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THE SENATE

TWELFTH PARLIAMENT – SECOND SESSION

REPORT OF THE STANDING COMMITTEE ON FINANCE & BUDGET ON THE 2018 BUDGET POLICY STATEMENT

PARLIAMENT BUILDINGS

NAIROBI

FEBRUARY 2018

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PREFACE

Mr. Speaker Sir

The Committee on Finance and Budget was constituted by the House on Thursday 14th December, 2017 during the First Session of the Twelfth (12th) Parliament. The Committee as currently constituted, comprises the following members:

1.	Sen. (Eng) Mohamed M. Mahamud, CBS, MP	- Chairperson
2.	Sen. (Dr) Isaac Mwaura, CBS, MP	- Vice Chairperson
3.	Sen. Wetang'ula Moses Masika, EGH, MP	- Member
4.	Sen. Mutula Kilonzo Junior, MP	- Member
5.	Sen. Aaron Cheruiyot, MP	- Member
6.	Sen. (Dr.) Ali Abdullahi Ibrahim, CBS, MP	- Member
7.	Sen. (Dr) Rose Nyamunga, MP	- Member
8.	Sen. CPA Farhiya Haji, MP	- Member
9.	Sen. Boniface Mutinda Kabaka, MP	- Member

Mr. Speaker Sir,

The Standing Committee on Finance and Budget is established pursuant to Standing Order No. 212 and is mandated to -

a) Investigate, inquire into and report on all matters relating to coordination, control and monitoring of the county budgets and to examine -
   i) the Budget Policy Statement presented to the Senate;
   ii) report on the Budget allocated to Constitutional Commissions and independent offices;
   iii) the Division of Revenue Bill, County Allocation of Revenue Bill, and cash disbursement schedule for county governments;
   iv) Consider all matters related to resolutions and Bills for appropriations, share of national revenue amongst the counties and all matters concerning the National Budget, including public finance and monetary policies and public debt, planning and development policy.

b) Pursuant to Article 228 (6) of the Constitution, to examine the report of the Controller of Budget on the implementation of the budgets of county governments

The Finance and Budget Committee is further given legal backing under the Public Finance Management Act, 2012 as well as the Constitution.

Mr. Speaker Sir,
The Committee oversights the National Treasury and Ministry of Planning.

Mr. Speaker Sir, on behalf of the Standing Committee on Finance and Budget and as required under the standing order 174 as read with second schedule of the Senate Standing Orders, I hereby present to this House, the Committee's Report on the 2018 Budget Policy Statement which was tabled in this House on 14th February, 2018.

Upon submission to the House, the Budget Policy Statement (BPS) was committed to Standing Committee on Finance and Budget to deliberate upon and make recommendations. The Finance and Budget Committee hereby tables the report containing its recommendations on the BPS to the House for consideration and approval.

Pursuant to standing order 174 (5), the Committee invited the Cabinet Secretary, National Treasury, Commission for Revenue Allocation (CRA), the Council of Governors and County Assembly Forum (CAF). Further, the Committee invited Senate Standing Committee, which oversight different state departments, to consider respective sector provisions in the BPS and forward the observations and recommendations.

Mr. Speaker Sir, the Committee in making the recommendations, considered the views of all the stakeholders. The Committees made significant observations on the BPS policy proposals for the 2018/19 and the medium term, identifying broad policy issues with great impact on counties and proposals on revenue allocation.

Mr. Speaker Sir, It is significant to mention that the purpose of the approval of this report on the PBS is to communicate the Senate's position on the preparation of all subsequent budget documents for next financial year. These documents include Division of Revenue Bill, 2018 and County Allocation of Revenue Bill, 2018. It is also important to note that Section 25 of the Public Finance Management Act, 2012, stipulates that the resolutions of Parliament, comprising both Houses, on the BPS must inform the preparation of the Annual Estimates. Thus, by

extension, this House's resolutions on this report will form the basis of evaluating the 2018/19 estimates for the various spending agencies at both national and devolved level.

EXAMINATION OF THE MEDIUM TERM BUDGET POLICY STATEMENT

Pursuant to Public Finance Management (PFM) Act, 2012 Section 25 (2), the National Treasury submitted the 2018 BPS.

Pursuant to PFM Act section 25 (7), and standing orders 174 of the Senate Standing Orders, the BPS was committed to the Standing Committee on Finance and Budget for consideration and recommendation. In considering the 2018 BPS, the Committee held five sittings and a report writing retreat.

Mr. Speaker Sir, from the perspective of the Senate Committees and the role of Senate in protecting the interest of counties, the broad issues in the 2018 BPS can be categorized as follows:

(i) National policies and programmes that have a direct impact on economic performance of counties; and

(ii) Proposals on division of revenue between the two levels of government and among counties for the 2017/18 financial year.

Mr. Speaker Sir, the 2018 BPS mainly focuses on the ''Big Four'' which aimed at Creating Jobs, Transforming Lives. It is important to note that three out of ''Big Four'' are devolved functions. However, the policy was silent on the role of the counties in accomplishing the 'Big Four".

Mr. Speaker Sir, some of the Committee recommendations are as follows;

a) That, **Ksh. 327.714 Billion** as the County government equitable share for Financial Year 2018/2019

b) That, **Ksh. 59.842 Billion** as the Conditional Grants including an allocation of Ksh. 5 Billion for establishment of 2 Regional Cancer Referral Centres and Ksh. 1 Billion for a National Cancer Drugs Access Programme.

ACKNOWLEDGEMENT

Mr. Speaker Sir,

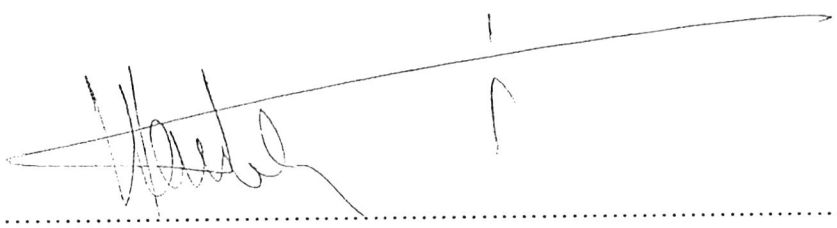
The Committee is grateful to all the stakeholders who made contributions through appearing before the Committee and written submissions including the Standing Committees, the National Treasury, the Commission on Revenue Allocation (CRA) and Council of Governors.

The Committee is also particularly grateful to the Offices of the Speaker and the Clerk of Senate for the support received as it discharged its mandate of examining the 2018 BPS as well as to the Senators who participated in the process.

Mr. Speaker Sir,

It is therefore my pleasant duty and privilege, on behalf of the Finance and Budget Committee to table this Report and recommend it to the House for adoption.

Signed



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SEN. (ENG) MOHAMED MAALIM MOHAMUD, MP
CHAIRMAN, FINANCE AND BUDGET COMMITTEE
Date: 28th February, 2018

ADOPTION OF REPORT

Pursuant to standing order 207 (2) the Finance and Budget Committee considered the report on 2018 BPS and adopted it as follows-

Sen. (Eng) Mohamed M. Mahamud, CBS, MP - Chairperson

Sen. (Dr) Isaac Mwaura, CBS, MP - Vice Chairperson

Sen. Wetang'ula Moses Masika, EGH, MP - Member

Sen. Mutula Kilonzo Junior, MP - Member

Sen. Aaron Cheruiyot, MP - Member

Sen. (Dr.) Ali Abdullahi Ibrahim, CBS, MP - Member

Sen. (Dr) Rose Nyamunga, MP - Member

Sen. CPA Farhiya Haji, MP - Member

Sen. Boniface Mutinda Kabaka, MP - Member

I. INTRODUCTION

1) The Budget Policy Statement (BPS) is a policy document that sets out the broad strategic priorities and policy goals that will guide the national and county governments in preparing their budgets for the financial year and over the medium term. The strategic direction of the BPS is informed by the policies outlined in the various government policy documents such as Vision 2030, Ministerial and Sectoral Development Plans among others and is geared towards achieving overall economic growth and development. The growth strategy, revenue and expenditure proposals in a particular financial year should take into account the current state of the global and domestic economy including the outlook of the various macroeconomic variables.

2) The 2018 BPS is the first BPS prepared under the second term of the Jubilee Administration and sets the pace for key policies, priority programs and reforms which will be implemented over the next five years (2018 – 2022). Under a banner titled, "The 'Big Four'" Plan, the BPS outlines key interventions in manufacturing, agriculture and food security, healthcare as well as housing which will drive the economic transformation agenda towards industrialization, job creation and a general improvement in the quality of life for all Kenyans. To achieve these policies, the BPS also outlines overall expenditure proposals for programmes under various Ministries, Departments and Agencies (MDAs).

3) The 2018 BPS is divided into four parts as follows: Part I gives a general overview of the recent economic developments and the medium term outlook; Part II gives the details of the 'Big Four' plan including priority initiatives and targets to be achieved by 2022; Part III outlines the revenue and expenditure projections for 2018/19 and the medium term; and part IV discusses the county financial management and division of revenue.

4) The document is supposed to set out the broad objectives, policy goals and strategic priorities that guide the National and County Governments in preparing their budgets both for the following financial year and over the medium term. As provided by Section 25 of the Public Finance Management Act, 2012, the key contents of the BPS include the following:

i. An assessment of the current state of the economy and the financial outlook over the medium term, including macro-economic outlook.
ii. Financial outlook with respect to Government revenues, expenditures and borrowing for the next financial year and over the medium term.
iii. The proposed expenditure ceilings for the 3 arms of Government and indicative transfers to County Government.
iv. The fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt.
v. The total resources to be allocated to individual programmes and projects within sector, ministries, departments and agencies indicating outputs expected during the period.

5) The role of Senate in the review and approval of government economic and spending policies contained in the BPS are clearly buttressed in the functions of the Senate as set out in Article 96 of the Constitution. The BPS sets out the annual revenue amounts to be raised by the National Government; these are invariably the resources that are allocated to each level of government including counties (Article 203).

6) The Senate's role therefore spans protecting the financing of counties, ensuring unified economic policies and prosperity in counties for the benefit of all Kenyans, and to improve national and intra-county business climate. Thus, there is an overwhelming case for the Senate to pronounce itself on any matter it deems fit as articulated in the BPS.

7) The expenditure ceilings for FY 2018/19 as provided in the 2018 BPS are as follows (in Ksh. billions):

i. National Government	**Ksh. 1,428.53 B**
ii. Parliament	**Ksh. 31.77 B**
iii. Judiciary	**Ksh. 17.78 B**
iv. Consolidate Fund Services	**Ksh. 690.37 B**
v. County Equitable Share	**Ksh. 314.0 B**
vi. Equalization Fund	**Ksh. 4.7 B**
vii. Contingency Fund	**Ksh. 5.0 B**

8) The Committee assessed the adherence of the 2018 BPS to the Constitution, PFM, 2012, PFM Regulations and Standing Orders and observed that there was missing information in relation to pending bills as required under PFM Regulations 26(2)(f). Further, it is noted that the ceilings set and approved by Parliament for previous BPS are not binding when making the budget estimates especially for development expenditure and personnel spending.

II. REALISM OF THE 2018/19 MACRO FISCAL FRAMEWORK

Economic Growth Outlook

9) Global growth is expected to improve in 2018 to 3.9 percent from 3.7 percent in 2017 mainly owing to the positive effects of the USA tax policy changes on global trade and investment. In the East African Community growth has slowed down since 2016 mainly due to prolonged effect of drought, political tensions and a decline in credit growth. The outlook for East Africa is an estimated growth of 5.6 percent in 2017, 5.9 percent in 2018 and 6.1 percent in 2019. This growth will be enabled by Private consumption, public investment in infrastructure, rebound in agriculture after poor harvests in 2017, increased activities in construction, ICT and manufacturing sectors.

10) Kenya's economic growth for 2017 is estimated to drop by 1 percent to 4.8 percent from 5.8 percent in 2016. The growth was negatively impacted by adverse weather conditions and electioneering period that resulted to unfavourable business environment. Notably, stability in the monetary sector of the economy and a rebound of the tourism sector ensured stability to the macroeconomic environment. The Committee noted that sectoral performance for 2017 deteriorated especially in most sectors. This could be attributed to the fact that sectors that would lead to sustainable economic growth are not what the country is investing in. It is important to link the sectors underpinning economic growth to specific policies and programmes in the budget to enable achievement of the "'Big Four'" plan. This means that the sectors will have to grow at much higher rate.

11) The BPS 2018 categorizes the economic developments into two historical periods i.e. 2008- 2012 and 2013- 2017 where the economy grew by 4.5 percent and 5.5 percent respectively. In addition, it states that the economy generated an average of 817.0 thousand new jobs per year in the period 2013 - 2017 up from 656.5 thousand jobs per year in the period 2008-2012 among other macro-economic indicators. The economic growth rate is projected at 5.3 percent for FY 2017/18, 5.9 percent in FY 2018/19, 6.3 percent in FY 2019/20 and 6.8 percent in FY 2020/21. This growth will be supported by: -The "'Big Four'" Plan, investment in infrastructure, strong agriculture production due to improved weather condition, buoyant services sector, continued recovery in tourism, increased investor and consumer confidence, macroeconomic stability.

12) The Committee observed that the Macroeconomic framework in the 2018 Budget Policy Statement (that will be the basis of preparing the FY 2018/19 budget) has very optimistic targets for economic growth. This often leads to high revenue projections that stimulate increases in expenditures in National and County Governments. In-year, there are often revisions in the budget that result to expenditure cuts mainly due to low performance of revenue collection. This leads to a great disconnect among what is approved at the BPS stage, the Budget estimates stage, implementation stage and the actual outputs.

13) The Committee noted that in the 2015, 2016, 2017 and 2018 BPS a key assumption has been a strong agricultural production on account of improved weather conditions. This assumption is flawed given that weather patterns have become drastically unpredictable over time due to climate change and so is the impact. Further, an improved weather condition does not guarantee increased agricultural production. Indeed, there is need to focus on other factors that affect agricultural production such as quality of seeds, re-orientation of irrigation land fragmentation, transfer of technology, efficient processing and marketing of agricultural products, abolition of cartels, among others.

14) The Committee observed that consumer confidence is likely to support a consumption driven economy especially one with a thriving consumer base, but this depends on what is being consumed and from where. Consumption accounts for over 90 percent share of real GDP of which the largest portion is from private sector. A considerable portion of the value of imports is on capital commodities used as intermediate inputs in the production process. This makes the economy susceptible to external shocks as an increase in prices of these products in the international market or a depreciation of the Kenyan Shilling to the dollar will increase the cost of production, worsen the current account balance and erode improvement of economic growth.

Inflation

15) Inflation was high for the better part of 2017, due to high food prices and also increasing fuel prices. However, it stabilized to 4.8 percent in January, 2018 which is within the

target range of 5± 2.5 percent. The stability in inflation emanates from seasonal reduction in food prices and prudent monetary policies. The BPS 2018 projects the inflation will remain within the target range in the medium term supported by: prudent monetary and fiscal policies, favourable weather outlook, relatively lower international oil prices, stable exchange rate that is expected to dampen any risks of imported inflation.

16) The Committee observed that inflation is likely to remain within single digits given reduced volatility from food prices. However, downside risks from food prices remain especially with the winding up of the maize flour subsidy and the current forecast of La Niña / floods that is a high risk to performance of the agriculture sector. Another key risk to inflation will most likely stem from increased fuel prices. The global outlook is increased oil prices for 2018 mainly due to the extension of the OPEC agreement to limit oil production. In addition, the cost electricity is also likely to go up if thermal power (which uses diesel) continues to be used as substitute for hydropower generation which is expected to decline owing to below per water levels in various dams, the most recent being Sondu- Miriu Dam and Masinga Dam..

Interest rates and private sector credit

17) The interest rates have remained stable and the Central Bank Rate -which is the main monetary policy rate- has remained at 10 percent since August 2016. The lending rate remained within the interest cap pegged to the CBR, at an average of 13.7 percent compared to 17 percent before the interest rate capping law. The interbank rate declined to stand at 4.65 percent by mid-February 2018 compared to 7.7 percent in January 2017 and this implies increased liquidity in the money market. There is low uptake of the 91-day Treasury Bills as its rate declined from 8.6 percent in January 2017 to 8.0 percent in 2018. The interest rate spread narrowed from 5.9 percent in October 2016 to 5.7 percent in October 2017 which denotes improved efficiency in the banking system.

18) The credit to private sector has gradually improved to a growth rate of 2.4 percent in December 2017 from 1.5 percent in June 2017. This improvement is mainly in the real estate and manufacturing while growth in credit to other segments of the private sector such as transport & communication, business services continue to deteriorate. Money

supply grew by 9.5 percent in 2016 compared to 3.7 percent in 2015 on account of improvement in Net Foreign Assets and increased Net Domestic credit.

19) The BPS 2018 projects that the interest rates will remain low and stable over the medium term. This is supported by improved liquidity conditions and the proposed fiscal consolidation. The Committee observed that the risks to the low level of interest rates outlook would be a possible amendment of the interest capping law; which would destabilize the money market in the short-run and affect the liquidity conditions either positively or negatively depending on market sentiments. In addition, the Central Bank Rate has remained unchanged for quite some time and any signal from the Central Bank on a change of the CBR poses a great deal of uncertainty in the money market which affects investment decisions.

Exchange rate & External Sector

20) The exchange rate has commendably been stable against major international currencies. In January 2018, the Kenya Shilling strengthened against US Dollar at Ksh 102.9 but weakened against the Euro, Sterling Pound and Japanese Yen at Ksh. 126.3, Ksh 142.3 and Ksh 94 respectively. The foreign exchange reserves remained adequate at 4.9 months of import cover.

21) The Balance of Payments position improved to a surplus of USD 163.6 Million in 2017 from a deficit of USD 129 million in 2016 on account of an improvement in the financial account that more than offset the current account deficit. The current account deficit worsened during the same period from USD 3652.8 Million in 2016 to USD 5095.2 Million in 2017. The imports increased mainly on account of importation of oil, machinery and equipment related to the SGR project. In addition, the lower global demand for exports of manufactured goods attributed to the low performance of exports.

22) The BPS 2018 projects that the exchange rate will remain stable, the current account deficit will narrow and improvement in the Balance of payments owing to better

performance of tea and horticultural exports, diaspora remittances, recovery of tourism and increased Foreign Direct Investment (FDI) in infrastructure.

23) The Committee noted that it is projected that current external deficit position will worsen from 5.5 percent of GDP in 2017 to 5.75 percent in 2018 and improve to 5.45 percent in 2019. However, the BPS 2018 does not give clear policy measures being pursued to this effect and also specific projects or programmes being implemented through the budget that will enable improvement in the current account deficit. There is need for:

(i) the Budget Policy Statement should give a clear linkage between the policies being pursed in the external sector under the macro-economic framework and the specific programmes/ projects that will be financed so as to achieve the set target;

(ii) improved performance of exports especially for tea and horticulture. However, these depend on the erratic weather patterns being experienced in the country and therefore to climatic instigated shocks, the country will have to expand its export base and diversify its products as well as value addition in order to be protected from such vulnerabilities; and

(iii)the financing of the country's capital account primarily through loans to be reliable as this is money that has to be repaid. A sustainable improvement in the current account balance will typically require higher national savings which will ultimately lead to higher investment levels and therefore boost growth levels in the country.

Revenue

24) The 2018 BPS indicates that the growth of revenue for financial year 2018/19 will be underpinned by on-going reforms in tax policy and revenue administration such as the roll out of the integrated customs management system (ICMS) to seal loopholes at the Customs. Indeed, given the sustained underperformance of revenue in past years, it is very important to ensure that the revenues projected for 2018/19 are realistic. It should be noted however that the impact of these reforms is not clear as they have not been adequately assessed and quantified. As such, it is difficult to determine exactly how much revenue will be raised simply from implementing these measures. To achieve the 'Big Four' agenda without increasing the country's debt burden, there is need for stronger strategies to enhance revenue collection.

III. THE 'BIG FOUR' ECONOMIC PLAN AND DEVOLUTION

25) The BPS outlines the "'Big Four'" plan as: -

(i) **Supporting value addition and raise the manufacturing sector's share of GDP to 15 percent by 2022:-** The 2018/19 BPS targets to increase the contribution of manufacturing sector from 9.2 percent in 2016 to 15 percent of GDP by 2022 and to increase formal manufacturing sector jobs to approximately 400,000.

(ii) **Focusing on initiatives that guarantee food security and improve nutrition to all Kenyans by 2022:-** The 2018 BPS states that the Government will focus on following three broad areas in 2018:- Enhancing large-scale production, boosting smallholder productivity and reducing the cost of food.

(iii) **Providing Universal Health Coverage thereby guaranteeing quality and affordable healthcare to all Kenyans:-** It is proposed that over the next five years, the Government will target 100 percent Universal Health Coverage (UHC) for all household's. Key to the attainment of this objective is the reconfiguration of the National Hospital Insurance Fund (NHIF).

(iv) **Providing at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022:-** The 2018 BPS states that the target is to deliver five hundred thousand housing units by 2022 in major cities across the country so as to provide decent homes and create an additional 350,000 jobs among others.

26) It highlights key priority initiatives and targets as well as the enablers that are key to achieving of the "'Big Four'" plan. However, the Committee noted that the role of County Governments in realization of the ''Big Four'' plan was not explicitly stated though they have a role to play especially since some of these sectors are devolved functions. In addition, the BPS alludes to policies that are aligned to the Medium-Term Plan III of the Kenya Vision 2030 but the Medium-Term Plan III is yet to be released.

IV. COUNTY GOVERNMENTS FISCAL PERFORMANCE

Review of County Governments Fiscal Performance

27) County Governments' budgets have been on an upward trend, however, there has been a variance between approved budgets and actual expenditure at the end of the financial year. This exhibits several challenges among them, low revenue collection arising from administrative inefficiencies and lack of elaborate legislations at the county level to enhance county own-source revenue.

28) The Committee noted that own source revenue targets are either overstated or projections are not well thought-out with emphasis on certain optimistic projections. This results to county budget deficit which may eventually lead to borrowing or widening the recurrent-development budget ratio above the statutory level of at least 30:70 percent respectively. This overall effect of more recurrent expenditure results in expansionary spending as opposed to asset and job creation.

29) The Committee noted that at the close of financial years, County Governments retain large balances from previous financial years and yet at the same time carry forth pending bills to subsequent financial years. In addition, county expenditures have in some instances overshot the aggregate exchequer issues which implies extra funding to county governments. Spending beyond exchequer releases means that there are other undisclosed sources of funds available to the counties.

30) The understatement of the counties own source revenue (OSR) streams and unspent balances at the end of the financial year, implies that Counties may have withdrawn from their county revenue funds in form of overdrafts and failed to report. It was noted that at the commencement of the financial year or in-year, pending bills may have been honoured and cleared outside the exchequer releases but not reported.

Compliance with Fiscal Responsibility Principles

31) Section 107 of the PFM Act 2012 provides guidance for proper and prudent management of county resources in accordance to set out fiscal responsibility principles. The Committee noted that on average, county allocations to development expenditure are

approximately 30 percent of their budgets and that Counties with the highest expenditure on wage bill, have the lowest development expenditure.

32) The Committee observed that whereas the PFM Act and Regulations provide for controlled expenditure allocation on compensation to employees (set at 35 percent of the Counties' revenue) and development expenditure (set at least 30 percent of the total budget), historical trends of county governments expenditures indicate that most county governments continue flouting this requirement. This is likely to increase levels of indebtedness, as was the case with the defunct local authorities, where wage bill is recorded at more than 50 percent in most counties. This erodes the benefits of devolution as it may not take development closer to the people as envisaged in the Constitution.

33) The Committee noted that personnel costs drain resources available to the county governments. The reward system is not uniform across the counties and staff establishment is not on a skills need assessments but rather most counties inherited bloated staff from defunct local authorities and continued with recruitment despite having a large workforce. A large workforce increases statutory obligations and other hidden costs associated with employment benefits.

County Financial Reports

34) The Committee assessed the issues on County Financial Reports and made the following observations: -

- **Intermittent use of IFMIS:** The reports from both the Auditor General and Office of the Controller of Budget indicate that there are variations of fiscal transactions and IFMIS records as a result of failure by the county governments to post all their transactions on IFMIS systems.

- **Procurement:** Recurring cases of flouting public procurement rules and procedures are still common among counties. Some of these include- procurement of goods and services outside procurement plans; full payments for incomplete or stalled projects; unjustified single sourcing of supplies; failure to disclose costs of projects rolled over from previous years and in-year virements that occasion regular supplementary budgets.

- **Assets and Liabilities Management:** Section 149 of the PFM Act and Section 132 of the PFM County Regulations, provide that accounting officers should ensure county governments have adequate systems and processes in place to plan, procure, account and maintain assets registers. There is lack of maintenance of fixed assets registers across many counties. The lag in establishing the assets and liabilities inventories is likely to affect accuracy and genuineness of those inventories. Therefore, the need to fast-track, identify, verify and validate the exact register of assets and liabilities inherited from the defunct local authorities but also those incurred in subsequent years by the county governments. This will ascertain the correct position and cushion respective county governments from contingent liabilities and other fiscal risks.

- **Creation and management of public funds:** Some counties have made county legislations setting up public funds such as ward funds, the car and mortgage schemes without putting in place sufficient regulatory frameworks to guide the management of these funds. Most counties that have established such funds have contravened the laid down procedures as provided in the PFM Act and this pose potential contingent liabilities that may lead to loss of public fund. Section 197 of the PFM Act County Governments Regulations, provides for the criteria for setting up county public funds. However, a review shows non-compliance with these requirements.

- **Planning and Budgeting:** Essentially budgets should be guided by laid down development planning process. Further, budgets should be linked to envisaged resource envelops. In this regard, the Constitution requires budget preparation must be guided by the development plans. Currently, Vision 2030 is the underpinning policy document that guides planning in the long term at national level. It is further broken down into 5-year MTPs. Drawing from these, County approved budgets should be informed by the county integrated development plans (CIDPs) and Annual Development plans. However, there is a weak link between the CIDPs and budgeting processes, mostly, development projects being implemented are weakly linked to approved CIDPs and ADPs. This is compounded by unauthorized and reallocations of funds from existing or stalled

projects. These results to weak monitoring and evaluation, delay in completion and even stalling of projects.

V. VERTICAL ALLOCATION OF RESOURCES

Principles of Resource Sharing: An interpretation of the 2010 Constitution

35) Chapter 12 of the 2010 Constitution, ushered a new public financial management architecture complete with principles of public finance, institutional responsibilities and importantly principles to be followed when sharing of nationally raised resources between the two levels of government. Based on Article 202 and 203 of the Constitution, the following are key principles ideally to share the resources between the two levels of government.

(i) **Principle of Equity**- Equity in public finance means being allocated fairly what you deserve which can be based on what you produce or the basic minimum that can guarantee survival. It is also known as the **principle of predictability.** Hence the principle of pegging the basis of resource allocation to the last audited accounts. Article 202 (1) provides revenue raised nationally shall be shared equitable among the national and county governments. Further Article 203 (2) provides that the amount allocated shall not be less than 15 percent of all revenue collected by the National government.

(ii) **Principle of Allocative efficiency**- Allocative efficiency means having to allocate resources based on priority and cost of maintaining current operations as before. Article 203 (1) (d) provides that when allocating counties resources considerations be made on the need to ensure that county governments are able to perform the functions allocated to them. This means the counties cannot get less than the previous year not unless there are quantifiable reports related to article 203 (1) (e) in case of fiscal capacity and efficiency of county governments which may be applied to a specific county but on the overall equitable share.

(iii)**Principle of Developmental needs and ability to respond to emergencies-** In public finance there is the principle of additionality in development necessitated by the need to improve on the wellbeing of a state and the issue of having flexibility within the budget to respond to emergencies and build surpluses for the future. Article 203 (1) (f) and (k) provides that when deciding on what resources

should be given to counties, the need for developmental and other needs of counties should be taken into account. It thus means after the principle of allocative efficiency additional resources should be considered for developmental needs. The practice has been to use the baseline and work out the additional either based on population growth or economic growth or growth in revenues depending on what ration is easier to calculate.

(iv) **Principle of Resources follow functions-** The constitution was very clear on what functions should be performed by the county level of government and which ones were to be performed by the National government. On that account any new function that is transferred or allocated to the county level of government should also move with resources and if it is new the national government should identify resources for the new function.

(v) **Principle of subsidiarity-** In the principle of subsidiarity, it demands that for additional performance in order to deal with the issues of disparities, the national government can cede some resources to the counties in form of conditional grants. This is as provided in article 202 (2) and 203 (1) (g) and (h) that economic disparities and affirmative action in respect to disadvantaged areas and groups.

36) The Committee observed that if these principles are adhered to, then the required allocation to the County Governments will follow automatically.

BPS 2018 Vertical Division of Revenue

37) In the 2018 BPS, the nationally raised revenue for financial year 2018/19 is projected at Ksh. 1.688 Trillion out of which Ksh. 1.37 Trillion will be allocated as the equitable share to National Government. The allocation for the Equalization Fund for FY 2018/19 is Kshs. 4.7 Billion which is a 39 percent reduction from the previous year. The BPS also proposes an allocation of Ksh. 372.74 Billion to the County Governments for FY 2018/19. This amount comprises of Ksh. 314 Billion as equitable share and Ksh. 58.74 Billion as conditional grants of which Ksh. 33.2 Billion will be from Development Partners.

38) The Conditional grants allocations proposed in the 2018 BPS for FY 2018/19 are as follows: -

- Leasing of Medical Equipment- Ksh. 9.4 Billion
- Compensation for user fees foregone- Ksh. 900 Million
- Level 5 Hospitals- Ksh. 4.326 Billion
- Rehabilitation of Village Polytechnics- Ksh. 2 Billion
- Supplement for Construction of County HQs- Ksh. 605 Million
- Allocation from the Fuel Levy (15%)-Ksh. 8.269 Billion
- Allocation from Loans and Grants-Ksh. 33.242 Billion

39) The second basis for allocating revenue among county governments as used for FY 2017/18 will be used for FY 2018/19. This comprises of different weights for six parameters namely - 45 percent for population, 26 percent for equal share, 18 percent for poverty, 8 percent for land area, 2 percent for fiscal responsibility and 1 percent for development factor.

40) The Committee observed that over the last five years, there have been significant variations between the CRA recommendations on the equitable share of revenue to the counties and the BPS proposals on the same. This is partly occasioned by different use of assumptions and growth factors.

VI. MEDIUM TERM DEBT MANAGEMENT STRATEGY FOR FY 2018/19

Introduction

41) Article 201 of the Constitution lays the grounds for ensuring that burdens and benefits of resources and public borrowing are equitably shared between present and future generations. As such this necessitates establishment of debt management strategy for managing stock of debt and financing the budget deficit through cost and risk effective mechanisms. The Medium Term Debt Management Strategy (MTDS) FY 2018/19 was prepared and presented to the Houses of Parliament subject to Section 64(2), and Section 33 of the PFM Act, 2012 and Sections 184 & 185 of PFM Regulations and required to indicate:

i.) the total stock of debt as at the date of the statement;
ii.) the sources of loans made to the national government and the nature of guarantees given by the national government;
iii.) the principal risks associated with those loans and guarantees;
iv.) the assumptions underlying the debt management strategy and
v.) Analysis of the sustainability of the amount of debt, both actual and potential

42) Preparation of the Medium Term Debt Management Strategy (MTDS) is designed to support the new initiatives under the 'Big Four' agenda, that shall remain the focus of fiscal policy over the medium term, including other objectives of job creation and promoting sustainable business environment. These are meant to firm up the country's resilience towards shocks while enhancing productivity that will see the country grow by 5.6 percent in 2018 as estimated in the 2018 BPS.

43) In addition it comes at a time that the country's debt has grown for an annualized average growth rate of 18 percent for the past 10 years to Ksh. 4.57 trillion by end of Dec 2017. It is set to reach Ksh. 5.6 trillion by the end of FY 2018/19 on account of fiscal deficit. On the other hand, global debt levels soared to a record high of $233 Trillion in the third quarter of 2017. It is important to note that, China which has accounted for the lion's share of new debt in emerging markets, saw the its pace of debt accumulation slow down.

Highlights of MTDS 2018/19

44) The following are key highlights of the 2018/19 MTDS:

(i) The MTDS for FY 2018/19 proposes a borrowing framework of 57% external borrowing and 43% domestic borrowing to finance the national budget deficit. External Debt will be financed in the following manner:

- Concessional Finance - 23%
- Semi Concessional Finance – 12%
- Commercial finance - 22%

(ii) Domestic borrowing, the MTDS recommends issuance of medium term to long term treasury bonds as treasury bills will be issued for cash management.

(iii)It is indicated that the strategy indicated above will enable management of large debt falling due for both domestic and external debt in the medium term and provide an opportunity to extend debt maturities for overall debt in order to improve the overall average time to maturity

45) The Committee observed that in order to provide adequate information, the government will begin to provide a borrowing calendar, provide electronic trading platform for government securities and facilitate the over the counter government bond market.

Kenya's Debt Status and Debt Sustainability Analysis (DSA) Framework

46) As at the end of December 2017, the level of debt in nominal terms reached Ksh. 4.57 trillion, of which 51 percent is domestic debt and 49 percent is external debt. This will amount to 56 percent of the 2017 GDP. It is projected that the stock of debt will rise to Ksh. 5.608 trillion by the end of FY 2018/19 as a result of persistent budget deficit financing owing to high levels of budget expenditure and the refinancing requirements of large capitall projects.

47) Domestic debt comprises of Treasury Bills worth Ksh. 684.7 Billion and bonds worth Ksh. 1.46 trillion. On the other hand, external debt comprises principally of bilateral debt (Ksh. 715.2 billion), debt to commercial banks (Ksh. 367.3 billion), debt to International Development Association (Ksh. 514.4 billion)and African Development Fund (Ksh. 200.4 billion).

48) The Committee observed that over the years, commercial debt has been increasing consistently as the government finances infrastructure projects under energy, SGR, roads, among others. The ratio of Chinese debt has increased consistently from Ksh. 36.7 billion to Ksh. 313.1 billion accounting for over 66% of total bilateral debt by the end of FY. 2016/17. Multilateral debt, composed of debt from multiple financial institutions, is composed by concessional loans from the African development bank and the World Bank's International Development Assistance (IDA).

49) In addition, commercial debt that accounts to over 30.1% of total debt, has increased as a result of consistent utilization of international sovereign bond and syndicated loans. These have been acquired in the following manner:-

- In 2012 Kenya contracted a 2-year US 600 million syndicated loan,
- In 2014 issued its debut 5 and 10-year Eurobond totalling $2.75 billion, part of which was used to retire the maturing syndicated loan.
- In 2015 issued a 2-year syndicated loan of $750 million and a 7 Year commercial loan worth $600 million.

50) Debt sustainability analysis, compares debt burden indicators to thresholds over 20 -year projection period. If a debt burden indicator exceeds its indicative threshold then it would suggest that a risk of experiencing some form of debt distress exists. The objective of Debt Sustainability Analysis (DSA) is to evaluate a country's capacity to finance its policy agenda, and service the its debt without unduly large adjustments that may compromise its macroeconomic stability and/or that of its economic partners. The DSA framework consists of two complementary assessments of the sustainability of Total public sector debt and Total external debt.

51) Currently Public Sector DSA indicates that the level of debt in the country is generally sustainable at 49% against an IMF threshold of 74% in Net Present Value terms. However, the PFM Act Rregulations requires that debt to GDP ratio does not exceed 50% of NPV. This implies that there may be limited fiscal space for borrowing for the FY 2018/19.

52) Review of external debt sustainability indicates that the DSA ratios will remain within sustainable levels. This is attributable to the high level of concessionality of current external debt composition. However, risks to the current threshold may emanate from factors that might affect the assumption of a positive macroeconomic outlook over the medium term.

53) With regards to the overall debt strategy for 2018/19 and the medium term, the Committee observed that there were deviations from the debt strategies indicated under the 2018 Budget Policy Statement and the Medium Term Debt Strategy. While the BPS proposes to finance the deficit through borrowing more from the domestic market (external to domestic financing ratio of 37: 63 percent) the MTDS states a strategy of borrowing less from the domestic market (external to domestic financing ratio of 57:43 percent).

VII. SUBMISSIONS FROM STAKEHOLDERS

Pursuant to Standing Order 174 (5), the Committee invited the Cabinet Secretary, National Treasury, Commission for Revenue Allocation (CRA), the Council of Governors and County Assembly Forum (CAF).

On 20th February, 2018, the Commission for Revenue Allocation (CRA), representatives from National Treasury appeared before the Committee and submitted their views outlined herein. The Council of Governors, (CoG) submitted a memorandum through a letter on the same matter.

54) Submission from The Commission on Revenue Allocation (CRA)

The 2018 BPS focussed on the government agenda labelled as ''Big Four'' and aimed at: Supporting value addition and raising the manufacturing sector's contribution to GDP to 15 percent by 2022, Initiatives that would guarantee food security and nutrition through expansion of food production and supply, provision of Universal Health Coverage (UHC) and provision of affordable houses. The target was to deliver services which would improve the living conditions of Kenyans. The BPS did not define the role the county governments in actualising the ''Big Four'' given the concurrent roles of both levels of government.

Fiscal Deficit was focussed to reduce from 7.2% to 3.0 % of GDP over the medium term: by end of Financial Year (FY) 2021/2022.

The capping of interest rate substantially increased domestic credit to the government whereas the credit for Private sector increased minimally. The BPS 2018 did not outline measures which would spur growth in credit available to private sector and encourage private sector borrowing. Such a position would hinder efficient implementation of PPP as envisaged in actualising the ''Big Four''.

Disbursement to County Governments was delayed for the first quarter of the FY 2017/2018. That hindered the delivery of services to the citizens. It also led to pending bills; which had adverse effects on private sector especially (Small and Medium Enterprises (SMEs). Allocation to the Equalisation Fund was provided at Kshs. 4.7 billion for 2018/19. That allocation should have been increased to Kshs.6.4 billion to cater for arrears of previous years (2011/12 and 2012/13), part of which, was provided for in 2017/18. The BPS did not provide for any review of the utilisation of the Equalisation Fund. By June 2017, Kshs.1.1 billion had been spent in marginalised counties leaving a balance of Kshs. 11.3 billion.

There was misrepresentation of the Aggregate fiscal framework. The fiscal framework on allocation to national government was misrepresented. There was indication that allocation to national government was fast declining from a high of 18.4% to 8.5% whereas remained at an average of 20% of ordinary revenue. The BPS indicated that the national government be allocated Kshs. 1,370 billion in 2018/19, an increase of 16.4% from an allocation of Kshs. 1,177 billion in 2017/18. The County government allocation provided at Ksh314 billion in 2018/19, an increase of 4% from Kshs.302 billion in 2017/18. The 4% was not based on any criteria.

Conditional allocations were tied to actualisation of specific national government policies. The Commission recommended for a new conditional allocation through the ministry of Health to build and equip two regional cancer centres at a cost of Kshs. 2.5 billion each and establishment of a national cancer drug programme at a cost of one billion shillings annually. The BPS had not provided for this allocation. The Commission persuaded the parliament to provide for this allocation. Cancer was a national pandemic that was fast drawing the population into abject poverty.

Debt servicing had adverse effects on the equitable share. Government obligations (debt) must be met before sharing the revenue. Thus, with increase in debt, the sharable revenue reduces. That may hinder service delivery in the future especially by the county governments.

Deficit financing framework was inconsistent with: the investment plan that requires huge financial outlays to deliver the ''Big Four'', slow recovery of the economy and revenue forecasts presented in the 2018BPS.

Future County Allocation of Revenue Bills Cash Disbursement Schedule should separate equitable share and conditional grants. That would save the counties from delayed disbursement of equitable share as witnessed in first quarter of 2017/2018.

55) **Council of Governors**

The letter from Council of Governors indicated that the council was aware of the following proposals in the in the BPS -

County governments' equitable share for the FY 2018/2019 would be Ksh. 314 Billion. An allocation of 20% of roads maintenance fuel fund to cater for class D roads which were referred as county roads. There would be partnership between two levels of government to ensure implementation of the ''Big Four''

56) **The National Treasury and Ministry of Planning**

The representatives from the National Treasury informed that Committee that-

The 2018 BPS theme was 'creating jobs, transforming lives' which had been tagged as ''Big Four'' plan. The focus was on universal health, affordable housing, manufacturing sector and food security. To achieve the 'Big Four', there were plans to partner with counties since some of the roles were devolved under schedule 4 of the constitution.

Manufacturing sector was targeting by 2022 to increase its share to GDP from 9% - 15%. That would be achieved through reorganisation of the sector to revive industries like leather, textile, construction and building materials, embracing ICT, improvement of industrial enablers like affordable energy, security, road and sustainable macroeconomic environment.

Affordable housing would be achieved through improvement on access to cheap housing mortgage, supporting housing SaCCOs and private sector to provide necessary support and allowing issuing of bonds to raise equity for the same

Universal health would be achieved through working with NHIF to ensure access for all, increasing the number of level 5 referral hospitals.

Food security would be achieved through non dependence on the weather.

The national government effort would be geared towards reducing expenditure and increasing revenue- each ministry' programmes was to be rationalised to sustain the ''Big Four'' agenda. The ongoing projects would continue as well as integrate the ''Big Four''- necessary consultation were on going to ensure counties were collaborated into the plan. Effort would be made to integrate ''Big Four'' in the 2018 BPS and each ministry was obligated to align its programmes to the same. There was need in project management to conduct cost-benefit analysis. There was no new project to be initiated by the national government without a report on cost- benefit analysis.

During the FY 2017/2018 there were revenue shortfall which led to a lower growth rates. The target was 6.1% but it was later reviewed to 4.8%. Revenue collection was expected to rise

because of automation of iTax to increase domestic revenue, adoption of Integrated Customs Management System (ICMS) to improve on valuation systems, linking iTax to IFMIS.

The national public debt was sustainable for it was within the allowable levels as provided for in PFM Act, and according to the World Bank's country policy and institutional Assessment index. There was adequate legislation for County governments to develop Debt Management System (DMS). There were provisions on right procedure and counties must seek national government guarantee. Pertaining negotiated borrowing framework, PFM Act and Regulations had set limits and allowable service costs. Most of the counties did not qualify for incurring public debts since their financial statements required clean up.

It was necessary to conduct an assessment on the impact of capping interest rates. That would inform on whether there was need to adopt other mechanisms to control interest rates without reducing the capital accessible to the private sector.

Equitable share was based on principles set out in Article 203 of the constitution, fiscal framework at the national level- revenue shortfall and fiscal deficit, there had been an imbalance between funding of county function and national function; thus the growth factor of 4% on county equitable share from Kshs. 302 billion to Kshs.314 billion. County governments had huge pending bills- that would be attributed to over ambitious revenue projections. There was a proposal to build the capacity of counties on revenue projections, developing a regulation on revenue projections and use of inter-agency approach to develop policy to strengthen revenue collection.

The equalisation fund policy lapsed at the end of FY 2016/2017. A new policy was being designed by CRA. The appropriations made in 2016/2017 lapsed without implementation of the projects. New appropriations have to be done to ensure the projects implementation was legal and bidding.

The allocation for funding lease of medical equipment was to increase because the government was planning to introduce new referral hospitals. Secondly the previous Kshs. 4.5 billion was under funding/ budgeting.

The Committee noted that the growth factor on county equitable share was 4% while national government growth factor was 17.2%. The 4% did not consider the inflation factor which was at 5%.

57) **Senate Standing Committees' submissions**

Pursuant to standing order 174 (5), the Committee invited Senate Standing Committees, which oversight different state departments, to consider respective sector provisions in the BPS and forward the observations and recommendations.

The Standing Committees considered respective sectoral provisions in the BPS and the summary is as follows-

COMMITTEE	OBSERVATIONS AND RECOMMENDATIONS
Agriculture, Livestock and Fisheries	Operationalize the Fisheries Management and Development Act, 2016 through budgetary allocation to facilitate protection, management and use of aquatic resources.
	In the 2018/19 ceilings increase allocations made to the Departments for Agriculture, Livestock, Fisheries and Blue Economy by Kshs. 8 Billion
	Increase the allocation to Agriculture, Livestock and Fisheries from 8.76% to 10% in accordance with Maputo Protocol.
	Institutionalize measures that will address climate change and mitigation factors in particular to pastoralists and crop farmers as a strategy to address potential conflicts
	Reallocate resources from the Kenya Meat Commission to 47 Counties as conditional grants to facilitate establishment of abattoirs
	Enhance the operationalisation of the Pest and Control Product Board and Kenya Plant Health Inspectorate Services for better pest control services in particular army worms that affect maize farmers
	Streamline the management of the Coffee and Tea Cooperative societies to eradicate exploitation of farmers through middlemen
	Establish Conditional Grants to facilitate the county governments to do soil testing, quality seeds and fertilizers subsidies to enhance productivity
	Amend the Public Finance Management Act, 2012 to extend the timelines for the consideration of the Budget Police Statement from 12 days to 30 days for

COMMITTEE	OBSERVATIONS AND RECOMMENDATIONS
	objectivity.
	Institute measures to revival major cash crops such as sugar cane, cotton and enhance the value chain management in the agricultural sector in holistic such as marketing
Labor and Social Welfare	Prioritize development expenditure and pending bills and breach of contractual agreements
	Increase allocations to the State Department for sports development and State Department for Arts and Culture by Kshs 8,816 million and Kshs 4,684 million respectively to enhance service delivery by the departments
	Fast-track establishment of an institutional framework for enhanced coordination of all social protection programs to create harmony and avoid duplication
	Establish Conditional Grants to counties to support in Sports management and development in particular the allocation of the People Living with Disabilities
	Allocate resources to train and hire youth as Community Health Workers to complement the Universal Health Cover Program
	Fast-track amendment and enactment of legal frameworks (National Industrial Relations Policy, Wages and Remuneration Policy, Regulations on Oil and Gas, Labor Market Information Policy, Labor Migration Management Policy, National Social Development Policy, National Community Development Policy, Older Persons Policy, Persons with Disabilities Policy, Anti Female Genital Mutilation Policy, National Gender and Development Policy, National Equality Policy, Merging of Affirmative Action Funds Policy) that are aligned to the Constitution.
	Operationalize the National Employment Authority, Act, 2016 for manpower development, employment and productivity management
	Enhance allocation to the Sports and Arts Sector for employment creation to Youth and Women
	Enhance allocations to address succession management issues in the public service (*an ageing public service vis a vis youth employment*)
	Institute a framework that will facilitate accreditation and certification of semi-skilled labourforce to increase employment and complement skills in the

COMMITTEE	OBSERVATIONS AND RECOMMENDATIONS
	implementation of the Big 4 such as the construction sector
	Set allocations to provide incentives to the Private Sector to encourage employment of the youth in the sector, in particular, those with less than 6 months experience
National Security, Defence and Foreign Relations	Amend the PFM Act, to allow Parliament to have a longer period to engage with the Budget Policy Statement with the relevant stakeholders
	Institute a framework that will address issues of cattle rustling such as losses incurred through direct compensation or the expansion of the mandates of the Livestock Insurance Program
	Establish conditional grants to specific counties ravaged by challenges of youth radicalization and drug abuse in bid to come up with programs to stem out the vices. These counties include; Lamu, Isiolo, Mombasa, Mandera, Wajir, Garissa, Nairobi and Marsabit.
	Establish a framework to deal with recurring issues arising from acquisition of properties in foreign missions, such as use of inflated prices and poor rates of completion of foreign mission properties
Energy	Establish a framework to determine the real effects of the project designed to establish energy efficiency at the community or house hold level such as the "*last mile connectivity* program" and the *"Gas Yetu – Mwananchi Gas Project"*
	Establish a framework to fast-track training to Counties to enhance their capacity on natural resource management to invest in sustainable renewable energy and environmental conservation
	Evaluate budgetary allocations to the Lake Turkana Wind Power Project due to viability where the produced power cannot be evacuated due to lack of a high voltage line to transmit it to the Suswa substation and high operational costs.
	Develop a policy framework that will ensure mapping of energy requirement for every county, based on current and future consumption, to guarantee

COMMITTEE	OBSERVATIONS AND RECOMMENDATIONS
	uninterrupted services delivery for sustainable development.
	Amend the deign Budget Policy Statement to include information on energy distribution and transmission, resource allocation and development uptake per county level to facilitate Senate decision making criteria.
Health	Establish a policy framework that will harmonize and merge various initiatives/projects (HISP and Insurance for the elderly and the disabled) under the social insurance programs aimed at supporting the UHC for effectiveness and efficiency in implementation.
	The BPS should provide an additional Kshs. 11,806,032,000.00 to County Governments as combined additional cost as Negotiated under the Collective Bargaining Agreements with Doctors, Nurses and Clinical Officers.
	Fully operationalize the Health Act 2017 through an intergovernmental framework with county governments in the area of health human resource management which is a key element of ensuring a seamless and cost-effective implementation plan of the UHC.
	The proposed budget ceiling for Health sector for 2018/19 is Kshs 69.9 Billion which is less than the resource requirement for the sector which stood at Kshs 115.8 Billion. In the next MTEF period, the resource requirement for the sector is Kshs374.6 Billion against a proposed resource ceiling of Kshs. 215.9 Billion. This is a significant resource gap in the sector considering the government intention to actualize the UHC by 2022 as one of its 'Big Four' plans. Thus, the Health sector is not adequately supported in terms of resource allocation to implement of the Universal Health.
	Increase the budgetary allocation from 8 percent FY 2017/18 to 15 percent as envisaged in the Abuja Declaration. The National Government spent approximately 4% on health. Counties on average spent 25.2 per cent of their budgets on health. However, the shareable revenue of counties is lower than the national government. There is a need to cost service delivery of health services in the counties with a view to increasing health budgetary allocations and directing more resources and efforts towards preventive and promotive health care

COMMITTEE	OBSERVATIONS AND RECOMMENDATIONS
	Budgetary provision should be made for the funding of Emergency Treatment as stipulated in Section 7 of the Health Act 2017
	Fast tract the development of the MTP III that is supposed to inform 2018/19 and medium-term resource allocation in all sectors through the BPS
	The Ministry of Health should explore home-grown financing mechanisms to cushion critical projects in the Ministry that fully depend on donor funding that sometimes is not consistent affecting Kenya's priorities and within broader objectives of universal health coverage. The Ministry should map out all high volume health facilities with a view to identifying other hospitals that can benefit from the KShs. 4,325,000,000.00 Level 5 and other High-Volume Health Facilities conditional grants.
Land, Environment and Natural Resources	There is need to align on-going projects in the sectors under the Committee purview to the "'BIG FOUR'" agenda rather than initiating new projects for the sole purpose of implementing the country's transformative agenda.
	The Budget Policy Statement (BPS) be made in a manner to allow various house standing Committees to interrogate the BPS effectively.
	There is need for donors to adhere to the budget execution process of the country so as to avoid unnecessary projects stalling as a result of funding cuts for the many projects in the Sector
Roads, Transport and Infrastructure	Fast track the enactment of the Kenya Roads Bill, to provide for a legal framework for the road classification process and the distribution of the Roads Maintenance Levy Fund between different national government organs and the county governments.
	There is a notable disparity between the Budget Policy Statement (BPS) allocation for the Road Maintenance Levy Fund (RMLF) of Ksh. 8.29 Billion and the recommendations by the Commission on Revenue Allocation (CRA) that indicates the Kenya Roads Board is15% of RMLF worth KSh. 8.556 billion that should be allocated to counties.
	Establish a framework for national and county governments to align their developmental needs and link the County Fiscal Strategies and the BPS for

COMMITTEE	OBSERVATIONS AND RECOMMENDATIONS
	devolved functions that affect the 'Big Four'.
	The Budget Policy Statement (BPS) for FY 2018/19 Budget Ceiling, be maintained as given in the Budget Policy Statement for the Sector
	County governments should endeavor to establish infrastructural facilities and policies that attract of encourage growth of real sectors under the Big 4 agenda i.e. manufacturing in order to enhance their income and employment. This will require both skill development and provision of land for development and measures of reducing production costs.
Education	That additional resources be allocated as conditional grants to county governments for development and equipping of Village polytechnics.
	The Ministry provides the breakdown of all pending bills in the sector for future reference and decision making by the Committee.
	The Ministry to fast track the preparation and presentation of the Sessional Paper on ECDE policy before the Senate for concurrence and subsequent implementation by the County governments.
	The Public Finance Management Act, 2012 be amended to increase the duration of time with which Parliament should interrogate the BPS
	The Ministry to fast track the development of ECDE guidelines and standards to guarantee uniformity in ECDE development and management across all Counties.

VIII. COMMITTEE RECOMMENDATIONS

The Committee recommends the following -

A. POLICY RECOMMENDATIONS

1. Amendment of section 25(7) of the PFM Act 2012 to extend the timelines for the consideration of the Budget Policy Statement by Parliament from 14 days to 30 days.

2. The role of County Governments in realization of the ''Big Four'' plan should have been explicitly stated in the 2018 BPS as most of the key initiatives under the plan are devolved. The following areas should be considered -

   (i) **Agriculture**– this sector will require numerous interventions including distribution of quality seeds and fertilizers, hiring of extension workers, agricultural land zoning as well as investments in the livestock sector to improve health and wellbeing of livestock. These roles require collaboration with county governments. This can be done through conditional grants to county governments to address some of these concerns such as hiring of extension workers.

   (ii) **Manufacturing** – County Governments need to make it easier to do business in their regions through beneficial legislations, making it easy to get licenses for businesses, charging reasonable rates, building access roads and other infrastructure such as markets to enable cottage industries and other businesses in the regions to thrive. In addition, the identification of key strategic industries should be based on each County's resource strength or comparative advantage.

   (iii)**Health** – County governments will have a role to play especially in health human resource management including recruitment of community health volunteers and also in implementing the Collective Bargaining Agreements (CBA) for health workers. This will enhance service delivery in the sector and actualization of 100 percent Universal Health Coverage for all households by 2022.

(iv) Housing – there will be need for joint zoning and urban planning with county governments. The protection of land as a factor of production is a responsibility also for counties. This may require passing of laws among other measures for agricultural land zoning so as to protect the limited land that is available for farming from turning into a concrete jungle at the expense of food production.

3. To make the ''Big Four'' Plan a reality, the National Treasury and Ministry of Planning should provide a masterplan or blueprint (Medium Term Plan III) that clearly spells out the agenda/strategy/policies with a results matrix for resource allocation as well as a monitoring and evaluation framework. A policy framework will guide resource allocation and facilitate reorganization and re-prioritization of expenditure to achieve the ''Big Four'' Plan. This can be achieved through a sessional paper so as to facilitate inclusive consultation, identification of strategies and outline a collaborative framework with county governments to establish clear way forward on how these interventions will be implemented.

4. To enable implementation of the ''Big Four'' plan at the County Level, there should be subsequent allocations to counties for new conditional grants in the following initiatives-
    - Development, equipping of village polytechnics and expansion of ECDE;
    - Boosting agricultural production among the small-scale farmers and pastoralist communities and
    - Protection of environment to address the dual problem of water scarcity and climate change

5. In order to reduce the pending bills in Counties, the National Treasury in collaboration with the Controller of Budget should institute measures that will guarantee credible budgets with better alignment to CIDPs, County Annual Development Plans, and County fiscal strategy papers. This is especially in the following areas- over projection of revenue, poor classification of pending bills, fictitious payments, budget appropriations and actual disbursements.

6. The National Treasury should collaborate with the county governments to enhance capacity building on fiscal operations and oversight, for both County Assemblies and Executives. This may be done through the development partners' support for example the Kenya Devolution Support Programme (KDSP).

7. The National Treasury should provide information on the criteria used in increasing some of the conditional grants such as leasing of medical equipment which was allocated Ksh. 4.5 Billion for FY 2017/18 in the Division of Revenue Act 2017. This is in view of the fact that the 2018 BPS indicated an allocation of Ksh. 6.1 Billion for FY 2017/18 and is proposed to increase to Ksh. 9.4 Billion for FY 2018/19.

8. Commission on Revenue Allocation (CRA) should fast-track the development of the second Equalization Fund Policy to enable full operationalization of the fund.

9. The National Treasury should fast-track the development of a borrowing framework for County Governments. This should include short-term borrowing for county governments for payment of salaries which is often occasioned by delays in exchequer releases.

10. The National Treasury should review the design of the Medium-Term Debt Strategy (MTDS) to include county governments' needs and other provisions such as county debt risk management, provision of an avenue for ensuring adherence to set county debt ratios and proposals for cost effective financing mechanisms that could lessen dependence on equitable share of revenue.

11. That the National Treasury implements the debt strategy option proposed in the Medium Term Strategy Paper and ensure that the government's domestic debt does not crowd out private sector borrowing. This is likely to avail more credit to the private sector and often results to expansion of activity and eventually increased Gross Domestic Product (GDP).

12. The National Treasury should fast-track development of county government own-source revenue (OSR) policies to enable counties improve revenue collection performance and efficiencies, especially through automation.

13. The National Treasury should ensure that IFMIS is secure, reliable, efficient and fully integrated with other PFM systems. For example, revenue collection systems for county governments, enforcement of Procurement law to eliminate pilferage of public funds.

14. The Intergovernmental Relations Technical Committee (IGTRC) should expedite the process of identifying, verifying and validation of the exact register of assets for county governments and liabilities inherited from the defunct local authorities. The lag in establishing the assets and liabilities inventories is likely to affect accuracy and genuineness of those inventories.

B. FINANCIAL RECOMMENDATIONS

The Committee recommends the following financial recommendations: -

a) That the County Allocation for FY 2018/19 be as follows –

(i) Total County Allocation be **Ksh. 387.556 Billion** of which

- County Equitable share be **Ksh. 327.714 Billion**
  - ✓ That the equitable share for FY 2017/18 of Ksh. 302 Billion be adjusted for salaries and operations for libraries amounting to Ksh. 319 Million then adjusted for inflation at 7.0 percent and growth in services at 1.4 percent.
- County Conditional Grants be **Ksh. 59.842 Billion** which comprises of the following-
  - ✓ Leasing of Medical Equipment- **Ksh. 4.5 Billion**
  - ✓ Compensation for user fees foregone- **Ksh. 900 Million**
  - ✓ Level 5 Hospitals- **Ksh. 4.326 Billion**
  - ✓ Rehabilitation of Village Polytechnics- **Ksh. 2 Billion**
  - ✓ Supplement for Construction of County HQs- **Ksh. 605 Million**
  - ✓ Allocation from the Fuel Levy (15%)-**Ksh. 8.269 Billion**
  - ✓ Allocation from Loans and Grants-**Ksh. 33.242 Billion**
  - ✓ Establishment of 2 Regional Cancer Referral Centers-**Ksh. 5 Billion**
  - ✓ National Cancer Drugs Access Programme- **Ksh. 1 Billion**

b) That the fiscal deficit (on commitment basis excluding grants) be set at 6.0 percent of GDP in FY 2018/19.

c) That there be expenditure rationalization to cater for the following-

(i) **Ksh. 2,236,399,814** as an additional allocation to the recurrent expenditure ceiling for Vote 2041 Parliamentary Service Commission.

(ii) **Ksh. 1,075,000,000** as an additional allocation to the development expenditure ceiling for Vote 2041 Parliamentary Service Commission.

APPENDIXES

58) Submissions from Parliamentary Service Commission Vote 2041

A presentation by a representative from Parliamentary Service Commission informed the Committee as follows-

In the BPS for 2018, the Parliamentary Service Commission (Senate Affairs and General Administration, Planning and Support Services Programme) was allocated KES 10.823 Billion and KES 2.150 Billion for recurrent and development expenditure respectively under Vote 2041. These figures are further subdivided into the two Programmes managed under Vote 2041 as follows:

1. Senate Affairs Programme (Recurrent) - **KES 5.8383 Billion**
2. General Administration, Planning and Support Services Programme:
   Recurrent – KES 4.9852 Billion

   Development - KES 2.15 Billion

Funding Requirements

The National Treasury Budget Circular for the Financial Year 2018/19 advised that the budgeting will be on zero based budgeting principle. This means that the financing needs for the next financial year shouldbe projected independent of those of the current financial year except in respect of on-going projects.

In the Financial Year 2018/19, Parliament's budgeting process has therefore been anchored on the following assumptions and framework:

1. That the annual rate of inflation will be estimated at 5% per annum as stipulated in the Treasury Budget Circular;
2. Although the Treasury policy as contained in the Treasury CircularRef. No. ES 1/03 and the advice given by the National Treasury vide letter Ref. No. RES/2041/17/01/A/3recommended that resources should not be provided for recruitment of additional staff; the experience of the last five years has shown the need for additional staff. Compensation to employees will therefore grow based on the annual salary increment of 7% for the existing staff establishment as well as for the on-going additional recruitments;
3. Parliament will play a greater role in supporting the *big four* national agenda by considering the legislative framework proposed by the Executive to support its effective and efficient implementation.

Senate Affairs Programme

The 12th Parliament has newly elected Senators who will be expected to manage this Programme in order for the Senate to fulfil its constitutional mandate. The programme resource requirements for this programme will be **KES7,238,478,033**compared to the ceiling of KES 5,838,300,000, hence a financing gap of **KES 1,400,198,033.** The resource requirement is based on the following justification:

1. In the Financial Year 2017/18, Compensation to employees for both Senators and staff was KES 2,467,955,546. This included KES 438 million budgeted to pay gratuity for contractual staff who served in the County Offices for Senators in the 11th Parliament. A deduction of this amount leaves KES 2,029,955,546. This amount is expected to grow by 7% on account of annual increments leading to a total resource requirement of KES 2,172,052,434. Further, an additional KES 50 million is needed to fund gratuity for staff who served in County Offices in the 11th Parliament and who will not have been paid at the end of the current financial year.
2. Normal operations within the work plans and the annual procurement plans for each of the six AIE Holders within this programme have a total resource requirement of KES 2,112,425,599 for the Financial Year 2017/18. This includes reimbursements to finance operations and rent for County Offices.
3. Leadership offices in the Senate for the 12th Parliament have now been fully constituted. Some of these leaders are new. Based on the policy of the Parliamentary Service Commission, they are entitled to a number of contracted staff. These staffs need more capacity building to effectively discharge the duties for which they have been engaged. Further, of the 68 Senators, 51 are serving for the first time and require enhanced capacity building and experience needed to efficiently discharge their duties. A funding of KES 150 million is therefore required to finance capacity building for these two groups in the Financial Year 2017/18.
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Parliament plans to be proactive in addressing these challenges. The strategy will involve capacity building initiatives, county visits and the setting up of Monitoring and Evaluation framework through a fund to handlethese countygovernment challenges proactively. A total of **KES 2 Billion** will be needed to finance this framework.

6. The Senate as a custodian of county governments, ought to collectively have a better understanding of the actual situation and the environment in each county in order to provide better oversight and legislation. One of the strategies to achieve this is for the Senate to hold some of its sittings in the counties. The Senate resolved to hold sittings in the Counties starting from the Financial Year 2018/19. KES 196 million will be needed to support this initiative.
7. Senators in the 12th Parliament have not had adequate facilities to support the discharge of their duties. This includes furniture, computers and other related equipment and facilities. This had been planned for the current financial year but could not be procured because the money was reduced during the Supplementary Budget to finance the election. KES 100 million will be needed to support this process.
8. The Senate has been participating in the East African Parliamentary games. In the past, these activities have had a resource constraint on the budget. It is against this background that a resource provision of KES 120 million will be needed to specifically finance these obligations.
9. The Senate is committed to support the big four development agenda of the Government of Kenya. The Senate plans to do so by way of review or enactment of legislation proposed by the Executive to support this. A funding of KES 100 million is therefore required.
10. The distribution of the resource framework required for this programme is summarized in Table 1 below-

Table 1: Proposed Resource Requirements – Senate Affairs (Vote 2041)

Budget item	Resource Requirements	BPS Ceilings	Variance
Compensation to employees	2,222,052,434		
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Senate M&E	2,000,000,000		
Additional facilities	100,000,000		
Wellness, Outreach & Sports	120,000,000		
Purchase of vehicles	238,000,000		
Big four agenda	100,000,000		
TOTAL	**7,238,478,033**	5,838,300,000	**1,400,178,033**

2.1 General Administration, Planning and Support Services Programme

This programme covers activities, facilities and services that cut across the two Houses of Parliament including development expenditure. The programme resource requirements for this programme will be **KES5,821,401,781** compared to the ceiling of KES 4,985,200,000 under Recurrent expenditure. On the development Vote, KES 3,225 Billion is needed against a ceiling of KES 2.15 Billion. In the Financial Year 2018/19, the proposed framework for funding this programme is as follows:

1. The framework on personal emolument has been divided into two categories:
   (a) Ongoing recruitment of additional staff expected to cost a total of Kshs.403 million
   (b) Compensation to employees, which is expected to grow at a rate of 7% on account of annual increments. This will translate to a total funding requirement of KES 1,936,359,597.
2. Parliament purchased County House and has rented additional facilities within its precincts to ease the current office space constraints. KES 100million will be needed on account of refurbishment of these offices to bring them to a usable state.

3. Parliament is in the process of reviewing and upgrading its security systems. In the Financial year 2017/18, a security survey was commissioned to develop a comprehensive Integrated Security Management System (ISMS). The survey is in its final stages. The next step is to commence implementation. This will be undertaken in phases. KES 800 million is expected to be set aside to commence the first phase of the implementation process.
4. The problem of office space continues to affect the operations of Parliament. Payment certificates for the on-going Multi-Storey Office Complex are expected to amount to approximately KES 2.0 Billion during the 2018/2019 financial year.
5. Parliament intends to set up a Parliamentary Square. Part of this policy will include purchase of buildings falling within the proposed Parliament Square. This will help Parliament to provide better office facilities and further support the setting up of a better security management strategy and plan for Parliament. In this regard, the Parliamentary Service Commission is in the process of acquiring Baden Powell House, The St. Johns Ambulance Building andUfanisiHouse. KES 300 million is required to commence the process of purchasing these buildings.
6. At the conclusion of each Parliament, the practice is to undertake a comprehensive internal audit of Constituency and County Offices all over the Country. This audit will ensure an update of the asset register as well as obtain the information necessary to enhance internal controls in the financial operations at these offices. KES 100 million is required to fully undertake this audit.
7. Parliament has had a serious transport challenge. Some of the vehicles purchased five year ago are now in a state of breakdown and disrepair. Further, sometimes staff on official duty are unable access transport services due to lack of vehicles for day-to-day operations. There is need to provide KES 108 million to purchase additional vehicles.
8. Parliament has set up a Health and Safety committee in 2017. This is a statutory committee. Its operations are expected to cost KES 96 Million.
9. The distribution of the resource framework required for this programme is summarized in the table 2 below.

Table 2: **Proposed Resource Requirements - General Administration, Planning and Support Services Programme (Vote 2041)**

Budget item	Resource Requirements	BPS Ceilings	Variance
Recurrent expenditure	**5,821,401,781**	**4,985,200,000**	**836,201,781**
Compensation to employees	1,936,359,597		
Additional Recruitment	403,000,000		
Audit of Constituency/County offices	100,000,000		
Grants and Transfers	60,785,813		
Purchase of vehicles	108,000,000		
Use of goods and other recurrent expenditures	3,117,256,371		
Health and Safety Committee	96,000,000		
Development expenditure	**3,225,000,000**	**2,150,000,000**	**1,075,000,000**
Multi-storey office Complex	2,000,000,000		
Purchase of Buildings	300,000,000		
Refurbishment of Buildings	125,000,000		
ISMS	800,000,000		
TOTAL	**9,046,401,781**	7,135,200,000	**1,911,201,781**

The PSC requests for an upward adjustments of the ceilings to finance the deficit within PSC Vote 2041 amounting to **kshs. 3,311,399,814** as indicated here below-

1. Senate Affairs Programme – **KES 1,400,198,033**
2. General Administration, Planning and Support Services Programme –
    a. Recurrent Expenditure - **KES 836,201,781**
    b. Development Expenditure - **KES 1,075,000,000**

The Parliamentary Service Commission deficit within Vote 2041 is disaggregated as follows:

a) Recurrent expenditure – KES 2,236,399,814
b) Development Expenditure – KES 1,075,000,000

VIII. COMMITTEE RECOMMENDATIONS

The Committee recommends the following -

A. POLICY RECOMMENDATIONS

1. Amendment of section 25(7) of the PFM Act 2012 to extend the timelines for the consideration of the Budget Policy Statement by Parliament from 14 days to 30 days.

2. The role of County Governments in realization of the ''Big Four'' plan should have been explicitly stated in the 2018 BPSas most of the key initiatives under the plan are devolved. The following areas should be considered -

   (i) **Agriculture**– this sector will require numerous interventions including distribution of quality seeds and fertilizers, hiring of extension workers, agricultural land zoning as well as investments in the livestock sector to improve health and wellbeing of livestock. These roles require collaboration with county governments. This can be done through conditional grants to county governments to address some of these concerns such as hiring of extension workers.

   (ii) **Manufacturing** – County Governments need to make it easier to do business in their regions through beneficial legislations, making it easy to get licenses for businesses, charging reasonable rates, building access roads and other infrastructure such as markets to enable cottage industries and other businesses in the regions to thrive. In addition, the identification of key strategic industries should be based on each County's resource strength or comparative advantage.

   (iii)**Health** –County governments will have a role to play especially in health human resource management including recruitment of community health volunteers and also in implementing the Collective Bargaining Agreements (CBA) for health workers. This will enhance service delivery in the sector and actualization of 100 percent Universal Health Coverage for all households by 2022.

(iv) **Housing** – there will be need for joint zoning and urban planning with county governments. The protection of land as a factor of production is a responsibility also for counties. This may require passing of laws among other measures for agricultural land zoning so as to protect the limited land that is available for farming from turning into a concrete jungle at the expense of food production.

3. To make the ''Big Four'' Plan a reality, the National Treasury and Ministry of Planning should provide a masterplan or blueprint (Medium Term Plan III) that clearly spells out the agenda/strategy/policies with a results matrix for resource allocation as well as a monitoring and evaluation framework. A policy framework will guide resource allocation and facilitate reorganization and re-prioritization of expenditure to achieve the ''Big Four'' Plan. This can be achieved through a sessional paper so as to facilitate inclusive consultation, identification of strategies and outline a collaborative framework with county governments to establish clear way forward on how these interventions will be implemented.

4. To enable implementation of the ''Big Four'' plan at the County Level, there should be subsequent allocations to counties for new conditional grants in the following initiatives-
    - Development, equipping of village polytechnics and expansion of ECDE;
    - Boosting agricultural production among the small-scale farmers and pastoralist communities and
    - Protection of environment to address the dual problem of water scarcity and climate change

5. In order to reduce the pending bills in Counties, the National Treasury in collaboration with the Controller of Budget should institute measures that will guarantee credible budgets with better alignment to CIDPs, County Annual Development Plans, and County fiscal strategy papers. This is especially in the following areas- over projection of revenue, poor classification of pending bills, fictitious payments, budget appropriations and actual disbursements.

6. The National Treasury should collaborate with the county governments to enhance capacity building on fiscal operations and oversight, for both County Assemblies and Executives. This may be done through the development partners' support for example the Kenya Devolution Support Programme (KDSP).

7. The National Treasury should provide information on the criteriaused in increasing some of the conditional grants such as leasing of medical equipment which was allocated Ksh. 4.5 Billion for FY 2017/18 in the Division of Revenue Act 2017. This is in view of the fact that the 2018 BPS indicated an allocation of Ksh. 6.1 Billion for FY 2017/18 and is proposed to increase to Ksh. 9.4 Billion for FY 2018/19.

8. Commission on Revenue Allocation (CRA) should fast-track the development of the second Equalization Fund Policy to enable full operationalization of the fund.

9. The National Treasury should fast-track the development of a borrowing framework for County Governments. This should include short-term borrowing for county governments for payment of salaries which is often occasioned by delays in exchequer releases.

10. The National Treasury should review the design of the Medium-Term Debt Strategy (MTDS) to include county governments' needs and other provisions such as county debt risk management, provision of an avenue for ensuring adherence to set county debt ratios and proposals for cost effective financing mechanisms that could lessen dependence on equitable share of revenue.

11. That the National Treasury implements the debt strategy option proposed in the Medium Term Strategy Paper and ensure that the government's domestic debt does not crowd out private sector borrowing. This is likely to avail more credit to the private sector and often results to expansion of activity and eventually increased Gross Domestic Product (GDP).

12. The National Treasury should fast-track development of county government own-source revenue (OSR) policies to enable counties improve revenue collection performance and efficiencies, especially throughautomation.

13. The National Treasury should ensure that IFMIS is secure, reliable, efficient and fully integrated with other PFM systems. For example, revenue collection systems for county governments, enforcement of Procurement law toeliminatepilferage of public funds.

14. The Intergovernmental Relations Technical Committee (IGTRC) should expedite the process of identifying, verifying and validation of the exact register of assets for county governments and liabilities inherited from the defunct local authorities. The lag in establishing the assets and liabilities inventories is likely to affect accuracy and genuineness of those inventories.

B. FINANCIAL RECOMMENDATIONS

The Committee recommends the following financial recommendations: -

a) That the County Allocation for FY 2018/19 be as follows –

(i) Total County Allocation be**Ksh. 387.556 Billion** of which

- County Equitable share be **Ksh. 327.714 Billion**
  - ✓ That the equitable share for FY 2017/18 of Ksh. 302 Billion be adjusted for salaries and operations for libraries amounting to Ksh. 319 Million then adjusted for inflation at 7.0 percent and growth in services at 1.4 percent.
- County Conditional Grants be **Ksh. 59.842 Billion** which comprises of the following-
  - ✓ Leasing of Medical Equipment- **Ksh. 4.5 Billion**
  - ✓ Compensation for user fees foregone- **Ksh. 900 Million**
  - ✓ Level 5 Hospitals- **Ksh. 4.326 Billion**
  - ✓ Rehabilitation of Village Polytechnics- **Ksh. 2 Billion**
  - ✓ Supplement for Construction of County HQs- **Ksh. 605 Million**
  - ✓ Allocation from the Fuel Levy (15%)-**Ksh. 8.269 Billion**
  - ✓ Allocation from Loans and Grants-**Ksh. 33.242 Billion**
  - ✓ Establishment of 2 Regional Cancer Referral Centers-**Ksh. 5 Billion**
  - ✓ National Cancer Drugs Access Programme- **Ksh. 1 Billion**

b) That the fiscal deficit (on commitment basis excluding grants) be set at 6.0 percent of GDP in FY 2018/19.

c) That there be expenditure rationalization to cater for the following-

(i) **Ksh. 2,236,399,814** as an additional allocation to the recurrent expenditure ceiling for Vote 2041 Parliamentary Service Commission.

(ii) **Ksh. 1,075,000,000** as an additional allocation to the development expenditure ceiling for Vote 2041 Parliamentary Service Commission.

INTERNAL MEMO

Standing Committee on Finance and Budget

To: Speaker of the Senate

Thro' Clerk of the Senate

Rt. Hon Speaker you may approve for tabling. 27/02/18

Thro' Senior Deputy Clerk (EG)

Forwarded and recommended for approval for tabling

EG 27/02/18

From: Director, Committee services

Date: 27th February, 2018

RE: COMMITTEE REPORT ON MEDIUM TERM 2018 BUDGET POLICY STATEMENT

The above matter refers.

The Committee on Finance and Budget has considered and adopted its report on the Medium Term 2018 Budget Policy Statement.

The purpose of this memo is to forward the report for your consideration and approval for tabling.

