	-10.0	-15.0	-10.0
Net Domestic Financing	251.1	245.0	202.3	236.1	294.6	226.8	228.0	323.4	320.7	161.3	274.2	340.1	207.7	209.0
Of which: Sovereign Bond proceeds	140.5	-	-	-	-	-	-	-	-	-	-	-		
Others	110.6	245.0	202.3	236.1	294.6	226.8	228.0	323.4	320.7	161.3	274.2	340.1	207.7	209.0
Financing gap	0.0	0.0	-17.5	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	1,423.3	1,803.3	1,803.3	1,926.5	1,795.9	1,791.9	2,066.9	2,030.4	2,026.6	2,316.2	2,276.0	2,272.3	2,470.7	2,471.1
Domestic Debt (gross)	1,420.4	1,815.1	1,815.1	1,995.4	2,053.8	1,986.1	1,916.7	2,377.2	2,306.8	2,078.0	2,651.4	2,646.9	2,859.1	2,855.9
Domestic Debt (net)	1,178.2	1,406.7	1,406.7	1,587.0	1,645.5	1,577.7	1,674.5	1,968.9	1,898.4	1,835.8	2,243.0	2,238.5	2,450.7	2,447.5
Primary budget balance	-315.3	-451.1	-276.8	-451.5	-335.3	-285.5	-212.7	-270.6	-246.2	-136.0	-200.3	-169.3	-76.7	-79.5
Nominal GDP	5,811.2	6,444.0	6,586.0	7,259.0	7,259.0	7,435.2	8,149.0	8,150.7	8,284.3	9,149.0	9,158.6	9,258.8	9,838.0	10,021.8

Source: The National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway

Note/1 Interest payments for FY 2014/15 includes Ksh 401.3 million on syndicated loan

Note /2 Salaries and Wages reflect the wages for civil service inclusive of the police and prison officers and teachers

Note /3 Domestically financed development for FY 2014/15 is higher than Exchequer issued of Ksh 233.5 billion on account of commitments

Note /4 Comprises total excheque releases (Ksh 233.5 billion) excluding from grants and loans (Ksh 36.8 billion)

Note /5 Foreign Financed development for FY 2014/15 includes grants and loans through the exchequer of Ksh 36.8 billion

Note /6 Commercial Financing item includes all forms of external financing not related to projects including, first Eurobond receipts, Eurobond tap sales, syndicated loans

Note /7 Equalization Fund expenditures for actual years represent actual disbursements to the Fund

Annex Table 3: Government Fiscal Operations, Percent of GDP

	2014/15	2015/16		2016/17			2017/18			2018/19			2019/20	
	Act	Rev. Budget	Prel	Budget'16	BROP'16	BPS'17	BPS'16	BROP'16	BPS'17	BPS'16	BROP'16	BPS'17	BROP'16	BPS'17
TOTAL REVENUE	19.1	20.2	18.8	20.7	20.1	20.4	20.9	20.1	20.6	21.1	[illegible]	20.6	21.9	21.5
Ordinary Revenue	17.8	18.4	17.6	19.0	18.2	18.5	19.3	18.3	18.7	19.6	[illegible]	19.1	20.0	20.1
Income tax	8.8	9.0	8.6	9.2	9.0	8.9	9.4	9.1	9.2	9.6	[illegible]	9.5	10.1	10.1
Import duty (net)	1.3	1.3	1.2	1.3	1.2	1.2	1.3	1.2	1.2	1.3	[illegible]	1.2	1.3	1.3
Excise duty	2.0	2.1	2.1	2.3	2.1	2.4	2.5	2.2	2.4	2.5	2.1	2.4	2.3	2.5
Value Added Tax	4.5	4.7	4.4	4.8	4.5	4.6	4.6	4.6	4.6	4.7	4.7	4.7	4.9	4.9
Investment income	0.2	0.3	0.3	0.3	0.2	0.4	0.3	0.2	0.2	0.3	[illegible]	0.2	0.2	0.2
Other	1.0	1.0	1.0	1.0	1.0	1.0	1.2	1.0	1.0	1.2	[illegible]	1.0	1.2	1.1
Railway Development Levy	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Ministerial and Departmental fees (AiA)	1.0	1.5	0.9	1.4	1.6	1.7	1.2	1.5	1.6	1.1	[illegible]	1.2	1.5	1.2
EXPENDITURE AND NET LENDING	28.2	31.5	27.1	31.3	28.6	27.8	27.1	27.4	27.6	26.0	[illegible]	26.2	26.7	26.4
Recurrent expenditure	15.4	16.8	15.6	16.1	16.3	16.0	14.6	15.3	16.2	14.0	[illegible]	15.0	14.7	15.0
Interest payments	3.0	3.3	3.3	3.5	3.5	3.1	2.8	3.4	3.4	2.6	[illegible]	3.2	3.2	3.2
Domestic interest	2.4	2.7	2.6	2.7	2.7	2.3	2.1	2.6	2.6	2.0	[illegible]	2.4	2.6	2.6
Foreign Interest /1	0.6	0.6	0.6	0.7	0.7	0.8	0.7	0.7	0.8	0.6	0.6	0.8	0.6	0.7
Wages and Salaries/2	5.1	5.2	4.7	5.0	5.0	4.9	4.9	4.6	4.8	4.8	4.3	4.7	4.2	4.6
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Civil service Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	[illegible]	0.0	0.0	0.0
Pensions etc	0.6	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.9	0.8	1.0
Other	5.0	5.7	5.1	5.1	5.3	5.5	4.4	4.7	5.2	4.2	4.7	4.5	4.9	4.7
Defense and NSIS	1.6	1.7	1.7	1.7	1.7	1.7	1.6	1.5	1.6	1.5	1.4	1.4	1.4	1.3
Development and Net lending	8.8	10.5	7.4	11.3	8.3	7.9	8.7	8.3	7.7	8.4	7.5	7.7	8.3	7.8
Domestically financed	4.6	4.9	4.6	5.4	5.4	5.2	5.0	5.0	4.4	5.0	4.7	4.4	4.8	4.3
o/w Domestically Financed (Net)/3	4.2	4.3	4.3	4.7	4.7	4.5	4.4	4.2	3.9	4.4	4.0	3.9	3.9	3.8
o/w Exchequer Issues/4	3.9	4.3	4.3	4.7	4.7	4.5	4.4	4.2	3.9	4.4	4.0	3.9	3.9	3.8
Ministerial Development AIA	0.4	0.6	0.3	0.8	0.8	0.8	0.7	0.7	0.5	0.7	0.7	0.5	0.9	0.5
Foreign financed/5	4.2	5.5	2.7	5.7	2.7	2.6	3.6	3.2	3.1	3.3	3.1	3.1	3.3	3.3
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Contingencies/4	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	0.0
County Allocation	3.9	4.1	4.0	3.9	3.9	3.8	3.7	3.8	3.7	3.5	3.6	3.5	3.7	3.5
Of which: sharable	3.9	4.0	3.9	3.9	3.9	3.8	3.7	3.7	3.6	3.5	3.6	3.5	3.6	3.5
Equalization Fund for Marginal areas /7	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Fiscal Balance (commitment basis excl. grants)	-9.2	-11.4	-8.3	-10.7	-8.5	-7.4	-6.2	-7.3	-7.0	-4.9	-6.0	-5.7	-4.8	-4.8
Adjustment to cash basis	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.5	1.0	0.4	1.0	0.4	0.4	0.8	0.6	0.6	0.8	0.7	0.7	0.8	0.8
Of which: Project grants	0.4	0.9	0.4	0.9	0.3	0.3	0.7	0.6	0.5	0.7	0.6	0.6	0.8	0.0
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	0.0
Programme grants	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	0.0
Fiscal Balance (cash basis incl. grants)	-8.4	-10.3	-7.5	-9.7	-8.1	-6.9	-5.4	-6.7	-6.4	-4.1	-5.3	-5.0	-4.0	-4.0
Fiscal Balance (cash basis incl. grants) Exl. SGR	-6.3	-8.5	-6.7	-8.0	-7.1	-6.0	-5.2	-5.8	-5.5	-3.6	-4.7	-4.5	-3.5	-3.6
FINANCING	8.1	10.3	7.2	9.7	8.1	6.9	5.4	6.7	6.4	4.1	5.3	5.0	4.0	4.0
Net Foreign Financing	3.7	6.5	4.1	6.4	4.0	3.9	2.8	2.8	2.7	2.5	2.4	1.4	2.0	2.0
Project loans	3.8	4.6	2.3	4.8	2.4	2.3	2.9	2.6	2.6	2.6	2.5	2.5	2.6	2.6
Programme loans	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Financing/6	1.3	2.4	2.2	2.1	2.1	2.1	1.5	1.8	1.8	1.4	1.4	1.4	0.5	0.5
of which: Syndicated Loan	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	0.0
Repayments due	-1.4	-0.6	-0.5	-0.6	-0.6	-0.6	-1.6	-1.6	-1.7	-1.5	-1.5	-2.4	-1.1	-1.1
O/W syndicated Loan repayments	-0.9	0.0	0.0	0.0	0.0	0.0	-0.9	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Other Domestic Financing	0.0	0.0	0.0	0.1	0.1	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Of which: NBK Rights	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	0.0
Domestic Loan Repayments (Receipts)	0.0	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
Domestic Loan Repayments CBK	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.1
Net Domestic Financing	4.3	3.8	3.1	3.3	4.1	3.1	2.8	4.0	3.9	1.8	3.0	3.7	2.1	2.1
Of which: Sovereign Bond proceeds	2.4	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
Others	1.9	3.8	3.1	3.3	4.1	3.1	2.8	4.0	3.9	1.8	3.0	3.7	2.1	2.1
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items														
Total Public Debt (net)	44.8	48.8	48.7	49.1	47.4	45.3	45.8	49.1	47.4	45.6	49.3	48.7	50.0	49.1
External Debt	24.5	28.0	27.4	26.5	24.7	24.1	25.4	24.9	24.5	25.3	24.9	24.5	25.1	24.7
Domestic Debt (gross)	24.4	28.2	27.6	27.5	28.3	26.7	23.5	29.2	27.8	22.7	28.9	28.6	29.1	28.5
Domestic Debt (net)	20.3	21.8	21.4	21.9	22.7	21.2	20.5	24.2	22.9	20.1	24.5	24.2	24.9	24.4
Primary budget balance	-5.4	-7.0	-4.2	-6.2	-4.6	-3.8	-2.6	-3.3	-3.0	-1.5	-2.2	-1.8	-0.8	-0.8
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	100.0

