

SECRET

PARLIAMENT
OF KENYA
LIBRARY



By the Vice-Chairperson
Standing Committee on
Finance, Commerce and
Budget.

16/02/2016

[Signature]

REPUBLIC OF KENYA

THE NATIONAL TREASURY



MEDIUM TERM

**BUDGET POLICY
STATEMENT**

SUSTAINING PROSPERITY IN A VOLATILE
GLOBAL ECONOMY

FEBRUARY 2016

SECRET

© Budget Policy Statement (BPS) 2016

To obtain copies of the document, please contact:

Public Relations Office
The National Treasury
Treasury Building
P. O. Box 30007-00100
NAIROBI, KENYA

Tel: +254-20-2252-299
Fax: +254-20-341-082

The document is also available on the website at: www.treasury.go.ke

SECRET

Foreword

The 2016 Budget Policy Statement (BPS) is prepared against a backdrop of sluggish and volatile global economy that may well remain with us for a while. Recent forecasts have seen global growth revised downwards and risks elevated. Despite these challenges, our economy has continued to grow respectably, buoyed by strong construction activity and easing international oil prices.

As a government we plan to sustain this growth while adapting to the volatile world situation. In this connection, we will continue to pursue our economic transformation agenda, which entails: (i) creating a conducive business environment for job creation; (ii) investing in sectoral transformation to ensure broad based and sustainable economic growth; (iii) investing in infrastructure in areas such as transport, logistics, energy and water; (iv) investing in quality and accessible health care services and quality education as well as strengthening the social safety net to reduce the burden on the households and promote shared and equitable growth; and (v) further consolidate gains made in devolution in order to provide better service delivery and enhanced economic development.

In addition to emphasising these commitments, this BPS outlines a fiscal framework that will ensure sustainable debt and improvement in expenditure management. In particular, we plan to gradually lower our fiscal deficit (by closing the gap between revenue and expenditure), over the medium term, while at the same time providing sufficient room to finance productive expenditure so as to sustain equitable growth.

In light of the above framework, the expenditure ceilings have been revised to reflect emerging realities. In addition, expenditures will be scrutinized carefully to ensure quality and alignment to the government economic agenda as outlined in the MTP and strategic interventions of national interest. Spending on infrastructure, education, health and social safety net and preparations for the elections remains a priority.

The government will continue to modernize the remaining tax legislations and undertake administrative reforms to raise additional revenues. Overall, we expect debt to remain sustainable as budget deficit declines gradually to below 4 percent of GDP in the medium term.

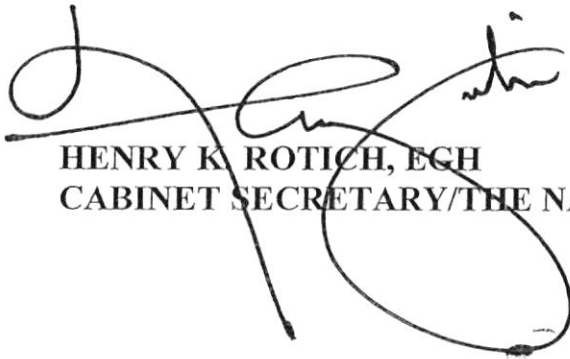
Going forward, implementation of strategic priorities will be monitored closely so as to realise the benefits that come with them sooner than later. Kenyans would like to see faster prosperity. Therefore, implementation of these priorities and working closely with the private sector will see us improve confidence, sustain growth, increase jobs and reduce poverty and inequality.

While finalising the Budget estimates for the FY 2016/17, the resolutions of the Fifth National and County Government Co-Ordinating Summit held in Sagana from 10th to 11th February 2016 that among others adopted a policy of austerity

SECRET

aimed at eliminating wastage particularly so as to release more resources from recurrent to development with be factored in by all organs of the National Government including Parliament and the Judiciary and all the County Governments.

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

A handwritten signature in black ink, appearing to read 'Henry K. Rotich', is written over the typed name and title. The signature is fluid and cursive, with a large loop at the end.

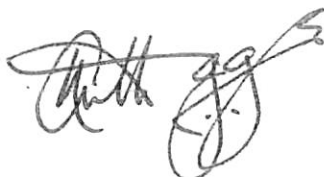
HENRY K. ROTICH, EGH
CABINET SECRETARY/THE NATIONAL TREASURY

Acknowledgement

This is the eighth Budget Policy Statement (BPS) to be tabled in Parliament and the fourth under the Public Finance Management Act, 2012. It outlines the broad strategic macroeconomic issues and medium term fiscal framework, together with a summary of Government spending plans, as a basis of the 2016/17 budget. We expect the document to improve the public's understanding of Kenya's public finances and guide public debate on economic and development matters.

As usual, the preparation of the 2016 BPS continues to be a collaborative effort. Much of the information in this report was obtained from the Ministries and other Government Departments and Agencies. We are grateful for their inputs. We are also grateful for the comments from the Macro Working Group and Public Sector Hearings of November 2015 on the 2016/17 Budget Review and Outlook Paper, 2015, which provided inputs to this 2016 BPS, in addition to comments from several other stakeholders.

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



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

Table of Contents

Foreword.....	3
Acknowledgement.....	5
Table of Contents	6
OVERVIEW.....	10
I. POLICIES TO SUSTAIN PROSPERITY IN A VOLATILE GLOBAL ECONOMY	11
1.1 Introduction	11
1.2 Sustaining Conducive Business Environment for Investment Opportunities.....	12
1.3 Continued spending in Infrastructure to Unlock Constraints to Growth	14
1.4 Sustaining Sectoral Spending for Employment Creation	17
1.5 Sustained Investment in Social Services for the Welfare of Kenyans.....	20
1.6 Enhancing Service Delivery through Devolution.....	25
1.7 Other Cross Cutting Structural Reforms.....	26
II. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM TERM OUTLOOK.....	32
2.1 Overview of Recent Economic Developments.....	32
2.2 Fiscal Performance in FY 2015/16 and Emerging Challenges.....	38
2.3 FY 2015/16 Revised Estimates.....	39
2.4 Economic Policy Outlook.....	41
2.4.1 External Environment.....	41
2.4.2 Kenya's Macroeconomic Prospects.....	42
2.4.3 Risks to the Outlook	43
III. FISCAL POLICY OUTLOOK.....	44
3.1 Fiscal Policy	44
3.2 Deficit Financing Policy.....	44
3.3 Outcomes of the Fifth National and County Government Co-Ordinating Summit	45
3.4 Adherence to Fiscal Responsibility Principles	45
IV. FY 2016/17 BUDGET AND THE MEDIUM TERM	49
4.1 Budgetary Allocations for the FY 2016/17 - 2018/19 MTEF.....	50
4.2 Details of Sector Priorities.....	54
4.3 Public Participation/Involvement of Stakeholders	60
V. COUNTY FINANCIAL MANAGEMENT AND DIVISION OF REVENUE	61
5.1 Introduction	61
5.2 Cash Disbursement to County Governments.....	63
5.3 Enhancing County Governments' Own-Source Revenue.....	64
5.4 Ensuring Compliance with the Fiscal Responsibility Principles	65
5.5 Completing Transfer of Functions and Budgeting	67
5.6 Division of Revenue between the National and the County Governments.....	67
5.7 Horizontal Allocation of Revenue among Counties	70
5.8 Improving the Performance of Additional Allocations to the Counties	72
5.9 Expanding Capacity Building for Devolved Service Delivery Systems.....	72
5.10 Summary	73

SECRET

ANNEX 1: STATEMENT OF SPECIFIC FISCAL RISKS.....	74
ANNEX 2: PUBLIC SECTOR HEARINGS.....	88
ANNEX TABLES.....	91
Annex Table 1: Main Macroeconomic Indicators, 2012/13-2018/19.....	91
Annex Table 2: Government Operations (in billions of Kenya Shillings.....	92
Annex Table 3: Government Operations, (in percent of GDP).....	93
Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million).94	
Annex Table 5: List of Active Public Private Partnership (PPP) Projects – Kenya	103

SECRET

Legal Basis for the Publication of the Budget Policy Statement

The Budget Policy Statement is published in accordance with Section 25 of the Public Finance Management Act, 2012. The law states that:

- 1) The National Treasury shall prepare and submit to Cabinet the Budget Policy Statement for approval.
- 2) The National Treasury shall submit the Budget Policy Statement approved in terms of subsection (1) to Parliament, by the 15th February in each year.
- 3) In preparing the Budget Policy Statement, the National Treasury shall set out the broad strategic priorities and policy goals that will guide the national government and the county governments in preparing their budgets both for the following financial year and over the medium term.
- 4) The National Treasury shall include in the Budget Policy Statement-
 - (a) an assessment of the current state of the economy and the financial outlook over the medium term, including macroeconomic forecasts;
 - (b) The financial outlook with respect to Government revenue, expenditures and borrowing for the next financial year and over the medium term;
 - (c) the proposed expenditure limits for the national government, including those of Parliament and the Judiciary and indicative transfers to county governments; and
 - (d) the fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt.
- 5) In preparing the Budget Policy Statement, the National Treasury shall seek and take into account the views of:-
 - (a) The Commission on Revenue Allocation;
 - (b) County governments;
 - (c) Controller of Budget;
 - (d) The Parliamentary Service Commission;
 - (e) The Judicial Service Commission;
 - (f) The Public; and
 - (g) Any other interested persons or groups
- 6) Regulations made under the PFM Act shall prescribe circumstances and the manner in which persons or groups may make written or oral representations about the contents of the statement.
- 7) Parliament shall, not later than 14 days after the BPS is submitted to Parliament, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments.
- 8) The Cabinet Secretary shall take into account resolutions passed by Parliament in finalizing the budget for the relevant financial year.
- 9) The National Treasury shall publish and publicize the Budget Policy Statement not later than 15 days after submission of the Statement to Parliament.

Fiscal Responsibility Principles for the National and County Governments

In line with the Constitution, the new Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM law (Section 15) states that:

- 1) Over the medium term, a minimum of 30 percent of the national and county budgets shall be allocated to development expenditure
- 2) The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations.
- 3) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly.
- 4) Over the medium term, the national and County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- 5) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament for the National Government and the county assemblies for the County Governments.
- 6) Fiscal risks shall be managed prudently; and
- 7) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

OVERVIEW

1. The 2016 Budget Policy Statement (BPS), the third to be prepared under the Jubilee Administration, continues to focus on the implementation of far reaching economic policies and structural reforms aimed at economic transformation and prosperity. As was the case in the previous two Budget Policy Statements, the policy in this 2016 BPS covers five thematic areas, namely: (i) creating a conducive business environment for job creation; (ii) investing in sectoral transformation to ensure broad based and sustainable economic growth, and in particular agricultural transformation to ensure food security, lower prices and employment; (iii) investing in infrastructure in areas such as transport, logistics, energy and water to encourage growth of competitive industries; (iv) investing in quality and accessible health care services as well as quality and relevant education and strengthening the social safety net; and (v) further consolidating gains made in devolution in order to provide better services and enhanced rural economic development.
2. The implementation of these programs under the above thematic areas is expected to raise productivity and economy-wide efficiency, thereby bolstering and sustaining high and inclusive growth. This will, in turn, create opportunities for productive jobs for Kenyans.
3. The 2016 BPS is framed against the backdrop of uneven and moderate global recovery. Global growth for 2015 is estimated at 3.1 percent, a slowdown from a growth of 3.4 percent in 2014, rising marginally 3.4 percent and 3.6 percent in 2016 and 2017, respectively. This projected pickup in growth is due to recovery in advanced economies. However, with the declining commodity prices, depreciating currencies in some emerging markets, and increasing financial market volatility, downside risks to the outlook have risen, particularly for emerging markets and developing economies.
4. These global developments have both direct and indirect effects on the economies of Africa. Growth in Sub-Saharan Africa is expected to slow down to 3.5 percent in 2015, from 5.0 percent in 2014. This is due mainly to declining commodity prices, particularly oil as well as lower demand from China (the largest single trade partner of Sub-Saharan Africa), and the tightening of global financial conditions for the region's frontier market economies. The economic growth for the region will pick up in 2016 to 4.0 percent and 4.7 percent in 2017.
5. On the domestic front, Kenya's economy remains strong, despite headwinds from the global economic slowdown. The economy grew by 5.3 percent in 2014, higher than average growth for SSA, and it is projected to expand by 5.6 percent in 2015, rising to 6.0 percent and 6.5 percent in 2016 and over the medium term, respectively. This level of growth is supported by continued investment in quality infrastructure, construction, mining, lower energy prices and improved agricultural productivity. Inflation is expected to remain within target over the medium term. Interest rates are expected to remain low and stable and the exchange rate competitive, underpinned by prudent fiscal management and appropriate monetary policy.

I. POLICIES TO SUSTAIN PROSPERITY IN A VOLATILE GLOBAL ECONOMY

1.1 Introduction

6. The policies set out in this 2016 BPS recognizes that Kenya's economy remains vulnerable to exogenous shocks, especially those originating from both domestic and external sources, particularly drought and other weather related shocks, international commodity prices and uncertain global economic and financial outlook. Furthermore, the policies contained herein will aim to entrench fiscal prudence, assure value for money and delivery of programs that will sustain economic prosperity for all Kenyans.

7. As was the case in the previous two Budget Policy Statements (BPS), the policy in this 2016 covers five thematic areas, namely: (i) creating a conducive business environment for job creation; (ii) investing in sectoral transformation to ensure broad based and sustainable economic growth (iii) investing in infrastructure in areas such as transport, logistics, energy and water to encourage growth of competitive industries; (iv) investing in quality and accessible health care services as well as quality and relevant education and strengthening the social safety net; and (v) further consolidating gains made in devolution in order to provide better services and enhanced rural economic development.

8. We have made tremendous achievements in most of the above areas. We have greatly improved the business environment for investment opportunities by safeguarding macroeconomic stability, enhanced security particularly police and military modernisation as well as provision of decent police houses. Further we have enhanced police mobility through leasing of over 2,400 vehicles and will be providing helicopters to enhance surveillance.

9. We have improved general infrastructure within the country particularly the on going construction of the Standard Gauge Railway that is 65 percent complete; improvement of major roads; enhanced generation of energy particularly geothermal; enhanced electricity connection; scaled up the street lighting programme.

10. On education, the Government increased capitation for free primary and free day secondary education while on health, the National Government has equipped public hospitals in various Counties with specialised medical equipment. To reduce the burden on households for the vulnerable and disadvantaged, the Government has provided cash transfers and will enhance allocations going forward.

11. On food security the Government has continued to modernise the agriculture sector and rolled out irrigation programmes across the country.

12. The continued implementation of programmes under the above five pillars will create a strong economic growth by raising overall productivity and efficiency in the economy, thereby bolstering and sustaining high and inclusive growth. The private sector remains the key driver for the economic transformation with the Government providing the facilitative role.

13. The prioritized programmes in this BPS will raise the economy towards upper middle income status and create vast opportunities for productive jobs for all Kenyans. Of the target one million jobs by Government, the economy generated 799,700 new jobs in 2014 up from 735,900 in 2013. These jobs were spread across the main sectors of the economy and offered by both the modern and informal sector.

1.2 Sustaining Conducive Business Environment for Investment Opportunities

14. As stated in the 2015 BPS, the objective of the reforms under this thematic area is to create conducive business environment by maintaining macroeconomic stability and improving security so as to encourage investment opportunities in the country.

1.2.1 Macroeconomic Stability for Sustained Growth and Development

15. Maintaining macroeconomic stability is a prerequisite for sustained and inclusive development. The broad objective of our macroeconomic policy is to contribute to economic and social well-being in an equitable and sustainable manner through employment generation, as well as providing fiscal space to address other critical social concerns. As such the Government will continue to pursue prudent fiscal and monetary policies that are supportive of accelerated inclusive growth and development.

16. Our fiscal policy strategy aims at a strong revenue effort and containing the growth of total expenditure, while shifting composition of expenditure from recurrent to capital expenditure and eliminating unproductive expenditures. In addition, further rationalization and alignment of programmes and resources to the priorities will be undertaken for the spending Agencies to deliver desired outcomes cheaply and efficiently.

17. Monetary policy will aim to maintain inflation rate within the 5 percent corridor, strengthen the international reserves position to over 4.5 months of import cover and to provide space for sustainable increase in credit to the private sector through stable interest rates and a competitive exchange rates to support productive activities.

18. As stated in the 2014 Budget Policy Statement, and to complement efforts to sustain macro stability, coordination between the National Treasury, the Central Bank of Kenya and the Kenya Revenue Authority will be strengthened in order to better harmonize fiscal and monetary policies. In this respect, there will be periodic meetings Chaired by the Cabinet Secretary, National Treasury and attended by the Governor of the Central Bank and Commissioner General of the Kenya Revenue Authority.

1.2.2 Enhancing Security for Sustained Growth and Employment

19. The Government recognizes the importance of security in sustaining economic growth of the economy and creating jobs for thousands of our unemployed youth. While good progress has been achieved towards reducing incidences of insecurity, more still needs to be done to assure both investors and Kenyan people of the safety and security of their investments and lives. The policy in this BPS focuses on reducing incidences of crime and insecurity throughout the country with a focus on investments for results in such areas as; modernization, enhanced security operations, especially of areas prone to crimes; building capacity for effective and faster investigation, better coordination among security agencies with stronger partnership with communities.

20. Significant achievements have been realised in this sector that include: construction of forensic laboratory, establishment of command and control centre, expansion of police training facilities, acquisition of vehicles and motorbikes, enhancement of Integrated Population Registration System (IPRS) connection to agencies and launch of e-passport. In addition, the government has improved police welfare through the provision of comprehensive life and medical insurance and construction of housing units, recruitment of more police officers hence improving on police-population ratio.

21. Despite the above achievements, there remains considerable scope in optimizing the pay-offs from current and planned enhanced investments. The Government will further invest to leverage on information, communication and Technology (ICT) through comprehensive mapping of crime and its incidences over time. This database would then be applied to facilitate improved planning, deployment of assets and performance management as it would be possible to understand why and how crime occurs. More critically, appropriately shared, this database would serve as a means through which strategic public communication efforts with mission critical stakeholders would be platformed.

22. In addition to the above, the following further reforms and modernization programs will be implemented over the medium term to enhance security in Kenya:

- Continued police welfare/ performance improvement through a comprehensive medical cover and housing;
- Continued investment in security infrastructure covering housing, offices, security installations, mobility through additional leasing of Police vehicles and training facilities;
- Expeditious delivery of Justice through 100 percent reduction of case backlog and recruitment of more judges and magistrates to improve on their ratios to population for effective delivery of justice that reduces crime as well as attracts investments to the country.
- Re-organize and strengthen the institutional capacity of the security agencies, especially in the key functions of; field operations, investigation, education and enforcement, as well as upholding of professional standards in the force.

- Undertake a comprehensive training program on modern personnel management and policing; and recruitment of professionals to help drive critical reforms in the security sector.

1.3 Continued spending in Infrastructure to Unlock Constraints to Growth

23. In order to unlock the constraints to growth, the Government will continue with the on-going public investments in road, rail, energy and water supplies.

1.3.1 Further Expanding Road Network

24. Much progress has been achieved in the implementation of road rehabilitation and construction programme and a number of key programmes in the road sector have been completed. To date, the Government has constructed 1,039.9km of new roads, rehabilitated 799km of roads, maintained 194,981km and 3,615.8km of roads under routine and periodic maintenance respectively. In addition, the design of 1,068km of roads and construction of 30 bridges has been completed. Other major projects include the Northern Corridor Transport Improvement Project (NCTIP), Decongestion of Cities and Urban Areas, improvement of roads in cities and Urban Areas, rehabilitation of Access roads and LAPSET project.

25. Over the medium term, the strategy is to develop the road transport in order to have an effective, efficient and secure road network, step up road transport safety and regulation that is aimed at developing and implementing road transport policies for an efficient, effective and safe transport system. The Government will continue to enhance road network connectivity across the country with the aim of enhancing trade, commerce, agricultural productivity and regional trade.

26. To this effect, the Government has earmarked to construct 3,800km of low volume seal roads across the length and breadth of the country to open up rural areas and farmlands.

27. In a bid to decongest major urban centres the Government will continue with the expansion of major roads in urban centres, such as the Outering road in Nairobi. To further decongest the City of Nairobi, the Government in partnership with the City County of Nairobi, will be fast tracking the realisation of the Nairobi Metropolitan Mass Rapid Transport System and implementation of the Nairobi Metropolitan Transport Authority Bill.

28. In order to boost regional trade, the Government will prioritize the construction of the East Africa Road Network (Voi-Mwatate-Wundanyi and Malindi-Mombasa-Lunga Lunga road sections), the construction of Kisumu-Kakamega road under the Kenya Transport Sector Support Programme and the construction of the 600Km South Sudan Link road.

29. Further, the Government will create an independent body to audit and certify construction and maintenance of our roads, beginning with the National Road Network.

1.3.2 Rail, Marine and Air Transport

Standard Gauge Railway

30. The Government is committed to accelerate the expansion of the railway transport, marine transport, air transport and exploration and distribution of oil and gas. The construction of the Standard Gauge Railway (SGR) from Mombasa to Nairobi is progressing well and is ahead of schedule with over 60 percent complete. It is expected to be completed around mid-2017, and will significantly reduce the cost of transport, facilitate faster and cheaper movement of freight and passengers, enhance competitiveness of the economy, reduce fossil fuel consumption hence conserving the environment. The Government is in the process of obtaining funding for extension of the Standard Gauge Railway (SGR) from Nairobi to Naivasha.

31. The Government will develop a better integrated transport planning to facilitate more cost effective connectivity. As part of this, the Government will implement a program to upgrade and modernize urban commuter mass transit system through Public Private Partnership so as to make transport affordable and faster for economic efficiency. New strategic railway lines will also be opened up in order to decongest urban traffic and ease urban public transport. In order to ensure that the local economy benefits from the railway, the government has put in place measures to entrench at least 40 percent local content in the construction and other auxiliary services.

Sea Ports

32. The Government has made good progress on reforms and modernization of the port of Mombasa, especially in expansion of the container terminals and cargo handling and storage, which has reduced significantly the time it takes to clear cargo. A framework has been developed to encourage private investments and participation in port expansion and port operations. The second container terminal is near completion and is expected to be operational in early 2016. These developments, together with the integration of the single window system with other related systems to facilitate faster, efficient and competitive clearance of cargo, will ultimately position the port of Mombasa as a preferred hub in Eastern and Central Africa. To complement these initiatives, the Government will upscale its investment in associated infrastructure facilities, including further dredging of the port and construction of the road networks around and out of the port.

33. In an effort to open up the prospects of Maritime Transport, the Government will develop a policy on leveraging on the blue economy.

Lamu Port and Southern Sudan-Ethiopia Transport

34. The Government has commenced the development of the first phase of the Lamu Port and Southern Sudan-Ethiopia Transport (LAPSSET) Corridor Project. Implementation of other infrastructure facilities covering railways, roads, and port operations, including construction of container terminal will commence in the course of the MTEF period under Public Private Partnership arrangements. With the on-going exploration for petroleum and gas, regional petroleum and oil potential and strategic location of the port of Mombasa and Lamu, the Government

will prioritize construction of a modern pipeline in partnership with the private sector.

Airports

35. In air transport, Kenya aims to entrench her position as undisputable regional aviation hub. Terminal 1A at JKIA is nearly complete while the screening yard and security toll gate at Jomo Kenyatta International Airport (JKIA) has been completed. The Government has rehabilitated five airstrips (Nanyuki, Ikanga, Lodwar, Embu and Malindi), expanded and modernized Isiolo and Kisumu airports. The Government will further scale up the on-going airports expansion and modernization, commission the new terminal 1E and commence work on the Second Runway for completion by end 2018.

1.3.3 Access to Adequate, Affordable and Reliable Energy Supply

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

37. In order to provide affordable and competitive electrical energy to transform Kenya's economy, the Government has programmed to generate additional 5,000 MW of power, mainly comprising of renewable geothermal, wind and coal, in partnership with private sector players, by end of 2017. Significant progress has already been attained in this endeavour with 615MW electricity added to the National grid and thus significantly reducing the cost of power.

38. To enhance exploitation of the vast geothermal resources that Kenya is endowed with, the Government will continue to fund the Geothermal Development Company (GDC) so as to manage the geothermal exploration risk and attract investors. Further, the Government will encourage investment in the geothermal subsector.

39. Kenya has an estimated hydropower potential of about 6,000MW comprising of large hydro (sites with capacity of more than 10MW) and small hydro. Of the large hydro, 807MW has been exploited and accounts for close to 50 percent of installed generation capacity as at 2014. Potential for small hydros is over 3,000MW, of which, less than 25MW has been developed.

40. Over the MTEF period, production of 987MW of energy from coal is expected to be generated from the Lamu Coal Power Project, 300MW expected from the Turkana Wind Project and an additional 300MW from coal in Kitui. Extensive coal exploration has taken place in the Mui Basin of Kitui County where a total of 76 wells have been drilled with 42 wells intercepting coal seams of various thicknesses at different depths. These resources are expected to provide about 2,000MW of electricity generation by 2017 and 4,500MW by 2030.

41. The coming on-stream of these additional power supplies at a much lower tariff, will significantly reduce cost of doing business, spur growth of enterprises

and industries, and accelerate the realization of the planned economic transformation agenda.

42. To complement these efforts and ensure no power losses are incurred through transmission and distribution, the Government, through Kenya Electricity Transmission Co. Ltd (KETRACO) and Kenya Power, has constructed 700Km of transmission lines and established three new energy centres. These investments will improve transmission and distribution capacities. The Government has also digitized metering and payment of electricity consumption so as to reduce by at least 80 percent both technical and commercial losses currently experienced in the system.

43. To sustain demand, Kenya Power has implemented a programme to connect at least 70 percent of Kenyan households to electricity by 2017 and subsequently reduce the connection cost and time by at least 60 percent in the medium term. Already 2.4 million households, 14,950 public primary schools and 980 public facilities have already been connected to electricity under this program.

44. At the same time and partly to conserve the environment and encourage value addition, the Government will facilitate the development of micro hydro power projects, particularly in irrigation schemes, rivers and streams for small and medium size enterprises and households. The Government will also rollout a program of green biomass digester bag technology in at least 100,000 households annually to facilitate access to healthier cooking and lighting methods and encourage production of organic fertilizer for enhanced agricultural productivity.

45. Further the Government will review the policy framework on solar to facilitate expansion of solar as a component of energy mix.

1.4 Sustaining Sectoral Spending for Employment Creation

1.4.1 Agricultural Transformation to Sustain Growth

46. Agriculture is one of the key sectors aimed at delivering the 10 per cent economic growth under Vision 2030. In addition, a majority of the Kenyan population live in rural areas and derive their livelihood from agriculture. Therefore, promoting substantial investments in agriculture is key to our economic transformation. Improving agricultural productivity and value addition would thus be an effective way to enhance food security, employment creation, income generation, industrialization and ultimately, economic transformation through stimulating growth of related sectors of the economy such as agro-processing; storage and transport; wholesale and retail; construction; financial services as well as export diversification and growth. This would also move us towards achieving the second Sustainable Development Goal (ending hunger) which aims at achieving food and nutrition security and promotion of sustainable agricultural development.

47. The government has over the years put in place policies, strategies and interventions to ensure sustainable food security in the country. During the 2012/13

- 2014/15 MTEF period, key achievements include: 439,396 MT of fertilizer subsidy; enhanced Strategic Grain Reserve (SGR); 6,000 acres of irrigation (Galana/Kulalu) developed; established and piloted livestock insurance scheme; and improved tilapia and catfish seed varieties developed among others.

48. The Government priority investments include: research and extension services; agro-ecological zoning and re-organization of farmers into viable cluster groups for economies of scale; establishment of Disease Free Zone facilities in Bachuma, Kurawa and Miritini; finalize the procurement of offshore patrol vessel (OPV); and establish a fertilizer manufacturing plant. This plant should be completed by September 2016.

49. The one million acre Galana/Kulalu Ranch Irrigation remains a priority economic transformation project, covering; production, harvesting and storage, agro-processing, packaging and distribution and marketing – creating at least 2 million jobs along the agriculture supply chains. Good progress has been made in implementation of the 10,000 acres pilot phase. The water off-take has been completed and maize that was planted has been harvested. Upon successful completion of the pilot, and drawing on the lessons learnt, the rollout program covering at least 100,000 acres in Galana – Kulalu and other designated suitable schemes throughout the country will commence under a viable business framework.

1.4.2 Supporting Growth of Manufacturing for Employment Creation

50. Government has identified manufacturing sector as catalyst for moving our economy up the value chain and in particular in the agriculture sector for growth of exports and job creation.

51. As outlined in the 2015 BPS, the Government developed the industrial transformation programme to build a network of competitive Special Economic Zones (SEZ) which will attract new investments, expansion of infrastructure, reform of the regulatory environment, adoption of innovative, more efficient technologies with the participation of the private sector to exploit business opportunities in regional and international markets.

52. Some key achievements to boost the manufacturing sector include: the enactment of the SEZ Act 2015; identification of 3000 acres in Mombasa, Dongo Kundu, for the development of the first phase of the SEZ including Free Trade Zone; construction of the first 30,000 square meters warehouse in Athi River for the Textile Hub.

53. The Government will prioritize on establishing industrial and technology parks to catalyze innovation and value addition. So far 135, 32 and 20 acres of land have been identified in Eldoret, Juja and Taita-Taveta respectively with title deed already issued for Taita-Taveta. In addition, establishment of green industrial parks under the Special Economic Zones along the railway lines from Mombasa to Western Kenya (including the shores of L Victoria) and within the proximity of geothermal wells will provide cheaper and faster transport and logistics, access to near free steam and water, cheaper geothermal power and leverage other by-products for industrial, livestock and agricultural development.

54. In addition, a framework for applied technology and artisan training will be developed and implemented to improve technical skills for better productivity. Furthermore, the Government, working with Development Partners, will put in place a program to support Small and Medium Enterprises to acquire small industrial plants for value addition of agricultural produce and products currently produced under the Jua kali.

1.4.3 Tourism Recovery, Sports, Culture, and Arts

55. The Government recognizes the vital role tourism, culture, sports and art play in sustainable development. Cultural diversity, Sports and Art foster inclusion, a guarantee of social cohesion, better youth engagement, national unity, increased job and business opportunities, a prerequisite for peace and socio-economic development. Furthermore, the centrality to our tourism strategy cannot be underestimated.

56. The tourism sector is well on its way to recovery boosted by the recent withdrawal of travel advisories by key tourist source countries, hosting of the 10th World Trade Organization Ministerial Conference and visits by high profile world leaders including the President of the United States and the Pope. In order to create resilience in this sector and further encourage domestic tourism by Kenyans. The Government will continue focusing on improving security in the country, product reinvigoration, strengthening visitor experience packaging tourism sector incentives and revamp the tourism communication strategy.

57. To strengthen our sports and art, the Government has established the Anti-doping agency; initiated improvement of sports facilities in Eldoret, Mombasa, Kisumu and Nairobi; trained 75,200 youths in various sports disciplines, and presented 205 sports teams in various international competitions; Acquired and preserved 63,878 heritage collections for posterity, restored 19 sites and monuments; acquired 34,409 public records for preservation; and digitized 1,898,130 public records and archives and constructed the National Library in Nairobi up to 50 percent completion.