NJENGA NJUGUNA

Approved

27/2/2018

APPENDIXES

MEMORANDA ON THE 2018 BUDGET POLICY STATEMENT

Promoting an Equitable Society

1. The Big Four

The National government plans to implement the following Big Four over the next five years:

a) Support value addition and raise the manufacturing sector's share to GDP to 15 percent by 2022. This will accelerate economic growth, create jobs and reduce poverty;
b) Focus on initiatives that guarantee food security and nutrition to all Kenyans by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and support value addition in the food processing value chain;
c) Provide Universal Health Coverage thereby guaranteeing quality and affordable healthcare to all Kenyans; and,
d) Provide at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022, and thereby improve the living conditions for Kenyans.

The BPS 2018 does not define the role the county governments will play in actualising the 'Big Four' given the concurrent roles of both levels of government.

2. Fiscal Deficit

Reduction in the overall fiscal deficit from 7.2% of GDP to 3.0 % of GDP over the medium term (by 2021/22) in line with EAC community Monetary Union Protocol's fiscal targets could undermine the achievement Kenya's Investment plan towards realising the big four:- Construction of the Mombasa-Nairobi six lane highway; Dualling of Ngong Road; Phase 2A of SGR; Phase II second container terminal; free port in Mombasa; Lamu Port; Development of the Kisumu Port; 100% access to electricity; etc

This deficit financing framework is inconsistent with:

(i) the investment plan that requires huge financial outlays to deliver the 'Big Four'
(ii) slow recovery of the economy
(iii) Revenue forecasts presented in the BPS 2018

3. Impact of Interest Rate Cap

Interest rates have remained stable following their anchoring on the CBR. However, whilst domestic credit to the government increased substantially from Kshs 593 billion in 2016 to Kshs. 757 billion in 2017, credit to the Private sector increased minimally from Ksh. 2,276 billion to Kshs.2,330 billion in 2017. The BPS 2018 has not outlined measures to spur growth in credit to the private sector and to encourage private sector borrowing in line with PPP envisaged in actualising the 'Big Four'. It is time to revisit the discussion on the objectives of interest rate capping

4. Disbursement to County Governments

Total expenditure amounted to Kshs. 907 billion against a target of Kshs.1,029 billion at the end of December 2017 attributed to lower than projected disbursement to county governments due to delayed enactment of CARA 2017, enacted in August 2017. Nothing stops the government from disbursing allocations to County governments in arrears. Delayed disbursements is one of the reasons the counties huge pending bills, estimated at Kshs 99 billion by COB. Pending bills are undermining the performance of the SME sector.

5. Equalisation Fund

Allocation to the Equalisation Fund is provided at Kshs. 4.7 billion for 2018/19. This allocation should be increased to Kshs.6.4 billion to cater for arrears of previous years (2011/12 and 2012/13), part of which, was provided for in 2017/18. The BPS doesn't provide for any review of the utilisation of the Equalisation Fund. To June 2017, Kshs.1.1 billion had been spent in marginalised counties leaving a balance of Kshs. 11.3 billion. The slow absorption of funds brings to the fore the need to re-evaluate the implementation framework of the Equalisation Fund

6. Misrepresentation of the Aggregate fiscal framework

Table 4.2 intentionally misrepresents the fiscal framework on allocation to national government. The fourth schedule assigns functions to only two levels of government: the national and county governments. Table 4.2 reveals that allocations to county governments as a percentage of ordinary revenues has declined from 23.7 % in 2015/16 to 19.65 in 2018/19. The same Table indicates even a faster declining allocation to national government from a high of 18.4% to 8.5%. It should be noted as follows:

a. It is the national government that incurs debt to finance its functions, yet this is a first charge on ordinary revenues
b. Whatever revenues assigned to National interest functions are currently solely implemented by the national government ministries/agencies. There is no intergovernmental consultations on what should constitute national interest and how the same should be financed.
c. Equalisation Fund is a national government Fund, spent through various ministries

Therefore, the true position in sharing of ordinary revenue is what is reflected in Table 3.1 which allocates national government Kshs. 1,608 billion, and county governments Kshs.373 billion (including grants), being 64.5 percent and 15 percent, respectively of government revenues. The challenge with the fiscal framework is not the allocation to county governments but rather the rising sharing of the CFS from 15 percent to 22 percent of all government expenditures.

7. Division of Revenue

Section 4.5 on Division of revenue, which is based on shareable revenue provides that national government be allocated Kshs.1,370 billion in 2018/19, an increase of 16.4% from an allocation of Kshs. 1,177 billion in 2017/18. County government allocation is provided at Ksh314 billion in 2018/19, an increase of 4% from Kshs.302 billion in 2017/18. This does not amount to equitable sharing of resources between the two levels of government.

The National treasury recommends for an allocation factor of 4% which is not based on any principles. In the recommendation tabled in December 2017, the Commission recommended for an allocation of Kshs. 337 billion

to county governments and Ksh. 1,351 billion to national government from the shareable revenue based on the following principles:

a. Provision for unfunded mandates (Class D roads Ksh. 8.4 billion and Salaries for devolved Library staff Kshs. 319 million)
b. Adjustment for inflation at 7.1 percent
c. Provision for growth of services at 1.4 percent

8. Conditional Allocations

Table 4.5 provides for allocation of conditional grants to county governments. Conditional allocations are tied to actualisation of specific national government policies. One of such policies is the enhanced universal health care, which is one of the "Big Four'. In line with this policy priority, the Commission recommended for a new conditional allocation through the ministry of Health to build and equip two regional cancer centres at a cost of Kshs. 2.5 billion each and establishment of a national cancer drug programme at a cost of one billion shillings annually. The BPS has not provided for this allocation. The Commission persuades parliament to provide for this allocation. Cancer in a national pandemic that is fast making families very poor



PARLIAMENTARY SERVICE COMMISSION

THE FRAMEWORK FOR FUNDING OF PROGRAMMES UNDERVOTES 2041 OF THE PARLIAMENTARY SERVICE COMMISSION

(Recurrent and Development Estimates)

Presented to the Senate Budget Committee on 23rd February, 2018

1. BACKGROUND

Section 25 (2) of the Public Finance Management (PFM) Act 2012 requires the National Treasury to prepare and submit to Parliament the annual Budget Policy Statement (BPS) by 15th February each year.

The BPS sets out the broad strategic priorities and policy goals that will guide National and County Governments in preparing their budgets for the Financial Year 2018/19 and over the medium term.

In general, the BPS sets out the budgeting policy framework for the forthcoming financial year and over the medium term to guide the budgeting process. Among the policy issues spelt out include the financial outlook, proposed expenditure limits and fiscal responsibility principles and financial objectives over the medium term including the limits of annual debt.

On Wednesday 14th February 2017, the Budget Policy Statement (PBS) was tabled in both Houses of Parliament. Section 7 of the Public Finance Management Act, 2012 requires the Budget and Appropriation Committee of the National Assembly to table a report containing its recommendations and pass a resolution to adopt the BPS within 14 days of its tabling with or without amendments. This means that Parliament must resolve on this year's BPS on or before 28th February, 2018.

In the tabled BPS, the Parliamentary Service Commission (Senate Affairs and General Administration, Planning and Support Services Programme) was allocated KES 10.823 Billion and KES 2.150 Billion for recurrent and development expenditure respectively under Vote 2041. These figures are further subdivided into the two Programmes managed under Vote 2041 as follows:

1. Senate Affairs Programme (Recurrent) - **KES 5.8383 Billion**
2. General Administration, Planning and Support Services Programme:
   Recurrent – KES 4.9852 Billion

Development - KES 2.15 Billion

This paper outlines Parliament's policy framework on the Budget for the Financial Year 2018/19 based on the BPS for consideration by the Finance and Budget Committee of the Senate.

FUNDING REQUIREMENTS

The National Treasury Budget Circular for the Financial Year 2018/19 advised that the budgeting will be on zero based budgeting principle. This means that the financing needs for the next financial year shouldbe projected independent of those of the current financial year except in respect of on-going projects.

In the Financial Year 2018/19, Parliament's budgeting process has therefore been anchored on the following assumptions and framework:

1. That the annual rate of inflation will be estimated at 5% per annum as stipulated in the Treasury Budget Circular;
2. Although the Treasury policy as contained in the Treasury CircularRef. No. ES 1/03 and the advice given by the National Treasury vide letter Ref. No. RES/2041/17/01/A/3recommended that resources should not be provided for recruitment of additional staff; the experience of the last five years has shown the need for additional staff. Compensation to employees will therefore grow based on the annual salary increment of 7% for the existing staff establishment as well as for the on-going additional recruitments;
3. Parliament will play a greater role in supporting the *big four* national agenda by considering the legislative framework proposed by the Executive to support its effective and efficient implementation.

2.1Senate Affairs Programme

The 12th Parliament has newly elected Senators who will be expected to manage this Programme in order for the Senate to fulfil its constitutional mandate. The programme resource requirements for this programme will be **KES7,238,478,033**compared to the ceiling of KES 5,838,300,000, hence a financing gap of **KES 1,400,198,033.** The resource requirement is based on the following justification:

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4. The problem of office space continues to affect the operations of Parliament. Payment certificates for the on-going Multi-Storey Office Complex are expected to amount to approximately KES 2.0 Billion during the 2018/2019 financial year.
5. Parliament intends to set up a Parliamentary Square. Part of this policy will include purchase of buildings falling within the proposed Parliament Square. This will help Parliament to provide better office facilities and further support the setting up of a better security management strategy and plan for Parliament. In this regard, the Parliamentary Service Commission is in the process of acquiring Baden Powell House, The St. Johns Ambulance Building andUfanisiHouse. KES 300 million is required to commence the process of purchasing these buildings.
6. At the conclusion of each Parliament, the practice is to undertake a comprehensive internal audit of Constituency and County Offices all over the Country. This audit will ensure an update of the asset register as well as obtain the information necessary to enhance internal controls in the financial operations at these offices. KES 100 million is required to fully undertake this audit.
7. Parliament has had a serious transport challenge. Some of the vehicles purchased five year ago are now in a state of breakdown and disrepair. Further, sometimes

staff on official duty are unable access transport services due to lack of vehicles for day-to-day operations. There is need to provide KES 108 million to purchase additional vehicles.

8. Parliament has set up a Health and Safety committee in 2017. This is a statutory committee. Its operations are expected to cost KES 96 Million.
9. The distribution of the resource framework requested for this programme is summarised in Table 2.

Table 2: Proposed Resource Requirements - General Administration, Planning and Support Services Programme (Vote 2041)

Budget item	Resource Requirements	BPS Ceilings	Variance
Recurrent expenditure	**5,821,401,781**	**4,985,200,000**	**836,201,781**
Compensation to employees	1,936,359,597		
Additional Recruitment	403,000,000		
Audit of Constituency/County offices	100,000,000		
Grants and Transfers	60,785,813		
Purchase of vehicles	108,000,000		
Use of goods and other recurrent expenditures	3,117,256,371		
Health and Safety Committee	96,000,000		
Development expenditure	**3,225,000,000**	**2,150,000,000**	**1,075,000,000**
Multi-storey office Complex	2,000,000,000		
Purchase of Buildings	300,000,000		
Refurbishment of Buildings	125,000,000		
ISMS	800,000,000		
TOTAL	**9,046,401,781**	7,135,200,000	**1,911,201,781**

2. CONCLUSION

It is clear from the analysis above that the ceiling provided for within the BPS is not adequate. The funding deficits are as follows:

1. Senate Affairs Programme – **KES 1,400,198,033**
2. General Administration, Planning and Support Services Programme –

a. Recurrent Expenditure - **KES 836,201,781**

b. Development Expenditure - **KES 1,075,000,000**

The Parliamentary Service Commissiondeficit within Vote 2041 is disaggregated as follows:

a) Recurrent expenditure – KES 2,236,399,814

b) Development Expenditure – KES 1,075,000,000

3. RESOLUTION SOUGHT

The Senate Budget Committee is requested to recommend to the National Assembly to adjust upwards the ceiling to finance the deficit within the Parliamentary Service Commission Vote 2041 as follows:

a. Senate Affairs Programme – **KES 1,400,198,033**(Recurrent expenditure)

b. General Administration, Planning and Support Services

   i. **Recurrent Expenditure - KES 836,201,781**(Recurrent expenditure)

   ii. **DevelopmentExpenditure –KES1,075,000,000**(Development expenditure)

Appendix I: Consolidated Resource Requirement and Financing Deficit

VOTE	RESOURCE REQUIREMENTS	BPS	DEFICIT
Parliamentary Service Commission (Vote 2041)			
Recurrent – Vote 2041			
Senate Affairs Programme	7,238,498, 033	5,838,300,000	1,400,178,033
General Administration, Planning and Support Services	5,821,401,781	4,985,200,000	836,201,781
TOTAL	**13,059,879,814**	**10,823,500,000**	**2,236,399,814**
2041 - Development			
General Administration, Planning and Support Services	**3,225,000,000**	**2,150,000,000**	1,075,000,000
TOTAL – VOTE 2041	**16,284,879,814**	**12,973,500,000**	**3,311,399, 814**

REPUBLIC OF KENYA



PARLIAMENT

THE SENATE

TWELFTH PARLIAMENT

SECOND SESSION, 2018

SENATE STANDING COMMITTEE ON LAND, ENVIRONMENT AND NATURAL RESOURCES

REPORT ON THE BUDGET POLICY STATEMENT FOR THE FISCAL YEAR 2018-19 AND MEDIUM TERM

Clerk's Chambers,
Parliament Buildings,
P. O. Box 41842-00100,
NAIROBI.

FEBRUARY, 2018

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PREFACE

Establishment of the Committee

The Senate Standing Committee on Land, Environment and Natural Resources is established under Senate standing order 212 and is mandated to consider all matters relating to lands and settlement, housing, environment, forestry, wildlife, mining, water resource management and development.

In executing its mandate, the Committee oversees the Ministries of:

1. Ministry of Lands;
2. Ministry of Environment and Forestry;
3. Ministry of Water and Sanitization;
4. Ministry of Petroleum and Mining; and
5. Ministry of Transport, Infrastructure, Housing and Urban Development.

Membership of the Committee

The Committee is comprised of the following members;

1. Sen. Mwangi Paul Githiomi, M.P. - **Chairperson**
2. Sen. Prengei Victor, M.P. - **Vice Chairperson**
3. Sen. George Khaniri, M.P. - Member
4. Sen. Godana Hargura, M.P. - Member
5. Sen. Ndwiga Peter Njeru, M.P. - Member
6. Sen. Halake Abshiro, M.P. - Member
7. Sen. Boy Issa Juma, M.P. - Member
8. Sen. Slyvia Kasanga, M.P. - Member
9. Sen. Mwaruma Johnes, M.P. - Member

Secretariat:

1. Mr. Victor Bett - Committee Clerk
2. Mr. Mitchell Otoro - Legal Counsel
3. Mr. Hassan Odhowa - Research Officer
4. Mr. Fredrick Muthengi - Parliamentary Budget Officer
5. Mr. Abdi Hassan Salat - Parliamentary Budget Officer
6. Mr. Abdallah Bore - Serjeant at Arms
7. Ms. Hawa Abdi - Serjeant at Arms
8. Mr. Alex Rithi - Media Relations Officer

Acknowledgement

The Committee wishes to thank the Offices of the Speaker and the Clerk of the Senate, for the support extended to it in the execution of its mandate so far.

Chairman,
It is my pleasant duty, to present to the Senate Committee on Finance, Commerce and Budget, the BPS Report of the Senate Standing Committee on Land, Environment and Natural Resources.

Signed..... Date.....

Sen. Mwangi Paul Githiomi, M.P.,
Chairperson,
Senate Standing Committee on Land, Environment and Natural Resources.

INTRODUCTION

The Budget Policy Statement is published in accordance with Section 25 of the Public Finance Management Act, 2012. According to the Public Finance Management (PFM) Act Section 25 (2), the National Treasury is required to submit the BPS to parliament by the 15th February each year.

Further, section 25(7) states that Parliament shall not later than fourteen days after the BPS is submitted to Parliament, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The Cabinet Secretary for the National Treasury shall take into account resolutions passed by Parliament in finalizing the budget for the relevant financial year as per Section 25(8) of the Act.

In preparing the Budget Policy Statement, the National Treasury is required to set out the broad strategic priorities and policy goals that will guide the national government and county governments in preparing their budgets both for the following financial year and over the medium term. The National Treasury is required to include the following in the Budget Policy Statement:-

a) An assessment of the current state of the economy and the financial outlook over the medium term, including macro-economic forecasts;

b) The financial outlook with respect to Government revenues, expenditures and borrowing for the next financial year and over the medium term;

c) The proposed expenditure limits for the national government, including those of Parliament and the Judiciary and indicative transfers to county governments;

d) The fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt.

e) The total resources to be allocated to individual programmes and projects within a sector, Ministry or department for the period identified under sub-paragraph (a) indicating the outputs expected from each such Programme or project during the period;

f) A list of proposed projects for the period identified under sub-paragraph (a) indicating their respective expenditure ceilings, reconcilable to the total proposed ceilings for development expenditure.

1. Mandate and Spending Agencies under the Purview of the Committee

The Second Schedule of the Senate Standing Order assigns the Standing Committee on Lands, Environment and Natural Resources the mandate to consider all matters relating to Lands and Settlement, Housing, Environment, Forestry, Wildlife, Mining, Water Resource Management and Development.

The following spending agencies are therefore under the purview of the Committee:

I. State Department for Environment
II. State Department for Natural Resources
III. State Department for Water Services
IV. State Department for Housing and Urban Development
V. Ministry of Mining
VI. Ministry of Lands and Physical Planning

2. Overview of the BPS

Climate change is a threat to the achievements of the expected economic growth as well as attaining of the Sustainable development goals and the Kenya Vision 2030. It is projected that, under current policies, the global mean temperature will continue to increase over the next century by 2.8˚C, with a 3 percent chance of rising 6˚C or more. The physical consequences of such a rise include: changed precipitation patterns, sea level rise, more intense and perhaps frequent extreme weather events, and increased prevalence of vector-borne diseases as well as catastrophic events, such as prolonged droughts and flooding in many counties

Kenya's economy is highly dependent on the climate sensitive sectors such as agriculture, tourism, water and energy. Climate change therefore, poses potential economic consequences which include; lower productivity in agriculture and other climate sensitive sectors, damage to coastal infrastructure, stresses on health, biodiversity, fragile ecosystems, water supply systems, changes in trading patterns and international investment flows, financial market disruption, increased vulnerability to sudden adverse shocks, and altered migration patterns—all with potential implications for

external stability. Changing weather patterns and extreme weather events will affect farmers and thus affect the attainment of food security due to low productivity.

The 2018/19 budget policy statements rides on the strong foundation laid under the government's Economic transformative agenda in the past Five Years through the Five Key Pillars including: : (i) creating a conducive business environment; (ii) investing in sectoral transformation; (iii) infrastructure expansion; (iv) investing in quality and accessible social services; and (v) consolidating gains made in devolution. The expenditure priorities in the sector ceilings in 2018/19 BPS have been realigned to the big four agenda, namely:

i. Raising the manufacturing sector's share of GDP to 15 percent by 2022.
ii. Focusing on initiatives that guarantee food security
iii. Providing Universal Health Coverage
iv. Providing at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022.

3. The 2018/19 Fiscal Framework

Revenue Projections: In the FY 2018/19 ,revenue collection including A-i-A is projected to growth at **Ksh.1,853.9 billion** (18.9 per cent GDP) up from the projected revenue of **Ksh.1,643.1 billion** in 2017/18.revenue performance in 2018/19 will be underpinned by on-going reforms in tax policy and revenue administration.

Expenditure Projections: In the FY 2018/19 overall expenditure and net lending are projected at **Ksh.2, 492.2 billion** (25.5 % GDP) up **from Ksh.2, 323.1 billion** (26.8 % GDP) in 2017/18.

The total expenditure comprises of **Ksh.1, 501.5 billion** for recurrent, **Ksh. 612.9 billion** for development expenditure, **Ksh.372.7 billion** for county government and **Ksh. 5.0 billion** for contingency fund and **Ksh.4.7 billion for** Equalization Fund.

Deficit Financing: The 2018/19 fiscal deficit amounts to **Ksh.638.2 billion** exclusive of grants and **Ksh.587.7 billion** inclusive of grants.

	2017/2018			Ceiling 2018/2019			2019/20 Projections		
	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total
State Dept. for Environment	2,839	3,628	6,467	2,916.2	3,848.0	6,764.2	3,042.0	6,879.0	6,879.0
Meteorological Services	1,115	1,100	2,215	1,093.0	1,082.0	2,175.0	1,132.0	1,082.0	2,214.0
Environment, Management and Protection	1,355	2,528	3,883	1,479.9	2,766.0	4,245.9	1,527	2,755	4,282.0
General Administration & Support Services	369	-	369	343.3	-	343.3	383.0	-	383.0
State Dept. for Natural Resource	13,513	3,878	17,391	13,667.4	4,023.0	17,690.4	13,936.0	4,008.0	17,944.0
Natural Resources Management & Protection	13,513	3,878	17,391	13,667.4	4,023.0	17,690.4	13,936.0	4,008.0	17,944.0
State Department Water Services	4,017	29,778	33,795	4,225.8	31,027.0	35,252.8	4,596.0	30,996.0	35,592.0
Water Resources Management	1,294	4,688	5,982	1,544	4,688	6,232	1,560	4,688	6,248
Water and Sewerage Infrastructure Development	2,076	24,939	27,015	2,039.2	26,188.0	28,227.3	2,247	26,157	28,404
General Administration & Support Services	647	151	798	642.6	151	793.6	789	151	940
Ministry of Mining	1,464	1,256	2,720	1,139.9	736	2,375.9	1,315.0	1,230.0	2,545.0
Resources Surveys & Remote Sensing	185	361	546	184.0	361.0	545.0	184.0	361.0	545.0
Mineral Resources Management	355	835	1,190	218.0	815.0	10,33.0	239.0	809	10,48.0
General Administration & Support Services	924	60	984	737.9	60.0	797.9	892.0	60	952.0
State department for housing and urban development	1,726	14,272	15,998	2,299.1	16,839.0	19,138.1	2,398.0	17,835.0	20,233.0
Housing development and human settlement	459	5,959	6,418	466	9,040	9,506	478	10,197	10,675
Urban and	273	8,183	8,456	263	7,663	7,926	277	7,486	7,763

metropolitan development									
Gen. Admin planning and support service	267	-	267	249.1	-	249.1	282	282	
Ministry of Lands and physical planning	2,464	3,770	6,234	2,403.2	3,480	5,883.2	2,616	3,837	6,453
Land policy and planning	2,464	3,770	6,234	2,403.2	3,480	5,883.2	2,616	3,837	6,453
National Land Commission	1,452	300	1,752	1,394.7	300	1,694.7	1,554	316	1,870
Land admin and mgnt	1,452	300	1,752	1,394.7	300	1,694.7	1,554	316	1,870

The fiscal deficit in FY 2018/19 will be financed by net external financing **Ksh.214.7 billion**, net domestic borrowing of **Ksh.368.8 billion** and other net domestic receipt of **Ksh.4.2 billion.**

Under the 2018/19 the budget framework the government aims fiscal consolidation by reducing the fiscal deficit to 6.0 per cent GDP in 2018/19 down from the projected 7.2 per cent GDP in 2017/18 and 3.0 per cent GDP over the medium term as the government aims attaining the EAC convergence criterion.

Table 1: Budgetary Allocation for the FY 2018/19- 2020/2021 MTEF Period (Ksh. Million)

	2017/18 Baseline	2018/19 Ceilings	2019/2020 projections	2020/2021 Projections
National Government	1,566,493.6	1,607.944.1	1,717,517.6	1,828,717.8
CFS	356,892.4	461,916.9	493,401.1	630,102.8
Judiciary	18,039.6	17,783.2	20,073.7	17,575.2
Parliament	36,043.0	31,768.9	32,797.5	34,546.4
County Gov't inc conditional grants	345,681.0	372,741.9	372,163.5	381,908.9
Total	2,323,149.6	2,492,154.9	2,635,953.4	2,892,851.1

Source: 2018 BPS

Table 2: Overall Expenditure and Projection per Vote FY 2017/18-2019/20

Source: BPS 2018

4. Policy Guidelines for Budget Allocation in 2018/19 and the Medium Term for the Sector

The housing subsector is the driver of one of the Big four Agenda; Provision of affordable and decent housing for all Kenyans. In this regard the government is set to deliver five hundred thousand housing units by 2022 in major cities across the country. To achieve these objectives, the following are some of the interventions the government will undertake.

- Implementing policies and administrative reforms targeted in lowering the cost of construction and accessibility of affordable mortgages .the focus will be raising low cost funds from public and private sectors for investment in large scale housing production.
- Develop a comprehensive housing packages that will incentivize the private sector in low cost housing and one of the incentive is the reduction of corporate tax rate for developers who construct at least 100 units per year.
- The government plan to establish a National Social Housing Development Fund and strengthen the National Housing Corporation to take up more strategic roles in resources mobilization and management of tenant purchase schemes and provide alternative strategies to finance low cost housing.
- To enhance affordable housing program , the government is set to develop 8,200 houses in a pilot project in Mavoko
- The government will expand the on-going initiatives in the housing sector including the investment in low cost houses through upgrading slums and informal settlements by providing clean water and sanitations, access roads, schools, health centers and income generating activities.

Table 3, shows the big four projects in the housing subsector intended to achieve provision of 500,000 affordable housing units and estimated costs

Table 3: Big Projects and their cost Ksh. Millions					
		Target			
Project	Output	2018/19	2019/20	2020/21	Est. Cost (Millions)
Construction of affordable housing units	800,000 units	158,200	300,000	170,900	2,680,200
Construction of social housing units	200,000 units	33,000	78,500	69,500	297,000
Construction of housing Units for National Police and Kenya Prison Services.	7,394 units	1,544	1,200	1,600	8,560
Civil Servants Housing Scheme	10400 units	250	600	650	12,160
	1220 beneficiaries		280	330	4,000
Completion of 463 No Housing units at Mavoko	463 housing units	463	-	-	1,376
Redevelopment of Soweto East Zone "A" at Kibera, Nairobi	100% completion	1	-	-	2,908
Refurbishment of Government pool housing units	12,400	1,900	2,700	3,400	4,140
Refurbishment of staff houses and fencing in State Houses and Lodges	10 state houses and lodges refurbished	3	3	2	1,070
Replacement of asbestos roofs in government housing	4000 housing roofs replaced	1,500	1,488	512	2,291
Total Estimated Cost					3,013,705

Source: National Treasury (Sector Report 2018)

5. Highlight of FY 2018/19 County Allocations

During the FY 2018/19, the National Treasury proposes to allocate County Governments an equitable share of **Ksh.314.0 billon**. This allocation is arrived by adjusting the county governments' equitable share of revenue for the FY 2017/18 by a growth factor of 4.0 per cent which is equivalent to **Ksh.12.0 billion.**

1. In addition, the county governments will be allocated **Ksh.17.2 billion** from the national government equitable revenue as conditional grants which include:
    - Level -5 hospitals –**Ksh.4.3 billion**

- Leasing of Medical Equipments-**Ksh.9.4 billion**
- Rehabilitations of Village Polytechnics-**Ksh.2.0 billion**
- Compensation for foregone user fees-**Ksh.0.9 billion**
- Construction of County Headquarters-**Ksh.0.605 billion**

2. Equalizations Fund to the marginalized areas amounting to **Ksh.4.7 billion**
3. **Ksh.8.3 billion** from the Road Maintenance Fuel Levy Fund (RMLF)
4. **Ksh.33.2 billion** from external Loans and Grants.

Table4: Disaggregation of County Governments' Allocations FY 2014/15-2018/19 (Ksh. Millions)

Types of allocations	2014/15	2015/16	2016/17	2017/18	2018/19
County Equitable Share	226.66	259,774.5	280.300	302,000	314,000
Additional conditional allocation					
Free maternal healthcare	3,320.0	4,298.0	4,121.0	-	-
Leasing of medical equipment		4,500	4,500	6,100	9,400
Compensation for user fees foregone		900.0	900.0	900.0	900.0
Level 5 Hospitals	1,863.3	3,600.5	4,000	4,200	4,326
Special purpose Grant(Emergency Medical Serv)			200.0	-	-
Rehabilitation's of village polytechnics				2,000	2,000
Supplement for constructions of County HQs				605.0	605.0
Allocations from fuel levy (15%)	3,400	3,300	4,306.8	7,875.0	8,269.0
Allocations for Loans and Grants		10,671.2	3,870.7	12,541.4	33,241.9
Total	235,243.3	287,044.2	302,198.5	336,221.4	372,7

Source: BPS 2018

Table 5: Actual Allocation of the Equitable Share by County functions in (Ksh. Billions)

Devolved Functions	2016/17	% Share	2017/18	% Share
Health Services	76.68	27.36%	89.13	29.51%
Planning & Development	57.66	20.57%	54.69	18.11%
Agriculture, Livestock & Fisheries.	21.88	7.81%	26.45	8.76%
Culture, Public Entertainment & Public Amenities	3.35	1.20%	3.27	1.08%
Youth Affairs & Sports	4.85	1.73%	6.48	2.15%

Trade, Cooperative Development & Regulation	4.86	1.73%	6.1	2.02%
Roads & Transport	44.26	15.79%	49.6	16.42%
Lands, Housing and Public Works	6.32	2.25%	6.75	2.24%
Pre-Primary Education	2.61	0.93%	4.24	1.40%
Water, Natural Resources & Environmental Conservation	7.94	2.83%	8.12	2.69%
New County Structures	49.91	17.81%	47.16	15.62%
Total Equitable Share to Counties	280.3	100.00%	302	100.00%

Source: CRA

6. Salient Issues

- It has been noted that there are many ongoing projects in the spending agencies under the purview of the committee, hence there is need to complete these projects before introducing any new project. And the need by the government to link the on-going projects to the four big agenda rather than creating new projects.
- Most of the projects under the State Department of Water are financed through donor financing, however there have been cases where during budgeting there are commitments by the donors, however these funds are cut in the course of implementation hindering the completion of projects at the stipulated time. It is therefore important for the donors to adhere to the budgeting process of the Country.
- There is need to harmonize the water sector such that oversight of projects is more coordinated. If project implementation is being monitored by many players it becomes difficult to keep track of the projects.

7. Committee Observations

- The Committee expressed dissatisfaction in the manner in which the Budget Policy Statement (BPS) comes to the Committee with very stringent timelines thus limiting the Committees ability to scrutinize the BPS critically.
- The Committee observed that there many on-going projects in the sectors under the purview of the committee especially in the water sector.
- The committee observed that projects under the state department of water are majorly financed through donor funding and this funding are sometimes cut in the course of the project which hinders the projects implementations and completion.

8. Committee Recommendations

- The Committee recommends that in future the timelines for processing the Budget Policy Statement (BPS) be made in a manner to allow various house standing committees to interrogate the BPS effectively.
- The committee recommends the need to align on-going projects in the sectors under the committee purview to the "BIG FOUR" agenda rather than initiating new projects for the sole purpose of implementing the country's transformative agenda.
- The committee recommends the need for donors to adhere to the budget execution process of the country so as to avoid unnecessary projects stalling as a result of funding cuts.

REPUBLIC OF KENYA

THE SENATE

TWELFTH PARLIAMENT – SECOND SESSION

REPORT

OF THE STANDING COMMITTEE ON LABOUR & SOCIAL WELFARE

ON THE

THE 2018 BUDGET POLICY STATEMENT

CLERKS CHAMBERS

THE SENATE

FEBRUARY, 2018

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1 PREFACE

1.1 Mandate of the Standing Committee on Health:

The second schedule of the Senate Standing orders mandates the Standing Committee on Labour & Social Welfare to consider all matters related to: *manpower and human resources planning, pension, gender, culture and social welfare, youth, National Youth Service, children's welfare; national heritage, betting, lotteries and sports, public entertainment, public amenities and recreation.*

The Committee oversights the following ministries namely:

1. Ministry of East African Community, Labour and Social Protection;
2. Ministry of Sports, Culture and the Arts; and
3. Ministry of Public Service, Youth and Gender Affairs.

In the Ministry of East African Community, Labour and Social Protection, the Committee oversees the following state departments and agencies working under it:-

1) State Department for Labour;
2) State Department for Social Protection;
3) National Council for Children Services (NCCS);
4) National Council for Persons with Disabilities (NCPWD);
5) National Industrial Training Authority (NITA); and
6) National Gender and Equality Commission;
7) National Employment Authority;
8) National Social Security Fund (NSSF).

In the Ministry of Sports, Culture and the Arts, the Committee oversees the following state departments;

1) Sports,
2) Office of the Sports Registrar,
3) Culture,
4) Permanent Presidential Music Commission,
5) Kenya National Archives and Documentation Services,
6) Library Services,
7) Records Management,
8) The Arts and Film Services.

There are also Semi-Autonomous Government Agencies (SAGAs) namely:

1) Sports Kenya,
2) Kenya Academy of Sports,
3) National Sports Fund, National Museums of Kenya,
4) Kenya Cultural Centre,
5) Kenya Film Commission,
6) Kenya Film Classification Board
7) Kenya National Library Service.
8) National Heroes Council,
9) Anti-Doping Agency Kenya, and
10) Natural Products Industry Agency.

In the Ministry of Public Service, Youth and Gender Affairs, the Committee oversees the following state departments and agencies:-

1) State Department of Public Service and Youth Affairs
2) State Department of Gender Affairs
3) The Public Service Commission
4) Uwezo Fund
5) Women Enterprise Fund
6) Youth Fund
7) Huduma Kenya
8) Access to Government Procurement Opportunities (AGPO)
9) National Youth Service
10) Anti FGM

The mandate of Standing Committees of the Senate is to be exercised with due regard to the distribution of functions between the National Government and County governments under the Fourth Schedule to the Constitution (Standing Order 212).

1.2 Membership of the Committee

The following are Members of the Standing Committee on Labour & Social Welfare:

1.	Sen. Sakaja Johnson Arthur	**-Chairperson**
2.	Sen. (Dr.) Milgo Alice Chepkorir	**-Vice Chairperson**
3.	Sen. Poghisio Samuel Losuron	-Member
4.	Sen. (Dr.) Mwaura Isaac	-Member
5.	Sen. Samson Cherarkey	-Member
6.	Sen. Stewart Madzayo	-Member
7.	Sen. Beatrice Kwamboka	-Member
8.	Sen. (Dr.) Gertrude Musuruve Inimah	-Member
9.	Sen. Petronilla Were Lokorio	-Member

It is therefore my pleasant duty to present the Report of the Senate Standing Committee on Labour & Social Welfare on the 2018 Budget Policy Statement, in relation to the Labour and Social Welfare & Sports sectors, to the Senate Standing Committee on Finance, Commerce and Economic Affairs.

Signed_____

Senator Johnson Sakaja, MP
Chairperson, Standing Committee on Labour & Social Welfare

Date_____

2 HIGHLIGHTS OF THE MEDIUM TERM BPS 2018

2.1 Background

1. The BPS outlines the broad strategic government priorities and policy goals of the government over the medium term. This is intended to provide the basis for preparing the budget government for the following year and over the medium term by both the National government and the county governments.
2. The theme for the Budget Policy Statement (BPS) for 2018 is "creating jobs, transforming lives- the 'big four' plan". Thus, the Budget Policy Statement 2018 is an emphasis on socio-economic transformative agenda envisaged by the government meant to deliver economic transformation in four key strategic areas of focus identified by the Government (see table 1).

Table 1: Strategic Areas of Focus

Key Strategic area	Medium Term Target
Health care	Providing universal health care hence guaranteeing quality and affordable healthcare to Kenyans by 2022.
Housing	Providing at least 500,000 affordable new houses to Kenyans by 2022
Manufacturing	Supporting value addition and raising manufacturing sector's share of GDP to 15% by 2022
Food Security	Expansion of food production and supply, reduction of food prices to ensure affordability in order to guarantee food security and improve nutrition

3. In order to implement the prioritized programmes, the Sector has a proposed allocation of Kshs 60.40 billion, and Kshs 61.12 billion for the financial years 2018/2019 and 2019/2020 respectively. The recurrent expenditure allocation for FY2018/19 is Kshs. 31.07 billion while development expenditure is Kshs 28.71 billion.
4. A huge share of the proposed allocation for the FY 2018/2019 is to the State Department for Social Protection which has a ceiling of **Kshs. 31.95 billion** representing 53% of the total amount for the sector. However, out of the total **Kshs 31.95 billion, Kshs. 27.9 billion** is towards the National Safety Net Programme.
5. In the BPS 2018 and over the medium term, the Government plans to continue to address the various challenges facing vulnerable groups so as to build resilience and promote affirmative action for all:

- ✓ Continue building capacities of communities and register Self Help Groups and Beneficiaries Welfare Committee (BWCs) providing them with formal recognition and opportunities to link with Micro Finance Institutions (MFIs) and non-state actors;
- ✓ Develop infrastructure of 12 Vocational Rehabilitation Centres (VRCs);
- ✓ Establish the National Development Fund for Persons with Disabilities (PWDs)
- ✓ Decentralization of the single registry for the National Safety Net Programme; and
- ✓ Finalize integration of the existing Information Management Systems for the CT-OVC, OPCT and PWSD-CT programs into a one-stop system

6. Under the Youth empowerment Programme, the government targets to continue promoting;
   - ✓ Gender and Youth empowerment,
   - ✓ Improved livelihoods for the vulnerable groups and people living with disabilities through the National Youth Service (NYS) program,
   - ✓ The social transformation program and SACCOs in order to attain sustainable youth led enterprises and promote employment creation services.
   - ✓ Expanding opportunities for the youth in procurement and designate resources for the establishment of youth empowerment centers to mentor the youth on leadership, national values, and entrepreneurship skills

2.2 Conditional Grants to Counties

Table 2: Disaggregation of County Governments' Allocations. Kshs. Millions

Type/Level of allocation	**2016/17**	**2017/18**	**2018/19**
County Equitable Share	**280,300**	**302,000**	**314,000**
Additional conditional allocations of which			
1. Free maternal Healthcare	4,121	-	-
2. Leasing of medical equipment	4,500	6,100	9,400
3. Compensation for user fees foregone	900	900	900
4. level 5 hospitals	4,000	4,200	4,326
5. Special purpose grant (Emergency Med. Ser.	200	-	-
6. Rehabilitation of village polytechnics		2,000	2,000
7. Supplement for Construction of County HQs		605	605
8. Allocation from Fuel Levy (15%)	4,307	7,875	8,269
9. Allocation from loans and grants	3,871	12,541	33,242
Total County Allocations	**302,199**	**336,221**	**372,742**

Source: National Treasury

2.3 *Contribution to the Big Four Agenda*

7. Labour is one of the Foundations for National Transformation in the Kenya Vision 2030. It is also a critical factor of production without which, the other factors of production cannot produce the required goods and services for the economy.
8. Therefore, Labour sub-sector is an enabler in the implementation of the four government priorities, which are Manufacturing, Food Security and Nutrition Security, Universal Health and Affordable Housing. The Sub-sector advocates for an efficient, motivated and healthy human resource base, which is pivotal for enhanced national competitiveness, economic growth and development. The Sector will contribute to the 'Big Four' priority areas through the following programmes, projects and activities under the State Department for Labour, that have been linked to the 'Big Four' initiatives:

Project	Output	Target 2018/19	Estimated Cost
PROGRAMME 1: PROMOTION OF BEST LABOUR			
Project 1: Review of the Labour Laws and policies to align them to the emerging issues and challenges in the Labour Market	6 Labour Laws and 2 policies reviewed	6 Labour Laws and 2 policies reviewed	35
Project 2: Establish Conciliation and Mediation Services	Alternative Disputes Resolution (ADR) mechanism established	ADR in place	60
Project 3: Development of a National Wages and Remuneration Policy	National Wages and Remuneration Policy	Policy developed & validated	20
Project 4: Review, establish and operationalize wages councils and National Labour Board to guide in the fixation of terms and condition of employment in the various sectors	3 Wages Councils established and 2 fully operationalized	3 Wages Councils established fully operationalized	60
Project 5: Improve Occupational safety and health standards in Micro and Small Enterprises (MSEs) Manufacturing sector, Agriculture and construction	Baseline Survey on number of workplaces, hazardous occupations and plants	Carry out OSH survey in 20counties	506
	37700 Factories and processing plants examined	8,950	415
	7,000 Jua Kali entrepreneurs sensitized	Develop & IEC materials sensitize 1000 entrepreneurs	163
PROGRAMME 2: MANPOWER DEVELOPMENT, EMPLOYMENT AND PRODUCTIVITY MANAGEMENT			

Project 6: Strengthening the operational capacity of the National Productivity and Competitiveness Centre (NPCC)	47 Productivity Officers trained on certified KAIZEN Course, National Productivity Council Bill finalized and 7 productivity consulting firms registered	NPC Bill finalized, 47 officers trained and 7 Productivity Consulting firms registered	28.5
Project 8: Carry out a skills and occupation survey in the Informal Sector - World Bank Funded	Skill Profiles, gaps and occupations in the informal Sector identified	Skills and occupational survey in the informal sector	350
Project 10: Maintenance of the Kenya Labour Market Information System (KLMIS)	Up to date, relevant labour Market information available	Application Programming Interface with other systems	264
CLUSTER 1: MANUFACTURING			
PROGRAMME 2: MANPOWER DEVELOPMENT, EMPLOYMENT AND PRODUCTIVITY MANAGEMENT			
A. TEXTILE AND LEATHER SECTOR			
Project 1. Productivity improvement in Textile and Leather Sectors	50,000 workers in EPZA trained on productivity skills in textile Sector	10,000	140
	9,000 workers trained on productivity skills in leather sector	3,000	12
B. OTHER AREAS RELATED TO MANUFACTURING CLUSTER			
Project 2: Productivity improvement in the Tea, Dairy, and Cereals (maize) sector	15,000 Workers of KCC and NCPB Eldoret, KTDA (2 Limuru, 5 Kericho) trained on productivity improvement	7,500	14
Project 3: Productivity improvement in the manufacturing MSEs Sector in 4 clusters (Metal, Food processing, Furniture and Agribusiness clusters)	85 MSEs in the 4 clusters trained on Productivity improvement skills	40	15
Project 4: Train Youth & Women in Textile/Apparel Sector	50,000 Youth and Women trained in Textile/Apparel Sector	10,000	720
Project 5: Enhance skills in the Micro and Small Enterprises (MSE) Manufacturing Sector	88,000 workers in the MSE sector skills enhanced	43,000	1,362.70

Project 6: Carry out Apprenticeship training both in the formal and informal sector	27000 apprentices engaged and trained in the formal and informal sectors	6,000	972
Project 7: Kenya Youth Employment Opportunities Project (KYEOP) – Improving Youth Employability	70,000 youth trained for employment opportunities	10,000	5,700
Project 8: Enhancement of Industrial Attachment;	210,000 students and lecturers attached in industry	40,000	382
Project 9: Upgrading of the 5 Industrial Training Centres	5 industrial training centres upgraded	2	443.1
Project 10: Coordinate the implementation of the National Internship Programme	450,000 placed on Internship	50,000	319
CLUSTER 2: UNIVERSAL HEALTH CARE			
PROGRAMME 1: PROMOTION OF BEST LABOUR			
Project 21: Mainstreaming of Basic Occupational Health Services (BOHS) into Primary Health Care System	OH services integrated into primary health care facilities	Develop Data collection and transmission tools Sensitization of doctors in public hospitals Roll out in 2 Counties	115
	365,000 Workers in hazardous occupations medically examined	75,000	125
CLUSTER 3: AFFORDABLE HOUSING			
PROGRAMME 2: MANPOWER DEVELOPMENT, EMPLOYMENT AND PRODUCTIVITY MANAGEMENT			
Project 22: Enhance skills possessed by workers in the Housing sector	66,000 workers in the Housing Sector skills enhanced	15,000	717.9
CLUSTER 4: FOOD NUTRITION AND SECURITY			
PROGRAMME 1: PROMOTION OF BEST LABOUR			
Project 23: Implement ILO's Work Improvement Neighborhood Development (WIND) Programme in 4 crop production sub-sectors	Leaders of SACCOs in 4 crop production sub-sectors (rice, sugarcane, small-scale tea and horticultural growing farmers) trained as TOT on best occupational safety and health practices	WIND Programme Mwea irrigation scheme	109

Source: the National Treasury, Sector Report 2018

9. The Sports industry, arts and culture may not have a direct relevance with the big four plans of the Government. However, it is worth noting that, the industries generate revenue to the Government which is in turn needed for the implementation of the big four. Going forward the government intends to nurture the youth that have continued to demonstrate immense talents, especially in sports and arts. This will be a catalyst for growth and development.

2.4 Issues of Concern

1. ***The set-out allocations to the state department for sports development and state department for arts and culture*** are less than the resource requirements by Kshs 8,816 million and Kshs 4,684 million. This may hinder service delivery by the departments.
2. ***Status of pending bills:*** The development expenditure should be given a priority in order to avoid accrual of pending bills and breach of contractual agreements
3. ***Labour Sector should fast-track establishment of an institutional framework*** for enhanced coordination of all social protection programs to create harmony and avoid duplication
4. ***The Sector needs to fast-track amendment and enactment of legal frameworks (Policies, bills and legislations) that are aligned to the Constitution to facilitate efficient and effective implementation of sector activities.*** These Policies that are at various stages of completion include; National Industrial Relations Policy, Wages and Remuneration Policy, Regulations on Oil and Gas, Labour Market Information Policy, Labour Migration Management Policy, National Social Development Policy, National Community Development Policy, Older Persons Policy, Persons with Disabilities Policy, Anti Female Genital Mutilation Policy, National Gender and Development Policy, National Equality Policy, Merging of Affirmative Action Funds Policy.

3 COMMITTEE RECOMMENDATIONS

The Committee recommends the following:-

1. Conditional grants should include grants to counties to support in Sports management and development and the allocation of the PWDs in Sports to Counties should be clearly spelt out;
2. Focus in allocations is needed to the creative economy sector as a frontier of economic development and job creation;
3. PWDs should be mainstreamed in the Youth and Gender programs;
4. Under Programme 2 in Manpower Development, Employment and Productivity Management, Allocations to the National Employment Authority should be included so that it may be able to perform its functions including education and curriculum development, creation of job centres and establishing of a data base for all the unemployed youth in Kenya. The data will be important in policy formulation especially in matters relating to youth.
5. Under the Big 4 Agenda 1 of Universal Healthcare, Allocations to youth programs should include those to train and hire youth as Community Health Workers and pay them minimum wage;
6. In Cluster 3 of Affordable Housing, Project 22, should include allocation to the relevant authority to certify and accredit workers in the construction sector;
7. Improved allocation to develop the Sports and Arts Sector as this is an area that is creating employment especially to the Youth and Women;
8. Improved allocations to address an ageing public service vis a vis youth employment to cater for already qualified professionals who are unemployed e.g. teachers and nurses;
9. The need to set allocations to provide incentives to the Private Sector to take in interns especially those with less than 6 months experience;
10. Labour Sector should fast-track establishment of an institutional framework for enhanced coordination of all social protection programs to create harmony and avoid duplication; and,
11. The Sector needs to fast-track amendment and enactment of legal frameworks (Policies, bills and legislations) that are aligned to the Constitution to facilitate efficient and effective implementation of sector activities.

REPUBLIC OF KENYA



PARLIAMENT

THE SENATE

TWELFTH PARLIAMENT

THE STANDING COMMITTEE ON HEALTH

A REPORT ON THE BUDGET POLICY STATEMENT AND THE MEDIUM TERM OF THE HEATH SECTOR

FEBRUARY, 2018

Clerk's Chambers,

The Senate,

Parliament Buildings,

NAIROBI.

February, 2018

PREFACE

Mr. Speaker Sir,

The Standing Committee on Health was constituted in December, 2017 pursuant to standing order 212 of the Senate Standing Orders. The Committee is mandated to consider all matters related to: *medical services, public health and sanitation.*

Membership of the Committee

The Membership of the Committee is composed of the following:-

1. Sen. (Dr.) Michael Malinga Mbito – - Chairperson
2. Sen. (Dr.) Ali Abdulahi Ibrahim - Vice-Chairperson
3. Sen. Beth Mugo
4. Sen. Nderitu John Kinyua
5. Sen. Iman Falhada Dekow
6. Sen. Okong'o Omogeni
7. Sen. Naomi Shiyonga
8. Sen. Petronilla Were Lokorio
9. Sen. Ben Oluoch Okello

Committee Policy Considerations and Recommendations

The Committee analyzed the Budget Policy Statement and the Medium Term of the Health Sector and made the following policy considerations:

1. **Health Allocation vs Abuja Declaration**: The total government expenditure on Health for the FY 2017/2018 is less than 8 percent. This is below the 15 percent envisioned in the Abuja Declaration. The National Government spent approximately 4% on health. Counties on average spent 25.2 per cent of their budgets on health even though most of it went to recurrent expenditure. However, the shareable revenue of counties is lower than the national government.

There is a need to cost service delivery of health services in the counties with a view to matching resources against functions, increasing health budgetary allocations and directing more resources and efforts towards preventive and promotive health care

2. **Resource constraints:** In terms of resource allocation, the proposed budget ceiling for Health sector for 2018/19 is Kshs 69.9 Billion which is less than the resource requirement for the sector which stood at Kshs 115.8 Billion. In the next MTEF period, the resource requirement for the sector is Kshs 374.6 Billion against a proposed resource ceiling of Kshs 215.9 Billion. This is a significant resource gap in the sector considering the government intention to actualize the UHC by 2022 as one of its Big Four plans. Thus, the Health sector is not adequately supported in terms of resource allocation to implement of the Universal Health.
3. **Establishment of 10 Referral Hospital:** The Ministry of Health intends to establish 10 referral hospitals as one of the support initiatives towards UHC. The 2018 BPS has not indicated where these ten-referral hospitals will be located, and what criteria shall be used. The Ministry should provide an implementation plan indicating how the location of the hospitals will be selected and what criteria will be applied. In addition, the plan should clearly state whether the referral hospitals will be established by upgrading existing facilities or building new ones.
4. **Establishment of four (4) new comprehensive cancer centers:** The Committee supports the initiative. Cancer is a major epidemic in the country and a lot of citizens are suffering without treatment. The Committee has concerns that only 1 billion Kenya Shillings has been budgeted for establishment of a cancer institute. Additional resources should be added to combat this menace afflicting Kenya Citizens.
5. **Establishment of Managed Equipment Service (MES):** The Ministry intends to equip 21 hospitals with specialized equipment under Managed Equipment Service (MES) Project as part of the supportive initiatives towards UHC. The Ministry should provide a detailed implementation plan of the extended MES programme clearly detailing which hospitals are to benefit. Subsequently, the Ministry should provide a status report on the implementation of MES Project to Parliament. The Committee notes that in the 2018/19 financial year 9.4 billion has been set aside as conditional grants towards medical equipment leasing programmee to the Counties. This is up from 6.1 Billion on financial year 2017/18. The

Committee is concerned that common Kenyan Citizen is not getting a value for their money since a lot of the equipment is lying idle. The Committee is of the opinion that infrastructure to operate the machines should be laid out first prior to getting the additional equipment.

6. **NHIF and Universal Health Coverage (UHC):** The government intends to introduce multi-tiered health packages under the NHIF cover. The Ministry should define the number and scope of services under each tier. On the proposed expansion of coverage, the Ministry has provided an indicative target of approximately 11 million new NHIF members by 2022 which translates to an additional budget of Kshs. 24.6 billion within the next five years. It's not clear what burden of responsibility will be borne by National government vis a vie the county governments. Similarly, with the introduction of UHC, the Ministry should detail how it intends to mitigate against an expected rise in healthcare costs that will be occasioned by increased demand for health services under UHC
7. **Merging initiatives**: It is noted that the government has over the past rolled out various initiatives/projects (HISP and Insurance for the elderly and the disabled) under the social insurance programs aimed at supporting the UHC goal. These initiatives are meant to expand uptake of NHIF especially by the vulnerable groups. According to the health sector report 2017, these initiatives are to be implemented within different programmes in the Ministry i.e Health Policy and Standards, and General Administration Programmes. This may result in coordination inefficiencies. The Ministry may consider merging all these efforts to create an omnibus programme to support UHC.
8. **Collaborative Health Human Resource Management:** There is need for the Ministry to speedily implement the Health Act 2017 through an intergovernmental framework with county governments. This is especially true in the area of health human resource management which is a key element of ensuring a seamless and cost-effective implementation plan of the UHC.

9. ***Health Worker Recruitment.*** The government intends to increase the ratio of health workers from 9: 10,000 to 14: 10,000 by 2022. This represents an addition of 21,300 new health workers to be recruited within the next 5 years. At an average cost of Kshs. 100,000 per health worker, this translates to estimated cost of Kshs. 2.1 billion. It's not clear what

burden of responsibility will be borne by National government vis a vie county governments.

10. **Linking BPS with National Development agenda**: The Constitution requires that budget preparation needs to be guided by the development plans. Kenya is guided by vision 2030 in planning which is usually broken down to 5-year medium term plans. The MTP III is not yet available yet it was supposed to inform 2018/19 and medium-term resource allocation in all sectors. There is no information on which overall policy plan informed the formulation of the proposed strategic focus and resource allocation.
11. **Case of Pending Bills**. Information from the Ministry indicates that in the last four years the Ministry has had cases of high pending bills involving varying amounts. The highest incidence of pending bills was recorded in 2015/16. In 2016/17 the accumulated pending bills totaled Kshs 9.4 billion. It is noted that the semi-autonomous agencies have the highest pending bills and this is a concern since these agencies collect their own revenues which needs to supplement what the exchequer allocates to them.

    It is the Committee view that The Ministry of Health and all Semi-Autonomous Government Agencies operate balanced budget. This will prevent compromise on service delivery since funds earmarked for certain function will not go towards paying pending bills.
12. **Donor financing:** The health sector capital expenditure is highly dependent on donor financing. In the FY 2016/17, the total capital expenditure estimates of Ksh. 31.179 billion is donor financed to the tune of Ksh. 19.77 billion, representing a donor financing level of approximately 63 percent. The government funding for the health sector capital projects is a meager Ksh. 11.34 billion. Key projects at the mercies of the donors include: reproductive health commodities; universal health coverage; procurements of vaccines; HIV/AIDS, TB and Malaria among others. There is need for the Ministry to explore home-grown financing mechanisms for critical projects in the Ministry. The funding should be consistent with Kenya's priorities and within broader objectives of universal coverage.
13. **Slum upgrading project**: This is a strategic intervention to upgrade health centers in slum areas which the Ministry has been undertaking. However, the project has not fully taken off with cases of containers lying idle in Mombasa. The Ministry should provide a comprehensive status report on this project including the location, names and numbers of

health centers completely upgraded and operational; names and numbers of health personnel managing the health centers, and; the policy framework in place to hand over the facilities to the County Governments since this is a function is under the purview of the County Governments.

14. **Conditional Grants to Level 5 and other High-Volume Health Facilities:** The Ministry has proposed a total allocation of KShs. 4,325,000,000.00 as conditional grants to Level 5 Hospitals. The Ministry needs to map out all high volume health facilities with a view to identifying other hospitals that can benefit from this conditional grants.
15. **Emergency Treatment Fund:** No provision is made for the funding of Emergency Treatment despite the fact that the right of every person emergency treatment and care is recognized in Section 7 of the Health Act 2017.
16. **Funding of Additional Allowances Negotiated under the Collective Bargaining Agreements with Doctors, Nurses and Clinical Officers:** Following a protracted strike in 2017, the national government offered 2598 in-service doctors an Emergency Call Allowance of KShs. 42,000-50,000 and a Risk Allowance of KShs. 20,000.00 each. The increment translates into an additional cost of KShs. 3,077,568,000.00 to county governments.

    Similarly, the government offered 24,361 clinical officers and other county health workers a monthly Health Workers Allowance ranging between KShs. 7,500.00 and KShs. 20,000.00. In addition, Clinical Officers were awarded an Emergency Call Allowance of KShs. 10,000.00 per month. This increments have translated to an additional cost of KShs. 5,254,320,090.00 to County Governments.

    In addition, the government negotiated with the Kenya National Union of Nurses, Nursing Service Allowances for its 23,421 members amounting to KSHs. 3,474,144,000.00.

    The combined additional cost of these negotiated allowances to county governments amounts to KShs. 11,806,032,000.00.

    The BPS makes no provision for the allocation of this money.

Acknowledgement

The Committee wishes to thank the Offices of the Speaker and the Clerk of the Senate for facilitating all the activities necessary for the development of this report. The Committee also

wishes to express its appreciation to the Parliamentary Budget Office and Committee Secretariat for its technical support towards the Committee.

Signed..... Date.....

SEN. MICHAEL MALINGA MBITO

CHAIRPERSON, STANDING COMMMITTEE ON HEALTH

A. Introduction

1. The 2018/19 Budget Policy Statement (BPS) has been prepared at a time when the prolonged electioneering of 2017 slowed down economic activities in various sectors of the economy such as tourism, wholesale, manufacturing and retail where both large and small medium enterprises were negatively affected. Nevertheless the economy remained resilient despite the risks which had been posed by election related challenges.

2. The report provides an analysis of the Budget Policy Statement for financial year 2018/19 and the medium term review. It specifically concentrates on resource ceiling for various programmes in the Health sector.

B. The Legal Basis for processing of the BPS

3. The Budget Policy Statement is one of the key budget policy documents prepared by the National Treasury and is published in accordance with Section 25 of the Public Finance Management Act, 2012. In preparing the Budget Policy Statement, the National Treasury is required to set out the broad strategic priorities and policy goals that will guide the national government and county governments in preparing their budgets both for the following financial year and over the medium term. The National Treasury is required to include the following in the Budget Policy Statement:-

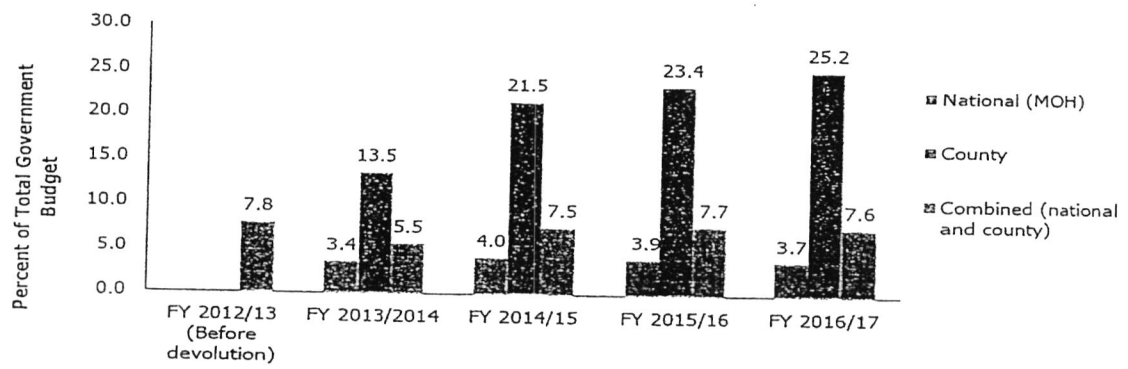
    i. An assessment of the current state of the economy and the financial outlook over the medium term, including macro-economic forecasts;
    ii. The financial outlook with respect to Government revenues, expenditures and borrowing for the next financial year and over the medium term;
    iii. The proposed expenditure limits for the national government, including those of Parliament and the Judiciary and indicative transfers to county governments;
    iv. The fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt.

4. Section 25(2) of the Public Finance Management Act 2012, requires the National Treasury to submit the BPS to Parliament by the 15th February each year. Parliament has fourteen (14) days after its submission to scrutinize and review it in line with Section 25(7) of the Public Finance Management Act 2012.

I. Historical Allocation of the Health Budget

5. Kenya's population is estimated at 48.46 million with an average population growth of 1 million per year. (World bank, 2018). In addition, Kenya has a fertility rate of 2.4 children per woman. Kenya's burden of diseases has historically been mostly focused on communicable diseases such as Malaria, Tuberculosis and HIV/AIDS. However, in the recent years there has been a resurgence of diseases previously thought to have been eradicated such as Cholera and Chikungunya.
6. The 2010 Constitution brought forth devolved governments and the health sector was devolved to counties. The national government is in charge of health policy, national referral health facilities and capacity building and technical assistance to counties while service delivery falls under the purview of count governments.
7. Generally, the government spending on health is less than 8 percent which is below the 15 percent envisioned in the Abuja Declaration.

Figure 1: Trends in Health Allocation as %of Total Government Budget and Level of level of government

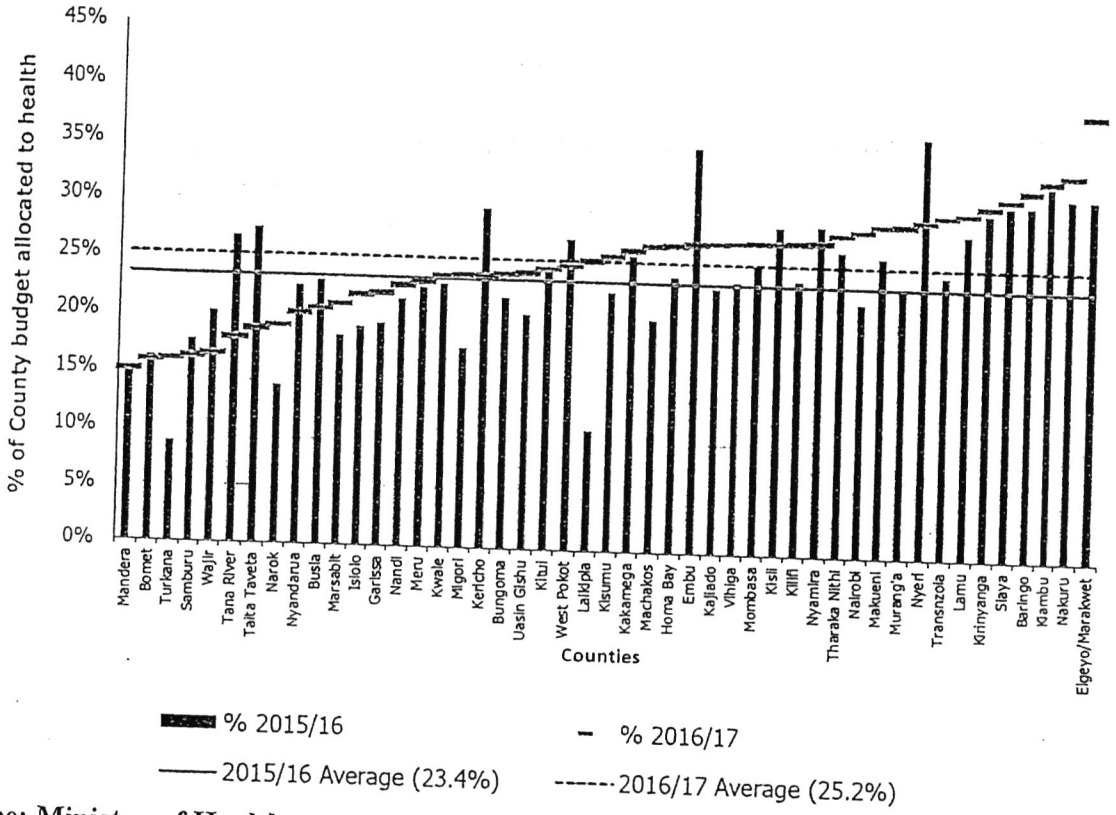


Source: Ministry of Health

8. In FY 2016/17, Counties on average spent 25.2 percent of their budgets on Health. However, eight counties namely: ElgeyoMarakwet, Nakuru, Kiambu, Baringo, Siaya,Kirinyaga, Lamu, and Trans Nzoiahave allocated at least 30 percent of the resources to health.

a

Figure 2: % of total County Budget allocated to health by county FY 2015/16 & 2016/17



Source: Ministry of Health

II. Highlights of the Budget Policy Statement 2018

(a) An overview

9. The BPS outlines the broad strategic government priorities and policy goals of the government over the medium term. This is intended to provide the basis for preparing the budget government for the following year and over the medium term by both the National government and the county governments.

10. The theme for the Budget Policy Statement (BPS) for 2018 is "*creating jobs, transforming lives-the 'big four' plan*". Thus, the Budget Policy Statement 2018 is an emphasis on the socio-economic transformative agenda envisaged by the government to deliver economic transformation in four key strategic areas of focus identified by the Government (see table 1)

Table 1: Strategic Areas of Focus-The Big Four Agenda

Key Strategic area	Medium Term Target
Health care	Providing universal health care hence guaranteeing quality and affordable healthcare to Kenyans by 2022.

Housing	Providing at least 500,000 affordable new houses to Kenyans by 2022
Manufacturing	Supporting value addition and raising manufacturing sector's share of GDP to 15% by 2022
Food Security	Expansion of food production and supply, reduction of food prices to ensure affordability in order to guarantee food security and improve nutrition

Source: National Treasury

III. Medium Term Health Sector Policies espoused in the BPS 2018

11. The policy thrust for the Health sector contained in budget policy statement 2018 is the progressive provision of universal health care (UHC). This policy has been identified as one of the big four agenda for the government to be realized in the next five years.

12. The government envisages having in place universal health coverage within the next five years. Progressive targets have been set for every year leading to 2022 as provided in the table below:

Table 3: Targeted coverage- UHC

Item	2018	2019	2020	2021	2022
Coverage (population)	25,740,788	33,517,183	41,616,322	49,813,085	51,572,636

Source: National Treasury[1]

13. The proposed initiatives under the BPS 2018 which the government has lined up to support the progressive rollout of UHC include: driving up National Hospital Insurance Fund (NHIF) uptake especially by those in the informal sector and the vulnerable groups; aligning NHIF towards UHC through legal and institutional reforms; reviewing the IRA Act to increase uptake of private health insurance; launching segregated multi-tiered health cover packages, and; digitalization of NHIF services.

14. Through the UHC the government intends to have the following key deliverables in the next five years:

    i. 9 Million and 12 million covered by formal and informal members' contributions to NHIF respectively

    ii. 1.79 million elderly (70+) and 1.5 million poor households (indigents) covered through the NHIF

    iii. 1.5 million Women and children covered under the Linda mama programme.

[1] Budget Policy Statement 2018

15. The proposed supportive initiatives (enablers) towards UHC include: continued provision of specialized medical equipment; increasing the number of referral health facilities; and, the expansion of the Linda Mama Program to bring on board mission and private hospitals. The government has set the following targets for the various enablers in the next five years:

- Establishment of ten (10) referral hospitals
- Establishment of four (4) new comprehensive cancer centres
- Establishment of one (1) centre of excellence for kidney health
- Equipping twenty one (21) additional hospitals with specialized equipment (surgical theatres, radiology and dialysis equipment)
- 50% increase in the ratio of health worker to 10,000 people (from 9:10,000 to 14:10,000)
- Expansion of Linda mama program by bringing on board mission and private hospitals.

16. The government will also continue to support the ongoing programmes within the sector such as improving RMNCAH[2] through increased immunization, improved nutrition ,increased access to family planning services, ending AIDs, TB, Malaria and non communicable diseases by 2030;increase access to national referral health facilities and specialized services; strengthening health research and developing medical tourism.

IV. Key areas of spending in the Health Sector

17. In the next five years, the government key focus in the health sector is on the provision of Universal Health Care. The key spending areas as espoused in the BPS 2018 are: provision of specialized medical equipments; increasing the number of health facilities (referral hospitals, establishment of cancer center and kidney center), and; expansion of the Linda mama to bring on board mission and private hospitals as well as continued funding of the ongoing programs and projects.

18. The Ministry intends to continue implementing the five key programmes in 2018/19 financial year and over the medium term. Table 2 gives the proposed budget ceilings (recurrent and development) for 2018/19 financial year and the projections within the medium term broken down to various programmes being implemented by the Ministry.

Table 4: 2018/19 Proposed Ceilings (Kshs Mlns)

Programmes	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Recc	Dev	Total	Recc	Dev	Total	Recc	Dev	Total

[2] Reproductive, Maternal, Neonatal, Child and Adolescent Health

Preventive, Promotive and RMNCAH	4,786	8,911	13,697	5,683	8,911	14,594	5,715	8,911	14,626
National Referral and specialized services	15,850	15,453	31,303	16,423	16,614	33,037	16,397	17,587	33,984
Health Research and Development	5,285	436	5,721	5,499	78	5,577	5,501	69	5,570
General Administration and Planning	5,857	3,093	8,950	7,451	2,511	9,962	7,722	1,564	9,286
Health Policy, Standards and Regulations	3,030	7,286	10,316	2,361	7,289	9,650	2,390	7,289	9,679
Total	**34,807**	**35,179**	**69,986**	**37,417**	**35,403**	**72,820**	**37,725**	**35,420**	**73,145**

Source: National Treasury

V. Conditional Grants to Counties

19. In 2018/19 FY the proposed conditional allocations to county governments is Kshs. 58 billion. Conditional allocations have risen from Kshs. 21 billion in 2016/17 FY to current status on account of increase in allocation from loans and grants.

20. The conditional grants to county relating to health sector are:

    i. Leasing of medical Equipment: Started in the financial year 2015/16, this conditional allocation is intended to facilitate the purchase of modern specialized health care equipment in at least two health facilities in each County Government over the medium term. This will facilitate easy access to specialized health care services and significantly reduce the distance that Kenyans walk in search of such services today. This conditional allocation is to be allocated to County Governments equally.

    ii. Compensation of user fees foregone: It is the intention of government to sustain the Government policy of not charging user fees in public health facilities. In this regard, the National Government has allocated Kshs. 900 million to compensate county governments for revenue forgone by not charging user fees in the county health facilities. This grant is to be allocated among County Governments on the basis of the

annual consolidated facility outpatient (OPD) attendance workload as reported in the Health Information System (DHIS).

iii. **Level 5 Hospitals**

Table 2: Conditional Grants to Level 5 Hospitals

No.	Level-5 Hospital	County	Proposed Allocation 2018/19 (in Millions)
1	Machakos	Machakos	383.58
2	Embu	Embu	301.04
3	Garissa	Garissa	344.74
4	Kakamega	Kakamega	427.28
5	Meru	Meru	373.87
6	Mombasa	Mombasa	388.44
7	Nakuru	Nakuru	373.87
8	Nyeri	Nyeri	407.86
9	Kisumu	Kisumu	369.01
10	Thika	Kiambu	538.72
11	Kisii	Kisii	417.57
		Total	**4,325.98**

Source: National Treasury

Table 3: Disaggregation of County Governments' Allocations (Kshs. Millions)

Type/Level of allocation	2016/17	2017/18	2018/19
County Equitable Share	**280,300**	**302,000**	**314,000**
Additional conditional allocations of which			
1. Free maternal Healthcare	4,121	-	-
2. Leasing of medical equipment	4,500	6,100	9,400
3. Compensation for user fees foregone	900	900	900
4. Level 5 hospitals	4,000	4,200	4,326

5. Special purpose grant (Emergency Med. Ser.	200	-	-
6. Rehabilitation of village polytechnics		2,000	2,000
7. Supplement for Construction of County HQs		605	605
8. Allocation from Fuel Levy (15%)	4,307	7,875	8,269
9. Allocation from loans and grants	3,871	12,541	33,242
Total County Allocations	**302,199**	**336,221**	**372,742**

Source: National Treasury

VI. Sector Resource Requirement vis-a- vie Proposed BPS 2018 Ceilings

21. The total proposed 2018/19 budget for the Health sector amounts to **Kshs 69.9 billion** out of which **Kshs 34.7 Billion** is for recurrent expenditure while **Kshs 35.2 billion** is for development expenditure. The allocation is projected to increase **marginally** over the medium to **Kshs 72.8 Billion** and **Kshs 73.1 Billion** in 2017/18 and 2018/19 respectively.
22. It is noted that the proposed budget ceiling for Health sector for 2018/19 is less compared to the resource requirement for the sector which stood at Kshs **115.8 Billion** (table 4). The overall resource requirement in the next MTEF period is **Kshs 374.6 Billion** against a proposed resource ceiling of **Kshs 215.9 Billion**.

Table 5: Proposed ceiling vi-sa-vi resource requirement (Kshs Mlns)

Programmmes	2018/19 Ceiling			Resource requirement 2018/19			Deviation		
	Recc	Dev	Total	Recc	Dev	Total	Recc	Dev	Total
Preventive, Promotive and RMNCAH	4,786	8,911	13,697	1,724	19,086	20,810	3,062	(10,175)	(7,113)
National Referral and specialized services	15,850	15,453	31,303	17,224	27,339	44,563	(1,374)	(11,886)	(13,260)
Health Research and Development	5,285	436	5,721	5,772	1,260	7,032	(487)	(824)	(1,311)
General Administration and Planning	5,857	3,093	8,950	10,439	5,077	15,516	(4,582)	(1,984)	(6,566)
Health Policy,	3,030	7,286	10,316	9,497	18,435	27,932	(6,467)	(11,149)	(17,616)

Table 5: Proposed ceiling vi-sa-vi resource requirement (Kshs Mlns)									
Programmmes	**2018/19 Ceiling**			**Resource requirement 2018/19**			**Deviation**		
	Recc	**Dev**	**Total**	**Recc**	**Dev**	**Total**	**Recc**	**Dev**	**Total**
Standards and Regulations									
Total	**34,807**	**35,179**	**69,986**	**44,656**	**71,197**	**115,853**	**(9,849)**	**(36,018)**	**(45,867)**

Source: National Treasury and MOH

23. As envisaged, the proposed main driver towards attainment of UHC is the progressive uptake of the NHIF cover especially in the informal sector and more so the vulnerable groups. Considering the socio-economic status of the targeted vulnerable groups, they may require full subsidization of the health insurance premiums. Thus, the targeted vulnerable groups are a critical segment of the population which will entirely depend on the government health subsidy in order to uptake the NHIF cover.
24. According to the Health sector projections, it will cost the government **Kshs 49 Billion** in the next five years to provide health insurance cover to the targeted number of households falling under the vulnerable groups (elderly and disabled and the poor). This **excludes** other supportive investments (both new and ongoing) required. According to the health sector report 2017, the proposed supportive investments towards attaining UHC within the sector has been estimated to cost **Kshs 250 Billion (Annex 1)**. This brings the total investments in the next five years towards UHC to approximately **Kshs 300 Billion**.
25. In view of this, there is a significant resource gap in the sector as a result of the proposed ceiling in 2018/19 and over the MTEF considering the government intention to actualize the UHC by 2022 as one of its big four plan. Thus, the Health sector is not adequately supported in terms of resource allocation to implement of the Universal Health.

VII. Historical Allocations to the Health Sector

26. In the last four years, the budget allocation for the Health sector has been on an upward trend from Kshs 50.7 Billion in 2013/14 to Kshs 71.4 Billion in 2016/17. The allocation reduced to

Kshs 61.7 Billion in 2017/18 due to austerity measures introduced by the government through the supplementary budget.

Table 6: Historical Budget allocation (Kshs Mlns)					
Programmes.	Approved Budget				
	2013/14	2014/15	2015/16	2016/17	2017/18
Preventive, Promotive and RMNCAH	18,149	10,456	7,856	16,398	13,429
National Referral and specialized services	25,552	19,412	23,944	29,489	23,305
Health Research and Development	4,423	5,251	5,486	5,852	5,645
General Administration and Planning	2,649	14,629	15,705	10,181	8,289
Health Policy, Standards and Regulations	0	4,581	7,683	9,515	10,083
Total	**50,773**	**54,329**	**60,674**	**71,435**	**60,751**

Source: National Treasury and MOH

VIII. The Health sector contribution to the development

a) Health Sector programmes performance

27. The sector has made a number of achievements in various programmes in 2016/17 where most of the set targets were attained (see annex 2). However the sector also missed the set targets for in some programmes. Table 7 gives a summary of programme performance in the sector and set targets for 2018/19 and the medium term.

