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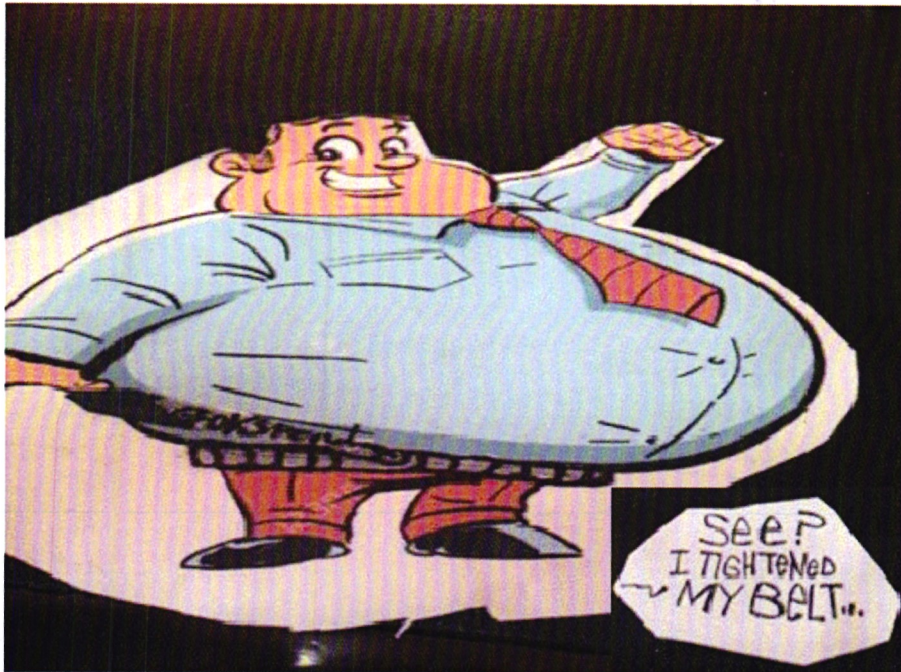


PARLIAMENTARY SERVICE COMMISSION

Parliamentary Budget Office

Living within our means

Budget Options for 2016/17 and the Medium Term



January 2016 (Edition No. 7)



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Parliamentary Budget Office (PBO) is a non-partisan professional office of Parliament of the Republic of Kenya. The primary function of the Office is to provide professional services in respect of budget, finance and economic information to committees of Parliament.

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Preamble

Kenya's economy has been resilient amidst internal and external pressures, maintaining an average growth of 5 percent from 2006 to 2014. However, it has seen some huge oscillations including a drop to 0.2 percent in 2008 from 6.9 percent in 2007 and a drop from 8.4 percent in 2010 to 4.6 percent in 2012. The high growth in 2007 and 2010 were largely supported by Government and private consumption with little contribution from Government and private investments. This presents a worrying trend since a consumption driven economy with a strong import orientation does not offer a sustainable and all-inclusive economic growth. Indeed, Kenya's consumption pattern is susceptible to external shocks, thus the need to shift focus on productive investments.

The country has always had an optimistic growth target which has subsequently led to higher projection of revenues and created room for increased expenditure. However, the GDP targets have always been missed forcing revision of revenue projections downwards. Lesser revenue indicates either a reduction in expenditures or an increment in deficit financing through borrowing. This disrupts both budget implementation and the macro-economic outlook for the medium term. As a country, we need to 'live within our means' for the country to achieve a sustainable economic growth for 2016/17 and the medium term.

The growth path set out in the country's economic blue print, Vision 2030, is not fully met. The optimistic economic growth of 10% is yet to be achieved, unemployment is rising, and a number of the flagship projects are behind schedule. A weak project cycle may be largely to blame for the inefficiencies in development spending thereby delaying implementation of Vision 2030 flagship projects.

This edition of the Budget Options provides the opportunities that Kenya may exploit to achieve the Vision 2030 targets. Special focus has been put on how the Government can constrain its expenditure while still focusing on providing an investor friendly environment for the private sector to thrive. It also sheds light on the Sustainable Development Goals and how the country can transition to them from the progress made on the Millennium Development Goals.

Acknowledgement

7th Edition of the MPs Budget Options 2016/17 and the Medium Term

Pursuant to the section 10 of the PFM Act, 2012, the Parliamentary Budget office (PBO) has prepared the seventh edition of the Budget Options. Specifically, it analyses past trends with regard to economic and budget performance, and how this trend affects the future. It also provides budgetary projections and economic forecasts. Lastly, it gives alternative policy options for consideration by the various committees of Parliament.

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List of Acronyms and Abbreviations

AIA	Appropriations in Aid
CBK	Central Bank of Kenya
CGT	Capital Gains Tax
COFOG	Classification of Functions of Government
EACMA	East African Customs Management Act
GDP	Gross Domestic Product
ICT	Information Communication and Technology
IEBC	Independent Electoral and Boundaries Commission
ITA	Income Tax Act
KBRR	Kenya Bank Reference Rate
KEEP	Kenya Electricity Empowerment Programme
KNBS	Kenya National Bureau of Statistics
KPLC	Kenya Power and Lighting Corporation
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
PBO	Parliamentary Budget Office
PFM	Public Finance Management
SAGAs	Semi-Autonomous Government Agencies
SDGs	Sustainable Development Goals
SEZ	Special Economic Zones
SGR	Standard Gauge Railway
TOT	Turn Over Tax
UN	United Nations
US	United States
USD	United States Dollars
VAT	Value Added Tax
WEO	World Economic Outlook

Table of Contents

Preamble	iii
Acknowledgements	iv
List of Acronyms and Abbreviations	v
Macroeconomic and Fiscal Update: Diagnostics for the Current State of Kenya’s Economy	8
I. Analyzing domestic demand.....	2
II. Performance of Key Macroeconomic Indicators	6
III. Global Economic Outlook and its implications on the Economy	9
IV. Public Debt and Fiscal Sustainability	10
Macroeconomic and Fiscal Outlook: Projections for 2016/17 and the Medium Term	14
I. Introduction.....	15
II. Baseline Projections (Scenario 1).....	15
The Resource Envelope for 2016/17 and the Medium Term	20
I. Revenue Performance and Outlook.....	21
II. Medium Term Revenue Forecasts	24
Tightening the Belt: Expenditure Framework for 2016/17 and the Medium Term	27
I. Composition of Government Spending	28
II. Trends in Government Spending.....	32
III. Drivers of Growth in Government Spending	33
IV. TRANSFORMING CAPITAL SPENDING INTO ASSETS FOR GROWTH.....	37
V. Sector Ceilings	39
Righting the Devolution Vessel: Perspectives on County Budget options	42
I. Vertical allocation of resources	44
II. Classification of Expenditure by Functions (COFOG)	46
III. Poverty Dimension and Outlook	47
IV. County Policy Options for 2016/17 and the Medium term	48
Assessing the Global Sustainable Development Goals	51
I. Sustainable Development Goals	52
II. Is Kenya ready to fully implement the Sustainable Development Goals (SDG’s) by 2030?.....	53
ANNEXES	58

List of Tables

Table 1: Trends in % Annual Contribution to Inflation by Commodity Group from 2011-2015.....	8
Table 2: Projections of Debt to GDP ratio.....	12
Table 3: Public Debt (Kshs. billions).....	13
Table 4: Baseline Fiscal Projections (percentage of GDP).....	16
Table 5: Fiscal Projections, 2014/2015 to 2019/2020	19
Table 6: Growth rates of revenue forecasts relative to actual revenue collections	22
Table 7: Revenue forecasts	25
Table 8: Shares of the Key Components of Expenditure.....	29
Table 9: Summary of Drivers of Government Spending.....	34
Table 10: Real Expenditure in Health	35
Table 11: Current Project Portfolio in Kenya (Kshs. billions).....	37
Table 12: On-going projects status for sampled roads.....	38
Table 13: Proposed Medium Term Sector Ceilings (as percentage of GDP)	41
Table 14: County transfers and total county budgets expressed as percentage of GDP	45
Table 15: Classification of Expenditure by Functions of County Government(COFOG), (in Kshs.s, million).....	47
Table 16: Proportion of poor households per social economic category	48
Table 18: Status Report in Implementing the MDGs by the End of 2015	52
Table 19: Analysis of the 3 SDGs that Kenya needs to focus on in the Medium Term.....	54
Table 20: International commitments on Goals.....	57

List of Figures

Figure 1: Trend in Economic Growth 2006 – 2014	2
Figure 2: Contributions to GDP growth by expenditure category.....	3
Figure 3: Share of expenditure category in GDP	3
Figure 4: Business Investment, % GDP	4
Figure 5: Balance of Trade, 2010 - 2014	5
Figure 6: Overall, Headline and Core Inflation Rate	7
Figure 7: Interest rate spread, Jan - Aug 2015.....	9
Figure 8: Stock of Public Debt (June 2012 – June 2015).....	11
Figure 9: GDP Growth Rate Projections	15
Figure 10: GDP Growth Rate Projections	18
Figure 11: Growth Rates of Revenue Estimates and Actuals	23
Figure 12: Trends in Real Expenditure over the Period 2002/03-2014/15	28
Figure 13: Components for Education Function.....	30
Figure 14: Components of Economic Function.....	31
Figure 15: Composition of selected functions of Government.....	32
Figure 16: Growth in Government Spending and GDP.....	32
Figure 17: Contributions to Growth in Government Spending.....	34
Figure 18: Contributions to Growth in Economic Affairs.....	36
Figure 19: Contributions to Growth in Education	36

Chapter One

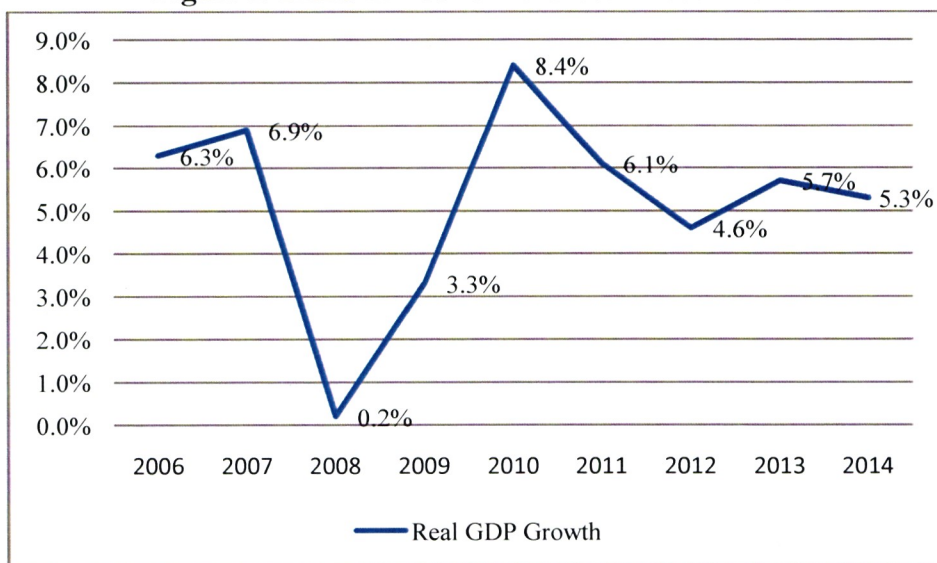
Macroeconomic and Fiscal Update: Diagnostics for the Current State of Kenya's Economy

I. Analyzing domestic demand

Economic Growth has shown great resilience under pressure....

- 1) Over the past decade, Kenya's economy has shown great resilience amidst internal and external pressures, maintaining an average growth of 5.0 percent from 2007 through 2014. On an annual basis (between 2006 and 2014) the economy grew by 1% every year. Following the rebasing of Gross Domestic Product (GDP) in 2014 to constant 2009 prices, it was established that economic growth was even higher than had previously been estimated in some years, with growth as high as 8.4 percent recorded in 2010 – even higher than the estimated growth of 6.9 percent in 2007. Indeed, the size of the economy was estimated to be approximately 25 percent larger, thereby propelling the country to lower middle income status. Figure 1 provides the growth path over the period 2006-2014.

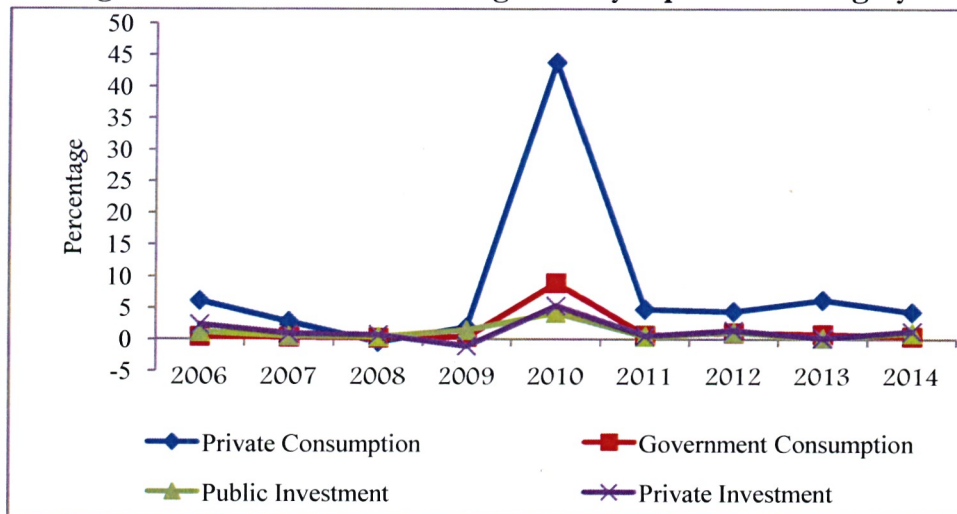
Figure 1: Trend in Economic Growth 2006 – 2014



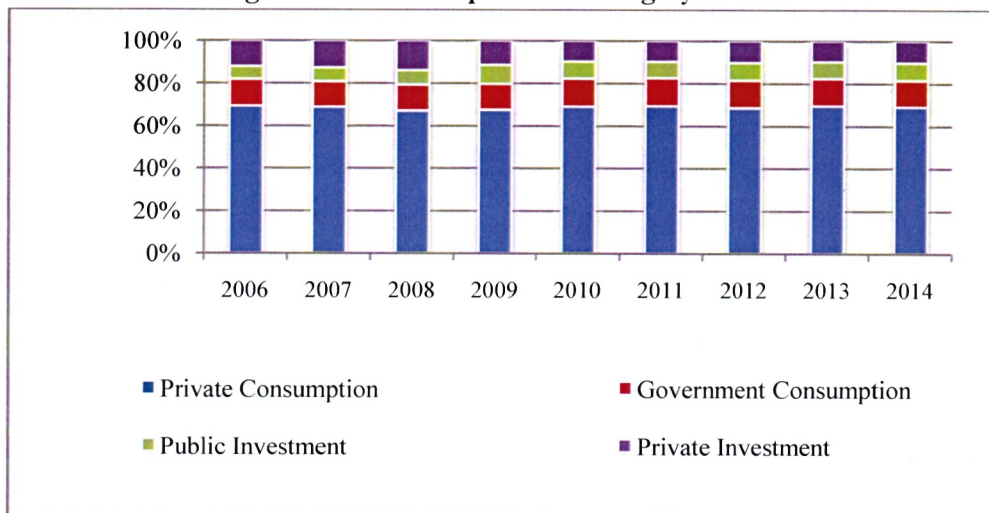
Source: Economic Survey (various issues)

- 2) The high growth trajectory experienced between 2005 and 2007 has largely been attributed to increased investments due to prevailing political stability and a generally conducive business environment. In 2008, economic growth dipped sharply on account of the post-election violence but rebounded in 2010 to an impressive 8.4 percent. However, since 2010, growth has been easing downwards and averaged 5.3 percent in 2014. It is expected that the 2015 growth will be about 5.3%.¹ This presents a worrying trend as it implies that earlier periods of high growth were not based on sustainable mechanisms. Indeed, Kenya's GDP growth is mainly driven by significant Government and private consumption. While this drives the economy, it does not offer viable trickle-down benefits to a greater majority of the citizens and renders the country vulnerable to external shocks since a significant portion of Kenya's consumption is import driven.

¹PBO forecasts

Figure 2: Contributions to GDP growth by expenditure category

Source: Economic Survey (various issues)

Figure 3: Share of expenditure category in GDP

Source: Economic Survey (various issues)

- 3) For the past decade, the country's GDP growth has largely been driven by private consumption as illustrated in figures 2 and 3 above. Indeed in 2010, there appears to be a significant spike in consumer spending as a key contributor to growth which corresponds with an economic growth of 8.4 percent for that year- the highest growth recorded for that period.
- 4) **Consumer spending can be a key driver of growth but has its risks:** Consumers can serve as a significant engine for economic growth through spurring aggregate demand as has been the case in a number of advanced nations, notably the United States (USA) where consumer spending equals 7% of GDP. Private consumption in the USA is fueled by improving job and income conditions with the unemployment rate recorded at 5.1 percent in September 2015. Thus consumer spending rises with a rise in disposable income. Other countries such as export driven China whose model has served it well for years is also slowly shifting towards a consumption driven growth path as the volatility of exports and investments has contributed

to economic imbalances. It is hoped that consumption, being a much less volatile component of GDP, will lead the country on a more sustainable growth path.

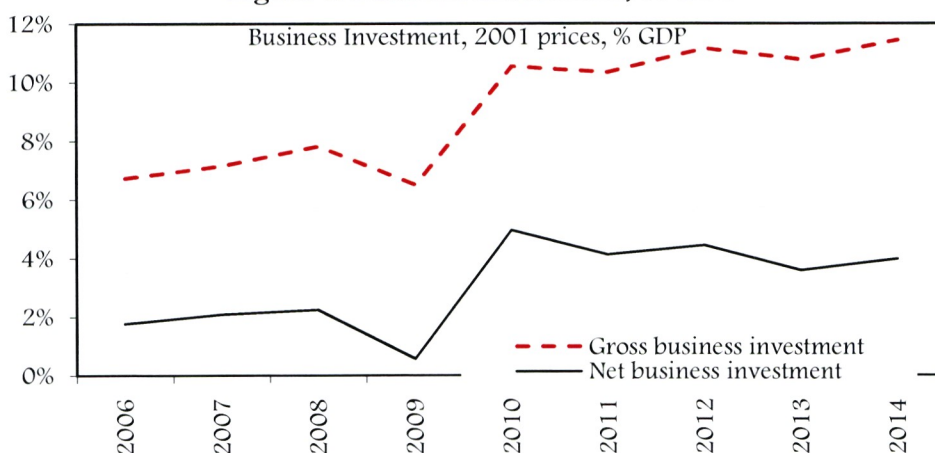
- 5) However, a consumption driven model may not be desirable for a developing economy such as Kenya. Firstly, a sustainable consumption driven growth requires a large consumer base. Kenya's middle class category, while rising, is not sufficiently large to contribute to rapid and sustainable economic growth. Indeed, an estimated 42 percent² of the population is estimated to be living below the poverty line, indicating a limited citizen's purchasing power. This further limits consumption as a sustainable growth driver.
- 6) Furthermore, most of Kenya's consumer spending is import driven and may therefore not have much impact in terms of boosting economic growth to a sustainable level. Kenya's penchant for consuming imported goods at the expense of locally produced goods is detrimental to local industries as well as job and wealth creation. An increase in consumption therefore means that more money is channeled out of the country as the country increases its imports to meet consumption demands. This is likely to contribute to macroeconomic imbalances in the form of increased inflation, worsening the current account deficit and depreciation of the shilling.

To achieve sustainable economic growth, the following are the policy options:

a) Focus more on productive investments...

- 7) As a developing economy, Kenya should focus more on mobilizing domestic savings in order to build the stock of capital for the economy to become more productive and improve standards of living for its citizens over time. As is the case currently, investment continues to account for an average of 16 percent of GDP for the period under review. From figure 2, there has been little impact of public and private investment as contributors to GDP growth over the years. This is illustrated further by figure 4 below which shows highly fluctuating levels of investment over the past decade.

Figure 4: Business Investment, % GDP



Source: Economic Survey (various issues)

² PBO estimate

8) Given that high investment is generally associated with low consumer spending and vice versa, it is likely that the high consumer spending has crowded out investment and as such, the economy is not growing as fast as it should. It should be noted that the spike in investments in 2010 corresponds with a very high GDP growth for that period. Thereafter, investment appears to dip slightly and growth declines as well.