Source: The National Treasury

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Note/1 Interest payments for FY 2014/15 includes Ksh 401.3 million on syndicated loan

Note /2 Salaries and Wages reflect the wages for civil service inclusive of the police and prison officers and teachers

Note /3 Domestically financed development for FY 2014/15 is higher than Exchequer issued of Ksh 233.5 billion on account of commitments

Note /4 Comprises total excheque releases (Ksh 233.5 billion) excluding from grants and loans (Ksh 36.8 billion)

Note /5 Foreign Financed development for FY 2014/15 includes grants and loans through the exchequer of Ksh 36.8 billion

Note /6 Commercial Financing item includes all forms of external financing not related to projects including, first Eurobond receipts, Eurobond tap sales, syndicated loans

Note /7 Equalization Fund expenditures for actual years represent actual disbursements to the Fund

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million)

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
AGRICULTURE, RURAL & URBAN DEVELOPMENT	15,752.4	30,791.9	46,544.2	17,017.7	25,041.1	42,058.8	17,428.5	33,796.0	51,224.5	17,853.0	34,777.0	52,630.0
1112 Ministry of Lands and Physical Planning	2,188.6	3,841.5	6,030.1	2,344.6	3,792.0	6,136.6	2,331.0	4,380.0	6,711.0	2,402.0	4,430.0	6,832.0
0101000 P. 1 Land Policy and Planning	2,188.6	3,841.5	6,030.1	2,344.6	3,792.0	6,136.6	2,331.0	4,380.0	6,711.0	2,402.0	4,430.0	6,832.0
1161. State Department for Agriculture	8,586.1	12,678.3	21,264.3	6,278.0	11,150.8	17,428.8	6,685.0	12,854.0	19,539.0	6,840.0	12,890.0	19,730.0
0107000 P1: General Administration Planning and Support Services	2,557.0	888.0	3,445.0	3,625.0	1,291.3	4,916.3	3,656.0	1,500.0	5,156.0	3,673.0	1,600.0	5,273.0
0108000 P2: Crop Development and Management	5,829.2	10,861.2	16,690.4	2,446.0	8,845.5	11,291.5	2,794.0	10,254.0	13,048.0	2,920.0	9,990.0	12,910.0
0109000 P3: Agribusiness and Information Management	199.8	929.1	1,128.9	207.0	1,014.0	1,221.0	235.0	1,100.0	1,335.0	247.0	1,300.0	1,547.0
1162 State Department for Livestock	1,889.9	11,742.1	13,632.1	4,959.0	7,852.9	12,811.9	5,012.0	12,833.0	17,845.0	5,129.0	13,535.0	18,664.0
0112000 P 6: Livestock Resources Management and Development	1,889.9	11,742.1	13,632.1	4,959.0	7,852.9	12,811.9	5,012.0	12,833.0	17,845.0	5,129.0	13,535.0	18,664.0
1164 State Department for Fisheries and the Blue Economy	1,653.2	2,530.0	4,183.2	1,934.1	1,945.4	3,879.5	1,893.5	2,773.0	4,666.5	1,930.0	2,821.0	4,751.0
0111000 P5: Fisheries Development and Management	1,653.2	2,530.0	4,183.2	1,607.7	1,895.4	3,503.1	1,582.5	2,453.0	4,035.5	1,616.0	2,351.0	3,967.0
P 6: General Administration, Planning and Support Services	-	-	-	119.4	-	119.4	122.0	200.0	322.0	124.0	400.0	524.0
P 7: Development and Coordination of the Blue Economy	-	-	-	207.0	50.0	257.0	189.0	120.0	309.0	190.0	70.0	260.0
2021 National Land Commission	1,434.5	-	1,434.5	1,502.0	300.0	1,802.0	1,507.0	956.0	2,463.0	1,552.0	1,101.0	2,653.0
0113000 P1: Land Administration and Management	156.4	-	156.4	318.0	-	318.0	336.0	-	336.0	355.0	-	355.0
0114000 P2. General Administration, Planning and Support Services	1,095.2	-	1,095.2	965.0	-	965.0	982.0	-	982.0	1,004.0	-	1,004.0
0115000 P3. Land Disputes and Conflict Resolutions	142.9	-	142.9	172.0	-	172.0	137.0	-	137.0	138.0	-	138.0
0116000 P4. National Land Information Management System	40.0	-	40.0	47.0	300.0	347.0	52.0	956.0	1,008.0	55.0	1,101.0	1,156.0