Table 7: Programmes performance and targets				
Programme	**KPI**	**2016/17**		**Target**
		Target	**Actual**	**2018/19**
Preventive and promotive healthcare	No of PLHIV on ARVs	1,000,000	1,069,220	1,100,000
	No. of first line anti TB medicine doses distributed	89,247	78,394	94,000
	No. of ACT doses distributed	12,000,000	14,600,000	12,000,000
	No. of cancer centres established	N/A	N/A	1
National Referral and specialized	No. of open heart surgeries-KNH	78	61	74
	No. of minimally invasive surgeries-KNH	720	456	503

Table 7: Programmes performance and targets				
Programme	**KPI**	**2016/17**		**Target**
		Target	**Actual**	**2018/19**
health services	No. of specialized laboratory investigations-MTRH	553,563	553,562	610,302
	No. of mental health patients treated-Mathare	3,583	3,762	4,147
Health research and development	No. of pre service middle level health professionals graduating from KMTC	7,629	8,534	9,481
	No. of new intake-KMTC	12,000	12,600	13,000
	Completed research projects-KEMRI	10	35	12
Health policy and standards	No. of vulnerable persons accessing subsidized health insurance	160,710	171,800	180,000
	No. of elderly persons accessing subsidized health insurance	42,000	42,000	181,000

Source: MOH

b) Contribution of the sector to Big Four

28. The Health sector has been identified as one of the big four agenda where the aim is to have UHC by 2022. The need for efficient and high quality healthcare system in an economy is critical for a sustained economic growth. This is because a healthy population is a pre-requisite for accelerated national development.

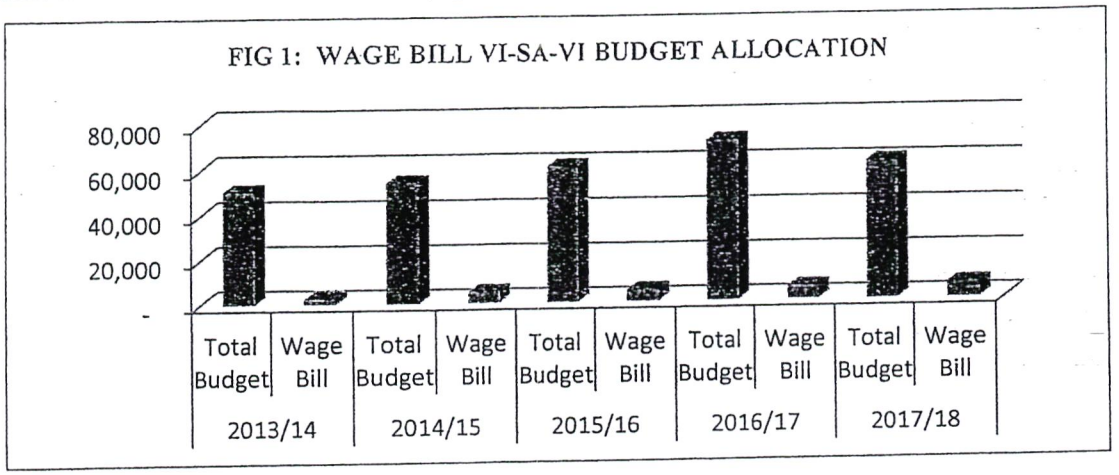
29. A healthy population reduces health burden to households in terms of costs hence freeing additional income in the economy for investment as well as enabling the population to fully participate in productive activities in the economy. Thus, a healthy population with a robust healthcare system will provide the needed human resources to engage in economic activities that will support realization of food security; housing and manufacturing.

IX. The wage bill burden in the Health sector

30. The Ministry of Health wage bill has been on an upward trend in the last five years. However, in comparison to the budgetary allocation to the Ministry, 8.7 % of the total budget allocation in the last five years has been utilized for compensation of employees. Thus, the wage bill

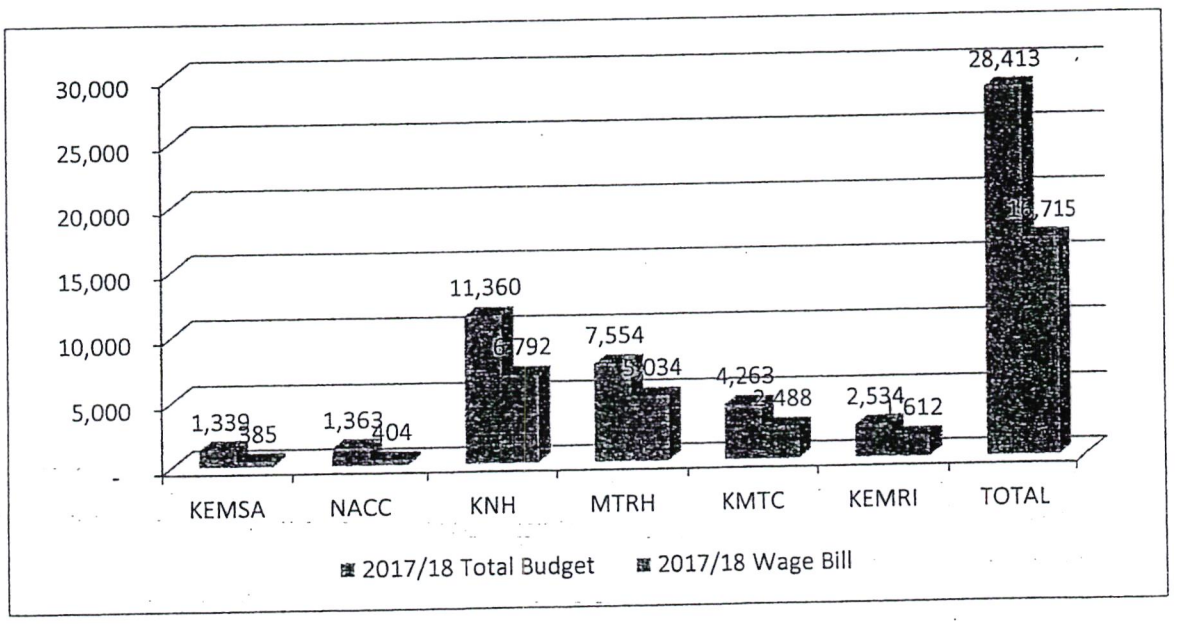
takes a small portion of the Ministry Budget and this is partly due to devolution where human resources were devolved to county governments

FIG 1: WAGE BILL VI-SA-VI BUDGET ALLOCATION



31. However, of concern is the huge wage bill by the SAGA's within the sector. For instance, in 2017/18 financial year, the amount towards compensation of employees to six of the Sector's SAGAs stood 58% of the entire SAGA's budget. Even though most of these semis autonomous agencies rely heavily on human resources to execute their mandate, these entities are faced with limited budget to implement their projects. Figure 2 gives a picture of the wage bill trend in the sector.

Fig 2: 2017/18 Wage Bill in SAGAs



Source: MOH

X. Evaluation of Capital projects in the sector:

32. The health sector capital expenditure and capital projects are highly dependent on donor financing (see annex 2). In the FY 2017/18, the total allocation to capital projects is Kshs. 30.9 billion out of which Kshs 17.9 Billion (58%) is from development partners. The government funding for the health sector capital projects is Kshs. 13 billion. Critical projects supported by the donors include: reproductive health commodities; universal health coverage related activities; procurements of vaccines; HIV/AIDS, TB and Malaria among others.

XI. Efficiency in the implementation of the budget:

a) The case of Pending bills

33. Information from the Ministry indicates that in the last four years the Ministry has had cases of high pending bills involving varying amounts. The highest incidence of pending bills was recorded in 2015/16. In 2016/17 the accumulated pending bills totaled Kshs 9.4 billion. It is noted that the semi autonomous agencies have the highest pending bills and this is a concern since these agencies collect their own revenues which needs to supplement what the exchequer allocates to them. The SAGAs attributes the occurrence of pending bills on late release or lack of exchequer.

Table 8: Summary of Pending Bills (Kshs Mlns)

	2013/14	2014/15	2015/16	2016/17
MOH	786	1,800	2,478	327
KMTC		533	1,827	1,626
KEMRI		-	2,132	2,742
KNH	292	3,403	3,517	3,403
MTRH		789	1,187	292
KEMSA	2	1,328	766	1,093
NACC		-	-	-
TOTAL	**1,080**	**7,853**	**11,907**	**9,483**

Source: MOH

34. Chronic pending bills are an obstacle towards full budget implementation. This is because accumulating pending bills affects the subsequent budget allocation since these bills must be

cleared first before the budget is implemented and in so doing diminishes the resources available to implement the next Budget.

b) Budget allocation Absorption

35. Over the last four financial years, the Ministry has recorded improvement in terms of absorption capacity from a low of 61 % 2013/14 to 80% in 2016/17 (Annex 3). However, the absorption rate is not optimal and this hinders the sector from achieving all the targets set. One of the obstacles to budget absorption is that the sector relies much on donor support which is more often than not erratic. Table... indicates the absorption rate for various programmes in the sector.

XII. Committee Policy Considerations

The Committee analyzed the Budget Policy Statement and the Medium Term of the Health Sector and made the following policy considerations:

1. **Health Allocation vs Abuja Declaration**: The total government expenditure on Health for the FY 2017/2018 is less than 8 percent. This is below the 15 percent envisioned in the Abuja Declaration. The National Government spent approximately 4% on health. Counties on average spent 25.2 per cent of their budgets on health. However, the shareable revenue of counties is lower than the national government. There is a need to cost service delivery of health services in the counties with a view to increasing health budgetary allocations and directing more resources and efforts towards preventive and promotive health care
2. **Resource constraints:** In terms of resource allocation, the proposed budget ceiling for Health sector for 2018/19 is Kshs 69.9 Billion which is less than the resource requirement for the sector which stood at Kshs 115.8 Billion. In the next MTEF period, the resource requirement for the sector is Kshs 374.6 Billion against a proposed resource ceiling of Kshs 215.9 Billion. This is a significant resource gap in the sector considering the government intention to actualize the UHC by 2022 as one of its Big Four plans. Thus, the Health sector is not adequately supported in terms of resource allocation to implement of the Universal Health.

3. **Establishment of 10 Referral Hospital:** The Ministry of Health intends to establish 10 referral hospitals as one of the support initiatives towards UHC. The 2018 BPS has not indicated where these ten-referral hospitals will be located, and what criteria shall be used. The Ministry should provide an implementation plan indicating how the location of the hospitals will be selected and what criteria will be applied. In addition, the plan should clearly state whether the referral hospitals will be established by upgrading existing facilities or building new ones.
4. **Establishment of Managed Equipment Service (MES):** The Ministry intends to equip 21 hospitals with specialized equipment under Managed Equipment Service (MES) Project as part of the supportive initiatives towards UHC. The Ministry should provide a detailed implementation plan of the extended MES programme clearly detailing which hospitals are to benefit. Subsequently, the Ministry should provide a status report on the implementation of MES Project to Parliament. In addition, Ministry of Health should provide the requisite technical support and capacity building to counties with regards to the training of health specialists to operate the specialized equipment under this project.
5. **NHIF and Universal Health Coverage (UHC):** The government intends to introduce multi-tiered health packages under the NHIF cover. The Ministry should define the number and scope of services under each tier. On the proposed expansion of coverage, the Ministry has provided an indicative target of approximately 11 million new NHIF members by 2022 which translates to an additional budget of Kshs. 24.6 billion within the next five years. It's not clear what burden of responsibility will be borne by National government vis a vie the county governments. Similarly, with the introduction of UHC, the Ministry should detail how it intends to mitigate against an expected rise in healthcare costs that will be occasioned by increased demand for health services under UHC
6. **Merging initiatives**: It is noted that the government has over the past rolled out various initiatives/projects (HISP and Insurance for the elderly and the disabled) under the social insurance programs aimed at supporting the UHC goal. These initiatives are meant to expand uptake of NHIF especially by the vulnerable groups. According to the health sector report 2017, these initiatives are to be implemented within different programmes in the Ministry i.e Health Policy and Standards, and General Administration Programmes. This

may result in coordination inefficiencies. The Ministry may consider merging all these efforts to create an omnibus programme to support UHC.

7. **Collaborative Health Human Resource Management:** There is need for the Ministry to speedily implement the Health Act 2017 through an intergovernmental framework with county governments. This is especially true in the area of health human resource management which is a key element of ensuring a seamless and cost-effective implementation plan of the UHC.
8. ***Health Worker Recruitment.*** The government intends to increase the ratio of health workers from 9: 10,000 to 14: 10,000 by 2022. This represents an addition of 21,300 new health workers to be recruited within the next 5 years. At an average cost of Kshs. 100,000 per health worker, this translates to estimated cost of Kshs. 2.1 billion. It's not clear what burden of responsibility will be borne by National government vis a vie county governments.
9. **Linking BPS with National Development agenda**: The Constitution requires that budget preparation needs to be guided by the development plans. Kenya is guided by vision 2030 in planning which is usually broken down to 5-year medium term plans. The MTP III is not yet available yet it was supposed to inform 2018/19 and medium-term resource allocation in all sectors. There is no information on which overall policy plan informed the formulation of the proposed strategic focus and resource allocation.
10. **Donor financing:** The health sector capital expenditure is highly dependent on donor financing. In the FY 2016/17, the total capital expenditure estimates of Ksh. 31.179 billion is donor financed to the tune of Ksh. 19.77 billion, representing a donor financing level of approximately 63 percent. The government funding for the health sector capital projects is a meager Ksh. 11.34 billion. Key projects at the mercies of the donors include: reproductive health commodities; universal health coverage; procurements of vaccines; HIV/AIDS, TB and Malaria among others. There is need for the Ministry to explore home-grown financing mechanisms for critical projects in the Ministry. The funding should be consistent with Kenya's priorities and within broader objectives of universal coverage.
11. **Slum upgrading project**: This is a strategic intervention to upgrade health centers in slum areas which the Ministry has been undertaking. However, the project has not fully taken off with cases of containers lying idle in Mombasa. The Ministry should provide a

comprehensive status report on this project including the location, names and numbers of health centers completely upgraded and operational; names and numbers of health personnel managing the health centers, and; the policy framework in place to hand over the facilities to the County Governments since this is a function is under the purview of the County Governments.

12. **Conditional Grants to Level 5 and other High-Volume Health Facilities:** The Ministry has proposed a total allocation of KShs. 4,325,000,000.00 as conditional grants to Level 5 Hospitals. The Ministry needs to map out all high volume health facilities with a view to identifying other hospitals that can benefit from this conditional grants.
13. **Emergency Treatment Fund:** No provision is made for the funding of Emergency Treatment despite the fact that the right of every person emergency treatment and care is recognized in Section 7 of the Health Act 2017.
14. **Funding of Additional Allowances Negotiated under the Collective Bargaining Agreements with Doctors, Nurses and Clinical Officers:** Following a protracted strike in 2017, the national government offered 2598 in-service doctors an Emergency Call Allowance of KShs. 42,000-50,000 and a Risk Allowance of KShs. 20,000.00 each. The increment translates into an additional cost of KShs. 3,077,568,000.00 to county governments.

    Similarly, the government offered 24,361 clinical officers and other county health workers a monthly Health Workers Allowance ranging between KShs. 7,500.00 and KShs. 20,000.00. In addition, Clinical Officers were awarded an Emergency Call Allowance of KShs. 10,000.00 per month. This increments have translated to an additional cost of KShs. 5,254,320,090.00 to County Governments.

    In addition, the government negotiated with the Kenya National Union of Nurses, Nursing Service Allowances for its 23,421 members amounting to KSHs. 3,474,144,000.00.

    The combined additional cost of these negotiated allowances to county governments amounts to KShs. 11,806,032,000.00. The BPS makes no provision for the allocation of this money.

ANNEX 1: Estimated cost of major UHC enablers/drivers within the sector (Kshs Mlns)

Item	Project	Output	17/18	18/19	19/20	20/21	21/22	Estimated Cost (Kshs Mlns)
New enablers	Establishment of new comprehensive cancer centers	No. of Centres established	-	1	2	3	1	17,000
	Managed equipment service	No. of hospitals equipped	98	119	119	119	119	45,442
	Establish 10 new referral hospitals	No. of referral hospitals established	-	2	2	3	3	50,000
	Kidney centre for excellence	No. of centres of excellence established	-	-	1	-	-	3,350
Ongoing enablers	Human resources for health	No. of Health workers	40,500	45,500	50,500	55,500	63,000	51,000
	Linda Mama programme	No. of mothers covered	1.2m	1.23m	1.26m	1.29m	1.32m	37,921
	Preventive and Promotive related activities such as HIV, Malaria, TB and malnutrition prevention							45,436
Total								**250,149**

Source: MOH[3]

[3] Health Sector Report 2017

Annex 2: Expenditure Analysis by Programmes (Amount in Ksh. Millions)

Programmes.	Approved Budget				Actual Expenditure				Absorption (%)			
	2013/14	2014/15	2015/16	2016/17	2013/14	2014/15	2015/16	2016/17	13/14	14/15	15/16	16/17
Preventive, Promotive and RMNCAH	18,149	10,456	7,856	16,398	9,722	5,457	4,142	11,939	53.6	52.2	52.7	72.8
National Referral and specialized services	25,552	19,412	23,944	29,489	16,051	13,202	19,264	24,750	62.8	68.0	80.5	83.9
Health Research and Development	4,423	5,251	5,486	5,852	3,603	4,560	4,661	4,762	81.5	86.8	85.0	81.4
General Administration and Planning	2,649	14,629	15,705	10,181	1,699	9,851	8,717	9,247	64.1	67.3	55.5	90.8
Health Policy, Standards and Regulations	0	4,581	7,683	9,515	0	4,206	4,758	6,774		91.8	61.9	71.2
Total	**50,773**	**54,329**	**60,674**	**71,435**	**31,075**	**37,276**	**41,542**	**57,472**	**61.2**	**68.6**	**68.5**	**80.5**

Source: MOH

Annex 3: Health Sector Programmes Performance for 2016/17 and Targets over the Medium term

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target(Baseline)2017/18	Target2018/19	Target2019/20	Target2020/21
Programme1:Preventiveand Promotive healthcare Programme Outcome: Reduced morbidity and mortality due to preventable causes									
Communicable disease control	NASCOP	Access to ARVs by HIV+ clients	No of PLHIV on ARVs	1,000,000	1,069, 220	1,100,000	1,200,000	1,250,000	1,300,000
	National Aids Control Council(NACC)	SituationroomasaWebbasedHIVinformationplatformavailabletothepublic	The number of situation rooms established and accessible to the public	47	19	29	42	45	47
		Youth networks Capacity for HIV service referrals	Number of Adolescents and young people(AYP) reached with	5,000,000	10,000,000	10,000,000	13,000,000	15,000,000	20,000,000

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target(Baseline)2017/18	Target2018/19	Target2019/20	Target2020/21
			HIV information through youth Networks						

		Skills for HIV prevention and control among youths	• Number ofinterns trained to reach other youths • No. of Young people reached by the interns with HIV Prevention and anti-stigma	N/A	N/A	100 500,000	150 750,000	200 1,000,000	250 1,250,000
		County tribunal hubs established within centres O f public Such as Centers	No of accessing justice Through the HIV Tribunal hubs	N/A	N/A	150	675	1050	1350
		Report on condom distribution From non-settings including workplaces	Number of condoms distributed in non-health settings, number of condom Distribution	N/A	N/A	10,000,000	15,000,000	20,000,000	25,000,000

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target(Baseline)2017/18	Target2018/19	Target2019/20	Target2020/21
			in non-health settings						
	T.B Program Leprosy and Lung Diseases Unit	Access to TB treatment increased	Number of First Line anti-TB medicine doses distributed	89,247	78,394	88,000	94,000	101,000	108,000
	National Malaria Program	Access to Prompt malaria treatment	Number of Artemether Combination Therapy Doses distributed to the public sector.	12,000,000	14,600,000	12,000,000	12,000,000	12,000,000	12,000,000
	Division of Disease Surveillance and Epidemic Response	Acuteflaccidparalysis(AFP)detectionrateincreased(poliosurveillance)	Number of AFP per 100,000populationunder15yearsofage	3.0	3.18	3.5	3.5	3.5	3.5
SP.1.2:Non-Communicable disease prevention &control	Division of NCD Unit	Cancer prevention Interventions in women enhanced	No. of Women of Reproductive Age (WRA) screened For cervical cancer	325,000	310,677	350,000	400,000	425,000	450,000
		Establish4new comprehensive regionalcancertreatmentcentresinKisii,Mombasa,	Number of cancer centres established	NA	NA	1	1	1	1

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target(Baseline)2017/18	Target2018/19	Target2019/20	Target2020/21
		Nakuru and Nyeri							
SP1.3: Radioactive waste management	Radiation Protection Board	Radiation safety enhanced	Percentage of Radiation sources monitored for safety	100 %	100%	100 %	100 %	100 %	100 %
		Radiation safety enhanced	Completion of Central Radioactive Waste	87%	85%	90%	100 %	N/A	N/A
SP.1.4:R MNCAH	Division of Family Health	Access to and uptake of FP services	Proportion of WRA receiving FP commodities	45%	44.9%	47%	49%	50%	51%
	Division of Family Health	Increased deliveries conducted by skilled birth attendants	%of deliveries conducted by skilled birth attendants in health facilities	78%	77.4%	79%	80%	81%	81%
	National Vaccines and Immunization Program	Penta valent 3vaccination coverage increased	Proportion of children immunized wit hDPT/Hep+	90%	79%	90%	90%	90%	90%
		Cold Chain	Number of health facilities with on-grid cold chain equipment	N/A	N/A	N/A	400	280	25

	Dietetics &Nutrition	Vitamin A supplements	Proportion of Children aged 6-	60%	41%	70%	80%	80%	80%

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target (Baseline)	Target2018/19	Target2019/20	Target2020/21
	Unit	Coverage increased	59 months given 2 doses of Vitamin A supplement						
SP.1.5: Environmental Health	Environmental Health Unit	Environmental Health strengthened	Number of counties implementing The Kenya Ope	47	47	47	47	47	47
Programme2:National Referral and specialized health Services Programme Outcome: provision of specialized									
SP2.1: Specialized Health Services	KNH	Quality of specialized care services improved	ALOS for trauma patients' days	33	39	35	32	28	26
			Average waiting time(monthly) for radiotherapy(can	7 Month	1 month	27 days	24 days	21 Days	19 days
		Increased specialized services	Number of Open Heart surgeries	78	61	67	74	81	89
			Number of Renal Transplant	15	7	15	20	25	30

			Number of minimally invasive	720	456	479	503	528	554
	MTRH	Increased specialized services.	Number of specialized Laboratory	553,562	553,562	581,240	610,302	640,817	672,857

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target(Baseline)2017/18	Target2018/19	Target2019/20	Target2020/21
			investigations						
			Number of Orthopedic Surgeries Done	2,084	2,084	2188	2,297	2,413	2,534
			Number of Minimally Surgeries	1,041	1,041	1093	1,148	1,205	1,265
			ALOS for Trauma Patient	15	15	14	13	12	12
			Number of Health Patients Treated	3,583	3,762	3,950	4,147	4,355	4,573
			No. of Radiological investigations	31,790	31,790	33,380	35,049	36,800	38,641
	Mathari Hospital	Access to specialized Health services improved	No of patients receiving in-patient mental health services	3,000	2,819	3,000	3,100	3,300	3,450
	National Blood Transfusion Services	National demand for Blood and Products met	Number of units of Blood demand met	250,000	158,378	280,000	300,000	320,000	330,000

			Percentage of whole blood units collected converted in to components	80%	69%	85%	90%	95%	95%
SP2.5: Health Product	Kenya Medica lSuppli	Availability of Health Products	% order refill rate for HPTs	90%	85%	95%	95%	95%	95%

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target(Baseline)2017/18	Target2018/19	Target2019/20	Target2020/21
&Technologies	Authority		Order turnaround	10	12	7	7	7	7
		National Commodities Storage	% completion rate	40%	40%	60%	90%	100 %	N/A
Programme3:HealthResearch and Development Programme Outcome: Increased knowledge and innovation for effective health delivery									
SP3.1: Pre-Servic and In-Service Training	Kenya Medical Training College	Health professionals Graduating KMTCs	Number of pre-service middle level health professionals graduating from KMTCs	7,629	8,534	8,731	9,481	10,421	11,351
			Number of in-service middle Level health professionals graduating	413	423	469	519	579	649
		Increased number of training	Number of new intake	12,000	12,600	12,800	13,000	13,200	13,400

		opportunities							
		Policy documen	Research projects	8	14	16	18	20	22
SP3.2: Health Researc h	Kenya Medical Researc h Institute	Innovative research finding in	Number of policy contributions	3	5	1	1	1	1
		Response To national healt	New research protocols	200	199	215	220	225	230

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2 016/17	Actual Achieveme nts	Target(B aseline)2 017/18	Target2 018/19	Target2 019/20	Target2 020/21
		Researc h	developed						
			Completed Research	10	35	10	12	14	16
		Production and utilization of research	Published Papers	216	280	280	290	300	310
			Hold Scientific &Health Conferences	2	2	2	2	2	2
		Support of counties health research	Counties supporte d	5	5	47	47	47	47
		Critical mass of human resource developed	Number of graduate researchers enrolled	75	36	40	40	40	40
Programme4:GeneralAdministration&Support Services Programme Outcome: Responsive health leadership and administration									
SP4.1: General Administra tion	General Administra tion	Customer satisfactio n index	Customer satisfaction index	1	0	1	1	1	1

	Human Resource	Reviewed Schemes of service	No of Schemes of service submitted for	3	9	3	3	3	2
		Incentive frameworks finalized	Finalized frameworks	2	2	2	2	2	2
		Staff sensitized on	Sensitization report	1	1	1	1	1	1

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target(Baseline)2017/18	Target2018/19	Target2019/20	Target2020/21
		appraisalSystem							
		Staff with PWD mapped	No of staff with PWD appropriately mapped	N/A	100%	100%	100%	100%	100%
	Management & Developme	Enhanced capacity building& competency development	No. MoH staff projected and trained	100	180	100	100	100	200
		Health workers from national And county Seeking further training supported	Number of health workers supported	1350	1350	1350	1350	1350	1350
		Health workers proceeding on retirement undergo pre-retirement	% of retirees trained	100	100	100	100	100	100

	ICT Unit	ICT Services strengthened	Ratio of staff to computers (Technical % Technical).	1:1 &1:10	1:1 &1:10	1:1 &1:10	1:1 &1:10	1:1 &1:10	1:1 &1:10
	Department of Inter -	Major intergovernmental healt	No. of forums planned and held	4	4	4	4	4	4

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target(Baseline)2017/18	Target2018/19	Target2019/20	Target2020/21
	Coordination	Issues discussed							
	General Administration	Refurbishment of Afya House and replacement of Lifts		N/A	N/A	0%	30%	30%	40%
SP4.2: Financing and planning	Finance division, Planning and M&E	Financial resources efficiently utilized	percentage absorption of budgeted funds	100 %	89%	100 %	100 %	100 %	100 %
		Increased public health sector financial resources	Total of A-in-A collected by the Ministry	10.4 Billion	8.6 Billion	10.6 Billion	10.8 Billion	11.0 Billion	11.5 Billion
		Quarterly review reports	Performance review reports developed	4	4	4	4	4	4
			No. of strategies, plans and Guideline develope	2	3	2	2	2	3
Programme5:HealthPolicy,Standardsand Regulations Programme Outcome: Strengthened policy and									
SP5.1: Health Policy	Division Health Financing	Dissemination of the Kenya Health Policy2014-2030	No. of counties	N/A	N/A	N/A	47	NA	NA

		Development of the Kenya Health Sector Strategic Plan	Health Sect Strategic Pla Documen n t	N/A	N/A	N/A	1	NA	NA

Programme	Delivery Unit	Key Outputs	Key Performance Indicators	Target2016/17	Actual Achievements	Target(Baseline)2017/18	Target2018/19	Target2019/20	Target2020/21
		2018-2023							
		Development of the Ministerial Strategic Plan	Ministerial Plan Strategic Documen	N/A	N/A	N/A	1	NA	NA
SP5.2:Social Protection in Health	Division of Health financing	Increased Access to health services through subsidies	No of vulnerable Persons accessing Subsidized health insurance	160,710	171,800	180,000	180,000	180,000	N/A
			No of elderly Persons accessing Subsidized health insurance	42,000	42,000	42,000	181,000	200,000	250,000
		Policy framework developed for UHC	Health Financing Strategy	Strategy	Draft Strategy	Final Strategy	Legislation	Legislation	N/A
SP5.3: Health Standards& regulations	Dept. of Health Standards, Quality Assurance and Regulation	Quality standardized care is provided by all health facilities and	% of health facilities meeting defined minimum standards	N/A	N/A	50%	60%	70%	80%
		ISO Certification	AttainmentofISO 9001-2015	ISO9001-2008	ISO 9001-2008	ISO9001-2008	ISO9001-2015	ISO9001-2015	

Annex 3: Key projects in the Health Sector (Kshs Mlns)

Name of the Project	Cost of Project	Financing		Timeline		Actual Expe as at 30th June 2016	Allocation for 2017/18		Project Status
		Foreign	GOK	Start Date	End Date		Foreign	GOK	
Establishment of Cancer Institute	1,000	-	1,000	1/7/2016	30/06/2019	58	-	400	Ongoing
Health Sector Development (Rep. Health and HIV/AIDS)- Commodity	1,540	1,540	-	13/08/2014	13/08/2018	385	270	-	Ongoing
Health System Management		15,000	-	2/7/2015	2/7/2019	2,600	2,600	-	Ongoing
Procurement of Family Planning & Reproductive Health Commodities	525	-	525	13/08/2014	13/08/2017	171	-	73	Ongoing
Construct a Radioactive Waste Management Facility (CRWFP)- Ololua	747	-	747	10/4/2012	10/4/2018	537	-	60	Ongoing
HIV/AIDS Round 7	4,504	4,504	-	1/7/2013	30/06/2019	3,494	760	-	Ongoing
Tuberculosis	6,063	4,860	1,203	1/7/2013	30/06/2019	5,919	200	403	Ongoing
Malaria Round 10- Speed Global Fund	5,236	5,236	-	1/7/2013	30/06/2019	4,149	1,200	-	Ongoing
Procurement of Anti TB Drugs Not covered under Global fund Tb Programme	700	-	700	8/7/2015	8/7/2019	230	-	110	Ongoing
Situation Room for real time data and information on HIV&AIDS-NACC		-	391	8/7/2015	8/7/2017	30	-	40	Ongoing

Name of the Project	Cost of Project	Financing		Timeline		Actual Expe as at 30th June 2016	Allocation for 2017/18		Project Status
		Foreign	GOK	Start Date	End Date		Foreign	GOK	
Environmental Health Services	644	644	-	11/7/2011	11/7/2018	242	50	-	Ongoing
Food and Nutrition Support for Vulnerable Populations Affected by HIV	1,622	1,622	-	11/9/2010	11/7/2016	541	324	-	Ongoing
Wajir District Hospital	1,000	750	-	7/1/2012	30/06/2019	-	25	-	Ongoing
Kenyatta National Hospital	530	530	-	4/1/2012	30/06/2019	-	51	-	Ongoing
Moi Teaching and Referral Hospital: Academic Model providing access	1,092	1,092	-	7/1/2013	30/06/2019	728	364	-	Ongoing
Kenyatta National Hospital - BADEA	836	510	326	4/1/2012	30/06/2019	343	50	-	Ongoing
Kenyatta National Hospital	673	673	-	4/1/2012	30/06/2019	-	150	50	Ongoing
Modernize Wards & Staff Houses at Mathare Hospital	220	-	220	30/07/2013	30/06/2019	20	-	75	Ongoing
Construct a Wall & Procure Equipment at National Spinal Injury Hospital	25	-	12	30/07/2014	30/06/2018	11	-	6	Ongoing
Completion and Equipping Day - Care Centre - KNH	0	100	278	1/1/2015	30/06/2018	-	-	42	ongoing
Cancer and Chronic Disease Management Centre-MTRH	0	-	1,930			20	-	-	
Children Hospital	0	-	680	7/1/2016	7/1/2019	40	-	-	Ongoing
Expansion and Equipping of ICU	0	-	390	7/1/2016	7/1/2019	30	-	170	Ongoing

Name of the Project	Cost of Project	Financing		Timeline		Actual Expe as at 30th June 2016	Allocation for 2017/18		Project Status
		Foreign	GOK	Start Date	End Date		Foreign	GOK	
Strengthening of Cancer Management at KNH (CANCER TREATMENT CENTRE)		-	2,600			-	-	250	Ongoing
Forensic and Diagnostics	-	-	-			-	-	-	
Kapenguria Hospital	50	50	-	7/7/2015	7/7/2017	-	15	-	Ongoing
Usenge Dispensary	60	60	-	7/7/2015	7/7/2017	-	23	-	Ongoing
Kigumu Hospital	50	50	-	7/7/2015	7/7/2017	-	18	-	Ongoing
National Technical Assistance to Moh-Kiddp	8	8	-	7/7/2015	7/7/2017	-	3	-	Ongoing
Rongai Hospital Project	500	500	-	3/9/2015	3/9/2018	-	50	-	Ongoing
Clinical Waste Disposal System Project	1,200	1,000	200	3/1/2016	30/6/18	150	450	15	Ongoing
Clinical Laboratory and Radiology Services Improvement	900	900	-			-	419	-	Ongoing
Procurement of Equipment at the National Blood Transfusion Services	0	-	2,025	2/7/2015	2/7/2021	1,217	-	175	Ongoing
Construction of a Cancer Centre at Kisii Level 5 Hospital	750	500	250	10/8/2016	10/8/2019	-	-	-	Ongoing
Managed Equipment Service-Hire of Medical Equipment for 98 Hospital	0	-	86,100	10/7/2013	10/7/2025	17,320	-	5,000	Ongoing

Name of the Project	Cost of Project	Financing		Timeline		Actual Expe as at 30th June 2016	Allocation for 2017/18		Project Status
		Foreign	GOK	Start Date	End Date		Foreign	GOK	
Health Product and Technologies	-	-	-			-	-	-	
Kenya Medical Supplies Authority (KEMSA)	9,375	9,375	-	7/5/2014	7/5/2017	6,250	2,146	-	Ongoing
National Commodities Storage Center (KEMSA Supply Chain center)	0	954	4,026	1/7/2017	30/06/2020	1,980	-	-	New
Construction of Buildings-Tuition blocks at KMTC	1,000	-	1,000	5/8/2015	5/8/2017	506	-	50	Ongoing
Construction and Equipping of laboratory and class rooms at KMTC	560	-	560	5/8/2015	5/8/2017	61	-	283	Ongoing
Construction of Wajir KMTC	0	-	120	1/10/2017	30/06/2021	-	-	40	Ongoing
Construction of Mandera KMTC	0	-	290	1/10/2017	30/06/2021	-	-	20	Ongoing
Purchase of the Teaching Equipment - KMTC	0	-	900	1/7/2017	1/7/2021	-	-	-	New
Perimeter fencing around KEMRI parcels of land (Taveta and Kirinyaga)	20	-	20	12/5/2015	12/5/2017	-	-	15	Ongoing
Research and Development - KEMRI	0	-	6,400	1/7/2015	30/06/2025	-	-	260	Ongoing
East Africa's Centre of Excellence for Skills & Tertiary Education	3,674	3,340	334	18/02/2016	18/02/2019	48	700	250	Ongoing

Name of the Project	Cost of Project	Financing		Timeline		Actual Expe as at 30th June 2016	Allocation for 2017/18		Project Status
		Foreign	GOK	Start Date	End Date		Foreign	GOK	
Health Sector Programme Support III	2,765	2,765	-	7/9/2015	7/9/2017	1,183	399	-	Ongoing
Up Grade of Health Centers in slums (Strategic Intervention)	6,000	-	6,000	9/7/2013	9/7/2016	1,675	-	450	Ongoing
Rollout of Universal Health Coverage	4,000	4,000	-	10/4/2016	10/4/2018	4,000	279	-	Ongoing
Support to Universal Health care in Devolved System	0	2,840	-	1/1/2017	30/06/2020	-	855	-	Ongoing
Program for Basic Health Insurance for Poor and Informally Employed	0	3,330	370	7/7/2016	7/7/2019	-	700	-	Ongoing
Kenya Health Sector Support Project (KHSSP)	5,448	5,448	-	7/9/2015	7/9/2017	1,760	1,372	-	Ongoing
Free Maternity Program (Strategic Intervention)		-	30,500	10/7/2013	10/7/2018	15,591	-	3,848	Ongoing
Transforming Health systems for Universal Care (THS-UC)		19,110	-	3/10/2016	30/09/2021	516	4,202	-	Ongoing

REPUBLIC OF KENYA

PARLIAMENT
THE SENATE

TWELFTH PARLIAMENT – SECOND SESSION

STANDING COMMITTEE ON ROADS, TRANSPORT AND INFRASRUCTURE

CONSIDERATION OF THE MEDIUM TERM BUDGET POLICY STATEMENT FOR 2018/19

Clerks Chambers
Parliament Buildings
Nairobi

February, 2018

MANDATE

The Standing Committee on Roads and Transportation is established under standing order 212(3) and the Second Schedule of the Standing Orders of the Senate and is mandated to consider all matters relating to:

a) Transport
b) Roads
c) Public works
d) Construction and maintenance of roads, rails and buildings
e) Air and seaports

The Committee oversees the Ministry of Transport and Infrastructure;

MEMBERSHIP

The Committee is comprised of the following Members

1) Sen. Wamatangi Kimani Paul,MP - **Chairperson**
2) Sen. Eng.) Godana Hargura, MP - **Vice- Chairperson**
3) Sen. Stewart Madzayo, MP
4) Sen. Mpaayei Philip Salau, MP
5) Sen. Gona Christine Zawadi, MP
6) Sen. Lelegwe Steve Ltumbesi, MP
7) Sen. Sylvia Kasanga, MP
8) Sen. Cleophas Malala, MP.
9) Sen. Enoch Wambua, MP

OVERVIEW AND PURPOSE OF THE BUDGET POLICY STATEMENT (BPS)

1) The Medium term Budget Policy Statement (BPS) is perhaps the most critical document in the budget cycle that is prepared by the National Treasury It is the basis upon which all subsequent budget documents are prepared;

2) The Budget Policy Statement (BPS) sets out the broad strategic priorities and policy goals that guide the 2 levels of Government in preparing their budgets for the next financial year and in the medium term. In fact, the BPS provides a valuable medium for a review of fiscal policy in the light of emerging challenges and opportunities and thus accords an evaluation of the efficacy of the existing policy.

3) BPS offers policy makers and government at large an opportunity to modify its macroeconomic parameters and adjust its expenditure and revenue along more suitable lines for accelerating service delivery to the citizens. The Budget Policy Statement is published in accordance with Section 25 of the Public Finance Management Act, 2012. In preparing the Budget Policy Statement, the National Treasury is required to set out the broad strategic priorities and policy goals that will guide the national government and county governments in preparing their budgets both for the following financial year and over the medium term.

4) The National Treasury is required to include the following in the Budget Policy Statement:-

   i.) An assessment of the current state of the economy and the financial outlook over the medium term, including macro-economic forecasts;

   ii.) The financial outlook with respect to Government revenues, expenditures and borrowing for the next financial year and over the medium term;

   iii.) The proposed expenditure limits for the national government, including those of Parliament and the Judiciary and indicative transfers to county governments;

iv.) The fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt.

5) The submission and processing of the BPS is anchored in standing order No 174. The Standing order requires among other things the Budget Policy Statement (BPS) to indicate total resources to be allocated to individual programmes and projects within a sector and indicate the outputs expected from each such programme or projects during the period.

6) In accordance with Second Schedule of the Senate Standing Orders, the Committee is mandated to oversee all matters pertaining to transport, roads, public works, construction and maintenance of roads, rails and buildings, air, seaports and housing. In executing its mandate, the Committee oversees the following government State Departments and their respective Semi Autonomous Government Agencies (SAGAs):

   i. Infrastructure
   ii. Transport
   iii. Maritime Affairs
   iv. Housing and Urban Development
   v. Public Works

7) The FY 2018/19 Budget Policy Statement rides on the strong foundation laid under the government's Economic transformative agenda in the past Five Years through the Five Key Pillars including: : (i) creating a conducive business environment; (ii) investing in sectoral transformation; (iii) infrastructure expansion; (iv) investing in quality and accessible social services; and (v) consolidating gains made in devolution. Significant progress was recorded and on this basis the government has identified four key strategic areas to address perennial challenges of unemployment, poverty and income inequality in the economy. These strategic areas include:

   i. Supporting value addition and raise the manufacturing sector's share of

GDP to 15 percent by 2022. This will accelerate economic growth, create jobs and reduce poverty;

ii. Focusing on initiatives that guarantee food security and improve nutrition to all Kenyans by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and support value addition in the food processing value chain;

iii. Providing Universal Health Coverage thereby guaranteeing quality and affordable healthcare to all Kenyans; and,

iv. Providing at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022, hence improve living conditions for Kenyans.

8) Therefore targeted expenditures in the infrastructural subsectors of transport, infrastructure, Public works Housing and urban development for 2018/19 and over the medium term will be guided by increased expansion of road networks under roads transport Program, completion of phase 2A of the SGR under the Program of rail transport, completion of the First 3 berths of Lamu port expected to be completed by 2020 under the Program Marine transport, remodeling and upgrading of JKIA terminal IB, C and D and rehabilitation of several Airstrips across the country under the Program of Air Transport, and provision of 500,000 affordable housing units under the Housing Development & Human Settlement.

9) To support the achievement of "The Big Four", the Government will enhance cargo handling and storage, and reduce the time to clear cargo. Having completed Phase I of the second container terminal at the port of Mombasa, the Government is currently focusing on Phase II, aimed at creating an additional berth which is 250 meters long on a draft of -15meters. In addition, under the Dongo Kundu Special Economic Zone, a free port is under consideration on an approximately 3,200 acre parcel of land to the West of the Port of Mombasa.

10) Further, the Government will continue to develop several commercial ports. In particular, the first three berths at the Lamu Port are on course and are expected to be ready by 2020. This facility will open up an alternative corridor linking the upper part of Africa, the Middle East and Europe. Others include the development of Kisumu Port in order to harness opportunities for inter-country transport and trade among the East African countries around Lake Victoria.

ALLOCATION FOR THE ROAD MAINTENANCE LEVY FUND

11) County governments are allocated 15% of the Road Maintenance Levy Fund that is charged at 18/= per liter. The allocations for the FY 2018/19 total 8.269 billion. This represents a 394 million or 5% increase from the 7.875 billion allocated every financial year. The allocated funds and meant for road maintenance and the allocation per county under the BPS is as Annex 1.

Table 3: Maintenance Levy Fund Allocation 2016/17 – 2018/9 (KSh.)

	2016/17	2017/18	2018/19
RMLF 15%	7,500,000,000	7,875,000,000	8,269,000,003
BF	-	3,193,192,369	-
Total	**7,500,000,000**	**11,068,192,369**	**8,269,000,003**

Source: National Treasury

12) Counties with the largest allocations will include, Nairobi (KSh. 415.8 million), Kilifi (KSh. 285.2 million) Turkana (KSh. 283.6 million) Kakamega (KSh. 272 million) Mandera (KSh. 267 million) etc. Even though most county governments will have their allocations increased, it is important to note that the allocation for some counties will fall for the FY 2018/19.

Table 4: Countries with negative Road Maintenance Levy Fund Allocations

County	2017/18	2018/19	% of Total 2018/19	Decrease	% Decrease
Kiambu	255,150,000	246,366,927	3%	(8,783,073)	-3%
Kirinyaga	116,550,000	108,302,240	1%	(8,247,760)	-7%

County	2017/18	2018/19	% of Total 2018/19	Decrease	% Decrease
Laikipia	118,125,000	109,128,974	1%	(8,996,026)	-8%
Narok	171,675,000	167,827,135	2%	(3,847,865)	-2%
Tharaka Nithi	96,862,500	95,901,220	1%	(961,280)	-1%
Trans Nzoia	148,837,500	147,985,503	2%	(851,997)	-1%

Source: National Treasury

2017/18 ESTIMATES AND PROPOSED 2018/19 BUDGET CEILINGS

13) Total ministerial allocation is set at KSh. 291.9 billion indicating a 6% fall or KSh. 18.6 billion reduction in resource allocation from the KSh. 309.76 billion allocated in 2017/18 budget. The reduction is majorly as a reduction of reduction of the budget ceiling for the Rails transport Program under the Transport state department. This is as a result of the completion of phase I (490 km) of the SGR and commence of the 120 km second phase. In addition, the budget for road transport program is reduced by KSh. 6.1 billion, implying either the completion of some road project in the last financial year or a lower estimate of the KM of roads for construction or maintenance relative to FY 2017/18.

14) Never the less, the State Department for infrastructure and transport will have the largest allocated ceilings worth KSh. 181.6 billion and KSh. 87.32 billion respectively. Combined, they will account for 92% of total ministerial ceiling for the FY 2018/19. State department for maritime affairs, Housing and urban development and public works are allocated budget ceilings worth KSh. 326 billion, KSh. 19.14 billion and KSh. 2.8 billion respectively.

Table 5: Total BPS Ministerial Ceiling Allocation 2018/19 vs FY 2017/18 Estimates

State Department	2017-18 Estimates			BPS 2018-19 Ceilings			Change	
Program	Current	Capital	Total	Current	Capital	Total	KSh	%
SD/ Infrastructure	**52,658**	**134,988**	**187,646**	**58,525**	**123,068**	**181,593**	*(6,053)*	-3
Road Transport	52,658	134,988	**187,646**	58,525	123,068	**181,593**	*(6,053)*	-3
SD/Transport	**6,050**	**96,769**	**102,819**	**9,284**	**78,038**	**87,322**	*(15,497)*	*15*
General Admin., Planning & Support Services	401	792	**1,193**	407	760	**1,167**	*(26)*	-2
Rail Transport	-	75,584	**75,584**	-	59,324	**59,324**	*(16,260)*	*22*
Marine Transport	615	14,300	**14,915**	1,225	13,110	**14,335**	*(580)*	-4
Air Transport	4,588	5,793	**10,381**	7,206	4,544	**11,750**	*1,369*	*13*
Road Safety & transport services	446	300	**746**	446	300	**746**	-	*0*
SD/ Maritime Affairs	**276**	-	**276**	**326**	-	**326**	*50*	*18*
Shipping & Maritime Affairs	276	-	**276**	326	-	**326**	*50*	*18*
SD /Housing & Urban Development	**1,726**	**14,272**	**15,998**	**2,299**	**16,839**	**19,138**	*3,140*	*20*
Housing Development & Human Settlement	459	5,959	**6,418**	466	9,040	**9,506**	*3,088*	*48*
Urban & Metropolitan Development	273	8,183	**8,456**	263	7,663	**7,926**	*(530)*	-6
General Admin. Planning & Support Services	267	-	**267**	249	-	**249**	*(18)*	-7
Regulation & Development of the Construction industry	727	130	**857**	1,321	136	**1,457**	*600*	*70*
SD/ Public Works	**846**	**2,176**	**3,022**	**842**	**1,959**	**2,801**	*(221)*	-7
Government Buildings	371	2,040	**2,411**	400	1,734	**2,134**	*(277)*	-11
Coastline Infrastructure & Pedestrian Access	83	136	**219**	83	170	**253**	*34*	*16*
General Admin.	392	-	**392**	359	55	**443**	*51*	*13*

State Department	2017-18 Estimates			BPS 2018-19 Ceilings			Change	
Program	Current	Capital	Total	Current	Capital	Total	KSh	%
Planning & Support Services								
Total Ministerial Allocation	61,556	248,205	309,761	71,276	219,904	291,180	(18,581)	-6

Source: National Treasury

Key areas of spending broken down into Recurrent/Development

15) An analysis of the key areas of spending in the state departments depicts an increase in the recurrent expenditure for all State Departments except for the State Department for Public works whose recurrent ceiling is KSh. 842 million compared to the KSh. 846 million provided in 2017/18.

16) With regards to capital expenditure, all the state departments are allocated a ceiling less than what they have been allocated in 2018/19 except for the state department for Housing and Urban Development whose development allocated increased from Kshs.14.2 billion provide in 2017/18 to a ceiling of Kshs.16.8 billion.

Table 6: *Key Areas of expenditure broken down in to Current and Capital and by Vote and by program*

	2017-18 Estimates			BPS 2018-19 Ceilings		
Program	**Current**	**Capital**	**Total**	**Current**	**Capital**	**Total**
State Dept. of Infrastructure	52,658	134,988	187,646	58,525	123,068	181,593
Road Transport	52,658	134,988	187,646	58,525	123,068	181,593
State Dept. of Transport	6,050	96,769	102,819	9,284	78,038	87,322
General Admin., Planning & Support Services	401	792	1,193	407	760	1,167
Rail Transport	-	75,584	75,584	-	59,324	59,324
Marine Transport	615	14,300	14,915	1,225	13,110	14,335
Air Transport	4,588	5,793	10,381	7,206	4,544	11,750
Road Safety & transport services	446	300	746	446	300	746
State Dept. for Maritime Affairs	276	-	276	326	-	326

	2017-18 Estimates			BPS 2018-19 Ceilings		
Program	**Current**	**Capital**	**Total**	**Current**	**Capital**	**Total**
Shipping & Maritime Affairs	276	-	276	326	-	326
State Dept. for Housing & Urban Development	**1,726**	**14,272**	**15,998**	**2,299**	**16,839**	**19,138**
Housing Development & Human Settlement	459	5,959	6,418	466	9,040	9,506
Urban & Metropolitan Development	273	8,183	8,456	263	7,663	7,926
General Admin. Planning & Support Services	267	-	267	249	-	249
Regulation & Development of the Construction industry	727	130	857	1,321	136	1,457
State Dept. for Public Works	**846**	**2,176**	**3,022**	**842**	**1,959**	**2,801**
Government Buildings	371	2,040	2,411	400	1,734	2,134
Coastline Infrastructure & Pedestrian Access	83	136	219	83	170	253
General Admin. Planning & Support Services	392	-	392	359	55	443

Source: National Treasury

OBSERVATIONS

The committee observed, that;

i) There were notable disparities between the Budget Policy Statement (BPS) allocation for the Road Maintenance Levy Fund (RMLF) of KSh. 8.29 Billion and the recommendations by the Commission on Revenue Allocation (CRA) that indicates the Kenya Roads Board is 15% of RMLF worth KSh. 8.556 billion should be allocated to counties. **Clarity should be sought as to the reasons for the variations and the reduction of the RMLF estimates under the BPS.**

ii) Following the BPS allocation framework, some counties will have RMLF reduction in allocation implying that some county governments road maintenance needs might not be fully met;

iii) There was need to fast track the enactment of the Kenya Roads Bill, to provide for a legal framework for the road classification process and the distribution of the Roads

Maintenance Levy Fund between different national government organs and the county governments.

iv) Cost of land was noted as a major impediment to sustainable infrastructural development. And therefore it would be important for county governments to develop and integrate infrastructure planning with the land planning in order to lower cost of infrastructural projects.

v) According to the Fourth Schedule of the Constitution, Housing is a devolved function. In order to maximize on the big 4 agenda gains or investments, there was urgent need for a framework for national and county governments to align their developmental needs. This calls for a link between the County Fiscal Strategies and the BPS.

vi) The committee further noted that the pursuant to Art.189, the intergovernmental Budget and Economic Council (IBEC) of 6th February, 2018 resolved among others, that all class D roads be categorized as county roads to allow for increased allocations of the RMLF.

vii) County governments should endeavor to establish infrastructural facilities and policies that attract of encourage growth of real sectors under the Big 4 agenda i.e. manufacturing in order to enhance their income and employment. This will require both skill development and provision of land for development and measures of reducing production costs.

viii) The BPS has indicated that there are several airstrips and airports earmarked for expansion. However, in the past most of these projects have been marred by issues relating to contractors not sticking to completion. ***However, the committee noted that the project status and the condition of some of the airstrips was a matter of critical concern.***

COMMITTEE RECOMMENDATIONS

After interrogating the Budget Policy Statement (BPS) for FY 2018/19 Budget Ceiling, the committee has not proposed any changes to the ceiling allocation to the state

departments under its preview and that the allocated ceilings be maintained as given in the Budget Policy Statement. As follows:

State Department	BPS 2018-19 Ceilings		
	Recurrent Ceiling	Capital Ceiling	Total Ceiling
State Department of Infrastructure	58,525	123,068	181,593
State Department of Transport	9,284	78,038	87,322
State Department of Maritime Affairs	326	-	326
State Department of Housing & Urban Development	2,299	16,839	19,138
State department of Public Works	842	1,959	2,801
Total Ministerial Ceiling	**71,276**	**219,904**	**291,180**



REPUBLIC OF KENYA

12th PARLIAMENT - FIRST SESSION

SENATE

BRIEF ON THE ANALYSIS OF THE BUDGET POLICY STATEMENT 2018 AND THE MEDIUM TERM FOR EDUCATION SECTOR

PRESENTED TO THE STANDING COMMITTEE ON FINANCE AND BUDGET

FEBRUARY 2018

I. INTRODUCTION

1. The Constitution of Kenya 2010 in the fourth schedule assigned provision of ECDE to the County Government while the National Government is responsible for development of policy and standards as well as curriculum for the entire education spectrum. County Governments play a crucial role in enhancing the sector bursary fund and support development of infrastructure. Additionally, they employ and manage ECDE teachers and youth polytechnic instructors

2. The number of ECDE centers increased from 40,211 in 2014 to 40,775 in 2015 and further to 41,248 in 2016. The net increment in the number of centers was 1,037 for the period out of which 407 attributed to the efforts of county governments. Enrolment increased from 3,019,865 in 2014, to 3,199,841 in 2016 representing Gross Enrolment Rate of 76.3 percent, and 76.6 percent respectively.

3. The 2018/19 Budget Policy Statement has been prepared at a time the Country is from the 2017 elections which slowed down economic activities in various sectors of the economy such as tourism, wholesale, manufacturing and retail where both large and small medium enterprises were negatively affected. Nevertheless, the economy remained resilient despite the risks which had been posed by election related challenges.

4. Similarly, the Education sector is faced by its own specific challenges as the government continues to roll out various reforms in all levels of Education. For instance, the targeted 100 percent transition rate (primary to secondary) has huge implication on Teacher resource and infrastructural requirement especially

at Basic Education level. There still exist a number of institutions that still require investment in infrastructure development in terms of construction and renovations. This problem is more pronounced in arid areas as well as pockets of poverty in different areas in the country. This will ultimately have an impact on the quality of education. Further, the sector faces a high financial implication as a result of Collective Bargaining Agreement (CBA) for teachers and lecturers.

5. This brief provides an analysis of the Budget Policy Statement 2018 and specifically the resources to be allocated to various programmes in the education sector in 2018/19 and over the medium term to support the various ongoing. The brief serves to apprise the Committee in its oversight mandate of the Education sector as provided in the Standing Orders. The Committee is expected to submit a report containing its recommendations on the Budget Policy Statement 2017 to the Standing Committee on Finance and Budget.

II. THE LEGAL BASIS FOR PROCESSING OF THE BPS

6. The Budget Policy Statement is budget documents prepared by the National Treasury and published in accordance with Section 25 of the Public Finance Management Act, 2012. The National Treasury submits the BPS to Parliament by the 15th February each year. Section 25(7) requires Parliament to process the BPS within fourteen days after submission.

7. The processing of the BPS provides an opportunity for the legislature to engage on the budget at policy level and subsequently to ensure that the input by parliament feeds into and informs the annual estimates.

8. It is one of the budget documents that allows for consultation to take place in particular between the legislative and the executive arms of government. The processing entails tabling and discussing a report containing the recommendations of Parliament and pass a resolution to adopt it with or without amendments.

9. The Senate Standing Orders assign the Standing Committee on Education mandate to consider all matters relating to education, training, science and innovation, technology, engineering and electronic research.

III. HIGHLIGHTS OF THE BPS: AN OVERVIEW

10. The BPS outlines the broad strategic government priorities and policy goals of the government over the medium term. This is intended to provide the basis for preparing the budget government for the following year and over the medium term by both the National government and the county governments.
11. The theme for the Budget Policy Statement (BPS) for 2018 is "*creating jobs, transforming lives-the 'big four' plan*". Thus, the Budget Policy Statement 2018 is an emphasis on socio-economic transformative agenda envisaged by the government meant to deliver economic transformation in four key strategic areas of focus identified by the Government (see table 1).
12.

Table 1: Strategic Areas of Focus	
Key Strategic area	**Medium Term Target**

Health care	Providing universal health care hence guaranteeing quality and affordable healthcare to Kenyans by 2022.
Housing	Providing at least 500,000 affordable new houses to Kenyans by 2022
Manufacturing	Supporting value addition and raising manufacturing sector's share of GDP to 15% by 2022
Food Security	Expansion of food production and supply, reduction of food prices to ensure affordability in order to guarantee food security and improve nutrition

IV. THE EDUCATION SECTOR CONTRIBUTION TO BIG FOUR

13. The government has identified four key pillars of change that will assist the transformation of the country in the next five years. The four pillars include Universal Health Care; Food and Nutrition Security; Affordable Housing; and Industrialization, Manufacturing and Agro-Processing.

14. The education sector will support the big four through its human capital development mandate beginning from preparation of learners in basic education and transcending to the skills development in the tertiary levels of education. As a major enabler, quality education will ensure the availability of skilled trainees in to feed into the manufacturing industry, health sector food security and housing.

V. CONDITIONAL GRANTS TO COUNTIES

Table 2: Disaggregation of County Governments' Allocations. Kshs. Millions

Type/Level of allocation	**2016/17**	**2017/18**	**2018/19**
County Equitable Share	**280,300**	**302,000**	**314,000**
Additional conditional allocations of which			
1. Free maternal Healthcare	4,121	-	-
2. Leasing of medical equipment	4,500	6,100	9,400
3. Compensation for user fees foregone	900	900	900
4. level 5 hospitals	4,000	4,200	4,326
5. Special purpose grant (Emergency Med. Ser.	200	-	-
6. Rehabilitation of village polytechnics		2,000	2,000

7. Supplement for Construction of County HQs		605	605
8. Allocation from Fuel Levy (15%)	4,307	7,875	8,269
9. Allocation from loans and grants	3,871	12,541	33,242
Total County Allocations	**302,199**	**336,221**	**372,742**

Source: National Treasury

VI. KEY AREAS OF SPENDING IN THE EDUCATION SECTOR

15. The total proposed 2018/19 budget for the Education sector amounts to Ksh 431.5 billion out of which Ksh 404 Billion is for recurrent expenditure while Ksh 27.5 billion is for development expenditure. The allocation is projected to increase over the medium to Kshs 446.3 Billion and Kshs 459.4 Billion in 2019/20 and 2020/21 respectively.

16. In 2018/19 and over the medium term, the government intends to focus on the following areas in the sector; Improving and expanding the industry-led Technical and Vocational Education and Training (TVET) Colleges and Universities in order to equip the youth with relevant skills required to drive the industrialization agenda. This will involve construction of more technical and vocational colleges and equipping them with appropriate training equipment; Education curriculum reforms to promote a focus on learning and competencies and develop quality and relevant skills for the job market.

17. The other area of Government's focus will be on: construction and improvement of infrastructure in all learning institutions; enhancement of capitation to institutions; rationalizing teacher deployment and strengthening teachers' supervision and promotion of science, technology and innovation.

VII. SALIENT ISSUES

18. ***According to the Sector report 2017, the State Department for Basic Education through the ECDE sub programme intends to establish ECDE model centers in all counties.*** According to schedule four of the 2010 Constitution, the function of the National government on ECDE is on policy direction only whereas the implementation is assigned to county governments. The establishment of 47 ECDE model centers should be done collaboratively with the county governments.

19. ***Planning:*** The Constitution requires that budget preparation need to be guided by the development plans. The country is guided by vision 2030 in planning which is usually broken down to 5-year medium term plans. The MTP III is not yet available yet it was supposed to inform 2018/19 and medium-term resource allocation. There is no information on which overall policy plan informed the formulation of the proposed strategic focus and resource allocation.

20. ***A number of projects in the State Department for Technical and Vocational Training are donor supported and some are behind schedule*** despite the fact that most are expected to be completed in 2019. Part of the reason for the slow pace is that the budgeted donor support is usually revised downwards in the course of the financial year hence destabilizing the implementation course. There is also information gap on the absorption rate of donor supported projects.

21. ***The allocation to technical and vocational training programme under the state Department for vocational and technical training has reduced compared to the allocation in the current financial year.*** The government strategic focus is to expand and strengthen the Technical and Vocational training in order to support the big four agenda through supply of technical skills. Again, most the projects in the programme are donor supported and may be erratic in terms of

implementation thus the need to develop home grown strategies to support the various projects.

22. ***Pending Bills***: The education sector report has not reported on the pending bills for 2016/17 yet this is very critical when it comes to budget implementation. This essentially means two things; either the sector has cleared all the pending bills or there was no reporting on the pending bills. This is a sector which has quite a number of capital projects which expose the sector to pending bills due to revision of development in the course of the financial year. The Ministry needs to furnish the Committee with the information on the pending bills for the sector to ascertain the sector has cleared all the pending bills.

The Committee made the following observations-

That,

1. The county equitable share is set to increase by 3.18 percent from Ksh 302 billion in 2017/18 to Ksh 314billion in 2018/19.
2. There has been a consistent increase in budget allocation to the Education Sector from 20.2percent of the national budget in 2016/17 to 23.28 percent in 2017/18 and 25.37 percent in 2018/19 with Teachers Servic Commission (TSC) receiving a larger percentage of the resources.
3. The proposed National Budget (Education sector) allocation of Ksh 431.5 Billion in 2018/19 translating to 25.37percent meets the Abuja Declaration of minimum annual budget allocation to the Education sector of at least 15 percent of the budget.
4. There was an increase in ECDE enrolment from 3,019,865 in 2014 to 3,199,841 in 2016 commensurate to an increase in the number of ECDE centers
5. The National government has allocated Ksh 2billion as conditional grant towards the rehabilitation of village polytechniques; however, some of the Counties may not have the capacity to absorb the funds.
6. In as much as the State department of basic Education through its ECDE sub programme intends to establish ECDE model centers in all the 47 Counties, adequate consultation with the County Governments is essential to ensure it resonates with individual County Integrated Development Plans (CIDP)
7. Planning at both levels of Government and across sectors is taking place in the absence of the MTP III critical to informing the 2018/19 and medium term resource allocations.
8. There seems to be no policy guidelines to guide ECDE development and management at County level hence the lack of uniformity across Counties.
9. While scrutinizing the allocations of the County Governments towards Education sector (ECDE and the development of Youth Polytechnic, there is need to underscore the trend in resource allocation towards Education in the last five years at National level and county level.
10. The allocation to technical and vocational training program under the State Department for vocational training has reduced in 2018/19 thereby raising

questions on its contribution to the manufacturing and ago-processing sectors useful in achieving the " Big Four Agenda"

11. The absence of pending bills in the Education Sector report for 2016/17 raises the question of whether there exists any and the effect of any existing pending bills to the next budget cycle.
12. The short duration of time allocated for the interrogation of the BPS does not give the Committee to the opportunity add value to proposals.
13. There is need for a complete analysis of County budget allocation towards the Education sector for effective interrogation of the sector.

The Committee therefore recommends –

That,

1. The County Governments takes advantage of the Ksh 2billion allocated as conditional grant to rehabilitate the youth polytechnics with a view to support the "Big Four Agenda"
2. The Ministry provides the breakdown of all pending bills in the sector for future reference and decision making by the Committee
3. The Ministry to fast track the preparation and presentation of the Sessional Paper on ECDE policy before the Senate for concurrence and subsequent implementation by the County governments.
4. The Ministry to fast track the development ECDE guidelines and standards to guarantee uniformity in ECDE development and management across all Counties.
5. The Public Finance Management Act, 2012 be amended to increase the duration of time with which Parliament should interrogate the BPS

ANNEXES

Annex 1: Proposed Ceiling vi-sa-vi resource requirement

Programmmes	2018/19 Ceiling			Resource requirement 2018/19			Deviation		
	Recc	Dev	Total	Recc	Dev	Total	Recc	Dev	Total
Primary Education	17	4.7	21.5	20.5	6.8	27.3	(3.70)	(2.10)	(5.80)
Secondary Education	64	3.8	67.3	85.3	14.2	99.5	(21.70)	(10.40)	(32.10)
Quality Assurance & Standards	4.1	0.2	4.4	6.5	1.1	7.6	(2.40)	(0.90)	(3.30)
General Administration	4.8	0.2	5	6.3	0.45	6.75	(1.50)	(0.25)	(1.75)
Basic Education	**89**	**8.9**	**98.2**	**118.6**	**22.55**	**141**	**(29.30)**	**(13.65)**	**(42.95)**
Technical Vocational Education & Training	2.4	3.7	6.1	2.9	12.7	15.6	(0.50)	(9.00)	(9.50)
Youth Training & Development	0.1	2	2.1	0.1	2.2	2.3	-	(0.20)	(0.20)
General Administration	0.2	-	0.2	3.3	0	3.3	(3.10)		
Technical Education	**2.6**	**5.7**	**8.4**	**6.3**	**14.9**	**21.2**	**(3.70)**	**(9.20)**	**(12.90)**
University Education	90	12.5	102.2	119.3	11.8	131.1	(29.50)	0.70	(28.80)
Research, Science, Technology & Innovation	3.1	0.3	3.4	3.2	0.8	4	(0.10)	(0.50)	(0.60)
General Administration	0.5	-	0.5	0.5	0	0.5	-		
University Education	**93**	**13**	**106.1**	**123**	**12.6**	**136**	**(29.60)**	**0.20**	**(29.40)**
Teacher Resource Management	212	-	211.8	261.4	0	261.4	(49.60)		
Governance & Standards	0.1	-	0.1	0.5	0	0.5	(0.40)		

General Administration	6.7	0.1	6.9	7.6	0.2	7.8	(0.90)	(0.10)	(1.00)
TSC	**219**	**0.1**	**218.8**	**269.5**	**0.2**	**270**	**(50.80)**	**(0.10)**	**(50.90)**
TOTAL	**404**	**28**	**431.5**	**517.4**	**50.25**	**568**	**(113.40)**	**(22.75)**	**(136.15)**

Annex 2: key capital projects in the State Department for Basic Education
NB: Italic means new project

Name of the project	Funds	Start Date	End Date	Alloc 14/15	Alloc 15/16	Alloc 16/17	Alloc 17/18	TC
Infrastructure improvement in Lowcost boarding primary schools	GoK	2014/15	2018/19	135	135	-	-	1,200
Global partnership for Education	GPE &Gok counterpart funding	2014/15	2018/19	_	3,050	3,475	2,120	8,980
Kenya national volunteers programme (G-united)	Japanese Government & GOK	2014/15	2018/19	356	264	158	201	1,619
Establishment of 10 new teacher training colleges and rehabilitation of 16 old colleges	Gok	2014/15	2018/19	89	159	154	21.5	25,847
Kenya institute for the blind	GoK	2014/15	2018/19	10	10	-		100
Adult & Continuing education-DACE	GoK	2014/15	2019/20	32	32	-		193

Name of the project	Funds	Start Date	End Date	Alloc 14/15	Alloc 15/16	Alloc 16/17	Alloc 17/18	TC
Construction and Equipping of the National Psycho-Educational Assessment Centre	GoK	2015/16	2018/19	_	115	105	135	450
Upgrade 87 County secondary schools to national schools	GoK	2015/16	2018/19	_	600	300	300	8,700
Secondary school infrastructure	GoK	2014/15	Continuous Programme	108	300	300	1800	4,059
ICT Integration in Secondary Education	GoK	2009/10	2018/19	320	320	374	4.5	9,000
Laboratory materials Supplies and Small Equipment	GoK	2014/15	continuous	270	270	243	243	1,020
Kenya Education Management Institute	A-i-A	2014/15	2018/19	-	9	7	0	
Human capital development-capacity building of Teachers through inset	GoK	2014/15	2018/19	155	140	105	26.3	886
Completion of the New Mitihani House phase VI	GoK	1985	2015	420	420	60	15	2,670

Name of the project	Funds	Start Date	End Date	Alloc 14/15	Alloc 15/16	Alloc 16/17	Alloc 17/18	TC
KICD: Construction of Educational Resource Centre (Phase 1)	GoK	2014/15	2017/18	462	282	232	58	1,433
Establishment of County EMIS centres	GoK	2014/15	2018/19	-	13	13	4.8	145
Construction & completion of county directors of education & Direct education offices	GoK	2014/15	2018/19	102	102	102	25.6	377
Rehabilitation and Expansion of Infrastructure in Kagumo Diploma TTC	GoK	2013/14	2017/18	5	5	5	6.3	316
Rehabilitation and expansion of infrastructure in Kibabii Diploma TTC	GoK	2013/14	2018/19	204	200	185	46.3	1,798
Construction of new Diploma TTC in Moiben	GoK	2014/15	2017/18	54	70	80	15	1,294
Lugari Diploma Teachers Training College	GoK	2015/16	2018/19	_	40	35	8.8	1,149
School infrastructure in North Nyamira/ Borabu	Donor	2015/16	2018	_	45	55	56	-

Name of the project	Funds	Start Date	End Date	Alloc 14/15	Alloc 15/16	Alloc 16/17	Alloc 17/18	TC
Kenya Primary Schools Infrastructure improvement	GOK			-	-	135	200	-
Kenya Secondary School Education quality improvement				-	-	-	100	-
TOTAL				**2,722**	**6,581**	**6,123**	**5,387**	**71,236**

Annex 3: key capital projects in the State Department for Technical Education

			2015/16		2016/17		2017/18				
Project	**Start**	**End**	**Gok**	**Foreign**	**GoK**	**Foreign**	**GOK**	**Foreign**	**Exp**	**TC**	**%**
38 GOK-AfDB Phase II	2015	2105	225	399	258	496	243	1,300	1,699	6,730	25.2
China Phase II 134 TTIs equipping	2017		-	-	-	-	-	8,268	-	-	
GOK 9 TTI's in Counties	2015	2017	-	-	55	-	55	-	435	490	88.8
GOK - Netherlands [illegible]ase II	2016	2017	50	450	50	450	-	-	705	950	74.2
GOK KIPKABUS and Murang'a TTI's	2015	2017	108	-	60	-	60	-	233	449	51.9
Construction of TTI's	2016	2019	668	-	972	-	972	-	1,015	4,200	24.2
GOK 60 TTI's Equipping	2016	2018	-	-	492	-	492	-	2,756	3,600	76.6
Vocational Training Centres Support	2017		-	-	-	-	2,000	-	-	6,000	0.0

Grant											
Total			**1,051**	**849**	**1,887**	**946**	**3,822**	**9,568**	**6,843**	**22,419**	**30.5**

REPUBLIC OF KENYA



PARLIAMENT

THE SENATE

TWELVTH PARLIAMENT

SECOND SESSION, 2018

STANDING COMMITTEE ON ENERGY

REPORT ON CONSIDERATION THE BUDGET POLICY STATEMENT FOR THE FISCAL YEAR 2018 – 19 AND MEDIU TERM, FOR THE FOLLOWING VOTES:

VOTE 1152 - STATE DEPARTMENTS OF ENERGY
VOTE 1153 - STATE DEPARTMENT FOR PETROLEUM

Clerk's Chambers,
Parliament Buildings,
P. O. Box 41842-00100,
NAIROBI.

FEBRUARY,2018

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PREFACE

Establishment of the Committee

The Senate Standing Committee on Energy is established pursuant to standing order 212 (3) of the Senate Standing Orders. The Committee is mandated *to consider all matters relating to fossil fuels exploration, development, production, maintenance and regulation of energy.*

In the execution of its mandate, the Committee oversees the Ministry of Energy and the Ministry of Petroleum and Mining's.

Membership of the Committee

The Committee is comprised of the following members;

1.	Sen. Ephraim Maina	-Chairperson
2.	Sen. Mary Seneta	-Vice Chairperson
3.	Sen. Aaron Cheruiyot	-Member
4.	Sen. Mithika Linturi	-Member
5.	Sen. Susan Kihika	-Member
6.	Sen. (Prof.) Imana Malachy	-Member
7.	Sen. Ledama Olekina	-Member
8.	Sen. Mwaruma Johnes	-Member
9.	Sen. Mercy Chebeni	-Member

Acknowledgement

The Committee wishes to thank the Offices of the Speaker and the Clerk of the Senate, for the support extended to it in the execution of its mandate so far.

Mr. Speaker Sir,

It is my pleasant duty pursuant to standing order 174, to present to the Standing Committee on Energy on the Budgets Policy Statement for Financial Year 2018/19.

Signed.....

Date.....21st Feb 2018

SEN. EPHRAIM MAINA,
CHAIRPERSON,
STANDING COMMITTEE ON ENERGY.

INTRODUCTION

The Budget Policy Statement (BPS) is published in accordance with section 25 of the Public Finance Management Act, 2012. Parliament shall not later than 14 days after the BPS is submitted to Parliament, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments.

Parliament and thus the Senate is required to scrutinize the BPS and the programmes for the various spending agencies are undertaking with a view of establishing whether the resources being requested for relate to specific outputs that will lead to results as intended and as provided in the national agenda which is the vision 2030.

The National Treasury is required to include the following in the Budget Policy Statement:-

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

The 2018 BPS for the FY 2018/19 was submitted and tabled in the Senate on 14th February, 2018 and thereafter committed for processing by standing Committees including the Standing Committee on Energy.

In view of the provisions of the Senate Standing Orders assigning the Standing Committee on Energy the mandate to consider all matters related to fossils fuel exploration; development, production, maintenance and regulation of energy, the Committee is thus mandated to scrutinize the BPS and in relation to funding proposals for the Ministry of Energy and the Ministry of Petroleum and Mining. The Committee is equally tasked with the responsibility of scrutinizing the budget related policies, programmes and their objectives as well as the comprehensiveness and effectiveness of such programmes.

In this regard, the Committee on Energy oversees the following votes, namely, namely, Vote 1152 (State Departments of Energy) and Vote 1153 (State Department for Petroleum) and the various agencies under the Ministry

CONSIDERATION OF THE KEY HIGHLIGHTS IN THE PROPOSED 2019/2018 BUDGET POLICY STATEMENT ON ALLOCATIONS TO THE ENERGY SUB -SECTOR

Introduction

a) **Environment under Which the BPS 2018/19 was Prepared**

1) The 2018/19 BPS was prepared when some economic sector likes tourism, wholesale and retail were affected by the long electioneering period. Nevertheless the economy remained resilient despite the aforementioned bottlenecks. With regards to the Energy and Petroleum subsectors, a significant progress was made in the areas of power generation, transmission and distribution but is currently faced with the challenge of demand creation as supply of energy stands at 2330 MW against demand of 1770 MW.

2) The Budget Policy Statement is published in accordance with Section 25 of the Public Finance Management Act, 2012. In preparing the Budget Policy Statement, the National Treasury is required to set out the broad strategic priorities and policy goals that will guide the national government and county governments in preparing their budgets both for the following financial year and over the medium term.

