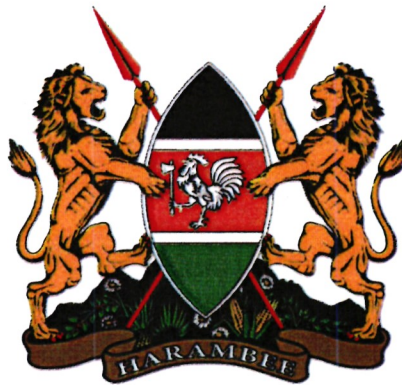


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THE NATIONAL TREASURY AND ECONOMIC
PLANNING**

**2023 Medium Term Debt Management
Strategy**

FEBRUARY 2023

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For comments and clarifications, please contact:

Public Relations Office

The National Treasury and Planning
Treasury Building
P. O. Box 30007-00100
NAIROBI, KENYA

Tel: +254-20-2252-299

Email: ps@treasury.go.ke

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TABLE OF CONTENTS

LIST OF FIGURES iii

LIST OF TABLES iv

ACKNOWLEDGEMENT vii

ABBREVIATIONS AND ACRONYMS viii

EXECUTIVE SUMMARY x

I. INTRODUCTION 1

II. REVIEW OF COST AND RISK CHARACTERISTICS OF PUBLIC DEBT 3

III. STOCK OF PUBLIC AND PUBLICLY GUARANTEED DEBT 8

IV. COST AND RISKS ANALYSIS OF THE EXISTING PUBLIC DEBT PORTFOLIO 11

V. DEBT SUSTAINABILITY ANALYSIS 15

VI. MACROECONOMIC ASSUMPTIONS AND KEY RISKS UNDER THE 2023 BUDGET POLICY STRATEGY (BPS) 18

VII. ASSESSMENT OF POTENTIAL SOURCES OF FINANCING 21

VIII. PUBLIC DEBT RISKS AND COSTS EVALUATION UNDER ALTERNATIVE PUBLIC DEBT MANAGEMENT STRATEGIES 24

IX. MTDS IMPLEMENTATION, MONITORING AND EVALUATION 43

X. ANNEXES 46

LIST OF FIGURES

Figure 1: Nominal GDP, gross debt and Debt to GDP ratio (%) from 2003-2022 8

Figure 2: Redemption profile as at end December 2022 (Kshs millions) 13

Figure 3: Currency Composition of External Debt, End-December, 2022. 14

Figure 4: Existing share of external debt 21

Figure 5: Redemption Profiles under Alternative Options (End-FY2025/26) ..31

Figure 6: Cost and Risk Characteristics under Alternative Strategies..... 32

LIST OF TABLES

Table 1: 2021 MTDS Targets against borrowing outturn (percent) 3
Table 2: Gross borrowing for FY2021/22..... 4
Table 3: Review of cost and risk indicators: 2021 MTDS against actuals as at December 2022 6
Table 4: Average Terms of New External Debt 7
Table 5: Public and Publicly Guaranteed Debt in the MTDS end-December 2022 9
Table 6: Outstanding Government Guaranteed Debt (End-December 2022).... 10
Table 7: Cost and risk indicators for existing debt as at end December 2022... 12
Table 8: Domestic Debt by Maturity Profile, in USD equivalent 13
Table 9: Kenya’s debt risk levels and debt carrying capacity 15
Table 10: Thresholds and Benchmark..... 16
Table 11: Kenya’s External Debt Sustainability Analysis..... 16
Table 12: Kenya's Public Debt Sustainability Analysis..... 17
Table 13: Baseline Macroeconomic Assumptions..... 18
Table 14: Cost and risk characteristics table 24
Table 15: Average new borrowing by instrument under alternative strategies (in percent of gross borrowing by end of FY 2025/26)..... 28
Table 16: Composition of Debt Portfolio by Instrument under Alternative Options , (in Percent of Outstanding Portfolio as at End of -FY 2025/26) 28
Table 17: Cost and Risk Indicators Under Alternative Options 29
Table 18: Fiscal Consolidation for a Sustainable Debt Path..... 35
Table 19: Balanced Budget 36
Table 20: Capping the overall deficits at 5.7 percent of GDP in the medium term 37
Table 21: Costs and risks mitigation strategies..... 40
Table 22: Template for Monitoring and Evaluation of Cost and Risk Indicators Under Alternative Strategies 44

SECRET

FOREWORD

The preparation of the 2023 Medium-Term Debt Management Strategy is in accordance with the requirements of Section 33 (2) of the Public Finance Management (PFM) Act, 2012 and the guidelines outlined in the Debt and Borrowing Policy. The strategy underscores the public debt management objectives over the medium term which aims at reducing the cost and risk linked to public debt and is anchored in the 2023 Budget Policy Statement (BPS).

The Strategy is prepared to guide prudent public debt management, informing the minimization of costs given the risks characteristics of the current debt stock using the designed alternative borrowing strategies and the fiscal deficit approved by parliament.

While preparing the 2023 MTDS, various alternative sources of financing were considered in regards to the cost and risk associated with each alternative strategy to arrive at the optimal financing strategy. Key elements include potential funding sources from domestic and external debt capital markets and the corresponding risks and costs.

Accordingly, the 2023 MTDS envisaged maximization of concessional and semi concessional external debt while proposing liability management operations in the domestic and in the international capital markets. The domestic funding components will be through medium to long term bonds as the stock of treasury bills is reduced to lengthen the maturity structure and to reduce refinancing risk.

The development of the domestic debt market is a precursor for accelerating attainment of affordable, sustainable long-term financing for economic recovery. This is in the context of pursuing the objective of a vibrant domestic debt market as per Kenya`s Vision 2030 and the Medium-Term Plan. In the same context, sustainability of public debt depends on the commitment to pursue a fiscal consolidation path and macroeconomic stability.

To augment public debt sustainability, the 2023 MTDS re-iterates the importance of stepping up reforms in the domestic debt markets to ensure more depth, diversification and increased role of domestic debt market in meeting the financing needs of Government. In tandem with the vision for a deeper domestic

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debt market, the National Treasury and Economic Planning through the fiscal agent and Capital Markets Authority, is implementing strategic debt market reforms aimed at increasing domestic market efficiency. Deployment of a modern Central Securities Depository (CSD) system that will automate issuance and settlement of government securities processes at both primary and secondary markets will be set by the fiscal agent, while the Over-The-Counter (OTC) market trading platform to improve liquidity and price discovery and complement the NSE role will be operationalized in collaboration with financial markets institutions in Kenya.

Implementation of the Strategy will be closely monitored to ensure its smooth implementation while maintaining public debt at sustainability levels.



NJUNGUNA NDUNG’U, CBS
CABINET SECRETARY/ THE NATIONAL TREASURY AND
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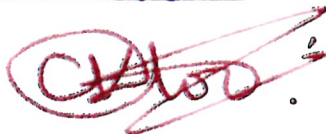
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The 2023 MTDS is prepared and revised annually to provide guidance for public debt management in the medium term. Preparation and formulation of the 2023 MTDS involves careful reflection on the costs and risks of public debt. The analysis is geared towards minimizing the cost and risks of the ever-evolving debt portfolio. The technical process of preparing MTDS involving use of an analytical tool to analyze the existing debt portfolio debt risk characteristics and potential borrowing alternatives which an optimal borrowing strategy is determined. The analysis takes into account the macro-economic assumptions presented in the 2023 Budget Policy Statement.

The resources raised through borrowing facilitate the achievement of the government's development agenda while minimizing cost of public debt management, promoting development of domestic debt market institutions and intergenerational equity.

Preparation of the strategy was spearheaded by the National Treasury and Central Bank of Kenya. This is therefore to convey gratitude to the staff and all Heads of Directorates and Departments of the National Treasury and other stakeholders whose inputs contributed towards the development of this Strategy. Involvement of the Central Bank of Kenya ensured the Strategy is in line with the liquidity position of the country. I wish to recognize the dedication of the technical officers from the Debt Policy, Strategy and Risk Management Department of the Public Debt Management Office for the exceptional commitment in the development of the strategy.

The 2023 MTDS and previous years' versions of the Medium-Term Debt Strategy are available for reference in the National Treasury website: www.treasury.go.ke.



DR. CHRIS K. KIPTOO, CBS
PRINCIPAL SECRETARY, NATIONAL TREASURY

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ABBREVIATIONS AND ACRONYMS

ADF	African Development Fund
AfDB	Africa Development Bank
AGD	Accountant General Department
AiA	Appropriation in Aid
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
CBK	Central Bank of Kenya
CFS	Consolidated Fund Service
CI	Composite Indicator
CMA	Capital Markets Authority
CoG	Council of Governors
COVID-19	Coronavirus Disease
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CSD	Central Securities Depository
DCC	Debt Carrying Capacity
DPO	Development Policy Operations
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ECA	Export Credit Agencies
ERS	Economic Recovery Strategy
FCCL	Fiscal Commitment and Contingent Liabilities
FX	Foreign Exchange
FY	Financial Year
G20	Group of 20 Developed Countries
GBP	Great Britain Pound
GDP	Gross Domestic Product
GoK	Government of Kenya
IB	Internet Banking
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEBC	Independent Electoral and Boundaries Commission
IFAD	International Finance for Agricultural Development
IMF	International Monetary Fund
ISB	International Sovereign Bond
KenGen	Kenya Electricity Generating Company
KPA	Kenya Ports Authority
KPLC	Kenya Power
KQ	Kenya Airways
Kshs.	Kenya Shillings
MDAs	Ministries, Departments and Agencies
MFAD	Macro and Fiscal Affairs Department

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MTDS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
MTP III	Medium Term Plan III
NSE	Nairobi Stock Exchange
OTC	Over the Counter
PDMO	Public Debt Management Office Directorate
PFM	Public Finance Management, Act 2012
PPG	Public & Public Guaranteed
PPP	Public Private Partnerships
PV	Present Value
RMD	Resources Mobilization Department
S1	Strategy 1
S2	Strategy 2
S3	Strategy 3
S4	Strategy 4
SDR	Special Drawing Rights
SGR	Standard Gauge Railway
SOEs	State Owned Enterprises
TMD	Treasury Mobile Direct
USD	United States Dollar
WB	World Bank

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EXECUTIVE SUMMARY

This strategy covers the period FY 2023/24- 2025/26 over which the optimal debt portfolio will be achieved. The 2023 Medium Term Debt Strategy (MTDS) has been prepared amid global economic slowdown caused by the effects of the COVID-19 pandemic and elevated global inflation caused by supply chain disruptions and monetary tightening in the United States.

The strategy is aligned to 2023 Budget Policy Statement (BPS) whose aim is to support economic recovery through a growth friendly fiscal consolidation plan aimed at slowing the public debt accumulation without compromising service delivery to citizens.

The Government's plan in the fiscal year 2023/24 and over the medium term is to implement various priority economic policies, structural reforms, fiscal consolidation plan and sectoral expenditure programs outlined in the 2023 BPS, through a Bottom-Up approach for a socio-economic transformation, economic turnaround and inclusive growth. The agenda is geared towards economic turnaround and inclusive growth. Special focus will be placed on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earning

The scope of coverage of this strategy is the existing debt stock, non-performing guarantees, and the stated fiscal deficits in the 2023 BPS.

The Kenya's present value of public debt was at 60.0 percent of GDP of which the domestic debt was 33.2 percent of GDP while external debt was 26.8 percent of GDP. This is as per the IMF-World Bank debt sustainability analysis conducted in December 2022 in collaboration with the National Treasury.

Public and publicly guaranteed debt in nominal terms as at end December 2022 was Kshs. 9,145.9 billion compared to the statutory public debt limit of Kshs. 10,000 billion as per the PFM (National Government) (Amended 2022) Regulations, 2015. Total external debt was Kshs. 4,673.1 billion while total domestic debt was Kshs. 4,472.8 billion. The debt levels remain sustainable with elevated risk of debt distress as per the Debt Sustainability Analysis (DSA) report by World Bank and International Monetary Fund as at December, 2022.

Preparation of the 2023 MTDS to guide borrowing in the medium term is in line with the PFM Act 2012. The 2023 optimal strategy of the 2023 is to minimize costs and risks through a net financing combination of 50 percent from both

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external and domestic sources. The strategy will maximize concessional borrowing while rolling over the commercial debt from external debt sources. From the domestic sources, the strategy seeks to lengthen the maturity and deepen the domestic markets through issuance of medium to long term debt securities under the benchmark bond programme.

The strategy will meet the government requirements while repaying its debt maturities. The outcomes of the optimal strategy are:

- i. It results to the least Present Value (PV) of debt to GDP of 53.1 percent in the medium term compared to strategy 1 at 54.9 percent, strategy 2 at 54.4 percent and strategy 3 at 54.5 percent.
- ii. Interest payments to GDP will improve from 5.3 percent as at end December 2022 to 4.4 percent in the medium term. This is attributed to maximization of concessional sources while commercial borrowing is reduced, thereby leading to reduction in the cost of debt over the medium term.
- iii. Minimizes refinancing risk by lengthening the total portfolio ATM as a result of lengthening of external debt portfolio. This is attributed to concessional terms that have longer maturities.
- iv. Minimizes interest rate risk in terms of average time to refixing.
- v. Deepens the domestic bond market through issuance of more medium to long term instruments as the main source of domestic financing.
- vi. It allows for flexibility in the borrowing plan to adjust either external or domestic borrowing targets depending on prevailing market conditions as it is more realistic.

Implementation of the strategy will be monitored and evaluated closely to factor any changes as they evolve based on market realities and fiscal adjustments. Changes in global economic and market conditions may necessitate deviation from the optimal strategy. Appropriate measures will be taken to align the strategy to policy actions at the time.

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I. INTRODUCTION

1. PFM Act 2012, 'General responsibilities of the National Treasury' Section 12. Provides that: (1) Subject to the Constitution and this Act, the National Treasury shall— (b) manage the level and composition of national public debt, national guarantees and other financial obligations of national government within the framework of this Act and develop a framework for sustainable debt control; The public debt management objectives as outlined in Section 62(3) of the PFM Act, 2012 are: (a) minimizing the cost of public debt management and borrowing over the long-term taking risks into account; (b) promoting development of the market institutions for Government debt securities; and (c) ensuring sharing of the benefits and costs of public debt between the current and future generations.
2. The MTDS is prepared as required by as per the requirements of Section 33(2) of the Public Finance Management Act, 2012. The 2023 Medium-Term Debt Management Strategy (MTDS) outlines the strategies and initiatives to be implemented by the National Treasury, the fiscal agent, and Capital Markets Authority aimed at reducing costs and risks of debt management and borrowing, development of domestic debt market institutions and pursuit of intergenerational equity in costs and benefits of public debt.
3. The 2023 debt management strategy covers initiatives to manage the costs and risks of the current debt stock and projected debt service, and to minimize the costs and risks of financing the fiscal deficits for the period FY2023/24-2025/26. The deficits for the period are as proposed in the 2023 Budget Policy Statement (BPS). The MTDS analysis takes into account the outstanding public debt and projected debt service in the context of ongoing and projected macroeconomic environment and the conditions in the international capital markets. Performing guaranteed debt and other local debt are excluded from the proposed debt management strategies. Debts excluded amounts to Kshs. 236.2 billion which includes Kshs. 151.1 billion uncalled guaranteed debts, Kshs. 58.5 billion Government overdraft at CBK, Kshs. 12.8 billion Suppliers credit and Kshs. 13.9 billion Bank advances.

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Background to the 2023 Medium-Term Debt Strategy

4. Kenya is in the process of recovering from the COVID-19 pandemic and grew by 7.5 per cent in 2021 up from a contraction of 0.3 percent in 2020; and is estimated to have grown by 5.5 per cent in 2022 amidst global economic slowdown occasioned by global supply chain disruptions associated with Russia-Ukraine war in Europe. The economy is projected to grow by 6.1 per cent in 2023 as the recovery process gains momentum.
5. Owing partly to the ensuing global supply chain disruptions, Kenya's annual inflation was 9.1 per cent by end December 2022 up from 5.7 per cent in December 2021. Inflation is projected to stabilize in the near term and converge towards the target range of 5 ± 2.5 per cent. Kenya shilling exchange rate and interest rates are projected to stabilize as inflation declines with the easing of global supply chain disruptions. Exchange rate stability will be supported by recovery in remittances inflow, and tourism as well as reduced import of capital goods. However, there are downside risks to this projection associated with increasing prices of crude oil and delays in full normalization of global supply chain.
6. Total revenue is projected at 17.8 per cent of GDP in the FY 2023/24 while total expenditure is projected to decline to 22.5 per cent of GDP in FY2023/24 on account of planned reduction of the fiscal deficits.
7. Public and publicly guaranteed debt in nominal terms as at end December 2022 was Kshs. 9,145.9 billion compared to the statutory public debt limit of Kshs. 10,000 billion as per the PFM (National Government) (Amended 2022) Regulations, 2015. Total external debt was Kshs. 4,673.1 billion while total domestic debt was Kshs. 4,472.8 billion.
8. The December 2022 Debt Sustainability Analysis (DSA) indicates that Kenya's public debt remain sustainable but government must reduce fiscal deficits to reduce the rate of debt accumulation.
9. The next chapter reviews the costs and risks characteristics of public debt followed by debt sustainability analysis, macroeconomic assumptions and key risks, potential sources of financing, cost and risks of alternative debt management strategies and the last section describes the strategy implementation work plan.

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II. REVIEW OF COST AND RISK CHARACTERISTICS OF PUBLIC DEBT

i. Review of the implementation of the 2021 MTDS.

10. The 2021 debt management strategy guided the borrowing strategies for FY 2021/22 and in funding the borrowing needs of Government. The strategy sought to address refinancing risks of the debt stock through gradual reduction of short-term debt including repayment of Treasury bills and part of external commercial debt through liability management operations. The strategy envisaged maximization of borrowing concessional and semi concessional external debt while maintaining presence in the international capital market. The fiscal deficit was to be financed through issuance of medium to long term debt (in both domestic and external markets) to lengthen the maturity structure to reduce refinancing risk.

11. In terms of gross borrowing, the external and domestic financing was to account for 27 per cent and 73 per cent respectively. The gross external borrowing targeted concessional, semi-concessional and commercial sources at 12 per cent, 10 per cent and 5 per cent respectively; while the gross domestic borrowing issuance of medium- and long-term bonds including net repayment of treasury bills replaced by treasury bonds during the period. Gross external borrowing would include USD 1, 000 million in new borrowing and USD 2, 000 million for liability management operations.

12. Overall, actual borrowing mix outcome deviated from the projected 27:73 per cent external to domestic financing in the 2021 Strategy compared to the achieved 15:85 per cent external to domestic on account of volatilities in international capital markets that prevented. As shown in Table 1 there were deviations of actual borrowing mix against the 2021 MTDS.

Table 1:2021 MTDS Targets against borrowing outturn (percent)

Borrowing source		FY2018/19	FY2019/20	FY2020/21	FY2021/22
External	MTDS	57	38	28	27
	Actual	58	28	19	15
	Deviation	-1	10	9	12
Domestic	MTDS	43	62	72	73
	Actual	42	72	81	85
	Deviation	1	-10	-9	-12

Source: National Treasury

13. The total net borrowing to fund the fiscal deficit was Kshs. 732.0 billion. The net foreign borrowing was Kshs. 142.5 billion against a target of Kshs. 343.1 billion while actual net domestic borrowing was Kshs. 589.5 billion against a target of Kshs. 678.1 billion. External commercial borrowing was not actualized due to elevated yields in external capital markets while the shortfall in domestic borrowing was as a result of tightness of liquidity in the economy.
14. During the FY 2021/22, the actual gross domestic borrowing was Kshs. 1,867.1 billion while gross external borrowing was Kshs. 327.1 billion as at end June 2022. The actual outstanding domestic securities composed of Treasury bills and Treasury bonds at 15 per cent and 85 per cent respectively.
15. The total actual gross external borrowing was only 15 percent of total borrowing against a target of 27 percent and was largely from concessional and semi concessional borrowing from multilateral and bilateral sources in form of program loans, project AIA and cash loans.
16. Under the 2021 MTDS, the actual gross external borrowing comprised of concessional and semi concessional at 15.0 percent compared to 22.0 percent while on the other hand, the government did not raise funds from commercial external sources due to unfavourable market conditions arising from global economic shocks (**Table 2**).

Table 2: Gross borrowing for FY2021/22

	MTDS 2021 targets (%)	FY2021-2022 actuals (%)	FY2021-2022 (Kshs millions)
Gross domestic borrowing	73.0	85.0	1,867,145
Gross external borrowing	27.0	15.0	327,059
o/w Concessional and semi concessional	22.0	15.0	327,059
Commercial borrowing	5.0	0	0

Source: National Treasury

17. The actual gross domestic borrowing in FY2021/22 was 85.0 percent of the total borrowing compared to 73.0 percent as envisaged in the strategy.

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18. The total actual gross external borrowing of 15 percent was from concessional and semi concessional sources. This comprised of disbursements from multilateral and bilateral sources in form of program loans and project AIA and cash loans.
19. Table 3 compares the costs and risks characteristics of the 2021 MTDS and December 2022. There was an overall improvement in the risk characteristics of the debt portfolio while that of cost slightly worsened.
20. There was an overall improvement in refinancing, foreign exchange and interest rate risk. This is reflected by the decrease in the proportion of debt maturing in one year as a proportion of GDP from 10.2 percent to 8.4 percent. The proportion of debt maturing in one year as a percentage of total debt also improved from 14.8 percent to 11.7 percent.
21. There was an improvement in the average time to maturity for domestic debt from 6.9 years to 7.8 years indicating issuance of longer dated instrument in line with the 2021 strategy while the debt denominated in foreign currency reduced from 51.3 percent to 49.0 percent showing a reduction in foreign exchange rate risk (**Table 3**).
22. On cost characteristic, interest cost as a share of GDP increased by 0.7 percent from 4.6 percent in 2021 to 5.3 percent in 2022 (**Table 3**). This was partially attributed to depreciation of the exchange rate, rising domestic and international market interest rates and rise in stock of public debt.

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Table 3: Review of cost and risk indicators: 2021 MTDS against actuals as at December 2022

Risk Indicators		Baseline Dec 2020	2021 MTDS	Actual End December 2022	Deviation (4-3)	Remark on deviation
Nominal debt as % of GDP		63.3	67.8	67.0	-0.8	debt to GDP increasing
Present value debt as % of GDP		56.8	61.4	60.0*	-1.4	
Interest costs as % of GDP		4.4	4.6	5.3	0.7	Increased debt service cost in domestic and international debt market
Refinancing risk	Debt maturing in 1yr (% of total debt)	15.5	14.8	11.7	-3.1	Reduced refinancing risk- issuance of longer dated domestic debt and contracting concessional loans ATM external reduced due to short term commercial debt,2024 maturities-\$2bn domestic improved
	Debt maturing in 1yr (% of GDP)	11	10.2	8.4	-1.8	
	ATM External Portfolio (years)	11.2	10.8	9.8	-1.0	
	ATM Domestic Portfolio (years)	6.3	6.9	7.8	0.9	
	ATM Total Portfolio (years)	9.1	9.0	8.8	-0.2	
Interest rate risk	ATR (years)	8.4	8.3	8.1	-0.2	Partial improvement in interest rate risk indicators
	Debt refixing in 1yr (% of total)	27.1	25.4	23.0	-2.4	
	Fixed rate debt (% of total)	86.9	87.7	87.2	-0.5	
Foreign exchange (FX) risk	FX debt as % of total debt	51.2	51.3	49.0	-2.3	Reduced foreign exchange exposure

Source: The National Treasury

* The PV and the nominal in the table above are the result of the DSA conducted by IMF and WB in collaboration with the National Treasury. However, the MTDS nominal and the PV of debt of 61.4 percent and 55.4 percent respectively excludes 2 percent composed of guaranteed debts, over draft, pre-1997 domestic debts, Bank advances, supplies credit, in addition it excludes future interest payment.

Average terms of new external debt

23. New external debts average maturity increased to 25.9 years as at end June 2022 from 23.3 years at end June 2021. However, the grace period reduced from 7.4 years to 4.2 years during the same period. The weighted average interest rate decreased to 0.8 percent from 2.1 percent in June 2021 (Table 4). The improved borrowing terms reflect the government's strategy to maximise concessional borrowing during the fiscal year. In addition, the government did not contract the planned commercial debt.