58. Going forward and building on the progress made thus far, the Government working in partnership with key stakeholders, will continue to promote and develop tourism, sports and conserve national heritage and enhance integration, cohesion and patriotism, and promote a vibrant art. Attention will focus towards:

- Facilitating tourism promotion and marketing to increase international arrivals and tourism revenue;
- Continuing with investment in large conference and accommodation facilities in Nairobi, Coast and Western Kenya to position Kenya as premier conference destination as well as re-organize and develop an all-inclusive niche beach tourism at the Coast integrated with medical, safari, cultural, commerce and conference tourism;
- Development and management of sports facilities in partnership with the private sector, and construction of the five stadia will proceed a pace with public resources being innovatively applied to leverage the immense

private and community resources. Further, there will be increased investment, including expansion and modernization of sports facilities;

- Reviewing sports policy and legislation as well as promoting regional and international competition with a target of presenting 20 national teams for competitions;
- Encouraging the growth of youth talents in sports and arts and nurturing them as catalyst for growth and development through financial support to sports organization and providing training and capacity building as well as empowering skilled cultural practitioners; and
- Creating awareness in anti-doping issues to restore and maintain the reputation of Kenyan athletes.

59. Film & Music are critical to the imaging and positioning of Kenya as a destination for investment, wealth and employment creation. In this regard, the Government will fully, in consultation with the relevant stakeholders, roll out the required incentive packages to ensure that Film & Music flourishes and Kenya reclaims its position as a leading destination for film and music. This will include strengthening engagement with Pan-African initiatives such as the African Audiovisual and Cinema Commission (AACC) and the African Audiovisual and Cinema Fund (AACF).

1.5 Sustained Investment in Social Services for the Welfare of Kenyans

60. In order to ensure sustained economic transformation, reduce the burden of economic shocks on the households and enhance access to services by most Kenyans, the Government will continue to invest in quality and accessible healthcare services and quality education as well as strengthening the social safety nets programme.

1.5.1 Health Care

61. The health transformation agenda is focused on the implementation of the recently completed Kenya Health Policy (2014-2030) and Kenya Health Sector Strategic and Investment Plan (2014-2018). As part of this process, a strategy involving; scaling up universal health coverage initiatives including free maternity services, subsidies for the poor and vulnerable groups; increased funding of the health sector by Government and partners; equipping public hospitals with specialized medical equipment and equipment modernization in 94 hospitals; reducing morbidity and mortality from malaria, HIV/AIDs, tuberculosis and non-communicable diseases; recruitment of more health workers and strengthening health research for improved quality of health, will continue being implemented in this fiscal year.

62. Key achievements include: decline in infant mortality rate; improved proportion of Women using contraceptive; improved ante-natal clinic coverage;

improvement in the births by skilled attendants in health facilities largely attributed to the implementation of the Free Maternity Services; gradual drop in suspected malaria cases; reduction in HIV infections due to mother-child transmission; increased successful treatment of notified tuberculosis cases; increased immunization; Rota virus vaccine, introduced in public hospitals in July 2014 achieved 64 percent coverage by June 2015 and five rounds of polio immunization campaign conducted in 22 high risk border counties in addition to two nation-wide polio immunization campaigns targeting eight million under-5 children.

63. In addition, Government has fully equipped 6 hospitals and preparatory works for the other hospitals are well on course. Under the Managed Equipment Services (MES), 5 hospitals were installed with Theatre equipment, 4 hospitals were equipped with Central Sterile Supply Department (CSSD) Theatre equipment, 2 hospitals equipped with renal equipment, 2 hospitals equipped with ICU equipment while 5 hospitals were equipped with radiology equipment in 2014/2015 FY.

1.5.2 Quality and Relevant Education for all Kenyans

64. The Government is committed to enhance access to education, raise the quality and relevance of education and ensure equity as well as exploit knowledge in science, technology and innovation for global competitiveness. The Government will lay emphasis on the quality of the human capital by entrenching in our learners numeracy, skills and core values as we aim to reduce the overall cost of education in Kenya. The goal also includes ensuring learning for all children and youth, provision of adequate teaching and training services and improvement of performance and professional conduct of teachers for increased learning outcomes in public educational institutions.

65. Major achievements in education were realised in FY 2014/15 in areas such as access and equity of pre primary education, free primary education programme, the school feeding programme, the total number of secondary schools and enrolment in secondary schools increased significantly. In addition, the number of Universities and University enrolment continued to increase as did the number of students receiving Technical and Vocational Education and Training (TVET) bursaries.

66. Access and equity to pre-primary education, Early Childhood Development and Education (ECDE) registered improvement with enrolment increasing from 2.865 million (1.411 boys and 1.454 girls) in 2013 to 3.019 million (1.476 boys and 1.543 girls) in 2014. At the primary school level, the continued implementation of Free Primary Education programme saw an increase in enrolment from 9.86 million (5.02 million and 4.84 million male and female respectively) in 2013 to 9.9 million (5.1 million male 4.9 million female) in 2014. The number of candidates sitting for primary school examinations grew from 839,759 in 2013 to 880,486 in 2014.

67. During the 2014/15 FY the school feeding programme provided midday meals to approximately 1.3 million pre-primary and primary school children in 105 ASAL districts and selected schools in the informal settlements within Nairobi. In addition, the Government provided sanitary pads to 675,000 girls in primary and special needs primary and 1.2 million girls in secondary schools.

68. At secondary education level, the number of secondary schools increased from 7,834 in 2013 to 8,734 in 2014. The total enrolment in both public and private secondary schools increased by 10.5 per cent from 2.1 million (1,127,697 male and 976,565 female) in 2013 to 2.33 million (1,202,524 male and 1,107,356 female) in 2014. In the year 2014/15, the number of universities both public and private increased to 67; enrolment increased to 421,152; number of students receiving university loans increased to 167,803 and the number of students receiving TVET bursary increased to 7,071.

69. Going forward the medium term strategy will focus on:

- Improving and expanding schools and training institutions infrastructure through construction/rehabilitation of class rooms, provision of electricity and integration of ICT in curriculum delivery at all levels of education, construction of low cost boarding facilities in ASALs, construction of special needs education infrastructures) throughout the country over the medium term;
- Increasing provision of student loans, bursaries and scholarships to fully finance the universal free primary education, free day secondary education and tertiary education.
- Developing educational delivery standards and strengthening quality control, continued curriculum reforms and educational inspectorate services in order to enforce and uphold quality education;
- Carry out a national skills survey and develop a national and ministerial human resource development plan and continuous investing in capacity building for staff and teachers. In addition, in 2016 there will be recruitment of more teachers and Technical Vocational Education and Training (TVET) lecturers
- Align education and training curricula to the demands of the changing labour markets by developing competency based education and training for TVET and revitalizing youth polytechnics.

1.5.3 Scaling up Social Safety Nets

70. The Government's support to social assistance programmes has grown significantly over the past ten years. Cash transfer programmes which include cash transfers to (i) Orphans and Vulnerable Children; (ii) Older Persons; and (iii) persons with severe disabilities. The composition of the coverage in FY 2014/15 was as follows: 225,000 households with older persons were supported; 255,470 households with orphans and vulnerable children were supported and 25,506 persons with severe disabilities were supported. The Government has significantly increased funding to the main cash transfer programs with the budgetary allocation increasing from Ksh 2.972 billion in 2012/13 to Ksh 14.46 billion in 2014/15. Similarly, there have been improvements in the delivery of social health and security schemes in the country, with recent policies and legislation seeking to extend their coverage and improve efficiency for both contributory and non-contributory schemes.

71. A single registry for the National Safety Net Programme has been set up to improve transparency, accountability and reduce costs. The single registry has been enhanced to include all poor and vulnerable households to enable social protection actors to easily identify program gaps for interventions. So far 10 counties have been linked to the integrated Single Registry for the National Safety-Net Programme. To further assist in targeting the beneficiaries a more inclusive Social Assistance Committees have been established in all the 290 Constituencies composed of local leaders, Members of Parliament and Faith Based Organizations representatives.

72. Over the medium term, the Government is targeting to make the following achievements in order to ensure the success of the National Safety Net Programme:

- Empower persons with disabilities for self-reliance through training and support persons with Albinism with sun screen lotion;
- Develop the Community Development Integrated Management Information System;
- Sensitize the public on matrimonial property and succession laws and policies;
- Provide educational support to orphans and vulnerable children;
- Provide children with family tracing and reunification services;
- Increase the number of beneficiaries in Cash transfer programmes from 717,000 in FY 2015/16 to 1, 707,000 in FY 2018/19. The composition of the coverage is; 310,000 to 760,000 households with older persons supported; 360,000 to 810,000 households with orphans and vulnerable children supported and 47,000 to 137,000 persons with severe disabilities supported in FY 2015/16 to FY 2018/19;
- Single registry for the National Safety Net Programme will be decentralized to 15 additional Counties; and
- National safety Net complaint and grievance structures developed.

1.5.4 Empowering Youth, Women and Persons with Disabilities

73. The government recognizes that for the country to reach its full potential, it is important to empower youth, women and persons with disabilities and remove all obstacles to ensure full participation in social economic development of the country.

74. The government is therefore committed to promote gender and youth empowerment, livelihoods for the vulnerable groups and marginalized areas. In the financial year 2016/17, 21,870 youth will be trained through the National Youth Service (NYS) programme and another 150,000 will be trained through the social transformation programme. The government targets to register 300 community youth SACCOs and 150,000 youths will be targeted to benefit from these SACCOs in a bid to attain sustainable youth led enterprises and promote employment creation services. In addition, 5,000 youth will be mentored on leadership and

national values while 30,000 will be sensitized on entrepreneurship skills and social vices and 40 youth Empowerment Centers will be constructed.

75. The government will develop and disseminate women economic empowerment strategy and disburse Ksh 6 billion through the UWEZO Fund to benefit Youth, Women and Persons with Disabilities.

1.5.5 Environmental Conservation and Making Water Accessible

76. The government recognizes that protecting and conserving the environment, underpinned by effective climate change mitigation and adaptation measures is fundamental to sustain access to clean water, clean environment and a healthy productive population. Access to adequate, clean and affordable water is key to sorting out more than 50 percent of our disease burden. Indeed, safe drinking water and sanitation do complement efforts towards improved primary health care and productivity of labour. For this reason, the Government will continue to invest in clean water supply, put in place measures to control floods and harvest rain water as well as to protect and conserve the environment thus connecting over one million additional Kenyans to safe drinking water.

77. So far, this sector has made achievements as follows: reviewed the Environment Management Coordination Act; developed the Payment for ecosystem services (PES) Framework; reduced ranger coverage to enhance wildlife protection; installed seismic stations at Voi, Mombasa, Nakuru, Kakamega and Isiolo; installed 41 automatic weather stations; constructed the Kiserian, Chemususu and Theta dams; completed 102 irrigation projects under the National Expanded Irrigation Programme (NEIP); launched an Online Transactional Mining Cadastre Portal; and established a mineral audit Unit among other achievements.

78. Over the medium term, the Government will prioritize the implementation of programs under a Growth Initiative. Moreover, the Government will ensure that in every project, an Environmental Impact Assessment is undertaken and adhered to. In order to mitigate the impact of climate change, the Government will continue to mainstream climate change measures into its projects and programmes. This includes: tree planting and re-forestation, water harvesting, smart agriculture, technologies that reduce pollution levels, investments in green energy (micro-hydro, solar, biomass) construction of mini dams, water pans and rehabilitation of existing dams and water pans.

79. As part of this process, the Government will continue to construct and rehabilitate water pans, roll out water harvesting and storage in all public institutions throughout the country, and invest in mid-size dams to store water for household and agricultural use. To realise the objectives of this sector, the Government in liaison with development partners will enhance funding to this sector. At the same time, programmes and projects in the sector will be reviewed to facilitate enhancement of their contribution to Kenya's overall resilience and competitiveness.

1.6 Enhancing Service Delivery through Devolution

80. The decentralization of service delivery and resources through Devolution has had a profound effect on lives of Kenyans at the grass roots level. As witnessed across the country in the past three years of devolution, local development is gaining traction as Counties are becoming the new centres of economic activity. To lock-in and sustain these gains, the National Government will continue to support County Governments through increased allocation of shareable revenues so as to ensure that devolution achieves the objectives of better service delivery and rapid local economic development as well as jobs creation in line with Vision 2030.

81. The National Government is taking steps to strengthen accountability and fiscal discipline in the use of devolved resources, to achieve the constitutional objectives of improving service delivery and enhancing equitable economic development at the county level. This includes implementation of a framework that will establish limits and guidelines for borrowing by County Governments consistent with the PFM Act. The Act and its regulations have clarified the procedure, purpose and thresholds for borrowing by the County Governments. In this respect, therefore, the National Treasury will put in place mechanisms to monitor and ensure full compliance so as to contain fiscal risks and ensure public debt sustainability.

82. Further, implementation of a strategy to enhance revenue management by Counties in order to strengthen their revenue raising measures and correct duplication and distortions in local taxes and fees that hurt the business environment is underway.

83. Other measures that will improve the operations of the devolved system of Government include:

- The enactment of the Public Audit and Public Procurement and Asset Disposal Acts as well as the gazettment of the Public Finance Management Regulations will go a long way in strengthening the framework for County financial management. Plans are also underway to sensitize State and public officers of County governments as well as the general public on the contents of the various legislations.
- With regard to cash management, the National Government will continue disbursing funds to county governments in accordance with the Disbursement Schedule approved by Senate and gazetted by the Cabinet Secretary to the National Treasury. In disbursing the funds, however, the National Government will prioritize disbursements to county governments with least fund balances at the Central Bank of Kenya in order to ensure prudent cash management as required under Article 201(d) of the Constitution.
- The National Treasury through the Intergovernmental Budget and Economic Council (IBEC) will initiate the development of a national framework legislation to support the enhancement of county own-source revenue. In addition, a comprehensive review and harmonisation of all existing legislation

relating to county taxes, fees, user charges and business licenses will be undertaken.

- The Two levels of Government will strengthen the linkage between planning, budgeting and expenditure in line with the appropriate Development Plans.

1.7 Other Cross Cutting Structural Reforms

1.7.1 Structural Reforms

Governance

84. The Government is fully cognizant of the adverse effects of corruption on the economy. The measures articulated in National Call to Action will be fully implemented. In the short term a process of continuous and objective lifestyle audits for all Accounting Officers as well as Authority to Incur Expenditure (AIE) holders will be implemented. The Government will also finalise other measures for linking of critical databases to enhance our capacity and capability for detection, thwarting and penalizing corrupt activities.

85. Progress has been made in entrenching good governance in our institutions. Some of the achievements in the fight against economic crimes in the FY2014/15 include: 107 corruption and economic crime cases investigated; Ksh 1.6 billion loss averted by disruption of corruption networks; 11 corruptly acquired assets traced, recovered and/or restituted worth Kshs 140 million; and 4 systems review and examinations to seal corruption loopholes. In addition, 2.4 million persons were sensitized/ enlisted to combat corruption and 6 county/ regional offices established in a bid to fight corruption.

86. To instil good governance in Kenya, the government shall continue strengthening areas including: selection, accountability and replacement of authorities; Efficiency of institutions, regulations, and resource management; and, Respect for institutions, laws and interactions among players in civil society, business, and politics i.e. Rule of law and Control of corruption. As such, the Ethics and Anti-Corruption Commission will continue to implement programmes geared towards strengthening systems of governance among them: increase corruption and economic crime cases investigated; disrupt corruption networks; heighten recovery of corruptly acquired assets; review and examine 12 systems in the FY 2016/17 to seal corruption loopholes; and entrench Code of Conduct and vetting of public officers.

87. The Government shall also continue to fund the Independent Electoral and Boundaries Commission to manage the electoral process for free and fair elections. This will ensure voice and accountability as well as stability and lack of violence which are crucial for development of our country.

88. Some progress has been made in improving the efficiency of institutions, regulations, and resource management. These include: rolling out of the IFMIS

SECRET

Module to all the counties; conducted capacity building among institutions implementing public financial management reforms; Implementation of Program-Based Budgeting; and launch and implementation of e-Procurement platform. In 2015, the Public Finance Management regulations for the National government and County governments separately were gazetted. The regulations seek to set out a standardized financial management system for use in Government service to ensure accountability, transparency and the effective, economic and efficient collection and utilization of public resources among other fiscal roles as provided in the PFM Act. Further, the Mwongozo code of governance will ensure efficient and effective service delivery and bolster national cohesion and values.

89. Going forward, the government will continue to strengthen the institutional capacity of the PFM oversight agencies through funding their programmes, reviewing legal and regulatory frameworks governing public procurement, promote accountability in the use of public resources by conducting national and county audits, and expansion of the e-Procurement platform to all government operations.

90. To improve security, administration of justice and prosecution services, the Government has continued to implement programmes aimed at retooling and modernizing police service, implementation of the Constitution, and improving inmates' welfare. In the 2014/15 financial year, security was enhanced in the porous borders by deploying 300 Aps and 340 police vehicles were also leased in order to enhance police mobility and patrols. The Government has also established a Supreme Court, Environment and Land Relations court, Employment and Labour Relations Court, and 3 Courts of Appeal.

91. The role of Parliament/Legislature cannot be understated in promotion of good governance. To achieve good governance, we need a strong, effective and efficient parliament. As an oversight body, parliament helps to identify problems and policy challenges that require attention and assists in overcoming bureaucratic lethargy. The parliament (National Assembly and Senate) in 2016/17 plans to fast-track consideration of reports on budget implementation, audited accounts of the National Government, County Governments and State Corporations. In addition, they will introduce bills; consider motions, statements and petitions; and carry out vetting of state officers presented to them as required by law. These activities will go a long way in entrenching good governance in our institutions and ensuring accountability of public resources.

Expenditure Management

92. As emphasized in 2015 BPS, the Government will continue with rationalization of public expenditures for enhanced efficiency and productivity in service delivery. To improve efficiency and effectiveness in public resource utilization and budget execution Capacity Assessment and Rationalization of the Public Service (CARPS) Programme will be fully implemented. Other initiatives include: developing a policy framework that entrenches at least 40 percent local content; full adoption of the Treasury Single Account (TSA) to improve the efficiency of the government payment processes; full implementation of the e-procurement to entrench transparency and accountability; Entrench program budget and enforce performance benchmarks for execution of the development

SECRET

budget of at least 80 percent by all MDAs; and Strengthen accountability and discipline in the use of devolved resources, and contain fiscal risks. The government will also strengthen the capacity for monitoring, evaluation, reporting and feedback.

1.7.2 Further Public Sector Reforms

93. In a bid to enhance efficiency and effectiveness of the public sector to attain the development agenda by the end of 2016, the Government will implement revised legal and regulatory framework governing the parastatal sector taking into consideration operational requirements so as to strengthen governance and improve accountability; and enhance sustainability.

94. In particular, policy measures will strengthen compliance to the Code of Governance (Mwongozo) put in place by the Implementation Committee in conjunction with the State Corporation Advisory Committee (SCAC) on parastatal reform to increase effectiveness of Boards, transparency and disclosure, accountability and risk management; ensure adherence to performance requirements by parastatals; accelerate merging of state-owned banks and other parastatals into larger institutions to eliminate duplication and overlaps and make them more effective in service delivery; and the establishment of Government Investment Corporation (GIC) as a holding company for the commercial parastatals.

95. As infrastructure plays an increasing role in Kenya's growth and development prospects, the Government recognizes the importance of enhancing our construction and contracting capacities and capabilities. The Government will enhance this capability and capacity through proactive interventions to rapidly upscale local building and civil engineering contractors through appropriate partnering and later joint ventures amongst others. This would be built around the various infrastructure projects currently ongoing.

1.7.3 Financial Sector Developments and Reforms

96. Kenya's banking sector continues to expand locally and across the sub Saharan region with innovations driving financial inclusion. In 2015, Kenya was ranked position 1 in the world for leveraging technology to drive inclusion by Brookings Financial and Digital Inclusion Project (FDIP) scoring 89 percent ahead of the second place Country that scored 80 percent.

97. Kenya's financial sector development continues to support economic growth and transformation. In 2015/16, the World Economic Forum Global Competitiveness Report ranked Kenya number 42 in the world out of 140 for Financial Market Development. In 2015, the capital market industry was voted the most innovative Capital Market industry in Africa by Africa Investor. In 2015, the 25 percent local ownership restriction for local players for listed companies on the Nairobi Securities Exchange (NSE) was removed thus placing our capital markets in line for a Global Financial Centre ranking.

SECRET

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

- The draft policy framework to establish the Nairobi International Financial Centre (NIFC) which is currently undergoing stakeholder consultations will be finalised and an NIFC Bill forwarded to the National Assembly. The Policy and Bill provide a framework to strengthen Kenya's position as the financial hub of choice in the region through incentives, addressing bottlenecks and putting in place necessary market infrastructure and market development
- The draft Financial Services Authority (FSA) Bill which has already been prepared will be reviewed to expand the FSA from a simple merger of the existing regulators to a broader regulator also encompassing issues of market conduct, financial services consumer protection and addressing existing regulatory gaps such as regulation of credit provision
- Implementing reforms to address the high cost of credit including enacting a new Secured Transactions Law and Electronic Collateral Registry, reforms to facilitate leasing and factoring, digitization of land registries and other legal reforms to facilitate the expansion of mortgage finance and extending the credit reporting framework to include credit providers from outside the financial sector
- Strengthening, by the Central Bank of Kenya, of the bank supervision legal and regulatory framework. This will include enhancing the macro- and micro-prudential Stress Testing Framework and cross border supervision framework, and
- Launching the M-Akiba Government Bond which will be the world's first purely mobile phone based Government security. This savings vehicle targets the retail investor will not only mobilize government funding from ordinary Wananchi, but will also help in lowering the borrowing costs of government debt in the medium to long term while supporting financial inclusion and the effective allocation of national savings. In addition, through secondary trading in the Nairobi Securities Exchange it is expected to provide an entry point for thousands of new investors into the Kenyan capital markets.

99. **Further Business Regulatory Reforms:** Creating an enabling business environment is crucial to realizing Kenya's goal of sustainable industrialization and inclusive growth. The second medium term Plan (MTP) (2013 – 2017) states that the overall goal is to ensure that by the end of the plan period, Kenya ranks among the top 50 countries in the ease of doing business. It is with this in mind that the Government is committed to reducing the cost of doing business and encouraging private sector innovation, entrepreneurship and business expansion in order to have a strong and sustainable high growth and reducing the poverty level. An Inter-agency Business Environment Delivery Unit has been constituted and

SECRET

tasked with the mandate of coordinating the business processes re-engineering of 6 out of 10 World Bank Doing Business Indicators. For getting electricity to businesses, the process has been simplified to only three steps and time taken to obtain a connection reduced from 155 days to 70 days. Other reforms which have been implemented include online title search and online reservation of business name, making the process of registering business in Kenya easier under the Business Registration Service Act 2015.

100. Kenya's ranking improved 21 places from position 129 to position 108 out of 189 countries, according to the 2016 World Bank's Ease of Doing Business report. Building on the progress achieved thus far, the Government will continue to simplify and modernize business regulatory regimes, rationalize regulatory fees and other charges, eliminate regulatory and other hurdles that discourage investment, and establish an institutional and legal framework for the management of regulatory charges, including those imposed by county governments.

101. Key public services will be automated to hasten service delivery, reduce transaction cost and safeguard revenue. Land transaction services, e-registry, business registration, motor vehicle and driver's license services and services under the registration of persons, including passport, work permits and visa application, have been digitized and made operational online.

102. The Government will continue to move its services closer to Citizens through two initiatives: first to make operational the state of the art One-Stop-Shop investment centre; and second, expand the One-Stop-Shop services centres, (popularly known as Huduma Centres) to reach all counties. Through the Huduma Kenya Program the Government is delivering more than 35 services under one roof in twenty-eight counties. The Government expects to roll out the Huduma Centres to reach all counties by the end of FY2015/2016. The Government also intends to harmonise the services provided by eCitizen and by the Huduma Centres to ensure that there is no duplication of services provided to Mwananchi and thereby avoid wastage of scarce Government resources.

103. Key legislations that include the Companies Act, the Insolvency Act, the Special Economic Zones Act, the Business Registration Act and the Finance Act 2015, were enacted by the Government in an effort to ease the cost of doing business and this will go a long way to improve Kenya's attractiveness as a Foreign Direct Investment (FDI) destination.

104. The Government has been implementing the Kenya National Electronic Single Window System – Kenya Tradenet System – to facilitate international trade by reducing delays and attendant transaction costs relating to processing of imports and exports documentation while at the same time maintaining the requisite controls and ensuring efficient revenue collection. The declaration module is now in place and all importers, exporters and other related stakeholders process their transactions through the system. This is meant to enhance transparency, accountability, governance and competitiveness while at the same time improving revenue collection.

105. Kenya continues to receive global recognition and is projected to be one of the fastest growing economies in the medium term. African Development Bank

SECRET

(AfDB) ranked Kenya as number six in Africa in terms of attracting FDI while the Ernst & Young's 2014 Attractiveness Survey indicated that investors see Kenya as one of three regional hub markets in Sub-Saharan Africa. In addition, our Huduma Centres recently won an award from the United Nations (UN) as the overall winner in improving the Delivery of Public Services category.

1.7.4 Information Communication and Technology as a Platform for Kenya's Productivity and Competitiveness

106. Access to Information Communication and Technology (ICT) is critical for the country's productivity and competitiveness in a knowledge based economy. The government is therefore committed to investing resources as well as providing a conducive environment for the ICT sector to thrive. To this end, the government has put in place initiatives such as the presidential digital talent initiative, digital literacy programme, Kenya Transparency and Communication Infrastructure programme, County Connectivity Project, Enterprise Kenya, Digital migration and NOFBI phase II that will improve the delivery of Government services.

107. Kenya identified Konza Techno City as one of the national flagship project to help the country become a sustainable world class ICT Hub in the region, with an objective of creating over 20,000 direct and indirect jobs for the youth and general Citizenry at end of phase 1 in 2018. At the macro level, Konza Techno City is expected to contribute about 2 percent of GDP. The project focuses on four economic sectors namely, education, life sciences, telecommunications and business process outsourcing to make it a sustainable, world-class technology hub.

108. Some Significant achievements towards implementation of phase 1 that have been done already include:

- Approval of local physical development plan
- Installation of seven water boreholes, water distribution and storage system, and power supply
- Approval of Strategic Environmental Assessment and Completion of Cadastral Survey
- Construction of the access roads and Procurement of rough grading earthwork

109. The programme remains a priority and targets to complete the horizontal infrastructure for phase 1A and Konza complex by the FY 2018/19.



II. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM TERM OUTLOOK

2.1 Overview of Recent Economic Developments

110. Kenya's growth remains strong, supported by significant infrastructure investments, construction, mining, and lower energy prices and improvement in agricultural productivity. The economy grew by 5.3 percent in 2014 and is projected to expand by 5.6 percent in 2015, 6.0 percent in 2016 and 6.5 percent in the medium term.

111. Macroeconomic stability has been preserved with inflation remaining on average within target. Overall month-on-month inflation declined to 7.8 percent in January 2016 from 8.0 percent in December 2015. This was attributed to the declines in the prices of electricity, kerosene and cooking gas. In addition there was reduction in the pump prices of petrol and diesel that led to the reduction of the Transport index.

112. The Kenya Shilling exchange rate has stabilised, reflecting monetary policy measures instituted in the third quarter of 2015 that led to increased foreign exchange inflows in the money market. The current level of foreign exchange reserves, backstopped by the precautionary program with the IMF, continues to provide an adequate cushion against exogenous shocks. Furthermore, the current account deficit narrowed, mainly due to a lower oil import bill, and a slowdown in consumer imports and importation of air transport equipment in 2014.

113. Tight monetary policy stance to anchor inflationary pressures and liquidity tightness following the receivership of Imperial bank led to the interest rate spike in October 2015. Liquidity conditions in the market have now stabilized resulting in a decline in the interest rates. The interbank rate was at 6.2 percent as of 21st January 2016 while the 91 day Treasury bill rate was 11.4 percent as of 22nd January 2016.

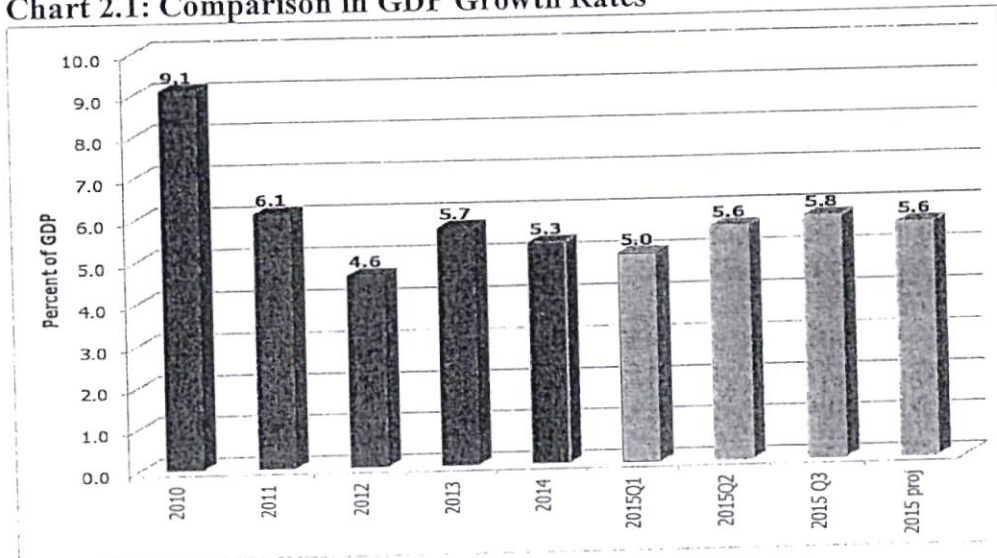
Growth Update

114. The economy grew by 5.3 percent in 2014 (**Chart 2.1**) supported by strong performance in most sectors of the economy which offset contraction in the tourism sector. Growth remained resilient in 2015, with the first three quarters of 2015 recording an average growth of 5.5 percent, compared to a growth of 5.3 percent registered in a similar period in 2014.

115. In Quarter three of 2015, the economy grew by 5.8 percent, up from 5.0 percent and 5.6 percent in quarter one and quarter two of 2015, respectively. This high growth in the third quarter was driven by improved performance in agriculture, forestry and fishing (7.1 percent), construction (14.1 percent), wholesale and retail trade (6.5 percent), transport and storage (8.7 percent) and electricity and water supply (11.0 percent). The contraction of the accommodation and restaurant sector reduced significantly to 2.3 percent in third quarter of 2015,

up from 16.0 percent during the same period 2014, largely due to the withdrawal of the travel advisories by some key tourist source countries.

Chart 2.1: Comparison in GDP Growth Rates



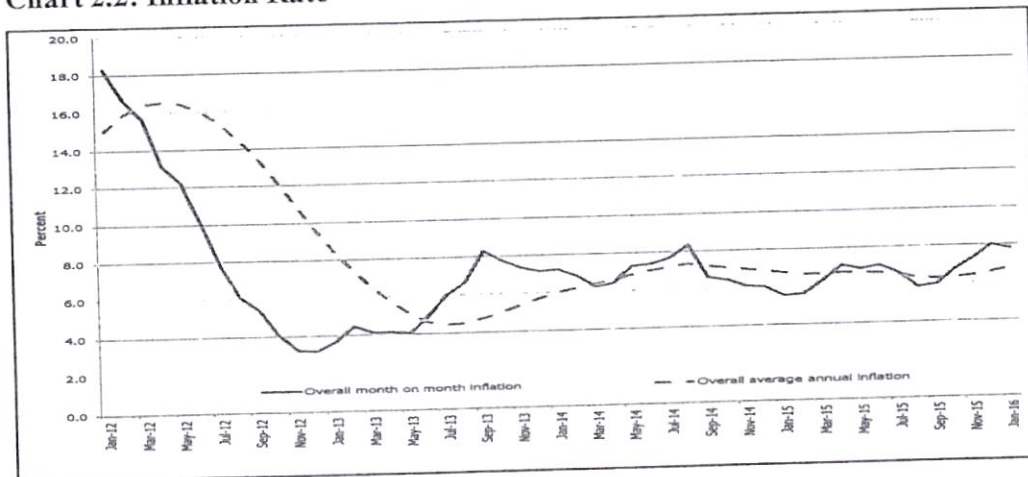
Source: KNBS

Inflation within target

116. Overall annual average inflation was within target. Month-on-month inflation declined to 7.8 percent in January 2016 from 8.0 percent in December 2015 (Chart 2.2). This was attributed to the declines in the prices of electricity, kerosene and cooking gas. In addition there was reduction in the pump prices of petrol and diesel that led to the reduction of the Transport index.