3) The National Treasury is required to include the following in the Budget Policy Statement:-

   i.) An assessment of the current state of the economy and the financial outlook over the medium term, including macro-economic forecasts;

   ii.) The financial outlook with respect to Government revenues, expenditures and borrowing for the next financial year and over the medium term;

   iii.) The proposed expenditure limits for the national government, including those of Parliament and the Judiciary and indicative transfers to county governments;

   iv.) The fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt.

4) The submission and processing of the BPS is anchored in Standing Order No 174. The Standing order requires among other things the Budget Policy Statement (BPS) to indicate total resources to be allocated to individual programmes and projects within a sector and indicate the outputs expected from each such programme or projects during the period.

5) Upon being tabled in parliament the BPS is committed to Standing Committee of the Senate on Energy for scrutiny in accordance with Second Schedule of the Standing Orders, where the Committee is mandated to oversee all matters pertaining to Fossil fuels exploration, Development, Maintenance and regulation of energy. In executing its mandate, the Committee oversees the following government State Departments and their respective SAGAs:

   i. State Department for Energy ,

   ii. State Department for Petroleum

1. **Highlights of the 2018/19 BPS**

a. **overview**

6) The 2018/19 budget policy statements rides on the strong foundation laid under the government's Economic transformative agenda in the past Five Years through the Five Key Pillars including: : (i) creating a conducive business environment; (ii) investing in sectoral transformation; (iii) infrastructure expansion; (iv) investing in quality and accessible social services; and (v) consolidating gains made in devolution. The expenditure priorities in the sector ceilings in 2018/19 BPS have been realigned to the big four agenda, namely:

i. Raising the manufacturing sector's share of GDP to 15 percent by 2022.

ii. Focusing on initiatives that guarantee food security

iii. Providing Universal Health Coverage

iv. Providing at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022

7) **Therefore**, targeted expenditures will prioritize employment creation, youth empowerment, supporting manufacturing activities, enhancing health coverage, improving food security and enhancing living conditions through affordable housing. The allocations to other critical sectors such as education, infrastructure, energy and social protection will be protected.

8) To achieve the Big four, the government is cognizant of constrained fiscal space and therefore intends to partner with private sector by creating High Speed Public Private Partnership (PPP) unit to attract and engage the private sector on implementing most of the projects under the big four agenda.

b. **2018/19 BPS fiscal Framework**

9) **Revenue projections:** The Budget Policy Statement for FY 2018/19 targets for revenue collections including AIA is projected at KSh.1,853.9 billion translating to 18.9% of GDP which is an increase from the 2017/18 projections of Kshs 1,643.1 billion.

10) **Expenditure projections:** the overall expenditure and net lending are projected at Kshs 2,492.2 billion (25. % of GDP) increasing from the estimated Kshs 2,323.1 billion (26.8% of GDP) in the financial year 2017/18. The projected expenditures for 2018/19 include Kshs 1501.5 billion (15.3% of GDP) to defray recurrent expenditures and Kshs 612.9 billion for development expenditures. In addition a contingency amount of Ksh. 5 billion and Kshs 4.7 billion for equalization fund is also provided.

11) **Deficit Financing:** The deficit of Kshs 587.7 billion will be financed both externally and domestically. Net external financing is projected at Kshs 214.7 billion (2.2% of GDP) and net Domestic Borrowing of Kshs 369.6 billion (3.8% of GDP) and other domestic receipts of KSh. 4.2 billion.

Table 1: Summary Budget Framework, FY 2018/19 (KSh. Millions)

Item	2017/18 (baseline)	share of the Total	BPS ceiling 2018/19	Share of the Total	Projections 2019/20-2020/21	
National Government	1,566,494	67%	1,607,944	65%	1,717,518	1,828,717
CFS	356,892	15%	461,917	19%	493,401	630,103
Parliament	36,043	2%	31,769	1%	32,798	34,546

The Judiciary	18,039	1%	17,783	1%	20,074	17,575
The County Government	345,681	15%	372,742	15%	372,164	381,909
Total	2,323,149	100%	2,492,155	101%	2,635,955	2,892,850

Source: National Treasury

County Government Expenditure

12) In FY 2018/19, the Budget Policy Statement proposes that County Governments be allocated an equitable share of revenue raised nationally of Ksh 314 billion, and that the National Government be allocated Ksh 1,370 billion. County Governments' equitable share of revenue. In addition to the above equitable share, County Governments will receive additional funds as conditional grants.

13) These include:

- ✓ Ksh 17.2 billion conditional allocations for: i) level-5 hospitals; ii) rehabilitation of village polytechnics; iii) leasing of medical equipment; iv) compensation for foregone user fees; and, v) Construction of County Head Quarters
- ✓ Equalization Fund to the marginalized areas amounting to Ksh 4.7 billion
- ✓ Ksh 8.3 Billion from the Road Maintenance Fuel Levy Fund (RMLF). As in previous years, this is calculated at 15 percent of projected FY 2017/18 collections by the Kenya Roads Board (KRB); and
- ✓ Ksh 33.2 billion from proceeds of external loans and grants, which will finance devolved functions in accordance with the signed financing agreement for each loan/grant.

Table 2: Vertical Distribution of Resources

	2014/15	2015/16	2016/17	2017/18	*2018/19*
Total Shareable Revenue	**1,031,819**	**1,152,972**	**1,305,794**	**1,486,294**	***1,688,492***
National Government, of which:	**801,759**	**887,198**	**1,019,494**	**1,176,567**	***1,369,792***
Equalization Fund	**3,400**	**6,000**	**6,000**	**7,727**	***4,700***
County Equitable Share	**226,660**	**259,775**	**280,300**	**302,000**	***314,000***
Free maternal healthcare	*3,320*	*4,298*	*4,121*	-	-
Leasing of medical equipment	-	*4,500*	*4,500*	*6,100*	*9,400*
Compensation for user fees forgone	-	*900*	*900*	*900*	*900*
Level 5 hospitals	*1,863*	*3,601*	*4,000*	*4,200*	*4,326*
Special purpose grant (emergency Med. Serv.)	-	-	*200*	-	-
Rehabilitation of village polytechniques	-	-	-	*2,000*	*2,000*

Supplement for construction of county HQs	-	-	-	*605*	*305*
Allocation from Fuel levy (15%)	*3,400*	*3,300*	*4,307*	*7,875*	*8,269*
Allocation from Loans & Grants	-	*10,671*	*3,871*	*12,541*	*33,242*
Total Conditional Grants	***8,583***	***27,270***	***21,899***	***34,221***	***58,442***
Total County Government Allocation	**235,243**	**287,044**	**302,199**	**336,221**	***372,442***

Source: National Treasury

i. Contribution of the sector to the big four

14) Access to adequate, affordable and reliable energy supply is necessary to reduce cost of doing business, spur growth of enterprises and industries, and accelerate the realization of "**The Big Four" Plan.** In the 2018/19 BPS the government intends to achieve 100% access to affordable and reliable energy by 2022 through;

- Exploiting locally available sources of energy including renewable energy potential.
- Developing power plants particularly the 310 MW Lake Turkana wind power plant.
- The two units of Olkaria expected to add 210 MW to grid.
- Continuing investing in the construction of electricity substations, transmission lines and distribution of transformers to boost the availability of electricity and sustain demand.

15) In terms of indirect contribution, the manufacturing sector aims at cutting cost of off-peak power to heavy industry by half, provision of affordable energy to agriculture sector to reduce coast of production.

16) However, a review of the sectoral allocations in the BPS Points to lack of Fiscal Space. The share of the Energy, Infrastructure & ICT reduced from 27% of the overall sectoral allocation in 2015/16 BPS to 24% of the same in the 2018/19 BPS. This is despite one of the "Big Four" (provision of affordable housing) is domiciled in this sector.

17) Further, the share of energy and petroleum subsector which is a critical enabler of "Big Four" agenda has also reduced from 23% of the energy, infrastructure & ICT sector allocation during 2015/16 BPS to 19% in the for 2018/19. (See table 4)

Table 3:Analysis of share of allocation to the sub-sectors Kshs. millions

	2015/16 Estimates	BPS Ceiling 2016/17	BPS ceiling 2017/18	BPS Ceiling 2018/19
Overall Sectoral Allocation	1,505,492	1,489,505	1,633,352	1,688,528
Energy, Infrastructure & ICT	404,670	367,596	415,744	404,633
Share for the Sector	27%	25%	25%	24%
Energy and Petroleum	94,462	91,080	87,720	77,967

Share of energy & petroleum of Overall	6%	6%	5%	5%
Share of energy & petroleum in the Sector	23%	25%	21%	19%

Source: National Treasury

Analysis of 2018/19 BPS for Energy and Petroleum subsectors

18) Some of the major projects for the sector targeted for implementation in FY 2018/19-2020/21 include: 2,946 MW of additional installed electricity generation capacity; connecting all Kenyans to electricity; exploration and appraisals in oil blocks and Early Oil Monetization of Crude Oil to enhance early commercialization of the crude oil discoveries.

State Department for Energy

19) The mandate of the State Department of Energy includes; National Energy Policy and Management; Hydropower Development; Geothermal Exploration and Development; Thermal Power Development; Rural Electrification Program; Renewable Energy Promotion and Development; and Energy Regulation, Security and Conservation.

20) An assessment of the overall spending by the State Department reveals a continuous increase in expenditure from the period 2013/14 to 2016/17 because of higher allocation to the power transmission and distribution program, before it took down ward trajectory from 2017/18 and going forward.

21) The budget policy statement for 2018/19 caps the expenditure for state Department energy at **Kshs.69,818* million** which is a reduction from the **Kshs. 77,220 million** that was provided in 2017/18 budget estimates and far below the resources sought during the sector working groups amounting to **Kshs.255,145 million**. The allocation of **Kshs.69,818 million** comprise of Kshs.2,162 million for recurrent Expenditure and **Kshs. 67,656 million** for Development Expenditure.

22) It is however noted that there is a difference of Kshs.5 billon between Total allocation for the power transmission and distribution Program and its totals of recurrent and capital expenditures and therefore the BPS 2018/19 captures gross allocation for energy as ***Kshs.74,818*. Billion.*** There is need for clarification on where the error is.

Table 5: Budgetary allocation over the last 5 years and projections over the Medium Term Kshs. Millions

Programme/Sub – Programmes	Approved Budget					2018/19 Bps Projections		
State Department for Energy	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Power Generation	39,743	20,263	22,752	28,139	17,420	21,497	19,451	27,646
Power Transmission and Distribution	32,009	67,849	71,029	80,196	57,738	45,457 *	52,238	43,943
Alternative Energy Technology		521	884	1,980	1,285	2,287	4,633	4,914

	443							
Administration Planning and Support Services	449	440	539	1,111	777	577	617	570
Total for the Vote	**72,644**	**89,073**	**95,204**	**111,426**	**77,220**	**69,818***	**76,939**	**77,073**
State Department for Petroleum								
Exploration and Distribution of Oil & gas	1,038	1,706	1,572	3,073	5,381	3149	4,834	4,862
Total for the Vote	**1,038**	**1,706**	**1,572**	**3,073**	**5,381**	**3149**	**4,834**	**4,862**

Source: National Treasury

State Department for Petroleum

23) The State Department's mandate is to explore, develop, produce and distribute petroleum products for sustainable economic development and wealth creation. In the past the State Department conducted 20 exploration and drilled 19 appraisal wells; distributed 4,575 metric tonnes of oil and gas; completed 65% of Mombasa-Nairobi refined petroleum products pipeline (Line 5); executed MOU and drafted Joint Development Agreement between GOK and International Oil Companies (IOC) to enhance commercialization of the oil discovered in the country and 260 staff were trained under the KEPTAP project.

24) The FY 2018/19 ceiling allocations for the state department are capped at **Kshs. 3,149 million** which is a decrease from the **Kshs.5,381 million** availed in 2017/18 estimates and **Kshs.8,088 million** sought during the sector working group forums. The allocated amount for 2018/19 comprises of **Kshs.273 million** for recurrent and **Kshs. 2,876 million** for development.

Table 6: Key areas of Expenditure Broken down in to Current and Capital Expenditure Kshs. Millions

	2017-18 Estimates			Resources Requirement 2018-19			BPS 2018-19 Ceilings			Deviation from the Totals
	current	Capital	Total	current	capital	Total	current	capital	total	
1152 State Dept. for Energy	**2,053**	**75,167**	**77,220**	**6,644**	**248,501**	**255,145**	**2,162**	**67,656**	**69,818**	**-180,327**
General Admin. Planning & Support Services	355	422	777	389	341	730	333	244	577	**-153**
Power Generation	788	16,632	17,420	1,838	57,115	58,953	919	20,578	21,497	**-37,456**

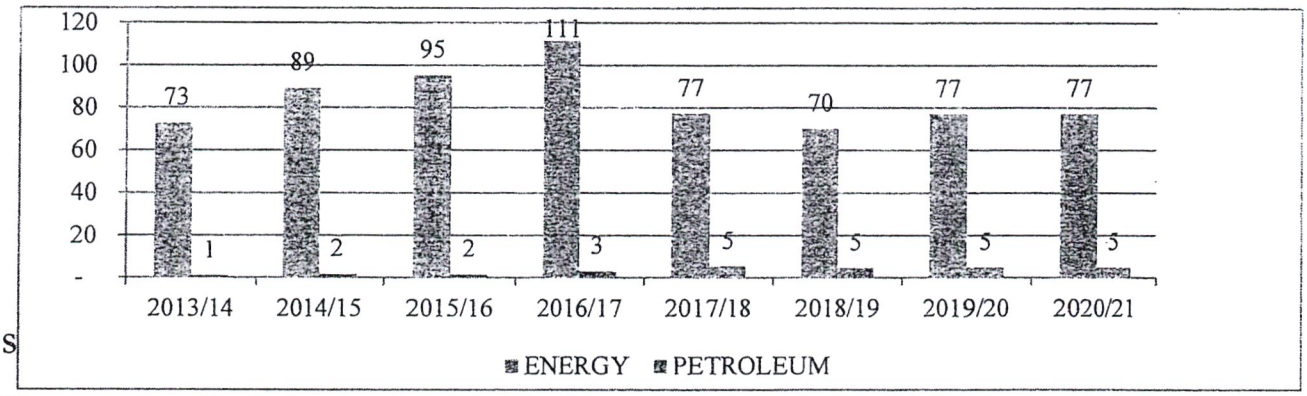
Power Transmission & Distribution	790	56,948	57,738	4,277	183,326	187,603	777	44,680	45,457	-137,146
Alternative Energy Technologies	120	1,165	1,285	140	7,719	7,859	133	2,154	2,287	-5,572
State Dept. for Petroleum	**242**	**5,139**	**5,381**	**334**	**8,088**	**8,422**	**273**	**2,876**	**3,149**	**-5,273**
Exploration & Distribution of Oil & Gas	242	5,139	5,381	334	8,088	8,422	273	2,876	3,149	-5,273

Source: National treasury

i. Observations regarding the votes

25) As shown in figure 1, the expenditure allocations for the state department energy have been increasing from Kshs.73 billion in 2013/14 to Kshs. 111 billion in 2016/17 before it dropped to Kshs.77 billion in 2017/18 and sustaining over the medium term. The achievements and gains made through the two programmes of power generation and power transmission & distribution in the period of 2013 to 2017 may explain the upward trajectory in expenditure whereas the constant projection in allocations over the medium term points to sustained support to ongoing programs and projects.

26) **Fig 1: Expenditure Trends in the energy & petroleum sub-sectors Kshs. Billions**



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The sector contribution to the economic growth and development of the Nation

ii. Key performance indicators

27) The country's long term development blue print, vision 2030, identifies energy and electricity as key elements of Kenya's sustained economic growth and transformation.in this regard a vibrant power sector that meets electricity to drive flagship projects and programmes is crucial.

28) In a move to achieve the potential of the sub-sector in contributing to the national development agenda, the government has for the last five financial years invested heavily in the construction of more electricity substations, transmission lines and distribution of transformers to boost the availability of electricity as well as sustaining demand. In the period between 2013 and June 2016, 81 power stations were constructed and upgraded which subsequently increase access to power, reduced the cost of doing business as well as stimulating growth of enterprises.

29) In terms connectivity, the consumer base increased from 2.2 million households in 2013 to 4.9 million households in June 2016, 22,245 primary schools have been connected to power to facilitate the digital literacy programme while 810 public institutions have been connected to alternative (solar) power.

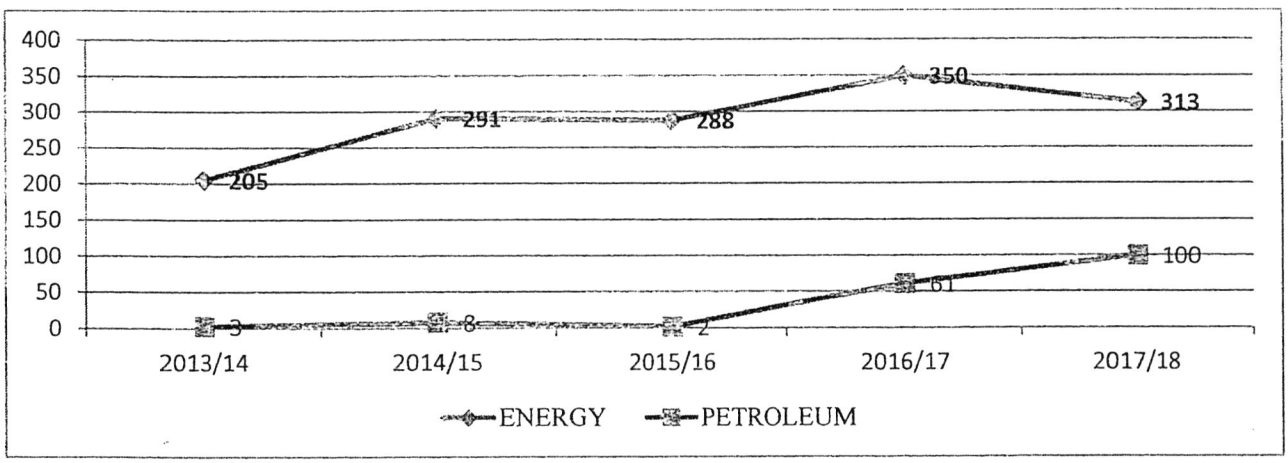
30) Some of the major projects prioritized in the MTEF period and captured in the BPs 2017/18 – 2019/20 include: 5,538MW of additional installed electricity generation capacity; Exploration and appraisals in oil blocks and Early Oil Pilot Scheme (EOPS) to enhance early commercialization of the crude oil discoveries; Kenya Petroleum Technical Assistance Project (KEPTAP).

31) With regards to BPS 2018/19 and over the medium term priorities include; additional electricity generation capacity of 2,946 MW through the Programme of power generation, electricity connection to all Kenyans through the Programme of power transmission and distribution, exploration and appraisal of oil blocks and early oil monetization of crude oil to enhance early commercialization of the Crude oil discoveries, Kenya Petroleum Technical Assistance Project (KEPTAP)

iii. Employment and the wage bill in the sector

32) A review of expenditure by economic classification for the state department of energy reveals unexplained and unpredictable trend in compensation to employees. See fig. 2. On the contrary, expenditure on compensation to employees seems to be reliable and predictable under the state department of Petroleum.

Figure 2: Trend of expenditure on compensation to employees (Kshs. millions)



Implementation of the Development Budget

Evaluation of Capital Projects

33) A review of capital projects reveals most of the projects are on course in terms of achieving targets and their outcome felt. Some of the notable projects include;

- Last mile connectivity: this project is estimated to cost Kshs.58,400 million of which Kshs. 11,400 is foreign financed and remaining coming from Gok. As at june 2017 Kshs. 13,071 Million (22%) was committed and the project is reported to be 22% complete.

- 5000+MW Since March 2013, a total of 685 MW of new generation capacity has been commissioned bringing the installed capacity to 2,336 MW up from 1768 mw in 2012 and total effective capacity

increased from 1652 mw in 2013 to 2261 mw in September. 95% of the effective capacity comes from hydro, Geothermal and thermal sources.

- Feed in tariffs projects- 215 projects are under this programme, and are at various stages of implementation working towards availing 3,471 mw new generation capacity

- Street lighting: 73,706 lights erected for the period 2014/15 – 2016/17 against a target of 38,000

34) under the State Department for Petroleum, the LPG cylinders distribution project which entails purchasing, tagging and distribution of 6kg cylinders, grills and burners to low income households reported to have distributed 6000 cylinders against a target of 1,200,000 in 2016/17 . While this is below target by far, information on the beneficiaries of the 6000 distributed is not available.

Public Private Partnerships Projects

35) As shown in annex 3, there are 22 PPP projects under the Energy subsector. It's noted that the Lake Turkana wind power projects attracts a deemed generated energy Payment of 110.4 euros. According to the developer the Project was completed by July 2017 with 310 MW capacities ready for full commercial operation. Therefore there is need for clarity when this payments start and since the consumer to pay how is it in their bill by KPL, when will the transmission line be completed for the generated to be evacuated.

36) in the BPS for 2018/9 planned PPP projects include; 960 MW Coal power plant in Lamu, 105 MW Menengai phase 1, 140 MW geothermal Project at Olkaria, 600 MW of other renewable energy projects(solar, wind)

Efficiency in the implementation of the budget

37) An assessment of the implementation of the approved budgets over the last 4 years reveal that, on average, the state department for energy utilized 77% of its allocations while the state department for petroleum utilized 78% for the same period. Such level of absorption often affects project implementation and accumulation of unnecessary pending bills.

Table 7 : Efficiency of budget implementation Kshs. Millions

	Approved Budget				Actual Expenditure				average absorption rate
Programme/Sub – Programmes	2013/14	2014/15	2015/16	2016/17	2013/14	2014/15	2015/16	2016/17	
State Department for Energy									
Power Generation	39,743	20,263	22,752	28,139	30,109	15,078	21,257	18,185	77%
Power Transmission and Distribution	32,009	67,849	71,029	80,196	22,826	38,397	51,429	57,099	
Alternative Energy Technology	443	521	884	1,980	386	453	627	1,766	

Administration Planning and Support Services	449	440	539	1,111	408	397	452	858	
Total for the Vote	**72,644**	**89,073**	**95,204**	**111,426**	**53,729**	**54,325**	**73,765**	**77,908**	

State Department for Petroleum

Exploration and Distribution of Oil & gas	1,038	1,706	1,572	3,073	945	1,240	1,462	1,656	
Total for the Vote	**1,038**	**1,706**	**1,572**	**3,073**	**945**	**1,240**	**1,462**	**1,656**	**78%**

Source: National Treasury

The hard Budget constraint: Making prioritization effective and achieving efficiency

1. With all these developments, it would be important for the establishment of energy needs for each county based on current consumption and future needs. This will therefore be used to determine energy deficient counties and establish measures to cover the gap and sustain county development plans and manufacturing.

2. It is noted that there is a difference of **Kshs.5 billon** between Total allocation for the power transmission and distribution Programme and its totals of recurrent and capital expenditures and therefore the BPS 2018/19 captures gross allocation for the State Department energy as ***Kshs.74,818*Billion*** while calculations of Programme allocations in recurrent and development columns of the BPS 2018/19 Matrix adds up to **Kshs.69,818 million .** Therefore there is need for clarification on where the error is.

3. An assessment of compensation to employees for the last five years depicts a picture of unpredictable trend in the state department for energy pointing, perhaps, to the engagement of skilled manpower on contractual basis as and when is required. If this is the case, there is need for enhanced skills development and employment of staff on P&P terms for ease of predictability by policy makers and legislative oversight.

4. A review of projects implementation and their outcome reveals a substantive progress in key projects like 5000+ MW projects and last mile connectivity boosting installed capacity 17,681 MW in March 2013 to 2,261 MW in September 2017. Further, energy supply now stand at 2330 MW against a demand level of 1770 MW pointing to existence of idle and unutilized energy. There is need to focus on demand creation to reduce the risk of paying for idle energy since most of these energy is produced by the private sector while at same time sustaining support for ongoing generation, Transmission and Distribution of energy.

5. Under the State Department for Petroleum, the LPG cylinders distribution project which entails purchasing, tagging and distribution of 6kg cylinders, grills and burners to low income households reported to have distributed 6000 cylinders against a target of 1,200,000 in 2016/17. While this is below target by far, information on the beneficiaries of the 6000 distributed is not available. It is therefore

prudent that the state department shares information on the beneficiaries and their geographical distribution with the Committee.

6. It is also noted under the planned PPP projects, that Lake Turkana wind power was reported by the developer that it was completed by July 2017 with 310 MW capacities ready for full commercial operation. According to the BPS the project attracts a deemed generated energy Payment of 110.4 euros. Therefore there is need for clarity when these payments start and since the consumer is to pay how is it captured in their bills by KPLC, when will the transmission line be completed for the generated power to be evacuated.

7. The subsectors of energy and petroleum are often faced with lack of buy-in from project host communities and delays in compensating affected persons. In this regard, there is need to closely work with all stakeholders to ensure Enactment of Public Participation Bill, 2016, Enforcement of Land Laws (Amendment) Act No. 28 of 2016 which lays down the procedures to be followed on compensation to affected persons during compulsory acquisition of land for the sub-sector.

8. Further, the subsector is also faced with the challenge of fuel adulteration risking the local economy and the regional market. This is largely motivated by price difference between Kerosene and Diesel. Therefore there is need to fast track the LPG project and rural electrification to replace the dependency of low income rural homes on Kerosene for cooking and lighting.

COMMITTEE OBSERVATIONS

The Committee observed the following:

1. That the ministry is engaged in several projects designed to establish energy efficiency at the community or house hold level such as the "*last mile connectivity* program" and the *"Gas Yetu – Mwananchi Gas Project"* that seeks to distribute 6 kg liquid gas cylinders to households. However the details of pertaining to regional comparison in terms of intervention is unknown therefore impossible to determine as to the real effects of the projects

2. That county governments will be primarily affected by the effects of climate change and therefore training should be fast tracked in order to enhance the capacity of the counties on natural resource management, to take advantage of renewable energy and environmental conservation. To this end, investment in sustainable energy sources should continue and more so to ensure that the needs of each county government is met accordingly.

3. That because of lack of planning in terms of linking energy generation and distribution. Primarily, the committee is concerned on the costs incurred is the Lake Turkana Wind Power Project where the produced power cannot be evacuated due to lack of a high voltage line to transmit it to the Suswa substation. As a result the country is incurring high charges that should have been avoidable should proper planning have taken place

4. With all these community based projects, it would be important for the state departments to partner with county governments in order to have higher community impact. As such there is also need to county based energy needs based on current consumption and future needs. This will facilitate the determination of energy deficient counties and create timelines to improve their energy supply and sustain county development plans and manufacturing

5. An assessment of compensation to employees for the last five years depicts a picture of unpredictable trend in the state department for energy pointing, perhaps, to the engagement of skilled manpower on contractual basis as and when is required. If this is the case, there is need for enhanced skills development and employment of staff on P&P terms for ease of predictability by policy makers and legislative oversight

COMMITTEE RECOMMENDATIONS

Therefore the Committee recommends:

1. That mapping of energy requirement for every county, based on current and future consumption, should be carried out in order to guarantee uninterrupted services delivery for sustainable development. Sufficient energy supply lies not only at the core of national development policy but also key to county government development plans, due to heavy uptake of technology on devolved functions and sectors as healthcare, education, and agriculture sectors etc.

2. With all the community based projects ongoing, it would be important for the state departments to partner with county governments in order to achieve maximum community impact and enable energy production and transmission to strategic sectors of both national and county government.

3. That the design Budget Policy Statement should be amended to include information on energy distribution and transmission, resource allocation and development uptake per county level to facilitate Senate decision making criteria

4. Training be undertaken for county government to enhance their capacity on resource management in order to take advantage of renewable energy and environmental conservation so that counties can mitigate climate change, develop sustainable energy sources and meet energy production requirement so as to take advantage of the governments Big 4 Agenda.

5. That there should be a review of planning capabilities at the State Department of Energy and investigations should be carried out to ensure that errors that led to costs are currently incurred from undistributed energy supplies under the Lake Turkana Wind Power Project are not repeated.

Annex 1: Programme outputs and targets

	Target			Achievement			
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17	Remarks
Power Generation Programme							
No. of Geothermal wells drilled	10	7	7	11	7	7	Additional wells ha: to increased MWe
MW of steam equivalent	140	166	176	131	137	161.4	24.4 Additional M was realized from Menengai
No. Of MW of Power Generated (GDC)	0	0	0	0	0	0	105MW to be generated from Menengai is on cou
No. Of MW of Power Gene[illegible]ed (KenGen)	25	25	10	165.6	20	10	These includes; 5 M Olkaria Wellhead, MW Geothermal
Number of persons trained in nuclear energy.	71	85	175	72	86	80	The target was affe by inadequate fund
power Transmission Programme							
Km of transmission lines constructed	1497.5	1346.5	1,372	216	402	606	428Kms 400 kV Loiyangalani –Susv transmission line ar 138km 220kV Turk - Ortum – Kitale w not completed as scheduled
Number of Substations Constructed	8	21	4	5	15	8	The target was affe by delays in waylea compensation.
KM of distribution lines constructed	3,200	3,000	3,400	3,334	3,862	6,767	Target surpassed d increased funding t the Programme.
No. Of substations constructed	20	20	14	20	23	10	The remaining fou substations are alm complete

	Target			Achievement			
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17	Remarks
o. of Annual New Customer onnected under Rural ectrification sub-Programme	1,000,000	1,000,000	1,500,000	843,899	1,253,196	1,338,849	Slightly below the target due to procurement delays
lectricity Access Rate (%)- istomer connectivity access rate	49	56	70	45	55	69.45	The Govt is committe to universal connectivity by the yea 2020
o. of Lights Erected under Street ghting	0	8,000	30,000	0	35,521	38,185	The project target all major cities and towns The target was surpassed due to additional funding to the project.
o. of ublic primary schools onnected to electricity (REA)	6,000	1,450	615	9,535	3,622	1,102	This is aimed at facilitating digital literacy Programme
o. Of Off Grid power eneration stations (REA)	2	1	5	1	2	5	The project aim at connecting customer i off grid areas
o. of other public institutions onnected to electricity	200	713	287	268	1,051	278	This includes market place, health centre, borehole, tea buying centre.
o. of public institutions onnected with Solar PV lternative energy Programme)	325	100	49	380	108	49	The project targeted off-grid ASAL areas

Source: National Treasury

Annex 2: Energy Production

Energy production					
	Mar-13		Sep-17		
	Installed	Effective	Installed	Effective	% contribution

	MW	MW	MW	MW[3]	(effective)
Hydro	816.2	766.9	826.23	805.02	35.60%
Geothermal	251.4	244.9	652	644	28.50%
Thermal (MSD)	466	447.5	716.32	690.12	30.50%
Temporary Thermal –grid	120	120	-	-	-
Thermal (GT)	60	27	60	55	2.40%
Wind	5.1	5.1	25.5	25.5	1.13%
Biomass	26	22	28	23.5	1.00%
Interconnected System	**1,745**	**1,633**	**2,308**	**2,243**	99.20%
Off grid thermal	22.1	18.7	**26.24**	**17.05**	0.80%
Off grid wind	0.55	0.2	**0.55**	**0.52**	0.00%
Off grid solar	0.22	0.5	**0.66**	**0.49**	0.00%
Imports	0	0	**0**	**0**	0.00%
Total Capacity MW	**17,681**	**1,652**	**23,362**	**2,261**	**100.00%**

Source: Ministry of Energy and Petroleum

Annex 3. Planned PPP projects

Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk	Obligation for fixed Capacity Payments (Annual)	Cal Gu e ('
Africa Geothermal Inte tional 140 MW	25year Power Purchase Agreement on a Build, Own, Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya	760	Financial Close: 3rd April, 2014 Status: Under Construction	Letter of support issued	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination	US$ 77.3 Mn	NC

Lake - Turkana Wind Power - 300 MW	The wind turbine farm is being developed on BOO basis in Loyangalani, Marsabit West, on a 20 Year PPA with Kenya Power	847	Financial Close: 24th March, 2014 Status: Commissioned	Letter of support covering political risks issued on 28th February, 2013 Indemnity Agreement covering ADF Guaranteed Letter of Credit (LC) in the amount of Euros 20 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Deemed Generated Energy Payments Euros 110.4 MN	NO
Gulf Power - 80.32 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in the Athi River region, on a 20-year PPA with KPLC.	108	Financial Close: 18th November, 2013 Status: Under Construction	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 14th March 2013. PRG amount US$ 35 Mn and Euros 7 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Euros 16.3 Mn	NO

Triumph Power – 82 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20- year PPA with KPLC.	156.5	Financial Close: 7th August 2013 Status: Under construction	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 5th December 2012. PRG Amount US$ 45 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	US$ 24.5Mn	NO
Thika Power - 87MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20- year PPA with KPLC.	146	Financial Close: 11th October 2012 Status: operational from August 2013	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 28th August 2014. PRG Amount US$ 35 Mn and Euros 7.7 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Euros 17.1Mn	NO

Kinangop Power – 0.8MW	The wind power plant is being developed on a BOO basis in South Kinangop, Nyandarua County on a 20-year PPA with KPLC.	150	Financial Close: 31st December 2012 Status: Under Arbitration & Development stopped	Letter of support covering political risks issued on 26th July, 2013	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Deemed Energy Payment US$ 26.8 Mn	NO*
Orpower 50MW** Olkaria III Geothermal ow plant 1st plant 8MW,2nd lant 6MW,3rd lant 16MW nd 4th Plant 9MW)	Description: 20 year – BOO	558***	Financial Close: Jan, 1999 Status: Operational	Letter of support covering political risks issued on 16th April, 2015 Indemnity Agreement LC covering PRG payments of Amount US$ 31Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Losses incurred by the Seller	US$70.98 Mn	NO
Sabai Power lant 90 MW	20 year – BOO	155	Financial Close: October, 2008 Status: Operational	Indemnity Agreement LC Account	Net Present Value of Non- Escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 12% per annum	Euros 19.7Mn	NO
Mumias Power Plant 35MW	10 Years-BOO	50	Financial Close: July, 2008 Status: Operational	None	None	US$ 5.3Mn	NO

Kipevu III, 120MW	Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20- year period	134	Financial Close: None	None	None	Ksh 2,209Mn	NC
Kipevu II 74MW	Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO basis over a 20-year period	85	Financial Close: Sept, 1999 Status: Operational	Indemnity Agreement	1. Net Present Value of Non- escalabe Capacity Charges for the remaining period to the expiry of the term	US$9.62 Mn	NC
Imenti tea Factory Limited	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	None	NC
Power Technology Solutions Ltd. Gik	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	None	NC
1050 MW Lamu Power Project	Located in Manda Bay, the Lamu Coal Power Plant is on a BOO basis over a 25 - year concession period	2,000	Status: Financial Close Impending	Letter of support covering political risks issued on 4th August, 2017	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate	US$ 360 Mn	NC
100 MW Kipeto Wind Power	Feed in Tariff Power Plant on a BOO basis	323	Status: Financial Close Impending	Letter of support covering political risks issued	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate	US$ 60 Mn	NC
Akiira Geothermal 70 MW	Feed in Tariff Power Plant on a BOO basis	333	Status: Financial Close Impending	Letter of support covering political risks		US$ 37.4 Mn	NC

40 MW roject)					Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate		
5MW Geothermal Quantum ower	Located in Nakuru County, the Quantum Power project is based on BOO arrangement over 25 years	90	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 14.27 Mn	NO
5 MW Geothermal osian Power roject	Located in Nakuru County, the Sosian Power project is based on BOO arrangement over 25 years	79	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 14.27 Mn	NO
0 MW Sedata Solar owe	Feed in Tariff Power Plant on a BOO basis	77	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 12.5 Mn	NO
0 MW elenkei olar Power	Feed in Tariff Power Plant on a BOO basis	84	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 12.5 Mn	NO
0 MW Malindi Solar 'ower 'roject	Feed in Tariff Power Plant on a BOO basis	82	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 11.2 Mn	NO
0 MW ilten Solar 'ower 'roject	Feed in Tariff Power Plant on a BOO basis	105	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 13.8 Mn	NO

Source: National Treasury

REPUBLIC OF KENYA



PARLIAMENT OF KENYA

12TH PARLIAMENT

THE SENATE

RECOMMENDATIONS TO THE BUDGET POLICY STATEMENT

OF THE

COMMITTEE ON AGRICULTURE, LIVESTOCK AND FISHERIES

22ND FEBRUARY, 2018

Clerk's Chambers,
The Senate,
Parliament Buildings,
P.O Box 41842-00100
NAIROBI.

February,2018

The Committee Mandate

The Senate Standing Committee on Agriculture, Livestock and Fisheries is established under standing order 212(3) and the Second Schedule of the Standing Orders of the Senate and is mandated to consider all matters relating to agriculture, irrigation, livestock, fisheries development and veterinary services.

It is in pursuant to this mandate that the Committee considered the Budget Policy Statement (BPS).

The Committee noted that-

1) The interventions by the Government on the Big Four Agenda in the next five years to guarantee food security and nutrition especially on enhancing large production by placing an addition 700,000 acres through Public Private Partnership (PPP) of 2013 under maize, potato, rice and feeds production; expand irrigation schemes and secure water towers and river ecosystems.

2) While KMC has continuously been funded by the State, it has continuously under-perform.

3) The Fisheries and Development Act has not been operationalized.

4) That the Agriculture, Livestock and Fisheries is allocated 8.76% of the Budget, while the ideal is at least 10% in accordance with Maputo Agreement.

5) That the Agricultural Sector specifically the maize farmers have been hit hard by the army worms which the government seem not to address through budgetary allocations.

Recommendations

After deliberations, the Committee recommends-

1 That under the policy guidelines for budget allocation in 2018/19 and the medium term for the sector, initiatives to guarantee food security and nutrition to all Kenyans, costs should be attached to each specific intervention and amounts to be spent on each be clearly indicated.

2 That Kenya Meat Commission budgetary allocation be discontinued and those resources be redirected to facilitate establishment of abattoirs in all the 47 devolved units as Conditional grants.

3 That the Fisheries Management and Development Act of 2016 be operationalized through budgetary allocation to the various aspects as envisaged by the Act. This is to facilitate protecting, managing, use and development of aquatic resources in a manner which will be consistent with ecologically sustainable development and uplift the living standards of the fishing communities. This will also assist in the introduction of fishing to traditionally non-fishing communities hence enhance food security.

4 The recent conflicts between the pastoralists and farmers be addressed by allocating budgets to the two units (crop farming and pastoralism) of Agriculture to mitigate and address the vagaries of nature and solve the conflicts between the farmers and the pastoralists.

5 That there be established Conditional Grants to facilitate the county governments to do soil testing. This will enable farmers to establish beforehand the crops appropriate to their locality. This should also be accompanied by budget allocation to the County Governments to enable them supply seeds, fertilizers and farms inputs to culminate into high productivity.

6 That the budgetary allocation to Agriculture, Livestock and fisheries be enhance from 8.76% to 10 % target for agricultural spending recommended under the Maputo Declaration.

7 That there is need to streamline the management of the Coffee Cooperative societies while allocating budgetary allocation to coffee and tea farmers to facilitate mechanisms which will assist in control or eradication of cartels including middlemen in these sectors and other cash crops through taxations and facilitate value addition of the products;

8 The Committee recommends that a budget be allocated towards the fight against the army worms including relooking at the operations of the Pest Control Product Board and (Kenya Plant Health Inspectorate Services) (KEPHIS) in the interest of farmers.

9 The committee recommends that allocations for 2018/19 ceilings in the Departments for Agriculture, Livestock, Fisheries and Blue Economy and Irrigation be enhanced by adding a sum of Kshs. 2 million to each Department.

10 The Committee recommends that the timelines for the consideration of the Budget Police Statement (BPS) be expanded from the current 12 days to 4

weeks which should ample time to enable the committee exhaustively deal with the process and give resounding recommendations.

I thank you.

SEN. NJERU NDWIGA, MP,
CHAIRPERSON,
COMMITTEE ON AGRICULTURE, LIVESTOCK AND FISHERIES.

REPUBLIC OF KENYA



TWELFTH PARLIAMENT

THE SENATE

OBSERVATION REPORT

OF THE STANDING COMMITTEE ON INFORMATION COMMUNICATION, & TECHNOLOGY

TABLED BEFORE THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET ON THURSDAY 22ND FEBRUARY, 2018

Establishment and Mandate of the Committee

The Standing Committee on Information and Technology is established pursuant to the Senate Standing Order 208 and mandated to consider all matters related to:-

a) *Technology;*

b) *engineering and electronic research;*

c) *information broadcasting; and*

d) *Information Communications Technology development."*

The Committee oversights one ministry namely:

✓ Ministry of Information, Communications and Technology.

The ministry has the following agencies working under it:

- Communication Authority of Kenya (CA)
- Kenya Broadcasting Corporation (KBC)
- Konza Technopolis Development Authority (KoTDA)
- Kenya Institute of Mass Communication (KIMC)
- Media Council of Kenya
- Kenya Information Communication Technology Board
- Kenya Year Book Editorial Board
- Brand Kenya Board (BKB)
- Communications and Multimedia Appeals Tribunal (CAT)
- National Communications Secretariat (NCS)
- Postal Corporation of Kenya (PCK)

Membership of the Committee

The Membership of the Committee is as follows:-

1. Sen. Moi Gideon Kipsielei, MP -Chairperson
2. Sen. Halake Abshiro Soka, MP -Vice Chairperson
3. Sen. Aaron Cheruiyot, MP -Member
4. Sen. Poghisio Samuel Losuron, MP -Member
5. Sen. (Dr.) Milgo Alice Chepkorir, MP -Member
6. Sen. Enoch Wambua, MP -Member
7. Sen. Moses Kajwang', MP -Member
8. Sen. (Prof.) Imana Malachy Ekal, MP -Member
9. Sen. Issa Boy Juma, MP -Member

The Committee Considered the budget policy statement during its 4th meeting held on Monday 19th February, 2018.

A. Introduction & Overview and purpose of the Budget Policy Statement (BPS).

1. The Budget Policy Statement is published in accordance with Section 25 of the Public Finance Management Act, 2012. In preparing the Budget Policy Statement, the National Treasury is required to set out the broad strategic priorities and policy goals that will guide the national government and county governments in preparing their budgets both for the following financial year and over the medium term.
2. The National Treasury is required to include the following in the Budget Policy Statement:-

   i.) An assessment of the current state of the economy and the financial outlook over the medium term, including macro-economic forecasts;
   ii.) The financial outlook with respect to Government revenues, expenditures and borrowing for the next financial year and over the medium term;
   iii.) The proposed expenditure limits for the national government, including those of Parliament and the Judiciary and indicative transfers to county governments;
   iv.) The fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt.

3. The submission and processing of the BPS is anchored in Standing Order No 174. The Standing order requires among other things the Budget Policy Statement (BPS) to indicate total resources to be allocated to individual programmes and projects within a sector and indicate the outputs expected from each such programme or projects during the period.

4. The Departmental Committee on Communication, Information and Innovation is mandated, under the Second Schedule, to scrutinize policy highlights and spending plans as envisaged in the BPS 2018 touching on the votes under its purview. The votes include:
   i.) Vote 1122: State Department for Information Communications Technology & Innovation
   ii.) Vote 1123: State department for Broadcasting & Telecommnicaions

B. Highlights of the 2018 BPS

5. In the third medium term plan, the government strategic focus is on the BPS 2018 revolves around the Big Four Plan which includes
   i. Supporting Value addition and raising the manufacturing sectors share of GDP to 15 percent by 2022. This seeks to accelerate economic growth, create jobs and reduce poverty.
   ii. Focusing on initiatives that guarantee food security and proper nutrition to all Kenyans by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and support value addition in the food processing value chain
   iii. Providing Universal Health Coverage thereby guaranteeing quality and affordable healthcare to all Kenyans and
   iv. Providing at least five hundred thousand affordable new houses to Kenyans by 2022, hence improve living conditions for Kenyans.

C. The Overall Spending – The 2018/19 Budget Policy Statement fiscal framework

6. **Revenue projections:** The Budget Policy Statement for FY 2018/19 targets for revenue collections including AIA is projected at KSh.1,853.9 billion translating to 18.9% of GDP which is an increase from the 2017/18 projections of Kshs 1,643.1 billion.

7. **Expenditure projections:** the overall expenditure and net lending are projected at Kshs 2,492.2 billion (25. % of GDP) increasing from the estimated Kshs 2,323.1 billion (26.8% of GDP) in the financial year 2017/18. The projected expenditures for 2018/19 include Kshs 1501.5 billion (15.3% of GDP) to defray recurrent expenditures and Kshs 612.9 billion for development expenditures. In addition a contingency amount of Ksh 5 billion and Kshs 4.7 billion for equalization fund is also provided.

8. **Deficit Financing:** The deficit of Kshs 587.7 billion will be financed both externally and domestically. Net external financing is projected at Kshs 214.7 billion (2.2% of GDP) and net Domestic Borrowing of Kshs 369.6 billion (3.8% of GDP) and other domestic receipts of KSh. 4.2 billion.

Table 1: Summary Budget Framework, FY 2018/19 (KSh. Millions)

Item	2017/18 (baseline)	share of the Total	BPS ceiling 2018/19	Share of the Total	Projections 2019/20-2020/21	
National Government	1,566,494	67%	1,607,944	65%	1,717,518	1,828,717

CFS	356,892	15%	461,917	19%	493,401	630,103
Parliament	36,043	2%	31,769	1%	32,798	34,546
The Judiciary	18,039	1%	17,783	1%	20,074	17,575
The County Government	345,681	15%	372,742	15%	372,164	381,909
Total	2,323,149	100%	2,492,155	101%	2,635,955	2,892,850

Source: National Treasury

i. County Government Expenditure

9. In FY 2018/19, the Budget Policy Statement proposes that County Governments be allocated an equitable share of revenue raised nationally of Ksh 314 billion, and that the National Government be allocated Ksh 1,370 billion. County Governments' equitable share of revenue. In addition to the above equitable share, County Governments will receive additional funds as conditional grants.

10. These include:
    - ✓ Ksh 17.2 billion conditional allocations for: i) level-5 hospitals; ii) rehabilitation of village polytechnics; iii) leasing of medical equipment; iv) compensation for foregone user fees; and, v) Construction of County Head Quarters
    - ✓ Equalization Fund to the marginalized areas amounting to Ksh 4.7 billion
    - ✓ Ksh 8.3 Billion from the Road Maintenance Fuel Levy Fund (RMLF). As in previous years, this is calculated at 15 percent of projected FY 2017/18 collections by the Kenya Roads Board (KRB); and
    - ✓ Ksh 33.2 billion from proceeds of external loans and grants, which will finance devolved functions in accordance with the signed financing agreement for each loan/grant.

Table 2:

	2014/15	2015/16	2016/17	2017/18	*2018/19*
Total Shareable Revenue	**1,031,819**	**1,152,972**	**1,305,794**	**1,486,294**	*1,688,492*
National Government, of which:	**801,759**	**887,198**	**1,019,494**	**1,176,567**	*1,369,792*
Equalization Fund	**3,400**	**6,000**	**6,000**	**7,727**	*4,700*
County Equitable Share	**226,660**	**259,775**	**280,300**	**302,000**	*314,000*
Free maternal healthcare	*3,320*	*4,298*	*4,121*	-	-
Leasing of medical equipment	-	*4,500*	*4,500*	*6,100*	*9,400*
compensation for user fees forgone	-	*900*	*900*	*900*	*900*
Level 5 hospitals	*1,863*	*3,601*	*4,000*	*4,200*	*4,326*
Special purpose grant (emergency Med. Serv.)	-	-	*200*	-	-
Rehabilitation of village polytechniques	-	-	-	*2,000*	*2,000*
Supplement for construction of county HQs	-	-	-	*605*	*305*
Allocation from Fuel levy (15%)	*3,400*	*3,300*	*4,307*	*7,875*	*8,269*
Allocation from Loans & Grants	-	*10,671*	*3,871*	*12,541*	*33,242*

Total Conditional Grants	*8,583*	*27,270*	*21,899*	*34,221*	*58,442*
Total County Government Allocation	235,243	287,044	302,199	336,221	*372,442*

Source: National Treasury

11. FY 2018/19, the Counties will share an estimated Ksh 372.4 billion, which represents an increase of 11.4 percent over and above projected total transfers for 2017/18 of Ksh 314.6 billion Horizontal distribution of County Governments' equitable revenue share allocation for FY 2018/19 is based on the current formula, which uses six parameters with specific weights,:

- ✓ population (45 percent);
- ✓ Basic equal share (26%);
- ✓ Poverty (18%);
- ✓ land area (8 percent);
- ✓ fiscal responsibility (2 percent) and
- ✓ Development factor (1 %)

ii. 2017/18 County Fiscal Performance

County Revenues

12. County Governments are increasingly relying on equitable share transfers from National Government, which forms over 80% of the Counties' total revenue. The proportion of Counties' total spending that is financed from OSR declined in each of the last four years. In the FY 2016/17, actual collections dropped significantly in absolute terms even though the economy grew by 5.3%. Among factors responsible for this underperformance are:

i) absence of revenue policies and legislation;
ii) human resource capacity and administrative constraints;
iii) inappropriate institutional arrangements for revenue collection and administration; and,
iv) lack of effective internal controls and audit mechanisms

13. As a solution to challenges highlighted above, the BPS indicates that an interagency committee has drafted a national policy and a legal framework to support enhancement of County OSR. Both drafts have been subjected to public participation, and are now awaiting submission to the Cabinet and to Parliament for approval.

14. As part of strategies to implement the above policy, County Governments are to receive capacity building on various PFM aspects including revenue forecasting and tax analysis. This capacity building will be provided under the ongoing Kenya Devolution Support Program (KDSP).

Spending by County Governments

15. BPS 2017/18 indicates that County Governments have cumulatively spent a total of Ksh 1.04 trillion, of which 71.4 percent was recurrent, and 28.6 percent on development. Low absorption was indicated as outstanding matter of concern - 51.3 percent on average - even though there are wide inter-County disparities. In FY 2016/17, Counties' aggregate budget absorption was 72.3 percent, a drop from 87.2 percent achieved in FY 2015/16, and 80.3 percent in FY 2014/15.

16. The development budget has been particularly affected by low absorption, and factors responsible for this include procurement challenges and overall capacity deficits. On the other hand, average absorption of the recurrent budget over the four years was 93.4 percent. In FY 2014/15 and 2015/16, the Counties spent more than their approved recurrent estimates, which suggests that funds were reallocated from development to recurrent budget.

iii. The Relevance / contribution of the sectors to the Big Four Agenda

17. The government intends improve on the ICT infrastructure and increase Information, Communication and Technology skills and innovation in order to drive the attainment of the big four plan i.e. manufacturing, Housing, agriculture and affordable healthcare.

i. Manufacturing

- In the boosting of the manufacturing sector, the government intends to invest in ICT and relevant infrastructure in order to enhance the ease of doing businesses this will be in the form of application of ICT in the process of acquiring licenses and work permits.
- Under the Digital Literacy program several components including the setup of two local assembly lines for laptops, tablets and other devices.
  - ✓ procurement of 100,000 devices to be assembled locally in JKUAT facility,
  - ✓ Kiambu County and Moi University facility in Eldoret, Uasin Gishu County, and Conduct of proof concept (POC) for lab model in 3 schools per Sub County to test and refine the next phase of DLP covering upper primary.

ii. Enhancing food and nutrition security to all Kenyans by 2020

- In the enhancement of food security the government intends to innovate and strengthen a warning system that will be providing timely weather and climate information which is important in triggering appropriate early action and decision making in relation to food and nutrition security. The ICT connectivity used in commodity exchange in sharing of market information in agriculture

iii. Provide universal health coverage to guarantee quality and affordable healthcare to all Kenyans

- The Government intends to continue with the digitization of the health information management especially the National Hospital Insurance Fund (NHIF). This will increase efficiency and reduce the overhead costs by 3% and foster faster online registration. To enhance service delivery, the Government will establish National Data Centers (NDC)/Radiology hubs at the Kenya National Hospital and Moi Teaching and Referral Hospital
- The use of e-procurement and online access of medical supplies and e-health will as well make the healthcare more efficient.

iv. Provision of affordable and decent housing for all Kenyans

- The digitization of the housing records has increased investor confidence country world and this will stimulate more houses to be built.
- The government intends to invest in infrastructure development to unlock growth potential and drive the big four plan. It intends to promote the use of information, communication and technology (ICT).

iv. Achievements and going forward

18. For the last four years the government has implemented a number of initiatives to enhance he use of ICT including; the expansion of optic fiber backbone infrastructure across the counties in order to facilitate internet connectivity

19. Recruiting and training of ICT gradates under the presidential Digital talent Program aimed at enhancing ICT skills among the youths to enhance their employability

20. Training of 10,000 youth on online jobs under Ajira Program and leveraging on ICT to improve Government service delivery through initiatives such as e-procurement, Huduma Kenya, e-citizen, I-tax and IFMIS.

21. In the financial year and the medium term the government intends to focus on expanding ICT infrastructure connectivity by further rolling out of the National Optic Fiber Backbone (NOFBI) broadband; connecting all state Departments to unified Government communications System management and improving cyber security and increasing the number of youths trained under the Presidential Talent Initiative and Ajira Kenya initiative and facilitating their absorption to the job market.

22. In addition, the Government will continue to increase online access to access to Government records through digitizing Government records; complete the construction of Konza Complex and provide funds to facilitate provision of infrastructure that will attract investors to Konza Techno City project.

v. Analysis of 2018/19 BPS Overall Ministerial Ceilings

23. For the FY 2018/19 the budget ceiling for the Ministry of Information, Communications and Technology will reach KSh. 35.5 billion reflecting a 52% increase as compared to 2017/18 budget estimates. SD/ICT & Innovation will have the largest allocation of 31.2 billion having increased by 11.4 billion (when compared by) while the ceiling for SD/Broadcasting and Telecommunication will increase by a marginal 7.9 million to a total ceiling of 3.6 billion.

Table 3: Ministerial Budget Estimates and BPS ceiling

	2017-18 Estimates			BPS 2018-19 Ceilings				%
State Department	**Current**	**Capital**	***Total***	**Current**	**Capital**	***Total***	**Increase**	**Increase**
SD / Broadcasting & Telecommunication	2,095	764	***2,859***	2,88 0	688	***3,568***	**709**	25%
SD / ICT & Innovation	1,276	19,247	***20,523***	1,160	30,759	***31,919***	**11,396**	56%
Ministerial Allocation	**3,371**	**20,011**	***23,382***	**4,040**	**31,447**	***35,487***	**12,105**	52%

Source: National Treasury

24. Never the less, even with the slight increase as compared to the FY 2018/19 budget estimates, the ministerial budget still faces a shortfall of resource requirement worth KSh. 37.3 billion. It is noted that the allocations to the state department for Broadcasting & Telecommunication and SD/ ICT & Innovation is KSh. (23.5) billion and KSh. 13.8 billion respectively. This underfunding is likely to hamper implementation planned ministerial projects and could further be jeopardized revenue targets are not met.

Table 4: BPS ceilings versus FY 2018/19 Resource Requirement

	Resources Requirement 2018-19			BPS 2018-19 Ceilings			
State Department	**Current**	**Capital**	**Total**	**Current**	**Capital**	**Total**	**Deviation**
SD / Broadcasting & Telecommunication	8,852	8,532	**17,384**	2,880	688	**3,568**	(13,816)
SD / ICT & Innovation	2,205	53,240	**55,445**	1,160	30,759	**31,919**	(23,527)
Total Sectoral Allocation	**11,057**	**61,772**	72,829	**4,040**	**31,447**	**35,487**	**(37,342)**

Source: National Treasury

vi. Analysis of 2018/19 BPS State Department Ceilings

a. *State Department for Information Communication Technology &Innovation*

25. The mandate of the State Department of Information, Communication and Technology & Innovation includes the following: Development of National ICT and Innovation Policy; Promotion of E-Government; Promotion of software development industry; ICT Agency; E-Government, Kenya ICT Board and Government Information Technology Services; Provision of ICT Technical Support to MDAs, policy on Automation of Government Services; Development of National Communication Capacity and Infrastructure, Management of National Fiber Optic Infrastructure.

26. During the period under review, the following achievements were realized: laying of fiber under NOFBI phase II in all the counties; establishment of Konza Technopolis phase I Horizontal infrastructure including 8.1 km of gravel access roads; 400 ICT graduate interns were recruited and trained. Under the Digital Literacy Program a total of 300,000 devices were procured and distributed to schools.

27. Challenges and constraints faced in budget implementation includes; understaffing; austerity measures which has affected the implementation of some programs: challenges in Implementation of Government Shared Services such as IFMIS, GHRIS, GUMS and internet provision; Lack of adequate counterpart funding for Donor funded projects.

28. In the FY 2017/18 the State Department has a allocation of KSh.19.2 billion under Development Budget and KSh.1.3 billion under Recurrent Budget. The following are the major services/outputs to be provided; review and develop ICT sector legal and regulatory framework in line with the Constitution, roll out NOFBI II Expansion Project to connect all the Sub- County offices to National Backbone infrastructure, continue with the implementation of the Digital Literacy Program by providing digital devices to 24,000 public primary schools. The State Department will also enlist 400 graduate interns to train on software, digitize Government records and continue with development of Konza Technopolis.

29. The state department's budget is set to increase by KSh. 11.4 billion to KSh. 31.919 billion as a result an increment in order to foster the implementation of the projects in the program e.g. Konza Complex. For the ICT infrastructure Development, the allocations have increased steadily throughout the years since its inception. This slumped in the year 2017/18 due to budget rationalization that occurred (supplementary budget).

30. For the E-government program services, the allocations have been minimum until 2016/17 this is due to movement of sub-programs within this state department. The allocations have continued to rise save for the financial year under review where the allocation has reduced, this is because most part of the sub programs has been implemented and this has reduced the output expected.

Table 5: Ceiling allocation per program and Economic classification

FY	2017-18 Estimates			BPS 2018-19 Ceilings		
Item	**Current**	**capital**	**Total**	**Current**	**capital**	**Total**
GAP&SS	286	-	286	242	-	242
ICT Infrastructure Development	370	19,247	19,617	321	30,759	31,080
E-government services	620	-	620	596	-	596
Total	**1,276**	**19,247**	**20,523**	**1,160**	**30,759**	**31,919**

Source: National Treasury

b. State Department for Broadcasting & Telecommunication

31. The mandate of the State Department for Broadcasting and Telecommunication includes but not limited to Telecommunication Policy, Broadcasting policy, Language Policy Management, Public Communications, Coordination of the National Government Advertising Agency, etc.

32. The major achievements during the period under review include; development of Public Communication Policy; modernization of Kenya News Agency; implementation of Digital TV Migration; Review Kenya Information and Communications Act 2014; Reviewed Media Council Act 2013 which established MCK and the Complaints Commission; National Media Communication Centre established, Official government website established etc.

33. The State Department experienced challenge and constraints in its budget implementation during the period under review that includes; bottlenecks in Legal frame work, court case in the rolling out of the TV analogue to digital migration. However, the State Department put various intervention and measures in mitigating the above challenges through; proper engagements with key stakeholders, implementation of court rulings, and standardization of Mass Media training through an Act of Parliament.

34. For the period FY 2017/18 -2019/20 the Department will continue with the implementation of Studio Mashinani; completion of analogue to digital migration through installation of additional transmitters; national days coverage, Modernization of Kenya Institute of Mass Communication (KIMC) training facilities and equipment through equipping resource center, training studio for film, TV and Radio, setting up satellite campus to decongest the current City Campus, Modernization of Kenya News Agency Equipment to enhance news gathering and dissemination in the field, operationalize the Multi Media Appeals Tribunal, accreditation of journalists, media disputes resolution.

35. For the state department, the budget ceiling of KSh. 3.6 billion indicates and possible increase in budget of the FY 2018/19. The increase is primarily as a result of increase in the allocations to the Information & Communication Services program that generally deals with; KBC, regional publications, Directorate of Information, central media services, directorate of communication

etc. General administration, planning and support services will remain constant, mass media skills Development has decreased owing to completion of some projects at the KIMC.

Table 6: Ceiling allocation per program and Economic classification

FY	2017-18 Estimates			BPS 2018-19 Ceilings		
Item	Current	Capital	Total	Current	Capital	Total
GAP&SS	312	-	312	311	-	311
Information & Communication Services	1,576	543	2,119	2,367	428	2,795
Mass Media Skills Development	207	221	428	202	260	462
Total	**2,095**	**764**	**2,859**	**2,880**	**688**	**3,568**

Source: National Treasury

Ministerial Efficiency in the implementation of the budget

36. An analysis of the implementation of the approved budgets for the past here years indicate that the state department for information, communication and technology has utilized an average of 78% of its allocations, whereas, the state department has utilized an average of 51%. This low absorption rates are caused by underfunding of the departments, frequent supplementary budgets and delay in the release of funds to service the development projects.

Table 7: Absorption Rates & Efficiency (Kshs Millions)

SD/ICT & Innovation									
Item	Approved budget			Actual expenditure			Absorption rates		
Program	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17	14/15	15/16	16/17
GAP&SS	1,447	2,065	244	1,311	2,006	197	91%	97%	81%
ICT Infrastructure Development	8,098	14,413	27,554	6,469	14,137	25375	80%	98%	92%
E-government services	1,111	492	582	943	230	230	85%	47%	40%
Total	**10,656**	**16,970**	**28,380**	**8,723**	**16,373**	**25,802**	85%	81%	71%

SD / Broadcasting & Telecommunications									
Item	Approved budget			Actual expenditure			Absorption rates		
Program	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17	14/15	15/16	16/17
GAP&SS	369	275	354	323	260	323	88%	95%	91%
Information Communications Services	3,948	5,919	4,247	2,291	1,880	2,183	58%	32%	51%
Mass Media Skills Development	712	644	656	664	322	310	93%	50%	47%
Total	**5,029**	**6,838**	**5,257**	**3,278**	**2,462**	**2,816**	**65%**	**36%**	**54%**

Source: National Treasury

Observations & Options: Budgeting for efficiency and effectiveness

ICT stand at the core of public finance management efficiency, mitigation against corruption and misuse of national and county resources. Over the years, the Auditor General has raised substantial issues pertaining to management loopholes ranging from double payment of salary arrears, lack of supporting document for recurrent expenditure, irregular payment of salary and sitting allowances, irregular hiring of employees, exceeding set limits, large outstanding imprest; of which sustainable solutions can be derived from investment in ICT.

- ✓ Information is a strategic resource that should underpin the key functions and decision making processes of a county government and therefore policies have to be established to enhance the way information is managed and utilized on county governments

- ✓ Alongside its physical, human and financial resources, a county governments should manage their information resource in a way that enables services to be delivered in a manner that best meet community needs this therefore implies the need for training, capacity building and development of technological infrastructure up to the village level, in order to maximize on benefits if information technology on development. This will require data collected of factors such as village water consumption, sewerage control etc.

- ✓ From the above, it is important for community development fund i.e. CDF and WDF, to diversify their choice of projects and capitalize on ICT projects

- ✓ The Digital Literacy program should be fast tracked and university research and IT departments should be given the express mandate of facilitating county government ICT initiatives through partnerships

- ✓ Security enhancement should become a matter of priority in enhancing efficiency of ICT systems, this will require the protection of ICT infrastructure in areas that have seen these facilities destroyed

- ✓ Time is due for an Integrated Planning ICT framework that sets out how county governments should plan for their future and take advantage government ICT planning. This will require county governments to allocate resources, establishing asset management plans, workforce plans and long-term financial plans

- ✓ County governments should take advantage of government accumulating information and information technology infrastructure / platforms in order to effectively plan and support their strategic objectives while enhance collection of own source revenue

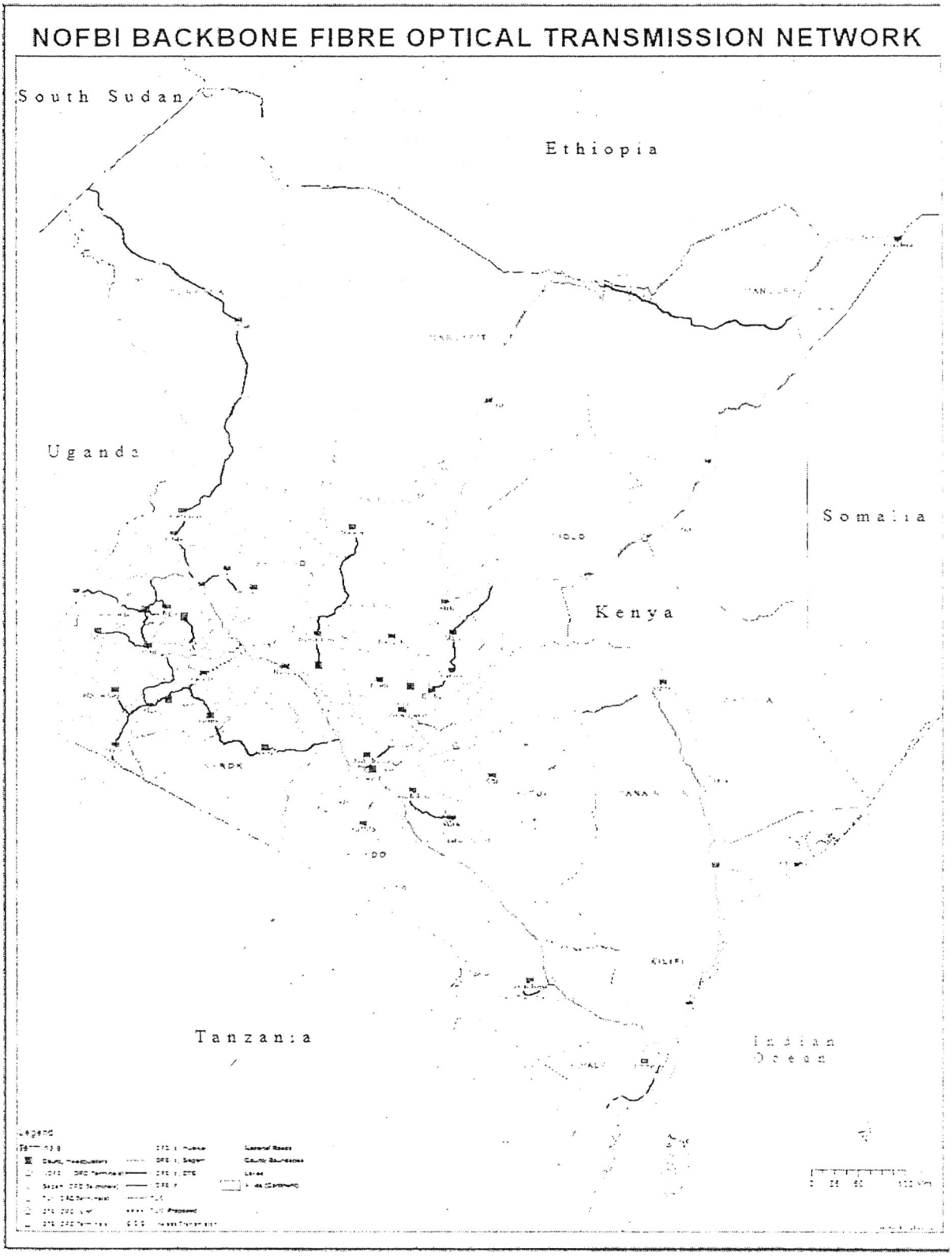
- ✓ The State departments for ICT and Innovation and Broadcasting & Telecommunication have recorded very minimal average absorption rates over the years, 78% and 51% respectively. This should be rectified before an integrated ICT system is established

- ✓ The roll out NOFBI II Expansion Project to connect all the Sub- County offices to National Backbone infrastructure is ongoing, it would be important to investigate how far this initiatives is able to meet it its timelines and in addition the effectiveness of the first phase of the project on county efficiency

The Senate Standing Committee on Information, Communication and Technology therefore recommends as follows:

1. That due to the below expectation absorption rates by the State department of ICT of between 51% and 78% – a more robust framework be put in place to hasten implementation of projects that will lead to the realization of National Goals;
2. That the Finance Committee consider introducing an amendment to the Public Financial management Act and attendant regulations to alter the timeframe for consideration of the Budget policy statement by Parliament, as the Current timelines are too shorts; and
3. That the Committee does not recommend any alteration of the sector ceilings in regard to the ICT sector.

NOFBI BACKBONE FIBRE OPTICAL TRANSMISSION NETWORK



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REPUBLIC OF KENYA

THE NATIONAL TREASURY

MEDIUM TERM

2018 BUDGET POLICY STATEMENT

CREATING JOBS, TRANSFORMING LIVES - "THE BIG FOUR" PLAN

February 2018

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© Budget Policy Statement (BPS) 2018

To obtain copies of the BPS, please contact:

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The document is also available on the website at: www.treasury.go.ke

Foreword

The 2018 Budget Policy Statement (BPS), sets out the Jubilee Administration priority programs and reforms to be implemented over the next five years (2018 – 2022). The programs and policies herein reflect the concerns of Kenyans and are anchored under the Medium Term Plan III of the Kenya Vision 2030. These priority programs will build on the achievements realised under the Economic Transformation Agenda, which has been under implementation since 2014.

This BPS is framed against a backdrop of improving global and regional economic prospects. Global growth is projected to improve to 3.9 percent in 2018 up from 3.7 percent in 2017. The positive global outlook reflects recovery in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. Similarly, growth in sub-Saharan Africa is projected to pick up, albeit with variations across the region. At the sub region, the East African Community economies continue to record relatively higher economic growth supported by a stable macroeconomic environment, on-going infrastructure investments and strong private consumption. On the domestic front, our economy has remained resilient, with growth supported by a stable macroeconomic environment, resilient domestic demand and ongoing public infrastructural investments.

By implementing the programs and policies under the Economic Transformation Agenda, we have strengthened the resilience of our economy and laid a solid foundation for Kenya's industrialisation as envisaged in the Vision 2030. Building on the progress made thus far and to accelerate industrialization, we aim to address the remaining bottlenecks that continue to hold our economy from achieving its full potential by focusing on "The Big Four" Plan over the next five years. As such, "The Big Four" Plan targets to:

i. Support value addition and raise the manufacturing sector's share to GDP to 15 percent by 2022. This will accelerate economic growth, create jobs and reduce poverty;
ii. Focus on initiatives that guarantee food security and nutrition to all Kenyans by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and support value addition in the food processing value chain;
iii. Provide Universal Health Coverage thereby guaranteeing quality and affordable healthcare to all Kenyans; and,
iv. Provide at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022, and thereby improve the living conditions for Kenyans.

The global and regional developments together with Kenya's investments in the "The Big Four" sectors, sustained ongoing infrastructural investments, and continued recovery in tourism, increased consumer confidence, supported by a conducive business environment will accelerate economic growth prospects through industrialization and consequently job creation. In addition, the Government will continue to provide an enabling environment for the private

sector to thrive by preserving macroeconomic stability; expanding infrastructure; improving security; implementing business regulatory reforms; expanding access to finance and instituting governance reforms so as to achieve "The Big Four" Plan. The Government will also support higher levels of value addition in domestically produced goods, strengthen the fight against corruption and counterfeits, enhance the use of public procurement to promote Buy Kenya Build Kenya initiative and support Micro, Small and Medium Enterprises (MSME) sector.

As we embark on "The Big Four" Plan, we are clearly conscious of our limited fiscal space and will therefore leverage on the private sector in partnership with the Government. In this respect, we shall be creating a High Speed Public Private Partnership (PPP) Unit to attract and engage the private sector on implementation of most of the projects under "The Big Four" Plan. The Government remains committed to a sustainable fiscal policy path that will aim to grow revenues progressively and gradually reduce non priority expenditures. Through this process, we shall narrow the primary fiscal deficit and consequently the overall fiscal deficit from the projected 7.2 percent of GDP in the FY 2017/18 to 3.0 percent of GDP over the medium term.

The expenditure priorities in the sector ceilings in this BPS have been realigned to "The Big Four" Plan. In this regard, the targeted expenditures will prioritize employment creation, youth empowerment, supporting manufacturing activities, enhancing health coverage, improving food security and enhancing living conditions through affordable housing. The allocations to other critical sectors such as education, infrastructure, energy and social protection will remain protected so as to achieve the targeted objectives.

In finalising this BPS, we benefitted from the wise counsel and guidance of HE The President and HE The Deputy President. Equally, we received support and contributions from my Cabinet colleagues, staff of the National Treasury and other Government officials. We also consulted a wide range of stakeholders and the general public in line with the requirements of the Public Finance Management (PFM) Act and the Constitution. We greatly value their support and I would like to extend my appreciation to all.

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

Acknowledgement

The 2018 Budget Policy Statement (BPS) has been prepared in accordance with the Public Finance Management (PFM) Act, 2012. It outlines the current state of the economy and outlook over the medium term, broad macroeconomic issues and the medium term fiscal framework; the key strategic priorities and policy goals; and a summary of the Government's spending plans as a basis for the FY 2018/19 budget. The BPS is expected to improve the public's understanding of Kenya's public finances, shape public debate on economic and development matters, and guide development and implementation of government programs.

Overall, Kenya's economy remains resilient, growing robustly despite the emerging challenges. During 2017, some economic sectors including tourism, wholesale and retail were adversely affected by the wait and see attitude of investors owing to the prolonged electioneering period. Nevertheless, macroeconomic stability has been preserved as a result of prudent fiscal and monetary policies that remain supportive of growth.

Significant progress has been achieved over the past five years in terms of Kenya's social economic development. However, much more remains to be done to further boost sustainable and shared economic growth, employment opportunities and wealth creation. Accordingly, the pivotal policy thrust of the 2018 BPS, is to achieve a better quality of life for all Kenyans by implementing "The Big Four" strategic areas namely: raise the share of manufacturing sector to 15 percent of GDP; ensure that all citizens enjoy food security and improved nutrition by 2022; achieve universal health coverage; and deliver at least five hundred thousand (500,000) affordable housing units. These policy objectives will be achieved through sustaining economic growth, macroeconomic stability and implementing reforms aimed at providing an enabling environment for all stakeholders to play their role towards achieving the "The Big Four" Plan.

The preparation of the 2018 BPS was a collaborative effort. Much of the information in this document was obtained from the various Government Ministries, Departments and Agencies (MDAs) including Departments and Directorates within the National Treasury. We also received valuable inputs from the Macro Working Group, Public Sector Hearings and the public during budget consultation process.

Finally, we are grateful to the core team in the National Treasury which spent a significant amount of time putting together this BPS. The tireless effort of the core team, ensured that this document was produced in time and is of high quality.

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

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About the Budget Policy Statement

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

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

Section 25 of the PFM Act, 2012, provides that the National Treasury shall prepare and submit to Cabinet the BPS for approval. Subsequently, the approved BPS is submitted to Parliament, by the 15th of February each year. Parliament shall, not later than 14 days after the BPS is submitted, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The Cabinet Secretary shall take into account resolutions passed by Parliament in finalizing the budget for the FY 2018/19.

The Budget Policy Statement contains:

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

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

I. RECENT ECONOMIC DEVELOPMENTS AND THE MEDIUM TERM OUTLOOK

1.1 Overview

1. Kenya's economy remained resilient in 2017 despite adverse weather conditions, a prolonged electioneering period as well as subdued credit growth to the private sector which combined to weaken growth in the first half of the year. Economic growth for 2017 is estimated at 4.8 percent from 5.8 percent in 2016 and is projected to bounce back to 5.8 percent in 2018. The resilience in growth in 2017 was supported by the ongoing public sector infrastructure investments, recovery in the tourism sector and continued stable macroeconomic environment.