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Table 4: Average Terms of New External Debt

Terms	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
Average Maturity (years)	21.0	20.3	17.6	20.8	15.3	26.1	23.3	25.9
Grace Period (years)	6.4	6.2	4.5	10.3	5.6	7.4	7.4	4.2
Average Interest Rate (%)	2.5	2.6	2.6	3.9	3.9	0.5	2.1	0.8

Source: The National Treasury

ii. Review of 2022 MTDS

24. The 2022 MTDS guiding the borrowings in FY 2022/23 aims at minimizing the costs and risks through a net financing mix of 32 percent net borrowing from external sources and 68 percent in net borrowing from the domestic debt market. In gross terms, the strategy seeks to achieve 25 percent and 75 percent from external and domestic sources respectively.

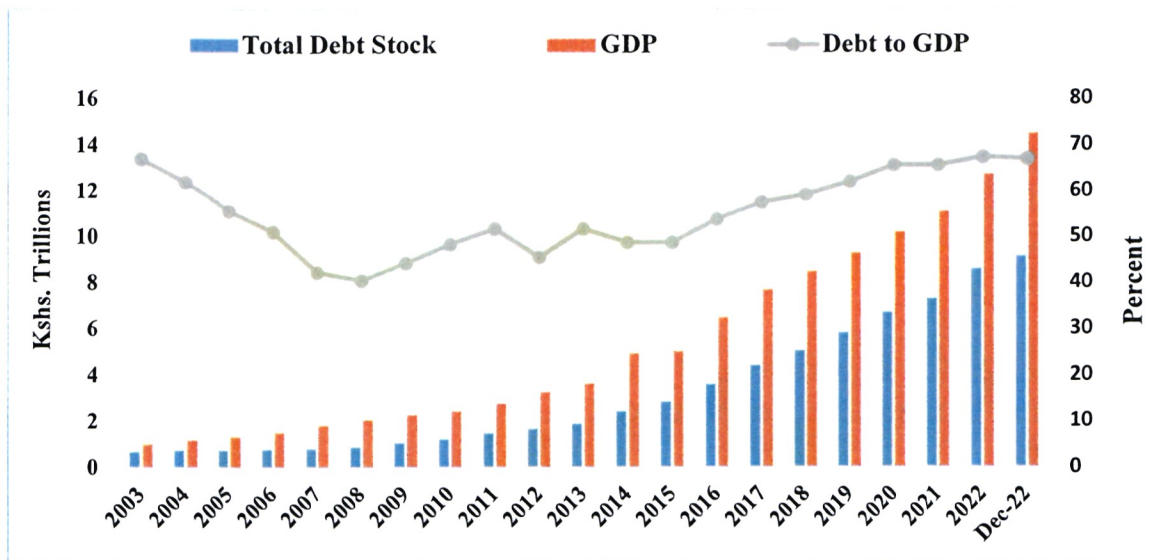
25. So far, the 2022 MTDS has been under implementation for six months (July to December 2022). Post facto analysis of costs and risks characteristics of public debt outcome in the subsequent financial year will inform the formulation of the 2024 MTDS.

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III. STOCK OF PUBLIC AND PUBLICLY GUARANTEED DEBT

26. The stock of public and publicly guaranteed debt was Kshs. 9,145.9 billion or USD 74.1 billion in nominal terms as at end December 2022. Out of that amount, domestic debt was Kshs. 4,472.8 billion while external debt was Kshs. 4,673.1 billion (Table 5).

Figure 1: Nominal GDP, gross debt and Debt to GDP ratio (%) from 2003-2022



Source: The National Treasury

27. The analysis to inform 2023 MTDS considers a debt stock of Kshs 8,909.7 billion or USD 72.2 billion comprising external debt of Kshs 4,509.2 billion or USD 36.6 billion and domestic debt of Kshs 4,400.5 billion or USD 35.7 billion as at end December 2022. It excludes Kshs. 236.2 billion of which Kshs. 151.1 billion relates to uncalled guaranteed debts, Kshs. 58.5 billion Government overdraft at CBK, Kshs. 12.8 billion Suppliers credit and Kshs. 13.9 billion Bank advances.

28. The stock of external public debt is composed of multilateral, bilateral and commercial creditors. As a proportion of total external debt multilateral, commercial debt (including international sovereign bond) and bilateral accounted for 47.4¹ percent, 26.5 percent and 25.8 percent respectively. (Table 5). As a

¹ Multilateral comprises IDA/IBRD; ADF/AfDB and other multilaterals

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percentage of total domestic debt Treasury bonds accounted for 83.0 per cent while Treasury bills accounted for 15.0 per cent of GDP.

29. The stock of debt comprised of Treasury bills in tenors of 91, 182 and 364 days amounting to Kshs 671.5 billion, Treasury bonds of Kshs 3,710.6 billion, and outstanding pre-1997 government debt of Kshs. 18.3 billion as at end December 2022.

Table 5: Public and Publicly Guaranteed Debt in the MTDS end-December 2022

	Kshs. (millions)	USD (millions)
I. Domestic Debt (included in MTDS)		
Treasury Bills	671,509	5,443
Treasury Bonds	3,710,622	30,076
Pre-1997 Government Debt	18,344	149
Sub Total	4,400,475	35,668
II. External debt (included in MTDS)		
IDA/IBRD	1,363,195	11,049
ADF/AfDB	430,685	3,491
Bilateral	1,134,465	9,195
Multilateral	419,876	3,403
Commercial Banks	285,073	2,311
International Sovereign Bond	875,952	7,100
Sub Total	4,509,246	36,550
III. Excluded from MTDS		
Suppliers Credit	12,824	104
CBK Overdraft	58,498	474
Performing Guarantees	151,075	1,225
Bank advances	13,866	112
Sub Total	236,263	1,915
TOTAL DEBT Included in MTDS (I+II)	8,909,721	72,217
TOTAL DEBT (I+II+III)	9,145,984	74,132
Domestic	4,472,839	36,254
External	4,673,145	37,878

Source: The National Treasury and Central Bank of Kenya

30. As at end December 2022, the guaranteed debt by the Government to Kenya Ports Authority (KPA), Kenya Electricity Generation Company (KenGen) and Kenya Airways (KQ) amounted to Kshs. 151.1 billion (Table 6).

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Table 6: Outstanding Government Guaranteed Debt (End-December 2022)

Beneficiary Entity	KSH (millions)	USD (Millions)
Kenya Electricity Generating Company	36,568	296.4
Kenya Ports Authority	35,850	290.6
Kenya Airways	78,657	637.5
Sub-Total Un-Called Guarantees	151,075	1,224.5

Source: The National Treasury

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IV. COST AND RISKS ANALYSIS OF THE EXISTING PUBLIC DEBT PORTFOLIO

31. This section analyze the cost and risks characteristics of existing public debt portfolio as at end December 2022, to assess the costs and risks and to design the optimal borrowing strategy that minimizes costs and risks over the medium term.
32. The Kenya's present value of public debt was at 60.0 percent of GDP of which the domestic debt was 33.2 percent of GDP while external debt was 26.8 percent of GDP. This is as per the IMF-World Bank debt sustainability analysis conducted in December 2022 in collaboration with the National Treasury.
33. The scope of the MTDS covers outstanding debt of Kshs. 8,909.7 billion comprising of domestic debt of Kshs. 4,400.5 billion and external debt of Kshs. 4,509.2 billion (**Table 7**).
34. The total interest payments as a percentage of GDP as at end December 2022, was at 5.3 per cent comprising 3.9 percent for domestic debt and 1.4 per cent for external debt. Interest payment for the domestic debt remained high almost triple the level paid on external debt even though their respective stocks are the same. This difference reflects the high interest rates on domestic debt due to shallow domestic debt market attracting minimal capital inflows.
35. The overall debt portfolio re-financing risk indicator improved during the fiscal year as stock of Treasury bills decreased and more borrowing on concessional terms in line with debt management strategy. The proportion of debt maturing in one year as a percent of total debt improved to 11.7 percent from 14.8 percent in 2021 whereas debt maturing in 1 year as a percentage of GDP improved to 8.4 percent from 10.2 percent in the same period (**Table 7**).
36. Average Time to Maturity was at 8.8 years as at end December 2022 as compared to 9.0 years in 2021.

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37. The Average Time to Refixing (ATR) for total debt was 8.1 years in December 2022. The share of debt refixing in 1 year was 23.0 percent while share of the fixed rate debt was 87.2 percent during the same period (**Table 7**).

Table 7: Cost and risk indicators for existing debt as at end December 2022

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of KSH)		4,673,145	4,472,839	9145,984
Amount (in millions of USD)		37,878	36,254	74,132
Nominal debt as percent of GDP		34.4	32.6	67.0
PV as percent of GDP		26.8	33.2	60.0
Cost of debt ²	Interest payment as percent of GDP ³	1.4	3.9	5.3
	Weighted Av. IR (percent)	3.9	11.4	7.6
Refinancing risk	ATM (years)	9.8	7.8	8.8
	Debt maturing in 1yr (percent of total)	5.1	18.7	11.7
	Debt maturing in 1yr (percent of GDP)	1.9	6.5	8.4
Interest rate risk ²	ATR (years)	8.4	7.8	8.1
	Debt refixing in 1yr (percent of total)	27.0	18.7	23.0
	Fixed rate debt incl T-bills (percent of total)	75.3	100.0	87.2
	T-bills (percent of total)	0.0	15.3	7.4
FX risk	FX debt (percent of total debt)			49.0
	ST FX debt (percent of reserves)			23.9

Source: *The National Treasury*

38. The maturity structure of domestic debt improved during the period under review. Government domestic debt securities falling due within a year decreased from 25.9 per cent in December 2021 to 19.5 per cent in December 2022 while instruments with over 11 years remaining to maturity improved to 40.9 per cent in December 2022 from 30.7 per cent in December 2021 following successful issuance of medium to long-term bonds aligned with the objective of lengthening the maturity profile (**Table 8**).

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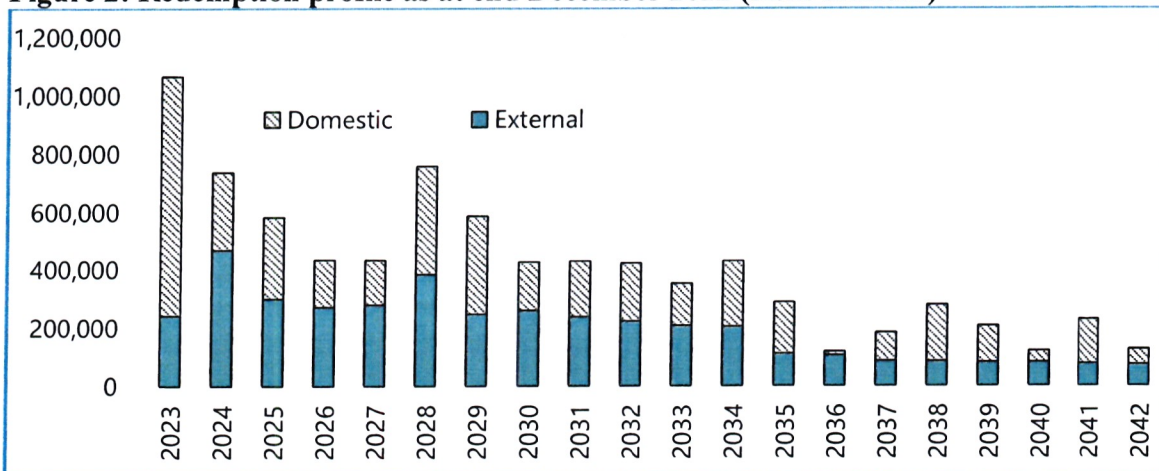
Table 8: Domestic Debt by Maturity Profile, in USD equivalent

Remaining Maturity in Years	End June 2021 In million USD	In Percent of Total	End Dec 2022 In million USD	In Percent of Total
Less than one year	8,734	25.9	6,963	19.5
2 to 3 years	4,263	12.6	3,598	10.1
4 to 5 years	2,616	7.8	3,119	8.7
6 to 10 years	7,740	23.0	7,401	20.8
Above 11 years	10,355	30.7	14,587	40.9
Total	33,707	100.0	35,668	100

Source: The National Treasury

39. The maturity of domestic debt is highest in 2023 majorly due to maturing short term government securities. The repayment structure is relatively smooth except for spikes in 2023, 2024 and 2028 due to maturities of international sovereign bonds. The overall public debt redemption structure as at end of December 2022 is shown in Figure 2 below.

Figure 2: Redemption profile as at end December 2022 (Kshs millions)

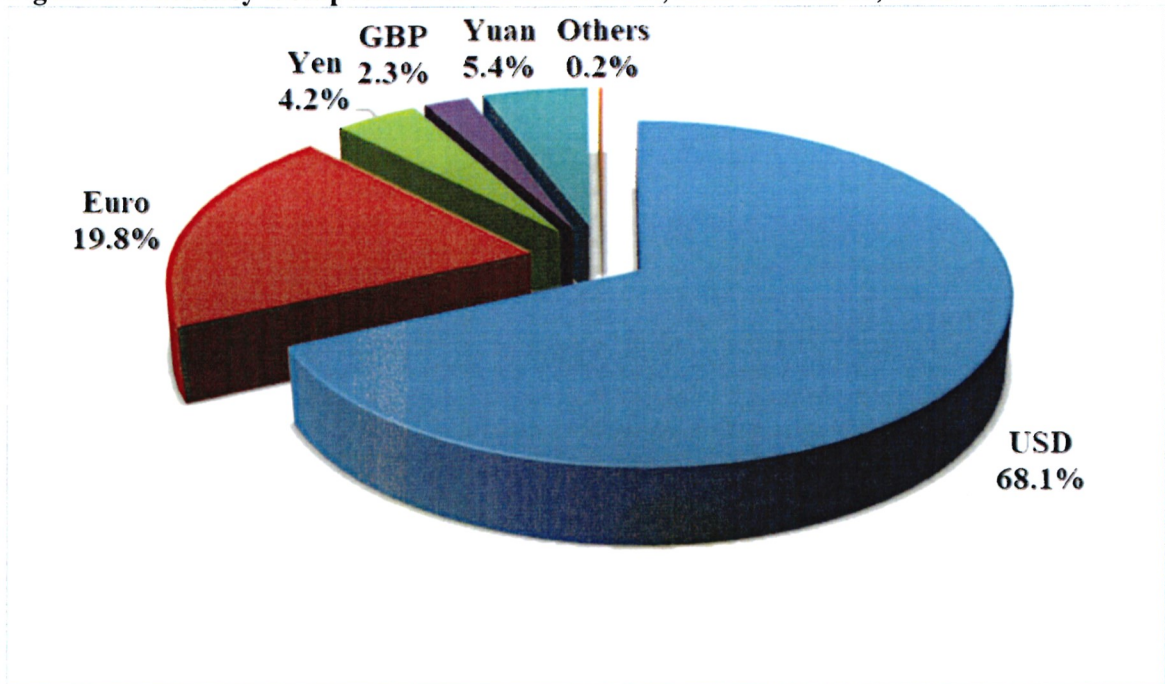


Source: National Treasury and Central Bank of Kenya

40. As at December 2022, 49.0 percent of total public debt is in foreign currencies and thus exposed to foreign exchange rate volatility risk. The major currencies in the external debt portfolio are U.S. dollars at 68.1 percent; Euro at 19.8 percent; Chinese Yuan at 5.4 percent; Japanese Yen at 4.2 per cent; Great Britain Pound (GBP) at 2.3 percent while other currencies account for 0.2 percent (Figure 3).

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Figure 3: Currency Composition of External Debt, End-December, 2022.



Source: The National Treasury

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V. DEBT SUSTAINABILITY ANALYSIS

41. Kenya is rated as a medium performer in terms of Debt Carrying Capacity (DCC) with high risk of debt distress. This was as a result of Covid-19 global pandemic contributing to slowdown of economic growth and worsened by high inflation and supply chain disruptions due to the Russia-Ukraine war.
42. The World Bank and IMF uses a Composite Index (CI) to measure a country’s DCC. The CI is computed using the World Bank’s Country Policy and Institutional Assessment (CPIA), real GDP growth, remittances, international reserves and world economic growth. Kenya’s current assessment shows that the CI is at 3.02 compared to the previous assessment of 3.03 reflecting a weaker outlook of the global growth and a lower projected path of import coverage of reserves.
43. As shown in Table 9, Kenya’s DCC was downgraded from strong in 2019 to Medium in 2020 to 2022. Kenya is also ranked as being in risk of debt distress. The risk rating rose from low in 2017 to high since 2020.

Table 9: Kenya’s debt risk levels and debt carrying capacity

	2017	2018	2019	2020	2021	2022
<i>Debt carrying capacity</i>	Strong	Strong	Strong	Medium	Medium	Medium
<i>Risk of debt distress</i>	Low	Moderate	Moderate	High	High	High

Source: National Treasury & IMF country reports

44. The downgrade from strong to medium performer resulted to lower external debt and total public debt thresholds (**Table 10**).

External Debt Sustainability Analysis

45. The external DSA demonstrates that the Present Value (PV) of external debt to GDP ratio is below the 40 percent sustainability threshold throughout the projection period. The debt service to revenue ratio breaches the threshold in 2024 due to the upcoming international sovereign bond repayment.

Table 10: Thresholds and Benchmark

Debt Burden Indicators		Strong DCC	Medium DCC
External Debt Thresholds	PV of debt in % of Exports	240	180
	PV of debt in % of GDP	55	40
	Debt service in % of Exports	21	15
	Debt service in % of Revenue	23	18
Total Public Debt thresholds	PV of total public debt in % of GDP	70	55

Source: IMF country reports

46. However, the PV of external debt-to-exports ratio breaches the threshold until 2025. Nevertheless, it is projected to break-even in 2026 as exports recover. The debt service to exports ratio remains above the threshold due to the international sovereign bond maturing in 2024 and the rollover of external commercial loans coming due in 2025.

Table 11: Kenya’s External Debt Sustainability Analysis

Indicators	Thresholds	2022	2023	2024	2025	2026	2027
PV of PPG external debt to GDP ratio	40	26.6	26.8	26.1	25.6	25.1	25.0
PV of PPG external debt to export ratio	180	221.5	208.6	195.9	186.5	179.8	175.4
PPG debt service to export ratio	15	22.6	20.5	29.6	21.1	19.2	15.8
PPG debt service to revenue ratio	18	15.7	15.2	22.3	16.5	15.2	12.6

Source: National Treasury & IMF country report

47. The assessment of PV of external debt to exports and debt service to export indicate that subdued growth in exports has increased debt vulnerabilities. This is more evident in 2024 which coincides with high debt maturities. Therefore, there is need for implementation of development policies aimed at improving Kenya’s export sector. The Government may explore liability management operations to manage the refinancing risks in 2024.

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Total Public Debt Sustainability Analysis

48. The PV of debt to GDP ratio is projected to remain above the 55 percent benchmark until 2025 (**Table 12**). To maintain debt at sustainable levels, the Government is pursuing a fiscal consolidation path by broadening the tax revenue base and minimizing non-priority expenditures.

Table 12: Kenya's Public Debt Sustainability Analysis

Indicators	Thresholds	2022	2023	2024	2025	2026	2027
PV of debt-to-GDP ratio	55	61.7	60.0	57.8	55.9	54.0	52.5
PV of public debt-to-revenue and grants ratio	n/a	353.1	340.4	332.5	310.9	301.0	289.6
Debt service-to-revenue and grants ratio	n/a	52.0	57.0	62.7	54.5	49.9	43.9

Source: National Treasury & IMF country report

49. Public debt sustainability indicators are projected to begin improving in 2026 after settlement of major maturities in 2024, 2025, and 2026 coupled with anticipated recovery in exports sector as global economy recovers from 2020 COVID-19 pandemic effects and shocks to global supply chain, as well as implementation of the ongoing fiscal reforms under the EFF/ECF program.

50. The Government will continue to optimize use of concessional funding, lengthening the maturity profile of public debt through issuance of medium to long dated bonds and deepening domestic debt market.

51. Additionally, it should be noted that although Kenya's public debt continues to be sustainable, annual borrowing limits (fiscal deficits) must be reduced to limit the rate of accumulation of public debt.

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VI. MACROECONOMIC ASSUMPTIONS AND KEY RISKS UNDER THE 2023 BUDGET POLICY STRATEGY (BPS)

a) 2023 BPS Baseline Macroeconomic Assumptions

52. The 2023 MTDS is anchored on the macroeconomic assumptions outlined in the 2023 Budget Policy Statement (BPS) as summarized in Table 13.

53. The 2023 BPS is anchored on Governments development agenda on the Bottom-up Approach that is geared towards economic turn-around and inclusive growth. In the FY 2023/24, the economy is projected to grow by 6.1 percent, an improvement from the projected growth of 5.8 percent in the FY2022/23. This growth will be supported by Governments priority programmes outlined in the fourth Medium Term Plan of Vision 2030.

54. Growth is projected to remain above 6.1 percent over the medium - term supported by the Governments Economic Recovery Strategy geared towards economic turnaround and inclusive growth through increased employment, more equitable distribution of income, enhanced social security and expansion of the tax revenue base.

Table 13: Baseline Macroeconomic Assumptions

	Unit	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
		Actual	Pre-Act.	Projection				
Real GDP	Percent	3.6	6.5	5.8	6.1	6.2	6.1	6.2
GDP Deflator	Percent	5.0	6.2	6.9	5.8	4.8	5.9	6.0
Inflation	Percent	5.7	6.8	7.0	5.8	5.0	5.0	5.0
Revenue	Percent of GDP	15.9	17.3	17.4	17.8	17.8	18.0	18.3
Expenditure	Percent of GDP	24.4	23.7	23.4	22.5	22.0	21.8	22.3
Overall Fiscal Balance	Percent of GDP	(8.2)	(6.2)	(5.7)	(4.4)	(3.9)	(3.6)	(3.6)
Primary Budget Balance	Percent of GDP	(3.8)	(1.6)	(1.1)	0.3	0.7	0.7	0.7
Revenue	Kshs Billion	1,803.5	2,199.8	2,528.8	2,894.9	3,231.1	3,669.9	4,195.2
Expenditure	Kshs Billion	2,769.3	3,027.8	3,394.1	3,663.1	3,991.9	4,457.9	5,089.9
Overall Fiscal Balance	Kshs Billion	(950.2)	(747.8)	(833.8)	(720.1)	(711.5)	(734.6)	(826.1)
Primary Budget Balance	Kshs Billion	(434.1)	(207.2)	(158.0)	55.0	122.1	150.6	154.0
GDP (Current Prices)	Kshs Billion	11,370.3	12,752.2	14,521.6	16,290.3	18,180.2	20,436.9	22,872.3

Source: The National Treasury

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55. Inflation rate increased above the government target range of 5 ± 2.5 in 2022. This notwithstanding, the rates declined to 9.1 percent in December 2022 from 9.5 percent in November 2022 and is projected to ease in the near term due to muted demand pressures and policy interventions.
56. The Government continues to pursue growth responsive fiscal consolidation measures aimed at reducing the fiscal deficits and lower debt service costs and release resources for priority programs. In this regard, the deficit is projected to decline to 4.4 per cent of GDP in the FY 2023/24 and 3.6 percent of GDP over the medium-term.
57. The alternative debt management strategies under the 2023 MTDS are aligned to the IMF program and the 2023 BPS policy priorities.

b) Risks to the 2023 BPS baseline macroeconomic assumptions

58. Global economic growth remains uncertain due to the ongoing geo-political tensions, effects of COVID-19 pandemic, global inflation pressures and climate change related supply chain disruptions. As a result, global growth is projected to slow to 2.7 percent in 2023 from the projected growth of 3.2 percent in 2022. These uncertainties will negatively impact economic growth in developing economies which will in turn lead to deterioration of the debt indicators. However, the Government strategy to revive the economy and its commitment to fiscal consolidation will lead to improvement of the debt ratios.
59. Market volatility due to geo-political tensions and monetary tightening in advanced economies has hindered access to international capital markets. The inflation rates have led to high interest rates and this may limit the Government in performing liability management operation on its debt portfolio. However, the Government will continue to monitor the market conditions before performing any liability management operations.
60. The on-going implementation of reforms in the domestic debt aimed at deepening the market continues to cushion the Government against downside risks from external factors.

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61. The rising interest rates both in the domestic and external market have an adverse implication on debt service. In addition, rising interest rates have limited Government's access to long-term funding thus increasing refinancing risk.
62. Kenya's external debt is held in various foreign currencies to minimize foreign currency risk exposure. Currency depreciation increases debt service costs. The USD accounts for 68 per cent of external debt, Euro 20 per cent and other² currencies at 12 per cent. The Government is committed to continued implementation of prudent fiscal and monetary policies aimed at stabilizing prices.
63. Contingent liabilities expose the Government to fiscal risks which may lead to additional debt service costs in the event of materialization. The Government will continue monitoring these liabilities with an aim of mitigating the risks.