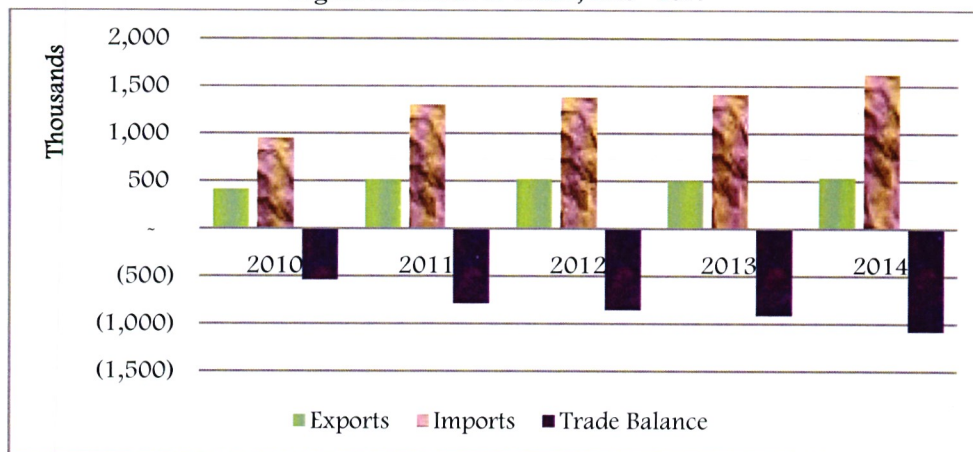
b) Enhance higher total factor productivity growth....

- 9) This entails improved efficiency in the production process. Growth in Kenya’s manufacturing industry has stagnated over the years with little contribution to GDP growth. Indeed, the average growth of the sector has routinely lagged behind the country’s GDP growth and its share of contribution to GDP declined from 13 percent in 2006 to 11 percent in 2013. The poor growth of the sector has resulted in declined competitiveness which largely explains why Kenya’s consumption patterns are largely import driven. Consumption of local goods can only be achieved through improvement in the quality of locally produced goods.
- 10) A higher total factor productivity entails improving productivity of labor through improvement of worker skills to enhance production per unit of input as well as improving working environments to motivate employees to work harder.
- 11) On the other hand, productivity of capital should also be enhanced through revamped business investment, research and innovation to increase capital output. Improving the business environment will also enhance investment levels in the country particularly foreign direct investment which can enhance capital productivity.

A deteriorating balance of trade is worsening the current account balance...

12) The volume of trade has recorded exponential growth over the last five years, with imports accounting for a larger portion of the increment as illustrated in fig 5. Indeed, the value of imports is recorded to have grown by 14.5 percent while value of exports grew by only 6.9 percent. As such, the balance of trade worsened significantly with exports financing only 33.2 percent of the import bill in 2014. The increasing import bill has been attributed to importation of machinery and equipment, notably aircraft and associated equipment, road motor vehicles, industrial machinery as well as petroleum products (KNBS, 2015).

Figure 5: Balance of Trade, 2010 - 2014



Source: Economic Survey (various issues)

- 13) Kenya's thriving consumer base could also be a major drive for increased importation of consumer goods which cannot be acquired locally. Approximately 8 percent of the population is classified as middle class and this is expected to increase in future. The middle class is an important factor in driving economic growth as it provides a large consumer market for goods and services with income elasticity for durable goods and services being greater than one. However, most of these consumers prefer imported goods to local ones when it comes to durables. Thus if we are to benefit from the burgeoning middle class in the coming years, there is need to invest heavily in improving quality of locally produced durables so as to boost local demand.
- 14) Due to the deteriorating balance of trade, Kenya's current account balance has been worsening over time. However, a financial account surplus due to increased capital flows has contributed to an overall improved balance of payments position. Still, it is worth noting that the financial account surplus is largely funded by loans which have to be repaid in future as well as short term foreign inflows or "hot money" from portfolio investments which is not a reliable source of foreign income due to its volatility.
- 15) For the country to be able to improve its balance of payments position in a sustainable manner that protects it from adverse external shocks, there is need to urgently address the deteriorating trade balance mainly through focusing on improving the quality of exports and attracting foreign direct investment.

Insufficient Foreign Exchange reserves has made the Country to be susceptible to external shocks...

- 16) Due to a weakened exchange rate in 2015, foreign exchange reserves declined as the Central Bank intervened by releasing dollars into the market to shore up the shilling. Underperformance of the export and tourism sectors also eroded the forex reserves as the country dug deeper into its coffers to fund the high import bill. A low import cover renders the country vulnerable to macroeconomic shocks and can have adverse consequences on the economy.
- 17) Going forward, proceeds from a syndicated loan in November 2015 increased the forex reserves as did the increased capital inflows due to the attractiveness of the Treasury bill yields. However, this is a temporary reprieve as these funds constitute debt obligations which will have to be repaid in the short term. There is need therefore for more sustainable approaches to boosting forex inflows such as improving the performance of the export and tourism sectors.

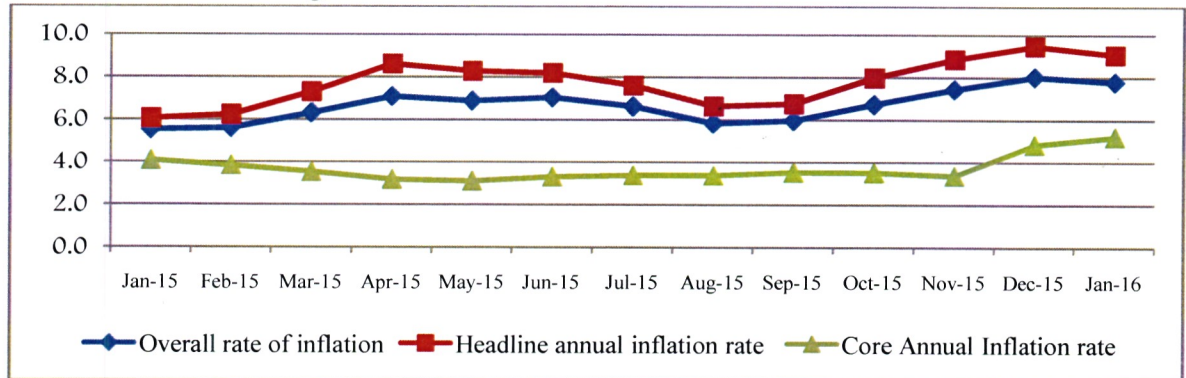
II. Performance of Key Macroeconomic Indicators in 2015

a) Inflation

- 18) During the year 2015, inflation has remained within single digits, averaging 6.6 percent over the 12 month period. This is lower than the annual average inflation of 6.9 percent recorded in 2014 and is within the Government inflation target range of 3 – 7 percent (5 percent \pm 2 percent).

- 19) In the beginning of the year, inflation had slowed down considerably at an average of 5.6 percent for the months of January and February. However, it started picking up in March 2015 and continued an upward trend through June 2015 before slowing in July through September then peaking again all the way to December.
- 20) The inflation slowdown experienced during the year can partly be attributed to the cash crisis experienced by the Government on account of revenue shortfalls during the year. This may have slowed down aggregate demand as the payments of some key expenditure were delayed.

Figure 6: Overall, Headline and Core Inflation Rate³



Source: KNBS (data), PBO (compilation)

- 21) Inflationary pressures were also experienced earlier and later on in the course of the year largely on account of rising food and fuel prices – the main inflation drivers in the country. Generally, food supply increased following the March-May rains, hence the reduced inflation in July through September. Going forward though, the September – November short rains season characterized by more than normal rains in some parts of the country may have contributed to rising food inflation towards the end of the year as the food supply chain was disrupted with destruction of crops as well as post-harvest losses. In addition, transport to some areas was cut off thereby increasing transport costs in addition to inhibiting food supply in the market. Increased expenditure during the December festivities may have also exerted upward pressure on prices and Inflation for the month of December increased to 8.01 percent.
- 22) On the other hand, fuel prices declined considerably during the year but were offset by a weak exchange rate, meaning that more shillings were required to purchase same volume of oil. This also contributed to high transport costs as well as high production costs which were passed on to the consumer.
- 23) Over the past five years, the major contributor to annual inflation has been the Food and Non-alcoholic beverages commodity group. This implies that the retail prices of food have a great impact on the overall inflation in the country. In 2015, for the first time in many years,

³Unlike core inflation, headline inflation also counts changes in the price of food and energy. Because food and energy prices can rapidly increase while other types of inflation can remain low, headline inflation may not give an accurate picture of how an economy is behaving. Headline inflation is more useful for the typical household because it reflects changes in the cost of living, while core inflation is used by central banks because core inflation is less volatile and shows the effects of supply and demand on GDP better.

the contribution of the transport index to inflation reduced considerably. This may be attributed to the effect of the drastic fall in the global oil prices from 105 US\$/Barrel in June 2014 to 29 US\$/ Barrel in January 2016.

Table 1: Trends in % Annual Contribution to Inflation by Commodity Group from 2011-2015

Commodity Group	2011	2012	2013	2014	2015
Food & Nonalcoholic Beverages	54.7	38.4	47.1	46.3	66.5
Housing, Water, Electricity, Gas and other Fuels	15.5	18.2	15.0	15.1	9.5
Transport	13.7	6.8	7.5	12.1	-0.7
Restaurants & Hotels	4.9	6.9	5.8	4.4	3.8
Clothing & Footwear	3.9	7.6	7.0	5.2	5.6
Furnishings, Household Equipment and Routine Household Maintenance	3.9	6.6	4.8	4.6	4.4
Miscellaneous Goods & Services	2.4	4.6	3.8	3.0	3.5
Health	1.7	2.0	2.4	2.8	2.4
Alcoholic Beverages, Tobacco & Narcotics	1.4	2.0	2.2	1.5	1.2
Recreation & Culture	1.3	2.3	2.5	3.4	1.1
Education	1.0	2.3	3.0	2.5	2.1
Communication	-4.4	2.3	-1.0	-0.9	0.6

Source: KNBS (data), PBO (compilation)

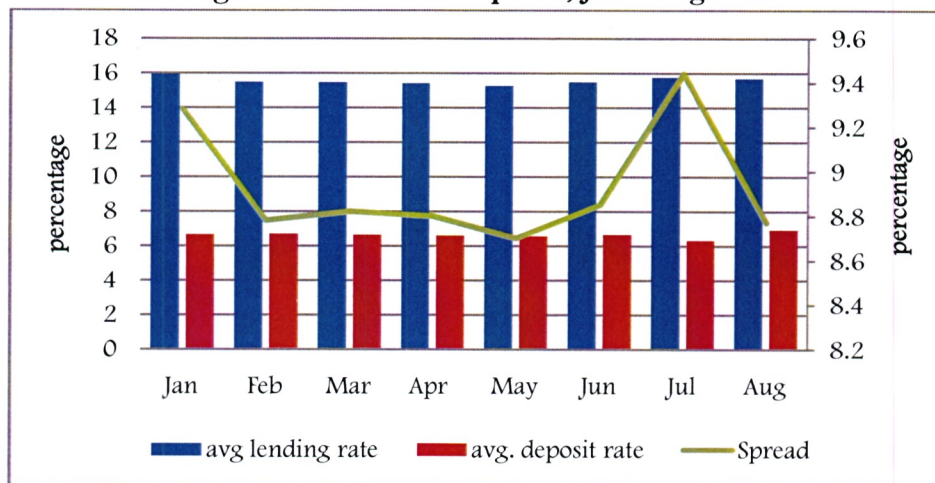
b) Exchange Rate

- 24) The exchange rate recorded a weak performance for the better part of the year, exchanging at slightly above Kshs.100 to the US Dollar. This necessitated a tight monetary policy stance by the Central Bank in an attempt to shore up the Shilling against the Dollar and maintain macroeconomic stability. Indeed, the Central Bank increased the Central Bank Rate (CBR) by 150 basis points to 10 percent in early June – the first time in two years that the rate has been increased. This was later increased further to 11.5 percent in the subsequent months.
- 25) The weak performance of the Shilling was largely on account of decreased foreign exchange inflows due to poor performance of the tourism sector, a strong Dollar in the global currency market and a worsening trade balance due to poor performance of tea, coffee and horticulture sub-sectors.
- 26) The weak exchange rate adversely affected manufacturing since most industries import a huge percentage of their raw materials. With a weak Shilling, the cost of importing raw materials increased significantly. Furthermore, the weak Shilling contributed to higher fuel prices. Thus the country's import bill increased drastically.
- 27) Though the exchange rate had stabilized by the end of the year, this is largely on account of debt accumulation as the country borrowed externally for budgetary purposes. Thus, given the current structure of the economy – the country is a net importer with a huge fiscal deficit- the current stability of the exchange rate is a temporary reprieve and the Shilling remains vulnerable to factors affecting the supply of dollars in the market.

c) Interest rates

- 28) A tight monetary policy stance adopted by the Central Bank in the second half of 2015 to shore up the shilling as well as increased domestic borrowing amidst fiscal pressures following a revenue shortfall, led to high interest rates and reduced availability of credit to the private sector. Indeed, the average yield rate of the 91-day Treasury bill went as high as 21.4 percent in October 2015. However, this declined significantly in the following months as the Government was able to secure a syndicated loan to fund the budget.
- 29) However, high lending rates continue to constrain private sector growth with commercial banks citing high customer risk profiles among other costs arising from due diligence processes as a limiting factor in lowering lending rates. Thus a high interest rate spread persists. This is despite introduction of the Kenya Bankers Reference Rate (KBRR) which was expected to contribute to lower lending rates by commercial banks.

Figure 7: Interest rate spread, Jan - Aug 2015



Source: CBK monthly economic review, Aug 2015

III. Global Economic Outlook and its implications on the Economy

- 30) The 2016/17 budget is being prepared at a time when there is an expected slowdown of world output. The global economy which recorded a growth of 3.4 percent in 2014 was projected to grow at 3.1 percent and 3.6 percent in 2015 and 2016 respectively⁴. Notably, the United Kingdom whose residents formed the largest contingent of visitors to Kenya in 2014 and is a key destination of Kenya's exports accounting for 8 percent of Kenya's domestic exports in 2014 is expected to grow at 2.5 percent and 2.2 percent in 2015 and 2016 - down from a growth rate of 3 percent in 2014.
- 31) Other major advanced economies are projected to have sluggish to moderate growth with Germany which served as the third largest source of visitors to Kenya in 2014 projected to grow at an average of 1.55 percent in 2015 and 2016 down from a growth rate of 1.6 percent in 2014. Slower growth of the German economy coupled with the World Bank's projection of

⁴ IMF World Economic Outlook (WEO) October, 2015

declining coffee prices⁵ may signal a bleak outlook for Kenya's coffee farmers given that Germany imported about 20 percent of Kenya's unroasted coffee in 2014.

- 32) On the other hand, the United States of America offers a glimmer of hope as it is projected to grow at an average of 2.7 percent in 2015 and 2016 up from a growth rate of 2.4 percent in 2014, this may be a shot in the arm to the hospitality industry and coffee farmers since in addition to the USA importing about 18 percent of our unroasted coffee, it was also the second largest source of visitors to Kenya in 2014.
- 33) The Middle East, North Africa, Afghanistan and Pakistan block is projected to enjoy moderate average growth of 3.2 percent in 2015 and 2016 up from 2.7 percent in 2014. This positive outlook is driven by improved prospects for the Egyptian economy which was the destination of approximately 16 percent of Kenya's tea exports in 2014. The Pakistan and Egyptian economies which absorbed 8.4 percent of Kenya's domestic exports in 2014 are projected to grow at an average rate of 4.35 and 4.15 in 2015 and 2016 up from a growth of 4.0 and 2.1 respectively in 2014.
- 34) Closer to home, our largest export market Uganda and our other East Africa Community (EAC) partner country Tanzania, are projected to continue enjoying robust growth in 2015 and 2016. Uganda and Tanzania which served as the destination for 18 percent of Kenya's domestic exports in 2014 are projected⁶ to grow at an average of 5.25 percent and 6.9 percent in 2015 and 2016 up from a growth of 4.7 percent and 6.9 percent respectively in 2014.

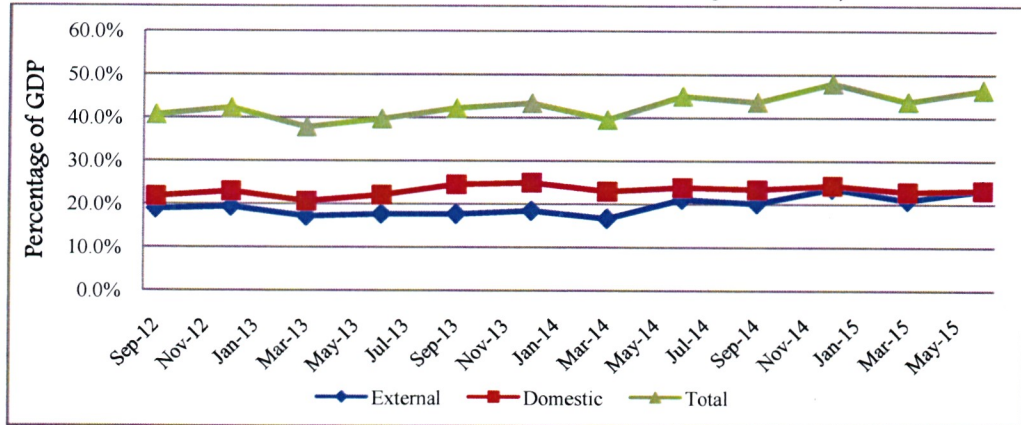
IV. Public Debt and Fiscal Sustainability

- 35) Total public debt has been on an increasing trend over the last two financial years. As at end of June 2015, it stood at Kshs.s. 2,843.7 Billion (46.5 percent of GDP); this comprised of Kshs. 1,423.1 billion (23.3% of GDP) in external debt and Kshs. 1,420.4 billion (23.2% of GDP) in domestic debt. The public debt has increased by 17 Percent since the beginning of the FY 2014/15 where it stood at Kshs. 2,422.8 billion (45 Percent of GDP). During the period, external debt had an average increment of 27 Percent annually while domestic borrowing increased by 9 Percent.
- 36) The total debt figure as at end of June 2015 was notably higher than the projection in the Medium Term Debt Management Strategy, indicating lack of adherence to fiscal guidelines. Domestic debt was projected to be at 1,371.3 billion (22.4% of GDP) while external debt was projected to be at 1,303.9 billion (21.3% of GDP) as at the end of June of 2015. However, the external debt stock surpassed the projection by Kshs.191.2 billion while the domestic debt was higher than the target by Kshs.49.1 billion.

⁵ World Bank's Commodity Markets Outlook (October, 2015) projects that the Nominal price per Kg of Arabica and Robusta Coffee will drop from \$4.42 per Kg and \$2.22 per Kg in 2014 to an average of \$3.5 per Kg and \$1.9 per Kg respectively between 2015 and 2017

⁶ World Economic Outlook October, 2015

Figure 8: Stock of Public Debt (June 2012 – June 2015)



Source: QEBR

- 37) The increase in public debt is still projected to continue with major capital projects especially in infrastructure and energy slated for implementation under the Vision 2030. However, it is worth noting that a huge public debt is an indication of higher debt servicing expenditure in the future. Since servicing of public debt is a first charge on the budget, the higher debt servicing will affect other critical expenditures in the budget. The Government should consider spreading out the investment of capital projects so as to reduce the burden of debt financing.
- 38) **The increasing debt level in the country has been characterized by the Government's continuously revising the country's debt limit upwards...** The Government has reviewed the external debt limit twice since 2013; the ceiling was increased from Kshs. 800 billion to Kshs.1.2 trillion in January 2013 and later increased to Kshs. 2.5 trillion in November 2014. This has allowed the Government to increase its external debt by 86.3 Percent in the last 4 years from Kshs.764 billion in June2012 to Kshs.s. 1.423 trillion in June 2015.
- 39) **Domestic debt has also been on an increasing trend, thereby crowding out private investments...** Domestic debt increased gradually from Kshs. 859.5 billion in June 2012 to Kshs. 1,420.4 billion in June 2015. Bulk of the domestic borrowing has been through treasury bonds and treasury bills. It is noted that the Government has over the last two financial years increased its borrowing through the Central Bank Overdraft facility with the balance increasing from Kshs. 7 billion in June 2013 to Kshs. 37.2 billion in June 2014 then slightly reducing to Kshs. 36.5 billion in June 2015. Despite the overdraft being within the legal threshold of 5 Percent of the most recent audited accounts, the significant increase indicates the government's demand for additional cash to fund expenditures in the last two financial years amidst revenue shortfalls.
- 40) **In the last quarter of 2015, revenue shortfall amidst fiscal pressures necessitated borrowing to plug the budget deficit.** As a result, T-bill yields increased drastically resulting in less liquidity for private investments. Towards the end of the year, the Government procured a syndicated loan of Kshs.60 billion with a two year tenor, to ease the pressure on

domestic borrowing. Going forward, the Government needs to address fiscal pressures by streamlining expenditures to the most necessary and setting realistic revenue collection targets in order to reduce the need for borrowing. Furthermore, loans should be directed towards highly productive ventures that create wealth and assets, to ensure that the country is able to repay the loan in future.