117. However, in January 2016, there were increases in the prices food items and non - alcoholic drinks as well as prices of alcoholic beverages, tobacco and narcotics.

Chart 2.2: Inflation Rate



Source: KNBS

118. On average, the annual inflation rate stood at 6.8 percent in January 2016 compared to 6.7 percent in January 2015 and was therefore, within the current allowable margin of 2.5 percent on either side of the target of 5.0 percent.

Private Sector Credit

119. Bank credit to the private sector grew by 18.0 percent in the year to December 2015 compared with 22.2 percent growth in the same period in 2014. The 18.0 percent annual growth of credit in 2015 was supported by lending to the main sectors of the economy that increased as follows during the period: business services (63.2 percent); building and construction (30.7 percent); transport and communication (26.5 percent); trade (21.3 percent); manufacturing (16.2 percent); consumer durables (14.3 percent); agriculture (14.1 percent); private households (9.1 percent) and real estate 6.2 percent.

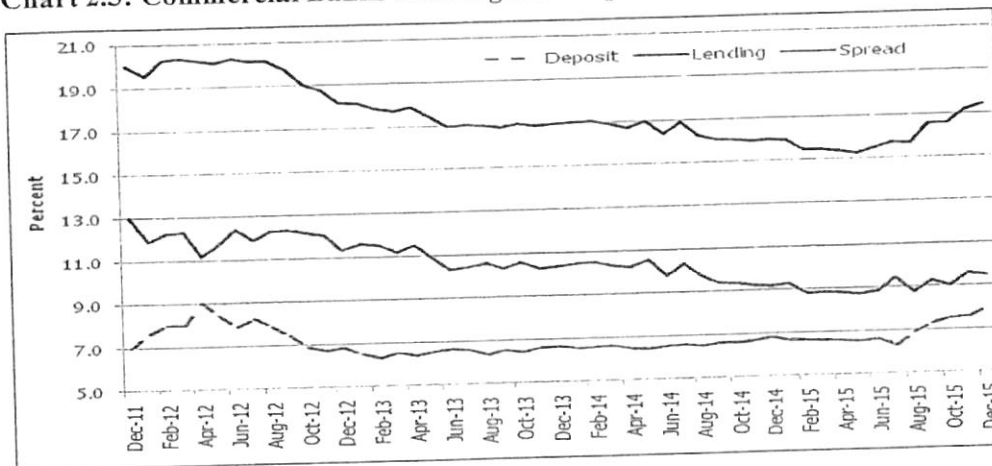
Interest rates

120. Tight monetary policy stance to anchor inflationary pressures and liquidity tightness following the receivership of Imperial bank led to the interest rate spike in October 2015. Liquidity conditions in the market have now stabilized resulting in a decline in the interest rates.

121. The interbank rate averaged 6.2 percent as of 21st January 2016 compared to 7.3 percent in December 2015 and 8.8 percent in November 2015. The 91-day Treasury bill rate declined to 11.4 percent as of 22nd January 2016 from 21.7 percent in October 2015. The 182 day Treasury bill also declined to 13.7 percent as of 22nd January 2016 from 21.5 percent in October 2015 while the 364 day Treasury bill rate averaged at 14.3 percent from 21.6 percent over the same period.

122. Arising from an upward revision of The Kenya Banks Reference Rate (KBRR) from 8.5 percent in January 2015 to 9.87 percent in July 2015, average lending rates increased marginally to 17.4 percent in December 2015, up from 16.0 percent in December 2014, while the deposit rate increased to 7.9 percent from 6.8 percent over the same period (**Chart 2.3**). Consequently, interest rate spread rose slightly to 9.5 percent in December 2015 from 9.2 percent in December 2014.

Chart 2.3: Commercial Banks Lending and Deposit Interest Rates



Source: CBK

Balance of Payments Developments

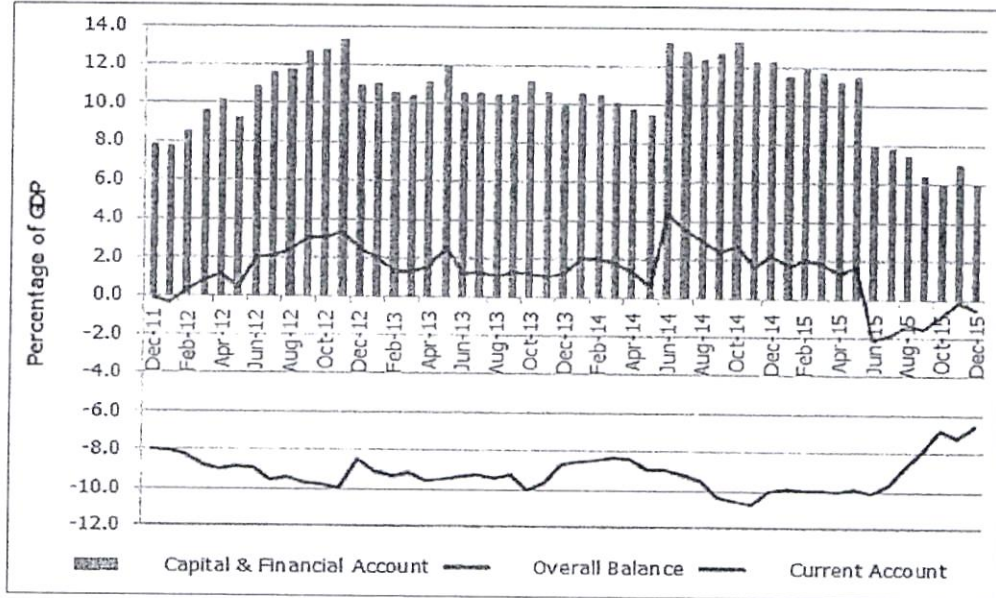
123. The overall balance of payments recorded a deficit of US\$ 294 million in the year to December 2015 from a surplus of US\$ 1,378 million in the year to December 2014. The deficit reflected a decrease in the capital and financial account that more than offset the improvement in the current account.

124. The current account deficit was at US\$ 3,978 million in the year to December 2015 from a deficit of US\$ 6,087 million in the year to December 2014 (**Chart 2.4**). As a share to GDP, the current account deficit improved to 6.5 percent in December 2015 from 10.0 percent in December 2014 due to the decline in the import payments despite the declining export receipts. The value of services declined in the period under review mainly due to the decline in the receipts from tourism and transport services.

125. The deficit in the merchandise account narrowed by US\$ 2,530 million to US\$ 10,189 million in the year to December 2015 reflecting a decline in growth (14.8 percent) in the value of merchandise imports despite the decline in the value of merchandise exports by 4.3 percent.

126. The capital and financial account surplus declined to US\$ 3,684 million in the year to December 2015 from US\$ 7,465 million in the year to December 2014. The decline reflects a US\$3,876 million decrease in the financial account surplus that more than offset the US\$94.5 million increase in the capital account surplus.

Chart 2.4: Current Account Deficit Narrows

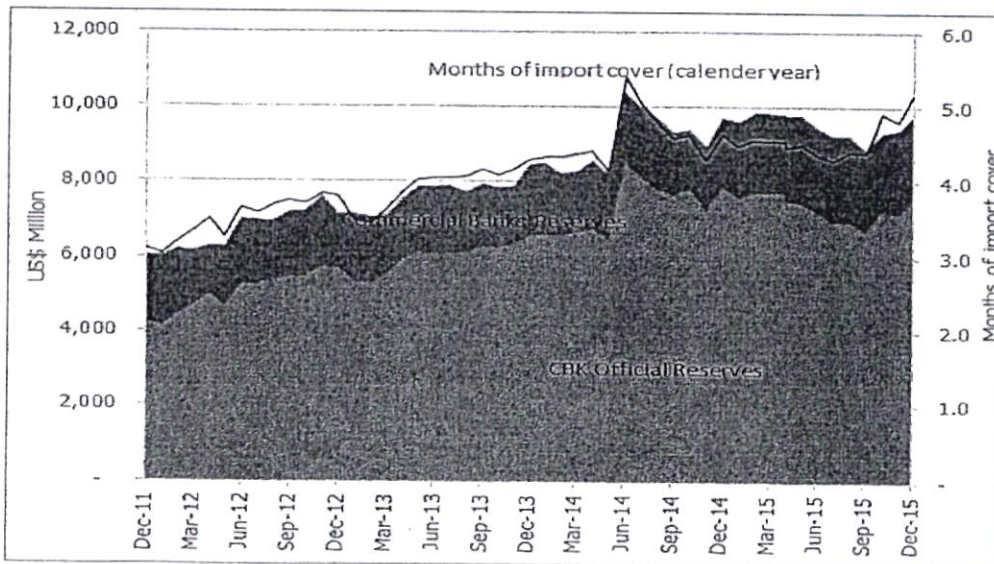


Source: CBK

Foreign Exchange Reserves

127. Gross foreign exchange holdings of the banking system increased by 0.6 percent from US\$ 9,738 million in December 2014 to US\$ 9,794 million in December 2015 (Chart 2.5). Gross official reserves held by the Central Bank decreased to US\$ 7,534 million (4.8 months of import cover) in December 2015 from US\$ 7,895 million (5.0 months of import cover) in December 2014. The commercial banks' reserves increased from US\$ 1,843 million in 2014 to US\$ 2,259 million in 2015.

Chart 2.5: Foreign Exchange Reserves



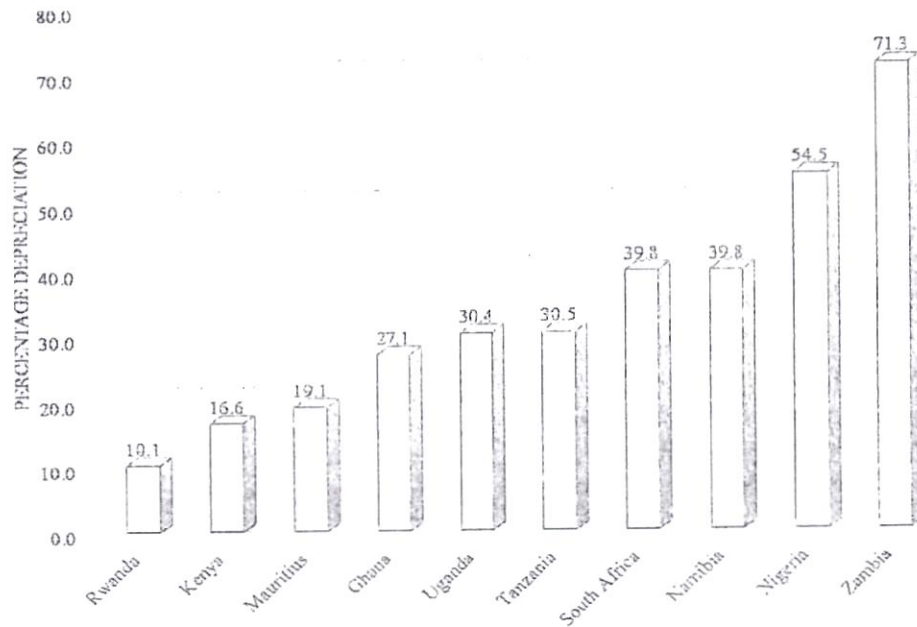
Source: CBK

The Kenya shilling Exchange Rate

128. The Kenya Shilling exchange rate has continued to display relatively less volatility compared with the major regional currencies and depreciated by only 16.6 percent for the period June 2014 to December 2015 (Chart 2.6). This is due to due to increased foreign investor participation in the NSE resulting to foreign exchange inflows into the money market, narrowing of the current account deficit reflecting lower import bill for products, recovery of the tourism, tea and horticulture exports and Diaspora remittances.

129. The exchange rate weakened against major international currencies, for most of the year, then strengthened following foreign exchange inflows into the money market. The currency stabilized at Ksh 102.2 against the US dollar as of 21st January 2016 compared to Ksh 102.8 in October 2015. Against the Sterling Pound, the shilling strengthened to Ksh 145.2 as of 21st January 2016 from Ksh 153.3 in December 2015 and against the Euro, the exchange rate also strengthened to Ksh 110.8 from Ksh 111.1 over the same period.

Chart 2.6: Performance of selected Currencies against the US Dollar (June 2014 to December 2015)



Source: Data from Various National Central Banks

Stock Market Developments

130. Activities at the stock market remained fairly stable in the year to December 2015, with the NSE 20 share index rising marginally to 4,003 points in December 2015, up from 3,994 points in November 2015. This was, however, lower than 5,113 points registered in December 2014. At the same time, market capitalisation

improved marginally to Ksh 2,031 billion in December 2015 from Ksh 2,015 recorded in November 2015, lower than Ksh 2,300 billion in December 2014. The drop in market capitalization in the year to December 2015 is as a result of an increase in volume of shares traded, which depressed the overall share prices.

131. Foreign equity market turnover for the month of December 2015 rose to Ksh 16.1 billion, up from Ksh 11.7 billion in November 2015, representing an increase of 37.6 percent. Similarly, the bond turnover amounted to Ksh 23.4 billion, in December 2015, representing a 27.2 percent growth over the Ksh 18.4 billion recorded in November 2015.

2.2 Fiscal Performance in FY 2015/16 and Emerging Challenges

132. The implementation of the budget for FY 2015/16 has been hampered by the challenges in the first quarter. Revenue collection has lagged behind and domestic securities market underperformed in the first quarter. These two combined effects constrained disbursement of funds for development and general government operations by about KShs228 billion by December 2015. Budget implementation is now back on course after taking appropriate and well-timed mitigating measures.

133. By the end of December 2015, total cumulative revenue including A-I-A amounted to Ksh 575.2 billion against a target of Ksh 642.9 billion, representing a shortfall of Ksh 67.7 billion, of which ordinary revenue collection accounted for Ksh 47.6 billion while A-I-A collection Ksh 20.0 billion. The underperformance in ordinary revenue was mainly on account of significant shortfalls recorded in PAYE (Ksh 26.0 billion) and VAT imports (Ksh 15.9 billion).

134. Net domestic financing amounted to Ksh 26.3 billion against a target of Ksh 106.6 billion by end December 2015, an under performance of Ksh 80.3 billion. The net domestic borrowing of Ksh 26.3 billion comprised borrowing through government securities of Ksh 139.7 billion and net repayment of other domestic borrowing of Ksh 87.6, less accumulation of government deposits of Ksh 25.8 billion.

135. The combined effect of the revenue and borrowing shortfalls caused cumulative expenditures to slowdown to Ksh 769.2 billion against a target of Ksh 997.2 billion in the first half of the financial year. This shortfall of Ksh 228.1 billion was attributed to lower spending by National Government of Ksh 35.8 billion and Ksh 139.2 billion in recurrent and development expenditures categories, respectively as well as Ksh 50.5 billion shortfalls in transfer to the devolved units.

136. The cumulative overall fiscal balance, on a commitment basis (including grants), amounted to a cash deficit of Ksh 164.76 billion (equivalent to 2.5 percent of GDP) against a targeted deficit of Ksh 354.3 billion as at end-December 2015, compared with a deficit of Ksh 103.2 billion (equivalent to 1.8 percent of GDP) in the period ending 31st December 2014.

2.3 FY 2015/16 Revised Estimates

137. In view of the constrained fiscal developments to end December 2015, the Government has revised downwards its revenue projections for the financial year on account of weaker than expected performance to December 2015 and in line with the revised macroeconomic projections and delayed enactment of the Excise Duty Act 2015 that came into effect on 1st December 2015.

138. Revenue inclusive of A-I-A are projected to fall short of the previous estimates by Ksh 46.9 billion, reflecting projected reduction in ordinary revenues by Ksh 52.9 billion and increase in A-I-A by Ksh 5.9 billion. The downward revision in ordinary revenues is on account of projected shortfalls in Income tax (Ksh 37.5 billion) largely on account of PAYE and VAT (Ksh 14.1 billion).

139. As such, there is limitation to accommodate the requests for additional funding amounting to about Ksh 69.0 billion. The National Treasury has recommended for funding requests that are deemed to be critical amounting to Ksh 39.5 billion. However, in view of revenue shortfalls and the need to contain domestic borrowing, these critical expenditures will be funded mainly through expenditure rationalization and commitments from development partners.

140. In addition, the Government has instituted various measures aimed at aligning the expenditures with the revised resource envelope. These include; measures to curb non priority expenditures and to free resources for more productive purposes as well as expenditures cuts on slow and delayed projects.

141. In summary, the revised fiscal framework reflects overall reduction in revenues by Ksh 46.9 billion from Ksh 1,358.0 billion to Ksh 1,311.1 billion; and a reduction in total expenditures and net lending by Ksh 93.8 billion, from Ksh 2,000.6 billion to Ksh 1,901.8 billion. The deficit is, therefore, projected to decline from Ksh 569.2 billion to Ksh 517.3 billion (equivalent to 8.0 percent of GDP). Borrowing from the domestic market has been revised down to Ksh 168.2 billion from Ksh 221.5 billion in the budget while external commercial borrowing has been raised to substitute for the lower domestic borrowing. The overall impact of these developments is reflected in Table 2.1.

Table 2.1 Revised Fiscal Framework (Ksh Million)

	FY 14/15		FY 15/16			FY 14/15			FY 15/16			
	Ksh Million						Percent of GDP					
	Prel	Exp	Returns	Budget	Revised	Deviation	Prel	Budget	Revised			
A. TOTAL REVENUE AND EXTERNAL GRANTS	1,134,496	1,431,454	1,384,529	(46,925)	19.9	22.2	21.5					
TOTAL REVENUE (1+2)	1,106,378	1,358,049	1,311,123	(46,925)	19.4	21.1	20.3					
1. Ordinary revenue	1,031,248	1,254,867	1,202,015	(52,852)	18.1	19.5	18.7					
Import Duty	74,048	82,197	84,575	2,378	1.3	1.3	1.3					
Excise Taxes	115,872	142,143	146,558	4,415	2.0	2.2	2.3					
Income Tax	508,581	623,215	585,735	(37,480)	8.9	9.7	9.1					
VAT	259,685	310,264	296,150	(14,114)	4.6	4.8	4.6					
Other Revenue	73,062	97,047	88,998	(8,050)	1.3	1.5	1.4					
2. Ministerial Appropriation in Aid	75,130	103,181	109,108	5,927	1.3	1.6	1.7					
EXTERNAL GRANTS	28,117	73,406	73,406	-	0.5	1.1	1.1					
B. TOTAL EXPENDITURE AND NET LENDING	1,639,199	2,000,648	1,901,816	(98,832)	28.7	31.0	29.5					
1. Recurrent Expenditure	895,199	1,012,958	989,694	(23,264)	15.7	15.7	15.4					
Domestic Interest	139,615	154,815	159,417	4,602	2.4	2.4	2.5					
Foreign Interest due ¹	32,261	30,510	33,654	3,144	0.6	0.5	0.5					
Pensions etc	37,508	43,429	47,429	4,000	0.7	0.7	0.7					
Net Issues/Net Expenditure	635,249	717,019	682,009	(35,010)	11.1	11.1	10.6					
Wages & Salaries ²	293,115	333,527	333,527	-	5.1	5.2	5.2					
Others	342,134	383,493	348,483	(35,010)	6.0	6.0	5.4					
Ministerial Recurrent AIA	50,566	67,184	67,184	-	0.9	1.0	1.0					
2. Development	509,713	718,471	642,903	(75,568)	8.9	11.1	10.0					
Domestically Financed (Gross)	266,015	360,965	326,894	(34,071)	4.7	5.6	5.1					
o/w Domestically Financed (Net) ³	241,451	324,968	284,970	(39,998)	4.2	5.0	4.4					
o/w Exchequer Issues ⁴	227,750	324,968	284,970	(39,998)	4.0	5.0	4.4					
Ministerial Development AIA	24,564	35,997	41,924	5,927	0.4	0.6	0.7					
Foreign Financed ⁵	241,173	349,323	307,954	(41,369)	4.2	5.4	4.8					
Net Lending	2,125	2,183	2,055	(128)	0.0	0.0	0.0					
Equalization Fund	400	6,000	6,000	-	0.0	0.1	0.1					
3. County Allocation	229,336	264,219	264,219	-	4.0	4.1	4.1					
4. Contingency Fund	4,951	5,000	5,000	-	-	0.1	0.1					
C. BALANCE EXCLUSIVE OF GRANTS	(532,821)	(642,600)	(590,693)	51,907	-9.3	(10.0)	(9.2)					
D. BALANCE INCLUSIVE OF GRANTS	(504,704)	(569,194)	(517,287)	51,907	-8.8	(8.8)	(8.0)					
Adjustments to cash basis	16,940	-	0	-	-	-	-					
E. BALANCE INCLUSIVE OF GRANTS (CASH BASIS)	(487,764)	(569,194)	(517,287)	51,907	-8.6	(8.8)	(8.0)					
Discrepancy	124,318	0	0	-	2.2	-	-					
G. TOTAL FINANCING	612,082	569,194	517,287	(51,907)	10.7	8.8	8.0					
1. NET FOREIGN FINANCING	217,479	340,526	346,499	5,973	3.8	5.3	5.4					
Disbursements	296,574	375,215	384,878	9,663	5.2	5.8	6.0					
Commercial Financing ⁶	74,961	83,300	134,332	51,032	1.3	1.3	2.1					
O/w syndicated loan	-	-	74,332	74,332	-	-	-					
Project Loans	218,159	283,701	242,333	(41,369)	3.8	4.4	3.8					
O/w Project Loans SGR	123,456	118,226	118,226	-	2.2	1.8	1.8					
Programme Loans	3,454	8,213	8,213	-	0.1	0.1	0.1					
Debt repayment - Principal	(79,095)	(34,689)	(38,379)	(3,691)	(1.4)	(0.5)	(0.6)					
2. Other Domestic Financing	2,992	7,178	2,579	(4,599)	0.1	0.1	0.0					
3. NET DOMESTIC FINANCING	391,611	221,490	168,210	(53,280)	6.9	3.4	2.6					
O/w Sovereign Bond proceeds	140,478	-	-	-	2.5	-	-					
Others	251,133	221,490	168,210	(53,280)	4.4	3.4	2.6					
Memo Items												
Nominal GDP (Fiscal Year)	5,703,321	6,444,000	6,444,000	-	-	100.0	100.0					
BALANCE INCLUSIVE OF GRANTS EXCL. OF SGR	(364,308)	(450,968)	(399,061)	51,907	(6.4)	(7.0)	(6.2)					
OVERAL PRIMARY BALANCE INCLUSIVE OF GRANTS	(315,888)	(383,869)	(324,216)	59,653	(5.5)	(6.0)	(5.0)					

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

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

Note 3/ Domestically financed development for FY 2014/15 is Higher than Exchequer issued of KSh233.5 billion on account of commitments

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

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

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

Source: National Treasury

2.4 Economic Policy Outlook

2.4.1 External Environment

142. The global growth for 2015 is estimated to expand by 3.1 percent, a slowdown from a growth of 3.4 percent recorded in 2014 (Table 2.2). Prospects across the main countries and regions remain uneven; the recovery in advanced economies is expected to pick up slightly, while activity in emerging market and developing economies is projected to slowdown, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.

143. Nonetheless, global activity is projected to gather some pace in 2016 to 3.4 percent and 3.6 percent in 2017 due to the modest recovery in growth in most regions and a gradual improvement of growth rates in countries currently in economic distress. However, with declining commodity prices, depreciating currencies of some emerging market economies, and increasing financial market volatility, downside risks to the outlook have risen, particularly for emerging market and developing economies.

Table 2.2: Growth Projections for Selected Regions/Countries

REGION/COUNTRY	WEO GDP JANUARY 2016				
	Actual		Estimated	Projected	
	2013	2014	2015	2016	2017
World	3.3	3.4	3.1	3.4	3.6
Advanced Economies	1.1	1.8	1.9	2.1	2.1
USA	1.5	2.4	2.5	2.6	2.6
Euro Area	-0.3	0.9	1.5	1.7	1.7
Japan	1.6	0.0	0.6	1.0	0.3
UK	1.7	2.9	2.2	2.2	2.2
Canada	2.0	2.5	1.2	1.7	2.1
Emerging and Developing Economies	5.0	4.6	4.0	4.3	4.7
Emerging and Developing Asia	7.0	6.8	6.6	6.3	6.2
China	7.7	7.3	6.9	6.3	6.0
India	6.9	7.3	7.3	7.5	7.5
MENA	2.3	2.8	2.5	3.6	3.6
Sub-Saharan Africa	5.2	5.0	3.5	4.0	4.7
South Africa	2.2	1.5	1.3	0.7	1.8
Nigeria	5.4	6.3	3.0	4.1	4.2

Source: IMF World Economic Outlook, January 2016

144. Growth in Sub-Saharan Africa is expected to weaken from 5.0 percent in 2014 to 3.5 percent in 2015, primarily driven by the repercussions of declining commodity prices, particularly those for oil, as well as lower demand from China, the largest single trading partner of sub-Saharan Africa, and the tightening of global financial conditions for the region's frontier market economies. Among the region's oil importers, a majority will continue to experience solid growth, especially low-income countries, where investment in infrastructure continues and private consumption remains strong. The growth will pick up in 2016 to 4.0 percent

and 4.7 percent in 2017, driven by sustained infrastructure investment; buoyant services sectors, and strong agricultural production, even as oil-related activities provide less support.

2.4.2 Kenya's Macroeconomic Prospects

145. Kenya's economic growth prospects for the FY 2016/17 and the medium term takes into account the sluggish and volatile global output and the domestic risks. The growth profile accommodates the strategic objectives of the Government as outlined in the second Medium Term Plan (MTP) of Vision 2030.

146. The economic outlook in this Budget Policy Statement is therefore for a continued robust growth, lower fiscal deficits, containing of inflation within the target range and a gradual improvement in the external current account balance.

147. Real GDP is estimated to expand by 5.5 percent in FY 2014/2015, 5.8 percent in FY 2015/2016, 6.1 percent in FY 2016/2017 and 6.5 percent by FY 2018/19 (**Table 2.3 and Annex Table 1**). This high growth will be supported by increased production in agriculture on account of favourable weather, completion of public infrastructural projects, expected recovery of Tourism sector, enhanced private consumption. The economy will also benefit from increased private investments and domestic demand, following enhanced investor confidence and the on-going initiatives to deepen regional integration.

148. Inflation is currently at 7.75 percent and is projected to decline to the target of 5 percent plus or minus 2.5 percent under pinned by prudent monetary policy by the Central Bank of Kenya.

149. Interest rates are expected to remain low and stable for borrowers to access credit for development. The financial sector is expected to remain stable under the vigilance of the regulators. During the same period, the exchange rates is expected to remain stable and competitive.

150. Kenya's external position is projected to strengthen over the medium term with the current account deficit expected to narrow to 6.5 percent supported by the declining international oil prices and a slowdown in consumer imports. The Foreign exchange reserves are expected to increase to 5.4 months of imports cover over the medium term.

151. The fiscal policy aims at supporting rapid and inclusive economic growth, ensuring sustainable debt position and at the same time supporting the devolved system of Government for effective delivery of services. Consistent with this objective the policy is set to gradually adjust through a combination of lower spending and higher revenues. We target a reduction in the fiscal deficit to 4.1 percent of GDP by 2018/19 from an estimate of 8.0 percent of GDP in FY 2015/16.

Table 2.3: Macroeconomic Indicators Underlying the Macroeconomic Policy Framework

	2013/14	2014/15		2015/16		2016/17			2017/18			2018/19		
	Act.	Budget	Prel.	Budget	Revised	BPS'15	BROP'15	BPS'16	BPS'15	BROP'15	BPS'16	BROP'15	BPS'16	
<i>Annual percentage change</i>														
National Account and Prices														
Real GDP	5.5	6.1	5.5	7.0	5.8	7.1	6.5	6.1	7.0	6.5	6.3	6.5	6.5	
GDP Deflator	6.3	6.7	7.2	6.5	6.8	6.4	6.5	6.2	6.2	6.2	5.6	6.0	5.4	
CPI Index (eop)	6.8	5.3	6.1	5.0	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
CPI Index (avg)	7.1	5.7	6.6	5.0	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Terms of Trade (-deterioration)	1.2	0.2	2.4	0.3	0.4	0.2	-1.0	-0.9	0.2	0.6	0.9	-1.0	-1.0	
<i>in percentage of GDP</i>														
Investment and saving														
Investment	21.7	24.6	23.5	26.9	23.5	25.2	24.9	22.8	25.6	25.3	22.6	24.1	23.8	
Gross National Savings	12.7	16.6	14.5	19.7	15.9	18.0	17.7	16.3	18.2	18.3	16.1	17.7	17.4	
Central government budget														
Total revenue	19.3	20.4	19.4	20.8	20.3	21.5	21.3	20.6	21.8	21.6	20.9	21.9	21.1	
Total expenditure and net lending	25.8	31.6	28.7	30.6	29.5	27.6	28.7	28.3	26.6	28.0	27.1	27.0	26.0	
Overall balance (commitment basis) excl. grants	0.0	-11.2	-9.3	-9.8	-9.2	-6.2	-7.4	-7.7	-4.8	-6.4	-6.2	-5.0	-4.9	
Overall balance (commitment basis) incl. grants	0.0	-10.1	-8.6	-8.7	-8.0	-5.4	-6.6	-6.8	-4.0	-5.6	-5.4	-4.3	-4.1	
Nominal public debt, net	43.9	45.4	44.9	46.1	46.5	42.6	44.7	44.6	41.3	44.7	45.9	44.1	45.4	
External sector														
Current external balance, including official transfers	-9.0	-8.0	-9.0	-7.2	-7.6	-7.2	-7.2	-6.5	-7.4	-7.0	-6.5	-6.5	-6.5	
Gross international reserve coverage in months of imports	4.1	4.6	4.6	4.8	4.8	5.1	5.1	5.1	5.3	5.3	5.3	5.4	5.4	

Source: National Treasury

Source: National Treasury

2.4.3 Risks to the Outlook

152. The risks to the economic outlook for 2016/17 and the medium-term include continued uneven and sluggish growth in advanced and emerging market economies as well as falling commodity prices that will impact negatively on our exports and tourism activities.

153. Further, adverse weather conditions, especially the prolonged drought often experienced after El nino rains, could also be a source of vulnerabilities for growth especially in the agriculture sector.

154. Public expenditure pressures, especially recurrent expenditures, continue to pose fiscal risk to the National and County Governments.

155. The government will, however, undertake timely and appropriate measures to safeguard macroeconomic stability should these risks materialize.

III. FISCAL POLICY OUTLOOK

3.1 Fiscal Policy

156. The 2016 Medium-Term Fiscal Policy aims at supporting rapid and inclusive economic growth, ensuring sustainable debt position and at the same time supporting the devolved system of Government for effective delivery of services. Our fiscal policy also indicates our deliberate convergence path towards the East African Community Monetary Union protocol's fiscal targets. Specifically, the Fiscal policy underpinning the FY 2016/17 Budget and MTEF aims at raising revenue from an estimated 20.3 percent of GDP in FY 2015/16 to 21.1 percent of GDP over the medium term while containing growth of total expenditure. Total expenditures and net lending is projected to decline from 29.5 percent of GDP in FY 2015/16 to 26.0 percent of GDP over the medium term.

157. The overall fiscal deficit inclusive of grants is therefore projected to decline from 8.0 percent of GDP in FY 2015/16 to 6.8 percent FY 2016/17 and to 4.1 percent of GDP over the medium term. The higher deficit continues to reflect the implementation of the one off SGR project. Including grants and excluding expenditures related to the SGR the deficit declines from 6.2 percent of GDP in FY 2015/16 to 3.6 percent of GDP over the medium term.