² Others, majorly – Yuan, Yen and GBP

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VII. ASSESSMENT OF POTENTIAL SOURCES OF FINANCING

A. Sources of financing of the fiscal deficit

64. The Government funds the deficit through borrowing from both domestic and external sources.

65. Traditionally, the external borrowing sources comprise of multilateral, bilateral and commercial sources while Treasury bonds and bills remain the main instruments used by the Government to raise funds from the domestic market.

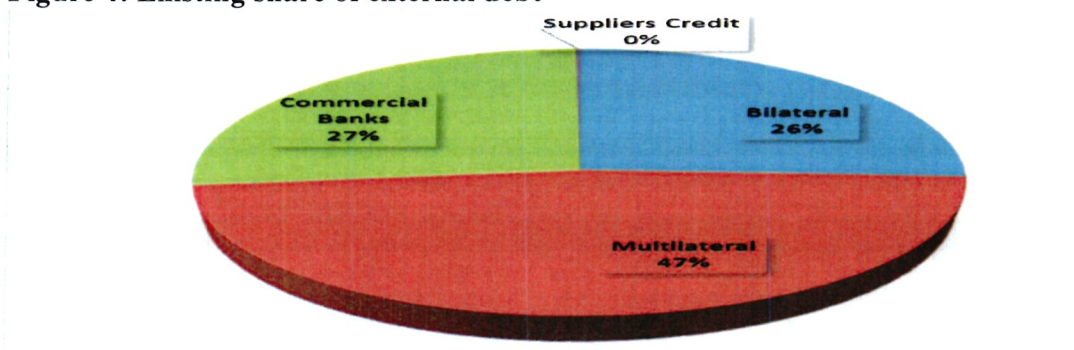
66. Treasury bonds comprise of benchmark instruments (with tenors of 2, 5, 10, 15, 20 and 25 years), savings development bond, retail bond (M-Akiba) and infrastructure bonds. However, the Government may issue off-benchmark bonds depending on the prevailing market conditions. Treasury bills are used as liquidity management instrument.

67. As at December 2022, the outstanding Treasury bonds and bills were majorly held by non-bank institutions (pension funds, insurance firms, parastatals and retail investors) at 53.2 percent while commercial banks accounted for 46.8 per cent, compared to December 2021 where commercial banks and non-banks held 50.2 per cent and 49.8 per cent respectively.

68. The share of multilateral, bilateral and commercial (including syndicated loans) in external debt was 47.4 percent, 25.8 percent and 26.5 per cent respectively while other sources accounted for 0.3 percent (Figure 4).

69. The major multilateral lenders were International Development Association (IDA), African Development Bank (AfDB) and International Monetary Fund (IMF) while China and Japan dominated the bilateral sources as at end December, 2022.

Figure 4: Existing share of external debt



Source: The National Treasury

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B. Potential sources to finance the medium-term budget

i. Domestic Sources

70. Domestic debt market is one of the main sources of financing the fiscal deficit. Over the years, it has contributed to half of total financing requirements of the Government. The Government has successfully mobilized domestic debt financing targets over the years despite the challenges of high interest costs in the market.
71. Additional, alternative sources may include issuance of a Kenya Shilling syndicated debt, foreign currency denominated domestic bond, private placement among others.
72. To promote a national savings culture and encourage financial inclusion and access to government securities, the Government will re-engineer the issuance of the M-Akiba bond. The digital platform will be re-engineered to provide efficiency accessible alternative investment opportunities for the informal sector.
73. The National Treasury will sustain spearheading key reforms that deepen the market and diversify the investor base. To enhance the growth of the non-bank financial institutions such as pension, insurance and mutual funds, there is need to expand the volumes and initiate new financial products such as post retirement and contributory pension schemes, diversified asset classes, private equity and venture capital.

ii. External Sources

74. External financing contributed 19.1 per cent of net new funding in the FY 2021/22, thus remaining a key source of financing the fiscal deficit.
75. Global supply chain uncertainties, volatility in financial markets and tensions related to the Russia-Ukraine war continue to have adverse impact on Kenya's medium-term prospects. Slowdown in global demand and spikes in oil and commodity prices are exerting pressure on inflation and the exchange rate leading to monetary tightening among many central banks globally amidst increased cost of external finance.

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76. The Government will continue to source concessional financing from multilateral financial institutions and bilateral lenders to finance development expenditure.
77. Government may explore the issuance of green and blue bonds to finance climate related or environmental sustainability projects as part of instrument diversification.

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VIII. PUBLIC DEBT RISKS AND COSTS EVALUATION UNDER ALTERNATIVE PUBLIC DEBT MANAGEMENT STRATEGIES

A. Public Debt costs and risks evaluation

78. To better manage the costs and risk of public debt a careful evaluation of the risks and costs of managing public debt under various alternative debt management options is undertaken to inform the optimal strategy for adoption. The results of the evaluation are used to populate the following matrix of risks and costs of public debt to help identify the optimal strategy that provides the best projection of costs minimization and risks optimization against the current indicators:

Table 14: Cost and risk characteristics table

Risk Indicators		2022	As at end 2026			
		Current	Alt. 1	Alt. 2	Alt. 3	Alt. 4
Nominal debt as percent of GDP		67.0				
Present value debt as percent of GDP		60.0				
Interest payment as percent of GDP		5.3				
Implied interest rate (percent)		7.6				
Refinancing risk	Debt maturing in 1yr (percent of total)	11.7				
	Debt maturing in 1yr (% of GDP)	8.4				
	ATM External Portfolio (years)	9.8				
	ATM Domestic Portfolio (years)	7.8				
	ATM Total Portfolio (years)	8.8				
Interest rate risk	ATR (years)	8.1				
	Debt refixing in 1yr (percent of total)	23.0				
	Fixed rate debt incl T-bills (percent of total)	87.2				
	T-bills (percent of total)	7.4				
FX risk	FX debt as % of total	49.0				
	ST FX debt as % of reserves	23.9				

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B. Baseline Pricing Assumptions and Description of Shock Scenarios

79. The pricing assumptions under the baseline scenario for interest rates and the exchange rates are as follows:

- i. ADF loans are priced at an average fixed rate of 0.75 percent, with a 40-year tenor and up-to 10-year grace period.
- ii. IDA/IFAD loans are priced at an average fixed rate of 1.75 percent, with a 35-year tenor and up-to 8-year grace period.
- iii. Other concessional loans are priced at an average fixed rate of 1.17 percent, with a 28-year tenor and up-to 7-year grace period.
- iv. Semi-concessional loans are assumed to be contracted at a fixed interest rate of approximately 2.3 percent and a maturity of 23 years including a grace period of up to 5 years.
- v. Commercial borrowings and Export Credit Agencies financing with floating rates are contracted at a reference rate plus a margin.
- vi. The pricing of Kenya's International Sovereign debt is based on the prevailing Sovereign Bond yield curve as at end December 2022.
- vii. Pricing on the domestic debt instruments is based on the prevailing market yield curve as at end December 2022.

80. The outlook on the baseline interest rates and exchange rates is based on the following considerations;

- i. The exchange rate (Kshs. /USD) is assumed to depreciate annually at an average of 1.6 percent.
- ii. The fixed interest rates of market-based instruments in the international markets were based on the prevailing yields as at end December 2022. The domestic market yields were based on the average of the last one year and historical trend in the last 3 years.
- iii. The interest rates for fixed rate loans are assumed to remain priced as per the existing portfolio.

81. Three risk scenarios are evaluated as follows:

- i. The risk scenario for interest rates assumes moderate interest rate shock of 2.5 percent over the baseline projections and a stand-alone extreme shock of 5 per cent which remains constant thereafter.

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- ii. The risk scenario for exchange rate assumes a stand-alone extreme shock of 25 percent in 2024 which was applied on the baseline exchange rate projections.
- iii. The combined exchange rate and interest rate risk shock scenario assumes an increase in interest rate by a moderate shock of 2.5 percent combined with a 12.5 percent exchange rate depreciation in 2024.

C. Highlights of Alternative Debt Management Strategies

- 82. The 2023 MTDS considered four alternative financing strategies to fund the fiscal deficits for the FY2023/2024 and the medium-term borrowing.
- 83. The various external financing sources include a mix of concessional, semi-concessional, commercial loans and international debt securities while domestically the sources include a combination of Treasury bills and bonds.
 - i. **Option 1 (S1) – Biased financing towards more domestic borrowing:** This strategy assumes a net borrowing of 81 percent from domestic and 19 percent from external sources. Domestic borrowing is through issuance of Treasury bonds while maintaining the stock of Treasury bills to continue mitigating refinancing risk. External sources are assumed to be through concessional debt with no commercial borrowing to reduce the cost of debt and foreign exchange rate risk.
 - ii. **Option 2 (S2) – Biased financing towards more external debt:** This option assumes financing majorly from external debt with a net financing of 60 percent external and 40 percent domestic. Under this strategy, financing will be majorly from commercial, semi-concessional and concessional sources. From the domestic market, the strategy assumes Treasury bonds to be the only source of domestic financing. This option aims at reducing refinancing risk and interest rate risk while at the same time reducing the overall cost of debt.
 - iii. **Option 3 (S3) – Gradual lengthening of domestic debt maturity profile:** This strategy assumes financing the fiscal deficit majorly from the domestic market with a net domestic financing of 71 percent and 29 percent from external sources. The strategy aims at gradually reducing the stock of Treasury bills to manage refinancing risk and issuing medium-long term Treasury

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bonds. On the external borrowing, it assumes that the total financing will be from concessional debt.

- iv. **Option 4 (S4) – Balanced domestic-external financing strategy:** The strategy targets a balanced funding of the deficit from both domestic and external sources. The strategy envisages 50 percent net domestic and external borrowing from each source. It will maximise concessional borrowing while commercial debt will be rolled over. The medium to long term Treasury bonds will be the main source of financing from the domestic market. This strategy is positioned for flexibility in financing the deficit from both sources should one source fail. Under this strategy, the Government may consider augmenting any of the two sources depending on domestic and external market conditions.

D. Cost-Risk Analysis of Alternative Debt Management Strategies

84. The cost and risk indicators generated by the MTDS Analytical Tool (MTDS AT) under each of the four alternative strategies provides the output of the evolution of the debt costs and risks characteristics in the medium term. The tool also provides the characteristics of the debt portfolio under standard shock scenarios. In addition, the MTDS AT provides projected stock and cash flow of the debt profile.

i. *Baseline projection and alternative strategies*

85. The average gross borrowing in each alternative strategies during the period ending FY 2025/26 are presented in Table 15.

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Table 15: Average new borrowing by instrument under alternative strategies (in percent of gross borrowing by end of FY 2025/26)

New debt in % of Total Gross Borrowing	S1	S2	S3	S4
ADF	-	-	-	-
IDA/IFAD	8	7	8	12
Concessional	6	8	7	9
Semi-Concessional	1	4	3	1
Commercial/International Sovereign Bond	11	19	12	13
Treasury bills	34	34	33	34
Treasury bonds 2-3 Years	4	2	3	3
Treasury bonds 4-7 Years	4	4	4	3
Treasury bonds 8-12 Years	8	5	7	6
Treasury bonds 13-17 Years	11	7	11	8
Treasury bonds 18-22 Years	9	6	9	7
Treasury bonds 23-30 Years	5	3	4	3
External	26	38	29	35
Domestic	74	62	71	65
Total	100	100	100	100

Source: The National Treasury

86. The composition of the debt portfolio arising from the financing options in Table 15 during the period ending FY 2025/26 are presented in Table 16.

Table 16: Composition of Debt Portfolio by Instrument under Alternative Options , (in Percent of Outstanding Portfolio as at End of -FY 2025/26)

In Percent of Total	FY 2021/22	As at end FY2025/26			
Outstanding by Instrument	Current	S1	S2	S3	S4
ADF	3	2	2	2	2
IDA/IFAD	15	15	15	15	18
Concessional	4	7	8	7	9
Semi-Concessional	8	5	7	6	5
Commercial/International Sovereign Bond	20	16	21	16	17
Treasury bills	8	6	6	5	6
Treasury bonds 2-3 Years	1	2	1	2	2
Treasury bonds 4-7 Years	5	3	3	3	2
Treasury bonds 8-12 Years	9	10	8	9	9
Treasury bonds 13-17 Years	14	16	13	16	13
Treasury bonds 18-22 Years	11	14	12	13	12
Treasury bonds 23-30 Years	3	6	4	5	4
External	51	45	53	47	51
Domestic	49	55	47	53	49
Total	100	100	100	100	100

Source: The National Treasury

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87. In the medium term, under strategy 1 and 3 domestic debt portfolio increases, declines under strategy 2 and remains constant under 4.

88. The trade off between costs and risks as portrayed by the outcomes of the various alternative options is used in the selection of the optimal strategy (**Table 17 and Figure 6**).

Table 17: Cost and Risk Indicators Under Alternative Options

Risk Indicators		2022	As at end 2026			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		67.0	60.4	59.9	60.1	59.8
Present value debt as percent of GDP		60.0	54.9	54.4	54.5	53.1
Interest payment as percent of GDP		5.3	4.8	4.5	4.6	4.4
Implied interest rate (percent)		7.6	8.5	8.0	8.3	7.9
Refinancing risk	Debt maturing in 1yr (percent of total)	11.7	10.7	10.5	10.1	10.5
	Debt maturing in 1yr (% of GDP)	8.4	6.4	6.3	6.1	6.3
	ATM External Portfolio (years)	9.8	10.8	10.4	10.8	11.4
	ATM Domestic Portfolio (years)	7.8	9.3	8.4	9.0	8.5
	ATM Total Portfolio (years)	8.8	10.0	9.5	9.9	10.0
Interest rate risk	ATR (years)	8.1	9.6	8.8	9.4	9.6
	Debt refixing in 1yr (percent of total)	23.0	19.3	23.7	19.4	20.1
	Fixed rate debt incl T-bills (percent of total)	87.2	89.7	85.2	89.4	88.9
	T-bills (percent of total)	7.4	5.5	5.6	5.2	5.5
FX risk	FX debt as % of total	49.0	45.3	53.3	47.3	51.4
	ST FX debt as % of reserves	23.9	30.9	31.4	28.1	29.5

Source: The National Treasury

89. The nominal and present value (PV) of debt to GDP ratios under all the alternative options are declining from December 2022 levels. This is attributed to higher GDP growth and lower fiscal deficit as projected in the medium term.

90. As shown in Table 17, strategy 4 (S4) optimally achieves the debt management objectives compared to the other three strategies in terms of costs and risks characteristics. Its characteristics are;

- i. It result to the least Present Value (PV) of debt to GDP of 53.1 percent in the medium term compared to strategy 1 at 54.9 percent, strategy 2 at 54.4 percent and strategy 3 at 54.5 percent.

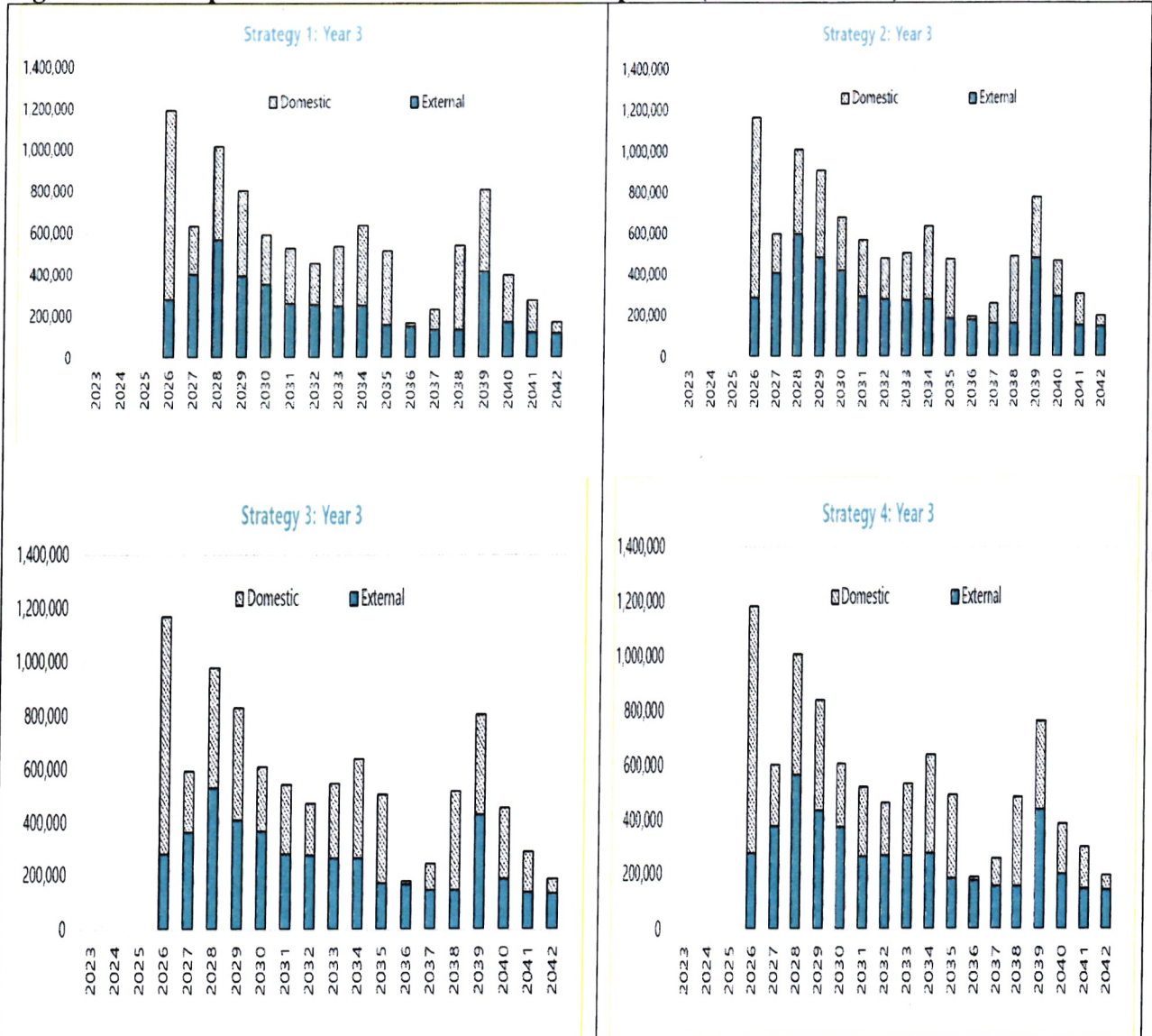
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- ii. Interest payment to GDP improve from 5.3 percent as at end December 2022 to 4.4 percent in the medium term. This is attributed to maximization of concessional sources as commercial borrowing is reduced, thereby leading to reduction in the cost of debt over the medium term. It also portrays the lowest implied interest rates amongst the four strategies.
 - iii. Minimizes refinancing risk by lengthening the total portfolio ATM as a result of lengthening the ATM of external debt portfolio. This is attributed to concessional terms that have longer maturities.
 - iv. Minimizes interest rate risk in terms of average time to refixing.
 - v. Deepens the domestic bond market through issuance of more medium to long term instruments as the main source of domestic financing.
 - vi. It allows for flexibility in the borrowing plan to adjust either external or domestic borrowing targets depending on prevailing market conditions as it is more realistic to implement.
91. Overall, strategy 1 has the highest cost characteristic but provides minimum risk exposure compared to the other alternative strategies.
92. Strategy 2 provides undesirable results in the trade-off between all costs and risk indicators and may be unrealistic to implement.
93. Strategy 3 minimizes refinancing and foreign exchange risk in terms of debt maturing in 1 year and short-term foreign debt as a percentage of reserves respectively.
94. Figure 5 shows the redemption profiles for alternative options by end of 2026. High maturities of both domestic and external debt are observed in 2026, 2028 and 2029. Maturities in 2026 are majorly due to maturing short term domestic debt, while elevated maturities in 2028 and 2029 are associated with maturing International Sovereign bond as well as other commercial loans.

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Figure 5: Redemption Profiles under Alternative Options (End-FY2025/26)



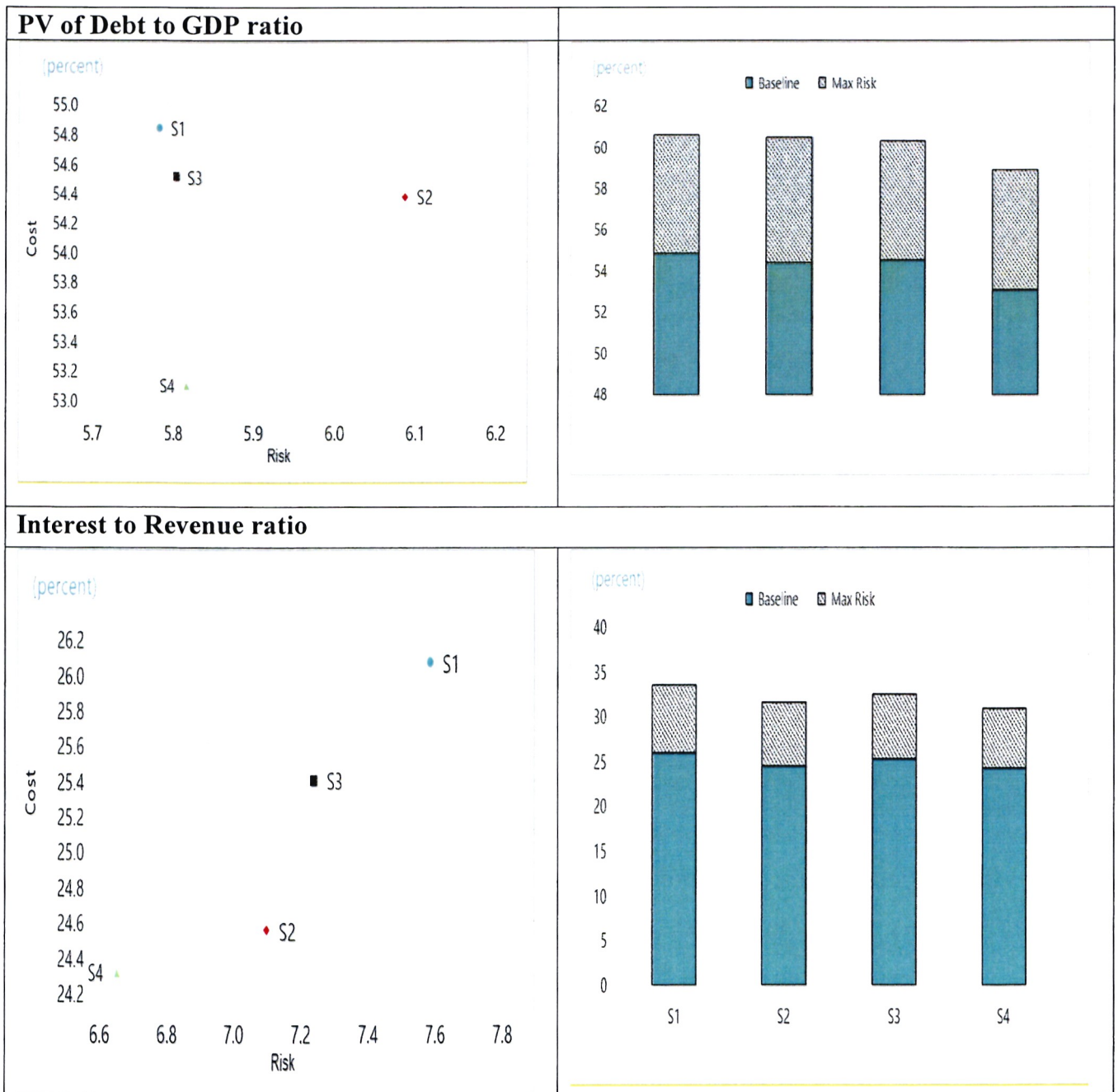
Source: The National Treasury

ii. Effect of shocks on the costs and risks characteristics of debt

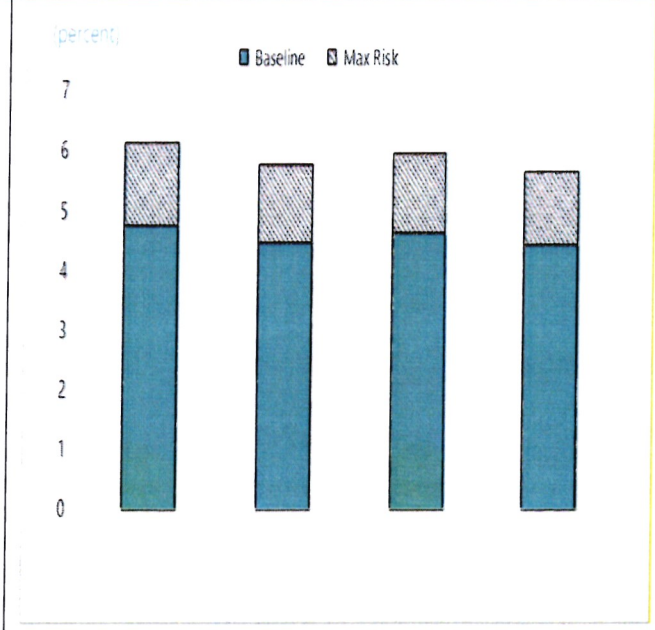
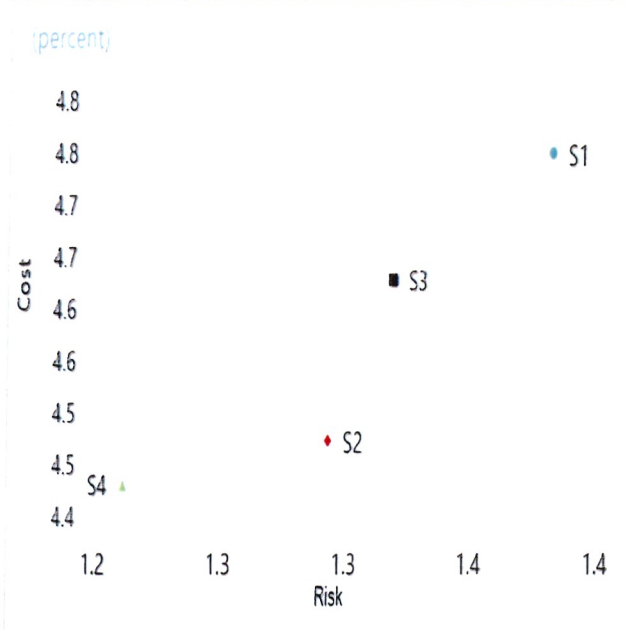
95. The analysis of the baseline and shock scenarios considered indicators such as; Present Value of Debt to GDP, interest payments to revenues, interest payments to GDP and total debt service to GDP (Figure 6).