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
ENERGY, INFRASTRUCTURE AND ICT	**41,945.7**	**487,217.1**	**529,162.9**	**66,466.1**	**360,490.7**	**426,956.8**	**70,077.3**	**421,263.8**	**491,341.0**	**70,555.6**	**437,376.5**	**507,932.1**
1152 State Department for Energy	**2,078.6**	**115,183.3**	**117,261.9**	**2,093.0**	**81,051.7**	**83,144.7**	**2,150.0**	**115,185.0**	**117,335.0**	**2,194.0**	**114,945.4**	**117,139.4**
0211000 P1 General Administration Planning and Support Services	321.8	131.8	453.7	334.0	241.0	575.0	339.0	141.0	480.0	351.0	139.0	490.0
0212000 P2 Power Generation	796.6	21,491.5	22,288.1	798.0	30,328.0	31,126.0	836.0	35,930.0	36,766.0	854.0	36,119.4	36,973.4
0213000 P3 Power Transmission and Distribution	797.8	92,662.0	93,459.8	797.0	49,561.7	50,358.7	799.0	78,222.0	79,021.0	800.0	77,661.0	78,461.0
0214000 P4 Alternative Energy Technologies	162.3	898.0	1,060.3	164.0	921.0	1,085.0	176.0	892.0	1,068.0	189.0	1,026.0	1,215.0
1153 State Department for Petroleum	**91.2**	**4,208.4**	**4,299.6**	**145.2**	**4,430.7**	**4,575.9**	**147.1**	**4,773.0**	**4,920.1**	**150.1**	**4,723.0**	**4,873.1**
0215000 P5 Exploration and Distribution of Oil and Gas	91.2	4,208.4	4,299.6	145.2	4,430.7	4,575.9	147.1	4,773.0	4,920.1	150.1	4,723.0	4,873.1
1091. State Department of Infrastructure	**29,039.1**	**147,711.8**	**176,750.9**	**52,658.0**	**126,385.5**	**179,043.5**	**55,859.0**	**142,707.0**	**198,566.0**	**55,907.0**	**154,925.0**	**210,832.0**
0202000 P.2 Road Transport	29,039.1	147,711.8	176,750.9	52,658.0	126,385.5	179,043.5	55,859.0	142,707.0	198,566.0	55,907.0	154,925.0	210,832.0
1092 State Department of Transport	**5,780.7**	**175,806.6**	**181,587.3**	**6,009.0**	**112,079.9**	**118,088.9**	**6,247.0**	**114,781.0**	**121,028.0**	**6,329.9**	**116,781.0**	**123,110.9**
0201000 P.1 General Administration, Planning and Support Services	308.9	354.0	662.9	316.0	724.0	1,040.0	323.0	724.0	1,047.0	331.0	724.0	1,055.0
0203000 P3 Rail Transport	248.3	156,285.0	156,533.3	-	94,583.0	94,583.0	-	94,899.0	94,899.0	-	96,899.0	96,899.0
0204000 P4 Marine Transport	407.0	16,720.0	17,127.0	655.0	14,334.9	14,989.9	655.0	16,720.0	17,375.0	655.0	16,720.0	17,375.0
0205000 P5 Air Transport	4,368.7	2,147.6	6,516.3	4,590.0	2,138.0	6,728.0	4,821.0	2,138.0	6,959.0	4,894.9	2,138.0	7,032.9
0216000000 Road Safety	447.8	300.0	747.8	448.0	300.0	748.0	448.0	300.0	748.0	449.0	300.0	749.0
1093 State Department for Maritime Affairs	**237.2**	-	**237.2**	**295.5**	-	**295.5**	**292.2**	-	**292.2**	**294.4**		**294.4**
0204000 P4 Marine Transport	237.2	-	237.2	-	-	-	-	-	-	-		-
Shipping and Maritime Affairs	-	-	-	295.5	-	295.5	292.2	-	292.2	294.4		294.4
1122 State Department for Information Communications and Technology & Innovation	**909.4**	**22,313.0**	**23,222.4**	**989.6**	**19,256.8**	**20,246.4**	**1,009.0**	**22,311.1**	**23,320.1**	**1,029.7**	**22,319.8**	**23,349.5**
0207000 P1: General Administration Planning and Support Services	287.9	-	287.9	350.7	-	350.7	358.8	-	358.8	367.1	-	367.1
0210000 P4: ICT Infrastructure Development	128.2	22,313.0	22,441.2	490.7	18,706.8	19,197.5	498.7	21,761.1	22,259.8	507.7	21,769.8	22,277.5
0217000 P5 E-Government Services	493.4	-	493.4	148.2	550.0	698.2	151.5	550.0	701.5	154.9	550.0	704.9

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
ENERGY, INFRASTRUCTURE AND ICT	41,945.7	487,217.1	529,162.9	66,466.1	360,490.7	426,956.8	70,077.3	421,263.8	491,341.0	70,555.6	437,376.5	507,932.1
1123 State Department for Broadcasting & Telecommunications	2,050.1	658.0	2,708.1	2,089.0	764.0	2,853.0	2,109.0	658.0	2,767.0	2,139.0	658.0	2,797.0
0207000 P1: General Administration Planning and Support Services	287.9	-	287.9	309.0	-	309.0	328.0	-	328.0	348.0	-	348.0
0208000 P2: Information And Communication Services	1,554.8	428.0	1,982.8	1,573.0	543.0	2,116.0	1,574.0	612.0	2,186.0	1,584.0	658.0	2,242.0
0209010 P 3: Mass Media Skills Development	207.5	230.0	437.5	207.0	221.0	428.0	207.0	46.0	253.0	207.0	-	207.0
1094 State Department for Housing & Urban Development	862.3	19,289.0	20,151.3	1,391.0	14,346.0	15,737.0	1,448.0	18,851.6	20,299.6	1,507.0	20,898.0	22,405.0
0102000 P2 Housing Development and Human Settlement	485.4	7,270.1	7,755.5	490.0	6,581.6	7,071.6	511.0	8,644.0	9,155.0	545.0	8,369.0	8,914.0
0105000 P 5 Urban and Metropolitan Development	288.5	12,018.9	12,307.4	272.0	7,634.4	7,906.4	305.0	10,077.6	10,382.6	323.0	12,399.0	12,722.0
0106000 P 6 General Administration Planning and Support Services	88.4	-	88.4	99.0	-	99.0	100.0	-	100.0	104.0	-	104.0
Programme 4 - Regulation and Development of the Construction Industry	-	-	-	530.0	130.0	660.0	532.0	130.0	662.0	535.0	130.0	665.0
1095 State Department for Public Works	897.2	2,047.0	2,944.2	795.9	2,176.1	2,971.9	816.0	1,997.1	2,813.0	1,004.5	2,126.3	3,130.8
0103000 P 3 Government Buildings	431.7	1,867.0	2,298.7	370.0	2,061.5	2,431.5	380.3	1,882.5	2,262.8	558.8	2,011.7	2,570.5
0104000 P 4 Coastline Infrastructure and Pedestrian Access	77.1	180.0	257.1	79.3	114.6	193.9	81.6	114.6	196.2	84.0	114.6	198.6
0106000 P 6 General Administration Planning and Support Services	388.4	-	388.4	346.6	-	346.6	354.1	-	354.1	361.8	-	361.8
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	12,604.4	11,061.8	23,666.2	9,617.0	9,354.0	18,971.0	9,800.0	10,191.0	19,991.0	9,948.0	10,839.0	20,787.0
1172 State Department for Investment and Industry	2,668.8	5,379.8	8,048.6	2,605.0	4,714.0	7,319.0	2,644.0	4,969.0	7,613.0	2,677.0	5,265.0	7,942.0
0301000 P.1 General Administration Planning and Support Services	542.7	373.6	916.3	449.0	303.0	752.0	473.0	304.0	777.0	487.0	303.0	790.0
0302000 P.2 Industrial Development and Investments	1,221.1	3,803.4	5,024.5	1,251.0	3,426.0	4,677.0	1,266.0	3,630.0	4,896.0	1,285.0	3,957.0	5,242.0
0303000 P.3 Standards and Business Incubation	905.0	1,202.8	2,107.8	905.0	985.0	1,890.0	905.0	1,035.0	1,940.0	905.0	1,005.0	1,910.0
1173 State Department for Cooperatives	3,121.0	530.0	3,651.0	416.0	491.0	907.0	429.0	653.0	1,082.0	440.0	698.0	1,138.0
0304000 P.4 Cooperative Development and Management	3,121.0	530.0	3,651.0	416.0	491.0	907.0	429.0	653.0	1,082.0	440.0	698.0	1,138.0