- 41) **In the course of 2015, the country's credit rating was revised downwards by major world credit rating agencies.** Credit rating is used by major investors to gauge the credit worthiness of a country thus it has a big impact on Kenya's external borrowing cost. Currently, S&P credit rating for Kenya stands at B+ with a negative outlook, Moody's rating stands at B1 with a stable outlook and Fitch stands at B+ with a negative outlook. The revision of the outlook has been blamed on the country's fiscal challenges and the likelihood that this will lead to a mounting debt stock, which will further increase external vulnerabilities.
- 42) Despite Treasury projections of a reducing primary balance, figures indicate that debt will continue rising in the medium term. Assuming a real GDP growth of 5.4 Percent in 2015 (growth in 2016 at same level as 2015) and a weighted average real interest rate of 0.7 Percent, the debt stabilizing primary balance required to keep the debt level in 2016 at the end of 2015 level is -2.7%. However, the actual primary balance provided is -5.8%. This indicates that the debt level is likely to continue rising in the medium term. Indeed, using the published projected primary balances as indicated in Budget Review Outlook Paper (BROP) 2015, the debt to GDP ratio over the medium term and assuming potential GDP growth of 5.2 percent, the evolution of the debt to GDP ratio is quite explosive as indicated in table 2 below:

Table 2: Projections of Debt to GDP ratio

	2014/15	2015/16	2016/17	2017/18	2018/19
Debt to GDP ratio	47.6%	52.6%	56.7%	59.8%	62.5%
Primary Balance	-5.6%	-6.0%	-4.0%	-2.7%	-2.7%

Source: BROP 2015, PBO projections

- 43) The increasing debt to GDP ratio could be exacerbated by continued depreciation of the Kenyan Shilling to the US\$, declining economic growth and a headline inflation rate of approximately 7.5 percent.
- 44) For debt to remain sustainable, it may require implementation of fiscal and monetary policies targeted to achieve the following:-
- i. A rapid increase in real economic growth by focusing on improved contribution to GDP of the sectors such as Manufacturing, Wholesale and Retail Trade, Transport and Storage, Hotel and Restaurants and Agriculture.
 - ii. A stable exchange rate of the Kenyan Shilling to the USD and other major currencies.
 - iii. Successful, cost effective and timely completion of the major development projects such as the Standard Gauge Railway that has resulted to high accumulation of debt.
 - iv. Fiscal consolidation and efficiency in revenue collection aimed towards achievement of a balanced Government budget.

Table 3: Public Debt (Kshs. billions)

	Revised Estimates 2014/15	Estimates 2015/16	Estimates 2016/17	Estimates 2017/18
Interest - Internal	137,635.3	154,814.9	145,801.3	124,403.1
Interest - External	29,737.7	30,510.0	35,379.8	38,180.4
Sub-Total	167,373.0	185,324.9	181,181.1	162,583.5
Redemption - Internal	150,000.9	177,021.9	134,383.0	141,625.9
Redemption - External	81,936.7	34,688.7	40,158.0	44,345.3
Sub-Total	231,937.6	211,710.6	174,541.0	185,971.2
Public Debt	399,310.6	397,035.5	355,722.1	348,554.8

Source: Budget Estimates 2015/16

Chapter Two

Macroeconomic and Fiscal Outlook: Projections for 2016/17 and the Medium Term

I. Introduction

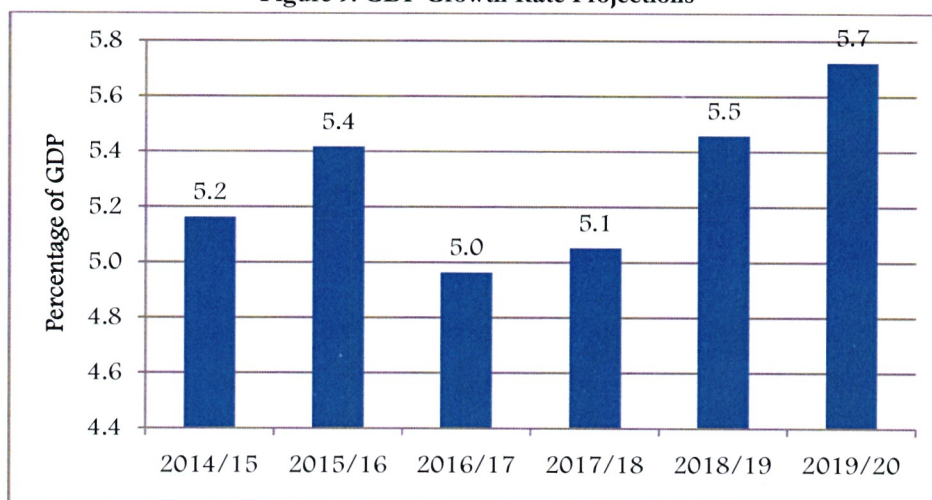
- 45) This chapter provides the growth projections for the economy under two scenarios; the baseline projections forecast the country's economic growth with the current Government policies being maintained while the living within our means projections forecast the country's economic growth with a change in some of the current policies.

II. Baseline Projections (Scenario 1)

a. Macroeconomic Outlook

- 46) If the current policies remain unchanged in the medium term, it is projected that country will witness a slightly higher economic growth of 5.4 percent in 2015/16 compared to 5.2 percent in 2014/15. However, in 2016/17, the economy will witness a slower growth of 5 percent which will pick up gradually in the medium term to 5.7 percent in 2019/20.
- 47) The higher growth in 2015/16 will be supported by an increase in Government investment especially the Standard Gauge Railway, and improvement of the tourism sector. However, the delays in revenue collection at the onset of the financial year and high interest rates will also stifle Government material expenditure.
- 48) The drop in growth in 2016/17 will largely be occasioned by a drop in private investments as investors tend to adopt a wait and see attitude in a pre-election year. Government investments are also projected to slightly reduce as more resources are voted for preparations of the elections. However, both private and Government consumption are set to slightly increase as the election fever grips the country.
- 49) The increase in growth in 2017/18 and the medium term will be supported by a successful election and relatively stable macro-economic environment. Both Government and private consumption and investments are set to increase.

Figure 9: GDP Growth Rate Projections



Source: PBO

b. Fiscal Outlook

- 50) With unchanged policies, the total revenue will stand at 19.5 percent of GDP from 2015/16-2017/18 then gradually increase to 19.6 percent of GDP in 2019/20. The total expenditures are set to reduce gradually in the medium term from a high of 29.3 percent of GDP in 2015/16 to 25.5 percent of GDP in 2019/20. The reduction will largely be on the recurrent expenditure which is set to reduce from 15.2 percent of GDP in 2015/16 to 13 percent of GDP in 2019/20. The development estimates are also targeted to reduce over the same period from 10 percent of GDP to 8.5 percent of GDP. However, the allocations for counties are set to stabilize at 4 percent in 2016/17 and over the medium term.
- 51) The reductions in revenue and expenditure will reduce the budget deficit (inclusive of grants) from -8.8 percent of GDP in 2015/16 to -5 percent of GDP in 2019/20. Subsequently, this will reduce the domestic borrowing from 3.5 percent of GDP in 2015/16 to 1 percent of GDP in 2019/20.

Table 4: Baseline Fiscal Projections (percentage of GDP)

	2014/15*	2015/16	2016/17	2017/18	2018/19	2019/20
Total Revenue	19.7%	19.5%	19.5%	19.5%	19.6%	19.6%
Ordinary Revenue	18.4%	18.3%	18.3%	18.3%	18.4%	18.4%
AiA	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%
Expenditure	29.3%	29.3%	28.2%	27.4%	26.4%	25.5%
Recurrent	15.9%	15.2%	14.6%	14.1%	13.6%	13.0%
Development	9.4%	10.0%	9.6%	9.3%	8.8%	8.5%
County Allocation	4.0%	4.1%	4.0%	4.0%	4.0%	4.0%
Deficit excl grants	-9.6%	-9.9%	-8.7%	-7.9%	-6.8%	-5.9%
Grants	0.5%	0.5%	1.0%	1.0%	0.9%	0.9%
Deficit incl grants	-9.1%	-9.2%	-7.7%	-6.9%	-5.9%	-5.0%
Statistical Discrepancy	-0.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Financing	8.5%	9.2%	7.7%	6.9%	5.9%	5.0%
Foreign Financing	4.0%	5.3%	5.0%	4.6%	4.3%	4.0%
Domestic Financing	4.5%	3.9%	2.7%	2.3%	1.6%	1.0%
Nominal GDP (Kshs. Billion)	5,606.2	6,497.0	7,480.0	8,518.0	9,686.0	10,996.6

Source: PBO

*Preliminary (Treasury)

III. Living within our means (Scenario 2)

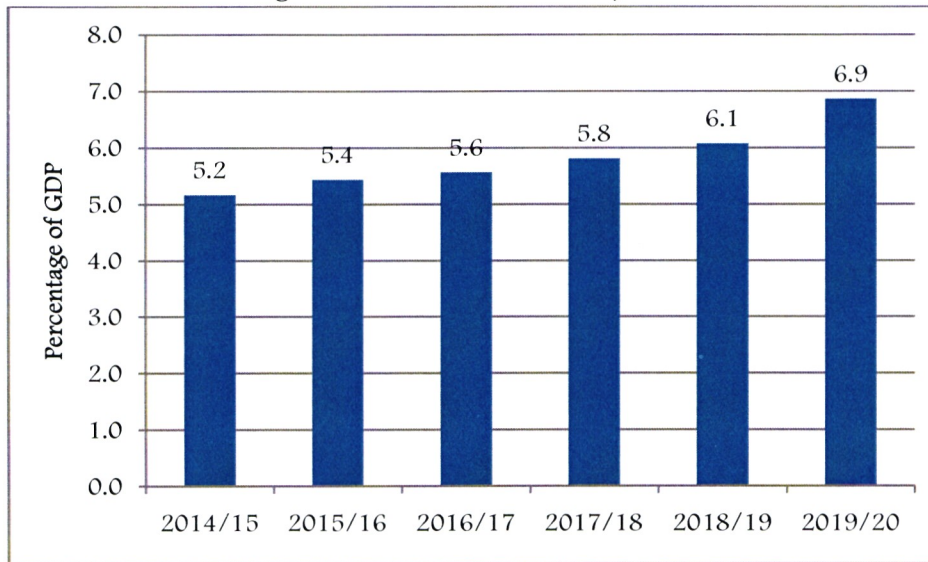
a. Macroeconomic Outlook

- 52) Kenya has always had an optimistic target for its GDP growth. This subsequently leads to a higher projection of revenues creating room for increasing expenditure. However, the GDP targets have always been missed forcing revision of revenue projections downwards. Lesser revenue indicates either a reduction in expenditure estimates or an increment in deficit financing through borrowings. This disrupts both budget implementation and the macro-

economic outlook for the medium term. Moving forward, there is need for a credible and realistic GDP forecast for 2016/17 and the medium term.

- 53) The following policies have been proposed for the country to achieve the 'living within our means' economic projections:
- i. reduction of the budget deficit (inclusive of grants) to attain the EAC Fiscal rule of 3 percent of GDP by 2021.
 - ii. increasing of the allocations to counties over the medium term to above 4 percent of GDP as allocations to national Government for expenditures that duplicate those in the devolved units are reduced.
 - iii. addressing the governance issues affecting the country.
- 54) The economy will witness a slight increase in growth in 2015/16 to 5.4 percent of GDP compared to 5.2 percent of GDP in 2014/15. The growth in 2015/16 will be supported by the ongoing Standard Gauge Railway (SGR) construction and improvement of the tourism sector. However, the delays in revenue collection at the onset of the financial year and high interest rates will also stifle Government material expenditure.
- 55) The 2016/17 growth is forecasted at 5.6 percent. Despite this being a pre-election year, the recent infrastructure developments including SGR and energy will improve Kenya's investment climate and attract more private investments. This coupled with increased consumption due to the increased election expenditure will bolster growth projections for 2016/17.
- 56) With a successful election and stable macro-economic conditions, the economy is projected to pick up in 2017/18 and subsequent years. The forecast of 5.8 percent growth in 2017/18 will benefit from increased investor activity, increased exportation and improved productivity with the completion of the Phase 1 of the SGR. Thus there will be increased investor confidence leading to increased private investment and private consumption. Increased investments will lead to a subsequent rise in the exports.
- 57) The 6.1 and 6.9 percent projected economic growth in 2018/19 and 2019/20 is based on the assumption that private investments will continue to rise due to an improved business environment created by the SGR. This will subsequently increase Kenya's export base thus improving the Balance of Payment. Further, the 2018/19 projection also considers the construction of the second phase of the SGR in 2018, resulting in higher Government investments and increase in exports. Thus the country will witness higher Government investments and increase in imports.

Figure 10: GDP Growth Rate Projections



Source: PBO

b. Fiscal Outlook

- 58) To achieve the reduction in budget deficit from a high of -9.2 percent of GDP in 2015/16, the short-term measure will be curtailing of expenditure pressures. With revenues being projected to increase slightly over the medium term from 19.5 percent of GDP in 2015/16 to 19.6 percent of GDP in 2019/20, expenditures are projected to drastically reduce from 29.3 percent of GDP in 2015/16 to 23.7 percent of GDP in 2019/20. The contraction of expenditure will be from reduction in recurrent and development expenditures while the county allocations are set to gradually increase from 4.1 percent of GDP in 2015/16 to 4.3 percent of GDP in 2019/20.
- 59) The contraction in expenditure against a relatively gradual increase in revenue over the medium term will occasion a gradual reduction in budget deficit (inclusive of grants) from -9.2 percent of GDP in 2015/16 to -3.6% of GDP in 2019/20. This will ensure the Government achieves the EAC condition of having a budget deficit of 3 percent of GDP by 2021.

Table 5: Fiscal Projections, 2014/2015 to 2019/2020

	2014/15*	2015/16	2016/17	2017/18	2018/19	2019/20
Total Revenue	19.7%	19.5%	19.5%	19.5%	19.6%	19.6%
Ordinary Revenue	18.4%	18.3%	18.3%	18.3%	18.4%	18.4%
AiA	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%
Expenditure	29.3%	29.3%	25.4%	25.0%	24.7%	23.7%
Recurrent	15.9%	15.2%	14.0%	13.7%	12.9%	12.0%
Development	9.4%	10.0%	7.3%	7.1%	7.6%	7.3%
County Allocation	4.0%	4.1%	4.1%	4.2%	4.2%	4.3%
Deficit excl grants	-9.6%	-9.9%	-5.9%	-5.4%	-5.1%	-4.1%
Grants	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Deficit incl grants	-9.1%	-9.2%	-5.3%	-4.9%	-4.6%	-3.6%
Statistical Discrepancy	-0.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Financing	8.5%	9.2%	5.3%	4.9%	4.6%	3.6%
Foreign Financing	4.0%	5.3%	2.2%	2.1%	3.0%	2.8%
Domestic Financing	4.5%	3.9%	3.1%	2.9%	1.6%	0.8%
Nominal GDP (in Kshs. Billion)	5,606.2	6,497.0	7,535.3	8,621.2	9,806.5	11,186.8

Source: PBO

*Preliminary (Treasury)

Chapter Three:

The Resource Envelope for 2016/17 and the Medium Term

I. Revenue Performance and Outlook

- 60) The Government projected total revenue to reach Kshs.1.2 trillion in 2014/15, or Kshs. 1.1 trillion excluding Appropriation inAid (AIA).However, the actual outturn was nevertheless lower by Kshs. 89.3 billion occasioned by underperformance in both ordinary revenue by Kshs. 41.235 billion and AIA by Kshs. 48.1 billion. Corporate income tax was below target by Kshs. 19.2 billion compared to Kshs. 4.6 billion of the Pay as You Eran (PAYE), while import Value Added Tax (VAT) was below target by Kshs.11.5 billion.
- 61) According to the National Treasury, (see the Quarterly Economic and Budgetary Review) the perennial underperformance of the AIA is attributable to underreporting by universities. Though no corrective measures have been proposed. But, little explanation is given for either underperformance or equally overestimation of corporate income tax and import VAT. Some of the likely plausible reasons for the low collection of import VAT is possible overestimation of the effect of the VAT Act 2013, or equally volume changes to VAT as a result of demand changes and exemptions of some VAT imports.
- 62) A careful review of approved budget revenue estimates and end-of-period actual revenue points to systematic overestimation of revenue. Despite the fact that forecast errors should be lower if the growth of given revenue components is stable (for instance, growth of income tax and import duty are stable and their shares in GDP are predictable using historical information compared to AIA), these revenue components are always overestimated. Table 6 shows a comparison between approved revenue estimates (forecasts) relative to actual revenue outturn, revealing substantial overestimation of revenue way above average trends. Notably, the deviation between the amount of revenue that was anticipated during budget approval by Parliament and the actual was highest in 2012/13 and 2013/14. Overestimation is particularly remarkable for import duties (69 percent relative to 17%) and the other taxes⁷ (105 percent relative to a contraction by 12%) in 2013/14.
- 63) As would be expected, revenues during budget approval are also quite high on average for two unstable revenue sources, namely ‘other taxes’ and AIA. On average, for the total revenues and through most of the revenue categories, the Government tended to overestimate revenue growth during budget approval by about 12 percent points. This hints that either the Government needed to cut spending during the financial year through supplementary budgets, or needed to ramp up domestic borrowing including external borrowing to cater for the difference. Over the four years reviewed, real revenue collections grew at a modest 14 percent while the Government believed that revenues would grow at 23 percent, invariably contributing to rising fiscal deficits and borrowing. Figure 11 further shows some evidence that the Government picked some lessons given that rapid overestimation of revenue between 2012/13 and 2013/14 led to decelerated forecasts in successive years.