96. The level of risks associated with each strategy under the baseline and shock scenarios are as indicated by the outcome of the analysis. Strategy 4 has the lowest cost-risk combination.

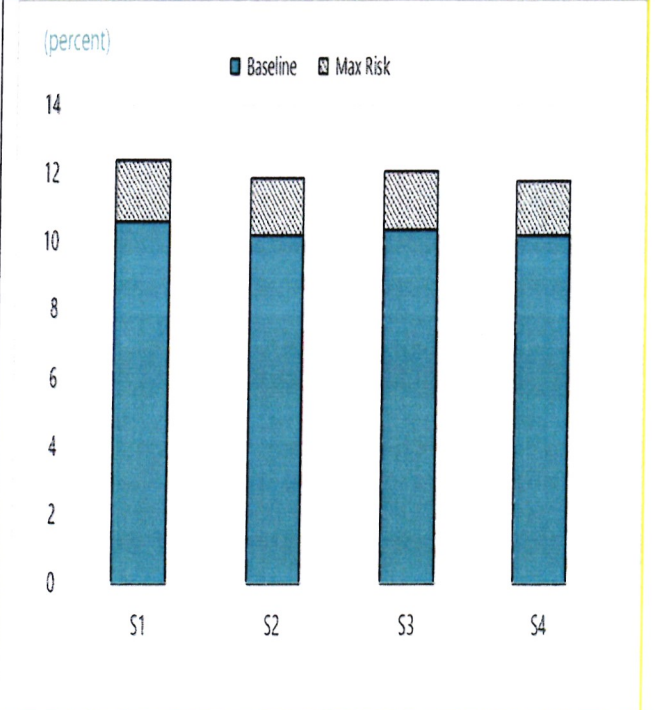
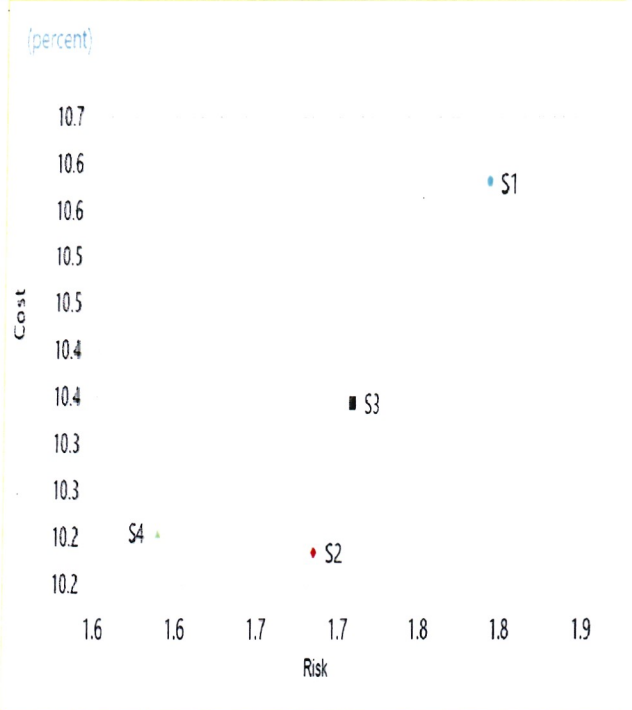
Figure 6: Cost and Risk Characteristics under Alternative Strategies



Interest to GDP ratio



Total debt service to GDP ratio



Source: The National Treasury

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iii. *The preferred deficit financing strategy*

97. The optimal deficit financing strategy derived from the results of analysis of various options is 50:50 net external and domestic borrowing mix (option 4) as it leads to the best costs and risks characteristic combination. The strategy recommends suggests allocation of Ksh. 360 billion to both external and domestic sources; use of medium to long term Treasury bonds as domestic financing tool and maximization of external concessional borrowing while commercial debt is rolled over before eventually being minimized. This strategy is positioned for flexibility in financing the deficit from both sources should one source fail, and depending on domestic and global debt markets condition and takes into account the continued tightening of domestic debt market liquidity.

iv. *Public Debt Stock Management Strategy*

98. Under Strategy 4 above, overall public debt gross borrowing consists of 35 and 65 percent in external and domestic sources, respectively, as the optimal strategy. The larger proportion of gross domestic borrowing is driven by the recurrent nature short-term domestic securities (treasury bills) which rollover a number of times within the financial year.

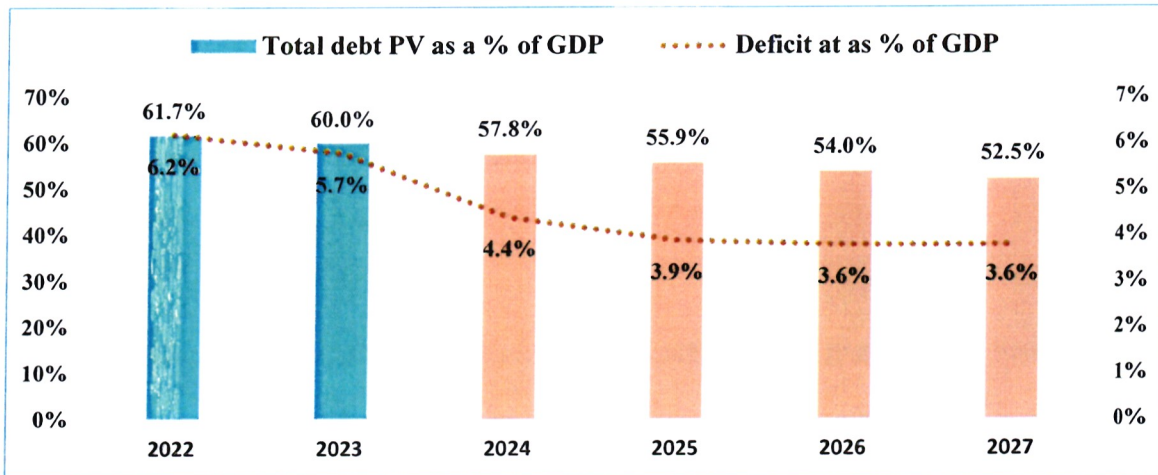
99. The following are the projected debt level under various annual borrowing limit assumptions:

Scenario I: Total Public Debt growth projection under the proposed fiscal consolidation trends

100. The Government has committed to pursue a fiscal consolidation policy to reduce and stabilize the growth of public debt under the ongoing IMF supported program. The projected evolution of public debt under the fiscal consolidation program is shown in Figure 5 below. The PV of total public debt as a percent of GDP is projected to decline to 52.5 percent in June 2027 from 61.7 percent in June 2022.

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Figure 5: Fiscal consolidation path as per the fiscal framework



Source: National Treasury

101. In effect, under the fiscal consolidation program it will take at least four years (2023-2026) to revert the present value of public debt to the sustainability threshold of 55 percent to GDP.

Table 18: Fiscal Consolidation for a Sustainable Debt Path

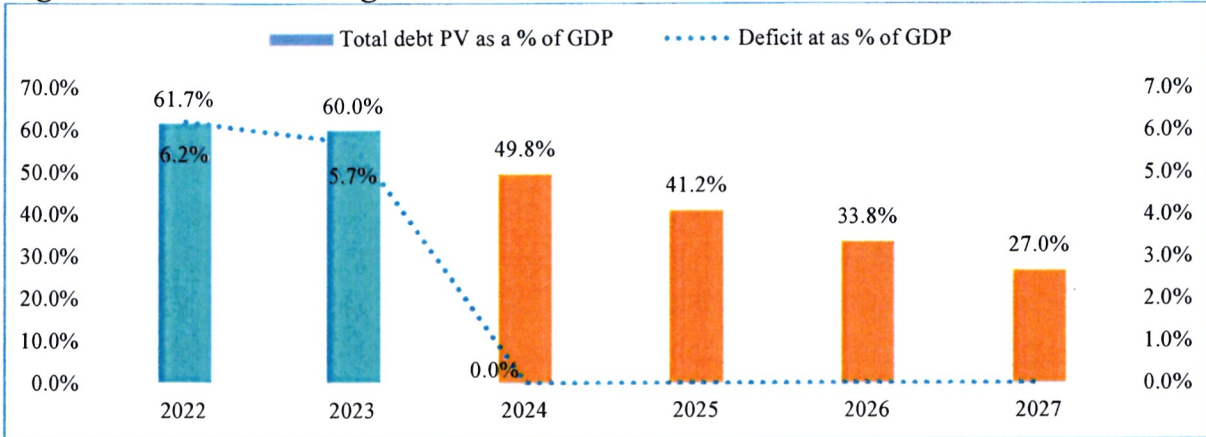
Optimization of public debt to a sustainable path	2023	2024	2025	2026	2027
PV of total public debt	9,301,925	9,985,145	10,686,646	11,428,3244	12,288,736
Reducing the Fiscal Deficit/increase	(772,633)	(482,628)	(171,783)	211,371	584,671
PV of total public debt to GDP (%)	60.0	57.8	55.9	54.0	52.5

Source: National Treasury

Scenario 2: Balanced Budget

Maintaining a zero deficit from the fiscal year 2023/24 leads to a drop in PV of debt to GDP from the 61.7 percent end June 2022 to 49.8 percent in June 2024 and thereafter to 27.0 percent in the medium term.

Figure 5: Balanced budget



Source: National Treasury

102. The nominal growth in debt under this scenario is only driven by the depreciation of the foreign exchange effect on external debt and disbursement of already existing external debt (**Figure 2 and Table 19**).

Table 19: Balanced Budget

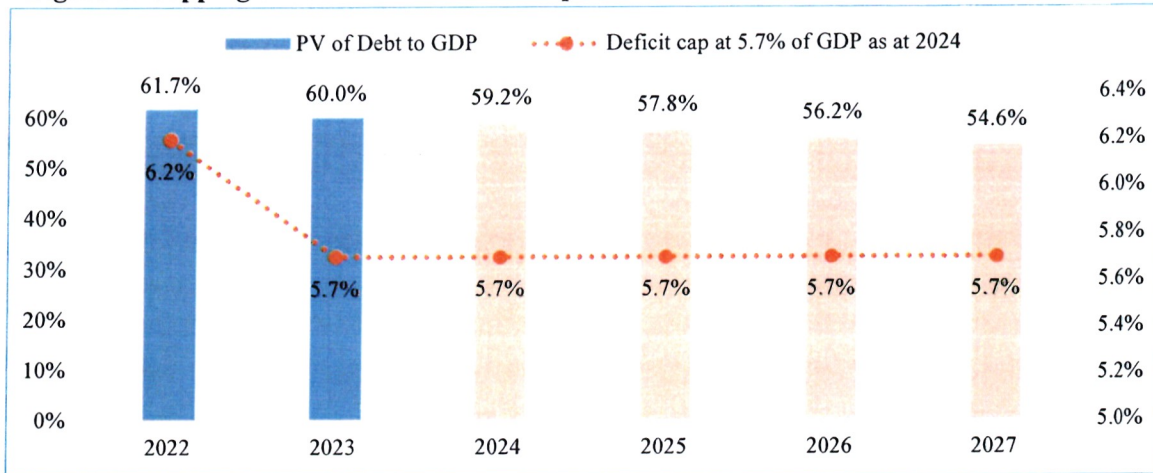
	2022	2023	2024	2025	2026	2027
Current Deficit Projection as a % of GDP	6.2%	5.7%	4.4%	3.9%	3.6%	3.6%
Deficit Capped at 0% from 2024	6.2%	5.7%	0%	0%	0%	0%
Fiscal Deficit	(747,825)	(833,809)	(720,250)	(711,522)	(734,640)	(826,051)
Resultant Public Debt Stock	8,588,281	9,422,089	8,701,839	7,990,317	7,255,677	6,429,626
Resultant Public Debt to GDP	61.7	60.0	49.8	41.2	33.8	27.0

Scenario 3: Capping the overall deficits at 5.7 percent of GDP in the medium term

103. If the fiscal deficit is capped at 5.7 percent of GDP, then the ratio of PV of debt to GDP declines to 60.0 percent in June 2023 and thereafter declines to 54.6 percent in June 2027. However, compared to the fiscal consolidation path, the PV of public debt GDP ratio in this scenario is elevated as shown in **Figure 6**.

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Figure 6: Capping the overall deficits at 5.7 percent of GDP in the medium term



Source: National Treasury

104. Table 20 shows the resulting debt stock when the fiscal deficit is capped at 5.7 percent in the medium term.

Table 20: Capping the overall deficits at 5.7 percent of GDP in the medium term

	2022	2023	2024	2025	2026	2027
Deficit Capped at 5.7% as at 2024	6.2%	5.7%	5.7%	5.7%	5.7%	5.7%
Resultant Public Debt Stock Kshs Mn	8,588,281	9,422,089	10,366,416	11,421,504	12,600,023	13,917,198
Resultant Public Debt to GDP	61.7	60.0	59.2	57.8	56.2	54.6

Source: National Treasury

105. The policy implications emanating from the foregoing analysing under different fiscal deficits scenarios/assumptions are that:

- a. although Kenya’s public debt continues to be sustainable, annual borrowing limits (fiscal deficits) must be reduced without any further delays to tame the rate of accumulation of public debt stock which is imperative to public debt sustainability.
- b. For Kenya to revert public debt stock and profile to sustainable path in the medium (by 2026) annual borrowing limits should be maintained below 4 percent of GDP. This implies given projected GDP of Ksh. 14, 521.6 billion and debt stock of Ks. 9,145.9 billion in December 2022, the recommended annual borrowing limit for 2023/24 should be Ksh. 580.9 billion. It should be noted that the 2023 BPS has recommended a net financing of Ksh. 720.1 billion (equivalent to 4.4 per cent of GDP eventually dropping to 3.6 percent in 2027) in line with the ongoing Kenya-

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IMF economic program. Ideally growth of public debt should be less than the growth of GDP for public debt to remain within sustainable thresholds. The projected GDP growth for 2023/24 is 6.1 per cent and therefore the fiscal consolidation allows for debt to revert to sustainable path.

- c. funding fiscal deficits and refinancing external debt should rely more on concessional funding, less costly commercial debt, combined with implementation of development policies geared towards improving Kenya's export sector;
- d. there is an urgent need to reduce over reliance on external debt markets and instead shift the focus to deepening and developing domestic debt market to assume more role in funding government borrowing needs, facilitate borrowing in local currency, attract more capital inflows to lower the local currency yields hence reducing borrowing costs and risks of public debt and by extension for the rest of the economy;
- e. to meet external liabilities as they fall due and at same time ensure debt projection is retained in a sustainable path, the Government will have to optimize use of concessional funding sources, lengthen the maturity profile of public debt through issuance of medium to long dated bonds and deepen domestic debt market to be able to finance a bigger portion of budget deficits.

106. Despite the optimal strategy leading to reduced overall debt to GDP, cost of debt, refinancing risk and interest rate risk exposure, its implementation will depend on prevailing market condition that will trail the current global economic uncertainties. The Government will maintain its presence in the international financial markets through refinancing the existing commercial maturities and may consider liability management operations ahead of scheduled maturities if the international debt capital market condition improves.

107. The policy implications derived from the technical analysis of costs and risks and debt sustainability are that: funding fiscal deficits and refinancing external debt has to be through concessional borrowing and less commercial debt, while implementing development policies geared towards improving Kenya's export sector. The Government will focus to deepening and developing domestic debt market to minimize reliance on external market.

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108. The Public Debt Management Office has proposed liability management operation measures to refinance and re-profile debt maturities subject to favorable market conditions.
109. To pursue debt sustainability, the Government will continue to lengthen the maturity profile of public debt through issuance of medium to long tenor bonds and deepen domestic debt market to be able to finance a higher proportion of budget deficits.
110. Opportunities for ‘debt for climate/nature swaps’ will be pursued under the proposed Government water dams investment/funding programme with eligible creditors. Additionally, there is need for restraint measures aimed at reducing the rate of accumulation of public debt stock as an imperative to public debt sustainability.
111. To better manage net sovereign cash flow in funding development programmes, to the extent possible, projects that generate local currency benefits should be funded through local currency while projects that promote economic sectors that have direct and indirect foreign currency income generation may be funded through external borrowing.

v. *Public Debt Management Framework Reforms*

112. Article 214 (2) of the Constitution of Kenya defines public debt. The Public Finance Management (PFM) Act, 2012 and attendant Regulations make reference to ‘National Debt’, ‘Public County Debt’ and ‘Public Debt which brings ambiguity with the Constitution of Kenya, hence weakening effective management of public debt. The National Treasury has proposed amendments to replace the terms National Debt and County Debt with Public Debt as enshrined in the Constitution of Kenya.
113. The National Treasury has proposed to Parliament amendments to the PFM (National Government) Regulations, 2015 to replace the current public debt limit of Ksh. 10 trillion with a debt anchor hinged on Gross Domestic Product as a desired level of public debt as a ratio of GDP. The rationale is to allow flexibility and recognition of the periodic impact of exogenous shocks on debt and GDP.

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Practicability of anchoring debt limit to National Gross Product will be assessed as a more precise measure of relative size of debt.

114. Additionally, the National Treasury has developed draft guidelines for the operationalization of the Sinking Fund in conformity with Regulation 206 (1) of the PFM (National Government) Regulations, 2015, to provide liquidity for timely funding for redemption of government securities, and payment of expenses, or incidental to, redemption of an issue of national government loans. The guidelines will be subjected to public participation process before submission to Parliament for consideration and approval.

115. The public debt risks and costs mitigation strategy is defined for each in the following matrix:

Table 21: Costs and risks mitigation strategies

General risk indicators	Risk Indicators	Risk management and mitigation strategies
Debt stock	Nominal debt as percent of GDP	<ul style="list-style-type: none">• Reduce the overall public expenditure and fiscal deficits in line with the consolidation plan recommended in the IMF program• Use concessional debt under external borrowing and long tenor debt under domestic
	Present value debt as percent of GDP	
Cost of debt	Interest payment as percent of GDP	<ul style="list-style-type: none">• The Government to maximize the use of concessional under external borrowing, rollover the existing commercial debt at lower or similar costs, and only access commercial borrowing as a last resort if concessional debt is completely unavailable• On the domestic debt implement reforms to improve national savings, deepen the domestic debt market and improve the domestic debt market infrastructure to attract capital and lower the yields of the domestic borrowing (details of domestic debt reforms below)
Refinancing risk	Debt maturing in 1yr and ATM of the total portfolio	<ul style="list-style-type: none">• Reduce gradually the stock of T-bills and replace with issuance of long tenor debt• Maximize the use of concessional external debt
Interest rate risk	Debt refixing in 1yr	<ul style="list-style-type: none">• Borrow fixed rate debt as a priority and only resort to variable debt as a last resort.• Develop capacity in the use of debt derivatives, develop a debt derivative utilization framework undertake liability management operations on regular basis to refinance near-term maturities
	Fixed rate debt percent of total	
	T-bills (percent of total)	
FX risk	FX debt as % of total	<ul style="list-style-type: none">• Borrow in local currency debt as a priority and diversify foreign currencies when borrowing• Develop capacity in the use of derivatives in debt swap arrangement, develop a derivative utilization framework and begin implementing derivatives in low quantity and increase the use gradually in the medium term

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vi. *Domestic Debt Market Development Strategy*

116. Development of the domestic debt market is a necessary catalyst for public debt sustainability. With domestic debt comprising half the proportion of public debt, it mitigates against foreign exchange risk exposure and cushions the public debt against the downside risks of the global market volatilities.

117. A number of strategic reforms aimed at increasing domestic market efficiency are operational whereas others are at different stages of implementation. These include:

- i. CBK implementation of the Internet Banking (IB) platform for institutional investors has increased operational efficiency in the domestic debt market with investors provided with access to services such as bidding, receipt of auction results for Government securities and viewing of portfolio positions. The launch of the Treasury mobile Direct (TMD) for retail investors has enhanced financial inclusion by providing easier access and uptake of government securities.
- ii. Deployment of a modern Central Securities Depository (CSD) system that will automate Government securities processes at both primary and secondary markets is at advanced level. The CSD system is envisaged to promote market deepening, improve market liquidity distribution, enhance operational efficiency and support capital market growth. It will also improve access to the Kenyan capital market by both domestic and foreign investors and is envisioned to position Kenya as the preferred financial hub in the region.
- iii. M-Akiba bond focuses on promoting financial inclusion and enhancing a savings culture to the Kenyan populace. Re-engineering of M-Akiba will support Government initiative to provide more financial products to retail investors at the bottom of the pyramid.
- iv. Enhance investor education and outreach to promote awareness in government securities and grow the retail base to boost a savings culture, promote financial inclusion and broadening the investor base.

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- v. Strengthen secondary market liquidity by reducing bond fragmentation through issuance of benchmark bonds and maintaining a well-priced stable yield curve.
- vi. Enhancement of secondary market efficiency through the establishment of the Over-The-Counter (OTC) trading platform to complement the NSE to improve liquidity and price discovery.
- vii. Enhance sustained market engagement and stakeholder consultations to improve coordination in debt management and market development initiatives to support the growth of the capital market.
- viii. The Government is undertaking liability management operations through switch auctions as part of a market-based debt re-profiling approach with the objective to smoothen the domestic debt maturity profile, manage refinancing risks and enhance market development.

vii. *Recommendations on intergenerational debt equity*

118. The PDMO will regularly advise borrowing proposals in regards to promoting sharing of benefits and costs of public debt between current and future generations. In particular, repayment for debts for projects requiring low value investments shall be structured to have shorter repayment periods to minimize of carry costs of debt associated with long grace and repayment periods which increase the overall debt burden on the future generations.