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details		2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS		12,604.4	11,061.8	23,666.2	9,617.0	9,354.0	18,971.0	9,800.0	10,191.0	19,991.0	9,948.0	10,839.0	20,787.0
1174 State Department for Trade		2,919.3	245.0	3,164.3	2,179.0	413.0	2,592.0	2,215.0	532.0	2,747.0	2,244.0	568.0	2,812.0
	0307000 P 3: Trade Development and Promotion	2,919.3	245.0	3,164.3	2,179.0	413.0	2,592.0	2,215.0	532.0	2,747.0	2,244.0	568.0	2,812.0
1183 State Department for East African Integration		1,541.2	65.0	1,606.2	1,552.0	65.0	1,617.0	1,577.0	65.0	1,642.0	1,598.0	65.0	1,663.0
	0305000 P 1: East African Affairs and Regional Integration	1,541.2	65.0	1,606.2	1,552.0	65.0	1,617.0	1,577.0	65.0	1,642.0	1,598.0	65.0	1,663.0
1201 Ministry of Tourism		2,354.2	4,842.0	7,196.2	2,865.0	3,671.0	6,536.0	2,935.0	3,972.0	6,907.0	2,989.0	4,243.0	7,232.0
	0306000 P 2: Tourism Development and Promotion	2,354.2	4,842.0	7,196.2	2,865.0	3,671.0	6,536.0	2,935.0	3,972.0	6,907.0	2,989.0	4,243.0	7,232.0
HEALTH		28,990.1	31,279.8	60,269.9	29,609.1	25,296.9	54,906.0	30,107.9	31,861.8	61,969.7	30,383.1	32,368.8	62,751.9
1081 Ministry of Health		28,990.1	31,279.8	60,269.9	29,609.1	25,296.9	54,906.0	30,107.9	31,861.8	61,969.7	30,383.1	32,368.8	62,751.9
	0401000 P.1 Preventive, Promotive & RMNCAH	1,525.3	6,061.4	7,586.7	1,592.0	8,842.4	10,434.3	1,629.0	9,387.6	11,016.6	1,667.0	9,556.6	11,223.5
	0402000 P.2 National Referral & Specialized Services	16,546.3	7,032.0	23,578.3	15,943.5	9,827.0	25,770.5	15,981.6	9,848.0	25,829.6	16,020.7	10,179.0	26,199.7
	0403000 P.3 Health Research and Development	5,388.4	208.5	5,596.9	5,497.2	208.5	5,705.7	5,537.2	213.0	5,750.2	5,578.0	220.0	5,798.0
	0404000 P.4 General Administration, Planning & Support Services	5,480.6	9,939.9	15,420.5	4,831.9	1,049.5	5,881.4	4,979.6	1,051.0	6,030.6	5,079.8	1,051.0	6,130.8
	0405000 P.5 Health Policy, Standards and Regulations	49.6	8,038.0	8,087.6	1,744.6	5,369.4	7,114.1	1,980.5	11,362.2	13,342.8	2,037.6	11,362.2	13,399.9

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
EDUCATION	315,749.1	24,175.3	339,924.4	350,251.0	22,302.0	372,553.0	363,937.0	25,012.0	388,949.0	373,033.0	25,365.0	398,398.0
1061. State Department for Basic Education	58,779.8	8,395.2	67,175.0	60,001.0	5,685.0	65,686.0	61,138.0	7,052.0	68,190.0	62,320.0	7,122.0	69,442.0
0501000 P.1 Primary Education	17,077.7	5,960.2	23,037.9	17,097.0	3,283.0	20,380.0	17,318.0	4,545.0	21,863.0	17,648.0	5,335.0	22,983.0
0502000 P.2 Secondary Education	33,221.1	1,632.1	34,853.2	34,323.0	1,633.0	35,956.0	35,068.0	1,677.0	36,745.0	35,722.0	1,277.0	36,999.0
0503000 P.3 Quality Assurance and Standards	4,073.9	430.2	4,504.1	4,093.0	363.0	4,456.0	4,162.0	406.0	4,568.0	4,252.0	131.0	4,383.0
0508000 P. 8 General Administration, Planning and Support Services	4,407.2	372.7	4,779.8	4,488.0	406.0	4,894.0	4,590.0	424.0	5,014.0	4,698.0	379.0	5,077.0
1064 State Department for Vocational and Technical Training	2,324.5	4,201.0	6,525.5	2,623.0	4,201.0	6,824.0	2,662.0	4,482.0	7,144.0	2,715.0	4,544.0	7,259.0
0505000 P.5 Technical Vocational Education and Training	2,274.5	4,096.0	6,370.5	2,360.0	4,096.0	6,456.0	2,393.0	4,377.0	6,770.0	2,440.0	4,439.0	6,879.0
0507000 P.7 Youth Training and Development	-	105.0	105.0	60.0	105.0	165.0	62.0	105.0	167.0	64.0	105.0	169.0
0508000 P. 8 General Administration, Planning and Support Services	50.0	-	50.0	203.0	-	203.0	207.0	-	207.0	211.0	-	211.0
1065 State Department for University Education	60,652.4	11,479.1	72,131.5	86,046.0	12,298.0	98,344.0	87,777.0	13,329.0	101,106.0	89,685.0	13,546.0	103,231.0
0504000 P.4 University Education	56,523.4	11,436.1	67,959.5	81,947.0	11,942.0	93,889.0	83,623.0	12,909.0	96,532.0	85,504.0	13,081.0	98,585.0
0506000 P. 6 Research, Science, Technology and Innovation	3,430.1	43.0	3,473.1	3,432.0	356.0	3,788.0	3,469.0	420.0	3,889.0	3,488.0	465.0	3,953.0
0508000 P. 8 General Administration, Planning and Support Services	698.9	-	698.9	667.0	-	667.0	685.0	-	685.0	693.0	-	693.0
2091 Teachers Service Commission	193,992.3	100.0	194,092.3	201,581.0	118.0	201,699.0	212,360.0	149.0	212,509.0	218,313.0	153.0	218,466.0
0509000 P.1 Teacher Resource Management	187,874.0	-	187,874.0	195,301.0	-	195,301.0	205,903.0	-	205,903.0	211,671.0	-	211,671.0
0510000 P.2 Governance and Standards	62.2	-	62.2	95.0	-	95.0	112.0	-	112.0	133.0	-	133.0
0511000 P.3 General Administration, Planning and Support Services	6,056.2	100.0	6,156.2	6,185.0	118.0	6,303.0	6,345.0	149.0	6,494.0	6,509.0	153.0	6,662.0