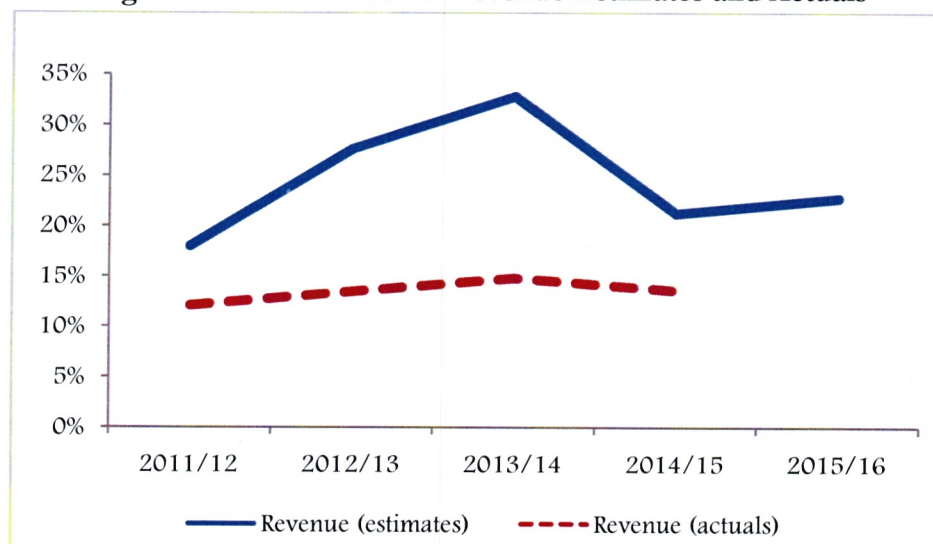
⁷Comprising license fees, agency revenues, property taxes

Table 6: Growth rates of revenue forecasts relative to actual revenue collections

	2011/12	2012/13	2013/14	2014/15	2015/16	Average growth
Approved Revenue Forecasts						
Total Revenue	18%	28%	33%	21%	23%	24%
Ordinary Revenue	17%	26%	34%	18%	22%	23%
Import Duty	21%	30%	69%	15%	11%	29%
Excise Duty	16%	17%	17%	17%	23%	18%
Value Added Tax	19%	26%	24%	15%	19%	21%
Income Tax	13%	23%	22%	21%	23%	20%
Other Taxes	30%	49%	105%	20%	33%	47%
AIA	27%	48%	24%	70%	37%	41%
Actual Revenue Outturn						
Total Revenue	12%	13%	15%	14%		13%
Ordinary Revenue	13%	13%	18%	12%		14%
Import Duty	12%	11%	17%	10%		13%
Excise Duty	-2%	9%	19%	14%		10%
Value Added Tax	7%	1%	26%	12%		11%
Income Tax	21%	19%	21%	13%		18%
Other Taxes	24%	19%	-12%	9%		10%
AIA	-2%	24%	-22%	36%		9%

Sources: QEBR (various issues); Budget Estimates (various issues)

- 64) There is anecdotal evidence that revenue forecasts tend to correspond to rising expenditure pressures and governments overall borrowing plans. To avoid a financing gap during the budget approval process, domestic taxes are nudged to their limits so as to accommodate excess spending plans to curb debt financing whenever possible. With revenue collections repeatedly falling short of their target for several years since 2010, for example, and with rising spending pressures from the wage bills, expenditure allocations to counties, increased spending on infrastructure developments and social sector, debt financing took marked prominence.
- 65) Tax pressures have remarkably increased due to this fiscal stance. August to November 2015 macroeconomic shocks clearly mean that this stance, high Government spending, inflexible revenues, and borrowing, is unsustainable. Ambitious revenue targets tend to fuel more spending requests and indirectly appear to drive overall deficit and consequent borrowing. This stance should therefore give way to modest fiscal deficits, which means reduced Government spending growth, and realistic revenue forecasts.

Figure 11: Growth Rates of Revenue Estimates and Actuals

Sources: QEBR (various issues); Budget Estimates (various issues)

- 66) To achieve credible revenue targets requires reduced Government spending pressures and improved forecasting of revenue. Additionally, certain measures may be implemented in the next financial year and the medium term to improve revenue performance. If tax smoothing takes precedence, then more buoyant taxes such as income tax and VAT will drive revenue growth in the medium term. Certain administrative efforts could also be implemented, among them a more concerted clamp down on tax cheating. Recent laws such as Excise duty Act and the VAT Act clearly outlaw schemes designed to reduce tax liability of taxpayers. Other nascent measures include digitizing most revenue collection as well as curbing tax erosion from transfer pricing.

Preliminary Revenues, 2015/16: Main drivers

- 67) The revised forecast and of June 2016 (2015/16) revenue outturn is premised on varied factors including expected upturn due to the implementation of the Excise Act 2015 and Tax Procedure Act, but on the downside, the underperformance in the last two quarters indicates potential for lower end-June 2016 revenues. Macroeconomic stability is critical to achieve expected revenues growth still remains depressed relative to the June 2015 forecasts, expected upward creep in the interest rates could hurt income tax and VAT, while the weak Shilling exchange rate could affect the demand for imports and consequently, lower import duty.
- 68) Using above information, revised forecast for end-June 2016 (see Budget Options, 2015) are as follows:
- i. income tax is expected to exceed Kshs.600 billion by end 2015/16 assuming some income tax recovery in the second half of the year, to at least compensate for the losses in the first half, (Table 7);
 - ii. VAT is projected to reach Kshs.294 billion, excise tax, Kshs.126 billion on account of the effects of excise tax, particularly enhanced collections on alcoholic drinks and soft drinks, and import duty, Kshs.82 billion;

- iii. the other tax components are quite volatile, but it is predicted “other taxes” could reach Kshs.84 billion, and AIA, Kshs.79 billion.
- iv. ordinary revenues are forecast to reach Kshs.1.185 trillion by end 2015/16; and.
- v. total revenue is therefore estimated to fall short of Treasury estimate by about Kshs. 93.7 billion due to overestimation and large forecast errors present in unpredictable AIA and ‘other revenues’.

II. Medium Term Revenue Forecasts

- 69) Unlike the fiscal deficit driven forecasts, the medium term forecasts are based on the statistical stability of average historical growth rates of tax revenue components, limited change in the effective tax rates over the medium term. Stable tax rates in the medium term resonate with the leaning towards tax smoothing agenda by the Government and informed guess about upward rigidity of the tax rates (with the exception of the regular inflation indexing of excise duty rates). Similarly, discretionary changes to the tax structure either through improvements in tax progressivity, and scrapping of certain rates, though appealing given 2017 election, may not succeed given the delicate balance between reducing the high fiscal deficit on one part while raising enough revenues for the Government operations in an electoral period.
- 70) Enhanced oversight of collection and accounting of tax revenues is expected in tandem with other accountability efforts by the government. Little policy shift is expected at least in the first year of forecast to reduce the contribution of AIA to total revenue and to make it more predictable. Thus, AIA still contributes some of the significant forecast error component of total Government revenues.
- 71) The baseline scenario assumes stability in revenue growth based on recent performance, and the recent legal and administrative innovations. A tepid growth rate assures quite conservative growth of the tax bases of most revenue components (domestic demand, import volume, remuneration and wage bill). Alternatively, a second scenario incorporates a more optimistic scenario where revenue grows strongly in nominal terms, and a less optimistic scenario, which incorporates underperformance of various drivers of the tax bases if economic growth itself slows down in the face of an election period and macroeconomic shocks.
- 72) In the baseline scenario income tax rises from Kshs.600 billion in 2015/16 to Kshs.707 billion in 2016/17. VAT is projected to reach Kshs.333 billion, excise tax, Kshs.137 billion, and import duty, Kshs.90 billion (Table 3, *Scenario 1*). Ordinary revenues will reach Kshs.1.364 trillion in 2016/17, rising to Kshs.1.570 trillion in 2017/18. The higher bounds of revenue collections are considered in the second scenario. This scenario assumes a rather unexpected boom in revenues (partly due to higher growth performance, domestic demand and improvements in revenue enhancing administrative measures) and will see ordinary revenue collections reach Kshs.1.482 billion in 2016/17. Income tax will reach Kshs.723 billion in 2016/17 (Table 3). VAT is projected to reach Kshs.333 billion, excise tax, Kshs.137 billion, and import duty, Kshs.94 billion.
- 73) Under the less encouraging economic conditions, income tax is forecast to reach Kshs.579 billion in 2016/17 primarily due to growth shocks and tepid administrative measures (Scenario 1). Both excise and import duties grow moderately to Kshs.119 billion and Kshs.90 billion in

2016/17, respectively. In this scenario, VAT is estimated to reach about Kshs.279 billion in 2016/17. Total revenues in this scenario reach Kshs.1.223 trillion, Kshs. 1.14 trillion of this as ordinary revenues.

- 74) The forecasted revenue numbers for the outer years (2017/18 and 2018/19) are depicted in Table 7 (Scenario 2). No significant changes since the macroeconomic and structural factors driving revenue performance only vary across the scenarios and not necessarily annually.

Table 7: Revenue forecasts

	2013/14*	2014/15*	2015/16	2016/17	2017/18	2018/19
Baseline Scenario						
Total Revenue	974.4	1,106	1,264	1,447	1,657	1,900
Ordinary Revenue	918.9	1,031	1,185	1,364	1,570	1,809
Import Duty	67.5	74	82	90	99	109
Excise Duty	102.0	116	126	137	150	163
Value Added Tax	232.6	260	294	333	377	427
Income Tax	449.5	509	600	707	834	983
Other Taxes	67.1	73	84	96	111	127
AIA	55	75	79	83	87	91
Scenario 1						
Total Revenue	974.4	1,106	1,154	1,223	1,298	1,379
Ordinary Revenue	918.9	1,031	1,075	1,140	1,211	1,288
Import Duty	67.5	74	82	90	99	109
Excise Duty	102.0	116	117	119	121	122
Value Added Tax	232.6	260	269	279	290	300
Income Tax	449.5	509	543	579	618	659
Other Taxes	67.1	73	64	73	84	96
AIA	55	75	79	83	87	91
Scenario 2						
Total Revenue	974.4	1,106	1,366	1,582	1,832	2,125
Ordinary Revenue	918.9	1,031	1,280	1,482	1,718	1,994
Import Duty	67.5	74	83	94	106	120
Excise Duty	102.0	116	126	137	150	163
Value Added Tax	232.6	260	294	333	377	427
Income Tax	449.5	509	606	723	861	1,027
Other Taxes	67.1	73	84	96	111	127
AIA	55	75	86	99	114	131

Source: PBO forecasts; *actual revenues

- 75) It is in our considered opinion that the plausible scenario that mimics the envisaged performance for 2015/16 is the baseline scenario. This is premise on the fact that we do not envisage any significant policy change in 2015/16.

Box 1: Key legislative endeavors for revenue enhancement

A New Legislation on Excisable Goods and Services: for a long time, there was a single legislation that provided for both excisable goods and services as well as customs taxes. These two have since been separated by the enactment of the East African Customs Management Act (EACMA), 2004 and eventually, the Excise Act, 2015. The separation was necessary since the EACMA covers the customs taxes in the East African region where as the Excise Act applies to excisable goods and services within the Kenya borders. Whereas excise duties, often referred to as “sin tax”, is imposed on some commodities like tobacco and alcohol products among others, (since they are considered luxurious) it is worth noting that the Excise Act, 2015 digresses a little bit from that and it now contain some commodities in that tax bracket such as taxing imported vehicles, motor bicycles, water and juice. This is, most likely, in a bid to raise extra revenue; thought to be about Kshs.25 billion in fiscal year 2015/16.

Some Changes in the Income Tax Act (ITA): over time, changes in the ITA have been effected mostly through the Finance Acts for various years. For instance, the Finance Act, 2006 amended the Income Tax Act to introduce Turn Over Tax (TOT) on business income below Kshs.5 million; the one of 2012 introduced among other tax measure, the taxation on gains from the business of transmitting messages and withholding tax on gains from betting and gaming. The Finance Act, 2014 reviewed taxation of extractives in response to the on-going exploration and discovery of oil and gas in some parts of the country as well as re-introduction of Capital Gains Tax (CGT) on transfer of property, for the first time since its suspension in 1986. The one of 2015 introduced the Residential Rental Income Tax for land lords whose rental incomes are Kshs.10 million and below.

Chapter Four

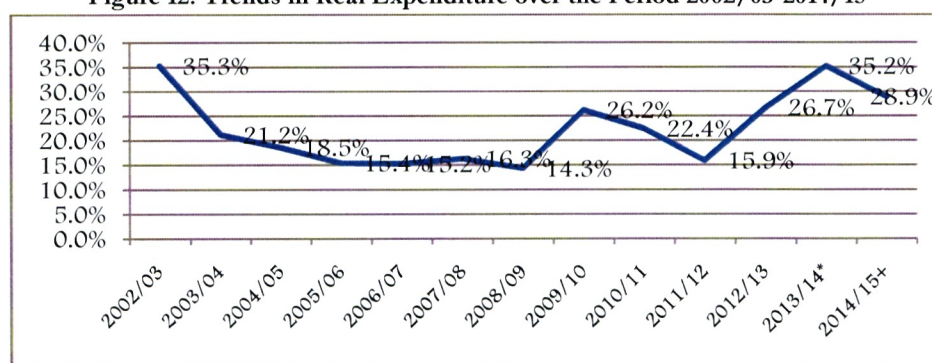
Tightening the Belt: Expenditure Framework for 2016/17 and the Medium Term

I. Composition of Government Spending

a) Introduction

- 76) This chapter examines historical trends in National Government spending, over the period 2002/03 to 2014/15. The analysis commences in 2002-03 as there is greater data consistency from this year onwards and concludes in 2014-5, the last year for which actual spending data is available. The report compares real growth in spending to growth in real GDP. The report should be read on the basis that growth in spending and GDP are measured in real terms⁸ unless otherwise specified, and annual growth rates are average compounded growth rates.
- 77) Spending by the Kenyan Government based on Classification of the Functions of Government (COFOG) is an important part of the economy, in real terms, totaling Kshs.1.532 trillion in 2013/14 or just over a quarter of nominal GDP (35.2 percent). Based on COFOG⁹ classification we estimate that total expenditure for 2014/15 stood Kshs.1.652 trillion. Over the period 2002/03-2014/15, real expenditure as a percentage of GDP has averaged 28.9 percent, with the lowest expenditure being experience in 2008/09 (figure12). This could be attributed to the slowdown in economic activity occasioned by post-election violence as well as economic meltdown that led to imbalances on a macroeconomic front.

Figure 12: Trends in Real Expenditure over the Period 2002/03-2014/15



Source: KNBS; + Revised Estimates; * Provisional

b) Key Components of Expenditure

- 78) **General Public Services:** As depicted in table 8, the largest allocation in terms of functions of Government went towards General Public Services, which comprises of debt transactions, transfers of general character between levels of Government among others. Within this category, public debt transactions took the largest component of Government spending comprising of Kshs.345.8 billion in 2013-14, or 22.6 per cent of the total. This includes both external and domestic debt. Indeed, 54 percent of total allocation for General Public Services for 2013/14 went towards public debt transactions.

⁸ To arrive at the real expenditure trends the year 2009 is used as the base year.

⁹ The COFOG Estimates for 2014/15 are PBO estimates

Table 8: Shares of the Key Components of Expenditure

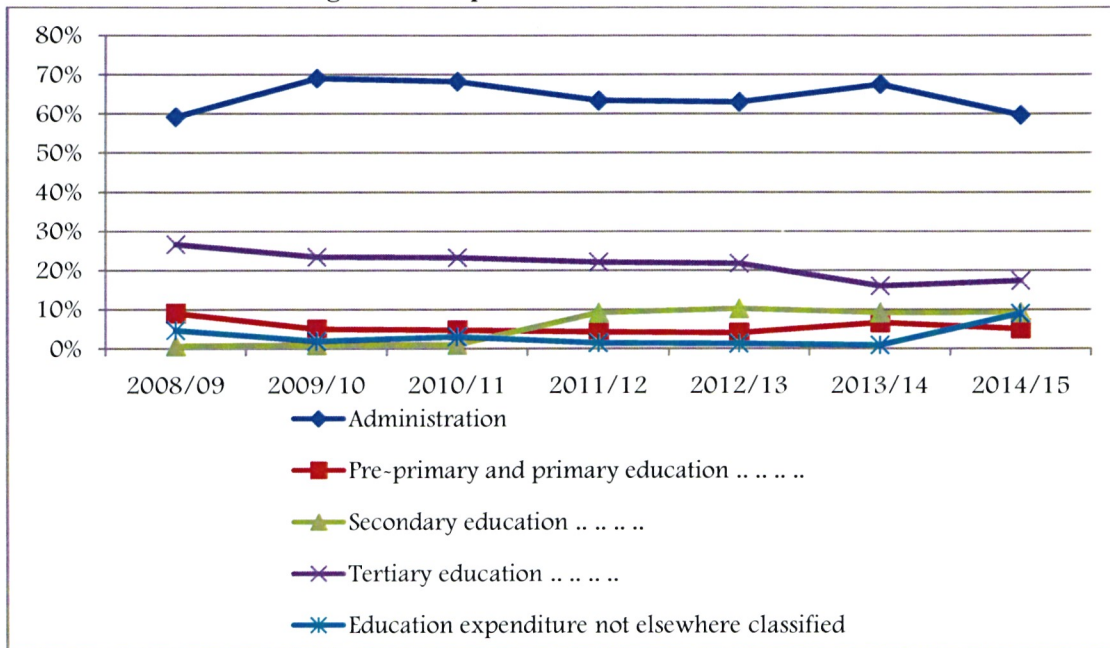
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15+
General public services	39.9%	30.4%	33.4%	33.9%	31.0%	35.9%	45.8%	37.7%
o/w Publicdebt transactions	21.4%	18.1%	18.7%	19.9%	18.5%	20.6%	22.6%	16.9%
o/w Transfers of general character btwn levels of govt	1.3%	1.4%	1.4%	1.3%	1.7%	1.7%	13.7%	12.6%
Defense	5.6%	5.9%	6.8%	5.7%	6.4%	5.9%	6.1%	3.8%
Public order and safety	7.7%	8.7%	7.6%	7.8%	8.6%	8.2%	8.2%	7.1%
Economic affairs	14.5%	18.9%	19.4%	21.1%	19.9%	20.8%	16.2%	25.6%
Environmental protection	0.9%	0.8%	0.7%	0.6%	1.0%	1.9%	1.4%	0.6%
Housing and community amenities	2.0%	2.7%	2.5%	2.6%	2.9%	1.1%	0.7%	3.0%
Health	4.1%	4.6%	4.7%	5.0%	6.0%	5.8%	2.5%	2.5%
Education	19.2%	20.8%	20.2%	19.9%	20.2%	17.7%	16.5%	16.3%
Social protection	5.2%	6.4%	4.2%	3.0%	3.7%	2.7%	2.5%	3.2%
TOTAL OUTLAYS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: KNBS; + Revised Estimates; * Provisional

79) **Education**¹⁰: The second largest allocation by function was education at Kshs.313.9 billion, or 16.5 per cent of the total outlays in 2013-14. The highest gainer within the education sector was administration, followed by tertiary education. On the other hand, pre-primary and primary education received the least allocation. The low allocation towards pre-primary can be explained by reduction in expenditure since this is a devolved function as provided for in the second schedule of the Constitution. The same applies to the slowdown in the expenditure for tertiary education since part of this expenditure was used to fund village polytechnics which are now a devolved function. Figure 13 shows the components of allocation across the education function.

¹⁰ Disaggregated data for 2014/15 under the COFOG is not available

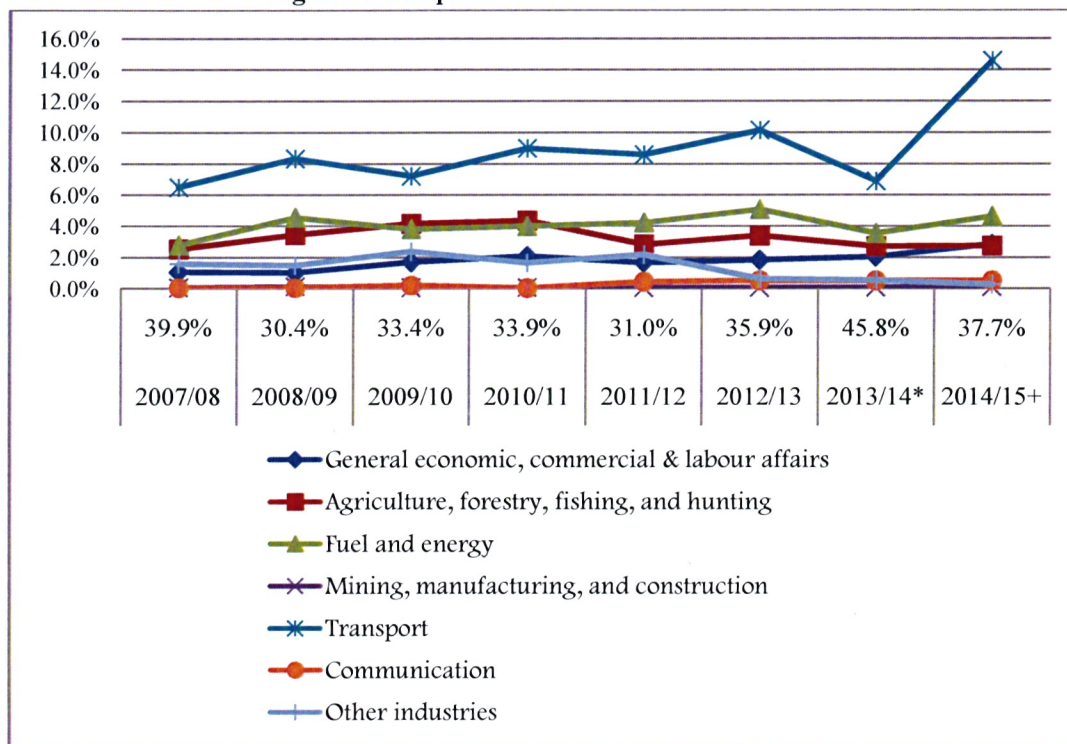
Figure 13: Components for Education Function



Source: KNBS; + Revised Estimates; * Provisional

80) **Economic Affairs:** This was the third sector, the allocation stood at Kshs.248.3 billion, translating to 16.2 percent of total allocation. The allocation to the various areas within the functional classification is highlighted in figure 14. It is important to note that the transfers from national Government to counties generally came from economic affairs. Contrastingly, Counties have often used these resources for administrative services. This has negatively impacted on economic growth since it constraints the capacity for productive Government investment.