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

159. The decline in the overall fiscal balance (after grants) over the medium term will allow public debt net of deposits to decline gradually from 46.5 percent of GDP in FY 2015/16 to about 45.4 percent of GDP by 2018/19.

3.2 Deficit Financing Policy

160. The fiscal stance envisages continued borrowing from domestic and external sources, with the latter being largely on concessional terms. The Government's borrowing plans remain anchored in the medium term debt management strategy which aims at ensuring public debt sustainability. Non-concessional external borrowing will be undertaken in a cautious manner and limited to development projects and the stated ceiling in the Medium-Term Debt Strategy paper. The Government also remains committed to accessing international capital markets with a view to continued diversification of our funding sources for development expenditures while at the same time reducing pressures on domestic interest rates. The Government will ensure that the level of domestic borrowing does not crowd out the private sector given the need to increase private investment to accelerate economic expansion.

3.3 Outcomes of the Fifth National and County Government Co-ordinating Summit

161. The National and County Government Co-ordinating Summit met in Sagana State Lodge, from 10th to 11th February, 2016 to deliberate on matters of National and County Governments interest with a focus to increasing resources towards development for FY 2016/17 budget.

162. The Summit adopted a policy of **austerity**, aimed at eliminating wastage so as to release more resources from recurrent expenditure to development. In this context, the National and County Governments agreed to achieve a 50 percent reduction in travel expenditure and allowances across all Governments Organs including the Judiciary and the National and County Legislatures.

163. At the same time, the Summit agreed to take the following further measures:

- Redouble efforts aimed at increasing **revenue collection** by both National and County Governments so as to increase the overall resource basket. In this respect, County Governments will partner with Kenya Revenue Authority in the collection of own revenue.
- Ensuring adequate funding to County Governments
- Undertake an analysis of the functions of both levels of Government, aimed at **eliminating duplication and wastage** at both level of Governments

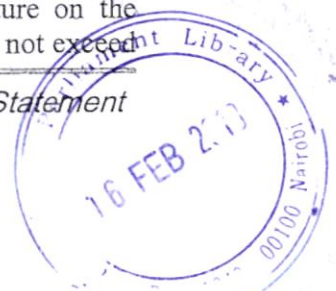
164. The Summit further agreed to channel all the funds released as a result of these initiatives to **National interest development projects** undertaken by both National and County Governments. The savings will be used for programmes such as internal and external security, food security, youth empowerment, social safety nets, Early Childhood Development facilities and Village Polytechnics and in reducing the fiscal deficit.

165. The Summit also agreed to streamline the process of **funds flow** in relation to inter-Governmental fiscal transfers including the development partner funds in order to reduce delays in release of funds to projects and programmes.

3.4 Adherence to Fiscal Responsibility Principles

166. The Government recognizes that the fiscal stance it takes today will have implications into the future. Therefore, and in line with the Constitution and the Public Finance Management (PFM) Act of 2012, the principle of sharing the burdens and benefits of the use of resources and public borrowing between the present and future generation implies that we have to make prudent policy decisions today so that we do not impose an unwarranted debt burden on future generations. Also to ensure that development portfolio is not crowded out by both the National and County Governments, we shall ensure adherence to the ratio of development to recurrent expenditures of at least 30:70 over the medium term, as set out in the PFM Act.

167. The National Government will observe strictly regulation 26 (1) (a) of the PFM Act, which requires that the national government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed



35 percent of the national government's equitable share of the revenue. It is expected that county governments will also strictly adhere to this requirement as stipulated in the PFM regulations 25 (1) (b) (County Regulations) and those that are already in breach to take remedial measures as provided in the regulations.

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

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

- a) The National Government's development as a percent of total budget was 36.2 percent in FY 2014/15 as shown in **Table 3.1**. Over the medium term development expenditure is budgeted at 39.4 percent in FY 2015/16 and 37.3 percent in FY 2018/19. These resources for development are above the 30 percent minimum threshold set out in the PFM law.

Table 3.1: Revenues and Expenditures, (Ksh billion)

	2013/14	2014/15	2015/16		2016/17		2017/18		2018/19	
	Act.	Prel.	Budget	Revised	BROP'15	BPS'16	BROP'15	BPS'16	BROP'15	BPS'16
1.0 Total Expenditures & Net Lending	1,300.6	1,639.2	1,970.8	1,890.2	2,099.2	2,064.0	2,320.3	2,219.9	2,523.5	2,391.5
1.1 Total National Govt Expenses	1,107.2	1,409.9	1,712.8	1,630.4	1,824.1	1,783.7	2,003.6	1,922.3	2,173.9	2,073.1
Total Recurrent	787.9	895.2	1,021.6	989.7	1,112.0	1,094.2	1,199.9	1,193.8	1,264.8	1,278.4
CFS (Interest & Pensions)	165.0	209.4	228.8	240.5	242.4	275.4	246.0	292.1	250.5	307.1
Total ministerial Recurrent	622.9	685.8	792.9	749.2	869.6	818.8	953.9	901.6	1,014.3	971.2
Wages & Salaries /1	281.2	298.0	315.4	333.5	360.8	360.8	396.9	396.9	436.6	436.5
Wages & Salaries as % of National Government Revenues/1	36.0%	33.9%	28.6%	31.7%	28.1%	29.7%	26.9%	28.3%	25.6%	27.0%
Development	319.3	509.7	711.6	642.9	699.6	667.7	791.3	706.5	893.2	772.2
Dev. as % of NG Expenditures	28.8%	36.2%	41.5%	39.4%	38.4%	37.4%	39.5%	36.8%	41.1%	37.3%
Domestic	200.7	268.1	362.2	328.9	419.2	351.4	550.9	410.6	636.8	462.8
External	118.6	241.2	349.5	308.0	280.4	310.4	240.4	290.4	256.4	300.8
Contingencies	-	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
1.2 County Allocation	193.4	229.3	258.0	259.8	275.0	280.4	316.7	297.6	349.6	318.4
2.0 Total Revenues	974.4	1,108.5	1,360.1	1,313.2	1,560.4	1,496.3	1,791.5	1,702.2	2,051.8	1,933.7
3.0 Total National Govt - Revenues (Incl. A-I-A)	781.0	879.1	1,102.1	1,053.4	1,285.3	1,216.0	1,474.8	1,404.6	1,702.2	1,615.3
4.0 Net Domestic Financing	201.7	251.1	219.2	168.2	239.8	197.6	273.4	228.0	246.3	161.3
Of which: Sovereign Bond proceeds	-	140.5	-	-	-	-	-	-	-	-
Others	201.7	110.6	219.2	168.2	239.8	197.6	273.4	228.0	246.3	161.3

Source: National Treasury

/1 Salaries and Wages reflect the wages for civil service inclusive of the police and prison officers and teachers

- b) On *compensation of employees*, the share to National Government revenues was 33.9 percent in FY 2014/15, and is projected at 31.7 percent in FY 2015/16 and at 27.0 percent by FY 2018/19. These ratios demonstrate the

commitment to the fiscal responsibility principle of ensuring that the national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations 26(1)(a).

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

- d) The government is required to maintain Public debt and obligations at a sustainable level as approved by Parliament (for National Government) and county assemblies (for County Governments). The Government borrowing level is set in the Medium Term Debt Strategy approved by the National Assembly. The strategy aims at ensuring public debt sustainability and minimizing the level of contingent liabilities. The Government is committed to satisfying this principle throughout. Our debt ratios compared with internationally recognized threshold continues to show that our debt level remains sustainable (Table 3.2).

Table 3.2: Kenya's Debt Sustainability Indicators

Indicator	Indicator (Threshold)	Position				
		2013/14	2014/15	2015/16	2016/17	2017/18
Debt -to- GDP ratio	74.0	44.1	43.9	43.7	42.6	41.3
External Debt -to- exports ratio	300.0	207.9	204.3	190.1	180.8	175.3
Debt service -to- revenue ratio	30.0	14.7	13.8	13.1	12.3	11.9
Debt service -to- exports ratio	25.0	24.6	23.1	21.7	21.0	20.9

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

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

IV. FY 2016/17 BUDGET AND THE MEDIUM TERM

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

Revenue Projections

171. The fiscal framework for the FY 2016/17 Budget is set based on macroeconomic policy framework set out in Chapter II.

172. The FY 2016/17 budget targets revenue collection including Appropriation-in-Aid (AIA) of Ksh 1,496.3 billion (20.6 percent of GDP) from Ksh 1,311.1 billion (20.3 percent of GDP) in FY 2015/16 (**Annex Tables 2 and 3**). This performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues is projected at Ksh 1,380.2 billion (19.0 percent of GDP) in FY 2016/17 up from the projected Ksh 1,202.0 billion (18.7 percent of GDP) in FY 2015/16.

Expenditure Projections

173. In the FY 2016/17, total expenditure and net lending are projected at Ksh 2,051.7 billion (or 28.3 percent of GDP) from the estimated Ksh 1,901.8 billion (29.5 percent of GDP) in the FY 2015/16 budget. Recurrent expenditures will amount to Ksh 1,094.2 billion (15.1 percent of GDP) compared with Ksh 989.7 billion (15.4 percent of GDP) in FY 2015/16.

174. The wages and salaries for the National Government (excluding MDAs whose budget is captured as current grants/transfer) in FY 2016/17 is projected at 5.0 percent of GDP in FY 2016/17.

175. Expenditure ceilings on goods and services for sectors/ministries are based on funding allocation in the FY 2015/16 budget as the starting point. The ceilings are then adjusted to take into account one-off expenditures in FY 2015/16.

176. The ceiling for development expenditures including foreign financed projects (excluding net lending) in nominal terms amounts to Ksh 665.7 billion in the FY 2016/17. Most of the outlays are expected to support critical infrastructure. Part of the development budget will be funded by project loans and grants from development partners, while the balance will be financed through domestic resources.

177. A contingency of Ksh 5.0 billion is provided for in FY 2016/17. In addition, Ksh 6.0 billion is provided for the Equalization Fund.

Deficit Financing

178. Reflecting the projected expenditures and revenues, the fiscal deficit (excluding grants), is projected at Ksh 555.4 billion (equivalent to 7.7 percent of GDP) in FY 2016/17 against the estimated fiscal deficit of Ksh 590.7 billion (9.2 percent of GDP) in FY 2015/16. Including grants, the fiscal deficit is projected at Ksh 495.5 billion (6.8 percent of GDP) in FY 2016/17 against the estimated fiscal deficit of Ksh 517.3 billion (8.0 percent of GDP) in FY 2015/16.

179. Excluding expenditures related to the Standard Gauge Railway (SGR) which is a one off expenditure, the deficit for the FY 2016/17 amounts to Ksh 407.3 billion or 5.6 percent of GDP.

180. The fiscal deficit in FY 2016/17, will be financed by net external financing of Ksh 310.7 billion (4.3 percent of GDP) and Ksh 184.8 billion (2.5 percent of GDP) from net domestic borrowing.

4.1 Budgetary Allocations for the FY 2016/17 - 2018/19 MTEF

181. The budgetary allocations to the three arms of Government as well as sharable revenues to the Counties is summarised in **Table 4.1** as follows:

Table 4.1: Summary Budget Allocations for the FY 2016/17 - 2018/19 MTEF (Ksh Million)

	Details	2015/16	2016/17	2017/18	2018/19
1	National Government	1,461,054	1,444,041	1,578,791	1,678,766
2	Parliament	27,277	27,705	35,143	35,509
3	The Judiciary	17,161	17,759	19,018	19,584
4	County Shareable	259,775	280,362	297,588	318,420
	Total	1,765,267	1,769,867	1,930,541	2,052,279

182. While finalising the Budget estimates for the FY 2016/17, the resolutions of the Fifth National and County Government Co-Ordinating Summit held in Sagana from 10th to 11th February 2016 captured in Part II Section 3.4 of this Budget Policy Statement will be factored in.

Key Priorities for the 2016/17 Medium Term Budget

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

184. The Government is committed to improving the implementation and absorption capacity of projects. In the FY2015/16, the National Treasury coded the projects in IFMIS as "Heads". With effect from FY2016/17, the detailed

SECRET

Development Budget structure will include individual projects being implemented by MDAs regardless of the source of financing in order to improve monitoring and reporting on project implementation.

185. Taken as a whole, the budget for FY2016/17 will focus on the following:

- Enhancing support to social sectors (Social Protection, Health and Education). These will continue to receive the bulk of budgetary resources especially in education and health sectors. The Social Sectors will receive 29.0 percent of total discretionary expenditures.
- Capital investments in Energy, Infrastructure, ICT sector and other development expenditure in general. This reflects the priority assigned to capital investments in our growth objectives. With an overall allocation of 24.7 percent of total discretionary expenditures, the Energy, Infrastructure and ICT Sector will be receiving the second largest share of the resource envelope. This reflects Government's commitment in improving infrastructure countrywide for faster growth.

186. Other priority areas including security, social protection, youth and agriculture will be given priority in the allocation of resources.

Medium-Term Expenditure Estimates

187. **Table 4.2** provides the projected baseline ceilings for the 2016 MTEF, classified by sector.

Table 4.2: Medium Term Sector Ceilings, 2016/17 - 2018/19 (Ksh Million)

SECTOR						% SHARE OF TOTAL EXPENDITURE			
		PRINTED ESTIMATES 2015/16	BPS CEILING 2016/17	PROJECTIONS		PRINTED ESTIMATES 2015/16	BPS CEILING 2016/17	PROJECTIONS	
				2017/18	2018/19			2017/18	2018/19
AGRICULTURE, RURAL & URBAN DEVELOPMENT	Sub Total	79,692	64,079	69,800	71,834	5.3%	4.3%	4.3%	4.1%
	Rec. Gross	16,671	15,792	17,044	17,523	1.1%	1.1%	1.0%	1.0%
	Dev. Gross	63,021	48,286	52,756	54,311	4.2%	3.2%	3.2%	3.1%
ENERGY, INFRASTRUCTURE & ICT	Sub Total	404,670	367,596	391,883	431,434	26.9%	24.7%	24.0%	24.9%
	Rec. Gross	40,847	42,291	44,634	46,671	2.7%	2.8%	2.7%	2.7%
	Dev. Gross	363,823	325,305	347,249	384,763	24.2%	21.8%	21.3%	22.2%
GENERAL ECONOMIC & COMMERCIAL AFFAIRS	Sub Total	21,296	15,361	18,862	18,582	1.4%	1.0%	1.2%	1.1%
	Rec. Gross	7,126	6,768	7,543	7,664	0.5%	0.5%	0.5%	0.4%
	Dev. Gross	14,170	8,593	11,319	10,918	0.9%	0.6%	0.7%	0.6%
HEALTH	Sub Total	59,184	59,576	63,652	65,437	3.9%	4.0%	3.9%	3.8%
	Rec. Gross	28,520	28,940	30,403	30,688	1.9%	1.9%	1.9%	1.8%
	Dev. Gross	30,664	30,636	33,249	34,749	2.0%	2.1%	2.0%	2.0%
EDUCATION	Sub Total	336,252	342,020	376,535	393,114	22.3%	23.0%	23.1%	22.7%
	Rec. Gross	299,597	306,516	334,224	348,436	19.9%	20.6%	20.5%	20.1%
	Dev. Gross	36,656	35,505	42,311	44,678	2.4%	2.4%	2.6%	2.6%
GOVERNANCE, JUSTICE, LAW & ORDER	Sub Total	154,047	182,578	186,239	197,490	10.2%	12.3%	11.4%	11.4%
	Rec. Gross	133,474	161,052	161,746	172,497	8.9%	10.8%	9.9%	9.9%
	Dev. Gross	20,573	21,527	24,493	24,993	1.4%	1.4%	1.5%	1.4%
PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	Sub Total	243,354	232,752	286,682	296,841	16.2%	15.6%	17.6%	17.1%
	Rec. Gross	115,465	119,072	144,888	149,332	7.7%	8.0%	8.9%	8.6%
	Dev. Gross	127,889	113,680	141,794	147,509	8.5%	7.6%	8.7%	8.5%
NATIONAL SECURITY	Sub Total	112,513	120,840	123,217	141,933	7.5%	8.1%	7.5%	8.2%
	Rec. Gross	112,471	120,798	123,175	141,891	7.5%	8.1%	7.5%	8.2%
	Dev. Gross	42	42	42	42	0.0%	0.0%	0.0%	0.0%
SOCIAL PROTECTION, CULTURE & RECREATION	Sub Total	31,483	30,150	32,223	32,914	2.1%	2.0%	2.0%	1.9%
	Rec. Gross	12,262	12,070	13,002	13,292	0.8%	0.8%	0.8%	0.8%
	Dev. Gross	19,221	18,079	19,221	19,622	1.3%	1.2%	1.2%	1.1%
ENVIRONMENT PROTECTION, WATER & NATURAL RESOURCES	Sub Total	63,001	74,553	83,860	84,281	4.2%	5.0%	5.1%	4.9%
	Rec. Gross	17,771	19,537	21,649	22,448	1.2%	1.3%	1.3%	1.3%
	Dev. Gross	45,230	55,016	62,211	61,833	3.0%	3.7%	3.8%	3.6%
TOTAL	TOTAL	1,505,492	1,489,505	1,632,953	1,733,859	100.0%	100.0%	100.0%	100.0%
	Rec. Gross	784,204	832,836	898,307	950,441	52.1%	55.9%	55.0%	54.8%
	Dev. Gross	721,289	656,669	734,646	783,418	47.9%	44.1%	45.0%	45.2%

188. In the recent Government reorganisation, new Departments were created and this will have impact on sector allocations that will be reviewed and harmonized while preparing budget estimates. Overall, the binding ceilings will remain as provided in the fiscal framework.

Apportionment of the Baseline Ceilings

189. The baseline estimates reflects the current ministerial spending levels in sector programmes. In the recurrent expenditure category, non-discretionary expenditures take first charge. These include payment of statutory obligations such as interest payments, salaries for Constitutional offices and pensions.

190. Compensation of employees covering staff in the line ministries providing services for National Government functions accounts for about 5 percent of the GDP. Other recurrent expenditures that include operations and maintenance account for 6.6 percent of GDP.

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

- *On-going projects:* emphasis has been given to completion of on-going capital projects and in particular infrastructure projects with high impact on poverty reduction, equity and employment creation.
- *Counterpart funds:* priority was also given to adequate allocations for donor counterpart funds. Donor counterpart funds are the portion that the Government must finance in support of the projects financed by development partners.
- *Strategic policy interventions:* priority was also given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation.

Finalization of Spending Plans

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

Priority Areas of Consideration for Additional Resources	
1.	Intervention identified during the stakeholders consultation for 2016 MTEF budget.
2.	Implementation of any outstanding areas under the new Constitution covering proposals not accommodated within the baseline ceilings issued to Ministries.
3.	Justification of every new projects and aligned to the Government strategic projects under a zero based budgeting system

3.	Strategic intervention in the area of: education towards achieving free primary education and free day secondary education; health through leasing of equipment and enhancing general welfare of health facilities, infrastructure, tourism, security and agriculture (especially irrigation programmes and other food security enhancing programmes), Energy (expand connection to rural areas and public facilities) as well as policy interventions covering the entire nation to enhance regional integration and social equity.
4.	Specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

4.2 Details of Sector Priorities

193. The medium term expenditure framework for 2016/17 – 2018/19 ensures continuity in resource allocation based on prioritized programmes aligned to the Second MTP (2013-2017) of Vision 2030. It also focuses on strategic policy initiatives of the Jubilee Administration to accelerate growth, employment creation and poverty reduction. The recent achievements and key priority targets for each sector are based on the sector reports that can be accessed in the National Treasury website www.treasury.go.ke.

Agriculture, Rural & Urban Development Sector

194. The goal of the sector is to attain food security, sustainable land management, affordable housing and sustainable urban infrastructure development.

195. During the 2016/17-2018/19 MTEF period, focus will be directed on enhancement of Strategic Food Reserve, research and development, establishment of the seed and fertilizer fund, establishment of crop and cattle insurance, rehabilitate and equip regional veterinary laboratories, develop and transfer livestock, aquaculture and Mari culture technologies.

196. In order to implement the prioritized programmes, the Sector has been allocated Ksh 64.1 billion, Ksh 69.8 billion and Ksh 71.8 billion for the financial years 2016/2017, 2017/2018 and 2018/2019 respectively. Recurrent expenditure allocation is Ksh 15.8 billion, Ksh 17.0 billion and Ksh 17.5 billion for FY2016/17, 2017/18 and 2018/19 respectively, whereas Development expenditure for the same period is Ksh 48.3 billion, Ksh 52.8 billion, and Ksh 54.3 billion.

Energy, Infrastructure and Information, Communication and Technology Sector

197. The sector aims at improving both quality and quantity of the existing Infrastructure facilities in order to contribute to attaining and sustaining economic growth of over 10 percent per annum. The programmes prioritized in the MTEF period 2016/17-2018/19, intends to facilitate provision of clean, sustainable,

affordable, reliable and secure energy, quality, and accessible transport infrastructure, efficient, reliable and affordable ICT services that supports socio-economic transformation in Kenya.

198. In order to implement the prioritized programmes, the Sector has been allocated Ksh 367.6 billion, Ksh 391.9 billion and Ksh 431.4 billion for the financial years 2016/2017, 2017/2018 and 2018/2019 respectively. Recurrent expenditure for FY2016/17, 2017/18 and 2018/19 is Ksh 42.3 billion, Ksh 44.6 billion and Ksh 46.7 billion respectively. The development expenditure for the same period is Ksh 325.3 billion, Ksh 347.2 billion, and Ksh 384.8 billion respectively.

General Economic and Commerce Affairs Sector

199. The general objectives of the sector, include; promotion and development of trade, tourism, industrialization and entrepreneurship, innovation, savings mobilization and investment and regional integration.

200. During the 2016/17 – 2018/19 MTEF period the sector will focus on implementing EAC cross-cutting regional integration agenda and harmonisation of EAC Union and EAC-COMESA-SADC trade regimes, improving niche tourism product development and diversification, promotion of industrial and skills development, industrial research development. Towards this end certain specific programmes will be implemented which include; Construction of the Tier “1” retail market in Athi River and the Maragua Wholesale Hub; implementation of the Development of Industrial Technology & SME parks in Eldoret, Juja and Taita Taveta; master planning and development of Mombasa Special Economic Zones together with Dongo Kundu Free Trade Zone; infrastructural development for leather and textile hubs and enforcement of good governance in the cooperative societies.

201. To implement the prioritized programmes, the Sector has been allocated Ksh 15.4 billion, Ksh 18.9 billion and Ksh 18.6 billion for the financial years 2016/2017, 2017/2018 and 2018/2019 respectively. Recurrent expenditure allocation for FY2016/17, 2017/18 and 2018/19 is Ksh 6.8 billion, Ksh 7.5 billion and Ksh 7.7 billion respectively. The Development expenditure for the same is Ksh 8.6 billion, Ksh 11.3 billion, and Ksh 10.9 billion respectively.

Health Sector

202. The Health sector goal is to attain equitable, affordable, accessible and quality health care for all. This will be done through elimination of communicable conditions; Halting and reversing the rising burden of communicable and non-communicable conditions in the country; Reducing the burden of violence and injuries; Providing essential health care that are affordable, equitable, accessible and responsive to client needs; Minimizing exposure to health risk by strengthening health promoting interventions that address risk factors to health; and Strengthening collaboration with private and other sectors that have an impact

on health. In addition, adopting a 'Health in all Policies' approach, which ensures it interacts with and influences design implementation and monitoring processes in all health related sector actions.

203. Key projects to be implemented in the MTEF period include: rehabilitation of hospitals across the country, construction of a radioactive waste management facility, construction of tuition blocks and laboratory at KMTC, setting up a burns unit and paediatric emergency centre, cancer institute and a 300 bed private wing at KNH, acquisition of space for NACC and construction of a new warehouse and maintenance of KEMSA regional warehouse.

204. In order to implement the prioritized programmes, the Sector has been allocated Ksh 59.6 billion, Ksh 63.7 billion and Ksh 65.4 billion for the financial years 2016/2017, 2017/2018 and 2018/2019 respectively. The recurrent expenditure allocation for the same period is Ksh 28.9 billion, Ksh 30.4 billion and Ksh 30.7 billion, while the development expenditure allocation is Ksh 30.6 billion, Ksh 33.2 billion, and Ksh 34.7 billion respectively.

Education Sector

205. The sector is mandated to address the following: provision of basic education; secondary and tertiary education; quality assurance and standards; university education, teacher resource management, governance and standards; technical vocational education and training (TVET); research, science technology and innovations; and youth training.

206. To meet its mandate as well as contribute to economic growth, the sector has prioritized the following programmes for the 2016/17 to 2018/19 MTEF Period: Primary education, secondary and tertiary education, Quality assurance and standards, University education, Research, Science, Technology and Innovation, Technical Youth Training and Development, Teacher Resource Management, Teaching Standards and Development, Vocational Education and Training and General Administration and Planning.

207. In order to implement the prioritized programmes, the Sector has been allocated Ksh 342.0 billion, Ksh 376.5 billion and Ksh 393.1 billion for the financial years 2016/2017, 2017/2018 and 2018/2019 respectively. Recurrent expenditure allocation for FY2016/17, 2017/18 and 2018/19 is Ksh 306.5 billion, Ksh 334.2 billion and Ksh 348.4 billion. While the development expenditure allocation is Ksh 35.5 billion, Ksh 42.3 billion, and Ksh 44.7 billion respectively.

Governance, Justice, Law and Order Sector

208. The sector is responsible for providing security, coordination of National Government, legal advice to Government agencies and administration of justice. It also plays a major role in promoting integrity and the fight against corruption, providing prosecution services, spearheading the implementation of the Constitution, regulating political parties, protecting witnesses and protecting human rights. Further, the Sector plays an instrumental role in the delimitation of electoral boundaries and management of electoral process, promotion of gender

equality and inclusion of marginalized groups and communities, and civilian policing oversight. Additionally, the Sector plays a role in peace building and conflict management, registration services, regulation of gaming industry, management of custodial and non-custodial offenders, provision of population management services, eradication of drugs and substance abuse, crime research and government printing services.

209. The critical and priority activities for this sector in the 2016/17 to 2018/19 MTEF period include: retooling and modernization of the policing services; preparation and management of the 2017 general elections; scale-up the issuance of IDs; registration, regulation and funding of political parties; repatriation of refugees; national cohesion and integration initiatives; implementation of the Constitution; prosecution services; modernization, automation and decentralization of key sub-sector's programs to all the counties; operationalization of witness protection programmes; entrenchment of democracy and promotion and mainstreaming of human rights; gender equality and non-discrimination across all sub-sectors. Some of the key projects in the medium term for the sector include: purchase of headquarter office premises for the EACC, construction and refurbishment of several ODPP offices across the country, construction of police stations and police housing units across the country, construction of ultra-modern library at Kenya school of law, construction of sub-county commissioners offices across the country, construction of houses for prison warders and installation of CCTVs, mobile jammers, bullet proof gadgets and other security apparatus in penal institutions.

210. In order to implement the prioritized programmes, the Sector has been allocated Ksh 182.6 billion, Ksh 186.2 billion and Ksh 197.5 billion for the financial years 2016/2017, 2017/2018 and 2018/2019 respectively. The recurrent expenditure allocation for FY2016/17, 2017/18 and 2018/19 is Ksh 161.1 billion, Ksh 161.7 billion and Ksh 172.5 billion, while development expenditure allocation for the same period is Ksh 21.5 billion, Ksh 24.5 billion, and Ksh 25.0 billion respectively.

Judiciary

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

212. During the MTEF period 2016/17 – 2018/19, the Judiciary will continue to implement the Dispensation of Justice programme. The objective of this programme is to implement Judiciary's Constitutional mandate which includes *inter alia*; dispensing justice expeditiously to all irrespective of status, promote alternative dispute mechanisms, administer justice without undue regard to procedural technicalities and promote the purpose and principles of the Constitution.

213. In order to implement the prioritized programmes, the sub-sector has been allocated Ksh 17.8 billion for FY 2016/17, Ksh 19.0 billion for FY 2017/18, and Ksh 19.6 billion for the FY 2018/19.

Public Administration and International Relations Sector

214. The Sector provides overall policy, leadership and oversight in economic and devolution management to the country, oversees national legislation, public service delivery, resource mobilization and implementation of Kenya's foreign policy. It further coordinates national policy formulation, implementation, monitoring and evaluation. Other key crosscutting mandates falling under the sector include resource mobilization and management, devolution oversight, implementation of foreign policy as well as oversight on use of public resources and service delivery.

215. In the 2016-17 – 2018/19 MTEF period, the Sector intends to implement thirty two programmes which are aimed at transforming public service delivery and enhancing Kenya's image, prestige and global competitiveness. Special emphasis will be placed on improving infrastructure, ensuring effective communication of presidential functions, enhancing policy advisory functions of the executive, effective monitoring and evaluation of Vision 2030 flagship projects and supporting county governments' development.

216. In order to implement the prioritized programmes, the Sector has been allocated Ksh 232.8 billion, Ksh 286.7 billion and Ksh 296.8 billion for the financial years 2016/2017, 2017/2018 and 2018/2019 respectively. The recurrent expenditure allocation for FY2016/17, 2017/18 and 2018/19 is Ksh 119.1 billion, Ksh 144.9 billion and Ksh 149.3 billion respectively, while development expenditure allocation is Ksh 113.7 billion, Ksh 141.8 billion, and Ksh 147.5 billion for the same period respectively.

Parliament

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

218. During the 2016/17-2018/19 MTEF period, the sub-sector will introduce 127 bills to parliament, consider 352 motions, 374 statements, 30 petitions and provide oversight over usage of public resources. It will also provide 20 reports on vetting of State Officers, 110 reports on public hearings, 97 working policy documents on all Government sectors and conduct 129 visits to the counties.

219. In order to implement the prioritized programmes, the sub-sector has been allocated Ksh 27.7 billion for FY 2016/17, Ksh 35.1 billion for FY 2017/18, and Ksh 35.5 billion for the FY 2018/19.

National Security

220. The Sector is mandated with the mission of deterring aggression, defending the Republic of Kenya and providing support to civilians in maintaining peace and order.

221. The Sector will continue to defend and protect the territorial integrity and sovereignty of Kenya and modernize its operations during the FY 2016/17 and the medium term.

222. The 2016/17 – 2018/19 MTEF allocations for the sector amounts to Ksh 385.9 billion of which Ksh 120.8 billion has been set aside for the FY 2016/17, rising to Ksh 123.2 billion in the FY 2017/18 and Ksh 141.9 billion in FY 2018/19.

Social Protection, Culture and Recreation Sector

223. Social Protection, Culture and Recreation Sector is mandated to address the issues on promotion and exploitation of Kenya's diverse culture for peaceful co-existence; enhancing Kenya's reading culture; development and promotion of sports; preservation of Kenya's heritage; promotion of cultural and sports tourism; regulation, development and promotion of the film industry; and development, research and preservation of music in the country. The sector is also mandated with the enhancement and promotion of harmonious industrial relations; safety and health at workplaces; employment, industrial training, regulation of sports organizations and trade unions, productivity management, national human resource planning and development, social security, social assistance, children welfare and social development.

224. During the 2016/17 – 2018/19 MTEF period, the sector priorities will aim at creating an enabling environment for the development and promotion of Kenya's rich cultural heritage, generation of revenue and creation of employment. The sector has identified eight (8) priority programmes for implementation during the 2016/17 to 2018/19 MTEF Period namely: Sports; Culture and the Arts; Library and Archive Management Services; Policy and General Administrative Services which cuts across both sub-sectors; Promotion of Best Labour Practices; Manpower Development, Employment and Productivity Management; Social Development and Children Services; and National Safety Net.