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IX. MTDS IMPLEMENTATION, MONITORING AND EVALUATION

i. Domestic and external borrowing Plan

119. The Government through the annual borrowing plan will implement both the debt management strategy and the optimal fiscal funding strategy
120. The PDMO will prepare domestic and external borrowing plan comprising of projected borrowing and settlement of maturities within the 2023/24 financial year.
121. The external borrowing plan will comprise of expected disbursements by creditor, the disbursement period and currency of disbursement within the financial year as per 2023 MTDS.
122. The borrowing plan may be revised to include liability management operations to manage debt stock risks when the market conditions allow.

ii. Review of the Borrowing Plan

123. Review of the outcome of implementation of the borrowing plan will be done on weekly basis (internal reporting) and on monthly quarterly basis to provide data for strategy evaluation and for public information.
124. The progress of implementation of the 2023 MTDS will be monitored and reported through monthly and annual debt reports. Annual Debt Management Report is regularly prepared and published after end of each financial year.

iii. Monitoring and Review of Cost and Risk Indicator Outturn of the Strategy

125. The actual costs and risks characteristics of debt will be assessed against sustainability threshold indicators and any deviations will be used to inform strategy review in the next MTDS cycle.
126. The costs and risks outcome characteristics in the 2023 MTDS are evaluated semi-annually and annually against sustainability threshold indicators to determine deviations and suggest mitigation measures. Table 22 outlines the costs and risks parameters to be evaluated.

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127. The evolving public debt structure and fiscal deficit will inform review of strategy for management of costs and risks of the public debt going forward.

128. Likewise, guaranteed State corporations' debt, fiscal commitments and contingent liabilities will be tracked and assessed against overall sustainability levels.

Table 22: Template for Monitoring and Evaluation of Cost and Risk Indicators Under Alternative Strategies

Risk Indicators		Baseline December 2022	MTDS 2023	Actual*	Deviation	Remarks
Nominal debt as % of GDP						
Present value debt as % of GDP						
Interest payment as % of GDP						
Implied interest rate (%)						
Refinancing risk	Debt maturing in 1yr (% of total)					
	Debt maturing in 1yr (% of GDP)					
	ATM External Portfolio (years)					
	ATM Domestic Portfolio (years)					
	ATM Total Portfolio (years)					
Interest rate risk	ATR (years)					
	Debt refixing in 1yr (% of total)					
	Fixed rate debt (% of total)					
FX risk	FX debt as % of total					
*December 2022 for Semi-Annual and June 2023 for Annual assessment						

iv. Dissemination

129. To uphold commitment to debt transparency principles and ensure public access to information on public debt, the National Treasury will publish and upload the 2023 MTDS on the National Treasury's website upon approval by Parliament.

County Borrowing

130. According to Article 212 of the constitution of Kenya, County Governments are allowed to borrow only if approved by the County Assembly and guaranteed by the National Assembly as stipulated in section 58 of the PFM Act, 2012.

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131. County borrowing should conform to the fiscal responsibility principles as prescribed in the PFM Act, 2012. Borrowing by County Government should be informed by County Medium Term Debt Strategy. As the National Treasury and Economic Planning prepares the MTDS that takes into account public debt and borrowing by the national government, respective county governments are required by law to do the same..

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X. ANNEXES

ANNEX I: Publication of the Debt Management Strategy

Section 33 of the Public Finance Management Act, 2012 provides:

- 1) On or before 15th February in each year, the Cabinet Secretary shall submit to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability in respect of loans and guarantees and its plans for dealing with those liabilities.
- 2) The Cabinet Secretary shall ensure that the medium term debt management strategy is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement.
- 3) The Cabinet Secretary shall include in the statement the following information:-
 - a) The total stock of debt as at the date of the statement;
 - b) The sources of loans made to the national government and the nature of guarantees given by the national government;
 - c) The principal risks associated with those loans and guarantees;
 - d) The assumptions underlying the debt management strategy; and
 - e) An analysis of the sustainability of the amount of debt, both actual and potential.
- 4) Within fourteen days after the debt strategy paper is submitted to Parliament under this section, the Cabinet Secretary shall submit the statement to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council, publish, and publicize the statement.
- 5) PFM Act 2012, 'General responsibilities of the National Treasury' Section 12. Provides that: (1) Subject to the Constitution and this Act, the National Treasury shall— (b) manage the level and composition of national public debt, national guarantees and other financial obligations of national government within the framework of this Act and develop a framework for sustainable debt control;

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ANNEX II: MTDS Implementation Work Plan

NO.	OUTPUT	ACTIVITY	TIME FRAME	ACTION BY	DATA/INFORMATION SOURCE
1.	MTDS 2023	Review of 2021 & 2022 MTDS, preparation and submission of 2023 to Parliament MTDS	January to February 2023	PDMO PS/NT CS/NT&P Cabinet Parliament	BPS 2023, BROP 2022 CS DRMS CBK MTDS 2021& 2022
2.	Dissemination of the MTDS 2023 to the National Treasury Departments	Circulation of printed copies, clear dissemination of the information to implementing departments and training counties	April -June 2023	PDMO CBK	MTDS 2023
3.	CFS (Debt) Budget estimates	Prepare the debt service projections and CFS budget estimates	Annually as per Budget Calendar and during revisions	PDMO BD MFAD CBK PS/NT CS/NT&P Cabinet Parliament	PDMO
4.	Monitoring reports and briefs	Access of domestic and external borrowing and repayment data	Weekly	PDMO CBK	RMD CBK MFAD
5.	Quarterly MTDS monitoring and evaluation report	Technical Fora and peer review of implementation of the MTDS	Quarterly	PDMO MFAD CBK CoG Peer countries	BPS 2023, BROP 2022 CS DRMS CBK MTDS 2022, 2023
6.	Monthly debt management reports	Access of domestic and external borrowing and repayment data	Monthly	PDMO CBK	RMD CBK FMA/NT
7.	MTDS 2022 half year performance review	Undertake half year review of performance of the 2022 MTDS	Every six months after effective date of the MTDS	PDMO CBK MFAD	RMD DRS CBK MFAD
8.	FCCL Report	Undertake analysis of FCCL and FCCL assessment	Annually	PDMO PPP Unit MFAD CBK	PPP Unit
9.	Review of issuance calendar	Stakeholders Forums to review issuance calendar	Quarterly	PDMO AGD CBK MFAD Market Participants PS/NT CS/NT&P	PDMO CBK AGD Market Participants

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REPUBLIC OF KENYA

Annual Report

to

Parliament

on the

State of National Security


By

H.E. Hon. William Samoei Ruto, PhD., C.G.H.

President of the Republic of Kenya and
Commander-in-Chief of the Defence Forces

*(Submitted pursuant to Article 240 (7) of the Constitution 2010 and
the National Security Council Act, Section 16 (1))*

NOVEMBER, 2023

 THE NATIONAL ASSEMBLY PRINTED BY THE GOVERNMENT PRINTER, NAIROBI PAPERS LAID	
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TABLED BY:	The Deputy Majority Leader Hon. Owen Baya, CBS, MP
CLERK-AT-THE-TABLE:	Benson Inzofu

Annual Report
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NOVEMBER, 2023

FOREWORD

Article 240(7) of the Constitution and the National Security Council Act, 2012, Section 16, requires the President of the Republic of Kenya to report annually to Parliament on the state of national security.

Further, the Constitution of Kenya, 2010 under Article 21 confers upon the State the duty to observe, respect, protect, promote and fulfill the fundamental rights and freedoms of all people living in Kenya. This responsibility stands at the core of the Government's very existence and its obligations under domestic and international law. The Government has thus put in place measures to ensure citizens have the enabling environment to fully enjoy these fundamental rights and freedoms. This in turn guarantees continuity of our way of life by our citizens and foreign nationals lawfully resident in Kenya.

Our Constitution aptly describes provision of national security as encompassing protection against internal and external threats to the nation's territorial integrity and sovereignty, its people, their rights, freedoms, property, peace, stability and prosperity, and other national interests. The import of this provision in essence encapsulates human security. This report therefore adopts the broad conceptualization of national security that encompasses human security.

This report that covers the period between May, 2022 and August, 2023 and is thematically organized around the threats to Kenya's six national interests. These are: security of the citizenry, territorial integrity and sovereignty, economic growth and prosperity, constitutionalism and rule of law, national values and good governance, environmental sustainability and climate action as well as regional and global collaboration and competition.

Additionally, national security addresses economic, environmental, food, health, political, physical and community needs of citizens. The report hence addresses itself to the broader assessment of security at national, regional and on the global arena as well as spelling out its effects on the local security situation, together with internal socio-economic dynamics.

To mitigate against these threats, my Government has prioritized six (6) broad socio-economic interventions between 2022 and 2027 in line with the Bottom-up Economic Transformation Agenda (BETA). These include Agriculture, Micro-Small and Medium Enterprises, Housing and Settlement, Healthcare, Digital and Creative Economy, Environment and Climate Change.

For the security sector that anchors the drivers for the delivery of the aforesaid BETA programs, the priority areas are: security sector institutional reforms; security sector modernization program; upgrade of systems for the delivery of citizen services; improvement and streamlining of border control and transformation of Kenya Prisons Enterprises. Completion of these efforts among others will offer the much-needed paradigm shift in the delivery of Government services.

It is against the backdrop of the foregoing, that I submit this report.

His Excellency Hon. William Ruto, PhD., C.G.H.

President of the Republic of Kenya and
Commander-in-Chief of the Defence Forces

EXECUTIVE SUMMARY

The provision of a safe and sustainably secure environment that guarantees the people freedom from fear and want is the fundamental responsibility of Government. The State is hence constitutionally obligated to ensure that citizens and all lawful alien residents are accorded an environment to enjoy their civil rights and responsibilities. In so doing, the Government assures its people of their physical, economic, environmental, food, health, political and societal security.

Accordingly, the **Kenya Kwanza Government**, by following the Bottom-up Economic Transformation Agenda (2022 - 2027) studiously follows these Constitutional imperatives as the fundamental guarantors to enable citizens the right to enjoy their freedoms and create wealth that would provide higher quality of life for all Kenyans.

During the period under review, the country's security situation was largely calm, though impacted by the electioneering campaigns during the 2022 General Elections. This was further compounded by the unsettled regional and international socio-economic and political dynamics and the devastating drought that affected the entire Horn of Africa. Whilst the general elections were highly competitive, the independent institutions handled the exercise responsibly, hence the country generally remained peaceful, during and after the elections. The elections were also rated by a wide range of local and international observers as free, fair and reflective of the will of the people.

The severe drought that the Government declared a national disaster, impacted on the economy and the country's food and nutritional security which remained unstable in parts of the Country during the reporting period. The food insecurity was equally compounded by the high cost of farm inputs, poor post-harvest management and unsatisfactory

performance of the Government's irrigation projects. In response, the Government distributed food and non-food assistance to over 4.5 million Kenyans as famine relief in the affected counties.

The country also witnessed heightened competitive politics during the August 2022 General Elections. The political environment was characterized by intense political activity, re-emergence of organized criminal gangs in parts of the country, divisive rhetoric and inflammatory statements which heightened tensions in parts of the country. However, the whole-of-Government approach towards public safety and security as well as the political maturity of the people ensured the country remained peaceful.

During the period under review, there was an increase in incidences of intercommunal tensions and episodic violence especially in the North Rift, Upper Eastern Sub-Regions and North- Eastern Regions. The violence was because of competition for scarce resources by pastoralist communities, unresolved county boundaries and general banditry. Proliferation of Small Arms and Light Weapons (SALW) and commercialization of cattle rustling compounded these conflicts, prompting the Government to launch the multi-agency "*Operation Maliza Uhalifu*" in North Rift Sub-Region. In this instance, government has deployed an integrated and multi-dimensional approach to finding longer term and sustainable means to ending the endemic intercommunal conflicts in the sub-region and the wider Northern Kenya. Initial results from the operation indicate that the exercise is beginning to bear promising results.

At the regional level, several nations in the Horn of Africa continued to witness political instability, intra-state conflicts as well as terrorist activities. Consequently, the country continued to suffer from terrorist infiltration and cross border bandit incursions as well as other forms of

transnational crimes such as drug and people trafficking, contraband smuggling and proliferation of small arms and light weapons. The perpetrators of these crimes exploited the expansive and porous borders to advance their nefarious trades. However, Government's intervention on a multi-agency framework as well as the whole of nation approach to provision of national security as well as co-operation with the neighbouring countries have helped to stem these threats.

On the global front, the security environment continued to witness a variety of existential threats to States and populations. The threats were experienced in a world that was recovering from the aftershocks of Covid-19 pandemic and the effects of the war in Ukraine that continues to strain relations between Western European countries and its allies on the one hand, and Russia and its allies on the other hand, which heightening tensions with negative ramifications on the global economy. Other threats included the negative impact of great power competition, negative effects of climate change; state fragility and unconstitutional changes to government in parts of Africa, and multifarious transnational crimes such as drug and people trafficking as well as cybercrime, which continued to increase hence threatening the integrity of the State.

The challenges notwithstanding, the country's economy registered a modest growth of 4.8 percent. The recovery was driven by broad-based increases in productive sectors as well as sound Government policies.

The Government commits to progressively review legal, policy and institutional frameworks to enhance responsiveness to security challenges that would hence provide a more conducive environment to the realisation of our set socio-economic transformation agenda that we have set for our country.

ACRONYMS AND ABBREVIATIONS

AS	Al Shabaab
ATMIS	African Union Transition Mission in Somalia
BETA	Bottom-up Economic and Transformation Agenda
CAPS	Country Action Plans
CEFS	Country Engagement Forums
ISIS	Islamic State in Syria and Iraq
JOC	Joint Operations Centre
MANPADS	Man Portable Air Defence Systems
OAB	Operation Amani Boni
SALW	Small Arms and Light Weapons

TABLE OF CONTENTS

FOREWORD.....	iii
EXECUTIVE SUMMARY	v
ACRONYMS AND ABBREVIATIONS	viii
CHAPTER ONE: THREATS TO NATIONAL SECURITY	1
1.1. Security of the Citizenry, Territorial Integrity and Sovereignty	1
1.1.1 General Crime.....	1
1.1.2 Organized Criminal Groups.....	3
1.1.3 Sexual and Gender-Based Violence	4
1.1.4 Road Traffic Accidents.....	5
1.1.5 Drugs and Substance Abuse	6
1.1.6 Illicit brews	8
1.1.7 Terrorism and Violent Extremism.....	8
1.1.7.1 Religious Extremism	12
1.1.8 Transnational Organized Crime.....	13
1.1.8.1 Money Laundering and the Financing of Terrorism.....	13
1.1.8.2 Human Trafficking	15
1.1.8.3 Protection of Endangered Forest Species	15
1.1.8.4 Wildlife Security.....	17
1.1.9 Cyber Security	19
1.1.10 Inter-communal Conflicts.....	20
1.1.10.1 Cattle Rustling.....	20
1.1.10.2 Land and Boundary Disputes.....	22
1.1.11 Illicit Small Arms and Light Weapons	23
1.1.12 Border Security.....	24
1.1.13 Security of Critical National Information Infrastructure	25
1.1.14 Pandemics	26
1.1.15 Threats to Civil Aviation Security.....	27
1.1.16 Threats to Maritime Security.....	28
1.2. Economic Growth and Prosperity.....	29
1.2.1 Unemployment.....	29
1.2.2 Energy Security.....	31
1.2.2.1 Liquefied gas and petroleum products.....	31
1.2.3 Trade in Fake and Counterfeit products	32

1.2.4 Land fraud	34
1.2.5 Illegal Mining	35
1.3. Constitutionalism and Rule of Law	36
1.3.1 Political Security	36
1.3.1.1 Challenges during the Electioneering Period	37
1.3.1.2 Incidents of Political Insecurity	38
1.3.2 Devolution	39
1.4. National Values and Good Governance	40
1.4.1 Corruption	40
1.4.2 Insecurity in Institutions of Learning.....	42
1.5. Environmental Sustainability and Climate Action ..	43
1.5.1 Food Insecurity	44
1.5.2 Environmental Security.....	47
1.5.2.1 Forest and National Parks Fires	48
1.5.2.2 Illegal Logging	49
1.5.3 Disasters.....	50
1.5.3.1 Drought	50
1.6 Regional and Global collaboration and Competition ..	53
1.6.1 Influx of Illegal Aliens and Undocumented Migrants.....	54
1.6.2 Refugees	54
1.6.3 Peacekeeping Operations.....	55
1.6.4 Climate Action Championing	57
1.6.5 Reforming International Financial Institutions	57
CHAPTER TWO: CROSS-CUTTING INITIATIVES AND OPPORTUNITIES	59
2.1 Security Interventions	59
2.1.1 Security Sector Reforms and modernization.....	59
2.1.2 Multi-Agency Initiatives.....	60
2.1.2.1 Operation Maliza Uhalifu	60
2.1.2.2 Operation Amani Boni (OAB).....	61
2.1.3 Welfare of Security Officers.....	62
2.1.3.1 Improvement of Terms and Conditions of Service for Police, Prisons and NYS Personnel.	62
CHAPTER THREE: CONCLUSION	64

CHAPTER ONE: THREATS TO NATIONAL SECURITY

The state of national security in Kenya remains stable, notwithstanding the known threats to national interests. The threats to national interests within the reporting period include general crime, organized criminal gangs, sexual and gender-based violence, road traffic accidents, illicit brews and substance abuse, terrorism, inter-communal conflicts, corruption, transnational crimes such as trade in fake and counterfeit products, proliferation of illicit small arms and light weapons, drug and human trafficking, money laundering and cybercrime.

1.1. Security of the Citizenry, Territorial Integrity and Sovereignty

Public safety and security is a constitutional imperative for the government while territorial integrity ensures that all domains of Kenya's territory are secured against threats.

The government ensures welfare of the citizens and well-being of the nation by safeguarding the territorial integrity and exercising sovereignty. The threats to security of the citizenry, territorial integrity and sovereignty are interlinked, transnational and multifaceted.

Within the reporting, the following were the recorded threats to national security and the responses made thereof:

1.1.1 General Crime

Crime and criminal activities pose a threat to people's welfare and the well-being of the Nation as they create fear among the people and impede the socio-economic and political development of the nation. During the period under review, the country witnessed crimes ranging from homicides, sexual-based violence, and murder, among others.

A total of **100,651** cases were reported during the period under review compared to **86,271** cases which occurred between 1st September, 2021 and 31st August, 2022. This translates to an increase of **14,380** cases which is equivalent to **16.7%**. It is important to underscore here that, the largest number of those arrested committing crimes are in the age group of between **30 – 44** years of age, which therefore calls for targeted interventions to address these concerns.

During the period between 1st September, 2022 and 31st August, 2023 there was recorded increase in **48** offences, among them; general stealing by **4,010** (32.9%), other Penal Code offences by **2,300** (24.3%), theft of stock **552** (23.2%), possession of dangerous drugs by **1,779** (33.6%) and robbery with violence by **529** (23.4%). Decreases were reported in **17** offences notably: murder **111** cases (5.7%), creating disturbance **114** (2%) and arson **55** (7.9%).

Nairobi County recorded the highest number of cases which stood at **10,078** this can be attributed to its high population as compared to other Counties. General stealing recording the highest number of cases in County with **2,129** reported.

Kiambu County was second with **9,242** cases while Meru County was third with **6,278** cases. Nakuru and Machakos were fourth and fifth with **4,850** and **4,516** cases respectively. **Mandera County** recorded the least cases of crimes at **323**.

Most of the counties recorded an increase in crime as compared to same period between 1st September, 2021 and 31st August, 2022 with Nairobi County recording the highest increase of **1,944** cases or 22.4%.

The increase can be attributed to the harsh economic conditions that prevailed worldwide stoked by shutdowns in economic activity and supply chains disruptions

occasioned by COVID-19 pandemic and the war in Ukraine among other factors. Further, the country and indeed the region faced unprecedented droughts that decimated crops and led to losses of livestock thus compromising food security, especially in arid and semi-arid lands. It was during the same period the country was conducting general elections, a period which has always seen heightened political activity and a rise in crime rates due to the strains to the available public safety and security resources.

To mitigate against crime, the Government has put in measures that include preventative and protective public safety and security measures, enhanced multi-agency co-operation amongst national security agencies as well as deepening whole-of nation approaches to national security in general. One of the notable initiatives launched during the period under review is the process to examine the appropriate terms and conditions of service for officers within the National Police Service, the Kenya Prisons Service and the National Youth Service whose recommendations are expected to outline the measures that would help in uplifting their morale for better service delivery.

1.1.2 Organized Criminal Groups

Organized criminal gangs continue to pose a threat to Kenya's national security, especially in the light of the fact that they are growing in number and are mostly activated during general elections by candidates mobilizing votes. Among the known groups that were active during the period under review include *Kamagira, Wakali Wao, Confirm, Panga Boys, MRC, Warsame, Dambel, 26 Sheba, Kayole, Jamaican, Mbogi la Islam, 3 Phase, Peaceland, Geta*, among others. Efforts have been stepped up to deal with these gangs that include the following.

During the period under review, a total of **1,113** suspect members of these gangs were arrested and arraigned in

Court. The highest number of suspects arrested was from the Kamagira gang which accounted for **587** arrests followed by Confirm which stood at **295** arrests.

The youth are the most vulnerable group of people to join these groups with the risk factors being unemployment, societal decadence, and political mobilization as well as drug and substance abuse.

To address this menace the Government has deployed the following measures:

- a) established multi-agency operations aimed at dismantling these criminal gangs;
- b) Enhanced community policing;
- c) strengthened youth outreach programmes to address youth susceptibility to crime; and
- d) Implemented socio-economic empowerment programs including the Hustler Fund among other empowerment programs.

1.1.3 Sexual and Gender-Based Violence

Sexual and Gender-Based Violence (SGBV) is one of the most serious, and life-threatening forms of GBV. Vulnerable population to SGBV include marginalized groups such as those living in slum areas, out-of-school youths especially single mothers. Gender-based violence still presents a challenge as many offenses remain unreported due to the stigma associated with being a victim of these crimes. Further, perpetrators in most cases attack people known to them and with whom they share a relationship of trust.

During the period under review, a total of **7,062** cases were reported out of which, **6,796 (96%)** targeted females with most of the victims being between the ages of **15** and **17** years. The perpetrators of these crimes are between the ages

of **20** and **24** years which accounted for **27%** of all the accused persons. It is imperative to note that, out of these cases, defilement accounted for **5323** cases.

This trend can be attributed to retrogressive cultural and religious beliefs, poverty and unemployment, drug and substance abuse, and low levels of awareness among the affected populations on how to handle SGBV cases.

To address the threat of SGBV, the Government has:

- a) established a Gender and Children's Protection Directorate;
- b) directed the NPS to establish in all Police Divisions across the country to establish a Gender and Children Desk, with specialist Officers trained and dedicated to handling these sensitive cases;
- c) enhanced community policing at the local level;
- d) established empowerment programs for vulnerable groups; and
- e) enhanced civic education programs.

1.1.4 Road Traffic Accidents

The country witnessed several road accidents which have led to loss of life and injuries to thousands of people annually. The primary causes of these road traffic accidents included: speeding, overloading, drunk driving and fatigue, wrong use of the road by pedestrians, poor road infrastructure, and low levels of appreciation of road safety by citizens. This is aggravated by rising levels of lawlessness amongst *matatu* and *Boda Boda* operators . During the period under review, a total of **9736** accident cases were reported affecting a total of **16,499** persons. Under the category of Serious Accidents **4,834** or **50%** cases were recorded, which was the highest number. Fatal accidents cases followed closely with **3,784**

cases or **39%** while Slight Accident cases reported the least with **118** cases or **11%**.

To deal with road carnage the Government has put in measures to:

- a) Ensure strict enforcement of the law under the Traffic Act, 2018 and the National Transport and Safety Authority Act, 2012 and expedited the prosecution of traffic offenders;
- b) Intensify road safety campaigns.

1.1.5 Drugs and Substance Abuse

Trends in abuse of drugs and psychotropic substance locally, which have international connections continue to increase due to ease of global communications that have allowed drug traffickers to operate with equal ease. The easy availability of all manner of drugs has continued to have a negative impact on the health, social, and economic well-being of users and their families which has resulted in a heavy financial burden to the health sector. During the period between 1st September, 2022 to 31st August, 2023 a total of **9,369** (**8,667** Kenyans and **10** foreigners) were arrested for drug-related offences. The most prevalent drugs have been; *Cannabis sativa*, heroin, cocaine, morphine, Cozepam tabs, MDMA, Diazepam, and Rohypnol. Corruption within the criminal justice system and the vulnerability of some sections of society to drug abuse has aggravated the menace.

Regionally, Central Region had the highest number of arrests with **4,093** followed by Rift Valley Region with **2,768** arrests while North Eastern Region had the least number of arrests with **76**. Kiambu County had the highest number of arrests with 1,601 followed by Kirinyaga County with **1,143** arrests while Garissa County had the lowest number of arrests with 8. The most prevalent crime was possession of bhang.