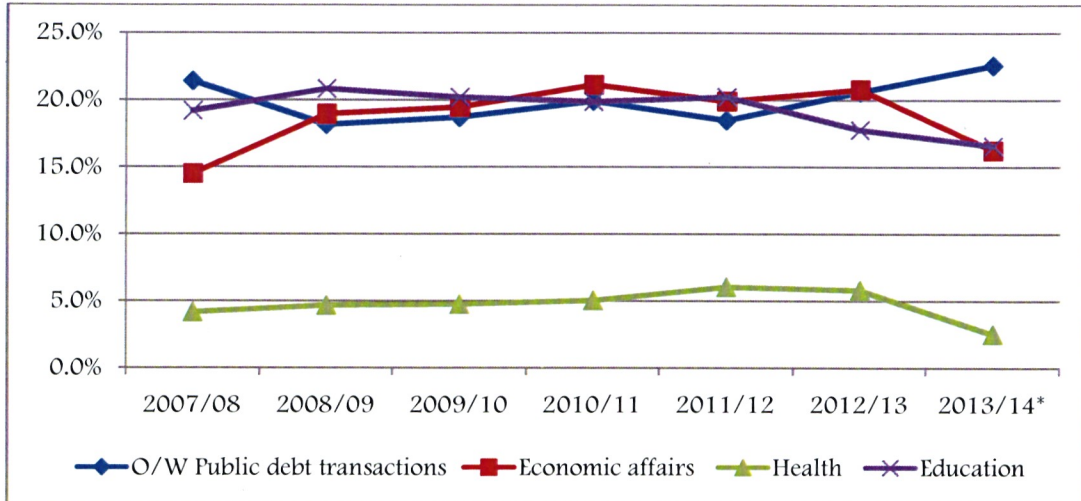
Figure 14: Components of Economic Function



Source: KNBS; + Revised Estimates; * Provisional

- 81) Health spending comprised 2.5 per cent of total spending in 2013-14 at Kshs.38.2 billion. This included spending of Kshs.6 billion on outpatient services, hospital services at Kshs.19.5 billion, public health services at Kshs.9.6 billion, and health expenditure not classified anywhere at Kshs.3.1 billion.
- 82) The remaining resources were spent on defense at Kshs.93.7 (6.1 per cent); public order and safety at Kshs.126.3 billion (8.2 percent); social protection at Kshs.37.5 billion (2.5 percent), among others.
- 83) With regard to the composition of spending, as a share to total expenditure, the expenditure pattern has remain broadly the same, implying that there has been little shift in the composition of expenditure from non-core to core programmes as envisioned in the various Medium Term Expenditure Framework documents. To this end, the efforts to reorient expenditures towards capital spending away from recurrent spending seem not to have been achieved. Indeed, the much needed fiscal space that was envisaged to be created to fund social programmes as well as investing in critical areas of infrastructure has not been achieved. As shown in figure 15, in real terms, the shares of education, health, economic affairs and social protection has been falling (2002/03-2013/14). On the other hand, over the same period, the share of General public services has increased consistently. This has been occasioned by the consistent increase in public debt transactions, which comprise of nearly 54 percent of total. As a share of total real expenditure, the level of debt transactions rose from 18.1 percent in 2008/09 to 22.6 percent in 2013/14 (figure 15 and Table 8).

Figure 15: Composition of selected functions of Government

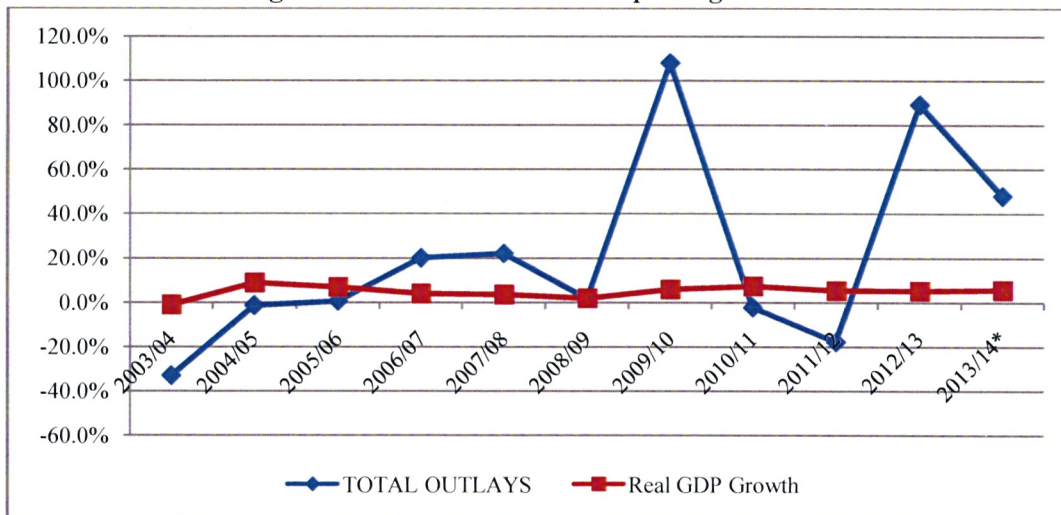


Source: Economic Survey, 2015

II. Trends in Government Spending

- 84) Kenyan Government spending grew faster than GDP over the period 2003/04 to 2012-13, averaging 21.4 percent over the period. Figure 3 shows the growth in aggregate Government spending and GDP, in real terms over this period.
- 85) From 2003/04 to 2013/14, Government spending grew by 363 per cent, or 17.8 per cent annually compared with GDP growth of 58 per cent or 3.9 per cent annually. From 2003/04 to 2013/14, Government spending grew by 13.64 per cent annually, which was 9.7 per cent faster than GDP growth of 3.9 per cent annually.

Figure 16: Growth in Government Spending and GDP



Source: KNBS; + Revised Estimates; * Provisional

- 86) The rate of spending growth increased from 2005/06 towards the end of 2008/09 due to increased spending in social and economic sectors of the economy. There was deliberate effort

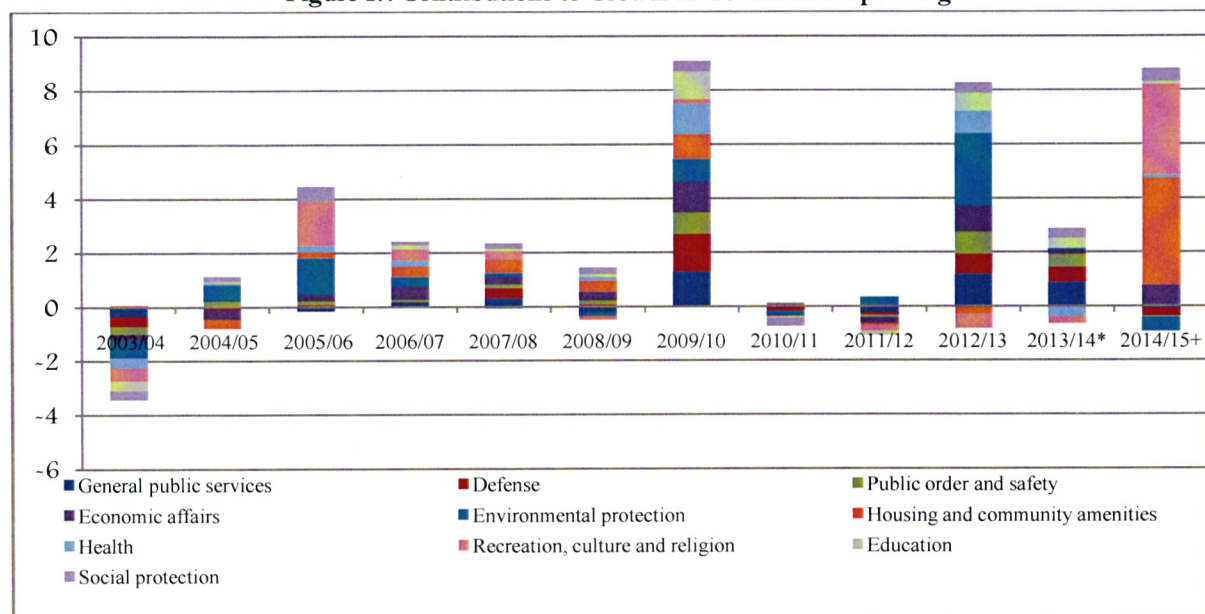
to upscale expenditure during the Economic recovery era under the NARC Manifesto. This period (2003/04-2008/09) saw massive investment in sectors of infrastructure, health and education. Indeed from a functional perspective, over the period 2005/06-2008/09, the economic affairs function grew by 25.3 percent annually.

- 87) One interesting observation is periods of high expenditure in real terms did not necessarily translate into higher economic growth. Specific epoch is worth noting, periods of spending in real terms did not necessarily translate into higher growth.
- 88) A scan of the literature on the impact of Government spending on GDP point out that there are circumstances under which Government spending would enhance economic growth and other circumstances in which higher levels leads a lower economic trajectory. Rahn (1996) postulates that when the Government size grows too large, it displaces private sector activity. He argues that every dollar that the Government spends, it means that the private sector productive sector gets one dollar less. Overall, governments as fiscal agents are not as efficient as private sector. There is a tendency of misallocation of funds within the Government circles that eventually leads to less economic output.
- 89) It important to note that provision of infrastructure and other social amenities is a prerequisite for a well-functioning market economy. However, as the size of the Government grows the effects of higher taxes and borrowing kicks in. Eventually, as affirmed by Gwartney (1998), these factors will dominate and the marginal increase in additional Government expenditure will impact negatively on growth. The relationship between real expenditure growth and GDP growth is shown in figure 16.

III. Drivers of Growth in Government Spending

- 90) Over the period 2003/04 to 2013/14, all areas of Government spending at the functional level grew at a faster rate than GDP with the exception of the function of Recreation, Culture and Religion. Figure 17 and Table 9 show the growth in Government spending over the period 2003/04 to 2013/14, and the contributors to this growth.

Figure 17: Contributions to Growth in Government Spending



Source: KNBS; + Revised Estimates; * Provisional

- 91) The key drivers of the 48 per cent increase in Government spending over the period 2002-03 to 2013-14 were increases in general public services with public debt transactions contributing to 22.6 percent of total spending General Public Services. The second significant contributor was public order at 4 percent while the education contributed to 6.7 percent of total spending. In terms of contribution to total growth, health spending has shrunk significantly, partly being attributed to devolution.

Table 9: Summary of Drivers of Government Spending

Unit	Share of 2013/14 (% of total)	Real spending growth 2002/03 - 2013/14	
		Annual growth	Contribution to total growth
General public services	45.8%	13.9%	32.0%
<i>of w Public debt transactions</i>	<i>22.6%</i>	<i>11.3%</i>	<i>12.8%</i>
Defense	6.1%	12.7%	3.2%
Public order and safety	8.2%	16.7%	4.0%
Economic affairs	16.2%	16.7%	3.2%
Environmental protection	1.4%	24.6%	0.1%
Housing and community amenities	0.7%	9.1%	0.0%
Health	2.5%	8.2%	-2.1%
Recreation, culture & religion	0.1%	-2.0%	0.0%
Education	16.5%	11.2%	6.7%
Social protection	2.5%	11.2%	0.9%
TOTAL OUTLAYS	100.0%	13.6%	48.0%
GDP		3.9%	

Source: KNBS

92) The growth in individual components of the functions is highlighted below.

- i. **Health:** In 2013/14, the spending in this sector represented 2.5 per cent of total spending, owing to the slowdown in allocation due to the fact that most of this function is devolved. Overall, it contributed negatively to growth by 2.1 percent. This basically implies that the health spending has decelerated over time with other spending functions taking more resources. In 2013/14, more than 50 per cent of this growth was attributable to decreased spending on hospital services, closely followed by outpatient services at 28.5 percent. The table below provides the real expenditure and the contribution to total.

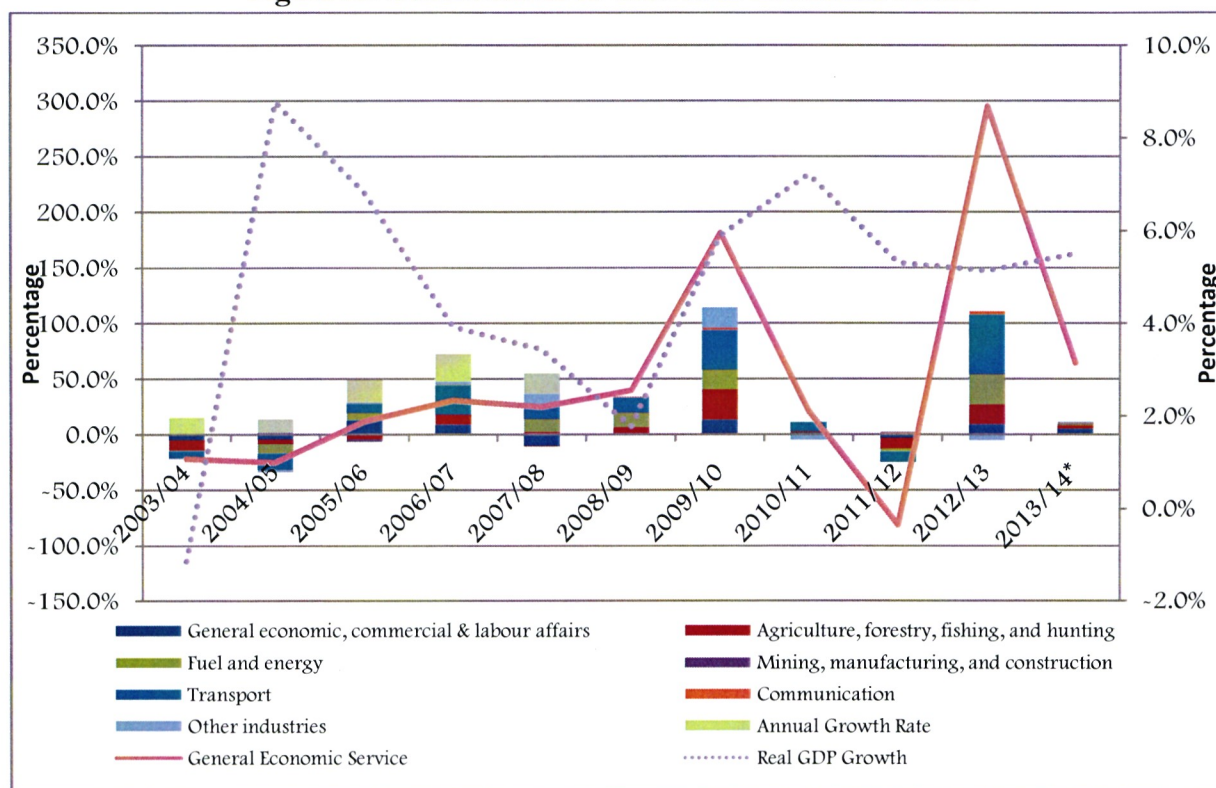
Table 10: Real Expenditure in Health

	Outpatient services	Hospital services	Public health services	Health expenditure not elsewhere classified	TOTAL OUTLAYS
2002/03	2,544	12,179	1,042	1,477	17,241.75
2003/04	2,167	6,926	662	686	10,441.30
2004/05	1,980	6,793	1,190	910	10,872.59
2005/06	2,442	8,375	1,438	1,264	13,519.01
2006/07	2,728	10,332	2,209	1,264	16,533.26
2007/08	2,357	9,457	2,222	1,395	15,430.70
2008/09	1,233	12,098	2,813	1,453	17,597.20
2009/10	7,987	24,094	3,362	1,909	37,353.23
2010/11	10,273	16,521	4,390	7,463	38,646.10
2011/12	10,173	16,319	7,438	4,194	38,124.16
2012/13	14,162	35,507	16,950	2,853	69,472.56
2013/14*	6,974	22,522	11,157	3,608	44,260.34
Contribution to Real Expenditure					
2003/04	-2.2%	-30.5%	-2.2%	-4.6%	-39.4%
2004/05	-1.8%	-1.3%	5.1%	2.1%	4.1%
2005/06	4.2%	14.5%	2.3%	3.3%	24.3%
2006/07	2.1%	14.5%	5.7%	0.0%	22.3%
2007/08	-2.2%	-5.3%	0.1%	0.8%	-6.7%
2008/09	-7.3%	17.1%	3.8%	0.4%	14.0%
2009/10	38.4%	68.2%	3.1%	2.6%	112.3%
2010/11	6.1%	-20.3%	2.7%	14.9%	3.5%
2011/12	-0.3%	-0.5%	7.9%	-8.5%	-1.4%
2012/13	10.5%	50.3%	24.9%	-3.5%	82.2%
2013/14*	-10.3%	-18.7%	-8.3%	1.1%	-36.3%

Source: KNBS

- ii. **Economic Affairs:** Government spending on general public services increased by 540 per cent, or 16.7 per cent annually, from 2002-03 to 2013-14, more than double GDP growth of 58 per cent, or 3.8 per cent annually. This was mainly driven by growth in fuel and energy, mining & construction, and transport. There have been noticeable year to year fluctuations over this period with increases in some areas offset by reductions in others, as shown in Figure 18 below.

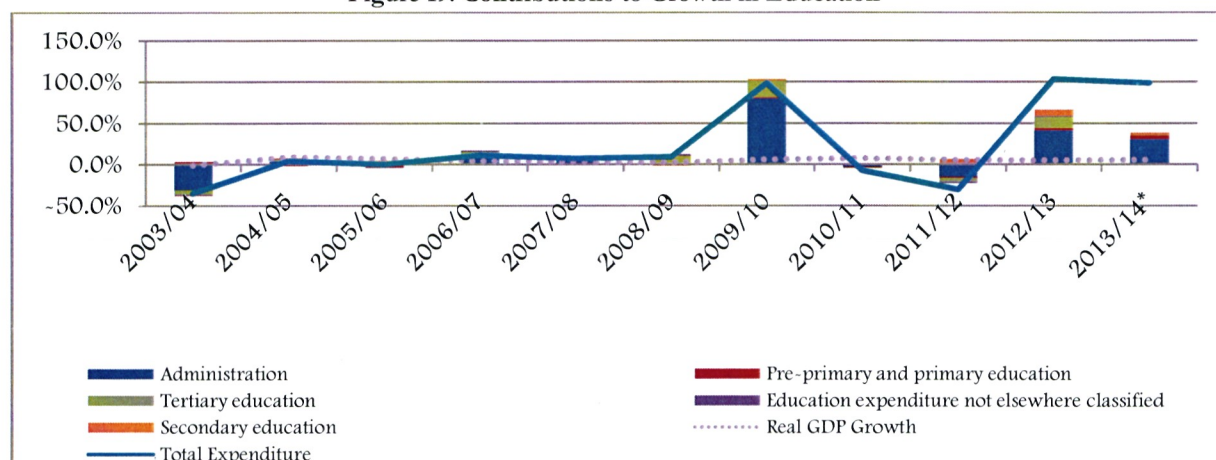
Figure 18: Contributions to Growth in Economic Affairs



Source: KNBS

iii. **Education:** Education spending grew by 257 per cent from 2002-03 to 2013-13, or 11.17 per cent annually compared with the growth in GDP over the same period of 57.9 per cent, or 3.8 per cent annually. Spending on education grew most significantly between 2009-10, 2012-13, and 2013-14.