225. In order to implement the prioritized programmes, the Sector has been allocated Ksh 30.2 billion, Ksh 32.2 billion and Ksh 32.9 billion for the financial years 2016/2017, 2017/2018 and 2018/2019 respectively. Breaking down the allocations for recurrent expenditures over the same period is Ksh 12.1 billion, Ksh 13.0 billion and Ksh 13.3 billion respectively while the allocation for development expenditure is Ksh 18.1 billion, Ksh 19.2 billion, and Ksh 19.6 billion respectively.

Environment Protection, Water and Natural Resources

226. The Environment Protection, Water and Natural Resources sector comprises three sub-sectors namely: Environment, Natural Resources and Regional Authorities; Water and Irrigation; and Mining subsectors with twenty eight (28) Semi-Autonomous Government Agencies (SAGAs). The sector's mission is to promote sustainable utilization and management of environment and natural resources for socio- economic development.

227. For the 2016/17 – 2018/19 MTEF period the sector has prioritized programmes intended to promote sustainable utilization and management of the environment and natural resources for socio-economic development. These programmes include: Environment and Natural Resources Management and Protection, Meteorological Services, Integrated Regional Development, Water Resources Management, Irrigation and land reclamation, Resources Surveys and Remote Sensing, Mineral Resource Management, and General Administration, Planning and Support Services.

228. In order to implement the prioritized programmes, the Sector has been allocated Ksh 74.6 billion, Ksh 83.9 billion and Ksh 84.3 billion for the financial years 2016/2017, 2017/2018 and 2018/2019 respectively. The recurrent expenditure allocation for FY2016/17, 2017/18 and 2018/19 is Ksh 19.5 billion, Ksh 21.6 billion and Ksh 22.4 billion respectively. The allocation for development expenditure for the same period is Ksh 55.0 billion, Ksh 62.2 billion, and Ksh 61.8 billion respectively.

4.3 Public Participation/Involvement of Stakeholders

229. The Sector Working Groups (SWG) provides an all-inclusive process for identifying and prioritizing Government Projects and activities by stakeholders. The involvement of stakeholders is a Constitutional requirement. The process is commenced with the launch of SWGs. The sector priorities were subjected to public sector hearings to validate the proposals. All the sectors incorporated views arising from the Public during the sector hearings. The detailed comments shared during Public Sector hearings while completing this Budget Policy Statement are shown in **Annex 2**.

Programme Performance Information for 2016/17 - 2018/19 MTEF Period

230. Information on programmes outputs, key performance indicators, and the set targets for the 2016/17 – 2018/19 MTEF period is contained in **Annex Table 6**, annexed separately to this 2016 BPS. The programmes, output, targets and allocations will be aligned to reflect the new look Ministries and State Departments during the finalization of the budget in April 2016.

V. COUNTY FINANCIAL MANAGEMENT AND DIVISION OF REVENUE

5.1 Introduction

231. Two complete Financial Years have elapsed following establishment of the County Governments, and hence the 2016 BPS will apply in the third full year of Kenya's devolution. Also, 2015/16 is the final transition year as defined in the Sixth Schedule of the Constitution and in the Transition to Devolved Government Act, 2012. From an intergovernmental fiscal relations standpoint, several developments have occurred in terms of laying the legal, institutional and administrative foundations for successful fiscal decentralization.

232. Notable amongst recent developments is finalization of the Public Finance Management (PFM) Regulations, 2015, for both the National and the County Governments. The Regulations entrench the fiscal responsibility principles set out in the Public Finance Management Act (PFMA), 2012. The Regulations also strengthen intergovernmental fiscal relations as well as public expenditure controls and reporting frameworks. Going forward, the National Treasury will roll out a programme to sensitize key state and public officers of the National and the County Governments on the provisions of the PFM regulations, 2015.

233. The Public Procurement and Asset Disposal Act, 2015 has been passed by Parliament, and the National Treasury has commenced work on related Regulations. According to the Act, County Treasuries are responsible for implementing the policy relating to procurement and asset disposal, and their duties include promoting preference and reservations schemes for small and micro enterprises (SMEs) and other disadvantaged groups, and for ensuring local residents access a minimum of 25 percent in public procurement within the county.

234. The Public Audit Act, 2015, which is a requirement under the Fifth Schedule of the Constitution, has been passed by Parliament. The Bill is intended to: i) ensure that public entities adhere to the principles of public finance management under Article 201 of the Constitution; ii) operationalize provisions of Articles 229 and 252 of the Constitution; and, iii) promote effectiveness, efficiency, accountability and transparency in usage of public resources at both levels of Government.

235. The Integrated Financial Management Information System (IFMIS) has been implemented in the National and the County Governments. Counties are making progress in implementing the system, with users trained on its functionalities. Notwithstanding occasional connectivity and user capacity issues, counties are using the system to prepare budgets and most have uploaded their procurement plans. Government suppliers have been trained in responding to tenders online. Different investigative and prosecution agencies also have access to the system. In FY 2015/16, the focus has been to stabilize implementation of

IFMIS modules in the counties, especially the end-to-end transactions using electronic procurement, and to roll out the system to County Assemblies. Full IFMIS e-procurement utilization is expected to entrench efficiency, effectiveness and accountability of public funds by ensuring that procurement is aligned with planning. This will lead to savings, thereby unlocking funds to implement priority development projects. Further, by bridging procuring entities' resource allocation decisions to their programme objectives, IFMIS usage will promote Programme-Based Budgeting (PBB), which enables effective results monitoring.

236. Consolidated financial statements, as required by sections 163 and 164 of the PFM Act, 2012 (PFMA), have been prepared for all 47 counties for the 2014/15 Financial Year.

237. In spite of the above progress, several challenges have emerged over the last two FYs, revealing areas in county financial management which require further strengthening in the medium term. A number of these issues are articulated in the Auditor-General's Reports on the Financial Operations of County Governments for FY 2013/14 and in the interim (unaudited) reports for 2014/15. These include: a) irregular procurement characterised by inadequate procurement documentation and records, non-adherence to specifications in tender documents as well as lack of skilled procurement personnel and inadequate inventory and stores management systems; b) payment of debts inherited from defunct Local Authorities (LAs) without validation of the liabilities by the Transition Authority; c) weaknesses in revenue management and accounting practices; d) mismanagement of imprest and advances to county personnel; and e) irregular recruitment of personnel especially casual labour.

238. In a bid to address some of the challenges facing devolution process, the two levels of Government, in a meeting of the National and County Governments Co-ordinating Summit held from 10th to 11th February 2016, agreed on measures to be undertaken by the two levels of Government. It is therefore expected that all the County Governments shall abide by the agreed measures which include:

- A policy of austerity, where each County Government shall eliminate wastage including reduction of travel expenditure and allowances by 50 percent
- Introduction of measures to enhance revenue collections, including exploring modalities of partnering with Kenya Revenue Authority
- Undertake an analysis of the functions at the County Government level with a view to eliminating duplication and wastage of public resources
- Commit to adhere to the agreed streamlined process of funds flow between the National and County Governments in relation to inter-governmental fiscal transfers including the development partner funds.

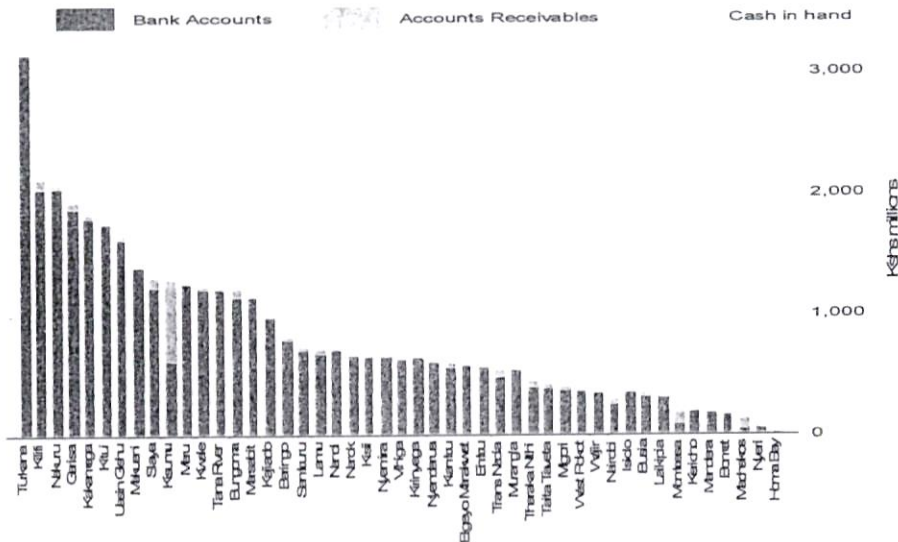
239. The 2016 BPS contains strategic priorities and policy goals addressing the above issues and providing guidance over the medium term in promoting sound intergovernmental fiscal relations and county financial management. These

priorities and goals emanate from County Governments' PFM experience over the last two FYs.

5.2 Cash Disbursement to County Governments

240. Experience from the last two FYs highlights an increase in idle cash resources held by counties, predominantly at their respective County Revenue Funds (CRF) accounts at the Central Bank of Kenya (CBK). At the beginning of 2014/15, counties had aggregate opening balances of Ksh 39.2 billion, a thirteen-fold increase from 2013/14. (See Chart 5.1). A big proportion of this balance was held in counties' bank accounts, with the rest either in the form of accounts receivables (essentially imprests and advances to public officials which were not surrendered or accounted for) or cash. At the beginning of 2015/16, the fund balance brought forward dropped to Ksh 34.2 billion, most of it again in CRF accounts at the CBK or in commercial bank accounts. Accounts receivables increased one-and-a-half times to Ksh 2.2 billion, largely due to a 33 percent growth in unreconciled imprests.

Chart 5.1: County Governments' Opening Balances (as at July 1st 2014)



Source: National Treasury

241. The growth in idle county cash resources suggests challenges in executing counties budgets and opportunity costs of undelivered public services. To address this challenge, the National Treasury will: i) automate the current cash flow planning and Exchequer requisition process (now at the procurement stage) in an effort to accelerate funds release to counties and make it more efficient; ii) continue to enforce existing guidelines on management of imprests to reverse the growth of accounts receivables; iii) operationalize the recently-established Government Cash

Management and Liquidity Committee, whose functions are connected with cash flow operations and revenue performance; and, iv) initiate discussions with the Controller of Budget (CoB) on how to streamline withdrawal of funds by counties.

242. In disbursing cash to counties, the National Treasury is and will continue to adhere to approved and gazetted schedules as well as the Constitution, which requires prudent use of public money. The National Treasury will, however, prioritize disbursement to counties with least fund balances at the CBK. This is supported by the Constitution (Article 201(d)), which requires that public money be managed prudently and responsibly.

5.3 Enhancing County Governments' Own-Source Revenue

243. While counties remain transfer dependent, new measures are needed to help intensify the current upward trend in local revenue collections, as this will enhance subnational fiscal autonomy. Counties' total receipts in 2014/15 amounted to Kshs 266.1 billion, 85.9 percent of it from Exchequer transfers, and 13.4 percent from local collections (a drop from 13.7 percent in 2013/14) (Table 5.1). Compared with 2013/14, Exchequer transfers increased by 19.4 percent while local revenues grew by 17.0 percent. To boost counties' fiscal autonomy, the medium-term priority is to ensure that local revenues do not diminish in importance. Generally, faster own-source revenue growth will also deflate pressure for additional transfers given the specific measures described here below to help in enhancing county own-source revenue collection as well as reporting.

Table 5.1: Summary of County Governments' Receipts

	2013/14		2014/15	
	Kshs m	%	Kshs m	%
Transfers from National Treasury	187,239	84	228,603	85.9
Own Source Revenue	30,533	13.7	35,736	13.4
Transfers from Other Government Agencies	3,137	1.4	291	0.1
Proceeds from Domestic Borrowings	1,856	0.8	298	0.1
Proceeds from Domestic & Foreign Grants	8	0	866	0.3
Reimbursements & Refunds	7	0	301	0.1
Proceeds from Sale of Assets	7	0	6	0
Total	222,788	100	266,100	100

Source: National Treasury

244. The Government, through a consultative process which involved County Governments and several other key actors, has identified a number of policy reform proposals whose implementation will contribute towards improved resourcing of counties, essentially by enhancing revenue collection from property taxes while capturing a greater share of appreciating property values. Accordingly, the National Treasury through the Intergovernmental Budget and Economic Council (IBEC) will initiate a national framework legislation aimed at supporting enhancement of county own-source revenue. The proposed national framework legislation is intended at regulating how County Governments can introduce new taxes, fees, service charges and business licenses in keeping with Articles 209 and

210 of the Constitution as well as Section 161 of the PFMA. In addition, a comprehensive review is to be undertaken of all existing legislation related to taxes, fees, service charges and business licenses being imposed by the counties, with the aim of recommending how these should be better harmonized. This review is among 'next steps' agreed upon by stakeholders following the *National Conference on County Own Source Revenue Enhancement* held in September 2015.

245. To spearhead implementation of the above policy measures, establishment of an inter-agency working committee is underway. Through IBEC and with National Treasury in the lead, the working committee will formulate and thereafter support implementation of the afore-mentioned national framework legislation.

246. The Cabinet Secretary, in 2016/17 will gazette reporting, financial and accounting formats for counties as empowered by the PFM Regulations. This will improve local revenue reporting practice that currently lacks clear/good disaggregation and hence complicates analysis. For instance, in 2013/14, counties bundled 64.6 percent of their local revenues under 'administrative fees and charges' category. However, the reporting practice improved somewhat in 2014/15, when the same proportion of county own-source revenue was spread across five categories. In 2015/16, counties are reporting revenues against nearly 50 different categories, including indistinct ones e.g. "miscellaneous", "other" and "unidentified" revenues. The formats to be gazetted will deal with these challenges.

5.4 Ensuring Compliance with the Fiscal Responsibility Principles

247. With County spending growing rapidly, there is need for measures to promote efficiency and productivity. Despite the budget execution gap discussed earlier, aggregate county spending in 2014/15 grew by 44.6 percent to Ksh 269.8 billion, equivalent to nearly 5 percent of Kenya's GDP (**Table 5.2**). Personnel emoluments grew by 20.6 percent to Ksh 103.4 billion, making it still the biggest component of county spending (although its proportion dropped to 38.3 percent from 46.0 percent in 2013/14). The PFM (County Governments) Regulations, 2015, requires County Governments to maintain employee compensation levels at no more than 35 percent their equitable revenue share. This principle was missed in 2014/15 whereby thirty-five counties exceeded 35 percent of their respective total revenue. The need to minimize overlaps and waste remains a major priority of Government.

Table 5.2: Summary of County Governments' Payments

	2013/14		2014/15	
	Kshs m	%	Kshs m	%
Compensation of employees	85,777	46	103,432	38.3
Use of goods & services	47,666	25.5	60,506	22.4
Acquisition of assets (non-financial)	37,656	20.2	79,431	29.4
Other grants & other payments	4,938	2.6	8,097	3
Transfer to other government entities	4,562	2.4	7,894	2.9
Other payments	4,348	2.3	6,921	2.6
Repayment of principal on domestic lending & on-lending	753	0.4	783	0.3
Acquisition of assets (financial)	304	0.2	843	0.3
Social Security benefits	292	0.2	845	0.3
Subsidies	229	0.1	629	0.2
Finance costs (incl. loan interest)	131	0.1	464	0.2
Total	186,656	100	269,845	100

Source: National Treasury

248. Another medium-term goal is to achieve an increase in the proportion of county spending that is financed from own-source revenue. Between 2013/14 and 2014/15, the share of county spending that is financed from own-source revenue dropped from 16.4 percent to 13.2 percent, which underscores the earlier discussion on the need for counties to grow the local revenue base.

249. Reports by the Auditor-General indicate that some County Governments are borrowing domestically without National Government guarantee, which calls for an audit of such debt. In 2013/14, four counties procured commercial loans totalling Ksh 1.9 billion, majority of it accruing to Nairobi County which, in 2014/15, took out additional Ksh 300 million debt. This raises several concerns, most critically that the debt is not guaranteed by the National Government as required by the Constitution (Article 212) and the PFMA (Sections 58 and 59). Neither has the debt been approved by Parliament. Secondly, the purposes for the borrowings are unclear -- legally, counties may only borrow for capital projects with high economic growth potential. Thirdly, significant county resources (on average Ksh 1.0 billion annually over the last two FYs) are being redirected from service delivery towards loan repayment and interest. The National Treasury is mandated to institute an audit of such debt. In the meantime, all bank and non-bank financial institutions are being alerted to cease plans for further extension of credit to counties, commence recovery of un-guaranteed loans, and familiarize themselves with Constitutional, legal and regulatory provisions on county borrowing. County Treasuries are also expected to put in place mechanisms to ensure full compliance with the PFMA provisions on such liabilities.

250. Further measures are needed to address County Governments' mounting liabilities and to mitigate possible effects of these liabilities on Kenya's economy.

In 2014/15, financial liabilities of counties grew to Ksh 1.1 billion, up from Ksh 0.5 billion in the previous FY. The liabilities comprise of deposits and retentions held on behalf of third parties. (It is Government policy to retain a portion of contracted services and works pending fulfilment of obligations by the contractor, and to hold deposits on behalf of third parties). Fourteen counties accounted for the entire stock of liabilities, with Migori County being responsible for nearly 60 percent. It is imperative that counties make commitments against their budgets, and that amounts relating to outstanding contracted services and works be re-voted in subsequent budgets. As part of the effort to discourage the growth in liabilities, the cash accounting policy already being used by Government MDAs will be fully enforced at the county level.

5.5 Completing Transfer of Functions and Budgeting

251. The Transition Authority (TA) has made some progress, but crucial decisions are still pending on the transfer of responsibility as well as budgets for a number of devolved functions. Through Gazette Notice No. 16 of February 1st 2013, functions previously undertaken by defunct Local Authorities were transferred to County Governments. Subsequently, the TA transferred a second and third set of functions, respectively through Legal Notices No. 137-183 of August 9th 2013; and, Legal Notice No. 33 of March 1st 2014. A number of functions are yet to be transferred to counties. For instance, functions related to cultural activities and public entertainment (gambling, casinos, libraries, cinemas, among others) and management of county roads are yet to be transferred due to pending court cases triggered by inconclusive agreements between the two levels of Government on realignment of relevant legislative frameworks. Likewise, transfer of functions related to Regional Development Authorities (RDAs) and Water Services Boards (WSBs) is pending due to incomplete unbundling of the mandates as well as clarifications of function definitions. Final determination on the transfer of these functions will have important budget implications, because it is on the basis of devolved-function costs that decisions will be made on further resources to be decentralized. Additional resources to be transferred to County Governments will be reflected in the Division of Revenue Bill (DoRB) and the County Allocation of Revenue Bill (CARB) only upon the gazettelement of the decision of Transition Authority to transfer the functions.

5.6 Division of Revenue between the National and the County Governments

252. The National Treasury will engage more closely and earlier with key actors to avert future deadlock in the annual division of revenue process, as this could have adverse budget consequences. During approval process of the Division of Revenue Bill (DoRB), 2015, a prolonged parliamentary stalemate delayed finalisation of the budget process. Whereas the vertical revenue sharing process is

inherently political in character and thus highly deadlock-prone, the frequency and length of disruptions in the case of Kenya (which have happened every year since 2013/14) underscores the need for more predictability in the process. A potential solution exists should Parliament consider and pass the PFM (Amendment) Bill, 2015, which contains a ‘reversionary position’ in the event of deadlocks. While this and other constitutionally viable solutions are being explored, the National Treasury through IBEC undertakes to deepen its engagements over this matter with key actors, including Parliament, in the hope that future disruptions to the annual division of revenue process will be averted.

253. In order to arrive at County Governments’ equitable share of revenue for FY 2016/17, the baseline (i.e. equitable revenue share allocation in FY 2015/16) is adjusted by revenue growth factor of 7.9 percent. Based on this adjustment, County Governments’ equitable share of revenue in FY 2016/17 is estimated to be Ksh 280.3 billion (Table 5.3).

Table 5.3: Equitable Revenue Share Allocation to County Governments (Ksh million)

Budget item	2015/16	2016/17
Baseline (i.e. allocation in the previous FY)	226,660.0	259,774.5
Baseline adjustments:		
1. Various baseline adjustments ¹	2,946.0	
Adjusted baseline:	229,606.0	259,774.5
Additional revenue measures		
1. Adjustment for revenue growth ²	23,902.0	20,525.2
2. Other adjustment ³	4,500.0	
3. Post-BPS 2015 adjustments agreed in Parliament ⁴	1,766.5	
Equitable revenue share allocation for 2016/17	259,774.5	280,300.0

Notes:

1. Baseline adjustments in 2015/16 included allocations against costs related to: i) livestock development; ii) village polytechnics; and, iii) Agricultural Training Centres / Agricultural Mechanization Stations as per TA Gazette Notice of March 2014

2. In 2015/16, the adjustment for revenue growth was 10.41%. For 2016/17, the adjustment applied is 7.9%.

3. ‘Other adjustments’ refers to those related to anticipated increases in salaries and allowances awarded by SRC in 2014/15

4. A further adjustment for salaries/allowances to cushion counties against salary awards granted to state officers mid-FY 2014/15. The adjustment was agreed on May 28th 2015, after the BPS 2015 had been finalized, following recommendations by a Mediation Committee appointed by Speakers of both Houses of Parliament to unlock deadlock over the Division of Revenue Bill 2015.

254. In addition to the above equitable share allocations, County Governments will in FY 2016/17, receive Ksh 21.9 billion through various financing streams as follows (Tables 5.4 and 5.5):

- From the National Government’s share, Ksh 13.5 billion conditional allocations for: i) free maternal healthcare; ii) leasing of medical equipment; iii) compensation of user fees foregone; and, iv) level 5 hospital grant.

SECRET

- Ksh 4.3 billion conditional grant from the Road Maintenance Levy Fund (RMLF) for road maintenance purposes only.
- A Special Purpose Grant of Ksh 0.2 billion to support strengthening of access to emergency medical services in Lamu and Tana River counties which -- because they border Somalia -- are vulnerable to terror attacks, security threats and humanitarian crises. The funds, to be shared equally by the two counties, comprise conditional grants to reinforce the capacity of two major referral hospitals (Hola and Lamu) to provide emergency medical care to critically-injured patients. The support covers medical surgical equipment and infrastructure e.g. I.C.U. theatre, wards and rehabilitation facilities.
- Ksh 3.9 billion from proceeds of loans and grants from Development Partners to finance devolved functions within specific counties in accordance with the signed financing agreement for each loan/grant. Management of these loans/grants is to be undertaken by the National Government with involvement of County Governments through Project Steering Committees and Project Implementation Units for each programme/project. Prior to the release of funds, a clear framework will be agreed within the existing intergovernmental fiscal relations framework.

255. Ksh 6 billion is also allocated through the Equalization Fund. This allocation has been scaled up above the minimum constitutional requirement of 0.5 percent of the last audited revenue in order to compensate for previous periods when the Fund was not in operation owing to its delayed administrative establishment.

Table 5.4: Vertical Division of Revenue between National and County Governments, Ksh Million

Type/level of allocation	2015/16	2016/17
National Government	991,892.0	1,099,902.3
Of which:		
<i>Free maternal healthcare</i>	4,298.0	4,121.0
<i>Leasing of Medical Equipment</i>	4,500.0	4,500.0
<i>Compensation for user fees forgone</i>	900.0	900.0
<i>Level 5 hospitals</i>	3,600.5	4,000.0
<i>Special Purpose Grant supporting access to emergency medical services</i>		200.0
Equalization Fund	6,000.0	6,000.0
County equitable share	259,774.5	280,300.0
Total shareable revenue	1,251,666.5	1,380,199.0

Table 5.5: County Governments Allocation Disaggregation (Ksh Million)

	2015/16	2016/17
County equitable share	259,774.5	280,300.0
Additional allocations, of which:		
<i>Free maternal healthcare</i>	4,298.0	4,121.0
<i>Leasing of medical equipment</i>	4,500.0	4,500.0
<i>Compensation for user fees forgone</i>	900.0	900.0
<i>Level 5 hospitals</i>	3,600.5	4,000.0
<i>Special Purpose Grant supporting access to emergency medical services</i>		200.0
<i>Allocation from Fuel Levy Fund (15%)</i>	3,300.0	4,306.8
<i>Conditional allocations (Loans & grants)</i>	10,671.2	3,870.7
Total County Allocations	287,044.2	302,198.5

5.7 Horizontal Allocation of Revenue among Counties

256. The horizontal allocations to counties for the FY 2016/17 are based on the current formula, which uses five parameters with specific weights, namely: population (45 percent); equal share (25 percent); poverty (20 percent); land area (8 percent); and, fiscal responsibility (2 percent). A process is ongoing to develop the second generation criteria for the sharing of revenue among the counties.

257. Accordingly, in 2016/17, counties will share an estimated Ksh 302.2 billion, which represents a 5.3 percent increase from projected total transfers for 2015/16 of Ksh 287.0 billion. These estimates of revenue allocation among the 47 County Governments in the County Allocation of Revenue Bill, 2016 (**Table 5.6**).

SECRET

Table 5.6: Revenue Allocation for Each County Government

County	FY 2015/16			FY 2016/17									Total Allocations	Per capita allocation (KSh)
	Allocation Ratio	Total Allocations	Equitable Share	Purpose Grant					Road Maintenance Levy Fund	Leasing of Medical Equipment	Loans & Grants			
				Level-5 Hospitals	Emergency Medical	Compensation for user fees foregone	Free Maternal Healthcare	Supporting						
Barng'o	1.71%	4,714,634,596	4,791,438,190	-	-	13,370,516	64,662,618	73,620,416	95,744,681	90,746,278	5,129,582,699	9,233		
Bomet	1.81%	4,952,714,726	5,078,797,925	-	-	14,191,766	61,258,095	78,035,696	95,744,681	7,475,000	5,335,503,163	7,368		
Bungoma	2.95%	8,274,372,514	8,282,207,328	-	-	33,282,912	189,574,801	127,250,840	95,744,681	7,375,000	8,735,435,561	6,353		
Busia	2.09%	5,762,432,476	5,870,096,945	-	-	17,302,828	92,079,522	90,194,001	95,744,681	6,495,000	6,171,912,976	8,296		
Egeyo/Marakwet	1.26%	3,500,744,439	3,528,847,275	-	-	8,956,070	50,228,374	54,220,715	95,744,681	67,332,570	3,805,329,685	10,285		
Embu	1.48%	4,358,698,061	4,141,186,056	286,705,202	-	10,776,608	54,985,378	63,629,297	95,744,681	6,875,000	4,659,902,222	9,027		
Garissa	2.22%	6,398,640,113	6,227,726,513	328,323,699	-	13,126,919	53,772,809	95,688,977	95,744,681	50,131,467	6,864,515,065	11,017		
Homa Bay	2.17%	5,980,612,450	6,080,193,774	-	-	22,616,803	128,736,441	93,422,137	95,744,681	12,385,000	6,433,098,836	6,675		
Isiolo	1.18%	3,234,386,192	3,298,073,210	-	-	3,514,477	22,181,866	50,674,874	95,744,681	26,232,373	3,496,421,481	24,400		
Kajiado	1.70%	4,719,837,174	4,761,279,540	-	-	16,311,160	54,758,022	73,157,028	95,744,681	149,526,341	5,150,776,771	7,494		
Kakamega	3.43%	9,992,150,911	9,612,093,312	406,936,416	-	38,617,147	217,184,083	147,689,749	95,744,681	11,750,000	10,530,015,389	6,341		
Kenya	1.73%	4,797,168,868	4,861,021,578	-	-	18,313,556	89,327,921	74,689,564	95,744,681	11,300,000	5,150,397,299	6,792		
Kisumu	2.87%	8,802,966,316	8,053,256,819	393,063,584	-	35,773,082	221,521,352	123,738,238	95,744,681	9,600,000	8,932,697,755	5,503		
Kisumu	2.86%	7,916,741,770	8,029,167,704	-	-	26,392,597	181,669,778	123,368,108	95,744,681	139,290,244	8,595,633,111	7,746		
Kirinyaga	1.36%	4,078,704,757	3,817,781,963	-	-	11,625,078	45,389,754	58,660,195	95,744,681	6,385,000	4,035,586,671	7,642		
Kisumu	2.73%	7,862,610,477	7,654,114,596	397,687,861	-	26,947,170	168,133,301	117,605,419	95,744,681	11,475,000	8,471,708,029	7,352		
Kisumu	2.19%	6,398,745,421	6,130,158,037	351,445,087	-	21,854,292	118,015,691	94,189,837	95,744,681	38,290,000	6,849,697,625	7,069		
Kisumu	2.80%	7,626,511,155	7,841,480,359	-	-	23,144,997	54,367,434	120,484,293	95,744,681	133,152,642	8,268,374,406	8,165		
Kisumu	1.97%	5,465,526,238	5,530,693,069	-	-	15,397,611	119,385,662	84,979,062	95,744,681	88,976,289	5,935,176,374	9,132		
Lakipia	1.33%	3,898,405,779	3,722,107,269	-	-	9,872,539	61,409,667	57,190,153	95,744,681	65,814,676	4,012,138,985	10,050		
Lamu	0.79%	2,207,595,769	2,214,008,742	-	100,000,000	2,481,810	15,372,820	34,018,227	95,744,681	18,348,378	2,479,974,658	24,424		
Machakos	2.61%	7,584,151,595	7,303,463,453	365,317,919	-	24,764,877	105,476,087	112,217,667	95,744,681	13,350,000	8,020,334,684	7,301		
Makueni	2.30%	6,486,801,433	6,441,351,588	-	-	19,449,802	83,696,467	98,971,324	95,744,681	12,065,000	6,751,278,862	7,633		
Mandera	3.45%	9,263,850,614	9,663,318,677	-	-	15,521,730	55,335,158	148,476,828	95,744,681	49,787,798	10,028,184,872	9,776		
Marsabit	2.00%	5,402,694,782	5,599,495,639	-	-	6,872,636	25,096,698	86,036,213	95,744,681	42,302,134	5,855,548,000	20,111		
Meru	2.50%	7,292,143,828	7,006,680,257	356,069,364	-	32,096,227	114,704,443	107,657,595	95,744,681	1,710,295,000	9,423,247,567	6,948		
Migori	2.25%	6,280,618,796	6,298,037,918	-	-	21,882,372	172,348,147	96,769,311	95,744,681	148,440,725	6,833,223,154	7,450		
Mombasa	2.00%	5,943,023,337	5,608,593,923	369,942,197	-	23,514,312	125,722,505	86,176,009	95,744,681	19,150,000	6,328,843,626	6,737		
Muranga	2.06%	5,747,364,897	5,779,189,434	-	-	20,749,146	78,828,699	88,797,208	95,744,681	12,405,000	6,075,714,168	6,446		
Nairobi	5.00%	19,860,988,262	14,023,506,891	-	-	79,879,082	199,899,133	215,471,089	95,744,681	373,900,000	14,988,400,877	4,776		
Nakuru	3.12%	8,974,634,409	8,757,624,645	356,069,364	-	39,216,180	215,283,613	134,560,844	95,744,681	12,630,000	9,611,129,328	5,994		
Nandi	1.83%	5,014,166,594	5,130,819,903	-	-	18,055,819	68,195,394	78,835,014	95,744,681	9,155,000	5,400,805,810	7,173		
Narok	2.04%	5,582,985,813	5,705,712,797	-	-	20,106,734	70,154,161	87,668,239	95,744,681	90,146,403	6,069,533,015	7,133		
Nyamira	1.60%	4,420,867,181	4,482,799,531	-	-	11,578,458	82,174,925	68,878,185	95,744,681	11,960,000	4,753,135,779	7,945		
Nyandarua	1.66%	4,614,005,020	4,647,384,381	-	-	13,122,239	46,514,879	71,407,030	95,744,681	9,430,000	4,883,603,210	8,190		
Nyeri	1.71%	5,251,293,397	4,800,764,767	388,439,306	-	14,347,664	69,215,585	73,763,719	95,744,681	11,465,000	5,453,740,722	7,863		
Samburu	1.37%	3,732,219,907	3,832,957,535	-	-	5,321,855	16,946,829	58,898,587	95,744,681	35,343,554	4,045,213,041	18,063		
Siaya	1.92%	5,421,244,785	5,389,991,057	-	-	19,057,307	112,559,127	82,817,177	95,744,681	13,765,000	5,713,934,348	6,784		
Taita Taveta	1.27%	3,528,164,037	3,571,066,305	-	-	6,631,099	37,659,621	54,869,411	95,744,681	43,439,216	3,809,410,333	13,382		
Tana River	1.53%	4,173,641,069	4,299,401,838	-	100,000,000	5,699,850	25,230,780	66,060,281	95,744,681	28,819,105	4,620,956,535	19,248		
Tharaka Nithi	1.21%	3,643,158,115	3,385,474,466	-	-	8,419,197	29,853,703	52,017,792	95,744,681	50,819,343	3,622,329,182	9,915		
Trans Nzoia	1.96%	5,358,463,018	5,502,547,171	-	-	20,209,153	76,292,795	84,546,600	95,744,681	5,665,000	5,785,005,400	7,066		
Turkana	4.03%	10,783,601,899	11,307,010,770	-	-	26,122,720	31,964,040	173,732,145	95,744,681	73,293,982	11,707,868,338	13,687		
Uasin Gishu	2.00%	5,508,064,767	5,601,025,717	-	-	22,181,068	40,766,831	86,059,722	95,744,681	8,660,000	5,854,438,019	6,547		
Vhiga	1.49%	4,163,843,066	4,177,302,901	-	-	13,002,761	66,469,814	64,184,231	95,744,681	7,085,000	4,423,789,388	7,976		
Wajir	2.78%	7,522,540,574	7,804,219,087	-	-	15,011,344	55,574,174	119,911,775	95,744,681	56,211,458	8,147,672,518	12,309		
West Pokot	1.66%	4,545,426,807	4,654,529,143	-	-	12,316,429	51,050,356	71,516,809	95,744,681	62,139,761	4,947,297,179	9,650		
GRAND TOTAL	100.00%	287,044,158,204	280,300,000,000	4,000,000,000	200,000,000	900,000,000	4,121,029,353	4,306,807,629	4,500,000,000	3,870,679,737	302,198,516,718	7,827		

5.8 Improving the Performance of Additional Allocations to the Counties

258. In anticipation of the growth of conditional allocations -- in number, volume and complexity -- the National Treasury will formulate guidelines for use in managing the allocations. Eight conditional allocations are being disbursed to counties in 2015/16, six of them earmarked for the health sector. The health conditional allocations alone are valued at Ksh 14.6 billion -- equal to nearly 6 percent of counties' equitable share. While more conditional allocations are anticipated in the medium-term, challenges are beginning to emerge with their management. To address such challenges, the guidelines to be prepared will specify responsibilities for reporting on conditional allocations, including information to be included in counties' statutory financial reports. Further, the National and County Government Co-ordinating Summit resolved in December 2015, that an intergovernmental team be constituted to consult and agree on a framework for dealing with any impediments to the smooth operation of additional allocations to counties.