Of all drug cases reported, **23** are Pending Under Investigations, **92** Pending Arrests of known offenders, **8,235** Pending Before Court while 1063 have been finalized. **(See the appendix 1)**

During the period under review the following drugs were netted in the country: *Cannabis sativa*, heroin, cocaine, morphine, and Cozepam tabs, MDMA, Diazepam and Rohypnol.

To mitigate against the menace, the Government has stepped up:

- a) sustained intelligence-led security operations targeting narco-trafficking networks in the country;
- b) arrest and prosecution of key dealers and couriers; and
- c) liaison and sharing of intelligence with international partners.

To sustain the fight against this threat, the Government intends to institute the following measures:

- a) Continuous capacity building for law enforcement and judicial system personnel to enhance investigation and prosecution of drug-related cases;
- b) Ensure strict enforcement of Narcotics and Psychotropic Substances (Control) Amendment Act, 2020;
- c) Strengthen collaboration with international partners in combating the vice;
- d) Enhance legal, institutional, and policy frameworks; and
- e) Enhance intelligence collection to curtail the efforts of drug syndicates.

1.1.6 Illicit brews

The manufacture and consumption of illicit brews continues to pose security challenges to a section of the population. It has continued to affect the health of Kenyans and their productivity. Many Youths have become vulnerable to the consumption of illicit brews due to unemployment and social decadence. The most widespread illicit brews include *Chang'aa*, *Muratina*, *Karubu*, *Busaa*, and adulterated second-generation drinks.

In efforts to curb the menace, the Government has enhanced raids on known and suspected illicit brew dens. Further, the Government has sustained a Rapid Results Initiatives (RRI) throughout the country to curb the manufacture and consumption of illicit brews.

Going forward the National Government together with County Governments will;

- a) review legal and policy frameworks to include stringent penalties;
- b) collaborate jointly in establishing rehabilitation centres; and
- c) enhance capacity building of relevant agencies on modern anti-counterfeit measures.

1.1.7 Terrorism and Violent Extremism

Terrorism remains one of the key existential threats to our country. Al-Shabaab (AS) and Islamic State (Daesh) affiliated groups and individuals operating in Somalia and beyond continue to pose a threat to Kenya's national security. Terrorists exploit Kenya's expanded human rights and democratic space as well as technological capabilities to radicalize, indoctrinate and recruit unsuspecting followers, as well as propagate their propaganda, plan and execute attacks. Radicalization and recruitment largely occur online

targeting vulnerable groups, especially the unemployed and disillusioned youth and in the urban centres aided by easy accessibility of cyber capabilities in these areas.

Terrorist groups have however widened their scope in the region, including DR Congo and Mozambique. Notably, Kenyans have been identified having travelled to the Democratic Republic of Congo (DRC), Somalia and Mozambique to join the Daesh affiliated terrorist groups. Despite the persisting terrorist threat, sustained counter-terrorism operations, both within the country and in Somalia with AMISOM and ATMIS, have helped to significantly degrade and reduce their ability to recruit, operate, and carry out attacks in the Country. However, notwithstanding these valiant efforts by national security agencies, government exhorts all nationals to continue exercising utmost vigilance.

During the period under review, most terror attacks were masterminded by AS, and targeted mainly security agencies, government officials, construction workers, communication masts and non-local communities. These attacks were witnessed mostly in the North-Eastern Region and Lamu County in which terrorist groups claimed responsibility and alleging that the attacks were in retaliation for Kenyan troops being part of African Union Transition Mission in Somalia (ATMIS). A total of **82** terror related incidences were reported countrywide, out of the recorded incidences **46** were in Mandera, while Wajir, Garissa and Lamu Counties recorded **12** incidences each. Most of these terror attacks were active shooter incidences accounting for **57** out of **82**, whereas IED attacks accounted for **15** incidents and 9 were kidnapping for ransom incidents.

Table 3: Terror Attacks for the Year 1st September, 2022 to 31st August, 2023

BREAKDOWN OF INCIDENCES PER COUNTY 1ST SEPTEMBER 2022 TO 31ST AUGUST 2023					
	MANDERA	WAJIR	GARISSA	LAMU	TOTAL
ACTIVE SHOOTER	34	8	7	8	57
IED	6	1	5	3	15
KIDNAPPING	6	3	0	0	9
ATTEMPTS	0	0	0	1	1
TOTAL	46	12	12	12	82

During the period under review, a total of **54** (**26** civilians and **28** Police officers) fatalities were registered, whereas **78** (**51** Police Officers and **27** civilians) sustained injuries from the attacks. A total of **39** terror suspects were arrested and charged before court of law while two were fatally injured.

Table 4: Breakdown of category of victims per county between 1st September, 2022 to 31st August, 2023

BREAKDOWN OF CATEGORY OF VICTIMS PER COUNTY 1ST SEPTEMBER 2022 TO 31ST AUGUST 2023										
	MANDERA		WAJIR		GARISSA		LAMU		TOTAL	
	OFFICER	CIVILIAN	OFFICER	CIVILIAN	OFFICER	CIVILIAN	OFFICER	CIVILIAN	OFFICER	CIVILIAN
KILLED	11	7	0	3	7	6	10	10	28	26
INJURED	39	14	0	1	12	5	0	7	51	27
TOTAL	50	21	0	4	19	11	10	17	79	53

Overall, the effects of terrorist attacks on our way of life include loss of lives and destruction of property, loss of livelihoods and a host of other negative socio- economic consequences such as crippling the tourism sector, and damage to critical national infrastructure such as communication masts, public transportation facilities and social services such as schools and health facilities.

The Government has hence instituted the following measures:

- a) Sustained monitoring of social media platforms mostly exploited by terror operatives to coordinate their activities;
- b) Successfully deployed multi-agency approach to degrade and respond to the terrorist recruitment, facilitation and financing networks;
- c) Arrests and prosecution of terrorist operatives;
- d) Deepened collaboration with local stakeholders as well as regional and international partners;
- e) Established a fusion system for monitoring and evaluation of reporting of County Action Plans (CAPs) and trained County Engagement Forum (CEF) Members on how to use the system;
- f) Undertook training, sensitization and capacity building of key stakeholders;
- g) Conducted evidence-based research and prepared analytical reports to guide CT/CVE interventions;
- h) Developed a model legislation to assist counties to mainstream prevention of violent extremism (PVE) in their activities and supported Nairobi, Laikipia and Nyeri to develop PVE legislation;
- i) Vetted and certified PCVE actors in line with section 40 (c) of Prevention of Terrorism Act 2012;
- j) Established a disengagement case management system on CT/PCVE;
- k) Trained reformed terrorist operatives including returnees and their collaborators/families on life-skills, identified and engaged brave voices from the client pool; and
- l) Established specialized CT courts.

Despite these efforts in preventing and countering terrorism, challenges persist including inadequate manning of porous sections of the borders, unwillingness by sections of the public to share information, exploitation of socio-economic vulnerability in the society and politicization of CVE efforts in certain communities.

Going forward the Government will:

- a) Review legal and policy frameworks to address identified gaps;
- b) Enhance capacity of the criminal justice system to effectively address cases related to terrorism financing;
- c) Enhance community engagement and international collaboration by integrating victim and survivor support programs as part of community resilience which includes creating social and livelihood support;
- d) Mainstreaming PCVE in the school curriculum from primary to tertiary levels and further strengthening ongoing engagement of education sector stakeholders; and
- e) Enhance research capabilities and threat assessment methodologies.

1.1.7.1 Religious Extremism

During the period under review the country witnessed resurgence in religious extremism with some religious groups practicing cultic practices. The most extreme instance was the case of a religious cult in Shakahola area within Kilifi County, whose extremist teachings advocated for starvation to death that at the time of Government intervention had resulted to deaths of the following persons.

Table 5: Shakahola Data

SHAKAHOLA RELIGIOUS EXTREMISM STATUS				
Bodies Exhumed	Persons Arrested	Persons Reported Missing	Families Aailed for DNA Sampling	No. of DNA Samples from Families
428	94	496	266	283

The chief perpetrator of the cultic practices, **Paul Nthenge Mackenzie**, has since been arrested and arraigned in Court together with his key lieutenants involved in the gruesome practices. A Commission of Enquiry has been set up headed by a Judge of the Court of Appeal to enquire into all the circumstances that permitted the rise of such cultic practices with a view to recommending the appropriate actions.

1.1.8 Transnational Organized Crime

1.1.8.1 Money Laundering and the Financing of Terrorism

Kenya's geographical positioning and regional economic leadership constantly exposes it to threats of illicit financial flows and proceeds of crime emanating domestically and within the region from transnational organized criminal groups. To demonstrate our commitment to the global efforts to tighten anti-money laundering and the financing of terrorism framework, Kenya subjected itself to the Peer Review Process in 2021. The reviews were aimed at evaluating the effectiveness and efficiency of our anti-money laundering and the financing of terrorism framework, aimed at ensuring that Kenya was devoid of vulnerabilities to illicit financial flows.

Kenya's mutual evaluation report was published in September 2022 and highlighted various legislative and administrative gaps that are to be rectified to improve on the anti-money laundering and the financing of terrorism framework. Consequently, the Anti-Money Laundering and Combating of Terrorism Financing Laws (Amendment) Bill, 2023 has since been signed into law, which among others, granted the Financial Reporting Centre operational independence by excluding it from the definition of a State Corporation under the State Corporations Act.

Kenya has undertaken various interventions towards improving anti-money laundering and the financing of terrorism frameworks by putting into place measures such as:

- a) Prioritizing the prosecution of money laundering cases;
- b) Civil and criminal processes leading to recovery of proceeds of crime;
- c) Designation of specialized courts of corruption to speed up cases;
- d) Empowering the Insurance Regulatory Authority with the power to enforce the compliance of its licensees with the laws on anti-money laundering and combating terrorism financing; and
- e) Harmonizing the licensing regime under the Anti-Money Laundering and Combating of Terrorism Financing Laws with the Financial Action Task Force (FATF) Standards.

Further, *The National Strategy for Anti-money Laundering, Combating the Financing of Terrorism and Combating Proliferation Financing 2021-2026*, is being reviewed with the intention to integrate recommendations made during the mutual evaluation process. This affirms our commitment

towards ensuring that Kenya remains the ideal business hub that is safe for business.

1.1.8.2 Human Trafficking

A resurgence of transnational human trafficking and smuggling was noted which poses a threat to national security. This was partly attributed to the reactivation of criminal networks targeting to exploit Kenya as a source, transit and destination for trafficked and smuggled persons. The continued political fragility of several States in the Eastern Africa region has continued to expose Kenya to the threat of human smuggling and trafficking as a destination.

Human trafficking syndicates sought to capitalize on the influx of refugees, asylum seekers and undocumented migrants to perpetuate their activities. The trafficked and smuggled persons included Somalis, Ethiopians, Eritreans, Congolese, Nigerians, Chinese, Indians, Pakistanis and Bangladeshis, majorly destined to Middle East, Europe, United States, Canada and Southern Africa countries.

The Government has initiated the following measures to address this menace:

- a) Intensified intelligence-led multi-agency security operations targeting human trafficking and smuggling syndicates;
- b) Arrest and prosecution of perpetrators; and
- c) Sustained liaison and sharing of intelligence with international partners to address the threat.

1.1.8.3 Protection of Endangered Forest Species

Over exploitation of endangered tree species like sandalwood continues to impact negatively on forest security. This threat is exacerbated by factors such as increased demand for the products internationally, while the proceeds are used to fund

organized criminal gangs, cattle rustling, proliferation of small arms and light weapons, among others.

Further, demand for endangered animal species such as pangolin persists owing to the entry of organized criminal groups in the perpetration of the vice. To protect endangered animal species, amendments to the Wildlife Conservation and Management Act will be pursued to protect the endangered animal species and to enhance mutual legal assistance in the region as well as globally.

However, efforts to address this threat are hampered by the following challenges:

- a) Limited co-operation from host communities in sharing crucial information;
- b) Transnational nature of the offences; and
- c) Gaps in policy and legislation frameworks.

To address these gaps, Kenya continues to use the International Union for Conservation of Nature (IUCN) Red List as the key tool, to assess the status of species and catalyze action for conservation and policy change. Going forward, existing challenges will be addressed through the following interventions:

- a) Pursue legislative amendments to the Wildlife Conservation and Management Act to incorporate protection of endangered species that were hitherto missing;
- b) Enhance transnational cooperation among law enforcement and prosecution agencies to foster trust and exchange of information, to disrupt and arrest transnational organized groups; and

- c) Consider joint investigations teams in the region and sharing of assets amongst law enforcement agencies to strengthen law enforcement efforts.

1.1.8.4 Wildlife Security

Threats to the security of wildlife in the country, manifests itself through poaching for wildlife trophies; commercial poaching for bush meat; illegal wildlife trade and human-wildlife conflict. While the killing of elephants and rhinos for trade in ivory and rhino horns constitutes the widely known threat, the rise in commercial poaching for bush meat from smaller game is emerging as a serious threat to species survival and tourism.

Poaching for bush meat and other illicit wildlife products, has been linked to organized criminal groups engaged in other crimes that include small arms and light weapons trade, hence the imperative of dealing with wildlife related crimes. Additionally, human - wildlife conflicts, depletion of ecosystem and climate change have adversely affected wildlife security. The ravaging drought leads to some pastoralists forcing their way into private conservancies and national parks in search of pasture, thus worsening human/wildlife conflicts.

During the period under review, a total of **2,991** persons were arrested in relation to various offences relating to wildlife. The highest number of persons arrested which stood at **1,426**, were linked to illegal grazing. Other notable offences were possession of bush meat which recorded **481** arrests, illegal entry into protected areas recorded **380** arrests, illegal fishing with **217** arrests. One person was arrested in connection with possession of rhino horns and skin. During the period under review, poacher killed **36** elephants and **4** rhinos.

On human/wildlife conflict, encroachment into protected areas resulted to a total of **27** fatalities and **21** injuries.

To enhance wildlife security, the Government has stepped up law enforcement and prosecution of offenders to deter wildlife crime. Further, there efforts have been stepped up to enhance community engagement on issues of conservation and the need to protect Kenya's biological resources.

The table below illustrates the arrests made for wildlife related crimes for the year 2022:

Table 11: Analysis of wildlife arrests for the year 2022

Wildlife Statistics – 2022										
S/No	Offences	Coast	North Eastern	Eastern	Central	Rift Valley	Western	Nyanza	Nairobi	Total
1	Illegal Grazing	1541	0	46	0	33	0	0	0	1620
2	Forest Destruction	20	0	27	32	48	7	0	0	134
3	Possession of Bush Meat	215	13	111	21	71	7	1	5	444
4	Possession of Ivory	40	0	19	8	38	0	4	7	116
5	Illegal Entry	358	0	38	19	67	4	0	3	489
6	Erecting Snare	10	3	8	7	11	2	0	0	41
7	Charcoal burning	25	0	9	9	46	1	0	0	90
8	Possession of illegal Firearms/ ammos	0	0	1	0	1	0	0	2	4
9	Possession of Rhino Horns	3	0	0	0	3	0	0	0	6
10	Harvesting Miraa in protected area	8	0	0	0	1	0	0	0	9
11	Possession of Skin	0	0	0	3	4	1	0	0	8
12	Illegal Fishing	16	0	16	0	187	0	0	0	219
13	Possession of Guinea Fowl	2	0	0	0	0	0	0	0	2
14	Possession of Live Pangolin	8	0	0	0	0	0	0	0	8
15	Possession of Sandal Wood	1	0	9	0	17	0	0	2	29
16	Others	13	0	17	2	23	3	2	3	63
	TOTAL	2260	16	301	101	550	25	7	22	3282

1.1.9 Cyber Security

The Government recognizes the cyber domain as a fundamental prerequisite to the functioning of online services such as digital economy, online education, global trade networks, emergency services, basic communications and other socio-economic activities both in the public and private domains. This is especially in the light of the fact that Kenya must compete for opportunities on the global space, in an increasingly interconnected world propelled by rapid advances in digital technologies. The cyberspace remains a key enabler and contributor to the delivery of citizen services, and with the government's determination to shift more services to this space, it hence provides the more reason for enhanced security in this domain.

The wide adoption and use of digital technologies as well as the dynamism in cyberspace has creates both huge opportunities for employment and wealth creation as well as a multitude of new risks. These risks expose individuals, businesses, critical national digital infrastructure, and Government to cyber threats emanating from a wide variety of sources. These cyber propelled risks hence pose grave risks to national security and hence demand appropriate counteraction in response, at both preventative and protective action, including the resilience domains.

The anonymity provided in cyberspace allows criminals to engage in their nefarious activities with reduced risk of detection. Admittedly, investment in cybersecurity measures have not kept pace with the dynamism that characterizes digital technologies thus exposing individuals as well as the public and private corporates to cyber threats and attacks. Poor cyber hygiene amongst the citizenry, exposes Kenyans to danger, which hence calls for enhances levels of cyber security awareness, both at individual and corporate levels.

Consequently, the Communications Authority of Kenya (CAK) has stepped up efforts to sensitize the public about cyber security that include information sharing with critical information infrastructure owners and operators to promote investment in cybersecurity and joint counteractions. Additionally, all national security agencies, in execution of their own respective mandates as well as at multi-agency levels, have stepped up their efforts to tame the menace.

During the period under review, six hundred and six (606) cybercrime related cases were recorded. This includes cases that resulted in loss of funds by banks and their clients, from bank accounts and mobile money wallets. Of the cases reported, a total close to **two billion shillings** was reported lost, while efforts by law enforcement agencies led to recovery of three hundred and twenty-two million shillings, two hundred and fifteen, six hundred and seventy-two shillings (**KSh. 322,215,672.**)

1.1.10 Inter-communal Conflicts

1.1.10.1 Cattle Rustling

Inter-communal and resource-based conflicts were witnessed in parts of the Rift Valley, Eastern, North-Eastern, Nyanza and Coast Regions, and more particularly in Turkana, West Pokot, Baringo, Elgeyo-Marakwet, Samburu, Laikipia, Meru, Isiolo, Garissa and Tana River counties. The conflicts manifested in livestock theft, banditry and cross-border attacks. These were mainly occasioned by fierce competition for dwindling water and pasture resources owing to the prolonged drought, political incitement as well as land and boundary disputes. Consequently, these conflicts have continuously led to loss of lives, displacement of people and disruption of socio-economic and political activities. The situation has stabilized after the elections and the sustained security operations by the security agencies including the KDF which was sanctioned by the National Assembly.

To further and sustainably address the threats, the government has:

- a) conducted security operations, leading to the arrest and prosecution of individuals found culpable of fueling inter-communal conflicts;
- b) sustained support for peace programs, including alternative dispute resolution mechanisms with relevant stakeholders; and
- c) Supported multi-agency efforts to resolve cross-border conflicts involving pastoralist communities along Kenya's common borders in liaison with the neighboring countries.

In the longer term and to find durable peace in the affected areas, the Government is in the process of doing the following to;

- a) Develop and implement a socio-economic and political intervention strategy in the affected regions;
- b) Sustain enhanced security vigilance to forestall inter-communal conflicts;
- c) Continue the implementation of peace building and conflict resolution programs;
- d) Expedite resolution of land and boundary disputes; and
- e) Sustain countermeasures to end banditry and proliferation of illicit arms.

1.1.10.2 Land and Boundary Disputes

Land remains an emotive issue in the country, with disputes over land use rights and ownership, as well as boundaries, often degenerating into confrontations between neighboring communities. During the year under review, **25** cases of land and boundary disputes were reported in Narok, Nakuru, Kisii, Meru, Turkana and Isiolo counties, in which **4** people were killed, and **13** others injured, and property of unknown value destroyed. These disputes were mainly attributed to disagreements over grazing land, political and administrative boundaries, as well as unresolved inter-communal feuds.

The expiration of land leases held by foreign owned multinational tea companies, particularly in Kericho and Bomet counties, that occurred amid rising agitation to right historical land grievances fomented by political incitement, triggered land invasions which threatened security during the period under review. Other invasions on private land were witnessed in Nakuru, Kiambu and Narok counties. Additionally, there were encroachments on land held by Government institutions, including the Kenya Defence Forces, Kenya Prisons and the National Police Service in different parts of the country.

To address the disputes, the Government:

- a) Convened meetings with the concerned stakeholders aimed at finding amicable and lasting resolution to disputed in some permissible instances;
- b) Facilitated land demarcation and issuance of land registration documents to individuals and Government institutions;
- c) Continued to digitize land records to re-affirm valid and legal ownership that prevents encroachment; and
- d) Enforced the law to ensure sanctity of private property.

Going forward, the Government will:

- a) Enhance use of alternative dispute resolution mechanism for resolution of historical land issues;
- b) Strengthen institutions involved in land management;
- c) Fast-track issuance of land registration documents; and
- d) Ensure maintenance of law and order.

1.1.11 Illicit Small Arms and Light Weapons

Proliferation of illicit Small Arms and Light Weapons (SALW) continues to pose a threat to Kenya's public security and safety. The presence of illicit arms and ammunitions worsens banditry, terrorism, cattle rustling, among others.

The main driver of this phenomenon is attributable to transnational criminal gangs exploiting instability in neighboring countries and criminal networks working within the country to supply weapons. The situation has been compounded by the suspect complicity and incitement by some identified local level politicians who foment inter-communal strife hence drive-up demand for illicit weapons. The situation is likely to be aggravated by the continued state fragility and armed conflicts in some countries in the horn of Africa as well as the entry of foreign private military companies.

During the period from 1st September, 2022 to 31st August, 2023, the Government conducted security operations in the affected regions and managed to recover **173** firearms while **118** were surrendered. During the same period, **2,409 rounds** of ammunitions were recovered alongside **50** explosives, while **582** were surrendered.

Table 6: Illegal Firearms and Light Weapons recovered.

Summary of Recovered firearms and Ammunitions between 1st September, 2022 and 31st August, 2023			
Category	Recovered	Surrendered	Total
Firearms	173	118	291
Ammunitions	2409	582	2991
Explosives	50	0	50

To address this menace the Government undertook the following measures:

- a) Sustained intelligence collection and information sharing on arms traffickers;
- b) Continued security operations targeting arms traffickers;
- c) Arrest and prosecuted of persons in possession of illicit SALW;
- d) Sought stiff penalties in Courts of Law against persons implicated in acquisition and use of illicit SALW; and
- e) Stepped up and sustained disarmament operations.

1.1.12 Border Security

Insecurity along our international borders undermines movement of persons and goods, and as well as international trade. Some of the challenges that affected cross border movement during the period under review included unregulated movement of goods and people through ungazetted Points of Entry and Exit (PoEs). This was compounded by incidences of armed bandits engaging in cross border cattle rustling, especially in parts of Marsabit, Turkana, West Pokot and Mandera counties.

A total of **29** border incidences were reported compared to **16** in **2021** which resulted in **4** deaths and **6** injuries.

To address these threats, the Government has effected the following measures:

- a) Developed and sensitized traders on Simplified Trade Regime (STR) measures through bilateral engagement between Kenya and Ethiopia;
- b) Constituted a Multi-Agency Technical Working group that developed standard operating procedures for Co-ordinated Border Management at Ports of Entry/Exit to enhance a Whole of Government Approach in border security and control;
- c) Procured surveillance equipment for use in high risk and sensitive ports of entry; and
- d) Installed facial recognition systems and Advanced Passenger Information system (API)/Passenger Name Record (PNR) in identified PoEs.

1.1.13 Security of Critical National Information Infrastructure

Security of Critical National information Infrastructure is an essential imperative for our national programs to promote industrialization, socio-economic development, national as well as regional integration. Kenya's critical information infrastructure was the target for more than **855** million cyber threats between July, 2022 and June, 2023, making Kenya the third most targeted country in the Africa, behind South Africa and Nigeria.

The National Counter-Terrorism Centre (NCTC) initiated a partnership with the UN Global Programme on Countering Terrorist Threats against Vulnerable Targets. The Multi Agency effort brought **33** MCDAs to identify Kenya's needs and priorities in safety and security of vulnerable sites. The

findings and conclusions from the consultations will inform the development of a national plan of action that will form the basis for future capacity-building tailored to Kenya's infrastructure and "soft" targets or public places.

We have also stepped-up consultations with IT experts from universities, service providers from both in the public and private entities and from all national security agencies with a view to creating an all-of-nation approach to protection of critical national information infrastructure. The outcome of these consultations will inform the design and deployment of the necessary protective and preventative measures in these spaces.