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
GOVERNANCE, JUSTICE, LAW AND ORDER	**165,821.4**	**29,696.6**	**195,518.0**	**172,220.2**	**21,376.7**	**193,596.9**	**162,317.9**	**26,973.6**	**189,291.6**	**166,481.8**	**28,652.4**	**195,134.1**
1021 State Department for Interior	**102,907.0**	**22,854.8**	**125,761.8**	**104,770.2**	**14,911.8**	**119,682.0**	**108,819.0**	**18,511.0**	**127,330.0**	**110,872.1**	**18,876.9**	**129,749.0**
0601000 P.1 Policing Services	77,966.0	12,306.7	90,272.7	79,005.0	11,750.0	90,755.0	82,093.7	14,130.0	96,223.7	83,607.1	15,030.0	98,637.1
0602000 P.2 Planning, Policy Coordination and Support Service	18,658.1	8,868.6	27,526.7	19,352.0	1,311.8	20,663.8	19,774.6	2,081.0	21,855.6	20,127.4	1,016.9	21,144.3
0603000 P3 Government Printing Services	756.6	128.2	884.8	768.6	150.0	918.6	790.2	300.0	1,090.2	792.4	430.0	1,222.4
0605000 P.4 Population Management Services	5,469.3	1,551.3	7,020.6	5,644.5	1,700.0	7,344.5	6,160.5	2,000.0	8,160.5	6,345.3	2,400.0	8,745.3
0624000 P.3 Betting Control, Licensing and Regulation Services	57.1	-	57.1	-	-	-	-	-	-	-	-	-
1023 State Department for Correctional Services	**19,209.0**	**1,050.0**	**20,259.0**	**20,746.8**	**900.0**	**21,646.8**	**21,332.6**	**1,636.4**	**22,968.9**	**22,432.9**	**2,120.3**	**24,553.2**
0604000 P1 Correctional services	18,940.2	1,034.7	19,974.9	20,464.4	845.0	21,309.4	21,046.5	1,556.4	22,602.8	22,143.0	2,020.3	24,163.3
0623000 P.2 General Administration, Planning and Support Services	268.9	15.3	284.2	282.4	55.0	337.4	286.1	80.0	366.1	289.9	100.0	389.9
1252 State Law Office and Department of Justice	**4,035.2**	**379.0**	**4,414.2**	**4,114.5**	**445.9**	**4,560.4**	**4,210.4**	**558.0**	**4,768.4**	**4,311.6**	**631.7**	**4,943.3**
0606000 P.1 Legal Services	1,611.0	9.0	1,620.0	1,644.6	37.0	1,681.6	1,685.2	67.3	1,752.6	1,724.2	86.9	1,811.1
0607000 P.2 Governance, Legal Training and Constitutional Affairs	1,749.4	300.0	2,049.4	1,767.3	368.9	2,136.2	1,803.7	418.1	2,221.8	1,845.6	449.8	2,295.4
0609000 P. 4 General Administration, Planning and Support Services	674.8	70.0	744.8	702.6	40.0	742.6	721.5	72.6	794.0	741.9	95.0	836.9
1261 The Judiciary	**12,859.5**	**4,449.0**	**17,308.5**	**13,312.5**	**4,198.9**	**17,511.4**	**13,688.6**	**5,180.7**	**18,869.3**	**14,085.8**	**5,826.0**	**19,911.8**
0610000 P 1: Dispensation of Justice	12,859.5	4,449.0	17,308.5	13,312.5	4,198.9	17,511.4	13,688.6	5,180.7	18,869.3	14,085.8	5,826.0	19,911.8
1271 Ethics and Anti-Corruption Commission	**2,691.1**	**100.0**	**2,791.1**	**2,768.5**	**80.0**	**2,848.5**	**2,822.8**	**145.5**	**2,968.2**	**2,879.7**	**188.5**	**3,068.2**
0611000 P.1 Ethics and Anti-Corruption	2,691.1	100.0	2,791.1	2,768.5	80.0	2,848.5	2,822.8	145.5	2,968.2	2,879.7	188.5	3,068.2
1291 Office of the Director of Public Prosecutions	**2,125.6**	**98.6**	**2,224.1**	**2,181.4**	**82.6**	**2,263.9**	**2,244.4**	**148.1**	**2,392.5**	**2,311.3**	**191.0**	**2,502.3**
0612000 P.1 Public Prosecution Services	2,125.6	98.6	2,224.1	2,181.4	82.6	2,263.9	2,244.4	148.1	2,392.5	2,311.3	191.0	2,502.3
1311 Office of Registrar of Political Parties	**826.9**	-	**826.9**	**856.1**	-	**856.1**	**876.9**	-	**876.9**	**899.4**	-	**899.4**
0614000 P.1 Registration, Regulation and Funding of Political Parties	826.9	-	826.9	856.1	-	856.1	876.9	-	876.9	899.4	-	899.4

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
GOVERNANCE, JUSTICE, LAW AND ORDER	165,821.4	29,696.6	195,518.0	172,220.2	21,376.7	193,596.9	162,317.9	26,973.6	189,291.6	166,481.8	28,652.4	195,134.1
1321 Witness Protection Agency	379.5	-	379.5	409.6	-	409.6	421.2	-	421.2	433.8	-	433.8
0615000 P.1 Witness Protection	379.5	-	379.5	409.6	-	409.6	421.2	-	421.2	433.8	-	433.8
201 Kenya National Commission on Human Rights	428.8	-	428.8	450.4	-	450.4	463.4	-	463.4	477.2	-	477.2
0616000 P 1: Protection and Promotion of Human Rights	428.8	-	428.8	450.4	-	450.4	463.4	-	463.4	477.2	-	477.2
203 Independent Electoral and Boundaries Commission	18,565.8	765.2	19,331.0	20,660.5	757.5	21,418.0	5,439.1	794.0	6,233.1	5,718.9	818.0	6,536.9
0617000 P.1 : Management of Electoral Processes	18,565.8	765.2	19,331.0	20,660.5	757.5	21,418.0	5,439.1	794.0	6,233.1	5,718.9	818.0	6,536.9
P2 Delimitation of electoral boundaries	-	-	-	-	-	-	-	-	-	-	-	-
205 Judicial Service Commission	450.0	-	450.0	495.2	-	495.2	503.6	-	503.6	518.5	-	518.5
0619000 P. 1 General Administration, Planning and Support Services	450.0	-	450.0	495.2	-	495.2	503.6	-	503.6	518.5	-	518.5
210 National Police Service Commission	435.3	-	435.3	486.0	-	486.0	499.8	-	499.8	514.7	-	514.7
0620000 P.1 National Police Service Human Resource Management	435.3	-	435.3	486.0	-	486.0	499.8	-	499.8	514.7	-	514.7
214 National Gender and Equality Commission	416.3	-	416.3	444.5	-	444.5	457.3	-	457.3	470.7	-	470.7
0621000 P 1: Promotion of Gender Equality and Freedom from Discrimination	416.3	-	416.3	444.5	-	444.5	457.3	-	457.3	470.7	-	470.7
215 Independent Police Oversight Authority	491.3	-	491.3	524.0	-	524.0	539.0	-	539.0	555.1	-	555.1
0622000 P.1 Policing Oversight Services	491.3	-	491.3	524.0	-	524.0	539.0	-	539.0	555.1	-	555.1