5.9 Expanding Capacity Building for Devolved Service Delivery Systems

259. The design is well-advanced of a major capacity building/performance grant programme, which aims to strengthen institutions and systems for devolved service delivery systems. As highlighted in the BPS 2015, the programme is motivated by the need for a mechanism to incentivize counties which adhere to fiscal responsibility principles as per the Public Finance Management Act (2012) and the Public Finance Management Regulations (2015); and, which attain set minimum conditions and key service delivery standards. Accordingly, Government proposes to access a US\$ 200 million World Bank credit -- out of Kenya's existing IDA allocation -- to be disbursed over four (4) Financial Years based on capacity building and performance levels achieved by the National and the County Governments, and upon independent verification that predetermined results have been achieved. The programme, which is anchored under the National Capacity Building Framework (NCBF) targets results in four priority areas namely: i) strengthening public financial management systems; ii) strengthening county human resource management; iii) improving county planning and monitoring and evaluation systems; and, iv) civic education and public participation.

260. Much of funds in the above capacity building/performance grant programme will flow directly to County Governments. As per the programme's architecture, it is expected that 80 percent of the funds (approximately Ksh 16.3 billion) will stream to the counties as a combined capacity/performance grant i.e. a conditional grant. Counties will be free to 'opt into' the grant, which will entail agreeing to prepare and implement a capacity building plan, an annual performance assessment, reporting on grant funds received, among other 'conditions'. In the first year (2016/17), participating counties will receive a basic allocation shared out as follows: 50 percent using the equitable share formula and 50 percent equally. In subsequent years, well-performing counties will receive an extra allocation shared out using an index combining the equitable share formula and the

performance scores. Counties will be able to invest proceeds from the capacity/performance grant on a range of eligible development projects as per their approved County Integrated Development Plans (CIDPs).

261. One-fifth of funds from the capacity building/performance grant programme are to benefit four (4) national-level institutions to support respective capacity building mandates with respect to devolution. The four institutions are the National Treasury, Ministry of Devolution and Planning (MoDP), Kenya School of Government (KSG) and the Office of the Auditor-General (OAG). Collectively, these institutions will receive US\$ 40 million (approximately Ksh 4.1 billion), an amount which will be earmarked as project funding.

5.10 Summary

262. Kenya's experience so far with fiscal decentralization offers valuable lessons for understanding areas to be strengthened over the medium term so as to achieve stronger and more effective intergovernmental fiscal relations. Already, a robust basis has been established, including legal, institutional and administrative frameworks, for successful devolution, through improved service delivery and more accountability by County Governments. The BPS 2016 has elaborated the main strategic priorities and policy goals to provide guidance in achieving even stronger intergovernmental fiscal relations. Given its central role in facilitating intergovernmental fiscal relations, the National Treasury is committed to engaging with key actors to identify challenges as they evolve, and formulate practical solutions within the context of the Constitution and the existing legal framework.

ANNEX 1: STATEMENT OF SPECIFIC FISCAL RISKS

Introduction

1. The Medium-Term Fiscal Policy aims at supporting rapid and inclusive economic growth, ensuring sustainable debt position and at the same time supporting the devolved system of Government for effective delivery of services. Our fiscal policy also indicates our deliberate convergence path towards the East African Community Monetary Union protocol's fiscal targets.
2. These will only be achieved within a fiscal framework that can manage public resources prudently, contain fiscal risks, and maintain a sustainable debt path.
3. The Kenyan economy is susceptible to various domestic and external shocks, such as droughts, volatility in commodity prices, as well as insecurity and terrorism threats. More recently, the slowdown in global growth has posed challenges to attainment of projected expansion of our economy. To this end, maintaining fiscal stability is critical for safeguarding against these adverse shocks and ensuring that growth is sustained despite challenging circumstances.
4. This report is part of the requirement under the Public Finance Management Act, 2012 for prudent management of risks. It outlines Kenya's exposure to fiscal risks that are associated with assumptions used for fiscal projections, public debt dynamics, operations of state corporations, contingent liabilities, vulnerabilities of the financial sector, as well as risks posed by nature.
5. The Statement is intended to inform the parliament and the public about the country's exposure to these various sources of risk, and what more can be done to ensure fiscal viability in the event of unfavorable fiscal developments.
6. Overall, the Statement highlights the following:
 - Interest rate changes are likely to impact debt servicing for the non-concessional loan portfolio;
 - Although macroeconomic assumptions have been broadly accurate, revenue collections, and low absorption of budget remains a key concern;
 - Spending at current levels, combined with low revenue collections, makes it more difficult for the government to achieve its fiscal targets;
 - Shocks to the exchange rate could impact: the size of debt servicing; the terms of trade; and inflation;

- Contingent liabilities from key State Corporations present minimal fiscal risks; and
- Risks from the devolved system of government.

Macroeconomic Assumptions Changes

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

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

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

Table 1: Fiscal Sensitivity to Key Macroeconomic Variables, 2016/17 (Ksh bn)

	Revenue	Expenditure	Budget Balance
One percentage point reduction in real GDP (%)	-13.4	-6.0	-7.3
One percentage point increase in inflation rate (%)	13.0	13.0	-0.1
10% depreciation in exchange rate (Ksh/US\$)	7.3	12.5	-5.2
10 percentage increase in US\$ value of goods imports (%)	7.1	0.0	7.1
All shocks Combined	12.98	13.04	-0.06

Source: Estimates from National Treasury

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

Assessment of Past Forecast Accuracy of Underlying Assumptions and Budgetary Aggregates

10. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations as shown in **Table 2**. Over the period 2012/13-2015/16, the average deviation between the assumed and provisional actual real GDP growth rates was only 0.1 percentage point. With respect to inflation assumption, the large deviation in FY 2011/12 reflects the inherent volatility of international oil prices and the adverse

impact of drought which increased food prices. The sharp depreciation of the shilling exchange rate against major international currencies in FY 2011/2012 and FY 2014/2015 increased the average deviation to 1.4 percentage point.

Table 2: Deviations in Macroeconomic Assumptions/Fiscal Aggregates Projections and Actual

(in percentage points; unless specified)	2012/13			2013/14			2014/15			2015/16			2012/13-2015/16 Average Deviation
	Proj.	Act.	Dev.	Proj.	Act.	Dev.	Proj.	Prel.	Dev.	Proj.	Rev.	Dev.	
I. Key Macroeconomic Assumptions													
Real GDP	5.5%	5.1%	-0.4%	5.9%	5.5%	-0.3%	6.1%	5.5%	-0.6%	5.5%	6.3%	0.9%	-0.1%
Inflation rate (avg)	9.8%	4.6%	-5.2%	6.7%	7.1%	0.4%	5.7%	6.6%	1.0%	6.6%	5.0%	-1.6%	-1.4%
Exchange rate (Ksh/USD), Avg		85.3	85.3		86.7	86.7		91.4	91.4		101.3	101.3	
Export growth		0.7%	0.7%		0.7%	0.7%		10.7%	10.7%		12.1%	12.1%	
Import growth		5.8%	5.8%		7.5%	7.5%		8.6%	8.6%		13.0%	13.0%	
II. Fiscal Aggregates (in Ksh billion)													
Total Revenue	942.2	887.5	-54.7	987.3	1001.4	14.0	1239.3	1134.5	-104.8	1431.5	1384.5	-46.9	-48.1
Tax and non-tax	866.8	866.5	-0.3	987.3	974.4	-12.9	1180.5	1106.4	-74.1	1358.0	1311.1	-46.9	-33.6
Ordinary Revenue	797.2	775.7	-21.5	920.4	919.0	-1.4	1086.4	1031.2	-55.2	1254.9	1202.0	-52.9	-32.7
AiA	69.6	90.8	21.2	67.0	55.4	-11.5	94.1	75.1	-19.0	103.2	109.1	5.9	-0.8
Grants	75.4	21.0	-54.4	0.0	27.0	27.0	58.7	28.1	-30.6	73.4	73.4	0.0	-14.5
Total Expenditure	1186.6	1132.1	-54.5	1458.2	1300.6	-157.6	1597.8	1639.2	41.4	2000.6	1901.8	-98.8	-67.4
Recurrent	863.8	816.4	-47.4	854.6	787.9	-66.7	871.5	895.2	23.7	1013.0	989.7	-23.3	-28.4
Development	317.8	306.0	-11.9	388.6	319.3	-69.4	492.0	509.7	17.7	718.5	642.9	-75.6	-34.8
Domestic	218.8	186.2	-32.5	249.7	198.5	-51.2	298.7	266.0	-32.7	361.0	326.9	-34.1	-37.6
External	93.5	117.3	23.9	133.1	118.6	-14.5	187.8	241.2	53.4	349.3	308.0	-41.4	5.3
Net Lending	2.6	2.4	-0.2	2.4	2.2	-0.2	2.1	2.1	0.0	2.2	2.1	-0.1	-0.1
Equalization Fund	3.0	0.0	-3.0	3.4	0.0	-3.4	3.4	0.4	-3.0	6.0	6.0	0.0	-2.4
Others	5.0	0.0	-5.0	5.0	0.0	-5.0	5.0	5.0	0.0	5.0	5.0	0.0	-2.5
County Allocation	0.0	9.8	9.8	210.0	193.4	-16.6	229.3	229.3	0.1	264.2	264.2	0.0	-1.7
Balance	-244.5	-244.6	-0.2	-470.9	-299.2	171.6	-358.6	-504.7	-146.2	-569.2	-517.3	51.9	19.3
Financing	186.3	257.2	70.9	197.5	307.0	109.6	358.6	471.6	113.0	557.7	517.3	-40.4	63.3
Net Foreign Financing	17.1	85.3	68.2	90.8	104.0	13.3	165.8	217.5	51.7	329.0	346.5	17.5	37.7
Other	0.0	2.1	2.1	0.0	1.3	1.3	2.0	3.0	1.0	7.2	2.6	-4.6	-0.1
Net Domestic Financing	169.2	169.8	0.6	106.7	201.7	95.0	190.8	251.1	60.3	221.5	168.2	-53.3	25.7
Of which: Sovereign Bond Proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	140.5	140.5	0.0	0.0	0.0	35.1
Others	169.2	169.8	0.6	106.7	201.7	95.0	190.8	110.6	-80.2	221.5	168.2	-53.3	-9.5
Memo items:													
Nominal GDP (Ksh billion)	4,496.0	4,496.0	0.0	5,042.4	5,044.2	1.9	5,633.2	5,703.0	69.8	6,520.5	6,444.0	-76.5	-1.2

Source: National Treasury

Source: National Treasury

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

12. Total expenditure and net lending in FY 2014/15 had an over spending of Ksh 41.1 billion. This shortfall was attributed to lower absorption in both recurrent and

development expenditures by the line ministries. National recurrent expenditure under-spending was in respect of operations and maintenance, wages and salaries as well as pensions and CFS.

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

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

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

SPECIFIC FISCAL RISKS

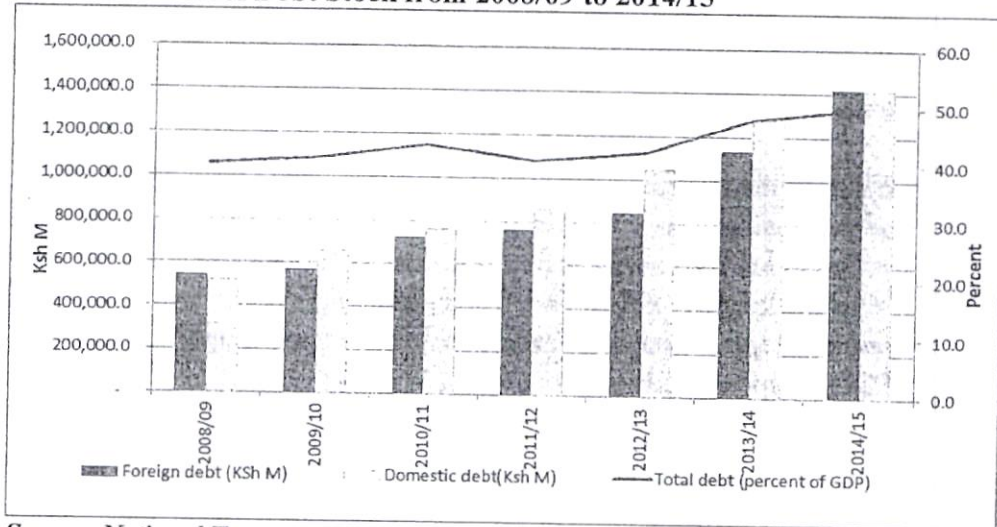
16. This section addresses areas of specific fiscal risk faced by Kenya. Each of these risks has a linkage to the expansion of infrastructure in the country, a key government priority, which makes effective risk management all the more important:

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

Sustainability of Public Debt

17. Public debt has been on a rising trend, increasing at an average annual rate of 18 percent, and reaching a nominal value of approximately Ksh 2,844 billion in 2014/15. As a proportion of GDP, public debt has risen from 43.1 percent in 2010/11 to 49.9 percent in 2014/15 (**Chart 1**).

Chart 1: Evolution of Debt Stock from 2008/09 to 2014/15



Source: National Treasury

18. Debt sustainability targets are embedded in the government's Medium-Term Debt Strategy (MTDS), with the objective of minimizing the accumulation of risk within the debt portfolio. Non-concessional external borrowing will be undertaken in a cautious manner and limited to development projects and the stated ceiling in the MTDS. The Government also remains committed to accessing international capital markets with a view to continued diversification of our funding sources for development expenditures while at the same time reducing pressures on domestic interest rates.

19. The latest debt sustainability analysis (DSA) for Kenya (September 2015) indicates that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress.

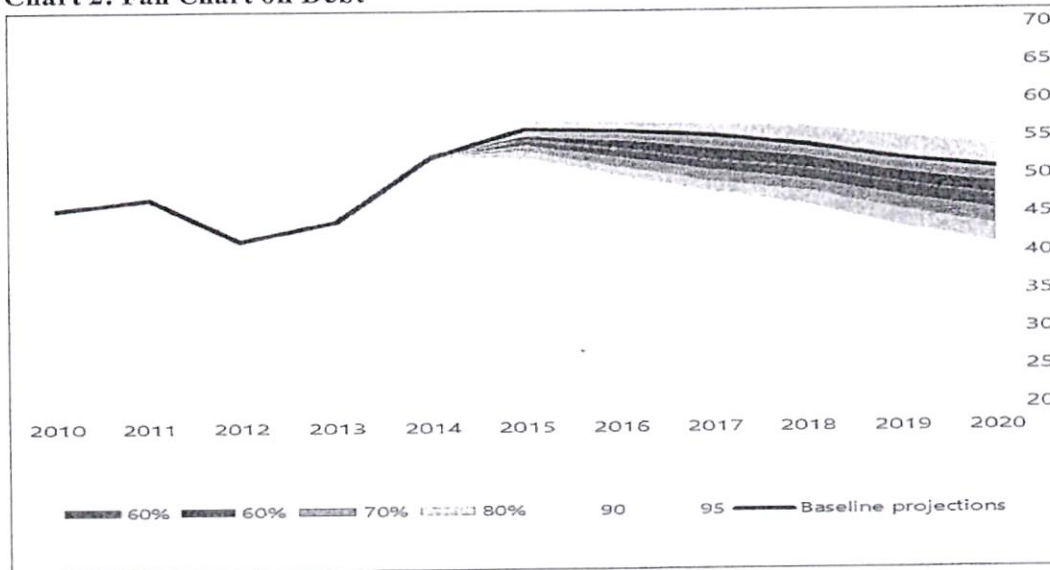
20. Standard stress-testing scenarios show that if the primary deficit were to remain at current levels, public debt would remain on an upward path (Table 3).

Table 3: Sensitivity Analysis for Key Indicators of Public Debt 2015–2034

	2015	2016	2017	2018	2019	2020	2024	2034
Baseline (PV of Debt-to-GDP Ratio)	49	48	47	46	44	43	37	25
A1. Real GDP growth and primary balance are at historical averages	49	46	45	45	44	43	42	39
A2. Primary balance is unchanged from 2015	49	49	51	52	54	55	62	73
A3. Permanently lower GDP growth	49	48	48	47	46	45	42	41
A4. Fix primary balance ex-SGR	49	48	48	49	49	49	52	57

21. Chart 2 shows that, there is a 95 percent chance that Kenyan public debt will fall between 35 percent and 65 percent of the GDP, which is consistent with the stress test.

Chart 2: Fan Chart on Debt



22. Kenya is rated as a strong policy performer and a low middle income country based on the World Bank’s Country Policy and Institutional Assessment(CPIA) score of 3.8, and thus is subject to the threshold ratio of 74 percent on the Present Value of Debt to GDP.

23. The present value (PV) of public debt-to-GDP decreases from 44.1 percent in FY 2013/14 to 43.9 percent in FY 2014/15 and expected to decline to 43.7 percent

in FY 2015/16 and 41.3 percent by FY 2017/18. Given the current reforms of increasing the revenue base and Kenya's relatively strong revenue performance, the PV of public debt-to-revenue of 206 remains well below the threshold of 300. The debt service-to-revenue ratio remains below the 30 percent threshold. Over the medium term, the results from the DSA indicate that Kenya's public debt remain sustainable.

24. On the external financing front, the Government will minimize the degree of foreign exchange rate risk and interest rate risk exposure associated with the external debt portfolio by leaning towards borrowing more on concessional terms and fixed rates. However, we will continue to deepen our access to international financial markets in order to reduce our reliance on borrowing domestically and from bilatel and multilateral sources. A cautious approach will be adopted in the issuance of external Government loan guarantees and provision of government support to minimize the risk exposure to contingent liabilities.

Explicit Contingent Liabilities

State Owned Enterprises (SOEs)

25. While liabilities of state-owned enterprises constitute a potential source of fiscal risk, a system of identification, quantification and reporting of these liabilities is currently not in place. A study that was conducted seven years ago of 25 state corporations, identified some of the sources of these liabilities. They include: on-going court cases, penalties for non-compliance with statutory deductions, poor and non-performance of state corporations leading to calls on government guarantees, under insurance of assets, and liabilities associated with defined-benefit pension schemes.

26. The study revealed that out of Ksh 57.6 Billion total liabilities, about half or Ksh 28.2 billion constituted potential contingent liabilities. Of the contingent liabilities, about 80 percent were accounted for by two corporations - Tana and Athi River Development Authority (TARDA) (Ksh13 billion) and NSSF (Ksh 9.8 billion). The crystalized contingent liabilities relates to TARDA and Kenya Broadcasting Corporation (KBC) who have difficulties in servicing their external debt. NSSF's contingent liabilities relate to court cases and possible penalties for non-compliance with tax regulations.

27. Recommendations of the study which have been implemented include conversion of pension schemes from defined-benefit to defined-contribution schemes, and conclusive vesting of assets and liabilities in respect of some state

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

28. Contingent liabilities are frequently not recorded in an explicit way in the budget and not being subject to budgetary oversight could lead to lack of careful evaluation of their impact and the possibility of large unplanned expenditures if the guarantee materializes thus creating serious fiscal difficulties in the budget year they occur in. Thus, in a bid to enhance efficiency and effectiveness of the public sector to attain the development agenda by the end of 2016, the Government will implement revised legal and regulatory framework governing the parastatal sector taking into consideration operational requirements so as to strengthen governance and improve accountability and enhance sustainability.

29. In particular, policy measures will strengthen compliance to the Code of Governance (Mwongozo) put in place by the Implementation Committee in conjunction with the State Corporation Advisory Committee (SCAC) on parastatal reform to increase effectiveness of Boards, transparency and disclosure, accountability and risk management; ensure adherence to performance requirements by parastatals; accelerate merging of state-owned banks and other parastatals into larger institutions to eliminate duplication and overlaps and make them more effective in service delivery.

Public Private Partnership (PPP) Projects

30. Since 1996 and as a result of progressive liberalization of the economy, Kenya has attracted private investments into the country's economic infrastructure sectors including telecommunications, energy, transport, water and sewerage. In this regard, Kenya has witnessed increasing levels of private sector participation in infrastructure service development and in particular the Energy Sector. Following the shift in the 1990s from concessionary funding for power projects toward private sector participation in infrastructure and a wave of sector reforms, Independent Power Producers (IPPs) first began to be introduced in Kenya in 1996 to meet Kenya's energy demands totalling to the current ten (10) active IPPs as indicated in the **Table below**:

IPP Projects – Scale of Magnitude (Project Value in USD Mn)

Power Generation	Ongoing (USD Mn)	Planned (USD Mn) (2015-2018)
140MW Longonot Geothermal	760	
300MW Lake Turkana Wind	847	
80.32MW Gulf Power	108	
82MW Triumph HFO plant	156.5	
67MW Thika Power HFO	146	
60MW Kinangon Wind Power	160	
150MW Orpower Olkaria III Geothermal	675	
90MW Rabai Heavy Fuel Oil power plant	155	
74MW Kavumu HFO power plant	85	
35MW Mumias Bagasse Cogeneration power plant	50	
960MW Lamu Coal		2,000
105MW Menonga Geothermal		210
140MW Olkaria VI Geothermal		380
FiT Projects (16No.)		600
	3,133	3,190
Percent of GDP	4.48%	4.55%

31. With a growing pipeline of projects across various sectors and county governments, Kenya's PPP programme is gathering pace and can be considered to be taking shape (see Table below).

Infrastructure PPP Projects – Kenya (Project Value in USD Mn)

Infrastructure	Ongoing (USD Mn)	Planned (USD Mn) (2015-2018)
Roads sector (1st Mover Toll Road PPPs i.e. 2nd Nyari Bridge, A109, A104, A2, NSB)		2,500
Ports (CT2, Kisumu, Shauri Moyo, IMTS)		150
Rail sector:		
• RVR	404	120
• Nairobi Commuter Rail		600
Education sector (KU, 1st Umbrella student hostels, other units)	52.5	
Water and Environment (multi-purpose dams, water supply projects, solid waste mgmt.)		2,000
Health sector (300 bed private wing, cancer mgmt. centres)		100
Accommodation (civil servants housing, police and prisons housing)		600
DK Special Economic Zone (SEZ)		1,100
Tourism (MICE, BICEC, Marina)		500
Export Quarantine Station & LEZ		10
Multi-storey car parks in Nairobi and Mombasa		100
	456.5	7,780
	0.65%	11.1%

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

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

34. Two examples of the Unit's work include the mandatory evaluation of all proposed PPP projects for fiscal risks as a condition of project approval; and, the ongoing development of a policy framework to govern the issuance of any and all types of letters of support requested across government. The policy will provide a clear structure and process as a primary means of managing fiscal risks to government by ensuring robust and rigorous analysis and review before the government takes on such fiscal commitments.

35. All guarantees and other security instruments provided under the PPP agenda, together with all other contingent liabilities will be integrated into the debt management process. The FCCL Unit is currently in the process of assessing and monitoring these projects with a view to ensuring continuous risk management and the scheduled disclosure and reporting of all fiscal risks associated with PPPs.

36. To mitigate the risks, operationalization of the PPP Project Facilitation Fund (PFF) (a multi-purpose revolving fund) and establishment of a good Governance Framework to manage DLs and CLs is critical.

Summary of some PPP projects and the Contingent Liabilities

PPP Projects	Type of Explicit CL	Probability/Impact
Energy		
300MW L. Turkana Wind 80.32MW Gulf Power 150MW Orpower Olkaria III 82MW Triumph Power	GOK Letter of Support covering Political Risk events: <ul style="list-style-type: none"> ▪ Total project cost depreciated at 5% per annum ▪ Expenses incurred by the Seller as a result of termination ▪ NPV of 5 Years profits at 10% discount rate Indemnity Agreement covering PRG payments (WB and AFDB, as appropriate)	Probability, Low. Impact, High Reason **
90MW Rabai HFO 74MW Kipevu II HFO	Indemnity Agreement covering PRG payments	Probability, Low. Impact, High Reason**
140MW Longonot Geothermal 60MW Kinangop Wind Power	GOK Letter of Support covering political risk events: <ul style="list-style-type: none"> ▪ Total Project Cost depreciated at 5% p.a ▪ Expenses incurred by the Seller as a result of termination NPV of 5 Years profits at 10% discount rate	Probability, Low. Impact, High Reason**
Transport		
Rift Valley Railway (RVR)	IDA PRG to the concession company	Probability, Low. Impact, High
Education		
KU Student Hostels	GOK Letter of Support covering political risk events: <ul style="list-style-type: none"> ▪ Total cost of the project depreciated at 5% p.a; ▪ NPV of 5 years profits at 10% discount rate 100% occupancy guarantee provided by the KU	Probability, Low. Impact, Low

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

Unfunded Pension Liabilities

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

38. The government current pension liabilities constitute 8.9 percent (2014/2015) of the governments non-discretionary spending thus the second largest expenditure in the governments Consolidated Fund Service (CFS), therefore it is critical to quantify and set up a scheme for unfunded pension liabilities.

Implicit Contingent Liabilities

39. Considers plausible and probable events that would have a large impact on government spending hence pose fiscal risks.

Environment

40. A natural disaster such as a flood depending on its magnitude could impact agriculture, infrastructure such as electricity poles and transformers and households. Due to the impact of such a flood on social welfare and its effects on essential amenities, it is important to quantify the cost of such an event to the government, as the government may feel obligated to prevent social welfare reduction. Previously, floods have destroyed property, displaced households and livelihoods, the cost can be quantified by considering the cost of floods on the aforementioned and this pose fiscal risk to the government.

Failure of State Corporation

41. Although Government at times have a stake in public corporations, its contractual obligations may be limited but due to a public corporations standing that may be of national interest, government may feel morally obligated to bail out the failing public corporation. In addition, the failure of a public corporation may impact other sectors of the economy e.g. the financial sector, if the corporation has borrowed heavily from systemically important banks.

Terrorist Attack

42. Potential terrorist attacks would affect the tourism sector and may also impact market confidence. Tourism contributes 0.5% of GDP and brings in a substantial amount of foreign earnings. In 2013, tourist arrivals fell by 11 percent, earnings from tourism dropped by 7.3 percent and security budget increased by 15 percent compared to previous years; some of these developments may be apportioned to the West Gate attack that year. These direct and other indirect costs including loss of jobs, closure of hotels a negative impact on government revenue from tax, increased government spending and pressure on international reserves which in turn puts pressure on the shilling to depreciate.

Technological Disaster

43. Information technology accounts for about 1.2 percent of GDP (2014/2015) driven by financial innovation in mobile money transfer services. KShs.12.3 trillion was transacted through this system in 2014. The main telecommunication company driving this channel earned revenues that amount to 6 percent of GDP in FY 2014/2015, amounting to a significant proportion of corporate tax paid to the government. Various financial products have been leveraged on this payment channel increasing the inter linkages between this technology and the banking sector. If this system was to be compromised, the impact would be substantial considering the linkages and the corporate tax revenue for government. The financial and other institutions linked to this system would be susceptible possibly amounting to the value transacted through the channel, were this risk to materialize, the impact on government including loss of deposits, loss of potential revenue and market confidence would put pressure on the government to compensate the losses.

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

Liabilities of the financial sector via systemically important Banks

45. The Kenya Deposit Insurance Corporation (KDIC) was established under Section 36 of the Banking Act as a deposit protection scheme to cover depositors and act as a liquidator of failed member institution. As at December 2014, Ksh 224.8 billion were insured by KDIC. 29 million accounts of 30 million accounts were covered, translating to 92 percent coverage of deposits. As KDIC was established to protect small depositors, deposits are insured only up to Ksh 100,000, which may be low as the economic mobility increases and the Kenya

middle class grows changing the average value of deposits and the definition of small depositors. Moreover, deposits held by Systemically Important Bank's may be held by a large proportion of the population that the government may feel compelled to pay depositors the gap between the value of their deposits and the maximum covered amount of Ksh 100,000.

Devolved System of Government

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

47. The main sources of fiscal risks from the County Governments emanate from outstanding liabilities, illegal borrowings and guarantees on new borrowings.

ANNEX 2: PUBLIC SECTOR HEARINGS

48. The Constitution provides that the public should be involved in the budget making process through public participation. Further, the Public Finance Management (PFM) Act, 2012 section 25 (5) requires the National Treasury while preparing the Budget Policy Statement to seek views of various institutions and the public. The National Treasury organized public hearings for FY 2016/17 and the medium term budget in November, 2015 and subsequently shared the draft Budget Policy Statement with the Public in January 2016 for comments before finalisation and seeking Cabinet approval. The National Treasury received useful comments during the public Sector hearing and when finalising the 2016 Budget Policy Statement particularly from the Ministries, Departments and Agencies and Institutions listed under the PFM Act, 2012 Section 25(5). The comments were taken into account in the process. The National Treasury appreciates these valuable comments in shaping the policy in this 2016 BPS.