2. The overall month on month inflation declined to 4.8 percent in January 2018 from 7.0 percent in January 2017. The decline in inflation was a result of the fall in the prices of potatoes, cabbages, and mangoes mainly attributed to favourable weather conditions towards end of 2017. The inflation of 4.8 percent in January 2018 was within Government's target range.

3. The foreign exchange market has remained relatively stable supported by increased tea and horticultural exports, strong diaspora remittances, and a continued recovery in tourism. The 12-month current account deficit stabilized at 7.0 percent of GDP in December 2017 and is expected to narrow to below 6.0 percent of GDP in 2018 due to lower imports of food and lower imports in the second phase of SGR project.

4. Over the medium term, growth is projected to average around 7.0 percent due to investments in strategic areas under "The Big Four" Plan, namely: increasing the share of manufacturing sector to GDP; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and constructing at least five hundred thousand (500,000) affordable housing units. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

5. Kenya is ranked favourably in the ease of doing business and as a top investment destination. In 2017, the World Bank's Doing Business Report, ranked Kenya third in Africa in the ease of doing business after Rwanda and Mauritius, as the country moved up 12 places to position 80. Further, in September 2017, Standard and Poors Global Ratings affirmed Kenya's short and long term foreign and local currency sovereign credit rating at B+/B citing Kenya's strong growth prospects which will facilitate fiscal consolidation.

1.2 Recent Economic Developments and Outlook

Global and Regional Economic Developments

6. The pickup in global activity that started in 2016 gathered steam in 2017 and is expected to continue in 2018 supported by notable improvements in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. As such global growth is projected to increase to 3.9 percent in 2018 from 3.7 percent in 2017 and 3.2 percent in 2016 **(Table 1.1)** primarily driven by improving domestic demand in advanced economies and China and improved performance in other emerging market economies.

Table 1.1: Global Economic Growth, Percent

	Actual	Estimated	Projected
	2016	2017	2018
World output	3.2	3.7	3.9
Advanced Economies	1.7	2.3	2.3
Of which: USA	1.5	2.3	2.7
Emerging and Developing Economies	4.4	4.7	4.9
Of which: China	6.7	6.8	6.6
India	7.1	6.7	7.4
Sub-Saharan Africa	*1.4*	*2.7*	*3.3*
Of which: South Africa	0.3	0.9	0.9
Nigeria	-1.6	0.8	2.1
Kenya	5.8	4.8*	5.6*

*Source: January 2018 WEO; * Projections by the National Treasury*

7. In the advanced economies, growth is expected to pick up to 2.3 percent in 2018 and 2017, up from 1.7 percent in 2016. This forecast reflects the expectation that favorable global financial conditions and strong sentiment will help maintain the recent acceleration in demand, especially in investment with a noticeable impact on growth in economies with large exports. In addition, the U.S. tax reform and associated fiscal stimulus are expected to temporarily raise U.S. growth, with favorable demand spillovers for U.S. trading partners especially Canada and Mexico.

8. Among emerging market and developing economies, higher domestic demand in China and continued recovery in key emerging market economies supported growth in 2017. Growth in emerging and developing economies is projected to increase from 4.4 percent in 2016 to 4.7 percent in 2017 and 4.9 percent in 2018. The projected growth is driven primarily by the strengthening of growth in commodity exporters; a gradual increase in India's growth rate and a lower but still high trend growth rate in China.

9. The broad-based slowdown in sub-Saharan Africa is easing and growth is expected to improve from 1.4 percent in 2016 to 2.7 percent in 2017 and further to 3.3 percent in 2018, partly supported by a recovery in growth of larger commodity exporters such as Nigeria and South Africa. In addition, the easing of drought conditions in the Eastern and Southern Africa have contributed to the positive

outlook. However, downside risks have increased following policy uncertainties and delays in the implementation of policy adjustments in Nigeria and South Africa. Many of the faster growing economies in sub Saharan African economies continue to be driven by public spending, with debt levels and debt service costs rising.

10. In the East African Community (EAC) region, economic growth is estimated to stabilize at 5.4 percent in 2016 and 2017, a slowdown from a 6.1 percent growth in 2015. The prolonged effect of drought experienced in 2016 and continued in 2017, dampened agricultural output and GDP growth in Uganda, Tanzania and Rwanda. In addition, there was a slowdown in credit growth across countries in the region, which further dampened the growth. Further, insecurity and political tensions continued to constrain economic activities in countries such as Burundi, Somalia, and South Sudan. In 2018, economic growth is projected to increase to 5.9 percent supported by a stable macroeconomic environment, ongoing infrastructure investments, and strong private consumption.

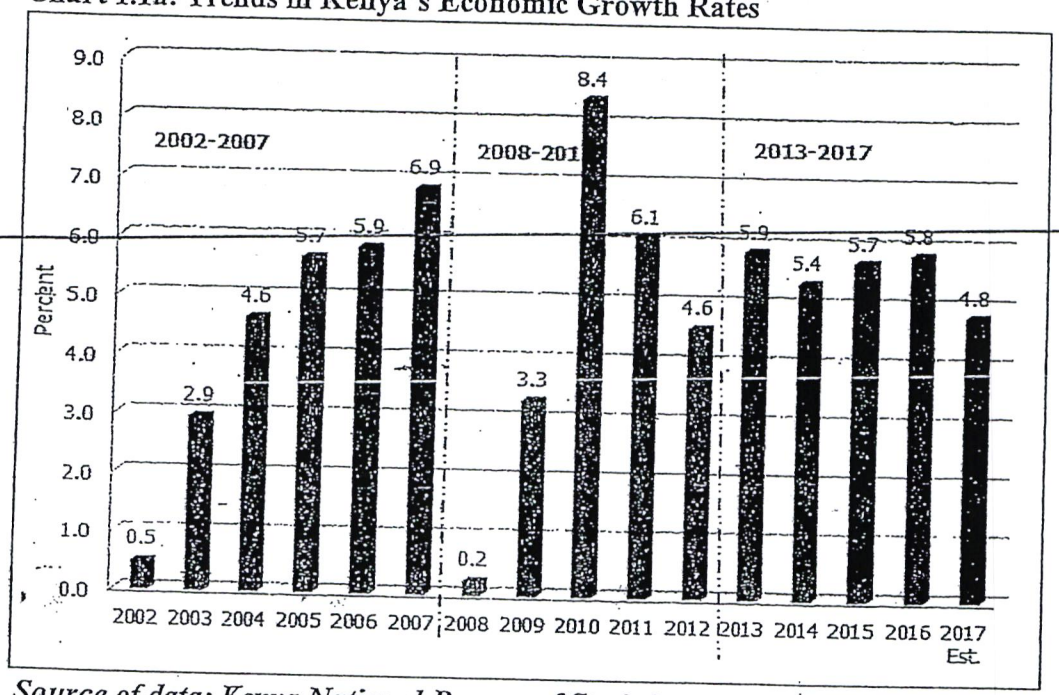
Domestic Economic Developments

11. Growth of the Kenyan economy remained resilient, broad based and registered strong performance in the past 5 years supported by strong public and private sector investment and appropriate economic and financial policies **(Chart 1.1a)**. The economy, specifically, grew at an average of 5.5 percent per year in the five years (2013 - 2017) outperforming the average growth rate of 4.7 percent in the period 2008 to 2012.

12. However, uncertainty associated with elections coupled with the effects of adverse weather conditions slowed down the performance of the economy in 2017. As a result, the economy is estimated to grow by 4.8 percent in 2017, which is a slowdown from the estimated growth of 5.1 percent in the 2017 Budget Review and Outlook Paper (BROP).

13. In 2017, the economy grew by 4.4 percent in Quarter 3, 5.0 percent in Quarter 2, and 4.7 percent in Quarter 1, largely supported by robust activities in the service sectors particularly; accommodation and restaurant; real estate; and information and communication. The growth was somewhat constrained by subdued performances in agriculture, forestry and fishing; manufacturing; electricity; and financial intermediation sectors.

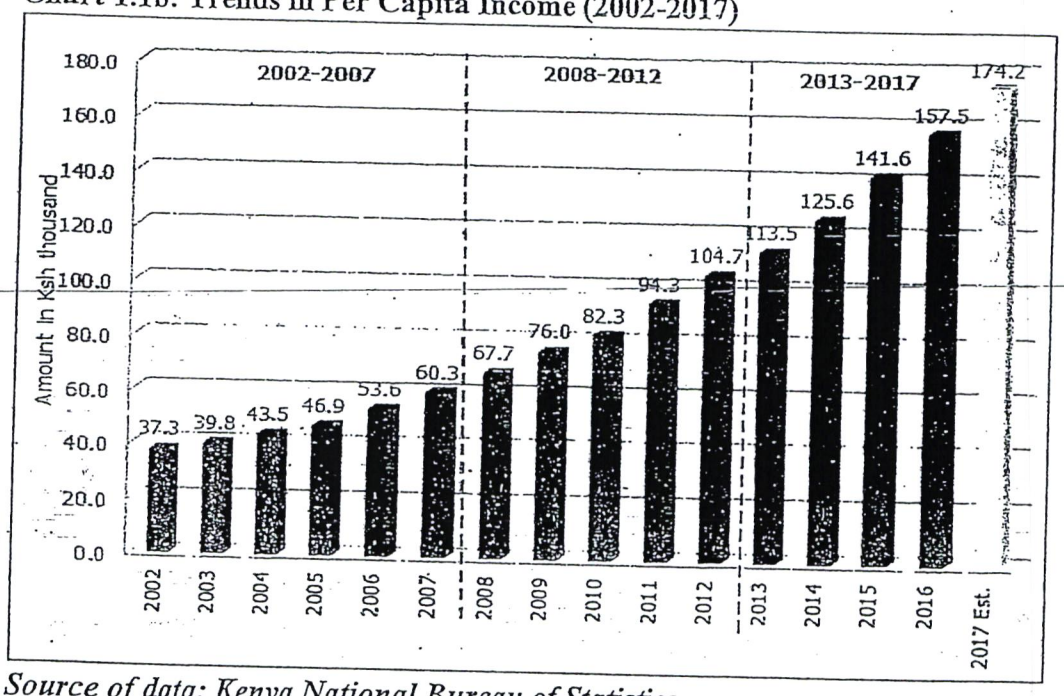
Chart 1.1a: Trends in Kenya's Economic Growth Rates



Source of data: Kenya National Bureau of Statistics

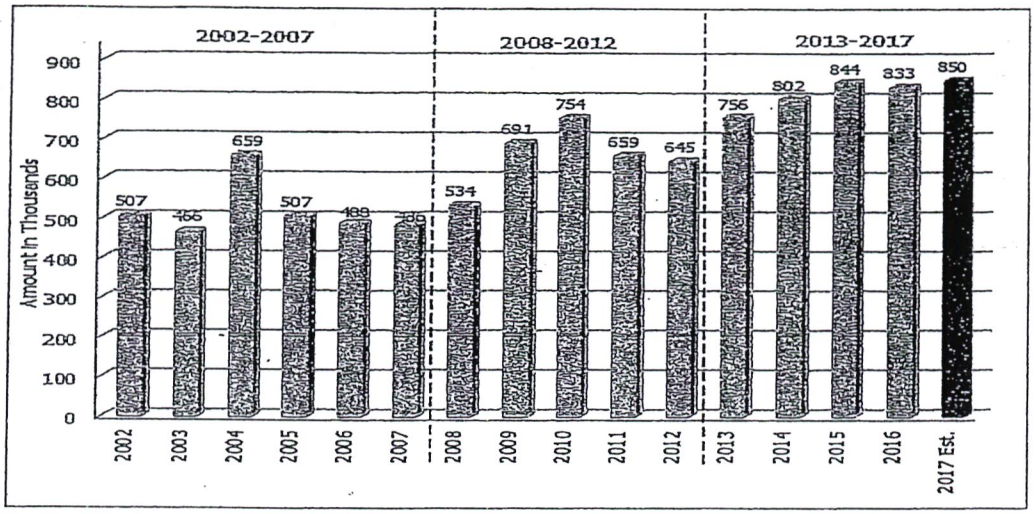
14. The value of goods and services produced therefore raised the per capita income from Ksh 104,700 in 2013 to an estimated Ksh 174,200 in 2017, a 66 percent increase. The economy generated an average of 817.0 thousand new jobs per year in the period 2013 - 2017 up from 656.5 thousand jobs per year in the period 2008-2012 (**Chart 1.1b and Chart 1.1c**).

Chart 1.1b: Trends in Per Capita Income (2002-2017)



Source of data: Kenya National Bureau of Statistics

Chart 1.1c: Number of Jobs Created (2002-2017)



Source of data: Kenya National Bureau of Statistics

15. The resilient strong growth of the economy over the past five years reflects the broad based nature of our economy that has been largely driven by growth in the non-agriculture sectors **(Table 1.2, Chart 1.2a and Chart 1.2b)**. The non-agricultural sector has remained vibrant growing at 6.7 percent in 2016 from 5.4 percent in 2013 and continues to be the main source of growth.

Table 1.2: Sectoral Real GDP Growth rates, percent

	2013	2014	2015	2016	2017 Q1	2017 Q2	2017 Q3	Est.2017 Q4
Primary sectors	5.0	4.7	5.8	4.2	-0.8	1.5	3.2	3.5
Of which: Agriculture	5.4	4.3	5.5	4.0	-1.3	1.3	3.1	3.3
Mining	-4.2	14.9	12.4	9.5	9.7	5.7	5.8	6.5
Industry Sectors	5.9	5.6	7.0	5.6	4.7	4.3	3.3	4.2
Of which: Manufacturing	5.6	2.5	3.6	3.5	2.9	2.3	2.1	2.4
Electricity and Water supply	6.6	6.1	8.5	7.1	5.1	6.1	4.8	4.6
Construction	6.1	13.1	13.9	9.2	8.4	7.5	4.9	7.0
Services Sectors	5.4	6.3	6.3	6.8	7.5	6.4	5.3	5.8
GDP Growth	5.9	5.4	5.7	5.8	4.7	5.0	4.4	5.3
Of which: Non agricultural GDP	5.4	6.1	6.3	6.7	6.9	6.1	5.0	5.5

Source of data: Kenya National Bureau of Statistics

16. Growth of the services sector accelerated from 5.0 percent in 2012 to 6.8 percent in 2016 supported by favourable performance of ICT, real estate, wholesale and Retail Trade, Transport and Storage and Accommodation and Restaurants. Accommodation and restaurants has been the fastest growing sector. It grew from 3.1 percent in 2012 to 13.3 percent in 2016 supported by the improved security situation that led to removal of travel alerts from major tourist originating countries.

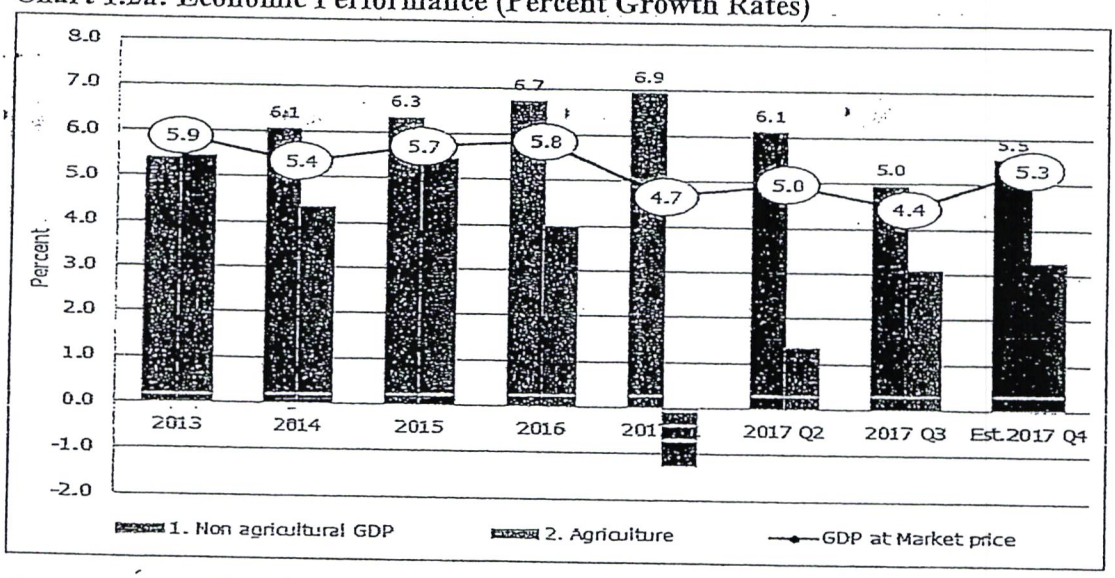
17. The growth of the financial and insurance sector accelerated from 6.0 percent in 2012 to 9.4 percent in 2015 supported by reforms aimed at creating a conducive business environment. However, the growth of the sector slowed down

to 6.9 percent in 2016 and is estimated at 3.2 percent in 2017 partly due low banking sector credit to the private sector and a decline in the growth of interest income.

18. The industry sector grew from 3.5 percent in 2012 to 7.0 percent in 2015 supported by the construction sector as a result of public infrastructural development. The sector slowed down in 2016 and 2017 following subdued performance of the manufacturing and electricity and water supply sectors.

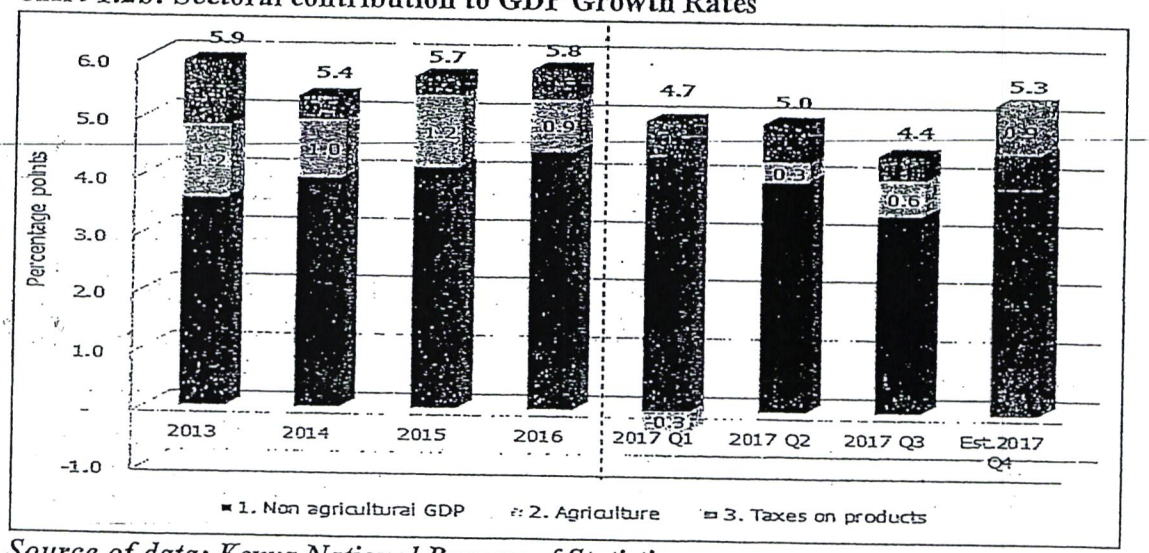
19. Meanwhile, growth of the agricultural sector rose from 2.8 percent in 2012 to 5.5 percent in 2015 but contracted to (-1.3) percent in first quarter of 2017 due to the prolonged drought that started in the fourth quarter of 2016. Growth in the sector recovered to 3.1 percent in the third quarter of 2017 as weather conditions improved.

Chart 1.2a: Economic Performance (Percent Growth Rates)



Source of data: Kenya National Bureau of Statistics

Chart 1.2b: Sectoral contribution to GDP Growth Rates



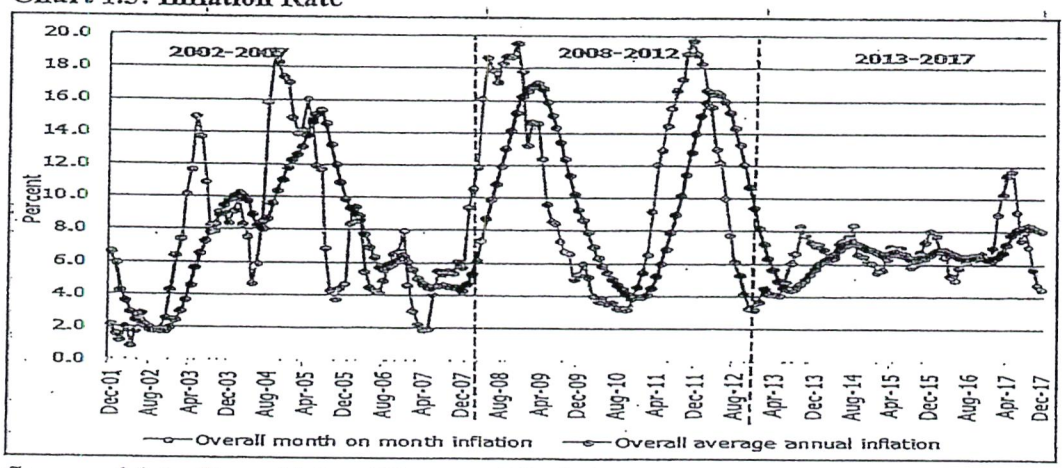
Source of data: Kenya National Bureau of Statistics

Inflation Rate

20. Inflation rate has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2017 as a result of prudent monetary and fiscal policies. Inflation averaged 6.7 percent during the period 2013-2017 compared with 7.4 percent during 2002-2007 and 10.6 percent during 2008-2012 **(Chart 1.3)**. Inflation during the period 2008 - 2012 was highly volatile following a steep depreciation of the Kenya Shilling and policy responses.

21. However, inflation increased to above target in the first half of 2017 due to drought that affected food prices. Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and earlier measures taken by the Government to address the food shortages took effect. These measures included: allowing duty free imports of major food items (maize, wheat, sugar, and milk) and introducing a temporary subsidy on maize meal prices. As a result, overall month on month inflation was 4.8 percent in January 2018 from 7.0 percent in January 2017, and was within the Government's target range.

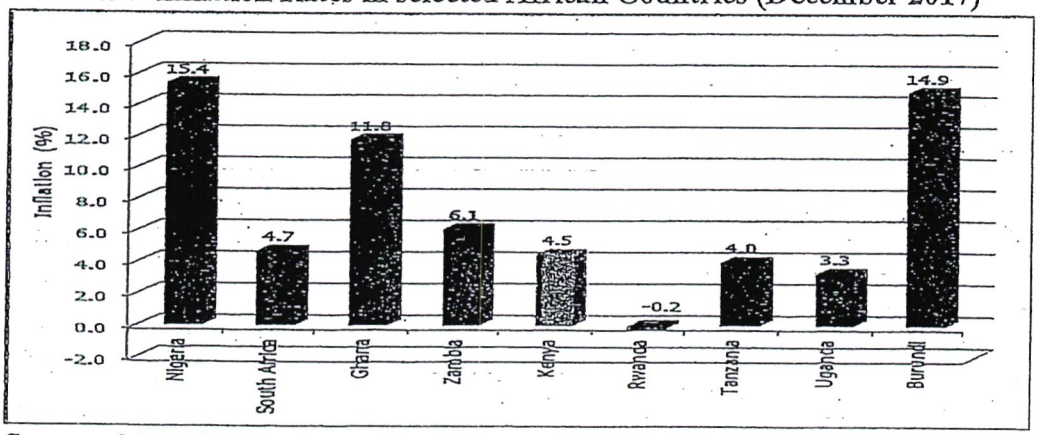
Chart 1.3: Inflation Rate



Source of data: Kenya National Bureau of Statistics

22. Kenya's rate of inflation compares favorably with the rest of sub-Saharan African countries and especially its peers such as Nigeria and South Africa whose inflation rates were 15.4 percent and 4.7 percent, respectively **(Chart 1.4)**.

Chart 1.4: Inflation Rates in selected African Countries (December 2017)



Source of data: Various National Central Banks

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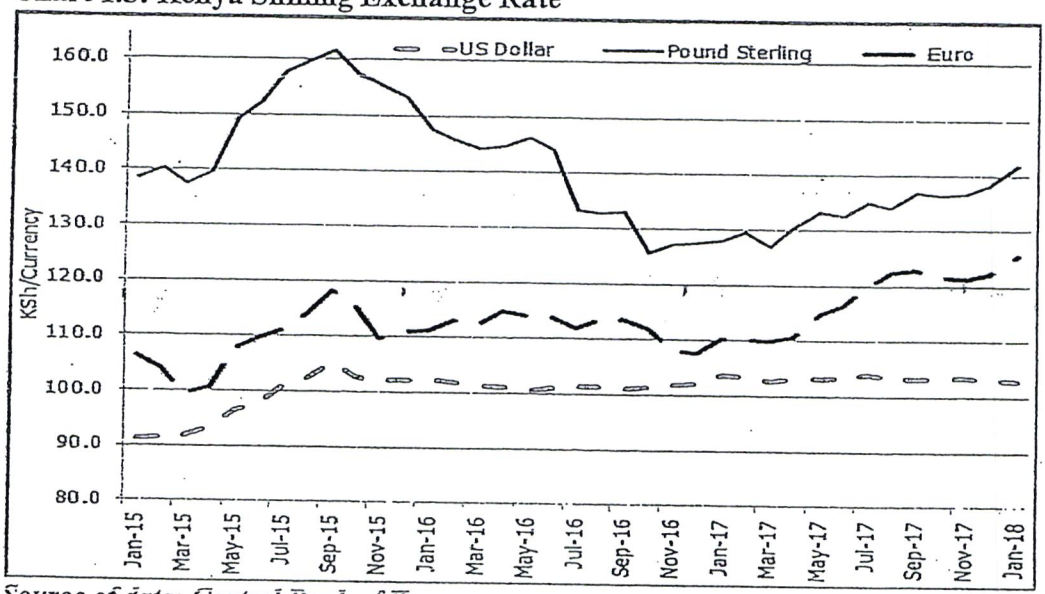
Kenya Shilling Exchange Rat e

23. The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at January 2018, the shilling exchange rate against the Dollar was at Ksh 102.9 compared with Ksh 103.7 in January 2017. Against the Euro and the Sterling pound, the Shilling weakened to Ksh 125.4 and Ksh 141.9 in January 2018 from Ksh 110.2 and Ksh 128.0 in January 2017, respectively **(Chart 1.5)**.

Chart 1.5: Kenya Shilling Exchange Rate



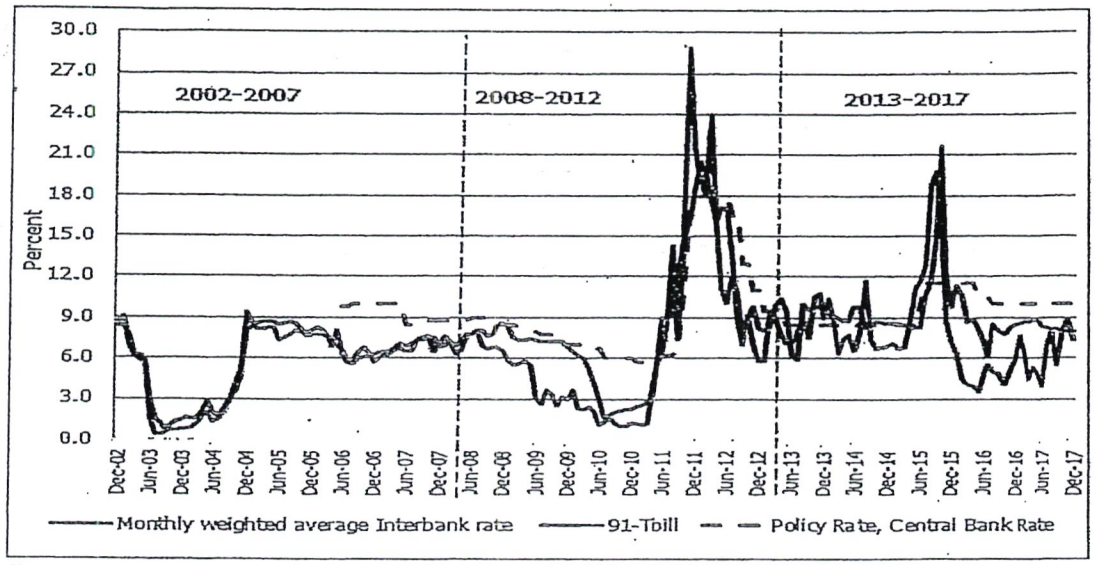
Source of data: Central Bank of Kenya

24. The Kenya Shilling exchange rate as compared to most sub-Saharan African currencies, has continued to display relatively less volatility. This stability reflected resilient export receipts from tea and horticulture despite lower export volumes due to adverse weather conditions in the first quarter of 2017. Additionally, receipts from tourism, coffee exports and Diaspora remittances remained strong.

Interest Rates

25. Interest rates remained stable and low in the period 2013-2017 except June –December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations **(Chart 1.6)**. The rate is currently (January 2018) at 10.0 percent since August 2016. The interbank rate has remained low at 6.1 percent in January 2018 from 7.7 percent in January 2017 due to ample liquidity in the money market, while the 91-day Treasury bill rate declined to 8.0 percent from 8.6 percent over the same period. The 182 day and the 364 day Treasury bills averaged 10.6 percent and 11.2 percent in January 2018 from 10.5 percent and 11.0 percent in January 2017, respectively.

Chart 1.6: Short-Term Interest Rates



Source of data: Central Bank of Kenya

26. The interest rate spread narrowed to 5.7 percent in October 2017 from 5.9 percent in October 2016 with the Commercial banks' average lending interest stabilizing at 13.7 percent over the same period. Meanwhile, the average commercial banks' deposit rate increased to 8.0 percent in October 2017 from 7.8 percent in October 2016.

Money and Credit

27. Broad money supply, M3, grew by 9.5 percent in the year to December 2017 compared to a growth of 3.7 percent in the year to December 2016 (**Table 1.3**). The growth in M3 was largely on account of an increase of net domestic credit to the Government and the improvement in the contribution of net foreign assets.

Table 1.3: Money Supply and Credit, Ksh billion

				Absolute Change		percent change	
	2015	2016	2017	2015-2016	2016-2017	12 months to	12 months to
	DEC	DEC	DEC	DEC	DEC	Dec-16	Dec-17
Money supply, M3 (1+2)	2,666.7	2,764.5	3,028.1	97.8	263.6	3.7	9.5
1. Net foreign assets (1.1+1.2)	491.5	495.2	535.1	3.7	39.9	0.8	8.1
1.1 Central Bank	621.4	621.6	627.1	0.2	5.5	0.0	0.9
1.2 Banking Institutions	-129.9	-126.4	-92.1	3.5	34.4	-2.7	-27.2
2. Net domestic assets (2.1+2.2)	2,175.2	2,269.3	2,493.1	94.1	223.7	4.3	9.9
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	2,793.9	2,973.2	3,198.3	179.3	225.1	6.4	7.6
2.1.1 Government (net)	525.1	592.8	756.8	67.7	164.0	12.9	27.7
2.1.2 Other public sector	82.4	104.7	111.3	22.3	6.6	27.0	6.3
2.1.3 Private sector	2,186.4	2,275.7	2,330.2	89.3	54.5	4.1	2.4
2.2 Other assets net	-618.7	-703.8	-705.2	-85.2	-1.4	13.8	0.2

Source of data: Central Bank of Kenya

28. Net Foreign Assets (NFA) of the banking system in the year to December 2017 increasedby 8.1 percent from a growth of 0.8 percent over a similar period in 2016. Meanwhile, the Net Domestic Assets (NDA) improved to a growth of 9.9 percent in the year to December 2017 from the growth of 4.3 percent over a similar period in 2016. The pickup in growth in 2017 is due to an improvement in the growth of net domestic credit. Domestic credit improved to an annual growth of Ksh 225.1 billion (7.6 percent) in the year to December2017 compared to a growth of Ksh 179.3 billion (6.4 percent) in the year to December2016.

29. Annual growth of credit to the private sector is on a gradual recovery path (2.4 percent in December 2017, 2.7 percent in November 2017, 2.0 percent in October 2017 and 1.7 percent in September 2017), reversing the downward trend witnessed since August 2015. However, this was a slowdown compared to the 4.1 percent growth in December 2016. The real estate, manufacturing, trade, consumer durables and private households have continued on a net basis to receive credit flows from the banking sector since January 2017.

Balance of Payments

30. The overall balance of payments position improved to a surplus of US$ 163.6 million (0.2 percent of GDP) in the year to December 2017 from a deficit of US$ 129.0 million (0.2 percent of GDP) in the year to December 2016 **(Table 1.4 and Chart 1.7)** due to the improvement in the financial account that more than offset the widening current account deficit.

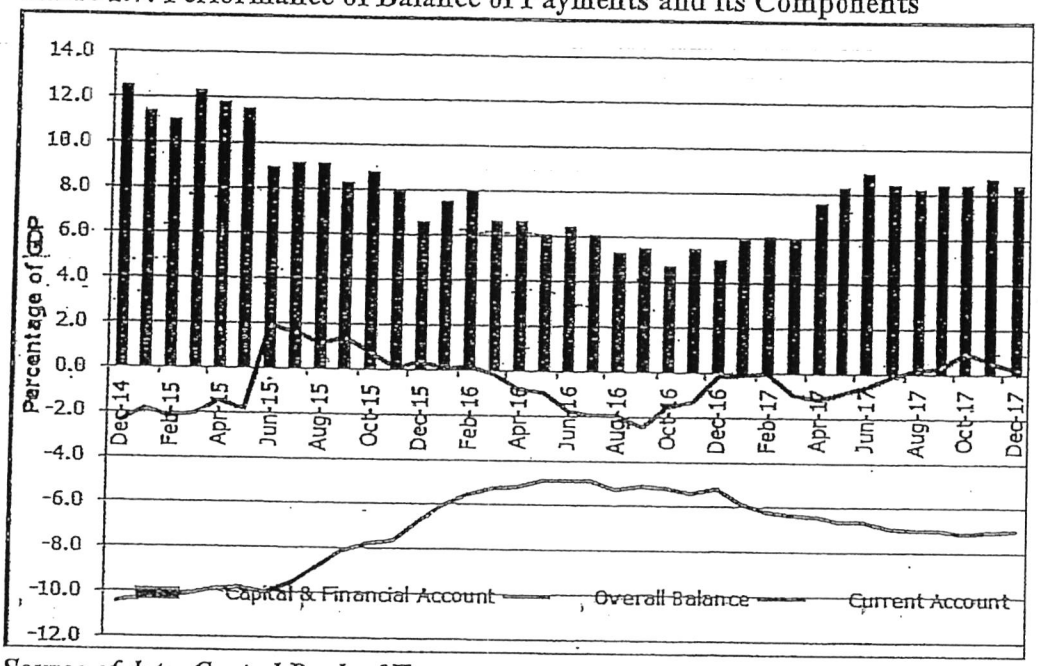
Table 1.4: Balance of Payments

ITEM	Absolute amounts in USD Million							
	Dec-15	Jun-16	Dec-16	Jun-17	Sep-17	Oct-17	Nov-17	Dec-17
Overall Balance	254.6	-1,109.0	-129.0	-413.2	207.7	723.0	387.6	163.6
As as Share of GDP	*0.4*	*-1.7*	*-0.2*	*-0.6*	*0.3*	*1.0*	*0.5*	*0.2*
Current Account	-4,291.4	-3,122.1	-3,652.8	-4,834.1	-5,087.6	-5,193.3	-5,157.4	-5,095.2
As as Share of GDP	*-6.7*	*-4.9*	*-5.2*	*-6.6*	*-7.0*	*-7.1*	*-7.1*	*-7.0*
Of which: Mechandise account (a-b)	8,377.0	7,453.3	-7,890.0	-9,320.2	-9,958.7	-10,185.0	-10,249.9	-10,396.2
a. Goods: exports f.o.b.	5,981.4	6,090.0	5,747.4	5,700.5	5,705.9	5,766.4	5,770.0	5,796.1
b. Goods: imports f.o.b.	14,358.4	13,543.3	13,637.4	15,020.7	15,664.6	15,951.5	16,019.9	16,192.4
Services: credit	4,635.7	4,601.2	4,525.8	4,700.3	4,885.7	4,953.1	5,023.8	5,135.2
Services: debit	3,318.8	3,058.2	2,837.1	3,068.1	3,214.3	3,279.5	3,337.9	3,376.1
Balance on goods and services	-7,060.1	-5,910.3	-6,201.3	-7,687.9	-8,287.3	-8,511.5	-8,564.0	-8,637.1
Primary income: credit	491.6	462.5	433.5	471.1	476.5	481.6	486.1	491.1
Primary income: debit	1,175.7	1,113.8	1,114.8	1,249.0	1,294.8	1,294.1	1,299.9	1,344.7
Balance on goods, services, and primary income	-7,744.3	-6,561.6	-6,882.6	-8,465.8	-9,105.7	-9,324.0	-9,377.8	-9,490.7
Secondary income, n. i. e.: credit	3,516.2	3,498.6	3,280.9	3,704.8	4,093.4	4,206.4	4,297.7	4,474.9
Secondary income: debit	63.3	59.1	51.1	73.1	75.3	75.7	77.3	79.4
Capital Account	226.9	276.5	205.7	186.4	193.8	217.8	222.7	251.8
Financial Account	-3,913.6	-3,821.9	-4,137.4	-5,954.9	-5,940.4	-6,137.9	-5,915.8	-5,300.0

Source of data: Central Bank of Kenya

31. The current account balance registered a deficit of US$ 5,095.2 million (7.0 percent of GDP) in the year to December 2017 from a deficit of US$ 3,652.8 million (5.2 percent of GDP) in the year to December 2016. This reflects the widening of the trade account balance and the increased payments to foreign investors (due to high interest payments) despite an improvement in the secondary income account balance particularly increased workers' remittances.

Chart 1.7: Performance of Balance of Payments and its Components



Source of data: Central Bank of Kenya

32. The deficit in the merchandise account widened by US$ 2,506.2 million to US$ 10,396.2 million in the year to December 2017 reflecting increase in payments for import of oil on account of the rebound in international oil prices and the increase in imports of machinery and transport equipment mostly on account of imports of wagons, locomotives and associated equipment related to the Standard Gauge Railway (SGR) project. In addition, net export of goods and services declined generally reflecting lower global demand for exports of manufactured goods; raw materials; chemicals and related products; and miscellaneous manufactured articles.

33. Flows in the Financial Account increased to US$ 5,300 million in December 2017 compared with US$ 4,137.4 million in December 2016, with the surplus reflecting higher liabilities compared to assets. The financial inflows were mainly in the form of Foreign Direct Investments and other investments which stood at US$ 379.9 million and US$ 5,863.6 million, respectively in December2017. Other investment inflows mainly include foreign financing for Government infrastructure projects.

Foreign Exchange Reserves

34. The banking system's foreign exchange holding improved to US$ 9,645.7million in December2017 from US$ 9,587.5 million in December 2016 **(Chart 1.8)**. The official foreign exchange reserves held by the Central Bank remained strong at US$ 7,331.9 million (4.9 months of import cover) in December 2017 compared with US$ 7,572.9 million (5.0 months of import cover) in December 2016 while commercial banks holdings was at US$ 2,313.8 million in 2017 from US$ 2,014.6 million in 2016.

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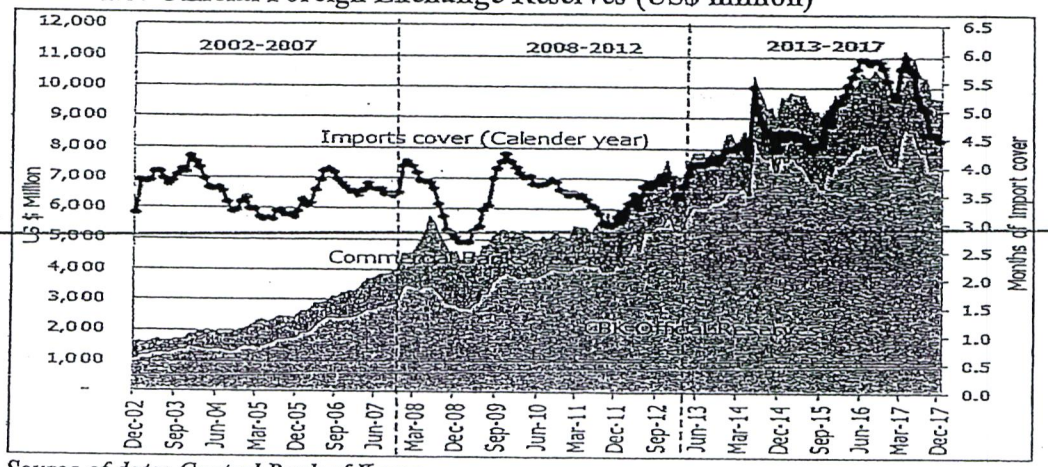
Chart 1.8: Official Foreign Exchange Reserves (US$ million)



Source of data: Central Bank of Kenya

Capital Markets

35. Activities at the stock market remained strong in January 2018 despite a slowdown in September 2017 and October 2017 due to uncertainty associated with the long electioneering period. The NSE 20 Share Index improved to 3,737 points in January 2018 from 2,794 points in January 2017 while Market Capitalization improved to Ksh 2,660 billion from Ksh 1,788 billion over the same period.

1.3 Fiscal Performance

36. Implementation of the FY 2017/18 budget is on course although performance is lagging behind targets. In the first half of the year, revenue collection has consistently lagged behind targets due to the under performance of the main revenue tax heads. On the other hand, there have been elevated expenditures pressures as a result of the adverse spillover effects of the prolonged drought, the repeat of the Presidential Elections and salary demands by Universities Staff and Health Workers.

37. By end December 2017, total cumulative revenues including A-I-A collected amounted to Ksh 709.4 billion (equivalent to 8.1 percent of GDP) against a target of Ksh 777.7 billion (8.8 percent of GDP). The recorded shortfall of Ksh 68.3 billion was due to under performance of the ordinary revenues by Ksh 44.8 billion and the ministerial A-I-A by Ksh 23.5 billion. The shortfall in ordinary revenue was on account of underperformance in all the broad categories of ordinary revenues.

38. Total expenditures amounted to Ksh 907.0 billion against a target of Ksh 1,029.3 billion falling below target by Ksh 122.3 billion at the end of December 2017. The shortfall was due to lower than projected disbursements to County Governments due to the delayed enactment of the County Allocation of Revenue Act as well as below target absorption of development expenditures despite the faster spending in the recurrent expenditures by the National Government. Recurrent expenditure amounted to Ksh 647.0 billion against a target of Ksh 616.2 billion, representing above target spending of Ksh 30.8 billion. The faster-spending was mainly recorded in operations and maintenance which accounted for Ksh 35.6 billion and higher than programmed domestic interest payments of Ksh 17.6 billion.

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39. The combined effect of the revenue and expenditure performance at end of December 2017, resulted to an overall fiscal deficit (including grants), of Ksh 209.2 billion against a targeted deficit of Ksh 226.2 billion. This deficit was financed through net foreign borrowing of Ksh 24.1 billion, net domestic financing of Ksh 183.6 billion and other domestic receipts of Ksh 1.6 billion.

40. FY 2017/18 budget projection has been reviewed to reflect revenue performance by end December 2017 and to take into account expenditure rationalization necessitated by the accommodation of the emerging priorities and salary and election related expenditure pressures.

41. In the revised fiscal framework revenues are projected at Ksh 1,643.1 billion or 19.0 percent of GDP from the budget level of Ksh 1,704.5 billion or 19.6 percent of GDP in FY 2017/18. Total expenditures and net lending are projected at Ksh 2,323.1 billion or 26.8 percent of GDP.

42. The deficit, inclusive of grants, is therefore projected at Ksh 620.8 billion (equivalent to 7.2 percent of GDP). Borrowing from the domestic market is projected at Ksh 293.8 billion, external borrowing at Ksh. 323.2 billion and other domestic receipts at Ksh 3.8 billion. The overall impact of these developments is reflected in **Table 1.5 and Annex Table 2 and Annex Table 3.**

Table 1.5 Fiscal Framework (Ksh Million)

	FY2016/17		FY2017/18			FY2018/19	FY2019/20	FY2020/21	FY2021/22
	Prel. Actuals	Revised Budget II	Budget	BPS 2018	Deviation (BPS - Budget)	Proj.	Proj.	Proj.	Proj.
	Ksh billion								
A. TOTAL REVENUE AND GRANTS	1,426.9	1,514.1	1,763.3	1,702.4	(61.0)	1,904.4	2,157.2	2,470.2	2,802.0
TOTAL REVENUE	1,400.6	1,455.4	1,704.5	1,643.1	(61.4)	1,853.9	2,105.6	2,417.8	2,747.6
Ordinary revenue	1,305.8	1,311.3	1,549.4	1,486.3	(63.1)	1,688.5	1,931.0	2,229.1	2,548.4
Ministerial Appropriation in Aid	94.8	144.0	155.1	156.8	1.7	165.5	174.6	188.7	199.2
GRANTS	26.3	58.8	58.8	59.2	0.4	50.5	51.6	52.4	54.4
B. TOTAL EXPENDITURE AND NET LENDING	2,110.0	2,327.0	2,298.8	2,323.1	24.4	2,492.2	2,636.0	2,892.9	3,234.1
Recurrent Expenditure	1,165.0	1,228.8	1,336.2	1,392.8	57.5	1,501.5	1,595.1	1,765.2	1,967.6
Development	645.8	797.0	640.3	579.6	(33.2)	612.9	663.7	740.8	866.5
County Allocation	305.0	301.2	345.7	345.7	-	372.7	372.2	381.9	391.9
Contingency Fund	-	-	5.0	5.0	-	5.0	5.0	5.0	8.0
C. BALANCE EXCLUSIVE OF GRANTS	(709.4)	(871.7)	(594.3)	(680.0)	(85.8)	(638.2)	(530.4)	(475.1)	(486.5)
D. BALANCE INCLUSIVE OF GRANTS	(683.1)	(812.9)	(535.5)	(620.8)	(85.3)	(587.7)	(478.8)	(422.6)	(432.1)
Discrepancy	14.2	-	-	-	-	-	-	-	-
E. TOTAL FINANCING	697.3	812.9	535.5	620.8	85.3	587.7	478.8	422.6	432.1
NET FOREIGN FINANCING	385.7	463.9	256.0	323.2	67.3	214.7	232.7	229.5	227.1
NET DOMESTIC FINANCING	311.5	349.0	279.5	297.6	309.8	373.0	246.1	193.1	205.0
NOMINAL GDP	7,658.1	7,659.7	8,689.9	8,654.6	(35.2)	9,790.8	11,100.8	12,620.8	14,363.9
	As a share of GDP								
A. TOTAL REVENUE AND GRANTS	18.6	19.8	20.3	19.7	-	19.5	19.4	19.6	19.5
TOTAL REVENUE	18.3	19.0	19.6	19.0	-	18.9	19.0	19.2	19.1
Ordinary revenue	17.1	17.1	17.8	17.2	-	17.2	17.4	17.7	17.7
Ministerial Appropriation in Aid	1.2	1.9	1.8	1.8	-	1.7	1.6	1.5	1.4
GRANTS	0.3	0.8	0.7	0.7	-	0.5	0.5	0.4	0.4
B. TOTAL EXPENDITURE AND NET LENDING	27.6	30.4	26.5	26.8	-	25.5	23.7	22.9	22.5
	-	-	-	-	-	-	-	-	-
Recurrent Expenditure	15.2	16.0	15.4	16.1	-	15.3	14.4	14.0	13.7
Development	8.4	10.4	7.4	6.7	-	6.3	6.0	5.9	6.0
County Allocation	4.0	3.9	4.0	4.0	-	3.8	3.4	3.0	2.7
Contingency Fund	-	-	0.1	0.1	-	0.1	0.0	0.0	0.1
C. BALANCE EXCLUSIVE OF GRANTS	(9.3)	(11.4)	(6.8)	(7.9)	-	(6.5)	(4.8)	(3.8)	(3.4)
	-	-	-	-	-	-	-	-	-
D. BALANCE INCLUSIVE OF GRANTS	(8.9)	(10.6)	(6.2)	(7.2)	-	(6.0)	(4.3)	(3.3)	(3.0)
Discrepancy	0.2	-	-	-	-	-	-	-	-
E. TOTAL FINANCING	9.1	10.6	6.2	7.2	-	6.0	4.3	3.3	3.0
NET FOREIGN FINANCING	5.0	6.1	2.9	3.7	-	2.2	2.1	1.8	1.6
NET DOMESTIC FINANCING	4.1	4.6	3.2	3.4	-	3.8	2.2	1.5	1.4
NOMINAL GDP	100.0	100.0	100.0	100.0	-	100.0	100.0	100.0	100.0

Source: National Treasury

1.4 Fiscal Policy

43. The fiscal policy stance over the medium term aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position and at the same

time supporting the devolved system of Government for effective delivery of services. The fiscal policy also indicates our deliberate convergence path towards the East African Community Monetary Union Protocol's fiscal targets. That is, the EAC targets of a fiscal deficit ceiling including grants of 3 percent of GDP and excluding grants 6 percent of GDP.

44. The fiscal policy underpinning the FY 2018/19 budget and MTEF will sustain the revenue projections in line with recent mobilization trends in order to maintain fiscal predictability. Revenue is projected to increase from 18.3 percent of GDP in FY 2016/17 to 19.2 percent of GDP in FY 2020/21 **(Table 1.5).**

45. In an effort to boost domestic revenue mobilization, the Government is going to undertake a combination of policy and administrative reforms to bolster revenue yields going forward. These efforts will reverse the revenue losses experienced in the recent past where ordinary revenues have declined about 1.0 percent of GDP from 18.1 percent in FY 2013/14 to 17.1 percent in FY 2016/17. In the medium term, ordinary revenues are projected to increase to 17.7 percent of GDP in FY 2020/21 from 17.1 percent of GDP in FY 2016/17. The additional resources are expected to support the fiscal consolidation program and bring the fiscal deficit down to 3.0 percent of GDP by FY 2021/22 from the projected 7.2 percent of GDP in FY 2017/18. Some of the reforms to be undertaken include:

i. Roll out of the Integrated Customs Management System (ICMS) to seal loop holes at the Customs to prevent concealment, undervaluation, mis-declarations and falsifications of import documents;
ii. Implementation of the Regional Electronic Cargo Tracking (RECTS) to tackle transit diversion;
iii. Enhance scanning activities to detect concealment;
iv. Scaling-up on-going and routine activities such as Pre-Verification of Conformity (PVOC), benchmarking and auctions;
v. Data matching and use of third party data to enhance compliance through integration of iTax with IFMIS ;
vi. Expansion of tax base by targeting informal sector, pursue non-filers and increase focus on taxation of international transactions and transfer pricing; and
vii. Enhance investigations, intelligence capacity and KRA capacity to support revenue collection.

46. Total expenditures and net lending is projected to decline from 26.8 percent of GDP in FY 2017/18 to 25.5 percent of GDP in FY 2018/19 and 22.5 percent of GDP in FY 2021/22. This takes into account the Government's efforts to increase the efficiency, effectiveness, transparency, and accountability of public spending, in order to ensure that there is sufficient fiscal space for priority social and investment projects.

47. The overall fiscal deficit inclusive of grants is therefore projected to decline from 9.1 percent of GDP in FY 2016/17 to 7.2 percent of GDP in FY 2017/18, 6.0

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percent in FY 2018/19 and further to 3.0 percent of GDP by FY 2021/22. Excluding expenditures related to the SGR, the deficit declines from 7.7 percent of GDP in FY 2016/17 to 6.5 percent of GDP in FY 2017/18 and 2.4 of GDP by FY 2021/22. The lower deficit reflects the projected completion of key infrastructural projects being implemented by the Government, enhanced revenue collection and prudent public spending.

48. This consolidation process significantly aids the Governments efforts towards attaining the EAC convergence criterion targeting a ceiling on fiscal deficit of 3.0 percent of GDP inclusive of grants. Embedded in this policy is the aim to continue containing the growth of recurrent expenditures in favour of capital investment so as to promote sustainable and inclusive growth.

49. The reduction in fiscal deficit will also support debt reduction. In this regard, nominal public debt on a net basis is projected to decline from the preliminary level of 51.9 percent of GDP in the FY 2016/17 to 43.6 percent of GDP in the FY 2021/22.

1.5 Economic Outlook

50. Kenya's economic growth prospects for the FY 2018/19 and over the medium term takes into account the global and sub-Saharan Africa growth recoveries. The growth projection takes into account the strategic objectives of the Government as outlined in the third MTP of Vision 2030. Real GDP is projected to expand by 5.3 percent in FY 2017/2018, 5.9 percent in FY 2018/2019, 6.3 percent in FY 2019/2020 and 6.9 percent by FY 2021/22 **(Table 1.6 and Annex Table 1)**. This growth will be supported mainly by the implementation of "the Big Four" Plan, sustained investment in infrastructure, strong agricultural production due to improved weather conditions, buoyant services sector, continued recovery in tourism, increased investor and consumer confidence, and macroeconomic stability.

51. The outlook, therefore points to a continued coordination of monetary and fiscal policies for overall macroeconomic stability which will support robust growth, lower fiscal deficits, contain inflation within the target range and a gradual improvement in the current account balance.

52. In addition, the measures being undertaken by the Government under "the Big Four" Plan to boost the manufacturing sector; enhance food security and nutrition; build affordable housing; and achieve Universal Health Coverage are expected to boost growth, create jobs and promote inclusive growth.

53. Inflation is currently within the Government's target range and is expected to remain so in the medium term underpinned by prudent monetary and fiscal policies, favourable weather outlook, relatively lower international oil prices, and a stable exchange rate which is expected to dampen any risks of imported inflation. The interest rates are expected to remain low and stable over the medium term supported by improved liquidity conditions, and the proposed fiscal consolidation.

54. Kenya's external position is projected to strengthen over the medium term supported by a narrower current account deficit. The improvement in the overall

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balance of payments reflects improved performance of tea and horticulture exports; strong diaspora remittances; recovery in tourism, and increased foreign direct investment in infrastructure.

Table 1.6: Macroeconomic Framework

	2015/16	2016/17	2017/18			2018/19		2019/20		2020/21		2021/22
	Act	Prel. Act	Budget	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BPS'18
	Annual percentage change											
National Account and Prices												
Real GDP	5.8	5.3	6.2	5.7	5.3	6.5	5.9	6.9	6.3	7.1	6.8	6.9
GDP Deflator	8.8	8.4	5.5	7.9	6.8	6.8	6.4	6.4	6.1	6.8	5.9	5.8
CPI Index (eop)	6.7	6.6	5.0	5.9	5.6	5.2	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	6.4	6.9	5.0	6.6	6.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0
Terms of Trade (-deterioration)	-0.1	4.5	1.5	3.2	1.1	1.9	-0.3	0.7	0.3	0.4	0.1	1.1
	Percentage of GDP											
Investment and saving												
Investment	19.5	17.5	24.4	20.0	19.7	22.4	21.9	22.6	22.6	25.5	22.8	23.4
Gross National Savings	16.2	12.4	18.3	14.1	13.6	16.5	16.5	16.7	17.1	20.0	18.0	19.2
Central Government Budget												
Total revenue	18.4	18.3	19.6	18.7	19.0	18.8	18.9	19.0	19.0	19.4	19.2	19.4
Total expenditure and net lending	26.6	27.6	26.5	26.8	26.8	25.2	25.5	24.2	23.8	24.4	22.9	22.5
Overall balance (commitment basis) excl. grants	-8.2	-9.3	-6.8	-8.1	-7.9	-6.4	-6.5	-5.1	-4.8	-5.0	-3.8	-3.4
Overall balance (commitment basis) incl. grants	-7.4	-9.1	-6.2	-7.4	-7.2	-5.9	-6.0	-4.7	-4.3	-4.6	-3.3	-3.0
Overall balance (commitment basis) incl. grants, excl. SGR	-6.6	-7.7	-5.5	-6.8	-6.5	-5.4	-5.5	-4.3	-3.9	-4.1	-2.8	-2.4
Nominal central government debt (eop), net of deposits	47.9	51.9	54.4	52.5	53.0	52.1	52.8	50.7	51.0	49.9	48.2	43.6
External sector												
Current external balance, incl. official transfers	-3.2	-5.0	-6.1	-5.9	-6.1	-5.9	-5.4	-5.9	-5.5	-5.5	-4.8	-4.2
Gross international reserve in months of imports	6.2	6.5	5.3	6.7	6.7	6.8	6.8	6.9	6.9	7.0	7.0	7.1

Source: National Treasury

Source: National Treasury

1.6 Risks to the Economic Outlook

55. This macroeconomic outlook is not without risks. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome. The recent geopolitical tensions building around production and use of nuclear weapons if not addressed could weigh down global growth with negative impact on trade and financial flows.

56. Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under "The Big Four" Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures.

57. The Government will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

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II. CREATING JOBS, TRANSFORMING LIVES - "THE BIG FOUR" PLAN

2.1 Preamble

58. Over the last five years, the Government has implemented various policies and structural reforms under the Economic Transformation Agenda to foster a rapid social-economic transformation. The transformation Agenda focused on five key pillars including: (i) creating a conducive business environment; (ii) investing in sectoral transformation; (iii) infrastructure expansion; (iv) investing in quality and accessible social services; and (v) consolidating gains made in devolution. Significant achievements have been realized on all the five pillars.

59. The maintenance of macroeconomic stability over the past five years has created a conducive environment for investment and business. As a result, the economy expanded at an average rate of 5.5 percent per year in the last five years (2013 - 2017) outperforming the average growth rate of 4.5 percent in the 2008 to 2012 and 5.2% in the period 2003-2007 **(see Chart 1.1a)**. The value of goods and services produced therefore increased raising the per capita income from Ksh 104,700 in 2013 to an estimated Ksh 174,200 in 2017 **(see Chart 1.1b)**. In addition, the economy generated an average of 817.0 thousand new jobs per year in the period 2013 - 2017 up from 656.5 thousand jobs per year in the period 2008-2012 **(see Chart 1.1c)**.

60. Macroeconomic stability has been preserved with inflation rate remaining low and within target in the period 2013 - 2017 following implementation of conducive monetary and fiscal policies **(see Chart 1.3)**. Similarly, interest rates remained low and stable while the exchange rate has remained competitive with less volatility in the period (2013 – 2017) as compared with the period 2008-2012 **(see Chart 1.6)**.

61. On infrastructure, the movement of goods and people around the country has been made cheaper and more effective through expansion of most roads, seaports and airports. On the Standard Gauge Railway (SGR), the Government completed the construction of Phase 1 (Mombasa - Nairobi) in 2017 and has embarked on the construction of Phase 2A (Nairobi – Naivasha). The railway has significantly reduced transportation costs and eased the movement of people and goods from Nairobi to Mombasa. Further on infrastructure, by the end of 2017 more than 6.1 million Kenyans had been connected to electricity compared to 2.3 million Kenyans connected in 2013.

62. Targeted policies and reforms have been implemented in all the economic sectors including expanding access to subsidized fertilizer and seeds to farmers enabling them to increase productivity of their lands, earn more incomes and indeed make Kenya more food secure. Incentives in the manufacturing sector have included creation of industrial clusters, enactment of laws for Special Economic Zones, improving ease of doing business and expanding access to electricity.

63. On the social services, the Government has equipped hospitals with specialized medical equipment, and expanded access to maternal health care in all public hospitals. In the education sector, the Government abolished examination

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fees for both standard eight and form four candidates and increased capitation. The Government also provided free primary education, expanded the Digital Learning Program and more recently provided for free day secondary school education. In addition, thousands of orphans and vulnerable children, people living with disabilities and the elderly in our society continue to receive cash transfers through the social safety net program.

64. In regards to devolution, the National Government ensured that all budgeted transfers (particularly the shareable revenues) were disbursed to Counties to ensure key services were fully funded. In this context, the National Government disbursed around Ksh 1 trillion to County Governments over the past four years. The National Government also continued to provide the necessary capacity building in order to ensure efficient and effective service delivery at the County level.

65. Under the Economic Transformation Agenda therefore, the Government has laid a solid foundation for Kenya's industrialisation as envisaged in the Kenya Vision 2030. The Government realises that much more remains to be done to achieve our developmental objectives of creating jobs and wealth, ensuring continued inclusive growth, reducing poverty and more generally, achieving our Vision 2030 development objectives.

66. Building on the progress made thus far and with the desire to decisively confront the three perennial challenges of unemployment, poverty and income inequality that this economy continues to face, the Government has identified four key strategic areas of focus over the next five years that will accelerate broad based economic growth. This will help transform the lives of all Kenyans. The strategic areas under "The Big Four" Plan include:

i. Supporting value addition and raising the manufacturing sector's share of GDP to 15 percent by 2022. This will accelerate economic growth, create jobs and reduce poverty;
ii. Focusing on initiatives that guarantee food security and improve nutrition to all Kenyans by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and support value addition in the food processing value chain;
iii. Providing Universal Health Coverage thereby guaranteeing quality and affordable healthcare to all Kenyans; and,
iv. Providing at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022, hence improve living conditions for Kenyans.

67. Investments in the above four areas is expected to transform lives by creating the much needed jobs enabling Kenyans meet their basic needs, improve living conditions, lower cost of living, and reduce poverty and inequality.

68. Therefore, the policies in this BPS seek to provide an enabling environment for the attainment of "The Big Four" Plan and to enable private sector to thrive. Thus, particular focus will be on key enablers such as macroeconomic stability, improving the ease of doing business, expanding infrastructure, improving security, expanding access to finance, and instituting governance reforms. The

policies in this BPS are also aligned to the medium-term priorities and strategies outlined in the Third Medium-Term Plan (2018-2022) of the Kenya Vision 2030.

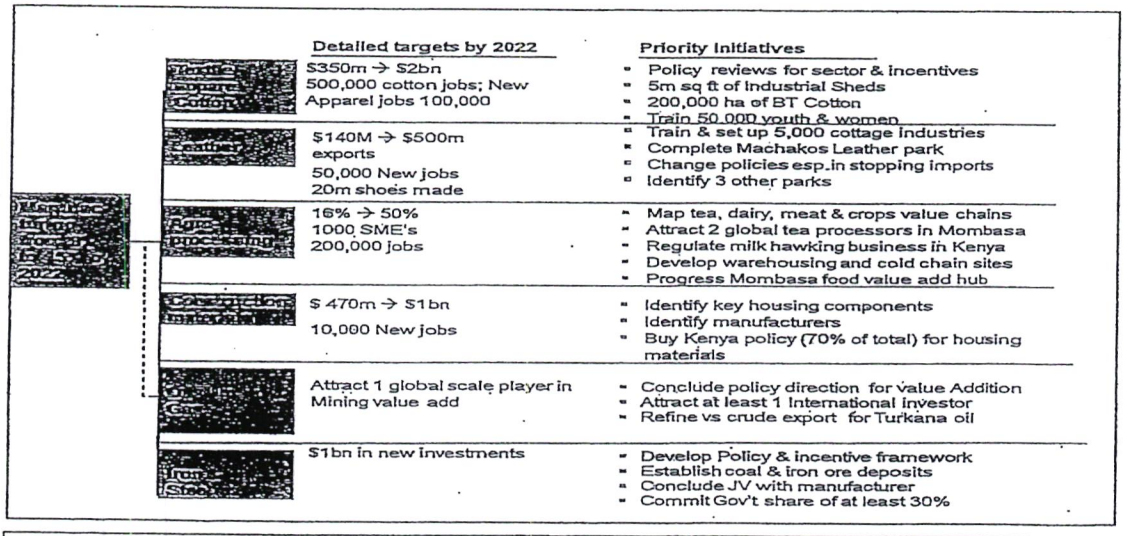
2.2 "The Big Four" Economic Plan

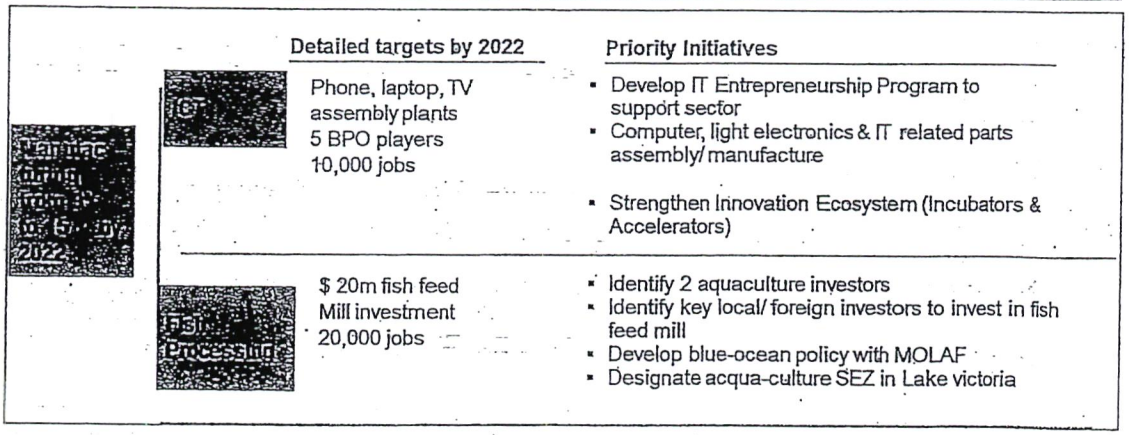
2.2.1 Supporting Value Addition and Raising the Share of Manufacturing Sector to GDP to 15 Percent by 2022

69. The Government will target to increase the contribution of manufacturing sector to GDP from 9.2 percent in 2016 to 15 percent by 2022 by adding USD 2 to 3 billion to our GDP. It is expected that this will increase manufacturing sector jobs by more than 800,000.

70. In order to ensure that we achieve the manufacturing sector target of 15 percent of GDP, the Government will place special emphasis on the following key areas: (i) Textile and Apparels; (ii) Leather products; (iii) Agro - processing; and (iv) Manufacturing of construction materials. Other important sectors will be Oil, Mining and Gas; Iron and Steel; ICT; and Fish Processing **(Chart 2.1a)**. Specific measures and incentives will be implemented to boost these sub-sectors and increase job creation.

Chart 2.1a Increase Manufacturing Share to 15% of GDP: Priority Sub-sectors





71. To support the textiles industry, the Government will develop cotton production using hybrids and Bacillus Thuringiensis (BT) which have 3 times production yield compared to present conventional varieties, buy domestically grown cotton, improve governance in the import rules for textile products to cushion local producers as well as give incentives to investors to build modern ginneries and textile manufacturing plants. Further, the Government will train 50,000 youths and women to be involved in this sector and establish 5 million square feet of industrial sheds. Successful implementation of these measures is expected to increase revenue from textile industry from USD 350 million to USD 2 billion, create 500,000 cotton jobs and 100,000 new apparel jobs by 2022.

72. In addition to the above measures, the Government will continue to develop industrial infrastructure such as Export Processing Zones (EPZs), Special Economic Zones (SEZs) and industrial parks across the country. More specifically, priority will be given to establishment of a Modern Industrial Park in Naivasha, apparel industrial sheds in Athi River, establish the Dongo Kundu SEZs and infrastructures.

73. Kenya has a huge untapped potential in the leather industry. To support the growth of the leather industry in the country, the Government will ensure that all hides and skins are fully processed locally, train personnel and set up 5,000 cottage industries, complete Machakos Leather Park and identify three more leather parks, and support expansion of existing tanneries through incentives and access to finance. To cushion local manufacturers, the Government will review import rules for finished leather products with the aim of creating wider market access. This initiative is targeted at creating 50,000 new jobs, make 20 million shoes and increase export revenue by USD 500 million by 2022.

74. To promote growth of the agro-processing sector, the Government will support value addition to agricultural produce across the value chain. This will involve processing tea, coffee, meat, sugar, dairy, fruits and vegetables locally in order to obtain more value and create an additional 200,000 jobs and wealth for Kenyans. In addition, the Government targets to more than triple the amount of processed agricultural exports from the current annual growth of 16 percent to 50 percent by 2022. This will create additional jobs and increase export revenue for Kenya.

75. In addition, on agro-processing, the Government will build on the ongoing efforts in order to revitalize the coffee and tea subsectors including: reforming the legal and policy frameworks, promotion of value addition; supporting debt waiver for growers to ease their debt burden; and using locally blended fertiliser on a 50/50 basis and implementing liming. In addition, the Government will beef up the Commodities Fund by restoring commodity levies in order to expand access to credit and inputs by farmers; expansion of the Nairobi Coffee Exchange into a Commodities Exchange; and further liberalization and diversification of market access.

76. To support oil, mining and gas sector, the Government will facilitate the exploration of coal and iron ore deposits, support value addition in oil production and develop policy and incentive framework to attract international investors to the sector.

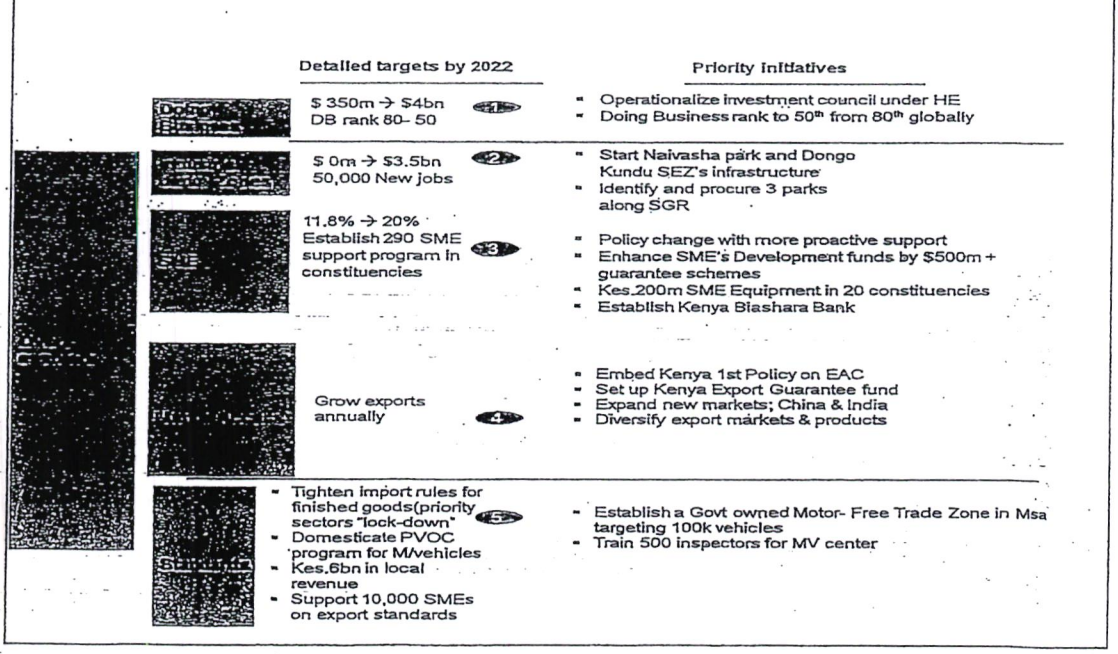
77. To enhance the export of our manufactured products, the Government will implement an elaborate marketing strategy to diversify our export markets including penetrating new markets. This will be alongside exploiting the markets available under Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and the tripartite arrangements.

78. On the blue economy, the Government targets to significantly expand fishing to 18,000 metric tonnes of fish annually from the current 2,500 metric tonnes. To facilitate the development of the blue economy, the Government will strengthen enforcement measures to curb illegal fishing activities along Kenya's Indian Ocean territory; suspend the fishing licenses of all international trawlers operating in Kenya's territorial waters until they comply with the local input requirement; and enhance processing before export to improve value of fish and marine products and remove structural bottlenecks in the sector.

79. In order to realise these objectives and expand manufacturing sector, the Government will create an enabling environment by implementing various initiatives including: cut the cost of off-peak power to heavy industry by half; review work permit regime and encourage expatriates whose skills support the manufacturing sector; expand infrastructure and land access; enhance of access to quality inputs and markets; protect local manufacturers from counterfeits goods; and create an additional 1000 small and medium size enterprises (SMEs) focused on manufacturing which will have access to affordable capital, skills and markets.

80. Other key areas will include investment in ICT; continue with ease of doing business initiates; promotion of "Buy Kenya Build Kenya" initiative to expand production for local consumption; strict enforcement of the 40 percent local content for all government projects; and construction of industrial parks/Zones. **(Chart 2.1b).**

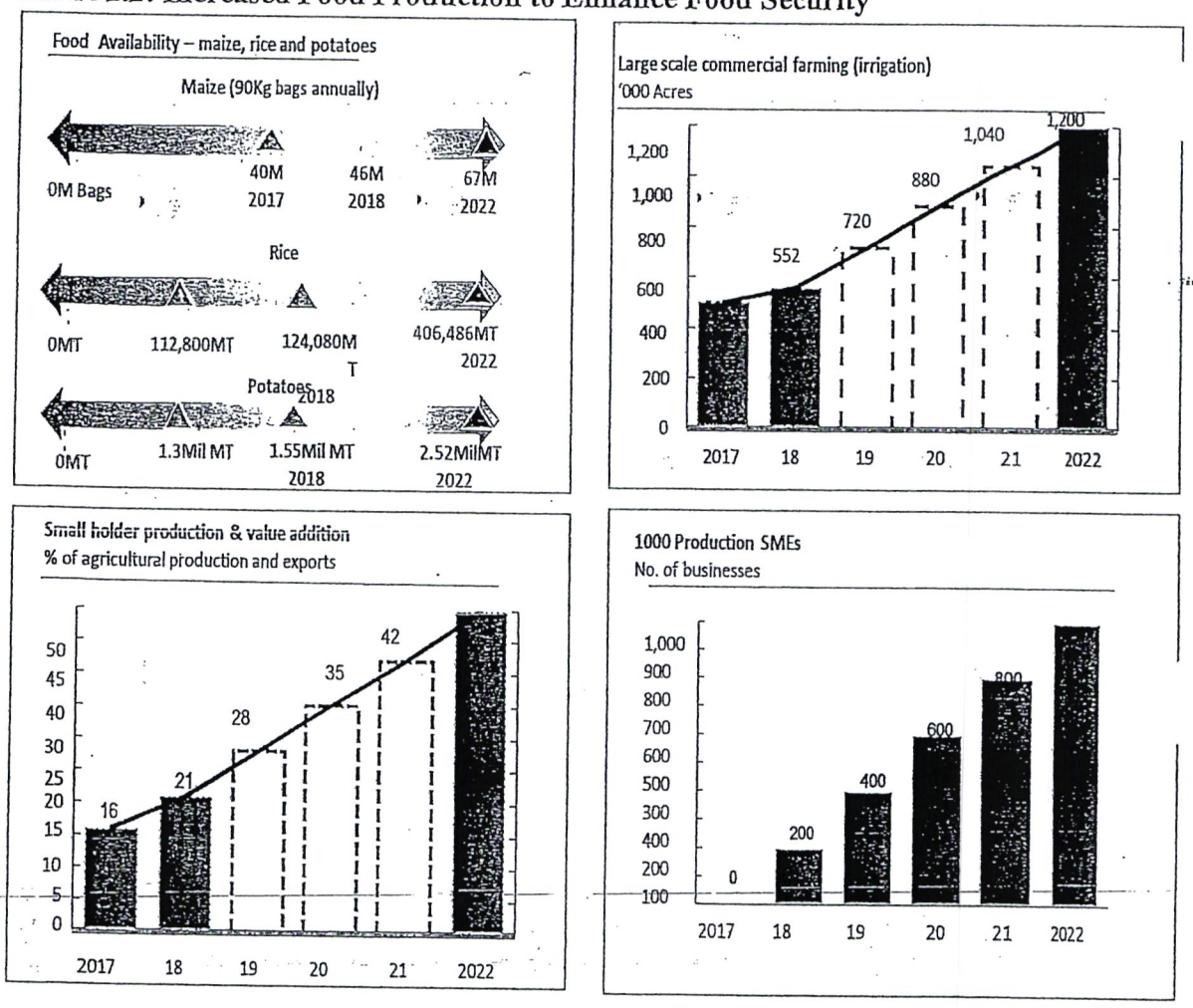
Chart 2.1b Increase Manufacturing Share to 15% of GDP: Enablers



2.2.2 Enhancing Food and Nutrition Security to all Kenyans by 2022

81. The Government targets to ensure that all citizens enjoy food security and proper nutrition by 2022 by ensuring self-sufficiency in the production of maize, rice and potatoes among others. Specifically, Government intends to increase the production of (i) maize from the current 40 million 90 kg bags annually to 67 million bags by 2022; (ii) rice from around 125,000 metric tonnes (MT) currently to 400,000 MT by 2022, and (iii) potatoes from the current 1.6 million tonnes to about 2.5 MT by 2022 **(Chart 2.2).**

Chart 2.2: Increased Food Production to Enhance Food Security



82. To achieve food security and improved nutrition, the Government will focus on three broad areas, namely: enhancing large-scale production; boosting smallholder productivity; and reducing the cost of food. Over the next five years, specific initiatives will be implemented across the three broad areas **(Chart 2.3).**

Chart 2.3: New and Innovative Initiatives that will drive 100% food and nutrition Security over the next five years

Focus areas	Detailed Initiatives
Enhance large scale production	▪ Place **additional 700,000 Acres through PPP** (including idle arable land) under maize, potato, rice, cotton, aquaculture and feeds production. ▪ Form an Agriculture and Irrigation Sector Working Group **(AISWAG) to provide coordination for irrigated Agriculture** ▪ Use **locally blended fertilizer** on a 50/50 basis and **implement liming** e.g. maize. ▪ Avail **incentives for post-harvest technologies** to reduce post-harvest losses from 20% to 15% e.g. **waive duty** on cereal drying equipment, hematic bags, grain cocoons/silos, fishing and aquaculture equipment and feed
Drive small holder productivity	▪ **Establish 1,000 targeted production level SMEs** using a performance based **incentive model** in the entire value chain ▪ Improve access to credit/input for farmers through **Warehouse Receipt System** and **strengthen commodity fund** ▪ **Establish commercialized feed systems** for **livestock, fish, poultry and piggery** to revolutionize feed regime and **traceability of animals** to **access export markets.** ▪ Secure **investors to construct a Shipyard** (in 2018 – site existing) and increase **domestic fishing fleet by 68 Vessels** in the Coast.