Figure 19: Contributions to Growth in Education



Source: KNBS

IV. TRANSFORMING CAPITAL SPENDING INTO ASSETS FOR GROWTH

I. Introduction

- 93) Government provision of capital assets facilitates the long term economic growth of a country. The debate for increased allocation to capital spending is justified by the expectations of an asset being created. However, in the recent past, it has been established that the increase in capital spending may not necessarily lead to increase in the assets in the country. The reason for this is three pronged:
- i. large number of projects are always competing for scarce resources;
 - ii. sometimes there is a weak project appraisal and prioritization process; and
 - iii. often, there is inherent weak project management and monitoring systems.
- 94) The Government of Kenya has consistently increased the share of capital spending over the last ten years. Indeed, over the period 2002/03- 2014/15 the allocation towards development grew by 29 times in nominal terms. However, the rate of completion of projects has been very low. It is estimated that as of June 2015, there were more than 1,000 projects which were classified as ongoing. The estimated cost to complete these projects is estimated at Kshs.3 trillion. In a country where cost overruns in project implementation is inevitable it means the overall completion costs for these projects will be eventually be more than Kshs.3 trillion.

II. Review of the Current Project Portfolio in Kenya

Table 11: Current Project Portfolio in Kenya (Kshs. billions)

Sectors	Total Number	% Share	Estimated Cost (Kshs. billions)	Provisional Actual as of June 2015 (Kshs. Billions)
Economic	717	64%	2,315.79	1,021.35
Social	123	11%	184.75	39.21
Administration	275	25%	424.89	110.96
Grand Total	1,115	100%	2,925.44	1,171.52

Source: Various Sector Reports

- 95) Weak project management and prioritization process has contributed substantially to the increase of the number of projects in the budget. Indeed, the focus in budget decision for the sharing of capital resources is not guided by a clear process of screening projects for inclusion in the budget estimates. Often than not, the discussion for allocation of resources for a specific agency is guided more on the performance of the previous year in terms of disbursement, the annual drift limited, resource constraint and the national priorities.
- 96) In 1996, the Government introduced the Public Investment Programme (PIP). This was after a realization that the Completion rate of the projects was wanting, the large number of the stalled projects was an indication that the budget was not supporting development. The aim of PIP was to strengthen *the forward budget* by providing more comprehensive instrument for planning and prioritization of public expenditure. Indeed, there is enough evidence to point out that during this period, there was a thorough process of reviewing projects and programs

that were to be included in the budget. However, after the adoption of Medium Term Expenditure Framework (MTEF), this process seems to have been abandoned. In fact, the gains made under the PIP framework of budgeting did not form part of the building blocks for MTEF. Annex 2 shows some indicative resource gap of projects under the Vision 2030.

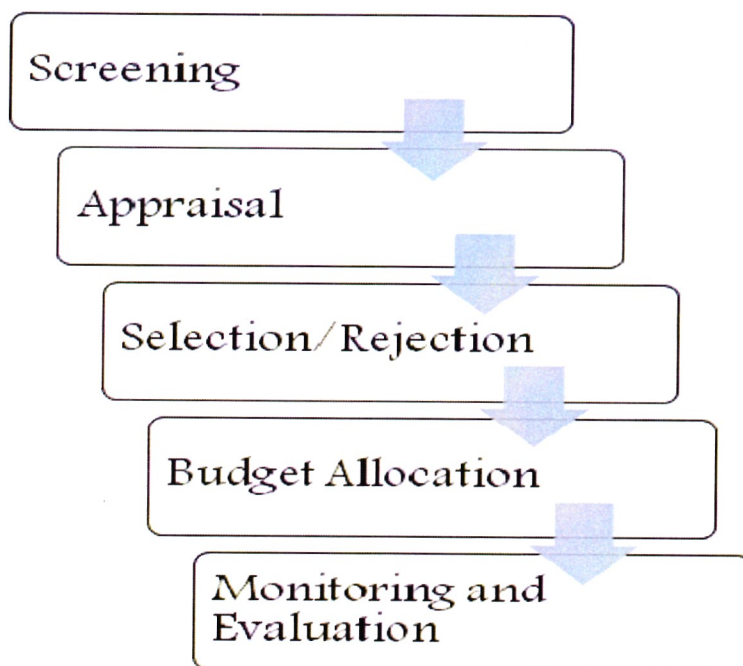
- 97) The sectoral reports of 2015 have included some data on- going projects. It will be important that the sharing of resources among competing agencies is informed by the status of these projects and the ability of the agencies to complete the ongoing projects on time. Thus, there must be proper guidelines that filters and screens projects for inclusion in the budget. The decision makers both at the Executive and the Legislature must demand for projects appraisals before a project is selected for inclusion in the budget for any given year. In addition, no project should be introduced after the sectoral review has been done i.e. either at the finalization of the Budget Policy Statement level at the legislature or the itemized budget. It therefore means the format of the Budget Policy Statement needs to change to include an annex of all the projects that are to be funded.

Table 12: On-going projects status for sampled roads

Project	Start Date	Estimated Completion Date	Status June 2015
i. Kakamega-Webuye Road	4/2013	3/2015	2.3%
ii. Mbila Case Ward Bridge	1/2013	9/2014	20%
iii. Keroka-Kibiriyo	10/2013	10/2015	0.34%
iv. Gorto Bridge	12/2014	6/2016	0%
v. Naromoru-Munyu-Karishen	9/2013	9/2016	13.3%
vi. Maga-Kemaru-Ambuku	3/2013	3/2015	28%
vii. Moi-North Lake Road	4/2014	4/2016	24%
viii. Riruta-Nunyu	6/2014	12/2015	20%
ix. Munyu-Gitugi-Njumbi	7/2012	2/2015	28%
x. Thogoto-Gikambura-Mutarakwa	10/2011	10/2013	12%

Source: Sector Reports 2015

- 98) In order to increase the completion rate of projects there is need to institute a process that ensures proper identification and selection. In addition, the allocation for all projects must be guided by the principle of creating assets. Indeed, all projects selected must be able to yield assets positively. The following steps are therefore proposed:



V. Sector Ceilings

- 99) The huge budget deficit in the national government's budget for 2015/16 Financial Year reflects the need for a reorientation and rationalization of budget ceilings for the various MDA's in 2016/17. Further, 2016/17 is a pre-election year therefore the budget will require a delicate fiscal balancing as both national and county governments are expected to step up their spending especially in infrastructure.
- 100) To achieve a realistic and sustainable budget, there is need to define criteria for setting sector ceiling to realize a credible Medium Term Expenditure Framework.
- 101) Below are the some insights of what the criteria should include;
- i. Review and rationalization of on-going projects, current review of the on-going projects indicate that there are over one thousand (1,000) on-going projects which are at different stages. It's important to note that some of the on-going projects are not allocated funds continuously due to limitation of funds. This has led to slow pace of the implementation of capital projects. Indeed the MDAs have recommended the need for completion of stalled projects and handing them over to the beneficiaries in 2016/17 budget.
 - ii. The National Treasury should table details for any new projects in the National Assembly. This is in line with the best practice in the region where the accounting officers provides costs and appraisal of the proposed project in the budget for a vote to receive a loan or a grant for a proposed project. The on-going amendment of the PFM Act, 2012 should also include the issue of tabling new projects by the National Treasury to National Assembly as a legal requirement.
 - iii. Vision 2030 is implemented through successive five year medium term plans (MTP). The MTP 2008-2012 realized mixed results with moderate growth average of 3.7% while the MTP aims at high growth reaching 10% in 2017/18. The priorities include infrastructure development to enhance competitiveness, irrigation and mechanized agriculture, poverty reduction, social protection, public financial management reforms among others. The

Government therefore intends to expand, develop and modernize roads, rail and ports among others that require a substantial amount of resources. An evaluation on the progress made in the implementation of Vision 2030 projects should be done to establish and inform budget on resources required to be invested on projects to be completed as scheduled.

- iv. The social protection programmes in Kenya are affected by some challenges that include: lack of mapping of intended beneficiaries; coordination; monitoring of activities; pilferage and leakage of resources; increased dependency and inadequate information on beneficiaries. The social protection programmes should be reduced with the aim of concentrating on those with high potential benefits and impact compared to costs.
 - v. The recurrent expenditure across all the MTEF sectors has been on an upward trend limiting the resources that can be used for investment. Administrative measures need to be taken such as introduction of travel wallets to reduce on wastages, cutting on non-essential services such as office hospitality.
- 102)** Taking into consideration the fiscal projections (Chapter Two) and the above expenditure framework, the projected medium term sector ceilings for 2016/17 – 2018/19 will deviate from that of the baseline projections. Most of the sector will witness a decrease in the proportion of their total allocation in 2016/17 and the medium term. However, some of the sectors that will witness a significant increase include Education; Governance Justice Law and Order sector; Public Administration and International Relations and National Security.
- 103)** The increase in proportion of funds to the education sector will largely be for recurrent expenditure with the target of improving the quality of education. The increment for the Governance Justice Law and Order sector will be for the Independent Elections and Boundaries Commission (IEBC) for preparation for the 2017 general elections. The preparation for the general elections will also necessitate the increase in allocation for internal security under the Public Administration and International Relations sector. Finally, the increased proportion of funds for the National Security will be for improving general security. The table below provides a comparison of the projected medium term sector ceilings with the business as usual and living within our means scenarios.

Table 13: Proposed Medium Term Sector Ceilings (as percentage of GDP)

	2015/16	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
	Business as Usual Projections				Living within our means projections		
Agriculture, Rural & Urban Development	1.1%	0.9%	0.9%	0.8%	0.7%	0.7%	0.7%
Energy, Infrastructure and ICT	5.8%	5.1%	4.8%	4.8%	4.3%	4.1%	4.1%
General Econ. & Commercial Affairs	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Health	0.8%	0.8%	0.8%	0.7%	0.7%	0.6%	0.6%
Education	4.8%	4.8%	4.6%	4.3%	4.2%	4.2%	4.2%
Governance, Justice, Law & Order	2.2%	2.1%	2.1%	2.2%	1.6%	1.6%	1.6%
Public Admin & International Relations	3.5%	3.3%	3.3%	3.3%	2.8%	2.7%	2.8%
National Security	1.6%	1.6%	1.5%	1.6%	1.4%	1.3%	1.3%
Social Prot., Culture & Recreation	0.5%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%
Environ Prot, Water & Nat. Resources	0.9%	1.1%	1.0%	0.9%	0.7%	0.7%	0.7%
Election Related Expenditure	0.0%	0.3%	0.4%	0.0%	0.2%	0.2%	0.0%
Nominal GDP	6,497.0	7,535.3	8,621.2	9,806.6	7,535.3	8,621.2	9,806.5

Source: PBO

Chapter FIVE

Righting the Devolution Vessel: Perspectives on County Budget options

“It was the best of times, it was the worst of times it was the season of light, it was the season of darkness.....” Charles Dickens, Tale of Two Cities.

a) Introduction

- 104)** The adoption of the new constitutional dispensation was a momentous occasion for Kenyans especially those at the local level. The creation of two levels of Government with complete powers of the purse vested in the local legislatures gave hope to Kenyans to begin a new journey of better and efficient delivery of services after all the constitution promised resources will follow functions. Critical functions had been assigned to the local level Government and the nationally raised resources were to be shared first vertically and then horizontally and equity was to be upheld.
- 105)** Through the budget process, substantial resources have been transferred to the county level to finance devolved functions mainly under health, agriculture and livestock, basic infrastructure and county Government administrative structures. Administrative structures and various pieces of legislations were enacted to actualize the devolution process.
- 106)** Although it is too soon to measure the impact of the new constitutional dispensation, there are significant gains made with regard to devolution, fostering development at local level, provision of services at the grassroots level, and creation of administrative and governance structures. However, there are issues regarding the alignment of policies with budget and issues of resource leakage. Indeed, evidence from the key oversight institutions¹¹ indicates that there are still challenges in particular as regards to management of county financial resources.
- 107)** Key challenges include:
- (a) heightened expectations by the public at the local level in delivery of services as a result, in an effort to deliver, several procedures are not followed;
 - (b) untimely and unpredictable approved transfers, and slow flow of funds between county entities;
 - (c) past commitments due to uncompleted projects and programmes;
 - (d) misappropriation and misallocation of available resources;
 - (e) lack of linkages between key planning documents (including cases of where some counties operated without approved County Integrated Development Plan (CIDP) and Annual Development Plan) and budget estimates;
 - (f) weak county oversight mechanisms coupled with lack of transparency in so far as clear reporting is concerned; and
 - (g) lack of or inadequate technical capacity on public financial management at the county level.
- 108)** Overall, it is important to underscore that the national public finance structures have been in implementation for over fifty years and reforms have been instituted to customize them. The counties are still struggling to operationalize these rules.
- 109)** A keen look at the Controller of Budget Reports indicates that the recurrent Budgets of counties have been astronomically high in the last two fiscal years, giving preponderance to compensation and other benefits of county staff and operational maintenance. Indeed, a look at the components of development estimates for 22 counties show that during the first half of

¹¹ Auditor General and Controller of Budget

the FY 2014/15, the expenditure on development outlay ranged approximately between 6 percent and 28 percent¹². This has been a major inconsistency in view of the provisions of PFM Act 2012 on fiscal objectives and responsibilities, though it is quite observable that there has been salutary shift of average development outlay in the FY 2015/16 allocations.

- 110) Financial management system is a key element in the proper utilization and fiscal governance of county resources. Employment of financial systems, as is expected, allows efficiency in the capture of approved expenditure and processing of payments, further providing more impetus for accountability and boosting transparency by way of providing expenditure trails and credible system records. Despite teething challenges experienced so far in adopting the use of Integrated Financial Management Information System (IFMIS), all counties employ at least the critical functions of budgeting and implementation (Plan to Budget and General Ledger components) to facilitate fiscal management and effective decision making on resource prioritization, allocation and reallocation (or realignment in supplementary provisions).
- 111) However, gaps still exist in facilitating complete autonomous use of the IFMIS resource with the expectation that the national Government comes in at the level to offer essential technical support. Currently, system use is weighed down with intermittent connections that hamper county operations and independence.
- 112) Findings and observations by supreme audit and oversight institutions corroborate an overall scenario of precarious state of fiscal management and accountability, which in effect has over the same period triggered ameliorative policy and legislative interventions such as operationalization of financial management regulations and curbing excess recurrent provisions through set budget ceilings.
- 113) The Constitution gives a period of not more than three years from date of first elections during which the phasing of functions will be complete, unless for some reason a county cannot perform assigned functions.
- 114) Therefore, as counties embark on budgeting for 2016/17 and the medium term it is imperative that we relook at the principle approach of “one shoe fits all”. Instead, focus should be on reorienting expenditure to fit the unique needs of each of the counties against specific set goals to be achieved.

b) Sectoral allocation across Counties

I. Vertical allocation of resources

- 115) Allocations to counties so far reflect more than 15 percent of nationally raised revenue, in line with article 202 (1) (2) on equitable sharing of national revenue as well as article 203 (2) and (3). Total county transfers so far between the period 2013/14 to 2015/16 has been increasing, reflecting 11 percent growth in annual terms. County transfers and total county budgets - inclusive of own source revenue appropriations - for the current FY 2015/16 represents 4.45 percent and 5.59 percent of nominal GDP level¹³ of 2015/16.

¹² Controller of Budget Half year report 2015

¹³ National Treasury, 2015 BR0P

- 116) Equitable share increased from Kshs.190 billion in 2013/14 to Kshs.259.77 billion, in which when expressed as a percent of nominal GDP for the respective years is at 3.77 percent and 4.02 percent.
- 117) Table 14 provides county equitable share of national revenue and amounts of conditional transfers as well as total county budgets broken down into recurrent and development outlays, all expressed as percentage of nominal GDP.

Table 14: County transfers and total county budgets expressed as percentage of GDP

Item	Percentage of GDP		
	2013/14	2014/15	2015/16
Equitable share allocations	3.77%	3.98%	4.02%
Conditional allocation	0.46%	0.28%	0.42%
<i>Of which: level 5 hospitals</i>	0.07%	0.03%	0.06%
Total county share	4.23%	4.26%	4.45%
Total county budgets	5.34%	5.73%	5.59%
<i>Of which:</i>			
<i>Recurrent</i>	3.29%	3.18%	3.10%
<i>Development</i>	2.05%	2.54%	2.49%
Nominal GDP in Kshs. Billion	5,044	5,698	6,458

Source: Controller of Budget, Various reports

- 118) Moreover, apart from ordinary national revenue transfers from national governments, county budgets are also financed through grants and loans from development partners, locally generated funds raised through levies, fees and rates, and unspent funds due to lapsing of un-utilized approved expenditure.
- 119) On county own-revenue performance, combined collection, as an indicator of counties fiscal capacity to finance assigned functions, reflect an increase by 29 percent (Kshs.7.5 billion) in aggregate terms where the counties collected up from Kshs.26.3 billion to Kshs.33.8 in 2013/14 and 2014/15, respectively. Target for revenue collection with regards to the current fiscal year of 2015/16 is at 20 percent and 16 percent of total expected transfers and total county budgets¹⁴, respectively. This scenario means that with sustained reforms like automation and further incentivizing respective fiscal efforts the upshot in county revenue mobilization is potentially high.
- 120) In addition, review of total balance brought forward arising from low absorption and delayed transfers is still high considering the associated opportunity cost of holding county funds in operational accounts. The balance brought forward reduced from Kshs.41.1 billion in 2013/14 to Kshs.30.2 billion in 2015/16, which comparatively accounts for 11 percent of the current county equitable share of Kshs.259.77 billion.
- 121) The component of conditional loans and grants by Development Partners indicated Kshs.13.89 billion in 2014/15 compared to a lower allocation of Kshs.10.67 billion in the current FY 2015/16 mainly towards the health sector and road maintenance. Ordinarily, public

¹⁴ Controller of budget county reports, various

debt repayments and other national obligations form first charge expenditure items which in effect also inform the criteria employed when determining vertical division of national revenue between the national and county governments. The implications are also far reaching when county borrowings are to be taken into account.

II. Classification of Expenditure by Functions (COFOG)

- 122) Table 15 shows classification of county government's expenditure by functions (COFOG) for the fiscal years 2013/14 and 2014/15. The amounts for 2013/14 are based on actual expenditure while that of the FY 2014/15 is per the printed estimates¹⁵.
- 123) In aggregate terms, analysis of the 2013/14 reflect that actual spending stood at Kshs. 161.39 billion against total approved of Kshs.269.2 or 60 percent utilization. General Public Services spending, which comprises of expenditure by office of the governor and county executive services, County Assemblies and other general public services, accounted for 83.76 percent of total spending. This perhaps shows that during the first year of transition a huge spending went to compensating county personnel and other allowances.
- 124) The second highest component of actual expenditure went to economic affairs at 6.87 percent, in which share of Agriculture and Transport was 1.78 percent and 3.67 percent, respectively. Spending on health and education amounted to Kshs.8.49 billion and Kshs.1.22 billion translating to 5.26 percent and 0.76 percent, respectively.
- 125) In the FY 2014/15, there was a shift in resource allocation (see table 2) partly due to fiscal responsibility pressure to reorient devolved resources towards development outlays, which is a requirement of the PFM Act 2012 that at least 30 percent of resources go towards development activities. Estimates towards the function General Public Services was at 35.91 percent or Kshs. 108.74 billion. Despite an enhanced overall allocation in the same period, the allocation towards General Economic Services stood at Kshs.77.92 billion or 25.73 percent while amounts estimated to be spent on health was Kshs.58.64 billion (19 percent). The increase in health sector allocation is a step in the right direction.

¹⁵ Economic survey 2015

Table 15: Classification of Expenditure by Functions of County Government(COFOG), (Kshs.s. million).