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	114,907.0	110,002.8	224,909.8	144,044.1	103,396.7	247,440.8	140,012.5	119,984.0	259,995.5	141,890.1	127,193.0	269,083.1
1011 The Presidency	7,943.3	481.3	8,424.7	8,281.0	510.0	8,791.0	8,314.0	903.0	9,217.0	8,553.0	902.0	9,455.0
0702000 P2 Cabinet Affairs	1,738.0	109.0	1,847.0	1,998.0	113.0	2,111.0	1,840.0	213.0	2,053.0	1,907.0	211.0	2,118.0
0704000 P4 State House Affairs	3,026.3	311.0	3,337.4	3,063.0	321.0	3,384.0	3,188.0	513.0	3,701.0	3,292.0	513.0	3,805.0
0734000 P.6 Deputy President Services	2,164.2	61.3	2,225.5	2,009.0	72.0	2,081.0	2,072.0	172.0	2,244.0	2,136.0	172.0	2,308.0
0703000 P3 Government Advisory Services	1,014.8	-	1,014.8	1,211.0	4.0	1,215.0	1,214.0	5.0	1,219.0	1,218.0	6.0	1,224.0
1034 State Department for Planning and Statistics	4,717.3	41,506.2	46,223.6	5,439.0	43,381.0	48,820.0	5,268.0	45,826.0	51,094.0	5,098.0	50,578.0	55,676.0
0706000 P1 : Economic Policy and National Planning	1,082.8	37,077.8	38,160.6	1,209.0	38,887.0	40,096.0	1,123.0	41,331.0	42,454.0	1,136.0	46,082.0	47,218.0
0707000 P2 : National Statistical Information Services	1,833.3	1,464.5	3,297.9	2,333.0	1,465.0	3,798.0	2,333.0	1,447.0	3,780.0	1,833.0	1,447.0	3,280.0
0708000 P3: Monitoring and Evaluation Services	53.0	112.0	165.0	149.0	212.0	361.0	64.0	231.0	295.0	380.0	232.0	612.0
0736000 P8: NGO Regulatory Services	125.2	0.4	125.5	125.0	-	125.0	125.0	-	125.0	125.0	-	125.0
1013000 P.7 Integrated Regional Development	1,044.9	2,817.0	3,861.9	1,045.0	2,817.0	3,862.0	1,045.0	2,817.0	3,862.0	1,046.0	2,817.0	3,863.0
0709000 P4: General Administration Planning and Support Services	578.1	34.6	612.7	578.0	-	578.0	578.0	-	578.0	578.0	-	578.0
1032 State Department for Devolution	649.5	2,424.0	3,073.5	1,029.0	2,434.0	3,463.0	739.0	2,434.0	3,173.0	749.0	2,734.0	3,483.0
0732000 P.3 General Administration, Planning and Support Services	134.0	120.0	254.0	246.0	20.0	266.0	251.0	-	251.0	254.0	-	254.0
0712000 P7: Devolution Services -	515.4	2,304.0	2,819.4	783.0	2,414.0	3,197.0	488.0	2,434.0	2,922.0	495.0	2,734.0	3,229.0
1051 Ministry of Foreign Affairs and International Trade	17,206.2	3,000.0	20,206.2	17,509.0	2,000.0	19,509.0	17,949.0	4,000.0	21,948.0	18,401.0	4,200.0	22,601.0
0715000 P.2 Foreign Relation and Diplomacy	12,422.9	2,766.0	15,188.9	14,324.0	1,730.0	16,054.0	14,685.0	3,650.0	18,334.0	14,891.0	3,766.0	18,657.0
Economic and Commercial Diplomacy	-	-	-	40.0	-	40.0	130.0	-	130.0	180.0	-	180.0
Foreign Policy Research, Capacity Development and Technical Cooperation	-	-	-	48.0	250.0	298.0	21.0	300.0	321.0	201.0	364.0	565.0
0714000 P.1 General Administration Planning and Support Services	4,783.3	234.0	5,017.3	3,097.0	20.0	3,117.0	3,113.0	50.0	3,163.0	3,129.0	70.0	3,199.0

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	114,907.0	110,002.8	224,909.8	144,044.1	103,396.7	247,440.8	140,012.5	119,984.0	259,995.5	141,890.1	127,193.0	269,083.1
1071 The National Treasury	36,740.9	45,530.1	82,271.0	63,397.0	38,976.7	102,373.7	58,025.0	49,076.0	107,101.0	58,006.0	50,483.0	108,489.0
0717000 P1 : General Administration Planning and Support Services	30,623.8	4,717.0	35,340.8	57,279.0	4,717.0	61,996.0	51,907.0	4,717.0	56,624.0	51,888.0	4,717.0	56,605.0
0718000 P2: Public Financial Management	4,644.0	39,450.7	44,094.7	4,644.0	32,897.7	37,541.7	4,644.0	42,997.0	47,641.0	4,644.0	44,404.0	49,048.0
0719000 P3: Economic and Financial Policy Formulation and Management	1,084.5	1,362.4	2,447.0	1,085.0	1,362.0	2,447.0	1,085.0	1,362.0	2,447.0	1,085.0	1,362.0	2,447.0
0720000 P4: Market Competition	340.0	-	340.0	340.0	-	340.0	340.0	-	340.0	340.0	-	340.0
0740000 P5 Government Clearing Services	48.5	-	48.5	49.0	-	49.0	49.0	-	49.0	49.0	-	49.0
1211 State Department for Public Service and Youth Affairs	13,038.8	12,648.1	25,686.9	13,173.0	12,650.0	25,823.0	13,450.0	13,050.0	26,500.0	13,736.0	13,250.0	26,986.0
0710000 P 5: Public Service Transformation	5,450.4	1,736.2	7,186.6	5,473.0	1,738.0	7,211.0	5,497.0	1,988.0	7,485.0	5,521.0	2,088.0	7,609.0
0711000 P6: Youth Empowerment	7,583.1	10,911.9	18,495.0	7,632.0	10,912.0	18,544.0	7,676.0	11,062.0	18,738.0	7,723.0	11,162.0	18,885.0
0709000 P4: General Administration Planning and Support Services	5.3	-	5.3	68.0	-	68.0	277.0	-	277.0	492.0	-	492.0
2042 National Assembly	16,948.0	-	16,948.0	17,254.1	-	17,254.1	17,770.0	-	17,770.0	18,301.3	-	18,301.3
0721000 P.1 National Legislation, Representation and Oversight	16,948.0	-	16,948.0	17,254.1	-	17,254.1	17,770.0	-	17,770.0	18,301.3	-	18,301.3
2041 Parliamentary Service Commission	10,382.0	4,150.0	14,532.0	10,511.0	3,150.0	13,661.0	10,823.5	3,100.0	13,923.5	11,144.8	3,200.0	14,344.8
0722000 P.2 Senate Affairs	5,396.8	-	5,396.8	5,525.8	-	5,525.8	5,838.3	-	5,838.3	6,159.6	-	6,159.6
0723000 P. 3 General Administration, Planning and Support Services	4,985.2	4,150.0	9,135.2	4,985.2	3,150.0	8,135.2	4,985.2	3,100.0	8,085.2	4,985.2	3,200.0	8,185.2
2061 The Commission on Revenue Allocation	355.8	-	355.8	365.0	-	365.0	376.0	-	376.0	387.0	-	387.0
0724000 P.1 Inter-Governmental Revenue and Financial Matters	355.8	-	355.8	365.0	-	365.0	376.0	-	376.0	387.0	-	387.0