49. During the consultations, the public applauded government for impressive allocations to security sector for the past 5 years. However, concerns were raised on the high cost of living despite low inflation and the cash flow problem experienced in the first quarter of FY 2015/16. The Government reassured the public on its commitment to maintain low inflation rate and to improve revenue collections.

50. Specific issues raised by members of the public to the sectors included:

Social Protection Culture and Recreation Sector

51. The public raised issues including duplication of programmes; limited labour market information; rampant child labour against our laws; and inadequate funding of programmes. The sector assured the public that there is on-going cooperation with other Sectors to ensure there is no duplication of programmes. On providing labour market information, a mechanism is in place to provide information in addition to linking job seekers to the market. On child labour, the Sector responded that there is a National Labour Policy in the pipeline and a plan to improve middle level colleges that is expected to address the matter. However, on the issue of scarce resources it is not unique to this sector but cuts across all sectors and it is therefore important for a sector to prioritise within the ceiling the programs it undertakes.

General Economic and Commercial Affairs Sector

52. The public raised the issue of availability of land to investors and exploitation of farmers by investors through low prices of their produce compared to final product. The sector reassured the public that it will collaborate with County Governments to set aside land for investor development. On unfair pricing, this is indeed a problem but there are systems and mechanisms for reporting and attending to this e.g. Consumers Federation of Kenya (Cofek) since government does not control prices.

Agriculture, Rural and Urban Development Sector

53. The discrepancy in the disbursement to agribusiness in this and last financial year was questioned considering it is an important programme. The public was assured that it was just move of the funds since previously fertilizer was included but currently it's under crop development.

54. The pending bills issue was raised and suggestions were that an audit be carried out to ascertain their legitimacy. Treasury responded that the issue of historical pending bills was addressed pointing out that sectors are tasked to address pending bills before they share out resources within their ceilings.

Management of riparian reserves within the country was questioned. It was explained that government is working to reverse the illegal allocations with plans to digitise the national land commission which will go a long way to protect public land from land grabbers.

Health Sector

55. Investment on equipment while public health facilities are not enough was noted. However, it was clarified it is government desire to equip the facilities for affordable health care. Further, there is a national cancer programme and it is a priority area for the government.

56. Considering that health is a devolved function, a clarification was provided on the national and county governments. The Counties are in charge of the health workers whereas national government builds capacity and make policies through the intergovernmental body. Counties are advised to encourage workers and create incentives to attract health workers in the rural areas which are otherwise kept off.

57. The public was concerned with the situation in hospitals where treatment is withheld until you pay and some of the cases could be emergency cases where it is not possible to pay. It was explained that the Health Bill provides for people in emergency situations and no one is to be denied treatment on the basis of no money.

Energy, Infrastructure and ICT Sector

58. The issues raised included low implementation of e-Promis in marginal counties; dealing with cyber-crime; and duplication of functions especially infrastructure development. The public was assured that plans are underway to roll out e-Promis to all the counties. On cyber-crime, there are modalities of dealing with it including laws, a national cyber security master plan, a cyber command centre to monitor all activities especially on government servers, and a national cyber security steering committee that works with other agencies to implement the master plan.

59. On the duplication of functions, it was reported that annual work programs are developed by agencies and agreed with the Kenya Roads Board to avoid duplication and County Governments get 15% of the road maintenance levy. The Kenya Roads Bill is underway and will clearly allocate the national track road and the county roads and if assented to some of the issues will be dealt with.

Education Sector

60. Concerns were raised on: free primary education allocation; financing Early Childhood Development (ECD) done at national level yet it's a devolved function; and lack of clear criterion on funding universities. It was reported that free primary education remains government priority and allocation is increased annually to reach set target. The fund set aside for ECD under the National government is to carry out functions including development of policies and standards as well as curriculum development and assessment. To look at the issue of funding universities, a committee has been put together to come up with a criteria for funding for universities and to look into the arbitrary allocations that bring up inequities.

Environment Protection Water and Natural Resources Sector

61. Water resource discoveries was discussed and it was clarified that water on the main aquifer was found not safe for human consumption after initial analysis and it was contaminating the water in the adjacent aquifers. Further, the National ground water mapping in the country was launched and this will help know the potential water resource in the country.

The sector was tasked to explain how it facilitates youth in environmental conservation. They explained that there is Green School Program that targets environmental conservation among school children. In addition, it is working with youth groups and CBOs in developing nurseries and planting trees along rivers and riparian areas.

Public Administration and International Relations Sector

62. The issues raised by the public included: Migingo island dispute; neglect of men in gender equality; and too much focus on youth (National Youth Service) yet there are also elderly people in society.

63. It was reported that bilateral discussions are ongoing with regard to Migingo Island and a joint survey to establish the boundaries will be carried out. The funds by the government like Youth, Uwezo are meant for both men and women therefore men are not left out as implied. However, with more than 70% of the population being the youth government agenda focuses on creating employment for this huge populace making it a priority area hence the need for NYS. The elderly are equally not neglected as there are social protection and cash transfer programs.

Governance, Justice, Law and Order Sector

64. The public was concerned with funding the electronic registration of voters and result transmission considering its failure in earlier attempt. The constitution requires that every Kenya of voting age exercise their democratic right hence the programme is necessary and past failure or inadequacies shouldn't be the basis for dismissing electronic voting results transmission as there are success stories across the world.

ANNEX TABLES

Annex Table 1: Main Macroeconomic Indicators, 2012/13-2018/19

	2012/13	2013/14	2014/15		2015/16		2016/17			2017/18			2018/19	
	Act	Act	Budget	Prel.	Budget	Revised	BPS'15	BROP'15	BPS'16	BPS'15	BROP'15	BPS'16	BROP'15	BPS'16
<i>annual percentage change, unless otherwise indicated</i>														
National Account and Prices														
Real GDP	5.1	5.5	6.1	5.5	7.0	5.8	7.1	6.5	6.1	7.0	6.5	6.3	6.5	6.5
GDP deflator	7.2	6.3	6.7	7.2	6.5	6.8	6.4	6.5	6.2	6.2	6.2	5.6	6.0	5.4
CPI Index (eop)	5.8	6.8	5.3	6.1	5.0	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	4.6	7.1	5.7	6.6	5.0	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	2.1	1.2	0.2	2.4	0.3	0.4	0.2	-1.0	-0.9	0.2	0.6	0.9	-1.0	-1.0
Money and Credit (end of period)														
Net domestic assets	15.6	11.2	8.5	30.5	10.1	12.2	8.1	6.5	6.9	8.9	7.1	5.9	9.0	7.6
Net domestic credit to the Government	27.4	-25.4	27.9	84.5	29.2	15.5	18.2	18.3	15.8	14.5	17.6	15.7	13.5	9.6
Credit to the rest of the economy	12.9	25.5	14.3	20.5	10.9	18.3	12.6	14.1	15.2	13.7	14.1	13.4	13.8	13.4
Broad Money, M3 (percent change)	14.2	18.2	13.2	18.6	14.0	13.0	14.0	13.5	12.6	13.7	13.1	12.3	12.9	12.3
Reserve money (percent change)	11.7	12.6	14.2	14.9	11.8	15.4	11.7	11.2	10.4	12.6	12.0	11.1	11.8	11.2
<i>in percentage of GDP, unless otherwise indicated</i>														
Investment and Saving														
Investment	20.9	21.7	24.6	23.5	26.9	23.5	25.2	24.9	22.8	25.6	25.3	22.6	24.1	23.8
Central Government	6.9	6.3	11.0	8.9	10.9	9.9	8.7	9.3	9.1	8.0	9.3	8.6	9.4	8.3
Other	13.9	14.0	14.1	15.2	16.0	13.7	16.5	15.6	13.7	17.6	15.9	14.0	14.8	15.5
Gross National Saving	12.4	12.7	16.6	14.5	19.7	15.9	18.0	17.7	16.3	18.2	18.3	16.1	17.7	17.4
Central Government	0.2	3.8	4.0	3.7	5.3	5.0	6.8	6.3	5.6	5.1	7.0	6.5	8.4	7.2
Other	12.2	8.9	12.6	10.8	14.5	10.9	11.2	11.3	10.8	13.1	11.3	9.6	9.3	10.2
Central Government Budget														
Total revenue	19.3	19.3	20.4	19.4	20.8	20.3	21.5	21.3	20.6	21.8	21.6	20.9	21.9	21.1
Total expenditure and net lending	25.2	25.8	31.6	28.7	30.6	29.5	27.6	28.7	28.3	26.6	28.0	27.1	27.0	26.0
Overall balance (commitment basis) excl. grants	-5.9	0.0	-11.2	-9.3	-9.8	-9.2	-6.2	-7.4	-7.7	-4.8	-6.4	-6.2	-5.0	-4.9
Overall balance (commitment basis) incl. grants	-5.4	0.0	-10.1	-8.6	-8.7	-8.0	-5.4	-6.6	-6.8	-4.0	-5.6	-5.4	-4.3	-4.1
Overall balance (commitment basis) incl. grants excl SGR				-6.4	-8.7	-6.2	-5.4	-5.4	-5.6	-4.0	-5.4	-5.2	-4.3	-3.6
Primary budget balance	-2.7	-3.3	-7.2	-5.5	-5.9	-5.0	-2.9	-4.0	-3.8	-1.6	-3.7	-2.6	-2.7	-1.5
Net domestic borrowing	3.8	0.0	2.9	4.4	3.4	2.6	2.4	3.3	2.7	2.0	3.3	2.8	2.6	1.8
Total external support (grant & loans)	2.7	2.4	5.7	4.4	5.5	4.9	3.9	3.9	4.4	2.9	3.0	3.6	2.8	3.4
External Sector														
Exports value, goods and services	20.5	19.2	20.1	19.7	20.5	21.3	20.5	22.3	22.1	20.5	22.9	22.8	23.1	23.1
Imports value, goods and services	33.7	32.8	32.4	33.2	31.5	33.3	31.3	33.6	32.5	31.2	33.5	33.0	32.9	33.0
Current external balance, including official transfers	-8.5	-9.0	-8.0	-9.0	-7.2	-7.6	-7.2	-7.2	-6.5	-7.4	-7.0	-6.5	-6.5	-6.5
Gross international reserve coverage in months of next year imports (end of period)	3.6	3.8	4.2	4.4	4.3	4.4	4.6	4.6	4.5	4.8	4.8	4.8	4.6	5.1
Gross international reserve coverage in months of this year's imports (end of period)	3.8	4.1	4.6	4.6	4.8	4.8	5.1	5.1	5.1	5.3	5.3	5.3	5.4	5.4
Public debt														
Nominal central government debt (eop), gross	41.8	48.0	48.8	49.1	49.1	50.3	45.2	48.0	47.9	43.6	47.6	48.9	46.7	48.0
Nominal central government debt (eop), net of deposits	38.2	43.9	45.4	44.9	46.1	46.5	42.6	44.7	44.6	41.3	44.7	45.9	44.1	45.4
Domestic (gross)	23.4	25.5	25.3	24.2	25.6	24.0	24.1	25.0	23.3	23.1	25.4	23.5	25.1	22.7
Domestic (net)	19.8	21.4	21.9	19.9	22.6	20.2	21.5	21.7	19.9	20.8	22.5	20.5	22.6	20.1
External	18.4	22.6	23.5	25.0	23.5	26.2	21.1	23.0	24.6	20.5	22.2	25.4	21.6	25.3
Memorandum Items:														
Nominal GDP (in Ksh Billion)	4,496	5,044	5,719	5,703	6,521	6,444	7,430	7,328	7,259	8,448	8,291	8,149	9,263	9,149
Nominal GDP (in US\$ Million)	52,710	58,191	64,728	62,416	73,096	64,843	82,501	73,032	72,348	92,910	81,845	80,445	91,547	89,457

Source: National Treasury

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

Annex Table 2: Government Operations (in billions of Kenya Shillings)

	2012/13	2013/14	2014/15			2015/16		2016/17			2017/18			2018/19	
	Act.	Act.	Budget	Rev. Budget	Prel.	Budget	Revised	BPS15	BROP15	BPS16	BPS15	BROP15	BPS16	BROP15	BPS16
TOTAL REVENUE	866.5	974.4	1,180.5	1,128.8	1,066.4	1,358.0	1,311.1	1,594.6	1,560.4	1,496.3	1,845.3	1,791.5	1,702.2	2,051.8	1,933.7
Ordinary Revenue	775.7	919.0	1,086.4	1,028.9	1,031.2	1,254.9	1,202.0	1,490.2	1,444.9	1,380.2	1,730.2	1,663.5	1,575.9	1,913.9	1,797.7
Income tax	373.1	449.6	541.9	509.9	508.6	623.2	583.7	753.7	713.5	666.1	883.2	830.5	766.6	965.9	881.4
Import duty (net)	57.6	67.6	77.7	72.9	74.0	82.2	84.6	92.9	96.2	95.4	98.5	109.2	107.1	124.1	120.3
Excise duty	85.7	102.0	119.8	113.1	115.9	142.1	146.6	162.0	170.5	179.9	185.1	193.7	204.9	220.0	231.8
Value Added Tax	184.9	232.6	267.1	259.3	259.7	310.3	296.1	378.4	361.4	330.9	449.7	414.4	377.2	474.3	429.5
Investment income	13.8	10.2	17.4	16.4	13.5	23.4	21.6	20.0	23.9	23.9	21.8	25.5	25.4	27.2	27.1
Other	60.6	57.0	62.5	57.3	59.6	73.7	67.4	83.2	79.4	84.1	92.1	90.2	94.6	102.4	107.6
Railway Development Levy	0.0	19.7	22.9	22.9	18.4	25.7	22.0	28.8	27.3	27.9	32.2	31.0	31.3	35.2	33.5
Ministerial and Departmental fees (A/A)	90.8	35.7	71.2	77.0	56.7	77.5	87.1	75.6	88.2	88.3	82.9	97.0	95.0	102.7	100.5
EXPENDITURE AND NET LENDING	1,332.1	1,306.6	1,597.8	1,860.8	1,639.2	2,006.6	1,961.8	1,987.6	2,102.4	2,051.7	2,233.9	2,323.6	2,207.5	2,526.9	2,379.0
Recurrent expenditure	816.4	787.9	871.5	940.4	895.2	1,013.0	989.7	1,039.4	1,112.0	1,094.2	1,226.8	1,199.9	1,193.8	1,264.8	1,278.4
Interest payments	121.2	134.8	147.4	165.2	171.9	185.3	193.1	182.6	190.3	219.3	206.3	161.9	228.1	153.8	236.7
Domestic interest	110.2	119.2	122.9	136.2	139.6	154.8	159.4	145.6	145.8	161.8	155.1	110.7	170.1	110.7	178.6
Foreign interest /1	11.1	15.6	24.5	29.0	32.3	30.5	33.7	37.1	44.5	57.5	51.2	51.2	58.0	43.1	58.2
Wages and Salaries/2	274.4	281.2	303.3	298.0	298.0	333.5	333.5	360.8	360.8	360.8	396.9	396.9	396.9	436.6	436.5
Contribution to civil service pension fund	0.0	0.0	9.5	0.0	0.0	4.8	0.0	14.8	14.8	0.0	17.7	17.7	17.7	18.8	18.8
Civil service Reform	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.5	1.5	1.5	1.0	1.0	1.0	0.0	0.0
Pensions etc.	27.6	30.2	36.6	39.4	37.5	43.4	47.4	66.2	52.1	56.1	84.1	84.1	64.0	96.7	70.4
Other	306.3	248.0	283.0	338.9	293.1	332.4	302.2	282.3	375.3	339.3	371.5	411.9	359.4	425.0	382.9
Defense and NSIS	86.8	93.8	90.7	97.9	93.7	112.5	112.5	131.2	117.2	117.2	149.3	126.4	126.7	134.0	133.1
Development and Net lending	306.0	319.3	492.0	686.1	509.7	718.5	642.9	654.5	705.6	667.7	683.4	796.8	706.5	901.8	772.2
Domestically financed	186.2	198.5	298.7	320.0	266.0	361.0	326.9	365.7	401.8	349.3	435.0	533.4	408.6	619.1	469.8
o/w Domestically Financed (Net)/3	183.6	191.0	266.3	281.7	241.5	325.0	285.0	327.3	352.3	301.0	392.7	478.2	355.1	557.7	401.3
o/w Exchequer issues/4			266.3	281.7	228.1	325.0	285.0	327.3	352.3	301.0	392.7	478.2	355.1	557.7	401.3
Ministerial Development A/A			32.4	38.3	24.6	36.0	41.9	48.3	48.3	48.3	53.4	53.4	53.4	59.5	59.5
Foreign financed/5	117.3	118.6	187.8	360.6	241.2	349.3	308.0	280.4	280.4	310.4	240.4	240.4	290.4	256.4	300.8
Net lending	2.4	2.2	2.1	2.1	2.1	2.2	2.1	2.4	17.4	2.0	2.6	17.6	2.0	17.7	2.0
Contingencies/4	0.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
County Allocation	9.8	193.4	229.3	229.3	229.3	264.2	264.2	288.8	279.9	284.8	318.7	321.9	302.3	355.3	323.4
Of which: shagable	7.9	193.4	226.7	226.7	228.6	261.5	259.8	284.9	275.0	280.4	314.5	316.7	297.6	349.6	318.4
Equalization Fund for Marginal areas /4	0.0	0.0	3.4	3.4	0.4	6.0	6.0	6.0	6.0	6.0	5.5	5.5	5.5	8.7	8.7
Fiscal Balance (commitment basis excl. grants)	-265.6	-326.2	-417.3	-732.0	-532.8	-642.6	-590.7	-458.0	-542.0	-555.4	-406.1	-532.1	-505.3	-475.1	-445.3
Adjustment to cash basis	-0.2	0.0	0.0	0.0	16.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	21.0	27.0	58.7	65.3	28.1	73.4	73.4	59.8	59.9	59.8	64.9	65.0	64.5	73.0	72.6
Of which: Project grants	14.7	21.7	51.4	58.0	23.0	65.6	65.6	52.5	52.5	52.5	57.5	57.5	57.5	65.5	65.5
Debt Swap	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Programme grants	5.8	4.7	6.1	6.1	3.84	6.4	6.4	6.1	6.1	6.4	6.1	6.1	6.1	6.1	6.1
County Health Facilities - DANIDA	0.0	0.0	0.7	0.7	0.7	0.8	0.8	0.7	0.8	0.4	0.7	0.8	0.4	0.8	0.4
Fiscal Balance (cash basis incl. grants)	-244.8	-299.2	-358.6	-666.7	-487.8	-569.2	-517.3	-398.2	-482.1	-495.5	-341.2	-467.1	-440.8	-402.1	-372.7
Fiscal Balance (cash basis incl. grants) Excl. SGR	-244.8	-299.2	-235.1	-543.2	-364.3	-451.0	-399.1	-309.9	-393.8	-407.3	-321.5	-447.4	-421.0	-402.1	-328.3
Statistical discrepancy	12.3	7.8	0.0	0.0	-16.2	-11.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	257.3	307.0	358.6	666.7	471.6	557.7	517.3	398.2	482.1	495.5	341.2	467.1	440.8	402.1	372.7
Net Foreign Financing	85.3	104.0	165.8	301.3	217.5	329.0	346.5	219.7	239.9	310.7	171.9	191.2	225.7	153.3	224.4
Project loans	102.7	96.9	141.8	302.6	218.2	283.7	242.3	227.9	227.9	257.9	182.8	182.8	232.8	190.8	235.2
Programme loans	0.0	0.0	0.0	5.4	3.5	8.2	8.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Financing/6	6.6	34.6	51.5	75.3	74.96	71.8	134.3	52.2	52.2	100.0	52.7	52.7	125.0	53.2	125.0
of which: Syndicated Loan	6.6	0.0	0.0	0.0	0.0	71.8	74.3								
Repayments due	-24.0	-27.5	-27.5	-81.9	-79.1	-34.7	-38.4	-60.4	-40.2	-47.1	-63.7	-44.3	-132.2	-90.8	-135.9
O/W syndicated Loan repayments					-52.8										
Other Domestic Financing, of which:	2.1	1.3	2.0	2.1	3.0	7.2	2.6	2.4	2.4	-12.8	2.6	2.5	-12.8	2.5	-12.9
NBK Rights	0.0	0.0	0.0	0.0	0.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Loan Repayments (Receipts)	2.1	1.3	2.0	2.1	3.0	2.2	2.6	2.4	2.4	2.6	2.6	2.5	2.7	2.5	2.8
Domestic Loan Repayments CBK					0.0								-15.4		-15.7
Net Domestic Financing	169.8	201.7	190.8	356.0	251.1	221.5	168.2	176.1	239.8	197.6	166.7	273.4	228.0	246.3	161.3
Of which: Sovereign Bond proceeds				141.4	140.5										
Others	169.8	201.7	190.8	214.5	110.6	221.5	168.2	176.1	239.8	197.6	166.7	273.4	228.0	246.3	161.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items															
External Debt	962.3	1,138.5	1,158.8	1,354.0	1,423.3	1,533.5	1,691.5	1,571.4	1,686.4	1,788.8	1,729.6	1,840.5	2,066.9	2,018.0	2,316.2
Domestic Debt (gross)	1,097.0	1,283.8	1,443.5	1,498.9	1,378.9	1,667.2	1,547.1	1,787.5	1,834.2	1,688.8	1,954.2	2,107.6	1,916.7	2,353.9	2,078.0
Domestic Debt (net)	945.1	1,078.3	1,282.1	1,232.6	1,136.6	1,473.8	1,304.8	1,594.0	1,591.9	1,446.5	1,760.7	1,865.4	1,674.5	2,111.6	1,835.8
Primary budget balance	-123.6	-164.4	-211.1	-501.5	-315.9	-383.9	-324.2	-215.6	-291.8	-276.2	-134.9	-305.2	-212.7	-248.3	-136.0
Nominal GDP	4,496.0	5,044.2	5,633.2	5,727.3	5,703.0	6,520.5	6,444.0	7,430.2	7,327.6	7,259.0	8,448.2	8,290.8	8,149.0	9,362.7	9,149.0

Source: The National Treasury

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

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

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

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

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

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

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

Annex Table 3: Government Operations, (in percent of GDP)

	2012/13		2013/14		2014/15			2015/16		2016/17			2017/18			2018/19	
	Act.	Act.	Budget	Rev. Budget	Prel.	Budget	Revised	BPS15	BROP15	BPS16	BPS15	BROP15	BPS16	BROP15	BPS16		
TOTAL REVENUE	19.3	19.3	21.0	19.7	19.4	20.8	20.3	21.5	21.3	20.6	21.8	21.6	20.9	21.9	21.1		
Ordinary Revenue	17.3	18.2	19.3	18.0	18.1	19.2	18.7	20.1	19.7	19.0	20.5	20.1	19.3	20.4	19.6		
Income tax	8.3	8.9	9.6	8.9	8.9	9.6	9.1	10.1	9.7	9.2	10.5	10.0	9.4	10.3	9.6		
Import duty (net)	1.3	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.3	1.3	1.3	1.3		
Excise duty	1.9	2.0	2.1	2.0	2.0	2.2	2.3	2.2	2.3	2.5	2.2	2.3	2.5	2.3	2.5		
Value Added Tax	4.1	4.6	4.7	4.5	4.6	4.8	4.6	5.1	4.9	4.6	5.3	5.0	4.6	5.1	4.7		
Investment income	0.3	0.2	0.3	0.3	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3		
Other	1.3	1.1	1.1	1.0	1.0	1.1	1.0	1.1	1.1	1.2	1.1	1.1	1.2	1.1	1.2		
Railway Development Levy	0.0	0.4	0.4	0.4	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4		
Ministerial and Departmental fees (AIA)	2.0	0.7	1.3	1.3	1.0	1.2	1.4	1.0	1.2	1.2	1.0	1.2	1.2	1.1	1.1		
EXPENDITURE AND NET LENDING	25.3	25.8	28.4	31.5	28.7	30.6	29.5	27.6	28.7	28.3	26.6	28.0	27.1	27.0	26.0		
Recurrent expenditure	18.2	15.6	15.5	16.4	15.7	15.6	15.4	14.9	15.2	15.1	14.7	14.5	14.6	13.5	14.0		
Interest payments	2.7	2.7	2.6	2.9	3.0	2.8	3.0	2.5	2.6	3.0	2.4	2.0	2.8	1.6	2.6		
Domestic interest	2.5	2.4	2.2	2.4	2.4	2.4	2.5	2.0	2.0	2.2	1.8	1.3	2.1	1.2	2.0		
Foreign interest/1	0.2	0.3	0.4	0.5	0.6	0.5	0.5	0.5	0.6	0.8	0.6	0.6	0.7	0.5	0.6		
Wages and Salaries/2	6.1	5.6	5.4	5.2	5.2	4.8	5.2	4.9	4.9	5.0	4.7	4.8	4.9	4.7	4.8		
Contribution to civil service pension fund	0.0	0.0	0.2	0.0	0.0	0.1	0.0	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.2		
Civil service Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Pensions etc	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.9	0.7	0.8	1.0	1.0	0.8	1.0	0.8		
Other	6.8	4.9	5.0	5.9	5.1	5.4	4.7	4.7	5.1	4.7	4.6	5.0	4.4	4.5	4.2		
Defense and NSIS	1.9	1.9	1.6	1.7	1.6	1.7	1.7	1.8	1.6	1.6	1.8	1.5	1.6	1.4	1.5		
Development and Net lending	6.8	6.3	8.7	12.0	8.9	11.0	10.0	8.8	9.6	9.2	8.1	9.6	8.7	9.6	8.4		
Domestically financed	4.1	3.9	5.3	5.6	4.7	5.5	5.1	4.9	5.5	4.8	4.1	4.6	5.8	4.4	6.0		
o/w Domestically Financed (Net)/3	4.1	3.8	4.7	4.9	4.2	5.0	4.4	4.4	4.8	4.1	4.6	5.8	4.4	6.0	4.4		
o/w Exchequer issues/4	0.0	0.0	0.6	0.7	0.4	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.6	0.7		
Ministerial Development AIA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Foreign financed/5	2.6	2.4	3.3	6.3	4.2	5.4	4.8	3.8	3.8	4.3	2.8	2.9	3.6	2.7	3.3		
Net lending	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.2	0.0		
Contingencies/4	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
County Allocation	0.2	3.8	4.1	4.0	4.0	4.1	4.1	3.9	3.8	3.9	3.8	3.9	3.7	3.8	3.5		
Of which: shareable	0.2	3.8	4.0	4.0	4.0	4.0	4.0	3.8	3.8	3.9	3.7	3.8	3.7	3.7	3.5		
Equalization Fund for Marginal areas /4	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
Fiscal Balance (commitment basis excl. grants)	-5.9	-6.5	-7.4	-12.8	-9.3	-9.9	-8.2	-6.2	-7.4	-7.7	-4.8	-6.4	-6.2	-5.1	-4.9		
Adjustment to cash basis	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Grants	0.5	0.5	1.0	1.1	0.5	1.1	1.1	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8		
Of which: Project grants	0.3	0.4	0.9	1.0	0.4	1.0	1.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7		
Debt Swap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Programme grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
Fiscal Balance (cash basis incl. grants)	-5.4	-5.9	-6.4	-11.6	-8.6	-8.7	-8.0	-5.4	-6.6	-6.8	-4.0	-5.6	-5.4	-4.3	-4.1		
Fiscal Balance (cash basis incl. grants) Est. SGR	-5.4	-5.9	-4.2	-9.5	-6.4	-6.9	-6.2	-4.2	-5.4	-5.6	-3.8	-5.4	-5.2	-4.3	-3.6		
FINANCING	5.7	6.1	6.4	11.6	8.3	8.6	8.0	5.4	6.6	6.8	4.0	5.6	5.4	4.3	4.1		
Net Foreign Financing	1.9	2.1	2.9	5.3	3.8	5.0	5.4	3.0	3.3	4.3	2.0	2.3	2.8	1.6	2.5		
Project loans	2.3	1.9	2.5	5.3	3.8	4.4	3.8	3.1	3.1	3.6	2.2	2.2	2.9	2.0	2.6		
Programme loans	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Commercial Financing/6	0.1	0.7	0.9	1.3	1.3	1.1	2.1	0.7	0.7	1.4	0.6	0.6	1.5	0.6	1.4		
of which: Syndicated Loan	0.1	0.0	0.0	0.0	0.0	1.1	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Repayments due	-0.5	-0.5	-0.5	-1.4	-1.4	-0.5	-0.6	-0.8	-0.5	-0.6	-0.8	-0.5	-1.6	-1.0	-1.5		
O/W syndicated Loan repayments	0.0	0.0	0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.9	0.0	0.0		
Other Domestic Financing, of which	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
NBK Rights	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Domestic Loan Repayments (Receipts)	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	-0.2		
Domestic Loan Repayments CBK	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	-0.2	0.0	-0.2		
Net Domestic Financing	3.8	4.0	3.4	6.2	4.4	3.4	2.6	2.4	3.3	2.7	2.0	3.3	2.8	2.6	1.8		
Of which: Sovereign Bond proceeds	0.0	0.0	0.0	2.5	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Others	3.8	4.0	3.4	3.7	1.9	3.4	2.6	2.4	3.3	2.7	2.0	3.3	2.8	2.6	1.8		
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Memo Items																	
Total Public Debt (net)	45.9	43.9	43.3	45.2	44.9	46.1	46.5	42.6	44.7	44.6	41.3	44.7	45.9	44.1	45.4		
External Debt	0.0	22.6	20.6	23.6	25.0	23.5	26.2	21.1	23.0	24.6	20.5	22.2	25.4	25.1	22.7		
Domestic Debt (gross)	24.4	25.5	25.6	26.2	24.2	25.6	24.0	24.1	25.0	23.3	23.1	25.4	23.5	25.1	22.7		
Domestic Debt (net)	21.0	21.4	22.8	21.5	19.9	22.6	20.2	21.5	21.7	19.9	20.8	22.5	20.5	22.6	20.1		
Primary budget balance	-2.7	-3.3	-3.7	-8.8	-5.5	-5.9	-5.0	-2.9	-4.0	-3.8	-1.6	-3.7	-2.6	-2.7	-1.5		
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Source: The National Treasury

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

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

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

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

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

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

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

Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million)