	2013/14*	Percentage share of 13/14	2014/15**	Percentage share of the 14/15 total allocation
General Public Services	135,187.04	83.76%	108,743.61	35.91%
Economic Affairs	11,086.63	6.87%	77,922.53	25.73%
<i>Of which:</i>				
<i>General Economic Affairs</i>	1,312.91	0.81%	811.30	0.27%
<i>Agriculture</i>	2,876.45	1.78%	23,277.85	7.69%
<i>Transport</i>	5,930.08	3.67%	40,231.59	13.29%
<i>Other economic Affairs</i>	967.19	0.60%	13,601.79	4.49%
Environmental Protection	873.72	0.54%	9,184.35	3.03%
Housing and Community Amenities	3,532.56	2.19%	18,121.89	5.98%
Health	8,492.22	5.26%	58,639.61	19.36%
Recreation, Culture and Religion	924.64	0.57%	3,515.80	1.16%
Education	1,228.71	0.76%	25,024.19	8.26%
Social Protection	71.95	0.04%	1,665.36	0.55%
Total	161,397.47	100%	302,817.34	100.00%

Source: Economic Survey 2015

* Actual Expenditure

** Printed Estimates

III. Poverty Dimension and Outlook

- 126) Projected poverty levels of households in different social economic categories, reflects marginal changes in the medium term. The percentage of poor households in the formal sector is estimated at 41.8 percent in 2015/16 compared to the public sector at 20.7 percent. However, households in the public sector are sliding into poverty at a faster rate, where in the medium term the proportion of poor households in the public sector is projected to be at 24.4 percent. This is mainly attributable to inflationary erosion on incomes reducing consumption and saving power. The poverty level for self-employed category that are in the agriculture sector is estimated at 36.5 percent with further marginal improvements expected within the medium term while the self-employed non-agriculture category is projected at 57.4 percent. The unemployed category mainly consisting of casual laborers and the unemployed who depend on day to day engagement is estimated at 66.6 percent making them the largest poor and vulnerable households.
- 127) On aggregate level, poverty levels are expected to reduce by a percentage point from the current 47.8 to 46.8 percent by 2018/19, meaning that if the current fiscal interventions and strategies are not reoriented it may most likely not impact the economic welfare and poverty profile among Kenyan households. Table 16 gives the projected breakdown.

Table 16: Proportion of poor households per social economic category

No.	Category	2013	2014	2015	2016	2017	2018
		2014	2015	2016	2017	2018	2019
1	Formal sector	40.8%	40.6%	41.8%	41.2%	40.8%	40.1%
2	Public sector	17.8%	18.4%	20.7%	22.7%	23.9%	24.4%
3	Self-employed agriculture	37.7%	36.9%	36.5%	35.9%	35.0%	34.0%
4	Self-employed non-agriculture	56.4%	56.3%	57.4%	56.8%	56.4%	56.1%
5	Other	65.8%	65.7%	66.6%	66.2%	65.8%	65.3%
TOTAL		47.0%	46.9%	47.8%	47.6%	47.3%	46.8%

PBO- Parliamentary Budget Office Model (PBOM)

128) In view of the poverty projections, therefore, resource flows for counties in the medium term should be goal oriented, such that subsequent allocations are based on key strategies that are geared towards poverty reduction and welfare enhancing.

a) Scenario for County Allocations in the Medium Term

129) The envisaged resource allocation to counties assumes 14 percent growth under equitable share and maintains modest allocation through other conditional grant including loans and grants. Traditional conditional grants assume a factor of 10 percent growth to adjust for inflation and cost overruns. The details are provided in the table below.

Table 17: County Allocations in the Medium Term

Items	As a Percent of GDP			
	2015/16 (Base year)	2016/17	2017/18	2018/19
Total	4.42%	4.63%	5.13%	5.51%
Equitable share (revenue growth factor of 14 % after base year)	4.00%	3.93%	3.92%	3.92%
Conditional allocation	0.42%	0.70%	1.21%	1.59%
<i>Of which:</i>				
<i>Free maternal Health care</i>	0.07%	0.06%	0.06%	0.06%
<i>Level 5 hospitals</i>	0.06%	0.05%	0.05%	0.05%
<i>compensation for user fees forgone</i>	0.01%	0.01%	0.01%	0.01%
<i>fuel levy (15 percent of 2014/5 actual - baseline)</i>	0.05%	0.05%	0.05%	0.05%
<i>leasing of medical equipment</i>	0.07%	0.06%	0.05%	0.05%
<i>other conditionals including loans and grants to target roads, water management and infrastructure, exploiting tourism potential, agriculture and livestock</i>	0.16%	0.46%	0.99%	1.38%
<i>Nominal GDP in Kshs.s. billion</i>	6497.0	7535.3	8621.2	9806.5

Source: PBO

IV. County Policy Options for 2016/17 and the Medium term

130) The following are the specific policy options:

Issue	Policy Option
1) The counties have been on transition for some time; however, allocative decisions are not adequately aligned to the needs of the people as provided for in the County Fiscal Strategy Papers as well as the national agenda.	For 2016/17, all county budgets should focus on the following: <ul style="list-style-type: none"> On-going development programs especially capital spending; New programs that will increase the wealth of the county; and Allocation to basic social services.

- | | |
|--|--|
| <p>2) In view of the mandate of the Transition Authority and the milestone achieved so far, much more work need to be done in transferring remaining functions to counties. Remaining work relate to unbundling and analyses on the actual cost of functions that are stipulated to be devolved but still at the national level. Estimates of both governments reflect duplication in resource allocation as well as overlaps in implementation. Indeed, Transition Authority avers the need to unbundle and cost functions across the national institution and parastatals.</p> | <ul style="list-style-type: none"> • There is urgent need for unbundling and costing of remaining functions with a view to ensure clarity in funding at either level. This is aimed at resourcing functions adequately and eliminating unnecessary duplication, while addressing constitutional provisions. |
| <p>3) Beyond the equitable share, there has been little support to key functions in form of conditional grants. In addition, national Government has also been borrowing to finance budget deficit. Contracting more debt potentially shrinks the fiscal space, so is less flexibility in the amount available between the two levels of Government (vertical sharing) in future.</p> | <ul style="list-style-type: none"> • As counties get traction to reorient and appropriate equitable share in favor of more development outlays, focus to vote more conditional allocations including loans and grants in support of specific interventions is key in fast tracking devolution goals. • In addition to health and roads, where conditional allocation are targeted, other areas with much potential like tourism and agriculture may be considered |
| <p>4) As the equitable share to counties is likely to increase, the imperative to ensure predictable flow of resource to counties during the fiscal year cannot be gainsaid. The current cash flow plans as one of the key senate annual resolutions after having prepared by the National Treasury is to actualize seamless inter-governmental fiscal transfers that recognizes county needs to implement their programmed activities and non-discretionary expenditures without undue delays. Based on the experiences of the past fiscal years, delayed releases and disbursement coupled with imprudent cash management on the part of the counties, uptake of budgeted resources is below voted provisions while there is increase in pending bills and borrowings to assuage short term financing pressures.</p> | <ul style="list-style-type: none"> • While a re-look at the disbursement schedule is paramount, National Treasury must maintain fidelity to the agreed disbursement. In addition, there is need to create more efficiency in transfers, linked to respective county cash flow plans. This is broadly in line with Article 219 of the Constitution which requires that national share of revenue shall be transferred to the County without undue delay. |
| <p>5) Consistency between approved development plans and annual county budgets is important for counties to realize development objectives while minimizing supplementary provisions that sometimes negate the strategic provisions of approved budget and county financial objectives. With the ceiling measures introduced to limit excess recurrent provisions both at the level of the Assembly and Executive, budget execution must be on track as approved, with minimal reallocation to align obtaining realities to budget provisions.</p> | <ul style="list-style-type: none"> • Enhance oversight measures to reign on substantial deviations such as putting in place internal audit arrangements and submission of quarterly report to county assemblies. These measures as well boost fiscal accountability, transparency and reporting. To this end, all counties must implement the newly gazetted PFM regulations. |
| <p>6) The implementation of key national flagship projects that have high impact on county performance and economy often register long lead time and suffer from frequent stoppages. Infrastructure programmes projects in ICT, energy transmission networks and connectivity, roads and capacity building programs are some of the enabling interventions that will boost much needed</p> | <ul style="list-style-type: none"> • National programmes and projects such as the National Optic Fiber Backbone Infrastructure (with only 28 counties connected so far as by FY 2014/15), electricity access and connectivity and county financial management programmes under the national budget are critical interventions that must be fast tracked and completed without further delay. • In addition to creating conducive business environment and attracting private sector investment at the counties, the fiscal |

<p>leverage, efficiency dividend and other multiplier effect arising out of private sector investment in the counties.</p>	<p>capacity and competitiveness of the counties will also improve.</p>
<p>7) Own county revenue collections increased by Kshs.s 7.5 billion in the period between FY 2013/14 and 2014/15 where total amount was Kshs.s 26.29 billion and Kshs.s 33.85 billion, respectively. Though below aggregate budget targets, this is key indicative and catalytic measure towards developing county fiscal capacity towards resourcing assigned functions. Indeed, analysis review for 2014/15 revenue targets against actual indicate only 8 counties surpassed their target with a range of between 100.1 percent and 204 percent, 21 counties posted revenue performance of between 50 percent and 97 percent and 16 counties indicated revenue collection of between 18 percent and 49 percent. These varying growth levels in revenue collections and differential outcomes reflect respective county priorities in revenue reforms and legislation.</p>	<ul style="list-style-type: none"> • To further exploit respective county revenue potential and develop county fiscal capacity, there is need for concrete strategies towards revenue collection and mobilization as well as management and utilization. • Counties may innovatively seek partnerships and collaboration with KRA while building capacity on the same. Going forward, considering counties are at the tail-end of the transition period, fiscal incentives like the 2 percent currently assigned under the county equitable sharing framework should be based on respective county effort. Favourable and predictable county legislation on taxes and levies, low administrative costs and high compliance rate are some of the other possible criteria to be used.
<p>8) Despite progress in the use of financial management system and operationalization of financial autonomy between county entities (County Assembly and Executive), review of county budget performance with respect to formulation, execution and fiduciary oversight still reflect weak fiscal governance and indiscipline. Most counties itemized budget are not properly linked with the programme based budget framework potentially eroding budget credibility and leading to budget inconsistencies. Roll out of e-procurement across the counties is a huge step in addressing procurement challenges and value for money concerns.</p>	<ul style="list-style-type: none"> • To further improve budget efficiency and output, full implementation of IFMIS components on budgeting and planning, accounts and procurement as well as financial reporting and revenue functionalities and its various modules should be fast – tracked with clear agreed timelines. • Address challenges associated with inconveniencing downtime and facilitate connections to critical users outside county headquarters. • County use of e-procurement is critical to budget implementation and performance and should be rolled out in a manner taking into account unique county profiles and characterization such as the level of infrastructural connectivity, capacity among county end users and intra-county geographical and administrative bottlenecks. • Look at the structural and capacity challenges obtaining at the county level without impeding budget performance
<p>9) The first generation formula with a total of five parameters, namely, population (45%), Basic Equal Share (25%), Poverty (20%), Land Area (8%) and Fiscal Responsibility (2%) currently forms the basis of horizontal equitable sharing and allocation among the 47 county governments, with considerations to determine the second generation revenue sharing framework ongoing. The review is informed by the end of the first among the two three-year interval period provided as transitional imperative after which a resolution on inter-county revenue sharing plan will be determined once after every five years. The new resolution is expected to form the basis for equitable sharing among counties for the next fiscal year up to the period 2017/18.</p>	<ul style="list-style-type: none"> • On account of the poverty dimensions as one area to gauge the efficacies of devolved governance, it is important that the framework containing the key parameters for sharing revenue among the counties is premised on evidence based interventions. • Need for current data is critical to identifying county needs such that resource transfers are directed to facilitate the attainment of specific and measurable goals by way of output and outcome indicators as opposed to a framework that risks facilitating peer resource ranking among counties. • Comprehensive costing of administrative functions and activities of each county should be a policy priority given that the parameter of the Basic Equal Share assumes similar cost structures.

Chapter Five:

Assessing the Global Sustainable Development Goals

I. Sustainable Development Goals

- 131)** Kenya is among the over 200 family of Nations that adopted the Sustainable Development Goals(SDGs) during the 70th Session of the United Nations General Assembly held in New York in 2015.
- 132)** The SDGs follow the Millennium Development Goals (MDGs) which were agreed by governments in 2001 as policy interventions to be addressed by member countries to address challenges facing the world in the 21st century. The SDG was an outcome of the Rio+20 summit in 2012, which mandated the creation of an open working group to come up with a draft agenda. The open working group, with representatives from 70 countries, had its first meeting in March 2013 and published its final draft, with its 17 suggestions, in July 2014. The draft was presented to the UN General Assembly in September 2014. Member state negotiations followed, and the final wording of the goals and targets, and the preamble and declaration that comes with them, were agreed in August 2015.
- 133)** As Kenya prepares to start implementing the SDGs, it is critical to evaluate the progress made in implementing the MDGs and lessons learnt applied in implementing the SDGs. To this end, table 1 below summarizes status report in implementing the MDGs by the end of 2015.

Table 18: Status Report in Implementing the MDGs by the End of 2015

MDG	Status	Comments
i. Eradicate extreme hunger and poverty	Not Achieved	<ul style="list-style-type: none"> Poverty increased in Kenya by 28.4 percent despite the growth registered over the period 2004-2014.(UNDP 2015 report) According to WFP, 1.5 million people still require food assistance in 2015
ii. Achieve Universal primary education	Partly Achieved	<ul style="list-style-type: none"> Enrollment increased from 5.8 million in 2001 10.2 million in 2014. High primary enrolments are bolstering youth literacy. Increase in enrolment but with no corresponding increase in facilities including teachers The transition rate has reduced from 76% in 2009 to 63% in 2013. This is attributed to cultural orientation of Kenya's communities
iii. Promote Gender Equality and Empower women	Not Achieved	<ul style="list-style-type: none"> Boys still outnumber girls in schools. By 2014, there were 5.2 million boys against 5 million girls in primary schools while 1.1 million boys against 976,600 girls in secondary schools. Uneven gains in the share of women in wage employment in the non-agricultural sector standing at 36% Women representation in national parliament is at 21%. This is an increase from 9.8% in 2010.
iv. Reduce Child Mortality	Achieved	<ul style="list-style-type: none"> Mortality reduced from 108 deaths in 2000 to 51 deaths in 2014 per 1000 live births. Infant mortality reduced from 70 in 2000 to 36 in 2015 per 1000 live births.
v. Improve maternal Health	Partly Achieved	<ul style="list-style-type: none"> Maternal mortality has reduced slightly from 759 in 2000 to 510 in 2015 per 100,000 women. Women using contraceptives however has increased from 27% in 1990 to 58% in 2014. 61.2% of deliveries are attended by skilled health personnel (Kenya Health Demographic survey)
vi. Combat HIV/AIDS, malaria and other diseases	Partly Achieved	<ul style="list-style-type: none"> Kenya's new HIV infections per 100 people aged between 15-49 years was at 9.9 per cent in 2000. However by the end of 2014, the prevalence was at 5.3% showing a decrease of 46 per cent in new infections. Life expectancy has increased from 55 yrs. in 2000 to 62

MDG	Status	Comments
		years in 2013. There is however arise in lifestyle diseases.
vii. Ensure environmental sustainability	Not Achieved	<ul style="list-style-type: none"> Deforestation is rampant and carbon emission has stagnated. Kenya's carbon emission stood at 0.33 metric tons in 2000 compared to 0.30 metric tons in 2010. Kenya's forest area as a percentage of land area is at 7.1%. This is among the lowest in the world except for countries within the desert belts. Some challenges include Illegal encroachment, excision, charcoal burning, illegal cultivation, poaching of timber and frequent fire outbreaks among others
viii. Develop a global partnership for development	Not Achieved	<ul style="list-style-type: none"> Kenya's share in the global trade has also stagnated between 0.04 percent to 0.16 percent over the same period. Debt sustainability is a growing concern. ODA as a percentage of Gross National Income (GNI) was at 3.7% in 2000 compared to 5.9 % in 2013

II. Is Kenya ready to fully implement the Sustainable Development Goals (SDG's) by 2030?

134) As noted above, the SDGs are a new, universal set of goals, targets and indicators that UN member states will be expected to use to frame their agendas and political policies over the next 15 years. The 17 goals have 169 targets. It is estimated that it will require US\$7 trillion USD to implement all the goals globally. Arising out of the colossal resources required to implement the SDGs, it is proposed that Kenya implements the goals in phases of 5 medium term expenditure framework.

135) It is thus important that the Country prioritizes the 3 goals highlighted below that can be funded and be domesticated to suit the Kenya environment in the medium term expenditure framework period of 2016/17 – 2018/19.

i. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture

136) Hunger and poverty are very much connected terminologies. Any nation that is not capable if feeding its people is not worth to stand as a nation. In the implementation of the MDG's the country missed an opportunity to achieve this goal. Going forward, it is critical that we refocus on how well we can attain this goal through the following opportunities that are available which are:

- expansion of irrigation schemes through construction of dams and water pans, boreholes all over the country, proper harvesting and storage of rain water;
- through the re-engineering of the extension services in the country by re-training them and enhancing supervision;and
- developing a medium term food security policy in the country.

ii. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

137) Over the last decade, Kenya partly achieved the MDG on achieving of universal primary education as primary school enrollment increased from 5.8 million in 2001 to 10.2 million in 2014. However, this achievement has come with challenges related to the level of quality of education been offered in public primary schools due to constraints in facilities and human resource capacities. As the country transists to the SDGs there is need to address the shortcomings through investing in infrastructure facilities and reduce the teacher – student

ratio. Infact, statistics from various sources indicate that Kenya's public schools have an average of 50 students for every teacher thus extra teachers are needed to reach the United Nations globally recommended teacher-to-student ratio of one teacher to 35 students.

- 138) Additionally, the country needs to invest in curriculum review that will enhance and align the education system to the needs of the job market. Investing in technical tertiary education will be key in bridging this gap as it will help to impact learners with lifelong skills that suit the demand of the job market.

iii. Ensuring healthy lives and promoting wellbeing for all at all ages

- 139) Three of the MDG's related to the health sector. From the analysis in Table 1 on the status of implementation of MDGs in Kenya, it is clear that the Country partly achieved these goals. The 2010 Constitution devolved most of the health functions to County Governments. Both levels of Government should ensure that there is adequate funding for programmes aimed at achieving the goal targets. The Abuja Declaration commits Countries to allocate 15 percent of their total annual budgets to the health sector.
- 140) Table 16 below details the proposed policy interventions that need to be undertaken in the medium term as well as the resource estimates.

Table 19: Analysis of the three SDGs that Kenya needs to focus on in the Medium Term

SDG	PBO proposed policy interventions under the MTEF period 2016/17-2018/19	Proposed allocation in the MTEF period 2016/17-2018/19
i. Ensure healthy lives and promote wellbeing for all at all ages	<ul style="list-style-type: none"> The Government will have to increase the overall funding on health care and adopting measures to curb the loss of funds in the health sector. Roll out programmes to fight non communicable diseases such as cancer, diabetes, High Blood Pressure among others. Expand also immunization programmes, control of diarrheal diseases and acute respiratory infections, Nutrition, HIV/Aids and malaria to reduce child mortality 	<ul style="list-style-type: none"> Allocate resources progressively in the medium term up to 15% of the total budgetary allocation to attain the Abuja Declaration on Health.
ii. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	<ul style="list-style-type: none"> The following policy interventions will be required to achieve the targets as envisioned in the goals. Recruit more teachers to achieve the optimal pupil: teacher ratio of 40:1 in primary schools and teacher ratio of 35:1 in secondary schools instead of the current 53:1 in primary schools and 52:1 in secondary schools. Increase availability of textbooks to achieve a pupil: textbook ratio of 3:1 at lower primary and 2:1 in upper primary; Investing in Arid and Semi-Arid Lands to enable children in these areas, especially girls, to access quality education through mobile schools; Enhance provision of an all-inclusive education so as to accommodate children with special needs through modifying existing facilities as 	<ul style="list-style-type: none"> The Government has had an average allocation of Kshs.s 18 billion to implement free primary education. It is, therefore, proposed to allocate an extra Kshs.s 10 billion and Kshs.s 20 billion towards primary and secondary education every year from 2016/2017 and the medium term to implement the proposed policy interventions.