1.1.14 Disease Pandemics

COVID 19 was declared a pandemic by the World Health Organization on March 11, 2020, with the first case confirmed in Kenya on 12th March, 2020. During the period under review a total of 19,522 new cases reported and 40 deaths registered due to COVID-19 related complications. The vaccination rate in the country stands at 37% of the adults who have been fully vaccinated and 10% of teenagers.

Comprehensive surveillance and detection systems were developed to enable data collation and analyses in establishing COVID-19 transmission dynamics and societal impact. Domestic security measures were used to complement existing health services provisions, as the main tool in response to the pandemic.

The Government intends to leverage technical skills and global partnerships to build sustainable public health capacity at the national and county levels. The Government continues to scale-up Kenyan government's capacity to respond to serious public health threats through support to the National Public Health Emergency Operations Center (PHEOC).

The Government and Moderna Inc, a private corporation, have finalized an agreement to establish an mRNA manufacturing facility in the country. This will be the Company's first mRNA manufacturing facility in Africa, with a capacity to produce up to 500 million doses of vaccines each year. This facility will have surge capacity to rapidly scale and respond to public health emergencies on the continent and around the world.

1.1.15 Threats to Civil Aviation Security

Threats to the civil aviation industry continue to evolve due to enhanced security measures applied by the Kenya Civil Aviation Authority, The Kenya Airports Authority and Industry operators. Kenya continues to baseline our aviation security as outlined in Annex 17 of the Chicago Convention of the International Civil Aviation Organization (ICAO). The key evolving risks and threats to the civil aviation sector are from:

- a) “Insider threats”/“known insiders”, presenting potential internal risks to airlines;
- b) Civil unrest impacting aircrew during their layovers in Nairobi and Mombasa;
- c) Kenyan flights operating in the vicinity of airspace with conflict zones (Somalia, Sudan); and
- d) Human trafficking, improperly documented passengers and contraband smuggling.

Following the mandatory International Civil Aviation Organization (ICAO) universal security audit done during the period under review, Kenya attained a score of **91.77%**, the highest ever recorded for the region. After the audit, all stakeholders in the aviation industry were sensitized on the possible threats at the points of entry and various mitigation efforts have been instituted including the following:

- a) Sharing of information and resources among relevant agencies to facilitate real time interception of offenders;
- b) Formation and operationalization of the Joint Operation Centre (JOC);
- c) Enhanced profiling of targeted flights, routes and destinations;
- d) Procurement of specialized equipment for detection of narcotics;
- e) Formation of Man Portable Air Defense Systems (MANPADs) mitigation Committees at all airports;
- f) Re-possession of grabbed airport land by EACC; and
- g) enhanced oversight of cargo consolidation, detection and apprehension of tax evaders among the shippers.

The government has also identified the use of Unmanned Aircraft Systems (UAS) as a high-risk factor for the sector. The KCAA, through The Civil Aviation (Unmanned Aircraft Systems) Regulations, has begun the process of registering drones and licensing drone pilots, as well as gazetting the licensed Unmanned Aircraft Systems Training Organizations (UTO).

1.1.16 Threats to Maritime Security

Maritime security provides the platform for sustainable sea resource exploitation that contributes to job and wealth creation. Kenya's Indian Ocean domain occupies an area measuring **245,320 Km²** made up of an EEZ of **142,000 Km²** and an extended continental shelf of **103,320 Km²**. Geographically, Kenya has an expansive coastal ocean line of **536 Km** in length. Breaches in maritime security include smuggling of contraband, human trafficking and smuggling,

pollution, IUU fishing, maritime terrorism and piracy, among others.

Identifying emerging threats to maritime security is key in developing the right tools to ensure sound maritime security governance. In this regard, the government is undertaking a multi-agency effort to establish a National Maritime Security Risk Register that will assess the threat, impact, and vulnerability criteria of all security threats to Kenyan national maritime security interests.

In March 2023, the Kenya Navy and the Kenya Coast Guard Service (KCGS), together with other friendly forces, conducted an exercise to comprehensively address approaches to combating maritime threats during exercise “*Cutlass Express*”.

1.2. Economic Growth and prosperity

Sustained economic growth is critical to the realization of a secure and cohesive Kenya, hence it remains one of Kenya’s core national interests. Kenya’s determination to attain the status of a newly industrialized and middle-income country as envisaged in Vision 2030, BETA and Sustainable Development Goals (SDGs) must hence be safeguarded from a number of identified threats. This includes rising unemployment, threats to energy security, trade in fake and counterfeit goods, land fraud and illegal mining were identified during the period under review as some of the notable threats.

1.2.1 Unemployment

Unemployment, especially among the youth, remained high owing to relatively sluggish economic growth triggered by several local and external factors, that include skills mismatch between the labour market requirements and the skills young people graduating from educational institutions possess, importation of goods and services initially produced

locally resulting in job losses, adoption of modern technologies that encourages automation and job cuts, and inadequate capital for youth to venture into entrepreneurship. The consequent situation encourages the susceptible and desperate youths to recruitment into criminal gangs and violent extremism, as well as engagement in petty crime, thus undermining security.

To address the challenge, the Government implemented the following measures:

- a) Sustained investment in education and technical training especially TVET's to equip youth with skills relevant to the labour market;
- b) Enhanced the accessibility of affordable loans to the youth and the public, through the roll-out of the Hustler Fund; and
- c) Graduate internship programmes.

To further enhance these measures, the Government will implement the following measures to reduce unemployment in the country:

- a) Reduce the number of trade licenses required to start a business to grow the economy and lower the cost of doing business;
- b) Utilization of **Huduma Centres** as a one stop shop for obtaining all relevant licenses;
- c) Review the relevant provisions of the Employment Act, 2007 on redundancy;
- d) Development of guidelines on outsourcing of labour; and
- e) Ensure proper management of existing pro-youth empowerment programs.

1.2.2 Energy Security

Energy is one of the key drivers of the country's Vision 2030 and an integral part in the Kenya Kwanza manifesto for development. The Government considers access to competitively priced, reliable, quality, safe and sustainable energy as an essential ingredient for this country's socio-economic development. The formal energy sector in Kenya is largely dominated by petroleum and electricity.

1.2.2.1 Liquefied gas and petroleum Products

The Liquefied Petroleum Gas (LPG) and the petroleum industry at large suffers from widespread malpractices which undermines the safety and socio-economic stability of the country by; exposing the consumers to safety and health hazards, tax evasion by unscrupulous traders, denting of the national image thus discouraging investors, loss of business and regional competitiveness in the petroleum and gas industry.

The energy sector is facing emerging threats from unscrupulous traders that put the safety of consumers at risk. This includes unauthorized refilling of LPG cylinders, and inability to trace movement of cylinders hence safety concerns to the consumers and the general public. Further, weak enforcement of various legal frameworks and/or policies governing the sector has resulted in a myriad of challenges including illegal petroleum facilities. In addition, the country has witnessed some petroleum facilities being utilized as dens for dumping, adulteration and siphoning of petroleum products mainly along the northern corridor.

To curb this menace, the Government has:

- a) Embraced the multi-agency cooperation in cracking down on organized criminal groups in the gas industry;
- b) Enhanced intelligence-led enforcement;

- c) Upscaled its enforcement measures to ensure protection of consumers in addition to entrenching sustainable use, cost efficiency, quality energy and petroleum products; and

Going forward, the Government will:

- a) Fast-track the development of the regulations to the Petroleum Act, 2019 to enhance the management of the energy sector;
- b) Establish safe and secure storage spaces for exhibits for seized products;
- c) Urge the County Governments to allocate land space for parking petroleum tankers as provided for under the Energy Act, 2019;
- d) Fast track recruitment of additional staff in the EPRA Enforcement Directorate;
- e) Review LPG refilling operations by restricting licensed operations from 6 a.m. to 6 p.m.;
- f) Enforce the use of technology by all licensed facilities for tracing of all LPG cylinders;
- g) Ban export of used LPG cylinders; and
- h) Review the standards and recommended practices related to petroleum products, LPG inspection and clearances.

1.2.3 Trade in Fake and Counterfeit Products

The trade in fake and counterfeit goods increased during the period under review, despite sustained surveillance by the Government through the Multi-Agency Teams, owing to porous borders and capacity constraints in relevant institutions. This undermined revenue collection, stifled growth of local industries and posed a threat to public health and safety. The most widely traded illicit goods included;

sugar, cigarettes, fertilizer and pesticides, textiles, alcoholic beverages, pharmaceuticals and cosmetics.

During the period between 1st September, 2022 to 31st August, 2023, a total of **19,390** bags of sugar, **4247** bags of rice, **523** boxes of milk powder, **10,492** drums of Ethanol, **2468** bags of fertilizer **432,809** boxes of cigarettes, **122,162** bags of wheat, **3,500** Spaghetti boxes, **450** bales of Maize flour and **80,786** Alcohol boxes were netted and **479** suspects arrested.

To address this challenge the Government has:

- a) Continued surveillance through multi-Agency Teams;
- b) Collaborated with both local and international agencies to deal with this menace;
- c) Encouraged seizure and disposal of fake/ counterfeit products;
- d) Arrested and prosecuted perpetrators; and
- e) Enhanced the capacity within relevant Government institutions.

Going forward, the Government is committed to:

- a) Strengthening the various agencies that deal with contraband and counterfeits, including Anti Counterfeit Authority, Kenya Revenue Authority and Kenya Bureau of Standards;
- b) Enhancing surveillance in all the border control points through Whole-of-Government approach in border security and control; and
- c) Taking the required steps to reopen the Kenya-Somalia Border Post including the Mandera point of entry/exit.

1.2.4 Land Fraud

Land is a means to economic livelihood for majority of Kenyans. The Constitution envisages that land in Kenya should be held, used and managed in a manner that is equitable, efficient, productive and sustainable. Land-fraud cases have been on the rise in the country with far-reaching negative socio-economic and political consequences to families, the community and the country at large. The land related crimes recorded within the reporting period are fraudulent registration, double registration, and illegal occupation of public land.

To curb land fraud the Government has:

- (a) Digitized land records within the Ministry of Lands;
- (b) Taken steps to issue Titles Deeds to eligible and bonafide land owners;
- (c) Expedited investigation into cases of irregular land allocation and repossessed public land illegally in the hands of private owners. In this respect, government recovered Kisite Mpunguti Marine Reserve and Chale Island in Kwale County, government housing land in Nakuru Country and Kiambu that had been irregularly allocated; and
- (d) Continued with the process of land reforms to enable private sector players to invest in affordable housing.

Going forward, the Government is committed to:

- a) Build more Land Registries and roll out the digitization of land records countrywide;
- b) Conduct public awareness on land matters to create greater understanding of what is needed to secure and protect their land rights;

- c) Continue recovery of public land and restoring it for its intended use; and
- d) Continue issuance of Titles to land owners.

1.2.5 Illegal Mining

Kenya's mineral wealth is vast and diverse and offers huge opportunities for job creation and wealth creation, as well as economic development. The potential contribution of mineral resources to our GDP is estimated to be over 10%, as opposed to the current contribution of 0.8% which holds back the country's great potential. The main threat facing the sector within the reporting period is illegal mining which has been reported to be on the rise. This is attributed to moratorium on the issuance of licenses and renewal applications which was imposed in 2019. The moratorium however well intended has negatively impacted the sector, frustrating investors, and other stakeholders by preventing any new investments and slowing down operations and possible expansion of existing projects.

To curb illegal mining the Government has:

- a) Approved a raft of reforms on the administration of the mining sector;
- b) Partially lifted the moratorium on issuance of new mining rights to enable the development and growth of the mining sector;
- c) Held the mining conference bringing together the sector stakeholders to discuss inclusivity and sector reform policies;

Going forward, the Government is committed to:

- a) Strengthen mining policies and regulatory frameworks together with the formalization of sustainable

development of the artisanal and small-scale mining sector.

1.3. Constitutionalism and Rule of Law

Adherence to constitutionalism and the rule of law is the very embodiment of Kenya's standing as a modern and democratic Nation. The 2010 Constitution recognizes the principle of Rule of Law as part of the National Values and Principles that govern the State and its people. National security threats facing Kenya's democratic process as witnessed within the reporting period include incidents of political insecurity around the electioneering period, and the challenges facing Devolution.

1.3.1 Political Security

Kenya, is a progressive democratic state and the Government has remained committed to protecting the people's political rights, adherence to the rule of law and constitutionalism, in furtherance of Article 38 of the Constitution.

The 2022 General Elections were highly competitive and closely contested by candidates for various elective seats. Whereas the elections were conducted in a largely peaceful and conducive security environment as compared to previous polls, the campaigns were marred by high tensions pitting leaders and their supporters against political opponents.

The commitment of most of the candidates across the divide to peaceful campaigns and the decision by aggrieved parties to seek legal redress for electoral disputes also aided in de-escalating political tensions in the country.

The determination of election disputes by the judiciary, maintenance of law and order by security agencies as well as sustained efforts to foster national cohesion promoted peace

and security in the country during the electioneering period. Consequently, the country remained stable, thus facilitating peaceful political transition and inauguration of the new administration.

1.3.1.1 Challenges during the Electioneering Period

The country witnessed a resurgence of organized criminal gangs which exacerbated insecurity in parts of the country. This was mainly attributed to engagement of the gangs by some politicians during the electioneering period for political expediency. The use of gangs as tools for political mobilization, and in several instances to perpetrate political hooliganism, led to violent confrontations between supporters of rival candidates. This often led to breakdown of law and order and destruction of property in some parts of the country.

Use of vile language and hate speech, propaganda and fake news in social media platforms also threatened to undermine national cohesion. The resultant political intolerance and tensions degenerated into sporadic violence in parts of the country that posed a threat to security. Additionally, lack of trust in independent institutions on the part of some political parties raised tensions which had the potential to affect the credibility of the general elections.

However in all the instances above, national security agencies were quick to quell any emergent instances of violence and endeavored to bring perpetrators to face the law.

The lower than average voter turnout during the 2022 general election, reflected a continuing trend of voter apathy, mainly attributed to lack of trust in the institutions and the electoral process. The 2022 general election recorded a voter turnout of 64.77% compared to 78% in 2017 and 83% in 2013.

1.3.1.2 Incidences of Political Insecurity

The country recorded a total of **85** incidences of political violence during the campaign period (25th April to 31st July 2022) and **226** incidences during the voting period from (9th to 15th August, 2022). Rift Valley Region recorded the highest number of incidences (**44**) followed by Nyanza (**37**) with Eastern recording the least (**19**). The majority of the incidences involved confrontations between supporters of rival candidates. There were few cases of arrest of IEBC officials over electoral malpractices which resulted in Court action. Following the declaration of the Presidential results on 15th August 2022, several cases of lawlessness were recorded. They include the assault of IEBC officials at the Bomas of Kenya; **4** incidences of unlawful demonstration, malicious damage to property and disruption of traffic flow in Migori and Nairobi counties.

There were unlawful political demonstrations in March 2023, held mostly in Siaya, Kisumu, Migori, Homa Bay and Nairobi Counties, with a total of **824** persons being arrested; **317** Police Officers getting injured; **75** police vehicles being damaged; and **2** and **10** police stations getting burnt and raided respectively. It is further estimated that the country lost approximately **\$20.8 million** daily due to these unlawful demonstrations.

To mitigate political insecurity, the Government:

- a) Deployed all the required resources both human and logistical, to ensure a peaceful electioneering period;
- b) Conducted stakeholder engagements to get commitments towards achieving peaceful elections;
- c) Facilitated a smooth transition and change of leadership; and

- d) Used lawful means to disperse unlawful demonstrations and heightened security across the country.

Going forward the Government will:

- a) Adhere fully to the Constitution guaranteeing civic and democratic rights to all Kenyans;
- b) Fully depoliticize the Civil Service; and
- c) Facilitate independent institutions to effectively deliver on their mandates.

1.3.2 Devolution

Devolution was introduced in Kenya through the implementation of the Constitution of Kenya 2010. It reconfigured the balance of power by devolving power and responsibilities from the National Government to 47 elected County Governments. It also recalibrated the powers between the Executive, Legislature and Judiciary. Article 175 of the Constitution states the principles of governance of the county governments, which the people of Kenya bequeathed to themselves as part of the Constitution to bring governance closer to the people. The main goals of devolution were to: promote equitable distribution of resources and opportunities across Kenya, foster public participation in decision-making processes, promote accountability and transparency in governance, enhance efficiency and effectiveness in the delivery of government services, promote economic growth and development in the counties and promote the preservation and protection of national values and principles in the exercise of public power and functions.

Devolution has largely met its objectives. However, several factors threaten its successful implementation. Corruption remains a major challenge in Kenya, and it has affected

devolution in many ways. It has reduced the effectiveness of devolved services, and has resulted in misallocation of funds and resources. Other challenges include; limited budgetary allocation, negative political interference, lack of good quality leadership, and negative ethnicity. Overall, these challenges have slowed down the implementation of devolution in Kenya and threaten to undermine its intended purpose of promoting equitable development and citizen participation in governance.

1.4. National Values and Good Governance

Article 10 of the CoK 2010 outlines national values and principles of governance that bind all state organs, state officers, public officers and all persons in the execution of their duties.

National values are ideals that guide the attitudes actions and behavior of citizens. Governance on the other hand is the normative standards expected of public servants in their daily functions of promoting the well-being of the citizens. The decline of national values coupled with the lack of good governance is a threat to national security. The key threats to national values and good governance within the reporting period are corruption and insecurity in institutions of learning.

1.4.1 Corruption

Corruption continued to undermine delivery of public goods and services despite sustained efforts by the Government to eradicate the vice, in both public and private institutions. This then hampers the Government's ability to effectively implement the national development agenda. Corruption leads to higher cost of goods and services and often facilitates transfer of illicit funds for criminal activities. The Public Service is also impacted due to loss of funds meant

for service delivery. During the reporting period, corruption cases increased by **64%** from **17** in 2021 to **28** in 2022.

To mitigate on corruption related challenges, the Government:

- a) Expedited conclusion of all corruption cases and hastened expropriation of property or funds acquired from proceeds of corruption through civil recovery processes and plea bargaining;
- b) Enhanced multi-agency cooperation against corruption;
- c) Used regional networks to ease cooperation and sharing of information;
- d) Stepped up investigations in corruption and related cases with the aim of recovering the proceeds of crime;
- e) Continued public awareness campaigns and community dialogue;
- f) Sustained efforts to enhance capacity within National and County Governments to improve efficiency in the use of public resources;
- g) Sustained use of asset recovery strategies; and
- h) Arrested and prosecuted perpetrators.

To sustain the fight against corruption the government will:

- a) Finalize the enactment of the Whistle Blower Protection Bill to support employees to have a conducive environment to report on corrupt activities within an organization;
- b) Sustain efforts to implement lifestyle audits for public officers including the consideration of enacting the Lifestyle Audit Bill;
- c) Sustain multi-agency collaboration in the criminal justice system;

- d) Enhance good governance practices within public and private sectors;
- e) Continue automation of services rendered by the Government so as to seal revenue leakages; and
- f) Enhance witness protection mechanisms and provide resources for safe houses.

1.4.2 Insecurity in Institutions of Learning

Cases of insecurity which manifested in unrest and fire incidences persisted in institutions of learning during the period under review, resulting in loss of lives, destruction of property and disruption of learning. From 1st September, 2022 to 31st August, 2023, a total of **232** schools were affected. As a result of the unrest, **54** students were injured, and **198** persons were arrested. Some of the causes of school unrest included fear of examinations/poor results, weak administrative skills by some headteachers, the prefect factor, drug abuse, unprofessional conduct by teachers, communication breakdown, peer pressure, negative influence of mass media and poor parenting.

Table 10: Summary of School Incidences between 1st September, 2022 to 31st August, 2023

COUNTY	TOTAL CASES REPORTED	STUDENT UNREST	SCHOOL FIRE	ARSON	NO. OF STUDENT INJURED	NO. OF STUDENTS ARRESTED	NO. OF STUDENTS PROSECUTED
COAST	23	13	7	3	0	4	0
NER	3	2	1	0	0	0	0
EASTERN	36	20	15	2	0	30	4
CENTRAL	15	7	6	2	0	69	3
R. VALLEY	86	59	23	5	32	61	0
WESTERN	37	22	15	2	10	22	0
NYANZA	29	9	17	3	12	12	0
NAIROBI	3	2	1	0	0	0	0
TOTAL	232	134	85	17	54	198	7

To address this security threat, the Government instituted measures that included:

- a) Sensitized stakeholders on responsible child upbringing;
- b) Conducted engagements with students on the negative effects of drug abuse;
- c) Stepped up management skills sensitization to headteachers;
- d) Strengthened guidance and counseling in schools; and
- e) Arrested and prosecuted perpetrators.

1.5. Environmental Sustainability and Climate Action

Environmental sustainability is the ability to maintain an ecological balance in our planet's natural environment and conserve natural resources to support the wellbeing of current and future generations. Climate action which is SDG 13 calls for action to combat climate change and its impacts. Threats to a sustainable environment and climate actions are food insecurity, environmental insecurity and disasters,

1.5.1 Food Insecurity

The country's food and nutritional security remained unstable during the reporting period notwithstanding policy, legal and institutional interventions by the Government. Food insecurity was largely attributed to the prolonged drought arising from climate change, high cost of farm inputs, land and soil degradation, emerging pests and diseases, prevailing conflicts and displacement in ASAL region, high prices of staple foods coupled with general high inflation, poor post-harvest management and unsatisfactory performance of Government irrigation projects.

Other factors that have affected food production in the country include limited access to credit and limited investment in agriculture including research, market infrastructure and extension services. Notably, the four failed rain seasons led to mass crop failure and huge losses of livestock, particularly in Arid and Semi-Arid Lands, thereby exposing many people to hunger and loss of livelihoods. Food shortages also led to high prices of food commodities and increased the cost of living. The rising prices of key commodities sparked by the in war Ukraine further compounded the situation.

Food insecurity can have significant effects on national security. Some of the effects include:

- a) There are reported cases of social unrest, as people become frustrated and angry with the Government and other institutions that are responsible for ensuring food security;
- b) Increased incidences of human and wildlife conflict over crop destruction and shared water and pasture;
- c) Cases of migration have been reported across the country due to drought and food insecurity. This has led to increased pressure on infrastructure and social

services in the receiving areas and as well as resource-based conflict especially in the ASAL counties;

- d) Economic impact, include reduced GDP growth, increased healthcare costs, and reduced economic growth which is a contributing factor to poverty and inequality; and
- e) A decline in enrolment of learners and absenteeism at all levels of education which is attributed to household food insecurity in the drought prone areas.

To address this security threat, the Government instituted measures that included:

- a) Distribution of relief food to vulnerable communities;
- b) Reduction of costs of fertilizer through subsidies; registered five million farmers and disbursed 1.34 million bags of fertilizer;
- c) Continued implementation of agricultural reforms;
- d) Duty waiver on importation of maize and rice to increase availability locally;
- e) Continued monitoring of food production, stocks, quality and imports; and sharing of early warning signals on food production, availability and accessibility to inform policy decisions towards realization of national food and nutrition security;
- f) Continued to support a total of **69,351** farmers with inputs through e-vouchers to promote agricultural production through accessibility to quality and affordable seed, agrochemicals and fertilizers;
- g) Rolled out e-extension services to ensure dissemination of agriculture technologies. The e-extension services aimed at reaching out to over seven (7) million farmers annually as opposed to the

conventional one-on-one service that impacted on less than two (2) million farmers;

- h) Availled credit to farmers at affordable rate through *Kilimo Biashara* programme;
- i) Established warehouse receipt system to reduce post-harvest losses and improve farmers' income;
- j) Promoted local food production through initiatives such as urban agriculture, which involves growing crops in urban areas to improve food security;
- k) Investment in irrigation infrastructure to help farmers grow crops during the dry seasons, reducing the impact of climate change on food production; and
- l) Expansion of social safety nets, including existing cash transfer programs such as Orphans and Vulnerable Children (OVC) cash transfers, Persons with Severe Disability (PWSD) cash transfers, the Hunger Safety Net Program, and nutrition-sensitive cash transfers.