SECTOR CODE	VOTE	SECTOR/ VOTE DETAILS	2015/16 ESTIMATES			2016/17 CEILING			2017/18 PROJECTIONS			2018/19 PROJECTIONS		
			CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
010		AGRICULTURE, RURAL & URBAN DEVELOPMENT	15,833	47,313	63,145	15,793	48,286	64,079	17,044	52,756	69,800	17,523	54,311	71,834
		1161. State Department of Agriculture	7,475	10,445	17,920	7,199	16,127	23,326	7,761	16,739	24,500	7,855	16,739	24,594
		0107000 P1: General Administration Planning and Support Services	1,086	487	1,573	1,307	1,900	3,207	1,520	1,800	3,320	1,619	2,000	3,619
		0108000 P2: Crop Development and Management	6,216	6,587	12,802	5,715	14,227	19,943	6,061	14,939	21,000	6,055	14,739	20,794
		0109000 P3: Agribusiness and Information Management	173	3,371	3,544	177	-	177	180	-	180	181	-	181
		1162 State Department for Livestock	1,948	5,171	7,119	1,968	4,868	6,836	2,125	5,647	7,772	2,227	6,583	8,810
		0112000 P 6: Livestock Resources Management and Development	1,948	5,171	7,119	1,968	4,868	6,836	2,125	5,647	7,772	2,227	6,583	8,810
		1163 State Department for Fisheries	1,369	3,139	4,508	1,576	3,119	4,695	1,751	3,357	5,108	1,816	3,410	5,226
		0111000 P5: Fisheries Development and Management	1,369	3,139	4,508	1,576	3,119	4,695	1,751	3,357	5,108	1,816	3,410	5,226
		1111 Ministry of Land Housing and Urban Development	3,940	28,119	32,058	3,969	23,872	27,841	4,197	26,457	30,654	4,345	26,478	30,823
		0101000 P. 1 Land Policy and Planning	2,255	4,621	6,876	2,302	4,772	7,074	2,415	4,242	6,657	2,485	4,932	7,417
		0102000 P.2 Housing Development and Human Settlement	459	7,185	7,644	458	6,959	7,417	447	6,409	6,856	449	9,493	9,942
		0103000 P 3 Government Buildings	329	1,361	1,690	328	1,232	1,560	328	1,803	2,131	328	1,447	1,775
		0104000 P 4 Coastline Infrastructure and Pedestrian Access	59	396	454	59	41	100	59	680	739	59	980	1,039
		0105000 P 5 Urban and Metropolitan Development	315	14,014	14,329	297	10,868	11,165	327	13,227	13,554	347	9,523	9,870
		0106000 P 6 General Administration Planning and Support Services	522	543	1,065	525	-	525	621	96	717	677	103	780
		2021 National Land Commission	1,101	439	1,541	1,081	300	1,381	1,210	556	1,766	1,280	1,101	2,381
		0113000 P1: General Administration, Planning and Support Services	-	-	-	827	250	1,077	884	323	1,207	905	410	1,315
		Programme 13: Land Administration and Management	1,101	439	1,541	164	-	164	214	-	214	249	-	249
		Programme 14: National Land Information Management System	-	-	-	40	50	90	50	233	283	57	691	748
		Programme 15: Land Disputes and Conflict Management	-	-	-	50	-	50	62	-	62	69	-	69

SECRET

Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million) ..Contd

SECTOR CODE	VOTE	SECTOR/ VOTE DETAILS	2015/16 ESTIMATES			2016/17 CEILING			2017/18 PROJECTIONS			2018/19 PROJECTIONS		
			CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
020		ENERGY, INFRASTRUCTURE AND ICT	40,847	363,823	404,670	42,291	325,305	367,596	44,634	347,249	391,883	46,671	384,763	431,434
		1151 Ministry of Energy & Petroleum	2,049	92,412	94,462	1,973	89,108	91,080	2,129	118,815	120,944	2,180	140,456	142,636
		0211000 P 1 General Administration Planning and Support Services	317	300	617	289	300	589	319	300	619	-	300	300
		0212000 P2 Power Generation	741	27,343	28,084	741	26,950	27,691	765	49,155	49,920	1,118	52,894	54,012
		0213000 P3 Power Transmission and Distribution	836	62,043	62,879	766	59,073	59,839	847	66,394	67,241	853	84,096	84,949
		0214000 P4 Alternative Energy Technologies	139	768	907	157	827	984	168	927	1,095	178	1,027	1,205
		0215000 P5 Exploration and Distribution of Oil and Gas	16	1,958	1,974	20	1,958	1,978	30	2,039	2,069	31	2,139	2,170
		1091. State Department of Infrastructure	29,953	104,013	133,966	31,596	102,949	134,545	33,495	120,363	153,858	35,375	125,922	161,297
		0202000 P.2 Road Transport	29,953	104,013	133,966	31,596	102,949	134,545	33,495	120,363	153,858	35,375	125,922	161,297
		1092 State Department of Transport	5,799	158,455	164,254	5,793	124,960	130,753	5,873	98,531	104,404	5,922	104,929	110,851
		0201000 P.1 General Administration, Planning and Support Services	346	379	725	397	5	402	455	5	460	475	5	480
		0216000 P7 Road Safety	451	300	751	451	300	751	456	300	756	456	300	756
		0203000 P3 Rail Transport	-	146,998	146,998	-	109,170	109,170	-	94,237	94,237	-	100,635	100,635
		0204000 P4 Marine Transport	562	8,188	8,750	502	11,500	12,002	507	100	607	518	100	618
		0205000 P5 Air Transport	4,375	2,590	6,966	4,378	3,985	8,363	4,384	3,889	8,273	4,395	3,889	8,284
		0206000 P6 Government Clearing Services	64	-	64	65	-	65	71	-	71	78	-	78
		1121 Ministry of Information, Communications and Technology	3,046	8,943	11,989	2,930	8,288	11,218	3,137	9,540	12,677	3,194	13,456	16,650
		0207000 P1: General Administration Planning and Support Services	987	619	1,605	723	619	1,342	748	619	1,367	805	619	1,424
		0208000 P2: Information And Communication Services	1,753	1,724	3,477	1,060	110	1,170	1,152	110	1,262	1,161	210	1,371
		0209000 P3: Mass Media Skills Development	215	135	350	215	135	350	235	135	370	226	135	361
		0210000 P4: ICT Infrastructure Development	91	6,466	6,556	932	7,424	8,356	1,002	8,676	9,678	1,002	12,492	13,494

Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million) ..Contd

SECTOR CODE	VOTE	SECTOR/ VOTE DETAILS	2015/16 ESTIMATES			2016/17 CEILING			2017/18 PROJECTIONS			2018/19 PROJECTIONS		
			CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
030		GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	7,126	14,170	21,296	6,768	8,593	15,361	7,543	11,319	18,862	7,664	10,918	18,583
		1171 Ministry of Industrialization and Enterprise Development	2,569	6,265	8,834	2,487	5,261	7,748	2,756	7,121	9,877	2,802	6,876	9,679
		0301000 P.1 General Administration Planning and Support Services	526	26	552	509	-	509	617	-	617	642	-	642
		0302000 P.2 Industrial Development and Investments	1,810	6,204	8,014	1,744	5,101	6,845	1,900	6,815	8,715	1,919	6,593	8,513
		0304000 P.4 Cooperative Development and Management	232	35	267	234	160	394	239	306	545	241	283	524
		1182 State Department for East African Affairs	1,666	115	1,781	1,598	65	1,663	1,796	156	1,952	1,825	152	1,977
		0305000 P.1: East African Affairs and Regional Integration	1,666	115	1,781	1,598	65	1,663	1,796	156	1,952	1,825	152	1,977
		1181 State Department for Commerce and Tourism	2,892	7,790	10,682	2,683	3,267	5,950	2,991	4,042	7,033	3,037	3,890	6,927
		0307000 P.3: Trade Development and Promotion	1,017	388	1,405	809	455	1,264	916	528	1,444	917	528	1,445
		0308000 P.2: Tourism Development and Promotion	1,316	7,281	8,597	1,246	1,091	2,337	1,430	1,940	3,370	1,430	1,940	3,370
		0308000 P.4: General Administration, Planning and Support Services	558	121	679	628	1,721	2,349	645	1,574	2,219	690	1,422	2,112
040	HEALTH		28,520	30,664	59,184	28,940	30,636	59,576	30,403	33,249	63,652	30,688	34,749	65,437
		1081 Ministry of Health	28,520	30,664	59,184	28,940	30,636	59,576	30,403	33,249	63,652	30,688	34,749	65,437
		0401000 P.1 Preventive & Promotive Health Services	1,307	13,794	15,102	1,736	13,845	15,582	1,875	14,790	16,665	1,905	15,550	17,455
		National Referral and Specialized Services	16,319	7,151	23,470	14,079	10,229	24,308	14,957	11,762	26,719	15,010	12,360	27,370
		0403000 P.3 Health Research and Development	5,218	267	5,485	5,025	624	5,649	5,225	624	5,849	5,325	624	5,949
		0404000 P.4 General Administration, Planning & Support Services	5,675	9,452	15,127	6,100	181	6,281	6,258	187	6,445	6,330	192	6,522
		Health Policy, Standards and Regulations	-	-	-	2,000	5,756	7,756	2,089	5,886	7,975	2,117	6,023	8,140

SECRET

Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million) ..Contd

SECTOR CODE	VOTE	SECTOR/ VOTE DETAILS	2015/16 ESTIMATES			2016/17 CEILING			2017/18 PROJECTIONS			2018/19 PROJECTIONS		
			CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
			299,597	36,656	336,252	306,515	35,505	342,020	334,223	42,311	376,534	348,436	44,677	393,113
050	EDUCATION		59,033	22,408	81,441	59,411	21,974	81,386	70,760	26,415	97,175	73,103	27,198	100,301
		1061. State Department of Education	16,945	18,858	35,803	17,225	18,986	36,211	20,026	22,290	42,316	21,774	23,040	44,814
		0501000 P.1 Primary Education	33,210	1,324	34,534	33,681	1,343	35,024	40,320	1,612	41,932	40,361	1,676	42,037
		0502000 P.2 Secondary Education	4,830	903	5,732	4,978	903	5,881	5,555	1,078	6,633	5,823	991	6,814
		0503000 P.3 Quality Assurance and Standards												
		0508000 P. 8 General Administration, Planning and Support Services	4,048	1,324	5,372	3,528	742	4,270	4,859	1,435	6,294	5,145	1,491	6,636
		1062 State Department for Science and Technology	59,352	14,047	73,400	60,560	13,431	73,990	71,021	15,678	86,699	77,147	17,251	94,398
		0504000 P.4 University Education	54,474	7,985	62,459	55,990	7,567	63,557	61,672	8,845	70,517	65,391	8,845	74,236
		0505000 P.5 Technical Vocational Education and Training	2,517	5,647	8,164	2,004	5,363	7,367	5,250	6,332	11,582	7,645	7,905	15,550
		0506000 P. 6 Research, Science, Technology and Innovation Programme Youth Training	982	415	1,398	872	501	1,373	2,031	501	2,532	2,180	501	2,681
		0508000 P. 8 General Administration, Planning and Support Services	1,380	-	1,380	1,694	-	1,694	2,068	-	2,068	1,931	-	1,931
		2091 Teachers Service Commission	181,212	200	181,412	186,544	100	186,644	192,442	218	192,660	198,186	228	198,414
		0509000 P.1 Teacher Resource Management	174,302	-	174,302	181,204	-	181,204	186,642	-	186,642	192,244	-	192,244
		0510000 P.2 Governance and Standards	199	-	199	199	-	199	199	-	199	199	-	199
		Programme 3: General Planning and Administration	6,711	200	6,911	5,141	100	5,241	5,601	218	5,819	5,743	228	5,971
			133,474	20,573	154,047	161,052	21,527	182,579	161,746	24,493	186,239	172,497	24,993	197,490
060	GOVERNANCE, JUSTICE, LAW AND ORDER		88,028	14,296	102,324	98,002	15,181	113,183	98,703	16,501	115,204	120,275	16,882	137,157
		1021 State Department for Interior	69,800	11,909	81,709	80,485	12,899	93,384	80,447	14,015	94,462	101,716	14,354	116,070
		0601000 P.1 Policing Services												
		0602000 P.2 Planning, Policy Coordination and Support Service	13,103	579	13,682	12,589	611	13,200	13,132	648	13,780	13,290	657	13,947
		0603000 P.3 Government Printing Services	738	149	887	727	121	848	757	133	890	696	135	831
		0605000 P.4 Population Management Services	4,387	1,659	6,046	4,201	1,550	5,751	4,367	1,705	6,072	4,573	1,736	6,309
		1022 State Department for Coordination of National Government	16,967	1,011	17,978	19,291	1,050	20,341	20,249	1,371	21,620	20,910	1,406	22,316
		0604000 P1 Correctional services	16,754	984	17,738	18,875	1,032	19,907	19,815	1,351	21,166	20,459	1,385	21,844
		0623000 P.2 General Administration, Planning and Support Services	146	23	169	346	18	364	361	20	381	375	21	396
		0624000 P.3 Betting Control, Licensing and Regulation Services	67	4	71	70	-	70	73	-	73	76	-	76

SECRET

Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million) ..Contd

SECTOR CODE	SECTOR/ VOTE DETAILS	2016/16 ESTIMATES			2016/17 CEILING			2017/18 PROJECTIONS			2018/19 PROJECTIONS		
		CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
	1251 Office of The Attorney General and Department of Justice	4,095	550	4,645	4,010	494	4,504	4,322	601	4,923	4,440	609	5,049
	0606000 P.1 Legal Services	1,588	35	1,623	1,558	45	1,603	1,615	55	1,670	1,671	68	1,739
	0607000 P.2 Governance, Legal Training and Constitutional Affairs	1,849	156	2,005	1,776	140	1,916	1,920	160	2,080	1,952	180	2,132
	0609000 P. 4 General Administration, Planning and Support Services	658	359	1,016	677	309	985	787	386	1,173	817	361	1,178
	1261 The Judiciary	12,624	4,064	16,688	12,860	4,449	17,309	13,374	5,138	18,512	13,861	5,192	19,053
	0610000 P.1: Dispensation of Justice	12,624	4,064	16,688	12,860	4,449	17,309	13,374	5,138	18,512	13,861	5,192	19,053
	1271 Ethics and Anti-Corruption Commission	2,312	300	2,612	2,691	100	2,791	2,886	384	3,270	2,922	394	3,316
	0611000 P.1 Ethics and Anti-Corruption	2,312	300	2,612	2,691	100	2,791	2,886	384	3,270	2,922	394	3,316
	1291 Office of the Director of Public Prosecutions	1,954	254	2,218	1,953	150	2,103	2,084	329	2,413	2,165	337	2,502
	0612000 P.1 Public Prosecution Services	1,954	254	2,218	1,953	150	2,103	2,084	329	2,413	2,165	337	2,502
	1311 Registrar of Political Parties	506	-	506	507	-	507	530	-	530	543	-	543
	0614000 P.1 Registration, Regulation and Funding of Political Parties	506	-	506	507	-	507	530	-	530	543	-	543
	1301 Commission for the Implementation of the Constitution	312	-	312	-	-	-	-	-	-	-	-	-
	0613000 P.1 Implementation of the Constitution	312	-	312	-	-	-	-	-	-	-	-	-
	127 Witness Protection Agency	365	0	312.04	0	0	0	0	0	0	0	0	0
	0615000 P.1 Witness Protection	365	-	365	360	-	360	391	-	391	407	-	407
	201 Kenya National Commission on Human Rights	459	-	459	454	-	454	490	-	490	510	-	510
	0616000 P.1: Protection and Promotion of Human Rights	459	-	459	454	-	454	490	-	490	510	-	510
	203 Independent Electoral and Boundaries Commission	4,198	98	4,296	19,321	103	19,424	16,957	169	17,126	4,627	173	4,800
	0617000 P.1: Management of Electoral Processes	4,198	98	4,296	19,321	103	19,424	16,957	169	17,126	4,627	173	4,800
	P2 Delimitation of electoral boundaries	-	-	-	-	-	-	-	-	-	-	-	-
	205 Judicial Service Commission	473	-	473	450	-	450	506	-	506	531	-	531
	0619000 P. 1 General Administration, Planning and Support Services	473	-	473	450	-	450	506	-	506	531	-	531
	210 National Police Service Commission	438	-	438	430	-	430	468	-	468	488	-	488
	0620000 P.1 National Police Service Human Resource Management	438	-	438	430	-	430	468	-	468	488	-	488
	214 National Gender and Equality Commission	314	-	314	307	-	307	337	-	337	351	-	351
	0621000 P.1: Promotion of Gender Equality and Freedom from Discrimination	314	-	314	307	-	307	337	-	337	351	-	351
	215 Independent Police Oversight Authority	419	-	419	416	-	416	449	-	449	467	-	467
	0622000 P.1 Policing Oversight Services	419	-	419	416	-	416	449	-	449	467	-	467

SECRET

Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million) ..Contd

SECTOR CODE	VOTE	SECTOR/ VOTE DETAILS	2015/16 ESTIMATES			2016/17 CEILING			2017/18 PROJECTIONS			2018/19 PROJECTIONS		
			CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
			115,465	127,889	243,354	119,071	113,680	232,751	144,888	141,794	286,682	149,332	147,510	296,842
070		PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	5,951	1,846	7,797	6,973	1,741	8,714	6,270	2,846	9,116	6,833	1,846	8,679
		1011 The Presidency	1,253	1,215	2,468	1,265	1,109	2,375	1,277	1,215	2,492	1,292	1,221	2,513
		0702000 P2 Cabinet Affairs	2,483	459	2,941	3,010	459	3,468	2,578	1,258	3,836	3,103	458	3,561
		0704000 P4 State House Affairs	1,757	173	1,929	2,384	173	2,556	1,954	373	2,327	1,976	168	2,143
		0734000 P.6 Deputy President Services	458	-	458	314	-	314	461	-	461	461	-	461
		0703000 P3 Government Advisory Services	19,792	61,713	81,505	18,492	54,684	73,176	22,382	72,148	94,530	22,671	74,928	97,598
		1031 State Department for Planning	1,109.5	39,554.3	40,663.8	1,124	38,141	39,265	1,131	46,333	47,464	1,137	47,266	48,402
		0706000 P1 : Economic Policy and National Planning	1,833.3	1,479.8	3,313.1	1,818	1,572	3,390	2,332	1,735	4,067	2,332	809	3,141
		0707000 P2 : National Statistical Information Services	42.3	162.5	204.8	43	163	206	44	163	207	45	163	208
		0708000 P3: Monitoring and Evaluation Services	710.9	134.6	845.5	746	144	890	753	144	897	763	144	907
		0709000 P4: General Administration Planning and Support Services	7,702.9	550.1	8,252.9	6,600	910	7,510	8,317	910	9,227	8,349	909	9,258
		0710000 P 5: Public Service Transformation	8,392.7	19,832.0	28,224.6	8,161	13,754	21,915	9,805	22,863	32,668	10,045	25,637	35,682
		0711000 P6: Gender & Youth Empowerment	2,301	9,389	11,689	2,242	7,994	10,236	3,693	9,389	13,081	4,724	7,389	12,113
		1032 State Department for Devolution	256	-	256	269	-	269	746	-	746	1,153	-	1,153
		0732000 P.3 General Administration, Planning and Support Services	898	-	898	1,029	10	1,039	1,389	10	1,399	1,602	10	1,612
		0712000 P7: Devolution Services	572	3,065	3,637	574	1,507	2,081	649	3,055	3,703	774	1,055	1,829
		0713000 P 8: Special Initiatives	574	6,324	6,898	370	6,477	6,847	908	6,324	7,232	1,195	6,324	7,519
		0733000 P.9 Accelerated ASAL Development	13,136	1,402	14,538	13,232	1,000	14,232	15,273	2,349	17,622	16,566	2,083	18,649
		1051 Ministry of Foreign Affairs and International Trade	8,982	745	9,727	9,310	402	9,712	10,958	1,442	12,401	11,863	1,442	13,305
		0715000 P.2 Foreign Relation and Diplomacy	3,466	657	4,122	3,172	598	3,770	3,499	907	4,405	3,768	641	4,408
		0714000 P.1 General Administration Planning and Support Services	688	-	688	750	-	750	816	-	816	936	-	936
		0716000 P3 International Trade and Investments Promotion	43,216	49,770	92,986	46,732	44,711	91,443	57,854	50,196	108,050	58,189	57,696	115,885
		1071 The National Treasury	37,621	4,865	42,285	39,816	4,804	44,619	48,672	10,665	59,336	49,168	7,665	56,833
		0717000 P1 : General Administration Planning and Support Services	4,102	43,192	47,293	5,422	37,994	43,416	7,481	37,618	45,099	7,517	48,118	55,634
		0718000 P2: Public Financial Management	1,174	1,859	3,033	1,174	1,859	3,033	1,381	1,859	3,240	1,184	1,859	3,043
		0719000 P3: Economic and Financial Policy Formulation and Management	320	55	375	320	55	375	320	55	375	320	55	375
		0720000 P4: Market Competition												

Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million) ..Contd

SECTOR CODE	VOTE	SECTOR/ VOTE DETAILS	2015/16 ESTIMATES			2016/17 CEILING			2017/18 PROJECTIONS			2018/19 PROJECTIONS		
			CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
		2042 National Assembly	15,157	-	15,157	15,448	-	15,448	22,755	-	22,755	23,153	-	23,153
		0721000 P.1 National Legislation, Representation and Oversight	15,157	-	15,157	15,448	-	15,448	22,755	-	22,755	23,153	-	23,153
		2041 Parliamentary Service Commission	8,920	3,200	12,120	9,058	3,200	12,258	9,188	3,200	12,388	9,356	3,000	12,356
		0722000 P.2 Senate Affairs	3,491	350	3,841	5,332	-	5,332	5,429	-	5,429	5,530	-	5,530
		0723000 P. 3 General Administration, Planning and Support Services	5,025	2,850	7,875	3,726	3,200	6,926	3,759	3,200	6,959	3,826	3,000	6,826
		0721000 P.1 National Legislation, Representation and Oversight	405	-	405	-	-	-	-	-	-	-	-	-
		2061 The Commission on Revenue Allocation	346	-	346	341	-	341	371	-	371	377	-	377
		0724000 P.1 Inter-Governmental Revenue and Financial Matters	346	-	346	341	-	341	371	-	371	377	-	377
		2071 Public Service Commission	1,126	167	1,293	1,113	50	1,163	1,407	167	1,574	1,447	167	1,614
		0725000 P.1 General Administration, Planning and Support Services	831	167	998	805	50	855	1,000	167	1,167	1,029	167	1,196
		0726000 P.2 Human Resource management and Development	204	-	204	187	-	187	282	-	282	289	-	289
		0727000 P.3 Governance and National Values	91	-	91	122	-	122	125	-	125	129	-	129
		2081 Salaries and Remuneration Commission	723	-	723	543	-	543	568	-	568	577	-	577
		0728000 P.1 Salaries and Remuneration Management	723	-	723	543	-	543	568	-	568	577	-	577
		2111 Auditor-General	3,736	402	4,139	3,850	300	4,150	4,020	1,500	5,520	4,310	402	4,712
		0729000 P.1 Audit Services	3,736	402	4,139	3,850	300	4,150	4,020	1,500	5,520	4,310	402	4,712
		2121 Controller of Budget	581	-	581	573	-	573	608	-	608	619	-	619
		0730000 P.1 Control and Management of Public finances	581	-	581	573	-	573	608	-	608	619	-	619
		2131 The Commission on Administrative Justice	481	-	481	474	-	474	501	-	501	511	-	511
		0731000 P.1 Promotion of Administrative Justice	481	-	481	474	-	474	501	-	501	511	-	511

SECRET

Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million) ..Contd

SECTOR CODE	VOTE	SECTOR/ VOTE DETAILS	2015/16 ESTIMATES			2016/17 CEILING			2017/18 PROJECTIONS			2018/19 PROJECTIONS		
			CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
080		NATIONAL SECURITY	112,471	42	112,513	120,798	42	120,840	123,175	42	123,217	141,891	42	141,933
		1041 Ministry of Defence	92,329	42	92,371	96,952	42	96,994	97,064	42	97,106	116,680	42	116,722
		0801000 P.1: Defence	90,254	42	90,296	95,219	42	95,261	95,244	42	95,286	114,770	42	114,812
		0802000 P.2 Civil Aid	450	-	450	450	-	450	450	-	450	450	-	450
		0803000 P.3 General Administration, Planning and Support Services	1,625	-	1,625	1,283	-	1,283	1,370	-	1,370	1,460	-	1,460
		1231 National Intelligence Service	20,142	-	20,142	23,846	-	23,846	26,111	-	26,111	25,211	-	25,211
		0804000 P.1 National Security Intelligence	20,142	-	20,142	23,846	-	23,846	26,111	-	26,111	25,211	-	25,211
090		SOCIAL PROTECTION, CULTURE AND RECREATION	12,262	19,221	31,483	12,070	18,079	30,150	13,002	19,221	32,223	13,292	19,622	32,914
		1131 Ministry of Sports Culture and Arts	2,947	3,641	6,589	2,850	2,646	5,496	3,314	3,853	7,166	3,455	4,103	7,558
		0901000 P.1 Sports	741	2,619	3,360	737	1,545	2,281	949	2,309	3,258	1,038	2,103	3,141
		0902000 P.2 Culture	915	226	1,141	866	358	1,225	963	812	1,776	985	1,253	2,238
		0903000 P.3 The Arts	405	196	602	380	130	510	422	128	550	432	131	563
		0904000 P.4 Library Services	580	580	1,160	555	590	1,145	604	581	1,185	617	593	1,210
		0905000 P.5 General Administration, Planning and Support Services	307	20	327	312	23	335	375	23	398	384	23	407
		1141 Ministry of Labour Social Security and Services	9,315	15,580	24,894	9,220	15,433	24,653	9,688	15,369	25,057	9,837	15,519	25,356
		0906000 P 1: Promotion of the Best Labour Practice	449	294	743	389	235	623	488	762	1,250	507	1,085	1,591
		0907000 P 2: Manpower Development, Employment and Productivity Management	565	356	921	633	271	904	706	539	1,245	737	658	1,395
		0908000 P 3: Social Development and Children Services	2,655	892	3,547	2,641	842	3,483	2,796	848	3,644	2,854	757	3,611
		0909000 P 4: National Social Safety Net	5,066	14,036	19,102	5,067	14,070	19,137	5,079	13,215	18,294	5,091	13,015	18,106
		0910000 P 5: General Administration Planning and Support Services	579	1	581	491	15	506	620	5	625	648	5	653

SECRET

Annex Table 4: Summary of Expenditure by Programmes, 2015/16 - 2018/19 (Ksh Million) ..Contd

SECTOR CODE	VOTE	SECTOR/ VOTE DETAILS	2015/16 ESTIMATES			2016/17 CEILING			2017/18 PROJECTIONS			2018/19 PROJECTIONS		
			CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
100		ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	18,610	60,939	79,548	19,537	55,017	74,554	21,649	62,212	83,861	22,447	61,833	84,279
		1101 State Department for Environment, Natural Resources & Regi	13,390	11,702	25,092	14,616	11,680	26,296	16,054	13,621	29,675	16,642	13,823	30,465
		1010000 P.1 General Administration, Planning and Support Services	586	25	611	586	25	611	598	26	624	604	26	630
		1011000 P.2 Environment and Natural Resources Management and Protection	11,118	7,239	18,358	12,214	7,435	19,649	13,585	8,220	21,805	14,138	8,419	22,557
		1012000 P.3 Meteorological Services	1,079	1,021	2,100	1,157	1,101	2,258	1,180	1,327	2,507	1,191	1,330	2,521
		1005000 P.5 Integrated Regional Development	607	3,417	4,023	659	3,119	3,778	691	4,048	4,739	709	4,048	4,757
		1112 State Department for Water and Irrigation	4,491	47,741	52,232	4,161	42,122	46,283	4,743	47,177	51,920	4,854	46,590	51,444
		1001000 P.1 General Administration, Planning and Support Services	653	151	804	616	190	806	642	194	836	648	196	844
		1004000 P.4 Water Resources Management	2,986	31,586	34,572	2,692	29,429	32,121	3,231	30,680	33,911	3,335	30,501	33,836
		Programme 3.Irrigation and Land Reclamation	853	16,003	16,856	854	12,503	13,357	870	16,303	17,173	871	15,893	16,764
		1119 Ministry of Mining	729	1,496	2,224	760	1,215	1,975	852	1,414	2,266	951	1,420	2,370
		1007000 P.1 General Administration Planning and Support Services	313	102	415	341	100	441	424	102	526	477	102	579
		1008000 P.2 Resources Surveys and Remote Sensing	209	716	925	208	406	614	212	414	626	214	414	628
		1009000 P.3. Mineral Resources Management	207	679	885	211	709	920	216	898	1,114	260	904	1,163
		TOTAL	784,203	721,289	1,505,492	832,836	656,669	1,489,505	898,307	734,646	1,632,953	950,441	783,418	1,733,859

SECRET

Annex Table 5: List of Active Public Private Partnership (PPP) Projects – Kenya

Ministry of Energy and Petroleum

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

2016 Budget Policy Statement

SECRET

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(A nnu al)	Call on Guarantee (Y/N)
				construction	LC to be replaced with Escrow Account	at 10% discount rate.		
3.	Gulf Power - 80.32 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in the Athi River region, on a 20-year PPA with KPLC.	108	Financial Close: 18th Nov. 2013 Status: Under construction	Letter of Support covering Political Risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 14th March 2013. PRG Amount US\$ 35Mn and Euros 7Mn	<ol style="list-style-type: none"> Total Project Cost depreciated at 5% per annum. Expenses incurred by the Seller as a result of termination. Net Present Value of 5 Years profits at 10% discount rate. 	Euros 16.3 Mn	NO

SECRET

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
4.	Triumph Power - 82MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC.	156.5	Financial Close: 7th August 2013 date Status: Under construction	Letter of Support covering Political Risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 5th December 2012. PRG Amount US\$ 45Mn	<ol style="list-style-type: none"> Total Project Cost depreciated at 5% per annum. Expenses incurred by the Seller as a result of termination. Net Present Value of 5 Years profits at 10% discount rate. 	US\$ 24.5Mn	NO

SECRET

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
5.	Thika Power - 87MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in Thika, on a 20-year PPA with KPLC.	146	Financial Close: 11th October 2012 Status: Operational from Aug 2013	Letter of Support covering Political Risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 28th August 2014. PRG Amount US\$ 35Mn and Euros 7.7Mn	<ol style="list-style-type: none"> Total Project Cost depreciated at 5% per annum. Expenses incurred by the Seller as a result of termination. Net Present Value of 5 Years profits at 10% discount rate. 	Euros 17.1Mn	NO
6.	Kinangop Power – 60.8MW	The wind power plant is being developed on a BOO basis in South Kinangop, Nyandarua County on a 20-year PPA with KPLC.	150	Financial Close: 31st December 2012 Status: Under	Letter of Support covering Political Risks issued on 26th July, 2013	<ol style="list-style-type: none"> Total Project Cost depreciated at 5% per annum. Expenses incurred by the Seller as a result of termination. Net Present Value of 5 Years profits 	Deemed Energy Payment US\$ 26.8Mn	NO

SECRET

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
				construction		at 10% discount rate.		
7.	OrpowerOlkaria III Geothermal Power Plant (1st Plant 48MW, 2nd Plant 36MW and 3rd Plant 16MW)	Description: 20 year - BOO	450	Financial Close: Jan, 1999 Status: Operational	Letter of Support covering Political Risks issued on 18th June 2012 Indemnity Agreement LC covering PRG payments of Amount US\$ 31Mn	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Losses incurred by the seller	US\$ 59.2Mn	NO
8.	Rabai Power Plant	20 year - BOO	155	Financial Close: Oct, 2008 Status: Operational	Indemnity Agreement LC Account	Net Present Value of Non-Escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 12% per annum	Euros 19.7Mn	NO

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
9.	Mumias Power Plant	10 Years-BOO	50	Financial Close: July, 2008 Status: Operational	None	None	US\$ 5.3Mn	NO
10.	Kipevu III	Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20-year period		Financial Close: None Status: Operational	None	None	Ksh 2,209Mn	NO

SECRET

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
11.	Kipevu II 74MW	Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO basis a 20-year period	85	Financial Close: Sept, 1999 Status: Operational	Indemnity Agreement LC and Escrow Account	<ol style="list-style-type: none"> 1. Net Present Value of Non-escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 10% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. The value of the stock of fuel and other consumables and spare parts at the Plant 	US\$ 20.1Mn	NO
12.	Imenti tea Factory Limited 0.28MW	Feed in Tariff Power Plant on a BOO basis		Operatin g	None	None	None	NO

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
13.	Power Technology Solutions Ltd. GikiraKianjora Small Hydro Power Stations 0.514MW	Feed in Tariff Power Plant on a BOO basis		Operating	None	None	None	NO
TRANSPORT SECTOR								
14.	Rift Valley Railways	Provision for the concession of Kenya- Uganda railway freight and passenger services	389	Operating	Partial Risk Guarantee	The lesser of: 1. Concession Fees for the previous 2 years 2. US\$ 10 Million	None	NO

THE NATIONAL TREASURY