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	114,907.0	110,002.8	224,909.8	144,044.1	103,396.7	247,440.8	140,012.5	119,984.0	259,995.5	141,890.1	127,193.0	269,083.1
2071 Public Service Commission	1,179.4	39.0	1,218.4	1,209.0	60.0	1,269.0	1,243.0	860.0	2,103.0	1,280.0	1,000.0	2,280.0
0725000 P.1 General Administration, Planning and Support Services	883.4	39.0	922.4	882.0	60.0	942.0	906.0	860.0	1,766.0	933.0	1,000.0	1,933.0
0726000 P.2 Human Resource management and Development	183.9	-	183.9	221.0	-	221.0	228.0	-	228.0	235.0	-	235.0
0727000 P.3 Governance and National Values	112.2	-	112.2	106.0	-	106.0	109.0	-	109.0	112.0	-	112.0
2081 Salaries and Remuneration Commission	533.0	-	533.0	546.0	-	546.0	563.0	-	563.0	579.0	-	579.0
0728000 P.1 Salaries and Remuneration Management	533.0	-	533.0	546.0	-	546.0	563.0	-	563.0	579.0	-	579.0
2111 Auditor-General	4,182.9	224.0	4,406.9	4,276.0	235.0	4,511.0	4,405.0	735.0	5,140.0	4,535.0	846.0	5,381.0
0729000 P.1 Audit Services	4,182.9	224.0	4,406.9	4,276.0	235.0	4,511.0	4,405.0	735.0	5,140.0	4,535.0	846.0	5,381.0
2121 Controller of Budget	561.3	-	561.3	575.0	-	575.0	593.0	-	593.0	610.0	-	610.0
0730000 P.1 Control and Management of Public finances	561.3	-	561.3	575.0	-	575.0	593.0	-	593.0	610.0	-	610.0
2131 The Commission on Administrative Justice	468.6	-	468.6	480.0	-	480.0	494.0	-	494.0	510.0	-	510.0
0731000 P.1 Promotion of Administrative Justice	468.6	-	468.6	480.0	-	480.0	494.0	-	494.0	510.0	-	510.0
NATIONAL SECURITY	124,000.2	45.0	124,045.2	130,160.1	45.0	130,205.1	134,456.0	45.0	134,501.0	138,909.0	45.0	138,954.0
1041 Ministry of Defence	98,654.2	45.0	98,699.2	103,556.1	45.0	103,601.1	106,121.0	45.0	106,166.0	109,596.0	45.0	109,641.0
0801000 P.1: Defence	97,019.0	45.0	97,064.0	102,141.5	45.0	102,186.5	104,326.0	45.0	104,371.0	107,669.0	45.0	107,714.0
0802000 P.2 Civil Aid	450.0	-	450.0	200.0	-	200.0	450.0	-	450.0	450.0	-	450.0
0803000 P.3 General Administration, Planning and Support Services	1,185.1	-	1,185.1	1,214.6	-	1,214.6	1,345.0	-	1,345.0	1,477.0	-	1,477.0
1231 National Intelligence Service	25,346.0	-	25,346.0	26,604.0	-	26,604.0	28,335.0	-	28,335.0	29,313.0	-	29,313.0
0804000 P.1 National Security Intelligence	25,346.0	-	25,346.0	26,604.0	-	26,604.0	28,335.0	-	28,335.0	29,313.0	-	29,313.0

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

PROGRAMME ALLOCATIONS FY 2017/18 AND MEDIUM TERM (AMOUNTS IN MILLIONS)

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
SOCIAL PROTECTION, CULTURE AND RECREATION	18,199.2	26,448.2	44,647.5	18,782.5	24,585.2	43,367.6	20,219.3	28,111.2	48,330.5	20,904.3	28,672.4	49,576.7
1033 State Department for Special Programmes	1,405.8	5,111.3	6,517.2	2,150.3	4,219.3	6,369.6	2,281.7	5,536.1	7,817.8	2,365.2	5,612.2	7,977.4
0713000 P 8: Special Initiatives	697.2	-	697.2	1,163.0	-	1,163.0	1,222.1	-	1,222.1	1,316.1	-	1,316.1
0733000 P.9 Accelerated ASAL Development	708.6	5,111.3	5,820.0	710.5	4,201.2	4,911.7	780.2	5,536.1	6,316.3	767.0	5,612.2	6,379.2
P 14:General Administration Services	-	-	-	276.8	18.1	294.9	279.4	-	279.4	282.1	-	282.1
1132 State Department for Sports Development	3,607.0	1,555.0	5,162.0	2,158.3	540.0	2,698.3	2,738.1	1,169.8	3,907.9	2,833.8	1,163.3	3,997.0
0901000 P.1 Sports	3,025.6	1,555.0	4,580.6	2,158.3	540.0	2,698.3	2,738.1	1,169.8	3,907.9	2,833.8	1,163.3	3,997.0
0905000 P.5 General Administration, Planning and Support Services	581.3	-	581.3	-	-	-	-	-	-	-	-	-
1133 State Department for Arts and Culture	2,651.0	986.0	3,637.0	2,898.5	925.0	3,823.5	2,994.8	1,010.4	4,005.2	3,099.4	1,069.7	4,169.1
0902000 P.2 Culture Development	1,360.2	660.0	2,020.2	1,373.0	200.0	1,573.0	1,447.4	900.6	2,348.0	1,568.3	913.5	2,481.8
0903000 P.3 The Arts	604.6	126.0	730.6	678.7	125.0	803.7	749.4	109.8	859.2	722.0	156.2	878.2
0904000 P.4 Library Services	636.3	200.0	836.3	732.3	600.0	1,332.3	674.2	-	674.2	676.2	-	676.2
0905000 P.5 General Administration, Planning and Support Services	50.0	-	50.0	114.5	-	114.5	123.8	-	123.8	132.9	-	132.9
1184 State Department for Labour	1,301.8	477.2	1,779.0	1,684.5	544.1	2,228.6	1,744.7	559.5	2,304.1	1,793.6	572.9	2,366.5
0906000 P 1: Promotion of the Best Labour Practice	427.3	66.0	493.3	593.5	147.5	741.0	607.0	194.8	801.7	619.0	208.2	827.2
0907000 P 2: Manpower Development, Employment and Productivity Management	527.5	411.2	938.7	531.5	396.6	928.1	562.6	364.7	927.3	583.5	364.7	948.2
0910000 P 5: General Administration Planning and Support Services	347.1	-	347.1	559.5	-	559.5	575.1	-	575.1	591.1	-	591.1
1185 State Department for Social Protection	8,108.1	14,821.8	22,929.9	8,748.2	14,926.8	23,674.9	9,269.5	16,088.4	25,358.0	9,579.7	16,418.3	25,998.0
0908000 P 3: Social Development and Children Services	3,012.8	850.8	3,863.6	3,113.6	836.9	3,950.5	3,182.3	914.1	4,096.5	3,289.0	936.1	4,225.1
0909000 P 4: National Social Safety Net	5,045.3	13,967.0	19,012.3	5,427.7	14,082.9	19,510.5	5,875.8	15,169.4	21,045.2	6,074.8	15,477.3	21,552.1
0910000 P 5: General Administration Planning and Support Services	50.0	4.0	54.0	206.9	7.0	213.9	211.4	4.9	216.3	215.9	4.9	220.8
1212 State Department for Gender	1,125.4	3,496.9	4,622.3	1,142.7	3,430.0	4,572.7	1,190.5	3,747.0	4,937.5	1,232.6	3,836.0	5,068.6
0911000 P 1: Community Development	-	2,130.0	2,130.0	-	2,130.0	2,130.0	-	2,447.0	2,447.0	-	2,536.0	2,536.0
0912000 P 2: Gender Empowerment	1,125.4	1,366.9	2,492.3	952.0	1,300.0	2,252.0	989.0	1,300.0	2,289.0	1,022.0	1,300.0	2,322.0
P 17:General Administration and Planning	-	-	-	190.7	-	190.7	201.5	-	201.5	210.6	-	210.6