Focus areas	Detailed initiatives
Reduce cost of food	▪ **Contract farmers for Strategic Food Reserve** (price stabilization) and other commercial off-takers. ▪ **Redesign subsidy model** to maximize impact by focusing on specific farmer needs (flexible voucher and incentive based model) ▪ Secure investments through PPP in **post-harvest handling** (storage, cold storage for fish, aggregation) and **market distribution infrastructure to reduce losses** ▪ Rehabilitate and operationalize fish landing sites in Lake Victoria (Migori, HomaBay and Busia) ▪ **Eliminate multiple levies across counties** in the agriculture value chain (enforce laws on roads)

83. To enhance large-scale production, the Government will place an additional 700,000 acres through PPP under maize, potato, rice and feeds production; expand irrigation schemes and secure water towers and river ecosystems. The Government will also transform the Strategic Food Reserve (SFR) by promoting investments in post-harvest handling through Public Private Partnerships, and by contracting farmers and other commercial off-takers. Further, the strategy will involve leasing idle agricultural land owned by the Government.

84. On agro-processing, the strategy will involve establishment of 1,000 SMEs focused on food processing to improve value addition; redesign of the subsidy

model by focusing on specific farmers' needs; establishment of commercialized feedlots for livestock, fish, poultry and piggery to revolutionize feed regime and traceability of animals; and increasing access to credit or input for farmers through warehouse receipt system.

85. In order to enhance agricultural productivity among smallholder farmers, the Government will upscale crop and livestock insurance with the goal of cushioning farmers against climate related risks. Additionally, the Government will continue to support other disaster risk financing instruments such as the Hunger Safety Net Program, National Drought Emergency Fund among others.

86. To promote the growth of the livestock sub-sector, the Government in collaboration with the County Governments, will continue to enhance the provision of extension services to the farmers in the Counties. In addition, the control of notifiable livestock diseases in the dairy sector will be a priority of the Government. Livestock disease free zones have the potential for ensuring sustainable increased livestock and agricultural productivity and cushioning the farmers and livestock from endemic diseases such as the tsetse fly transmitted Trypanosomiasis which affects 38 out of 47 counties putting 11 million people at risk. Further, the Government will waive duty on feeds, establish and revolutionize commercialized feedlots and traceability of animals.

87. In addition, the Government will strengthen early warning system which is key in providing timely weather and climate information which is important in triggering appropriate early action and decision making in relation to food and nutrition security.

88. To increase fish production, the Government intends to establish and revolutionize commercialized feedlots for fish and avail incentives for post-harvest technologies to reduce overall post-harvest losses of fish from 20 percent to 15 percent.

89. In order to reduce the cost of food, the strategy will involve elimination of multiple taxation across Counties in the agricultural value chain; provision of affordable energy to reduce the cost of production; enhancement of market distribution infrastructure to reduce losses by use of cold storage for production and storage of seeds; availing incentives for post-harvest technologies to reduce post-harvest losses from 20 percent to 15 percent; and waiving of duty on cereal drying equipment, hematic bags, grain cocoons/silos and feed.

90. By implementing the above measures, the Government targets to create more jobs and reduce the cost of food. **(Chart 2.4).**

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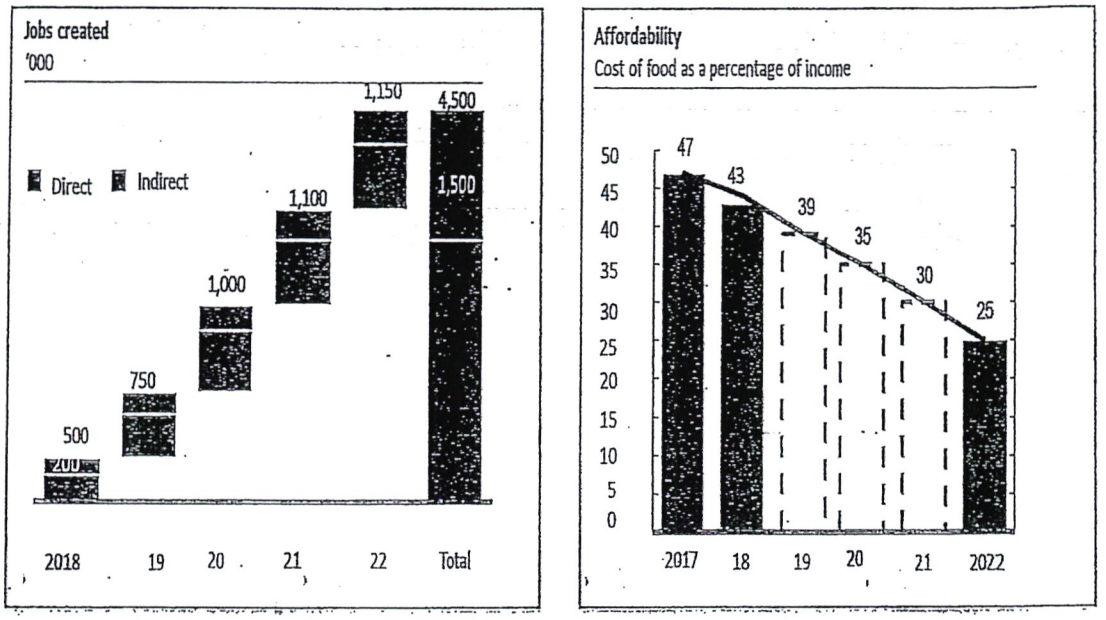
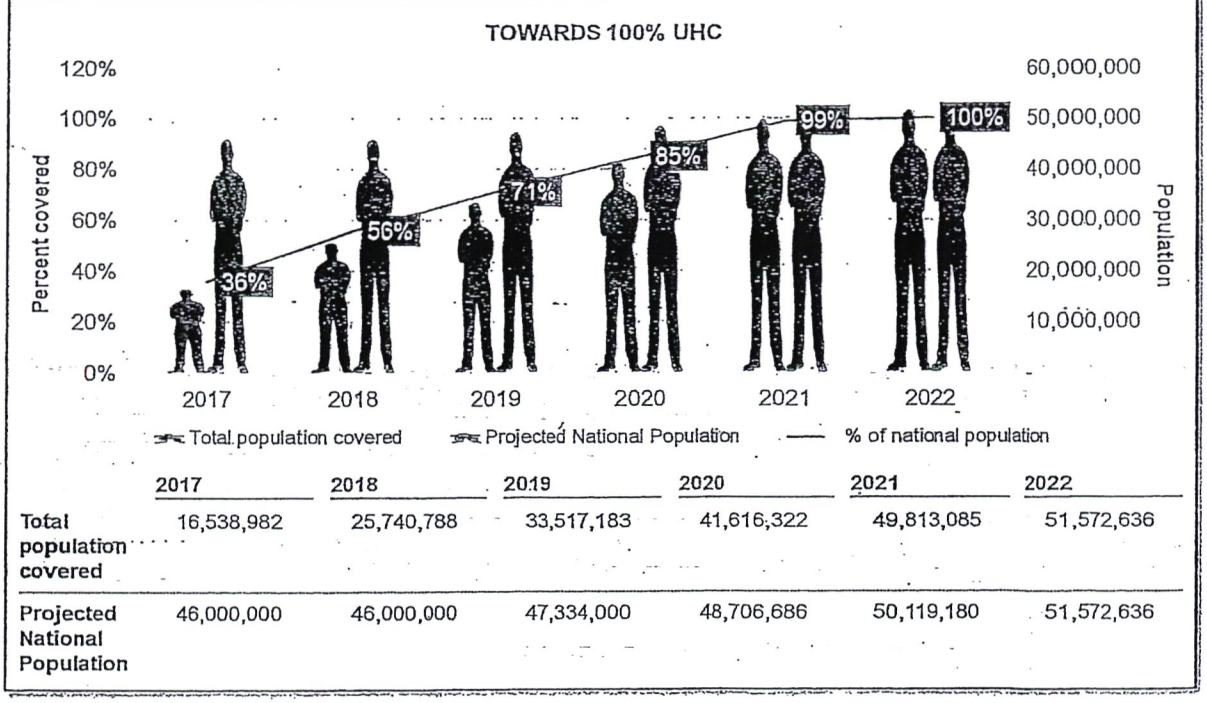
Chart 2.4: Job Creation and Reduction in the Cost of Food



2.2.3 Providing Universal Health Coverage to Guarantee Quality and Affordable Healthcare to All Kenyans

91. Over the next five years, the Government targets 100 percent Universal Health Coverage (UHC) for all households (**Chart 2.5**). This will guarantee access to quality and affordable health care to all Kenyans.

Chart 2.5: Achieving 100% Universal Health Coverage

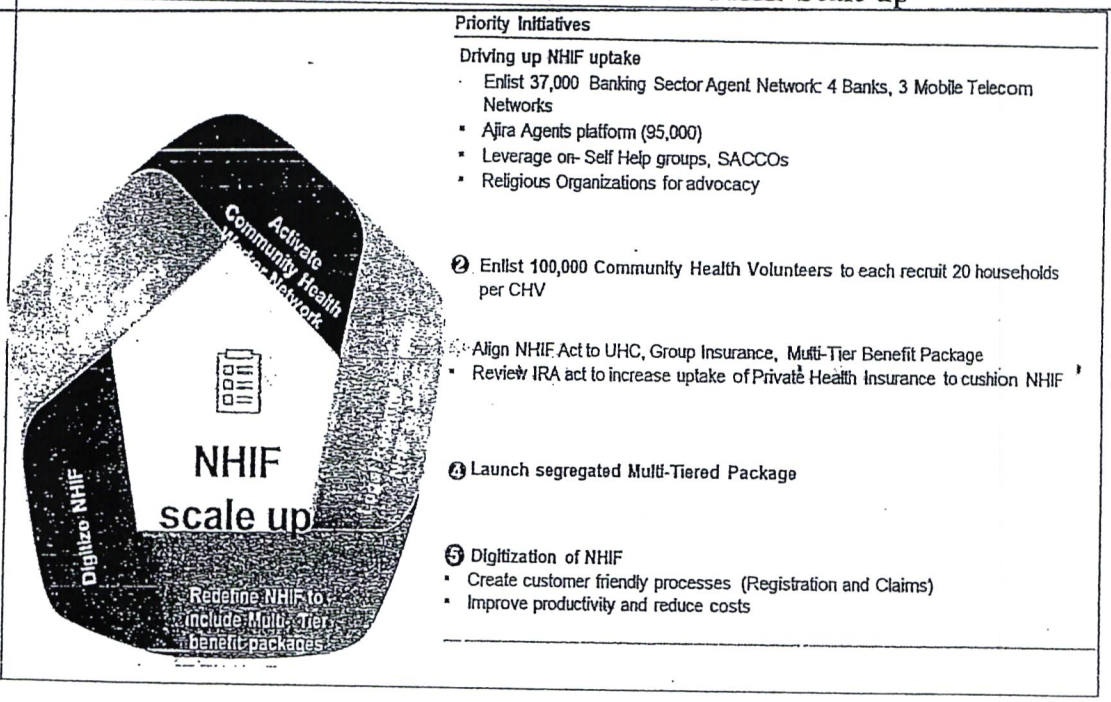


	2017	2018	2019	2020	2021	2022
Total population covered	16,538,982	25,740,788	33,517,183	41,616,322	49,813,085	51,572,636
Projected National Population	46,000,000	46,000,000	47,334,000	48,706,686	50,119,180	51,572,636

92. In order to realise this objective, the Government will focus on reconfiguring the National Hospital Insurance Fund (NHIF) and reforming the

governance of private insurance companies. In particular, the Government will review and amend the NHIF Act to align it to the universal health coverage as well as review the laws governing private insurance companies to encourage investment by private health insurers and bring the cost of cover within the reach of every Kenyan (**Chart 2.6**).

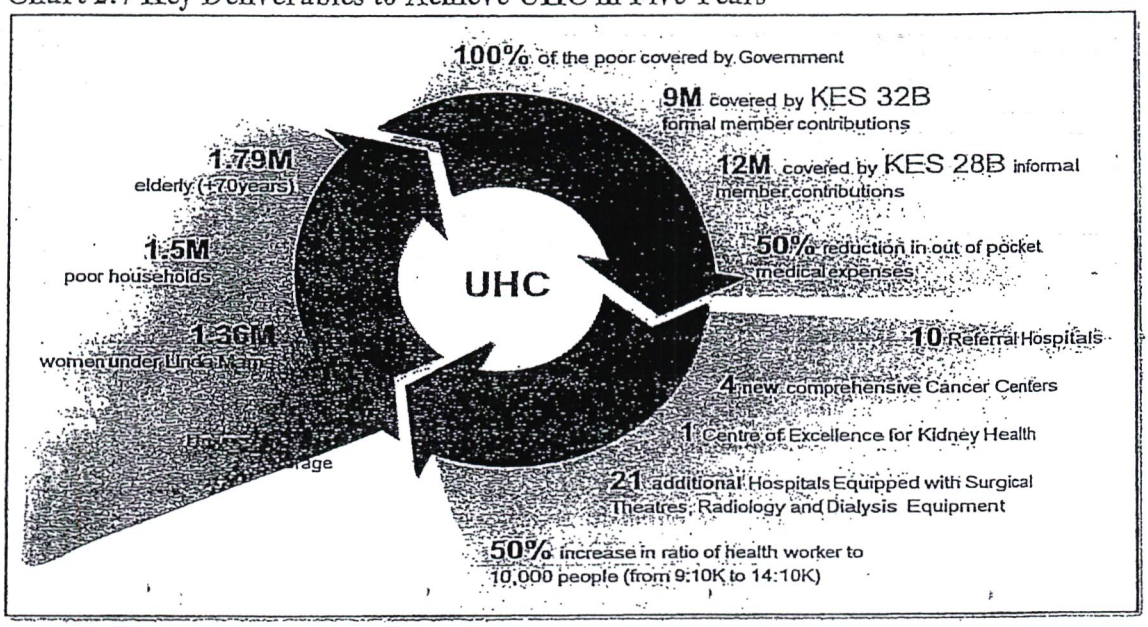
Chart 2.6: Five Innovative Initiatives that will Drive NHIF Scale up



93. The Government will continue to scale up the provision of specialized medical equipment and increase the number of health facilities at the community level including mobile health services in order to increase the number of Kenyans who access specialized healthcare. The Government will also continue with the digitization of the health information management especially NHIF, an endeavour that will increase efficiency and reduce overhead costs by 3 percent and foster faster online registration. To further enhance service delivery, the Government will establish national data centres (NDC)/Radiology Hubs at Kenyatta National Hospital and Moi Teaching and Referral Hospital (**Chart 2.7**).

94. Additional efforts to support achievement of universal health coverage, will include the expansion of the "Linda Mama" programme (free maternity programme) to mission hospitals and private hospitals and enlisting Community Health Volunteers to help in healthcare service provision at the grassroots.

Chart 2:7 Key Deliverables to Achieve UHC in Five Years

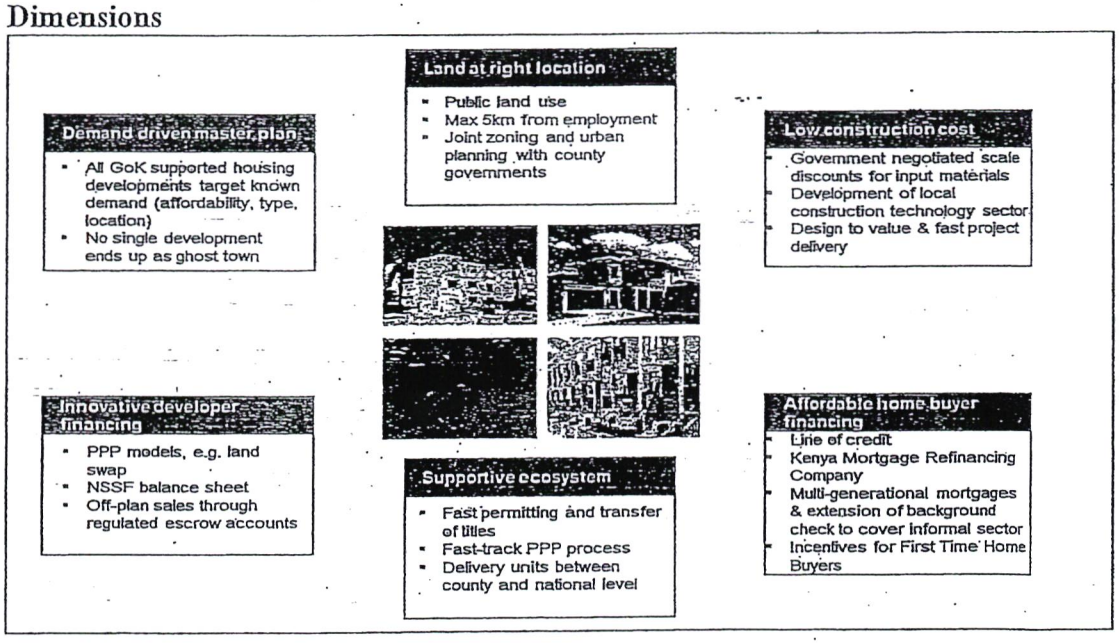


2.2.4 Provision of Affordable and Decent Housing for All Kenyans

95. The Government is keen on delivering five hundred thousand housing units by 2022 in major cities across the country. This will provide decent homes, create an additional 350,000 jobs, provide market for manufacturers and suppliers and raise the contribution of real estate and construction sector to 14 percent of GDP.

96. To achieve this objective, the Government will implement policy and administrative reforms which are targeted at lowering the cost of construction and improving accessibility of affordable mortgages. The focus will be on raising low-cost funds from public and private sectors for investment in large-scale housing production (**Chart 2.8**).

Chart 2.8: The Housing Program Combines Innovative Ideas on All Dimensions



97. To enable the construction of decent low cost housing units, the Government has developed a comprehensive housing package that will incentivize the private sector in low cost housing. One of the incentives is the reduction of corporate tax rate for developers who construct at least 100 units per year. Additionally, the Government plans to establish a National Social Housing Development Fund and strengthen the National Housing Corporation (NHC) to take up more strategic roles in resource mobilization and management of tenant purchase schemes and provide alternative financing strategies to finance low cost housing and the associated social and physical infrastructure.

98. To expand access to affordable and decent housing, the Government has established a Taskforce on Expanding Affordable Housing Finance in Kenya. The Taskforce has embarked on the process of establishment of Kenya Mortgage Refinance Company (KMRC) which would be a wholesale financial institution that issues bonds in the local capital markets, and with the proceeds extend long term loans to financial institutions secured against mortgages. KMRC will be set up as a Public Private Partnership (PPP) between the Government and the private sector. It is expected to operate as a private sector driven company with a public purpose of developing the primary and secondary mortgage markets by raising long term funds from capital markets thus providing access to affordable housing finance in Kenya. To kick off the affordable housing program, the Government will develop 8,200 houses in a pilot project at Mavoko. The process of procuring Engineering, Procurement and Construction Contractor for this project if ongoing. The sector players and Development Partners have been brought on board to ensure sustainability of the program.

99. The Government will also expand the on-going initiatives in the housing sector including, the investment in low-cost houses through upgrading slums and informal settlements by providing clean water and sanitation, access roads, schools, health centres and income generating activities. Additionally, the Government will prioritize review of the National Construction Authority Act, Built Environment Bill, and related legislations to ensure they address matters on sustainable building standards and design procedures, as well as green building codes for sustainability and safety of the housing sub-sector.

2.3 Enablers for the "The Big Four" Economic Plan

100. As stated earlier, the Government has successfully implemented the Economic Transformation Agenda during the last five years. This has created a strong and solid foundation for economic transformation and industrialisation as envisaged in Kenya Vision 2030.

101. Building on the progress made, the Government will continue with the implementation of programmes and policies under the Economic Transformation Agenda. As such raft of policies will be implemented under the five thematic areas of the Transformation Agenda namely:

i) Creating a conducive business environment for investment and job Creation;

ii) investing in infrastructure to unlock growth potential;

iii) investing in sectoral transformation for food security and broad based sustainable economic growth;

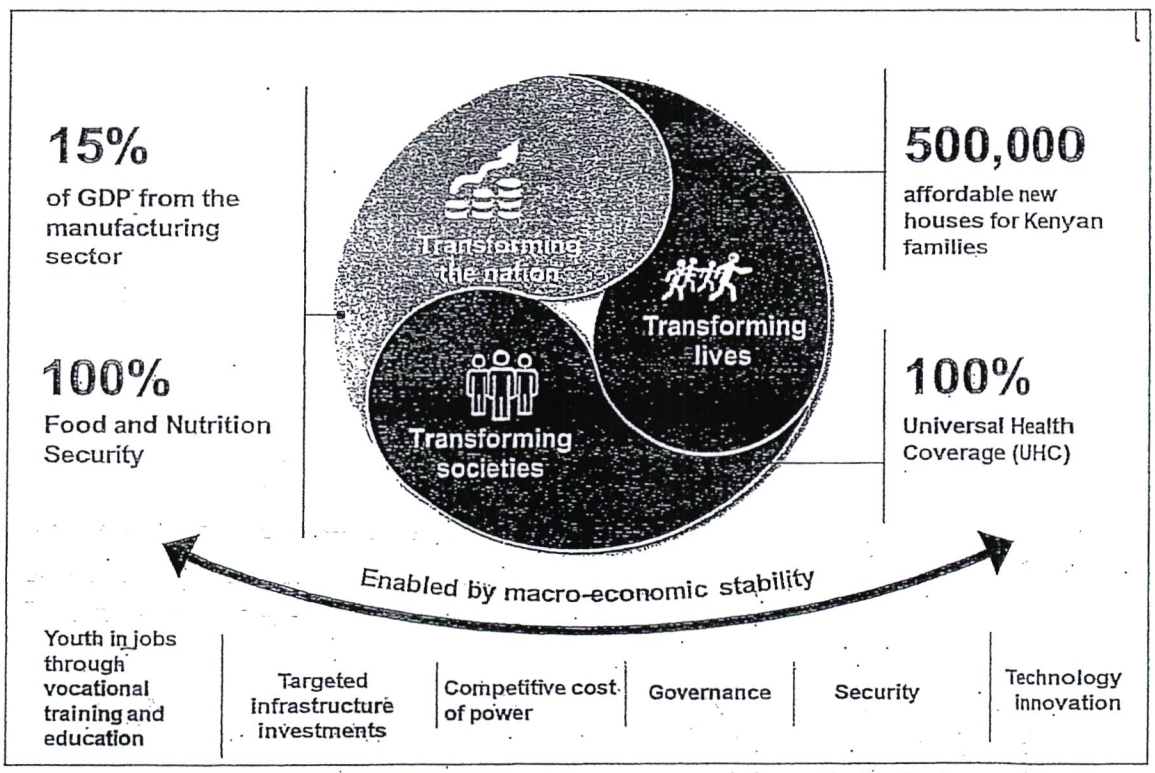
iv) investing in quality and accessible social services (health, education and social safety net); and

v) consolidating gains in devolution for services delivery and enhanced rural development. The Government will continue to implement structural reforms in areas such as governance, financial sector and in public financial management with a view to ensure enhanced productivity and competitiveness.

102. The strategy going forwarded will therefore, target to implement "The Big Four" Plan enabled by the pillars under the Economic Transformation agenda as follows:

2.3.1 Conducive Business Environment for Investment and Job Creation

103. This thematic area continues to focus on sustaining conducive business environment **(Chart 2.9)** by maintaining macroeconomic stability, supporting business regulatory reforms, and enhancing security so as to attract and encourage investment and job creation under "The Big Four" Plan.



2.3.1.1 Macroeconomic Stability

104. Maintaining macroeconomic stability is necessary to create a conducive environment for private sector investments as a basis for sustained economic growth. As such, the Government will continue to pursue prudent fiscal and

monetary policies that support the attainment of "The Big Four" Plan, strong economic growth and maintain public debt at sustainable levels.

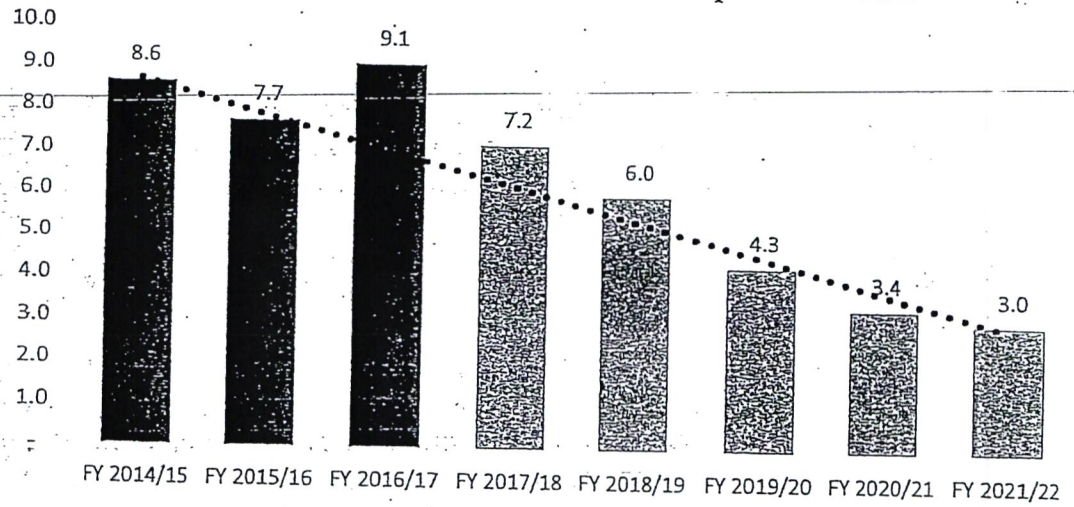
105. In this regard, monetary policy will target to keep inflation within the band of 2.5 percent on either side of the 5.0 percent target. To further reinforce price stability, monetary policy supported by the proposed fiscal policy will help keep interest rates low and stable and the exchange rate broadly stable and competitive to support our exports. The Government will also target to strengthen the international reserves position. Further, it is expected that credit to the private sector will support productive activities.

106. On the other hand, the Government will continue with fiscal consolidation efforts. Deliberate steps will be undertaken to narrow the primary budget deficit and stabilise public debt, prioritize development expenditures while protecting social spending and investments. In addition, the Government will implement various measures to boost revenue mobilization. These measures will include: complete overhaul of the current Income Tax Act, strengthening tax administration and expansion of the tax base. The review of the Income Act, that is expected to be finalised by June 2018, is based on the following principles: simplicity; expanding the tax base; equity and progressivity and international taxation principles including transfer pricing.

107. Inherent in the medium term fiscal policy, is the Government's commitment to the fiscal consolidation program. The deficit dropped from 8.4 percent of GDP in FY 2014/15 to 7.4 percent of GDP in FY 2015/16, however on account of one off expenditures to deal appropriately with drought mitigation measures and the general election the fiscal deficit expanded to 9.1 percent of GDP in FY 2016/17 and is projected to decline slightly to 7.2 percent in FY 2017/18. The deficit is projected to further decline to 3.0 percent of GDP by FY 2021/22 **(Chart 2.10)**.

108. The projected consolidation is driven more by slowdown in ministerial expenditures and boosted by the dividends from the ongoing reforms to enhance domestic revenue mobilization.

Chart 2.10: Fiscal Consolidation Path, Fiscal Deficit a percent of GDP



Source: National Treasury

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109. The fiscal consolidation will support reduction in the nominal public debt on a net basis (as a percentage of GDP) from the preliminary 51.9 percent of GDP in the FY 2016/17 to 43.6 percent in the FY 2021/22.

2.3.1.2 Deficit Financing Policy

110. The main sources of funding for Government are from domestic and external official creditors. The Government will continue to diversify the sources of financial resources over the medium term by maintaining a presence in the international capital markets. The Government will utilize and maximize the official external sources for loans on concessional terms. Non-concessional and commercial external borrowing will be limited to development projects with high financial and economic returns.

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

112. Domestic borrowing remains one of the key sources of financing the Government's deficit. The borrowing plan will be anchored in the medium term debt management strategy to ensure public debt sustainability without crowding out the private sector. The Government will continue playing a key role in domestic debt market reforms to ensure the market remains vibrant and continues to deepen as it provides an opportunity for the private sector participation in accelerating the economic activities of the country. This will be achieved by ensuring transparency in the market through issuance of borrowing calendar.

2.3.1.3 Business Regulatory Reforms

113. "The Big Four" Plan requires brave steps to lower the cost of doing business across the country. In the last four years, tremendous progress has been made in this direction. As a result, Kenya's ease of doing business improved from position 129 in 2014 to position 80 in 2017 according to World Bank's Doing Business report. In addition, for two consecutive years (2016 and 2017), Kenya emerged as the third most reformed country in the world.

114. Out of the 11 indicators of ease of doing business, Kenya made six reforms during the year, among them: enhancing the ease of starting a business by merging formal procedures that small businesses need to comply with to register; reducing the cost of construction permits by eliminating clearance fees; easing payment of taxes through the iTax platform; and reducing the time for compliance through a single window system.

115. These reforms have helped to increase efficiency, local and foreign direct investments (FDI) which are vital for jobs creation. FDI levels have risen from US dollar 514 million in 2013 to US Dollar 2.6 billion in 2016, making Kenya one of the most preferred investment destinations in Africa.

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116. Going forward, the Government will build on the rapid progress by taking measures such as cutting the number and cost of permits and licenses at both National and County levels. This is expected to further improve our Doing Business ranking in line with our ambition of being among the top 50 nations by 2020.

2.3.1.4 Improving National Security

117. National security remains critical to economic stability and attracting investments, accelerating growth and in turn creating employment, especially for the youth. In light of this, the Government has in the last four years invested in better equipment, training and working tools as well as strengthened coordination among security agencies. The Government has also increased the numbers of Police Officers through annual recruitments. This has raised the ratio of police officers to citizens to one officer for every 407 citizens.

118. Going forward, the Government will build on the on-going security reforms by scaling-up investments in security infrastructures such as installation of Surveillance and Control System; equipping of the forensic laboratory; acquisition of 10,000 motorbikes for Chiefs and Assistant Chiefs; construction of ongoing and newly gazetted administrative units; installation of 3rd generation Identity Card System; modernisation of Government Press; provision of housing, patrol vehicles, training facilities. The Government will also undertake comprehensive registration and establishment of a National Population Register; reduction in alcohol, substances and drugs abuse; enhance the country's disaster preparedness; build capacity for effective and faster investigations; and strengthen partnership with communities.

2.3.2 Investing in Infrastructure Development to Unlock Growth Potential and Drive "The Big Four" Plan

119. Development of faster and cheaper means of transport for freight and passengers is critical for expansion of economic opportunities for employment and competitiveness of an economy. Investing in Infrastructure development will support achievement of the "The Big Four" Plan. The strategy will therefore, involve building on the on-going infrastructural development in road, rail, marine, air, energy, and ICT.

2.3.2.1 Further Expanding Road Network

120. Over the next five years, the Government intends to complete the 7,000km of roads currently under construction and work with County Governments to increase the coverage of rural access roads to enable farmers to get their produce to markets faster and cheaply. In addition, the Government is in the process of initiating the construction of the Mombasa-Nairobi six lane highway which will improve connectivity and enhance movement of people and goods between the two cities.

121. The Government will also focus on developing urban roads to decongest cities and major towns. For instance, the decongestion of Nairobi is ongoing with

dualling of the outer-ring road that is now complete and the dualling of Ngong Road Phase one which is on course.

2.3.2.2 Rail, Marine and Air Transport

Standard Gauge Railway

122. The completion of phase I of the Standard Gauge Railway (SGR) from Mombasa to Nairobi has improved the movement of Kenyans across the two cities. Currently, there are two SGR passenger trains operations per day with a capacity of 1,488 persons each. Since the inauguration of Madaraka Express in May 2017, more than 500,000 passengers have travelled the Mombasa-Nairobi route.

123. To improve efficiency in cargo transportation, the Government commissioned the SGR freight service in January 2018. On this service, four trains per day with a capacity of 4,000 tonnes per train will be running on a daily basis. This will reduce the cost of transportation and facilitate cheaper movement of freight between the two cities.

124. With Phase I of SGR completed, the Government has embarked on the Phase 2A (Nairobi – Naivasha). Already, detailed designs and financial mobilization of SGR Phase 2A has been done. Once completed, the railway line is expected to turn Naivasha into a magnet for SEZ investors and their tenants, offering a reliable freight service to haul raw materials and finished products between Naivasha and the Port of Mombasa for export purposes. In addition, in December 2017, HE The President launched the Inland Container Terminal in Nairobi to support the SGR Freight Cargo.

Sea Ports

125. To support the achievement of "The Big Four", the Government will enhance cargo handling and storage, and reduce the time to clear cargo. Having completed Phase I of the second container terminal at the port of Mombasa, the Government is currently focusing on Phase II, aimed at creating an additional berth which is 250 meters long on a draft of -15meters. In addition, under the Dongo Kundu Special Economic Zone, a free port is under consideration on an approximately 3,200 acre parcel of land to the West of the Port of Mombasa.

126. Further, the Government will continue to develop several commercial ports. In particular, the first three berths at the Lamu Port are on course and are expected to be ready by 2020. This facility will open up an alternative corridor linking the upper part of Africa, the Middle East and Europe. Others include, the development of Kisumu Port in order to harness opportunities for inter-country transport and trade among the East African countries around Lake Victoria.

Airports

127. The recent Category one status (CAT 1) awarded to Jomo Kenyatta International Airport (JKIA) emphasizes the Government's commitment to cement Kenya's position as the regional aviation hub. This is a historic milestone in the growth and development of civil aviation here in Kenya and in the East African

region. With this new status airline operators in Kenya and USA will now realise their long awaited ambition to operate directly to/from the USA. This will similarly be convenient to passengers who can now fly for longer distances in a shorter time.

128. Over the last four years, three new terminals have been completed at JKIA- Terminal 1A, Terminal 1E, and Terminal 2 and made fully operational thereby increasing the capacity of the Airport to the current 7.5 million annual passenger throughput. Further, the completion of the Isiolo International Airport will improve connectivity and enhance trade in the horn of Africa.

129. Going forward, to support the achievement of "The Big Four" Plan, the Government has embarked on remodeling and upgrading JKIA's Terminal 1B, C and D to raise its total passenger handling capacity to 10 million by the year 2020. Further, the Government will continue to develop a number of Airstrips to connect various parts of the Country as well as facilities which are meant to enhance connectivity with Kenya's neighboring Countries. This includes the rehabilitation and expansion of Lokichoggio Airport in Turkana County, Ikanga Voi Airstrip in Taita Taveta County, Kabunde Airport in Homabay County, Suneka Airstrip in Kisii County, Wajir Airport in Wajir County, Manda Airport in Lamu County and Nanyuki Airstrip in Laikipia County.

2.3.2.3 Enhancing Access to Adequate, Affordable and Reliable Energy Supply

130. Access to adequate, affordable and reliable energy supply is necessary to reduce cost of doing business, spur growth of enterprises and industries, and accelerate the realization of "The Big Four" Plan.

131. To this effect, the Government targets 100 percent access to affordable and reliable energy by the year 2022. In order to realize this, the Government is exploiting locally available energy sources including the vast potential of renewable energy. The development of power plants particularly the 310 MW Lake Turkana Wind Power Plant, and the two units in Olkaria that are expected to add approximately 210 MW to the grid.

132. Going forward, the Government will continue to invest in the construction of more electricity substations, transmission lines and distribution of transformers to boost the availability of electricity and to sustain demand.

2.3.2.4 Promoting the use of Information, Communication and Technology (ICT)

133. Promoting the use of ICT is important as a means of reducing the cost of doing business and enhancing efficiency in service delivery. In light of this, over the last four years, the Government has implemented a number of initiatives to enhance the use of ICT including: the expansion of Optic Fibre Backbone Infrastructure across the Counties in order to facilitate internet connectivity; recruiting and training of ICT graduates under the Presidential Digital Talent Programme aimed at enhancing ICT skills among the youths to enhance their employability; training of 10,000 youth on online jobs under Ajira Programme;

and leveraging on ICT to improve Government service delivery through initiatives such as e-Procurement, Huduma Kenya, e-Citizen, iTax and IFMIS.

134. Going forward, the Government will build on the progress made so far to improve ICT infrastructure and increase ICT skills and innovation in order to drive the attainment of "The Big Four" Plan. The strategy will focus on expanding ICT Infrastructure connectivity by further rolling out the National Optic Fibre Backbone (NOFBI) Broadband; connecting all State Departments to a Unified Government Communications System; management and improving cyber security; and increasing the number of youths trained under the Presidential Talent Initiative and Ajira Kenya initiative and facilitating their absorption to the job market.

135. Further, the Government will continue to increase online access to Government records through digitizing Government records; continue with the ongoing construction of Konza Complex and provide funds to facilitate provision of infrastructure that will attract investors to the Konza Techno City project.

2.3.3 Investing in Sectoral Transformation for Broad Based Sustainable Economic Growth

2.3.3.1 Promoting Environmental Conservation and Water Supply

136. Environmental conservation and access to adequate supply of clean water is fundamental for the achievement of "The Big Four" Plan. Indeed, a clean environment and adequate safe drinking water and sanitation do complement efforts towards improved primary health care and productivity of labour. In addition, adequate supply of water is essential for increased agricultural production, manufacturing activities and serving the rapidly urbanizing population.

137. For this reason, the Government working with County Governments will continue to invest in clean water supply, prioritize on construction of large-scale dams across the country to increase water storage, complete ongoing water projects in urban and rural areas in order to increase the number of people connected to safe piped water, protect wetlands and water towers and construct water harvesting and storage infrastructure across the country. In addition, the Government will continue to expand sanitation infrastructure in the urban areas by connecting more households with sewerage and establish proper waste management system.

138. In recognition of the serious threats posed by climate change, the Government will continue to develop instruments for climate proofing vulnerable sectors of the economy through enhancing mitigation and adaptation measures. In particular, the Government is developing innovative financing mechanisms such as Kenya Climate Change Fund as provided for in the Climate Change Act, 2016. The Fund will be key in mobilizing and channeling climate finances at both national and international level. In addition, Kenya is also tapping into the Green Climate Fund and the Green Bonds Market. Indeed, Kenya is one of the first countries that is at an advanced stage for the issuance of Green Bonds. The Kenya Green Bond Programme is aimed at positioning key financial institutions to tap the

growing investor demand for green investments and build the requisite structures and frameworks to tap into the Green Bond market.

139. Continuing with these efforts and with the aim of avoiding health and environmental effects resulting from the use of plastic bags, the Government banned the use, manufacture and importation of all plastic bags used for commercial and household packaging. So far, the ban has cut plastic pollution substantially. After the plastic ban milestone, the Government is organizing to host the East African Framework Agreement on Air Pollution, building on the Nairobi Agreement of 2008.

140. Going forward, the Government will continue to enforce the ban on use and manufacture of plastic bags, maintain the use of green energy, fight poaching and illegal trade in wildlife and wildlife products, and mainstream climate change mitigation and resilience measures into all its projects and programmes.

2.3.3.2 Stimulating Tourism Recovery, Sports, Culture, and Arts

141. Tourism transformation and its integration with sports, culture and arts are critical for revenue generation, inclusive growth and employment creation. Tourism as an enabler to "the Big Four Plan" will be availing the foreign exchange required for importation of machinery to facilitate manufacturing and any other imports besides stabilizing the foreign exchange.

142. Consequently, the Government has put in place various incentives to boost the sector, among them; giving visa on arrival for all Africans visiting Kenya and the introduction of Charter Incentive Program and Air Passengers subsidy (USD 30 rebates per passengers). The program is aimed at recovering lost business from tourist charter aircrafts that used to terminate at Moi International and Malindi airports. Waiving of visa fees for children under the age of 16 years is also meant to encourage family travel to Kenya. In addition, VAT exemption on Park Fees and the reduction in Park entry fees from USD 90 to USD 60 are effected to encourage both local and international tourists to visit our National Parks.

143. Going forward, in order to ensure sustainability in the tourism sector, the Government in partnership with key stakeholders will continue implementing the following strategies: revamping and refreshing beach and safari products; developing world class national parks and reserves; mainstreaming conservancies into the tourism value chain; developing heritage tourism product (refurbishment of Railway Museum, Fort Jesus and Mama Ngina Water Front); sports tourism; business and conference tourism; adventure tourism; city tours; wellness and yoga; medical and health tourism, among others. Development of infrastructure especially in tourism areas; marketing of Kenya as a viable tourism destination and strengthening presence in the new and emerging markets (China & India) as well as regionally (Nigeria & South Africa).

144. In addition, the Government will continue to train and nurture talented youths in various sports discipline and sensitize them on anti-doping. In arts and culture, the Government will continue to disseminate heritage knowledge, enhance

film monitoring and enforcement by issuing film regulatory licenses; and conducting random inspections to ensure inappropriate content is not distributed to the public.

2.3.3.3 Sustainable Management of Land for Social-Economic Development

145. Land as a factor of production is critical to economic, social, political and cultural development. Secure access to land, sustainable land use planning and equitable distribution of land remain immensely important for food security, employment creation and the socio-economic development of the country.

146. In order to support the attainment of "the Big Four" Plan, the Government will establish a Land Bank to set aside land for commercial use such as industrialization and the construction of 500,000 affordable and decent houses. The Government will also fast track finalization of the Land Value Index Bill so as to make sure that Kenyans are informed of the indicative prices of land in different parts of the country, so as to control speculation.

147. In addition, the Government will provide alternative forms of compensation such as equivalent value of land or government bonds, instead of focusing on monetary compensation. Further, the Government will fast track the approval of regulations for alternative dispute resolution mechanism. This will ensure that the public have an alternative method to resolving land disputes which is cheaper and faster.

2.3.4 Enhancing Service Delivery through Devolution

148. Successful implementation of programmes and reforms under "The Big Four" Plan requires close collaboration between the National and the County Governments. In order to ensure that County Governments effectively play their role, support from the National Government towards devolution will focus on three key areas: i) enhanced financing for County Governments; ii) development of legal and regulatory frameworks for Public Finance Management (PFM); and, iii) technical support and capacity building for the Counties. The three areas which are aimed at enabling Counties improve delivery services are elaborated below:

2.3.4.1 Enhanced Financing for County Governments

149. Since FY 2013/14, more than Ksh 1 trillion has been transferred to the 47 Counties supporting service delivery and establishment of critical offices as stipulated in the Constitution. Over the last four years, it is evident that these transfers are having positive impacts on Kenyans at the grass root level through improved livelihoods and better economic performance at the local level. In general, devolution has improved public participation in decision making where policies and development programmes are concerned. Moving forward, the National Government is committed to boost funding for devolved functions by:

- enhancing fiscal transfers to the Counties, including through sustained growth in equitable share allocations, based on revenue raised nationally as stipulated in the Constitution; and,

- Continued supplemental financing of devolved functions, through additional conditional allocations, including those sourced from development partners.

2.3.4.2 Development of Legal and Regulatory Frameworks for Public Finance Management

150. Since the establishment of County Governments, the National Government has facilitated the development of various legal and regulatory frameworks intended to support devolution. Those already finalized include:

- a framework for borrowing, which is contained in the PFM (County Governments) Regulations, 2015;
- the Public Private Partnerships (PPP) Act, 2013, which enables County Governments to initiate local PPP arrangements, as long as the contracts do not generate unmitigated contingent liabilities at either level of Government;
- guidelines for the management of intergovernmental fiscal transfers, which clarify a cohesive oversight framework for fiscal flows between the two levels of Government, in line with the Constitution and the PFM Act, 2012; and,
- Guidelines on the Administration of the Equalization Fund, which has enabled operationalization of the Equalization Fund and ongoing implementation of projects.

2.3.4.3 Technical Support and Capacity Building for County Governments

151. To date, the National Government has implemented a number of technical support and capacity building initiatives aimed at supporting devolution. Among other capacity building initiatives:

- a curriculum was prepared for County PFM training and a programme for rolling out training in the counties were developed by the National Treasury, intended to enhance capacity of County Governments in PFM;
- the National Treasury continues to dispatch technical staff to the Counties to support in implementing Integrated Financial Management and Information System (IFMIS); and,
- pursuant to a directive from the National and County Government Coordinating Summit, an analysis was undertaken of functions of the National and the County Governments, with the goal of eliminating duplication of functions as well as wastage arising therefrom.

152. At the moment, a major capacity building/performance grant programme, which aims to strengthen institutions and systems for devolved service delivery at

both levels of Government is under implementation. The Kenya Devolution Support Programme (KDSP) is anchored under the National Capacity Building Framework (NCBF), and it targets results in four priority areas namely: i) strengthening PFM systems; ii) strengthening County human resource management; iii) improving County planning and M&E systems; and, iv) civic education and public participation. A major focus of capacity building moving forward is on budgeting and financial reporting.

2.3.5 Investing in Quality and Accessible Education and Social Safety Net

153. The Government in supporting achievement of "The Big Four" Plan, will continue to foster inclusive growth, reduction of poverty and inequality by continuously investing in quality and accessible healthcare, relevant education and strengthening the social safety net.

2.3.5.1 Investing in Quality and Relevant Education for all Kenyans

154. Provision of quality and relevant education and training is essential in equipping Kenyans with the skills and know how necessary to spur industrialization.

155. For this reason, the Government will focus on improving and expanding the industry-led Technical and Vocational Education and Training (TVET) Colleges and Universities in order to equip the youth with relevant skills required to drive the industrialization agenda. The Government's strategy will involve construction of more technical and vocational colleges in all the 290 Constituencies and equipping them with appropriate training equipment. The Government will also develop more skilled and competitive workers through the planned "paid for" internship program that will lead to the absorption of more than 100,000 young Kenyans into the job market every year.

156. On curriculum reforms, the Government is currently piloting the new curriculum in nursery and lower primary schools. The next stages will involve developing curriculum designs and syllabi, curriculum support materials and teacher education curriculum ahead of the national roll-out. Once completed, the new curriculum will prepare learners to meet the 21st century needs, promote a focus on learning and competencies and develop quality and relevant skills for the job market.

157. Going forward, the Government's strategy will focus on: construction and improvement of infrastructure in all learning institutions; enhancement of capitation and grants to institutions; developing educational delivery standards, rationalizing teacher deployment and strengthening teachers' supervision, enhancement of ICT integration in education at all levels and promotion of science, technology and innovation.

2.3.5.2 Strengthening the Social Safety Nets

158. The Government continues to address the various challenges facing vulnerable groups so as to build resilience and promote affirmative action for all. Over the medium term, the Government will continue building capacities of communities and register Self Help Groups and Beneficiaries Welfare Committees (BWCs) providing them with formal recognition and opportunities to link with Micro Finance Institutions (MFIs) and non-state actors; develop infrastructure of 12 Vocational Rehabilitation Centres (VRCs); establish the National Development Fund for Persons with Disabilities (PWDs) decentralization of the single registry for the National Safety Net Programme; and finalise integration of the existing Information Management Systems for the CT-OVC, OPCT and PWSD-CT programs into a one-stop system.

2.3.5.3 Empowering Youth, Women and Persons with Disabilities

159. The Government targets to continue promoting gender and youth empowerment, improved livelihoods for the vulnerable groups and people living with disabilities through the National Youth Service (NYS) program, the social transformation program, and SACCOs in order to attain sustainable youth led enterprises and promote employment creation services.

160. The Government will also continue expanding opportunities for the youth, women and persons with disabilities in procurement using the Access to Government Procurement Opportunities (AGPO) and designate resources for the establishment of youth empowerment centers to mentor the youth on leadership, national values, and entrepreneurship skills.

161. Empowering youths, women and people with disabilities to start and run Micro, Small and Medium Scale Enterprises (MSMEs) is an important agenda of the Government. The Government has been supporting these groups through affirmative action funds such as Uwezo Fund, the Youth Enterprise Development Fund, the Women Enterprise Fund and the Micro and Small Enterprise Authority. However, the fragmented approach to supporting, financing and developing MSMEs, hinders their incubation and take off, particularly those owned and managed by youth, women, persons with disabilities and other minorities. In this regard, the Government is in the process of reforming and consolidating these funds into one robust Fund whose objective is to support MSMEs, with a greater emphasis to those owned by youth, women and persons with disabilities. This Fund forms a critical link between MSMEs and socio-economic empowerment agenda of the Government that feeds into the broader focus of Government over the medium term, and in particular, "the Big 4" Plan.

2.3.6 Entrenching Structural Reforms to Support "The Big Four" Plan

2.3.6.1 Strengthening Governance and the Fight Against Corruption

162. The Government will continue to strengthen various institutions that are mandated to fight corruption in the country, implement reforms on good governance and enhance the capacity to recover corruptly acquired assets. The Government will also continue with the implementation of the measures articulated in the National Call to Action against corruption.

163. The strategy will also strengthen the implementation of Mwongozo Code of Governance for State Corporations; support and enhance investment in the capacity of the judiciary to expedite the hearing and disposal of economic crimes cases and ensure that the timelines for the conclusion of economic crimes cases are radically reduced to less than 6 months.

2.3.6.2 Deepening Public Financial Management Reforms

164. Achievement of "The Big Four" Plan necessitates prudent management of the available public resources. As such, the Government will continue to strengthen expenditure control and improve the efficiency of public spending through public financial management reforms aimed at enhancing transparency and accountability in order to provide fiscal space for financing priority projects.

165. The focus will be to fast track consideration of reports on budget implementation, audited accounts of the National Government, County Governments and State Corporations; expansion of automation of public service delivery systems; digitization of all payments for public services; review of taxation, duty and customs frameworks to ensure predictable, fairer and transparent tax system. These activities will go a long way in entrenching good governance in public institutions and ensuring accountability of public resources.

166. To enhance automation of public payments, the Government will finalize the integration of IFMIS with the electronic Project Monitoring Information System (e-ProMIS), KRA and CBK Systems; finalize the review of the IFMIS e-procurement module in line with the new requirements under the Public Procurement and Asset Disposal Act 2015; enhance the capacity of IFMIS users in the National and County Governments on cash management, automatic bank reconciliation and the automated exchequer release process; and implementation of the IFMIS Disaster Recovery Solution.

167. The Integrated Customs Management System (iCMS) and Excisable Goods Management System (EGMS) will enhance the efficiency of custom clearance processes and procedures of cargo entering into Kenyan local market and the rest of East African countries. The system minimizes manual transactions and thus fast cargo clearance at all border controls and is expected to increase cargo volume to East Africa through Kenya Ports Authority.

2.3.6.3 Fostering Financial Sector Developments and Reforms

168. A robust financial sector is central to the realization of the "Big Four" Plan. The Government, will continue to implement measures and reforms aimed at further deepening and strengthening the financial sector.

169. Great strides have been made in the financial sector. In particular, the passing of the Nairobi International Financial Centre Act, 2017 in July 2017 which creates the Nairobi International Financial Centre Authority. This has laid ground for the positioning of Nairobi as an International Financial Centre. The Act will thus provide the legal framework to facilitate and support the development of an efficient and globally competitive financial services sector in Kenya. With an action plan already in place, going forward, the Government will expedite the operationalization of the NIFC.

170. To enhance access to credit, in May 2017, the Moveable Property Security Rights Bill was assented into law. With the Act in place, lenders can now provide credit using moveable properties as collateral. The Act also creates an online electronic collateral registry. In addition, The Government will expedite the enactment of the Kenya Credit Guarantee Scheme Bill to further support access to credit by Small and Medium Enterprises and guide structured implementation and development of a vibrant Credit Guarantee Scheme that embraces a Public-Private Partnership Structure.

171. Building on the progress made thus far, the Government will continue to strengthen financial sector supervision by expediting the enactment of the Financial Services Authority (FSA) Bill which will consolidate existing non-bank financial sector regulators and create a new market conduct framework.

172. Further, to strengthen bank supervision and regulatory framework, the Government will strengthen full implementation of risk based supervision to enable regulators to cope with new risks; enhance Kenya's position as an Islamic Finance Hub; and further extend the credit reporting framework to include credit providers from outside the financial sector.

173. To deepen the capital markets, the Government will expedite the enactment of the Securities, Investments and Derivatives Bill; expand the new derivatives market; strengthen capital markets infrastructure and institutions; diversify capital markets products and services; unify the existing two Central Securities Depositories under a single Central Securities Depository (CSD); and support infrastructure financing by Counties and National Government through the capital markets. In addition, the Government will establish an Islamic Finance Council with a view of providing a clear Islamic Finance Governance Framework in order to ensure consistency and certainty in design and issuance of Islamic financial products and services.

174. To exploit Kenya's established lead in digital finance, the Government will create a national digital infrastructure that will provide financial solutions across all parts of the economy. This infrastructure will involve strengthening of the national digital identity system; real-time money transfer; enhancing retail infrastructure for cashing in and cashing out of digital money; enhancing of cash

conversion; development of new universal national payments addressing system and single payments; and digitisation of government payments.

175. To provide opportunities for individual savings and personal investments in health, housing, education and other sectors of the economy, the government will catalyze the mobilization of long-term domestic funds. Insurance and pension funds are currently the most important potential sources of such funds. To achieve this, new products will be developed, reforms in the insurance and pension's legal frameworks and regulations will be initiated, and training for institutional investors on these products will be conducted. By so doing the percentage of long term assets held will thus increase.

176. To protect consumers of financial products, a comprehensive consumer protection framework for transparency, fair treatment and recourse across all sub sectors will be developed. The major emphasis here will be on building cross-sector market conduct and consumer protection regulation to incentivize financial sector providers to develop financial solutions that match target consumer needs which are delivered appropriately. This will be supported by the roll-out of national financial consumer education and awareness initiatives.

III. FY 2018/19 BUDGET AND THE MEDIUM TERM

3.1. Fiscal Framework Summary

177. The FY 2018/19 budget framework is intended to continue the fiscal consolidation agenda which will bolster our debt sustainability position and give flexibility for counter cyclical fiscal policy interventions when appropriate.

Revenue Projections

178. The fiscal framework for the FY 2018/19 budget is based on the Government's policy priorities and macroeconomic policy framework set out in Chapter I and Chapter II.

179. In the FY 2018/19 revenue collection including Appropriation-in-Aid (AiA) is projected at Ksh 1,853.9 billion (18.9 percent of GDP) from Ksh 1,643.1 billion (19.0 percent of GDP) in the FY 2017/18 **(Annex Tables 2 and 3)**. This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues are projected at Ksh 1,688.5 billion (17.2 percent of GDP) in FY 2018/19 up from Ksh 1,486.3 billion (17.2 percent of GDP) in FY 2017/18.

Expenditure Projections

180. In the FY 2018/19, overall expenditure and net lending are projected at Ksh 2,492.2 billion (25.5 percent of GDP) from Ksh 2,323.1 billion (26.8 percent of GDP) in the FY 2017/18. These expenditures comprises among others, recurrent of Ksh 1,501.5 billion (15.3 percent of GDP).

181. In terms of percentage of GDP, the wages and salaries bill for teachers and civil servants including the police is expected to reduce to 4.5 percent of GDP in the FY 2018/19 from 4.6 percent in the FY 2017/18.

182. The ceiling for development expenditures including foreign financed projects (including net lending) in nominal terms amounts to Ksh 612.9 billion in the FY 2018/19. Most of the outlays are expected to support critical infrastructure. Part of the development budget will be funded by project loans and grants from development partners, external borrowing, while the balance will be financed through domestic resources.

183. A contingency of Ksh 5.0 billion is provided for in the FY 2018/19 budget. In addition, Ksh 4.7 billion is provided for as conditional grants to marginalized areas.

Deficit Financing

184. Reflecting the projected expenditures and revenues, the fiscal deficit in the FY 2018/19 (excluding grants), amount to Ksh 638.2 billion (equivalent to 6.5 percent of GDP). Including grants, the overall fiscal deficit is projected at Ksh 587.7 billion (6.0 percent of GDP) in FY 2018/19 compared to the estimated overall fiscal balance of Ksh 620.8 billion (7.2 percent of GDP) in FY 2017/18. The deficit excluding SGR related expenditures in the FY 2018/19 is projected at

5.5 percent of GDP which is lower than the projected 6.5 percent of GDP in FY 2017/18.

185. The fiscal deficit in FY 2018/19 will be financed by net external financing of Ksh 214.7 billion (2.2 percent of GDP), net domestic borrowing of Ksh 368.8 billion (3.8 percent of GDP) and other net domestic receipts of Ksh 4.2 billion.

3.2 Budgetary Allocations for the FY 2018/19 - 2020/21 MTEF

186. The budgetary allocations to the three arms of Government including sharable revenues to County Governments is summarised in **Table 3.1:**

Table 3.1: Summary Budget Allocations for the FY 2018/19 - 2020/21 MTEF (Ksh Million)

	2017/18	2018/19	2019/20	2020/21
1. National Government	1,566,493.6	1,607,944.1	1,717,517.6	1,828,717.8
2. Consolidated Fund Services	356,892.4	461,916.9	493,401.1	630,102.8
3. Judiciary	18,039.6	17,783.2	20,073.7	17,575.2
4. Parliament	36,043.0	31,768.9	32,797.5	34,546.4
5. County Governments, inc conditional	345,681.0	372,741.9	372,163.5	381,908.9
TOTAL	2,323,149.6	2,492,154.9	2,635,953.4	2,892,851.1
	% Share in Total Expenditure			
1. National Government	67.4%	64.5%	65.2%	63.2%
2. Consolidated Fund Services	15.4%	18.5%	18.7%	21.8%
3. Judiciary	0.8%	0.7%	0.8%	0.6%
4. Parliament	1.6%	1.3%	1.2%	1.2%
5. County Governments	14.9%	15.0%	14.1%	13.2%
TOTAL	100.0%	100.0%	100.0%	100.0%

Source: National Treasury

Key Priorities for the 2018/19 Medium Term Budget

187. The National Treasury issued guidelines directing Ministries, Departments and Agencies (MDAs) to prioritize public investments geared to the realisation of "The Big Four" Plan, namely supporting value addition in the manufacturing sector to raise the share to GDP to 15 percent by 2022; food security and improved nutrition by 2022; achievement of Universal Health Coverage; and constructing at least five hundred thousand (500,000) affordable houses by 2022. These are the Government priorities aligned to the MTP III of the Vision 2030.

188. In this regard, resource allocations will be aligned to development programmes/projects under the "The Big Four" Plan of the Government and resources earmarked for these interventions will be ring-fenced over the medium term.

189. In addition, we have factored additional resources with a special focus to the following over the medium-term:

- **Social Protection, Culture and Recreation** – resources to double the number of vulnerable citizens supported through the cash transfer

programme (Inua Jamii); and provision of health insurance cover through the NHIF for all citizens above the age of 70. The allocation to this sector is expected to increase by 14.7 percent in FY 2018/19 and by 7.0 percent over the medium-term. This will build resilience and promote affirmative action for addressing challenges facing vulnerable groups and communities.

- **Education** – enhancement of the Free Primary Education programme to include Free Day Secondary Education. The allocation to this sector is expected to increase by 14.2 percent in FY 2018/19 and by 7.1 percent over the medium-term.

- **Health** – expansion of the free maternity programme to include NHIF cover for postnatal care for one year. The allocation to this sector is expected to increase by 13.4 percent in FY 2018/19 and by 6.0 percent over the medium-term.

- **Agriculture, Rural and Urban Development** – expansion of food and agricultural production will require an increase in the fertilizer subsidy initiative to reduce the cost to farmers, and support to small-holder agricultural irrigation by constructing large-scale dams. The allocation to this sector is expected to increase by 1.5 percent in FY 2018/19 and by 4.5 percent over the medium-term.

Allocation Baseline Ceilings

190. The baseline estimates reflects the current ministerial spending levels in sector programmes. In the recurrent expenditure category, we initiated a Zero Based Budgeting approach which involved justifying each allocation, including provisions for salaries and other operational expenditures and non-discretionary expenditures.

191. Development expenditures have been prioritized on the basis of the 'The Big Four' initiatives, the updated Third MTP of Vision 2030 priorities and the strategic policy interventions of the Government. The following criteria was used in apportioning capital budget:

- *The 'Big Four' Plan*: priority was given to allocations that support the realisation of "The Big Four" Plan either directly as drivers or indirectly as enablers, namely supporting value addition in the manufacturing sector; food security and improved nutrition; achievement of Universal Health Coverage and affordable housing.

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

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

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

Finalization of Spending Plans

192. The finalization of the detailed budgets will entail thorough scrutiny of individual MDAs budgets to ensure that the allocations for FY2018/19 and the Medium-Term have been realigned to reflect the "Big Four" Plan either directly (as drivers) or indirectly (as enablers). In the event that additional resources become available, Government will utilize them to accommodate key national strategic priorities. Specifically, the following will receive priority:

- Projects/services or interventions that will serve as drivers or enablers for achievement of the "Big Four" Plan in the areas of manufacturing, food security, affordable housing and Universal Health Coverage
- Interventions identified during the stakeholders consultation for the FY 2018/19 budget and over the medium term
- Strategic interventions and other policy interventions to enhance regional integration and social equity; and
- Specific consideration to enhance job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

3.3 Details of Sector Priorities

193. **Table 3.2** provides the projected baseline ceilings for the FY 2018/19 and the medium term, classified by sector.

Table 3.2: Medium Term Sector Ceilings, 2018/19 - 2020/21 (Ksh Million)

	2017/18 Printed Estimates			2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Rec.	Dev.	Total	Rec.	Dev.	Total	Rec.	Dev.	Total	Rec.	Dev.	Total
Agriculture, Rural & Urban Development	17,311	21,086	38,397	17,096	21,885	38,981	18,507	23,336	41,842	19,306	24,497	43,802
Energy, Infrastructure & ICT	67,222	348,522	415,744	77,750	321,883	404,633	81,554	338,936	420,490	84,941	337,319	422,260
General Economic & Commercial Affairs	9,610	10,185	19,794	9,094	11,916	21,010	9,645	13,341	22,986	9,788	13,776	23,564
Health	30,721	30,979	61,700	34,807	35,179	69,987	37,417	35,403	72,820	37,725	35,420	73,146
Education	350,149	24,839	374,987	400,736	27,541	428,277	419,767	26,559	446,326	432,571	26,813	459,384
Governance, Justice, Law & Order	176,137	26,414	202,551	168,720	24,927	195,648	175,062	26,452	201,514	179,783	23,464	203,247
Public Admin. & International Relations	165,720	104,471	270,191	166,023	107,538	273,583	177,273	110,254	287,527	175,582	109,425	285,006
National Security	130,178	45	130,223	125,697	45	125,742	139,688	45	139,733	143,799	45	143,844
Social Protection, Culture & Recreation	20,652	25,526	46,178	29,434	23,492	52,959	31,277	25,005	56,282	31,362	24,952	[illegible]
Environment Protection, Water & Natural Resources	22,788	50,798	73,586	22,921	54,287	77,708	23,908	56,279	80,187	24,087	58,559	[illegible]
TOTAL	990,487	642,865	1,633,352	1,052,279	628,693	1,688,528	1,114,098	655,609	1,769,707	1,138,944	654,269	1,7
	% Share of Total Expenditures											
	2017/18 Printed Estimates			2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Rec.	Dev.	Total	Rec.	Dev.	Total	Rec.	Dev.	Total	Rec.	Dev.	Total
Agriculture, Rural & Urban Development	1.1%	1.3%	2.4%	1.0%	1.3%	2.3%	1.0%	1.3%	2.4%	1.1%	1.4%	2.4%
Energy, Infrastructure & ICT	4.1%	21.3%	25.5%	4.6%	19.1%	24.0%	4.6%	19.2%	23.8%	4.7%	18.8%	23.5%
General Economic & Commercial Affairs	0.6%	0.6%	1.2%	0.5%	0.7%	1.2%	0.5%	0.8%	1.3%	0.5%	0.8%	1.3%
Health	1.9%	1.9%	3.8%	2.1%	2.1%	4.1%	2.1%	2.0%	4.1%	2.1%	2.0%	4.1%
Education	21.4%	1.5%	23.0%	23.7%	1.6%	25.4%	23.7%	1.5%	25.2%	24.1%	1.5%	25.6%
Governance, Justice, Law & Order	10.8%	1.6%	12.4%	10.0%	1.5%	11.6%	9.9%	1.5%	11.4%	10.0%	1.3%	11.3%
Public Admin. & International Relations	10.1%	6.4%	16.5%	9.8%	6.4%	16.2%	10.0%	6.2%	16.2%	9.8%	6.1%	15.9%
National Security	8.0%	0.0%	8.0%	7.4%	0.0%	7.4%	7.5%	0.0%	7.5%	8.0%	0.0%	8.0%
Social Protection, Culture & Recreation	1.3%	1.6%	2.8%	1.7%	1.4%	3.1%	1.8%	1.4%	3.2%	1.7%	1.4%	3.1%
Environment Protection, Water & Natural Resources	1.4%	3.1%	4.5%	1.4%	3.2%	4.6%	1.4%	3.2%	4.5%	1.3%	3.3%	4.6%
TOTAL	60.6%	39.4%	100.0%	62.3%	37.2%	100.0%	63.0%	37.0%	100.0%	63.5%	36.5%	100.0%

Source: National Treasury

194. The medium term expenditure framework for 2018/19 – 2020/21 ensures resource allocation based on prioritized programmes aligned to the MTP III. It also focuses on strategic policy initiatives of the Jubilee Administration to accelerate growth, employment creation and poverty reduction.

Agriculture, Rural and Urban Development Sector

195. The Sector plays a key role in accelerating economic growth through enhancing food and nutrition security; income generation; employment and wealth creation; and foreign exchange earnings. The sector also contributes significantly to socio-economic growth and development through forward and backward linkages with other priority sectors of the economy.

196. During the FY 2018/19-2020/21 MTEF period, the Sector will continue to implement policies aimed at cushioning the agriculture sector from exogenous shocks and ensuring food security. The focus will be redesigning subsidies to ensure they target improvements in food yields and production quality; facilitating large scale commercial agriculture to help diversify staples; addressing arable land

ownership and utilization; expansion of irrigation schemes and securing water towers and river ecosystems. In addition, fisheries, aquaculture and Blue Economy policies, infrastructure and capacities will be developed and implemented. The Sector will also fast-track the approval of National Land Use Policy to enable sustainable and productive use of land as enshrined in the Constitution.

197. In order to implement the prioritized programmes, the Sector has been allocated Ksh 38.981 billion, Ksh 41.842 billion and Ksh 43.802 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

Energy, Infrastructure and Information, Communication and Technology Sector

198. The sector aims at sustaining and expanding cost-effective public utility infrastructure facilities and services in the areas of energy, maritime, transport, petroleum, ICT in line with the priorities in the Constitution of Kenya and the MTP III.

199. , Some of the major projects for the sector targeted for implementation in FY 2018/19-2020/21 include: 2,946 MW of additional installed electricity generation capacity; Connecting all Kenyans to electricity; Northern Corridor Transport Improvement Project; Lamu Port Southern Sudan and Ethiopia Transport corridor (LAPSSET); Phase 2 of the Standard Gauge Railway; Konza Techniopolis City; E-Commerce Hub; National Optic Fiber Backbone Infrastructure (NOFBI) Phase II, promotion and development of the maritime sector; East African Trade and Transport Facilitation Projects and County Connectivity; exploration and appraisals in oil blocks and Early Oil Monetization of Crude Oil to enhance early commercialization of the crude oil discoveries; and provision of offsite infrastructure for the development of low cost houses.

200. In order to implement the prioritized programs, the Sector has been allocated Ksh 404.633 billion, Ksh 420.490 billion and Ksh 422.260 billion for the financial years 2018/19, 2019/20 and 2020/21 respectively.

General Economic and Commerce Affairs Sector

201. During the FY 2018/19 – 2020/21 MTEF period the sector focus will be, among others, to: Operationalize the Special Economic Zones (SEZ) Act 2015; develop new standards by KEBS; Increase credit disbursed to the private sector; install new milk processing machinery and equipment at New KCC; Develop Risk Based Supervision system (RBS) for Sacco Societies Regulatory Authority (SASRA);Develop an Integrated information management system for co-operatives; Improve accessibility of agricultural products/commodities to markets; equip Weights & Measures laboratories; Investigate and prosecute contraband and counterfeit cases; Facilitate potential and existing enterprises including youth and women in export business to increase exports; Comply with harmonized EAC tariffs and Common External Tariff; Reduce Non-Tariff Barriers; Commission One Stop Border Posts (OSBP) and establish a Monetary Institute for the East African Community; Increase the number of tourist establishments; Hold cultural tourism festivals; Construct Ronald Ngala Utalii College; and promote tourism to increase earnings.

202. The Sector aims at creating employment opportunities and wealth creation for poverty reduction, overseeing the fast tracking of the regional integration initiatives and promotion of equity among Kenyans. This is expected to be achieved through creating an enabling environment for business, mobilization of resources for investments and industrial development; promotion of exports; promotion of sustainable tourism; and deepening of the EAC integration.

203. During the FY 2018/19-2020/21 MTEF period, the Sector aims to: create enabling environment to promote and facilitate industrial development through value addition and investment; provide standards for industrial products and incubation services to support MSMEs; promote co-operative sector development and improve governance and management of co-operative societies; promote trade, broaden export base and markets as well as undertake country branding; coordinate and monitor implementation of the EAC Council decisions and regional programmes; develop tourism products and market Kenya as a tourist destination both locally and internationally and provide efficient service delivery. Other measures to support tourism will include: tourism marketing and promotion; tourism product development and diversification; tourism standards and regulation; human resource development for the tourism sector; tourism infrastructure development; and tourism financing and investment.

204. To implement the prioritized programmes, the Sector has been allocated Ksh 21.010 billion, Ksh 22.986 billion and Ksh 23.564 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

Health Sector

205. Although the Constitution of Kenya 2010 devolved some of the health functions to the County Government, Schedule 4 assigns the National Government functions pertaining to health policy; national referral health facilities; and capacity building and technical assistance to counties. Therefore, the health sector aims at attaining the highest possible health standards in a manner responsive to the population needs by supporting provision of equitable, affordable and quality health and related services at the highest attainable standards to all Kenyans.

206. Some of the key projects that will be implemented in the 2018/19 to 2020/21 MTEF period will be geared towards the following: scaling up Universal Health Coverage (UHC) initiatives including the Linda Mama (free maternity health services), subsidies for the poor, elderly and vulnerable groups and reducing out of pocket/catastrophic health expenditures through reforming the provider payment mechanisms; improving quality of healthcare through the revamping and expansion of health infrastructure, including expanding the categories of specialized medical equipment to include other components and areas not covered in Phase 1 of MES and establishment of centres of excellence in health, health commodity storage centres, new specialized health facilities and laboratories; building capacity in human resources for health at all levels of the healthcare system, including transforming the KMTC into a centre of excellence in training middle level health workers and the strengthening of the community health components.

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207. Others include improving reproductive, maternal, neonatal, child and adolescent Health (RMNCAH) through increased immunization, improved nutrition, increased access to family planning services and improved quality of health services; ending AIDS, TB, Malaria and Non-Communicable Diseases (NCDs) as a public health threat by 2030 through cost effective and transformative prevention interventions; increase access to national referral health facilities and specialised services, including mental health and spinal injury health services; strengthening health research for improved quality of healthcare; increased quality of health services through availability of norms and standards, and enhanced regulations; and develop the medical tourism industry to tap into the global multi-billion medical and health tourism business.

208. In order to implement the prioritized programmes, the Sector has been allocated Ksh. 69.987 billion, Ksh 72.820 billion and Ksh 73.146 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

Education Sector

209. Expansion of access to education and training is at the heart of the Government's commitment to our children's future. In this regard, the Government continues to increase resources for early childhood development, improve basic education outcomes and step up support to TVET colleges and universities.

210. To meet its goal as well as contribute to economic growth, the sector has prioritized the following programmes for the 2018/19 to 2020/21 MTEF Period: construction and improvement of infrastructure in all learning institutions, enhancement of capitation and grants to institutions; supporting curriculum reforms and enhancement of examination assessment and certification; enhancement of ICT integration in education at all levels and promotion of science, technology and innovation.

211. Further, to support the attainment of "the Big Four" Plan, the Government will focus on improving and expanding the industry-led Technical and Vocational Education and Training (TVET) Colleges and Universities in order to equip the youth with relevant skills required to drive the industrialization agenda. The Government's strategy will involve construction of more technical and vocational colleges and equipping them with appropriate training equipment.

212. In order to implement the prioritized programmes, the Sector has been allocated Ksh 428.277 billion, Ksh 446.326 billion and Ksh 459.384 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

Governance, Justice, Law and Order Sector

213. The sector aims to ensure effective and accountable leadership, promote a just, democratic and secure environment with strong governance structures to achieve inclusive economic, social and political development.

214. Some of the Sector's critical and priority areas in the 2018/19 to 2020/21 MTEF period include: centralized housing in both prisons and police; strategic intervention in provision of legal services to Government, installation of National Surveillance and Control System; continuous improvement of inmates and prison

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staff welfare; adoption of ICT, modernization of the criminal justice system; continue strengthening anti-corruption measures in order to reduce economic crime and unethical conduct, and ensure constitutional compliance, enhancement of civic education and public sensitization; and decentralization of services to the counties.