	<p>well as training of special education teachers;</p> <ul style="list-style-type: none"> • Expand secondary school spaces to enhance transition from primary to secondary from 63% to 99%. This will require increased public funding to secondary schools to cope with the expected increase in enrolments at secondary level; • Overhaul the education system by establishing more technical institutions and academies to accommodate special talents such as sports, music, drama 	
<p>iii. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture</p>	<ul style="list-style-type: none"> • Invest in functioning agricultural research and extension • Invest in agriculture infrastructure • Invest in agri-processing that enhances value addition of products i.e. for farmers, pastoralists and fishers. • Enhance agricultural marketing 	<ul style="list-style-type: none"> • Each level of Government to set at least 10% of their budgets in accordance with Maputo Declaration for: • re-training and adequately employing extension officers in each sub-county. • construction of dams in ASAL areas to harvest and store water. • setting up of value addition in all productive areas

Policy options

- 141)** From the above assessment, it is clear that substantial resources are required to kick start the process of successful implementation of the SDGs. In this regard, there is need to consider two policy options below:
- i. In the 2016/17 budget and the medium term, shifting of resources at both the National and County levels of Government is required to fund programmes and projects geared towards achieving the highlighted. Each level of Government should ear-mark/ ring fence at least 10 percent and 15 percent of its annual budgets (in line with the Maputo Declaration).
 - ii. In the 2016/17 budget and the medium term period, efforts should be rolled out to source for financial support to fund projects that are geared towards the attainment of the SDGs identified above.

Box 2: UN affiliated bodies' views and indicators on SDGs

According to UNESCO, for the post 2015 development agenda on education will be achieved through focusing on the learning outcomes and equity in education.

Kenya will therefore look into Percentage of children who achieve minimum proficiency standards in reading/mathematics at end of: (i) primary and (ii) lower secondary school ; Completion rate (primary, lower secondary, upper secondary ; Out-of-school rate (primary, lower secondary; Percentage of schools providing (i) basic drinking water; (ii) adequate sanitation; and (iii) adequate hygiene services ; Pupil-to-computer ratio by level ; Percentage of schools with adapted infrastructure and materials for people with disabilities ; Percentage of 15-year-old students showing proficiency in knowledge of environmental science and geoscience.

The World Health Organization as identified some of the indicators Kenya will look into while implementing the SDG on health. Some of the indicators will be life expectancy at birth, Maternal death per 100,000 live births, under five mortality per 1000 live births, HIV incidence rate per 100 adult person, TB incidence per 1000 person, Malaria incident cases per 1000 persons years, probability of dying of cardiovascular diseases, cancer, chronic respiratory diseases or diabetes.

According to Food and Agriculture Organization (FAO), the key challenge will be developing indicators that can be measured regularly and cost-effectively by all countries. FAO is working on two fronts: improving the statistical measures for hunger, malnutrition, resilience and smallholder agriculture required for monitoring SDG 2; and strengthening the set of indicators that capture the sustainable use and management of natural resources for hunger and poverty eradication, across a number of other SDGs including 14 and 15.

According to World Health Organization, Kenya will have to strengthen mortality statistics systems that rely on multiple sources including death registration with reliable cause of death. In addition, the measurement of incidence rates (or proxies for incidence) and (effective) coverage of interventions, as well as financial protection will be critical. Household surveys with biological and clinical data collection will be critical, also to effectively measure inequalities in the population. Timely, reliable and accurate health facility data can complement household survey data.

If the overarching indicator for monitoring the health goal in the SDGs is healthy life expectancy to capture both mortality and decrements in health status of the population, an agenda will need to be developed to ensure comparability of measures of functioning in national population health surveys. A core set of these items that would allow for comparability within countries over time and sub-groups as well as across countries that can be incorporated within national data generation exercises would be essential. This would then enable the combining of this information with mortality data to monitor healthy life expectancy.

According to the World Trade Organization, the proliferation of Regional Trade Agreements is likely to reduce the exports of Sub-Saharan African countries, Kenya inclusive as a result of stiff competition from developed countries. This will have serious impact on the usefulness of the target of SDG 17 which calls timely implementation of duty-free, quota-free market access even if the target is achieved. This calls for additional action by the international community if the aim is to provide Kenya and other developing countries with significantly improved exporting opportunities.

The number of proposed SDGs and targets will present a formidable challenge to many countries including Kenya. For the indicator framework to be manageable (economically), the number of indicators at international level should be kept to a minimum. The core set of indicators should directly measure the target's intended outcome. They also have to be universal, meaning all countries need to report on them.

Given that we seem to be moving towards a development agenda that will have a considerably wider scope than the MDGs, not everything will be measured by core indicators. It may be not possible to do so. A separate list of supplementary indicators is likely to measure processes and means of implementation. It may be that Kenya will be able to choose which of these they want to put their money into.

Table 20: International commitments on Goals

No.	SDG	Proposed indicators	International Commitments/Standards
1	End poverty in all its forms everywhere	<ul style="list-style-type: none"> • Proportion of population covered by national social protection programs. • Percentage of eligible population covered by national social protection programs • Total fertility rate • Kenya's Vision 2030 calls for a GDP growth of 10% per annum. 	The World Bank delineates population with earnings of less than \$1.25 as population living in poverty.
2	End hunger, achieve food security and improved nutrition, and promote sustainable agriculture	<ul style="list-style-type: none"> • Crop yield gap (actual yield as a percentage of attainable yield) • Number of Agricultural extension workers per 1,000 farmers • Proportion of population below minimum level of dietary energy consumption • Percentage of women of reproductive age with anemia • Percentage of infants who are exclusively breastfed. 	Kenya is a signatory to the Maputo Declaration which calls for allocation of at least 10 percent of national budgetary resources to agriculture and rural development
3	Ensure healthy lives and promote wellbeing for all at all ages	<ul style="list-style-type: none"> • Life expectancy at birth. • Maternal death per 100,000 live births. • Under five mortality per 1000 live births. • HIV incidence rate per 100 adult person. • TB incidence per 1000 person. • Malaria incident cases per 1000 person's years probability of dying of cardiovascular diseases such as cancer, chronic respiratory diseases or diabetes. 	The Abuja declaration by the World Health Organization calls for allocation 15% of the budgetary resources towards Health.
4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	<ul style="list-style-type: none"> • Percentage of children who achieve minimum proficiency standards in reading/mathematics at end of Primary and Secondary • Completion rate (primary and secondary) • Out-of-school rate (primary and secondary) • Percentage of schools providing (i) basic drinking water; (ii) adequate sanitation; and (iii) adequate hygiene services ; • Pupil-to-computer ratio by level ; Percentage of schools with adapted infrastructure and materials for people with disabilities ; • Percentage of 15-year-old students showing proficiency in knowledge of environmental science and geoscience 	The United Nations recommends a teacher to pupil ratio of 1:40 for primary education and 1:35 for secondary education.
6	Ensure availability and sustainable management of water and sanitation for all	<ul style="list-style-type: none"> • Percentage of population using safely managed water services • Percentage of population using safely managed sanitation services by urban/rural 	
17	Strengthen the means of implementation and revitalize the global partnership for sustainable development.	<ul style="list-style-type: none"> • Domestic Revenue allocated to sustainable development as a percentage of GNI per sector. • Official Development Assistance and net private grants as a percentage of GNI 	

ANNEXES

ANNEX 1: SUSTAINABLE DEVELOPMENT GOALS

No.	Goal	Targets	Time Frame
I.	End poverty in all its forms everywhere	Eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day 1.2	2030
		Reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions	2030
		Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable	2030
		Ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of 13 property, inheritance, natural resources, appropriate new technology and financial services, including microfinance	2030
		Build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters	2030
		Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions	2030
		Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions.	2030
II.	End hunger, achieve food security and improved nutrition and promote sustainable agriculture	End hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round.	2030
		End all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons	2030
		Double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment	2030
		Ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.	2020
		Maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species, including through soundly managed and diversified seed and plant banks at the national, regional	2030

No.	Goal	Targets	Time Frame
		and international levels, and promote access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge, as internationally agreed	
		Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries	2030
		Adopt measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility	2030
		Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round.	2030
III.	Ensure healthy lives and promote wellbeing for all at all ages	Reduce the global maternal mortality ratio to less than 70 per 100,000 live births	2030
		End preventable deaths of newborns and children under 5 years of age, with all countries aiming to reduce neonatal mortality to at least as low as 12 per 1,000 live births and under-5 mortality to at least as low as 25 per 1,000 live births	2030
		end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases	2030
		reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being	2030
		Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol	2030
		Halve the number of global deaths and injuries from road traffic accidents.	2020
		Ensure universal access to sexual and reproductive health-care services, including for family planning, information and education, and the integration of reproductive health into national strategies and programmes	2030
		Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all	2030
		Substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination	2030
		Strengthen the implementation of the World Health Organization Framework Convention on Tobacco Control in all countries, as appropriate	2030
		Support the research and development of vaccines and medicines for the communicable and non-communicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health, which affirms the right of	2030

No.	Goal	Targets	Time Frame
		developing countries to use to the full the provisions in the Agreement on Trade Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health, and, in particular, provide access to medicines for all	
		Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least developed countries and small island developing States	2030
		Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks.	2030
IV.	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and Goal-4 effective learning outcomes	2030
		Ensure that all girls and boys have access to quality early childhood development, care and preprimary education so that they are ready for primary education	2030
		Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university	2030
		Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship	2030
		Eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations	2030
		Ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy	2030
		Ensure that all learners acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and of culture's contribution to sustainable development	2030
		Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, nonviolent, inclusive and effective learning environments for all	2030
		Substantially expand globally the number of scholarships available to developing countries, in particular least developed countries, small island developing States and African countries, for enrolment in higher education, including vocational training and information and communications technology, technical, engineering and scientific programmes, in developed countries and other developing countries	2020
		Substantially increase the supply of qualified teachers, including through international cooperation for teacher training in developing countries, especially least developed countries and small island developing states	2030
V.	Achieve gender equality and empower all women and girls	End all forms of discrimination against all women and girls everywhere	2030
		Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation	2030

No.	Goal	Targets	Time Frame
		Eliminate all harmful practices, such as child, early and forced marriage and female genital mutilation	2030
		Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate	2030
		Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life	2030
		Ensure universal access to sexual and reproductive health and reproductive rights as agreed in accordance with the Programme of Action of the International Conference on Population and Development and the Beijing Platform for Action and the outcome documents of their review conferences	2030
		Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws	2030
		Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women	2030
		Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels	2030
VI.	Ensure availability and sustainable management of water and sanitation for all	Achieve universal and equitable access to safe and affordable drinking water for all	2030
		Achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations	2030
		Improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally	2030
		Substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity	2030
		Implement integrated water resources management at all levels, including through transboundary cooperation as appropriate	2030
		Protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes	2020
		Expand international cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programmes, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies	2030
		Support and strengthen the participation of local communities in improving water and sanitation management	2030
VII.	Ensure access to	Ensure universal access to affordable, reliable and modern energy services	2030

No.	Goal	Targets	Time Frame
	affordable, reliable, sustainable and modern energy for all	Increase substantially the share of renewable energy in the global energy mix	2030
		Double the global rate of improvement in energy efficiency	2030
		Enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology	2030
		Expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programmes of support	2030
VIII.	Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all	Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries	2030
		Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors	2030
		Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services	2030
		Improve progressively, through 2030, global resource efficiency in consumption and production and endeavor to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead	2030
		Achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value	2030
		Substantially reduce the proportion of youth not in employment, education or training	2020
		Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms	2025
		Protect Labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment	2030
		Devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products	2030
		Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all	2030
		Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries	2030

No.	Goal	Targets	Time Frame
		Develop and operationalize a global strategy for youth employment and implement the Global Jobs Pact of the International Labor Organization	2020
IX.	Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation	Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all	2030
		Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries	2030
		Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets	2030
		upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities	2030
		Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending	2030
		Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States 18	2030
		Support domestic technology development, research and innovation in developing countries, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities	2030
		Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries	2020
X.	Reduce inequality within and among countries	Progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average	2030
		Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status	2030
		Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard	2030
		Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality	2030

No.	Goal	Targets	Time Frame
		Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations	2030
		Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions	2030
		Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies	2030
		Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements	2030
		Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes	2030
		Reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent	2030
XI.	Make cities and human settlements inclusive, safe, resilient and sustainable	Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums	2030
		Provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons	2030
		Enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries	2030
		Strengthen efforts to protect and safeguard the world's cultural and natural heritage	2030
		Significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations	2030
		Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management	2030
		Provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities	2030
		Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning	2030
		Substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters, and develop and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015-2030,	2020

No.	Goal	Targets	Time Frame
		holistic disaster risk management at all levels	
		Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials	2030
XII.	Ensure sustainable consumption and production patterns	Implement framework of programmes on sustainable consumption and production, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries	2026
		achieve the sustainable management and efficient use of natural resources	2030
		halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses	2030
		achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment	2020
		Substantially reduce waste generation through prevention, reduction, recycling and reuse	2030
		Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle	2030
		Promote public procurement practices that are sustainable, in accordance with national policies and priorities	2030
		ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature	2030
		Support developing countries to strengthen their scientific and technological capacity to move towards more sustainable patterns of consumption and production	2030
		Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products	2030
		Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities	2030
XIII.	Take urgent action to combat climate change and its impacts (taking note of agreements made by the UNFCCC)	Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries	2030
		Integrate climate change measures into national policies, strategies and planning	2030
		Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	2030
		Implement the commitment undertaken by developed-country parties to the United Nations Framework	2020

No.	Goal	Targets	Time Frame
	forum)	Convention on Climate Change to a goal of mobilizing jointly \$100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible	
		Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities	2030
XIV.	Conserve and sustainably use the oceans, seas and marine resources for sustainable development	prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution	2025
		sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans	2020
		Minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels	2030
		effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics	2020
		Conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information	2020
		prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation	2020
		increase the economic benefits to Small Island developing States and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism	2030
		Increase scientific knowledge, develop research capacity and transfer marine technology, taking into account the Intergovernmental Oceanographic Commission Criteria and Guidelines on the Transfer of Marine Technology, in order to improve ocean health and to enhance the contribution of marine biodiversity to the development of developing countries, in particular small island developing States and least developed countries	2030
		Provide access for small-scale artisanal fishers to marine resources and markets	2030
		Enhance the conservation and sustainable use of oceans and their resources by implementing international law as reflected in UNCLOS, which provides the legal framework for the conservation and sustainable use of oceans	2030

No.	Goal	Targets	Time Frame
		and their resources, as recalled in paragraph 158 of The Future We Want	
XV.	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation, and halt biodiversity loss	ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements	2020
		Promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally	2020
		combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world	2030
		Ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development	2030
		Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species	2020
		Promote fair and equitable sharing of the benefits arising from the utilization of genetic resources and promote appropriate access to such resources, as internationally agreed	2030
		Take urgent action to end poaching and trafficking of protected species of flora and fauna and address both demand and supply of illegal wildlife products	2030
		introduce measures to prevent the introduction and significantly reduce the impact of invasive alien species on land and water ecosystems and control or eradicate the priority species	2020
		integrate ecosystem and biodiversity values into national and local planning, development processes, poverty reduction strategies and accounts	2020
		Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems	2030
		Mobilize significant resources from all sources and at all levels to finance sustainable forest management and provide adequate incentives to developing countries to advance such management, including for conservation and reforestation	2030
		Enhance global support for efforts to combat poaching and trafficking of protected species, including by increasing the capacity of local communities to pursue sustainable livelihood opportunities	2030
XVI.	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all	Significantly reduce all forms of violence and related death rates everywhere	2030
		End abuse, exploitation, trafficking and all forms of violence against and torture of children	2030
		Promote the rule of law at the national and international levels and ensure equal access to justice for all	2030
		By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime	2030

No.	Goal	Targets	Time Frame
	and build effective, accountable and inclusive institutions at all levels	Substantially reduce corruption and bribery in all their forms	2030
		Develop effective, accountable and transparent institutions at all levels	2030
		Ensure responsive, inclusive, participatory and representative decision-making at all level	2030
		Broaden and strengthen the participation of developing countries in the institutions of global governance	2030
		Provide legal identity for all, including birth registration	2030
		Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements	2030
		Strengthen relevant national institutions, including through international cooperation, for building capacity at all levels, in particular in developing countries, to prevent violence and combat terrorism and crime	2030
		Promote and enforce non-discriminatory laws and policies for sustainable development	2030
XVII.	Strengthen the means of implementation and revitalize the global partnership for sustainable development	Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection	2030
		Developed countries to implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of ODA/GNI to developing countries and 0.15 to 0.20 per cent of ODA/GNI to least developed countries ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries	2030
		Mobilize additional financial resources for developing countries from multiple sources	2030
		Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress	2030
		Adopt and implement investment promotion regimes for least developed countries	2030
		Enhance North-South, South-South and triangular regional and international cooperation on and access to science, technology and innovation and enhance knowledge sharing on mutually agreed terms, including through improved coordination among existing mechanisms, in particular at the United Nations level, and through a global technology facilitation mechanism	2030
		Promote the development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries on favorable terms, including on concessional and preferential terms, as mutually agreed	2030
		Fully operationalize the technology bank and science, technology and innovation capacity-building mechanism for least developed countries by 2017 and enhance the use of enabling technology, in particular information and communications technology	2030
		Enhance international support for implementing effective and targeted capacity-building in developing countries to support national plans to implement all the sustainable development goals, including through North-South,	2030

No.	Goal	Targets	Time Frame
		South-South and triangular cooperation	
		Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda	2030
		Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports	2020
		Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access	2030
		Enhance global macroeconomic stability, including through policy coordination and policy coherence	2030
		Enhance policy coherence for sustainable development	2030
		Respect each country's policy space and leadership to establish and implement policies for poverty eradication and sustainable development	2030
		Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries	2030
		Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships	2030
		Enhance capacity-building support to developing countries, including for least developed countries and small island developing States, to increase significantly the availability of high-quality, timely and reliable data disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts	2020
		Build on existing initiatives to develop measurements of progress on sustainable development that complement gross domestic product, and support statistical capacity-building in developing countries	2030

Annex 2: Some Vision 2030 Flagship Projects and their projected annual resource allocations compared to actual budget estimates in Kenya Shillings in Millions

Programmes / Projects	Indicative budget (Kshs.s. Millions)	MTP 2 Projections		Printed Estimates		Resource Gap	
		Total	2014/15	2015/16	2014/15	2015/16	2014/15
Mombasa – Malaba/ Kisumu Standard Gauge Railway	317,300	69,325	79,325	157,000	143,898	(87,675)	(64,573)
Increasing Electricity Generation Capacity and Access		679,152	591,086	58,088	76,731	621,064	514,355
Youth empowerment	66,653	12,639	13,790	15,055	17,055	(2,416)	(3,265)
Increase water availability in the country	280,007	58,905	62,725	14,820	8,953	44,085	53,772
Irrigated Agricultural Programmes	320,000	61,000	68,000	11,740	9,700	49,260	58,300
Security and Policing reform Initiative	395,352	84,955	83,557	5,900	10,332	79,055	73,225
Health care subsidies for social health protection.	244,320	29,633	45,675	2,600	3,010	27,033	42,665
Destination Marketing	18,350	3,400	3,600	1,720	1,742	1,680	1,858
Tier 1 Retail Markets	18,750	3,750	3,750	956	915	2,794	2,835
Modernization of Ferry services.	9,020	1,850	1,700	600	1,438	1,250	262
Special Economic Zones	4,500	1,300	1,000	559	-	741	1,000
Establishment of Konza Technology City	23,000	3,000	5,000	500	810	2,500	4,190
Establishment of Disease Free Zones	4,096	880	812	228	900	652	(88)
Development and upgrading of MSE infrastructure	7,050	1,410	1,410	27	-	1,383	1,410
Commuter Rails in Nairobi, Mombasa and Kisumu	82,851	17,179	14,634	-	-	17,179	14,634
Fertilizer cost reduction	31,500	10,000	10,000	-	-	10,000	10,000
Promote growth and development of MSEs	14,725	2,715	3,137			2,715	3,137