Annex Table 4: Summary of Expenditure by Programmes, 2016/17 - 2019/20 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2016/17 Estimates			2017/18 Ceiling			2018/19 Projection			2019/20 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	19,556.4	69,442.9	88,999.4	21,739.0	48,183.8	69,922.8	21,832.0	59,709.9	81,541.9	22,009.0	71,552.0	93,561.0
1103 State Department for Water Services	3,624.6	39,606.1	43,230.7	3,656.0	25,580.6	29,236.6	3,690.0	29,314.9	33,004.9	3,726.0	40,370.0	44,096.0
1001000 P.2 General Administration, Planning and Support Services	560.2	56.0	616.2	580.0	56.0	636.0	603.0	56.0	659.0	626.0	56.0	682.0
1004000 P.3 Water Resources Management	3,064.4	39,550.1	42,614.5	784.0	2,236.0	3,020.0	790.0	2,125.8	2,915.8	796.0	2,236.0	3,032.0
P3. Water and Sewerage Infrastructure Development	-	-	-	2,292.0	23,288.6	25,580.6	2,297.0	27,133.1	29,430.1	2,304.0	38,078.0	40,382.0
1104 State Department for Irrigation	933.0	18,107.9	19,040.9	947.0	14,790.6	15,737.6	967.0	18,432.0	19,399.0	987.0	18,782.0	19,769.0
1014000 P.4 Irrigation and Land Reclamation	933.0	12,277.9	13,210.9	937.0	8,960.6	9,897.6	942.0	12,602.0	13,544.0	946.0	12,952.0	13,898.0
1015000 P.1 Water Storage and Flood Control	-	5,830.0	5,830.0	-	5,830.0	5,830.0	-	5,830.0	5,830.0	-	5,830.0	5,830.0
Programme 1: General Administration and Support Services	-	-	-	10.0	-	10.0	25.0	-	25.0	41.0	-	41.0
1105 State Department for Environment	2,979.1	4,246.6	7,225.7	3,075.0	3,787.0	6,862.0	3,091.0	5,131.0	8,222.0	3,128.0	5,481.0	8,609.0
1012000 P.3 Meteorological Services	1,070.1	1,101.0	2,171.1	1,106.0	1,111.0	2,217.0	1,123.0	1,311.0	2,434.0	1,150.0	1,411.0	2,561.0
1002000 P.2 Environment Management and Protection	1,508.3	3,145.6	4,653.9	1,560.0	2,676.0	4,236.0	1,552.0	3,820.0	5,372.0	1,554.0	4,070.0	5,624.0
1010000 P.1 General Administration, Planning and Support Services	400.8	-	400.8	409.0	-	409.0	416.0	-	416.0	424.0	-	424.0
1106 State Department for Natural Resources	11,322.3	3,592.0	14,914.3	13,353.0	3,095.6	16,448.6	13,349.0	4,506.0	17,855.0	13,366.0	4,855.0	18,221.0
1003000 P.3 Natural Resources Management and Protection	11,322.3	3,592.0	14,914.3	13,353.0	3,095.6	16,448.6	13,349.0	4,506.0	17,855.0	13,366.0	4,855.0	18,221.0
1119 Ministry of Mining	697.4	3,890.3	4,587.7	708.0	930.0	1,638.0	735.0	2,326.0	3,061.0	802.0	2,064.0	2,866.0
1007000 P.1 General Administration Planning and Support Services	278.7	-	278.7	282.0	40.0	322.0	302.0	-	302.0	362.0	-	362.0
1008000 P.2 Resources Surveys and Remote Sensing	177.6	340.0	517.6	180.0	340.0	520.0	183.0	340.0	523.0	186.0	340.0	526.0
1009000 P.3. Mineral Resources Management	241.0	3,550.3	3,791.3	246.0	550.0	796.0	250.0	1,986.0	2,236.0	254.0	1,724.0	1,978.0
Total	857,526.0	820,161.4	1,677,687.4	959,906.8	640,072.0	1,599,978.8	970,188.3	756,948.3	1,727,135.6	991,966.8	796,841.1	1,788,807.8

Annex Table 5: Public Private Partnership (PPP) Projects – Kenya, government's guarantee and termination terms

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
1.	Africa Geothermal International 140 MW	25-year Power Purchase Agreement on a Build, Own, and Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya.	760	Financial Close: 3rd April 2014 Status: Under construction	Letter of Support is being finalized	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	US$ 77.3Mn	NO
2.	Lake Turkana Wind Power - 300MW	The wind turbine farm is being developed on BOO basis in Loyangalani, Marsabit West County, on a 20-year PPA with Kenya Power.	847	Financial Close: 24th March 2014 Status: Under construction	Letter of Support covering Political Risks issued on 28th February 2013 Indemnity Agreement LC to be replaced with Escrow Account	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	Deemed Generated Energy Payments Euros 110.4Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
3.	Gulf Power - 80.32 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in the Athi River region, on a 20-year PPA with KPLC.	108	Financial Close: 18th Nov. 2013 Status: Under construction	Letter of Support covering Political Risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 14th March 2013. PRG Amount US$ 35Mn and Euros 7Mn	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	Euros 16.3 Mn	NO
4.	Triumph Power - 82MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC.	156.5	Financial Close: 7th August 2013 date Status: Under construction	Letter of Support covering Political Risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 5th December 2012. PRG Amount US$ 45Mn	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	US$ 24.5Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
5.	Thika Power - 87MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in Thika, on a 20-year PPA with KPLC.	146	Financial Close: 11th October 2012 Status: Operational from Aug 2013	Letter of Support covering Political Risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 28th August 2014. PRG Amount US$ 35Mn and Euros 7.7Mn	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	Euros 17.1Mn	NO
6.	Kinangop Power – 60.8MW	The wind power plant is being developed on a BOO basis in South Kinangop, Nyandarua County on a 20-year PPA with KPLC.	150	Financial Close: 31st December 2012 Status: Under construction	Letter of Support covering Political Risks issued on 26th July, 2013	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	Deemed Energy Payment US$ 26.8Mn	NO*
7.	Orpower 150MW** Olkaria III Geothermal power plant(1st plant 48MW,2nd Plant 36MW,3rd plant 16MW and 4th Plant 29MW)	Description: 20 year - BOO	558***	Financial Close: Jan, 1999 Status: Operational	Letter of Support covering Political Risks issued on 16th April 2015 Indemnity Agreement LC covering PRG payments of Amount US$ 31Mn	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Losses incurred by the seller	US$70.98 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
8.	Rabai Power Plant – 90MW	20 year - BOO	155	Financial Close: Oct, 2008 Status: Operational	Indemnity Agreement LC Account	Net Present Value of Non-Escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 12% per annum	Euros 19.7Mn	NO
9.	Mumias Power Plant – 35MW	10 Years-BOO	50	Financial Close: July, 2008 Status: Operational	None	None	US$ 5.3Mn	NO
10.	Kipevu III, 120MW	Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20-year period	134	Financial Close: None Status: Operational	None	None	Ksh 2,209Mn	NO
11.	Kipevu II 74MW	Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO basis a 20-year period	85	Financial Close: Sept, 1999 Status: Operational	Indemnity Agreement	1. Net Present Value of Non-escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 10% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. The value of the stock of fuel and other consumables and spare parts at the Plant	US$9.62 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
12.	Imenti tea Factory Limited 0.28MW	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	None	NO
13.	Power Technology Solutions Ltd. Gikira Kianjora Small Hydro Power Stations 0.514MW	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	None	NO

*With respect to Kinangop Wind Power, it is recognized that a claim under the Government Letter of Support was lodged, and the matter is currently sub judice, before an arbitration panel under ICC rules. While a claim has been lodged, there has been no actual call on the guarantee. It is expected that this matter will find amicable resolution.

**The Orpower's Olkaria III Geothermal power plant is currently operating at 129MW from the existing 4 plants; however, the PPA indicates the project is sized at 150MW, with the outstanding 21MW not yet implemented.

***The project value for Orpower's Olkaria III Geothermal project of USD 558 Mn is for the already installed 129MW. It does not include the cost of the yet-to-be-implemented 21MW, which would bring the project to 150MW.