215. In order to implement the prioritized programmes, the Sector has been allocated Ksh 195.648 billion, Ksh 201.514 billion and Ksh 203.247 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

Public Administration and International Relations Sector

216. The Sector provides overall policy direction and leadership to the country, oversees national legislation as well as the human resource function in the public service. It further coordinates national policy formulation, implementation, monitoring and evaluation; resource mobilization and management; devolution oversight; implementation of Kenya foreign policy; and oversight on use of public resources and service delivery.

217. During the 2018/19 - 2020/21 MTEF period, the Sector will implement thirty-two (32) programmes building on the programmes realized in the previous MTEF period. The focus will be on expanding Kenya's diplomatic representation and footprint across the globe and strengthening Kenya's leadership role in shaping global agenda at the bilateral and multilateral levels; strengthening public financial management by implementing effective public sector auditing of MDAs in service delivery and enhancing accountability; and provision of leadership, policy direction and guidance to Ministries, Departments and Agencies (MDAs).

218. To implement the prioritized programmes, the Sector has been allocated Ksh 273.583 billion, Ksh 287.527 billion and Ksh 285.006 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

National Security

219. The Sector is mandated with the mission of deterring aggression, defending the Republic of Kenya and providing support to civilians in maintaining peace and order.

220. In FY 2018/19-2020/2021 the sector will continue focusing on the following areas; scaling-up investments towards modernization of security systems aimed at strengthening security of our borders and throughout the country, enhanced security operations, especially of areas prone to crimes; building capacity for effective and faster investigation, and strengthening coordination among security agencies with stronger partnership with communities. Other measures to fight crime nationally will include the establishment of specialized Units, focusing on drug-related crime, taxi violence and firearms and the enhanced utilization of investigative aids such as forensic leads.

221. In order to implement the prioritized programmes, there is a gradual increase in resource allocated to this Sector over the medium term. The sector has been allocated Ksh 125.742 billion for FY 2018/19, Ksh 139.733 billion for FY 2019/20, and Ksh 143.844 billion for the FY 2020/21.

Social Protection, Culture and Recreation Sector

222. The Sector is mandated to address the issues of promotion and exploitation of Kenya's diverse culture for peaceful co-existence.

223. During the 2018/19 – 2020/21 MTEF period the focus will be on programmes aimed at achieving high levels of investment in economic and social infrastructure necessary for rapid economic growth and support for employment creation and retention. In this regard, the identified programmes for implementation are: Sports; Culture and the Arts; Library and Archive Management Services; Promotion of Best Labour Practices; Manpower Development, Employment and Productivity Management; Social Development and Children Services; National Social Safety Net; Community Development; Gender and Women Empowerment; Special Initiatives; Accelerated Arid and Semi-Arid Lands (ASALs) Development and Policy and General Administrative Planning and Support Services.

224. In addition, the Government in partnership with key stakeholders will continue implementing the following strategies in FY 2018/19-2020/21: development and diversification of tourism products with key focus being on niche tourism such as eco-tourism, Meetings, Incentives, Conferences and Exhibitions (MICE), sports adventure and home stays; and supporting environment friendly practices such as eco-labelling and eco-warriors awards by Eco-tourism.

225. In order to implement the prioritized programmes, the Sector has been allocated Ksh 52.959 billion, Ksh 56.282 billion and Ksh 56.314 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

Environment Protection, Water and Natural Resources

226. The Sector plays a crucial role in the economy as its investment will ensure the delivery of direct and indirect goods and services that are the backbone for the main productive sectors namely agriculture, tourism, energy and manufacturing. It has direct and indirect linkages with all other sectors of the economy thus promoting socio-economic development geared towards the realization of the Kenya Vision 2030 and various international commitments relating to the sector.

227. For the 2018/19 to 2020/21 MTEF period the sector has prioritized programmes intended to; provide policy and legal framework for efficient and effective management of the environment; sustainably manage and conserve environment; provide reliable weather and climate information for decision making; sustainably manage and conserve forests and water towers; sustainably conserve and manage Kenya's wildlife; provide policy and legal framework for efficient and effective management of the natural resources; promote good governance in the management of water resources; increase availability of safe and adequate water resources; enhance accessibility of water and sewerage services; enhance utilization of land through irrigation, drainage and land reclamation; and increase per capita water storage capacity for irrigation and other uses.

228. The prioritized programmes will also target to: provide efficient and effective support services for delivery of the State Department's programmes; develop and manage geological and mineral resources database; generate geo-

spatial data and information for sustainable development; and provide efficient and effective support services for management of mineral and geo-information data. The Government will also strengthen early warning systems in order to enable farmers to make appropriate farming decisions.

229. In order to implement the prioritized programmes, the Sector has been allocated Ksh 77.708 billion, Ksh 80.187 billion and Ksh 82.646 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

3.4 Public Participation/ Sector Hearings and Involvement of Stakeholders

230. The law requires that the input of the public be taken into account before the Budget proposals are firmed up. In this regard, we held Public Hearings for the FY2018/19 Budget between 24th and 27th January 2018. Some of the key issues arising during the Public Hearings included:

Agriculture, Rural and Urban Development Sector

231. Members of the public enquired to know whether the sector got in touch with investors who were interested to invest in the Blue Economy during TICAD meetings. It was explained to the public that a side meeting was held during TICAD and that a Blue Economy Committee has since been formed to come up with ways of exploiting the Blue Economy. Currently, there is a blue economy project funded by the World Bank in addition to efforts of putting in place necessary infrastructure for the blue economy.

232. There were also concerns about the rising cases of land brokers who push up land prices. The Sector noted this and offered assurance that digitization of land records is ongoing and they are as well fast tracking finalization of the Land Value Index Bill so as to make sure that Kenyans are informed of the indicative prices of land in different parts of the country.

Members of the public enquired to know whether KEPHIs was being adequately supported to play its rightful role in agricultural production. It was explained to the public that KEPHIS has been supported in building a modern laboratory and there is focus to continue supporting it to play its role. Members of the public also enquired to know the support that was being given to coffee farmers to facilitate revival of the industry. It was explained to the public that there was a coffee taskforce in place and its recommendations are being implemented to ensure that the coffee industry is revived. For instance, different coffee varieties will be developed and supplied to farmers to ensure that more counties with potential for coffee production are brought on board.

Energy, Infrastructure and Information, Communications Technology Sector

233. The public commended the sector for the progress made during the review period and especially SGR and connecting many households with electricity. It was recommended that the sector should include political risk as factor in project implementation. This was after noting that the slow pace of project implementation due to political interferences.

234. Members of the public also enquired to know what the Government was doing to regulate crypto currency to safe guard the investments of the public. It was explained to the public that a task force has been set up to check on how crypto currency can be incorporated into the economy through regulation. Finally, the public recommended that the maritime sub-sector be adequately funded taking into account the opportunities that are available in the blue economy that have huge potential to provide jobs to the young people.

General Economic and Commercial Affairs Sector

235. There was concern from the public that little emphasis was put on the Jua-Kali sector and they wished to know what the government doing to promote the Jua-Kali sector. The Sector informed the public that there are many projects undertaken by the various state departments that support the Jua-Kali sector such as the setting up of the leather factory that get artisans to make items such as shoes among others.

236. As regards milk processing the public suggested that there should be focus in setting up satellite milk processors in every Ward as well as cold rooms in order to avoid wastage from spoilage and ensure proper and hygienic milk handling, processing and storage.

Education Sector

237. The public opined that the devolution of Early Childhood Development Education (ECDE) could have compromised the quality of learning of the children. The Sector informed the public that the setting of ECDE policy and standards remains a function of the National Government and that the Teachers Service Commission is working with the Council of Governors on standards and harmonization of remuneration for ECDE teachers.

238. While commending the government for the provision of services such as the scraping off of examination fees for candidates both in primary and secondary, public and private schools; and the Free Day Secondary School Education (FDSE), the public was still wary that some institutions still ask for fees to cater for these services. The public was advised that these services are indeed free and to report any such incidences to the relevant authorities. In the event some fees for other things were charged in schools, these had to be agreed upon and consented to by both the parents and administrators of the schools.

239. There was also concern that the sector had highlighted huge financing gaps that could not be addressed by the monies received from the government and they were urged to explore other financing mechanisms such as engaging with development partners in order to bridge the gap.

240. The public was also concerned about the quality and standards of school infrastructure whereby some schools were in deplorable conditions not conducive for learning e.g. muddy classes, no roofing etc. Further there was concern that the school inspections that used to be there were no longer being implemented. The sector assured the public that the school inspection teams are still there and take regular inspections and the school infrastructure is improved on a rolling basis

based on the availability of funds and it is hoped all the schools will eventually have better infrastructure.

241. As regards university education the public inquired what the government doing to ensure that money for government sponsored students to private universities is released and also if private universities can access money from the National Research Fund (NRF). The sector stated that all funds to government sponsored student, both in private and public institutions is timely released and that the NRF can be accessed even by private universities once they make an application and meet the necessary requirements.

Health Sector

242. To bridge health sector resource deficit, the public suggested the implementation of health sector regulations requiring re-investment of 2 percent of tobacco industry profits into the health sector. The Sector welcomed the suggestion and informed the public that it will consult the National Treasury on the way forward.

243. The public raised concerns on security challenges in major health facilities as well as wastage and misuse of funds allocated to the sector. The Sector noted the concerns and committed to enhance security training to health facility managers and beef up security measures to address this challenge. On misuse of funds, the Sector is promoting adoption of adoption of technology on procurement and management of resources to minimize wastage.

244. To ensure the success of Universal Health Coverage, the public suggested that additional Computed Tomography (CT) scans be supplied to all counties, health workers be involved in National Hospital Insurance Fund (NHIF) registration, and training of specialist to handle the Specialized Medical Equipment. The Sector informed the public that already eight counties have been supplied with CT scans and provision of CT scans to the other counties has been prioritized in the current MTEF period. The Sector also affirmed that health workers will be involved in registration of the public into NHIF and that the training specialist in the use of the specialized Medical Equipment will be enhanced.

Public Administration and International Relations Sector

245. The public urged the Sector to provide offices to chiefs and assistant chiefs which will enable them discharge their functions easily. The Sector clarified that the National Government Constituency Development Fund currently focuses on security and education, thus funds will be utilized to construct offices for chiefs and their assistants among other security priorities going forward.

246. On access to information, the public decried of the difficulties in accessing information that should otherwise be public. The Sector hinted that the Commission on Administrative Justice (CAJ) is working on operationalization of Access to Information Act and civic education to sensitize the public on access to information.

247. Further, the public opined that there was no need for many embassies in foreign countries. The Sector enlightened the public on the importance of foreign embassies stating that Kenya has only 56 global missions despite hosting over 120 foreign missions.

Governance, Justice, Law and Order Sector

248. The public inquired about the good conduct certificate and its usage since they reported that every employer or person requests for it. The sector stated that the certificate is a service they offer to anyone who requests it and the public was informed that they could also request for it when employing even their domestic staff as this just gives insight to the person you are to hire.

249. Drug abuse among the youth was observed to be on the increase and the public sought to know what is being done to address this. The sector stated that the police together with NACADA as well as other agencies have programmes and operations that deal with this.

250. There were various complaints and reports about bribery between the traffic police and matatu operators contributing to the menace on the road. While agreeing there could be incidences of misdemeanour, the sector reiterated the need for collective responsibility to adhere to the safety measures put in place where citizens speak out and report such cases so that perpetrators can be dealt with. There is also need to strengthen civic education on the same as there are a number of avenues and mechanisms to report police misconduct.

251. The public noted that most police stations and infrastructure are dilapidated and need to be modernized. This included upgrading the police stations and digitizing the OB, improving police housing, and equipping the forensic and investigations lab that was constructed as well as having a specialized police hospital

Social Protection, Culture and Recreation Sector

252. The public recommended that the elderly people that were left out during registration of those over 70 years be given another chance to register. The public was of the opinion that those above 65years should also be considered for support under the Inua Jamii programme. Further, the public wanted to know what was being done to cater for Orphans and Vulnerable Children (OVC) in this budget period. The Sector reiterated that this budget will allocate resources to assist OVC.

253. The stakeholders recommended that the betting tax be divided between sports and arts and ensure fair administration. The sector indicated that there is a committee in the office of the president that is working on regulations of the fund and it will look into the concerns raised.

254. The public wanted to know what the Sector was doing on the Heroes Council. The sector indicated that regulations almost ready to ensure that the heroes council is established. Finally, the sector was requested to come up with ways of merging the many small women targeted interventions so as to ensure their impacts are felt.

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Environmental Protection, Water and Natural Resources

255. The Sector was challenged by the public to provide pictorial evidence of their achievements and projects they are undertaking so that the public can appreciate what it is the sector is doing. The sector was also commended for implementing the plastic ban and was urged to extend enforcement to imports into the country.

256. On the wildlife compensation claims, the public opined that this could be exacerbated due to the slow response time to alerts that there are wild animals on the loose and the sector was asked to improve on this. Further, the sector was tasked to relook and renegotiate the trans-boundary treaties e.g. the River Nile in order to address the trans-boundary issues and also enable efficient usage and benefits from these resources.

257. The public advised that mechanisms should be set up whereby when land sales occur the government is present to check and verify that the land is not in riparian land or wetlands and even road reserves. In addition to this the sector was tasked to improve weather forecasting to up to months in advance so that farmers can do proper planning and increase food production thus food security.

Programme Performance Information for 2018/19 - 2020/21 MTEF Period

258. Annex Table 6 of this BPS provides a detailed report with information on programmes outputs, key performance indicators, and the set targets for the 2018/19 – 2020/21 MTEF period.

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IV. COUNTY FINANCIAL MANAGEMENT AND DIVISION OF REVENUE

4.1 Fiscal Performance of County Governments in FY 2016/17

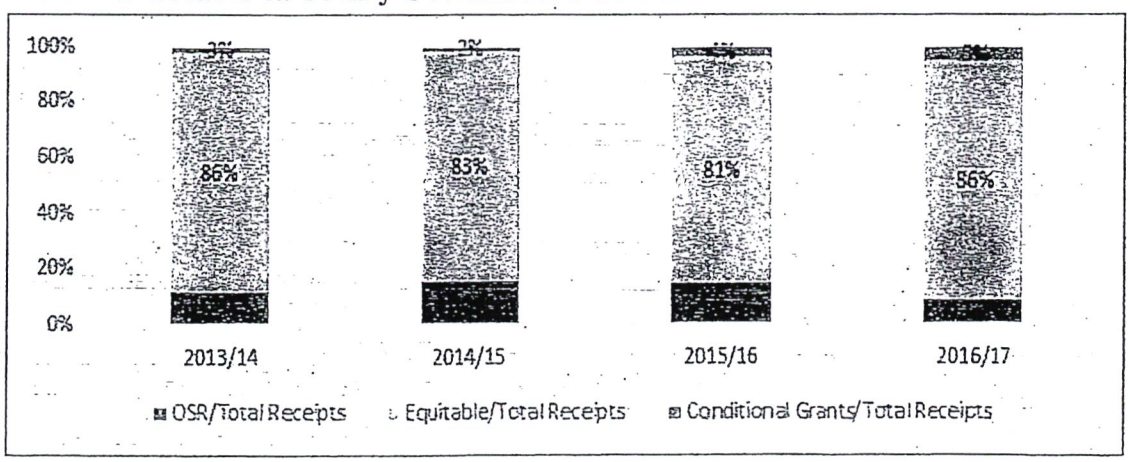
259. In FY 2016/17, approved budgets for County Governments amounted to Ksh 399.2 billion, reflecting an increase of 8.7% from FY 2015/16. This comprised of Ksh 240.9 billion (or 60.3%) recurrent budget and Ksh 158.4 billion (or 39.7%) development budget. The budget was to be financed by: i) Ksh 280.3 billion from equitable share of revenue; ii) Ksh 21.9 billion conditional allocations; iii) Ksh 57.7 billion own source revenue (OSR); and, iv) Ksh 37.2 billion cash balance brought forward from FY 2015/16.

4.1.1 County Revenues

260. County Governments are increasingly relying on equitable share transfers from National Government, which forms over 80% of the Counties' total revenue (**Chart 4.1**). The proportion of Counties' total spending that is financed from OSR declined in each of the last four years. In the FY 2016/17, actual collections dropped significantly in absolute terms even though the economy grew by 5.3%. Among factors responsible for this underperformance are: i) absence of revenue policies and legislation; ii) human resource capacity and administrative constraints; iii) inappropriate institutional arrangements for revenue collection and administration; and, iv) lack of effective internal controls and audit mechanisms.

261. As a solution to challenges highlighted above, the National Treasury through an interagency committee has drafted a national policy and a legal framework to support enhancement of County OSR. Both drafts have been subjected to public participation, and are now awaiting submission to the Cabinet and to Parliament for approval. As part of strategies to implement the above policy, County Governments are to receive capacity building from the National Treasury on various PFM aspects including revenue forecasting and tax analysis. This capacity building will be provided under the ongoing Kenya Devolution Support Program (KDSP).

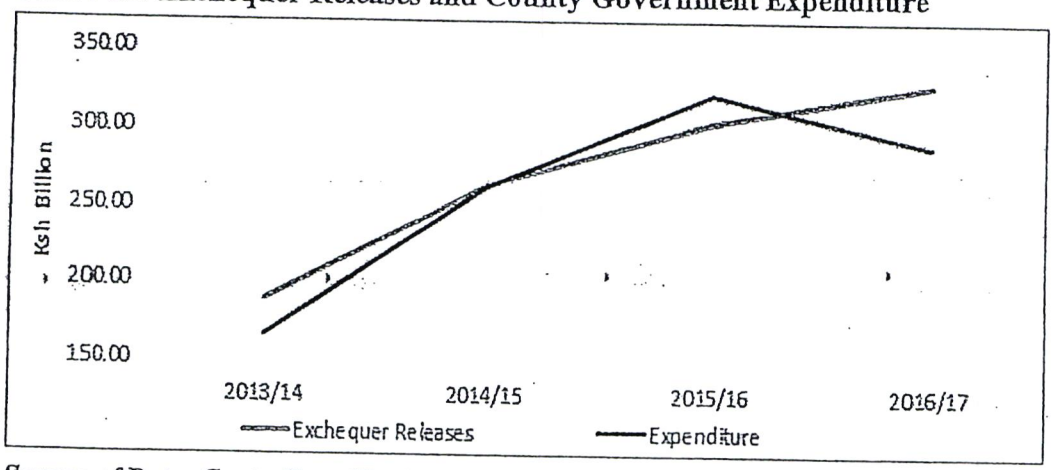
Chart 4.1: Sources of County Governments' Revenues



Source of Data: Controller of Budget

262. Exchequer releases to County Governments have been on an upward trend from FY 2013/14 to FY 2016/17. In FY 2015/16, County Governments' aggregate expenditure exceeded Exchequer releases (**Chart 4.2**). This is an indication that some County Governments might be spending their OSR at source, or that other revenue sources have not been declared, both of which may indicate that the Counties are in serious breach of measures established under the PFM Act. In general, spending commitments that exceed Exchequer releases are also likely to result in pending bills.

Chart 4.2: Exchequer Releases and County Government Expenditure



Source of Data: Controller of Budget

263. Since FY 2013/14, County Governments have missed their OSR targets. (**Chart 4.3**). The increasing variance between projected and actual OSR collection, highlights the difficulty Counties are facing in preparing realistic revenue forecasts. Funding gaps occasioned by unrealized revenue projections are a major source of fiscal constraints faced by Counties while implementing their annual budgets. To address this challenge, the National Treasury is exploring legal options to capping Counties' OSR revenue growth estimates, based on their historical performance vis-à-vis potential. A study is being commissioned to determine each County's OSR potential. The objective of the capping is to ensure that revenue estimates that exceed what is deemed realistic will need more stringent justification, so as to minimize the risk of budget deficits and rising pending bills that has been experienced over the last four years.

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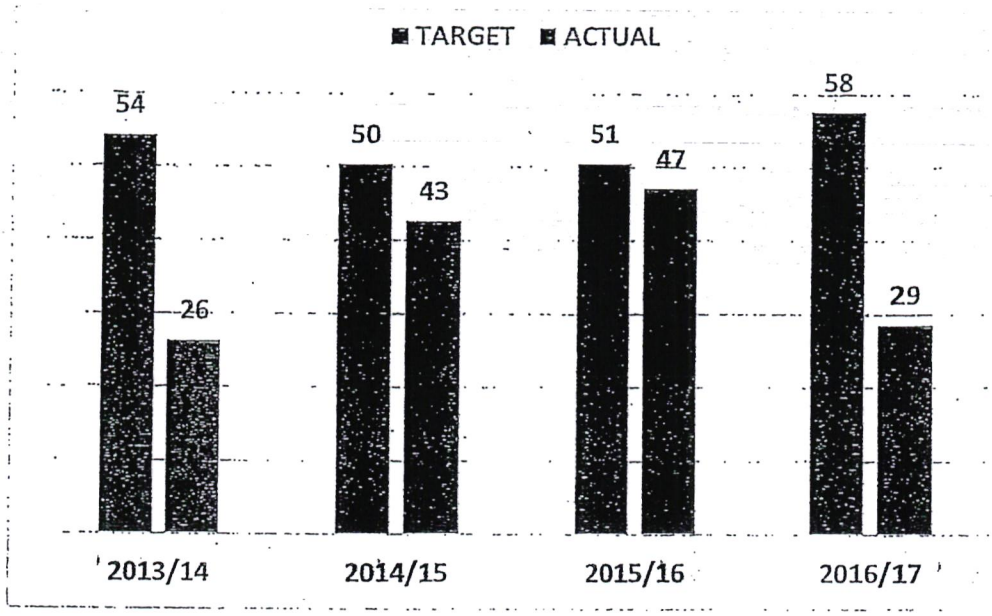
Chart 4.3: County Governments' OSR Targets vs. Actuals (Ksh Billions)



Source of Data: Controller of Budget

4.1.2 Spending by County Governments

264. In the four years since their establishment, County Governments have cumulatively spent a total of Ksh 1.04 trillion, of which 71.4 percent went towards recurrent, and 28.6 percent to development. Spending by the Counties during this period has been characterized by low absorption -- 51.3 percent on average -- even though there are wide inter-County disparities **(Table 4.1)**. In FY 2016/17, Counties' aggregate budget absorption was 72.3 percent, a drop from 87.2 percent achieved in FY 2015/16, and 80.3 percent in FY 2014/15. The development budget is particularly affected by low absorption, and factors responsible for this include procurement challenges and overall capacity deficits. On the other hand, average absorption of the recurrent budget over the four years was 93.4 percent. In FY 2014/15 and 2015/16, the Counties spent more than their approved recurrent estimates, which suggests that funds were reallocated from development to recurrent budget. It is expected that ongoing implementation of the KDSP capacity building initiative will help to resolve Counties' budget execution challenges, by improving planning and procurement. In addition, the National Treasury will continue disbursing to Counties their equitable share allocations in accordance with the approved schedule so that development projects are implemented within planned time frames.

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Table 4.1: County Governments' Budget Allocations and Expenditures

Financial Year	Budget allocations (Kshs billions)			Actual expenditure (Kshs billions)			Absorption rate (%)		
	Rec't	Dev't	Total	Rec't	Dev't	Total	Rec't	Dev't	Total
2013/14	161	100	261	129	37	166	80.1%	36.6%	63.4%
2014/15	181	145	326	185	77	262	102.2%	53.1%	80.3%
2015/16	209	159	368	230	91	321	110.0%	57.2%	87.2%
2016/17	241	158	399	216	103	319	89.5%	65.4%	80.0%

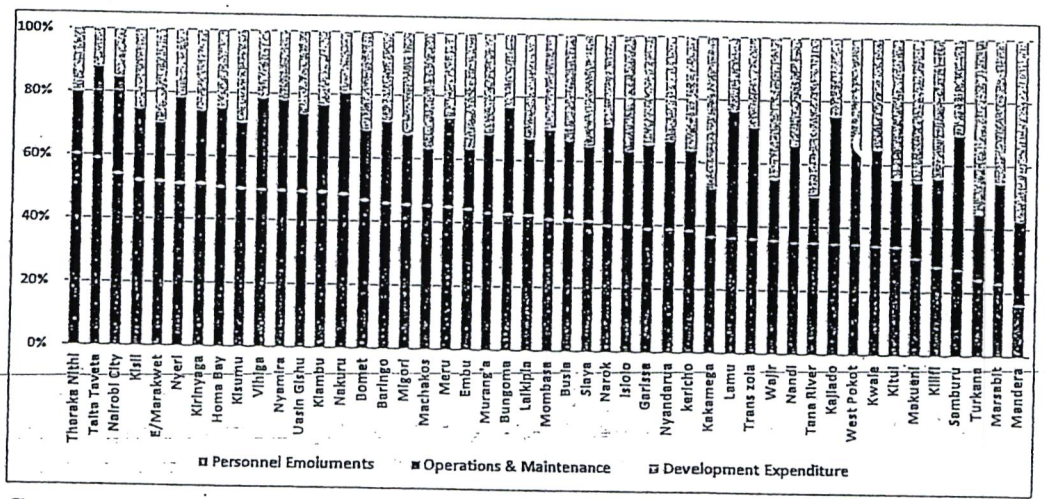
Source of Data: Controller of Budget

4.2 County Governments' Compliance with Fiscal Responsibility Principles

4.2.1 County's Expenditures by Economic Classification

265. In FY 2016/17, as in previous years, personal emoluments comprised a significant portion of County Governments' total expenditure (**Chart 4.4**). This is more pronounced in Counties that inherited comparatively more staff from the defunct Local Authorities, with some (such as, Nairobi, Nyeri, Embu, Kisumu, and Nakuru) registering wage bills above 50% of total expenditure in FY 2016/17. Among Counties with the least personal emoluments are Kilifi, Mandera. Marsabit and Turkana.

Chart 4.4: County Expenditures by Economic Classification for Financial 2016/17



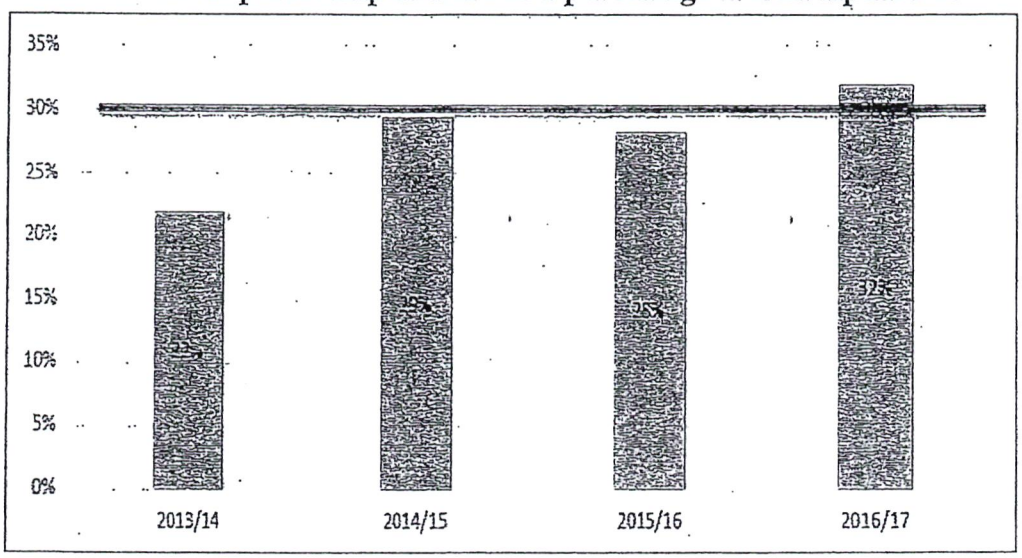
Source of Data: CARA 2016, Controller of Budget

4.2.2 Compliance with the requirement for development spending allocations

266. Section 107(2) of the PFM Act 2012 requires that County Governments allocate a minimum of 30 percent of their budget to the development expenditure. However, even though approved County budgets comply with this requirement, actual development expenditure for some Counties is below 30 percent. According

to the Controller of Budget (CoB), County Governments' development expenditure in FY 2016/17 comprised 32 percent of total expenditure (**Chart 4.5**). However, in 20 Counties, development spending was less than 30 percent of total expenditure. From the National Treasury's analysis, exaggerated OSR forecasts is among factors responsible for low development expenditure; many Counties tend to project unrealistic OSR targets as a balancing item to ensure compliance with Section 107(2) of the PFM Act. The range of measures proposed earlier (including implementation of KDSP, regulation of Counties' OSR projections and enhanced procurement planning support) are expected to improve Counties' development spending.

Chart 4.5: Development Expenditure as a percentage of total expenditure

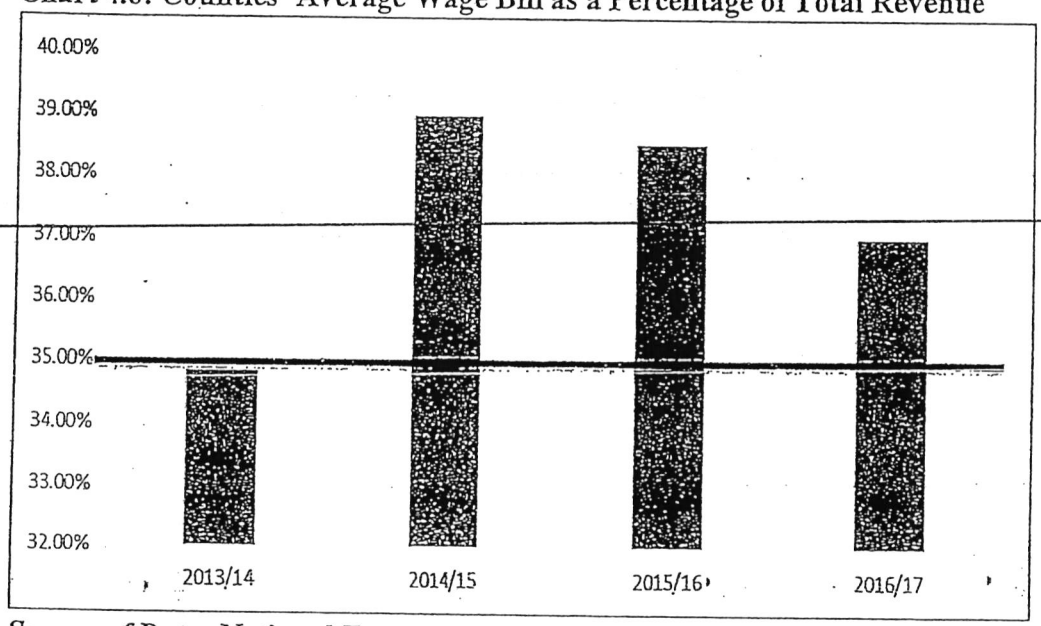


Source of Data: Controller of Budget

4.2.3 Compliance with the requirement for wages expenditure

267. Regulation 25 (1)(b) of the PFM (County Governments) requires that County wage bill shall not exceed 35% of the total revenue although on average, Counties are experiencing difficulties complying **(Chart 4.6)**. Major reasons for this lack of compliance include irregular recruitment by Counties, and violation of guidelines issued by Salaries and Remuneration Commission (SRC) on job grading, salary structures and compensation of employees as well as payment of sitting allowances. A number of Counties (particularly those that hosted the former provincial headquarters) are disadvantaged by the current revenue distribution formula, which takes no account of inherited non-discretionary devolved costs, specifically personnel emoluments. Many Counties inherited bloated staff establishments from the defunct Local Authorities, whose recruitment policies did not have stringent regulations. Furthermore, in 2014, the SRC approved an upward adjustment of salaries for County Governments, State and public officers followed by further increases in 2015/16, benefiting certain cadre of County health professionals. These salary adjustments combined with new recruitments have contributed to the general rise in County wage bills.

Chart 4.6: Counties' Average Wage Bill as a Percentage of Total Revenue



Source of Data: National Treasury

268. County Governments' challenges with wage bills and other staffing matters are also attributable to ineffectiveness of County Public Service Boards (CPSBs). The Boards are established under Article 235 of the Constitution and section 59 of the County Government Act, 2012, and their functions include establishment/abolishment of offices, appointments and planning and budgeting for personnel emoluments. Ineffectiveness of CPSBs explains some of the weaknesses pertaining to HR management, such as: i) lack of staff establishments to guide recruitment of optimal staff levels; ii) irregular engagement of casuals, sometimes beyond three (3) months; iii) payment of salaries and wages outside IPPD which creates internal control challenges; and, iv) late or non-remittance of statutory deductions to KRA attracting interest and penalties.

269. As illustrated in **Chart 4.4**, a strong correlation exists between high wage bill and low development expenditures. Hence, by lowering their wage bill, County Governments will be able to increase development expenditure. To achieve more sustainable wage bill, Counties are expected to adhere to guidelines provided by the SRC. In particular, the Counties should: i) strengthen their human resource (HR) management frameworks (e.g. by adopting an approved staff establishment); ii) stop recruitment of non-essential staff and those not in the approved staff establishment; iii) ensure appropriate engagement of casuals and payment of salaries through IPPD to enhance efficiency in HR management; and, iv) comply with legal requirements on statutory deductions.

270. In addition, following measures contained in the report of the Capacity Assessment and Rationalization of the Public Service Programme (CARPS), the National Treasury recommends that resolutions of the National and County Governments Coordinating Summit be implemented, as they have the potential of easing County Governments' wage bill pressures.

4.3 County Financial Reports

4.3.1 Intermittent use of IFMIS

271. The Auditor General has highlighted the fact that County Governments' financial statements are unreconciled, and are at variance with fiscal transaction records as captured in IFMIS. These variances are largely the result of Counties not posting all their transactions on IFMIS including receipts (Exchequer releases and OSR) and payments. Intermittent use of IFMIS in management of public funds can be attributed in part, to lack of capacity at the County Governments, and thus capacity building remains a major area of focus for the National Treasury. In addition, the National Treasury has put in place a dedicated unit to assist County Governments in the preparation of financial reports.

4.3.2 Procurement

272. The Auditor General has also highlighted cases of non-compliance with the Public Procurement and Asset Disposal Act, 2015. Specific issues include: procurement of goods and services outside the approved procurement plan, variation of contract sums and inflation of initial contract prices; unsupported and unexplained payments for projects, goods and services; full payment against incomplete, abandoned and stalled projects; unconfirmed assets purchases due to poor maintenance of fixed asset registers; as well as unjustified single sourcing of supplies, service providers and contractors. In their approved budgets, Counties are failing to disclose the cost of projects rolled over from previous financial years, while in other instances, funds are reallocated to different projects without approval as required in section 154 of the PFM Act. The National Treasury jointly with the Public Procurement Regulatory Authority (PPRA) will continue working with County Governments to ensure compliance with procurement laws and follow their procurement plan.

4.3.3 Management of Assets and Liabilities

273. Many County Governments do not maintain a fixed asset register or include a summary of fixed assets in their financial statement contrary to section 149 (1) of the PFM Act 2012. Those that do have not included assets and liabilities inherited from the defunct Local Authorities (LAs) in their financial statements. Going forward, the National Treasury through the Directorate of Portfolio Management will assist County Governments to develop their capacity for efficient, effective and transparent management of assets, which is an important element of public financial management. The main objective of this support will be to enable Counties keep updated inventories of assets and liabilities.

274. To finalize the transfer of assets and liabilities from the defunct LAs to the County Governments, a Legal Notice Vol. CXIX-No.13 was prepared and published on 27th January 2017 to facilitate this transfer process. Among assets and liabilities of the defunct LAs covered in this process are: i) pending bills; ii) tax arrears; and, iii) statutory deductions relating to the National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF), Pension Funds, VAT and PAYE. In this context, County Assets and Liabilities committees were formed to

identify, verify, and validate the assets and liabilities of the defunct LAs as at 27th March 2013. This exercise has been concluded, and Intergovernmental Relations Technical Committee (IGRTC) is currently leading an exercise to validate the report as a basis to implementing its recommendations.

4.3.4 Management of Public Funds

275. County Governments established various public funds including ward funds, and car and mortgage funds. However, the Counties did not put in place proper management frameworks before the funds were set up. For example, in a number of Counties, beneficiaries of the car and mortgage loan fund are not required to deposit securities (e.g. vehicle log books and property title deeds) with the fund managers. Most Counties continue to transfer funds directly to beneficiaries for purchase of vehicles and property, with the loan/mortgage repayment being pegged on beneficiaries' allowances rather than salaries.

276. Some County funds are uninsured, which exposes them to contingent liabilities in the event of defaults and/or expiry of beneficiaries' employment contracts. Section 116 of the PFM Act, 2012 requires the CEC Member for Finance to appoint an administrator for each County Fund. The administrator is required to ensure that all loans are repaid (with recoveries being done via the IPPD system), keep custody of all collateral and submit quarterly financial statements to the County Treasury with a copy to the Office of the Controller of Budget in line with section 168 (3) of the PFM Act. In addition, in a number of Counties the fund administrators did not prepare financial statements for these funds, neither did they submit financial statements to the Auditor General for audit. To deal with this issue, the National Treasury proposes to issue guidelines especially in respect of County car loans and mortgage funds, which are most problematic. The County guidelines will be based on the existing ones for the National Government.

4.3.5 Planning and Budgeting

277. Planning and budgeting at the County is guided by the County Integrated Development Plans (CIDP) developed by the Counties as provided for by the County Government Act, 2012. During budgeting for projects, Counties are also guided by their Annual Development Plans (ADP) drawn from the CIDPs. In most Counties, however, development projects being implemented are weakly linked to the approved CIDPs or ADPs. In addition, the problem of unauthorized re-allocation of funds from appropriated items persists, as well as weak monitoring and evaluation, leading to delayed, incomplete or stalled projects. It is recommended that the Counties ensure timely approval of supplementary budgets, and that development projects be based on approved CIDPs and ADPs. The Government through the Ministry of Devolution and ASALs will support the Counties to ensure establishment of monitoring and evaluation frameworks for development projects. In the meantime, CIDP guidelines are currently being revised, and separate County ADP guidelines have been drafted.

278. In partnership with the World Bank, the Government has developed a capacity building program (Kenya Devolution Support Program, KDSP) to provide technical assistance and additional financial resources to facilitate enhancement of County Governments' capacity in planning, monitoring and evaluation as well as

human resource management; Public Finance Management; and, civic education and public participation.

4.3.6 Transparency and Accountability

279. The PFM Act, 2012 and the PFM (County Governments) Regulations 2015 provides for the prudent management of public funds to ensure transparency and accountability. However, Counties continue to have challenges ensuring that the funds transferred to them are properly managed. These challenges include: existence of outstanding and/or multiple imprests, unsupported expenditures, non-establishment of Internal Audit Committees contrary to section 167 of PFM (County Governments) Regulations, 2015, un-supported bank balances and operation of unauthorized numerous bank accounts and unreconciled and unexplained variances between the Financial Statements and the IFMIS. Implementation of KDSP is expected to help resolve these challenges. In addition, the National Treasury has initiated structured engagements with specific Counties to address some of the non-compliance issues.

4.4 Prudent Management of Fiscal Risks

280. The legal framework for Public Finance Management requires County Governments and National Government to disclose specific fiscal risks with potentially significant impact on the County economic environment, and to prudently manage such risks. Some of the risks include the following:

4.4.1 Expenditure Arrears

281. Based on reports from the Controller of Budget and the Auditor-General, most County Governments have accumulated expenditure arrears related mainly to unremitted statutory deductions (including PAYE, employee pension contributions and withholding VAT), salary arrears, pending bills due to contractors and suppliers of goods and services as well as utility payment backlogs. According to the KRA, outstanding County Governments' tax debt as at August 2017 stood at Ksh 6.4 billion, majority of which relates to PAYE. This outstanding debt is based on previous payment trends, rather than self-declaration by the Counties or conclusive compliance checks. KRA plans to conduct a comprehensive compliance check to establish actual debt owed by the Counties. In general, Counties' expenditure arrears have the potential of undermining budget execution in subsequent financial years. Moreover, non-payment of suppliers and contractors adversely affects other sectors of the economy like the financial sector by increasing non-performing loans.

282. To address the issue of expenditure arrears, there is need to strengthen Counties' capacity on proper planning and cash flow management. In addition, the County Governments should ensure that they budget within their resource envelopes. Going forward all Counties should remit employees' PAYE deductions at the time of paying salaries, and withholding VAT should be remitted at the time of paying suppliers and contractors since the Counties are required to budget for the full cost of works, goods and services. Further, it is necessary to put in place

intergovernmental mechanisms (e.g. through IBEC) to ensure that Counties prioritize budgeting for pending bills once the bills are verified. Ideally, pending bills should be included in Counties' medium term fiscal frameworks and subjected to review through the proposed intergovernmental mechanism.

4.4.2 Duplication of Effort

283. In has emerged that some primary and secondary schools that were previously owned by Local Authorities are still being managed by County Governments, despite this being a National Government function. This represents a duplication of functions. Some County Governments are struggling with the financial burden of managing these schools. As a result infrastructures and amenities in these schools are deteriorating compromising significantly the quality of education. The National Treasury will engage with the IGRTC as well as the Ministry of Education and all concerned County Governments through IBEC so as to formulate a sustainable solution to this issue.

4.4.3 Fiscal Imbalance between the two Levels of Government

284. Between FY 2014/15 and FY 2017/18, allocations to County Governments from revenue raised nationally averaged 22.4 percent of ordinary revenue (i.e. excluding appropriations in aid) (**Table 4.2**). After implementing Article 203(1) of the Constitution, the National Government's share was on average 17.2 percent of ordinary revenue. Thus, the difference between average allocations to the two levels of Government was 5.2 percent during the four-year period. In FY 2018/19, County Governments' proposed share from revenue raised nationally equals 19.6 percent of ordinary revenue. The National Government would be left with 8.5 percent, considerably lower than its average share in the preceding periods. After discharging national interest, public debt, other national obligations, emergencies and the Equalization Fund, the National Government's shrinking share of ordinary revenue suggests a fiscal gap (i.e. a mismatch between spending responsibilities and available revenue). These trends draw attention to a fiscal imbalance between the two levels of Government. International experience suggests that such an imbalance has the potential of endangering macroeconomic stability in the long run. If not addressed, the imbalance can also undermine service delivery by the National Government.

Table 4.2: Share of Revenue by National and County Government

Item description *(Ksh millions)*	2014/15	2015/16	2016/17	2017/18	2018/19
Ordinary Revenue (excluding AIA)	1,031,819	1,152,972	1,305,794	1,486,294	1,688,492
A. National Interest [Art.203 (1)(a)]	73,942	79,189	79,685	82,492	94,159
B. Public Debt [Art. 203 [1][b]]	250,971	250,390	307,155	453,361	687,573
C. Other National Obligations [Art. 203 [1][b]]	282,439	324,583	371,743	398,589	421,273
D. Emergencies [Art. 203 (1)(k)]	7,700	7,245	7,245	9,294	6,281
E. Equalization Fund [Art. 203 (1) (g) and (h)]	3,400	6,000	6,000	7,727	4,700
Balance to be shared by the two levels of Government	413,367	485,565	533,966	527,346	474,506
F. Counties' allocation from ordinary revenue	229,928	273,073	294,021	314,205	331,231
G. Balance left for the National Government	183,439	212,492	239,945	213,141	143,275
County Governments' share (% of ordinary revenue)	*22.3%*	*23.7%*	*22.5%*	*21.1%*	*19.6%*
National Government's share (% of ordinary revenue)	*17.8%*	*18.4%*	*18.4%*	*14.3%*	*8.5%*

Source of Data: National Treasury

285. The National Treasury will initiate dialogue with key actors -- including the CRA and the Council of Governors -- on how the two levels of Government can achieve optimality in not only vertical revenue sharing, but also revenue raising and public spending. The dialogue, to be convened under IBEC, will revolve around the annual division of revenue process and application of criteria provided in Article 203 of the Constitution. It is hoped outcomes of the deliberations will help to strengthen intergovernmental fiscal relations within the country. In the meantime, the National Treasury expects that approval (by Cabinet and Parliament) and successful implementation of the draft Policy to Support Enhancement of County Governments' OSR will minimize Counties' dependence on fiscal transfers which, in National Treasury's view, fuels demands for increased transfers way beyond what is feasible within the overall fiscal framework.

4.4.4 Contingent Liabilities

286. Some County Governments established car and mortgage schemes without setting up proper management guidelines such that some Counties advance loans to officers which were not insured, and some were pegged on allowances as opposed to salaries. This exposes these Counties to contingent liabilities in the event of defaults and/or expiry of beneficiaries' employment contracts. The national government should partner with County Governments to ensure there is proper management framework for these funds to reduce contingent liabilities to the Counties.

4.5 Vertical Division of Revenue

287. In FY 2018/19, the National Treasury proposes that County Governments be allocated an equitable share of revenue raised nationally of Ksh 314 billion, and that the National Government be allocated Ksh 1,370 billion. County Governments' equitable share of revenue for the FY 2018/19 was arrived at by adjusting the equitable share allocation in FY 2017/18 by a growth factor of 4.0 percent, which is equivalent to Ksh 12 billion. **(Table 4.3).**

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

Budget item	2014/15	2015/16	2016/17	2017/18	2018/19
Baseline *(i.e. allocation in the previous FY)*	196,000.0	226,660.0	259,774.5	280,300.0	302,000.0
Baseline adjustments:					
1. Baseline adjustments (Due to additional functions)	30,660.0	2,946.0			
Adjusted baseline:	226,660.0	229,606.0	259,774.5	280,300.0	302,000.0
Additional revenue measures					
1. Adjustment for revenue growth		23,902.0	20,525.2	21,700.0	12,000.0
2. Other adjustments		4,500.0			
3. Adjustments negotiated in Parliament post-BPS		1,766.5			
Computed equitable revenue share allocation	226,660.0	259,774.5	280,300.0	302,000.0	314,000.0

288. In addition to the above equitable share, County Governments will receive additional funds as conditional grants. These include the following:

- From the National Governments' equitable revenue share, Ksh 17.2 billion conditional allocations for: i) level-5 hospitals; ii) rehabilitation of village polytechnics; iii) leasing of medical equipment; iv) compensation for foregone user fees; and, v) Construction of County Head Quarters **(Table 4.4);**

- Equalization Fund to the marginalized areas amounting to Ksh 4.7 billion

Table 4.4: Division of Revenue Raised Nationally (Ksh Million)

Type/level of allocation	2014/15	2015/16	2016/17	2017/18	2018/19
National Government, of which:	801,759.0	887,197.5	1,019,494.0	1,176,567.0	1,369,792.0
Free maternal healthcare	*3,320.0*	4,298.0	4,121.0	-	-
Leasing of medical equipment		4,500.0	4,500.0	6,100.0	9,400.0
Compensation for user fees forgone		900.0	900.0	900.0	900.0
Level 5 hospitals	1,863.3	3,600.5	4,000.0	4,200.0	4, 0
Special purpose grant (Emergency Med. Serv.)			200.0	-	-
Rehabilitation of village polytechnics				2,000.0	2,00 0
Supplement for construction of County HQs				605.0	60 .0
Equalization Fund	3,400.0	6,000.0	6,000.0	7,727.0	4,700.0
County equitable share	226,660.0	259,774.5	280,300.0	302,000.0	314,000.0
Total shareable revenue	1,031,819.0	1,152,972.0	1,305,794.0	1,486,294.0	1,688,492.0

- Ksh 8.3 Billion from the Road Maintenance Fuel Levy Fund (RMLF). As in previous years, this is calculated at 15 percent of projected FY 2017/18 collections by the Kenya Roads Board (KRB); and

- Ksh 33.2 billion from proceeds of external loans and grants, which will finance devolved functions in accordance with the signed financing agreement for each loan/grant. **Table 4.5** shows the total disaggregation of revenues transferred to the County Government.

Table 4.5: Disaggregation of County Governments' Allocation, Ksh Million

Type/level of allocation	2014/15	2015/16	2016/17	2017/18	2018/19
County equitable share	226.660.0	259,774.5	280.300.0	302.000.0	314.000.0
Additional conditional allocations, of which:					
Free maternal healthcare	3,320.0	4.298.0	4.121.0	-	-
Leasing of medical equipment		4.500.0	4.500.0	6.100.0	9.400.0
Compensation for user fees forgone		900.0	900.0	900.0	900.0
Level 5 hospitals	1.863.3	3.600.5	4.000.0	4.200.0	4,326.0
Special purpose grant (Emergency Med. Serv.)			200.0	-	-
Rehabilitation of village polytechnics				2.000.0	2.000.0
Supplement for construction of County HQs				605.0	605.0
Allocation from Fuel Levy (15%)	3.400.0	3.300.0	4.306.8	7.875.0	8.269.0
Allocation from loans and grants		10.671.2	3.870.7	12.541.4	33.241.9
Total County Allocations	235,243.3	287,044.2	302,198.5	336,221.4	372,741.9

4.6 Horizontal Allocation of Revenue

289. Horizontal distribution of County Governments' equitable revenue share allocation for FY 2018/19 is based on the current formula, which uses six parameters with specific weights, namely: population (45 percent); basic equal share (26 percent); poverty (18 percent); land area (8 percent); fiscal responsibility

(2 percent) and development factor (1 percent). Each additional conditional allocation is distributed based on its objectives, criteria for selecting beneficiary Counties and distribution formula. Accordingly, in FY 2018/19, the Counties will share an estimated Ksh 372.7 billion, which represents an increase of 11.4 percent over and above projected total transfers for 2017/18 of Ksh 334.6 billion. **Table 4.6** shows the projected transfer to each County in FY 2018/19.

Table 4.6: Revenue Allocation for Each County Government

No	County	2017/2018		2018/2019											
		Allocation ratio	Equitable Share	Allocation ratio	Equitable Share	Conditional Grants to Level-5 Hospitals	Supplement for Construction of County Headquarters	Conditional Grant-Compensation for User Fee Foregone	Conditional Grant-Leasing of Medical Equipment	Conditional Grant- Road Maintainance Fuel Levy	Conditional Grant-Rehabilitation of Village Polytechnics	Total Conditional Grants from the National Government Revenue	Total Loand and Grants	Total Allocations	Percapita Allocation
1	Baringo	1.65	4,983,000,000	1.62	5,086,800,000	-	-	13,191,000	200,000,000	133,931,014	35,605,000	382,727,014	393,695,552	5,863,222,566	10,554
2	Bomet	1.74	5,254,800,000	1.89	5,934,600,000	-	-	16,713,356	200,000,000	156,252,849	47,875,000	420,841,205	434,246,074	6,789,687,279	9,299
3	Bungoma	2.9	8,758,000,000	2.85	8,949,000,000	-	-	32,837,307	200,000,000	235,619,376	65,500,000	533,956,683	629,104,073	10,112,060,756	7,354
4	Busia	1.93	5,828,600,000	1.9	5,966,000,000	-	-	16,934,085	200,000,000	157,079,584	61,960,000	435,973,669	371,628,470	6,773,602,139	9,105
5	E/Marakwet	1.2	3,624,000,000	1.2	3,768,000,000	-	-	8,788,919	200,000,000	99,208,158	41,800,000	349,797,077	307,505,019	4,425,302,096	11,960
6	Embu	1.36	4,107,200,000	1.42	4,458,800,000	301,040,462	-	10,724,225	200,000,000	117,396,321	37,900,000	667,061,008	364,692,990	5,490,553,998	10,636
7	Garissa	2.21	6,659,100,000	2.21	6,939,400,000	344,739,884	-	12,964,636	200,000,000	182,708,358	35,335,000	775,747,878	553,587,377	8,268,735,255	13,271
8	Homa bay	2.16	6,523,200,000	2.13	6,688,200,000	-	-	22,185,346	200,000,000	176,094,481	46,675,000	444,954,827	416,987,531	7,550,142,358	7,834
9	Isiolo	1.25	3,775,000,000	1.25	3,925,000,000	-	121,000,000	3,472,461	200,000,000	103,341,832	21,235,000	449,049,293	361,523,006	4,735,572,299	33,048
10	Kajiado	1.91	5,768,200,000	1.91	5,997,400,000	-	-	16,955,365	200,000,000	157,906,319	40,345,000	415,206,684	510,628,184	6,923,234,868	10,073
11	Kakamega	3.29	9,935,800,000	3.29	10,330,600,000	427,283,237	-	37,789,290	200,000,000	271,995,701	69,910,000	1,006,978,228	702,938,880	12,040,517,108	7,250
12	Kericho	1.73	5,224,600,000	1.82	5,714,800,000	-	-	18,048,789	200,000,000	150,465,707	41,005,000	409,519,496	496,861,567	6,621,181,063	8,800
13	Kiambu	3.2	9,664,000,000	2.98	9,357,200,000	538,716,765	-	34,671,542	200,000,000	246,366,927	68,110,000	1,087,865,234	2,169,283,319	12,614,348,553	7,771
14	Kilifi	3.3	9,950,900,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,963	10,870
15	Kirinyaga	1.46	4,409,200,000	1.31	4,113,400,000	-	-	11,282,570	200,000,000	108,302,240	52,210,000	371,794,810	317,598,693	4,802,793,503	9,095
16	Kisii	2.46	7,429,200,000	2.45	7,693,000,000	417,572,254	-	26,138,997	200,000,000	203,376,725	70,090,000	917,177,976	527,494,070	9,137,672,046	7,930
17	Kisumu	2.17	6,553,400,000	2.2	6,908,000,000	369,017,341	-	21,299,489	200,000,000	181,881,624	41,650,000	813,848,454	1,119,551,579	8,841,400,033	9,125
18	Kitui	2.87	8,652,300,000	2.78	8,729,200,000	-	-	22,499,906	200,000,000	229,832,234	58,465,000	510,797,140	559,280,082	9,799,277,222	9,676
19	Kwale	2.4	7,248,000,000	2.4	7,536,000,000	-	-	15,209,593	200,000,000	198,416,317	41,860,000	455,485,910	408,658,212	8,400,144,122	12,925
20	Laikipia	1.49	4,499,800,000	1.31	4,113,400,000	-	-	9,968,208	200,000,000	109,128,974	28,525,000	347,622,182	380,285,005	4,841,307,187	12,127
21	Lamu	0.82	2,476,400,000	1.13	3,548,200,000	-	121,000,000	2,451,034	200,000,000	93,421,016	31,210,000	448,082,050	292,096,059	4,288,378,109	42,234
22	Machakos	2.45	7,399,000,000	2.65	8,321,000,000	383,583,815	-	24,129,039	200,000,000	219,084,683	54,295,000	881,092,537	1,308,952,409	10,511,044,946	9,568
23	Makueni	2.26	6,825,200,000	2.27	7,127,800,000	-	-	19,435,760	200,000,000	187,668,766	31,570,000	438,674,526	495,329,867	8,061,804,393	9,114
24	Mandera	3.23	9,739,500,000	3.23	10,142,200,000	-	-	25,474,920	200,000,000	267,035,293	31,240,000	523,750,213	517,146,113	11,183,096,326	10,902
25	Marsabit	2.18	6,583,600,000	2.23	7,002,200,000	-	-	6,643,714	200,000,000	184,361,828	26,275,000	417,280,542	451,058,372	7,870,538,914	27,031
26	Meru	2.55	7,701,000,000	2.55	8,007,000,000	373,872,832	-	31,648,428	200,000,000	210,817,337	66,025,000	882,363,597	387,083,948	9,276,447,545	6,840
27	Migori	2.14	6,462,800,000	2.14	6,719,600,000	-	-	21,655,884	200,000,000	176,921,216	31,750,000	430,327,100	920,080,056	8,070,007,156	8,799
28	Mombasa	2.7	8,154,000,000	2.62	8,226,800,000	388,439,306	-	23,385,934	200,000,000	216,604,479	39,895,000	868,324,719	130,671,225	9,225,795,944	9,821
29	Murang'a	2.05	6,191,000,000	1.99	6,248,600,000	-	-	20,138,691	200,000,000	164,520,196	65,710,000	450,368,887	321,873,606	7,020,842,493	7,449
30	Nairobi	5.1	15,402,000,000	5.03	15,794,200,000	-	-	79,423,251	200,000,000	415,847,530	34,570,000	729,840,781	189,490,828	16,713,531,609	5,326
31	Nakuru	3.07	9,271,400,000	3.01	9,451,400,000	373,872,832	-	38,723,265	200,000,000	248,847,131	47,800,000	909,243,228	1,411,681,523	11,772,324,751	7,342
32	Nandi	1.69	5,103,800,000	1.71	5,369,400,000	-	-	18,086,363	200,000,000	141,371,626	37,255,000	396,712,989	476,558,655	6,242,671,644	8,291
33	Narok	2.16	6,523,200,000	2.03	6,374,200,000	-	-	20,595,297	200,000,000	167,827,135	30,820,000	419,242,432	386,247,494	7,179,689,926	8,438
34	Nyamira	1.53	4,620,600,000	1.52	4,772,800,000	-	-	13,175,221	200,000,000	125,663,667	52,915,000	391,753,888	363,015,478	5,527,569,366	9,240
35	Nyandarua	1.58	4,771,600,000	1.57	4,929,800,000	-	121,000,000	12,735,922	200,000,000	129,797,341	39,700,000	503,233,263	406,610,216	5,839,643,479	9,794
36	Nyeri	1.64	4,952,800,000	1.6	5,024,000,000	407,861,272	-	13,701,379	200,000,000	132,277,544	28,795,000	782,635,195	463,985,098	6,270,620,293	9,041
37	Samburu	1.26	3,805,200,000	1.41	4,427,400,000	-	-	5,235,578	200,000,000	116,569,586	20,905,000	342,710,164	409,667,125	5,179,777,289	23,129
38	Sinya	1.83	5526600000	1.92	6,028,800,000	-	-	18,194,808	200,000,000	158,733,053	38,500,000	415,427,861	288,363,333	6,732,591,194	7,993
39	Taita taveta	1.29	3895800000	1.29	4,050,600,000	-	-	5,296,305	200,000,000	106,648,770	49,675,000	361,620,075	359,389,189	4,771,609,264	16,763
40	Tana River	1.77	5345400000	1.77	5,557,800,000	-	121,000,000	5,682,537	200,000,000	146,332,034	24,490,000	497,504,571	441,925,092	6,497,229,663	27,063
41	Tharaka Nithi	1.22	3684400000	1.16	3,642,400,000	-	121,000,000	8,218,119	200,000,000	95,901,220	40,090,000	465,209,339	267,888,581	4,375,497,920	11,977
42	Trans Nzoia	1.87	5647400000	1.79	5,620,600,000	-	-	21,304,915	200,000,000	147,985,503	53,710,000	423,000,418	604,932,474	6,648,532,892	8,120
43	Turkana	3.34	10071700000	3.43	10,770,200,000	-	-	25,634,941	200,000,000	283,569,986	25,285,000	534,489,927	434,671,254	11,739,361,181	13,724
44	Uasin Gishu	1.89	5707800000	1.89	5,934,600,000	-	-	20,813,065	200,000,000	156,252,849	33,250,000	410,315,914	939,916,663	7,284,832,577	8,147
45	Vihiga	1.46	4409200000	1.42	4,458,800,000	-	-	12,657,201	200,000,000	117,396,321	55,000,000	385,053,522	521,729,257	5,365,582,779	9,674
46	Wajir	2.7	8138900000	2.7	8,478,000,000	-	-	15,784,997	200,000,000	223,218,356	21,295,000	460,298,353	541,331,487	9,479,629,840	14,321
47	West Pokot	1.57	4741400000	1.57	4,929,800,000	-	-	12,128,484	200,000,000	129,797,341	28,885,000	370,810,825	419,206,096	5,719,816,921	11,156
	Total	100	302,000,000,000	100	314,000,000,000	4,326,000,000	605,000,000	900,000,000	9,400,000,000	8,269,000,000	2,000,000,000	25,500,000,000	33,241,930,770	372,741,930,770	9,654

4.7 Summary

290. The National Treasury, through the Intergovernmental Fiscal Relations (IGFR) Department continues to implement reforms to enhance performance of County Governments. The reforms, which are being implemented under the Revised Public Finance Management Reform Strategy (2016-2018) are expected to lead among other things, to:

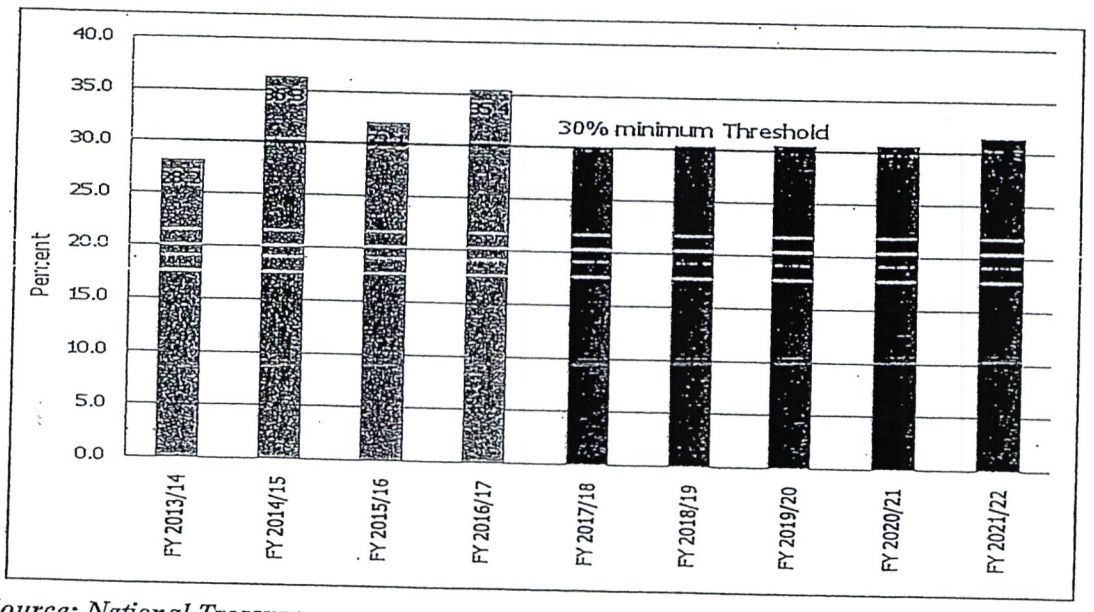
- Improved collection and efficiency of County Governments' own-source revenue (OSR) systems, including accounting and reporting;
- Improved capacity of Counties to formulate realistic and credible budgets, and hence better harmony between County Executive and County Assemblies in the budget process;
- Strengthened capacity of County Assembly oversight committees specifically, County Assembly Budget and Appropriation Committees to produce quality reports in a timely manner;
- Proper documentation and management of County Governments' assets and liabilities; and
- A clearer and stronger system of intergovernmental fiscal relations, particularly on management of intergovernmental conditional grants between the two levels of Government.

ANNEX 1: ADHERENCE TO FISCAL RESPONSIBILITY PRINCIPLES

1. In line with the Constitution, the Public Finance Management (PFM) Act, 2012, the PFM regulations, and in keeping with prudent and transparent management of public resources, the Government has adhered to the fiscal responsibility principles as set out in the statute as follows:

a) The National Government's development expenditure as a percent of total budget has been above the 30 percent minimum threshold set out in the PFM law. Despite the constraints in revenues, the development expenditures are expected to continue being above the threshold at 30.2 percent in FY 2017/18, 30.4 percent in FY 2018/19 and 31.5 percent over the medium term **(Chart 1.1)**.

Chart 1.1: Development Expenditures as a % of Total National Government Budget

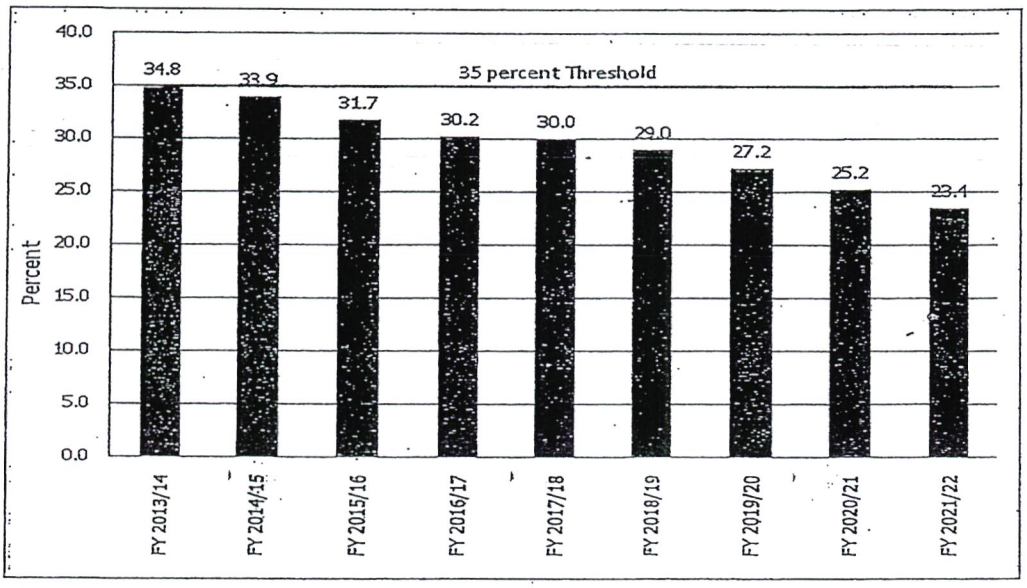


Source: National Treasury

b) On compensation of employees, the share of wages to the National Government revenues was 30.2 percent in FY 2016/17, and is projected at 29.0 percent in FY 2018/19 and at 23.4 percent over the medium term. These ratios demonstrate the commitment to the fiscal responsibility principle of ensuring that the national government's expenditure on wages and benefits for public officers does not exceed 35 percent of the national government's equitable share of the revenue raised nationally plus other revenues generated

by the national government pursuant to Article 209 (4) of the Constitution (**Chart 1.2**).

Chart 1.2: Wages as a percentage of National Government Revenues



Source: National Treasury

c) PFM Act section 15(2) (c) requires that the national government's borrowings be used only for the purpose of financing development expenditure and not for recurrent expenditure. The government has continued to adhere to this principle. Further, this borrowing is carried out within the context of the Medium Term Debt Strategy (MTDs) approved by parliament.

d) The National Government is required to maintain public debt at sustainable levels as set out in the Public Finance Management Act 2012, and its regulations. Our debt ratios compared with internationally recognized thresholds continue to show that our debt level remains sustainable (**Table 1.1**). The baseline public debt path remains consistent with the EAC convergence ceiling of 50 percent of GDP.

e) The external debt sustainability indicators illustrate that Kenya remains within the sustainable bounds. This is attributed to the large portion of debt that is on concessional terms in terms of low costs and long term maturity. This funding continues to play a key role in the development agenda of the National Government..

Table 1.1: Kenya's Public Debt Sustainability Indicators

Indicator	Threshold	2016	2017	2019	2026
PV of public sector debt to GDP ratio	74	48.7	49.0	47.1	35.6
PV of public sector debt-to-revenue ratio	300	247.2	235.7	217.4	161.4
Debt service-to-revenue ratio	30	32.8	35.8	33.4	24.3

Source: IMF Staff Report for Kenya, February 2017

f) To manage fiscal risks prudently, the Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications on the budget. A detailed annex on the Specific Fiscal Risks (see Annex 2) has been prepared as part of this Budget Policy Statement. The Government also takes into account the fiscal risks arising from contingent liabilities. Further, every year a contingency provision of Ksh 5.0 billion is factored in the budget to cater for urgent and unforeseen expenditure.

g) On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, in the FY 2014/15 Government simplified and modernized the VAT legislation and consolidated all the appeals in the tax legislation to a single legislation. Similarly in the FY 2015/16, modern and simplified Excise Duty and Tax Procedure legislations were enacted. A review of the Income Tax Act is ongoing and will be completed before June 2018. These reforms are intended to lock in predictability and enhance compliance with the tax system and ensure stability in tax revenue.

SECRET

ANNEX 2: STATEMENT OF SPECIFIC FISCAL RISKS

Introduction

1. The Kenyan economy remains resilient with a robust growth outlook. However, the economy remains vulnerable to both domestic and external shocks. For prudent management of risks, the PFM Act, 2012 requires the preparation of a "Statement of Fiscal Risks".

2. The "Statement of Specific Fiscal Risks" outlines Kenya's exposure to fiscal risks that are associated with associated with macroeconomic assumptions used for fiscal projections, public debt dynamics, operations of state corporations, contingent liabilities, vulnerabilities of the financial sector, as well as risks posed by nature.

3. The Government remains committed to fiscal consolidation in order to assure on the long-term sustainability of public finances. Nevertheless, the Government will monitor the risks and take appropriate measures to safeguard macroeconomic stability.

4. In this respect, this Statement sets out the assessment of risks that can affect the achievement of the macroeconomic targets and strategic objectives outlined in this Budget Policy Statement. It also proposes a framework for responding to the risks. The Statement is intended to inform the Parliament and the public about the country's exposure to these various sources of risk and what more can be done to ensure fiscal viability in the event of the occurrence of the stated risks.

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

Risk in Changes in Macroeconomic Assumptions

6. Unexpected changes in in macroeconomic variables create risks to both revenue and expenditure projections as they play a key role in the formulation of the budget. Adverse changes in real GDP growth rates, inflation, exchange rate and volatility of commodity prices on imports. This section reviews past

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macroeconomic and fiscal performance in Kenya and then assesses four important sources of fiscal risk to the budget namely:

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

7. **Table 2.1** presents the magnitude of first round impacts of various macroeconomic variables mentioned above on fiscal aggregates.

Table 2.1: Fiscal Sensitivity to Key Macroeconomic Variables, 2018/19 (Ksh bn)

	Revenue	Expenditure	Budget Balance
One percentage point reduction in real GDP (%)	-17.0	-7.2	-9.8
One percentage point increase in inflation rate (%)	15.9	7.7	8.3
10% depreciation in exchange rate (Ksh/US$)	10.7	12.9	-2.2
10 percentage increase in value of imported goods (US$)	4.7	-0.1	4.8
All shocks Combined	14.1	13.2	0.9

8. The reduction in real GDP by one percentage point results in a larger reduction of revenue compared to expenditures. On balance, revenue declines by Ksh 9.8 billion. Inflation instability (in this case, an increase in inflation by one percentage points) results in higher revenues relative to expenditures giving a net increase in revenue of Ksh 8.3 billion.

9. Exchange rate volatility as measured by a 10 percent depreciation results in Kenya shilling exchange rate to the US dollar, results in increases in both revenues and expenditures. However, expenditures would increase more that revenues by Ksh 2.2 billion. Volatility in prices of imported goods as measure by an increase in value of imported goods in US dollar terms results in higher revenues and a marginal decline in expenditures. On a net basis, revenues increase by Ksh 4.8 billion.

10. Overall, if all the shocks are applied at the same time, revenues would increase by Ksh 14.1 billion while expenditures would also increase by Ksh 13.2 billion. On a net, balance, revenues would increase by Ksh 0.9 billion.

Assessment of Past Forecast Accuracy of Underlying Assumptions and Budgetary Aggregates

11. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations as shown in Table 2.2. Over the period 2014/15-2017/18, the average deviation between the assumed and provisional actual real GDP growth rates was 0.5 percentage point. With respect to inflation assumption, the largest deviation was in FY 2014/15 by 1.0 percentage point and over the period averaged 0.6 percentage point. The depreciation of the shilling exchange rate against major international currencies since the FY 2015/2016 was due to the strengthening of the US dollar but has since stabilized with less volatility.

Table 2.2: Deviations in Macroeconomic and Fiscal Aggregates

	2014/15			2015/16			2016/17			2017/18			2014/15-2017/18
(In percentage points; unless specified)	Proj.	Act	Dev.	Proj.	Act	Dev.	Proj.	Prel Act	Dev.	Proj.	Rev.	Dev.	Ave. Dev.
I. Key Macroeconomic Assumptions													
Real GDP	*6.1%*	*5.5%*	*-0.6%*	*5.8%*	*5.8%*	*0.0%*	*5.5%*	5.3%	*-0.2%*	*6.6%*	5.3%	*-1.3%*	-0.5%
Inflation rate (avg)	*5.7%*	6.6%	*1.0%*	*5.7%*	6.4%	*0.8%*	*6.6%*	6.9%	*0.3%*	*5.8%*	6.3%	*0.5%*	0.6%
Exchange rate (Ksh/US$), avg		91.4			101.1			102.5			103.6		
Export growth		1.1%			-4.4%			5.3%			12.0%		
Import growth		-1.0%			-12.5%			11.7%			15.9%		
II. Fiscal Aggregates (in Ksh billion)													
Total Revenue	1239.3	1135.9	-103.4	1365.9	1262.2	-103.6	1514.1	1426.9	-87.2	1763.3	1702.4	-61.0	-88.8
Tax and non-tax	1180.5	1107.8	-72.8	1299.9	1232.6	-67.3	1455.4	1400.6	-54.8	1704.5	1643.1	-61.4	-64.0
Ordinary Revenue	1086.4	1031.8	-54.6	1184.4	1153.0	-31.4	1311.3	1305.8	-5.5	1549.4	1486.3	-63.1	-38.6
AiA	94.1	76.0	-18.2	115.5	79.7	-35.9	144.0	94.8	-49.2	155.1	156.8	1.7	-25.4
Grants	58.7	28.1	-30.6	66.0	29.6	-36.4	58.8	26.3	-32.5	58.8	59.2	0.4	-24.8
Total Expenditure	1597.8	1639.9	42.1	2032.5	1781.9	-250.6	2326.9	2110.0	-216.9	2298.8	2323.1	24.4	-100.3
Recurrent	871.5	895.2	23.7	1085.3	1020.0	-65.3	1238.3	1165.0	-73.3	1335.3	1392.8	57.5	-14.3
Development	492.0	510.5	18.5	678.0	480.7	-197.3	803.9	639.9	-163.9	612.8	579.6	-33.2	-94.0
Domestic	298.7	266.8	-31.8	316.5	298.2	-18.3	430.3	385.1	-45.2	366.3	320.3	-46.0	-35.3
External	187.8	241.2	53.4	353.0	173.9	-179.1	365.2	246.4	-118.9	236.4	249.2	12.8	-57.9
Net Lending	2.1	2.1	0.0	2.1	2.2	0.1	2.3	2.4	0.1	2.4	2.4	0.0	0.1
Equalization Fund	3.4	0.4	-3.0	6.4	6.4	0.0	6.0	6.0	0.0	7.7	7.7	0.0	-0.8
Others	5.0	5.0	0.0	5.0	5.0	0.0	0.0	0.0	0.0	5.0	5.0	0.0	0.0
County Allocation	229.3	229.2	-0.1	264.2	276.2	12.0	284.7	305.0	20.3	345.7	345.7	0.0	8.1
Balance	-358.6	-504.0	-145.4	-666.6	-519.7	146.9	-812.8	-683.1	129.7	-535.5	-620.8	-85.3	11.5
Financing	358.6	471.5	112.9	666.6	474.6	-192.1	812.8	697.3	-115.5	535.5	620.8	85.3	-27.3
Net Foreign Financing	165.8	217.5	51.7	419.0	269.9	-149.1	463.9	385.7	-78.1	256.0	323.2	67.3	-27.1
Other	2.0	2.9	0.9	2.6	2.4	-0.2	2.1	1.8	-0.4	3.8	3.8	0.0	0.1
Net Domestic Financing	190.8	251.1	60.3	245.0	202.3	-42.8	346.8	309.8	-37.1	275.7	293.8	18.1	-0.4
Others	190.8	110.6	-80.2	245.0	202.3	-42.8	346.8	309.8	-37.1	275.7	293.8	18.1	-35.5
Memo items:													
Nominal GDP (Ksh billion)	5,633.2	5,831.5	198.3	6,444.0	6,709.7	265.7	7,435.2	7,658.1	222.9	8,689.9	8,654.6	-35.2	162.9

Source: National Treasury

Source: National Treasury

12. The actual performance of fiscal aggregates vis-à-vis target was below target. Total revenue between FY 2014/15 and FY 2017/18 underperformed its target by an average of Ksh 88.8 billion while ordinary revenue was blow target by an

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average of Ksh 38.6 billion. The underperformance in A-i-A largely reflects the under reporting from the relevant ministries/departments.