To sustain the fight against food insecurity, the Government will:

- a) Implement the land commercialization initiative by making available underutilized land held by public institutions to unlock about **500,000** acres for food production. The Government has also secured commitments from state-owned landowners to provide about **150,000** acres in **15** farming locations;
- b) Increase investment in irrigation, promotion of smallholder farming and ensure market stability for food products;
- c) Promote adoption of smart agriculture to improve resilience to drought and climate change;

- d) Continue to create a conducive policy environment to incentivize all actors along the value chain to produce or make food available in the country to fulfill the food and nutrition security obligation values;
- e) Establish evidence-based solutions for resilient food systems to ensure that there is enough food for everyone, today and for future food generations;
- f) Make provision for assorted farm inputs (fertilizer, seeds and pesticides) and mechanization services to vulnerable households to revamp crop production;
- g) Expand Government subsidized crops and livestock insurance programmes to compensate farmers suffering losses due to climate change;
- h) Promote good agricultural practices and drought tolerant/resistant crops such as green grams, cowpeas, pigeon peas, pearl millet, dry land maize, and improving and diversify food production;
- i) Enhance information for early warning and response, to ensure preparedness to extreme weather events; and
- j) Improve the efficiency of the Social Safety Nets by ensuring timely disbursement of funds and enhancing targeting and enrollment of beneficiaries, among other issues.

1.5.2 Environmental Security

The Constitution, Article 42, provides for the right to a clean and healthy environment. Further, Article 69 obligates the State to ensure sustainable exploitation, utilization, management and conservation of the environment and natural resources, and ensure the equitable sharing of the accruing benefits.

Security of the natural environment and its sustainable exploitation will guarantee the present and future generation a balanced place to live in. Sufficient food, clean water and clean air can only be guaranteed by a commitment of this present generation to sustainably manage flora and fauna. In this regard, the government has put in place mechanisms to protect the natural environment from both internal and external negative impacts and continued to proactively implement measures to protect biodiversity and sustainable functioning of ecosystems critical for the survival of humankind.

The East Africa region is experiencing the fourth consecutive season of failed rains with indications that the situation will persist. Climate crisis has occasioned a prolonged drought, famine and malnourishment affecting **29** counties. This situation has a nexus with the increasing inter-communal conflict as a result of competition for scarce and diminishing pasture and water resources that threatens national food and health security.

However, current meteorological predictions forecast el-nino-like heavy rains between November, 2023 and January, 2024, that could mitigate the effects of the long drought.

1.5.2.1 Forest and National Parks Fires

The prolonged drought in the region occasioned forest fires in various water catchment areas. Fires destroyed sections of Mount Kenya, Aberdares and Menengai forests, threatening key forest habitats. The strong winds and dry vegetation fueled the fire resulting to destruction of massive acreage of land. Illegal activities in the forest, including honey harvesting, logging, sabotage and acts of malice compounded the situation. The county Governments are experiencing challenges in responding to the fires, emanating from inadequate personnel, firefighting equipment and funding.

To address these challenges, Government has put in place the following strategies:

- a) Maintenance of fire breaks;
- b) Deployment of aerial surveillance capabilities;
- c) Establishment of the forest fire response command centre;
- d) Partnered with communities and other partners in fire response;
- e) Employment of additional security guards;
- f) Enhancement surveillance by the security teams in liaison with the national security agencies; and
- g) Addressing the social economic factors that may lead to forest fires, such as alternative resolution of disputes.

Additionally, the Government will:

- a) Increase funding in support of the implementation of forest fire management and response strategy especially in regards to equipment for opening up and maintenance of fire breaks and forest roads, fire response equipment and appropriate technology for monitoring forest fires; and
- b) Classify forest roads in order to make provision for their maintenance.

1.5.2.2 Illegal Logging

Illegal logging continues to pose a challenge to forest conservation due to the following factors; increased demand for timber products, over dependency on forest resources for support of livelihood as well as joblessness among the youth. Illegal logging causes environmental degradation thus compromising the ability of forests to provide environmental goods and services leading to natural resource-based

conflicts, besides negatively impacting on food security, hydropower generation, tourism, fisheries among others.

To address illegal logging related challenges, the Government has put in place the following measures:

- a) Recruited additional Forest Rangers and Wildlife Officers;
- b) Enhanced multi-agency approach in forest and national parks security and management through sharing of resources and intelligence;
- c) Enhanced community participation in the management and use of forest and national parks resources through community forest associations; and
- d) Allowed the importation of timber from the neighboring countries to ease the pressure on demand and illegal logging.

1.5.3 Disasters

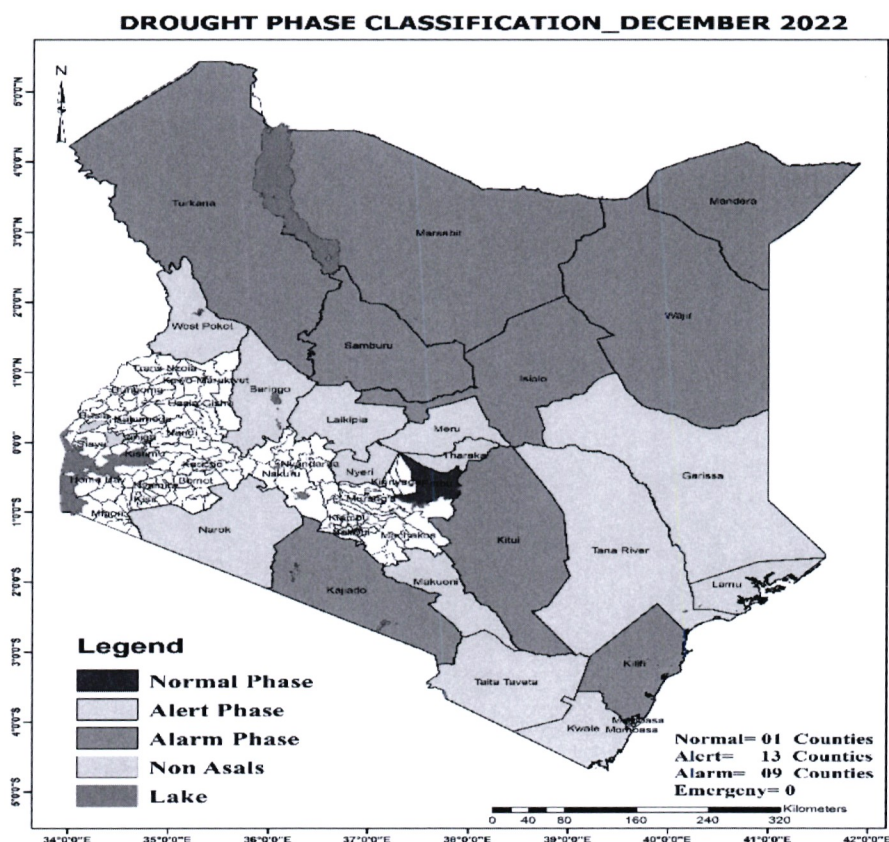
Natural and man-made disasters are serious threats to communities and their livelihoods. Climate change, and fast population growth, coupled with rapid urbanization, have accelerated the intensity and frequency of disasters across the globe. During the review period, the country grappled with severe drought, which had a significant impact on the national economy. Other disasters experienced during the period under review included: flooding, incidences of collapsing buildings, fires, caving-in of mines and strong winds in some parts of the country.

1.5.3.1 Drought

Kenya relies mainly on rain-fed agriculture for food supply and production of cash crops, which earn the country significant foreign exchange. Disruption in rainfall patterns therefore triggers serious socio-economic ramifications.

During the period under review, the country experienced one of the most devastating droughts in the history of the country, due to four failed rain seasons, that made the Government to declare the situation a national disaster.

The drought situation wreaked havoc on various spheres of life of the citizenry, including loss of 2.5 million livestock and 65% crop failure in marginal agricultural areas. By December, 2022, the number of people in need of relief assistance had risen to 4,354,545 people in 23 ASAL counties and 846,318 in 45 wards spread across nine other counties. The classification of the drought situation in the country revealed that nine counties were at alarm phase; 13 in alert stage; and one county in normal phase as shown in figure 5.1 below:

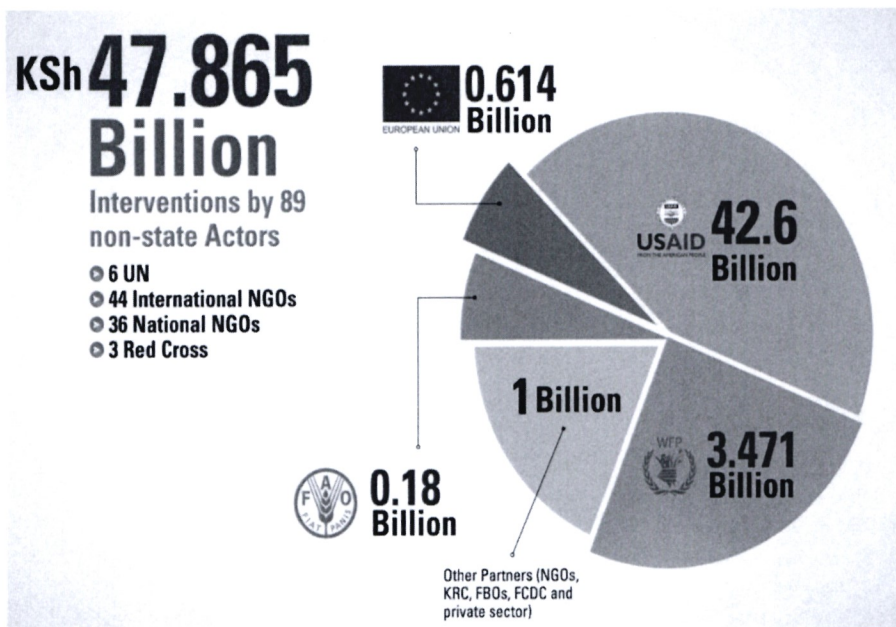


Interventions in addressing drought

The Government carried out a number of interventions to mitigate the effects of drought. These included:

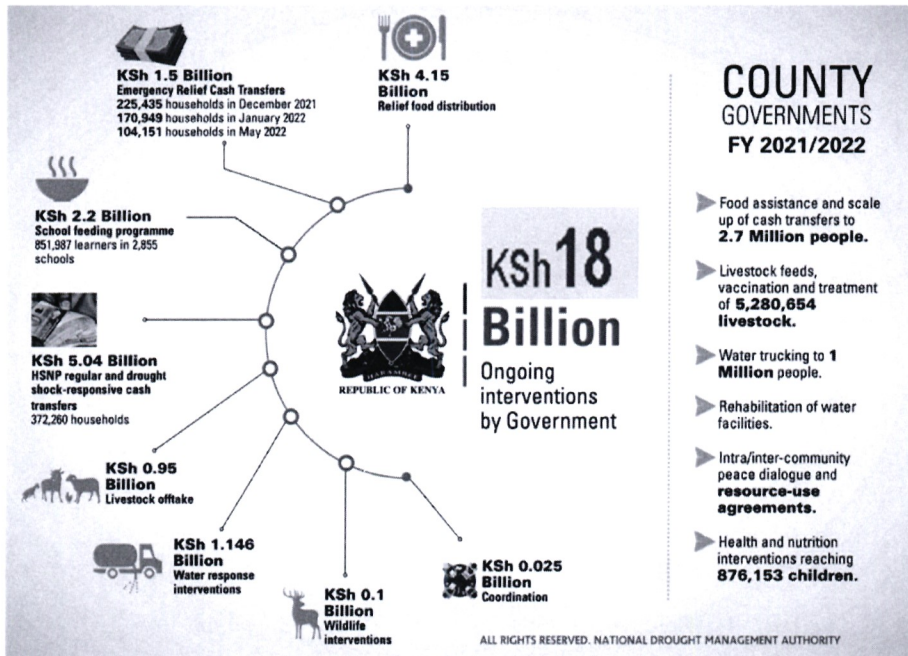
- (i) declaration of drought as a national disaster;
- (ii) distribution of relief food;
- (iii) school feeding programme;
- (iv) emergency relief cash transfers and expediting the enactment of the National Disaster Bill;
- (v) water trucking and livestock off take programme as illustrated in the figure 5.2. below:

Fig. 5.2. Government interventions on drought



Response by non-State Actors

The declaration of drought as a national disaster received attention of non-State actors. Consequently, a total of **KSh. 47.8** billion was used in interventions as illustrated in the figure 5.3. below:



1.6 Regional and Global collaboration and Competition

Kenya plays critical roles in security, political and economic spheres in the East and Horn of Africa sub-regions. Being a member state of the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the Intergovernmental Authority on Development (IGAD) gives the country the platform to engage in regional cooperation, development, and security issues.

The region is faced with a myriad of challenges ranging from instability caused mainly by failed peace processes and

perpetual transitions. This situation predisposes Kenya to a number of security threats namely: influx of illegal aliens and undocumented migrants and refugees.

In fulfillment of our obligations as a member of the international community, Kenya has taken leadership within the region in peacekeeping operations and climate action.

1.6.1 Influx of Illegal Aliens and Undocumented Immigrants

Political instability in some countries within the region, has led to an increase in the influx of illegal aliens and undocumented migrants. During the period under review a total of **1,764** aliens and undocumented immigrants were arrested all over the country, representing an increase of **23%** as compared to 2021 which recorded **1,429** cases. The highest numbers of those arrested were Ethiopians **1,337**, Somalis **182** and Eritreans **109**.

Additionally, some of these migrants flee their countries, with the hope of better economic opportunities elsewhere. Illegal aliens and undocumented immigrants are associated with human trafficking and smuggling of persons, as well as small arms and light weapons. They are also an easy target for recruitment into terrorist activities and other trans-national crimes.

1.6.2 Refugees

In Kenya continues to host refugees owing to by the political developments and humanitarian situation in the region, mainly in Somalia and South Sudan. In Somalia, despite the moderate gains made in the past three years, the humanitarian situation remains fragile.

Most refugees and asylum seekers in Kenya originate from Somalia (**51%**). Other major nationalities are South Sudanese (**26.1%**), Congolese (**9.1%**), and Ethiopians (**5.7%**). Persons of concern from other nationalities,

including Sudan, Rwanda, Eritrea, Burundi, Uganda and others, make up **8.1 %** of the total population (**636,024** as of July 2023). Almost half of the refugees in Kenya (**42.4%**) reside in Dadaab, **42.2%** in Kakuma and **15.1%** in urban areas (mainly Nairobi), alongside **18,500** stateless persons.

Political developments and the humanitarian situation in the region will continue to impact on Kenya, mainly due to the situations in the two countries, Somalia and South Sudan, and the ongoing conflict in the Democratic Republic of the Congo (DRC). It is anticipated that the political situation in Ethiopia will also remain fragile. Currently, Kenya continues to be among the top refugee-hosting countries in Africa.

Voluntary repatriation continued during the review period for Somalis and other nationalities whenever the situation permitted in the countries of origin. The Government is currently shifting its approach to refugee management by transforming refugee camps into integrated settlements under the multi-year **“Shirika Plan,”** previously referred to as the Marshal Plan. The Government is committed to create an environment that not only supports the socioeconomic inclusion of refugees, but also helps build opportunities for the Kenyan people. The Government in collaboration with the UNHCR continue using The PRIMES integrated Biometrics Identity Management System (BIMS) throughout the review period to secure individual identities of the refugee population, thus ensuring continuity of identity over time and in different locations across the country.

1.6.3 Peacekeeping Operations

Kenya is keen player within the peace support operations in the international system. Kenya has over the years remained receptive to requests to contribute to peace operations based on the consent of the parties in the host state. Currently, Kenya contributes troops to the African Union Transition Mission in Somalia (ATMIS) and the East Africa Community

Regional Force (EACRF), in the Democratic Republic of Congo (DRC).

During the period, The National Assembly approved regulations to establish the National Peace Support Operations Fund, which will provide support for Kenya Defence Forces (KDF) peacekeeping missions following the Report of the Committee on Delegated Legislation, which considered the Public Finance Management (National Peace Support Operations Fund) Regulations, 2023. The purpose of these regulations were to create a National Peace Support Operations Fund, into which the Government is expected to contribute Ksh1 billion. The creation of the Fund will not only ensure that the equipment supplied by the Kenyan Government to its troops are in good working condition, but also enable Kenya to receive payment for the period in which its troops are deployed.

Kenya has also offered to lead a Multinational Security Support Mission (MSS) to Haiti as endorsed by the UN Security Council (UNSC) Resolution 2699/2023 to deploy an international Security Force. This was after Haiti's Prime Minister requested the immediate deployment of an armed force, which is expected to quell a surge in gang violence and restore security so Haiti can hold long-delayed elections. Haiti's National Police has struggled in its fight against gangs with only about **10,000** active officers in a country of more than 11 million people.

The Cabinet approved the deployment which will be forwarded to Parliament for the needed ratification. At the time of submission of this Report, the Formed Police Units to be deployed are undergoing training based on UN guidelines for Police Command and Police Operations in UN Peacekeeping Operations and Special Political Missions.

1.6.4 Championing Climate Action

Kenya acknowledges that climate change is the single greatest challenge facing humanity and the single biggest threat to all life on Earth. By hosting the Inaugural Africa Climate Summit (ACS) in Nairobi, Kenya joined other African countries in demanding urgent and concerted action from all nations to lower emissions and reduce the concentration of greenhouse gases in the atmosphere.

In the summit, Kenya expressed concern that many African countries face disproportionate burdens and risks arising from climate change-related unpredictable weather events and patterns, including prolonged droughts, devastating floods, out-of-season storms, and wildfires, which cause massive humanitarian crisis with detrimental impacts on economies, health, education, peace and security, among other risks.

Kenya demonstrated her readiness to create an enabling environment, enact policies and facilitate investments necessary to unlock resources to meet our own climate commitments, and contribute meaningfully to decarbonization of the global economy. Kenya also committed to developing and implement policies, regulations and incentives aimed at attracting local, regional and global investment in green growth, inclusive of green and circular economies.

1.6.5 Reforming International Financial Institutions

Kenya continues to champion for concrete, time-bound action on the proposals to reform the multilateral financial system currently under discussion to build resilience to climate shocks, improve our debt management capabilities, provide interventions and instruments for new debt relief to pre-empt debt default by some African countries in our immediate region. During the Africa Climate Summit, Kenya

joined other African countries in calling for adoption of principles of responsible sovereign lending and accountability encompassing credit rating, risk analysis and debt sustainability assessment frameworks and urge the financial markets to commit to eliminate this disparity by 2025. Kenya has borne the weight of economic turmoil in Africa and recognizes the new dangers that climate change will wreck upon our own country and those in Sub Sahara Africa.

CHAPTER TWO: CROSS CUTTING INITIATIVES AND OPPORTUNITIES

The Bottom-up Economic and Transformation Agenda **(BETA)** implemented in the past one year is geared towards an economic turnaround based on a citizen-centric approach. In addressing national security threats to Kenya's national interests, BETA is focused on interventions on five key sectors that have been envisaged to have the largest impact to economic growth and prosperity as well as on citizen's welfare.

The Government instituted a number of cross-cutting measures to enhance National Security. The measures cut across legal, policy and institutional frameworks. These measures include:

2.1 Security Interventions

2.1.1 Security Sector Reforms and modernization

During the Fourth Medium Term Plan the Government has identified and prioritized a number of strategic areas for priority implementation. These priority areas are aimed at enhancing capacity of the security agencies to protect the country from internal and external threats and provide security for the citizenry. The interventions are:

- a) Security sector reforms;
- b) Modernization of equipment within the Security sector;
- c) Upgrade of systems for the delivery of citizen services;
- d) Improvement of border control mechanism, and
- e) Transformation of Kenya Prisons Enterprises.

2.1.2 Multi-Agency Initiatives

There has been collaboration of various Government agencies to tackle diverse security threats that require enormous resources and specialized expertise. A multi-agency approach has seen the establishment of Border Management Committees, Joint Operation Centers, continued seizures of contraband among others and has enabled pooling of resources, sharing of intelligence and expertise. Going forward the Government will enact legal and policy framework to support multi-agency security approach. Some of the multi-agency initiatives that the Government has conducted include:

2.1.2.1 Operation *Maliza Uhalifu*

The Government, in its efforts to ensure peace and security in North Rift, launched “*Operation Maliza Uhalifu*” on 14th February, 2023 which was preceded by a three days amnesty. While National Police Service is the lead agency, all other security forces including KDF are providing support. The operation is mandated to mop-up illegal firearms and ammunitions and end banditry and cattle rustling in the region. Further, the operation is meant to support all Government projects and initiatives aimed at achieving lasting peace and coexistence.

Table 15: Firearms, ammunitions and animals recovered in Operation *Maliza Uhalifu*.

No.	County	Firearms		Total firearms	Ammunition		Total ammo	Persons			Animals Recovered
		Recovered	Surrendered		Recovered	Surrendered		Arrested	Injured	Killed	
1	Elgeyo Marakwet	2	0	2	0	0	0	68	1	0	0
2	West Pokot	4	1	5	0	5	5	31	0	1	0
3	Baringo	9	12	21	36	32	68	65	0	0	128
4	Turkana	12	13	25	41	28	69	20	0	0	3
5	Laikipia	0	0	0	0	0	0	2	0	0	0
6	Samburu	22	76	98	211	106	317	28	0	0	40
	TOTALS	49	102	151	288	171	459	214	1	1	171

2.1.2.2 Operation *Amani Boni (OAB)*

This is an on-going operation within Lamu County aimed at flashing out Al-Shabaab and securing the LAPSSET project. The operation aims to create a secure environment for social economic development including the construction of the Lamu – Ijara – Garissa and Garissa – Saka – Isiolo roads as well as creating favorable conditions for National and County Governments to address underlying issues. This includes promoting CVE programs in coordination with the National/County Governments and other stakeholders. This continues through enduring/robust patrols and reduced response times to incidents.

Going forward the Government will provide adequate modern equipment to enhance the capacity and capability of security agencies to respond to contemporary security threats.

2.1.3 Welfare of Security Officers

2.1.3.1 Improvement of Terms and Conditions of Service for Police, Prisons and NYS Personnel

Sustainable security is not only about the equipment for ensuring security but also the personnel welfare and wellbeing of the human capital. In this regard the Government prioritized the procurement of a health insurance scheme to provide for the health matters of security officers. Further, in efforts to expand the access to health facilities, the Government constructed and commissioned Level IV National Police Service Hospital in Nairobi and Level IV Border Police Hospital in Kanyonyo. The Government has employed psychological counselors to offer support to Police Officers across the 47 counties.

In order for the Government to further improve on the conditions of service and the welfare of the officers National Taskforce was established to:

- (a) Identify the legal, policy, administrative, institutional and operational constraints on effective service delivery by the National Police Service (NPS); the Kenya Prisons Service (KPS) and the National Youth Service (NYS);
- (b) Identify and recommend legal, policy, administrative, institutional and operational reforms in the NPS, KPS and NYS for effective service delivery;
- (c) Review and recommend improvement of the terms and conditions of service;
- (d) Review and recommend improvement of matters relating to welfare of officers in all cadres of the NPS, KPS and NYS and all other matters incidental to the optimal service delivery by the NPS, KPS and NYS; and

- (e) Review and recommend on any other matter incidental to improved terms and conditions of service and other reforms in the NPS, KPS and NYS.

CHAPTER THREE: CONCLUSION

A society free from danger and fear is a commitment that the Government gave under Vision 2030. The aim of this commitment is the improvement of security in order to lower the cost of doing business and to provide Kenyans with a more secure living and working environment. This was to be achieved through strategies including: citizen participation in security; enhancement of number of Police Officers; enhancing information and communication technology (ICT) in crime detection and prevention; and enhancing capacities of police officers.

The Government has consistently and progressively put in place strategies to not only attain, but also surpass the ideals of the Vision. The strategies which include capacity and capabilities are aimed at according Kenyans sustainable, effective and efficient security. Specifically, the Government has enhanced the numbers of security officers; modernized security equipment and reviewed legal, policy and institutional frameworks.

Cognizant of the security-development nexus, the Government is committed to transform the economy through key sectors namely: agricultural; micro-small and medium enterprises; housing and settlement; healthcare; digital and creative economy; sustainable environmental management; and mitigating the effects of climate change. This will eventually improve the welfare of Kenyans and thereby offer premium to provision of security.

To offer the much-needed paradigm shift in security, in line with BETA, the Government is committed to revamp security sector institutional reforms; security sector equipment modernization; upgrade of systems for the delivery of citizen services; improvement of border controls; and transformation of Kenya Prison Enterprises. These key priority areas will not only make it easier for security

agencies to offer services to the people but also help reduce the cost of offering services to Kenyans.

The importance of human capital in security management is a critical cog in national security. The outcome of the National Taskforce on improvement of terms and conditions of service of Police, Prison and National Youth services will help address existing gaps in legal, logistical and operational fronts and ultimately improve the welfare of the officers.

Going forward, the Government shall deliberately support institutional independence to enable the agencies to uphold professionalism and deliver to Kenyans.