13. The average deviation of total expenditure and net lending between FY 2014/15 and FY 2017/18 was an underspending of Ksh 100.2 billion. This shortfall was attributed to lower absorption in development expenditures. The recurrent expenditure has an on average exceeded target by Ksh 8.9 billion during the period.

14. The execution of development expenditure has generally been low due to lower execution rates by the Ministries, Departments and Agencies particularly for external financing.

15. The slower-than-programmed spending on development budget poses a risk to the fiscal program, going forward. In order to prevent this risk from materializing, the National Treasury is preparing guidelines on how capital projects should be planned, appraised and evaluated before funds are finally committed in the budget. The National Treasury will engage Development Partners and execute financial agreements when the project has fulfilled all preliminary conditions for execution.

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

SPECIFIC FISCAL RISKS

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

i. The sustainability of public debt;
ii. Explicit Contingent Liabilities
iii. Implicit Contingent Liabilities
iv. Devolved System of Government

Sustainability of Public Debt

18. The sustainability of Kenya's debt depends on macroeconomic performance and prudence debt management. In addition, increased external financing on both concessional and non-concessional terms pose an inherent foreign exchange risk which may worsen the PV of debt and therefore increases the risk of debt distress. Increased use of longer-term domestic debt instruments would help mitigate exposure of the Government debt portfolio to foreign currency risk and contribute to reducing domestic rollover risk.

19. The above notwithstanding, the Government recognizes the importance of managing debt in a prudent way to ensure the debt burden is shared equally between the current and future generation. The latest debt sustainability analysis (DSA) for Kenya indicates that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress.

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

21. Kenya's debt ratios compared with internationally recognized threshold continues to show that our debt level remains sustainable **(see Table 1.1 in the Fiscal Responsibility Principles).** Both the present value of public sector debt to GDP ratio and present value of public sector debt to revenue ratio are well within internationally recognized thresholds.

State Corporations/State Owned Enterprises

Governance

22. The establishment of State Corporations is as a result of a deliberate Government policy to establish entities to undertake specific developmental and strategic objectives on behalf of Government to accelerate economic and social development in the country. These entities have contributed significantly towards the achievement of Government development agenda as stipulated in Government policies and development plans including Vision 2030. It is envisaged that those entities would operate on cost recovery basis and make reasonable returns on the investments.

23. Over the years, major reforms premised on Government policy of a private sector led economy have resorted to privatization of some corporations. Successful privatized entities like Safaricom are playing a significant role in the economy by creating job opportunities, remitting reasonable dividends to the national exchequer and tax revenues. Further, the unbundling of the operations of infrastructure State Corporations to separate regulatory functions from commercial operations and create independent regulatory institutions has seen the country

unlock the great potential in some sectors like the ICT, transport and energy that have made tremendous strides in the economy. Other reforms in the sector include a deliberate Government policy to embrace global best practices, enhance good corporate governance and accountability on the use of public resources to enable those Corporations deliver on strategic mandates on behalf of the Government.

24. In efforts to strengthen good corporate governance of State Corporations, the Government issued the Mwongozo Code of Conduct to provide guidance on effective governance and oversight of State Corporations. This, together with the establishment and operationalization of audit committees and risk management frameworks for Government entities including State Corporations under the PFM Act/Regulations are geared towards enhancing capacity for effective delivery of strategic objectives on behalf of the Government. In addition the Capital Market Authority has issued Regulations under the Capital Market Act (Cap 486) on code of governance requirements to be observed by companies listed at the NSE. This will enhance accountability, transparency and full disclosure by Corporations listed in NSE where Government has a stake.

Public Debt

25. Under various enabling legislations establishing State Corporations, the Corporations are legal entities with the capacity to borrow or contract debts and other liabilities for purposes of furthering their mandate on behalf of the Government. The process of contracting debts and other liabilities by State Corporations are spelt out in the PFM Act/Regulation and the State Corporations Act with clear approval requirements. State Corporations with strong balance sheets can contract debts and other liabilities only with relevant approvals from the line Ministry and the National Treasury to finance projects that are viable and will enhance the revenue stream to service all obligation arising from the debts without reverting to the national exchequer for bailout.

26. On the other hand, the Government through the National Treasury can procure loans on concessional terms from bilateral/multilateral sources and other financial intuitions to implement strategic infrastructure projects that require huge capital outlays like in energy/petroleum, roads, airports, rail, and sea ports. The concessional loans are on-lent to respective State Corporations implementing the strategic infrastructure projects. The on-lent concessional loans constitute public debts and are sustainable as they are procured by the Government as per the Medium Term Debt Management Strategy and are within the required thresholds with respect to Kenya's public indebtedness.

Explicit/Implicit Contingent Liabilities

27. Government, as a strategic thrust, has a stake in State Owned Enterprises (SOEs) and other Government investments. While contracted debts and other liabilities by SOEs and other companies where Government has a stake are backed by their balance sheets and revenue streams, they may constitute a potential source of fiscal risk. Due to economic downturns and fortunes as a result of vagaries of the weather, global economic shocks, new technology, competition, change of law as a result of domesticating regional treaties, and change of policies, SOEs and other companies where government has a stake may face challenges and financial distress. Consequently, their balance sheets and revenue streams may be adversely impacted and hence impair their capacity to honour obligations arising from contracted debts and other liabilities.

28. Due to the strategic nature of those SOEs and other companies where Government has a stake and the overall impact of their collapse to the economy, the Government may be obligated to intervene through various measures. This may include underwriting/guaranteeing contracted debts and other liabilities, and/or direct cash bailout through provision of budgetary resources and this poses potential fiscal risks. The Government will continue to put in place measures including appropriate legislation and policy directives to monitor and mitigate any potential fiscal risks as a result of Government stake in SOEs and other companies that are of strategic importance.

Unfunded Pension Liabilities

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

Public Private Partnership (PPP) Projects

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

Independent Power Producers (IPPs) in electricity generation starting from 1996. Currently, all of the country's generated electricity is private sector-led, eleven (11) active IPPs that generate a total of 691MW out a total of 2341MW installed capacity in Kenya. In addition, before June 2018, 300MW from Lake Turkana project shall be put on the National Grid once the transmission line has been completed (Annex Table 5).

Planned Infrastructure PPP Projects in Kenya

31. Following the adoption of the PPP Policy in 2011, and the enactment of the PPP Act in 2013, as well as the establishment and operationalization of critical PPP institutions (the PPP Committee, the PPP Unit and the Petition Committee), there has been a steady growth in the quality and size of the PPP pipeline of projects, drawn from diverse economic sectors and County Governments. A total of 70 projects are in the National Priority List of PPP projects. These projects are in the transport and infrastructure, energy, tourism, education, environment, health among others. In the **Table 2.3**, highlights of currently active transactions are provided. This pipeline of projects is currently under review and is expected to be realigned with projects to be implemented under the Government's "Big 4" agenda.

Table 2.3: Planned PPP projects for the period 2018-2020 (USD Million)

Sector	Project Value (US$ M)
Road sector • PPP Toll Road Projects: *Procurement is ongoing for the following projects* o 2nd Nyali Bridge o Nairobi-Nakuru-Mau Summit road *Preparation of tender documents is underway for the following projects* o Nairobi-Mombasa road o O&M Nairobi-Thika road • Road Annuity Phase 1 *PPP Project agreements have been signed for the following projects;* o Lot 3 (Samatar – Wajir, Rhamu – Mandera). o Lot 33 (Kajiado – Imaroro, Ngong - Kiserian – Isinya). PPP project agreements have been signed *Contract negotiations with private party have been concluded for the following projects;* o Lot 8 (Bomas – Kiserian – Magadi, Bomas- Karen - Dagoret – Ruiru, Uplands-Githunguri-Ngewa-Ruiru) o Lot 15 (select urban roads in Nyeri, Kirinyaga, Murang'a, Embu, Tharaka Nithi and Laikipia Counties. o Lot 18 (select urban roads in Kakamega, Vihiga, Bungoma and Busia Counties o Lot 32 (Illasit - Njukini – Taveta)	2,500 1,702
Energy • 960MW Coal Power Plant in Lamu (*PPP Agreement has been signed*) • 105 MW Menengai Phase 1 (3 *Power Purchase Agreements signed for a total of 105MW*) • 140 MW Geothermal project at Olkaria (*Feasibility Study being finalized*) • 600 MW of other 20 renewable energy projects (solar, wind)- (*PPAs initialled)*	3,139
LAPSSET • O&M of Lamu Port (1st three berths)- *Negotiations with private investor ongoing* • Lamu – Garissa- Isiolo Highway- *Negotiations with private investor ongoing*	800
Education	

Sector	Project Value (US$ M)
• Kenyatta University Student Hostels (*PPP Project Agreement has been signed*) *Procurement is ongoing for the following projects;* • Moi University Student Hostels	52.5
• University of Embu Student Hostels • South Eastern Kenya University Student Hostels • Egerton University • Kenya Technical Trainers College	
Water and Environment • multi-purpose dams, • water supply projects • solid waste management projects	2,000
Housing • Civil Servants Housing • Affordable Housing • Police and prisons housing	1,500
Urban Development • Multilevel car park in Nairobi • Multilevel car park in Mombasa	100
Tourism • Mombasa International Convention Centre • Nairobi International Convention and Exhibition Centre • Kenyatta International Convention Centre	500
Agriculture and Livestock • Export Quarantine Station & Livestock Export Zone	10
Likoni Crossing Aerial Cable Car	43
Total	**12,346**

32. The Government understands that any PPP project comprises roles and responsibilities for both the public and private sector. In particular and based on specific project needs, the public sector's contributions to the "partnership" of PPPs would typically include the use of instruments of support and credit enhancement measures such as project development funding, availability payments, upfront capital grants, operational grants, revenue guarantees, Partial Risk Guarantees (PRG), etc. As it stands, the Government is currently finalizing a policy on the issuance of Government Support Measures with an objective to provide a clear structure and process for the issuance of Government Support policy instruments.

33. In accordance with section 7(1) of the PPP Act, the PPP Committee has adopted a Fiscal Commitment and Contingent Liability (FCCL) Management Framework to ensure approval of, and fiscal accountability in the management of, financial and any other form of Government support granted in the implementation of the country's PPP program.

34. The FCCL Unit established under the Directorate of the Public Debt Management Office of the National Treasury is responsible for: mandatory evaluation of all proposed PPP projects for financial risks and contingent liabilities as a condition of project approval; confirmation of this initial approval at feasibility stage based on preferred submission and final negotiated project structure; regular monitoring of all support measures for any amendment(s) or variation(s) to a project agreement's terms and conditions, project outputs or any waivers in the project agreement.

35. All guarantees and other security instruments provided under the PPP agenda, together with all other contingent liabilities are integrated into the debt management process. The FCCL Unit continues to routinely assess contingent liabilities and is establishing systems for monitoring these projects with a view to ensuring continuous risk management and the scheduled disclosure and reporting of all fiscal risks associated with PPPs. In addition, as part of increasing accountability and transparency within the PPP space, the National Treasury in collaboration with the World Bank is finalizing a PPP disclosure framework.

36. To mitigate the risks, the PPP Project Facilitation Fund (PFF) (a multi-purpose revolving fund) established under the PPP Act will provide good Governance Framework to manage Direct (or explicit) Liabilities and Contingent Liabilities once it is operational in the FY 2018/19.

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

Implicit Contingent Liabilities

Natural Disasters

37. Natural disasters often lead to lower than projected economic growth and have huge budgetary implications. They also impact negatively on social welfare. The severe drought that started in mid-2016 heavily impacted on agricultural activities resulting in the contraction of the agricultural sector thereby lowering economic growth with huge budgetary implications.

38. Given the importance of disaster risk, the Government has been focusing on natural disaster risk assessment and management through developing early warning systems and disaster preparedness strategies. The intention has not been to work towards risk financing tools, but to understand the budgetary implications of disaster risk and identify options for managing the risks. To reduce disaster risk, the Government has mainstreamed risk management in different sectors, such as agriculture; which is prone to significant loss of revenue following the physical loss of crops and livestock in the event of drought or flooding.

39. On the other hand, floods depending on their magnitude impact on agriculture, infrastructure such as electricity poles and transformers, roads, bridges and therefore affect households both directly and indirectly. Due to the impact a natural disaster on social welfare and its effects on essential amenities, the Government is always obligated to prevent social welfare reduction by incurring cost of returning normalcy after an occurrence.

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

Climate Change related fiscal risks to the economy

41. Climate change is a threat to the achievements of the Sustainable development goals and the Kenya Vision 2030. It is projected that, under current policies ("business as usual," BAU), the global mean temperature will continue to increase over the next century by 2.8^{0}C, with a 3 percent chance of rising 6^{0}C or more. The physical consequences of such a rise include: changed precipitation patterns, sea level rise, more intense and perhaps frequent extreme weather events, and increased prevalence of vector-borne diseases as well as catastrophic events, such as prolonged droughts and flooding in many counties.

42. Kenya's economy is highly dependent on the climate sensitive sectors such as agriculture, tourism, water and energy. Climate change therefore, poses potential economic consequences which include: - lower productivity in agriculture and other climate sensitive sectors, damage to coastal infrastructure, stresses on health, biodiversity, fragile ecosystems, water supply systems, changes in trading patterns and international investment flows, financial market disruption, increased vulnerability to sudden adverse shocks, lower GDP and altered migration patterns—all with potential implications for external stability.

43. The fiscal implications of climate change impacts are serious and immediate. Climate change impacts will directly affect fiscal positions, through their impact on tax bases and spending programs and use of fiscal instruments in mitigating and adopting to climate change related effects so as to limit the damage. For example, an increase in the frequency of storms will require more disaster relief spending and flood insurance pay-outs. Heavy rainfall events will prompt investments to protect, repair, and relocate facilities. Changing weather patterns and extreme weather events will affect farmers and thus affect the attainment of food security due to low productivity.

44. In recognition of the serious threats posed by climate change, the National Treasury has been leading the process of developing instruments for climate proofing vulnerable sectors of the economy through enhancing mitigation and adaptation measures. These include: Development of the frame-work National Policy on Climate Finance, Climate Public Expenditure and Budget Reviews (CPEBR), Development Climate Change Budget Coding for tracking and reporting climate finance flows and expenditure, Establishment of requisite structures for the private sector to support government efforts in financing both mitigation and adaptation actions through issuance of Green Bonds (sovereign), Establishment of the National Treasury as the National Designated Authority (NDA) for Green Climate Fund (GCF), Establishment of the Climate Change Fund (CCF) and the Disaster Risk Financing Strategy all aimed at cushioning the economy from fiscal risks arising from the effects of climate related shocks and natural disasters.

Evolving Acts of Terrorism (Violent Extremism)

45. Potential terrorist attacks may impose economic costs through direct and indirect channels. The direct costs include loss of life and physical destruction, whereas the indirect costs include impacts on restriction of movement of people, consumption, investment, and growth caused by terrorist attacks. In particular, potential terrorist attacks have direct effect on tourism by reducing tourists' visits due to security concerns.

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

47. Recognizing the significant risk that terrorism pose, the Government has undertaken a raft of reforms over the last two financial years to mitigate the adverse effects of this risk. These reforms include development of counter-terrorism strategy that involve cooperation among all security agencies, increasing

collaboration with local communities on security matters, security modernization involving acquisition of modern security equipment, and raising awareness to potential threats. Awareness.

Technological Disaster

48. Information, Communication and Technology (ICT) continues to play a revolutionary role in expanding access to financial services and improving the ways of doing business in Kenya. Technological advancement in Kenya has seen significant expansion in mobile financial services and internet usage. Mobile financial services has offered significant opportunities for improving the efficiency of financial services by expanding access and lowering transaction costs. The rapid growth of mobile money has demonstrated that the technology is mature and brings real benefits to people who previously could not access financial products or services.

49. Owing to the success of mobile money, various financial products have been leveraged on this payment channel increasing the inter linkages between this technology and the banking sector. The Government as well has tapped into the technology to provide services and receive payments online. In this regard, large volumes of money are transacted through the mobile money systems, being payment to governments for services offered as well as payments to private sector. The banking sector and other businesses whose performance is linked to this system remains an important source of corporate tax revenue for the government.

50. Therefore, given the importance of the mobile money system to the economy, its disruption would lead to substantial loss of potential government revenue, customers deposits and market confidence. The Government might therefore be under pressure to compensate losses and hence should be considered as a plausible fiscal risk.

51. On the other hand, increased usage of information technology (IT) systems such as computers and internet by households, businesses and Government entities has enhanced efficiency and improved service delivery. In particular, the Government in recent years has heavily leveraged on technology to improve service delivery using products such as IFMIS, iTax, e-procurement, Huduma centres and e-citizen. Given the significant revenues channelled through those systems, the reliance on these IT systems exposes the Government to a range of risks such as cybercrime and fraud which may result to data corruption or loss; and government revenue loss. Recognizing the possibility of these threats occurring,

the Government has sensitized all users on the importance of enhancing cyber security.

Liabilities of the financial sector via systemically important Banks

52. "The Kenya Deposit Insurance Corporation (KDIC) was established under section 4 of the Kenya Deposit Insurance Act, 2012 as a deposit insurance scheme for depositors and to act as a Resolution Authority for failed financial member institutions, as well as the role of Risk Minimization. As at November 2017, the coverage level was at Ksh 268.1 Billion with 46.6 million accounts fully covered. This translates to 96.8% of total number of accounts covered. However, in value terms, KDIC only covers 9.2% of the total deposits in the Banking sector. This is quite low compared to the internationally recommended minimum standard of 20% by International Association of Deposit Insurers (IADI). This therefore implies that, in the event of failure of a Systemically Important Bank, the low cover would cause a fiscal risk, in the absence of review of the current coverage level of Ksh 100,000 to a higher level.

Devolved System of Government

53. The Constitution of Kenya provides for two levels of government i.e. National and the County Governments which are distinct and inter-dependent. This system of governance which came into place in March 2013 gives the County Governments powers under Article 209 to collect assigned revenues as well as to budget and spend. Counties spend as per the functions assigned to them under Schedule 4 of the constitution (Devolved functions). They are financed through National Government transfers, own source revenues and conditional allocations.

54. However, major risks have emerged from Kenya's fiscal decentralization, and which require prudent management especially by the County Governments. Below is a summary of the main risks and proposed mitigation measures, some of which are already being implemented:

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Annex Table 1: Macroeconomic Indicators

	2015/16	2016/17	2017/18			2018/19		2019/20		2020/21		2021/22
	Act	Prel. Act	Budget	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BPS'18
annual percentage change, unless otherwise indicated												
National Account and Prices												
Real GDP	5.8	5.3	6.2	5.7	5.3	6.5	5.9	6.9	6.3	7.1	6.8	6.9
GDP deflator	8.8	8.4	5.5	7.9	6.8	6.8	6.4	6.4	6.1	6.8	5.9	5.8
CPI Index (eop)	6.7	6.6	5.0	5.9	5.6	5.2	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	6.4	6.9	5.0	6.6	6.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-0.1	4.5	1.5	3.2	1.1	1.9	-0.3	0.7	0.3	0.4	0.1	1.1
Money and Credit (end of period)												
Net domestic assets	3.8	3.6	2.5	6.2	5.5	15.5	15.1	18.4	19.2	14.6	16.6	14.5
Net domestic credit to the Government	7.4	15.8	22.9	18.6	17.3	18.9	18.5	12.9	10.6	10.9	7.4	7.4
Credit to the rest of the economy	8.4	2.7	8.7	3.5	3.4	12.4	12.2	13.1	14.7	18.6	21.8	15.5
Broad Money, M3 (percent change)	8.1	6.0	11.4	14.4	13.0	13.5	13.1	19.5	19.8	12.0	13.7	13.8
Reserve money (percent change)	4.9	2.8	10.8	20.9	19.4	12.9	12.5	18.8	19.1	11.3	13.0	13.1
in percentage of GDP, unless otherwise indicated												
Investment and Saving												
Investment	19.5	17.5	24.4	20.0	19.7	22.4	21.9	22.6	22.6	25.5	22.8	23.4
Central Government	7.0	8.2	7.6	6.8	6.6	6.7	6.2	6.3	5.9	6.8	5.8	6.0
Other	12.4	9.2	16.9	13.2	13.1	15.7	15.7	16.3	16.7	18.7	17.0	17.4
Gross National Saving	16.2	12.4	18.3	14.1	13.6	16.5	16.5	16.7	17.1	20.0	18.0	19.2
Central Government	3.2	3.0	4.7	2.3	2.6	3.7	3.6	4.5	4.6	4.9	5.2	5.5
Other	13.0	9.4	13.6	11.8	11.1	12.8	13.0	12.3	12.5	15.0	12.9	13.7
Central Government Budget												
Total revenue	18.4	18.3	19.6	18.7	19.0	18.8	18.9	19.0	19.0	19.4	19.2	19.4
Total expenditure and net lending	26.6	27.6	26.5	26.8	26.8	25.2	25.5	24.2	23.8	24.4	22.9	22.5
Overall balance (commitment basis) excl. grants	-8.2	-9.3	-6.8	-8.1	-7.9	-6.4	-6.5	-5.1	-4.8	-5.0	-3.8	-3.4
Overall balance (commitment basis) incl. grants	-7.4	-9.1	-6.2	-7.4	-7.2	-5.9	-6.0	-4.7	-4.3	-4.6	-3.3	-3.0
Overall balance (commitment basis) incl. grants excl SGR	-6.6	-7.7	-5.5	-6.8	-6.5	-5.4	-5.5	-4.3	-3.9	-4.1	-2.8	-2.4
Primary budget balance	-4.2	-5.6	-2.9	-3.8	-3.7	-2.5	-2.2	-1.3	-0.9	-1.2	0.1	0.4
Net domestic borrowing	3.0	4.0	3.2	3.6	3.4	3.8	3.8	2.8	2.8	3.7	3.7	4.0
Total external support (grant & loans)	2.7	3.3	3.0	3.2	3.1	2.8	2.9	2.7	2.8	3.2	2.7	2.7
External Sector												
Exports value, goods and services	17.2	16.2	21.7	16.9	16.2	17.6	17.4	18.4	17.6	18.7	17.7	17.9
Imports value, goods and services	24.6	25.1	31.5	25.8	25.8	26.1	26.0	26.6	25.9	26.3	25.0	24.4
Current external balance, including official transfers	-3.2	-5.0	-6.1	-5.9	-6.1	-5.9	-5.4	-5.9	-5.5	-5.5	-4.8	-4.2
Gross international reserve coverage in months of next year imports (end of period)	5.3	4.7	4.9	5.9	5.8	5.9	5.9	6.3	6.3	6.0	6.3	6.3
Gross international reserve coverage in months of this year's imports (end of period)	6.2	6.5	5.3	6.7	6.7	6.8	6.8	6.9	6.9	7.0	7.0	7.1
Public debt												
Nominal central government debt (eop), net of deposits	47.9	51.9	54.4	52.5	53.0	52.1	52.8	50.7	51.0	49.9	48.2	43.6
Domestic (gross)	27.1	27.6	27.8	27.6	27.8	28.1	28.3	27.5	27.3	26.9	25.5	23.9
Domestic (net)	21.1	21.9	25.2	22.6	22.8	23.7	23.9	23.7	23.4	23.5	22.1	20.8
External	26.8	30.0	29.2	29.8	30.2	28.3	28.9	27.0	27.6	26.4	26.1	22.8
Memorandum Items:												
Nominal GDP (in Ksh Billion)	6,710	7,658	8,690	8,805	8,655	9,998	9,791	11,314	11,101	12,671	12,621	14,364
Nominal GDP (in US$ Million)	66,367	74,742	81,284	84,537	83,559	94,806	94,611	106,266	107,575	117,875	122,166	138,627

Source: National Treasury

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

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Annex Table 2: Government Fiscal Operations, Ksh Billion

	2015/16	2016/17	2017/18			2018/19		2019/20
	Act	Prel. Act	Budget	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17
TOTAL REVENUE	1,232.6	1,400.6	1,704.5	1,647.2	1,643.1	1,882.5	1,853.9	2,154.7
Ordinary Revenue	1,153.0	1,305.8	1,549.4	1,490.4	1,486.3	1,717.0	1,688.5	1,977.7
Income Tax	560.8	625.1	765.6	719.1	709.1	837.0	816.6	970.8
Import duty (net)	79.2	89.9	102.4	102.4	102.4	116.3	116.9	132.1
Excise duty	139.5	165.5	197.4	183.7	183.7	210.3	209.6	241.1
Value Added Tax	289.2	339.0	383.5	388.7	383.7	445.4	441.2	513.3
Investment income	19.3	28.5	18.2	23.1	23.1	25.2	24.6	26.9
Other	65.0	57.8	82.3	73.4	84.3	82.8	79.7	93.5
Railway Development Levy	17.3	18.9	21.2	21.2	21.2	24.7	24.7	28.1
Ministerial and Departmental Fees (AiA)	62.4	75.9	134.0	135.6	135.6	140.7	140.7	148.9
EXPENDITURE AND NET LENDING	1,781.9	2,110.0	2,298.8	2,358.6	2,323.1	2,523.0	2,492.2	2,733.8
Recurrent expenditure	1,020.0	1,165.0	1,335.3	1,424.5	1,392.8	1,459.9	1,501.5	1,636.2
Interest payments	215.3	271.2	280.7	317.0	304.1	340.4	370.8	383.9
Domestic interest	172.9	212.9	210.1	229.9	215.2	236.3	258.2	271.8
Foreign Interest	42.5	58.4	70.6	87.1	88.8	104.1	112.7	112.1
Wages and Salaries/1	307.4	336.6	391.3	404.0	401.0	404.0	444.2	466.4
Contribution to civil service pension fund	0.0	0.0	17.9	17.9	0.0	22.8	15.3	24.0
Pensions etc	53.4	64.0	76.2	76.2	76.2	91.1	91.1	109.5
Other	330.2	363.0	439.9	480.2	488.1	467.9	454.6	519.1
Defense and NSIS	113.7	130.2	130.2	130.2	123.5	134.6	125.5	134.3
Development and Net lending	480.7	639.9	612.8	583.4	579.6	679.0	612.9	690.4
Domestically financed	298.2	385.1	366.3	321.6	320.3	380.1	353.7	404.6
o/w Domestically Financed (Net)	277.1	353.2	330.4	278.7	277.3	331.5	305.1	351.3
o/w Exchequer Issues	277.1	353.2	330.4	278.7	277.3	331.5	305.1	351.3
Ministerial Development AIA	21.1	31.9	43.0	43.0	43.0	48.5	48.5	53.3
Foreign financed	173.9	246.4	236.4	258.8	249.2	246.9	252.2	273.3
Net lending	2.2	2.4	2.4	2.4	2.4	2.4	2.4	1.6
Contingencies	5.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0
County Allocation	276.2	305.0	345.7	345.7	345.7	379.1	372.7	402.2
Sharable	259.8	280.3	302.0	302.0	302.0	324.0	314.0	350.0
Others - GoK	3.6	4.0	4.2	4.2	4.2	4.5	4.3	4.9
Conditional Allocations	12.8	20.7	39.5	39.5	39.5	50.6	54.4	47.3
of which: Road Maintenance Levy 15%	3.3	4.3	11.1	11.1	11.1	8.3	8.3	8.3
Foreign Financed Transfers	2.2	1.8	20.4	20.4	20.4	29.4	33.2	29.4
Equalization Fund for Marginal areas	6.4	6.0	7.7	7.7	7.7	8.6	4.7	9.9
Fiscal Balance *(commitment basis excl. grants)*	-549.3	-709.4	-594.3	-711.5	-680.0	-640.6	-638.2	-579.1
Adjustment to cash basis	22.4	-14.2	0.0	0.0	0.0	0.0	0.0	0.0
Grants	29.6	26.3	58.8	59.6	59.2	50.5	50.5	51.6
Of which: Project grants	24.1	19.1	52.7	53.5	53.1	44.4	44.4	46.6
Debt Swap	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Programmme grants	4.3	6.8	6.1	6.1	6.1	6.1	6.1	5.0
County Health Facilities - DANIDA	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance *(cash basis incl. grants)*	-497.3	-697.3	-535.5	-651.8	-620.8	-590.1	-587.7	-527.5
Fiscal Balance *(cash basis incl. grants) Exl. SGR*	-445.0	-585.9	-481.4	-597.8	-566.8	-540.0	-537.7	-481.8
Statistical discrepancy	-22.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	474.6	697.3	535.5	651.8	620.8	590.1	587.7	527.5
Net Foreign Financing	269.9	385.7	256.0	332.4	323.2	205.6	214.7	224.9
Project loans	151.4	228.6	204.1	225.6	205.0	231.9	231.9	256.2
Programme loans	8.6	6.8	0.9	6.0	6.0	2.5	2.5	1.5
Commercial Financing	145.0	186.3	200.0	250.0	250.0	288.0	288.0	100.0
Export Credit- Commercial Financing		0.0	0.0	0.0	11.5	0.0	9.1	0.0
Repayments due	-35.1	-35.9	-149.0	-149.3	-149.3	-316.8	-316.8	-132.8
Other Domestic Financing	2.4	1.8	3.8	3.8	3.8	4.2	4.2	-5.7
Net Domestic Financing	202.3	309.8	275.7	315.7	293.8	380.3	368.8	308.2
Others	202.3	309.8	275.7	315.7	293.8	380.3	368.8	308.2
Financing gap	-22.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items								
External Debt	1,796.2	2,294.7	2,462.5	2,627.1	2,618.0	2,832.7	2,832.7	3,057.6
Domestic Debt (gross)	1,815.1	2,112.3	2,388.0	2,427.9	2,406.0	2,808.2	2,774.8	3,116.4
Domestic Debt (net)	1,414.6	1,677.8	1,953.5	1,993.4	1,971.6	2,373.7	2,340.4	2,682.0
Primary budget balance	-282.0	-426.0	-254.7	-334.9	-316.7	-249.6	-216.9	-143.6
Nominal GDP	6,709.7	7,658.1	8,689.9	8,804.9	8,654.6	9,997.7	9,790.8	11,314.0

Source: The National Treasury

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

/1 Salaries and Wages reflect the wages for civil service inclusive of the police and prison officers and teachers;

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Annex Table 3: Government Fiscal Operations, Percent of GDP

	2015/16	2016/17	2017/18			2018/19		2019/20		2020/21		2021/22
	Act	Prel. Act	Budget	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BPS'18
TOTAL REVENUE	18.4	18.3	19.6	18.7	19.0	18.8	18.9	19.0	19.0	19.4	19.2	19.1
Ordinary Revenue	17.2	17.1	17.8	16.9	17.2	17.2	17.2	17.5	17.4	17.8	17.7	17.7
Income tax	8.4	8.2	8.8	8.2	8.2	8.4	8.3	8.6	8.4	8.8	8.6	8.8
Import duty (net)	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Excise duty	2.1	2.2	2.3	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2
Value Added Tax	4.3	4.4	4.4	4.4	4.4	4.5	4.5	4.5	4.6	4.6	4.6	4.6
Investment income	0.3	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Other	1.0	0.8	0.9	0.8	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Railway Development Levy	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.2	0.2
Ministerial and Departmental Fees (AiA)	0.9	1.0	1.5	1.5	1.6	1.4	1.4	1.3	1.3	1.3	1.3	1.1
EXPENDITURE AND NET LENDING	26.6	27.6	26.5	26.8	26.8	25.2	25.5	24.2	23.7	24.4	22.9	22.5
Recurrent expenditure	15.2	15.2	15.4	16.2	16.1	14.6	15.3	14.5	14.4	14.1	14.0	13.7
Interest payments	3.2	3.5	3.2	3.6	3.5	3.4	3.8	3.4	3.5	3.4	3.4	3.4
Domestic interest	2.6	2.8	2.4	2.6	2.5	2.4	2.6	2.4	2.4	2.5	2.5	2.5
Foreign Interest	0.6	0.8	0.8	1.0	1.0	1.0	1.2	1.0	1.0	0.9	0.9	0.9
Wages and Salaries/1	4.6	4.4	4.5	4.6	4.6	4.0	4.5	4.1	4.4	3.7	4.2	3.9
Contribution to civil service pension fund	0.0	0.0	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Pensions etc	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Other	4.9	4.7	5.1	5.5	5.6	4.7	4.6	4.6	4.2	4.8	4.1	4.2
Defense and NSIS	1.7	1.7	1.5	1.5	1.4	1.3	1.3	1.2	1.1	1.1	1.1	1.0
Development and Net lending	7.2	8.4	7.1	6.6	6.7	6.8	6.3	6.1	6.0	6.8	5.9	6.0
Domestically financed	4.4	5.0	4.2	3.7	3.7	3.8	3.6	3.6	3.4	3.6	3.4	3.5
o/w Domestically Financed (Net)	4.1	4.6	3.8	3.2	3.2	3.3	3.1	3.1	2.9	3.1	2.9	3.0
o/w Exchequer Issues	4.1	4.6	3.8	3.2	3.2	3.3	3.1	3.1	2.9	3.1	2.9	3.0
Ministerial Development AIA	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Foreign financed	2.6	3.2	2.7	2.9	2.9	2.5	2.6	2.4	2.5	2.9	2.4	2.5
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingencies	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1
County Allocation	4.1	4.0	4.0	3.9	4.0	3.8	3.8	3.6	3.4	3.4	3.0	2.7
Sharable	3.9	3.7	3.5	3.4	3.5	3.2	3.2	3.1	2.9	3.0	2.6	2.4
Others - GoK	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Conditional Allocations	0.2	0.3	0.5	0.4	0.5	0.5	0.6	0.4	0.4	0.4	0.4	0.3
of which: Road Maintenance Levy 15%	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign Financed Transfers	0.0	0.0	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Equalization Fund for Marginal areas	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Fiscal Balance (commitment basis excl. grants)	-8.2	-9.3	-6.8	-8.1	-7.9	-6.4	-6.5	-5.1	-4.8	-5.0	-3.8	-3.4
Adjustment to cash basis	0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.4	0.3	0.6	0.6	0.7	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Of which: Project grants	0.4	0.2	0.0	0.0	0.6	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Programme grants	0.1	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Fiscal Balance (cash basis incl. grants)	-7.4	-9.1	-6.2	-7.4	-7.2	-5.9	-6.0	-4.7	-4.3	-4.6	-3.3	-3.0
Fiscal Balance (cash basis incl. grants) Exl. SGR	-6.6	-7.7	-5.5	-6.8	-6.5	-5.4	-5.5	-4.3	-3.9	-4.1	-2.8	-2.4
Statistical discrepancy	-0.3											
FINANCING	7.1	9.1	6.2	7.4	7.2	5.9	6.0	4.7	4.3	4.6	3.3	3.0
Net Foreign Financing	4.0	5.0	2.9	3.8	3.7	2.1	2.2	2.0	2.1	2.3	1.8	1.6
Project loans	2.3	3.0	2.3	2.6	2.4	2.3	2.4	2.3	2.3	2.7	2.3	2.3
Programme loans	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Financing	2.2	2.4	2.3	2.8	2.9	2.9	2.9	0.9	0.9	0.4	0.4	0.0
Export Credt- Commercial Financing	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Repayments due	-0.5	-0.5	-1.7	-1.7	-1.7	-3.2	-3.2	-1.2	-1.2	-0.9	-0.9	-0.8
Other Domestic Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0
Net Domestic Financing	3.0	4.0	3.2	3.6	3.4	3.8	3.8	2.7	2.3	2.3	1.5	1.4
Others	3.0	4.0	3.2	3.6	3.4	3.8	3.8	2.7	2.3	2.3	1.5	1.4
Financing gap	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items												
Total Public Debt (net)	47.9	51.9	54.4	52.5	53.0	52.1	52.8	50.7	51.0	49.9	48.2	43.6
External Debt	26.8	30.0	28.3	29.8	30.2	28.3	28.9	27.0	27.6	26.4	26.1	22.8
Domestic Debt (gross)	27.1	27.6	27.5	27.6	27.8	28.1	28.3	27.5	27.3	26.9	25.5	23.9
Domestic Debt (net)	21.1	21.9	22.5	22.6	22.8	23.7	23.9	23.7	23.4	23.5	22.1	20.8
Primary budget balance	-4.2	-5.6	-2.9	-3.8	-3.7	-2.5	-2.2	-1.3	-0.9	-1.2	0.1	0.4
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The National Treasury

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Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million)

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
AGRICULTURE, RURAL & URBAN DEVELOPMENT	17,095.9	21,885.3	38,981.2	18,506.7	23,335.5	41,842.2	19,305.7	24,496.6	43,802.3
1112 Ministry of Lands & Physical Planning	2,403.2	3,480.0	5,883.2	2,616.0	3,837.0	6,453.0	2,727.0	3,959.0	6,686.0
0101000 Land Policy & Planning	2,403.2	3,480.0	5,883.2	2,616.0	3,837.0	6,453.0	2,727.0	3,959.0	6,686.0
1161. State Department for Agriculture	5,681.8	10,802.0	16,483.8	6,276.0	11,346.0	17,622.0	6,607.0	11,932.0	18,539.0
0107000 : General Admin. Planning & Support Services	2,909.8	171.0	3,080.8	3,290.0	215.0	3,505.0	3,395.0	225.0	3,620.0
0108000 : Crop Development & Management	2,580.0	9,534.0	12,114.0	2,789.0	10,413.0	13,202.0	3,023.0	11,407.0	14,430.0
0109000 : Agribusiness & Information Management	192.0	1,097.0	1,289.0	197.0	718.0	915.0	189.0	300.0	489.0
1162 State Department for Livestock	5,712.8	5,289.3	11,002.1	5,918.6	5,770.0	11,688.6	6,093.6	6,090.0	12,183.6
0112000 : Livestock Resources Management & Development	5,712.8	5,289.3	11,002.1	5,918.6	5,770.0	11,688.6	6,093.6	6,090.0	12,183.6
1164 State Department for Fisheries & the Blue Economy	1,903.4	2,014.0	3,917.4	2,142.1	2,066.5	4,208.6	2,234.1	2,170.6	4,404.7
0111000 : Fisheries Development & Management	1,489.0	1,014.0	2,503.0	1,687.3	1,106.5	2,793.8	1,743.8	1,120.6	2,864.4
Programme: General Admin., Planning & Support Services	181.3	-	181.3	192.9	-	192.9	204.8	-	204.8
Programme: Development & Coordination of the Blue Economy	233.1	1,000.0	1,233.1	261.9	960.0	1,221.9	285.5	1,050.0	1,335.5
2021 National Land Commission	1,394.7	300.0	1,694.7	1,554.0	316.0	1,870.0	1,644.0	345.0	1,989.0
0113000 : Land Admin. & Management									
0114000 . General Admin., Planning & Support Services									
0115000 . Land Disputes & Conflict Resolutions									
0116000 . National L& Information Management System									
0113000 Land Admin. & Management	1,394.7	300.0	1,694.7	1,554.0	316.0	1,870.0	1,644.0	345.0	1,989.0
ENERGY, INFRASTRUCTURE & ICT	77,750.3	321,883.0	404,633.3	81,554.0	338,936.0	420,490.0	84,941.0	337,319.0	422,260.0
1152 State Department for Energy	2,161.7	67,656.0	74,817.7	2,302.0	74,637.0	76,939.0	2,331.0	74,742.0	77,073.0
0211000 General Admin. Planning & Support Services	332.7	244.0	576.7	368.0	249.0	617.0	377.0	193.0	570.0
0212000 Power Generation	919.0	20,578.0	21,497.0	1,001.0	18,450.0	19,451.0	1,018.0	26,628.0	27,646.0
0213000 Power Transmission & Distribution	777.0	44,680.0	50,457.0	797.0	51,441.0	52,238.0	797.0	43,146.0	43,943.0
0214000 Alternative Energy Technologies	133.0	2,154.0	2,287.0	136.0	4,497.0	4,633.0	139.0	4,775.0	4,914.0

Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
1153 State Department for Petroleum	272.6	2,876.0	3,148.6	290.0	4,544.0	4,834.0	308.0	4,554.0	4,862.0
0215000 Exploration & Distribution of Oil & Gas	272.6	2,876.0	3,148.6	290.0	4,544.0	4,834.0	308.0	4,554.0	4,862.0
1091. State Department of Infrastructure	58,525.0	123,068.0	181,593.0	61,518.0	128,628.0	190,146.0	64,578.0	129,259.0	193,837.0
0202000 Road Transport	58,525.0	123,068.0	181,593.0	61,518.0	128,628.0	190,146.0	64,578.0	129,259.0	193,837.0
1092 State Department of Transport	9,284.0	78,038.0	87,322.0	9,397.0	81,062.0	90,459.0	9,469.0	81,089.0	90,558.0
0201000 General Admin., Planning & Support Services	407.0	760.0	1,167.0	432.0	769.0	1,201.0	447.0	769.0	1,216.0
0203000 Rail Transport	-	59,324.0	59,324.0	-	60,380.0	60,380.0	-	60,383.0	60,383.0
0204000 Marine Transport	1,225.0	13,110.0	14,335.0	1,234.0	14,287.0	15,521.0	1,242.0	14,400.0	15,642.0
0205000 Air Transport	7,206.0	4,544.0	11,750.0	7,281.0	5,069.0	12,350.0	7,327.0	4,978.0	12,305.0
0216000000 Road Safety	446.0	300.0	746.0	450.0	557.0	1,007.0	453.0	559.0	1,012.0
1093 State Department for Maritime Affairs	326.1	-	326.1	361.0	-	361.0	377.0	-	377.0
0204000 Marine Transport									
0219000 Shipping & Maritime Affairs	326.1	-	326.1	361.0	-	361.0	377.0	-	377.0
1122 State Department for Information Communications Technology & Innovation	1,159.5	30,759.0	31,918.5	1,331.0	29,368.0	30,699.0	1,377.0	26,405.0	27,782.0
0207000 : General Admin. Planning & Support Services	242.2	-	242.2	329.0	-	329.0	356.0	-	356.0
0210000 : ICT Infrastructure Development	321.0	30,759.0	31,080.0	374.0	29,368.0	29,742.0	386.0	26,405.0	26,791.0
0217000 E-Government Services	596.3	-	596.3	628.0	-	628.0	635.0	-	635.0
1123 State Department for Broadcasting & Telecommunications	2,880.1	688.0	3,568.1	3,051.0	747.0	3,798.0	3,117.0	750.0	3,867.0
0207000 : General Admin. Planning & Support Services	311.1	-	311.1	342.0	143.0	485.0	359.0	143.0	502.0
0208000 : Information & Communication Services	2,366.9	428.0	2,794.9	2,500.0	428.0	2,928.0	2,548.0	507.0	3,055.0
0209010 : Mass Media Skills Development	202.1	260.0	462.1	209.0	176.0	385.0	210.0	100.0	310.0
1094 State Department for Housing & Urban Development	2,299.1	16,839.0	19,138.1	2,398.0	17,835.0	20,233.0	2,441.0	18,396.0	20,837.0
0102000 Housing Development & Human Settlement	466.0	9,040.0	9,506.0	478.0	10,197.0	10,675.0	488.0	10,304.0	10,792.0
0105000 Urban & Metropolitan Development	263.0	7,663.0	7,926.0	277.0	7,486.0	7,763.0	292.0	7,940.0	8,231.0
0106000 General Admin. Planning & Support Services	249.1	-	249.1	282.0	-	282.0	289.0	-	289.0
Programme 4 - Regulation & Development of the Construction Industry	1,321.0	136.0	1,457.0	1,361.0	152.0	1,513.0	1,372.0	152.0	1,525.0
1095 State Department for Public Works	842.2	1,959.0	2,801.2	906.0	2,115.0	3,021.0	943.0	2,124.0	3,067.0
0103000 Government Buildings	400.00	1,734.00	2,134.00	413.00	1,885.00	2,298.00	427.00	1,667.00	2,094.00
0104000 Coastline Infrastructure & Pedestrian Access	83.00	170.00	253.00	86.00	191.00	277.00	88.00	411.00	499.00
0106000 General Admin. Planning & Support Services	359.20	55.00	414.20	407.00	39.00	446.00	428.00	46.00	474.00

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Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
GENERAL ECONOMIC & COMMERCIAL AFFAIRS	9,094.3	11,916.0	21,010.3	9,645.0	13,341.0	22,986.0	9,788.0	13,776.0	23,564.0
1172 State Department for Investment & Industry	2,408.6	7,809.0	10,217.6	2,681.0	8,236.0	10,917.0	2,713.0	8,386.0	11,099.0
0301000 General Admin. Planning & Support Services	442.5	234.0	676.5	502.0	234.0	736.0	518.0	234.0	752.0
0302000 Industrial Development & Investments	803.3	5,440.0	6,243.3	878.0	5,805.0	6,683.0	892.0	5,630.0	6,522.0
0303000 Standards & Business Incubation	1,162.8	2,135.0	3,297.8	1,301.0	2,197.0	3,498.0	1,303.0	2,522.0	3,825.0
1173 State Department for Cooperatives	366.9	870.0	1,236.9	449.0	1,070.0	1,519.0	477.0	1,105.0	1,582.0
0304000 Cooperative Development & Management	366.9	870.0	1,236.9	449.0	1,070.0	1,519.0	477.0	1,105.0	1,582.0
1174 State Department for Trade	2,014.2	552.0	2,566.2	2,031.0	950.0	2,981.0	2,060.0	1,050.0	3,110.0
0307000 : Trade Development & Promotion	2,014.2	552.0	2,566.2	2,031.0	950.0	2,981.0	2,060.0	1,050.0	3,110.0
1183 State Department for East African Integration	1,581.4	65.0	1,646.4	1,571.0	65.0	1,636.0	1,598.0	65.0	1,663.0
0305000 East African Affairs & Regional Integration	1,581.4	65.0	1,646.4	1,571.0	65.0	1,636.0	1,598.0	65.0	1,663.0
1201 Ministry of Tourism	2,723.4	2,620.0	5,343.4	2,913.0	3,020.0	5,933.0	2,940.0	3,170.0	6,110.0
0306000 Tourism Development & Promotion	2,723.4	2,620.0	5,343.4	2,913.0	3,020.0	5,933.0	2,940.0	3,170.0	6,110.0
HEALTH	34,807.3	35,179.0	69,987.3	37,417.0	35,403.0	72,820.0	37,725.0	35,420.0	73,146.0
1081 Ministry of Health	34,807.3	35,179.0	69,987.3	37,417.0	35,403.0	72,820.0	37,725.0	35,420.0	73,146.0
0401000 Preventive, Promotive & RMNCAH	4,786.0	8,911.0	13,697.0	5,683.0	8,911.0	14,594.0	5,715.0	8,911.0	14,626.0
0402000 National Referral & Specialized Services	15,849.7	15,453.0	31,303.7	16,423.0	16,614.0	33,037.0	16,397.0	17,587.0	33,984.0
0403000 Health Research & Development	5,284.9	436.0	5,720.9	5,499.0	78.0	5,577.0	5,501.0	69.0	5,571.0
0404000 General Admin., Planning & Support Services	5,856.7	3,093.0	8,949.7	7,451.0	2,511.0	9,962.0	7,722.0	1,564.0	9,286.0
0405000 Health Policy, Standards & Regulations	3,030.0	7,286.0	10,316.0	2,361.0	7,289.0	9,650.0	2,390.0	7,289.0	9,679.0
EDUCATION	400,736.2	27,541.1	428,277.3	419,766.8	26,559.1	446,325.8	432,571.0	26,813.2	459,384.2
1061. State Department for Basic Education	89,132.2	8,895.0	98,027.2	92,784.0	7,068.0	99,852.0	93,801.0	6,803.0	100,604.0
0501000 Primary Education	16,765.4	4,727.0	21,492.4	17,181.0	2,620.0	19,801.0	17,569.0	2,637.0	20,206.0
0502000 Secondary Education	63,560.4	3,753.0	67,313.4	66,434.0	3,874.0	70,308.0	66,841.0	3,781.0	70,622.0
0503000 Quality Assurance & Standards	4,053.4	242.0	4,295.4	4,230.0	324.0	4,554.0	4,330.0	10.0	4,340.0
0508000 P. 8 General Admin., Planning & Support Services	4,753.0	173.0	4,926.0	4,939.0	250.0	5,189.0	5,061.0	375.0	5,436.0
1064 State Department for Vocational & Technical Training	2,593.4	5,728.0	8,321.4	2,694.0	5,985.0	8,679.0	2,758.0	6,257.0	9,015.0
0505000 Technical Vocational Education & Training	2,373.4	3,703.0	6,076.4	2,439.0	3,960.0	6,399.0	2,500.0	4,227.0	6,727.0
0507000 Youth Training & Development	60.0	2,025.0	2,085.0	69.0	2,025.0	2,094.0	72.0	2,030.0	2,102.0
0508000 P. 8 General Admin., Planning & Support Services	160.0	-	160.0	186.0	-	186.0	186.0	-	186.0

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Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
1065 State Department for University Education	90,350.7	12,782.1	103,132.7	95,350.8	13,350.1	108,700.8	96,996.0	13,588.2	110,584.2
0504000 University Education	87,355.6	12,487.6	99,843.2	91,660.8	13,038.5	104,699.4	93,516.5	13,269.6	106,786.1
0506000 Research, Science, Technology & Innovation	2,634.3	294.4	2,928.7	3,207.7	311.5	3,519.2	3,282.8	318.7	3,601.5
0508000 General Admin., Planning & Support Services	360.7	-	360.7	482.2	-	482.2	196.6	-	196.6
2091 Teachers Service Commission	218,660.0	136.0	218,796.0	228,938.0	156.0	229,094.0	239,016.0	165.0	239,181.0
0509000 Teacher Resource Management	211,842.0	-	211,842.0	221,933.0	-	221,933.0	231,832.0	-	231,832.0
0510000 Governance & Standards	75.0	-	75.0	75.0	-	75.0	75.0	-	75.0
0511000 General Admin., Planning & Support Services	6,743.0	136.0	6,879.0	6,930.0	156.0	7,086.0	7,109.0	165.0	7,274.0
GOVERNANCE, JUSTICE, LAW & ORDER	168,720.2	24,927.4	195,647.6	175,062.4	26,451.5	201,513.9	179,783.3	23,464.2	203,247.5
1021 State Department for Interior	112,135.5	16,701.0	130,836.5	112,633.4	18,267.7	130,901.1	115,280.9	18,276.2	133,557.1
0601000 Policing Services	82,997.6	10,210.0	95,207.6	83,201.8	12,178.9	95,380.7	85,235.0	12,180.9	97,415.9
0602000 Planning, Policy Coordination & Support Service	22,128.0	4,115.7	26,243.7	22,428.9	4,048.0	26,477.0	22,852.0	4,052.3	26,904.4
0603000 Government Printing Services	741.0	150.0	891.0	800.5	147.5	948.0	810.2	147.6	957.9
0605000 Population Management Services	6,269.0	2,225.3	8,494.3	6,202.2	1,893.3	8,095.5	6,383.6	1,895.3	8,278.9
0624000 Betting Control, Licensing & Regulation Services	-	-	-	-	-	-	-	-	-
1023 State Department for Correctional Services	25,611.6	1,881.0	27,492.6	26,521.2	1,900.0	28,421.2	27,278.9	2,000.0	29,278.9
0604000 Correctional services	25,070.6	1,801.3	26,871.9	25,759.4	1,845.0	27,604.4	26,511.1	1,934.3	28,445.5
0623000 General Admin., Planning & Support Services	404.7	69.7	474.4	538.6	45.0	583.6	542.7	45.7	588.4
Programme 3. Betting Control Licensing &Regulation Services	136.3	10.0	146.3	223.2	10.0	233.2	225.1	20.0	245.1
1252 State Law Office & Department of Justice	4,012.5	1,634.0	5,646.5	5,066.0	1,659.0	6,725.0	5,182.5	1,671.0	6,853.5
0606000 Legal Services	1,649.4	106.0	1,755.4	2,261.4	109.0	2,370.4	2,326.2	102.0	2,428.2
0607000 Governance, Legal Training & Constitutional Affairs	1,691.5	1,450.0	3,141.5	2,011.4	1,370.0	3,381.4	2,044.6	1,370.0	3,414.6
0609000 General Admin., Planning & Support Services	671.6	78.0	749.6	793.3	180.0	973.3	811.8	199.0	1,010.8
1261 The Judiciary	13,254.6	4,049.0	17,303.6	15,441.0	4,099.0	19,540.0	16,031.0	1,000.0	17,031.0
0610000 Dispensation of Justice	13,254.6	4,049.0	17,303.6	15,441.0	4,099.0	19,540.0	16,031.0	1,000.0	17,031.0
1271 Ethics & Anti-Corruption Commission	2,851.5	120.0	2,971.5	2,854.3	40.0	2,894.3	2,858.3	30.0	2,888.3
0611000 Ethics & Anti-Corruption	2,851.5	120.0	2,971.5	2,854.3	40.0	2,894.3	2,858.3	30.0	2,888.3
1291 Office of the Director of Public Prosecutions	2,400.0	142.6	2,542.6	2,816.0	82.6	2,898.6	2,919.0	82.6	3,001.6
0612000 Public Prosecution Services	2,400.0	142.6	2,542.6	2,816.0	82.6	2,898.6	2,919.0	82.6	3,001.6
1311 Office of Registrar of Political Parties	854.9	-	854.9	952.3	-	952.3	976.4	-	976.4
0614000 Registration, Regulation & Funding of Political Parties	854.9	-	854.9	952.3	-	952.3	976.4	-	976.4

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Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million)..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
1321 Witness Protection Agency	454.3	-	454.3	523.5	-	523.5	541.1	-	541.1
0615000 Witness Protection	454.3	-	454.3	523.5	-	523.5	541.1	-	541.1
201 Kenyn National Commission on Human Rights	433.1	-	433.1	517.1	-	517.1	534.1	-	534.1
0616000 Protection & Promotion of Human Rights	433.1	-	433.1	517.1	-	517.1	534.1	-	534.1
203 Independent Electoral & Boundaries Commission	4,576.4	399.8	4,976.2	5,293.9	403.2	5,697.1	5,438.9	404.4	5,843.3
0617000 : Management of Electoral Processes	4,576.4	399.8	4,976.2	5,153.9	403.2	5,557.1	5,188.9	404.4	5,593.3
Delimitation of electoral boundaries				140.0	-	140.0	250.0	-	250.0
205 Judicial Service Commission	479.6	-	479.6	533.7	-	533.7	544.2	-	544.2
0619000 General Admin., Planning & Support Services	479.6	-	479.6	533.7	-	533.7	544.2	-	544.2
210 National Police Service Commission	552.3	-	552.3	690.0	-	690.0	920.6	-	920.6
0620000 National Police Service Human Resource Management	552.3	-	552.3	690.0	-	690.0	920.6	-	920.6
214 National Gender & Equality Commission	423.2	-	423.2	513.2	-	513.2	528.7	-	528.7
0621000 Promotion of Gender Equality & Freedom from Discrimination	423.2	-	423.2	513.2	-	513.2	528.7	-	528.7
215 Independent Police Oversight Authority	680.6	-	680.6	706.8	-	706.8	748.7	-	748.7
0622000 Policing Oversight Services	680.6	-	680.6	706.8	-	706.8	748.7	-	748.7
PUBLIC Admin. & INTERNATIONAL RELATIONS	166,023.3	107,537.5	273,582.7	177,272.9	110,254.2	287,527.0	175,581.6	109,424.5	285,006.1
1011 The Presidency	8,215.0	2,820.6	11,035.6	8,629.0	3,694.7	12,323.7	8,961.8	3,771.8	12,733.6
0702000 Cabinet Affairs	2,081.1	2,414.2	4,495.3	2,238.1	2,814.2	5,052.3	2,366.4	2,827.2	5,193.6
0704000 State House Affairs	3,144.2	316.8	3,461.1	3,283.3	316.2	3,599.5	3,390.3	336.5	3,726.8
0734000 Deputy President Services	2,015.0	89.6	2,104.5	2,086.5	564.3	2,650.9	2,151.1	608.1	2,759.2
0703000 Government Advisory Services	974.7	-	974.7	1,021.1	-	1,021.1	1,054.1	-	1,054.1
1034 State Department for Planning & Statistics	11,143.6	38,352.3	49,495.9	12,354.2	38,747.8	51,102.0	6,346.4	39,120.8	45,467.2
0706000 : Economic Policy & National Planning	1,261.5	32,295.0	33,556.4	1,315.6	32,426.1	33,741.7	1,337.6	32,458.2	33,795.7
0707000 : National Statistical Information Services	7,584.7	1,435.4	9,020.1	8,699.8	1,436.8	10,136.6	2,649.9	1,438.2	4,088.1
0708000 : Monitoring & Evaluation Services	129.1	170.9	300.1	153.8	176.0	329.9	158.4	181.3	339.8
0736000 : NGO Regulatory Services									
1013000 Integrated Regional Development	1,652.1	4,451.0	6,103.1	1,653.5	4,708.9	6,362.4	1,654.1	5,043.1	6,697.2
0709000 : General Admin. Planning & Support Services	516.2	-	516.2	531.5	-	531.5	546.4	-	546.4

Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
1032 State Department for Devolution	1,166.0	3,528.0	4,715.8	804.3	3,527.2	4,331.6	844.3	3,588.0	4,432.3
0732000 General Admin., Planning & Support Services	238.1	1,028.0	1,288.0	272.2	200.0	472.2	274.8	-	274.8
0712000 : Devolution Services	106.9	2,500.0	2,606.9	108.8	3,327.2	3,436.0	110.6	3,588.0	3,698.6
Management of Intergovernmental Relations	821.0	-	821.0	423.4	-	423.4	458.9	-	458.9
1051 Ministry of Foreign Affairs & International Trade	17,440.5	1,987.7	19,428.3	17,918.2	1,986.9	19,905.1	18,618.8	2,056.4	20,675.2
0715000 Foreign Relation & Diplomacy	14,003.9	1,517.7	15,521.6	14,459.1	1,216.9	15,676.0	14,982.6	1,156.4	16,139.0
0742000 Economic & Commercial Diplomacy	132.9	-	132.9	138.2	-	138.2	143.7	-	143.7
Foreign Policy Research, Capacity Development & Technical Cooperation	144.9	200.0	344.9	144.3	200.0	344.3	152.8	200.0	352.8
0714000 General Admin. Planning & Support Services	3,158.8	270.0	3,428.8	3,176.6	570.0	3,746.6	3,339.8	700.0	4,039.8
1071 The National Treasury	76,446.3	45,582.9	122,029.2	84,398.5	46,541.8	130,940.3	84,639.8	44,793.2	129,433.0
0717000 : General Admin. Planning & Support Services	70,528.7	3,988.3	74,517.1	78,456.6	4,913.3	83,369.9	78,696.6	4,968.3	83,664.9
0718000 : Public Financial Management	4,432.4	40,188.0	44,620.3	4,447.8	40,221.8	44,669.6	4,448.9	38,418.3	42,867.2
0719000 : Economic, Financial Policy Formulation & Management	1,067.4	1,351.6	2,419.0	1,076.2	1,351.6	2,427.8	1,076.2	1,351.6	2,427.8
0720000.: Market Competition	338.7	55.0	393.7	340.0	55.0	395.0	340.0	55.0	395.0
0740000 Government Clearing Services	79.2	-	79.2	78.0	-	78.0	78.0	-	78.0
1211 State Department for Public Service & Youth Affairs	13,542.1	12,824.5	26,366.6	13,984.4	12,813.7	26,798.1	14,368.1	13,701.2	28,069.3
0710000 : Public Service Transformation	1,770.8	2,104.8	3,875.6	1,840.1	2,124.8	3,964.9	1,900.0	2,404.8	4,304.8
0711000 : Youth Empowerment	7,617.3	10,548.7	18,166.0	7,973.3	10,518.0	18,491.2	8,277.0	11,045.4	19,322.5
0709000 : General Admin. Planning & Support Services	4,154.1	171.0	4,325.1	4,171.0	171.0	4,342.0	4,191.0	251.0	4,442.0
2042 National Assembly	18,795.4	-	18,795.4	19,001.9	-	19,001.9	21,320.2	-	21,320.2
0721000 National Legislation, Representation & Oversight	18,795.4	-	18,795.4	19,001.9	-	19,001.9	21,320.2	-	21,320.2
2041 Parliamentary Service Commission	10,823.5	2,150.0	12,973.5	11,144.8	2,650.8	13,795.6	11,144.8	2,081.4	13,226.2
0722000 Senate Affairs	5,838.3	-	5,838.3	6,159.6	-	6,159.6	6,159.6	-	6,159.6
0723000 General Admin., Planning & Support Services	4,985.2	2,150.0	7,135.2	4,985.2	2,650.8	7,636.0	4,985.2	2,081.4	7,066.6
2061 The Commission on Revenue Allocation	389.0	-	389.0	370.5	-	370.5	383.3	-	383.3
0724000 Inter-Governmental Revenue & Financial Matters	389.0	-	389.0	370.5	-	370.5	383.3	-	383.3
2071 Public Service Commission	1,220.4	59.3	1,279.7	1,374.8	59.2	1,434.1	1,423.6	63.4	1,487.0
0725000 General Admin., Planning & Support Services	866.6	59.3	925.9	1,010.8	59.2	1,070.0	1,048.6	63.4	1,112.0
0726000 Human Resource management & Development	221.2	-	221.2	227.5	-	227.5	234.3	-	234.3
0727000 Governance & National Values	132.6	-	132.6	136.6	-	136.6	140.7	-	140.7
2081 Salaries & Remuneration Commission	564.9	-	564.9	702.0	-	702.0	721.5	-	721.5
0728000 Salaries & Remuneration Management	564.9	-	564.9	702.0	-	702.0	721.5	-	721.5

Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
2111 Auditor-General	5,245.2	232.2	5,477.5	5,421.2	232.0	5,653.2	5,602.9	248.4	5,851.3
0729000 Audit Services	5,245.2	232.2	5,477.5	5,421.2	232.0	5,653.2	5,602.9	248.4	5,851.3
2121 Controller of Budget	524.6	-	524.6	584.6	-	584.6	604.9	-	604.9
0730000 Control & Management of Public finances	524.6	-	524.6	584.6	-	584.6	604.9	-	604.9
2131 The Commission on Administrative Justice	506.8	-	506.8	584.5	-	584.5	601.3	-	601.3
0731000 Promotion of Administrative Justice	506.8	-	506.8	584.5	-	584.5	601.3	-	601.3
NATIONAL SECURITY	125,697.0	45.0	125,742.0	139,688.0	45.0	139,733.0	143,799.0	45.0	143,844.0
1041 Ministry of Defence	97,106.0	45.0	97,151.0	108,797.0	45.0	108,842.0	110,387.0	45.0	110,432.0
0801000 : Defence	95,478.0	45.0	95,523.0	107,133.0	45.0	107,178.0	108,686.0	45.0	108,731.0
0802000 Civil Aid	270.0	-	270.0	270.0	-	270.0	270.0	-	270.0
0803000 General Admin., Planning & Support Services	1,358.0	-	1,358.0	1,394.0	-	1,394.0	1,431.0	-	1,431.0
National Space Management	300.0	-	300.0	300.0	-	300.0	300.0	-	300.0
1231 National Intelligence Service	28,591.0	-	28,591.0	30,891.0	-	30,891.0	33,412.0	-	33,412.0
0804000 National Security Intelligence	28,591.0	-	28,591.0	30,891.0	-	30,891.0	33,412.0	-	33,412.0
SOCIAL PROTECTION, CULTURE & RECREATION	29,434.2	23,491.7	52,958.9	31,277.0	25,004.9	56,281.9	31,362.2	24,951.7	56,314.0
1033 State Department for Special Programmes	1,360.5	3,875.0	5,235.5	2,618.9	3,629.0	6,247.9	2,548.8	3,666.0	6,214.8
0713000 Special Initiatives	390.8	-	390.8	1,583.1	-	1,583.1	1,504.1	-	1,504.1
0733000 Accelerated ASAL Development	702.8	3,875.0	4,577.8	736.2	3,629.0	4,365.2	734.0	3,666.0	4,400.0
General Admin. Services	266.9	-	266.9	299.6	-	299.6	310.7	-	310.7
1132 State Department for Sports Development	1,669.1	600.0	2,269.1	1,881.1	1,485.2	3,366.3	1,917.8	1,505.8	3,423.6
0901000 Sports	1,062.2	600.0	1,662.2	1,252.7	1,485.2	2,737.9	1,272.6	1,505.8	2,778.3
0905000 General Admin., Planning & Support Services	606.8	-	606.8	628.4	-	628.4	645.3	-	645.3
1133 State Department for Arts & Culture	2,948.3	851.6	3,832.9	3,141.1	1,409.5	4,550.6	3,137.5	1,131.2	4,268.7
0902000 Culture Development	1355.38	531.6	1919.98	1465.59	922.5	2388.09	1483.12	1131.19	2614.31
0903000 The Arts	721.32	20	741.32	801.18	114	915.18	779.28	0	779.28
0904000 Library Services	699.61	300	999.61	696.4	373	1069.4	688.26	0	688.26
0905000 General Admin., Planning & Support Services	171.96	0	171.96	177.95	0	177.95	186.8	0	186.8

Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
1184 State Department for Labour	2,626.6	2,592.0	5,218.6	2,523.3	3,032.7	5,556.0	2,564.4	2,844.5	5,408.9
0906000 Promotion of the Best Labour Practice	661.5	150.4	811.8	568.4	385.1	953.5	585.0	330.0	915.0
0907000 Manpower Development, Employment & Productivity Management	1,355.5	2,441.6	3,797.1	1,393.6	2,647.6	4,041.2	1,399.0	2,514.5	3,913.5
0910000 : General Admin. Planning & Support Services	609.7	-	609.7	561.3	-	561.3	580.4	-	580.4
1185 State Department for Social Protection	19,305.4	12,643.1	31,948.5	19,497.6	12,518.5	32,016.1	19,553.7	12,874.3	32,428.0
0908000 : Social Development & Children Services	2,803.1	1,008.0	3,811.1	3,099.9	1,379.1	4,479.0	3,152.8	1,289.2	4,442.0
0909000 : National Social Safety Net	16,272.8	11,635.1	27,907.9	16,091.4	11,119.3	27,210.8	16,098.6	11,555.1	27,653.7
0910000 : General Admin. Planning & Support Services	229.5	-	229.5	306.3	20.0	326.3	302.4	30.0	332.4
1212 State Department for Gender	1,524.3	2,930.0	4,454.3	1,615.0	2,930.0	4,545.0	1,640.0	2,930.0	4,570.0
0911000 Community Development	-	2,130.0	2,130.0	-	2,130.0	2,130.0	-	2,130.0	2,130.0
0912000 Gender Empowerment	1,265.3	800.0	2,065.3	1,327.0	800.0	2,127.0	1,341.0	800.0	2,141.0
General Admin. & Planning	259.0	-	259.0	288.0	-	288.0	299.0	-	299.0
ENVIRONMENT PROTECTION, WATER & NATURAL RESOURCES	22,920.7	54,287.0	77,707.7	23,908.0	56,279.0	80,187.0	24,087.0	58,559.0	82,646.0
1103 State Department for Water Services	4,225.8	31,027.0	35,252.8	4,596.0	30,996.0	35,592.0	4,628.0	31,635.0	36,263.0
1001000 General Admin., Planning & Support Services	642.6	151.0	793.6	789.0	151.0	940.0	813.0	151.0	964.0
1004000 Water Resources Management	1,544.0	4,688.0	6,232.0	1,560.0	4,688.0	6,248.0	1,537.0	4,688.0	6,225.0
1017000 . Water & Sewerage Infrastructure Development	2,039.2	26,188.0	28,227.2	2,247.0	26,157.0	28,404.0	2,278.0	26,796.0	29,074.0
1104 State Department for Irrigation	971.5	14,653.0	15,624.5	1,019.0	16,208.0	17,227.0	1,032.0	17,160.0	18,192.0
1014000 Irrigation & Land Reclamation	807.7	7,928.0	8,735.7	835.0	8,049.0	8,884.0	841.0	9,001.0	9,842.0
1015000 Water Storage & Flood Control	45.0	6,725.0	6,770.0	51.0	8,159.0	8,210.0	55.0	8,159.0	8,214.0
1016000 : General Admin. & Support Services	118.8	-	118.8	133.0	-	133.0	136.0	-	136.0
1105 State Department for Environment	2,916.2	3,848.0	6,764.2	3,042.0	3,837.0	6,879.0	3,088.0	4,058.0	7,146.0
1012000 Meteorological Services	1,093.0	1,082.0	2,175.0	1,132.0	1,082.0	2,214.0	1,143.0	1,082.0	2,225.0
1002000 Environment Management & Protection	1,479.9	2,766.0	4,245.9	1,527.0	2,755.0	4,282.0	1,529.0	2,976.0	4,505.0
1010000 General Admin., Planning & Support Services	343.3	-	343.3	383.0	-	383.0	416.0	-	416.0
1106 State Department for Natural Resources	13,667.4	4,023.0	17,690.4	13,936.0	4,008.0	17,944.0	13,959.0	4,333.0	18,292.0
1003000 Natural Resources Management & Protection									
. Forests & Water Towers Conservation & Management	7,111.7	2,912.0	10,023.7	7,537.0	2,897.0	10,434.0	7,557.0	2,992.0	10,549.0
. Wildlife Conservation & Management	6,206.6	1,097.0	7,303.6	6,012.0	1,097.0	7,109.0	6,012.0	1,327.0	7,339.0
. General, Admin., Planning & Support Services	349.1	14.0	363.1	387.0	14.0	401.0	390.0	14.0	404.0
1119 Ministry of Mining	1,139.9	736.0	2,375.9	1,315.0	1,230.0	2,545.0	1,380.0	1,373.0	2,753.0
1007000 General Admin. Planning & Support Services	737.9	60.0	797.9	892.0	60.0	952.0	933.0	60.0	993.0
1008000 Resources Surveys & Remote Sensing	184.0	361.0	545.0	184.0	361.0	545.0	185.0	361.0	546.0
1009000 . Mineral Resources Management	218.0	315.0	1,033.0	239.0	809.0	1,048.0	262.0	952.0	1,214.0
Total	1,052,279.4	628,692.9	1,688,528.2	1,114,097.7	655,609.1	1,769,706.9	1,138,943.8	654,269.2	1,793,214.1

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Annex Table 5: Public Private Partnership (PPP) Projects – Kenya, Government's Guarantee and Termination Terms

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
1.	Africa Geothermal International 140 MW	25year Power Purchase Agreement on a Build, Own, Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya	760	Financial Close: 3rd April, 2014 Status: Under Construction	Letter of support issued	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	US$ 77.3 Mn	NO
2.	Lake Turkana Wind Power – 300 MW	The wind turbine farm is being developed on BOO basis in Loyangalani, Marsabit West, on a 20 Year PPA with Kenya Power	847	Financial Close: 24th March, 2014 Status: Commissioned	Letter of support covering political risks issued on 28th February, 2013 Indemnity Agreement covering ADF Guaranteed Letter of Credit (LC) in the amount of Euros 20 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Deemed Generated Energy Payments Euros 110.4 MN	NO

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

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No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
5.	Thika Power - 87MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC.	146	Financial Close: 11th October 2012 Status: operational from August 2013	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 28th August 2014. PRG Amount US$ 35 Mn and Euros 7.7 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Euros 17.1Mn	NO
6.	Kinangop Power – 60.8MW	The wind power plant is being developed on a BOO basis in South Kinangop, Nyandarua County on a 20-year PPA with KPLC.	150	Financial Close: 31st December 2012 Status: Under Arbitration & Development stopped	Letter of support covering political risks issued on 26th July, 2013	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Deemed Energy Payment US$ 26.8 Mn	NO*

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
7.	Orpower 150MW** Olkaria III Geothermal power plant (1st plant 48MW,2nd Plant 36MW,3rd plant 16MW and 4th Plant 29MW)	Description: 20 year - BOO	558***	Financial Close: Jan, 1999 Status: Operational	Letter of support covering political risks issued on 16th April, 2015 Indemnity Agreement LC covering PRG payments of Amount US$ 31Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Losses incurred by the Seller	US$70.98 Mn	NO
8.	Rabai Power Plant – 90 MW	20 year - BOO	155	Financial Close: October, 2008 Status: Operational	Indemnity Agreement LC Account	Net Present Value of Non-Escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 12% per annum	Euros 19.7Mn	NO
9.	Mumias Power Plant – 35MW	10 Years-BOO	50	Financial Close: July, 2008 Status: Operational	None	None	US$ 5.3Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
10.	Kipevu III, 120MW	Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20-year period	134	Financial Close: None Status: Operational	None	None	Ksh 2,209Mn	NO
11.	Kipevu II 74MW	Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO basis over a 20-year period	85	Financial Close: Sept, 1999 Status: Operational	Indemnity Agreement	1. Net Present Value of Non- escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 10% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. The value of the stock of fuel and other	US$9.62 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
						consumables and spare parts at the Plant		
12.	Imenti tea Factory Limited 0.28MW	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	None	NO
13.	Power Technology Solutions Ltd. Gikira Kianjora Small Hydro Power Stations 0.514MW.	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	None	NO
14.	1050 MW Lamu Power Project	Located in Manda Bay, the Lamu Coal Power Plant is on a BOO basis over a 25 - year concession period	2,000	Status: Financial Close Impending	Letter of support covering political risks issued on 4th August, 2017	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	US$ 360 Mn	NO

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No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
15.	100 MW Kipeto Wind Power	Feed in Tariff Power Plant on a BOO basis	323	Status: Financial Close Impending	Letter of support covering political risks issued	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	US$ 60 Mn	NO
16.	Akiira Geothermal 70 MW Power Project (Phase I of	Feed in Tariff Power Plant on a BOO basis	333	Status: Financial Close Impending	Letter of support covering political risks issued	1. Total amount outstanding and unpaid to all	US$ 37.4 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
	140 MW project)					Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination		
17.	35MW Geothermal Quantum Power Project	Located in Nakuru County, the Quantum Power project is based on BOO arrangement over 25 years	90	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 14.27 Mn	NO
18.	35 MW Geothermal Sosian Power Project	Located in Nakuru County, the Sosian Power project is based on BOO arrangement over 25 years	79	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 14.27 Mn	NO
19.	40 MW Cedate Solar Power	Feed in Tariff Power Plant on a BOO basis	77	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 12.5 Mn	NO
20.	40 MW Selenkei Solar Power	Feed in Tariff Power Plant on a BOO basis	84	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 12.5 Mn	NO
21.	40 MW Malindi Solar Power Project	Feed in Tariff Power Plant on a BOO basis	82	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 11.2 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
22.	40 MW Alten Solar Power Project	Feed in Tariff Power Plant on a BOO basis	105	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 13.8 Mn	NO

**With respect to Kinangop Wind Power, it is recognized that a claim under the Government Letter of Support was lodged, and the matter is currently sub judice, before an arbitration panel under ICC rules. The ruling on this matter is likely to be issued in the FY 2018.

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THE NATIONAL TREASURY
FEBRUARY 2018

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